

	PAPER NO: AC.67(12)	
Board/Committee:	Audit Committee	
Date:	30 October 2012	
Paper title:	HEFCE assessment of institutional risk	
Author:	Richard Flatman, Executive Director of Finance	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee notes HEFCE's assessment of risk and the associated financial benchmarking data.	
Aspect of the Corporate Plan to which this will help deliver?	Financial sustainability Creating an environment in which excellence can thrive.	
Matter previously considered by:	Audit Committee & Board of Governors	Annually
Further approval required?	Board of Governors	On:22 November 2012
Communications – who should be made aware of the decision?	N/A	

Executive summary

HEFCE assesses on an annual basis the accountability, risk and sustainability of institutions which it funds. A small number are deemed to be at “higher risk” with the vast majority being “not at higher risk”.

Based on the accountability returns for 2010-11, HEFCE's assessment is that LSBU is “not at higher risk” at this time.

Attachment: Risk assessment letter from HEFCE dated 1/10/12

1 October 2012

HIGHER EDUCATION
FUNDING COUNCIL

hefce
FOR ENGLAND

Professor Martin Earwicker
Vice Chancellor and Chief Executive
London South Bank University
103 Borough Road
LONDON
SE1 0AA

Northavon House
Coldharbour Lane
BRISTOL BS16 1QD

Telephone 0117 931 7317
www.hefce.ac.uk

RECEIVED VC/EXECUTIVE OFFICE
REFERENCE: 1010
- 8 OCT 2012
ACTION: Richard/James/Al T Rev.

Direct Line 0117 931 7341
Direct Fax 0117 931 7150
E-mail a.langlands@hefce.ac.uk

HEFCE's annual assessment of institutional risk: London South Bank University

1. The purpose of this letter is to inform you of the risk status of your institution, as determined by HEFCE, and of any failure to comply with the Financial Memorandum (HEFCE publication 2010/19). We have copied this letter to Mr David Longbottom, Chair of the Board of Governors, and request that you formally submit this letter to the next meeting of your governing body.
2. Based on the accountability returns submitted for 2010-11, our overall assessment at this time is that London South Bank University is **not at higher risk**. In making this assessment we also conclude that the institution is meeting the accountability obligations set out in the Financial Memorandum and other HEFCE guidance.
3. We note that issues with the University's 2010-11 HESA Student Return meant that the University has had to make exceptional changes to the record outside of the normal collection window. These corrections were received to the agreed timetable but were signed-off on 18 September 2012 (the normal collection window closed on 31 October 2011). We are aware that there have been problems in the past with meeting student data return deadlines and also with the general quality of data provided. We understand that additional resources have now been made available to help address these areas of concern and we welcome the University continuing with its current approach of keeping us fully informed as to the progress that is being made. We note that it has been necessary for the University to seek an interim extension for the 2011-12 HESA return (to 27 September 2012), but has submitted its data within that agreed extension.

Risk assessment process

4. The annual accountability returns submitted to HEFCE by higher education institutions (HEIs) are the primary means by which HEFCE assesses the accountability, risk and

sustainability of institutions we fund. These annual risk assessments are based on current information in a number of areas of activity, including: financial performance, student recruitment and retention, audit findings, and compliance with HEFCE requirements (including the Financial Memorandum). This year, because of the changes taking place in the HE funding environment, it was agreed that the financial forecasts be submitted after the other returns in June 2012, and for that reason risk letters have been issued slightly later than usual.

5. Although the risk assessment is an annual process, issues emerging during the year can lead to a review of an institution's risk status and a change to its risk assessment. We currently assess a small number of institutions as being 'at higher risk', with the vast majority 'not at higher risk'. It is the responsibility of the governing body of your institution to ensure that risks are being managed effectively.

Adverse changes in circumstances

6. As a condition of our funding we require institutions to report material adverse changes in the institution's circumstances, such as a significant and immediate threat to the financial position, significant fraud or major accounting breakdown. The Financial Memorandum (Annex B paragraphs 14-17) provides more detail on the specific requirement. Whilst we fully respect the autonomy of institutions, we remind you of this requirement and that timely reporting of material adverse changes is an important element of the accountability framework for higher education. Given the unprecedented scale of the current changes to higher education funding and possible impacts on student recruitment, it is especially important that you inform HEFCE of any material adverse changes at the earliest stage.

