

## Supplementary information from HEFCW for the Children and Young People Education Committee following the July 2019 meeting

### Analysis of the Welsh Higher Education sector's reserves

The Welsh Higher Education sector over the last four years has had total reserves of between £1.5 billion and £1.6 billion, as analysed below. Only the income and expenditure reserve represents realised and unencumbered reserves, and this ranges from 56.2% to 61.7% of the total reserves over the four years. The breakdown by Higher Education Institution (HEI) is provided in **Annex A**.

|                                                            | Audited<br>2014-15<br>£'000 | Audited<br>2015-16<br>£'000 | Audited<br>2016-17<br>£'000 | Audited<br>2017-18<br>£'000 |
|------------------------------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| <b>Restricted reserves</b>                                 | 103,203                     | 108,892                     | 116,143                     | 104,964                     |
| <b>Unrestricted reserves</b>                               |                             |                             |                             |                             |
| Income and expenditure reserve - before pension provisions | 1,275,650                   | 1,396,905                   | 1,451,401                   | 1,486,262                   |
| LESS: Pension provisions                                   | (397,504)                   | (541,087)                   | (493,768)                   | (425,381)                   |
| Income and expenditure reserve - per financial statements* | 878,146                     | 855,818                     | 957,633                     | 1,060,881                   |
| Revaluation reserve                                        | 580,213                     | 554,058                     | 497,804                     | 486,001                     |
| <b>Total restricted and unrestricted reserves</b>          | <b>1,561,562</b>            | <b>1,518,768</b>            | <b>1,571,580</b>            | <b>1,651,846</b>            |

*\*£198.487M of additional revaluations were merged into the income and expenditure account on implementation of the accounting changes introduced by the financial reporting standard FRS102 in 2015/16 as 'deemed cost' and are therefore not disclosed separately. A further £28.511M was merged into the income and expenditure reserve in 2016-17.*

Reserves of HEIs represent their total assets less their liabilities and, in very broad terms, can be used as a proxy for the overall value of an institution. These reserves are the accumulated surpluses of an institution over its lifetime and most of these have been invested in fixed assets used by the HEI such as land, buildings and capital equipment. Reserves are not the same as cash and should not be regarded as an indicator of the financial health of an institution in terms of its available cash. Although an institution could dispose of an asset if it was surplus to operational requirements (thereby converting it to cash), the assets are accounted for at original cost or their value to the institution as opposed to their disposal value and the cash proceeds can therefore be different to the asset value.

Reserves are categorised as restricted or unrestricted. Restricted reserves have conditions attached to them that limit or narrowly define how an institution can use the funds, such as endowments and donations designated for a specific purpose. Unrestricted reserves represent the value of the institution's accumulated funds through surpluses reported in its income statement, on whose use there are no restrictions.

Unrestricted reserves include revaluation reserves, which arise when an institution reflects the current value of an asset, as opposed to its original cost, in its financial statements. These "gains" are therefore unrealised as property values can fluctuate over time and the institution will not necessarily intend to crystallise the gain, or even achieve the accounting value should the gain be crystallised. Outside the charity sector, such gains are deemed undistributable.

Unrestricted reserves are also required to absorb the pension provisions for defined benefit schemes which is a very material figure for individual HEIs.

Other relevant indicators of an institution's cash reserves and financial health are a combined consideration of:

- a) liquid assets (cash and short term investments) considered as a percentage of cash expenditure ; and
- b) net operating cash flows

Surpluses and deficits can be impacted by non-operational cash items such as receipts from donations and endowments or large capital receipts. Cash flow from operating activities represents a more reliable indicator of financial operating performance. Cash flow here means an HEI's cash resources that have been generated from operations to meet day to day obligations, before the costs of capital invested and debt servicing costs (both interest and capital repayments).

## Annex A

| <b>Total reserves</b>                    | <b>2014/15<br/>£'000</b> | <b>2015/16<br/>£'000</b> | <b>2016/17<br/>£'000</b> | <b>2017/18<br/>£'000</b> |
|------------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| University of South Wales                | 72,950                   | 62,419                   | 60,669                   | 94,117                   |
| Aberystwyth University                   | 162,712                  | 149,748                  | 148,991                  | 154,964                  |
| Bangor University                        | 229,829                  | 213,887                  | 210,879                  | 237,731                  |
| Cardiff University                       | 696,887                  | 707,468                  | 718,393                  | 704,914                  |
| University of Wales: Trinity Saint David | 145,260                  | 126,931                  | 113,138                  | 115,131                  |
| Swansea University                       | 137,463                  | 169,621                  | 206,913                  | 215,090                  |
| Cardiff Metropolitan University          | 92,784                   | 73,202                   | 89,466                   | 99,398                   |
| Wrexham Glyndŵr University               | 23,677                   | 15,492                   | 23,131                   | 30,501                   |
| <b>Sector total</b>                      | <b>1,561,562</b>         | <b>1,518,768</b>         | <b>1,571,580</b>         | <b>1,651,846</b>         |

