



# Workers' Educational Association Financial Strategy 2009-12

June 2009

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## Introduction

The Learning and Skills Council (LSC) is required to “monitor the financial health of providers and as part of this duty, keep their level of balances under review”. In addition to this formal requirement, the LSC assesses colleges’ financial health to understand the degree of risk they may represent to the LSC if they do not have the financial resources to continue operating.

This financial strategy document has therefore been modelled in line with LSC approved format. This document sets out the Workers' Educational Association (WEA) financial strategy for the three financial years from 1 August 2009 to 31 July 2012. The financial strategy has been developed against the background of the need to demonstrate to all stakeholders that the Association has a clear and robust approach appropriate to financial planning, management and control that enables the Association to keep its financial health under review and achieve the key strategic priorities agreed by the Trustees in December 2008.

This document is for WEA Association Management Team, Finance and Resources Committee and Trustees.

## 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’s work delivers a broad range of education within a democratic approach that involves learners in the planning of learning and governance in a way that no other provider does. The WEA values the experience and interests of its learners and its commitment to an educated democracy is relevant to modern British society, communities and individuals.

The audited financial statements for the last three financial years (2005/06 – 2007/08) show that the Association has strengthened the financial management and controls of its operations. During the same period, the Association recorded cumulative surplus in excess of £2.6m.

In its most recent assessment in December 2008, the LSC assessed the financial health of the Association as ‘Outstanding’.

The Association aims to improve on the efficiency of existing financial management, operations and controls to achieve medium to long term reductions in the proportion of overheads and improve financial monitoring, performance and reporting.

## Executive summary

The overall aim of this financial strategy 2009/12 is to ensure that resources are used and managed efficiently to meet learner targets, achieve the key strategic priorities of the Association, and contribute to improving levels of reserves.

With the current slow down in the economy, there are concerns that there might be decline in the number and value of government funded projects and other traditional income streams being introduced. As part of the solution to this issue, WEA is seeking diversification of its sources of income and enhancement of its fundraising operations as part of its key priorities during this planning period. With the current economic downturn, there is greater need to retrain those who have become unemployed. WEA is rising to the challenge by ensuring that it engages new learners and targets disadvantaged adults.

The Association aims to develop its nine key strategic priorities (see D2 below) over the next five years, and the 2009-12 financial strategy has been developed to enable the delivery of these priorities. Taken together, this will guarantee that the WEA provides good value to the LSC and other funding organisations and to its beneficiaries.

The financial strategy outlines the means by which the Association expects to achieve and sustain its distinctive mission and positioning in the current and projected financial environment.

The Association's 2009/12 financial strategy aims to:

- Promote sound financial control and maintenance of strong governance arrangements.
- Generate an operating surplus that covers the level of reserves that are needed in line with the reserves policy.
- Ensure that the Association maintains its financial stability and self sufficiency, and seek ways to further strengthen its current financial position.

The Association's financial strategy is reviewed at least once a year to ensure that the basis is still relevant to the changing economic climate. The 2009/12 financial strategy has been reviewed by the Association Management Team and the Finance & Resources Committee and approved by the Trustees on 8 July 2009.

## C. The Key Aim, Objectives and Targets of the Financial Strategy 2009/12

### C1. Overall Strategic Aim

To ensure that financial resources are effectively obtained and efficiently distributed in achieving the aims of the Association towards the benefit of learners and potential learners for whom we exist.

### C2. Key Objectives

1. To obtain and manage the resources to deliver the strategic priorities.
2. To generate annual revenue surpluses on operations to achieve target level of reserves and maintain these levels, 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 to other costs
5. To improve financial review, internal control skills and knowledge of senior management and governance
6. To monitor financial performance indicators to ensure both strong and sustained financial performance in the future and added value to management decisions including performance management
7. To Reshape Finance functions

### C3. Key Financial Targets

1. In line with the reserves policy,
  - break even in England in 2009/10, and generate an operating surplus in the remaining two years of the 2009/12 planning period enough to cover at least 100% of all capital investments during the period.
  - ensure there are enough realisable reserves in the event of failure, fluctuations or delay in recurrent funding streams to cover at least one to three month's operational requirements.
  - improve the reserves base.
2. Efficient management of cash flow to avoid short term borrowing at Association level
3. Avoid any deterioration of share of income coming from restricted projects, whilst ensuring restricted income cover restricted expenditure.

## D. Strategic analysis and assumptions

### D1. Financial position as at 1 August 2009

Table 1 below shows the headline financial data. These details were taken from the WEA's audited 2007/08 financial statements and the forecast is taken from its latest 2008/09 management accounts. At the end of the financial year 2008/09, the Association is forecasting £0.6m deficit (after paying lump sum contributions to reduce pensions deficit), net assets of over £2m after recognising pension deficit of about £4.674m on recent valuation.