Future context and feedback on financial performance

7. As we continue to move to a new funding framework, we encourage institutions to continue to assess the potential impacts of future changes on their operations and, where necessary, to implement mitigating actions. This scenario planning will need to consider the financial and non-financial impact of potential changes in student demand, over- or under-recruitment, student retention, availability of public funding, and pay and pensions pressures. Non compliance with requirements of other regulators, such as the UK Border Agency, may also present a significant risk. These are among the many factors that will need to be monitored by you, your senior team and governing body, and we are happy to discuss these with you as part of our regular engagements with the institution.
8. The Annexes provide feedback on the relative financial performance of the institution compared to the rest of the higher education sector. Inclusion of this information is intended to be helpful, rather than flagging areas of significant concern to us. Additional financial benchmarking data has been made available to the institution's head of finance.

Who to contact

9. For further feedback from the annual accountability process, or if you would like to discuss any issues relating to risk assessment or accountability, contact the HEFCE Assurance Consultant, Jacqui Brasted (0117 931 7389, j.brasted@hefce.ac.uk) in the first instance, or Regional Consultant, Derek Hicks (0117 931 7460, d.hicks@hefce.ac.uk).

Freedom of information

10. This letter is provided in confidence to London South Bank University. While we have no objection to it being made available to third parties, we do not accept responsibility for any reliance they may place upon it. Though we have no plans proactively to release this information we ask you to consider carefully the implications of any public disclosure you may wish to make or are asked to make. As you know we are subject to the Freedom of Information Act 2000, and the content of this letter may ultimately be disclosable if a request is made to us under that Act.

*Yours ever,
Alan*

Alan Langlands

cc: Mr David Longbottom, Chair of the Board of Governors

Annex A – Table of benchmarking of key financial metrics

London South Bank University

Indicators:		2009-10 Actual	2010-11 Actual	2011-12 Forecast	2012-13 Forecast	2013-14 Forecast	2014-15 Forecast
1. Historical cost surplus / (deficit) as % of total income	Institution	4.9	7.4	2.4	5.2	5.3	3.3
	Overall sector mean	3.6	5.7	4.0	2.9	3.3	4.0
	1 st quartile	1.2	3.2	2.0	1.5	2.0	2.6
	Median Value	4.0	5.9	4.1	3.0	3.4	4.0
	3 rd quartile	6.7	8.9	6.4	4.3	5.0	5.6
2. Net liquidity / (total expenditure – depreciation) (days)	Institution	123	180	162	137	176	205
	Overall sector mean	98	109	104	88	81	79
	1 st quartile	52	70	59	58	54	52
	Median Value	95	103	95	81	79	79
	3 rd quartile	128	155	148	120	108	107
3. External borrowing (on balance sheet) as % of total income	Institution	27.6	25.3	24.6	21.6	20.6	19.8
	Overall sector mean	21.4	22.4	23.5	24.4	25.1	24.6
	1 st quartile	8.8	8.4	9.6	7.5	9.8	9.5
	Median Value	18.4	19.7	21.4	21.8	25.8	25.1
	3 rd quartile	33.4	34.6	35.2	34.1	38.4	35.7
4. Discretionary reserves (excl. pension asset/(liability)) as % of total income	Institution	59.8	67.7	77.8	81	88.4	94.5
	Overall sector mean	46.1	51.1	55.2	56.4	58.0	60.1
	1 st quartile	30.0	32.5	38.7	40.6	41.4	42.7
	Median Value	41.0	47.6	53.8	54.0	56.5	58.8
	3 rd quartile	59.7	66.3	74.2	76.5	77.4	78.9
5. Net cash flow as % of total income	Institution	11.9	18.1	10.8	14	14	12.2
	Overall sector mean	8.3	9.2	6.2	5.8	6.5	7.9
	1 st quartile	4.5	6.8	4.7	4.1	5.4	6.2
	Median Value	8.6	10.0	7.1	6.9	8.0	9.4
	3 rd quartile	12.1	13.8	9.8	9.9	10.5	11.3
6. Staff costs as % of total income	Institution	54.6	53.5	55.3	53.1	53.8	55.2
	Overall sector mean	54.3	53.0	53.2	53.9	53.5	53.0
	1 st quartile	51.1	49.0	50.5	51.6	51.0	50.4
	Median Value	54.3	53.5	53.8	54.8	53.8	53.7
	3 rd quartile	58.7	56.1	57.0	57.1	56.9	56.5
7. Estates: percentage of estate classified in condition categories C and D in 2009-10 and 2010-11	Institution	43.3	43.3				
	Overall sector mean	21.4	20.0				
	1 st quartile	10.3	10.0				
	Median Value	19.4	18.4				
	3 rd quartile	29.8	27.0				

