

Summary financial position of the university sector: Analysis of 2016-17 financial statements

Purpose

This report summarises the university sector's financial results for 2016-17.

Background

Financial sustainability monitoring framework

Institutions make two financial returns to the Scottish Funding Council in the course of the year:

- Strategic Plan Forecast (SPF), submitted at the end of June and comprising an outturn forecast for the current year and forecasts for the following three years.
- The annual accounts, submitted at the end of December and comprising the audited financial statements and supporting reports by the institution's audit committee, internal and external auditors.

Financial statements analysis

The financial sustainability analysis is based upon a review of:

- The audited financial statements for 2016-17.
- Issues raised in external auditors' management letters, internal auditors' annual reports to audit committees and the annual report of audit committees to governing bodies, which may impact on institutions' ability to maintain or achieve financial sustainability.

A total of 18 institutions submitted financial statements for the year ended 31 July 2017.

Financial sustainability summary

The main outcomes from the analysis of the 2016-17 results are set out below.

Operating position

Overall, the university sector's operating surplus position for the year ending 31 July 2017 is £80 million. It is important to note that, despite the positive picture for the sector overall, the sector operating position is not meaningful for the following reasons:

- It is skewed by the operating surpluses of the two largest institutions totalling £94 million.
- The implementation of the FRS 102 accounting standard in 2015-16 has distorted the operating position by introducing more volatility through various accounting adjustments.
- There are significant variations in individual institution results.

Balance sheet performance

University sector cash and short-term investments less overdraft balances are £1,227 million at the end of 2016-17, an increase of £181 million from last year. The main reasons for the increase are: a few institutions have drawn down new borrowing that has yet to be spent; and operating surpluses.

During 2016-17, the sector reported a net cash inflow from operating activities (surplus for the year adjusted for non-cash items and financing/investing activities) of £303 million. In 2016-17, net liquidity days vary from 33 to 346 and six institutions are holding sufficient cash reserves to cover over 100 days of expenditure.

Borrowing has increased in 2016-17 by £302 million to reach £1,159 million. The main reason for this increase is due to a small number of institutions having significant programmes of capital expenditure which are being financed in part through borrowing. One institution has no external borrowings. For the others, borrowing ranges from 1% to 86% of total income with an overall average of 28%.

There is an increased use of private placements as a form of borrowing by the institutions which involves large balloon capital payments at set points in the future. Out of the total borrowing figure of £1,159 million in 2016-17, £544 million is in the form of private placements. It should be noted that repayments have not yet commenced for £247 million of this borrowing. The institutions with this type of borrowing will have to ensure that cash is available to repay the borrowing in the

years specified.

Institutions paid £29.7 million in loan interest in 2016-17, an increase on 2015-16 (£24.2 million), reflecting the additional borrowing.

Key risks to financial sustainability

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.
- Rise in staff and pension costs (cost of Universities Superannuation Scheme (USS) in particular).
- Failure to achieve international student recruitment targets.
- Fall in Rest-of-UK recruitment in an increasingly competitive market.
- UK Visa and Immigration regulations and requirements.
- 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.