Audited, Forecast and projected positions for the Income & Expenditure accounts and Balance sheets for financial years, 2007/08 - 2011/12 are shown below:

	2007/08 (Audited) £m	2008/09 (Forecast) £m	2009/10 (Projected) £m	2010/11 (Projected) £m	2011/12 (Projected) £m
Fixed Assets	2.4	2.2	2.5	2.6	2.6
Current Assets	9.8	8.6	8.5	8.6	9.3
Current liabilities	-4.7	-3.8	-4.0	-3.9	-4.0
Pension liability	-2.1	-4.2	-4.2	-4.2	-4.2
<b>Net Assets</b>	<b>5.4</b>	<b>2.8</b>	<b>2.8</b>	<b>3.1</b>	<b>3.7</b>
Unrestricted	6.1	5.6	5.6	5.9	6.5
Pension reserve / (deficit)	-2.1	-4.2	-4.2	-4.2	-4.2
Restricted	1.4	1.4	1.4	1.4	1.4
<b>Total funds</b>	<b>5.4</b>	<b>2.8</b>	<b>2.8</b>	<b>3.1</b>	<b>3.7</b>

*Table 1. Key financial data*

### D2. WEA Strategic Objectives

Key elements of the Association's nine strategic priorities are:

- Taking a strategic approach to developing the WEA's provision based on the three existing educational strands (Second Chance to Learn, Cultural Studies and Community Involvement).
- Engaging new learners, missing learners and to target disadvantaged adults.
- Diversifying income
- Raising money from donors and building a fundraising culture.
- Developing a strategy for volunteer development, reviewing current models, focussing on the role of branches and WEA membership and seeking to engage new volunteers, especially from groups not currently

- represented.
- Engaging with and supporting tutors more effectively.
  - Establishing greater focus and clarity around the WEA's role as a campaigning organisation, as well as a service provider, and to identify the key issues on which the WEA should be holding a view and taking a stand.
  - Promoting Sustainability.
  - Promoting the WEA's profile and public awareness of its work.

### D3. Planning and Budgeting assumptions

#### General Outlook of the economy

The UK economy is currently in a recessionary state, with a lot of uncertainty and low confidence. However, it is projected that during this planning period, the economy will move from recession into a period of rebalancing.

The Government recognises that cutting spending in a recession would harm economic recovery and would prove more costly in the long term. Continuing to up skill the workforce remains a high priority and, because of this, additional resources are being made available. However, the growth in public spending will inevitably be slower than in the past. Within this context, the following assumptions have been taken in our budgeting and planning for this period:

#### Macro-economic factors

- a) With the present downturn in the economy, it is predicted that Government revenues will continue to fall. In 2009/10, this is expected to fall by around 7%, and the fall is projected to continue during this planning period. The deficit in the Government budget is projected to increase significantly during the planning period. The government will try to close the gap between its revenues and expenditures. Fiscal stimuli such as tax hikes and spending cuts will be on the agenda during the planning period. With this Government's commitment to Adult Education (and from all indications the opposition party's), it is assumed that there will be minimal reduction in the amount voted for the sector.
- b) Inflation and Interest rates - In this planning period, the government aims to keep inflation at 2% target over the medium term, while the base lending rate currently at 0.5% should allow the Pound to settle close to recent levels, preventing import costs and inflation from falling too far too quickly. It is also expected to rise to about 2% in 2011/12.
- c) Stock market performance - the current downturn in the global economy arising from liquidity squeeze in the banking sector, the deficits in investments portfolios in the short to medium and the falling value of properties have left pension schemes with larger deficits, and therefore

demand for more contributions from both employees and employers to reduce the deficits.

### Income: Assumptions & Issues

- a) LSC income - The Association expects to secure the same level of national contract funding in 2009/10. In the remaining two years of the planning period 2010/12, the LSC will be undergoing organisational changes due to changing government priorities. However, it is expected that the level of funding will still be maintained despite the on going changes.
- b) LSC funding policy continues in line with current plans to increase Assumed Fee Element (AFE) by 5%, this going up to 47.5% in 2009/10, reaching 50% in 2010/11.
- c) Average Funding Rate - The Association has assumed that the average funding rate increase for inflation will be nil.
- d) Fees - The Association will match increase in Assumed Fee Element with increases in student fees and numbers.
- e) Statutory funding continues as Government policy of attempting to increase the number of voluntary sector organisations delivering public services.
- f) Grant funding - the Association does not expect any increase on current levels of Lottery funding due to demands in other areas of the economy.
- g) 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.
- h) Contracts - It is assumed that there will be further squeeze in the amount available from funders, but the Association will allocate additional staffing resources to ensure that more areas of funding are accessed.
- i) Fundraising Income - Donations and legacies are areas of funding that have been identified for growth during the planning period, particularly with increased visibility of WEA in the wake of planned publicity and marketing strategies. It is planned that the Association will fully explore this alternative income stream in the non core income. To achieve this plan, more resources, including appointment of key staff are being deployed to ensure this.

