**Pro-forma commentary to accompany financial forecasts 2024/25 to 2028/29**

## Introduction

## Financial commentary on past performance and future prospects

The financial commentary is an integral part of the overall financial return, explaining forecast financial performance in the context of recent financial results, and identifying important trends in the forecast numbers across the period, especially with respect to the key indicators such as liquidity, operating surplus, adjusted operating cash flow etc.Confirmation should also be provided that appropriate assumptions have been made for movements in significant areas of income and expenditure.

In addition to aiding our understanding of each institution’s specific circumstances, the commentaries (taken together) will aid our understanding of the sector and assist us in helping to position the sector for future sustainability.

It is expected that institutions will address the questions on financial sustainability and their response to changing economic conditions in respect of the items below. For reasons of good governance and best practice, it should also show evidence of direct linkage to the institution’s current financial strategy.

Additional requirements to the prior year forecast are highlighted.

## Overview

We ask institutions to answer the following questions within their forecast commentary:

1. How the institution is ensuring
2. Sustainability (by linking to the current financial strategy)
3. The management of its key risks, including cash flow management – to this end we are requesting institutions to submit their monthly cash flow forecasts for the next academic year to highlight their minimum cash balance and the month in which it occurs, together with their forecast quarterly cash balances for future periods.
4. Sufficient investment in its estates and infrastructure
5. Does the narrative provide sufficient explanation of significant movements on the Statement of Comprehensive Income (SOCI) and material changes on the balance sheet? This should include detail on any materially ‘exceptional’ items, particularly the costs of staff severance schemes which will likely be included in staff costs.
6. Please provide a brief overview of the key risks and challenges to the institution achieving its budget and current financial strategy.

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## Governance processes

1. Please provide detail of the governance process for approval of the financial and student forecasts, scenario forecasts, monthly cash flow forecast for forecast year 1 and accompanying narrative.
2. Please include details of Committees and Governing body review and dates of approval.
3. Please confirm that the review included consideration of the down side modelling tab.

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## Assumptions

1. In order to enhance our understanding of the income assumptions embedded in your baseline financial forecast model, we are requesting additional detail of these in **Annex B1** Table 5\_6. Percentages may be given as a range where appropriate.

## Annex B1 Tables 1\_3

To aid consistency, this document broadly reflects the HESA finance record where possible, augmented as appropriate to capture areas of interest to Welsh Government. In particular, EU funding (other than student fees) and overseas provision (TNE) are separately identified.

## Table 1 Consolidated statement of income & expenditure (including Tables 1a-1d)

Please ensure that your narrative highlights any major changes to, or trends in, income or costs across the period, explaining the assumptions made in support of the changes.

Please provide explanations for significant movements (±10 per cent in any one year) for all applicable lines in the financial forecast. Please ensure that you provide detail on any material exceptional items.

## Income

Key income assumptions of the baseline forecast have been requested in percentage terms on Table 5\_6 of Annex B1. Please include narrative supporting the rationale for these assumptions within the narrative boxes for each income stream.

Please ensure that your commentaries on the material streams below cover the following:

1. A strong, evidenced narrative for all growth assumptions in any area of income, together with sensitivities, and any contingencies or mitigation planning;
2. An indication of the range of scenario modelling you are undertaking in addition to the baseline forecast position;
3. An indication of any mitigations required as a result of any of the above modelling
4. An indication of the net effect of the above range of scenarios under consideration on:
   * net operating cash flow;
   * cash balances (including any indicators of cash pressure points and the timing of these).

### Tuition fees

What are the assumptions for student recruitment and fee income over the period of the forecasts? This should include how the institution is mitigating any risk and what scenario planning or sensitivity analysis has been undertaken, including the outcomes of other scenario modelling being undertaken. We do not expect the forecasts to show significant growth in recruitment, but where growth is being forecast in any area we expect the commentary to provide both a strong, evidenced rationale for the growth and full details of the financial sensitivity scenarios if growth is not realised and the contingency plans to respond in those circumstances.

Please include specific reference to assumptions made for PGCE student numbers and consequent financial implications.

We expect commentary on student numbers to include any related impact on accommodation and facilities income.

