Scottish Funding Council
Comhairle Maoineachaidh na h-Alba

FC/22/37
Agenda item 6
31 May 2022

Financial sustainability and governance of the university sector: Analysis of 2020-21 annual accounts and the Financial Forecast Update returns for 2021-22

- To summarise the Council executive's analysis of the university sector's financial results for 2020-21 and Financial Forecast Update returns for Academic Year 2021-22, and to update our assessment of institutions' financial sustainability and governance.

Recommendations

- To discuss and comment on the Council executive's assessment of:
  - the 2020-21 annual accounts;
  - the Financial Forecast Update returns for Academic Year 2021-22;
  - institutions' financial sustainability and governance; and
  - institutions' compliance with the fundable body criteria.

Financial implications

- There are no specific programme fund or running cost implications arising from this paper that are not already allowed for in the Council's programme fund or running cost budgets.

Financial sustainability and governance of the university sector: Analysis of 2020-21 annual accounts and the Financial Forecast Update returns for 2021-22

Purpose

1. To summarise the Council executive’s analysis of the university sector’s financial results for 2020-21 and Financial Forecast Update returns for Academic Year 2021-22, and to update our assessment of institutions’ financial sustainability and governance.

Background

2. Institutions normally make two financial returns to the Scottish Funding Council (SFC) over the course of the year:

   - Strategic plan forecast (SPF), submitted at the end of June and comprising an outturn forecast for the current Academic Year and forecasts for the following three years; and
   - 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.

3. Institutions also submit an annual Financial Statistics Record (FSR) to the Higher Education Statistics Agency (HESA) and these returns form the basis of the annual accounts consolidation performed by SFC. Receipt of the 2020-21 FSRs from HESA was delayed this year.

4. Additional financial returns have been provided by institutions in recent years to develop our understanding of COVID-19 impacts on individual institutions and the university sector, and to enable provision of further advice to Scottish Government. This year, we asked institutions to provide SFC with a revised forecast for Academic Year 2021-22, by mid-April 2022, in the form of the Financial Forecast Update (FFU).

5. Institutions experiencing heightened challenges to their ongoing sustainability may also provide additional financial returns.

Structure of paper

6. There are two main sections of the paper and seven annexes that support the main sections:

Sections

- **Section A:** Analysis of 2020-21 Annual Accounts, including a corporate governance update; and

- **Section B:** Analysis of the Financial Forecast Update returns for 2021-22.

Annexes

- **Annex A:** Summary of operating and underlying operating positions, liquidity and borrowing for 2017-18 to 2020-21 by institution;

- **Annex B:** Operating surplus/(deficit) as % of total income 2014-15 to 2020-21 by institution;

- **Annex C:** University private placement capital repayment profile – position as reported in 2020-21 accounts;

- **Annex D:** Heat Map based on 2020-21 annual accounts (see paragraphs 33 to 36);

- **Annex E:** Summary of institutions' 2021-22 financial forecast position;

- **Annex F: {1x paragraph}** and

- **Annex G: {1x paragraph}**

Section A: Analysis of 2020-21 Annual Accounts

1. The financial sustainability and governance analysis is based upon a review of:

    - The audited financial statements for 2020-21; and

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

2. All eighteen institutions submitted financial statements for the year ended 31 July 2021.

Key messages

- The sector **underlying operating position** for 2020-21 was a **surplus** of £273.9m, which improved on the forecast (£226.1m) and the 2019-20 result (£43.1m). The improvement on forecast is attributed to other operational cost savings. While overall income was virtually identical to forecast, increases in income from tuition fees and education contracts, research grants and SFC grants compensated for a reduction in other operating income. However, the sector-wide position is skewed by the larger institutions with nine of the smaller institutions reporting underlying deficits during 2020-21.

- The sector **cash position is improved** on levels reported at the end of July 2020, largely due to institutions placing on hold capital works, considerable research activity and loans drawn down but not utilised (as a result of restrictions enforced through the COVID-19 lockdown). Institutions focused on protecting cash reserves and have been re-assessing estates development programmes. Overall sector borrowing reduced slightly during the year to the end of July 2021.

- The 2020-21 position included a **full year of the COVID-19 impact**. Institutions were already facing a series of cost pressures prior to the pandemic, including increases in employer pension contributions, cost of maintaining buildings and withdrawal from the European Union. The COVID-19 crisis heightened those challenges, particularly for institutions with high levels of commercial income. While the pandemic has not impacted institutions as badly as initially anticipated due to the factors described above, financial sustainability for the sector remains challenging.

Operating position and underlying operating position

3. The sector reported an operating surplus of £281.5m during 2020-21 which is improved on the forecast of £224.3m. The sector underlying operating position is an operating position adjusted for several large items which distort the year-on-year results. These include Universities Superannuation Scheme (USS) provision adjustments, the costs of the Glasgow School of Art Mackintosh building stabilisation and business interruption following the second fire, and exceptional staff restructuring costs.

4. Excluding these items, the underlying surplus for 2020-21 is £273.9m which is improved on both forecast (£226.1 million) and on 2019-20 (£43.1m). The improved underlying operating position against forecast is due to other operational cost savings e.g. non-essential spend being frozen and capital spend being delayed. While overall income was virtually identical to forecast, increases in income from tuition fees and education contracts, research grants and SFC grants compensated for the reduction in other operating income.

5. The sector operating position and underlying operating position are set out in the table below:

	2020-21 Actual £'000	**2020-21 Forecast £'000**	**2019-20 Actual £'000**
Operating Surplus / (Deficit)	281,454	224,291	417,730
Underlying Operating Surplus / (Deficit)	273,928	226,109	43,109

6. The sector underlying position is inflated by the operating surpluses of the two largest institutions (University of Edinburgh and University of Glasgow); the sector position is considerably weaker after excluding the results of these institutions.

