

Cylchlythyr | Circular

Financial position of higher education institutions in Wales: 2016/17

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To: Heads of higher education institutions in Wales
Principals of directly-funded further education colleges in Wales
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This circular provides an overview of the financial position of higher education institutions in Wales. The analysis covers the financial results for the year ended 31 July 2017.

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Introduction

1. This circular provides an overview of the financial position of higher education institutions in Wales. The analysis covers the financial results for the year ended 31 July 2017 (2016/17). This analysis does not include further education or sixth form colleges, or alternative providers of higher education.
2. The report is being published to provide information on the sector's financial performance in 2016/17. The analysis also provides information to other stakeholders about the financial health of the sector.
3. The information in this circular has been presented in a similar format to the Financial Health report previously published by the Higher Education Funding Council for England (HEFCE) for the higher education sector in England and the financial information presented in the tables within this circular are comparable to the equivalent tables published by HEFCE.

Background

4. Financial Reporting Standard (FRS) 102 is the new financial reporting framework for higher and further education providers for reporting periods starting on or after 1 January 2015, and introduces some significant changes in the way financial performance is reported.
5. The financial results for 2016/17 presented in this circular are consistent with FRS 102. Transitional changes were reflected in the restated 2014/15 results so comparability regarding historical trends is only available for 2015/16 and 2016/17.
6. It is apparent, from the latest financial forecasts received in July 2018, that a number of institutions and the sector overall are anticipating financial deficits, at least in the short term.
7. Demographics indicate that student numbers are in decline in the short to medium term, resulting in additional competition between Institutions to attract students.
8. There is also uncertainty around future income as a result of the ongoing Review of Post 18 Education and Funding in England, led by Philip Augar.
9. In Wales the Diamond Review¹ made funding recommendations that have started to be implemented in 2018/19.
10. The outcome of the latest USS valuation also adds uncertainty and exposes member institutions to significant financial and operational risks

¹ The Diamond report can be found at <https://beta.gov.wales/review-higher-education-funding-and-student-finance-arrangements-final-report>

as pressure mounts on both employers and scheme members to agree a plan to ensure the scheme's sustainability. This is also an issue for other pension schemes that institutions are members of, such as the Teachers Pension Scheme and Local Government Schemes.

11. The sector is also impacted by uncertainties and risks affecting the wider UK economy arising from the UK's forthcoming withdrawal from the European Union (Brexit), increasing global competition, the changing policy agenda, as well as upward pressure on costs.
12. This, and the increased volatility of financial reporting of income under FRS102, show significant variability in surpluses / deficits, both in the results for 2016/17 and throughout future forecasts.
13. The various elements of uncertainty that currently exist within the sector are likely to lead to greater focus from investors on the financial strength of individual HEIs, with any fall in confidence levels likely to either restrict the availability of finance or result in a rise in the cost of borrowing for those able to secure such funding. This would inevitably put significant elements of the sector's investment program at risk and could harm the long-term financial sustainability of some HEIs.
14. The sector has a track record of meeting such challenges, showing itself to be adaptable to a more competitive and uncertain environment. However these risks will need careful monitoring and mitigation if institutions are to ensure their long-term sustainability.

Key points

15. The financial results for the higher education sector in 2016/17 show a financially mixed position overall. Annexes A to C present the financial information for the Welsh Higher Education Institutions in more detail.
16. The main outcomes from the analysis of the 2016/17 results are as follows:
 - a. The sector reported a fall in income of 1.2 per cent to £1,490 million in 2016/17. However a 5.2 per cent rise in expenditure caused a deficit before other gains and losses of £16.8 million.
 - b. Total comprehensive income for 2016/17 was £53 million, attributable to £59 million actuarial gains recognised on pension schemes.
 - c. Cash flow from operating activities declined by £12.5 million, 7 per cent of total income compared with 7.7 per cent in 2015/16.
 - d. Home and EU tuition fee income increased by 5.5 per cent: from £648 million to £684 million in 2016/17. Fee income from non EU students increased by 1 per cent from £150 million to £152 million, representing 10.2 per cent of total income.

- e. Liquidity reduced by £5 million to 185 days of expenditure. The reasons for this vary across the sector, but were mainly due to capital expenditure, where the sector had received funding specifically for capital and was then spending it.
- f. Borrowing increased by 2.1 per cent, from £730 million at 2015/16 to £745 million at 2016/17 (representing 50 per cent of income).
- g. Capital investment, to maintain and enhance academic and student facilities, totalled £151 million, a reduction of 20.6 per cent on 2015/16.
- h. There is a significant variation in the level of capital spend between institutions, with four institutions reporting a decline in capital expenditure, compared with three in 2015/16.
- i. As in prior years, this capital investment was driven by a small number of institutions with three institutions contributing 67 per cent of the sectors capital expenditure total for 2016/17.
- j. Pension provisions, which are subject to significant variation each year, decreased by 8.7 per cent, from £541 million in 2015/16 to £494 million. This was driven by a number of HEIs reporting lower than expected deficits in their Local Government Pension Schemes as a result of the latest actuarial valuations on these schemes.
- k. By contrast the draft 2017 actuarial valuation for the Universities Superannuation Scheme (USS) shows an increase in the funding deficit from £5.3 billion in 2014 to approximately £7.5 billion in March 2017, up by over a third since the last valuation.
- l. The implications of the USS deficit increase have not yet been reflected in the sectors accounts, and discussions on how these might be addressed by USS employers and members are ongoing.
- m. The movements in deficit levels and change in the costs of future defined benefits demonstrates the inherent volatility in the valuation outcomes of the sector's pension schemes. This poses potentially significant uncertainty and risk to the ongoing financial sustainability of HEIs. It is expected that this will be reflected in the sector's 2018/19 published financial statements.

Further information / responses to

- 17. For further information, contact Diane Rowland (tel 029 2085 9717; email diane.rowland@hefcw.ac.uk).

Annex A

Detailed analysis of financial results 2016/17

1. This annex provides an overview and analysis of the financial health of the HEFCW funded Higher Education Institutions in Wales (Welsh HEIs). This analysis does not include information about further education colleges or alternative providers of higher education in Wales.

