

We are now seeing the implementation of regulatory change in the English higher education (HE) sector: UK Research and Innovation (UKRI), Research England and the Office for Students (OfS) launched in April; and proposed changes for Wales with the Tertiary Education and Research Commission consultation. The Department for Education has commenced its Review of Post-18 Education and Funding; FSSG is monitoring developments and is feeding into the review process at every opportunity. At the heart of these developments, the financial sustainability of institutions remains a key topic across the sector.

I was very pleased to see a large number of senior leaders at the FSSG Conference ‘Competing and thriving in the new HE environment: challenges to the HE business model’ which took place on a glorious hot day on the 29th June in London. Speakers at the conference presented the findings and recommendations on FSSG’s three key projects this year (see the first article below) and allowed for excellent debate. This has highlighted some thoughts and challenges for FSSG to consider going forward.

In relation to the Transparent Approach to Costing (TRAC), the Margin for Sustainability and Investment adjustment was introduced as part of the annual TRAC return for 2016-17. Whilst change with the sustainability adjustments was anticipated, I am pleased that those movements were as expected. Through the Support Unit and the Secretariat we will continue to monitor the impact of MSI, but a review of 2016-17 data has been undertaken and we have concluded that no further changes are needed at this time. Some further enhancement to the presentation of the adjustments is being taken forward by the TRAC Development Group (TDG), to provide greater clarity.

I hope you enjoy the newsletter, please do get in touch if you would like to engage with FSSG’s work.



Professor Mark E Smith
Chair of Financial Sustainability Strategy Group

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FSSG Conference: Friday 29th June

Competing and thriving in the new HE environment: challenges to the HE business model

This year's conference was at the Kia Oval in London. We discussed key financial sustainability issues affecting the sector, and presented the findings and recommendations from the three main projects:

- Understanding income cross flows: changes and challenges to the HE business model.
- How institutions fund and sustain medium scale research facilities.
- Different by design - exploring alternative delivery of undergraduate provision; benefits and opportunities (a project led by the TRAC Development Group).

The conference was hosted by FSSG Chair Professor Mark E Smith, and attended by over 70 senior leaders from across higher education sector. The three projects were presented by:

- Bob Rabone (Oversight Group Member) – Understanding income cross flows
- Professor Lisa Roberts (Oversight Group Chair) – How institutions fund and sustain medium scale research facilities, and
- Sarah Randall-Paley (Oversight Group Chair) – Different by design.



Each presenter provided an overview and attendees were invited to discuss key questions.



In addition, delegates heard from keynote speaker Rebecca Endean (Director of Strategy, UKRI) on the new body's strategic aims and challenges for research funding, and there was a Q&A panel discussion with representatives from both the Office for Students and Research England. Feedback from attendees has been very positive and has provided useful insights on key financial sustainability issues which FSSG will be taking on board.

The Conference slide pack is available online: www.officeforstudents.org.uk/advice-and-guidance/partnerships-and-collaboration/financial-sustainability-strategy-group-and-trac/fssg-conference-2018/

Post-18 Education and Funding Review

The government announced in February 2018 that it is 'conducting a major review of post-18 education and funding to ensure a joined-up system that works for everyone'. As part of the review an independent panel, chaired by Philip Augar, was established which will provide input in to the review.

The review is a key area for FSSG given the possible implications for the financial sustainability of the sector. The Chair of FSSG, Professor Mark E Smith, and members of FSSG have been proactive in engaging with the Department for Education's review team, and a submission of evidence has been made to the review. FSSG is continuing to engage with the DfE, providing insights on the emerging findings from the income cross flows project.

Implementation of the Margin for Sustainability and Investment (MSI)

The Margin for Sustainability and Investment was adopted in TRAC from 2016-17 as a replacement for the two sustainability adjustments previously used in TRAC: the Return for Financing and Investment (RFI) and the Infrastructure Adjustment.

As the MSI is an institution-specific measure, and calculated on a different basis (one that reflects the financial strategy and investment needs of the institution), in many cases it has resulted in a different absolute figure from that calculated by the former sustainability adjustments. The MSI will also change over time as the institution's financial strategy and investment needs change.