   {1x paragraph}

7. Nine of the eighteen institutions reported underlying operating deficits in 2020-21, which is one less than forecast and two less than the previous year. The combined deficits of the nine institutions amounted to £30.3m while the combined surpluses generated by the other nine institutions amounted to

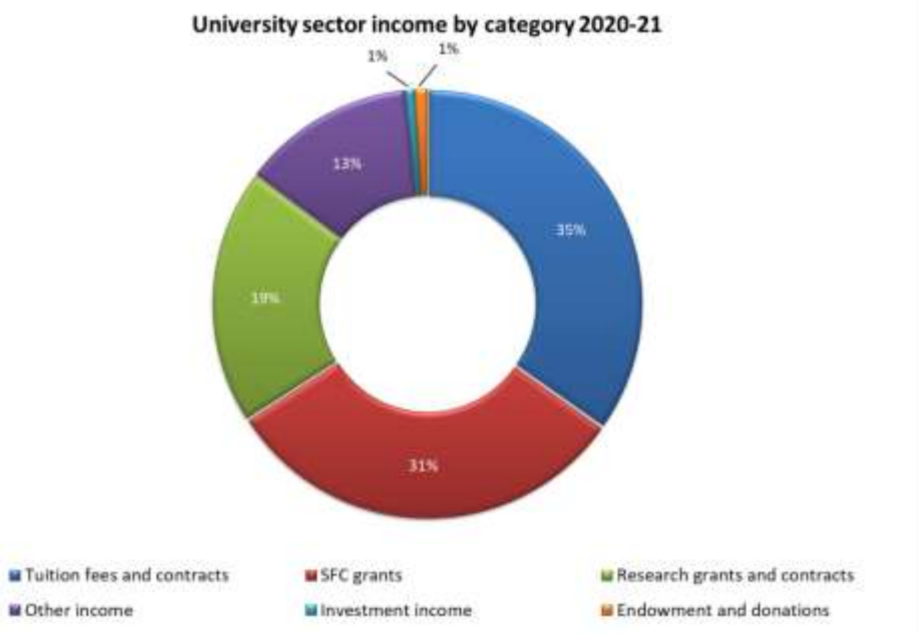
£304.2 m.

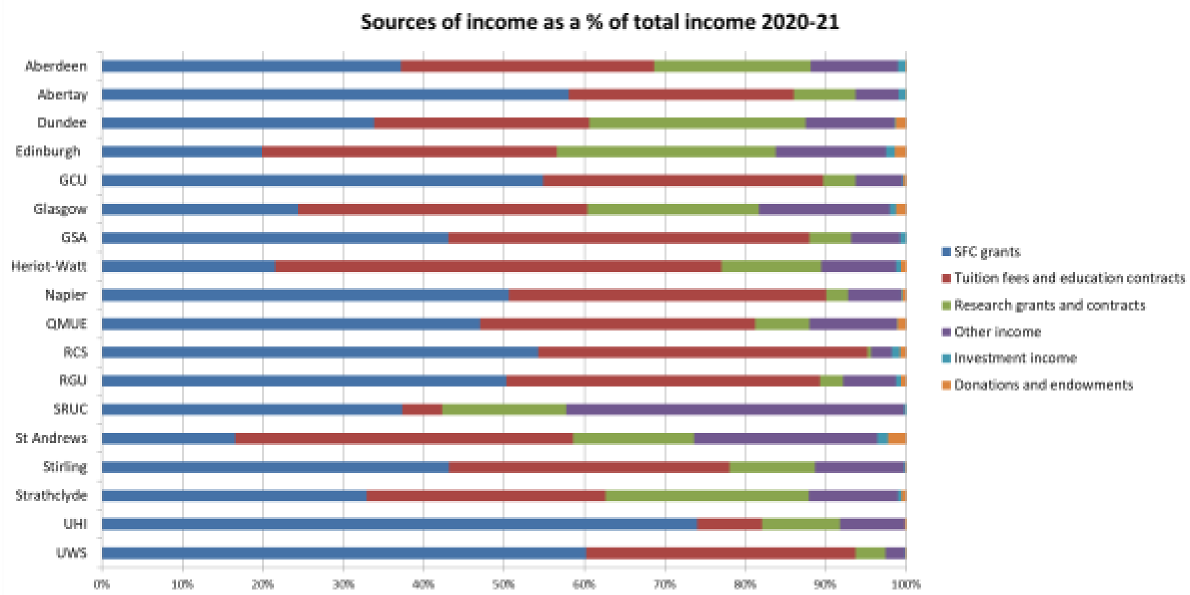
8. There is significant variation in the financial position of individual institutions. A summary of individual institutions' 2020-21 operating positions, liquidity and borrowing is set out in **Annex A**.

9. **Annex B** sets out the operating position as a percentage of income for each institution for the period 2014-15 through to 2020-21. Some volatility in results is to be expected under the FRS 102 accounting standard as there may be one-off items of income, particularly in relation to capital grants received, that may not have matching expenditure in the same year presenting a better impression than the reality.

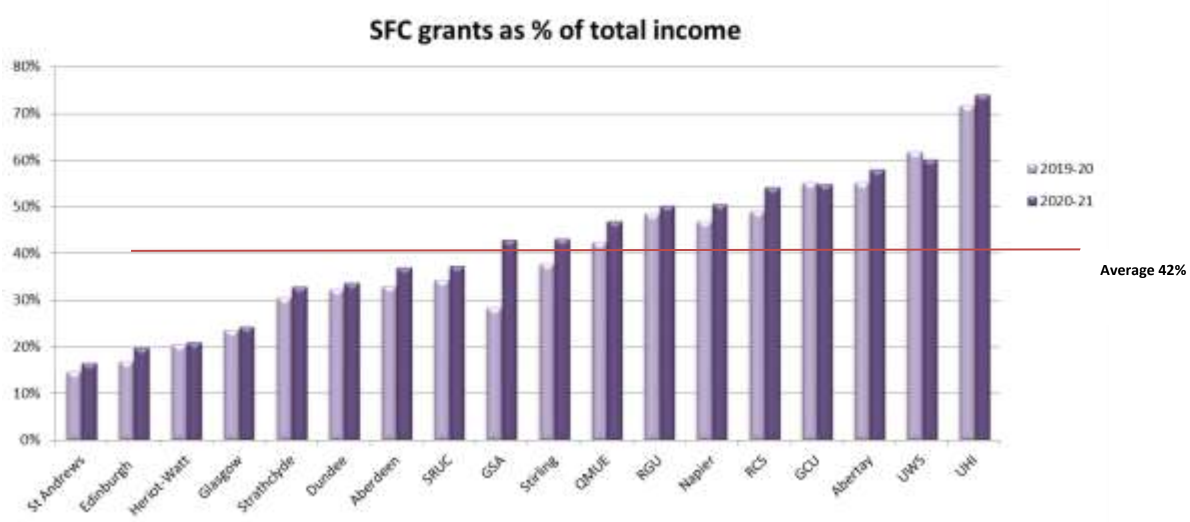
Sources of income

10. The chart and table below show all sources of income for institutions in Scotland. Apart from SFC grants, universities receive income from tuition fees and contracts (including international student fees), research activity, commercial income, investment income and donations and endowments. SFC grants amounted to 31% of the sector's overall income with 69% coming from other sources.

