A series of four presentations took place during April and May 2015. The following notes cover the presentations taking place post the May general election.

- Slides with a yellow or blue footer were presented by the Vice Chancellor, Koen Lamberts.
- Slides with a green footer, later in the presentation, were presented by the Director of Finance, Jeremy Lindley.

Introduction

The purpose of the presentation is to give staff an overview of how University finances work.

We hope it will achieve two things:

1) Share knowledge and understanding of how our finances operate and decisions are made.
2) Highlight some of the possible changes on the way following the General Election.
Current revenue position

This year the University will achieve its highest ever trading surplus of nearly £15 million. This is very positive.
Our highest ever trading surplus

This shows the trajectory of the University’s surplus since 2010 and how it has grown over the years.
May 2015

So where does our money come from?

Jeremy’s slides later in the presentation will talk about this in more detail but in broad terms:

- The green section shows our income. As this table shows, our main source of income is tuition fees. This is a significant change from a few years ago when HEFCE income would have been the greatest source.

- Research income has improved, thanks to a great deal of hard work across the University.

- The red section shows our main areas of expenditure. As you can see the main costs are staff and operating costs, including the running of our estate.

- The depreciation line will be explained in more detail by Jeremy’s later slides.

The overall trend is positive.
Current asset position

There are three main elements of University accounts:

- The income and expenditure account, or I&E; shows what money comes in and what money goes out. This is what the previous slide showed.

- The balance sheet; shows what we own and what it is worth. So the current asset position detailed above shows this.

- The cash flow statement; details the cash we have available at any given time.
Our asset position

This slide shows some of the main elements of our assets.

Please note that:

The slide does not show all the elements so the numbers around the edge do not add up to the central figure.

Reserves show our cumulative historical surpluses, not money in the bank we can spend.
Comparison with the sector

The next few slides show what stands behind those figures and how York compares with the rest of the HE sector.

This graph shows our surplus compared to other institutions. You will see that we are near the lower quartile at around 3% and would need to be generating close to 5% surplus to meet the sector mean.
How much we borrow against how much we earn

This slide shows how our borrowing compares to the rest of the sector.

As you can see our debt is just under 50% of our income. The worst quartile for the sector is 30%. So this shows that we have relatively high borrowing against our income compared to other universities.
Generating cash

Net cash flow is (roughly) our surplus plus our depreciation figure. We are just above the sector mean, which shows that we generate good income from our everyday activities.
Going forward into change

Despite the challenges we face, the University is in a strong position. There are four main elements that underpin that strength:

1. The REF results were very encouraging. They confirmed that we do the right kind of research (we came in the top 10 for the impact of our research) and the proportion of high quality or 4* research was very good.

2. We have a good mix of subjects across the Sciences, Social Sciences and Art and Humanities. This gives us a good balance.

3. The Heslington East campus was a huge investment but it is one of the vehicles that will allow us to grow. When we committed to such a large investment, we also committed to grow the University to support that investment.

4. The new Strategy sets out a clear vision for the future of the University. We are translating this into a detailed implementation plan.

In conclusion - we are in good shape to weather the changes coming to the HE sector.
Presenter Jeremy Lindley – Finance Director

This section will talk about the changes and challenges facing the Higher Education sector and the likely implications for the University.
Where does our money come from?

Returning to the same slide we looked at earlier, the green sections shows that:

- As Koen noted we now get 43% of our income from students rather than directly from HEFCE.
- If you had looked at the same table in 1997 the largest source of income would have been the HEFCE Teaching Grant.
- Around 25% of the £41.6m HEFCE income figure above is QR or Quality Research Funding.
- The ‘Other income’ line is mainly from residences and catering and has grown by about 10% in the last year.

The red section highlights that:

- £19.9m shows as “Depreciation”, this is an accounting measure that asks us to show how the value of our assets (IT and laboratory equipment, buildings and so on) has depreciated over the financial year. This is not a cost to the University; we do not have to pay out £19.9m in cash, but we have to show it. So our true surplus is the £14.7m plus the £19.9m - £34.6m
- The interest figure does not include the capital repayments we pay on our debts. These are shown in the capital accounts. We repay around £15m a year in total for interest and capital repayments on our debt.
Other financial impacts

These some of the key areas that we have to be aware of when looking at the changes that will impact our finances.

- VAT - Post election the Government have made clear that VAT will not rise and will legislate to ensure that.

- Pensions - USS changes mean that employer, as well as employee, pension contributions will be increasing. We have to ensure that we have the additional resources to cover this.