It was always anticipated that the MSI would be different to the former sustainability adjustments. Pilot studies had shown that the MSI adjustment is on average higher than the total of the RFI and IA sustainability adjustments as used up to 2015-16. A range of factors cause this, including changes in the overall institutional cost base. A key factor in the overall difference between the MSI and the former sustainability adjustments is that the factors used in the calculation of the RFI had not been updated since 2006, so were long out of date. When updated factors are used, the RFI and IA together result in a similar total adjustment to the MSI.

Similarly, the changes in the research cost charge-out rates for indirect and estates costs calculated in 2016-17 TRAC returns were anticipated to be different to the rates used last year in calculating Research Council grant awards:

- The 2015-16 charge-out rates calculated in the 2015-16 Annual TRAC return were not used. Instead the 2014-15 rates with an additional year's indexation were used in the costing of Research Council bids. Therefore the rates calculated in 2016-17 reflected changes in the overall cost base of a higher education institution (HEI) between 2014-15 and 2016-17, as well as the impact on institutional costs of the implementation of the new accounting standard FRS 102.
- Changes in staff full-time equivalents (FTEs) allocated to Research have an impact on the charge-out rates.
- A different approach to allocating the MSI between Teaching, Research and Other, and to the Indirect and Estates cost pools.

It was agreed by FSSG that the Support Unit, working with HEFCE and its successor body OfS, should analyse the results of submissions for 2016-17 in conjunction with members of the Sustainability Metrics Steering Group, and representatives from TDG should consider whether any refinement or clarification to the TRAC guidance was needed.

This analysis has now been undertaken, and was reported to the working group at the end of April. It was agreed that the MSI adjustments had been in line with expectations. It was agreed that further enhancement to the presentation of the data should be undertaken, and this is being taken forward by the TRAC Development Group

For background information on the implementation of MSI please visit the former HEFCE, FSSG webpages:

[webarchive.nationalarchives.gov.uk/20180405125234/http://www.hefce.ac.uk/funding/finsustain/projects/msi/](http://www.hefce.ac.uk/funding/finsustain/projects/msi/)

HEFCE – Financial Health of the Higher Education Sector

In March 2018 HEFCE published its latest and final report into the financial health of the higher education sector in England, covering the financial results for 2016-17. The report found that the financial results for the English HE sector as a whole in 2016-17 were sound overall, and were more favourable than projected in July 2017.

However there continues to be a wide variation in the financial performance and position of individual HEIs. The report noted that:

- The sector reported a rise in income of 2.9 per cent to £29.9 billion in 2016-17. However, a greater rise in expenditure caused surpluses to fall from £1.5 billion (5.2 per cent of total income) in 2015-16 to £1.1 billion (3.6 per cent of total income) in 2016-17.
- 24 institutions reported deficits in 2016-17 compared with 11 institutions in 2015-16; and in contrast, 15 institutions reported surpluses of over 10 per cent in 2016-17 compared with 17 in 2015-16.
- Cash flow from operating activities remained at similar levels to the previous year: 10.0 per cent of total income in 2016-17 compared with 10.1 per cent in 2015-16.
- Borrowing increased by 6.9 per cent: from £8.9 billion at 31 July 2016 (equivalent to 30.7 per cent of income) to £9.9 billion at 31 July 2017 (33.1 per cent of income).
- The report comments on the financial projections to 2019-20 which were previously detailed in October 2017, and noted a trend of reducing surpluses and cash levels, and a rise in borrowing.

As the report indicates there continues to be significant uncertainties facing the sector which, going forward, will continue to impact upon the financial health of institutions. These include the unknown impact of Brexit, overseas student pressures as well as increasing domestic and global competitions and cost pressures. It is therefore important for institutions to have effective financial planning and management.

FSSG projects update

As detailed in the previous newsletter, FSSG and the TDG are working on three key projects. Findings and recommendations for each project were presented at the FSSG conference on the 29th June and are summarised below:

Understanding income cross-flows: changes and challenges to the HE business model

FSSG has undertaken a study to assess and understand income cross flows within the HE sector. The projects aims to improve understanding of these cross flows, why they exist, the impact they have on financial sustainability and the benefits or issues that they create.

