



# **Workers' Educational Association**

## **Financial Strategy 2004-2007**

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## **Introduction**

This document sets out the WEA's financial strategy for the period 2004-2007. It outlines the means by which we expect the Association to move into financial recovery.

In developing this document, account has been taken of the provisions of the Forward Plan and the 3 year development plan and the financial implications of their proposals on the Association's resources.

The financial strategy is designed to integrate with the Forward Plan, and address how the Association's resources will be managed, controlled and protected. The strategy will ensure that the Association becomes financially stable at the end of the period.

## **Background**

The financial strategy has been developed against a requirement of needing to demonstrate to all of WEA's stakeholders the organisation's strengthening solvency, and that a clear and robust approach to financial planning and control exists within the Association.

The WEA is a large, complex charity, funded 63% by the Learning and Skills Council. Benchmarking it against any organisation in either the charity or Further Education sector is by no means easy.

In the past three years its operations have resulted in deficits amounting to £3.4m, resulting in it being classified in financial health Category C, by the LSC. The objectives of this strategy have been formulated to take account of

the Association's attempt to move to financial health group B by the end of 2005 and subsequently to A by 2007.

This document is divided into the following sections:

- A. The ten key financial objectives of the strategy.
- B. Corporate planning and Budgeting.
- C. Financial Management and Control.
- D. Financial Risk Management.
- E. Integrating Financial and Other Corporate Strategies.
- F. Key Financial Milestones.
- G. Critical Success Factors.
- H. Appendix One: Details of the Ten Key Objectives of the Financial strategy.
- I. Appendix Two : 3 year Financial Plan 2004 – 2007.
- J. Appendix Three: An analysis of the effect of the strategy on the WEA's solvency, and achievement of the Reserves Policy.

## **A. The ten key objectives of the financial strategy**

Appendix 1 provides more detail on the strategy for each of these.

1. To ensure that resources are distributed towards achieving all the learner targets.
2. To ensure that as many of the available resources as possible are channelled towards the benefit of the learners and potential learners for whom we exist.
3. To maintain the strength of cash balances whilst building up the level of cash reserves in the balance sheet.
4. To generate annual revenue surpluses to provide for future investment.
5. To increase and diversify sources of income, but without adversely affecting accumulated surpluses.
6. To maintain firm control of all budgets, especially staff budgets.
7. To reduce overhead costs.
8. To increase openness and develop effective scrutiny of financial management.
9. To improve management information and our forecasting.
10. To develop a range of financial performance indicators which will be monitored to ensure strong and sustained financial performance in the future

## **B. Corporate Planning and Budgeting**

For the period 2004-2007, the financial strategy includes:

- a) Planned surpluses equivalent to at least 1.5% of turnover in 2005/5, 3% in 2005/06 reaching 5% by 2006/07. Within the annual budget, the Association will provide for a centrally managed contingency of not less than £200K per year for, amongst other matters, the “pump priming of centrally led initiatives”.
- b) The employment of the Association reserves for significant and much needed capital investment, once there is stability in building reserves and subject to the availability of cash to fund the approved expenditure or further funding from the LSC, or other funders

- c) No short-term borrowing (overdraft) unless this is business critical, and approved in advance by Director of Finance if required by a Region, or NEC if required by the Association. Such short-term borrowing will be kept to a minimum.
- c) Undertake any projects (capital or otherwise) only when the source of funding has been identified and does not affect the financial strategy of maintaining surpluses.
- d) From 2005 onwards, all budgetary units will be expected to submit a 3 year overall plan of their activities incorporating their income and expenditure, at the beginning of the resource allocation process in the spring term, to aid forward planning of the Association's resources.

### **C. Financial Management and Control**

There are a number of documents in place, with some which are being developed at present, which aim to ensure effective financial management and control. These are:-

- 1) Financial Regulations.
- 2) Association Accounting Procedures Manual.
- 3) Finance Practical Guides (sharing good practice between the finance teams across the Association).

In addition to these there are a number of principles followed by the Association to ensure effective financial management and control:

- a) All income and expenditure is the responsibility of identifiable budget holders.
- b) Budget holders are aware of their responsibilities.
- c) The annual budget is broken down into separate budgets for each budget holder.
- d) All budget holders submit a Budget Delivery Plan prior to the start of the financial year, indicating clearly how they will meet the budget requirements. This is signed off by a budget holder and the Director of Finance.