Source of data: Indicators 1 to 6 are calculated from the 2011 financial results and forecasts data as submitted to HEFCE in December 2011 and June 2012. Further details on this and on how the indicators are calculated are available on the HEFCE extranet under "2011 financial results and forecasts – summary statistics". Details on how to access this benchmarking information has been sent to Directors of Finance.

Indicator 7: 2009-10 and 2010-11 Estates data provided from Estates Management Statistics. For further information see HEFCE publication 2011/17 or http://www.hesa.ac.uk/index.php?option=com_collns&task=show_colln&Itemid=232&c=C10042&s=10&wvy=any&wvs=1&isme=1.

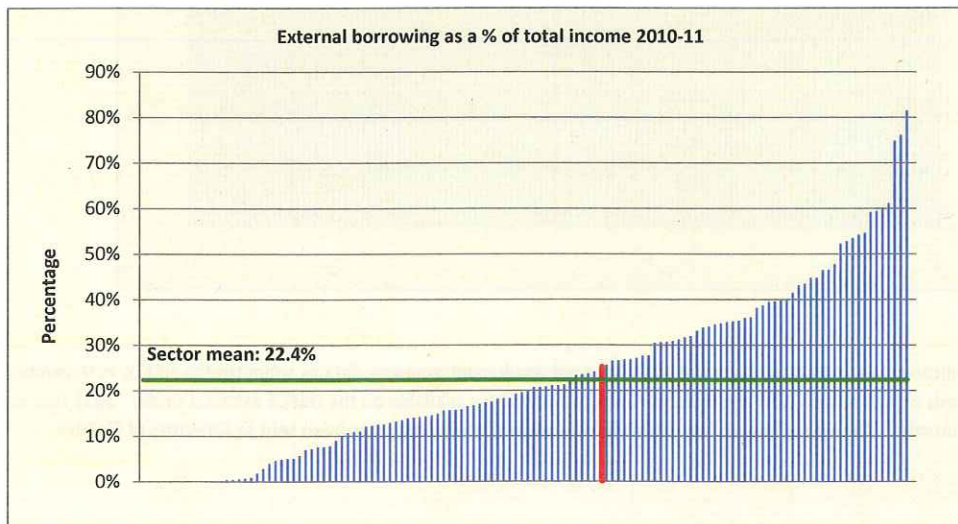
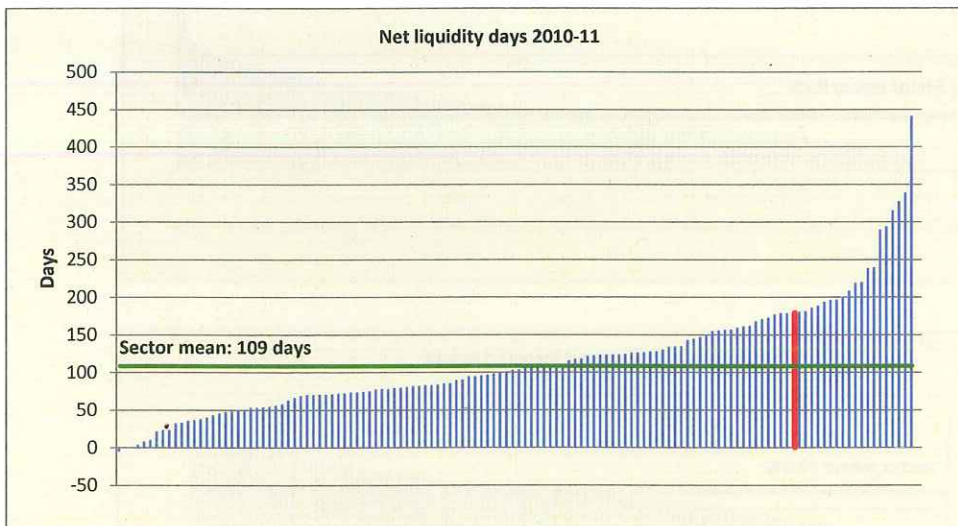
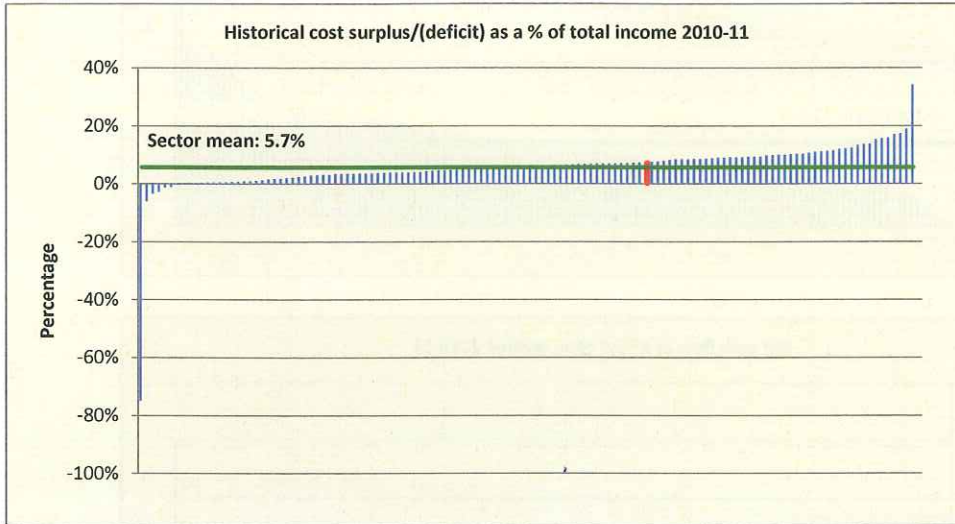
Although not comprehensive, these indicators were chosen to provide an overall view of financial performance:

