

Supplementary information from HEFCW for the Children and Young People Education Committee following the July 2019 meeting

Analysis of the Welsh Higher Education sector's reserves

The Welsh Higher Education sector over the last four years has had total reserves of between £1.5 billion and £1.6 billion, as analysed below. Only the income and expenditure reserve represents realised and unencumbered reserves, and this ranges from 56.2% to 61.7% of the total reserves over the four years. The breakdown by Higher Education Institution (HEI) is provided in **Annex A**.

	Audited 2014-15 £'000	Audited 2015-16 £'000	Audited 2016-17 £'000	Audited 2017-18 £'000
Restricted reserves	103,203	108,892	116,143	104,964
Unrestricted reserves				
Income and expenditure reserve - before pension provisions	1,275,650	1,396,905	1,451,401	1,486,262
LESS: Pension provisions	(397,504)	(541,087)	(493,768)	(425,381)
Income and expenditure reserve - per financial statements*	878,146	855,818	957,633	1,060,881
Revaluation reserve	580,213	554,058	497,804	486,001
Total restricted and unrestricted reserves	1,561,562	1,518,768	1,571,580	1,651,846

**£198.487M of additional revaluations were merged into the income and expenditure account on implementation of the accounting changes introduced by the financial reporting standard FRS102 in 2015/16 as 'deemed cost' and are therefore not disclosed separately. A further £28.511M was merged into the income and expenditure reserve in 2016-17.*

Reserves of HEIs represent their total assets less their liabilities and, in very broad terms, can be used as a proxy for the overall value of an institution. These reserves are the accumulated surpluses of an institution over its lifetime and most of these have been invested in fixed assets used by the HEI such as land, buildings and capital equipment. Reserves are not the same as cash and should not be regarded as an indicator of the financial health of an institution in terms of its available cash. Although an institution could dispose of an asset if it was surplus to operational requirements (thereby converting it to cash), the assets are accounted for at original cost or their value to the institution as opposed to their disposal value and the cash proceeds can therefore be different to the asset value.

Reserves are categorised as restricted or unrestricted. Restricted reserves have conditions attached to them that limit or narrowly define how an institution can use the funds, such as endowments and donations designated for a specific purpose. Unrestricted reserves represent the value of the institution's accumulated funds through surpluses reported in its income statement, on whose use there are no restrictions.

Unrestricted reserves include revaluation reserves, which arise when an institution reflects the current value of an asset, as opposed to its original cost, in its financial statements. These "gains" are therefore unrealised as property values can fluctuate over time and the institution will not necessarily intend to crystallise the gain, or even achieve the accounting value should the gain be crystallised. Outside the charity sector, such gains are deemed undistributable.

Unrestricted reserves are also required to absorb the pension provisions for defined benefit schemes which is a very material figure for individual HEIs.

Other relevant indicators of an institution's cash reserves and financial health are a combined consideration of:

- a) liquid assets (cash and short term investments) considered as a percentage of cash expenditure ; and
- b) net operating cash flows

Surpluses and deficits can be impacted by non-operational cash items such as receipts from donations and endowments or large capital receipts. Cash flow from operating activities represents a more reliable indicator of financial operating performance. Cash flow here means an HEI's cash resources that have been generated from operations to meet day to day obligations, before the costs of capital invested and debt servicing costs (both interest and capital repayments).

Annex A

Total reserves	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
University of South Wales	72,950	62,419	60,669	94,117
Aberystwyth University	162,712	149,748	148,991	154,964
Bangor University	229,829	213,887	210,879	237,731
Cardiff University	696,887	707,468	718,393	704,914
University of Wales: Trinity Saint David	145,260	126,931	113,138	115,131
Swansea University	137,463	169,621	206,913	215,090
Cardiff Metropolitan University	92,784	73,202	89,466	99,398
Wrexham Glyndŵr University	23,677	15,492	23,131	30,501
Sector total	1,561,562	1,518,768	1,571,580	1,651,846

Restricted reserves	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
University of South Wales	2,292	3,635	4,029	4,199
Aberystwyth University	50,341	52,025	57,849	43,586
Bangor University	6,207	7,041	7,234	7,773
Cardiff University	29,390	30,991	33,623	35,179
University of Wales: Trinity Saint David	9,099	9,174	7,069	7,591
Swansea University	5,674	5,826	6,139	6,436
Cardiff Metropolitan University	-	-	-	-
Wrexham Glyndŵr University	200	200	200	200
Sector total	103,203	108,892	116,143	104,964