- e) Comprehensive management information, including forecast outturns, variance analysis and cash flow reporting where appropriate is provided to budget holders. Trustees have opportunity to analyse and query via the following working groups and committees – the Finance Scrutiny Panel, Policy & Resources Committee and the National Executive Committee members on a monthly basis.
- f) With the Corporate Services Finance Team, Management Accountants are responsible for providing technical accounting advice and support to all budget holders across the Association.

## **D. Financial Risk Management**

Risk assessment of the Association's exposure is essential to quantify risk and the impact of actions that might alleviate risk. The Association's Risk Management Plan provides a framework to consider levels of acceptable exposure.

- Key financial risks are identified as part of the risk management process (these will depend upon the WEA's circumstances and will change over time).
- For each key financial risk, the Association Management Team will identify the potential impact and actions that can be taken to mitigate that impact, the level of exposure which is acceptable, early warning indicators and fall back plans or contingencies which can be used if the acceptable level of exposure is exceeded.
- Financial and non financial information will be used to monitor achievement of targets, with plans to take remedial action at the first sign of problems.
- Where possible contingencies will be built into budgets to allow for any unexpected fluctuations in income as a result of non achievement of contract (eg claw back, or failure to win a new contract).

## **E. Integrating Financial and other Corporate Strategies**

The concept of financial strategy is relatively new in the Association, but it is believed that it will be owned by the Association Management Team based on

a realistic strategic analysis, and supported by a process of monitoring and review.

The process of monitoring and review involves all relevant managers, with formal reports to the Policy and Resources Committee, and the National Executive Committee.

The Association Management Team Finance Board led by the DoF and including 3 Regional Secretaries will scrutinise the strategy before implementation to ensure that all aspects of the operations are considered.

## **F. Key Financial Milestones**

In strengthening financial management to ensure that the WEA's self assessment of its financial health indicates a move from category C to B and ultimately to A, we will endeavour to achieve the following targets by July 2007:

1. We will aim to hold a general reserve which is enough to absorb fluctuations in cash levels, accommodate failure/delay in recurrent funding streams, while at the same time planning cover for strategic investment. This means that at least 2 months realisable reserves is held, and could be between 15-20% of gross income.
2. We will maintain cash days of 25 days or more at all times.
3. We will aim at breakeven in income and expenditure by 31<sup>st</sup> July 2004 and make an operating surplus of at least 1.5% of turnover by 31<sup>st</sup> July 2005.
4. We will reduce short term borrowing to not more than 15% of general reserves by 31<sup>st</sup> July 2005.
5. We will aim at achieving a current ratio of more than 2:1 by July 2007.
6. We will endeavour to pay all suppliers within 30 days.

## **G. Critical Success Factors**

The key to success in the delivery of this financial strategy lies in the WEA's ability to improve its current systems, its determination to enforce compliance, discipline in controlling expenditure, and its ability to make the efficiency gains needed to maintain the momentum of recovery.

a) Improving financial management by:

- producing monthly management accounts incorporating income and expenditure, balance sheet, 12 month rolling cash flow plan, capital expenditure plan, financial performance indicators and relevant staffing information.
- 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 by:

- providing financial and non financial returns on time and in the agreed format.
- ensuring all returns requiring certification by auditors are unqualified.

c) Making financial management an Association wide priority.

The Director of Finance will take the lead:

- in ensuring that advice, guidance and training is provided to staff, management, and governors on 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.
- tight controls are kept on spending, with targeted efficiency cuts.

## **The Ten Key Financial Objectives Of The Financial Strategy**

### **1. To ensure that resources are distributed towards achieving all the learner targets**

The current methodology for distribution of the main LSC income within the WEA in England top slices some element of core costs prior to allocation to budget centres. Although outcome-based funding is fairer, there is no model that takes account of the costs of a learner unit as well as the right to earn before accounting for central costs.

