Summary financial position of the HE sector following analysis of 2015-16 annual accounts

The financial results for the higher education sector in 2015-16 show a financially sound position overall. However, significant variations continue in the financial performances of individual institutions across the sector.

Income and expenditure

Sector income in 2015-16 was £3,585 million and expenditure totalled £3,481 million. The sector reported a surplus of £104.8 million (2.9 per cent of total income), compared with £27.1 million (0.8 per cent of total income) in 2014-15. Although the increase in 2015-16 appears high, it should be noted that there were some significant transitional accounting changes as a result of the introduction of the FRS 102 accounting standard, such as the increase in pension provisions for the sector's multi-employer pension schemes that reduced sector surpluses in 2014-15. If these transitional changes were excluded, the underlying increase in 2015-16 surpluses would be much lower.

While income increased for the sector overall between 2014-15 and 2015-16, seven higher education institutions (HEIs) recorded a reduction in total income in 2015-16. The reasons for the income reductions were varied, but are primarily due to falls in funding body grants, donations and endowments, research and other income.

Capital investment

Capital investment in 2015-16 totalled £419 million, an increase of 5.5% compared with 2014-15. However, it should be noted that the level of investment is being driven by a small number of institutions, with four institutions contributing 70% of the sector's capital expenditure total in 2015-16. A total of eight institutions reported a reduction in capital expenditure from 2014-15 to 2015-16.

To help fund capital expenditure during the year, the sector used £233 million from its own cash reserves and committed to new borrowing of £80 million. Capital grant receipts of £47.9 million were also reported in 2015-16.

Liquidity and borrowing

Total sector borrowing increased by 45%; from £561 million at 31 July 2015 to £815 million at 31 July 2016. This was greater than the rise in liquidity, which was 9.4%, from £957 million (95 days of expenditure) to £1,047 million (117 days) over the same period. This caused the sector's net cash position (liquid funds less borrowing) to fall from £396 million at 31 July 2015 to £232 million at 31 July 2016.

Reserves and pension deficits

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 are not the same as cash.

Under the new financial reporting framework, reserves are categorised as either restricted or unrestricted. Unrestricted income and expenditure reserves represent the value of the institution's accumulated surpluses reported in an HEI's income statement, where there are no restrictions on the use of funds.

The sector reported unrestricted reserves of £2,580 million at 31 July 2016. This represents a reduction from the previous year, where reported reserves were £2,626 million. The aggregate sector position masks a significant spread of financial strength and a concentration of large unrestricted reserves in a small number of institutions, with just three institutions reporting 62% of the sector's total unrestricted reserves.

Under FRS 102, reported pension deficits are much higher, with liabilities relating to the deficit recovery plans for the sector's multi-employer pension schemes now reflected in institutional balance sheets. As a result of the transition to FRS 102, pension liabilities reported by the sector rose from £502 million (under the previous financial reporting standards) to £826 million (under FRS 102) at 31 July 2015. Reported pension liabilities increased again in 2015-16 to reach £999 million at 31 July 2016 (equivalent to a rise of 21%).

Risks

There are a number of risks that could adversely affect the financial performance and sustainability of universities and the negative consequence of this could be a reduction in areas of activity which are important for the Scottish economy e.g. research activity. The most significant risk areas for universities relate to:

- Impact of the UK exiting from the EU;
- Fall in Rest-of-UK recruitment in an increasingly competitive market;
- Failure to achieve international student recruitment targets;
- Narrow focus of the UK Government Tier 4 visa pilot and other UK Visa and Immigration regulations;

- Unanticipated public spending cuts in research and/or teaching income;
- Impact of changes to UK research funding in the Higher Education and Research Act 2017;
- Failure to effectively manage major capital investment programmes and their financial impacts; and
- Rise in staff and pension costs.