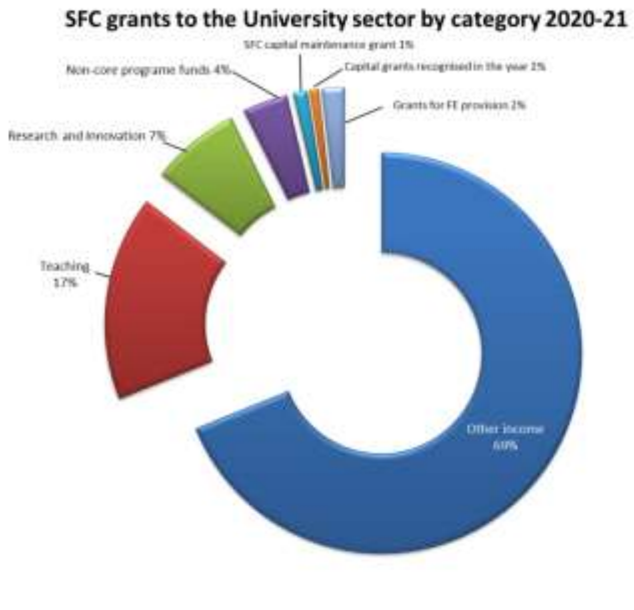




11. The larger institutions are generally not as reliant on SFC funding and tend to have additional sources of other income. For example, the University of St Andrews generated 17% of its income from SFC funding during 2020-21 whereas the University of the Highlands & Islands derived 74% of income from that source. The percentage of income from SFC grant for each individual institution in 2020-21 and the previous year can be seen below.



12. SFC grant is earmarked for various purposes which can be seen in the chart below. The majority of SFC grant in 2020-21 related to teaching (17% of overall sector income) while SFC funding for research represented 7% of overall sector income.



13. Commercial income related to residences, catering and conferences activity reduced significantly to £128.3m in 2020-21 from £205.5m in 2019-20.

14. International student tuition fees are an important source of income for universities. In 2020-21, international fees of £867.4m represented 20% of the university sector total income (2019-20: 19%) and were significantly improved on 2019-20 levels (£791.5m).

15. Institutions need this source of income to remain financially sustainable and to support other areas of their operations such as research which is a net expense activity.

16. International tuition fee income continues to be an area of significant fluctuation and risk due to competitive nature of the international market. This source of income is also exposed to external shock e.g., global events over which institutions have no control. The COVID-19 pandemic has illustrated the significant risks attached to this income stream.

Staff and other operating costs

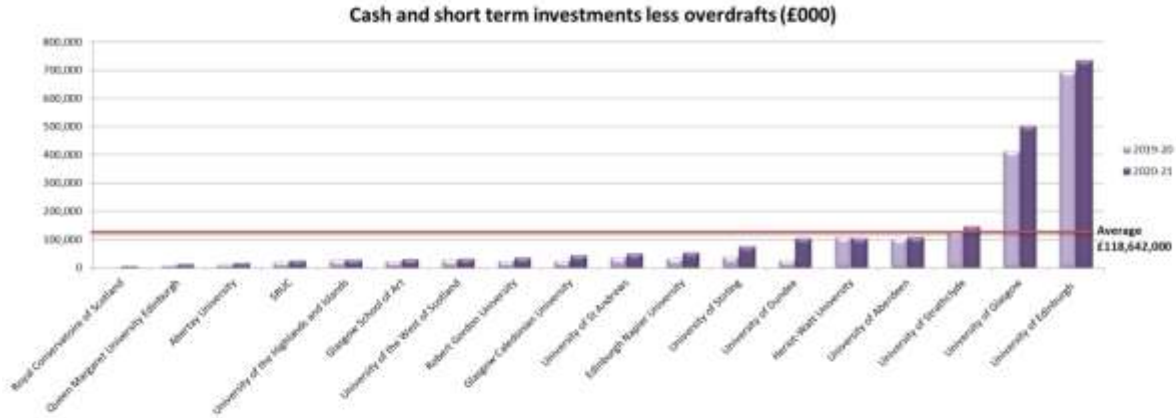
17. Staff costs represent the largest element of expenditure for institutions and constituted 58% of total sector costs in 2020-21, ranging from 78% at the Royal Conservatoire of Scotland to 12% at University of the Highlands and Islands (Regional Strategic Body for the Highlands & Islands region). The results reflect the cost pressures impacting the university sector including increased employer contributions to pension schemes. University of the Highlands and Islands is atypical as it has a different structure to other institutions.

18. Eight institutions[1] spent a total of £10m on staff restructuring during 2020-21, slightly more than the £10m spent during 2019-20.

Cash and equivalent balances

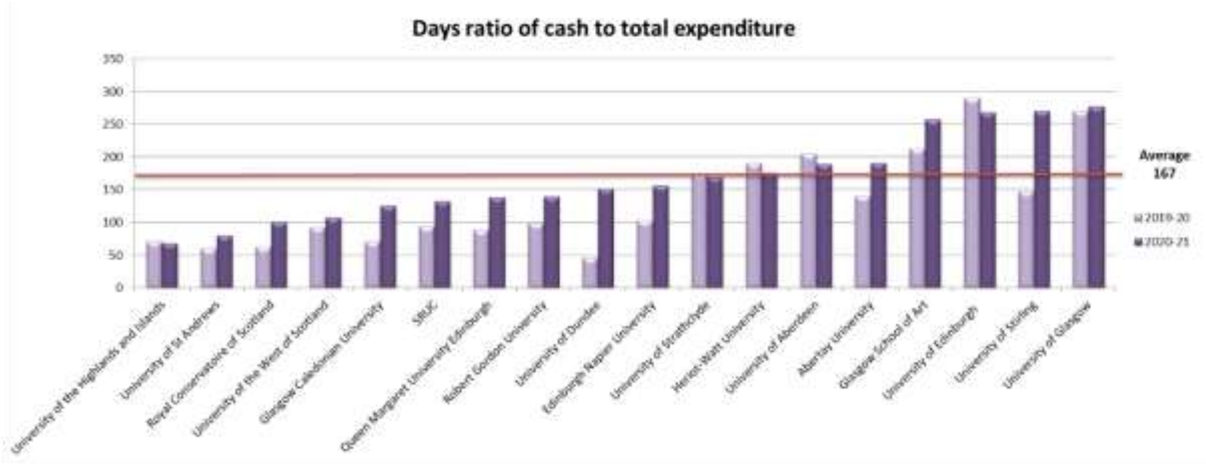
19. The sector reported cash and short-term investment balances of £2.135bn at the end of 2020-21 which is an improvement on both the forecast of £1.922bn and the previous year's balance of £1.768bn. Even after excluding University of Edinburgh and University of Glasgow, which skew the overall sector cash position, cash and equivalent balances increased from £658m at the end of July 2020 to £897m by July 2021.

