

Meeting of the Finance, Planning and Resources Committee

4.00 - 6.00 pm on Tuesday, 5 November 2019
in 1B16 - Technopark, SE1 6LN

Supplement:

- KPMG benchmarking of financial statements, 2017/18

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Higher Education Financial Statements

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Benchmarking 2017/18



Agencia Item 9

Introduction

As part of the audit service KPMG provides to our Higher Education Institution (HEI) clients, we undertake an annual financial statements benchmarking exercise across our UK HE client base. 96 institutions with revenues ranging from approximately £3 million up to £2.2 billion have been included in our analysis.

This report is structured as follows:

- Introduction – this introduction outlines the approach we have adopted in preparing the analysis;
- Trends – for certain key financial measures illustrating some general movements in resources across the sector; and
- Institutional financial measures – measures analysing the financial position of individual HEIs, split between post-1992 institutions and pre-1992 institutions.

Basis of report preparation

The attached charts are based wholly on data taken from the audited financial statements for the year ended 31 July 2018 of our UK HEI clients.

Where there are gaps in the data this is due to either the measure being zero or, in some cases, the information being presented in a slightly different manner which prevents fair and objective comparison.

A number of institutions have expressed a preference to remain anonymous and have been identified as such on the charts (for example, Institution A).

This report is provided solely for the benefit of the management and governors of the institution concerned. KPMG will not accept responsibility to any other party to whom this report may be shown or who may acquire a copy of this report.

Financial measures

Trends: Trend analysis for certain key financial measures illustrating general movements in resources across the sector :

1. Operating surplus as % of total income - *we have taken operating surplus to be surplus before other gains and losses (ie before surplus/deficit on disposal of fixed assets, gains/losses on investments, tax and share of surplus/deficit of joint ventures and associates)*
2. Tuition fees and education contracts as a % of total income
3. External borrowings as % of total income
4. Operating cash inflow as a % of total income

Institutional financial measures: The following measures have been calculated for each participating HEI:

Income Measures

Measure 1: Sources of income by % – pre 1992 Institutions

Measure 2: Sources of income by % – post 1992 Institutions

Measure 3: Total comprehensive income as % of total income

Measure 4: Operating surplus/(deficit) as a % of total income (*definition of operating surplus as above*)

Measure 5: Movement in operating surplus as a % of total income (*definition of operating surplus as above*)

Measure 6: Total of Non-EU tuition fees

Measure 7: Non-EU tuition fees as a % of tuition fees & education contract income

Measure 8: Movement in Non-EU tuition fees year on year

Staff costs measures

Measure 9: Staff costs as a % of total income – *excludes restructuring costs.*

Measure 10: Pay Multiples

Balance Sheet and Cash Flow Measures

Measure 11: Cash flow from operating activities as a % of income

Measure 12: Current ratio

Measure 13: Cash and current asset investments (£m)

Measure 14: External borrowing as a % of income – *including bank loans, other loans and overdrafts, but excluding finance leases*

Measure 15: Capital expenditure (£m) – *cash expended to acquire tangible fixed assets as per the notes to the cash flow statement.*

Measure 16: Fixed asset capitalisation threshold (£'000)

Pension Measures

Measure 17: LGPS/Own pension scheme contribution rate (%)

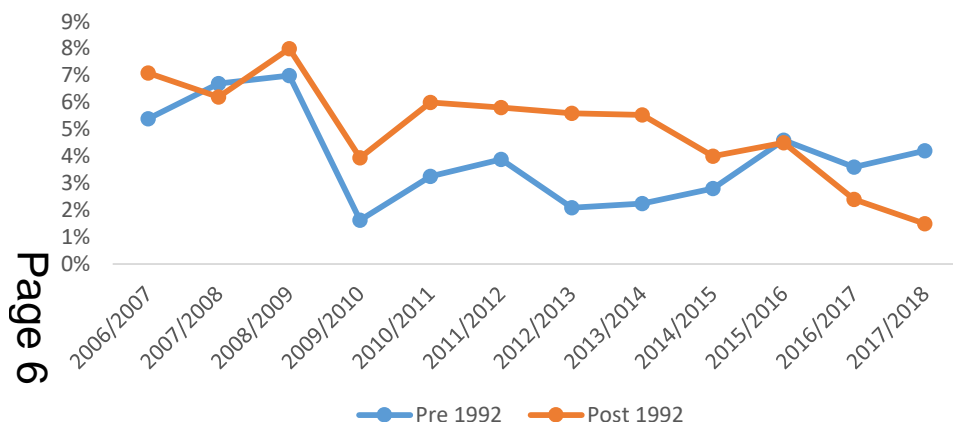
Measure 18: LGPS/Own pension scheme deficit (£'000)

Measure 19: USS pension scheme liability (£'000)

Measure 20: Total pension deficit (£'000) – *including liability relating to USS deficit recovery plan*

Trends (1)

Operating surplus as % of total income*



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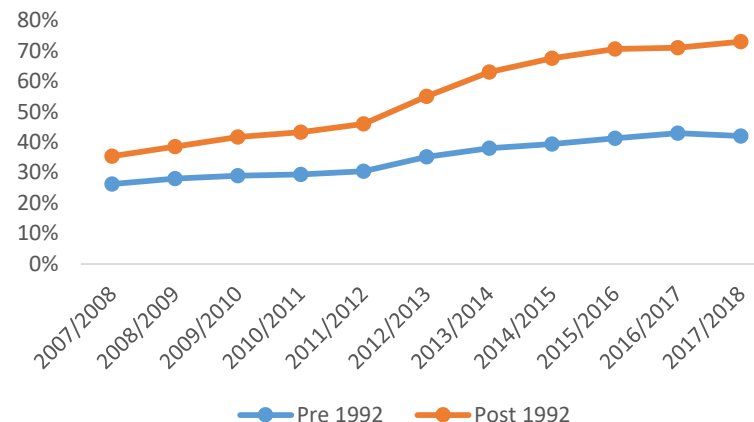
Average operating surplus as a % of total income increased slightly in 2017/18 from 3.6% to 4.2% for pre-1992 institutions. However for post-1992 institutions, average operating surplus as a % of total income has decreased from 2.4% in 2016/17 to 1.5% in 2017/18.

Several factors may be responsible for this change, linked to the effect of accounting transactions as well as the overall level of profitability of the sector. The more significant impact in the post-1992 sector may reflect increased pension charges relating to participation in Local Government Pension Schemes.

23 institutions in our sample recorded an operating deficit, compared with 19 in 2016/17. Of these, 16 were in post-1992 institutions.

*Note that operating surplus prior to 2014/15 has been prepared under old UK GAAP and may not be directly comparable

Tuition fees and education contracts as a % of total income



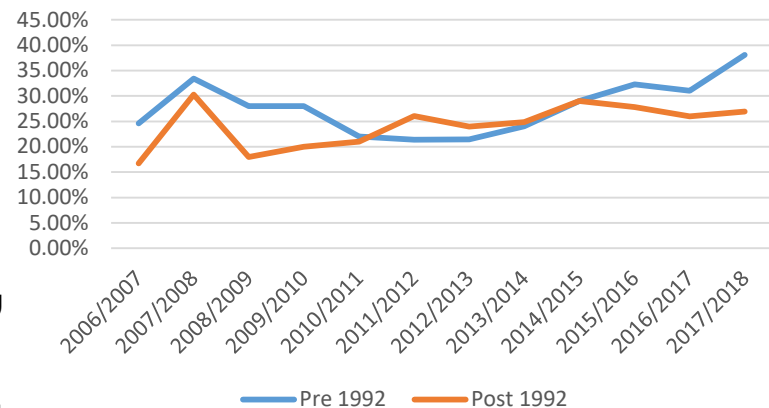
The proportion of total income made up by tuition fees has remained consistent year on year in pre-1992 institutions, with fees and education contract income falling slightly to 42% of total income in 2017/18 compared to 43% in 2016/17.

There was a small increase for post-1992 institutions, which generally receive lower levels of teaching and research grants from the funding bodies.

Overseas (non-EU) fees made up some 27% of fee income for the sector as a whole (14% of total income), being some 36% of fee income for pre-1992 institutions and 14% of fee income for post-1992 institutions (slightly higher than the 12% recorded in 2016/17). The overall proportion of total fee income from overseas students across our client base has remained fairly constant over the past 3 years

Trends (2)

External borrowings as % of total income

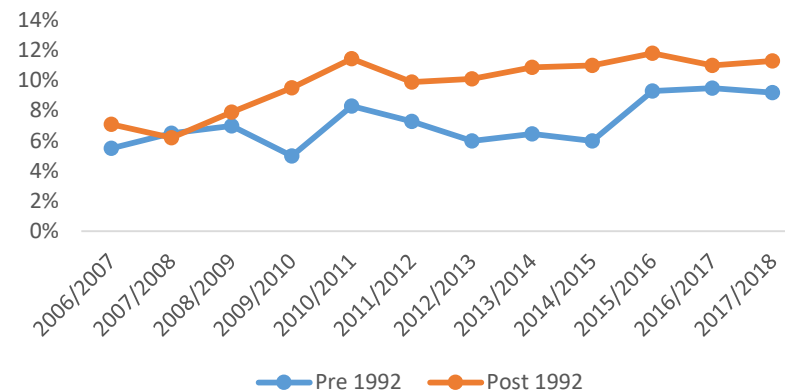


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Borrowings as a percentage of total income have remained fairly stable for the post-1992 institutions in our sample, increasing from 26% to 27%. For the pre-1992 institutions, there was an increase in the overall level of external borrowings as a percentage of total income – which increased from 31% to 38%. With the exception of 2016/17, which saw a modest decrease, the increase in borrowings is in line with the trend over the past 5 years.

Of the institutions in this benchmarking exercise, 4 had no loan finance in 2017/18, compared to 5 in 2016/17.

