

13.5 Annexure 5: Financial Overview

ANNUAL FINANCIAL REVIEW 2020

REPORT OF THE CHAIRPERSON OF THE FINANCE COMMITTEE AND THE EXECUTIVE DIRECTOR: FINANCE AND FACILITIES

The purpose of this report is to present a summary of the financial results of the University for 2020 and to provide information regarding the following:

- Budgeting and budgetary control processes
- Overview of financial achievements

13.5.1 BUDGETING AND BUDGETARY CONTROL PROCESSES IN 2020

The Finance Committee of Council approved the budget process and timeline for the 2020 budget in May 2019. During an interactive budget process, it was expected from all levels of management to take ownership and to participate actively in compiling the budget (per planned activity) for 2020 and where possible, apply zero-based budgeting principles. The main focus within each executive portfolio during the budget process was to cost their annual performance plan for 2020. This plan needed to be aligned with the portfolio's strategy, the NWU strategy and NWU Annual Performance Plan (APP). Budget discussions took place on various management levels. Each executive manager also had the opportunity to discuss his/her portfolio budget with the budget committee task teams to ensure that the detailed budgets were aligned with the NWU strategy, that managers attended to equity of resource provision and to identify possible risks and concerns. Priority was given during the 2020 budget process to integrate the different planning processes (operational budget, infrastructure, macro maintenance, strategic projects and new personnel cost requests). All the relevant role players were included in the budget discussions with the executive managers and the main focus during all these discussions was that the relevant processes and requests need to be informed by and aligned with the NWU strategy and APP. Consultation sessions with the Senior Management Committee (SMC) were held to consult on the staff fund allocation (focus, principles and recommendations) and to give feedback on the proposed 2020 budget.

The high level budget, taking into account the approved APP, the viability and sustainability indicators and other financial information available, was used as a budget framework during the budget process.

Budget overview

When compiling the annual budget, our budget task team prepares a high-level break-even budget on a cash flow basis. The budget for 2020 was shaped by the realistic prediction of income, translating to expenses that we can "afford". This means we paid close attention to the calculation of the key sources of revenue, taking into account all the latest, most relevant information available.

As a financial sustainability guideline to steer the NWU towards the ideal combination of income and expenses, we used pre-determined ratios (expenses measured as a percentage of core business income). The 2019 budgeted expense ratios were used as the basis for the 2020 expense budget. The result of the income calculation gave an indication of the adjustment needed in terms of the 2020 expense budget. We then did a three-year forecast, based on the same principles and certain assumptions.

The following ratios guided us:

- Staff cost as a percentage of income
- Operating cost as a percentage of income
- Capital cost as a percentage of income

Budget control process

As performance agreements of all staff are linked to the Annual Performance Plan (APP), all the different levels of management remained involved in the management of the budget and therefore the budget control process

did not change. In the course of any given year all staff members who deal with finances remain closely involved through the monthly variance reporting structures. Variance reports were monitored up to University Management level on a quarterly basis via the Management Statements that served at the University Management Committee (UMC), and also reported biannually to the Finance Committee of Council. Furthermore, for source of funds (SOF) 2, 3 and 5, only income actually received is allowed to be spent.

How we managed the financial impact of the Covid-19 pandemic

The Covid-19 pandemic was an unforeseen event and was therefore not included in the 2020 budget. The full financial impact of the Covid-19 pandemic for the NWU and the sector, as well as South Africa, is still unknown. Financial losses will be inevitable and therefore we have adopted a prudent approach that entails compiling different scenarios based on financial risk factors with various assumptions. The aim is to determine the possible financial impact and put a mitigation plan in place to ensure financial sustainability in the medium to long term.

Our cautious, wait-and-see approach is also flexible, ensuring that we use the latest information to make decisions. We are continuously updating the Financial Impact Model and mitigation plan as and when more information becomes available, using the model as the baseline in order to guide decision making, which can be scaled up or down.

We are working from the stance that we need to:

- manage the unknown as and when it occurs
- support the remote learning mode so as to reduce any possible negative impact on the throughput rate, enable students to complete the academic year successfully and retain students and
- preserve permanent and fixed-term appointments and salaries, also with a view to the medium to long term.

The main focus is on cash flow management and on including the forecast in revising the 2021-2023 budget numerous times.

13.5.2 OVERVIEW OF FINANCIAL ACHIEVEMENTS

The Covid-19 pandemic (past, current and ongoing) situation and the implications thereof in its entirety should be kept in mind when reading and referring to the analysis and interpretation of the content of this overview. Surplus should rather mostly be seen as “Unspent funds” and not interpreted as income in excess of expenses, as would “normally” be the case. Focus should be placed on the unprecedented times under which operations had to be conducted during 2020 and the delay of, or the restrictions of normal operating activities, giving rise to distorted spending patterns.

