Guidance for completion of the financial forecast model workbook

Main features of the 2021 model for financial years 2021-2025

- In the financial forecasts spreadsheets being sent to finance directors and data contacts, we are pre-populating the data for 2018/19 and 2019/20 actual and 2020/21 forecast columns. Actual data has been populated using data returned on the HESA finance record, adjusted *in primary statements only* to agree to the published financial statements. Future forecast years have been left blank for input.

- All worksheets are write-protected where possible. Cells are also shaded to prevent data from being entered into the wrong areas and to protect sub-totalling and formula calculations; data entry is permitted only into the unshaded cells. The facility to insert additional rows where required is indicated by unshaded rows.

- The workbook contains a number of worksheets:-

    - 'Tables 1_3', which hold the main statement of comprehensive income, the balance sheet and the cash flow information, together with supplemental breakdowns. The numbering within this work sheet is designed to be broadly equivalent to the HESA finance record;

    - 'Tables 1_3 Nil growth', which pulls data from 'Tables 1_3' to form a base line downside scenario for 2021/22, with a facility to adjust each income line as required. This downside flows into indicators of net operating cash, cash at bank and operating surplus / (deficit).

    - 'Table 5, which provides numerical breakdowns where further analysis is required;

    - 'Table 6', which requests details of all loan and other financial borrowing commitments, drawn and undrawn;

    - KFI, which is an entirely formulaic tab, using the figures input in Tables 1_3 to calculate key financial indicators and other indicative ratios and percentages;

    - ANOC borrowing, which is also an entirely formulaic tab. This calculates ANOC (adjusted net operating cash flow) and indicative borrowing thresholds. This year we have also included the approved borrowing multiple and monetary threshold of each institution. This incorporates HEFCWs annual borrowing monitoring into the forecast process. On an ongoing basis we will communicate annually on an exception basis and undertake a triennial review of approved borrowing levels.

- ‘Validations’ – this worksheet is write-protected other than a comments facility to be used exceptionally where validation errors cannot be resolved. It will indicate those areas for which further data entry is required or will highlight where certain numerical validation checks may have failed and need to be resolved prior to submission to HEFCW.

Detailed guidance on the worksheets

The following notes provide a more detailed guidance on the features and data entry requirements of each of the main worksheets in the workbook:-

Tables 1_3: General comments

This worksheet contains the main tables (statement of comprehensive income, the consolidated balance sheet and the consolidated statement of cash flow), plus supporting data input schedules (which analyse areas of income and expenditure).

<u>Table 1 – Consolidated statement of comprehensive income and expenditure</u>

With a small number of exceptions (fundamental staff restructuring costs, depreciation, exceptional expenses and ‘below the line’ items), this table is populated automatically from supporting tables 1a to 1d. An input line for exceptional expenses is included, primarily in order to facilitate identification of exceptional pension costs, but also to identify any other exceptional items that would otherwise affect KFI calculations.

Input cells are highlighted white, with blue text. All other cells are read only.

Note at line heading 16 the requirement to analyse the comprehensive income as represented by the endowment income and the restricted and unrestricted comprehensive income for the year; also at line heading 17 the analysis of the surplus and the comprehensive income between non-controlling interest(s) and the university (where applicable). Note that the ‘university’ figure will be deduced automatically from what is entered on the ‘non-controlling interest’ lines.

<u>Table 1a – Analysis of income</u>

This table feeds the income lines in Table 1. The analysis is tailored to provide briefing information requested of us.

Tuition fee income (Table 1a_1) splits out the fee income relating to Home and eligible EU from Island, overseas and non-eligible EU at all levels of study.

For guidance on the split of EU students between eligible and non-eligible, please refer to the student number forecast guidance on **Annex D**.

Student numbers forecasts are set out in **Annex C and E**. The fee income totals should reconcile to the student numbers returned, and there are validations reflecting this. There is no direct linkage of input between the financial forecasts in **Annex B1** and the student number forecasts returned in **Annex C and E**. However, we will be undertaking reconciliations of these. The totals of fee income for home and eligible EU domiciled students should agree to head Table 1a_1a, as analysed for each level of study and the total fee income for Islands, non-eligible EU and international domiciled students should agree to Table1a_1d in. Please refer to separate guidance on input of student numbers in **Annex D.**

Funding body income - Note that other than DfES recurrent grants (Table 1a_2h), only monies receivable from the funding body should be included within Table 1a_2 Funding body grants. All monies receivable from HEFCW should be included within this heading.

