

Cylchlythyr | Circular

Request for updated forecasts 2020

Date: 28 October 2020
Reference: W20/36HE
To: Heads of higher education institutions in Wales
and Directors of Finance
Response by: **11 December 2020**
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This circular requests higher education institutions to submit the following information:

- Part 1 – Updated financial estimates for 2019/20 and updated forecasts for 2020/21 to 2021/22;
- Part 2 - Student numbers for the year 2019/20 and updated forecasts for 2020/21 to 2021/22;
- Monthly cash flow forecasts from January 2021 to 31 July 2022.

If you require this document in an alternative accessible format, please email info@hefcw.ac.uk.



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Introduction

1. This circular requests higher education institutions to submit the following information:
 - Part 1 – Updated financial estimates for 2019/20 and updated forecasts for 2020/21 to 2021/22;
 - Part 2 - Student numbers for the year 2019/20 and updated forecasts for 2020/21 to 2021/22;
 - Monthly cash flow forecasts from January 2021 to 31 July 2022.

More detailed notes of guidance are set out below. Copies of the returns to be submitted are attached at the annexes to this circular, along with further technical information. Electronic copies of some of the annexes are being sent to the relevant contacts at institutions in order to commence the forecast submission process. This year an updated financial forecast model workbook (with relevant guidance notes for completion) is attached to this circular at **Annex B**, in addition to a workbook to include validation checks linking the forecast student numbers to the forecast fee income for home, EU and other overseas students (Annexes C1a, C1d C2).

Background and institutional strategic planning

2. We require institutions to submit financial and student number forecast information on an annual basis. This is to enable us to understand the past and expected future financial performance of institutions, and is also an important source of information to support Fee and Access Plan submissions and strategic dialogue between HEFCW and the institutions.
3. In the current environment HEFCW have committed to reducing data requests to the minimum required. We recognise that the wide range of uncertainties currently existing continue to render five year forecasts of limited, if any, value. However, more than ever it is crucial for institutions to be modelling and planning contingencies over the medium term, in order to react as quickly as possible to the evolving situation. In addition, as regulators to the Welsh sector, we need to have available up to date financial modelling, in order to support the sector.
4. We communicated with the July 2020 forecast request that an update to those forecasts would be required once student recruitment behaviours became more certain. We are therefore issuing a request for updated forecasts to include:
 - a) forecasts for AY 2020/21 and 2021/22;
 - b) monthly cash projections covering the period January 2021 to July 2022 to inform our understanding of any potential cash pressure points.

Strategic context

5. In responding to this circular, institutions should take account of the various key circulars and other publications relating to higher education policy, strategy and funding developments in Wales. These include:
- The Minister's [remit letter](#) to HEFCW of 10 August 2020, announcing higher education funding and priorities for 2020/21.
 - HEFCW [Headline funding assumptions AY2020/21](#).
 - HEFCW consultation on well-being and health in HE: funding 2020/21 ([W20/29HE](#))
 - HEFCW's circulars:
 - Covid-19: additional financial support for higher education ([W20/32HE](#))
 - HE Investment and Recovery fund ([W20/27HE](#))
 - Capital funding 2020/21 ([W20/23HE](#))
 - Monitoring of institutional behaviour and performance regarding admissions 2020/21 ([W20/21HE](#))
 - Funding Allocations 2020/21 ([W20/20HE](#))
 - Higher Education Research Capital (HERC) funding 2020/21 ([W20/17HE](#))
 - Global Challenges Research Fund 2020/21 ([W20/16HE](#))
 - Innovation and engagement funding for Wales (RWIF) ([W20/09HE](#))
 - 2021/22 fee and access plan application guidance ([W20/07HE](#))
 - Degree Apprenticeships in Wales and Proposals for Funding 2020/21 ([W20/05HE](#))
 - Postgraduate Taught (PGT) incentivisation bursary schemes 2020/21 ([W20/04HE](#))
 - Higher Education Students Early Statistics Survey 2019/20 ([W19/39HE](#))

Summary of information requirements

6. We are issuing to each institution separately their individualised forecast data forms. These are sent, as appropriate, to directors of finance and data contacts as nominated by the head of the institution. All institutions should submit their completed returns by the dates indicated to forecasts@hefcw.ac.uk. In addition to the specific purposes outlined above, all of the information requested through this circular will provide evidence to inform our Institutional Risk Review process.

