Annex B

Financial forecasts 2001: Statement of financial strategy and supporting notes to the forecast tables

This statement is an integral part of the financial forecasts, explaining how the forecasts arise from the financial strategy that will enable the institution to implement its corporate plan and ensure financial viability. In addition, it explains the specific actions that will take place during the period of the financial forecasts, including an assessment of the major risks likely to be faced and how the institution might mitigate these. The commentary should clarify how these actions are consistent with the overall financial strategy.

The statement should cover the following areas:

A. Statement of financial strategy

1. Strategic context and financial strategy

This section should set out the institution’s financial strategy, as agreed by the governing body, that underpins the corporate plan. It should enable us to put the forecasts into perspective and understand institutions’ plans. It should focus on high-level financial objectives, including targets in all key areas, such as:

- operating surpluses
- discretionary reserves
- liquidity
- borrowings
- capital investment
- income targets in key operational areas, such as research and commercial activities
- rates of return on commercial activities
- staffing costs as a percentage of total costs or income.

Institutions should comment here if the forecasts indicate they will not achieve the targets set.

2. Key risks

The commentary should also include an analysis of the key risks faced during the planning period including:

- a description of the risk
- a brief summary of the likely impact should the risk occur
- an estimation of the likelihood of the risk occurring
- actions taken and to be taken to mitigate the risk
- a brief commentary on the financial impact of the risk and also the cost of any measures taken or to be taken.

3. Specific actions taken to ensure continued financial viability

Institutions should set out the actions they have taken or expect to take to ensure financial viability, as required in the Financial Memorandum with the HEFCE. This explanation should indicate not only the financial consequences of the actions but also the impact on staff and the student experience, the provision of teaching and research, and the institution's estate.

B. Supporting notes to the forecast tables

1. Analysis of significant movements

Institutions should provide an explanation of all significant movements in the figures, whether in income and expenditure, the balance sheet, or major assumptions. This should include details of any assumptions made and, where an increase in income is forecast, any corresponding expenditure that would be avoided if the income failed to materialise.

2. Other significant changes

Institutions should include in this section details on any other key assumptions not identified above or under Table 5 assumptions. This should include:

- the assumptions underpinning student number forecasts
- the correlation of student numbers with fee income (see Table 5c)
- the assumptions regarding holdback and achievement of migration strategies.

Details should be provided on any material bids for funding assumed in the forecasts for which decisions are not known at the time of preparing the forecasts. Details should include expenditure assumptions associated with the bid, as well as whether failure to secure funding would affect the decision to go ahead with the proposal.

3. Exceptional and unusual items

Where exceptional items have been included in Table 1 head 12 in any year of the forecasts, details should be provided. If material unusual transactions have been included in other items of income or expenditure they should also be disclosed here. This applies particularly to breakdown of profits and losses arising on the sale of property, redundancy and other restructuring costs, systems development costs, and details of the effects of compliance with Financial Reporting Standards with effective dates after 31 July 1999 (such as 'FRS 15 – Tangible Fixed Assets').

4. Analysis of reserves and reserve movements

Any movements on the income and expenditure account reserve, as shown on the balance sheet, that do not relate to the surplus/(deficit) for the year, or transfers from the revaluation reserve, should be described in the commentary.

5. Other long-term creditors

Table 3 head 7c gives the total of long-term creditors that are not regarded as borrowings. Details of these balances should be provided.

6. Cash flow statements

Details of other items, at heads 2, 4 and 8 of Table 4a, should be provided as set out in the template.

7. Commentary approval

Identification of the body or individual within the institution that approved the forecast tables and commentary. Also, the commentary should be signed and dated by the institution's director or head of finance on behalf of the institution.

Commentary template

A. Statement of financial strategy

1. Strategic context and financial strategy

- summary of financial strategy
- financial strategy targets
- link of forecasts to corporate plan and overall financial strategy
- key strategic issues and objectives taken into consideration.

2. Key risks

Details of the key risks identified in the forecast period, including:

- identification of key risks
- the likely impact
- the likelihood of it occurring
- mitigating actions that could be taken
- the financial impact of the risk and the mitigating actions.

3. Specific actions taken to ensure continued financial viability

Actions taken or expected to be taken.

B. Supporting notes to the forecast tables

1. Analysis of significant movements

2. Other significant changes

Details on bidding initiatives and assumptions.