- j) Key financial data during the planning period exclude the activities of WEA Scotland.

#### Costs: Assumptions & Issues

- a) Staff Cost inflation - A nil provision is proposed for staff award and 2% tutor pay awards in 2009/10. It is assumed that this pattern will stay the same for future years.
- b) Non Staff Costs - It is assumed that utility costs will increase, so also will the cost of hiring rooms for training. On individual basis, all expenditures will be controlled and efficiency savings and sustainability will be one of the main objectives during this planning period.
- c) Investments in teaching and learning to reflect commitment to the core provision, and the rebalancing of the educational provision.

#### D4. Other Issues - Pensions: Assumptions & Issues

New cost pressures arising in staffing costs as a result of plans being made to recover pensions deficit of the WEA pension scheme. These costs include:

- a) WEA Pension Scheme liability - The deficit on the pension scheme currently stands at £4.674m, equivalent to a funding level of 73%. This is based on the outcome of an actuarial valuation conducted on an on going basis as at 30 September 2008, a period of significant market volatility. The Association plans to fund an increase in the future service funding rate as a result of the valuation. WEA is in discussion with The Pensions Trust to pay a lump sum capital payment of 10% (around £0.5m) of the deficit into the scheme in the 2008/09 financial year and address the deficit repair contributions over a 20 year period to reduce the year on year impact, so that the Association continues to meet its charitable objectives. It is expected that the next valuation in 2011 should reveal an improved deficit position, and the Association would wish as far as possible to minimise the increase in the members' contribution share, and/or significant changes to the benefits of the scheme.

## **E. Key Financial Performance Indicators and Milestones**

The achievement of the seven key objectives of the financial strategy will be measured according to the financial performance indicators and milestones detailed below:

### **E1. To obtain and manage the resources to deliver WEA's strategic priorities**

On a monthly basis, the management accounts reports show the actual performance compared to the quarterly forecast. All variances in the Management Accounts above £5k or exceeding 10% of forecast (whichever is greater) are investigated, and comments received from the budget holders. The latest monthly report shows a consolidated actual performance year to date compared with the forecast, on incomes and costs, comparisons of financial year budget and forecasts and monthly performance of forecasts and actual.

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

- % variance outcome to approved budget / forecast
- % of capital investment projects spent or authorised / budget or forecast
- % of dependence on various funders grants/ budget or forecast

### **E2. To generate annual revenue surpluses on operations to achieve target level of reserves and maintain these levels, and to provide for future strategic investment**

The level of reserves is extremely important to the Association at the moment. There have been significant increases in the level of reserves in the last few years, but much of the accumulated balance will be used up by the provision for the Pensions deficit and capital repayment to reduce the deficit. This trend is forecast to pick up in the later stages of this planning period.

The target for the planning period 2009/12 is to generate a cumulative operating surplus from unrestricted reserves that covers 100% of all capital investments in the 2009/12 planning period, and increases the reserve base in comparison with similar organisations. It is expected that the Association will maintain steady level of surplus through the 2009/12 planning period. At this level, the surplus generated will be sufficient to provide for much needed strategic developments, and keep up with the level of planned capital investments moving forward from 2008/09.

The Association plans to be positioned comfortably where it is able to:

- generate more ongoing sources of revenue, by rekindling funder interest and embarking on specific entrepreneurial activities
- generate more revenue over expenditure
- manage overhead costs across regions
- generate stable year-on-year surpluses to earmark for reinvestment
- Recruiting and retaining more priority learners, to ensure we meet the LSC contract targets.

	2007/08 (Audited) £m	2008/09 (Forecast) £m	2009/10 (Projected) £m	2010/11 (Projected) £m	2011/12 (Projected) £m
<b>Total Reserves</b>	5.4	2.8	2.8	3.1	3.7

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

- % operating surplus or deficit /income compared to other FE colleges or SDIs
- % reserves / income compared to other FE colleges or SDIs

These comparisons will be with other SDIs with the same assets base, wide geographical dispersal or large number of volunteers.

### E3. To diversify sources of income

The Association's reliance on income from the Learning and Skills Council (LSC) currently stands at about 65% of total income in 2007/08.

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 relevant units to achieve levels of diversified funding. The strategy will locate responsibility for the achievement of objectives with the appropriate units in regions and at Association levels and monitor regularly.

A fund raising team is being set up to pursue other non core income generating activities such as fundraising from individuals, voluntary income and legacies. There is more focus on ensuring that the incomes from other grants, contract and projects continue to increase in the current state of the economy. Another element of this income generating strategy will be the development of the

trading arm, in which the Association will invest. The expectation is that there will be a return on the capital invested, and its performance will be measured in this way.

To monitor actual performance against the budget or forecast, the following ratio are to be used:

- % LSC income to total income
- % European income / total income
- % on tuition fees / total income
- % contracts & block fees / total income
- % other grants / total income
- % investment income / total income
- % return on capital invested (Trading arm when it commences operations)
- % of funds raised compared to target
- % of funds raised as a share of all incomes
- % of costs of funds raised compared total funds raised

**E4. To achieve medium to long term reductions in the proportion of overhead costs to other 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 throughout the organisation.