2014/15	2015/16	2016/17	2017/18
As a % total reserves			
3.1%	5.8%	6.6%	4.5%
30.9%	34.7%	38.8%	28.1%
2.7%	3.3%	3.4%	3.3%
4.2%	4.4%	4.7%	5.0%
6.3%	7.2%	6.2%	6.6%
4.1%	3.4%	3.0%	3.0%
0.0%	0.0%	0.0%	0.0%
0.8%	1.3%	0.9%	0.7%
6.6%	7.2%	7.4%	6.4%

Annex A

I&E reserve	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
University of South Wales	60,476	48,602	46,458	79,736
Aberystwyth University	37,078	25,255	21,499	46,146
Bangor University	223,622	206,846	203,645	229,958
Cardiff University	309,318	324,595	339,184	330,445
University of Wales: Trinity Saint David	93,457	75,714	81,451	83,038
Swansea University	67,282	114,823	152,999	161,859
Cardiff Metropolitan University	92,784	73,202	89,466	99,398
Wrexham Glyndŵr University	(5,871)	(13,219)	22,931	30,301
Sector total	878,146	855,818	957,633	1,060,881

2014/15	2015/16	2016/17	2017/18
As a % total reserves			
82.9%	77.9%	76.6%	84.7%
22.8%	16.9%	14.4%	29.8%
97.3%	96.7%	96.6%	96.7%
44.4%	45.9%	47.2%	46.9%
64.3%	59.6%	72.0%	72.1%
48.9%	67.7%	73.9%	75.3%
100.0%	100.0%	100.0%	100.0%
(24.8%)	(85.3%)	99.1%	99.3%
56.2%	56.3%	60.9%	64.2%

Pensions provision	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
University of South Wales	98,421	123,634	138,766	118,107
Aberystwyth University	26,270	36,980	37,264	23,440
Bangor University	18,413	25,127	20,098	12,533
Cardiff University	84,391	110,467	103,285	97,933
University of Wales: Trinity Saint David	31,996	48,386	39,750	29,091
Swansea University	75,171	101,182	77,082	77,057
Cardiff Metropolitan University	40,283	63,085	51,393	47,061
Wrexham Glyndŵr University	22,559	32,226	26,130	20,159
Sector total	397,504	541,087	493,768	425,381

2014/15	2015/16	2016/17	2017/18
As a % total reserves			
134.9%	198.1%	228.7%	125.5%
16.1%	24.7%	25.0%	15.1%
8.0%	11.7%	9.5%	5.3%
12.1%	15.6%	14.4%	13.9%
22.0%	38.1%	35.1%	25.3%
54.7%	59.7%	37.3%	35.8%
43.4%	86.2%	57.4%	47.3%
95.3%	208.0%	113.0%	66.1%
25.5%	35.6%	31.4%	25.8%

Annex A

Revaluation reserve	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
University of South Wales	10,182	10,182	10,182	10,182
Aberystwyth University	75,293	72,468	69,643	65,232
Bangor University	-	-	-	-
Cardiff University	358,179	351,882	345,586	339,290
University of Wales: Trinity Saint David	42,704	42,043	24,618	24,502
Swansea University	64,507	48,972	47,775	46,795
Cardiff Metropolitan University	-	-	-	-
Wrexham Glyndŵr University	29,348	28,511	-	-
Sector total	580,213	554,058	497,804	486,001
Approximate additional merged in I&E	198,487	198,487	226,998	226,998

2014/15	2015/16	2016/17	2017/18
As a % total reserves			
14.0%	16.3%	16.8%	10.8%
46.3%	48.4%	46.7%	42.1%
0.0%	0.0%	0.0%	0.0%
51.4%	49.7%	48.1%	48.1%
29.4%	33.1%	21.8%	21.3%
46.9%	28.9%	23.1%	21.8%
0.0%	0.0%	0.0%	0.0%
124.0%	184.0%	0.0%	0.0%
37.2%	36.5%	31.7%	29.4%