3. Exceptional and unusual items

Details on exceptional and unusual items included in Table 1 head 12 are:

4. Analysis of reserves and reserve movements

5. Other long-term creditors

6. Cash flow statements

The items included as Other Items on Table 4a heads 2, 4 and 8 are:

Head 2
Head 4
Head 8

7. Commentary approval

The forecast tables and commentary were approved by:

Signed on behalf of the institution by:

Signature ....

[Name]

[Title]

[Date]

Annex D

Financial forecasts 2001: guidance notes

Accounting conventions

1. The main tables of financial forecasts follow the format of the 'Statement of Recommended Practice: Accounting in Higher Education Institutions' (SORP), introduced from 1 August 2000. The forecasts should therefore comply with all Financial Reporting Standards effective as at 31 July 2001. This excludes any changes resulting from full implementation of 'FRS 17 – Retirement Benefits'. Where more detailed information is required, the form of the 'Finance Statistical Return 1999-2000' (FSR), published by HESA, has generally been adopted. In particular, institutions should apply the Definition of Terms in Part 2 of the SORP when completing the return.

2. It is not necessary to restate data for 1999-2000 to comply with Financial Reporting Standards that become effective after 31 July 2000. Where the effect is material to an understanding of the forecast it should be noted in the commentary.

Consolidation

3. The financial forecasts should cover the institution and all its subsidiary undertakings. If an institution has subsidiary undertakings, the financial forecasts should be consolidated in accordance with 'Financial Reporting Standard No 2: Accounting for Subsidiary Undertakings' (FRS 2). Student unions should be consolidated where this is the agreed treatment for that institution.

Tables to be completed

4. The forecasts cover a six-year period starting with the last completed and audited year, then the current year and then the next four years. They comprise the following tables:

Table 1	Income and expenditure account
Table 2a	Analysis of income
Table 2b	Analysis of separable activities
Table 3	Balance sheet
Table 4a	Cash flow statement
Table 4b	Cash flow statement reconciliation
Tables 5a to 5c	Major assumptions

Tables 6a to 6f	Supporting data
Tables 7a to 7e	Student numbers

Statement of financial strategy and commentary on the financial forecasts

5. This explains the institution's long and short-term financial objectives that will enable it to implement its corporate plan and ensure financial viability. The purpose of the commentary is to explain the specific actions that will take place during the period of the financial forecasts, including an assessment of the major risks likely to be faced and how the institution might mitigate these. The commentary should clarify how these actions are consistent with the overall financial strategy.

6. Annex B sets out the template for this statement and commentary, which can be found on the disk in Word version 6 and WordPerfect 5.1. Annex C also gives guidance on what to include under each heading.

Guidance on tables

Table 1: Income and expenditure account

Heads 1 to 6

7. These are calculated automatically from Table 2a and do not require input.

Head 7: Staff costs

8. Staff costs should cover all and only those full-time and part-time staff who hold contracts of employment with the institution, including any severance costs. Payments to non-contracted staff or individuals should be included in 'Other operating expenses'.

Head 8: Depreciation

9. Depreciation should cover all buildings, items of furniture and equipment that are capitalised and depreciated in accordance with the institution's accounting policies.

Head 9: Other operating expenses

10. Other operating expenses should cover all other non-pay costs incurred, except for depreciation and interest payable which are shown separately, and should include:

- payments to non-contracted staff or individuals

- expenditure on equipment which has not been capitalised
- restructuring costs other than severance costs
- long-term maintenance expenditure.

Head 12: Exceptional items

11. Exceptional items should be included only where they meet the definition of exceptional items set out in Financial Reporting Standard 3 paragraphs 5, 19-20 and 46-47. Further information on the nature of exceptional items should be provided in the commentary.

Head 13: Surplus/(deficit) after depreciation of assets at valuation and before tax

12. This will be calculated automatically.

Head 14: Taxation

13. This should be the estimated liability for taxation of the institution and its subsidiary undertakings.

Head 15: Minority interest

14. This should be the proportion of the surplus or deficit attributable to the minority interests in subsidiary undertakings.

Heads 16 and 17: Surplus/(deficit) after depreciation of assets at valuation and tax

15. This is calculated automatically.

Head 18: Difference between a historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount

16. This will apply when depreciation is calculated on assets included on the balance sheet at valuation or revaluation, rather than historical cost.