Research income (Table 1a_3) has been analysed to provide some indicator of geographical as well as sector source.

Other income - Note also that the ‘other services rendered income’ (Table 1a_4a) has been split into several lines to further analyse the income geographically. Where other operating income and other services rendered income comprise material balances, we would expect some explanation of the composition of these within the narrative commentary to inform our understanding of income streams.

<u>Table 1b – Analysis of staff costs</u>

The staff cost analysis this year again includes analysis by cost type (salaries & wages, NI, pensions, etc.) as well as by activity. We are also requesting average FTE staff numbers, split by academic, administrative, technical and other. Please note that in line with rest of UK, we have requested that pension costs relating to actuarial adjustments should be analysed separated at Table 1b_1d. This will enable us to estimate the cost of further contribution increases where required.

<u>Table 1c – Analysis of other operating expenses</u>

We request an analysis of other non-pay expenditure that mirrors the cost type analysis of staff costs.

<u>Table 1d – Analysis of interest and other finance costs</u>

We request an analysis of interest and other finance costs. This enables us to identify the split of actual cost and accounting adjustments, such as net pension charges.

Table 2 – Consolidated balance sheet

All lines need to be entered on this table – there are no automated feeds. Note that negative goodwill must be entered as a negative amount. Note also that the balance sheet disclosure of financial commitments should be in agreement with that disclosed in Table 6.

In line with the rest of UK we have expanded disclosure to separately identify deferred and accrued income. As teaching models expand outside the traditional academic year, this becomes a more material item, which is significantly different in nature to general accruals and prepayments.

Table 3 – Consolidated statement of cash flow

This table is given higher prominence in our assessment of financial sustainability under the new GAAP reporting environment. Please ensure that the movements and cash and cash equivalents reconcile to the balance sheet. To this end the additional reconciliations added to Table 5 in 2019 have been retained, together with new validations.

Table 3a reports both the forecast quarterly cash position each year and the amount and timing of the lowest cash position in that year.

Table 5: Supporting data

In this table we request further numerical breakdown of certain headings on Tables 1_3. We have also added a number of additional reconciliations in order to assist validation, particularly of the cash flow statement.

Tables have been provided with drop down menus both to assist validation where the heading is not applicable to your institution and to drive consistent reporting of detail and categorisation.

Additional lines can be inserted into each of the tables without unlocking the tab as a whole, as indicated by non-shaded cells.

Table 5_1a recognises that whilst TNE is now required to be reported within tuition fee income (Tables1_3_1a), this is not being consistently applied.

Table 5_1c is required to assist our identification and understanding of large grants where recognition criteria may distort underlying institutional performance. Table 5_1d further supports our monitoring of EU funding, which is required for Brexit modelling.

Table 5_1e is a new request to assist our understanding of the level of non HEFCW funding institutions have received in relation to Covid-19.

Table 5_2a requests information in order that the significant cash implications of pension deficits and subsequent contribution increases can be quantified at a sector level.

Capital financing (Table 5_4c) requires the analysis of assets purchased in the year (as per cash flow statement, table 4_5_5g to be entered of the split by asset type (L&B, equipment) as well as the sources of finance for each year of spend. Categorisation of source of finance needs to consider the timing of funds. For example a capital asset may be financed by a loan taken out, or an asset sold in a prior year. These should still be indicated as the source of finance.

Table 5_5 recognises that allocated funds are included within cash balances which can only be used on a very short term basis. It also seeks to quantify the internal target cash requirement of institutions to manage their fluctuating income profiles.

Table 5_6 has been moved from the narrative commentary to assist ease of input.

Table 1_3: Nil growth

In order to examine the potential impact of downside scenarios we require institutions to produce a nil growth forecast for 2021/22. We recognise the diversity within the sector, and fully expect that individual institutions will have undertaken their own modelling on downside risks which will involve differing assumptions.

We require some modelling that is consistent over the sector in order to inform our assessment of funding requirements, and to provide base scenarios that meet the requirements of our Council that institutions and their governing bodies demonstrate modelling and full consideration of downside scenarios. We expect details and impact assessment of further modelling undertaken by individual institutions to be included within the main commentary. Therefore we do not expect any growth to be shown in this model.