| <b>Restricted reserves</b>               | <b>2014/15<br/>£'000</b> | <b>2015/16<br/>£'000</b> | <b>2016/17<br/>£'000</b> | <b>2017/18<br/>£'000</b> |
|------------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| University of South Wales                | 2,292                    | 3,635                    | 4,029                    | 4,199                    |
| Aberystwyth University                   | 50,341                   | 52,025                   | 57,849                   | 43,586                   |
| Bangor University                        | 6,207                    | 7,041                    | 7,234                    | 7,773                    |
| Cardiff University                       | 29,390                   | 30,991                   | 33,623                   | 35,179                   |
| University of Wales: Trinity Saint David | 9,099                    | 9,174                    | 7,069                    | 7,591                    |
| Swansea University                       | 5,674                    | 5,826                    | 6,139                    | 6,436                    |
| Cardiff Metropolitan University          | -                        | -                        | -                        | -                        |
| Wrexham Glyndŵr University               | 200                      | 200                      | 200                      | 200                      |
| <b>Sector total</b>                      | <b>103,203</b>           | <b>108,892</b>           | <b>116,143</b>           | <b>104,964</b>           |

| <b>2014/15</b>               | <b>2015/16</b> | <b>2016/17</b> | <b>2017/18</b> |
|------------------------------|----------------|----------------|----------------|
| <b>As a % total reserves</b> |                |                |                |
| 3.1%                         | 5.8%           | 6.6%           | 4.5%           |
| 30.9%                        | 34.7%          | 38.8%          | 28.1%          |
| 2.7%                         | 3.3%           | 3.4%           | 3.3%           |
| 4.2%                         | 4.4%           | 4.7%           | 5.0%           |
| 6.3%                         | 7.2%           | 6.2%           | 6.6%           |
| 4.1%                         | 3.4%           | 3.0%           | 3.0%           |
| 0.0%                         | 0.0%           | 0.0%           | 0.0%           |
| 0.8%                         | 1.3%           | 0.9%           | 0.7%           |
| 6.6%                         | 7.2%           | 7.4%           | 6.4%           |

## Annex A

| <b>I&amp;E reserve</b>                   | <b>2014/15<br/>£'000</b> | <b>2015/16<br/>£'000</b> | <b>2016/17<br/>£'000</b> | <b>2017/18<br/>£'000</b> |
|------------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| University of South Wales                | 60,476                   | 48,602                   | 46,458                   | 79,736                   |
| Aberystwyth University                   | 37,078                   | 25,255                   | 21,499                   | 46,146                   |
| Bangor University                        | 223,622                  | 206,846                  | 203,645                  | 229,958                  |
| Cardiff University                       | 309,318                  | 324,595                  | 339,184                  | 330,445                  |
| University of Wales: Trinity Saint David | 93,457                   | 75,714                   | 81,451                   | 83,038                   |
| Swansea University                       | 67,282                   | 114,823                  | 152,999                  | 161,859                  |
| Cardiff Metropolitan University          | 92,784                   | 73,202                   | 89,466                   | 99,398                   |
| Wrexham Glyndŵr University               | (5,871)                  | (13,219)                 | 22,931                   | 30,301                   |
| <b>Sector total</b>                      | <b>878,146</b>           | <b>855,818</b>           | <b>957,633</b>           | <b>1,060,881</b>         |

| <b>2014/15</b>               | <b>2015/16</b> | <b>2016/17</b> | <b>2017/18</b> |
|------------------------------|----------------|----------------|----------------|
| <b>As a % total reserves</b> |                |                |                |
| 82.9%                        | 77.9%          | 76.6%          | 84.7%          |
| 22.8%                        | 16.9%          | 14.4%          | 29.8%          |
| 97.3%                        | 96.7%          | 96.6%          | 96.7%          |
| 44.4%                        | 45.9%          | 47.2%          | 46.9%          |
| 64.3%                        | 59.6%          | 72.0%          | 72.1%          |
| 48.9%                        | 67.7%          | 73.9%          | 75.3%          |
| 100.0%                       | 100.0%         | 100.0%         | 100.0%         |
| (24.8%)                      | (85.3%)        | 99.1%          | 99.3%          |
| 56.2%                        | 56.3%          | 60.9%          | 64.2%          |