Head 19: Realisation of property revaluation gains of previous years

17. This will apply when a revalued asset is sold or is expected to be sold over the forecast period.

Head 20: Historical costs surplus/(deficit) after tax

18. This is calculated automatically.

Table 2a: Analysis of income

19. Table 2a provides analysis of the five main income headings in Table 1, with totals transferred automatically to Table 1.

Head 1: Funding council grants

Sub-head 1ai: HEFCE teaching – core funding

20. This heading should contain the total block grant for teaching, as stated in the institution's annual grant letter or additional grant letters from the Council. Do not include non-consolidated additions to core funds or reimbursement of inherited liabilities under this head: these should be under sub-heads 1c and 1e respectively. Any increase in forecast teaching grant for future years should only reflect the impact of inflation, changes in the unit of funding, and any Council-agreed migration strategies; it should not include any assumptions about growth in student numbers in future years.

Sub-head 1aii: HEFCE teaching – additional funding

21. Where institutions wish to incorporate assumptions about growth in student numbers from 2002-03 in the light of the Government's policies on additional places in higher education, these should be included under this head. The assumptions about the institution's share of any assumed growth in the HE sector should be realistic and these should be priced at the average for the price groups.

Sub-head 1b: HEFCE research

22. This should be the total block grant for research as shown in the annual grant letter or additional grant letters from the Council. It is not necessary to distinguish between the different components of research funding. Institutions should assume that core funding for research is maintained in real terms, but should not assume increases in HEFCE research grant following the 2001 Research Assessment Exercise.

Sub-head 1c: HEFCE special funding

23. This should include all elements of special funding as shown in the annual grant letter.

Additional funding arising from special initiatives not shown in the annual grant letter should be under sub-head 1e.

Sub-head 1d: HEFCE release of deferred capital grants

24. Amounts under this sub-head should relate to specific capital grant which has been used to purchase a capitalised asset. The release will be over the lives of the assets and will offset the depreciation charge on those assets.

Sub-head 1e: HEFCE other grants

25. Amounts under this sub-head should be any other grants that have not been dealt with in the above sub-heads. They will include:

a. Reimbursement of inherited liabilities for staff, leases and interest on debts. (The capital element of reimbursed inherited debt should be credited directly to the revaluation reserve.)

b. Special initiatives. Grants for special initiatives should be taken to income in the year in which they are awarded, unless specifically earmarked for use in future years.

Sub-head 1f: FEFC recurrent grants

26. This should include all recurrent grants provided by the Further Education Funding Council (FEFC) or (from 1 April 2001) the Learning and Skills Council.

Sub-head 1g: TTA mainstream ITT funding

27. This should contain the TTA formula funding to support initial teacher training, as shown in the annual funding allocations letter or additional grant letters from the TTA.

28. Salaries paid to teacher training students should not be included in the forecasts except for income and expenditure relating to the administration of the funds.

Sub-head 1h: TTA INSET funding

29. This should include TTA funding provided to support the continuing professional development of existing schoolteachers with qualified teacher status (QTS).

Sub-head 1i: TTA partnership funding

30. This should include any earmarked funding to support partnership arrangements with schools.

Sub-head 1j: Other funding

31. This should include any other TTA earmarked funding.

Head 2: Academic fees and support grants

32. This should contain all fee income from both public and private sources, including short courses and self-financing full-cost courses. It should include income from courses provided for other bodies where the institution charges either a block fee to cover a specified number of students or a fee per individual student. Income relating to teaching NHS personnel, such as nursing or midwifery courses, should be included.

33. Where fees are wholly or partly waived, the income due though not received should be included, that is the income should be gross and not net. The costs of any waivers falling to institutions should be shown under 'Other operating expenses'. Payment from an outside fund to meet the cost of fees, for example from the Overseas Research Students Awards Scheme (ORSAS), should be shown as if it were fees income.

34. Credit-bearing continuing education (CE) courses should be treated as part-time or full-time credit-bearing courses, as appropriate.

Sub-head 2a: Full-time UG home and EU students

35. This should only cover full-time and sandwich students for full-time undergraduate degree, diploma or similar award-bearing courses.

36. It should include all fees for students, including home, EU and overseas students, charged at the undergraduate home fee rate. In all cases this is regardless of whether the fees are paid wholly or partly by the local education authorities, and includes PGCE students.