The financial review for the year ended 31 December 2020 is presented under the following headings:

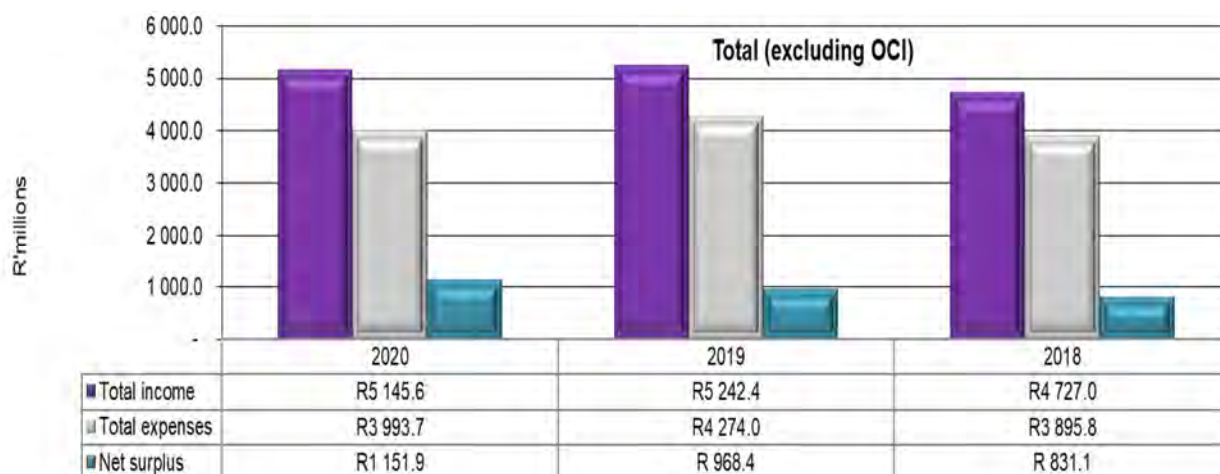
• Surplus and growth

The total surplus for 2020 is R1 151,9 million (2019: R968,4 million and 2018: R831,1 million) and increased by 18,9% compared to 2019. Total surplus expressed as percentage of total income is 22,4% for 2020 (2019: 18,5% and 2018: 17,6%). Total surplus can be divided into surplus from recurrent activities of R1 107,8 million (2019: R905,7 million and 2018: R859,8 million) and surplus from non-recurrent activities of R44,1 million (2019: R62,7 million surplus and 2018: -R28,6 million deficit). Expressed as a percentage, surplus from recurrent operations represents 21,5% of total income for 2020 (2019: 17,3% and 2018: 18,2%) and non-recurrent surplus 0,9% (2019: 1,2% surplus and 2018: - 0,6% deficit).

The total income of the University decreased by 1,9% during 2020 to R5 145,6 million compared to the previous year (2019: R5 424,4 million) and increased by 8,9% compared with 2018 (R4 727,0 million). Total expenditure of R3 993,7 million decreased by 6,6% for the 2020 financial year (2019: R4 274,0 million) and was therefore the main contributor to the higher surplus. Total expenditure increased by only 2,5% since 2018 (R3 895,8 million). These ratios clearly indicate a deviation from normal operating activities and spending patterns leaving a great amount of available budgeted funding unspent during 2020.

The impact of IAS19 valuations on expenses is an increase of R12,2 million for 2019 (2019: R15,0 million decrease), compared to the decrease of R20,3 million for 2018.

Other comprehensive income (OCI) for 2020 totalled a surplus of R23,1 million (2019: R69,1 million deficit and 2018: R18,3 million surplus). This gave rise to a reportable total comprehensive income for the year of R1 174,9 million (2019: R899,3 million and 2018: R849,6 million).