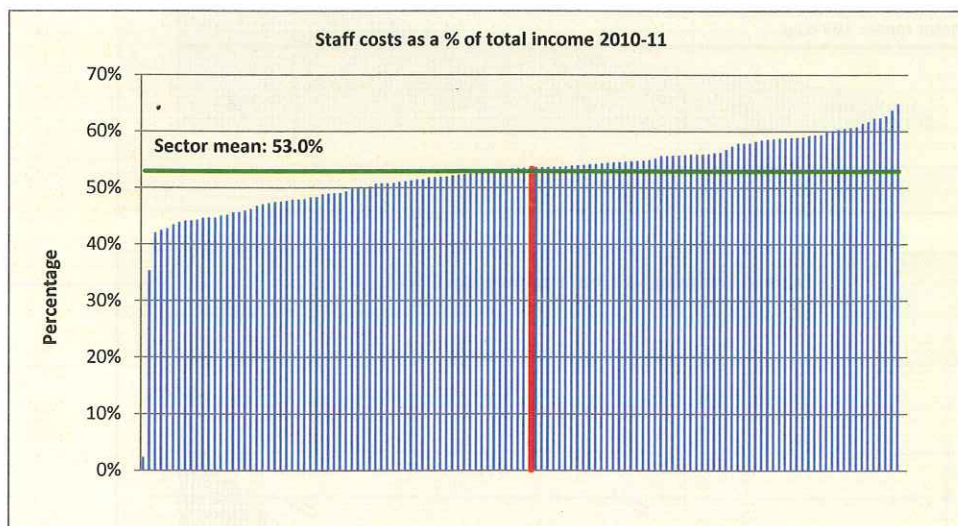
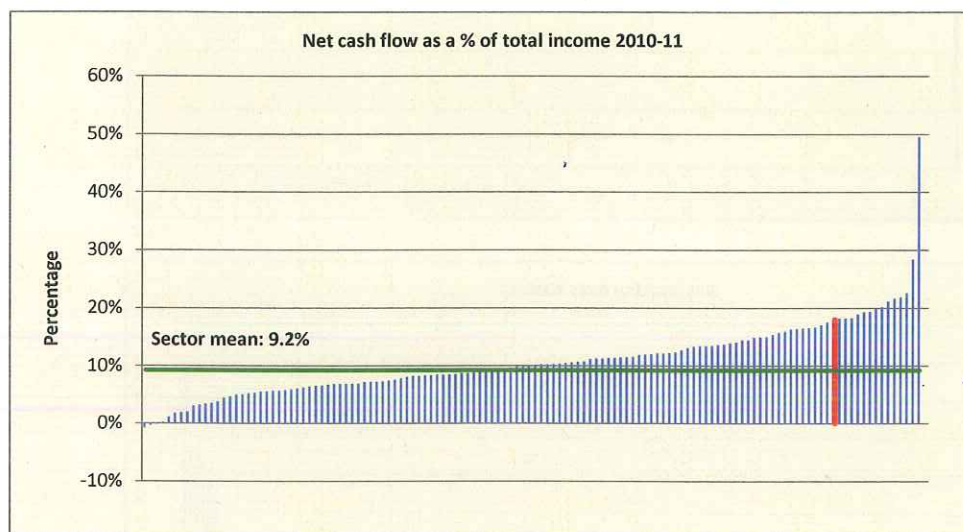
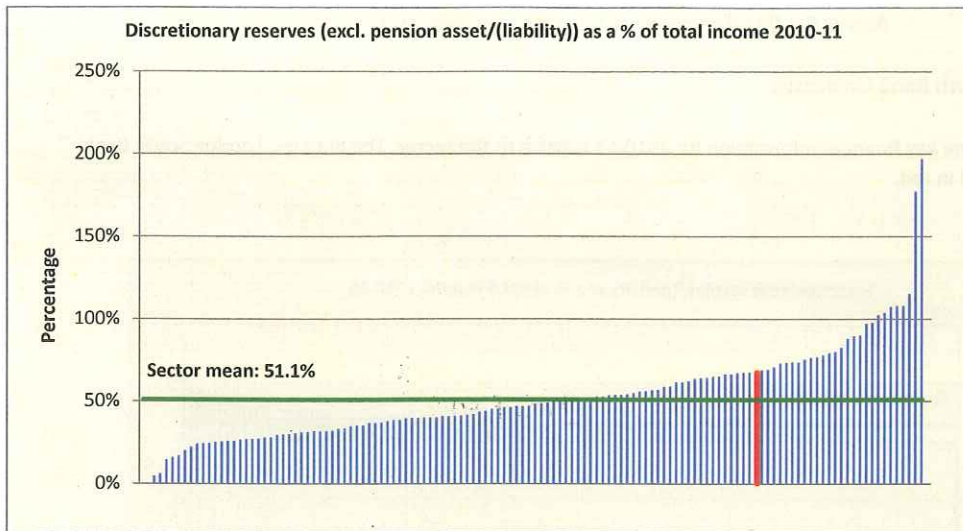
- Historical cost surplus: generation of surplus for investment
- Net liquidity: coverage of, and ability to respond quickly to, short-term financial pressures
- External borrowing (on-balance sheet): reliance on borrowings for development, balancing need for growth / development with increased costs of borrowing
- Discretionary reserves (excluding pension asset/(liability)): provision of a buffer against large unexpected financial pressures
- Net cash flow from operating activities: financial sustainability of the institution's core business
- Staff costs: appropriateness and significance of the staff cost structure for the institution
- Estates: indication of possible future estates costs

Annex B - Benchmarking of key financial indicators for 2010-11

Institution: London South Bank University

The figures below show the key financial information for 2010-11 relative to the sector. The data for London South Bank University are highlighted in red.





Source of data: Financial indicators are calculated from the 2011 financial results and forecasts data as submitted to HEFCE in December 2011 and June 2012. Further details on this and on how the indicators are calculated are available on the HEFCE extranet under "2011 financial results and forecasts – summary statistics". Details on how to access this benchmarking information has been sent to Directors of Finance.