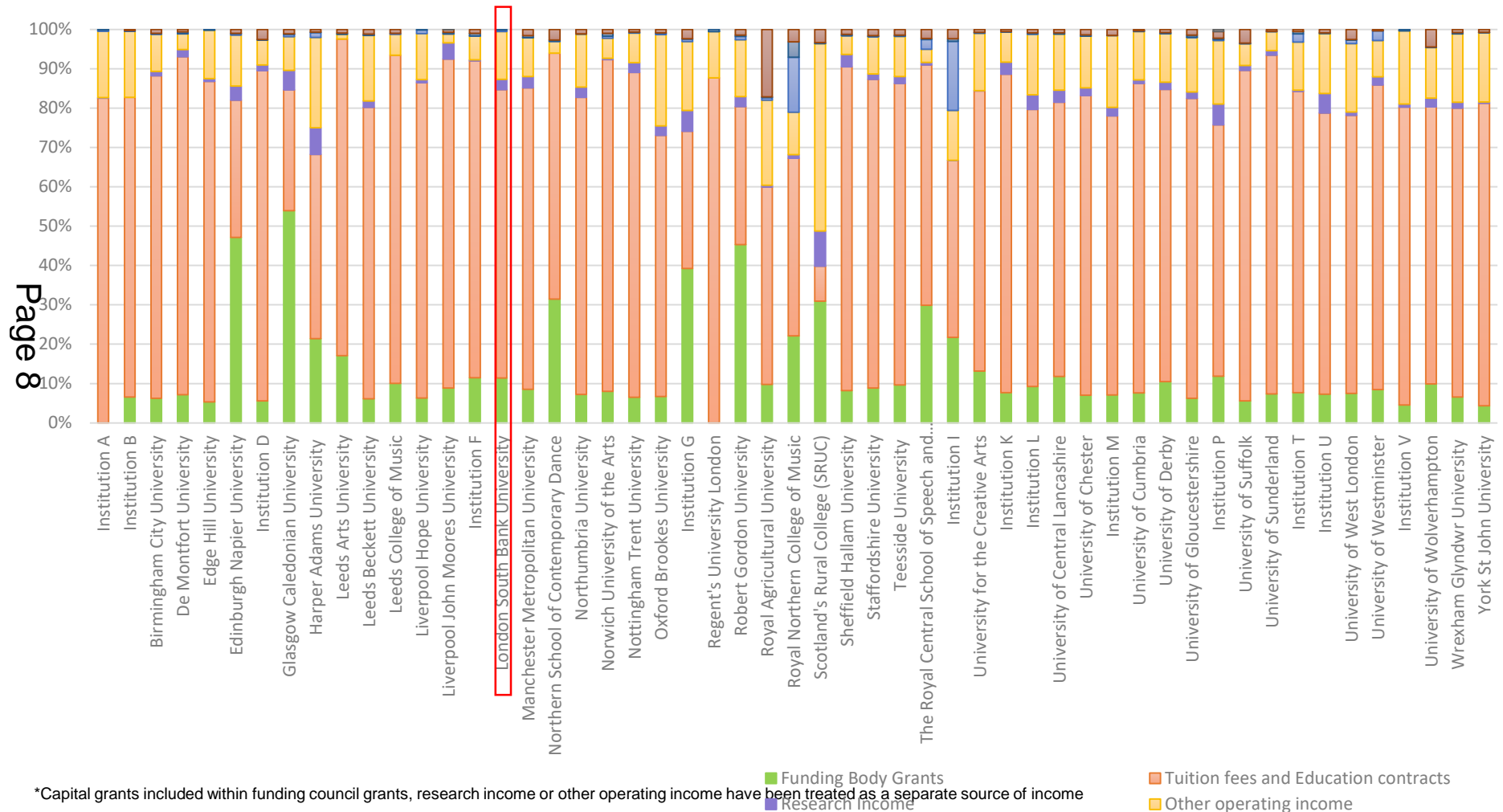
Operating cash inflow as a % of total income



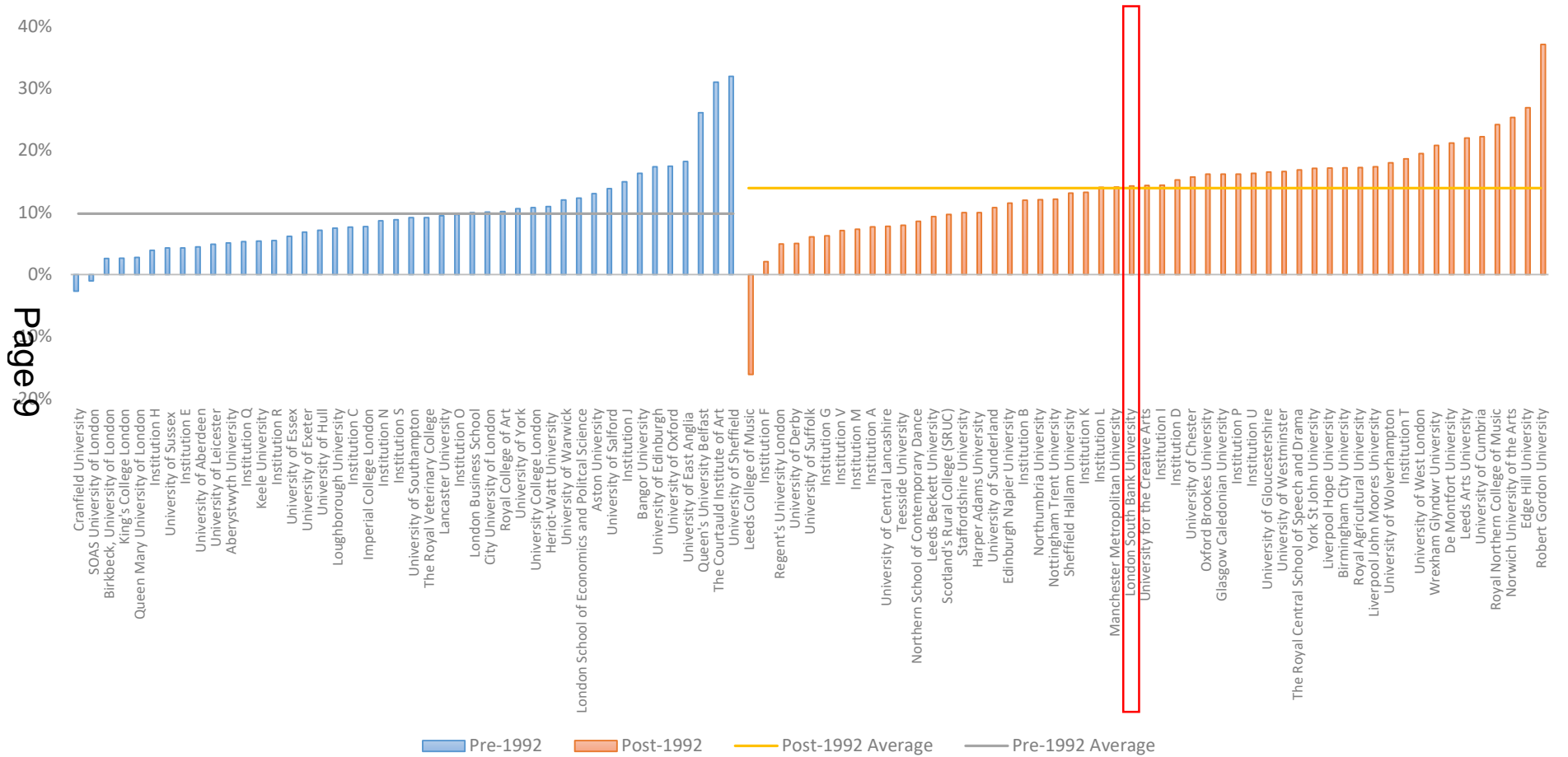
Overall the level of net operating cash remained fairly consistent year on year.

Operating cash inflow as a proportion of income saw a modest reduction in 2017/18 compared to 2016/17 for pre-1992 institutions and a modest increase for post-1992 institutions.

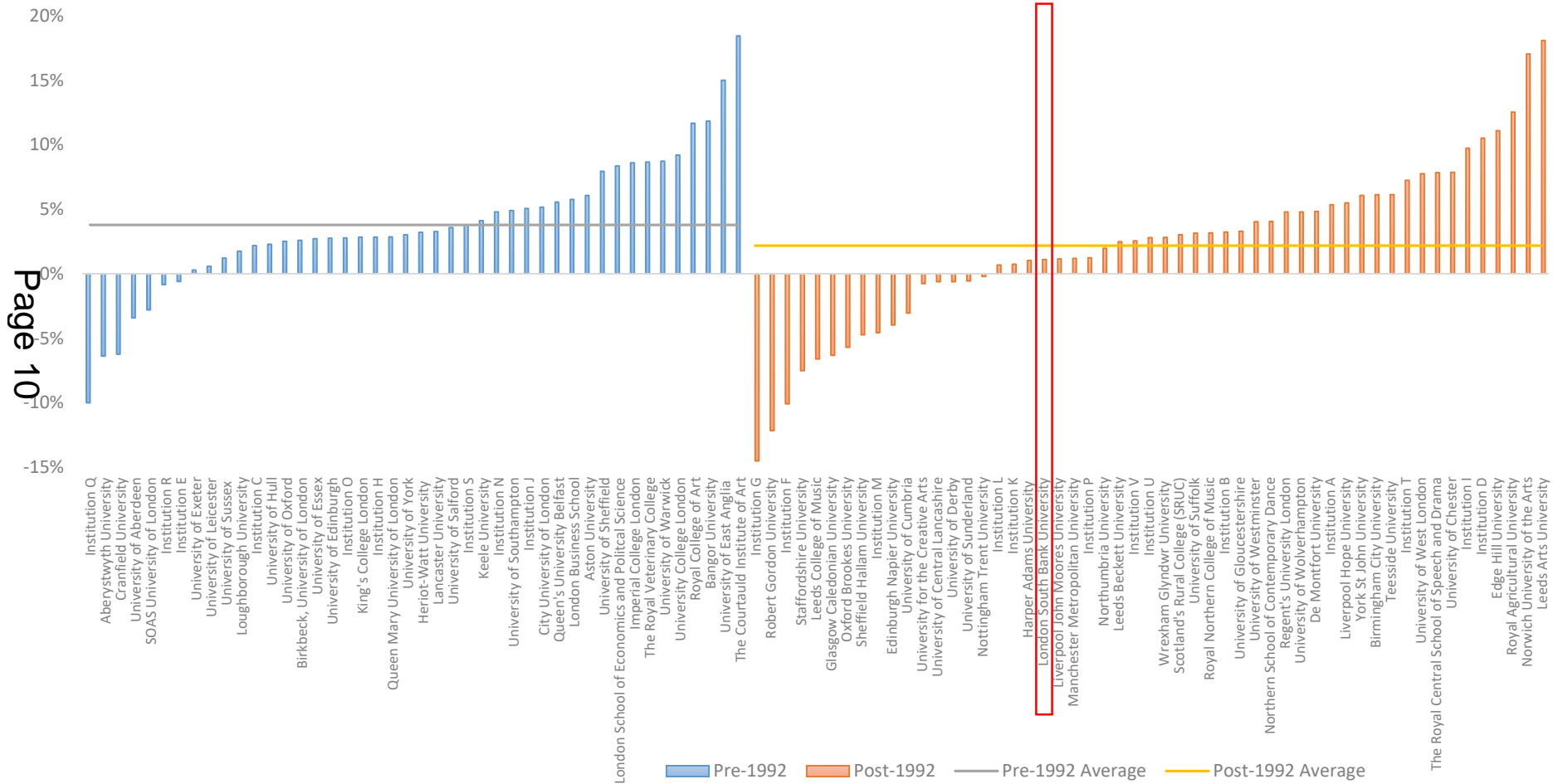
Sources of income by % - post 1992 institutions