The LSC contracted learner targets are expressed in learner numbers, FTE's and cash targets in the categories of 16-18 year olds, 19+ basic skills, and 19+ other and additional learner support. There are additional learner targets contained within the agreed 3 year development plan (3YDP) which are intended to reshape provision towards priority learners. The financial plan has taken this into account in the forecasts to ensure there is adequate funding for this.

The Association's funding recognises the additional cost of changing and developing an existing programme to reach targets. These will be incorporated in the planning and budgeting processes, for future years.

A resource allocation model to be developed for funding in 2005/06 would differentiate between funding existing provision and putting more resources into developing priority provision – e.g. further growth in Skills for Life.

The 3 year development plan includes a change to the balance of the profile of the provision. Resources will have to be allocated to make these changes happen.

## **2. To ensure that as many of the available resources as possible are channelled towards the benefit of the learners and potential learners for whom we exist**

The cost of overheads in the Association at the moment is not currently informed by a methodology of resource allocation of central costs. In the fullness of time, the Association will need to devise appropriate cost drivers that will enable resources to be channelled into classroom costs to enhance the quality of the provision. One of the immediate issues for development is the quality improvement framework for teaching & learning and resources will be channelled in that direction.

A shift in this direction will lead to increasing resources to direct support costs and decreasing indirect support costs.

Direct support costs are the cost of staff and services of direct benefit to learners and the investment and development of them (e.g. training & development of tutors, field staff, development workers, learner support staff, learner support facilities, and costs of volunteers / branches which directly support learning). Indirect support costs are the costs of providing support needed to the direct costs and the direct support costs and would include finance and admin staff, management staff and the investment and development of them.

Over time we should be able to show the proportion of resources expended in direct and indirect support costs decreasing for the benefit of the learners.

We will assess the total expenditure at district and corporate services level on indirect support costs in the categories of administration, finance and management and make worthwhile efficiency savings. Targets would be set over a three to five year period to ensure a decrease in the level of these costs with corresponding rises in the resources expended in the direct costs and direct support costs categories.

It has become more important now to ensure that investment is made towards the quality improvement framework for teaching and learning.

Deriving functional efficiency and cost savings from indirect support cost factors is an organisational goal, which in the short-term may require investment to provide the better infrastructure required for efficiency savings to take place.

### **3. To maintain the strength of cash balances whilst building up the level of cash reserves in the balance sheet.**

Cash management continues to improve and over time it will reach a stage where actual cash balances are known, strengthening our forecast ability. The current position of historical overdrafts within district and corporate services accounts, and the loan of £3m from the LSC, makes our ability to make outflow decisions difficult. With new banking arrangements proposed for 2004/05, no bank accounts will be allowed to overdraw, to enable clarity managing the cash position. Once these are resolved the WEA will get to a position where we begin to build cash reserves year on year.

At the moment the following issues still weaken the cash position:

- Reliance on LSC loan of £3m.
- No free cash balances all cash balances being restricted funds.
- Poor cash management throughout the association.
- Low liquidity ratio, should the £3m advance be paid.
- Tendency to make decisions without due consideration of financial implications.

Where we aim to get to is a position of:

- Effective cash flow forecasting to support cash management.
- Adequate cash balances to meet day to day operations.
- Repayment of LSC cash advance of £3m and reliance on surplus free cash.
- Surplus free cash balances for investments.
- Having a high liquidity ratio.
- Maintaining 25 days or more of cash.

In order to get to this position there must be in place structures and systems for the delivery of:

- Sound cash management, with daily/weekly cash flow forecasting.
- Control over Corporate Services and Regional Expenditure.
- Regular reviews of cash balances.
- Firm action taken where cash balances are not well controlled.
- Effecting efficiency savings with cost cutting strategies, without jeopardising operations.
- Financing capital expenditure from the most efficient sources available i.e. grants, or loans (with repayments over several years).
- Re-thinking the way services are delivered to derive efficiencies, e.g. sharing of facilities, centralising support services.
- All decisions made by senior management and Trustees, only after financial implications are known and considered.
- Restructuring of the Regional banking arrangements.

