

Cylchlythyr | Circular

Request for forecasts 2021

Date: 11 June 2021
Reference: W21/16HE
To: Heads of higher education institutions in Wales
and Directors of Finance
Response by: **31 July 2021**
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This circular requests higher education institutions to submit the following information:

- Part 1 - Financial estimates for the current year 2020/21 and financial forecasts for 2021/22 to 2024/25
- Monthly cash flow forecasts for the 12 months to 31 July 2022
- Accompanying narrative commentary
- Part 2 - Student numbers for the current year 2020/21 and forecasts for 2021/22 to 2024/25

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Introduction

1. This circular requests higher education institutions to submit the following information:
 - Part 1 - Financial estimates for the current year 2020/21 and financial forecasts for 2021/22 to 2024/25
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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. The financial forecast model workbook and commentary (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 and eligible EU and Island, overseas and non-eligible EU 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.

Strategic context

3. 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 24 March 2021, announcing higher education funding and priorities for 2021/22 fiscal year.
 - HEFCW Headline funding assumptions AY 2021/22. This was issued to Heads of institutions on 1 March 2021.
 - HEFCW's circulars:
 - Funding Allocations 2021/22 ([W21/15HE](#))
 - HEFCW innovation and engagement funding for Wales ([W20/09HE](#))

- 2021/22 fee and access plan application guidance ([W20/07HE](#))
- Higher Education Students Early Statistics Survey 2020/21 ([W20/37HE](#))
- Postgraduate Taught (PGT) incentivisation bursary schemes 2021/22 ([W21/11HE](#))
- Degree Apprenticeships in Wales and Proposals for Funding 2020/21 ([W20/05HE](#))
- Capital funding 2021/22 ([W21/13HE](#))

Summary of information requirements

4. We are issuing to each institution separately their individualised financial and student 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.
5. Institutions should note that we will be seeking information about updates to your financial and student forecasts at some time in October/November 2021. This will be to inform our analysis of the financial implications of changes to the forecasts as a consequence of the student recruitment position.

Part 1 - Financial forecasts for the period 2020/21 to 2024/25

6. Our objectives in requesting 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.
7. For the current submission we ask institutions to prepare five-year financial forecasts, covering the period to 2024/25. In order to minimise work load for institutions we have pre-populated the 2018/19 and 2019/20 actuals columns in the models, where possible, to assist with identification of any trends in performance. We have also pre-populated the re-forecast for the year 2020/21 (as submitted to us in November 2020). 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 **31 July 2021**.
8. 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

9. The form and content of the financial forecast models 2020/21 to 2024/25 is similar to that submitted by institutions in July and November 2020. Amendments reflect changes to better mirror the HESA Finance Record requirements. Please note that completion of the five-year forecasts, the commentary and the monthly cash flow statement 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

10. This circular includes a number of annexes for returning to HEFCW:
 - (i) The financial forecast template (**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) Given the continuing uncertainties within the sector generally, we have retained the requirement to return **monthly cash flow projections for the 12 months to July 2022**.

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

Financial forecast template (Annex B1)

11. In the current climate, and with only limited UK demographic growth indicated for 2021/22, we expect any growth over the 2020/21 recruitment figures to be fully explained, with robust supporting evidence provided.
12. The financial forecast includes a nil growth template for 2021/22. There remain uncertainties within the sector and wider economy, and this template provides assurance that your governing bodies have appropriately considered downside scenarios. The base line for this template is the audited figures for 2019/20 for UK tuition fees. International fees should be based on your most recent actual student numbers from 2020/21 and not on your baseline forecast. Nil growth should also be included in other areas of the forecast where such growth is not certain. Each income heading has capacity for flex, but where roll forward of cohorts on new courses is recognised, these courses must have been established prior to 2021/22, and should not include growth in cohort size. Costs are assumed at the level of your 2021/22 forecast. Mitigating actions required should be clearly detailed in the forecast narrative.

Financial forecasts commentary (Annex B2)

13. Institutions should provide a commentary on the financial forecasts using the pro forma at **Annex B2**. 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 contingency planning for events such as further Covid-19 waves, 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.
14. 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 eligible EU domiciled students) to student number forecasts (tab Annexes C1a and C1d). Note that **Annex D** contains updated guidance on how to populate funding and residential status in the forecast, in accordance with changes made due to the UK leaving the EU. 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

15. We are requesting submission of monthly cash flow forecasts for the 12 months 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:
- a. the return is prepared in sufficient detail to clearly identify the main income and expenditure streams;
 - b. any anticipated utilisation or pay back of investments or borrowing facilities is clearly identified;
 - c. monthly net cash in / (out) flow is shown;
 - d. monthly opening and closing cash at bank balances are shown separately from use of short term investments / borrowing facilities; and
 - e. total liquid assets, and available borrowing facilities are shown on a monthly basis.

- f. Year end cash balances should agree to the forecasts submitted
16. 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 2020/21 and forecasts for 2021/22 to 2024/25

17. The information for 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**.
18. 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.
19. Institutions are asked to submit, to forecasts@hefcw.ac.uk, by **31 July 2021** forecasts of all HE student numbers (both fundable and non-fundable home and eligible EU, Island, overseas and non-eligible EU) for the five years 2020/21 to 2024/25. This includes forecasts of student numbers at EU and overseas (non-EU) campuses, **Annex D** contains information on the tables and guidance to assist the accurate completion of the returns. This includes information about changes to the residential and funding status categories made as a result of the UK's exit from the EU. 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.
20. In addition to the forecasts, we are requesting information on student numbers for the current year 2020/21. 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. We recognise that it will still include an element of estimation as the academic year will not have ended but will provide us with more accurate numbers to make a comparison with assumptions made in preparing the forecast fee income figures. For reference, figures from Table 1 of the 2020/21 higher

education students early statistics (HESES) survey have been included as a supplementary table.

21. In general, the definitions contained in circular [W20/37HE](#), *Higher Education Students Early Statistics (HESES) survey 2020/21* and in the HESA Aggregate Offshore record [guidance](#), should be used in compiling the student forecast information required by this circular. The exception to this is where the forecast requires differentiation between “Home and EU eligible” residential status and “Island, overseas and non-eligible EU” residential status. Details of the definitions for these groups can be found in Annex D.
22. Assumptions should be consistent with those presented in **Annex A**, and any other relevant assumptions used in the preparation of the financial forecasts.
23. Further notes on completion of the tables can be found in **Annex D**.

Freedom of information

24. We will treat all information provided to us in this circular as confidential.
25. 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.