Part 1 – Updated financial forecasts for the period 2019/20 to 2021/22

7. Our objectives in requesting updated financial forecasts are to enable us to:
 - monitor the financial health of institutions;
 - monitor whether institutions' forecasts take account of the prevailing higher education environment.
 - gain assurance that effective financial planning arrangements are in place;
 - ensure that governing bodies are appropriately engaged in the financial forecast and planning processes of the institution;
 - check that institutions' strategic and financial planning are integrated; and
 - produce information at summary level on the overall trends and financial health of the HE sector in Wales.
8. For the current submission we ask institutions to prepare updated two-year financial forecasts, covering the period to 2021/22. In order to minimise work load for institutions we have pre-populated the 2017/18 and 2018/19 actuals columns in the models, where possible, to assist with identification of any trends in performance. We have also pre-populated the original forecast for the year 2019/20 (as submitted to us in July 2019), and included as memo columns the original submissions for 2019/20 estimate, and 2020/21 and 2021/22 forecasts, together with the variances on these years.
9. We will expect financial forecasts to be based on relevant circulars on funding and student number allocations. Financial forecast information should be submitted to us at forecasts@hefcw.ac.uk by **Friday 11 December 2020**.
10. In preparing the forecasts institutions should make reference to the planning assumptions outlined in **Annex A** and to the documents listed in paragraph 3 above.

Content of the financial forecasts

11. The form and content of the financial forecast models 2019/20 to 2021/22 is similar to that submitted by institutions in July 2020. Please note that completion of both the two-year forecasts and the commentary is compulsory and should reflect the requirements of the Financial Management Code (FMC) (circular [W17/16HE](#)) between HEFCW and the institutions. The forecasts should be based on realistic assumptions and be

consistent with the changes to accounting treatment and presentation in the last financial statements.

Required returns

12. This circular includes a number of annexes for returning to HEFCW:
 - (i) The financial forecast template is attached at **Annex B1**. We will email the institution specific partially pre-filled tables to data contacts and finance directors.
 - (ii) The financial forecast commentary (**Annex B2**) requests further narrative analysis of the tables in the forecast model.
 - (iii) We have retained the additional requirement to return monthly cash flow projections covering the period January 2020 to July 2022. Further details of this requirement are provided below.

Guidance on completion of the main forecast is given in **Annex B3**.

Financial forecast template (Annex B1)

13. In the current climate, and with only limited UK demographic growth indicated for 2020/21, we do not expect to receive forecasts including growth in excess of the student number caps indicated in the HEFCW consultation on monitoring of institutional behaviour and performance regarding admissions for 2020/21 ([W20/13HE](#)). We expect any growth over the 2019/20 recruitment figures to be fully explained, with robust supporting evidence provided.
14. The baseline financial forecast should include your institutions assumptions regarding the impact of Covid-19 on the forecast periods.
15. The financial forecast does not include a nil growth template this year, but does include two scenarios. The modelling of these should be based on your most recent actual student numbers from 2019/20 and not on your baseline forecast, which will already include some Covid-19 assumptions.

Financial forecasts commentary (Annex B2)

16. Institutions should provide a commentary on the financial forecasts using the pro forma at **Annex B2** as its basis. This lists detailed requirements for information on a number of key aspects of the financial forecast, but the overall aim is for institutions to provide:
 - (i) assurance that the financial forecasts are derived from and are consistent with the institution's current strategic plan and financial

strategy and that there is connectivity to recent financial performance;

- (ii) additional supporting information on the key assumptions in the financial forecasts; and
 - (iii) an explanation of important trends in the forecast numbers across the period, especially with respect to the key indicators such as liquidity, operating cash flow, operating surplus and cash generation.
 - (iv) a narrative on Covid-19 assumptions, and modelling and contingency planning being undertaken with reference to social distancing, lock down and travel restrictions and the impact of these on recruitment of both home and overseas students and returners, together with the financial consequences on tuition fees and related income streams for income, net operating cash flow and cash generation.
17. Tables are included within **Annexes C and E** to the forecast request to aid the reconciliation of student fees (distinguishing between new and returning home and EU domiciled students) to student number forecasts (tab Annexes C1a and C1d). Similarly, overseas students' fees (distinguishing between those studying at the 'home' institution and those with franchise organisations or studying at an overseas campus) should also be reconciled to forecast student numbers. Please note that we expect transnational education (TNE) student numbers to be included in Annex E, SPF3 and the related fees income to be included in tab **Annex C2**.

