

WEA



Learning*for***Life**

Workers' Educational Association

Financial Strategy 2008-2011

July 2008

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Workers' Educational Association

Financial Strategy 2008-2011

Introduction

This document sets out the WEA's financial strategy for the three financial years from 1 August 2008 to 31 July 2011. It outlines the means by which we expect to achieve and sustain our distinctive mission and positioning in the current funding and financial environment.

This document is for WEA senior management and Trustees and underpins the WEA's Association Plan (3 year strategic plan). The WEA Association Plan and Financial Strategy together seek to bring activities, resources and infrastructure into a sustainable balance, while optimising the outputs for any given mix of resources and opportunities.

A. Background

The Workers' Educational Association is the largest voluntary sector provider of adult education in England. It was founded in 1903 and incorporated as a charity limited by guarantee, on 2 August 2006.

The Association's mission as a voluntary adult education movement is to enable people to realise their full potential through learning. The WEA is committed to democratic practices in its teaching and learning, planning and governance, and values the experience and interests of its learners. Its commitment to an educated democracy is relevant to modern British society, communities and individuals.

The WEA's work delivers a broad range of education that involves learners in the planning, learning and governance in a way that no other provider does.

In the past three financial years to 2006/07, due to WEA's prudent financial management of its operations and strengthening of the financial controls, surpluses in excess of £2m have been generated. The Association is also on course to recording a surplus in excess of £1m for the financial year ending 31 July 2008. In its April 2008 correspondence, The LSC advised that WEA will continue to be in Financial Health Group 'A' due to the all round financial strength demonstrated by the key financial indicators.

Further progress is being made to consolidate on the improvement achieved in the last few years in the area of financial management and controls. Building on the progress made, the Association aims to improve the efficiency of existing financial operations to achieve medium to long term reductions in the proportion of overhead costs and improve financial monitoring, performance and reporting.

B. Executive summary

The overall aim of this financial strategy 2008/11 is to ensure that resources are used efficiently to contribute to improving levels of reserves, meet learner targets and achieve educational priorities.

There have been decline in the number of government funded projects and reduction in income streams being introduced. This has led to the urgent need for WEA to diversify its sources of income. As part of the solution to this issue, WEA has set up a trading arm, WEA Enterprises. It is being planned that the trading arm will gift aid all of the profits from the trading business to WEA.

In order to achieve the 2008 /09 – 2010/11 aims, we will channel maximum levels of resources to the direct benefit of learners and deliver necessary quality improvements in teaching and learning. Taken together, this will guarantee that the WEA provides good value to the LSC and other funding organisations.

C. The key objectives and Targets of the Financial Strategy 2008 – 2011

C1. Overall Strategic Aim

To ensure that resources are distributed towards achieving all learner targets and channelled towards the benefit of learners and potential learners for whom we exist.

C2. Key Objectives of the 2008 - 2011 Financial Strategy

1. To obtain and manage the resources to deliver the strategic objectives.
2. To generate annual revenue surpluses on operations to increase the level of reserves and to provide for future strategic investment
3. To diversify sources of income.
4. To achieve medium to long term reductions in the proportion of overhead costs.
5. To improve financial control, monitoring and reporting.
6. To improve financial skills and knowledge of senior management and governance.
7. To monitor the financial performance indicators to ensure strong and sustained financial performance in the future and added value to management decisions including performance management.

C3. Key Financial Targets of the 2008-2011 Financial Strategy

1. To generate an operating surplus of at least 1% of turnover in 2008-11 on unrestricted fund.
2. In line with the reserves policy, to cover 100% of all capital investment planned in the forthcoming year, Ensure there is at least one month's realisable reserves held by the trustees in the event of failure or delay in recurrent funding streams and enough realisable reserve available to absorb anticipated fluctuations in cash levels held during a year.
3. There will be no short term borrowing at Association level, except with the approval of the trustees.

