

## Guidance for completion of the financial forecast model workbook

### Main features of the 2020 model for financial years 2020-2022

- In the financial forecasts spreadsheets being sent to finance directors and data contacts, we are pre-populating the data for 2017/18 and 2018/19 actual and 2019/20 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. Tables 1\_3 Scenarios, Table 5 and Table 6 have the facility to insert additional rows where required, again indicated in by unshaded cells.
- 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 Scenarios', which takes the results indicators of net operating cash, cash at bank and operating surplus / (deficit) from 'Tables 1\_3', and requests that institutions input adjustments required to income and expenditure in order to model two set scenarios, as against student numbers from 2019/20.
  - 'Table 5, which provides numerical breakdowns previously requested within the forecast commentary in Annex C;
  - '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 is used for our annual monitoring of borrowing thresholds;

'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).

#### Table 1 – Consolidated statement of comprehensive income and expenditure

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. This year we have introduced a new input line for exceptional expenses, 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.

#### Table 1a – Analysis of income

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 EU from International at all levels of study. 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 EU domiciled students should agree to head Table 1a\_1a, as analysed for each level of study and the total fee income for International domiciled students should agree to Table 1a\_1d in. Please refer to separate guidance on input of student numbers in **Annex D**.

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. Research income (Table 1a\_3) has been analysed to provide some indicator of geographical as well as sector source.

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.

#### Table 1b – Analysis of staff costs

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. In line with rest of UK, we have requested further pension cost splits (Table 1b\_1c). These splits should not include any actuarial adjustments, which should be included at Table 1b\_1d. This will enable us to estimate the cost of further contribution increases where required.

#### Table 1c – Analysis of other operating expenses

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

#### Table 1d – Analysis of interest and other finance costs

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

Note that all lines need to be entered on this table – there are no automated feeds to it. 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 is a new requirement to report both the forecast quarterly cash position each year and the amount and timing of the lowest cash position in that year. As full

monthly cash forecasts are being required for 2020/21, we are not requesting a duplicate return here.

### **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 unlocked, non-shaded cells.

Table 5\_4 is required to assist our identification and understanding of large grants where recognition criteria may distort underlying institutional performance. It further supports our monitoring of EU funding, which is required for Brexit modelling.

Capital financing (Table 5\_7) 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\_9 has been moved from the narrative commentary to assist ease of input. The requirement for reporting income assumptions has been expanded in order to enhance our understanding of the baseline position of each institution.

### **Table 1\_3: Scenario 1 and Scenario 2**

This table draws the operating surplus / (deficit), net operating cash flow and cash at bank from the baseline forecast in Table 1\_3. Institutions are required to return two scenarios of potential Covid-19 impact. These scenarios are to be based on the institution's most recent assessment of 2019/20 student numbers, and not against the institution's baseline forecast. This is in recognition that the baseline forecast of each institution will contain differing Covid-19 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 Covid-19 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 modelling. The two scenarios are:

Scenario	1	2
Reduction in home & EU – new starters	10%	20%
Reduction in home & EU – returners	10%	20%
Reduction in overseas – new starters	75%	90%
Reduction in overseas – returners	25%	50%

In addition the following assumptions should be made:

- 2020/21 tuition fee income above to be based on your most up to date 2019/20 student numbers;
- reductions in international fees to be at 2019/20 fee rates;
- appropriate adjustments to related income streams, such as accommodation and facilities to be included based on the student number reductions;
- appropriate cost savings or cost mitigations based on the institution's modelling of income adjustments of these magnitudes should be included.
- 2021/22 should assume a return to pre-Covid conditions for but with the continuing impact of 2020/21 feeding through.

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

We have sub-divided the impact lines into operating, non-operating and non-cash in order to facilitate the flow through of data into the three required indicators and related KFI's.

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

**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.

## **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.

## **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.

## **ANOC borrowing worksheet**

This tab is fully formula based. It forms the basis of our annual borrowing monitoring and should be reviewed for indicators of notifiable or reportable events.

The borrowing calculation as set out in the FMC is based upon 3 years of forecast data. Given the current high level of uncertainty, we have agreed with the sector that we will not collect year 3 forecast data in this return. We are therefore basing the forecast year 3 data on year 2 data (i.e. on 2021/22) for review purposes. Any new borrowing approvals will be subject to normal requirements.

We would remind institutions of the requirement to formally notify HEFCW where the approved multiple has been exceeded. 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.