The approach to the project has included desk-based research, analysis of sector financial data and data produced through TRAC. It has also included visits to institutions to develop case studies of current and future practices around income cross flows and the management

of sustainability more generally. The project covers HEIs in the UK, and excludes alternative providers and further education colleges.

Key messages:

The TRAC data has consistently shown that the sector as a whole does not recover the full economic cost (fEC) of activities (96.7% was recovered in 2014-15) and is therefore not sustainable as a whole.

There is a wide variation in the recovery of fEC by individual institutions, and income cross flows exist within activities (e.g. between different teaching subjects) as well as between types of activity (e.g. Teaching, Research and Other activities). Strategic plans and financial strategies, as set by institutions (depending on their mission, corporate objectives etc.), provide the framework to which individual institutions operate. As such there will be differences in levels of performance for a variety of reasons, which will impact on each institution's sustainability (some will be more prudent, some accept higher levels of risk for example).

The fEC recoveries across UK countries are broadly similar, with some slight variation when looking across the individual activities of Teaching, Research and Other.

What influences sustainability?

Although a small number of factors have some sensitivity to the level of sustainability achieved (when measured by the recovery of fEC) it is difficult to isolate specific issues, possibly with the exception of the potential interrelationship between the volume of overseas students and the capacity to support or cross-subsidise research activity. This is because HEIs in the scope of this study deliver a diverse portfolio of activities in support of their strategic mission and aims.

Risks and challenges

There are a range of risks and challenges to the sustainability of HEIs. These include issues such as demographic changes, regulatory and funding changes, pension obligations and fluctuations in student demand (Home, EU and International). As a result of the fee levels remaining fixed, and inflationary increases in the cost base, HEIs have already made and continue to deliver efficiencies.

Against this backdrop, student and government expectations are increasing and HEIs are continuing to invest in their estates, facilities and infrastructure, in part, to meet these and other expectations.

How institutions fund and sustain medium-scale research facilities

FSSG commissioned a review to investigate and identify the approaches HEIs take to meeting the capital, operational, and replacement costs of medium scale research facilities.

The funding for research facilities and equipment is secured from many sources, but the opportunistic nature of certain funding can mean that the whole life costs and replacement of such facilities and equipment does not always get considered or funded fully.

Changes in government policy and funding has led to increasing uncertainties and greater challenge in ensuring HEIs' research activity becomes sustainable. It is therefore important that HEIs develop a rounded understanding of any issues that exist with the funding and ongoing provision of research equipment, facilities and technician resource.

Key messages:

The project has identified a range of useful and practical suggestions to enable HEIs to improve or enhance their approach to sustaining medium scale research facilities. Key observations from the review include:

- There is an opportunity for a more planned approach to the replacement of medium scale research facilities.
- Costing of facilities is inconsistent.
- HEIs are not always claiming all allowable revenue costs in bids where this is permitted.
- HEIs provide a substantial investment in replacing and maintaining medium scale research facilities.
- Without clarity and reassurance from funders on eligible costs there is a risk that academics may feel the need to keep costs down when completing bids in order to remain competitive when bidding for funding.

Different by design – exploring alternative delivery of undergraduate provision; benefits and opportunities

This study was commissioned by the TRAC Development Group in May 2017 to provide insights, drawn from existing HEIs, on the development and delivery of undergraduate provision via alternative methods. FSSG has maintained oversight of this project.

The approach for the project encompassed a document review, a survey to the HE sector and a small number of visits to HEIs to learn about their experiences in developing alternative delivery methods.

Key messages:

Government reforms to the HE sector are intended to stimulate greater variety in the HE provision on offer. As HEIs are reacting to these changes, there will be a learning curve for all, and strategies will be determined to best support HEIs in exploring and developing HE provision via these alternative methods. This study therefore provides a tool to support HEIs in embracing apprenticeships and diversified delivery methods for undergraduate teaching.