D. Strategic analysis and assumptions

D1. Financial position as at 1 August 2008

Table A (below) details the headline financial data taken from the WEA's audited financial statements and the latest forecast is taken from its management accounts. At the end of the financial year 2007/08, the WEA is forecasting £1.17m operating surplus, net assets of over £8.05m and cash of £7.62m.

Forecast positions for the Income & Expenditure account and Balance sheet for 2007/08 – 2010/11 are shown below:

	2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m
Income	27.7	25.5	26.3	27.0
Expenditure	26.5	25.1	25.9	26.5
Operating Surplus / (Deficit)	1.2	0.4	0.4	0.5
Fixed Assets	2.4	2.4	2.0	1.9
Current Assets	8.5	8.6	8.9	9.3
Current liabilities	(2.8)	(2.3)	(2.0)	(1.9)
Pension liability	(1.7)	(1.7)	(1.7)	(1.7)
Net Assets	6.4	6.7	7.2	7.6
Unrestricted	4.6	4.9	5.4	5.8
Restricted	1.8	1.8	1.8	1.8
Total funds	6.4	6.7	7.2	7.6

Table A. Key financial data 2007/08 and forecast to 31 July 2011.

D2. WEA Strategic Objectives

The headline objectives of the WEA's three year strategic plan, the Association Plan are:

1. Reshaping the Finance function. This aims to
 - strengthening Association leadership and streamline policy making across the organisation.
 - reduce operating costs and bring about efficiency savings.

D3. Planning and budgeting assumptions

The following assumptions have been taken in our budgeting and planning for this period:

Macro-economic factors

- a) Inflation and Interest rates – In this planning period, it is expected that inflation will be at 2.5%, and base rate will be above 5% in the planning

period to stem inflationary tendencies, while attempting to steer the economy away from depression.

- b) Stock market performance - the on going credit crunch arising from liquidity squeeze in the banking sector and the falling value of properties will leave the pensions scheme with larger deficit and reduced government spending. *Pension deficit will increase due to the current poor state of the economy and the deficits in investments portfolios in the short to medium effect on investments, and therefore demand for more contributions from both employees and employers to bridge the gap.*

Income

- c) LSC income – *The Association expects to secure same level of national contract funding after suffering decrease in income in recent years on the main core contract with the LSC, due to changes in government priorities. It is expected that the level of funding will be maintained, at a time when the when the LSC is undergoing organisational changes.*
- d) LSC funding policy continues in line with current plans to increase Assumed Fee Element (AFE) of 5%, year on year until 50% in 2010/11. This is currently 37.5% in the 2007/08 financial year, and will be 42.5% in 2008/09.
- e) Average Funding Rate - The Association has assumed average funding rate increase for inflation will continue at 2.5% a year beyond 2007/08, and the 16-18 learning, where the assumed rate was 3.7% in 07/08 and will be 2.5% in 2008/09.
- f) Fees – The Association will *match increase in Assumed Fee Element with increases in student fees and enrolment.*
- g) Statutory funding *continued Government policy of attempting to increase the number of voluntary sector organisations delivering public services.*
- h) Grant funding - the Association does not expect any increase on current levels of Lottery funding due to squeeze applied by the 2012 Olympics.
- i) Voluntary income – *The Association expects that despite probable correction in housing market during the period, the value of individual estates will be sufficiently high to expect an increase in the number of charitable legacies made in the UK.*
- j) *Trading Income – it is assume that the trading company, WEA Enterprises will bring in estimated total income of £20k in 2008/09 and this income will increase steadily to the end of the 2008 / 11 planning period.*

Costs

- k) Wage cost inflation - *Pay award of 2.5% increase has been assumed on staff cost.*
- l) Pension costs - *The Association does not expect that more or less people will join the pension scheme. However, extra 2.9% has been added to WEA Pension scheme employer contribution rate to address the current deficit and the phased implementation of the new Pay and Grading scale.*
- m) Non-pay costs – *As a result of the increase in energy cost, it is expected that electricity and gas costs will increase, so also will the cost of hiring rooms for training. On individual basis, all expenditures will be controlled and efficiency savings will be one of the main objectives during this planning period.*

D4. Unresolved issues requiring contingency planning

- a) WEA Pension Scheme liability – The deficit on the pension scheme currently stands at £1.74m. The plan is to ensure that this deficit is eliminated over a ten-year period.