Data sources and financial reporting standards

2. The data used in this paper comes from the following sources:
 - a. Unless stated otherwise, all financial data up to and including 2016/17 is from financial statements of the institutions for 2016/17, and the Higher Education Statistics Agency (HESA) Finance Statistics Record, which is completed by higher education institutions (HEIs) each year and is derived from audited financial statements.
 - b. Student number data is from the HESA Student Record.
3. All financial information is presented in academic years (ending 31 July).
4. Financial Reporting Standard (FRS) 102 is the financial reporting framework for higher education providers for reporting standards starting after 1 January 2015. All data from 2014/15 quoted in this report conforms to FRS 102.
5. This change in reporting standard presents difficulties in comparing results between institutions and against historical (pre 2014/15) trends, because the new rules introduced significant changes in the way financial performance is reported.
6. Financial data submitted by UK institutions as part of the HESA Finance record is available from HESA².

2016/17 financial results

7. The financial results for the Welsh HEIs in 2016/17 show a financially sound position overall. It should be noted, however, that significant variations continue in the financial performances of individual institutions across the sector, with the main financial strength remaining in a small number of institutions.
8. Results for 2016/17 show that the gap between the lowest and highest performing institutions continues to grow.
9. Table 1 provides the key headline data from the financial information for 2015/16 and 2016/17.

² Available online at www.hesa.ac.uk/data-and-analysis/providers/finances

Table 1: Summary of key financial indicators

	Actual	
	2015/16	2016/17
Total income	£1,508M	£1,490M
Surplus / (deficit) ³	£75M	(£17M)
Surplus / (deficit) as % of total income	5.0%	(1.1%)
Cash flow from operating activities	£116M	£104M
Cash flow from operating activities as % of total income	7.7%	7.0%
Net liquidity as number of days' expenditure	194	185
Cash held as % of income	24.0%	22.7%
External borrowings as % of total income	48.4%	50.0%

10. The remainder of this report looks at different aspects of the financial results reported by Welsh HEIs in 2016/17.

Income

11. Total income reported by Welsh HEIs in 2016/17 was £1,490 million, a decrease of 1.2 per cent compared with 2015/16. Five HEIs recorded reductions in income, primarily due to falls in tuition fee income, funding body grants and other income.
12. Table 2 provides a breakdown of sector income for the last two years.

³ This is the surplus / (deficit) reported in the 'Statement of comprehensive income', before other gains and losses and the share of surplus / (deficit) in joint ventures and associates.

Table 2: Breakdown of total income for Welsh HEIs

	Actual		Change	
	2015/16 £M	2016/17 £M	£M	%
Funding council grants	183.5	173.4	(10.1)	(5.5%)
Tuition fees and education contracts (home and European Union)	648.1	683.5	35.4	5.5%
Overseas fee income	150.1	151.6	1.5	1.0%
Research grants and contracts	208.6	194.4	(14.2)	(6.8%)
Other income	302.4	269.7	(32.7)	(10.8%)
Investment income	8.9	11.8	2.9	32.6%
Donations and endowments	6.3	5.8	(0.5)	(7.9%)
Total income	1,507.9	1,490.2	(17.7)	(1.2%)

Funding council grants

13. Funding allocated to the sector by HEFCW continued to fall in 2016/17. The Funding Council grants include funding received from the Welsh Government Department for Education and Skills for FE provision of £38,540 for 2015/16 and £47,146 for 2016/17. Excluding this the underlying reduction was 12.8 per cent.

Tuition fees and education contracts (home and European Union)

14. Table 3 provides a breakdown of tuition fee income received in 2016/17 compared with 2015/16.

Table 3: Breakdown of home and EU tuition fee income 2015/16 and 2016/17

	Actual		Percentage change
	2015/16 £Million	2016/17 £Million	
Full-time undergraduate	526.2	557.7	6.0%
Full-time postgraduate	25.7	27.0	5.1%
Part-time undergraduate and postgraduate	18.0	19.4	7.8%
Other fees and support grants	78.2	79.4	1.5%
Total home and EU fee income	648.1	683.5	5.5%

15. 2016/17 data from the HESA student record indicates that there was an increase of 3 per cent in home and EU full-time undergraduate students (expressed as full-time equivalents (FTEs)) from 68,515 in 2015/16 to 70,890 in 2016/17. This indicates that part of the corresponding increase in income is due to the increase in student fees from 2012/13 as opposed to increased student numbers.

Overseas fee income (non-EU)

16. The HESA student record data shows that, in 2016/17, total overseas (non-EU) student numbers (FTEs) decreased by 11.1 per cent compared with 2015/16, decreasing from 13,385 to 11,890 FTEs.
17. Table 4 shows the change in overseas students broken down by mode and level of study between 2015/16 and 2016/17.

Table 4: Breakdown of overseas student FTEs by mode and level of study

	FT UG	FT PGR	FT PGT	PT UG	PT PGR	PT PGT	Total FTEs
2015/16	7,345	1,030	4,235	130	160	485	13,385
2016/17	6,530	800	3,805	180	275	305	11,895
% change	(11.1%)	(22.3%)	(10.2%)	38.5%	71.9%	(37.1%)	(11.1%)

18. In 2016/17 the sector reported fee income from overseas students of £151.6 million, an increase of £1.5 million and equivalent to a rise of 1.0 per cent

compared with 2015/16. In 2016/17 this made up 10.2 per cent of total income across the sector, broadly unchanged from the previous year.

19. The fall in FTE student numbers, coupled with a 1.0 per cent rise in fee income from overseas students indicates that the rise was due to increase in fees charged. Price sensitivity is a key factor in an increasingly competitive global market, and there will be a limit to the extent to which fees can be raised in future.
20. A significant risk to Welsh HEIs as well as the UK HE sector is the impact that a decline in overseas students would have on associated fee income and the longer-term financial sustainability of institutions. Areas of potential risk currently facing the sector include the tightening of UK immigration policy, a downturn in the global economy, including that of the UK, and increasing competition from worldwide markets for outwardly mobile students.
21. The sector is particularly vulnerable to changes in the Chinese student market, as Chinese domiciled students continue to make up the largest proportion of the overseas student population. The exposure for Welsh institutions is 32.4 per cent of overseas student numbers studying at the Institutions, increasing by 3.1 per cent from 3,730 FTE in 2015/16 to 3,845 FTE in 2016/17.