To monitor actual performance against the budget or forecast, the following ratio is to be used:

- % total staff cost /income
- % direct staff cost / total income
- % direct support staff cost / total income
- % operating surplus / total income
- % income earned by organisers / direct staff cost
- average total income per staff number

**E5. To improve the financial review, internal control skills and knowledge of senior management and governance**

In the last three years there has been much monitoring across the Association to exercise control on all budgets. These closer 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 Finance and Resources Committee and Regional Management Teams and Regional Committees

levels on a regular basis to evaluate individual regional and Association Services financial performance.

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

- Sound financial planning (3 year business planning cycles from 2009/10 onwards).
- Improved cash reporting and monitoring (2-3 year cash flow forecasting).
- Efficient financial controls & risk management.
- Consolidated Management information for each Business unit made available by the 13<sup>th</sup> working day of the following month, and improvements sought to make this even shorter.
- Analysis, challenge and query of figures / reports submitted by business units for accuracy and completeness.
- Representatives from nominated Regions are invited to attend the three meetings per year scrutiny by the Finance & Resources Committee meetings to take comment and explain their management accounting reports and information. Local scrutiny panels at regional levels also add value to the local reporting to improve the consolidated financial information.

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

- Budget holders are very much involved in setting the budget, and are expected to take ownership.
- Detailed explanation is required for all variances in each month's management accounts exceeding £5k or 10% of forecast (whichever is the greater). Actions that are being taken to address significant adverse variances are also highlighted.
- Quarterly forecast produced by all business units must ensure the bottom line is preserved.
- Monitoring of regional performance against learner targets and likely year end forecast which is monitored at AMT meetings.
- Assessment of the progress regions have made in addressing key risks included in the Budget Delivery Plans are highlighted and reviewed on a month on month basis.
- Performance monitoring results is widely published across the Association for transparency, to ensure corrective action is taken where necessary, and these will be followed up with regular reviews.
- Enforcement of the sign off of the budget delivery plans by budget holders and portfolio holders, on a timely basis every month.

- Business units will be tasked within the next 12 months and beyond, to identify areas where there is scope for further efficiency savings.
- Clear review of various finance functions / processes undertaken across the Association will be carried out during 2008/09 and 2009/10, with the aim of increasing productivity / efficiencies and reduction in cost, e.g. decentralisations and / or centralisation of functions.
- Benchmark Performance - The Association will continue to benchmark regions against each other to identify their unit costs in relation to their operations, and consumption of overhead costs. Efficient regions in the delivery of the LSC contract will be identified. The Association plans to benchmark its performance against other large sector providers to assess if its costs are in alignment with the sector averages.
- There are also plans to incorporate certain aspects of the monthly educational report into the management accounts, so that users will get a joined up picture of performance.

Training sessions are to be organised to improve the abilities, skills and knowledge of senior managers and trustees to enable them carry out essential and detailed review of financial documents that are presented at various committee and management team meetings and enhance their contribution to governance of the finance function.

Working with the training and Development team, the finance team will arrange training for senior managers in the areas of finance planning and control, management accounts review, risk management, governance and funding changes.

**E6. To monitor financial performance indicators to ensure both strong and sustained financial performance in the future and added value to management decisions including performance management.**

The Association uses a range of key financial performance indicators to monitor the solvency, liquidity, reserves levels, spread of income and educational performance. These measures trigger early warning signs about liquidity performance or reduced ability of the Association to meet its educational service delivery targets and therefore initiate quick remedial decisions. The following are some of the key performance indicators and ratios that will be used to monitor performance, and take remedial actions where internal control 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
- Average Direct cost to Learner hours.

- Direct cost to Support staff cost
- Achievement of education targets and measure of class sizes
- Income to Reserve ratio (at Year end)
- Liquidity and current ratios
- Benchmark performance to other SDIs (see Appendix vi)

### **E7. Reshaping Finance Functions**

There is an on going review of the structure, processes and systems of the Finance Function to enable a leaner and efficient structure that support management and governance in decision making.

A project team was set up to oversee the review and the implementation of an agreed structure.

The Finance Function reshaping aims to achieve the following outcomes, amongst several others:-

- Simplified effective and efficient financial processes and systems that meet customer needs and are more effectively linked to WEA administration processes and financial regulations
- Further implementation of standardised policies and procedures, ensuring consistency in accounting practice and improved internal control
- Single finance structure with fewer, clearer reporting lines, reduced costs and processing activities concentrated in a single or fewer location where this is beneficial
- Higher quality service to users, both at an operational level and in terms of strategic advice to Regions, AMT and Trustees
- Improved planning and responsiveness and opportunities for career progression
- Reduced fraud risk
- Improved support for income generating activities, including fundraising and contract management. Time freed up enable Senior Regional education staff more able to focus on education management and development
- Consistency of reporting to enable improved scrutiny at regional governance and trustee levels
- Consistency of coding/posting/treatment of financial transactions to improve financial forecasting and reduce differences between the final quarterly forecast and year end outcomes

The project team is focusing on feasibility, analysis and development of options and make recommendations which will go through consultation with relevant

parties. The outcomes after due consultation with relevant parties will be communicated to all parties.