E. Key Financial Performance Indicators and Milestones

The achievement of the objectives of the Financial Strategy will be measured according to the financial performance indicators and milestones detailed below:

1. To obtain and manage the resources to deliver WEA's strategic objectives.

On a monthly basis, the management accounts reports show the actual performance compared to the budget. All variances above 5% of budget are investigated, and comments received from the budget holders. The latest monthly report show a consolidated actual performance compared with the forecast, on incomes and costs.

To have assurance that actual performance is moving in line with the budget, the following ratios are used to monitor actual performance with budget.

% variance outcome to approved budget / forecast
% of capital investment projects managed to budget
% of dependence on various funders grants

In addition, it is being considered that regional targets are also introduced. Such targets will be set to take into account the situation on the grounds at the regions and efforts being made to broaden the funding base of each region.

2. To generate annual revenue surpluses on operations to increase the level of reserves and to provide for future strategic investment

The level of reserves is extremely important to us at the moment. There has been significant increase in the level of reserves in the last 2 years. This trend is forecast to continue during this planning period.

The target from 2007/08 is a surplus of 1% of unrestricted turnover towards reserves. It is hoped to keep this steady at 1% per annum until 2011. Until it gets to this level, it will be difficult to provide for much needed strategic developments, or indeed keep up with the level of planned capital investments moving forward from 2008/09.

We want to be positioned comfortably where:

- ◆ We are generating more ongoing sources of revenue, by rekindling funder interest and embarking on entrepreneurial activities.
- ◆ We maintain lower overhead costs across regions.
- ◆ Recruiting and retaining more priority learners, to ensure we meet the LSC contract targets.
- ◆ Our revenue more than adequately covers expenditure.
- ◆ We generate stable year-on-year surpluses to earmark for reinvestment.

	<i>Forecast to Year End</i> 2007/08	<i>Forecast to Year End</i> 2008/09	<i>Forecast to Year End</i> 2009/10	<i>Forecast to Year End</i> 2010/11	
	£'000	£'000	£'000	'000	
Total Reserves	6,316	6,707	7,097	7,599	

3. To diversify sources of income.

The Association's reliance on income from the Learning and Skills Council (LSC) currently stands at about 76.8% of total income in 2007/08.

Income streams to the WEA lie within four areas; voluntary, statutory, professional charitable, and the market. Each area is suited to different needs; inventive and innovative mixing of funds from each of these sources can sustain core activities in the short and long term.

The skills and relationships needed to access each of these differ. The strategy that is deployed, considers and make choices about which avenues to pursue, taking into account the skills, strengths and relationships of the WEA.

Recent Association plan (2006/10) aims to drive the core activities of the Association through three strands; 'WEA Second Chance', 'WEA Personal and Community Development Learning (PCDL)', and 'WEA Open Studies'. The purpose, target student groups, curriculum, role of volunteers and issues relating to these strands are different, and will present different funding needs and opportunities.

The Association is adopting an income generation strategy, that evaluate changes in the funding environment, including the future of LSC Further Education (FE) and Adult and Community Learning (ACL) funding, government initiatives to involve the voluntary and community sector (VCS) in public service delivery, changes in philanthropic behaviour and public attitudes to giving.

The strategy will set income generation targets for each region to achieve levels of diversified funding. The strategy will locate responsibility for the achievement of objectives with management in regions and at corporate level and how these will be monitored.

Another element of this income generating strategy is the development of the WEA Trading Enterprise which will pursue other non core income generating activities with a focus on making a financial return to the Association. The trading arm will be invested in by the Association, and the expectation is that there will be a return on the capital invested, and its performance must be measured in this way.

4. To achieve medium to long term reductions in the proportion of overhead costs

The Association plans to control its costs during the planning period. To achieve this, efficiency savings and value for money considerations will underpin the basis of all procurements, teaching and non teaching costs and other spending activities for a throughout the organisation.