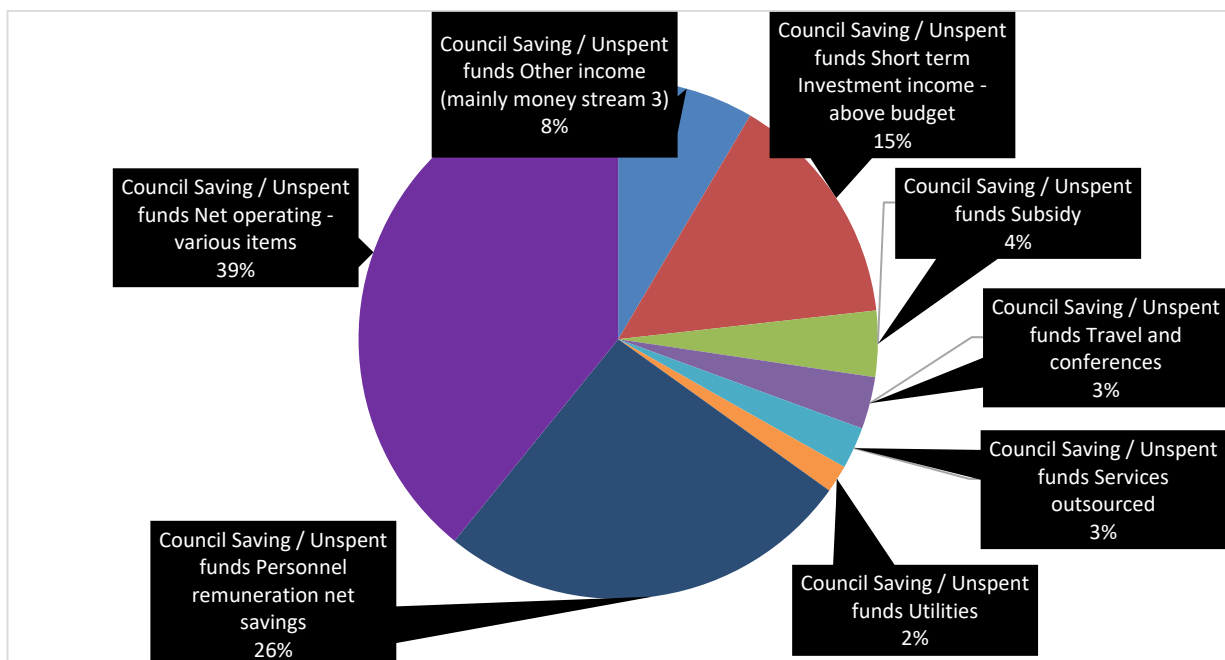


The income of the University from recurrent activities increased by 0,8% to a total income of R5 088,8 million, while the total expenses from recurrent activities decreased by 3,9% to a total expenditure of R3 981,0 million for 2020. The surplus for the 2020 financial year from recurrent activities represents 21,8% (2019: 17,9% and 2018: 18,2%) of the total recurrent income.

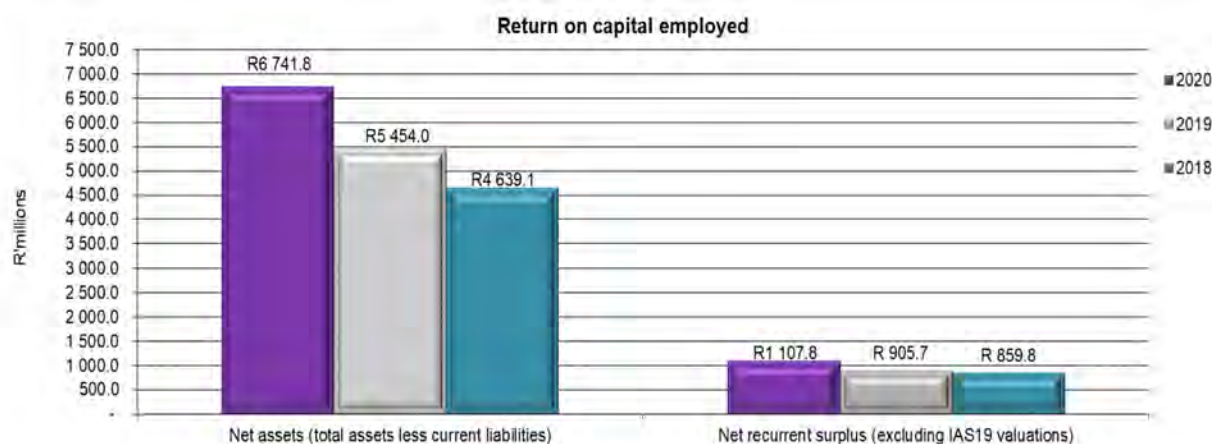
The material contributing items to the higher amount of unspent funds are the saving on operational costs, as well as staff costs which are a result impact of Covid-19 and the accompanying lockdown levels that prevented certain activities from continuing during 2020. Furthermore, savings on staff costs were planned in line with the staff cost mitigation plan that was informed by the Financial Impact Model. The increase in the surplus from recurrent activities can be attributed to a number of factors i.a.