Student recruitment 2016-17 and 2017-18

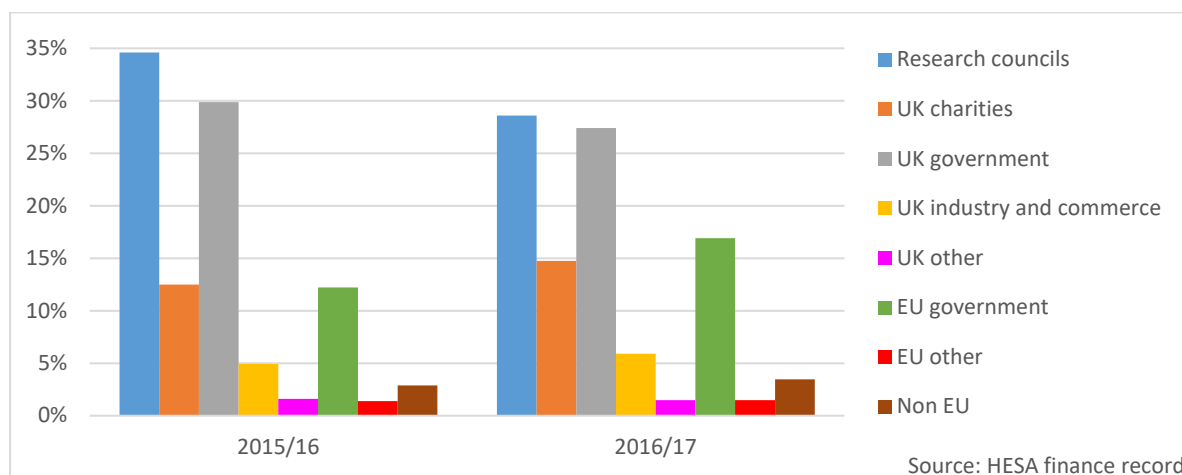
22. 2017/18 HESA data indicates a decline in undergraduate total FTEs (Home and EU) (79,590 to 79,420).
23. The UCAS end of cycle report for 2018⁴ indicates an overall 6 per cent decrease in accepted applicants to Welsh HEIs as compared to a 1 per cent increase in 2016/17. This can be further analysed as a 4 per cent decrease from Welsh domiciled students, (2016/17 2 per cent growth), a 6 per cent decline in other UK acceptances (2016/17 decrease of 2 per cent), and a 21 per cent decrease in EU acceptances (an increase of 5 per cent in 2016/17). Overseas acceptances have decreased by 7 per cent compared to an increase of 9 per cent in 2016/17.
24. The decelerating rate of student recruitment growth, together with demographic data, raises questions over the sector's ability to maintain the income growth that has been achieved to date, and to achieve the ambitious growth targets that have previously been forecast, and potentially brings into focus the significant uncertainty facing the sector. The impact of these risks is still fully to play out across the sector and it is anticipated that Britain's forthcoming exit from the European Union, increasing global competition in the higher education market, reduced HEFCW funding in 2016/17 and 2017/18, changes to funding arrangements and a volatile economy both in the UK and internationally will impact on future income and the financial stability of HEIs across the sector.

⁴ See www.ucas.com/corporate/data-and-analysis/ucas-undergraduate-releases/ucas-undergraduate-analysis-reports/ucas-undergraduate-end-cycle-reports

Research grants and contracts

25. Income from research grants and contracts fell by £14.2 million to £194.4 million in 2016/17. This is a 6.8 per cent decrease compared with 2015/16. However, 2015/16 income from research grants and contracts included the recognition of capital grants of £16.0 million. A breakdown of research and contracts income for 2016/17 is provided at Table 5 below.

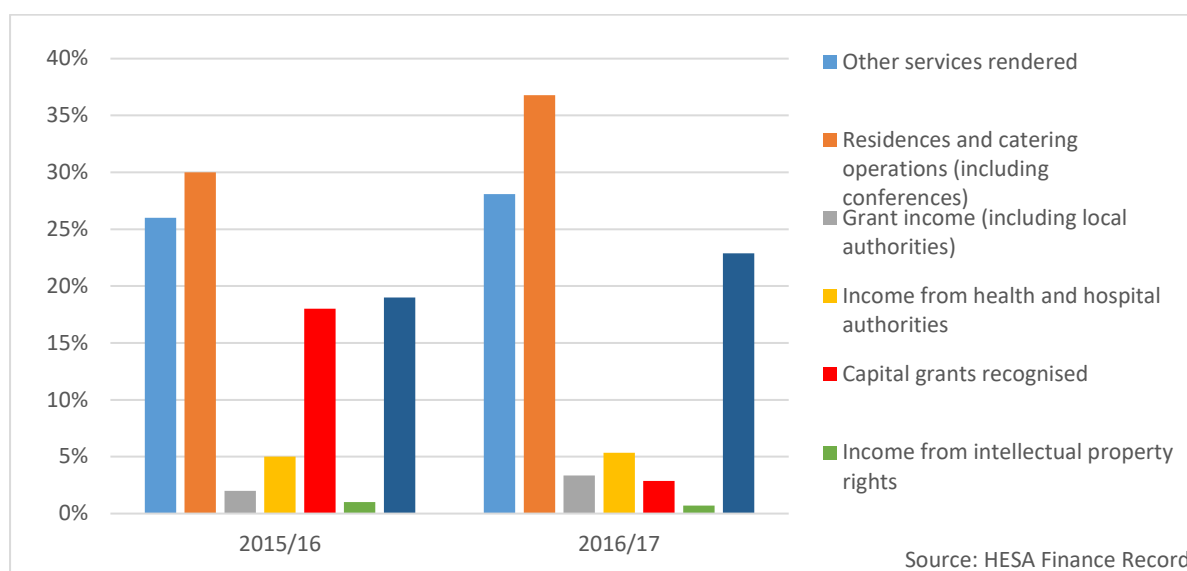
Table 5: Breakdown of research and contracts income



Other income

26. The sector also reported a reduction in 'other income'; from £302.4 million (20.0 per cent of total income) in 2015/16 to £269.7 million (18.1 per cent) in 2016/17. The significant factor in this decrease was the reporting of capital grant income received, which reduced from £54.7 million in 2015/16 to £8.0 million in 2016/17. A breakdown of other income for 2016/17 is provided below at Table 6.