5. To improve financial control, monitoring and reporting

In the last three years there has been much monitoring across the Association to exercise control on all budgets. These controls have ensured financial targets are achieved as planned in all areas. Budget delivery plans are produced by the Association Management Team at the beginning of the budget period. Regular monitoring is not only done at Trustees and AMT levels, but also at Regional Committee level on a monthly basis to evaluate individual regional and Corporate Services financial performance.

The Association will continue to maintain firm control on budgets by ensuring that:

- ◆ All variances over 5% against each item within a cost centre budget including balance sheet items (e.g. cash, creditors and debtors) are explained, highlighting actions that are being taken to address significant adverse variances.
- ◆ Quarterly forecast produced by each Regional and Corporate Services, must ensure the bottom line target is preserved.
- ◆ Regional performance against learners targets and likely year end forecast is produced and monitored at AMT meetings every month.
- ◆ An assessment of the progress the Region has made in addressing key risks included in the Budget Delivery Plans are highlighted and reviewed on a month on month basis.
- ◆ Budget holders are very much involved in setting the budget, and expected to take ownership.
- ◆ The continuous improvement in the Association budget profiling is paramount to ensure it is adequate for our purposes.

- ◆ Performance monitoring results is widely published across the Association, to ensure corrective action is taken where necessary, and these will be followed up with quarterly reviews.
- ◆ Enforcement of the sign off of the budget delivery plans by budget holders and portfolio holders, on a timely basis every month.
- ◆ Regions and Corporate services will be tasked within the next 12 months and beyond, to identify areas where there is scope for efficiency savings.
- ◆ Clear review of various finance functions / processes undertaken across the Association will be carried out during 2008/09, with the aim of increasing productivity / efficiencies and reduction in cost, e.g. decentralisations and / or centralisation of functions.
- ◆ Benchmark our performance annually - we will benchmark regions against each other to identify their unit costs in relation to their operations, and consumption of central costs. We will identify the most efficient regions in the delivery of the LSC contract. We will benchmark the WEA against other large sector providers to assess if our costs are in alignment with the sector.

A brief summary of the educational performance is now been included within the monthly management accounts prepared. It is anticipated that in future years, the monthly educational report will merge with the management accounts, so that users will get a better picture of performance.

The Association's finance scrutiny panel, whose main responsibility is to scrutinise the monthly management accounts produced, adds value to the overall financial management processes. Local scrutiny panels also add value to the local reporting to improve the consolidated financial information.

The Association's Financial Management and Planning cover the following areas:

- ◆ Sound financial planning (3 year business planning cycles from 2008 onwards).
- ◆ Sound cash reporting and monitoring (2-3 year cash flow forecasting).
- ◆ Sound financial controls & risk management.
- ◆ Consolidated Management information for each Region and Corporate Service being made available by the 13th working day of the following month.
- ◆ The Corporate Services finance team will analyse, challenge and query figures / report submitted by individual Regions and Corporate Services for accuracy and completeness.

- ◆ Representatives from each Region are invited to attend the quarterly Finance Scrutiny panel meetings to take talk about and defend their management accounting reports and information.

6. To improve the financial review and control skills and knowledge of senior management and governance

There appears to be some gap in the skills and knowledge of senior managers and trustees, which prevents them from carrying out comprehensive review of the financial documents, presented at various committee and management team meetings.

The finance team plan to arrange training for senior managers in the areas of finance planning and control, governance and funding changes. This is expected to improve their review of the financial and management accounts and contribution to governance of the finance function.

7. To monitor the financial performance indicators to ensure strong and sustained financial performance in the future and added value to management decisions including performance management.

A range of key financial performance indicators are in use (solvency, reserves, spread of income, educational performance and other ratios) and more will be introduced for each region and Corporate Services. This will give early warning signs about liquidity performance and educational service delivery to initiate proactivity in our decision making.