Developing different delivery methods presents a range of challenges, but HEIs have identified successful strategies for overcoming them. For example, HEIs found positive governing body and staff engagement when the different delivery method aligned clearly with the strategy of the HEI. The institutions involved in the case study review are passionate about the benefits of diversifying their approaches to delivery. Furthermore, the review identified three areas where there are opportunities for policy makers and government to further support HEIs to embrace the apprenticeship and diversified delivery agenda and meet employer needs more effectively.

Following the conference all three projects are concluding, and reports will be launched over the summer months on the FSSG pages of the OfS website:

<https://www.officeforstudents.org.uk/advice-and-guidance/partnerships-and-collaboration/financial-sustainability-strategy-group-and-trac/financial-sustainability-strategy-group-fssg/>

Website pages

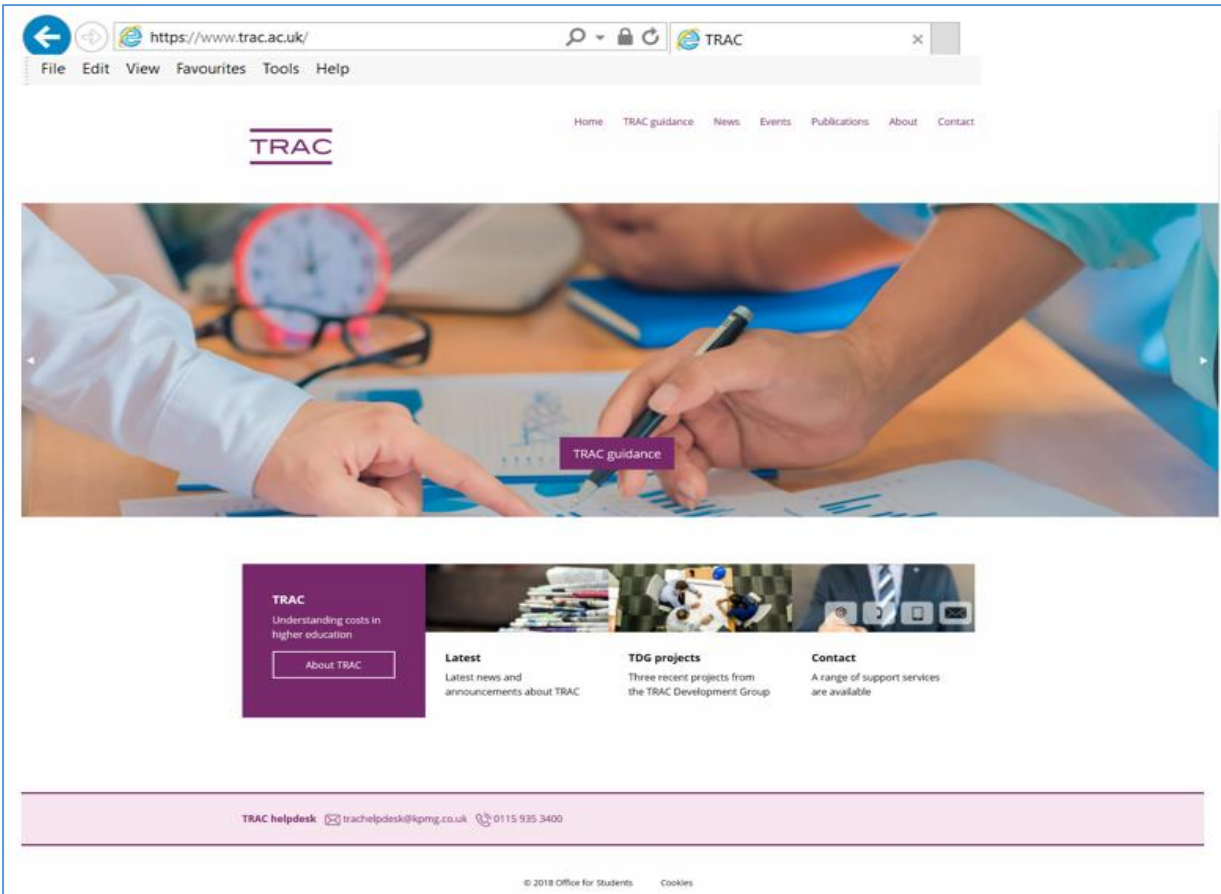
With the recent transition of FSSG's secretariat support from HEFCE to the Office for Students, webpages for FSSG have been set up on the Office for Students website. This will host the group's updates, event information and publications. .

