

Department Higher Education and Training

REPORTING by COUNCILS on PUBLIC HIGHER EDUCATION INSTITUTION'S activities

HEMIS institute – 5th August 2015

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OUTLINE OF PRESENTATION

- Reporting Regulations 2014
- Context of Reporting
- Requirements in terms of reporting
- Financial indicators

REPORTING REGULATIONS 2014



- Section 20 (4) of the Higher Education Act 101 of 1997:
every public higher education institution established is a juristic person.
- For this reason the *Regulations for Reporting by Higher Education Institutions* requires from a **council** and management of a public higher education institution to:
 - exercise their fiduciary and managerial responsibilities in a transparent manner,
 - implement systems that will ensure good corporate governance and
 - *give regular account* of the results of exercising their delegated powers.
- The *Regulations for Annual Reporting by Public Higher Education Institutions* prescribe that each university's annual report should include the following reports on the following aspects:
 - The **Report of the Chairperson of Council**;
 - The **Council's Statement on Corporate Governance**;
 - The **Senate's Report to Council**;
 - The **Institutional Forum's Report to the Council**;
 - The **Report of the Vice Chancellor / Principal on Management and Administration**;
 - The **Council's Report on Risk Assessment and the Management** thereof;
 - An **Annual Financial Review Report** which is a report of the Chief Financial Officer and Chairperson of Finance Committee of Council;
 - The **Audited Annual Financial Statements**, which must comply with South African Generally Accepted Accounting Practice (GAAP)/International Financial Reporting Standards (IFRS); and
 - **Disclosure of remuneration of senior management** as a note to the annual financial statements.

3

Context of the Reporting



- Setting of predetermined and strategic objectives,
- Enable performance monitoring and evaluation,
- Improve risk management
- Instill budget planning aligned to predetermined objectives;
- Good corporate governance, management principles and accountability by HEIs as per King Report on Governance (King III)
- Adhering to the International Financial Reporting Standards (IFRS);

4

Planning Requirements



- produce a **Strategic Plan** and update it at least every five years;
 - produce an **Annual Performance Plan**, **Annual Report**, budget documents and Mid-Year Performance report.
 - ensure **alignment** between the Strategic Plan, Annual Performance Plan, Annual Report, budget documents and Mid-Year Performance report.
 - **SUBMIT AN ANNUAL PERFORMANCE PLAN TO THE DEPARTMENT ANNUALLY**
 - must be consistent with the Medium-Term Expenditure Framework (MTEF) period;
 - must contain performance targets, and
 - should be aligned to the Strategic Plan.
- > identify core set of indicators it will use to monitor institutional performance;
- > include appropriate mid-year performance indicators;
- > include cash flow projections of revenue and expenditure for year n+1 and for years n+2 and n+3;
- > include the annual budget for the current financial year n and forward projections for the following three financial years (n+1, n+2 and n+3);
- > show separately income and budgeted expenditure for- primary activities, that is, teaching / learning and research; student housing; and other activities
- > include a separate budget/financial plan for items of long-term capital expenditure and the financing of such, with disclosure of any proposed borrowings;
- > include an institutional risk register - critical identified risks (typically the top 10 to 20 risks);

5

Planning Requirements....



A public higher education institution must prepare an **Annual Performance Plan** setting out its intention for the upcoming financial year (n+1) as outlined below.

- include commitments and/or agreements that the Council has made to / with the Minister (such as enrolment targets, funding envelopes and infrastructure projects);
- include plans for meeting the strategic success factors identified by the institution;
- have **SMART** key performance indicators and performance targets including but not limited to-
 - the headcount enrolment;
 - first time entering enrolment,
 - success rates inclusive of graduate output and throughput rates; and
 - research output inclusive of research output per instructional/research professional staff.
 - or any other appropriate PI

6

Reporting Requirements



- Submit the **Annual Performance Plan** by 15 December of each year for year n+1
- **Submit Annual report by 30 June** (within six months of the end of the financial year)
- adopt a **mid-year reporting system**, and submit a **Mid-Year Performance Report** by November each year.

ANNUAL PERFORMANCE PLAN:

- APP must form the basis for the annual report of a public higher education institution;
- Council may not approve a deficit budget, where projected expenditure is above three percent of total income.
- Where the approved budget for year n+1 or the forecast for either years n+2 and/or n+3 shows a deficit the Annual Performance Plan must show how Council plans to fund the budgeted deficit.
- the first Annual Performance Plan to be submitted by 15 January 2015.

7

Reporting Requirements....



ANNUAL REPORT:

The annual report provides information on the performance of a public higher education institution for the preceding calendar and financial year and must be signed by the Chairperson of Council and the Vice-Chancellor.

- must include the **Performance report** :
 - report on the work of the institution and the extent to which the **objectives** as set out in the **Annual Performance Plan** have been met, and the extent to which the institution believes that it has met the objectives and goals of its Strategic Plan;
 - include report of the Chairperson of Council's **assessment of the performance**, degree of progress towards achieving the objectives set for the period under review in relation to the targets set for that period in the Annual Performance Plan;
 - the Council's statement on **governance; sustainability; transformation; risk assessment and management of risk;**

8

Reporting Requirements....



ANNUAL REPORT....