Table 6: Breakdown of other income



27. Institutions are increasingly focused on maximising their other income streams to support their teaching and research operations and to generate the cash inflows needed to support capital investment and meet finance costs. Institutions failing to maintain these income streams are at greater risk of financial instability.

Expenditure

28. In 2016/17, the sector reported total expenditure of £1,507.1 million, an increase of 5.2 per cent compared with 2015/16. This represents 101.1 per cent of total income. Table 7 shows a breakdown of the sector's expenditure in 2015/16 and 2016/17.

Table 7: Breakdown of expenditure

	2015/16 £M	2016/17 £M	% change
Staff costs <i>As a % of total income</i>	828.3 54.9%	851.8 57.2%	2.8%
Other operating expenses <i>As a % of total income</i>	470.8 31.2%	490.9 32.9%	4.3%
Depreciation <i>As a % of total income</i>	95.3 6.3%	116.5 7.8%	22.2%
Fundamental restructuring costs <i>As a % of total income</i>	1.0 0.1%	6.8 0.4%	580.0%
Interest and other finance costs <i>As a % of total income</i>	37.7 2.5%	41.1 2.8%	9.0%
Total expenditure <i>As a % of total income</i>	1,433.1 95.0%	1,507.1 101.1%	5.2%

29. The sector's largest expenditure relates to staff costs, which totalled £851.8 million in 2016/17, equivalent to 57.2 per cent of total income.
30. This represents an increase of £23.5 million on the level reported in the previous year, which is largely attributable to increased salaries/wages and social security costs, and to a lesser extent, employer pension costs. Average staff costs per employee rose by 0.2 per cent between 2015/16 and 2016/17. As in previous years, there was considerable variation in the changes to staff costs reported by institutions.
31. With continued pressure on costs, and ongoing pay negotiations, it will be important for the sector to continue the drive for operational efficiencies in order to deliver long-term sustainability. That this process is ongoing is indicated by the high level of restructuring costs in 2016/17.
32. Depreciation in 2016/17 includes £21.7 million of exceptional impairment of assets in anticipation of the planned cessation of their value in use. Once these items are removed, underlying depreciation is 0.5 per cent lower than 2015/16.

Surplus / (deficit)

33. Welsh HEIs' total deficit⁵ before other gains and losses of £16.8 million is a significant reduction from the surplus of £74.8 million in 2015/16. However it should be noted that some significant one off items have affected the results. £54.7 million of the surplus for 2015/16 relates to capital grants recognised in accordance with the new accounting standard, FRS 102. The 2016/17 results were adversely affected by fixed asset impairments of £21.7 million. Whilst there were capital grants in 2016/17, and impairments in 2015/16, these were at much lower levels. It can be seen that the underlying variance between the results for 2016/17 and 2015/16 is much lower than the headline indicates.
34. At institutional level, as detailed in Annex C, results range from a deficit of 21.4 per cent to a surplus of 6.7 per cent. Whilst the largest deficit includes a significant impairment, and the underlying performance of this institution is a reduced deficit of 6.8 per cent, this range demonstrates the significant level of variation in the financial performance of individual institutions across the sector.
35. Four institutions reported deficits before gains / losses in 2016/17, as against three reported deficits for 2015/16.
36. Two institutions reported surpluses of over 5 per cent for the year, compared with three in 2015/16. The high surpluses recorded in 2015/16 by two of the institutions were due to one-off income injections capital grants and research income recognition.

Cash flow

37. Surpluses and deficits can be impacted by non-operational cash items such as receipts from donations and endowments or large capital receipts. Cash flow from operating activities represents a more reliable indicator of financial operating performance. Cash flow here means an HEI's cash resources that have been generated from operations to meet day to day obligations, before the costs of capital invested and debt servicing costs (both interest and capital repayments).
38. At a sector level, net cash flow from operating activities declined from £116.2 million in 2015/16 to £103.7 million in 2016/17, equivalent to 7.0 per cent of total income (compared with 7.7 per cent in 2015/16).
39. At an institutional level however, results range from a negative cash flow of 1.3 per cent of income, to a positive cash flow of 10.7 per cent. In 2015/16 net operating cash flow ranged from 0.2% to 14.4% of total income. Two institutions reported negative cash flows in 2016/17 compared with none in 2015/16.

Liquidity

40. At the end of 2016/17 the Welsh HEIs had net liquidity equivalent to 185 days expenditure (that is the number of days' expenditure, excluding depreciation,

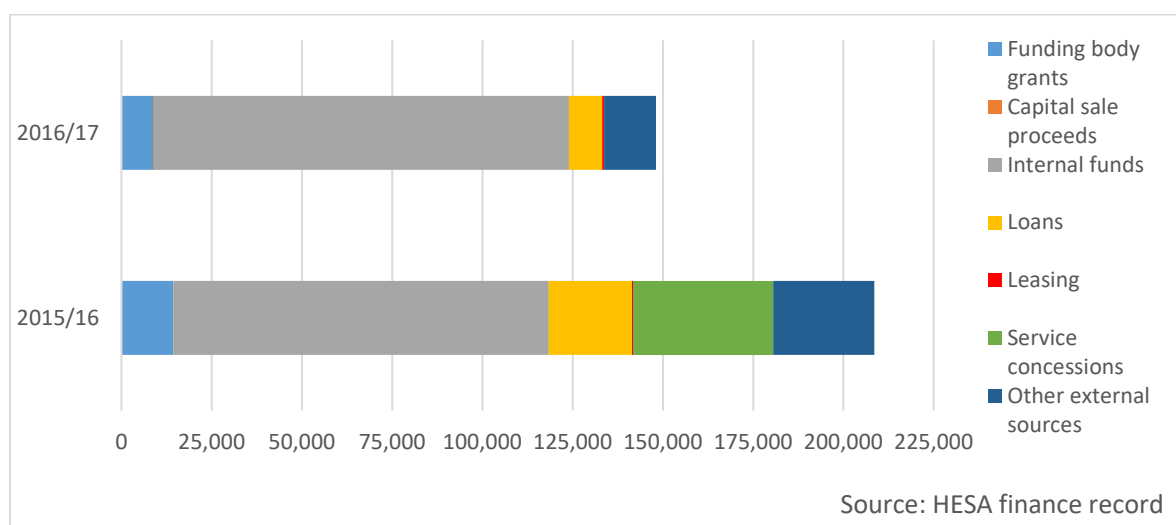
⁵ Total income less total expenditure, excluding other gains or losses (from investments and fixed asset disposals) and the share of surplus or deficit in joint ventures and associates.

that the liquidity covers). This is a small reduction on the level reported at the end of 2015/16, which was 194 days. The high levels of liquidity are due largely to two Universities holding 200 or more days of expenditure in advance of capital expenditure. Five institutions reported lower liquidity than 2015/16. No institution had liquidity of less than 31 days.