*UK students*

Please include detail of assumptions made in relation to returners, and how these compare to the current year.

To assist comparability please detail in which AY(s) the increased UK fee caps have been assumed to be applied to new intake and returners.

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| Narrative  Narrative – fee cap assumptions |

*International students*

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There has been significant growth in overseas PG intake across the UK sector in recent years with a marked decline within the last 18 months. Please briefly describe the main challenges to your institution and measures and modelling undertaken (where relevant) with respect to geopolitical challenges, UK government policy, agency costs and additional student support.

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The risks relating to international students vary dependent on their domicile. Please briefly indicate the main domiciles being targeted (and / or indicating acceptance) for 2025/26 and the key risks identified for these domiciles / any mitigations.

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*Short courses included within FTUG*

As HEIs seek to diversify income streams, delivery types become more complex. Please provide a very brief overview of courses included in FTUG that are shorter than the traditional three years. High level quantification of these income streams is requested in Annex B\_Table 5.1f

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*Mid-year intakes* – please provide a high level overview to include timing of main intakes, quantification of financial impact, assumptions included within the forecast and a brief assessment of susceptibility to change.

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*Health Education and Improvement Wales (HEIW)* - please provide the basis of your assumptions of HEIW income, including detail of what, if any, confirmation of these has been received from HEIW.

Please detail how the forecast has taken account of the shortfall to commissioned numbers experienced in recent years.

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*Teaching and training subject to contracts, caps and quotas -* where the institution has significant income streams such as Initial Teacher Training (ITT), Policing degrees and degree apprenticeships that are subject to caps or contract renewal within the forecast period, please provide commentary for each provision separately to include the assumptions regarding recruitment to these areas and consequent financial impact in the financial forecast should this provision not be renewed, to assist our understanding of the potential financial impact of future proposals.

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| Narrative – income included in tuition fees (1a) |

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| Narrative – income included in other income (1d) |

*Transnational education (TNE) and partnerships –* please provide detail of any significant income streams and / or movements in this area, to include quantum, risks and assumptions.

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| Narrative – income included in tuition fees (1a) |

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| Narrative – income included in other income (1d) |

### Funding body grants

Please provide details of the basis for assumed funding body grants receivable.

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### Grant funding (non Medr)

Due to the impact of the recognition of grant funding, we have requested additional details in Table 5\_1c of **Annex B1**. Please provide supporting commentary on material projects and the assumptions made in respect of material projects for which grant funding is receivable (including degree of certainty of receipt), together with high level details of projects being funded, including any matched funding requirements where material.

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### Research and innovation

Please provide the rationale for assumptions made in the baseline forecast for research income. Please differentiate where innovation income is included within “other income”.

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### Other operating income and other services rendered

Where other services rendered (Table 1a\_4a) or other operating income (Table 1a\_4h) comprise a significant income source that has not been covered above, please provide additional narrative of the main components of this income and any specific assumptions relating to growth or otherwise in order to assist our understanding of such income streams.

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## Expenditure

To assist us in monitoring delivery of the forecasts, and based on the income assumptions contained within the forecast, please provide an overview of the following:

1. Required cost savings included within the forecast. Please provide a summary quantifying required cost reductions included by year, together with a brief explanatory narrative, if not included elsewhere. Please include narrative on the timelines for cost reductions, with particular reference to timelines required for any staff related cost reductions. Please clarify timescales between decisions being taken, cost reductions being implemented and the financial benefit of the reductions being realised.
2. Where costs are directly linked to the level of international income (e.g. agent fees and direct student support) please indicate the extent to which such costs will not be incurred if the expected recruitment is not achieved.

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### Pensions

Whilst the pensions environment has currently stabilised, the number of schemes in the sector and further valuation fluctuation remain a risk. Please inform us of any risks identified within the forecast period for the pensions within the institution, together with any changes to pension planning to mitigate future risks.

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### Pay and non-pay expenditure

Explain the key assumptions made on pay and non-pay costs. These should include reference to any cost mitigations identified as a result of income scenarios being considered, and current considerations as to the potential extent and likely timings of these. In the current climate we would expect consideration of the impact of rising cost inflation. Please also provide explanatory narrative for significant fluctuations in particular expenditure streams.