It is planned that the agreed structure will be implemented in stages and completed by end of July 2010.

## **F. Financing Development and Investment**

### **F1. Banking Arrangements**

The Association banks with Royal Bank of Scotland (RBS) which keeps over 500 bank accounts for all regions, branches and Association Services. The banking arrangement with RBS covers a five year period, and there are plans to invite tender for the provision of the service during this planning period.

### **F2. Cash & Bank**

The Association's cash flow projection shows that the bank balance will be in excess of £6.4m as at end of July 2009. This places the Association in a strong financial position to meet all its day to day operations for the benefit of learners and potential learners, execute its medium to long term strategic priorities and acquire capital assets to aid future expansions and upgrades for the benefit of learners, potential learners and its staff.

### **F3. Investments & Pensions**

The Association currently has a short term investment of £364k with Santander Abbey PLC. At regular time intervals, the Association sweeps excess funds from Regions' bank accounts which are then invested with Royal Bank of Scotland. It is planned 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 Financial Regulations and Investment Policy. In the current economic climate, it is projected that the amount of interest that the Association expects to receive from investments will reduce.

The Association does not invest directly in the stock exchange or other riskier investment ventures. Through The Pension Trust and Teachers Pension schemes managed externally by trustees, investments experts and specialists, the Association invest funds in the stock exchange. The WEA Pensions Committee holds regular meetings with representatives of the Pension Trust scheme trustees. 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. The scheme's investment strategy subject to agreed intolerances was 45% equities (UK and Overseas) and 55% non equities (Fixed interest, index linked and properties).

### **F4. Capital expenditure budget**

The Association plans to spend about £1.6m on capital items over the next three years. There is some uncertainty about the requirements that may arise

from reshaping within the Association. 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

	2009/10	2010/11	2011/12
	£'000	£'000	£'000
<b>ICT infrastructure</b>			
Central Servers	120	10	10
Personal Computers	50	50	50
Comms Network	10	10	10
Telecoms	15	15	15
<b>Systems</b>			
WEAmis	40	40	40
MIS Scotland	10	10	10
Open Accounts	30	30	20
Website	35	70	50
Other Software	25	20	20
<b>Education</b>			
Classroom equip	100	100	100
E-learning/VLE	10	10	10
Miscellaneous	10	20	20
<b>Property</b>			
Office relocation	80	80	80
Dilapidations	25	25	25
Refurbishments	25	25	20
<b>Total</b>	<b>585</b>	<b>515</b>	<b>485</b>

### F5. Reserves

The Association has built up its reserves base over the years. The reserves balance was £5.9m (excluding increase in the pension deficit) at the end of May 2009, and is projected to increase during this planning period.

### 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:-

- a) Financial Regulations & Policies
- b) Finance Procedures Guides
- c) Risk Management Plans
- d) Business Continuity Plans

Compliance with these policies and regulations at Association, regional and branch levels 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) All budget holders will follow the requirements stipulated in the financial Regulations and Policy when dealing with all financial transactions.
- c) Association Strategic Directors and Regional Directors are aware of their financial responsibilities, and are supported by Association finance staff and Regional finance staff in the monitoring process.
- d) Responsibility for the finance functions across the Association lies with the Director of Finance & Resources, supported by Finance Managers and staff in Association Services Finance Team
- e) Association Services Finance Team is responsible for providing technical guidance, accounting advice, education, training and support to all budget holders and staff and governance across the Association.

## H. Risk Management

### H1. Risk Management processes

The Association has a formal risk policy that has been developed and properly documented. Management has a good understanding of the key risks facing the organisation and their likely implications for service delivery to the public and the achievement of programme outcomes. In addition, the Association has systems in place to help ensure that key risks are identified and kept up to date so that Management is routinely in a position to be aware of the key risks. The Association also has contingency arrangements in all offices to maintain standards of service to the public and the delivery of programmes in the event that risks result in adverse circumstances.

The Association guidance on risk reflects good business practice in the areas of risk management, business continuity 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 Management Committee 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) Increasing pension costs.
- b) Cash flow and financial management problems not being identified on a timely basis leading to risk of insolvency
- c) Changing government priorities and the effects of increase in tuition fee in accordance with LSC funding methodology and a decline in income from the LSC in future years.
- d) Financial or operational performance of WEA Scotland could adversely affect the finances of the whole Association.
- e) Inadequate knowledge in financial control and budget monitoring within the management team.
- e) Financial management - the risk of cash misappropriations and other fraud risks.