41. It is important to note that the liquidity data is taken as a snapshot of projected bank and investment balances as at 31 July. The main period of capital spending at most institutions happens during the summer months, after 31 July; therefore the available cash not committed to capital spending is likely to be much lower.
42. As charities, HEIs are obliged to ensure that they remain sustainable and do not expose themselves to undue risk. Strong liquidity is particularly important given current levels of uncertainty and risk in the sector, and as part of our accountability process, we continue to monitor liquidity levels, to assess whether HEIs are able to maintain sufficient cash levels to manage their risks effectively.

Capital expenditure

43. Welsh HEIs are continuing to make a substantial investment in infrastructure to maintain and enhance the academic and student facilities. In 2016/17, capital additions totalled £148 million, a reduction of 29.0 per cent compared with 2015/16. The main reduction in capital expenditure was broadly over three HEIs.
44. Estate Management Statistics data, as at 31 July 2017, showed that the sector still needed to invest approximately £178 million, an increase of £10 million on 2015/16, to bring its non-residential estate up to a sound and operationally safe condition. This cost reflects the investment required to restore the estate to a sound baseline condition, not to achieve the standard required to satisfy rising student expectations. This latter investment is essential for enabling HEIs to compete in the increasingly competitive domestic and global market.
45. With only limited capital grants, specifically related to research, available from HEFCW and significantly reduced levels of publicly funded capital grants, Welsh HEIs will need to generate surpluses and operating cash inflows to sustain the level of capital investment needed to attract students and staff, and ensure their long-term sustainability. Increased surpluses provide the positive cash flow needed to fund future investment and meet finance costs including the repayment of borrowings. In order to fund capital expenditure in 2016/17, the sector committed to new borrowings of £28.2 million and also received capital grant funding of £20.6 million.
46. Table 8 below illustrates how the HEIs funded the capital expenditure undertaken in the year.

Table 8: Capital Expenditure by Source of Funds (£'000s)

47. HEIs will inevitably reassess their capital investment plans in the light of economic uncertainty, changing building costs (occurring as a result of inflation and the weakening of sterling) and their ability to fund planned investment levels by generating additional cash or increasing borrowing. A reduction in capital investment could lead to under-investment, with institutions that fail to invest sufficiently in infrastructure finding themselves in a weaker market position and at higher risk of financial instability.

Borrowing

48. At the end of July 2017, the sector reported external long-term borrowings of £745.2 million (equivalent to 50.0 per cent of income). This is £14.9 million higher than the £730.3 million reported at the end of 2015/16. Borrowings include £199 million (2015/16 £201 million) in respect of service concessions and finance leases. Service concession arrangements are mainly used to develop student residences and their borrowing costs are expected to be funded from the rental income. Prior to the implementation of FRS 102 in 2015/16 (including restatement of comparatives) service concession arrangements were not included on the balance sheets of HEIs.
49. As borrowing rises in the sector, interest payments will increase. This rise in 'fixed costs' could put pressure on any institution that fails to constrain other costs or to increase income sufficiently.
50. The cost of increased borrowing has to date largely been mitigated by the exceptionally low interest rates available to the UK HE sector. However, a rise in interest rates could add significant costs, placing increasing financial burden on individual institutions' sustainability if not well managed.
51. In 2016/17, Welsh HEIs reported interest and other finance costs of £41.1 million (2015/16: £37.7 million), although some of this increase was due to the recognition of interest costs relating to pension deficit recovery plans and changes in the fair value of financial instruments. The underlying interest on borrowing reported was £29 million in 2016/17, as against £23.4 million in

2015/16. This increase reflects the cost of a large increase in borrowing during 2015/16.

Reserves

52. Reserves are an HEI's total assets less its liabilities and, in very broad terms, can be used as a proxy for the overall value of an institution. These are the accumulated surpluses of an institution over its lifetime and most of these surpluses have been invested in fixed assets used by the University such as land, buildings and capital equipment. Reserves are not the same as cash, as, although an institution could dispose of an asset if it was surplus to operational requirements (thereby converting it to cash), the assets are accounted for at original cost or value to the institution as opposed to disposal value.
53. Reserves are categorised as restricted or unrestricted. Restricted reserves apply where there are restrictions on how an institution can use the funds, such as endowments and donations designated for a specific purpose. Unrestricted reserves⁶ represent the value of the institution's accumulated funds through surpluses reported in its income statement, on whose use there are no restrictions.
54. The latest financial data shows that unrestricted reserves increased from £854.3 million as at 31 July 2016 (equivalent to 56.8 per cent of total income) to £967.8 million at 31 July 2017 (64.9 per cent of total income). However, the aggregate sector position masks a significant spread and a concentration of large unrestricted reserves in a small number of institutions, with three institutions holding 72.6 per cent of total unrestricted reserves.

Pensions

55. The latest financial data shows that overall, pension provisions (the amount set aside by the HEIs to fund future pension liabilities) decreased by 8.7 per cent from £541.1 million to £493.8 million. This compares with a rise of 36.1 per cent reported in 2015/16.
56. This reduction in pension provisions is due to a number of HEIs reporting lower than expected deficits in their Local Government Pension Scheme (LGPS) as a result of the latest triennial valuations on these schemes, carried out in 2016.
57. These LGPS valuations show that 2016 funding levels are broadly higher than those from the last valuations in 2013. However this overall picture is not reflected across the sector, where there have been significant variations in funding levels and costs.
58. In contrast, the 2017 actuarial valuation for the sector's largest multi-employer pension scheme, the Universities Superannuation Scheme (USS) shows an estimated increase in funding deficit from £5.3 billion in 2014 to approximately £7.5 billion in 2017⁷. Alongside this, there has been a significant rise in the cost

⁶ This is the unrestricted income and expenditure reserve reported in the Consolidated and Institution balance sheet. Unrestricted revaluation reserves are excluded as these represent unrecognised gains.

