

Commentary to support the OfS Annual Financial Return 2020 workbook

Assumptions and impact of forecast changes

1. To help the OfS to understand the financial and student number forecasts, and the impact on your provider's financial viability and sustainability of changes from the forecast, please complete the table below. Please enter the narrative explaining the assumption and the financial impact resulting from it for each of the items. If there are several assumptions for any one line, please separate around the financial impact for each assumption.

		Narrative – assumption for change between years	Financial impact, in £000s, from assumption
1	Student numbers (full-time equivalent)		
1a	UK-domiciled undergraduate students (full-time and part-time)	There is a short term drop between year 2 and year 3 as an existing programme continues to be phased out. Thereafter we expect slow growth through expansion of existing programmes. No change in fee during forecast period.	Fall of £171k in year 3, climbing thereafter. Year 7 will be £541k higher than year 2.
1b	Other EU-domiciled undergraduate students (full-time and part-time)	Significant drop in EU numbers as new entrants become liable to overseas fees. Reducing from 15% of UG numbers in year 2 to 9% in year 7. However year 3 is an outlier with much greater recruitment than normal as students sought to beat the move to the new fee regime.	Despite the drop in numbers the increased fee means EU undergraduates will collectively pay almost double what they do in year 2 with a gain of £804k
1c	Non-EU domiciled undergraduate students (full-time and part-time)	Year 3 saw a significant drop compared to year 2, largely driven by Covid. Targeted growth to counter the effect of Brexit will see this recover in the next	Revenue will be £900k higher in year 7

		few years with Year 7 numbers 3 higher than year 2.	than it was in year 2
1d	Postgraduate taught students (all domiciles, full-time and part-time)	UK an Overseas numbers are expected to be largely unchanged. EU numbers are expected to decrease significantly	Revenue from EU postgraduates will decrease by c£300k
1e	Postgraduate research students (all domiciles, full-time and part-time)	The recent launch of the AHRC funded Centre for Social Impact will drive an increase in research student numbers as we continue to push towards RDAP. Also modelling EU research students paying higher fees by the end of the forecast period.	Increase in fees of c £280k by year 7
2	Student fee income levels		
2a	UK-domiciled undergraduate students (full-time and part-time)	No change from the current £9,250	£Nil
2b	Other EU-domiciled undergraduate students (full-time and part-time)	New entrants will pay overseas fees	C£13k per new EU entrant
2c	Non-EU domiciled undergraduate students (full-time and part-time)	No increase in 2021/22 as part of drive to encourage students back to the UK. 3% annual increase thereafter.	C£650per student per year
2d	Postgraduate taught students (all domiciles, full-time and part-time)	No increase in 2021/22 as part of drive to encourage students back to the UK. 3% annual increase thereafter.	C £2-300 per student for Home students, c£650 per student for all others
2e	Postgraduate research students (all domiciles, full-time and part-time)	No increase in 2021/22 as part of drive to encourage students back to the UK. 3% annual increase thereafter.	C £2-300 per student for Home students, c£650 per student for all others
3	Office for Students grant	Retain ISTA. Modest inflation increases on other lines	C£83k gain between year 7 and year 2

4	Research England grant	New multi year grant from the AHRC that started in later part of year 2 is first major grant for the School. Forecast assumes similar level of funding in the future	AHRC funding over three years is worth c£800k
5	Staff costs	Modest allowance of c1% to cover increments through the grade for those not yet at the top of the grade. 0% inflation for cost of living for at least next two years.	
6	Inflation	0% for staff. 2% for contracts with external suppliers. 0% on all other expenditure lines	
7	Pension costs	LGPS to continue at 21% of salary.	
8	Pension provision	Not applicable	
9	Interest costs	Not applicable	
10	Building maintenance costs	All major capital lines continue to be funded by the City of London. Regular maintenance to continue on cash standstill basis	
11	Contingency	None.	
12	Other income	The School has received extraordinary funding from the City of London to help it manage the loss of revenue due to Covid.	C£1.442m in year 3 and £1.105m in year 4

Ensuring financial viability and sustainability

2. How is your provider ensuring its financial viability¹ and sustainability,² including the identification and management of material risks to viability and sustainability?