- f) Difficulty in securing external funding due to the state of the economy.
- g) Shortage of skilled staff within the finance team.
- h) Failure of the IT systems

### H3. Financial risk

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

- a) *Interest rate risks* i.e. the effect of movements in interest rates. There is a minimum exposure as this only affects return on investment / investment income and cost of finance leases (e.g. franking machines and photocopiers).
- b) *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.
- c) *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 pension legislation regulations and in compliance with FRS17.

Management and review of WEA risks is the responsibility of the Director of Finance and Resources reporting to the Risk Management Committee.

## I. Critical Success Factors

The key to successful delivery of this financial strategy lies in WEA's ability to:

- i) Improve on existing systems
- ii) Enforce compliance
- iii) Instil discipline in the control of its expenditure
- iv) Make the efficiency gains needed to sustain the momentum of business growth.

The Association will aim to address these Critical Success Factors through:

- a) Improvements to 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 Association level but at regional level as well.
  - ensuring that all regular monitoring and reporting of learner enrolment and links into the financial management information, and reported upon on a regular basis.
- b) Maintain confidence of funding bodies, suppliers, bankers and professional advisers and meeting legal requirements by:
  - providing financial and non financial returns on time and in agreed format.
  - ensuring all returns requiring certification by auditors are unqualified.
  - ensuring all statutory returns are completed and filed on time.
  - implementing agreed recommendations and good practice.
- 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 and volunteers in governance 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.
  - in ensuring excellent controls are kept on expenditures, geared towards targeted efficiency savings.

## [Appendix i](#)

### Commentary on the Financial Plan 2009/12

In developing this three year financial forecast for 2009/12, full account was taken of the Association's previous plans, and the emphasis was on ensuring continuity with these plans.

In addition, the long term vision of the Association, the improvement plan and the proposed management actions from senior management to deliver the required financial outcome in 2008/09 and beyond also formed integral parts of the consideration. The projection of the 2009/12 financial plan commences with the proposed budget for 2009/10.

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 disadvantaged adults and the financial plans takes account of this.

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 Business Continuity plans 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

There has been a slight reduction in the grant income the Association gets from LSC on the main core contract in 2009/10. This trend is likely to continue in subsequent years due to changes in the government priorities, large deficit on government funding. However, this reduction is significant, but is not expected to have any adverse effect on the Association's ability to provide its services to learners and potential learners. Equally, the increase in assumed fee income rising from 42.5% to 47.5% in 2009/10, with the possibility of it reaching 50% in 2010/11 and future years might deter and hence reduce the level of income

that comes in from learners. The Association is working towards embedding the effects of the increase in national fee assumptions within the financial forecast. The Association will review its fee income to take account of the proposed increases by the LSC. The Association reckons that these are challenging times, and is therefore putting control measures in place to ensure all fees are recovered.

As the Association faces a decline in income from the LSC or successors in years to come, there are risks and challenges associated with the delivery of the financial forecast. This inevitably puts considerable pressure on the Association in achieving its financial targets. The forecast outturn for 2008/09 reveals an estimated deficit of about £0.6m due to lump sum cash payment of £0.5m to reduce the Pensions deficit and the increased pressure on costs of managing the business. However, with costs restructuring and a drive for more efficiency savings in the area of support costs, the Association estimates it can accumulate additional reserves of over £0.94m during the planning period.

As part of its strategy to diversify its income base and increase its income from other sources, the Association is intensifying efforts to increase the volume of projects and value of contracts from other funding organisations. Contract fees are always uncertain due to the vulnerability of some of the partners and lack of stability on some of the programmes, and these issues have been factored into the strategic plan.

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

1. In line with the reserves policy:
  - break even in England in 2009/10, and generate an operating surplus in the remaining two years of the 2009/12 planning period enough to cover at least 100% of all capital investments during the period.
  - ensure there are enough realisable reserves in the event of failure, fluctuations or delay in recurrent funding streams to cover at least three month's operational requirements.
  - improve the reserves base in comparison with other SDIs.
2. Efficient management of cash flow to avoid short term borrowing at Association level
3. Avoid any deterioration of share of income coming from restricted Projects, whilst ensuring restricted income cover restricted expenditure.