⁷ See www.uss.co.uk/

of the future defined benefits in USS, primarily due to lower expectations for economic growth, and specifically lower expectations for future investment returns.

59. Ongoing uncertainty over how future funding of the USS will be addressed, and the likely level of future contributions, together with subsequently announced increases in contribution rates to the Teachers' Pension Scheme (TPS), represent both a financial and operational risk to the sector and add significant pressure to net operating cash flow going forward.
60. The fluctuations in deficit levels and the change in the cost of future pension benefits demonstrate the inherent volatility in the outcomes of the sector's pension scheme valuations, which pose significant uncertainty and risks to ongoing sustainability.

Disclaimer

61. This report, which is based on information provided by HEFCW-funded higher education institutions, has been prepared for the benefit of HEIs and their stakeholders in general terms. HEFCW cannot reasonably foresee the various specific uses that may be made of this report, and therefore no responsibility is accepted for any reliance any third party may place upon it.

Annex B

Welsh HEIs consolidated statement of comprehensive income

	2015/16	2016/17
	£'000	£'000
INCOME		
Tuition fee income Home and EU	648,141	683,564
Overseas fee income	150,090	151,565
Funding body grants	183,494	173,386
Research grants and contracts	208,611	194,350
Other income	302,396	269,742
Investment income	8,862	11,820
Donations and endowments	6,339	5,845
Total income	1,507,933	1,490,272
EXPENDITURE		
Staff costs	828,279	851,804
Fundamental staff restructuring costs	1,020	6,815
Other operating expenses	470,835	490,912
Depreciation	95,263	116,425
Interest and other finance costs	37,733	41,112
Total expenditure	1,433,130	1,507,068
Surplus / (deficit) before other gains / (losses)	74,803	(16,796)
Gain / (loss) on disposal of fixed assets	(6,029)	(2,784)
Gain / (loss) on investments	10,024	16,605
Share of operating surplus / (deficit) in joint ventures	(1,145)	(3,005)
Share of operating surplus / (deficit) in joint ventures	(177)	(150)
Surplus / (deficit) before tax	77,476	(6,130)
Taxation	(454)	197
Surplus / (deficit) after tax	77,022	(5,933)
Unrealised surplus on revaluation of land and buildings	-	-
Actuarial gain / (loss) in respect of pension schemes	(119,935)	58,552
Change in fair value of hedging financial instrument(s)	118	193
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(42,795)	52,812

Welsh HEIs consolidated balance sheet

	2015/16	2016/17
	£'000	£'000
NON-CURRENT ASSETS		
Intangible assets	515	1,370
Fixed assets	2,228,925	2,262,342
Heritage assets	8,263	8,227
Investments	93,199	89,350
Investments in joint ventures	17,014	13,850
Investments in associates	150	-
Total non-current assets	2,348,066	2,375,139
CURRENT ASSETS		
Stock	2,962	2,749
Trade and other receivables	149,082	155,186
Investments	347,442	365,966
Cash and cash equivalents	362,821	340,005
Other (e.g. assets for sale)	-	-
Total current assets	862,307	863,906
CREDITORS: amounts falling due within one year		
Bank overdrafts	1,167	1,851
Loans repayable to funding council	-	600
Bank loans and external borrowing	10,009	11,426
Obligations under finance leases and service concessions	6,275	6,243
Derivatives	-	677
Other	303,226	311,862
Total creditors: amounts falling due within one year	320,677	332,659
Net current assets / (liabilities)	541,630	531,247
Total assets less current liabilities	2,889,696	2,906,386
CREDITORS: amounts falling due after more than one year		
Bank loans and external borrowing	505,001	521,456
Obligations under finance leases and service concessions	202,903	199,902
Loans repayable to funding council	6,150	5,550
Derivatives	-	-
Other	102,596	97,068
Total creditors: amounts falling due after more than one year	816,650	823,976
PROVISIONS		
Pension provisions	541,087	493,768
Other provisions	13,191	17,062
Total provisions	554,278	510,830
TOTAL NET ASSETS	1,518,768	1,571,580

Welsh HEIs consolidated balance sheet (continued)

	2015/16 £'000	2016/17 £'000
RESERVES		
RESTRICTED RESERVES		
Income and expenditure reserve - endowment reserve	102,816	113,936
Income and expenditure reserve - restricted reserve	7,575	2,207
Total restricted reserves	110,391	116,143
UNRESTRICTED RESERVES		
Income and expenditure reserve - unrestricted	854,319	967,815
Revaluation reserve	554,058	487,622
Total unrestricted reserves	1,408,377	1,455,437
TOTAL RESERVES	1,518,768	1,571,580

Welsh HEIs consolidated statement of cash flows

	2015/16 £'000	2016/17 £'000
Net cash inflow from operating activities	116,188	103,664
Cash flows from investing activities		
Proceeds from sale of fixed assets	19,182	565
Proceeds from sale of intangible assets	246	633
Capital grant receipts	22,999	20,664
Disposal of non-current asset investments	15,556	49,368
Withdrawal of deposits	1,367	142
Investment income	22,324	10,067
Payments to acquire fixed assets	(137,404)	(129,979)
Payments to acquire intangible assets	(51,981)	(19,793)
New non-current asset investments	(68,642)	(33,280)
New deposits	(169,270)	(11,613)
Total cash flow from investing activities	(345,623)	(113,226)
Cash flows from financing activities		
Interest paid	(17,596)	(24,581)
Interest element of finance leases and service concession payments	(6,903)	(7,264)
Endowment cash received	2,795	2,873
New secured loans	23,034	9,151
New unsecured loans	292,270	19,051
Repayments of amounts borrowed	(6,867)	(9,664)
Capital element of finance leases and service concession payments	36,072	(3,060)
Other	141	
Total cash flow from financing activities	322,946	(13,494)
Increase / (decrease) in cash and cash equivalents in the year	93,511	(23,056)
Cash and cash equivalents at beginning of year	268,142	361,653
Cash and cash equivalents at the end of the year	361,653	338,597