- Vice-Chancellor on management and administration;
- senate's report to the council;
- institutional forum's (IF) report to the council;
- statement of the **Finance Executive** and the Chairperson of the Finance Committee on the financial results;
- statement of the **Audit Committee** on how it has fulfilled its duties;
- the **audited annual financial statements**, which must comply with the International Financial Reporting Standards (IFRS) where-
 - annual financial statements which should provide a **detailed analysis of the financial position** of universities as at the end of the financial period, including their financial performance and their cash flows positions.
 - the **consolidated Statement of Comprehensive Income** should differentiate in separate columns between (1) Council Controlled unrestricted and designated, (2) restricted, and (3) student and staff accommodation restricted;
 - the **annualised gross remuneration for Executive Management** is disclosed in a note showing the gross remuneration paid to each individual in their executive capacity and separated gross remuneration paid to him or her by the institution for other services;
 - the **gross remuneration of each Council members** paid to him or her for his or her work as a Council member disclosed in a note to the annual financial statements;
- the report of the **independent auditor** on the Annual Report.

9

Reporting Requirements....



MID-YEAR PERFORMANCE REPORT provides a progress update on the enrolment (size and shape) and on financial performance of the institution against the Annual Performance Plan.

- submit to the Department by 30 November of each year
- include information up to 30 June of that year
 - financial performance of the institution for the six month period
 - a comparison between the actual and budgeted revenue and expenditure for the period;
- include progress and expenditure with regard to any earmarked funding allocations;
- include enrolment against ministerial approved targets; and
- be approved by Council;

10

Financial indicators



- Financial ratio analysis are key in:
 - assessing whether institutions are financially healthy as at reporting date,
 - whether the institution is living within its means and
 - to understand the trends within not only an institution but within the sector.
 - It also enables the Department to identify financial management problems and
 - to engage timeously with identified institutions which are potentially in danger.

- Identification and development of financial indicators :
 - key financial indicators as per industry standard,
 - financial indicators developed by the Development Bank of South Africa (DBSA) for loan applications of universities to the DBSA and
 - indicators identified in the "Review of Annual Reporting by South African public higher education institutions 2010-2012 published by PriceWaterHouseCooper and presented to the sector at a conference in September 2014.

11

Financial indicators...



Measuring Indicator	Defining the Indicator	Viability Ratio	Expected Normal Standard
Current Ratio	<ul style="list-style-type: none"> • The university's ability to meet its short term payment obligations. • Shows short term financial strength or solvency 	Current Assets/Current Liabilities	>2:1
Cash Ratio	<ul style="list-style-type: none"> • The university's ability to pay off current liabilities if for some reason immediate payment were needed • Lower ratio indicates illiquidity. • Higher ratio may imply unused funds. 	Total current assets excluding inventories and receivables/Total current liabilities	>1.4:1
Sustainability Ratios	Total Cumulative reserves: Indicates the ability for an institution to continue in operation without new funding in the next financial year. A trend of higher than 1 ratio signifies a viable institution while below 1 means may not cover the following year's expenses without new funding.	Total Cumulative reserves/Annual expenditure	>1.0
	Council Controlled Reserves: Indicates the ability for an institution to continue in operation without new funding in the next financial year. A trend of higher than 1 ratio signifies a viable institution while below 1 means may not cover the following year's expenses without new funding.	Council Controlled reserves/Annual expenditure	>1.0
	Surplus and deficit history	Council controlled expenditure Student and staf accommodation fees Restricted funds	Surplus

12

Financial indicators...



Measuring Indicator	Defining the Indicator	Viability Ratio	Expected Normal Standard
Debt Instruments	This indicates the total debt receivables as a % of total tuition fees	$\frac{\text{Student debt}}{\text{Annual tuition fees}}$	Average of sector
	<ul style="list-style-type: none"> a good indicator of operational efficiency very good especially when the ratio is lower than 10% 	$\frac{\text{External Loan debt as a \% of operating income}}{\text{External loan debt} \times 100}$ $\frac{\text{Total Income}}{\text{Total Income}}$	<10%
	<ul style="list-style-type: none"> The percentage of capital employed that is financed by long term debt. The higher the gearing, the higher the dependence on borrowings and long term financing. The lower the gearing ratio, the higher the dependence on equity financing. The higher the level of gearing, the higher the level of financial risk. 	$\frac{\text{Long-term debt} \times 100}{\text{Equity}}$	<10%
	<ul style="list-style-type: none"> The percentage of fees owed to the university resigned as not recoverable ratio. A ratio which is less than 50% signifies strong policy on debt recovery. 	$\frac{\text{Irrecoverable student debt}}{\text{Total student debt outstanding}}$	<50%

13

Financial indicators...



Measuring Indicator	Defining the Indicator	Viability Ratio	Expected Normal Standard
Government grant as a % of total revenue	<ul style="list-style-type: none"> Percentage of the University's revenue made up of government grants. Determines the level of reliance on government funding by the university and its ability to generate funds for its survival. 	$\frac{\text{Subsidy}}{\text{total revenue}}$	No benchmark
Tuition and accommodation fees as a % of total revenue.	<ul style="list-style-type: none"> Provides an overview of tuition and accommodation fees as a percentage of income 	$\frac{\text{Tuition \& Accommodation Fees}}{\text{Total Revenue}}$	No bench mark
Third stream revenue as a % of the total income	The ratio provides an overview of how a university generates income from other sources and activities other than government subsidies and student fees.	$\frac{\text{Other income} + \text{Research Income}}{\text{Total income} \times 100}$	No benchmark
Personnel Costs to income	<ul style="list-style-type: none"> The total cost of personnel as a percentage of income 	$\frac{\text{Personnel Costs}}{\text{distributable income}}$	<between 58 - 63%

14



THANK YOU