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## Subsidiaries, joint ventures and associates

Where any of these are expected to be loss making (as disclosed in Table 5\_3 of Annex B1), please provide a short narrative of recovery plans where applicable.

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## Contingencies and provisions

Where these have not been supplied elsewhere within the forecast narrative, please provide sufficient detail for us to understand income and expenditure contingencies, provisions or estimates (such as future income streams, or estimated cost savings) included within the forecast. Please quantify these by year, and provide a brief narrative of the rationale and assumptions and risk levels around these.

This narrative should support the breakdown requested in Annex B\_Table 5.6d

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| Narrative – income |

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| Narrative – expenditure |

## Sensitivity analysis

Please provide detail (if not included elsewhere) of the parameters of sensitivity analysis presented to the governing body on the assumptions within the forecasts.

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## Table 2 Balance sheet

Please highlight and explain significant changes or trends in fixed and current assets, current liabilities, external borrowings, the net asset position, and reserves. Particular attention should be paid to liquidity issues as highlighted in the KFI table within the financial forecast model (**Annex B1** – KFIs).

Please include in your commentary the assumptions made in developing the financial balance sheets and the basis of the forecasts (for example, realistic forecast performance, worst-case scenario), and also explain significant movements (±10 per cent in any one year) any other items having a material effect on the balance sheet.

Please refer specifically to the impact of scenario modelling ranges on:

1. cash and investments
2. estates and infrastructure strategies and impacts on planned maintenance
3. anticipated additional borrowings

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Please provide high level commentary on the extent to which your forecast includes the journey to net zero by the institution’s target date. Please provide an indicator of total cost (included and excluded from forecast) to achieve this target and risks assessed in relation to this.

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## Table 3 Consolidated statement of cash flow

Your commentary should highlight significant items or trends in cash flow movements. Please explain significant movements (±10 per cent in any one year). Please also highlight any periods during which additional cash management may be required, and the institution’s planning in this regard.

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## Table 1\_3 ‘Down side’

Please see Annex B3 for guidance on the scenario. Please provide detailed narrative on the rationale for any income adjustments. Please ensure that no growth targets are included.

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Please also provide detailed narrative describing any mitigating actions that would be required in such a scenario. Please indicate the timeframe required for each of the mitigating actions including the dates by which the decisions for each mitigation would need to be made.

Model 1 - nil growth

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Model 2 – standard downside

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Model 3 – HEI worst case

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Please provide a brief summary of what assumptions regarding recruitment patterns within the UK HE sector have been made in assessing your worst case scenario.

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## Table 5 Supporting analysis

Please provide any further explanatory notes that you consider necessary to supplement the data returned in Table 5. In particular, please explain any significant movements.

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## Table 6 Financial commitments

In support of the Institution’s borrowing, please provide the nature and current status of all borrowing covenants in the table below.

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| **Lender** | **Nature of covenant (s)** | **Covenant calculation based on the forecast** | **Compliant at 31 July 2025?**  **Y/N** | **Compliant for future forecast years Y/N** |
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Where there are indicators of any breaches of covenant as a result of either forecasts or modelling assumptions, please detail below the institution’s planned actions.

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## ANOC borrowing tab

This tab calculates the indicative borrowing threshold of the institution.

Please set out below any comments you consider relevant to the institution’s borrowing threshold, to include the institution’s response to any validations flagged in this area.

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## Key financial indicators (KFI tab)

Please provide commentary to support significant changes or trends in the main indicators, which are derived automatically from the input data of the financial forecast model at **Annex B1**.

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Please would you provide the key financial sustainability indicators used internally by your institution as presented in the university’s financial strategy. Please provide both the minimum and targets for each indicator.

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## Monthly cash flow forecasts for AY 2025/26

Please provide any narrative around the key assumptions made for cash flows in these forecasts. In particular please detail any uncertainties around the timing of particular receipts.

Please provide commentary on the institution’s plans for managing any cash deficit points.

Please highlight any cash deficit pressure points created by any of the assumptions modelled and provide some commentary on the time frame and planning for managing these.

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