#### **4. To generate annual revenue surpluses to provide for future investment.**

The level of reserves is extremely important to us at the moment. There has been a 50% depletion in reserves in the last 2 years. The current target for 03/04 is a breakeven budget. It is hoped to make operating surpluses of up to 1.5% or more of turnover in 04/05, increasing to 3% or more of turnover by 2007. Until it gets to this level, it will be difficult to provide for any strategic developments that are much needed, or any capital investment. The newly approved reserves policy will inform any strategic development decisions.

At the present time, the WEA is unable to generate annual surpluses owing to its:

- Revenue expenditure being higher than income.
- High overhead costs resulting in not meeting the needs of our learners.
- Deficits in the past three years not allowing for any reinvestments.

We want to be positioned comfortably where:

- We are generating more and ongoing sources of revenue, by rekindling funder interest.
- Lower overhead costs across regions.
- Meeting additional learners, to ensure we meet the targets.
- Our revenue covers expenditure.
- We have surpluses we can earmark for reinvestments

### **5) To increase and diversify sources of income, but without adversely affecting accumulated surpluses.**

Current forecasts do not include additional sources of income that may be earned in the future. It is imperative that we diversify and increase the sources of income in order to survive. However, there are not many income streams that do not carry with them related costs for the delivery of the project. There is a need to ensure that all projects are fully costed and as much as possible make a contribution towards reserves. If they do not, they must at least break even so that they do not impact on accumulated surpluses.

Outside of the LSC main contract there are next to no income streams at National level. Some districts have been successful in getting project/development funding at a local level. Branches have access to small income streams from their members for their own benefits. At all levels of the organisation there seems to be strong support for income generation to support core business.

We aim to build a portfolio of funding sources - strategic, development and project alongside the LSC main contract. It is at the present time difficult to set any financial targets for the generation of additional income sources.

A strategy around cost recovery is being developed so that costs that the LSC contract could not meet will be covered from other sources e.g.

additional support for learners not envisaged to be funded by the LSC, membership, campaigns.

The WEA occupies a unique position nationally as a community based voluntary FE provider with a national LSC contract, and will use this to explore national sources of income, particularly at a strategic and development funding level. We already work with over 4,000 partners locally, and are a trusted local partner in the community with local alliances in all parts of the country.

We would engage the membership in developing funding streams. Much of the LSC agenda is not aimed at our membership although the membership does not know this. The challenge of finding ways to fund the good work of the branch and liberal studies programme could be better shared amongst 18,000 members rather than a few staff.

The development of a costing and pricing strategy will underpin all activities. Apart from this, a clear strategy on income generation would also set the tone for clarity of roles, responsibilities, and direction. Funding of overheads (indirect support costs and management costs) should be from all funding streams. If the WEA works at its full capacity then these overheads will be maximising the economies of scale.

## **6) To maintain firm control of all budgets, especially staff budgets.**

There is a need to exercise control on all budgets to ensure that financial targets are achieved as planned in all areas. Staff costs account for 68% of the total income at the moment. The norm in the charity sector is about 60%. It is important to maintain a tight control over the staff budgets if we are to start making surpluses. Currently we award pay increases yearly as per agreement made with unions, without consideration of our financial position. Future negotiations must take account of this, if we are to deliver on this strategy.

It is essential that each Budget holder exercises control over their budgets to meet the requirements of their budget delivery plan and the Association's overall budgetary objectives, by taking timely and effective decisions to ensure that these objectives are met.

To maintain firm control we would review management reports for:-

- ◆ An explanation of any variances over 5% against each item within centre budget including balance sheet items (e.g. cash, creditors and debtors) should be produced, highlighting actions that are being taken to address significant adverse variances.
- ◆ District performance against learners' outcome targets and likely year end forecast should be highlighted.
- ◆ An assessment of the progress the District has made in addressing key risks included in the BDP should be highlighted.
- ◆ Budget holders would be involved in setting the budget, and expected to take ownership.
- ◆ The Association would bring more sophistication to the budget profiling.
- ◆ Performance monitoring results would be widely published across the Association, to ensure corrective action is being taken where necessary.
- ◆ Individual managers would be encouraged to plan and control their own performance.
- ◆ Enforcement of the sign off of the budget delivery plan by budget holders on a timely basis will be rigid.
- ◆ Tight control over the approval of expenditure will be exercised.
- ◆ Three year HR plans will be required from all regions from 2005 in order to ensure that costs are being maintained at a stable level.