20. The positive sector cash balance position is a snapshot in time and has been inflated largely due to institutions placing on hold major capital works and considerable research activity as a result of restrictions enforced through the COVID-19 lockdown. Additional loans drawn down but not fully utilised have also contributed to the improved cash position. Details of individual institutions' cash positions at the end of July 2020 and July 2021 are set out in the chart below.



21. The chart below shows the changes in the number of days of expenditure covered by cash balances across the sector for 2019-20 and 2020-21. The average number of cash days across the sector at the end of 2020-21 was 167 which is an increase from 135 days in 2019-20. Five institutions reported a drop in cash days from the previous year while thirteen institutions reported an increase. None of the institutions reported less than sixty days of cash reserves by the end of July 2021.

[1] Glasgow Caledonian University, Glasgow School of Art, Heriot-Watt University, Napier University, SRUC, University of Strathclyde, University of the Highlands and Islands, and University of West of Scotland

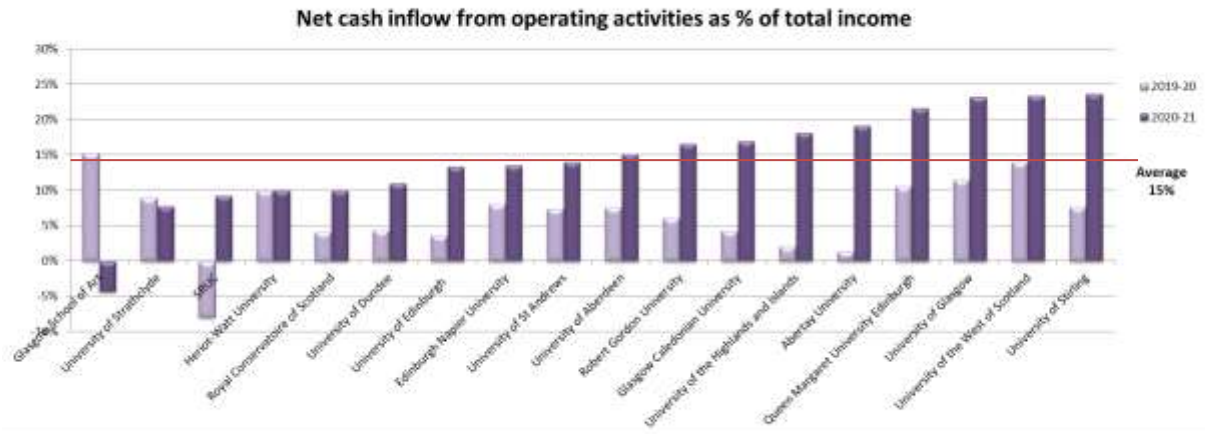


Net cash inflow from operations

22. Net cash inflow from operating activities is an important measure for the financial health of an institution, in terms of its day-to-day operations, as it does not include any items of non-cash expenditure (such as depreciation and adjustments for pension liabilities) or income from and expenditure on financing activities (such as new loans and repayment of debt). It shows an institution's ability to generate sufficient cash to repay debt and for estates investment.

23. The sector figure was £685.2m in 2020-21, a significant improvement on forecast (£340.4m) and on the previous year (£278.4m). Across all institutions, the net cash inflow from operating activities as a proportion of total income increased sharply from 6.8% in 2019-20 to 15.6% in 2020-21.

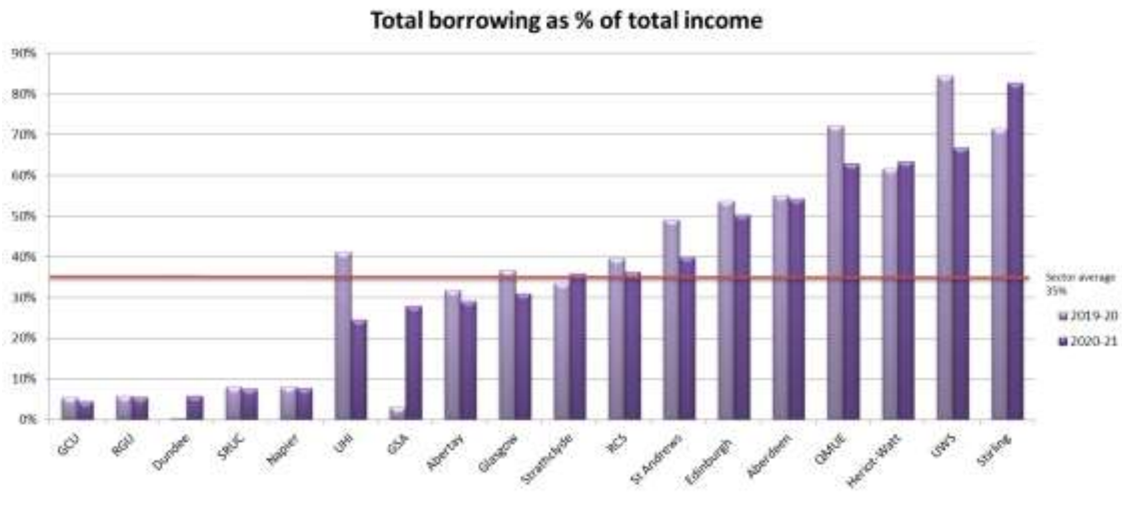
24. As shown in the chart below, net cash inflow as a percentage of total income ranges from a cash outflow of 4% for Glasgow School of Art (GSA) to a net cash inflow of 24% for University of Stirling. Glasgow School of Art was the only institution to report an overall outflow of cash from operating activities (£1.6m) during 2020-21. The negative position was as due to debris clearance and stabilisation work of the Mackintosh Building funded by insurance payments received in previous years.



Borrowing

25. Sector borrowing, including SFC Financial Transaction Loans, reduced from £1.731bn at the end of July 2020 to £1.718bn by the end of July 2021. Sector borrowing represented 39% of total income in 2020-21 compared to 42% in 2019-20. The average borrowing for the sector is 35% of total income. The amount of interest on borrowing paid by the sector reduced from £43.4m in 2019-20 to £42.8m in 2020-21. No covenants were breached during 2020-21.