The assumptions underpinning the financial forecast are as follows:-

- LSC income - The Association expects to secure the same level of national contract funding in 2009/10. In the remaining two years of the planning period 2010/12, the LSC will be undergoing organisational changes due to changing government priorities. However, it is expected that the level of funding will still be maintained despite the on going changes.
- LSC funding policy continues in line with current plans to increase Assumed Fee Element (AFE) by 5%, this going up to 47.5% in 2009/10, reaching 50% in 2010/11.
- Average Funding Rate - The Association has assumed that the average funding rate increase for inflation will be nil.
- Fees - The Association will match increase in Assumed Fee Element with increases in student fees and number.
- Statutory funding continues as Government policy of attempting to increase the number of voluntary sector organisations delivering public services.
- Grant funding - the Association does not expect any increase on current levels of Lottery funding due to demands in other areas of the economy.
- Voluntary income - It is assumed that donations and legacies as areas of funding will increase during the planning period, particularly with increased visibility of WEA in the wake of planned publicity and marketing strategies.
- Contracts - It is assumed that there will be further squeeze in the amount available from funders, but the Association will deploy additional resources to ensure that more areas of funding are accessed.
- Fundraising Income - it is planned that the Association will fully explore this alternative income stream in the non core income.
- Staff cost inflation - A nil provision is proposed for staff award and 2% tutor pay award in 2009/10.
- Investments in teaching and learning to reflect commitment to the core provision, and the rebalancing of the educational provision.
- There are continuing cost pressures arising in staffing costs as a result of plans being made to recover the actuarial deficit of the WEA pension scheme.

## Appendix ii

### Forecasts & Projected Financial forecasts - Income and Expenditure

		2008/09 (Forecast)	2009/10 (Projected)	2010/11 (Projected)	2011/12 (Projected)
		£'000	£'000	£'000	£'000
<b>Income</b>					
Funding Body Grants		19,518	19,372	19,054	19,054
Fee income		3,040	3,139	3,304	3,404
Other grants and contracts income		3,312	3,259	4,088	4,650
Other income		300	220	360	410
Investment & Voluntary Income		176	217	230	275
<b>Total income</b>		<b>26,346</b>	<b>26,207</b>	<b>27,036</b>	<b>27,793</b>
<b>Expenditure</b>					
Direct Costs		18,340	18,215	18,397	18,581
Support Costs		8,610	7,942	8,308	8,650
<b>Total expenditure</b>		<b>26,949</b>	<b>26,157</b>	<b>26,705</b>	<b>27,231</b>
<b>Operating surplus/(deficit)</b>		<b>-604</b>	<b>50</b>	<b>330</b>	<b>562</b>

## Appendix iii

### Forecasts & Projected Financial forecasts - Cash Flow

	2009-10		2010-11		2011-12
	£'000		£'000		£'000
Opening Cash Balance	5,767		5,860		6,304
<b>Cash Inflows</b>					
Main LSC Grants	19,372		19,054		19,054
Other Grants	3,259		4,088		4,650
Income from other Sources	3,576		3,894		4,089
<b>Total Cash Inflow</b>	<b>26,207</b>		<b>27,036</b>		<b>27,793</b>
<b>Cash Outflows</b>					
Purchase Paym4nts	7,114		7,480		7,822
Salaries (including NI, Pension)	18,215		18,397		18,581
Capital Purchase	585		515		485
Contingency	200		200		200
<b>Total Cash Outflow</b>	<b>26,114</b>		<b>26,592</b>		<b>27,088</b>
Net Cash Movement	93		444		705
Closing balance Carried Fwd.	5,860		6,304		7,009

[Appendix iv](#)

	2007/08	2008/09	2009/10	2010/11	2011/12
	(Audited)	(Forecast)	(Forecast)	(Forecast)	(Forecast)
	£'000	£'000	£'000	£'000	£'000
<b>Fixed assets</b>	<b>2,407</b>	<b>2,223</b>	<b>2,492</b>	<b>2,557</b>	<b>2,642</b>
<b>Current assets</b>					
Debtors	1,545	2,852	2,656	2,410	2,269
Other short term investments and cash	8,292	5,767	5,860	6,304	7,009
<b>Total current assets</b>	<b>9,837</b>	<b>8,619</b>	<b>8,516</b>	<b>8,714</b>	<b>9,278</b>
<b>Creditors - amounts falling due within one year</b>	<b>-4,677</b>	<b>-3,879</b>	<b>-3,995</b>	<b>-3,928</b>	<b>-4,015</b>
<b>Net current assets</b>	<b>5,160</b>	<b>4,740</b>	<b>4,521</b>	<b>4,786</b>	<b>5,263</b>
<b>Total assets less current liabilities</b>	<b>7,567</b>	<b>6,963</b>	<b>7,013</b>	<b>7,343</b>	<b>7,905</b>
<b>Net assets excl. pension liability</b>	<b>7,567</b>	<b>6,963</b>	<b>7,013</b>	<b>7,343</b>	<b>7,905</b>
<b>Pension liability</b>	<b>-2,134</b>	<b>-4,207</b>	<b>-4,207</b>	<b>-4,207</b>	<b>-4,207</b>
<b>Net Assets incl. Pension Liability</b>	<b>5,433</b>	<b>2,756</b>	<b>2,806</b>	<b>3,136</b>	<b>3,698</b>
<b>Restricted reserves</b>	<b>1,403</b>	<b>1,403</b>	<b>1,410</b>	<b>1,410</b>	<b>1,430</b>
<b>General, Designated and Branch Reserves</b>	<b>6,164</b>	<b>5,560</b>	<b>5,603</b>	<b>5,933</b>	<b>6,475</b>
<b>Pension reserve</b>	<b>-2,134</b>	<b>-4,207</b>	<b>-4,207</b>	<b>-4,207</b>	<b>-4,207</b>
<b>Total Unrestricted Reserves</b>	<b>4,030</b>	<b>1,353</b>	<b>1,396</b>	<b>1,726</b>	<b>2,268</b>
<b>Total Funds at 31 July</b>	<b>5,433</b>	<b>2,756</b>	<b>2,806</b>	<b>3,136</b>	<b>3,698</b>

