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Understanding the University's finances

Webinar September 2019

Overall finances: our income

Turnover (income) just under £300 million in 2017/18

Broad income sources at 2017/18:

- Teaching (£190m) c 64% - growing with international numbers
- Research (£38 m) c 14% - relatively static in real terms but under threat; lower than many peer HEIs
- Other (£70m) c 23% - growth slowing in real terms
  - Student residences (£40m)
  - Consultancy and services including NHS recoveries (£5m)
  - Investment income (£2m)
  - Donations and endowments (£5m; of which £3m non-research)

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Overall finances: surpluses

Planning for surpluses is required for three reasons:

1. To provide a cushion should income fall rapidly at the start of a year
2. To cover costs that are not reflected in our expenditure, such as loan repayments and local pension scheme deficit

But crucially and the reason for larger surpluses is that

3. With virtually no grant money from government for capital investment, we can only invest in estates and IT from our own funds

   (Technically we can borrow money, but only so much and we currently have loans at the maximum agreed with Council, OfS and our funders)

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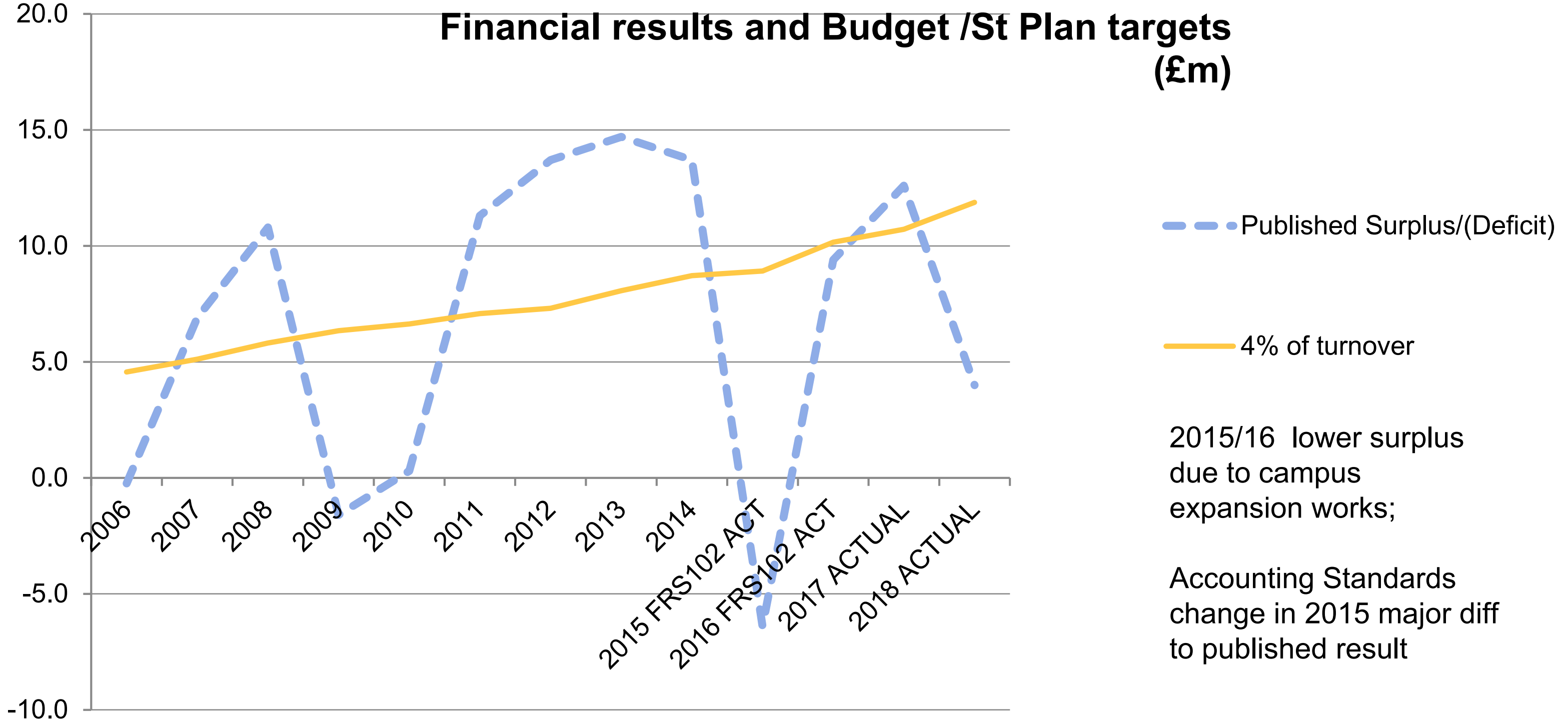
Income and expenditure