Sub-head 2b: Full-time PG home and EU students

37. This should include all fees for full-time postgraduate students whether from public or private sources except PGCE students, who are treated as undergraduate students in this context.

Sub-head 2c: Part-time fees

38. This should include fees for home and EU students who are charged part-time fees (but are not overseas students). It will encompass fees for degree, diploma or other HE credit-bearing courses, including postgraduate courses.

Sub-head 2d: Overseas students

39. This should include all fees for students who are charged overseas fees for either full-time

or part-time provision, including students from the Channel Islands and the Isle of Man.

Sub-head 2e: Fees from NHS contracts

40. This should include income from Department of Health or regional health authorities or NHS Trusts in respect of courses provided for NHS personnel. It will include fees paid in respect of nursing and midwifery training and other subjects and professions allied to medicine funded by the NHS.

Sub-head 2f: Other fees and support grants

41. This should include:

a. All fee income received from non-credit-bearing liberal adult education, continuing education or extra-mural courses.

b. Fee income received for further education courses.

c. Income received from other institutions as payment for teaching students who are principally registered at those institutions. This may arise, for example, under some ‘franchising’ arrangements, or where another institution ‘sub-contracts’ the teaching of part of a course.

d. All grants made by Research Councils and other bodies to support the training of research students. It should include bench fees, Collaborative Awards in Science and Engineering (CASE), and other awards.

e. Any registration, retaining, examination and re-examination fees that are separately charged to home and EU students.

Head 3: Research grants and contracts

42. This should include all income from externally sponsored research carried out by the institution or its subsidiary undertakings.

Sub-head 3a: Research Councils

43. This should include income from research grants and contracts from the Research Councils and income from the Arts and Humanities Research Board (AHRB). Post-Doctoral Studentship grants from the Engineering and Physical Sciences Research Council (EPSRC) should be included under this sub-head, but Doctoral Training Grants should be treated as student stipends and included under sub-head 4d as other operating income.

Sub-head 3b: UK-based charities

44. This should include income from research grants and contracts from charitable foundations and charitable trusts that are based in the UK and registered with the Charities Commission, and from exempt charities.

Sub-head 3c: Other research grants and contracts

45. This should include income from research grants and contracts from sources other than Research Councils, UK-based charities and exempt charities.

Head 4: Other operating income

Sub-head 4a: Other services rendered

46. This should show all income from services rendered to outside bodies, including the supply of goods and consultancy services. The Integrated Graduate Development Scheme, European Social Fund Grants and Teaching Company Schemes should be included under this head. It should also include validation fees for courses run by other institutions.

Sub-head 4b: Residences and catering operations

47. This should include the gross income from residences and catering operations, including conference lettings.

Sub-head 4c: Income from NHS contracts

48. This should include all income received from UK regional health authorities or NHS Trusts to fund employees of the institution (including academic teaching posts) funded under contracts for teaching NHS personnel, such as contracts for teaching nursing and midwifery. It should also include income received to provide premises or facilities in relation to such contracts. This sub-head should not include those elements of income relating to the provision of a service (sub-head 4a) nor funding of NHS clinical posts in teaching hospitals (sub-head 4d).

Sub-head 4d: Other operating income

49. This should show all operating income not specifically included elsewhere, such as:

a. Grants from local authorities. These should be treated as revenue or capital according to the purpose for which the grant will be used; revenue grants and releases from any deferred capital grants should be shown here.

b. A capital grant, from a source other than UK HE funding body, towards financing the construction or acquisition of a fixed asset. Where it is not capitalised, the grant should be shown here in full. Where the asset is capitalised, the annual release from the deferred credit account should be shown here.

c. All other grants from sources other than a UK HE funding body should be shown here, except for research activities or services rendered which should be included under sub-heads 3a/3b or 4a respectively. Doctoral Training Grants paid by the EPSRC should be included and should not be confused with Post-Doctoral Studentship payments also paid by the EPSRC that should be included with income from Research Councils.

d. All income received from intellectual property rights such as licences and patents.

e. Other operating income not covered above, including the Trans-European Mobility Programme for University Students (TEMPUS) and European Community Action Scheme for the Mobility of University Students (ERASMUS) grants.

f. Income to fund NHS clinical posts in teaching hospitals which does not form part of a contractual arrangement (sub-head 4c) or provision of a service (sub-head 4a).