As the ultimate owner of the Guildhall School of Music & Drama, The City of London corporation acknowledges its position as funder of last resort to the School. The level of support shown in Financial Year 2020/21 and 2021/22 includes exceptional one-off funding to counter the impact of the Coronavirus pandemic on the School's finances. Nevertheless

¹ 'Financially viable' means that the OfS judges that there is no reason to suppose the provider is at material risk of insolvency within a period of three years from the date on which the judgement is made.

² 'Financially sustainable' means the OfS judges that the provider's plans and protections show that it has sufficient financial resources to fulfil conditions D(iii) and D(iv) of ongoing registration for the period of five years from the date on which the judgement is made, and that it is likely to be able to operate in accordance with these plans and projections over this period.

the City has challenged the School to seek efficiencies where that can be achieved without damaging the student experience.

Work to identify areas for potential savings may include the removal of a small number of unviable courses, though clearly such a move can take several years to have an impact.

To the extent that the School achieves those savings they will be ring-fenced to the School for future use, though the City will expect to revert to the normal pattern of funding thereafter.

In addition the School is working on a refreshed version of its business plan – in the form of a recovery plan in recognition of the impact of Covid-19 and Brexit on its finances in the short term. That will be presented to the Governing board in February 2021 and is likely to include a request to the City for Investment funds to support potential new income generating activity at the School once the business case has been made.

3. What scenario planning, sensitivity analysis or stress testing has been undertaken to understand and mitigate the risks to financial viability and sustainability that arise from uncertainty in your financial and student number forecasts? Please provide details.

Various models were completed for student numbers, with particular emphasis on changes in EU student numbers for those programmes currently heavily reliant on EU numbers. This included looking at how the School might replace the potential lost students both on the same courses (through targeted recruitment elsewhere in the UK or overseas) and through growth on other existing programmes that have a strong track record domestically and have the potential to take more students.

We have also sought to explore potential new income streams, including through online delivery, where the move to online teaching as a result of Covid has proven successful and could be exploited commercially in the longer term.

We are also continuing to seek out additional philanthropic funding and have modelled the costs and benefits of investing in this area.

As noted above, we are continuing to seek further efficiencies that will lower the cost base for the School and continue to model what that might look like to assess how feasible it might be to cut costs in various areas of the organisation with risking our status as a world leading Conservatoire.

4. Where the financial and student number forecasts include any significant movements (± 10 per cent in any one year) on the income and expenditure account, what are the reasons for these movements? The explanation must include details about any material exceptional income or expenditure items.

Year on year movements in funding body grants (Table 4.2) are driven by decisions made by the funding bodies. Where the School is uncertain and values have a tendency to change significantly from year to year the School has assumed no income (such as Research England other grants, table 4.2d)

Research grants (Table 4.3) fell by 11% between year 1 and year 2 as some older projects came to an end. However this line has increased by 67% in year 3 with the launch of the AHRC funded Centre for Social Impact and will continue at this higher level going forwards.

Income from other sources (4.4a) will inevitably change from year to year as it depends on both the School's ability to deliver additional services and external demand for those services. After some success in building those between year 1 and year 2, the Covid pandemic put a pause on growth, though the School expects this to recover and resume the long term trajectory in year 4.

The School took a significant hit on residencies and catering income (Table 4.4b) between year 1 and year 2 after closing its accommodation and ceasing catering during the first lockdown in Spring / Summer 2021. While this is expected to begin to recover during year 3 it will be year 4 before they are back where we would expect them to be given the long term trajectory and future plans.

Other operating income (Table 4.4h) falls in year 5 as the exceptional level of funding from the City of London to support the School through the Covid pandemic comes to an end and funding from the city reverts to normal levels.

Fees from EU students (Table 6.b) are driven by changes in student numbers along with the move to new entrants being liable for overseas fees with effect from Autumn 2021 (year 4). Continuing EU students who commenced their course before 1 January 2021 will continue to be liable to Home fees. Reasons for changes in student numbers are explained elsewhere in this document.

Other operating expenses (Table 1.2c) in year 3 are 10.6% lower than year 2 through a combination of activities not taking place due to Covid and the School's efforts to seek efficiency savings. In addition to reduced expenditure on premises (electricity, heat, light etc) savings have been made on the cost of supporting public productions and external hire of the premises.

Salaries and wages for non-academic staff (Table 9.1c) have increased by 12.2% between year 1 and year 2 as the School took on additional staff to support the transition to online teaching (including in the AV department) and manage the building effectively and securely.