- Control of student numbers – the new Government confirmed in their manifesto that they would not control student numbers. This is an opportunity for York because we can expand successful programmes. It is also a threat because other competitor institutions can also seek to expand and this may make it harder to recruit excellent students in some subjects.

- Overseas funding of UK - HE is an option that some institutions are considering. The sector’s strength is a draw to overseas investors. This may be something we look at.

- Overseas students – are a crucial part of the University. A top University should have an international student base. International students pay the highest fees. The government’s focus on reducing immigration may well have an impact on our ability to recruit students internationally.
Given the General Election result and the election of a Conservative Government, we can begin to understand how HE might be affected in the coming years.

The Government was elected with a mandate to continue the Austerity Programme. It has made clear that cuts in funding will come from ‘unprotected’ government departments. Our department, Business, Innovation and Skills (BIS), is one of those departments.

The table above shows government borrowing (in green) alongside spending (in yellow) and tax income (in red).

The green bars from 2010 show the Coalition’s Austerity programme, the bars from 2015 project the Conservative Government’s continued drive to reduce public spending.

If they are to achieve their 2020 target then the HE sector will inevitably face cuts in funding.
The likely shift in Government spending

This chart shows how the Business, Innovation and Skills (BIS) budget is currently spent. The areas in red are those which directly affect Universities.

The level of cuts BIS will face remains unclear but commentators have suggested that BIS may face around a £2.5bn cut in its budget. If that was divided between Universities equally, which is unlikely but gives a sense of scale, then we would be looking at £17m cut in funding.

The pace and scale of cuts remains unclear but the BIS budget will be reduced.
How income streams are changing

Student fees, as we noted earlier, are now a significant proportion of the University’s income. They have grown from 29% of our income in 2010 to 42% in 2014. Over the same period HEFCE funding, in red, has dropped from 26% of our total income to 16%.

Under a Conservative Government home fees are likely to remain capped at £9,000 in the first instance; whether or not they will rise in line with inflation remains to be seen.
Investment needs – demands on our finances

There are numerous demands on our finances. This slide shows some of the main areas requiring continued and additional investment and the reasons why we need to increase the surplus we generate. This is not about making a profit, it is about raising the money to support the ongoing needs of the institution.
Areas we are addressing

So in light of all the issues we have raised, there are some areas we will be focussing on.

We are working through the implications of the General Election and the REF, changing our Planning and Resourcing processes, developing our Estates planning and looking at ways in which we can grow capacity.
**General election and REF**

University Research Committee has undertaken a department-by-department review of the REF results and these will be discussed very shortly.

SMG have established a Working Group to understand the implications of the General Election. We only know the headlines at this stage. We will know more in a few weeks once the Queen’s Speech and Emergency Budget have taken place later in the summer.

We will then combine the work of those two groups and undertake a full review in the winter to understand the consequences for the University.
The need to change the planning process

We are continuing to change the planning and resourcing process so that:

• We can compare the financial performance of our departments against similar departments at other institutions.

• It is a transparent, predictable and consistent process so that staff understand how the system works and financial decisions are made.

• We want Departments to drive the University forward and we need to make sure they are properly incentivised to be innovative.

• It shows the ‘full’ cost of a Department, including items like the use of central support teams.

• Encourage Departments to align their strategy with the overall University strategy.

• Every element of resource planning: capital, academic departments and support departments are included in one process.

Work on pulling all of the planning strands together will be finalised over the summer in order to implement a new planning process at the start of the next academic year.
Plans for our estate

These are the key areas of estates planning we need to take into account:

- There is still some work to do on Heslington East to give it the teaching, catering and departmental expansion space that is required.

- We need to understand how we can phase the work required on Heslington West (given the complex mix of residences, teaching, social and departmental spaces).

- We are considering what new residences we might require to meet student demand.

- We want to ensure we have facilities that meet the understandably high standards of our staff and students. The new Teaching Building on Heslington West is the first of these new developments.

- We have to continue investment in high-quality research facilities.

- We need to consider the long-term future of the King’s Manor.

It becomes increasingly challenging to meet the demands of a campus estate when we are receiving fewer capital grants. This is something we must build into our plans if we are to remain competitive.
May 2015

**Continuing to grow capacity**

To grow our capacity we need to increase our numbers of overseas students. A top research university should have an international student base.

We also need to increase the volume and quality of our research income and make efficiency improvements, for example in the allocation of work to departments, faculties and central services. Together these elements will help us increase our surplus to support developments in the University.

We should do what we can to increase our surpluses and become less reliant on Government funding. Austerity won’t last forever. If we can grow and develop over the next few years then we will come out of this stronger and even ahead of some of our competitors.