Head 5: Total endowment income and interest receivable

50. This should include three elements:

a. The amount of income from the investment of specific endowments that matches the expenditure incurred on the purpose for which the endowment was provided. Where endowment capital is used to meet the expenditure this should be included here.

b. The full amount of income from investing general endowments, including interest, dividends, bank interest or rental income.

c. Other investment income and interest receivable, including:

i. Interest receivable on short-term investments, and the net surplus or deficit from realising or revaluing them.

ii. The surplus or deficit on realising investments held as long-term funds.

iii. All other interest received or receivable, not included elsewhere.

Head 6: Total income

51. This is the total of heads 1 to 5. It is calculated automatically and linked to Table 1.

Table 2b: Analysis of separable activities

52. This table analyses the income and contribution to indirect costs generated from separable activities. The table should be completed for all activities that generate more than 5 per cent of the institution's total income.

53. The income figures are imported automatically from Table 2a. These will generate a flag identifying those activities which require more information. Expenditure attributable to each of the activities should be input, showing all direct expenditure including staff costs and other operating expenses as well as attributable depreciation and interest.

Table 3: Balance sheet

54. Access funds received and paid should not be included in the income and expenditure account, but any balance should be included in the balance sheet.

Head 1: Fixed assets

55. This should include land, buildings and equipment which are expected to have a useful economic life of more than 12 months from the date of acquisition, and which meet institutions' capitalisation thresholds. The assets should be stated at cost or valuation. Donated assets should be included at open market value at the time of acquisition.

Sub-head 1a: Tangible assets

56. This should include land, buildings and equipment in use in the institution or its subsidiary undertakings.

Sub-head 1b: Investments

57. This should include investments made by the institution or its subsidiary undertakings out of funds other than endowment funds, and which are not intended to be realised within the next 12 months. Amounts as at 31 July 2000 should be stated at market value. Investments in subsidiary undertakings will be eliminated on consolidation.

Head 2: Endowment asset investments

58. This should include investments made out of restricted or general endowment funds. Investments as at 31 July 2000 should be stated at market value. The total for each year should agree with the total endowment funds recorded at Head 12.

Head 3: Current assets

Sub-head 3a: Stocks and stores in hand

59. Stocks and stores in hand should be recorded where practical to do so and where the amounts involved are material. They should be included either at cost or net realisable value, whichever is lower.

Sub-head 3b: Debtors

60. This should include all amounts due to the institution as a whole, less any provisions for bad and doubtful debts. The current portion of any long-term loans should be included under this head. Pre-paid costs should be included to the extent that the cost relates to expenditure in the following academic year.

Sub-head 3c: Investments

61. This should include investments and other liquid resources (excluding any short-term endowment asset investments), which the institution intends to realise within 12 months. Investments held as current assets should be shown at cost or net realisable value, whichever is lower.

Sub-head 3d: Cash in hand and at bank

62. This should include all accounts held in the form of cash, including bank accounts, but excluding any cash relating to endowment assets. The definitions of cash should be as in Financial Reporting Standard 1 (Revised 1996), that is, it should only include cash and deposits which are repayable on demand or within 24 hours. Deposits that are recoverable after more than 24 hours should be included under head 3c. Bank overdrafts should not be netted off against positive balances but should be shown separately under current liabilities, head 4c.

Head 4: Creditors: amounts falling due within one year

63. This should include all liabilities which are payable within 12 months. Provisions should not be included under this head, but disclosed separately under head 8.

Sub-head 4a: Creditors

64. This should include all amounts due within the next 12 months, or income received in advance.

Sub-head 4b: Current portion of long-term liabilities

65. This should include the portion of long-term liabilities, whether reimbursable by us or not,

that is due to be repaid within the next 12 months.

Sub-head 4c: Bank overdrafts

66. This should include all bank overdrafts, which should not be netted off against cash in hand and at bank.

Head 5: Net current assets/(liabilities)

67. This is calculated automatically.

Head 6: Total assets less current liabilities

68. This is calculated automatically.

Head 7: Creditors: amounts falling due after more than one year

69. This should include all amounts outstanding on external borrowings at each year-end and which are due for repayment more than 12 months from the balance sheet date. The portion due within 12 months should be included under sub-head 4b.

Sub-head 7a: Reimbursable by the HEFCE

70. This should include outstanding debts with local education authorities which are expected to be reimbursed by the HEFCE through its funding for inherited liabilities.