This table draws the income and expenditure from Table 1_3 to produce a base downside for 2021/22. Results are shown at the level of operating surplus / (deficit), net operating cash flow and cash at bank. The scenario uses a base of:

- UK tuition fee income (including EU) from 2019/20 audited financial statements
- International tuition fee income from based on your most recent estimate of student numbers.
- 2021/22 forecast other income sources.
- 2021/22 forecast expenditure

These figures are automatically extracted from Table 1_3. There is a facility to amend each income stream. Unless these are considered to have a significant impact we do not require any reanalysis of EU between Home and International, however the impact of any changes in fees chargeable should be considered.

The following are guidelines to appropriate amendments:

- Tuition fee adjustments for course changes, including roll-forward of cohorts on new courses established prior to 2021/22. We do not expect any growth in cohort sizes to be reflected.
- Due to the changing status of EU students, care should be taken not to double count these;
- Any updates to 2020/21 international tuition fees for most recent assessment of income and student numbers;
- International fees should not be adjusted for fee increases, but should remain at 2020/21 fee rates;
- appropriate adjustments to other income streams that would be impacted by such a scenario, for example as accommodation and facilities to be included based on the student number reductions;

Additional lines can be input into the scenario tables where indicated as unshaded cells.

In order to minimise workload we have limited the scenario to illustrate the impact on operating surplus / (deficit), net cash flow from operating activities and cash balances. We have assumed that expenditure will be as forecast for 2021/22. Mitigations including cost savings and cost mitigations that would be required based on the institution’s modelling of income adjustments of these magnitudes should be included within the narrative commentary. Please indicate the timeframe required for each of the mitigating actions including the dates by which the decisions for each mitigation would need to be made.

No supporting Table 5 data or student FTE data (Annex C and E) is required for this scenario.

Table 6: Balance of outstanding commitments and agreed financial commitments not yet drawn down at the balance sheet date

This table is intended to capture in a much more comprehensive way the current position of borrowings and financial commitments for your institution. Information returned on Table 6 is also used within our annual monitoring processes for institutional borrowing, as calculated on the ANOC borrowing tab. Note that the ‘validations’ worksheet contains several validation checks to ensure, *inter alia,* that the totality of borrowings in Table 6 agrees with the forecast balance sheet, and that all loans are accounted for in terms of totals committed, drawn down and undrawn sums.

The table should include details of all relevant financial commitments as specified by Annex B of the Financial Management Code.

Validations worksheet

This sheet provides a comprehensive set of validation checks.

These are ordered to process systematically through the tables. The validations are designed to confirm that all tables have been completed, that sub-analysis has been completed where required and that the financial data is consistent and agrees between the various tables and statements.

Given the nature of the validations included, we do not envisage many scenarios where these cannot be resolved, and every effort must be made to enter the data correctly, but if an issue cannot be resolved it can be reported in the narrative column to the right of each validation.

The exception to this is the borrowing monitoring validations, which may highlight actions required by the governing body.

KFI worksheet

This tab is fully formula based. It should be reviewed as part of the narrative completion in order to ensure that any variances and anomalies are satisfactorily explained. The table has now been split to provide our main monitoring indicators and other indicators. The main indicators include a comparison, based partly on UK sector averages, to indicate broad performance measurement for medium term sustainability. These are broad average indicators and do not represent targets as we recognise that the requirements of individual institutions vary significantly.

ANOC borrowing worksheet

This tab is fully formula based.

Please note that approved thresholds of each institution have been built into the populated templates sent out this year. These will now form the basis of our annual borrowing monitoring review.

This tab should therefore be reviewed for indicators of notifiable or reportable events. Any such events will be highlighted on the validations tab together with governing body required actions. This is in order to facilitate compliance with the Financial

Management Code requirement for governing bodies to formally notify HEFCW where the approved multiple has been exceeded.

On an ongoing basis we will undertake a triennial review of authorised borrowing levels and communicate annually only on an exception basis.

We would further reiterate that formal approval is required for all borrowing by institutions assessed by HEFCW as high risk, and for any new borrowing where either an institution's authorised monetary threshold OR multiple have been exceeded.