26. The scale of borrowing at each institution from 2019-20 to 2020-21 is shown in the graph below:



27. Much of the sector's external borrowing (£944.3m) is now in the form of private placements[2] due to the very low interest rates available. However, this type of borrowing involves large bullet payments at set points in the future with interest being paid in the intervening years. Institutions with this form of borrowing will have to ensure they have the necessary funds to repay at the set

[2] Private placement is a funding round of securities which are sold not through a public offering, but rather through a private offering, mostly to a small number of chosen investors.

points. A schedule of repayment points for institutions is set out in **Annex C**.

Capital expenditure

28. Total sector capital expenditure amounted to £484m during 2020-21. This expenditure was financed not only through borrowing, but also through funding body grants, retained proceeds of sale from property disposals, internal funds and other external sources. Many institutions put capital expenditure on hold from March 2020 onwards as a result of the impact of COVID-19 on their operations.

Universities Superannuation Scheme

29. The package of reforms proposed by employers to conclude the 2020 valuation of the Universities Superannuation Scheme (USS) was approved by the Joint Negotiating Committee and the USS Trustee Board earlier this year and is being implemented with effect from 1 April 2022. The reforms include changes to members' benefits to ensure the scheme is sustainable in the longer-term. Employer contributions have increased from 21.1% to 21.6% of salary while member contributions increased from 9.6% to 9.8% of salary. It is envisaged that the reforms will allow stakeholders to focus on the scheme's future by exploring lower cost flexible options, alternative scheme designs and carrying out a review of governance arrangements.

30. Staff at eleven Scottish universities took their third round of strike action this Academic Year in March. University and College Union (UCU) members held 10 days of walk-outs between 14 February and 2 March and three days of industrial action in December 2021. Further industrial action is planned for the current semester.

Trend analysis of underlying operating position, cash and borrowing

31. **Annex A** shows that the sector has reported underlying operating surpluses in each of the last four years with the surplus recorded in 2020-21 being considerably larger than the previous three years' results. Institutions benefited from additional SFC grant and Coronavirus Job Retention Scheme income during 2020-21 while income from international fees continued to rise sharply. Significant one-off staff and other operating cost savings were also generated during the year. At least nine institutions reported underlying operating deficits in each year.

32. Institutions' cash balances have increased substantially each year, from £1.152bn at the end of July 2018 to £2.136bn at the end of July 2021. As described earlier in the paper, the July 2021 balance has been inflated due to a variety of factors.

33. Sector borrowing has also risen over the period under review, increasing from £1.344bn at the end of July 2018 to £1.718bn by the end of July 2021.

Heat Map

34. **Annex D** provides a Heat Map which assesses each institution against a series of financial indicators, highlighting institutions at most risk in terms of financial sustainability, based on 2020-21 annual accounts data. These indicators are based on the Heat Map that has been developed and presented in previous updates to the Finance Committee.

35. The indicators are measured in quartiles with colour intensity (light blue to dark blue) reflecting the performance of institutions relative to others. 'Dark blue' scores reported in the Heat Map can represent both a risk and an opportunity.

36. Larger institutions with a higher level of non-SFC grant income are most exposed to a drop in international fee income though they tend to retain larger cash balances and are more capable of absorbing immediate losses of income. Smaller and modern institutions that are more reliant on SFC grant are less exposed but they may have lower cash balances for withstanding unexpected losses of income.

37. We plan to further develop the Heat Map in due course to capture forecast data and other indicators such as institutional governance and wider performance issues.

Sector governance

38. We reviewed the corporate governance statements in the annual accounts and any audits of institutional compliance with the Code of Good HE Governance (the Code) to assess the sector governance arrangements. We concluded that institutions' governance arrangements in the sector are in line with the Code.

39. Our analysis of the corporate governance statements revealed that two institutions explained that their governance practices did not fully comply with the principles and provisions of the Code.

    {1x paragraph}

Fundable body criteria

40. Section 7 of the Further and Higher Education (Scotland) Act 2005 (the Act) lists the criteria which the Council must consider in relation to proposing or approving any modification to the list of fundable bodies contained in Schedule 2 of the Act and requires the Council to ensure that the bodies listed on Schedule 2 meet the criteria at all times.

41. The Council's executive undertakes an annual review of all institutions listed in Schedule 2 taking evidence from existing sources to minimise any additional burden on institutions. Our 'test' regarding each criterion is to confirm that there was no evidence from the identified sources that indicates that the criterion was not being met in all material respects.

42. There was no evidence from the identified sources that indicate that the fundable body criteria were not being met.

Compliance with the Financial Memorandum

43. No institutions have breached the Financial Memorandum.

Section B: Analysis of the Financial Forecast Update returns for 2021-22

44. Institutions provided a Financial Forecast Update (FFU) return in March 2022 for continued monitoring of the forecast outturn for the current Academic Year as compared with the original Strategic Plan Forecast (SPF) return provided at the end of June 2021.

45. The table at **Annex E** provides a summary of the main financial indicators for all institutions including operating and underlying surplus/(deficit), cash and borrowing by institution. The table compares the latest forecast returns (FFU) to the (SPF) returns submitted in 2021 along with the actual results for 2020-21 as per the annual accounts

Key messages

- The latest FFU returns for 2021-22 show the sector is reporting an underlying surplus of £292.6m. This is a significant improvement (122%) on the original forecast (£131.6m surplus), largely due to a sharp increase in international fee income. Revenue from residences, catering and conferences is lower than expected because of COVID-19 impacts. While it is clear that the sector has responded well to the COVID-19 challenges, one-off income not yet matched by expenditure such as capital grants (including City Deal funding) make the position look better than it is in reality.

- Sector cash and cash equivalent balances at the end of July 2022 are expected to be significantly higher than the original forecast, moving from £1.750bn to £2.255bn. The increase in cash balances reflects the better actual operating position for 2020-21 and forecast for 2021-22 and ongoing delays in implementing capital programmes and research activity (as a result of COVID-19 restrictions). Sector borrowing remains in line with the 2021 forecast; and

- There is significant variation between universities in terms of their financial positions and performance that is not reflected in our aggregate indicators with forecasts skewed by the projections for the larger institutions. Overall, financial sustainability remains challenging with ten institutions forecasting underlying deficits for the current Academic Year.