Total Comprehensive Income as % of total income

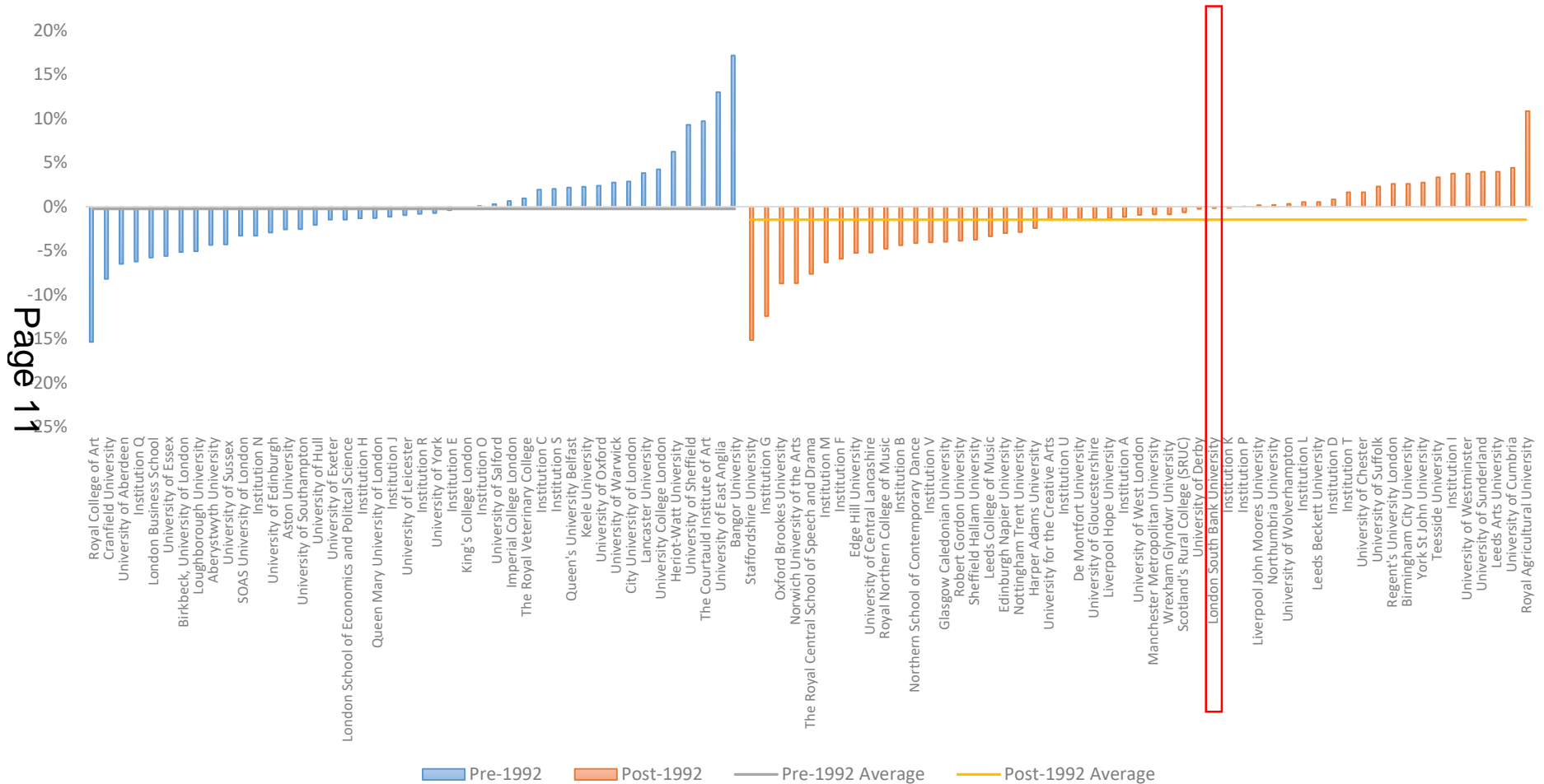


Operating surplus/deficit as % of total income



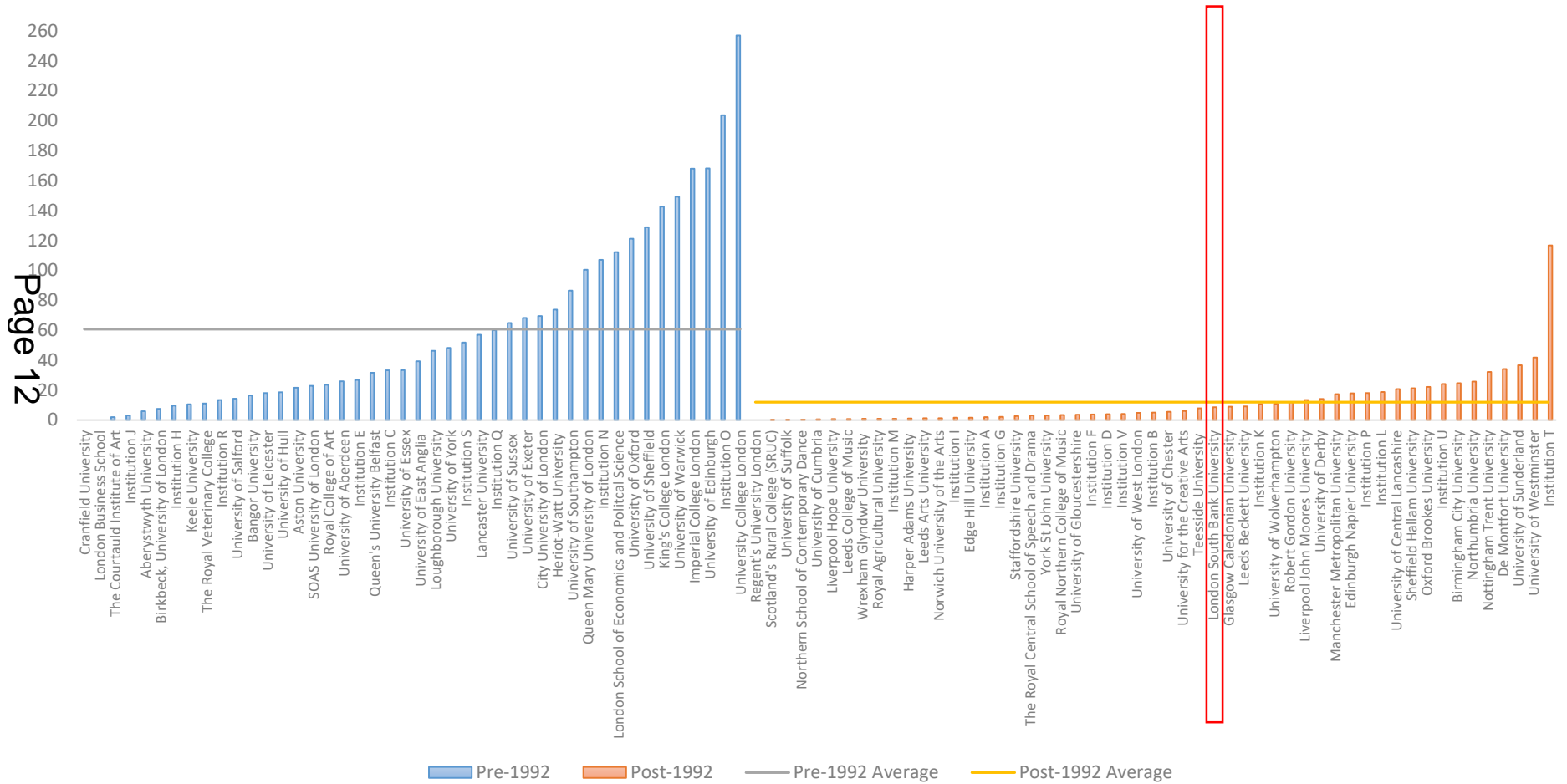
Operating surplus is taken as surplus before other gains and losses (ie before surplus/deficit on disposal of fixed assets, gains/losses on investments, tax and share of surplus/deficit of joint ventures and associates)