The following are some of the key performance indicators and ratios that are in use to monitor performance, and take remedial action where indications are weak:-

- Operating surplus as a percentage of income
- Dependency on LSC income, European income, tuition fees, other income, cost per Learner hours.
- Total staff cost to Income
- Direct staff cost to support staff cost
- Direct cost to Learner hours.
- Direct cost to Support staff cost
- Achievement of targets
- Income to Reserve ratio (at Year end)
- Liquidity ratio

- Current ratio.
- Total costs to total income.

F. Financing Development and Investment

Capital expenditure budget

The Association plans to spend £1.7m on capital items over the next three years.

There is uncertainty about the requirements that may arise from restructuring, although it is expected that any additional capital requirements would be covered by revenue savings. Key highlights of the three year capital budget include:

- Classroom technology to improve tutor effectiveness & learner engagement.
- Fitting out key properties to provide efficient & compliant offices that improve productivity & communication, and minimise overheads through high space utilisation.
- The provision of ICT computers, networks & software, required to handle course / learner admin, financial & payroll applications, marketing, membership and website services and communication systems.

The approved three year budget is shown in the schedule below.

Capital expenditure forecast

	2008/09	2009/10	2010/11
	£'000's	£'000's	£'000's
ICT infrastructure			
Central Servers	10	120	10
Personal Computers	50	50	50
Comms Network	10	20	10
Telecoms	10	15	15
Systems			
WEAMIS	45	40	40
MIS Scotland	10	10	10
Open Accounts	25	30	30
Website	70	70	50
Other Software	20	20	20
Education			
Classroom equip	100	120	120
E-learning/VLE	10	30	30
Miscellaneous	10	20	20
Property			
Office relocation	100	80	80
Lift London	10	0	0
Dilapidations	20	25	25
Refurbishments	0	20	20
Total	500	670	530

Cash and Reserves

The Association is in a strong position to finance the acquisition of the capital items, which will be funded through reserves built over the years through prudent cash flow management.

Return on Investments

The Association currently has a short term investment of £364k with Abbey PLC, on which it obtains competitive rate of return. On regular time intervals, the Association invests excess funds with Natwest Bank. In coming years, the Association will increase the duration and amount of funds deposited in higher interest bearing deposit accounts.

It is expected that this pattern of investment will continue over the next three years, with consideration on balance between risks and returns of utmost importance in line with the Investment policy.

The association does not invest directly in the stock exchange or other riskier investment ventures. The Employee and Tutor Pension scheme which invest funds in the stock exchange and other ventures are managed externally, by investments experts and specialists. The WEA pensions committee hold regular meetings with representatives of the Pension scheme managers. At such meetings, performance by investments portfolio and other key issues are discussed. In recent years, the composition and balance of the WEA's Pensions Trust portfolio has changed. It now has more funds invested in property and bonds and less in equities.

G. Financial Management & Control

G1. Financial management policy and processes

There are documents in place, which have been developed and implemented to ensure effective financial management and control and ensure consistency in practices across the Association. These are:-

- 1) Financial Regulations.
- 2) Financial Policies.
- 3) Finance Procedures Guides.
- 4) Risk Management plans

Compliance with these policies and regulations are constantly monitored and reported on through the Internal Audit process.

G2. Responsibility for financial management

- a) All income and expenditure is the responsibility of identifiable budget holders.
- b) Budget holders are aware of their responsibilities, and are supported by the Regional and Corporate finance staff in the monitoring process.
- c) Within the Corporate Services Finance Team, the Management Accounting team is responsible for providing technical accounting advice and support to all budget holders across the Association.

H. Risk management

H1. Risk management processes

The WEA has a robust Risk Assessment process which complies with the corporate guidance in the Turnbull report. The Association guidance on risk reflects good business practice in the areas of risk management and internal control. The guidance emphasises that WEA's internal control system has a key role to play in the management of risks that are significant to the fulfillment of WEA's business objectives and the key challenges that lie ahead. The guidance also pinpoints how the Association should respond to changes in its risk profile, whether arising from changes within the business or in its external environment, and also include procedures for immediately reporting significant control failings or weaknesses to the Director of Finance and Resources and eventually to the Risk and Audit Committee.