Welsh HEIs consolidated net operating cash flow

	2015/16	2016/17
	£'000	£'000
Post tax surplus / (deficit) for the year	77,022	(5,933)
Adjustment for non-cash items		
Depreciation	95,263	116,425
Amortisation of intangibles	-	-
Amortisation of goodwill	4,000	-
Gain / (loss) on investments	(8,404)	(16,605)
Decrease / (increase) in stock	408	256
Decrease / (increase) in debtors	1,654	(8,502)
Increase / (decrease) in creditors	(64,662)	3,404
Increase / (decrease) in pension provisions	22,357	7,255
Increase / (decrease) in other provisions	384	6,839
Share of operating (surplus) / deficit in joint ventures	1,145	3,257
Share of operating (surplus) / deficit in associates	177	150
Other	(4,260)	(918)
Adjustment for investing or financing activities		
Investment income	(8,862)	(10,462)
Interest payable	23,380	28,982
Endowment income	(2,906)	(2,873)
Loss / (gain) on disposal of fixed assets	366	(897)
Capital grant income	(20,874)	(16,714)
Net cash inflow from operating activities	116,188	103,664

Annex C

Total income	2015/16 £'000	2016/17 £'000
University of South Wales	190,907	184,168
Aberystwyth University	123,176	124,521
Bangor University	143,442	143,380
Cardiff University	511,753	505,123
University of Wales: Trinity Saint David	104,650	119,340
Swansea University	296,292	278,153
Cardiff Metropolitan University	98,260	99,871
Wrexham Glyndŵr University	39,453	35,716
Sector total	1,507,933	1,490,272

Surplus / (deficit) before other gains / (losses)	2015/16 £'000	2016/17 £'000
University of South Wales	13,701	9,486
Aberystwyth University	(5,106)	(2,632)
Bangor University	(10,422)	(8,764)
Cardiff University	27,078	(8,716)
University of Wales: Trinity Saint David	(3,738)	(25,530)
Swansea University	51,873	18,714
Cardiff Metropolitan University	550	54
Wrexham Glyndŵr University	867	592
Sector total	74,803	(16,796)

2015/16 As % income	2016/17
7.2%	5.2%
(4.1%)	(2.1%)
(7.3%)	(6.1%)
5.3%	(1.7%)
(3.6%)	(21.4%)
17.5%	6.7%
0.6%	0.1%
2.2%	1.7%
5.0%	(1.1%)

Surplus / (deficit) after gains / (losses) and share of surplus / (deficit) in joint ventures	2015/16 £'000	2016/17 £'000
University of South Wales	8,478	5,908
Aberystwyth University	(2,509)	1,369
Bangor University	(10,073)	(8,106)
Cardiff University	32,114	145
University of Wales: Trinity Saint David	(3,646)	(24,956)
Swansea University	51,695	18,908
Cardiff Metropolitan University	550	54
Wrexham Glyndŵr University	867	548
Sector total	77,476	(6,130)

2015/16 As % income	2016/17
4.4%	3.2%
(2.0%)	1.1%
(7.0%)	(5.7%)
6.3%	0.0%
(3.5%)	(20.9%)
17.4%	6.8%
0.6%	0.1%
2.2%	1.5%
5.1%	(0.4%)

Annex C

Surplus / (deficit) after taxation	2015/16	2016/17	2015/16	2016/17
	£'000	£'000	As % income	
University of South Wales	8,478	6,307	4.4%	3.4%
Aberystwyth University	(2,509)	1,199	(2.0%)	1.0%
Bangor University	(10,245)	(8,106)	(7.1%)	(5.7%)
Cardiff University	31,881	145	6.2%	0.0%
University of Wales: Trinity Saint David	(3,658)	(24,972)	(3.5%)	(20.9%)
Swansea University	51,658	18,892	17.4%	6.8%
Cardiff Metropolitan University	550	54	0.6%	0.1%
Wrexham Glyndŵr University	867	548	2.2%	1.5%
Sector total	77,022	(5,933)	18.2%	(13.8%)

Total comprehensive income for the year	2015/16	2016/17	2015/16	2016/17
	£'000	£'000	As % income	
University of South Wales	(10,531)	(2,149)	(5.5%)	(1.2%)
Aberystwyth University	(12,964)	(757)	(10.5%)	(0.6%)
Bangor University	(15,942)	(3,008)	(11.1%)	(2.1%)
Cardiff University	10,581	10,925	2.1%	2.2%
University of Wales: Trinity Saint David	(18,329)	(13,793)	(17.5%)	(11.6%)
Swansea University	32,158	37,292	10.9%	13.4%
Cardiff Metropolitan University	(19,583)	16,264	(19.9%)	16.3%
Wrexham Glyndŵr University	(8,185)	7,639	(20.7%)	21.4%
Sector total	(42,795)	52,413	(2.8%)	3.5%

Total expenditure	2015/16	2016/17
	£'000	£'000
University of South Wales	177,206	174,682
Aberystwyth University	128,282	127,153
Bangor University	153,864	152,144
Cardiff University	484,675	513,839
University of Wales: Trinity Saint David	108,388	144,870
Swansea University	244,419	259,439
Cardiff Metropolitan University	97,710	99,817
Wrexham Glyndŵr University	38,586	35,124
Sector total	1,433,130	1,507,068

Annex C

Staff costs	2015/16	2016/17	2015/16	2016/17
	£'000	£'000	As % income	
University of South Wales	108,064	107,937	56.6%	58.6%
Aberystwyth University	70,050	70,732	56.9%	56.8%
Bangor University	83,670	83,955	58.3%	58.6%
Cardiff University	283,321	294,492	55.4%	58.3%
University of Wales: Trinity Saint David	69,190	73,301	66.1%	61.4%
Swansea University	129,601	132,807	43.7%	47.7%
Cardiff Metropolitan University	60,939	65,596	62.0%	65.7%
Wrexham Glyndŵr University	23,444	22,984	59.4%	64.4%
Sector total	828,279	851,804	54.9%	57.2%