Underlying operating position

46. The FFU returns report a sector operating deficit of £251m for Academic Year 2021-22 but, after adjusting for Universities Superannuation Scheme (USS) net

pension provision and staff restructuring costs, an underlying operating position of £292.6m is forecast. The USS net pension provision adjustment based on the 2020 valuation is forecast at £539m and exceptional staff restructuring costs at £4.6m.

47. The 2021-22 position is significantly improved on the original forecast of £131.6m, mainly due to increased international fee income and other operating income, partially offset by increased other operating costs. Staff costs are in line with the original forecast. However, one-off items of income not yet matched by expenditure; make the position look stronger than the reality. For example, there are substantial capital grants (e.g. £21.3m of City Deal funding) included in the operating position with matching expenditure likely to fall into future years.

48. Ten institutions are forecasting an underlying deficit in 2021-22 compared with eight in the original forecast but the aggregate deficit has significantly decreased on previous returns. The largest deficit forecast by an institution is £4.9m. The latest forecast underlying operating position for 2021-22 is also improved on previous years' results with 12 out of 18 institutions showing an improved underlying position against the original forecast.

49. There is significant variation between institutions in terms of their financial positions and performance that is not reflected in our aggregate indicators. The latest forecasts are skewed by the projections for four institutions **{1x paragraph}** which are projecting a combined underlying surplus of £286.6m. The remaining fourteen institutions are forecasting a combined surplus of £6m.

50. The table at **Annex E** reports a comparison, by institution, of the 2021-22 underlying position provided in the FFU against the SPF projections.

Fee and residences income

51. International fee income is expected to increase sharply from £867.4m in 2020-21 to £1.110bn. This is improved on the original 2021-22 forecast (£1.026bn). Fourteen institutions have revised their 2021-22 international fee income projections upwards from the original forecast, with six showing increases of more than £5m. The increase in international fee income continues the trend of strong growth over recent years and illustrates that the impact of COVID-19 on international student numbers has not been as severe as originally expected.

52. RUK fee income is expected to increase from £178.1m in the original forecast to £184.6m (2020-21: £183.5m). Fee income from Scottish students is also anticipated to increase in 2021-22, moving from £335.2m in the original forecast to £342.2m (2020-21: £305.6m). Income projections for EU students

have reduced slightly from £53.2m in the original forecast to £51m in the latest forecast (2020-21: £82m).

53. Income from residences, catering and conferences is expected to reduce from £233.4m in the original forecast to £220.9m in 2021-22. A majority of institutions are forecasting reductions for this source of income in 2021-22 against the original forecast and pre-COVID levels. The ancient and chartered institutions have been particularly affected by the reduction in this source of income.

Staff and other operating costs

54. Staff restructuring costs have increased from £1.8m in the original forecast to £4.6m in the latest projections. Seven institutions have included these costs in their latest forecasts. Institutions will need to ensure that they balance staff restructuring activity with their ability to deliver required outcomes and Government priorities, in particular the ability to support economic recovery and meet student targets.

55. Institutions have also highlighted inflationary cost pressures and noted that the rising cost of living is increasing pressures in relation to pay settlements. Employer pension contributions are expected to continue to rise, placing more pressure on the financial sustainability of institutions. Additionally, the annual cost of the 1.25% increase to employer National Insurance contributions across the sector (implemented from April 2022) is estimated to exceed £24m.

56. Energy costs are expected to increase sharply and inflationary pressures are also impacting on construction projects. Reduced manufacturing capacity, freight delays, Brexit legislation, and fragmented global supply chains have all contributed to pushing up costs and tightening supply chains.

Cash and cash equivalent balances

57. Sector cash and cash equivalent balances at the end of July 2022 are expected to increase significantly against the original forecast, moving from £1.750bn to £2.255bn. The increase in cash balances reflects the improved actual operating position for 2020-21, forecast operating position for 2021-22 and ongoing delays in implementing capital programmes and research activity as a result of COVID-19. Additional loans drawn down but not fully utilised have also contributed to the improved cash position.

58. Fifteen institutions are forecasting an improved cash position against the original forecast. No institution is forecasting a negative cash balance by the end of July 2022 though two institutions **{1x paragraph}** anticipate having less

than two months of cash reserves by the end of July 2022. The sector position is skewed by the projections for the larger institutions with 64% of the overall cash reserves held by two institutions **{1x paragraph}**.

59. Maintaining short-term liquidity is critical and institutions' focus during the COVID-19 pandemic has been on protecting cash reserves to ensure they can absorb short-term operational deficits. Several institutions have agreed overdraft or revolving credit facilities with lenders to provide additional headroom.

Net cash inflow from operating activities

60. Across all universities, the net cash inflow from operating activities is forecast to increase on the original forecast from an inflow of £302.3m (7% of total income) to an inflow of £454.4m (9% of total income). Three institutions expect to report a net cash outflow from operating activities during 2021-22.

Borrowing

61. Total long-term borrowing of £1.671bn at the end of July 2022 is in line with the original forecast and slightly down on levels at the end of July 2021 (£1.718bn). Again, just over half of the sector's borrowing is held by two institutions **{1x paragraph}**. Most additional borrowing relates to SFC Financial Transaction loans, projected at £158.3m at the end of July 2022.

62. Capital repayments will require the generation of surpluses and cash and this could be challenging given the multi-year impact of COVID-19. There is a risk that institutions with large levels of borrowing are unable to build up sufficient cash reserves to make the repayments required at set points over the term of the borrowing. It is possible that this could prove particularly problematic in terms of repaying Private Placement debt in the form of bullet repayments albeit such loan finance is not repayable until 2027 at the earliest.

63. No covenant breaches are expected during 2021-22. Institutions have provided assurances that they are engaging on a regular basis with lenders and keeping them fully appraised. Lenders appear supportive, are taking a pragmatic approach and have indicated a willingness to renegotiate covenants where potential breaches are related to COVID-19.

Next steps

64. Institutions continue to provide SFC with regular financial updates. Following the recent publication of the final 2022-23 funding allocations, institutions have been asked to provide a Strategic Plan Forecast, covering the outturn for the current Academic Year 2021-22 and forecasts for 2022-23 and 2023-24, by the end of June 2022.