H2. Key risks to achieving the objectives of the Financial Strategy

The following are key risks that the Association face in achieving the objectives of the Financial Strategy:

- a) Spiralling pension costs arising on tutor contracts following new regulations.
- b) Changing government priorities and the effects of increase in tuition fee in accordance with LSC funding methodology.
- c) Inadequate knowledge in financial control and budget monitoring within the management team.
- d) Difficulty in securing external funding
- e) Staff shortage within the finance team.
- f) Failure of the IT systems

H3. Financial risk

The following is the WEA's statement on its exposure to financial risks:

- a) *Interest rate risk* i.e. the effect of movements in interest rates– minimum exposure as this only affects return on investment/ investment income and cost of finance leases (e.g. franking machines, photocopiers)
- b) *Currency risk* i.e. the effect of movements in exchange rates – minimum exposure as WEA is not operating overseas and its non pay costs incorporating imported goods are small.
- c) *Liquidity risk* i.e. the risk that assets cannot be liquefied in the event of cash requirements - small exposure in relation to WEA property assets, however liquidity levels and reserves strategy is based on holding sufficient cash to meet contingencies in the short term.
- d) *Systemic/ market risk* i.e. the effects of general movements in stock markets – exposure in relation to pension deficit as the value of pension assets relate to market performance. Increases in the pension deficit will

need to be provided for under the Government's pension regulations and in compliance with FRS 17.

The WEA considers it is not sufficiently exposed to financial risk to warrant the employment of financial instruments to mitigate against these. This situation is monitored and kept under review by the Director of Finance and Resources.

I. Critical Success Factors

The key to success in the delivery of this financial strategy lies in WEA's ability to

- a) Improve its current systems
- b) Enforce compliance
- c) Discipline in controlling expenditure
- d) Make the efficiency gains needed to sustain the momentum of business growth.

The achievement of previous years' targets and the strengthening of financial controls have resulted in improvements in financial management and reserves. Improvements are still being made to ensure compliance with regulations and policies as these take time.

We aim to:

- a) Improve financial management by:
 - providing more meaningful analysis to the monthly management accounts that are produced, monitoring and evaluating performance on financial performance indicators, and providing benchmark analyses of staffing levels, not just at corporate level but at regional level as well.
 - ensuring that all regular monitoring and reporting of learner outcomes links into the financial management information, and reported upon on a monthly basis.
- b) Maintain confidence of funding bodies, suppliers, bankers and professional advisors and meeting legal requirements by:
 - providing financial and non financial returns on time and in the agreed format.
 - ensuring all returns requiring certification by auditors are unqualified.
 - ensuring all statutory returns are completed and filed on time.
- c) Making Financial Management an Association wide priority.

The Director of Finance and Resources will take the lead:

- in ensuring that advice, guidance and training is provided to staff, management and trustees on financial management and budgeting and the Association's financial regulations and procedures.

- In providing adequate information to ensure that staff, management and trustees are kept up to date with the financial position of the Association.
- Excellent controls are kept on expenditures, geared towards targeted efficiency savings.

Appendix i

Commentary on the Financial Plan 2008/09 – 2010/11

In developing this three year Financial Forecast for 2008 / 11, the emphasis was on ensuring continuity with existing plans. Full account was taken of the Association's current three year development plan 2006-10 agreed with the London East LSC and the 2007-10 financial strategy, the long haul vision of the Association, the improvement plan and the proposed management actions from senior management to deliver the required financial outcome in 2006/07 and beyond.

The Association continues to rebalance its provision to increase the proportion of targeted provision within its overall program, reasserting its role as a recognised leader in engagement with educationally disadvantage adults and the financial plans takes account of this.

The projection of the financial plan commence with the 2008/09 proposed budget. The 2007/08 financial year is almost ended and the Association is on course to achieving the required financial target of 1% on unrestricted turnover. As stipulated in the three year financial strategy (2005-2008) and the latest set of forecast, the Association is on track to meeting and exceeding the required target.