2015/16 lower surplus due to campus expansion works;

Accounting Standards change in 2015 major diff to published result

Council has approved surplus targets of 5% of income, rising to 7%, then 10% by 2023/24

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Where are we now? 2018/19 forecast

- We set a budget for 2018/19 by making around £6m of savings across Schools and Professional Services and we are expecting to do the same for 2019/20

- On target for £18m operating surplus for 2018/19 with a few one-offs

- USS (pensions) recovery plan will cause a charge / cost of c£40m, so we will publish a large deficit c£20m (as all USS major employers will).

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Financial challenges and uncertainties

- Tuition fees grew to £9,000 in 2012 but this was offset by massive fall in teaching grants
- Fees currently frozen at £9,250 (and c£100m per annum), so falling by over 3% per annum in real terms
- Pay costs could rise by 25% by 2025
  - Cost control: salaries paid on incremental scales and under national pay bargaining for all staff under professorial level
  - Pension scheme costs and benefits: USS cost will increase by over 5% for employers (and less for members)
- Worse could happen…
  - Augar and fee reduction
  - What will happen to EU students entrants from 2021?

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Where are we now?
2019/20 budget

- Income will increase so long as we hit student recruitment targets
- Staff pay (final offer) and USS pension costs (21.1% until October 2021) are at the limits of affordability
- This will allow an acceptable budget of £16m surplus for 2019/20, 5% of turnover

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Where are we heading? 2020/21 and beyond

- With growing costs and flat income, there will be sustained pressure
- In the medium term, progressive cuts are unlikely to provide a platform for excellence and investment
- As covered previously, we need to ensure we are resilient in the light of potential adverse changes due to uncertainties around Augar, Brexit…

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Capital funding

- From 1997, universities received capital grants for teaching and research from the government. These made a large contribution to estates funding
- Since 2008, successive changes have removed meaningful government contributions to teaching and research capital, meaning universities have had to find other ways to finance new buildings and estates projects
- We are now reliant on:
  - Philanthropy and matched funding – in practice only top 10 HEIS
  - Loans
  - Generating surpluses
  - Cash balances from previous surpluses
  - Working with third parties

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Sussex capital funding

Sussex strategy:

- Loan funding – we currently have a maximum target of c £200m in loans and debt funding into the University

- Surplus generation (current and cash balances from previous surpluses) – as loans are at the top of where we wish to be, cash balances and surpluses are our prime method of raising investment

- Working with third parties – for certain types of project, such as residences, third parties such as Balfour Beatty provide finance

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Sussex third-party capital funding

How can we build residences without affecting capital available for other projects?

Balfour Beatty provide a project finance solution for East Slope residences:

- Capital provided by BB and by capital market debt funders
- BB project company builds and operates residences for 50 years
- Sussex has no commitment beyond one year of residences income, and offers rooms to students through Housing office at rent formula pre-determined by the University
- East Slope provided £200m investment into the University, which has meant no capital commitments from Sussex

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Sussex future capital investment

- Like all top HEIs competing for UK and world staff and students, Sussex has to invest in estates capital and IT
- Clear messages from the community on condition and suitability of estates and IT
- The VC is leading work on estates and IT roadmaps with input from the community on level of investment, balance and priorities
- We will be involving the campus community in discussions on the draft IT and Estates strategies in October

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Sussex 2025 Phase One

- A number of key initiatives focussed on financial outcome and therefore investment capacity are in progress:

  - Decide on level of estates and IT investment and priorities
  - Explore possibility of income growth – student numbers, student mix, research income
  - Review One Professional Service, with Student Centre and Student systems
  - Look at School costs and school organisation

- Initial work will be completed during 2019/20 to inform future surpluses and shape and size of the University

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Future topics

- Please engage with conversations on the Estates and IT strategies
- Feedback on emerging conclusions of Phase One plans
- Update on University’s financial result to 31 July 2019 after approval by Council late 2019/early 2020

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