

Using financial information to
challenge redundancies

Overall strategy:

1. Obtain & analyse data

- Analyse any modelling/forecasting provided employer
- Obtain financial data to understand the true financial picture of institution
- **Access support from UCU members working in accountancy or finance or from UCU staff via Regional Office**

2. Challenge the financial strategy

- Impact on student numbers in HE will be temporary (FE impact unknown at the moment)
- Move to online provision will require more staff
- Target non-staff spending
- Assess impact on students & equality impact
- Ensure any reductions are phased over as long a period as possible

Main sources of information

- Each institution publishes their annual accounts online with commentary
- Annual accounts or financial statements for most institutions are also available online:
 - FE college management accounts for most colleges in England <https://www.gov.uk/guidance/esfa-financial-management-college-accounts>
 - HESA financial data, all UK universities <https://www.hesa.ac.uk/data-and-analysis/finances>

Main sources of information cont.

- Monthly management accounts- may be online
- Forecasts
- Both of the above can be requested from employer under TULRCA Trade Union Act (recognised union has right to information to inform collective bargaining) . Freedom of Information requests are a second option.
- Student numbers- available from accounts (previous slide) or online for HE institutions <https://www.hesa.ac.uk/data-and-analysis/students/where-study>

Main sources of information cont.

- UCU Bargaining Information System creates reports based on the above data to compare institutional finances across regions/by mission group etc.- ask for access via ROs
- For HE: USS Briefs analysis of 2018-19 HESA data to compare financial risk at universities
<https://medium.com/ussbriefs/institutions-most-at-risk-due-to-covid-19-a-tool-kit-for-members-and-negotiators-5829a7c2ae2d>

Financial year

- Financial year FE & HE 1 August – 31 July
- Accounts or financial statements formally published about 4-6 months after the end of the financial year
- Draft version should be available earlier than this
- Monthly managements accounts should be available about a month in arrears

Financial year

- Institutions should have a budget for the current financial year and next financial year and forecasts for the following three years
- In March-April the public funding bodies in HE announce funding for institutions for the coming academic year, starting in the autumn
- Public funding allocations for FE colleges are made at the start of the calendar year and confirmed by late spring

What's in the accounts?

Financial report

Statement of Principal Accounting Policies

Income and Expenditure Account

- Income
- Expenditure
- Staff costs
- Operating surplus (income minus expenditure)

What's in the accounts? cont.

Balance Sheet – 31 July snapshot

- Fixed assets (long term, non-liquid e.g. buildings)
- Cash & current assets
- Debt
- Reserves

Cash flow

Notes

Some key financial indicators (examples on following slides)

1. **Operating surplus or deficit**

- Net income minus total expenditure

2. **Operating surplus/(deficit) as % of income**

- Net income minus total expenditure divided by total income

3. **Staff costs as a % of expenditure**

4. **Net current assets/liabilities**

- How much cash is immediately available, plus how much is invested (may or may not be immediately available)

5. **Current ratio**

- Shows the ratio of immediately available cash against the total short term debt due within a year. Shows whether an institution can meet their immediate repayments without withdrawing from reserves

6. **Long-term debts as a % of income**

1. Operating surplus or deficit

St Andrews 2010-11	£000
Total income	165,706
Minus	
Total expenditure	160,493
=	
Operating surplus	5,213

2. Operating surplus/deficit as % of income

St Andrews 2010-11	£000
Operating surplus	5,213
Divided by	
Total income	165,706
=	0.03
x 100 for Percent	
= op. surplus as a % of income	3.15%
Rounded to	3.2%

3. Staff costs as a % of expenditure

St Andrews 2010-11	£000
Staff costs	92,727
Divided by	
Total expenditure	160,493
=	0.577
x 100 for percent	
= staff costs as a % of expenditure	57.77%
Rounded to	57.8%

4. Net current assets/liabilities

St Andrews Balance Sheets Consolidated at 31 July 2011	£000
Total current assets	24,968
Minus money owed to	
Creditors – due within 1 year	(40,466)
=	
Net current liabilities	(15,498)

5. Current ratio of assets:liabilities

St Andrews Balance Sheets Consolidated at 31 July 2011	£000
Total current assets	24,968
Divided by	
Total owed to Creditors – due within 1 year	(40,466)
= current ratio of	0.617 : 1.00
Rounded to	0.62 : 1.00
So for every £1.00 it owed, St Andrews only had 62p	

6. Long-term debts

St Andrews Balance Sheets Consolidated at 31 July 2011	£000
Money owed to	
Creditors - amounts due after more than 1 year	(91,665)

Long-term debts as % of income

St Andrews Balance Sheets Consolidated at 31 July 2011	£000
Creditors - amounts due after more than 1 year	(91,665)
Divided by	
Total income 2010-11	165,706
=	0.553
x 100 =	55.3%
So St Andrews' long-term debts were 55.3% of total income	

How much cash does the employer have?

Income and expenditure account

Did the institution make a surplus or deficit?

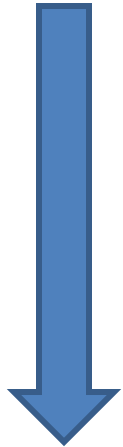
Balance sheet

Did the institution have any net current assets in cash or near-cash after allowing for the money it owes over the next 12 months?

See next slide for description

Income & expenditure account

Income
minus
Expenditure



Surplus /
(Deficit)

Balance sheet

Assets
Fixed -
buildings,
equipment

Current -
stock, debtors,
investments,
cash

Any spare cash?

Reserves

'Income & expenditure account' or 'General account'
minus pension reserve
Other reserves: Restricted reserve; revaluation reserve

Other items: eg deferred capital grants

minus

Current & long-term
liabilities

and

Pension liability

equals

Total net assets
Incl pension liability

Current assets - cash, or
sellable items *minus*
Current liabilities - debts
payable within 1 year

Visual guide to financial accounts (diagram on previous slide)

- **Income & expenditure account** shows different sources of income, and where that money is spent (expenditure). *Consider what different income sources are to identify level of risk (see section below). Look critically at non-staff expenditure, and senior staff costs.*
- **Surplus/(Deficit)**- how much income is left after the year's expenditure. Any surplus will go into reserves, any deficit will need to be covered (from reserves).
- **Balance sheet** shows what resources the institution has (reserves; fixed assets such as buildings; current sellable assets such as investments), minus its debts/obligations.
- **Unrestricted reserves** (created by surpluses in the income & expenditure account) can be spent at institution's discretion. *Consider what reserves the institution has at its disposal.*
- *Consider **net current assets**- what cash/sellable items are available after debts due in the next year are paid for? As mentioned above, some tuition fee income shortfall is likely to be temporary.*

Further reading & resources

- HE

- McGettigan Report on Uni of Sussex finances- readable & talks more broadly about UK HE <https://ucusussex.wixsite.com/ucusussex/post/the-mcgettigan-report>
- Overview of university finances in Covid times: <https://wonkhe.com/blogs/the-search-for-savings/>
- Detailed (but clear & easy to follow) guide to university finances <https://www.bufdg.ac.uk/understanding-finance/>

- FE

- AOC guide to college funding in England- different colleges rely on different funding streams to greater/lesser extent: <https://www.aoc.co.uk/funding-and-corporate-services/funding-and-finance/funding>