## **7) To reduce overhead costs.**

A resource allocation model that clearly identifies a methodology for charging central costs across the Association's 9 regions will be a good way of ensuring that overhead costs move into direct costs and direct support costs more than is presently the case. A target time for this will be in the 05/06 financial year. This will then clearly identify central costs from corporate services and charge appropriately to every region so that there will be no need for top slicing. This will also highlight an appropriate methodology for transferring resources from one non achieving region to an achieving region. Radical changes are needed in our allocation mechanisms to ensure this happens.

1. We would identify the components of WEA spend on overheads in the respective areas – starting with finance/ administration/ management and support staff, these areas should be targets and responsibility for overseeing that this is met.
2. Benchmark our performance - there is at least one study being completed currently on charity overheads. Other comparators would be large National charities with a geographical network like the WEA. Benchmarking regions could also give insight into areas of costs that can be reduced or eliminated.
3. Set Targets – the Directors of Finance, Admin & IT and the General Secretary would take the lead in delivering efficiency saving targets.
4. Monitor performance against those targets – regular tracking could be done by monitoring performance against both the central budgets, and regional budgets.

5. Different ways of working would be explored. Smarter ways of working could reduce overhead costs, across the Association.

Reducing overheads in the organisation would require standardisation of processes and procedures. There may be some loss in responsiveness – however standardisation will bring with it benefits of certainty, and training can be developed around agreed processes.

The current organisational structure is inefficient with duplication, slack, and a lack of specialisation, as the overheads are organised in 13 different ways with 13 different masters. There is scope not only for a reduction in the overall cost of overheads but in the improvement in the information systems and processes which support our learners, volunteers, members and front line staff.

The move to new regions from 1<sup>st</sup> August 2004 would help streamline some of the overhead costs, once we move into centralising support operations.

## **8) To increase openness and develop effective scrutiny of financial management.**

In a number of ways we are reasonably transparent about the financial management of the Association. At every management/trustee meeting there is a finance agenda and the management accounts are presented not just to budget holders, but to committees as well. All Association Management Team members get a chance to see the corporate services budget and to challenge some of the underpinning assumptions. We will continue to increase this openness and to benchmark ourselves against other peer organisations' performance.

The Association's finance scrutiny panel, whose main responsibility is to scrutinise the monthly management accounts produced, will add value to the financial management processes.

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

- ◆ Sound financial planning (3 year business plans from 2005 onward).
- ◆ Sound financial reporting and monitoring (2-3 year cashflow forecasting).
- ◆ Sound financial controls & risk management.
- ◆ Management information for each individual District and Corporate Services being made available to all relevant audiences for example on First Class.
- ◆ More analysis of the figures at both District and Corporate Services level, with appropriate commentary.
- ◆ The Corporate Services finance team to challenge and query figures / report submitted by individual Districts for accuracy and completeness.
- ◆ Representatives from each District to be invited from time to time to attend the Finance Scrutiny panel meetings to defend their management information.

## **9) To improve management information and our forecasting.**

The introduction of the quarterly finance scrutiny panel meetings which challenge the periodic management information has already produced indications of improvement in the management information. Districts are encouraged to set up scrutiny panels as well, to challenge district accounts and by so doing, support the accuracy of corporate reporting. The financial forecasts will focus more on forward looking principles and to interrogate some of the assumptions underlying the forecast. We would ensure that information flow to all budget holders is done on a timely basis and that information is user friendly and relevant.

Management accounts would be standardised across the Association, with district accounts linking very much into the Association accounts, so that

all district committees would be working from the same reporting framework, hence cutting out the duplication that currently exists.