Movement in operating surplus as a % of total income

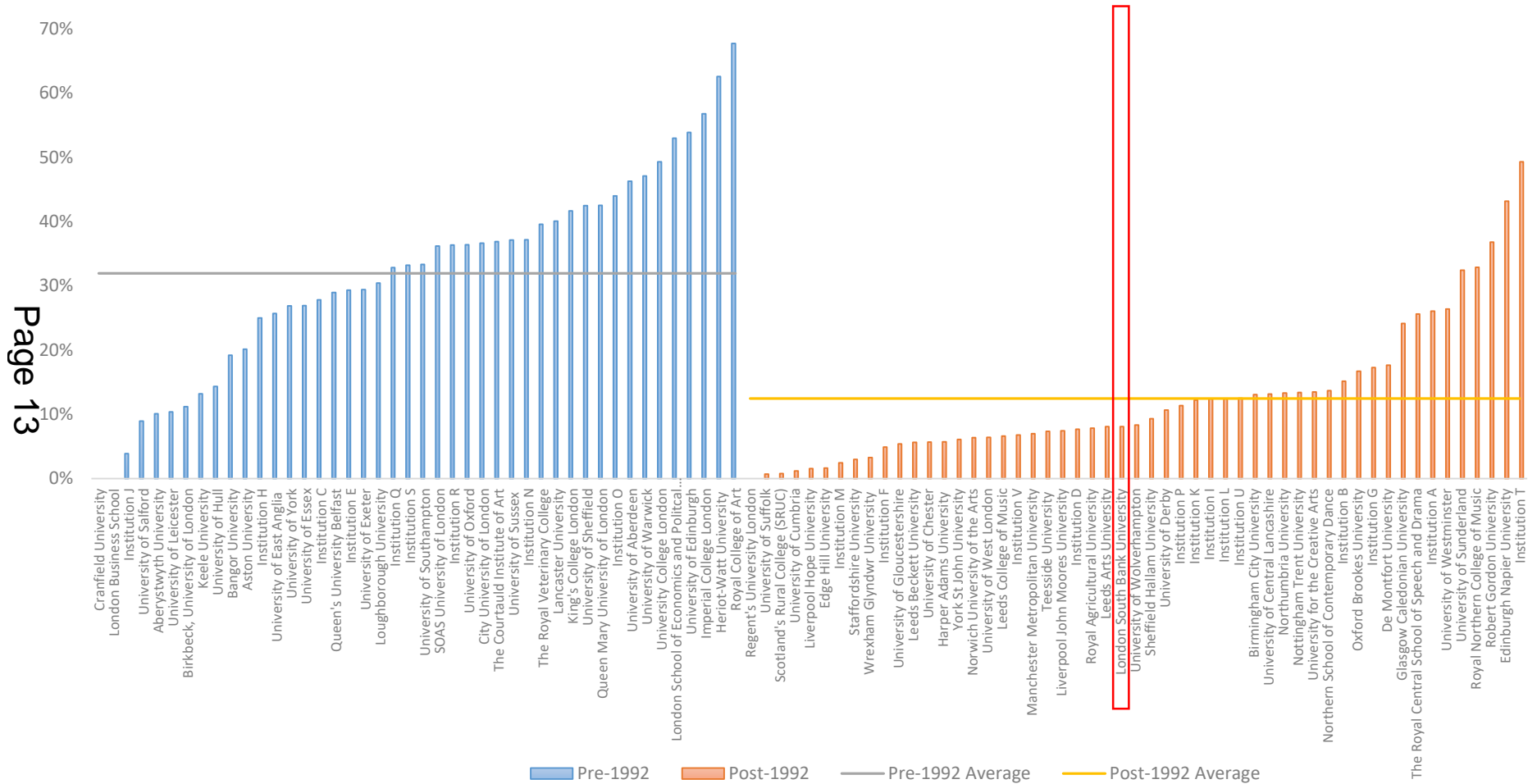


Operating surplus is taken as surplus before other gains and losses (ie before surplus/deficit on disposal of fixed assets, gains/losses on investments, tax and share of surplus/deficit of joint ventures and associates)

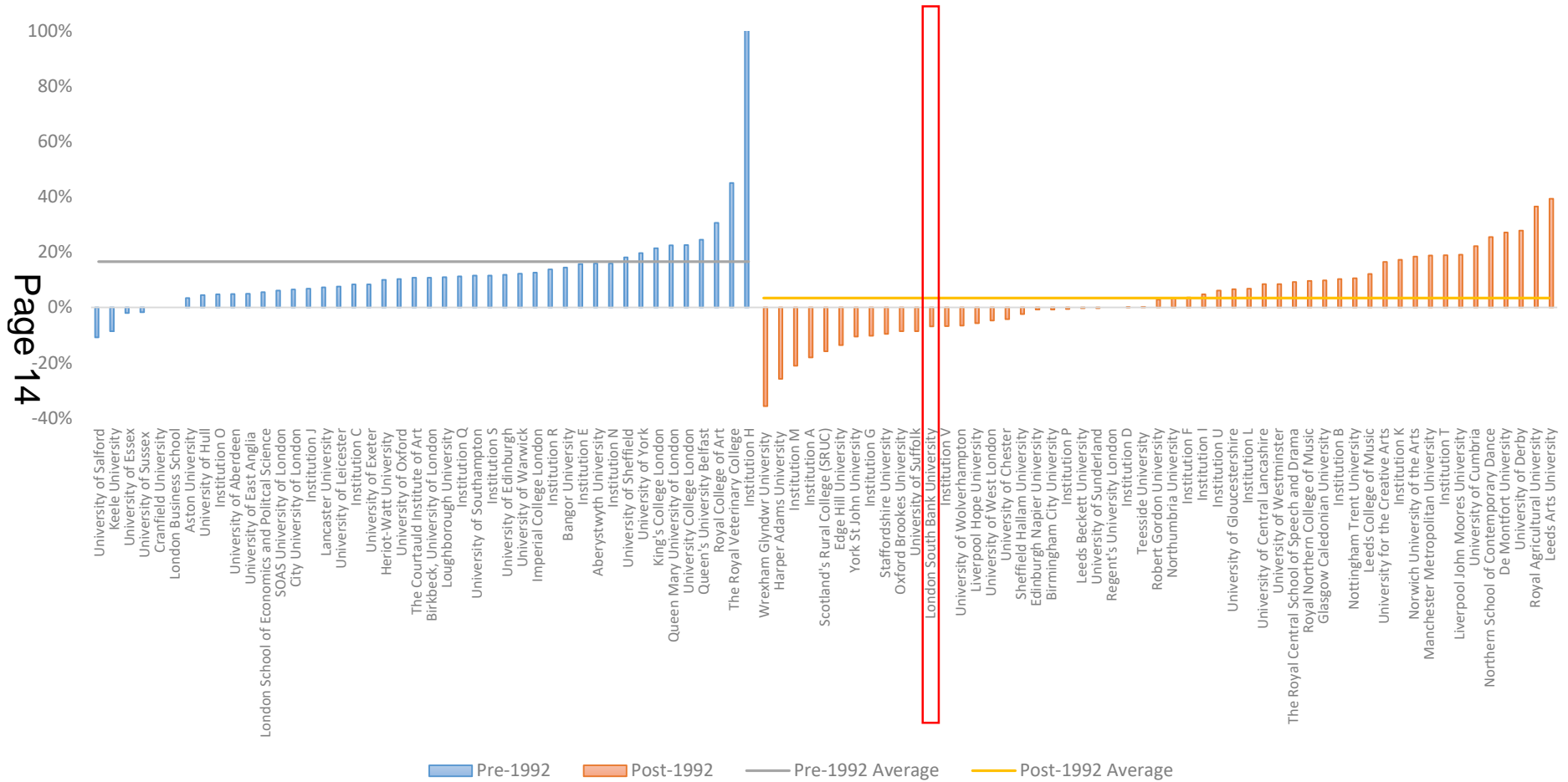
Total of non-UK/EU tuition fees (£m)



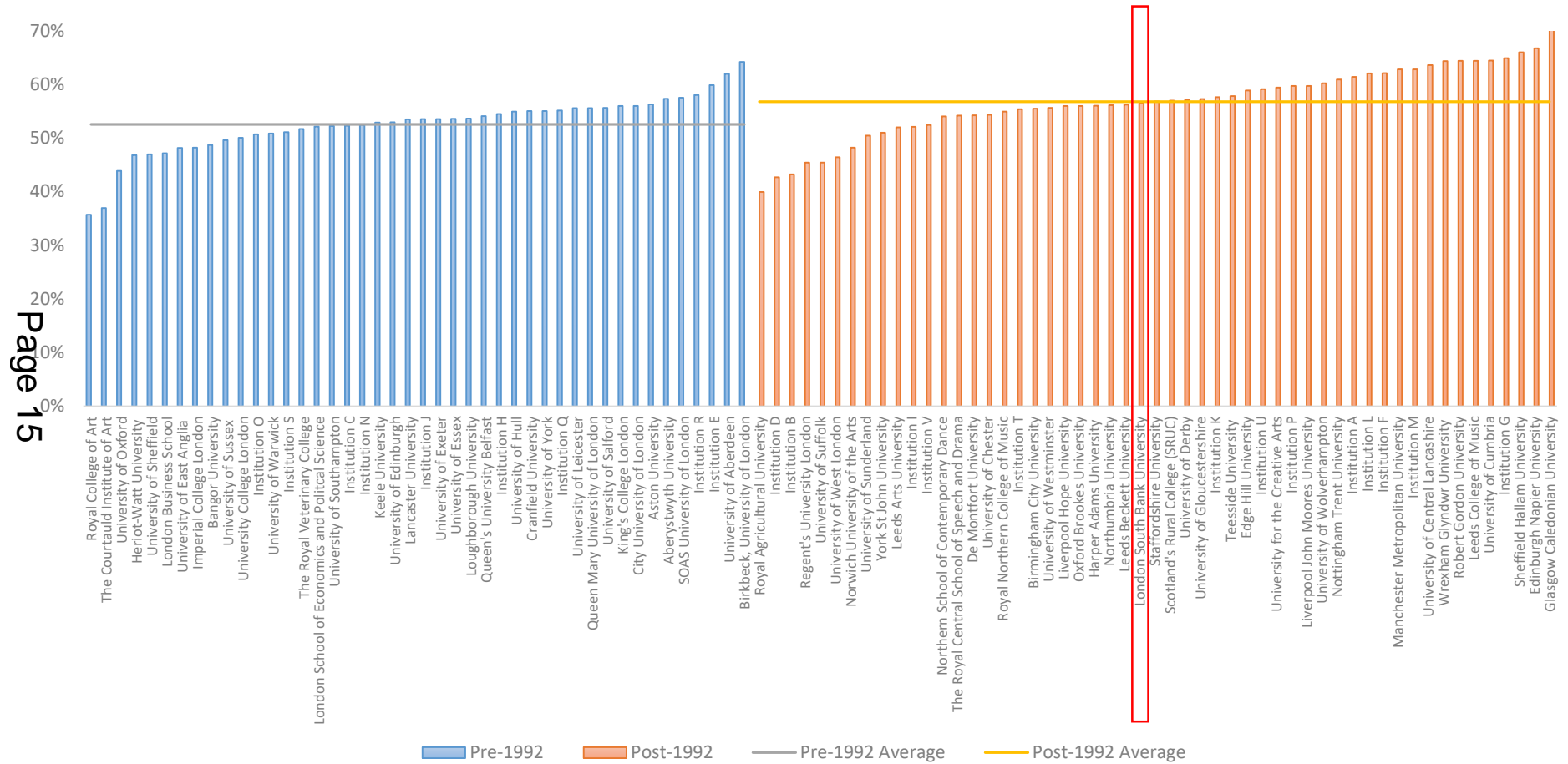
Non-UK/EU tuition fees as a % of tuition fees and education contract income