Monthly cash flow forecasts

18. In the current circumstances and the consequent implications for financial sustainability we are requesting submission of monthly cash flow forecasts to July 2022. The preparation of 12 months cash forecasts is a requirement of the Financial Management Code [para 83]. To facilitate this, we are not requiring a prescribed format for these returns. However we do require that this return clearly identifies:
- a) the main income and expenditure streams;
 - b) any anticipated utilisation or pay back of investments or borrowing facilities;
 - c) monthly net cash in / (out) flow;
 - d) monthly opening and closing cash at bank balances shown separately from use of short term investments / borrowing facilities; and

- e) total liquid assets, and available borrowing facilities. Shown on a monthly basis.
19. Whilst we will continue to monitor actual cash flows against these forecasts as part of our regular discussions with finance directors, it remains the responsibility of each institution's governing body to inform HEFCW of reportable events, including any forecast cash deficits. We would draw your attention to paragraph 84 of the Financial Management Code:

The governing body must inform HEFCW immediately if, at any point in the upcoming 12 months, negative net cash (as defined within FRS 102 S(7), including cash and cash equivalents) is forecast for more than 30 consecutive days.

Part 2 - Student numbers for the current year 2019/20 and updated forecasts for 2020/21 to 2021/22

20. The information for updated student fee income forecasts is required separately at **Annex C**. The student number information in **Annex C** is populated automatically from the tables in Annex E. Guidance for the student number forecast can be found at **Annex D**.
21. There is an integral relationship between an institution's assumptions about future changes to its student population and its financial forecasts. Therefore the student forecasts are important features underpinning an institution's strategic plan and financial forecasts.
22. Institutions are asked to submit, to forecasts@hefcw.ac.uk, by **11 December 2020** updated forecasts of all HE student numbers (both fundable and non-fundable home, EU, Island and overseas) for the two years 2020/21 to 2021/22. This includes forecasts of student numbers at EU and overseas (non-EU) campuses, **Annex D** contains information on the tables and guidelines to assist the accurate completion of the returns. A template copy of the tables to be completed is attached for information at **Annexes C and E**. We will email institution individual tables which contain validation and summary information. Tables in tab Annexes C1 and C2 are included in the same workbook as tab Annex E, and credibility checks have been introduced to help check student number returns alongside fee income data. It is these tables that need to be completed and returned.
23. The Annex C and E worksheets also include the forecast values that were submitted around August 2020 for comparison. Each worksheet has a table calculating the percentage difference between the value submitted for this return and the value submitted in August, along with a commentary box at the bottom of each worksheet.
24. Commentary should be returned for cases:

- (i) where the difference between the newly submitted value and the previously submitted values is greater than or equal to 10%
- (ii) where the previously submitted value was zero or blank, and a value is now being returned.

Both of the above two scenarios will be highlighted in red in the cells that show the calculated percentage difference.

- 25. In addition to the forecasts, we are requesting updated student numbers for the year 2019/20. This is to ensure that we can make comparisons of the most recent student population against the student fee income data returned in tab Annexes C1 and C2 and the financial forecast in Annex B1. For reference, figures from Table 1 of the 2019/20 higher education students early statistics (HESES) survey have been included as a supplementary table.
- 26. The definitions contained in circular [W19/39HE](#), *Higher Education Students Early Statistics (HESES) survey 2019/20* and in the HESA Aggregate Offshore record [guidance](#), should be used in compiling the student forecast information required by this circular.
- 27. Assumptions should be consistent with those presented in **Annex A**, and any other relevant assumptions used in the preparation of the financial forecasts.
- 28. Further notes on completion of the tables can be found in **Annex D**.

Freedom of information

- 29. We will treat all information provided to us in this circular as confidential.
- 30. As a public authority HEFCW is subject to the Freedom of Information Act 2000. The Act gives a public right of access to any information held by a public authority. Information submitted to HEFCW may be disclosed on request under the terms of the Act. We have a responsibility to decide whether any responses should be made public or treated as confidential. We may refuse to disclose information in circumstances where disclosure of information would prejudice commercial interests or where information has been provided in confidence (for example, future financial projections). Further information about the Act, including the particular circumstances when information may be withheld, can be found at www.ico.gov.uk under Freedom of Information Act.