BUFDG CHAIR'S QUARTERLY
Vol 2: March 2020

Welcome readers!

Welcome to the second edition of BUFDG's quarterly bulletin, for those working in or with the Higher Education sector. This edition includes articles on Coronavirus and other risks, SORP developments, sector data collection, and costing and why it matters, as well as a bit of insight into my role as BUFDG chair!

I'm also aware that, by the time the next Quarterly comes around, we will have had our 2020 conference at the University of Salford. I'm looking forward to meeting many of you there, at what should be a brilliant few days in the North-West. We'll be picking out the highlights of the event for the next edition.

Thanks for reading. If you have any feedback or comments on this issue, please don't hesitate to get in touch with Karel and BUFDG team.

Kind regards,

Sarah Randall-Paley

Director of Finance, Lancaster University and Chair, BUFDG.

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Behind the scenes

The last few months have been the busiest yet in my time as Chair. The BUFDG team do a brilliant job of keeping members up to date with sector news, developments, and resources, but the wider group and executive committee are also involved in many other things that we don't always talk about. Much of it is about building networks and relationships for the organization, 'raising the profile' of BUFDG, sharing our work with others, and learning about what is happening elsewhere that we could make use of or be involved in.

At the beginning of November I spoke at Wonkfest alongside UHR Chair Paul Boustead, about shared working with other PHES colleagues, and how Finance and HR work together at Lancaster. At the end of the month it was the Times Higher Live event, where Exeter's CFO Andrew Connolly and I were involved in a panel discussion on maintaining financial sustainability, with Ian Robinson from HSBC, and. In the months since, members of the Exec have:

- attended a TRAC T 'thinking' day, organised by KPMG in their role as managers of the TRAC Development Group.
- attended the OfS funding review discussion day. This was a great opportunity to have more open communication with the OfS, and there is a further date in the diary for dialogue.
- been involved in the UUK cost and efficiencies workstream, which also covers their approach to VfM. We've been able to make suggestions and there's a stakeholder workshop in April.
- coordinated with other sector bodies to develop good contacts with colleagues at the Department for Education.
- held discussions with banks and other key sector suppliers about the challenges facing the sector and how they can support our work

I've also managed to attend the joint London, South West and South East regional meetings of FDs, and I hope to get to meetings in other regions to meet colleagues and hear their issues firsthand. As well as the conference in April, I'll be taking part in the AUDE summer school, where I'll be joined by my colleague Andrew Burgess, the Director of Facilities here at Lancaster.

If you would like to know more about any of these activities, or if there's anything you think the executive or BUFDG team should be involved in, get in touch with Karel or button-hole one of us at Salford.

Sarah Randall-Paley

Director of Finance, Lancaster University and Chair, BUFDG.

Risky Business (and Coronavirus resources)

Universities are used to managing risk. As complex and unique organisations, which undertake a broad range of educational, entrepreneurial, charitable, and social activity, in the UK and overseas, there's lots that can 'go wrong'. Yet even the most seasoned HE risk manager (and V-C, and CFO, and Director of Strategy…) must be tempted to stay under the duvet as 2020 unfolds.

The consequences of Brexit continue to concern, with little reassurance that a comprehensive deal with the EU can be reached within the year and, unlike a year ago, there is little chance of parliamentary opposition to a no-deal Brexit should negotiations fail. Strike action continues at many institutions and, at USS, complex discussions continue over how member institutions' borrowing and levels of indebtedness should be monitored. While the best-case outcome would be a light-touch regime, there are concerns that USS requirements for security could impact on institutions' future ability to borrow, or even on their current covenants.

Higher Education has new government ministers at Westminster, but still little idea of how benevolent the long-expected policy changes will be. While some universities may be looking forward to a larger portion of the increasing research pot, there are concerns that the sector's poor recent press means the government will not spare it from cuts should money need to be found to fund other priorities. And this was all before Coronavirus spread beyond China and threatened to unleash the most draconian public control measures likely to be seen outside wartime.

Along with every other sector, planning for the impacts of the virus has been underway in universities for weeks now. BUFDG has been listening to its institutions and coordinating with other sector bodies including UUK and fellow PHES organisations to monitor the risks and provide support where it can. Some of the specific concerns the sector has include insurance cover (or lack of), staff travel, student placements abroad, the impact on recruitment fairs, empty student accommodation, support for self-isolating staff and students, supplies of equipment and perishable or essential goods (how many days could your HEI run without loo roll?), among many others.

With the help of member institutions, our PHES colleagues have put together a range of useful sources of information and sample communications that are now available via the sliders on all PHES websites. If you have any resources you wish to share, or any questions, contact Matt. This is one of those moments where the joined-up work at PHES can really make a difference. And while our universities all compete in different ways, as we face the Coronavirus challenge, we can also take comfort from being part of a sector that is cooperative and collegial.

Matt Sisson

Head of Membership, BUFDG

SORP developments

The HE/FE SORP board met on 12th February. A brief discussion on the implementation of SORP2019 took place and concluded that the first year of SORP2019 had been successful. Only a few minor changes were recommended to clarify requirements.