The overall achievement in previous years and the strengthening of financial controls have resulted in the financial health of the Association being categorised and maintained at 'A' in the 2007/08 financial year. The self-assessment carried out by the Association of its financial health comes out in category 'A'. The Association aims to maintain this category in 2008/09, and beyond.

The Association has a robust risk management and disaster management plan which comply with the guidance in the Turnbull report on Corporate Governance (Turnbull report). The Association guidance on risk reflects good business practice in the areas of risk management and internal control. The guidance emphasises that WEA's internal control system has a key role to play in the management of risks that are significant to the fulfillment of WEA's business objectives and the key challenges that lie ahead. The guidance also pinpoints how the Association should respond to changes in its risk profile, whether arising from changes within the business or in its external environment, and also include procedures for immediately reporting significant control failings or weaknesses to the

The Association has suffered a slight reduction in LSC grant income on the main core contract in 2008/09. This trend is likely to continue in subsequent years due to changes in the government priorities, and the increase in assumed fee income

rising from 42.5% to 47.5% in 2008/09, with the possibility of it reaching 50% in years to come.

As the Association faces a decline in income from the LSC in years to come, there are risks and challenges associated with the delivery of the financial forecast. This inevitably puts some considerable pressure on the Association in achieving its financial targets.

The forecast outturn for 2007/08 reveals a surplus of about £1.17m due largely to the managed reduction in overheads costs and underspends in areas of indirect and learning support costs within the Association.

As part of its strategy to diversify its income base and increase its income from other sources, the Association set up a trading company, WEA Enterprise. It is expected that the trading company will be the vehicle for diversifying the income base of the Association.

The Association is working towards fully embedding the effects of the increase in national fee assumptions, within the financial forecast, though Association has increased its fee income to take account of the proposed increase by the LSC. The Association reckons this might be a challenging achievement, though measures are in place to ensure all fees are recovered.

Contract fees are always uncertain due to the vulnerability of some of the partners and lack of stability on some of the programmes.

Key financial targets that have been set within the financial strategy include the following:

- . To generate an operating surplus of at least 1% of turnover in 2008-11 on unrestricted fund.
- . In line with the reserves policy, to cover 100% of all capital investment planned in the forthcoming year, Ensure there is at least one month's realisable reserves held by the trustees in the event of failure or delay in recurrent funding streams and enough realisable reserve available to absorb anticipated fluctuations in cash levels held during a year.
- . There will be no short term borrowing at Association level, except with the approval of the trustees.

The assumptions underpinning the financial forecast are as follows:-

- Investment in teaching and learning to reflect commitment in the core provision, and the rebalancing of the educational provision.

- Ensuring efficiency savings are made in area of support cost in order to derive cost reduction.
- Assumptions have been made in the financial strategy that the Association will identify alternative income streams in the non core income to be received in the financial plan.
- Main LSC income funding for 2008/09 is based on known yearly funding agreed with the LSC.
- The Association has assumed average funding rate increase for inflation will continue at 2.5% a year beyond 2008/09.
- Pay award of 2.5% increase has been assumed on staff cost.
- It is assumed that on Incorporation, a trading company will be set up, with an estimated total income of £20k in 2008/09 and this income stream is expected to grow in future years.
- The sum of £1.7m has been provided for capital spends in 2008/09, 2009/10 and 2010/11.
- New cost pressures arising in staffing costs as a result of compulsory changes to Teachers Pension scheme, and plans being made to recover the pensions deficit of the WEA pension scheme.