www.officeforstudents.org.uk/advice-and-guidance/partnerships-and-collaboration/financial-sustainability-strategy-group-and-trac/

Please note that all historical content published up to 31st March 2018 is available on the archived HEFCE website:

<http://webarchive.nationalarchives.gov.uk/20180405121222/http://www.hefce.ac.uk/funding/finsustain/>


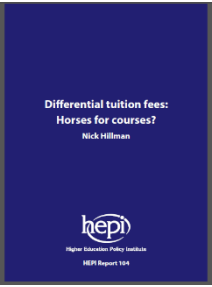
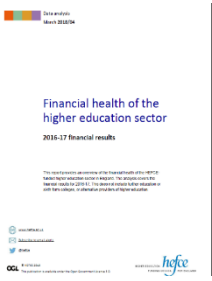
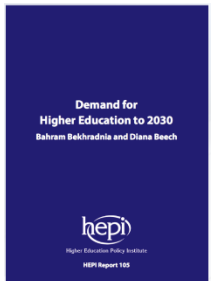
A new website has also recently been launched to host the TRAC Guidance and a wide range of TRAC-related resources. The website provides information to help understand and use TRAC data more effectively; whether you are a governor, senior manager, strategic planner, or part of a finance team. Further details are available at: www.trac.ac.uk

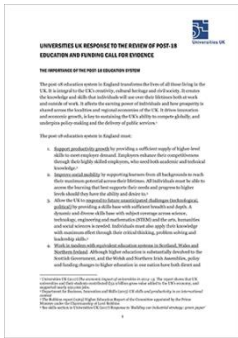



We hope you will find this development useful – the TRAC Secretariat (TRAC-Secretariat@officeforstudents.org.uk) welcomes feedback on the new site.

Recent sector publications

A number of useful publications have been published in recent months. A summary is provided below together with details of how to access them:

	<p>An assurance framework for TRAC</p> <p>A good practice guide to help HEIs and their internal auditors review compliance with TRAC requirements. www.trac.ac.uk/publications/an-assurance-framework-for-trac/</p>
	<p>Differential tuition fees: Horses for courses?</p> <p>This paper summarises the debate about differential tuition fees in UK higher education. It includes the results of a survey among students about differential fees. www.hepi.ac.uk/2018/02/22/5405/</p>
	<p>Financial health of the higher education sector: 2016-17 financial results</p> <p>This report from March 2018 provides an overview of the financial health of the HEFCE-funded higher education sector in England. The analysis covers the financial results of these HEIs for 2016-17. (This does not include further education or sixth form colleges, or alternative providers of higher education.) webarchive.nationalarchives.gov.uk/20180405115810/http://www.hefce.ac.uk/pubs/year/2018/201804/</p>
	<p>Demand for Higher Education to 2030</p> <p>This report projects demand for higher education in England until 2030. Produced seven years after the last HEPI assessment of demand for English higher education, it reviews how things stand today, in a very different policy environment, marked by increased tuition fees, the removal of student number caps and the prospect of Brexit. www.hepi.ac.uk/2018/03/15/demand-higher-education-2030/</p>

	<p>Universities UK response to the review of post-18 education and funding call for evidence</p> <p>Universities UK's submission to the government's review of post-18 education and funding, which includes a call for more targeted information to prospective students on the costs and benefits of higher education.</p> <p>www.universitiesuk.ac.uk/policy-and-analysis/reports/Documents/2018/uuk-response-post-18-review-call-evidence.pdf</p>
	<p>Higher Education Research in Facts and Figures</p> <p>An overview by Universities UK of the quality of research, impact, collaboration, students, staff and finance at UK universities.</p> <p>www.universitiesuk.ac.uk/facts-and-stats/data-and-analysis/Documents/higher-education-research-in-facts-and-figures.pdf</p>

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