Sub-head 7b: External borrowings

71. This should include all other debts, such as finance leases.

Sub-head 7c: Other long-term creditors

72. This should include all long-term creditors that are not regarded as borrowings, such as deferred payments for contractual obligations. Items included under this sub-head should be detailed under head B3 in the commentary. Finance leases and other forms of borrowing should not be included under this head.

Head 8: Provisions for liabilities and charges

73. This is calculated automatically from the data in Table 6b.

74. Details of all provisions should be disclosed in the commentary. Only provisions that comply with `FRS 12 – Provisions and Contingencies' should be made.

Head 9: Total net assets

75. This is calculated automatically.

Head 10: Deferred capital grants

76. Capital grants received from the HEFCE and other organisations in respect of assets which have been included within fixed assets should be shown under this head and released to the income and expenditure account over the estimated useful lives of the assets. The balance will represent the unreleased portions of the capital grants received.

Head 11: Endowments

Sub-head 11a: Specific endowments

77. This should include endowments where the donor has specified how the capital or income should be used. Income on the investment of such endowments should be included under this head, and released to the income and expenditure account as necessary to match the specific expenditure for which the endowment was provided.

Sub-head 11b: General endowments

78. This should include endowments where the institution has the discretion as to how the capital or income is used. Income on the investment of such endowments should be included in the income and expenditure account in full.

Head 12: Reserves

Sub-head 12a: Revaluation reserve

79. Where fixed assets are included at valuation, or revaluation, the difference between the valued or revalued amounts and the historical cost of the assets should be shown here, as well as the capital element of the reimbursement of inherited liabilities.

80. The movements on the revaluation reserve should be detailed in the commentary.

Sub-head 12b: Minority interest

81. This is the value of any minority interests in subsidiary undertakings.

Sub-head 12c: Income and expenditure account

82. This is the total of all other reserves of the institution and its subsidiary undertakings, plus the annual surplus or deficit on the income and expenditure account before transfers. Details of reserves and reserve movements should be included in the commentary.

Table 4a: Cash flow

83. This should be completed in accordance with 'Financial Reporting Statement 1 (Revised 1996): Cash Flow Statements'. Items included in sub-heads 2e, 4h and 8d should be explained in the commentary.

Table 4b: Reconciliation of surplus

84. This should provide a reconciliation between the operating surplus/(deficit) and the net cash flow.

Tables 5a, 5b and 5c: Major assumptions

85. Table 5a asks for the main assumptions underpinning the financial forecast. Contribution rates should be calculated with reference to relevant expenditure.

86. The information on pay inflation (sub-head 1a), incremental drift (head 2) and staff numbers (head 3) contained in Table 5a should explain the year-on-year movements in total staff costs in Table 1. Table 5b is generated automatically and provides further detail on this comparison. Where there are other factors (highlighted in Table 5b as other movements) affecting the projected staff costs and year-on-year movements, these should be explained in the commentary. Similarly, if there are other elements of income or expenditure that are not explained by the factors included in Tables 5a and 5b, further information should be given in the commentary.

87. Table 5c is also generated automatically. It calculates an average fee per student by dividing the total income recorded in Table 2a by the student numbers reported in Tables 7a and 7b. Where any of the average fees changes by an amount other than inflation, or the average undergraduate fee rate is above the undergraduate mandatory home fee rate, institutions should provide an explanation in the commentary of assumptions made.

Tables 6a to 6f: Supporting data

88. These tables provide further information to support the income and expenditure account and balance sheet.

Table 6a: Maintenance expenditure

89. Maintenance expenditure reported in Table 6a should be the actual expenditure incurred in the year.

Table 6b: Analysis of provisions

90. Provisions disclosed in Table 6b should comply with FRS 12.

Table 6d: Long-term borrowing

91. Table 6d gives details on long-term borrowing. The percentage calculated in Table 6d is based on annualised servicing costs and total income arising in the same year. For Financial Memorandum purposes the calculation is based on the latest audited income or the estimated amount for the current year if that is lower at the time of the financial commitment (not the time of draw-down). Annualised servicing costs should be calculated in accordance with guidance accompanying Annex C of the 1999-2000 financial statements request letter.