| <b>Pensions provision</b>                | <b>2014/15<br/>£'000</b> | <b>2015/16<br/>£'000</b> | <b>2016/17<br/>£'000</b> | <b>2017/18<br/>£'000</b> |
|------------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| University of South Wales                | 98,421                   | 123,634                  | 138,766                  | 118,107                  |
| Aberystwyth University                   | 26,270                   | 36,980                   | 37,264                   | 23,440                   |
| Bangor University                        | 18,413                   | 25,127                   | 20,098                   | 12,533                   |
| Cardiff University                       | 84,391                   | 110,467                  | 103,285                  | 97,933                   |
| University of Wales: Trinity Saint David | 31,996                   | 48,386                   | 39,750                   | 29,091                   |
| Swansea University                       | 75,171                   | 101,182                  | 77,082                   | 77,057                   |
| Cardiff Metropolitan University          | 40,283                   | 63,085                   | 51,393                   | 47,061                   |
| Wrexham Glyndŵr University               | 22,559                   | 32,226                   | 26,130                   | 20,159                   |
| <b>Sector total</b>                      | <b>397,504</b>           | <b>541,087</b>           | <b>493,768</b>           | <b>425,381</b>           |

| <b>2014/15</b>               | <b>2015/16</b> | <b>2016/17</b> | <b>2017/18</b> |
|------------------------------|----------------|----------------|----------------|
| <b>As a % total reserves</b> |                |                |                |
| 134.9%                       | 198.1%         | 228.7%         | 125.5%         |
| 16.1%                        | 24.7%          | 25.0%          | 15.1%          |
| 8.0%                         | 11.7%          | 9.5%           | 5.3%           |
| 12.1%                        | 15.6%          | 14.4%          | 13.9%          |
| 22.0%                        | 38.1%          | 35.1%          | 25.3%          |
| 54.7%                        | 59.7%          | 37.3%          | 35.8%          |
| 43.4%                        | 86.2%          | 57.4%          | 47.3%          |
| 95.3%                        | 208.0%         | 113.0%         | 66.1%          |
| 25.5%                        | 35.6%          | 31.4%          | 25.8%          |

## Annex A

| Revaluation reserve                      | 2014/15<br>£'000 | 2015/16<br>£'000 | 2016/17<br>£'000 | 2017/18<br>£'000 |
|------------------------------------------|------------------|------------------|------------------|------------------|
| University of South Wales                | 10,182           | 10,182           | 10,182           | 10,182           |
| Aberystwyth University                   | 75,293           | 72,468           | 69,643           | 65,232           |
| Bangor University                        | -                | -                | -                | -                |
| Cardiff University                       | 358,179          | 351,882          | 345,586          | 339,290          |
| University of Wales: Trinity Saint David | 42,704           | 42,043           | 24,618           | 24,502           |
| Swansea University                       | 64,507           | 48,972           | 47,775           | 46,795           |
| Cardiff Metropolitan University          | -                | -                | -                | -                |
| Wrexham Glyndŵr University               | 29,348           | 28,511           | -                | -                |
| <b>Sector total</b>                      | <b>580,213</b>   | <b>554,058</b>   | <b>497,804</b>   | <b>486,001</b>   |

|                                                 |                |                |                |                |
|-------------------------------------------------|----------------|----------------|----------------|----------------|
| <b>Approximate additional merged in I&amp;E</b> | <b>198,487</b> | <b>198,487</b> | <b>226,998</b> | <b>226,998</b> |
|-------------------------------------------------|----------------|----------------|----------------|----------------|

| 2014/15               | 2015/16 | 2016/17 | 2017/18 |
|-----------------------|---------|---------|---------|
| As a % total reserves |         |         |         |
| 14.0%                 | 16.3%   | 16.8%   | 10.8%   |
| 46.3%                 | 48.4%   | 46.7%   | 42.1%   |
| 0.0%                  | 0.0%    | 0.0%    | 0.0%    |
| 51.4%                 | 49.7%   | 48.1%   | 48.1%   |
| 29.4%                 | 33.1%   | 21.8%   | 21.3%   |
| 46.9%                 | 28.9%   | 23.1%   | 21.8%   |
| 0.0%                  | 0.0%    | 0.0%    | 0.0%    |
| 124.0%                | 184.0%  | 0.0%    | 0.0%    |
| 37.2%                 | 36.5%   | 31.7%   | 29.4%   |