65. SFC will continue to liaise closely with institutions encountering financial sustainability challenges.

{6x paragraphs}

Key risks

66. Institutions identified a number of risks in the FFU returns that could adversely affect their financial performance and sustainability:

- The continuing impact of the COVID-19 pandemic including public health restrictions that affect Scotland's competitive position, and the resulting potential failure to achieve international student recruitment targets within a more competitive global market;

- Rise in staff costs including increases in employers' pension contributions, the Universities Superannuation Scheme and industrial action;

- Stock market pressures and wider economic challenges that lead to significant drops in regular donations and income from endowments;

- Existing debt levels and the management of lender and private placement relationships and compliance with covenants;

- Future arrangements for funding Graduate Apprenticeships;

- Fall in rUK recruitment in an increasingly competitive market;

- Changes in UK Government policy on higher education**;**

- UK policy relating to visa and immigration regulations, wider international policies including mobility and exchange schemes and the development of policy designed to mitigate the effects of leaving the EU, in particular the development of the Shared Prosperity Fund;

- Unanticipated public spending cuts in teaching and/or research income;

- Impact of changes to UK research funding and the research funding policies of charities and industry; and

- Failure to effectively manage major capital investment programmes and their financial impacts.

Risk assessment

67. There is a risk to the achievement of the Council's strategic plan priorities and/or a risk of reputational damage from failures in college and university governance, leadership and management, including financial failure.

68. Overall, for the university sector, the Executive's assessment of this risk is high.

Equality and diversity assessment

69. There are no equality and diversity issues associated with this paper.

Recommendations

70. To discuss and comment on the Council executive's assessment of:

- the 2020-21 annual accounts;
- the Financial Forecast Update returns for Academic Year 2021-22;
- institutions' financial sustainability and governance; and
- institutions' compliance with the fundable body criteria.

Financial implications

71. There are no specific programme fund or running cost implications arising from this paper that are not already allowed for in the Council's programme fund or running cost budgets.

Publication

72. This paper will be published on the Council website in edited format to remove references to specific institutions or forecast information as it includes information which, if disclosed, would be likely to prejudice 'substantially' the commercial interests of a person, company or a public authority (Freedom of Information (Scotland) Act 2002, Section 33).

Further information

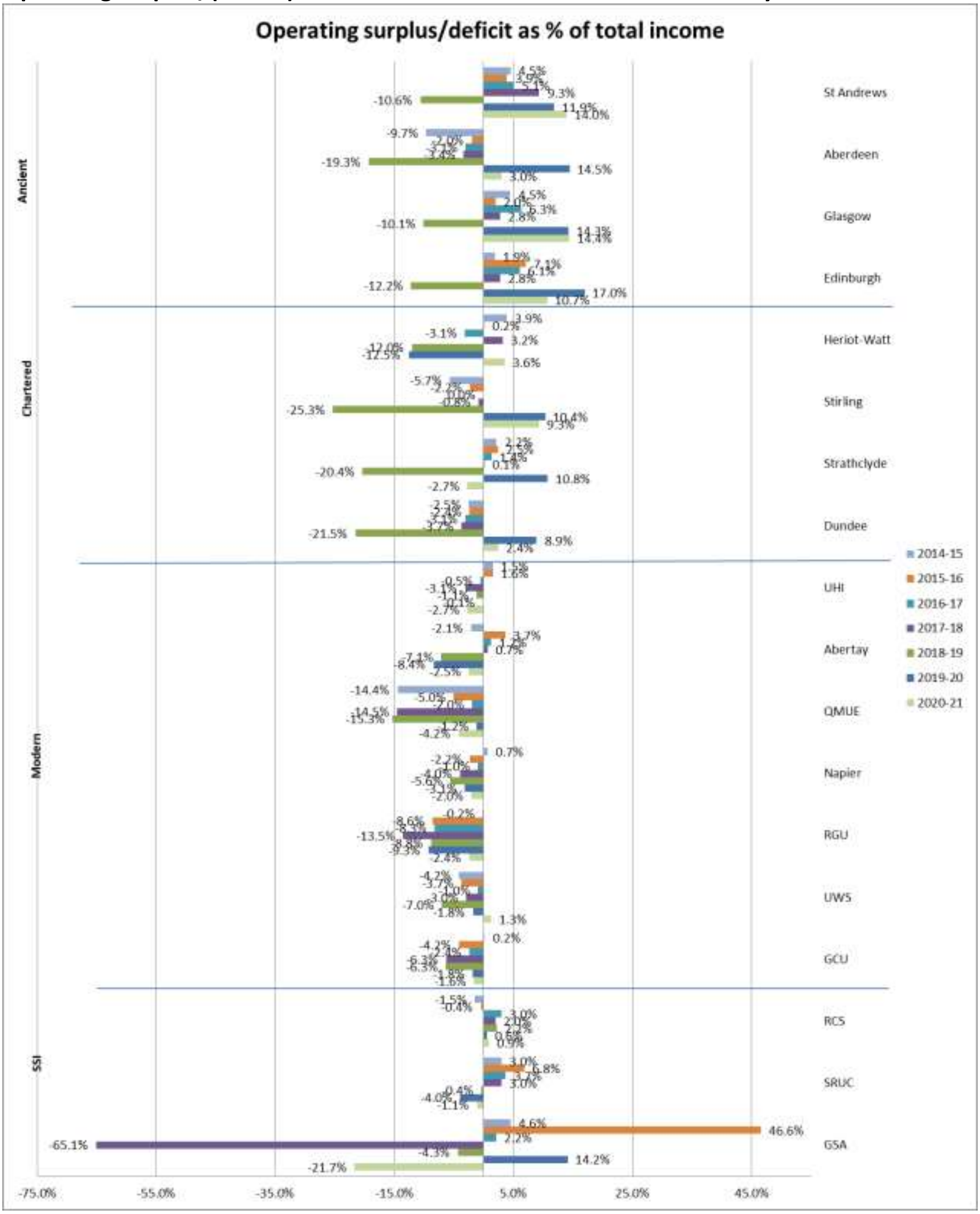
73. For further information, please contact Claire Taylor, Senior Financial Analyst (tel: 0131 313 6604, email: ctaylor@sfc.ac.uk) or Andrew Millar, Assistant Director (direct line: 0131 313 6538, email: amillar@sfc.ac.uk).