Table 6e: Long-term operating expense commitments

This should include Private Finance Initiative (PFI) contracts or long operating leases and any inherited lease whose reimbursement by HEFCE has been rolled into core funding. The information is split into those commitments which expire up to 2009-10 (section a) and those commitments which expire after 2009-10 (section b). For commitments expiring after 2009-10, the date when the commitment ends should also be stated.

Table 6f: Analysis of PFI projects

92. Table 6f requires further analysis of PFI contracts, whether on or off balance sheet. A brief description of each project is required, giving details of the capital value of the project, the annual cost, and the start and end dates, and whether the contract is on the balance sheet or not. The annual cost should be that for 2001-02, unless the contract does not start until later in the forecast period, when the costs of the first full year should be used.

93. The return also requires institutions to specify the inflator used to adjust the contract payments year by year. A typical PFI contract will normally express such an inflator in relation to a generally accepted index such as Retail Price Index (RPI). For the purposes of this return, institutions should interpret the inflator in terms of the percentage that they are using in their own internal financial planning.

Tables 7a to 7e: Student numbers

94. The tables are designed to be consistent with the HESES2000 survey, which institutions completed in December 2000, and to keep the data requested to a minimum. For definitions of price groups, mode of study and level of study please refer to that survey (HEFCE 00/41). None of the student number data will be used for funding purposes.

a. For each year, it is necessary to complete only two columns: ‘Home and EC’ (both fundable and non-fundable) and ‘Island and Overseas’.

b. Tables 7a and 7b ask for: the total number of full-time and sandwich, and part-time undergraduate and postgraduate students in price groups A, B, C and D, psychology and media; all students on initial teacher training (ITT) courses which lead to qualified teacher status (QTS); and all students holding QTS who are on an in-service education of teachers (INSET) course. This includes all years of programme of study. Numbers of franchised-out and NHS students included within the totals should also be separately identified together with the number of FE students at the institution.

c. Tables 7c and 7d ask for forecasts of ITT (QTS) student numbers, broken down according to phase (primary or secondary) and 14 secondary subject groups. Primary registrations should not be split into subject areas. Within the 14 secondary subject groups:

i. Mathematics includes statistics.

ii. English does not include drama.

iii. Science includes physics, chemistry, biology, integrated science and other sciences.

iv. Design and Technology includes home economics.

v. Business Studies includes commerce.

v. Physical education includes movement studies, outdoor studies and dance.

vi. Other includes classics, economics, drama, other social sciences and other subjects.

d. Table 7e asks for forecasts of full-time and sandwich medical and dental student numbers. Table 7e is a subset of Table 7a; numbers included in this table should also be included in Table 7a.

Students to be counted

95. Institutions should, in the first instance, refer to Annexes C and D of HEFCE 00/41 for details of which students are to be included in this return. They should include HE students at associate colleges and those who are franchised out.

96. Consistent with HESES2000, this return counts all years of programme of study for students studying towards qualifications and not full-time equivalents. The data should include those students who do not complete their year of programme of study, equivalent to columns 1 plus 2 of the HESES return.

97. NHS students should only be those for which income is received from the Department of Health, regional health authorities or NHS Trusts in respect of courses provided for NHS personnel. Students receiving nursing and midwifery training should be included.

98. Institutions should enter details of ITT (QTS) student numbers on Tables 7c and 7d only. ITT (QTS) student numbers on Tables 7a and 7b do not require input, as these will be calculated automatically from the data recorded on the separate ITT (QTS) tables.

99. Medical and dental students should be only those on programmes of study that would normally lead to a first registrable medical or dental qualification.

Annex E

Financial forecasts 2001: funding guidance

1. This annex gives guidance on funding which institutions may wish to take into account in preparing their financial forecasts; and the latest forecasts of changes in the GDP deflator. **The assumptions on funding are not statements of HEFCE or TTA policy, but are provided solely to help institutions prepare their forecasts.**

GDP deflator

2. Changes in GDP deflator:

AY 2000-01	2.00%
AY 2001-02	2.50%
AY 2002-03	2.50%
AY 2003-04	2.50%
AY 2004-05	2.50%

Assumptions about HEFCE funding

Baseline funding levels for teaching and research

3. In November 2000 the DfEE announced the funding to be provided for higher education for the financial year 2001-02 and indicative funding for the following years. We have announced funding for the academic year 2001-02. Funding for subsequent years has not been announced. Therefore, for planning purposes institutions should assume:

a. Real-terms reductions in unit funding of up to 0.5 per cent for core teaching: that is in resource terms (grant and fees combined). Within this overall assumption the £1,075 tuition fee should be maintained in real terms. This implies HEFCE grants reduce by more than 0.5 per cent each year in teaching resource.

b. Core funding for research is maintained in real terms.