Interest payable (excluding pension interest)	2015/16	2016/17	2015/16	2016/17
	£'000	£'000	As % income	
University of South Wales	3,594	3,428	13.0%	25.4%
Aberystwyth University	3,204	3,217	53.6%	(287.7%)
Bangor University	4,865	5,401	47.0%	70.4%
Cardiff University	5,448	10,151	11.4%	24.4%
University of Wales: Trinity Saint David	42	384	1214.6%	7.9%
Swansea University	4,777	4,986	41.2%	16.7%
Cardiff Metropolitan University	1,481	1,468	16.4%	17.9%
Wrexham Glyndŵr University	12	12	0.5%	(3.3%)
Sector total	23,423	29,047	22.5%	28.7%

Capital Expenditure	2015/16	2016/17
	£'000	£'000
University of South Wales	18,402	19,618
Aberystwyth University	5,956	7,408
Bangor University	49,433	12,759
Cardiff University	69,422	56,956
University of Wales: Trinity Saint David	30,282	19,655
Swansea University	26,708	24,047
Cardiff Metropolitan University	7,780	7,262
Wrexham Glyndŵr University	-	303
Sector total	207,983	148,008

Annex C

Long-term external borrowings - bank and other external borrowings	2015/16	2016/17	2015/16	2016/17
	£'000	£'000	As % income	
University of South Wales	64,973	61,700	34.0%	33.5%
Aberystwyth University	22	-	0.0%	0.0%
Bangor University	30,706	48,321	21.4%	33.7%
Cardiff University	312,190	310,613	61.0%	61.5%
University of Wales: Trinity Saint David	17,585	25,228	16.8%	21.1%
Swansea University	60,772	58,419	20.5%	21.0%
Cardiff Metropolitan University	28,762	28,330	29.3%	28.4%
Wrexham Glyndŵr University	-	305	0.0%	0.9%
Sector total	515,010	532,916	34.2%	35.8%

Long-term external borrowings - service concessions and finance leases	2015/16	2016/17	2015/16	2016/17
	£'000	£'000	As % income	
University of South Wales	-	-	0.0%	0.0%
Aberystwyth University	48,517	48,950	39.4%	39.3%
Bangor University	68,847	67,563	48.0%	47.1%
Cardiff University	-	-	0.0%	0.0%
University of Wales: Trinity Saint David	540	618	0.5%	0.5%
Swansea University	82,692	81,256	27.9%	29.2%
Cardiff Metropolitan University	-	-	0.0%	0.0%
Wrexham Glyndŵr University	437	291	1.1%	0.8%
Sector total	201,033	198,678	13.3%	13.3%

Net assets	2015/16	2016/17
	£'000	£'000
University of South Wales	62,419	60,669
Aberystwyth University	149,748	148,991
Bangor University	213,887	210,879
Cardiff University	707,468	718,393
University of Wales: Trinity Saint David	126,931	113,138
Swansea University	169,621	206,913
Cardiff Metropolitan University	73,202	89,466
Wrexham Glyndŵr University	15,492	23,131
Sector total	1,518,768	1,571,580

Annex C

Net cash Inflow from operating activities	2015/16	2016/17	2015/16	2016/17
	£'000	£'000	As % income	
University of South Wales	27,563	13,482	14.4%	7.3%
Aberystwyth University	7,290	(1,664)	5.9%	(1.3%)
Bangor University	10,345	7,675	7.2%	5.4%
Cardiff University	47,658	41,580	9.3%	8.2%
University of Wales: Trinity Saint David	171	4,851	0.2%	4.1%
Swansea University	11,597	29,894	3.9%	10.7%
Cardiff Metropolitan University	9,011	8,210	9.2%	8.2%
Wrexham Glyndŵr University	2,553	(364)	6.5%	(1.0%)
Sector total	116,188	103,664	7.7%	7.0%

Debt servicing cost	2015/16	2016/17	2015/16	2016/17
	£'000	£'000	As % operating cash flow	
University of South Wales	6,151	6,867	22.3%	50.9%
Aberystwyth University	1,785	3,831	24.5%	(273.3%)
Bangor University	6,101	8,120	59.0%	105.8%
Cardiff University	7,010	11,835	14.7%	28.5%
University of Wales: Trinity Saint David	42	970	24.6%	20.0%
Swansea University	9,772	10,961	84.3%	36.7%
Cardiff Metropolitan University	1,871	1,901	20.8%	23.2%
Wrexham Glyndŵr University	67	84	2.6%	(23.1%)
Sector total	32,799	44,569	28.2%	42.9%

Cash and cash equivalents	2015/16	2016/17	2015/16	2016/17
	£'000	£'000	As % income	
University of South Wales	70,858	74,021	37.1%	40.2%
Aberystwyth University	40,209	31,127	32.6%	25.0%
Bangor University	16,420	31,045	11.4%	21.7%
Cardiff University	118,516	90,212	23.2%	17.9%
University of Wales: Trinity Saint David	28,228	25,024	27.0%	21.0%
Swansea University	68,084	69,706	23.0%	25.1%
Cardiff Metropolitan University	16,102	14,455	16.4%	14.5%
Wrexham Glyndŵr University	3,238	2,829	8.2%	7.9%
Sector total	361,655	338,419	24.0%	22.7%

Liquidity ratio	2015/16 £'000	2016/17 £'000
University of South Wales	215 days	200 days
Aberystwyth University	132 days	105 days
Bangor University	56 days	81 days
Cardiff University	328 days	318 days
University of Wales: Trinity Saint David	115 days	92 days
Swansea University	119 days	115 days
Cardiff Metropolitan University	100 days	92 days
Wrexham Glyndŵr University	33 days	31 days
Sector total	194 days	185 days

List of abbreviations

EU	European Union
FRS	Financial Reporting Standard
FTE	Full-time equivalent or equivalence
FT PGR	Full-time postgraduate (research)
FT PGT	Full-time postgraduate (teaching)
FT UG	Full-time undergraduate
HEFCW	Higher Education Funding Council for Wales
HEI	Higher education institution
HESA	High Education Statistics Agency
HESES	Higher Education Students Early Statistics Survey
LGPS	Local Government Pension Scheme
PT PGR	Part-time postgraduate (research)
PT PGT	Part-time postgraduate (teaching)
PT UG	Part-time undergraduate
USS	Universities Superannuation Scheme