Context

In 2022 it was highlighted that the current levels of deficit and withdrawals from investments were not sustainable. As a result, a financial review has been undertaken to look into the options for ABS to be sustainable into the future.

The financial review has involved looking at the structure of our investments, and their ability to provide cash for ABS's charitable activities, our levels of income and expenditure, both charitable and overheads.

The budget for 2023-24 shows a £356,000 reduction in the deficit in comparison to the reforecast budget in 2022-23, largely due to a reduction in welfare spend resulting from changes to the Grant Giving Policy. Appendix 1 shows a budgeted increase in income and a reduction in spend year on year from 2023-2025. This is the first step in reducing the gap between income and expenditure, but there are some key decisions that need to be made this year to inform ABS's activity over the coming years and in the longer term.

Key Decisions to prioritise

Due to the overarching changes which are likely needed to set ABS on a more financially sustainable path it is necessary for there to be agreement on the underlying assumptions on which affordability is based. These questions are:

- Whether ABS is to exist in perpetuity and with what level of assets?
- Whether to maintain the current asset structure of c.65% in property or to move to an alternative, more liquid asset structure which would involve selling properties?
- What is an appropriate investment risk level(s)/total return target(s)?

These decisions will determine the assumptions on which financial modelling is based and will inform the strategic plan. If a decision is made in principle to change the asset structure to a more liquid one by selling the properties, the timing of the sale would need to be considered carefully in order to maximise these assets. In advance of any decisions, draft outline priorities and planning considerations are listed below on the basis of either maintaining the current asset structure or moving to an alternative structure.

Financial Modelling

Scenario modelling has been carried out based on the assumption that ABS is to exist in perpetuity.

There are four scenarios:

1. CPI+3% keeping properties
2. CPI+3% selling properties
3. CPI+4% keeping properties
4. CPI+4% selling properties

Modelling has been done on a simplified basis which assumes that CPI+ returns are linear, and Year 1 & 2 of the modelling is based on the budgeted income, expenses and grant spend for YE2024 and 2025.

The surplus / deficit assumed each year is based on the budget for YE 2024 and 2025, and then applies various assumptions to income and expenses to Year 3 onwards, as shown below in Fig. 1

Figure 1.

		Scenario	YE 30 Sept 2024 Year 1	YE 30 Sept 2025 Year 2	>>> Continues to year 20 based on assumptions below
SOFA					
Income					
	Donations	10%	196,600	228,760	Based on Development 5 year forecast, and then 10% uplift applied to Year 20
	Legacies	0%	250,000	250,000	Assumed to be linear, based on 10 year average
	Commercial rent	0%	684,474	738,439	Based on modelled rent. Removed for modelling which assumes properties are sold
	Investment income				Removed. Assumed the modelled returns are total returns
	Wellbeing programme income	5%	42,820	71,110	5% increase assumed going forwards.
	Total Income		1,173,894	1,288,309	
	check				
Expenditure					
	Grants	5%			**Removed as this is the variable in the modelling**
	Wellbeing programme	5%	(73,074)	(78,400)	5% increase assumed going forwards.
	Staff costs	2.5%	(690,590)	(718,644)	2.5% increase assumed going forwards.
	Office costs	2%	(119,828)	(72,692)	Reduction assumed in Year 2 due to change in office, then assumed to increase at 2% p.a
	Insurance	3%	(11,348)	(11,915)	3% increase assumed going forwards.
	Commercial property costs	5%	(70,880)	(81,688)	5% increase assumed going forwards. Reduces in Year 3 to £74k as larger costs expected for 2025. Removed for modelling which assumes properties are sold.
	Governance costs	3%	(7,000)	(7,350)	3% increase assumed going forwards.
	Marketing costs	3%	(40,554)	(42,302)	3% increase assumed going forwards.
	IT costs	3%	(57,804)	(56,498)	3% increase assumed going forwards.
	Professional fees	5%	(46,664)	(45,090)	5% increase assumed going forwards.
	Investment management fees	0%			
	Loan interest & Bank charges	Based on Lloyds loan tab	(360)	(360)	Removed after year 2. Not significant
	Total expenditure		(1,118,101)	(1,114,939)	
	check				
Net profit /(loss)			55,793	173,370	

Modelling assumes that grant spend in Year 1 and 2 is as budgeted.
See table below for a summary of the scenarios;

		Average annual saving vs forecast required over 20 years for assets to stay in line with inflation, if overspend in year 1 & 2 is rectified over the following 8 years.	Total asset value in year 20	Average annual saving vs forecast over 20 years if grant spend is set at the following amount after year 2	Year 20 asset value if grant spend is set at the following amount after year 2	Property value in year 20 assuming a 2% annual increase	Total asset value in Year 20
				£800,000	£800,000		
CPI+3%	Keeping Properties	944,616	43,454,388	831,076	6,630,024	30,982,003	37,612,027
	Selling properties	829,017	43,461,677	831,076	39,812,810		39,812,810
CPI+4%	Keeping Properties	836,885	43,697,104	831,076	9,151,039	30,982,003	40,133,042
	Selling properties	464,860	43,542,095	831,076	51,393,252		51,393,252

Financial Modelling Summary

These results show that if the aim was to keep investment value in line with inflation, the required average annual savings over 20 years ranges from £465k p.a. if we assume that properties are sold and we achieve linear returns of CPI+4%, to £944k p.a. if we assume that ABS keeps the properties and achieves linear returns of CPI+3%.