Any meaningful management information should meet the following criteria to be fit for purpose, and we aim at this-:

- ◆Timeliness: We aim to produce and distribute the management accounts by the 15<sup>th</sup> day of the new month.
- ◆Relevance: the information should be relevant to users in decision making.
- ◆Consistency: Ensuring that all Districts consistently apply the same framework, in the use of coding structures, format and style.
- ◆Economic: Benefits of information to users must outweigh cost of providing information.
- ◆The overall financial reporting cycle should be driven by the information needs and timing requirements of the users of the financial reports. A realistic processing timetable is in place which enables financial data to be collected, validated and presented in a meaningful format at the time each user needs the information.
- ◆Each District will close down its ledger each month and validate the transactions recorded so that accurate month end accounts can be prepared for the District. Key financial control checks would be performed including bank and control account reconciliations and verification that the transaction included in the District Ledgers are complete and accurate.
- ◆Comparing Forecast figures against original budget and providing explanation for any material variances.
- ◆Monthly sign-off of management accounts to Budget Delivery Plan.
- ◆Business review meetings between District Finance Manager and District/Regional Secretary.
- ◆There would be constant feedback and interaction with users in obtaining relevant explanations to variances.

**10) To develop a range of financial performance indicators that would ensure strong and sustained financial performance in the future.**

The liquidity position of the Association has raised a number of questions about its solvency. The £3m loan from the LSC has provided much needed financial stability. The repayment of the £3m loan is yet to be discussed but our forecast indicates likely difficulties in meeting the repayment and remaining solvent.

We are developing a range of key financial performance indicators across the Association which will give early warning signs about performance which should make us proactive in our decision making.

The following key performance indicators have initially been developed which would be used to monitor performance, and take remedial action to ensure targets are met:-

- ◆ 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 target, Achievement: Target.
- ◆ Income to Reserve ratio (at the end of every year).
- Liquidity ratio.
- Current ratio.

## I: Appendix 2

# Financial plan 2004/05 – 2006/07

## Commentary to the 3 year forecast

In developing this three year Financial Forecast account has been taken of the Association's Three Year Development Plan and the Forward Plan spanning the time period, to ensure that all the financial implications are considered.

The projections for this financial forecast commence with the 2004/05 financial years as we enter the second year of the 3 year recovery period. The 2003/04 financial year (being the first year) is almost ended, we are confident that we will deliver the breakeven budget that we signed up to. The Association adopted a tough, cash limited budget for 2003/04 which has been well monitored in terms of cash and learner outcomes. This is part of the strategy to restore the Association to full financial strength. It is hoped to move the Association from financial health category "C" to "B" within two years and finally to "A" by the end of the three year period.

The Association rebalances its provision over the next three years to increase the proportion of targeted provision within its overall program, and to reassert its role as a recognised leader in engagement with educationally disadvantaged adults, and the forecast takes account of this.

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

- A cash break even budget for 2004/05 (around 1.5% of turnover).
- A reasonable surplus in 2005/06 (3% of turnover).
- Increasing surplus from 2006/07 onwards achieving 5% or more by 2008.
- Contributions to reserves on a regular year on year basis, from 5% turnover progressively moving to 10% by 2010.

The assumptions underpinning the Financial Forecast are as follows:-

1. Investment in teaching and learning to reflect commitment in the core provision, and the rebalancing of the educational provision.
2. Ensuring that efficiencies are made in the area of support costs, with new staffing structures.
3. No assumptions have been made as to the receipt of any non core income in the three year period. This is not to say that attempts will not be made in sourcing and identifying alternative income streams that could benefit the work of the Association.

4. We anticipate a certain level of growth funding from the Learning and Skills Council by the end of the three year period. This however has not been included in the Three Year Forecast.
5. Plan led funding from 2004/05 means there will no longer be clawback.
6. Included in the forecasts is an assumption that the LSC loan of £3m will be paid over 2.5 years commencing August 2004.
7. The provision for capital expenditure which may be inadequate is against a capital program of £3.05m over 4 years.
8. Main LSC income is based on a 3 year agreed funding.
9. Provision made for regionalisation costs may be inadequate for 05/06 and 06/07 so will be reviewed towards the end of 04/05.