5. Where the financial and student number forecasts include material changes on the balance sheet, what are the reasons for these changes? The explanation must include details about any material exceptional items.

As a department of the City of London the School does not have a Balance Sheet of its own and does not present one in its audited financial statements. We have nevertheless included the minimum level of detail required to pass validation and allow us to submit the workbook. The deficit in year 2 will see the School utilise the entirety of its reserves. The deficit will increase in year three before the School moves back into surplus. The bank overdraft will remain a further year, with the School returning to a cash positive position in year 6.

Note however that the School bank account is linked to the City of London bank account meaning that its ability to meet its obligations remains unaffected.

6. Where the financial and student number forecasts include any significant movements (± 10 per cent in any one year) on the cash flow statement and forecast, what are the reasons for these movements? The explanation must include details about any material exceptional cash items (you may cross-refer to questions 4 and 5 above if appropriate).

The School has recorded an 11.9% increase in UK-domiciled postgraduate taught students between year 2 and year 3, including a significant expansion of the Jazz programme without which the year on year movement would have been 7.5%.

The year on year movements in UK-domiciled PGR students is the result of small numbers of students on the programme. The 12.5% decrease between year 1 and year 2 is a change of just 2 students. The 30% increase in part time UK-domiciled research students is due to the same cause – an increase from 10 to 13 students.

The 100% fall in UK-domiciled undergraduate students reflects the fact that the two part time students we had on the programme have now completed their course.

Full time EU students have increased significantly between year 1 and year 2 and again between year 2 and year 3 as students sought to join a course before the fee regime changes and they lose access to UK fees and student loans. The subsequent drops in year 3 and year 4 are the inevitable result as students who did not join before the rules changed show signs of staying away. By year 7, when all four cohorts of the BMus programme will be on overseas fees we expect EU undergraduate numbers to be half year 3 levels.

Overseas undergraduates are set to grow over the next few years as we seek to replace the lost EU students following Brexit. However Postgraduate numbers are set to decline, with overall student numbers from outside the EU remaining largely stable.

Intangible assets

7. What are the intangible assets that your provider currently owns or plans to own in the future?

none

8. How have you valued your intangible assets? How and why has the value of these assets changed during the past three years?

n/a

Provisions

9. If you have reported pension provisions in your balance sheet, what pension schemes do these relate to?

n/a

10. Have all provisions been disclosed in the notes to the audited financial statements? If not, state what the provision is, why it arises, its value and why it was excluded from the audited financial statements.

n/a

Other reserves

11. Where there is a balance shown in any year for 'other reserves', what comprises this balance?

This is the counterpoint to the cash / overdraft noted at question 5 and is included only to pass validation.

Off-Balance Sheet

12. Please detail any off-balance sheet items that you may hold but have not included in your financial tables. For each item please detail:

- what the item is (e.g. student halls of residence)
- what its value would be if the item were to come onto the balance sheet for any reason (e.g. closure of the company providing the service)
- the reason why you consider that it does not need to be included on your balance sheet
- information about who (or what) holds the risk in relation to this item.

n/a

Other

13. If relevant, what are your debt covenants and how do you manage your compliance with them? Do your forecasts show that you will continue to meet these covenants for the full forecast period?

n/a

14. Is there any further information that would be helpful to the OfS in assessing your financial and student number forecasts to ensure that we understand the provider's financial viability and sustainability? If so, provide this below.

The School has incurred significant losses in the year to 31 July 2020 due to Covid and anticipated a similar outcome on the year to 31 July 2021. However thereafter it anticipates a return to surplus as those activities that were curtailed due to Covid resume, the School's efforts to find efficiencies begin to bear fruit and the new activities it intends to launch in the next two to three years take hold and draw in new audiences. In the interim the School remains grateful for the ongoing support of its owner the City of London, who have provided additional financial support to the School due to Covid and confirmed that the School will be able to retain the benefit of any efficiency savings it is able to deliver in the coming year. Taken together the School fully expects to be able to manage its financial affairs through the period covered by the forecast and emerge at the other end on a much stronger, more viable position.

15. If you have separately disclosed material items in your audited financial statement of comprehensive income and expenditure, please give details of what these relate to.

n/a

16. Please use this space to provide any further information you wish to bring to our attention, or any further explanation supporting your entries in the tables.

n/a