If grants (or the gap between income and expenditure including grants) is set at £800k after Year 2, this would represent an average annual saving of £831k vs forecast grant spend, and total asset value in year 20 would range from £37.6m if ABS keeps the properties and achieves linear returns of CPI+3%, to £51m if ABS sells the properties and linear returns of CPI+4% are achieved.

Considerations

1. Maintaining current asset structure (£944k to £836k savings required)

This will require a comprehensive re-imagining of the activities, structure, income and expenditure of ABS. We would very likely need to transition to a slimmer organisation, including the following:

• completely overhauling grant giving – for example moving to providing standardised regular grants to beneficiaries for limited time periods

• preventative support services and guidance to beneficiaries to focus primarily on signposting to other organisations

• reduce staffing levels to reflect reduced activity.

2. Selling the properties and investing the proceeds in a newly structured asset structure, with appropriate risk levels (£829k to £465k savings required)

This would involve a less comprehensive change but will still need to address the forecast long term deficit between income and expenditure and subject to confirmation of investment risk levels/total return target.

A critical consideration under this option will be how the monies are invested. Epoch and Cazenove have suggested a similar approach that might be adopted in setting aside funds to cover expenditure in the short to medium term (3-5 years) and held in low risk, diversified portfolios. The remainder would be invested separately, with a longer time horizon of 5 years plus, have greater exposure to equity holdings and the related risk profile this would represent.

It is thought likely ABS would need to continue to transition over the five-year period to being more focused on preventative support services than currently, with a related further reduction in direct grant giving. Under this model, grant giving would remain integral but as part of a package of holistic support services provided, rather than the primary support service. This is not an uncommon approach within our peer group of benevolent funds.

Next steps

- The ABS Board need to agree on the key decisions (see page 1), which will provide a basis for financial modelling.
  The 20-year financial model has highlighted the need for ABS to make changes in terms of financial management and planning and is critical in this sense. However, due to the assumptions made, including the linear nature of growth, it is suggested that financial modelling based on Board decisions is carried out for a five-year period to demonstrate the impact of decisions.

- If a decision to change the asset structure is agreed, financial advice will need to be sought regarding options for investing money if properties are sold, and how to maximise sale value. It will be important to consider the sequencing risk (see Epoch report) when deciding on how money is invested.

- The ABS five-year plan will be developed based on a sustainable financial model.

Timeline:

Activity	Responsible	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Discuss key decisions*	ABS Board	Trustees meeting 10th					
Business Planning Working Group (BPWG) makes recommendation to the Board.	BPWG/Board		Board meeting 28th				
Financial modelling carried out based on the outcome of the decisions. (Finanical advice sought).	CFO/CEO						
Seek investment advice (investment managers/property consultant)	CFO/CEO/BPWG						
Five year plan updated/developed	CEO/CFO						
Five year plan presented to Board for approval	BPWG						Board meeting 5th

*At the meeting in January the Board will be asked to delegate authority to the Finance, Audit & Risk Committee to make subsequent investment decisions in line with the Board's decisions.

Appendix 1

	30-Sep-23	30 September 2024	30 September 2025
	Actuals (draft)	Budget	Budget
	Total	Total	Total
Income			
Donations	155,777	196,600	228,760
Legacies	77,500	250,000	250,000
Commercial rent	659,184	684,474	738,439
Investment income	257,256	188,463	133,282
Wellbeing programme income	5,600	42,820	71,110
Student hardship fund income	71,090		
Total Income	**1,226,407**	**1,362,358**	**1,421,592**
check			
Expenditure			
Welfare beneficiary spend	(1,331,136)	(1,027,282)	(1,018,295)
Wellbeing programme costs	(20,551)	(73,074)	(78,400)
Staff costs	(649,709)	(690,590)	(718,644)
Office costs	(112,349)	(119,828)	(72,692)
Insurance	(8,000)	(11,348)	(11,915)
Commercial property costs	(73,526)	(70,880)	(81,688)
Service charge rebate	62,813	(7,000)	(7,350)
Governance costs	(1,765)	(40,554)	(42,302)
Marketing costs	(15,317)	(57,804)	(56,498)
Event costs	(7,834)	(46,664)	(45,090)
IT costs	(54,007)	(63,151)	(52,738)
Professional fees	(37,655)	(360)	(360)
Investment management fees	(70,768)	-	-
Loan interest & Bank charges	(85,470)	-	-
Property Amortisation	-	-	-
Depreciation	(5,316)	-	-
Total expenditure	**(2,410,590)**	**(2,208,535)**	**(2,185,972)**
Net profit / (loss) before investment gains / (losses)	**(1,184,183)**		
Realised loss on investments	(49,691)	-	-
Unrealised gain on investments	193,966	-	-
Gain on sale of assets	13,700	-	-
Net profit /(loss) after investment gains / (losses)	**(1,026,208)**	**(846,178)**	**(764,380)**

N.B 2022-23 totals are unaudited.