Any future amendments to FRS 102 will dictate content for the next SORP. The FRC's forward plan includes several other projects on FRS 102, including Principles of IFRS 9 (Financial Instruments update), IFRS 15 (Revenue) and IFRS 16 (Leases). The FRC does not expect to consult on any potential updates or publish a FRED (Financial Reporting Exposure Draft) to FRS 102 until at least 2021.

This implies that the next SORP update will be in 2022 at the earliest. IFRS 9 (Financial

Instruments update), IFRS 15 (Revenue) and IFRS 16 (Leases) have all proven to be challenging when adopted for IFRS reporters; to avoid surprises on implementation in HE it is important that institutions consider these when entering into new arrangements in the next few years. Plenty has been written in the accountancy press but the FRG will provoke further thoughts over the next few months.

The terms of reference for the SORP Board appear to overlap with the FRG activity and many of the members are the same. A review of the governance and oversight of the SORP has been commissioned by the Board and it will consider this and other governance items in the next three to four months. The Board will meet again to review the outputs of this process later in 2020, at which time the FRG will have more idea of what it could or should be doing for the benefit of its members.

Erica Conway

Finance Director, University of Birmingham

How is the SORP scheduled?

The BUFDG's Financial Reporting Group (FRG) works via the SORP Board to agree the timetable for the next SORP with the Financial Reporting Council (FRC). It was thought that the next SORP would be 2022 but there has been a delay in issuing the new major IFRSs which means that the SORP is unlikely to now happen for 2022. The impact of the new IFRSs will not hit the sector until this next SORP is issued.

Why costing really matters and how to improve it

Most of us FDs are old hands at costing - we've been complying with the Transparent Approach to Costing (TRAC) requirements since 1998. But in a recent Wonkhe article, I argued that we've allowed TRAC to become too much of a regulator/funder facing tool, neglecting our own business needs, and that the terminology of TRAC has led to the construction of a language barrier to understand its powerful messages.

Six years after the introduction of TRAC, in 2004, the term full economic costing (fEC) entered our lexicon as a system to both cost and fund research from UK research councils. But for most of us our product costing systems haven't got much beyond this stage, and we've accidently ended up institutionalising confusion between cost and price in the form of fEC.

At the heart of TRAC is the notion that *full economic cost* comprises *accounting cost* (declared in the financial statements) + *a margin* (technically *the Margin for Sustainability and Investment*). Everyone understands the term *cost* - most appreciate the need to generate a margin over cost. But the invention of the term *full economic cost,* which really means pricing (or funding), has confused the audience.

Few of us genuinely use the power of TRAC to cost teaching. It was telling that in Phillip Augar's commissioned report on costing teaching, KPMG had to develop their own costing model, abandoning TRAC for teaching data. After over 20 years of TRAC why have we failed to embed costing teaching into our everyday processes?

Over the last 40 years we've operated in a pretty benign financial environment. The task of senior managers has been to bid for, earn or allocate *additional* income streams and spend them. We've lacked a financial imperative to manage margins (price less cost). In the future it's likely that a higher proportion of the resource to fund investment will have to come from within, by freeing up resources that are currently misallocated and reallocating them to new activities. To do this we need to get to grips with costing teaching, focus more on margin management and reduce our addiction to growth. Those who do will have a competitive advantage over those who continue to operate TRAC as just a requirement for regulators and research funders.

Andrew Connolly

Chief Financial Officer, University of Exeter

Universities, Climate, and the EMR

The recent court ruling against plans to build a third runway at Heathrow suggests that the government will have to start taking its own law – that the UK should be carbon neutral by 2050 – more seriously.

When the OfS replaced HEFCE it was not required to regulate universities' carbon emissions and, in November 2018, announced that English HEIs would no longer be required to submit data to the HESA Estates Management Record (EMR). "Such data does not have a direct and clear regulatory purpose for the OfS," the board meeting minutes recall. Not much has happened since, but minutes released recently suggest the OfS may begin to take a more active role, including a consultation on reintroducing "mandatory, standardised collection of emissions data" for universities.

AUDE remains firmly of the opinion that the decision to make collection of the EMR data a voluntary rather than mandatory one for English and Northern Irish universities was a backward step. A complete national dataset is an essential decision-making tool in our universities. If the decision were reversed, we could continue to have a national EMR dataset that we can all use to benchmark.

Another reason for making EMR dataset mandatory is that it drives other sector tools, including the Sustainability Leadership Scorecard. The scorecard is a joint project between AUDE, the EAUC and Arup – using public funding. It is currently our best tool in supporting the sector to face up to sustainability challenges and is already being used in more than 100 institutions. However, it is at risk from the degradation of the EMR dataset over time.

The climate emergency is happening now and sustainability efforts should not be 'optional'. The Climate Commission for UK HE & FE is likely to set universities the target of being carbon neutral by 2030, well ahead of the government's own schedule. The OfS itself looks likely to agree to these targets and "support registered providers to meet [them]".

If the OfS is truly supportive then it may need to introduce additional sector funding for sustainability measures and even new regulatory powers. In the meantime, ensuring the sector has a complete, coherent dataset with which to measure progress and identify good practice would be a welcome first step.

Jane White

Executive Director, AUDE