Appendix ii

3 year financial forecasts 2008-2011 - Income and expenditure

		2008	2009	2010	2011
		£'000	£'000	£'000	£'000
Income					
Funding Body Grants		21,111	19,941	20,343	20,741
Fee income		2,887	3,203	3,427	3,667
Other grants and contracts income		2,257	1,809	1,882	1,951
Other income		1,144	259	306	323
Endowment and investment income		289	290	300	300
Total income		27,688	25,502	26,258	26,982
Expenditure					
Staff costs		19,401	18,861	19,522	20,226
Other operating expenses		6,647	5,756	5,852	5,760
Depreciation		468	494	494	494
Total expenditure		26,516	25,111	25,868	26,480
Operating surplus/(deficit)		1,172	391	390	502

Appendix iii

3 year financial forecasts 2008- 2011 - Cash Flow

	2008	2009	2010	2011
	£000	£000	£000	£000
Net cash inflow/(outflow) from operating activities	1565	225	252	499
Returns on investments and servicing of finance				
Interest received	289	290	300	300
Interest paid	0	0	0	0
Net cash inflow/(outflow) from returns on investments and servicing of finance	289	290	300	300
Capital expenditure and financial investment				
Payments to acquire fixed assets	-469	-360	-375	-385
Receipts from sale of fixed assets	898	0	0	0
Deferred capital grants received	0	0	0	0
Net cash inflow/(outflow) from capital expenditure	429	-360	-375	-385
Increase/(decrease) in cash	2283	155	177	414
Reconciliation of net cash flow to movement in net funds/(debt)				
Increase/(decrease) in cash	2283	155	177	414
Cash to repay debt	0	0	0	0
Cash used to increase liquid resources	0	0	0	0
New loans and finance leases	0	0	0	0
Change in net funds/(debt)	2283	155	177	414
Net funds/(debt) at beginning of year	5332	7615	7770	7947
Net funds/(debt) at end of year	7615	7770	7947	8361

Appendix iv

3 year financial forecasts 2008-2011 - Balance Sheet

	2007	2008	2009	2010	2011
	£000	£000	£000	£000	£000
Fixed assets					
Land & Buildings	1,628	1,624	1,597	1,580	1,573
Equipment	759	795	538	436	334
Total fixed assets	2,387	2,419	2,135	2,016	1,907
Current assets					
Fixed assets held for resale	291				
Stocks and stores in hand					
Debtors	1,456	852	876	910	969
Other short term investments and cash	5,332	7,615	7,770	7,947	8,361
Total current assets	7,079	8,467	8,646	8,857	9,330
Creditors - amounts falling due within one year	3,194	2,835	2,339	2,041	1,903
Net current assets / (liabilities)	3,885	5,632	6,307	6,816	7,427
Total assets less current liabilities	6,272	8,051	8,442	8,832	9,334
Creditors - amounts falling due after more than one year	0	0	0	0	0
Net assets excluding pension asset / (liability)	6,272	8,051	8,442	8,832	9,334
Net pension asset / (liability)	-1,735	-1,735	-1,735	-1,735	-1,735
NET ASSETS INCL. PENSION ASSET / (LIABILITY)	4,537	6,316	6,707	7,097	7,599
Revaluation reserve	41	41	41	41	41
Restricted reserves	1,779	1,779	1,779	1,779	1,779
General, Designated and Branch Reserves	4,452	6,231	6,622	7,012	7,514
Pension reserve	-1,735	-1,735	-1,735	-1,735	-1,735
Total Unrestricted Reserves	2,717	4,496	4,887	5,277	5,779
Total reserves	4,537	6,316	6,707	7,097	7,599
TOTAL FUNDS	4537	6316	6707	7097	7599

Appendix v

3 year financial forecasts 2008-2011 - Capital Expenditure

	2008/09	2009/10	2010/11
	<i>£'000's</i>	<i>£'000's</i>	<i>£'000's</i>
ICT infrastructure			
Central Servers	10	120	10
Personal Computers	50	50	50
Comms Network	10	20	10
Telecoms	10	15	15
Systems			
WEAMIS	45	40	40
MIS Scotland	10	10	10
Open Accounts	25	30	30
Website	70	70	50
Other Software	20	20	20
Education			
Classroom equip	100	120	120
E-learning/VLE	10	30	30
Miscellaneous	10	20	20
Property			
Office relocation	100	80	80
Lift London	10	0	0
Dilapidations	20	25	25
Refurbishments	0	20	20
Total	500	670	530