[Appendix v.](#)

Trends Analysis on Forecasts & Projected Financial forecasts

<b>Income &amp; Expenditure</b>	2007/08	2008/09	2009/10	2010/11	2011/12
	(Audited)	(Forecast)	(Forecast)	(Forecast)	(Forecast)
	£'000	£'000	£'000	£'000	£'000
<b>Income:</b>					
Funding Body Grants	19,254	19,518	19,372	19,054	19,054
Fee Income	3,728	3,040	3,139	3,304	3,404
Other Grants and Contracts Income	3,281	3,312	3,259	4,088	4,650
Other Income	1,091	300	220	360	410
Endowments & Investments Income	1,275	176	217	230	275
<b>Total income</b>	<b>28,629</b>	<b>26,346</b>	<b>26,207</b>	<b>27,036</b>	<b>27,793</b>
<b>Expenditure:</b>					
Direct Costs	19,970	18,340	18,215	18,397	18,581
Support Costs	7,041	8,610	7,942	8,308	8,650
<b>Total expenditure</b>	<b>27,011</b>	<b>26,949</b>	<b>26,157</b>	<b>26,705</b>	<b>27,231</b>
Operating surplus/(deficit)	1,618	-604	50	330	562
Targeted Operating surplus	500	420	585	515	485
<b>Ratio Analysis</b>					
Total Income Year on year increase %	8.2%	-8.7%	-0.5%	3.1%	2.7%
Total LSC Income Year on year increase %	1.0%	1.4%	-0.8%	-1.6%	0.0%
Targeted surplus as a % of income	1.7%	1.6%	2.2%	1.9%	1.7%
Operating surplus as a % of Income	5.7%	-2.3%	0.2%	1.2%	2.0%
Over/(below) achievements of targeted	3.9%	-3.9%	-2.0%	-0.7%	0.3%
<b>Operating Surplus</b>					
% Direct Costs to total Costs	73.9%	68.1%	69.6%	68.9%	68.2%
% Support Costs to total costs	26.1%	31.9%	30.4%	31.1%	31.8%

<b>Balance Sheet</b>	2007/08	2008/09	2009/10	2010/11	2011/12
	(Audited)	(Forecast)	(Forecast)	(Forecast)	(Forecast)
	£'000	£'000	£'000	£'000	£'000
Fixed assets	2,407	2,223	2,492	2,557	2,642
Current assets					
Debtors	1,545	2,852	2,656	2,410	2,269
Other short term investments and cash	8,292	5,767	5,860	6,304	7,009
Total current assets	9,837	8,619	8,516	8,714	9,278
Creditors - amounts falling due within one year	-4,677	-3,879	-3,995	-3,928	-4,015
Net current assets	5,160	4,740	4,521	4,786	5,263
Total assets less current liabilities	7,567	6,963	7,013	7,343	7,905
Net assets excl. pension liability	7,567	6,963	7,013	7,343	7,905
Pension liability	-2,134	-4,207	-4,207	-4,207	-4,207
Net Assets incl. Pension Liability	5,433	2,756	2,806	3,136	3,698
Restricted reserves	1,403	1,403	1,410	1,410	1,430
General, Designated and Branch Reserves	6,164	5,560	5,603	5,933	6,475
Pension reserve	-2,134	-4,207	-4,207	-4,207	-4,207
Total Unrestricted Reserves	4,030	1,353	1,396	1,726	2,268
Total Funds	5,433	2,756	2,806	3,136	3,698
<b>Ratio Analysis</b>					
% of General Reserves to turnover (incl. Pension deficit)	21.5%	21.1%	21.4%	21.9%	23.3%
% of Free Reserves to turnover (excl Pension deficit & Revaluation Reserve)	21.4%	21.0%	21.2%	21.8%	23.2%
% of Restricted Reserves to turnover	4.9%	5.3%	5.4%	5.2%	5.1%

% of Total Reserves to turnover	19.0%	10.5%	10.7%	11.6%	13.3%
Cash Days to Turnover	106	80	82	85	92
Borrowings as a % of General Reserves	N/A	N/A	N/A	N/A	N/A
Creditors Days	60	54	56	53	53
Debtor Days	20	40	37	33	30
Liquidity (Current Ratio )	2.1:1	2:1	1.9:1	2.1:1	2.2:1