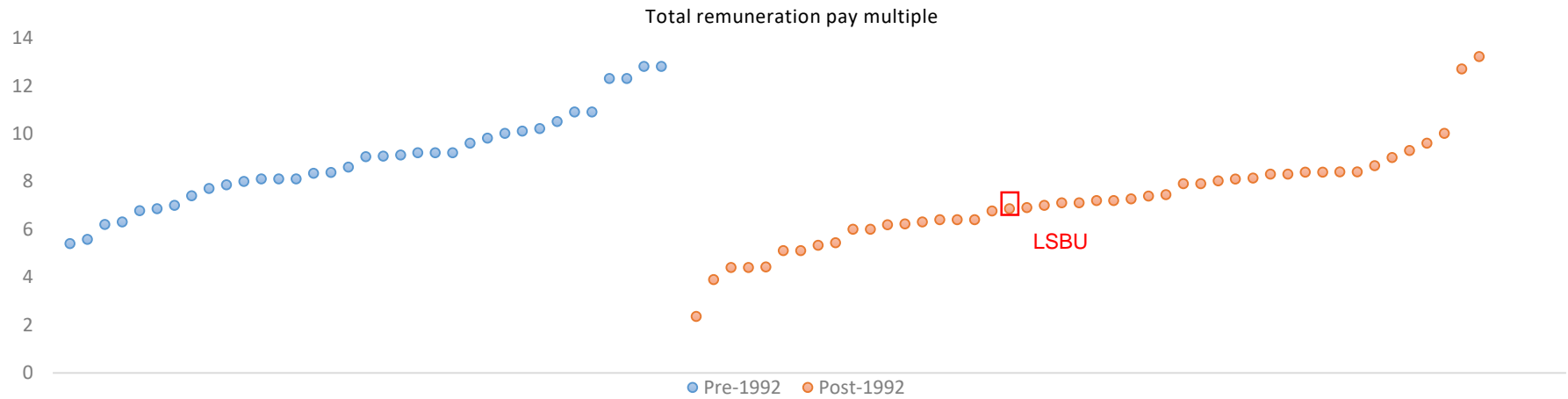
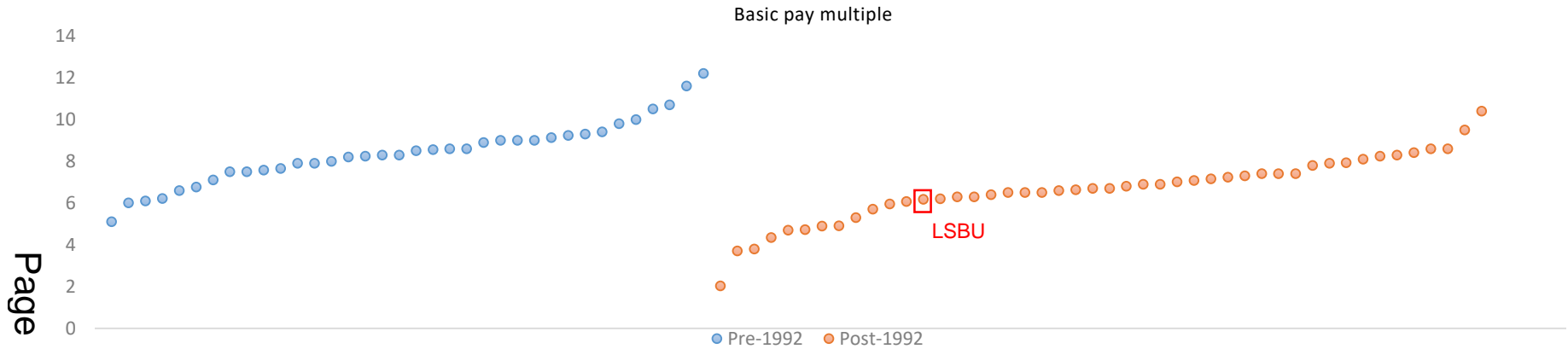
Movement in non-UK/EU tuition fees year on year