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Workers' Educational Association

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**WORKERS' EDUCATIONAL ASSOCIATION  
3 YEAR FINANCIAL FORECAST  
INCOME & EXPENDITURE ACCOUNT**

**APPENDIX 2**

	<b>04-05</b>	<b>05-06</b>	<b>06-07</b>	<b>Total</b>
	£	£	£	£
<b>INCOME</b>				
Donations	94,483	83,508	3,543	181,534
Fees	2,458,250	2,504,100	2,554,182	7,516,532
Contract block fees	1,874,932	1,918,261	1,837,348	5,630,541
National LSC grants	18,615,491	19,079,578	19,556,567	57,251,636
Other grants	3,380,764	2,859,197	2,651,936	8,891,897
Other income from activities	247,775	221,241	221,241	690,257
Income from fundraising	75,000	75,000	75,000	225,000
Interest income	135,000	90,000	45,000	270,000
Other income	6,650	10,000	10,000	26,650
<b>Total Income</b>	<b>26,888,345</b>	<b>26,840,885</b>	<b>26,954,817</b>	<b>80,684,047</b>
<b>DIRECT COSTS</b>				
Costs of generating funds	-	-	-	-
Grants payable	232,843	231,096	220,572	684,511
Classroom staff costs	7,354,872	7,404,001	7,455,561	22,214,434
Student support costs	1,176,554	1,181,339	1,193,153	3,551,046
Learning support costs	339,281	347,716	351,193	1,038,190
<b>Total Direct Costs</b>	<b>9,103,550</b>	<b>9,164,152</b>	<b>9,220,479</b>	<b>27,488,181</b>
<b>CONTRIBUTIONS TO OVERHEADS</b>	<b>17,784,795</b>	<b>17,676,733</b>	<b>17,734,338</b>	<b>53,195,866</b>
<b>OVERHEADS</b>				
Support staff costs	11,699,536	12,314,686	12,205,995	36,277,217
Employment costs	66,156	64,822	61,581	192,559
Training and development costs	291,261	266,965	240,269	798,495
Meeting costs	88,071	70,457	59,888	218,416
Accommodation costs	843,726	673,153	605,838	2,122,717
Communication / office costs	1,105,161	824,771	701,056	2,630,988
Non prog promotion and marketing costs	264,166	238,198	221,524	723,888
Revenue equipment and maintenance costs	342,113	279,960	237,966	860,039
Fees and charges excluding depreciation	383,489	367,072	350,647	1,101,208
Restructuring costs / Early retirement	100,000	150,000	100,000	350,000
Regionalisation / contingency	760,847	422,000	200,000	1,325,847
Depreciation	700,000	466,000	664,000	1,830,000
Management Costs	482,689	490,234	494,567	1,467,490
Professional Fees	254,255	243,175	242,475	739,905
<b>Total Overheads</b>	<b>17,381,470</b>	<b>16,871,493</b>	<b>16,385,806</b>	<b>50,638,769</b>
<b>SURPLUS (DEFICIT)</b>	<b>403,325</b>	<b>805,240</b>	<b>1,348,532</b>	<b>2,557,097</b>

**WORKERS' EDUCATIONAL ASSOCIATION**  
**3 YEAR FINANCIAL FORECAST**  
**BALANCE SHEET**

	<b>04-05</b>	<b>05-06</b>	<b>06-07</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Fixed Assets :</b>			
Tangibles	2,136	2,669	2,705
<b>Current Assets</b>			
Debtors	1,842	1,838	1,846
Cash at bank	3,999	3,004	3,657
	5,841	4,842	5,503
<b>Creditors : amount falling due within one year</b>	2,177	2,126	2,092
Net current Assets	3,664	2,716	3,411
<b>Total assets less current liabilities</b>	5,800	5,385	6,116
<b>Creditors : amount falling due after more than one year</b>	1,965	747	129
<b>Net Assets</b>	3,835	4,638	5,987
<b>Total Funds</b>	3,835	4,638	5,987