Summary operating and underlying operating positions, liquidity, and borrowing by institution 2017-18 to 2020-21

	Operating surplus/(deficit)				Underlying operating surplus/(deficit)				Cash and cash equivalents less overdraft				Total borrowing			
	Actual 2017-18 £000	Actual 2018-19 £000	Actual 2019-20 £000	Actual 2020-21 £000	Actual 2017-18 £000	Actual 2018-19 £000	Actual 2019-20 £000	Actual 2020-21 £000	Actual 2017-18 £000	Actual 2018-19 £000	Actual 2019-20 £000	Actual 2020-21 £000	Actual 2017-18 £000	Actual 2018-19 £000	Actual 2019-20 £000	Actual 2020-21 £000
Aberdeen	(7,478)	(44,157)	33,787	6,982	(7,589)	(1,596)	3,751	6,318	31,350	40,704	102,824	110,527	68,323	125,595	128,880	127,913
Edinburgh	27,310	(134,431)	191,610	127,340	26,644	60,778	47,610	112,851	416,081	445,907	695,985	734,518	389,803	609,789	604,650	598,231
Glasgow	17,399	(69,311)	98,763	117,257	13,891	38,509	33,934	122,035	207,399	204,595	414,267	503,568	245,000	245,000	253,667	252,667
St Andrews	23,524	(27,268)	31,035	40,517	21,262	12,025	2,231	41,432	54,750	58,214	36,378	51,723	116,971	118,468	128,681	115,924
Ancient	**60,755**	**(275,167)**	**355,195**	**292,096**	**54,208**	**109,716**	**87,526**	**282,636**	**709,580**	**749,420**	**1,249,454**	**1,400,336**	**820,097**	**1,098,852**	**1,115,878**	**1,094,735**
Dundee	(9,051)	(55,113)	22,587	6,678	(9,740)	(13,777)	(9,079)	4,011	40,530	25,739	27,869	105,109	3,261	2,315	1,314	16,293
Heriot-Watt	7,355	(30,129)	8,214	2,199	7,042	2,530	(14,892)	3,645	77,365	76,523	109,423	105,371	114,546	116,428	146,875	146,229
Stirling	(1,004)	(31,873)	12,611	11,552	(2,030)	(2,879)	(5,689)	11,552	63,524	51,663	40,302	77,839	79,914	79,880	86,792	103,035
Strathclyde	382	(68,486)	36,078	(9,550)	3,196	7,346	(7,220)	(12,110)	109,906	114,686	127,566	148,867	88,257	94,423	112,287	124,903
Chartered	**(2,318)**	**(185,601)**	**79,490**	**10,879**	**(1,532)**	**(6,780)**	**(36,880)**	**7,098**	**291,325**	**268,611**	**305,160**	**437,186**	**285,978**	**293,046**	**347,268**	**390,460**
Abertay	227	(2,466)	(2,961)	(925)	1,336	(653)	(3,259)	(950)	8,136	5,105	13,780	18,582	1,076	1,076	11,227	10,833
GCU	(7,555)	(7,874)	(2,255)	(2,146)	(3,487)	(5,409)	(3,134)	(2,115)	19,402	20,674	24,289	45,550	8,051	7,387	6,905	6,095
Napier	(4,722)	(6,875)	(4,006)	(2,686)	(4,402)	(6,661)	(3,348)	(1,928)	21,878	26,962	35,211	54,706	10,496	10,734	10,271	10,250
QMU	(5,373)	(6,044)	(479)	(1,851)	(4,289)	(3,389)	(838)	(1,880)	8,084	8,082	8,772	15,607	32,259	30,738	29,198	27,724
RGU	(12,606)	(8,135)	(8,607)	(2,524)	(12,606)	(8,135)	(8,239)	(2,524)	18,334	19,115	25,465	36,651	32,396	32,837	36,833	37,492
UHI	(3,790)	(1,666)	(187)	(4,052)	(518)	5,617	(2,390)	(3,984)	17,329	26,021	28,537	28,603	54,349	62,273	60,622	36,478
UWS	(3,319)	(8,460)	(2,149)	1,626	(2,381)	(7,625)	28	2,115	16,263	16,179	28,626	33,901	95,287	100,442	102,943	85,790
Modern	**(37,138)**	**(41,520)**	**(20,644)**	**(12,558)**	**(26,347)**	**(26,255)**	**(21,180)**	**(11,266)**	**109,426**	**122,138**	**164,680**	**233,600**	**233,914**	**245,487**	**257,999**	**214,662**
GSA	(26,412)	(2,177)	6,772	(8,320)	3,326	13,104	14,572	(3,916)	23,417	17,826	24,224	31,146	2,363	1,861	1,592	10,689
RCS	473	533	150	239	477	444	150	239	4,984	4,597	4,199	6,767	1,550	1,484	1,418	1,418
SRUC	2,376	(314)	(3,233)	(882)	2,376	773	(1,079)	(863)	13,814	19,998	20,459	26,514	207	5,297	6,615	5,999
Small Specialist Institution (SSI)	**(23,563)**	**(1,958)**	**3,689**	**(8,963)**	**6,179**	**14,321**	**13,643**	**(4,540)**	**42,215**	**42,421**	**48,882**	**64,427**	**4,120**	**8,642**	**9,625**	**18,106**
Sector total	**(2,264)**	**(504,246)**	**417,730**	**281,454**	**32,508**	**91,002**	**43,109**	**273,928**	**1,152,546**	**1,182,590**	**1,768,176**	**2,135,549**	**1,344,109**	**1,646,027**	**1,730,770**	**1,717,963**

Annex B

Operating surplus/(deficit) as % of total income 2014-15 to 2020-21 by institution



Annex C

University private placement capital repayment profile – position as reported in 2020-21 annual accounts (£ million)

Year repayable	Aberdeen	Edinburgh	Glasgow	Heriot-Watt	RGU	St Andrews	Stirling	Total Repayable
2027				£22m				**£22m**
2028								
2029				£7m				**£7m**
2030								
2031				£30m				**£30m**
2032								
2033							£10m	**£10m**
2034								
2035								
2036		£40m		£40m			£20m	**£100m**
2037						£37m		**£37m**
2038		£110m			£16m			**£126m**
2039								
2040								
2041		£40m		£17m				**£57m**
2042			£92m					**£92m**
2043		£75m					£20m	**£95m**
2044	£20m							**£20m**
2045								
2046		£20m	£30m	£25m				**£75m**
2047			£40m					**£40m**
2048		£65m			£16m		£30m	**£111m**
2049	£20m							**£20m**
2050								
2051			£40m					**£40m**
2052								
2053								
2054	£20m							**£20m**
2055								
2056								
2057			£43m					**£43m**
Total	**£60m**	**£350m**	**£245m**	**£141m**	**£32m**	**£37m**	**£80m**	**£945m**
PP as % of total income	**25%**	**29%**	**30%**	**60%**	**31%**	**13%**	**64%**	
Total borrowing (including SFC loans) as % of total income	**54%**	**50%**	**31%**	**63%**	**36%**	**40%**	**83%**	