Staff costs as a % of total income



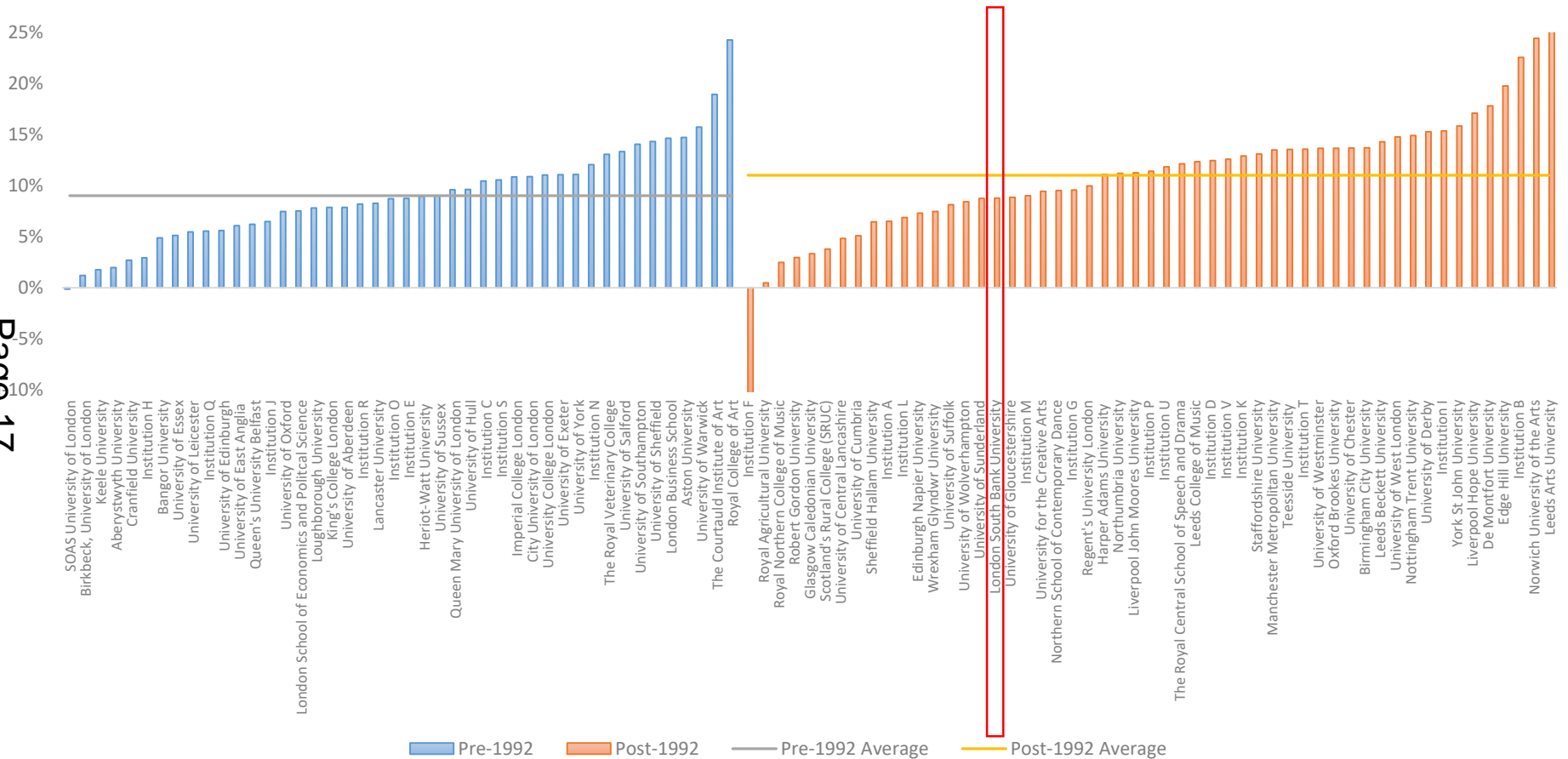
Pay Multiples



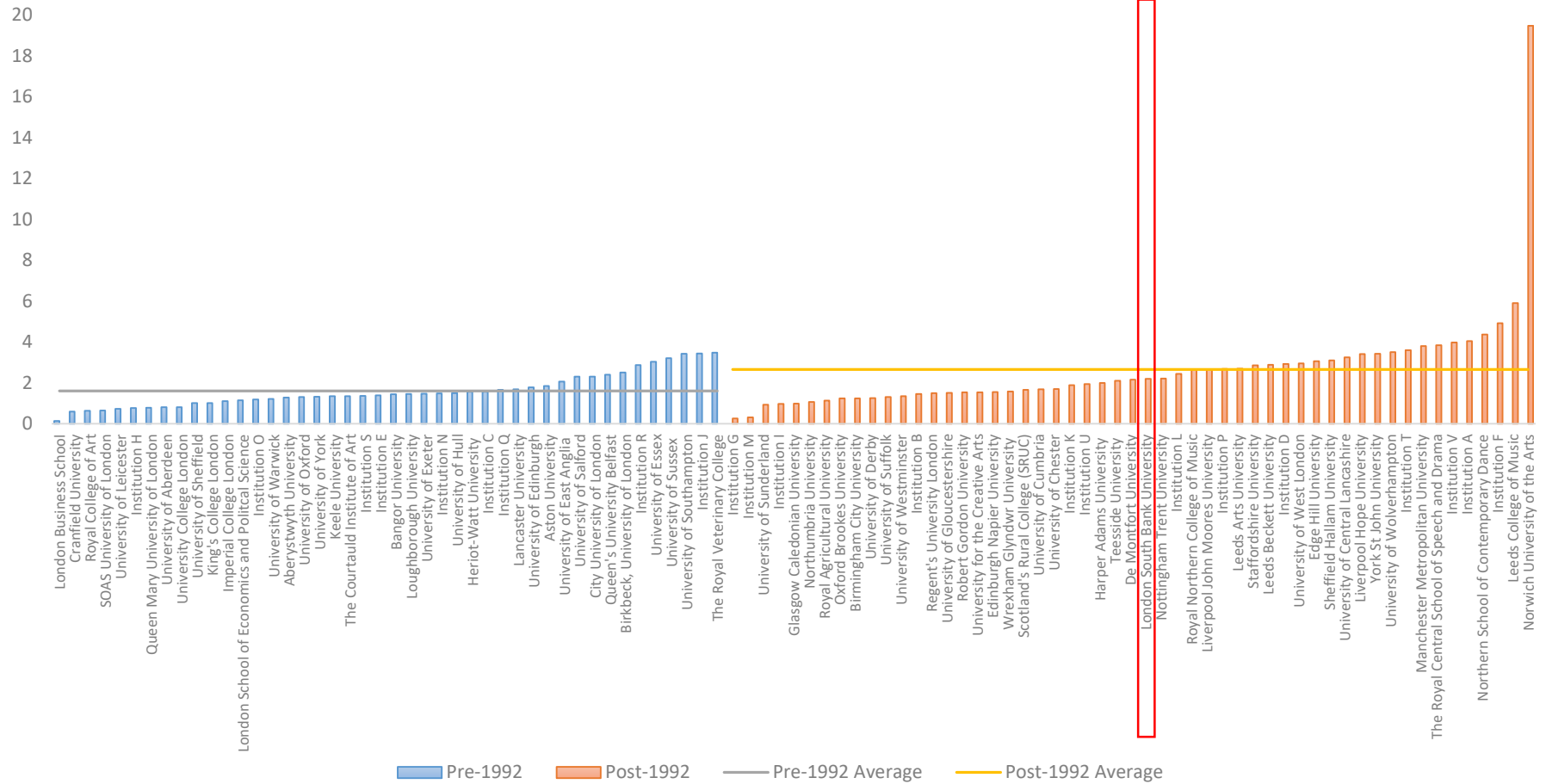
These charts record the ratio between Vice-Chancellor's basic salary / total remuneration and the median basic salary / total remuneration of all other employees

Operating cash flow as % of total income

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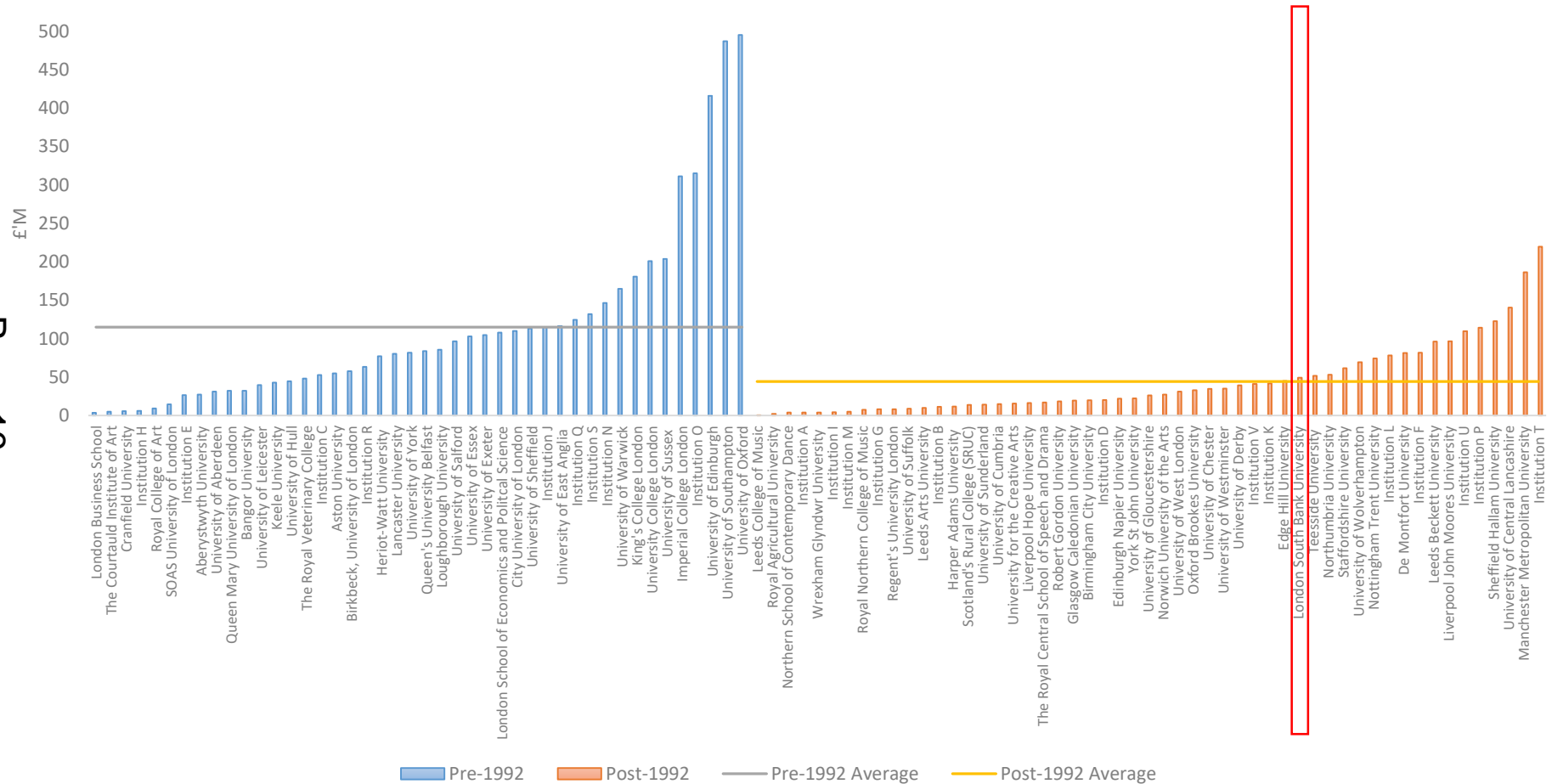


Current ratio

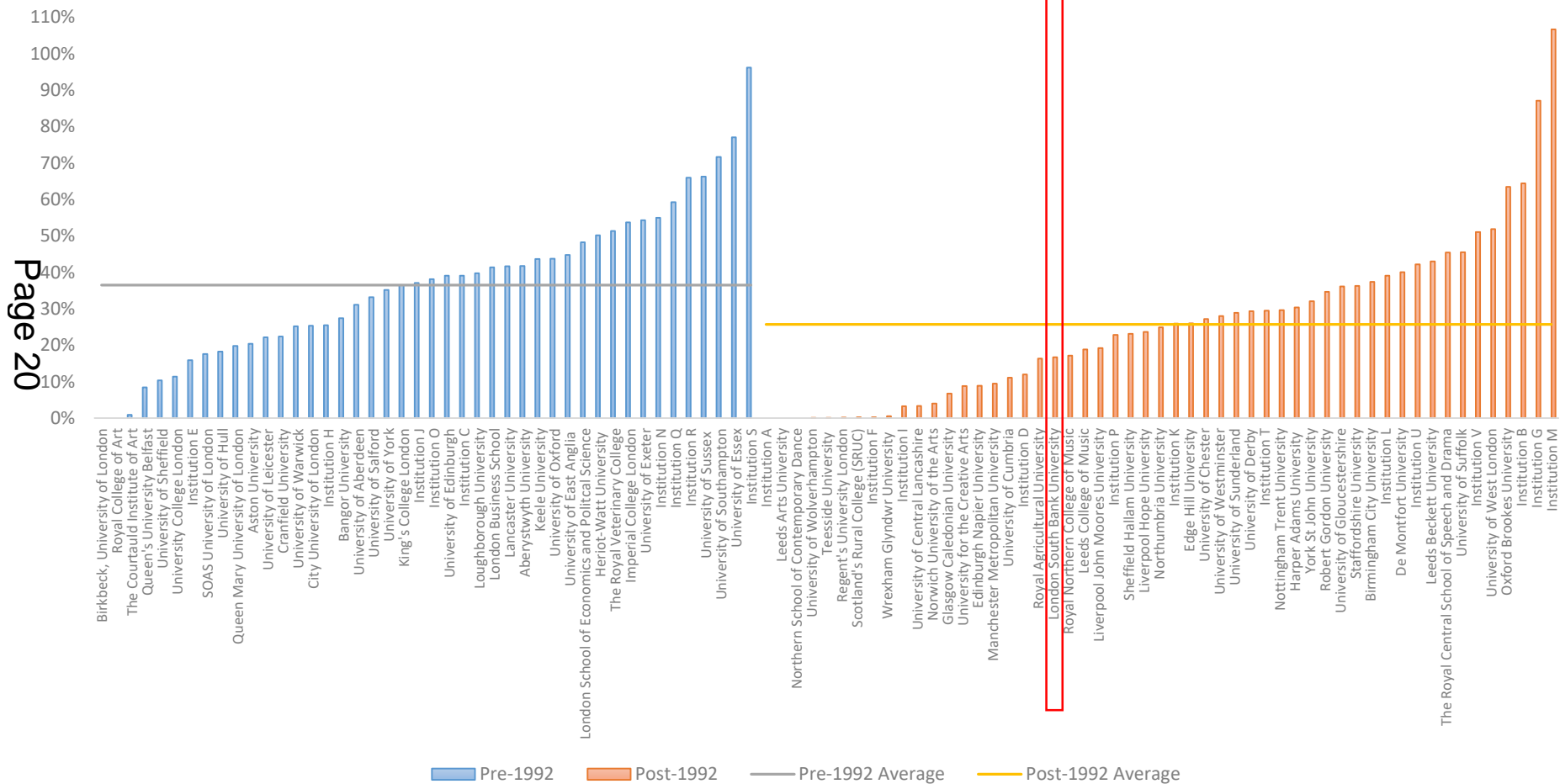


Cash & short-term investments (£m)

