

Cylchlythyr | Circular

Request for forecasts 2020

Date: 05 June 2020
Reference: W20/15HE
To: Heads of higher education institutions in Wales
and Directors of Finance
Response by: **31 July 2020**
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This circular requests higher education institutions to submit the following information:

- Part 1 - Financial estimates for the current year 2019/20 and forecasts for 2020/21 to 2021/22
- Part 2 - Student numbers for the current year 2019/20 and forecasts for 2020/21 to 2021/22
- Monthly cash flow forecasts for the 12 months to 31 July 2021

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 - Financial estimates for the current year 2019/20 and forecasts for 2020/21 to 2021/22
 - Part 2 - Student numbers for the current year 2019/20 and forecasts for 2020/21 to 2021/22
 - Monthly cash flow forecasts for the 12 months to 31 July 2021

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 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 have therefore modified our forecast request to:
 - (i) reduce our requirement to two years forecasts
 - (ii) require modelling of specific possible outcome scenarios
 - (iii) include monthly cash projections to July 2021 to inform our understanding of any potential cash pressure points
5. We recognise that at the normal submission deadline of July there will remain significant uncertainty around the impact of Covid-19 on both recruitment and returners. However we will need information in a

consistent format to inform our understanding by July. We also expect to require updated forecasts mid-year, which could potentially cover a longer period once there is more certainty around graduate impacts.

Strategic context

6. 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 letter setting out [provisional Welsh Government grant-in-aid to HEFCW for 2020-21](#).
 - The Minister's [remit letter](#) to HEFCW of 20 March 2019, announcing higher education funding and priorities for 2019/20.
 - HEFCW Headline funding assumptions AY2020/21. We are expecting to publish this in the near future.
 - HEFCW [consultation on monitoring of institutional behaviour and performance regarding admissions for 2020/21](#) (7 May 2020).
 - HEFCW's circulars:
 - HEFCW innovation and engagement funding for Wales ([W20/09HE](#))
 - HEFCW's Funding Allocations 2019/20 ([W19/14HE](#))
 - 2021/22 fee and access plan application guidance ([W20/07HE](#))
 - Higher Education Students Early Statistics Survey 2019/20 ([W19/39HE](#))
 - Postgraduate Taught (PGT) incentivisation bursary schemes 2020/21 ([W20/04HE](#))
 - Research Wales funding: Strengthening the research base ([W19/08HE](#))
 - Degree Apprenticeships in Wales and Proposals for Funding 2020/21 ([W20/05HE](#))
 - Capital funding 2019/20 ([W19/31HE](#))

Summary of information requirements

7. We are issuing to each institution separately their individualised financial 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 - Financial forecasts for the period 2019/20 to 2021/22

8. 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.
9. For the current submission we ask institutions to prepare 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). 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 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 2019. Amendments reflect changes to better mirror the HESA Finance Record requirements. Following discussions with the sector we have removed the requirement to report Welsh, other UK and EU tuition income and student numbers separately. 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 new 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. We will email the institution specific partially pre-filled tables to data contacts.
 - (iii) This year there is an additional requirement to return monthly cash flow projections for the 12 months to July 2021. 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](#)) and the English Department for Education [Student number controls guidance](#) for English domiciled students. 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 for the 12 months to July 2021. 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.
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 forecasts for 2020/21 to 2021/22

20. 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**.
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 **31 July 2020** 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. In addition to the forecasts, we are requesting information on student numbers for the current 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. 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 2019/20 higher education students early statistics (HESES) survey have been included as a supplementary table.

24. 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.
25. Assumptions should be consistent with those presented in **Annex A**, and any other relevant assumptions used in the preparation of the financial forecasts.
26. Further notes on completion of the tables can be found in **Annex D**.

Freedom of information

27. We will treat all information provided to us in this circular as confidential.
28. 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.