**WORKERS' EDUCATIONAL ASSOCIATION  
3 YEAR FINANCIAL FORECAST  
CASH FLOW FORECAST**

	<b>04-05</b>	<b>05-06</b>	<b>06-07</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Opening Cash Balance</b>	4,208	3,999	3,004
<b><u>Cash Inflows</u></b>			
Main LSC Grants	18,615	19,080	19,557
Other Grants	3,380	2,859	2,651
Income from other Sources	5,065	4,905	4,739
<b>Total Cash Inflow</b>	<b>27,060</b>	<b>26,844</b>	<b>26,947</b>
<b><u>Cash Outflows</u></b>			
Purchase Payments	6,795	6,124	5,641
Salaries (including NI, Pension)	18,556	19,075	19,192
Capital Purchase	100	1,000	700
LSC Loan Repayment	1,200	1,200	600
Mortgage Repayment	18	18	18
Regionalisation / Contingency	600	422	143
<b>Total Cash Outflow</b>	<b>27,268</b>	<b>27,838</b>	<b>26,294</b>
<b>Net Cash Movement</b>	<b>(209)</b>	<b>(995)</b>	<b>653</b>
<b>Closing balance Carried Forward</b>	<b>3,999</b>	<b>3,004</b>	<b>3,657</b>

Assumption Made:

1. Monthly repayment of £100k LSC cash advance from 1<sup>st</sup> August 2004
2. The provision for capital expenditure from 04/05 to 06/07 is against a capital program of £3.05m over 4 years
3. £600k is provided for Regionalisation & Contingency in

04/05, £422k in 05/06 & £93k in 06/07

4. Main LSC income funding based on known yearly funding agreed with LSC.
5. Cash at bank includes Branch Assets.
6. Creditors days is assumed to be 30.
7. Debtors days is assumed to be 25.

**INCOME & EXPENDITURE**

	<b><u>04/05</u></b> <b><u>(£'000)</u></b>	<b><u>05/06</u></b> <b><u>(£'000)</u></b>	<b><u>06/07</u></b> <b><u>(£'000)</u></b>
INCOME	26888	26840	26955
<b>TOTAL INCOME</b>	<b>26888</b>	<b>26840</b>	<b>26955</b>
DIRECT COSTS	9104	9164	9220
SUPPORT COSTS	17381	16871	16386
<b>TOTAL COSTS</b>	<b>26485</b>	<b>26035</b>	<b>25606</b>
Surplus/(deficit)	<b>403</b>	<b>805</b>	<b>1349</b>
Target surplus/(deficit)	<b>403</b>	<b>0 805</b>	<b>0 1348</b>
Targeted surplus as a percentage of Income	<b>1.5</b>	<b>3.0</b>	<b>5.0</b>
Over /(below) achievements of targeted operating surplus	<b>0</b>	<b>0</b>	<b>1</b>
%Direct Costs to total costs	<b>34</b>	<b>35</b>	<b>36</b>
%Support Costs to total costs	<b>66</b>	<b>65</b>	<b>64</b>

**BALANCE SHEET**

<b>FIXED ASSETS</b>			
TAGIBLES	2136	2669	2705
<b>CURRENT ASSETS</b>			
DEBTORS	1842	1838	1846
CASH	3999	3005	3658
CREDITORS< 1 YEAR	2177	2126	2092
CREITORS > 1 YEAR	1965	747	129
	<b>3835</b>	<b>4639</b>	<b>5988</b>
<b>FUNDS</b>			
Designated	311	260	222
General	2219	3164	4561
Revaluation	340	330	320
Restricted	710	710	710
Endowments	255	175	175
	<b>3835</b>	<b>4639</b>	<b>5988</b>
<b>Ratio Analysis</b>			
% of Reserves to Turnover	<b>8</b>	<b>12</b>	<b>17</b>
Cash Days with LSC Advance paid 04/05 ,05/06 & 06/07	<b>54.29</b>	<b>40.87</b>	<b>49.53</b>
Percentage of surplus to Turnover	<b>1.50</b>	<b>3.00</b>	<b>5.00</b>
Borrowings as % of General Reserves	<b>88.55</b>	<b>23.61</b>	<b>2.83</b>
Creditors Days	<b>30</b>	<b>30</b>	<b>30</b>
Debtors Days	<b>25</b>	<b>25</b>	<b>25</b>
Liquidity(Current) Ratio with LSC Advance paid 04/05 ,05/06&06/07	<b>2.68:1</b>	<b>2.28:1</b>	<b>2.63:1</b>

**Assumptions**

1. Operations at same level of activity, until we can be confident that we can grow.
- 2 LSC income 2.5% inflational increases taken only.
- 3 No other increase in income; additional income to be generated.
- 4 LSC £3m loan would have been paid by 06/07
- 5 No uncertain income taken into account.