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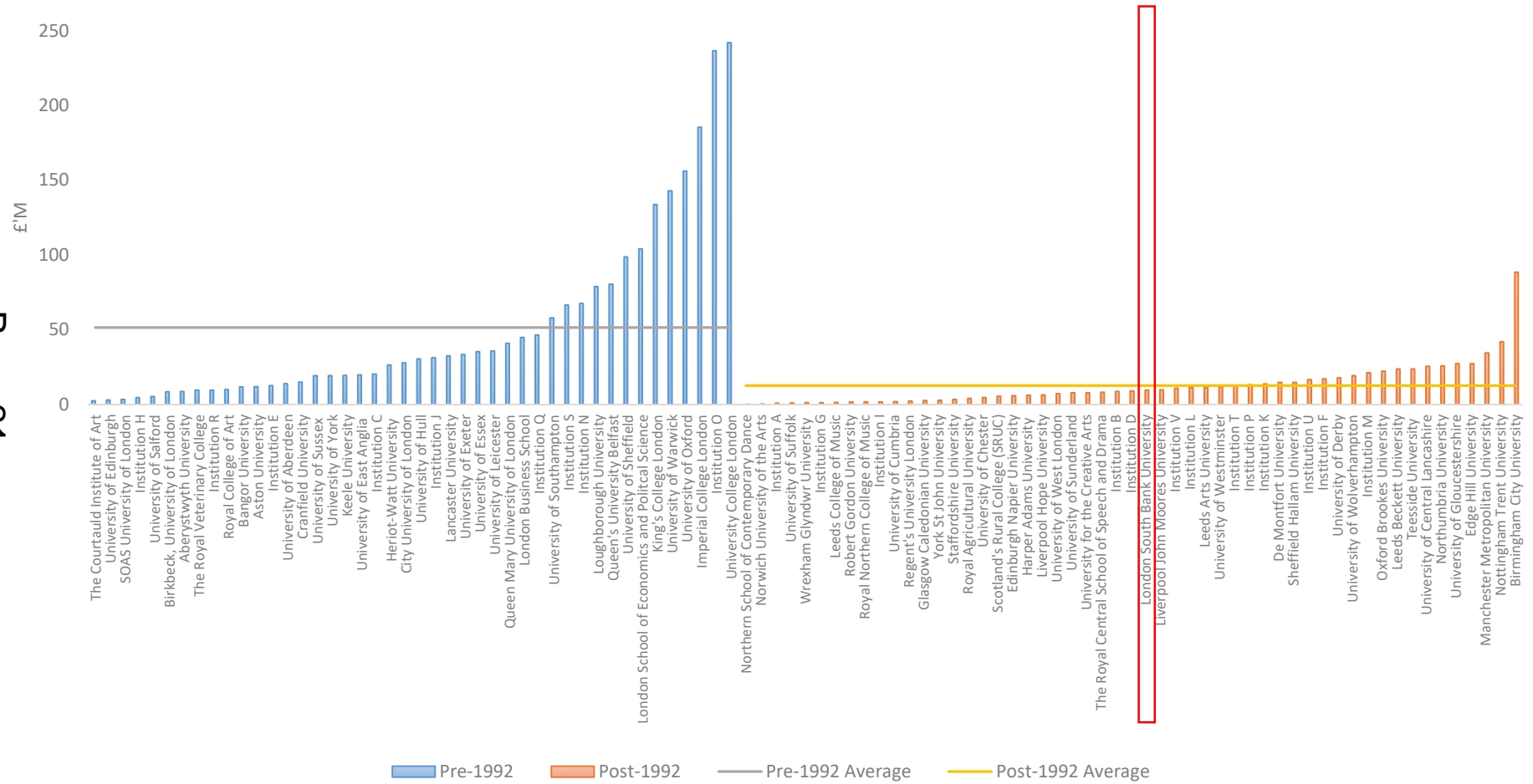


External borrowing as a % of total income



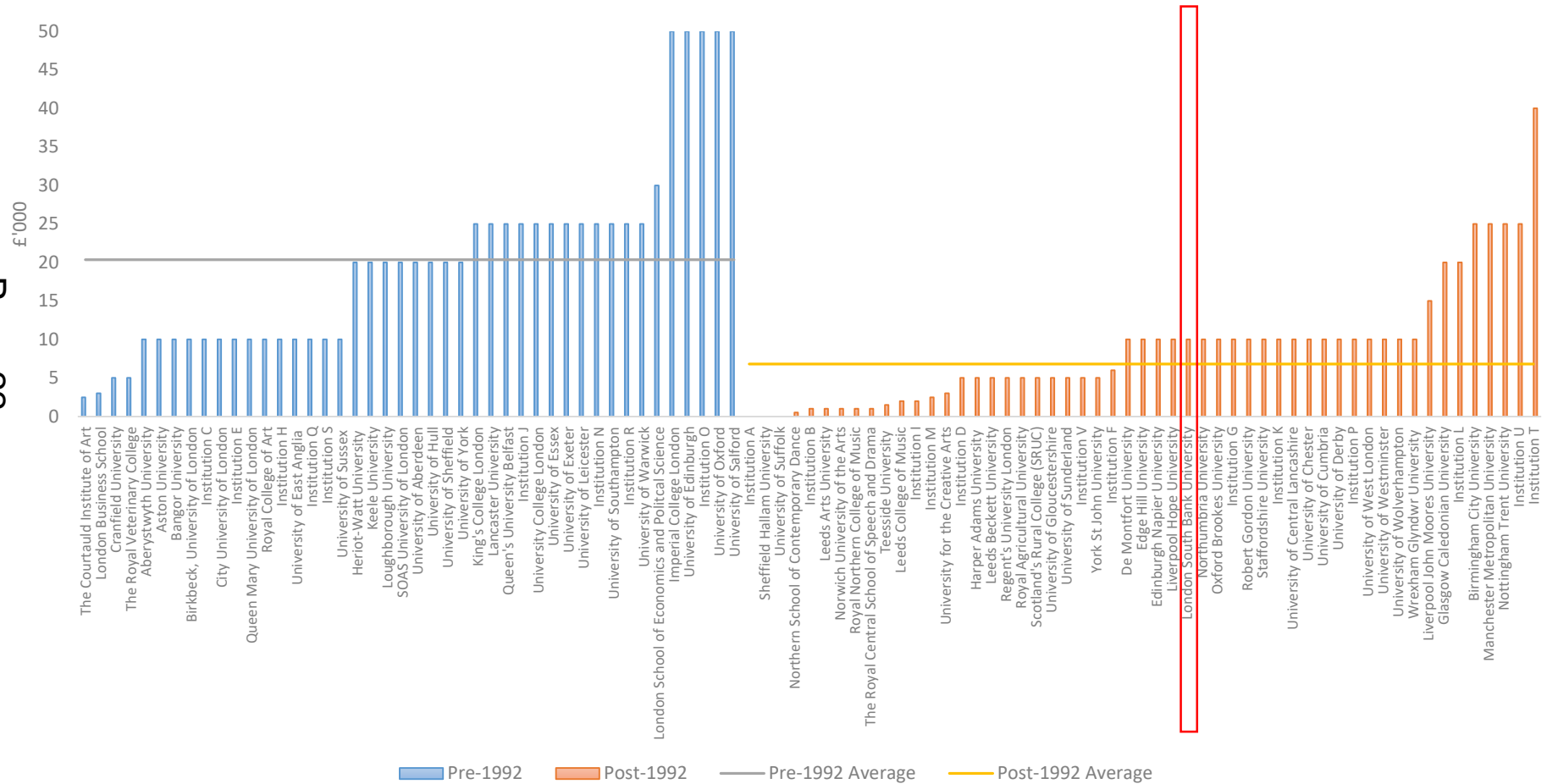
Capital expenditure (£m)