Funding for teaching

4. Recurrent grant Table B, issued on 27 February 2001, or as subsequently revised, sets out institutions' recurrent funding for teaching for 2001-02 and their percentage difference from

standard resource. Institutions should reflect any agreed migration strategies in their assumptions about funding for teaching, student numbers and fee income. They should assume that any additional migration funding will be limited to the commitments already made, and will cease as soon as their percentage difference from standard resource reaches minus 5 per cent. Institutions below the tolerance band, that embarked on a three-year migration in 1998-99, should not expect further migration adjustments after 2000-01, unless these have been separately agreed.

5. Institutions should include funding for additional student numbers for 2001-02. The Government has announced an additional 14,300 FTEs for higher education in each of 2002-03 and 2003-04. No announcement has been made about additional places for 2004-05; institutions should assume, **for the purpose of these forecasts only**, that any increase in that year will be no more in total than for 2002-03 or 2003-04. Institutions should make a realistic assumption about their own share of those higher education numbers, taking account of the DfEE's guidance that a significant proportion of these will be part-time, at sub-degree level and located in FE colleges. Additional student numbers should be priced at the average for the price groups.

Funding for research

6. Institutions should assume, **for the purposes of preparing the forecasts only**, that:

   a. Funds for quality-related (QR) research will roll forward from 2000-01. Institutions should assume they will receive no increase in HEFCE research grant following the 2001 Research Assessment Exercise.

   b. Funds for generic research (GR) will cease after 2001-02. **For the purpose of these forecasts only**, institutions should add their GR grant to QR from 2002-03 onwards.

Special funding

7. Allocations which have been announced for 2001-02 or subsequent years should be included.

8. Joint Information Systems Committee (JISC) allocations should only be included if institutions have been told that they will receive them.

Inherited liabilities

9. **For the purposes of the forecasts only**, institutions should assume that we will continue to reimburse:

   a. Non-residential rents and leases until their renewal date. Institutions should take account of our policy for renewals of non-residential rents and leases that was announced in 1996. If any capitalisations are planned, they should not be included in the forecasts.

b. Inherited debts. If any buy-outs are planned, they should not be reflected, as the financial impact will be neutral.

c. Inherited staff liabilities.

Capital projects

10. Specific capital grants should only be included where we have already agreed the funding. Earmarked capital funding set out in the forthcoming HEFCE report `Project Capital Round Two' and HEFCE 01/11 'Science Research Investment Fund - invitation to apply for funding' should be included.

Assumptions about TTA funding

ITT

11. The TTA has already announced funding for ITT in 2001-02. Gains and losses resulting from the introduction of the revised price tariffs from 2001-02 will be capped at 2 per cent per year.

12. Intake targets for primary ITT are planned to fall from 12,500 in 2001-02 to 12,100 in 2003-04. Intake targets for secondary ITT are planned to fall from 17,390 in 2001-02 to 16,995 in 2003-04. Institutions should give details in the financial forecast commentary of any assumptions made for changes in intakes to primary and secondary ITT.

13. The transfer of resources to partner schools associated with the shift to schools-based training of teachers should be included, and disclosed separately in the commentary to the forecasts.

INSET

14. The TTA has already announced INSET funding allocations for 2001-02 under its competitive bidding mechanism. This funding may consist of one or more of the following three elements:

a. Bid related funding from the first interim bidding round announced on 22 February 2000.

b. Bid related funding from the second interim bidding round announced on 8 February 2000.

c. Bid related funding from the second triennia bidding round announced on 2 March 2001.

15. Holdback arrangements will apply to all allocations. Institutions should reflect any allocations for future years that have already been announced. They should also disclose separately in the commentary any assumptions made about the outcomes of future bidding rounds from 2002-03 onwards.

Teacher training salaries

16. Salaries paid to teacher training students should not be included in the forecasts except for income and expenditure relating to the administration of the funds.

Capital funding

17. Capital funding for both ITT and INSET is subsumed in the TTA's ITT and INSET budgets; its distribution reflects the pattern of ITT and INSET allocations for 2001-02.