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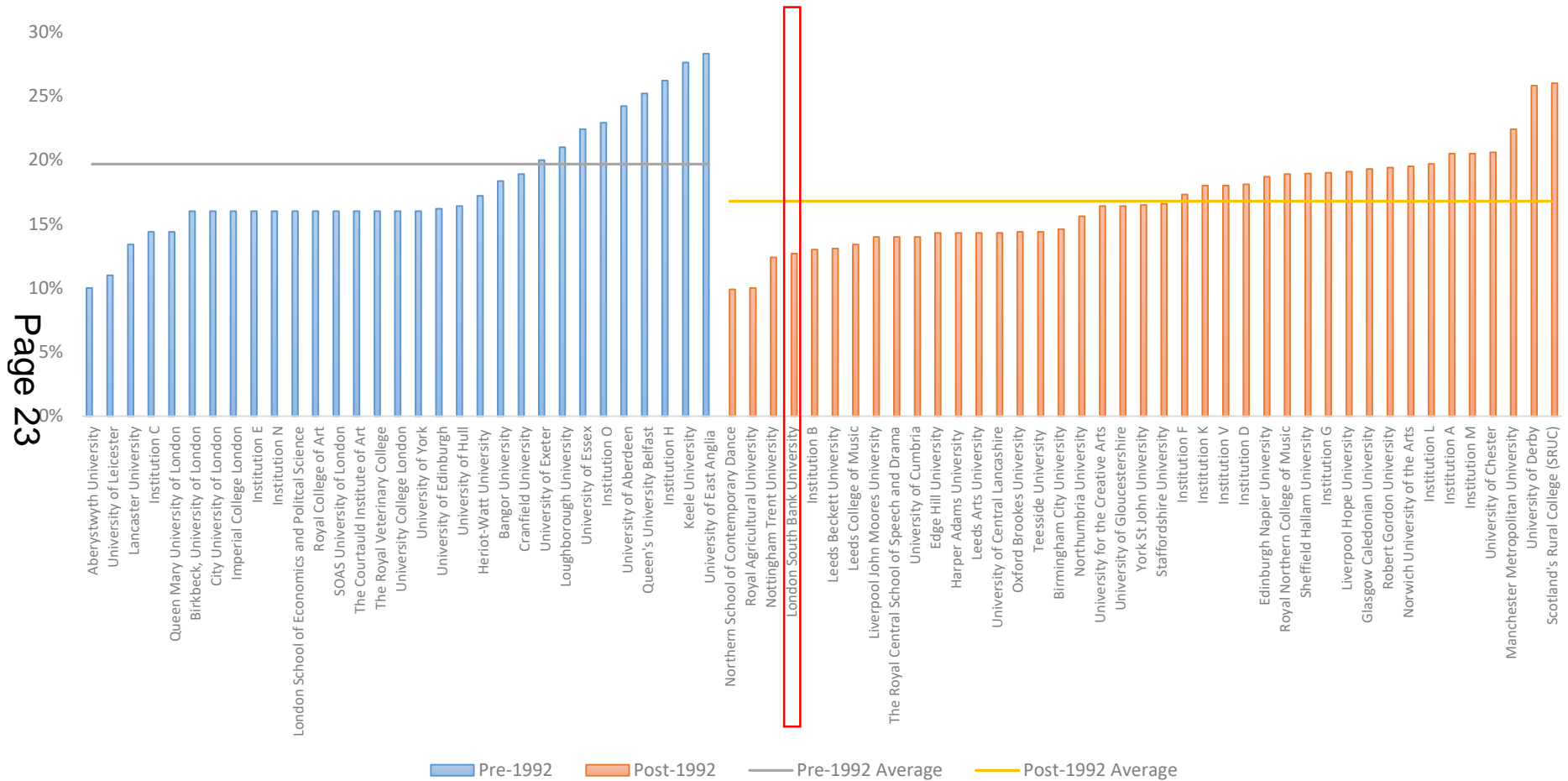


Fixed asset capitalisation threshold (£'000)

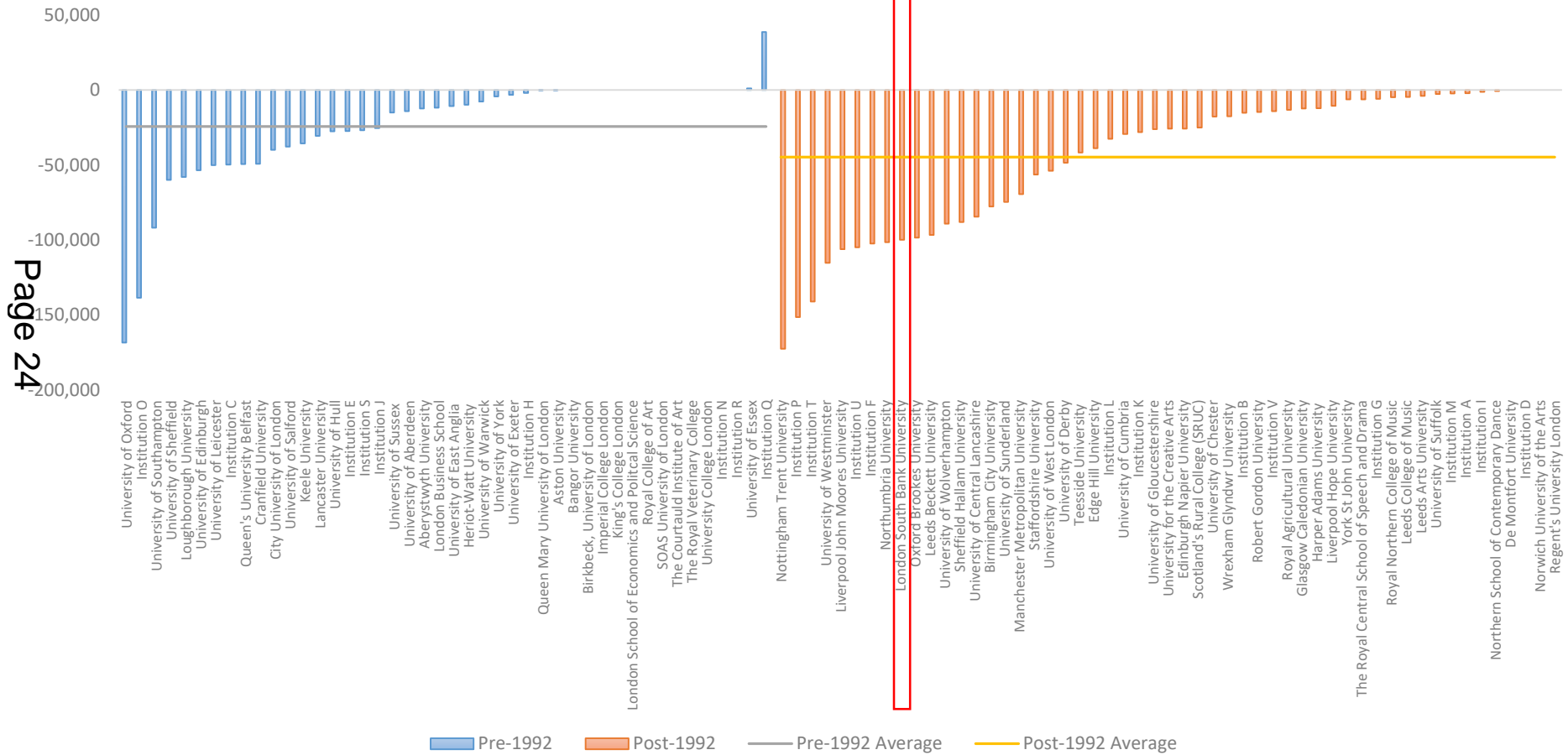
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LGPS/Own pension scheme contribution rate (%)



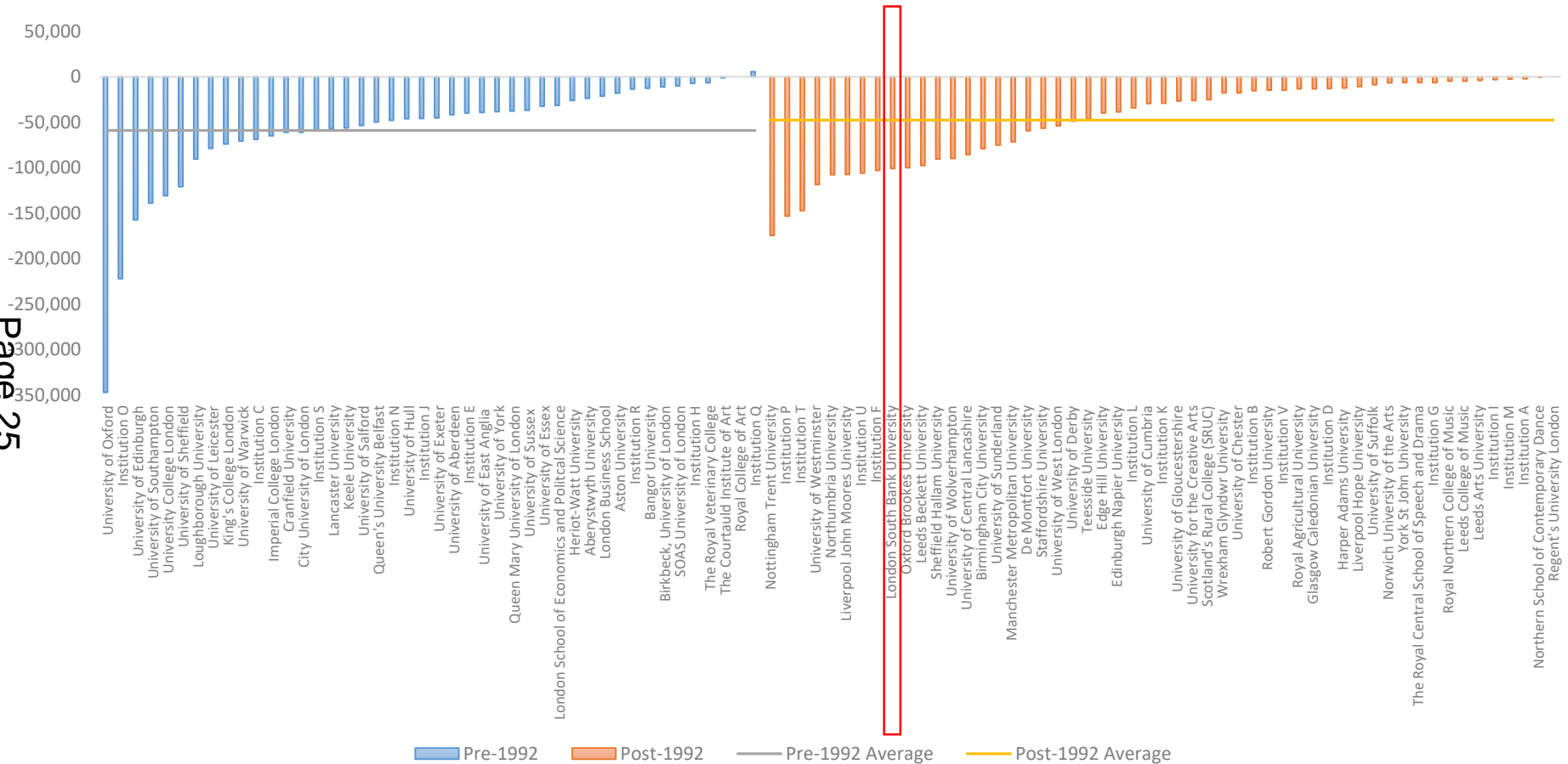
LGPS/own pension scheme deficit (£'000)



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Total balance sheet pension scheme deficit (£'000)

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