- Infrastructure efficiency earmarked grant for infrastructure projects that is recognised as and when the expenses are incurred;
- timing differences due to e.g. capital and macro-maintenance projects, as well as strategic projects not completed during the year, which was carried over to 2021;
- favourable investment returns on a growing long term investment portfolio;
- staff remuneration savings on vacant positions, etc.

Higher than planned expenses include provisioning of data, printed study material, and an increase in bad debt.



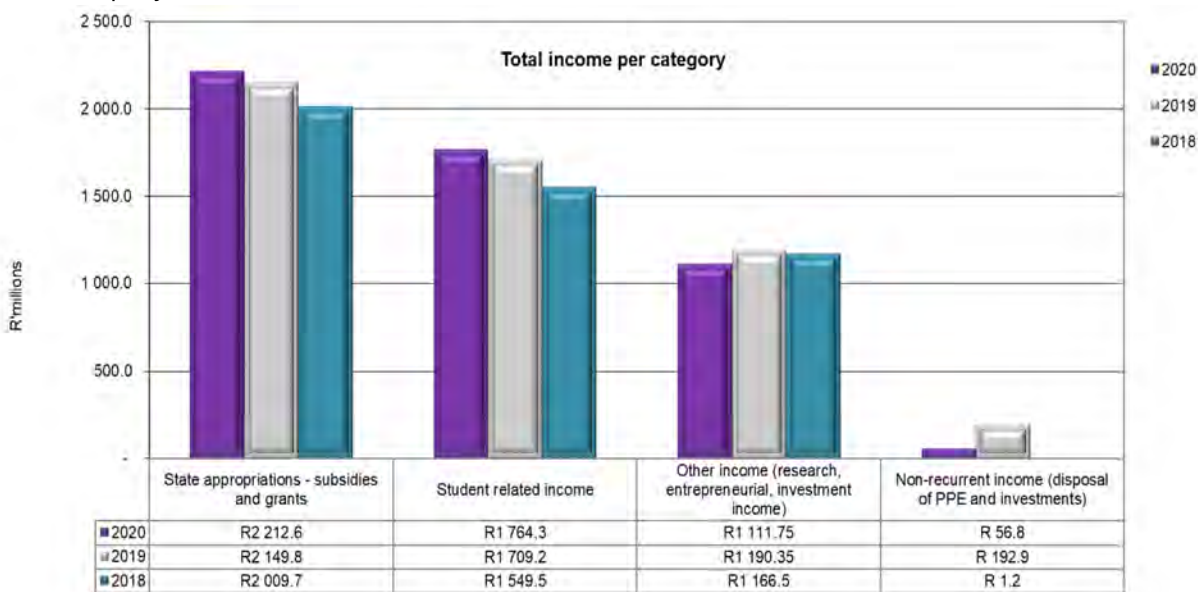
The University's return from recurrent operating activities on capital employed (total assets less current liabilities) decreased to 16,4% (2019: 16,6% decrease) but still compares satisfactorily to 18,5% in 2018. This is mainly due to an increase of 23,6% in net assets despite an increase in the recurrent surplus.



Income from state appropriations (subsidies and grants) represents 43,0% of total income (2019: 41,0% and 2018: 42,5%), an increase of 2,9% from 2019 to 2020 – compared to the 7,0% increase from 2018 to 2019 when additional subsidy of R110,6 million was received as per the revised Medium Term Expenditure Framework (MTEF) baseline allocations during April 2018. Total state subsidies comprise a 94,2% block grant and 5,8% earmarked grants. Earmarked grants in the amount of R162,0 million were deferred (2019: R86,7 million and 2018: R50,1 million). This amount includes R36,9 million received in advance regarding the final gap funding grant which is being phased out. Universities will be responsible for surpluses and deficits in gap grant funding until the cohort of students who benefitted from the gap grant no longer enrol at the University.

Tuition fees increased by 5,4% for contact students and 5,3% for distance students for 2020, and by 5,3% for 2019 and 8,0% for 2018. Although our major growth driver, namely student numbers, decreased by 11,4% for 2020, student-related income was still 3,2% higher than in 2019 (2019: 10,3% higher and 2018: 23,7% higher). Additional NSFAS funding enabled a higher number of enrolments of students funded by NSFAS. The total student-related income represents 34,3% of the total income (2019: 32,6% and 2018: 32,8%).

Other income represents 21,6% of total income (2019: 22,7% and 2018: 24,7%). This ratio excludes non-recurrent income (1,1% of total income), which may affect comparability depending on events and related amounts per year. Non-recurrent income for 2019: 3,7% and 2018: 0,0%.



Total expenditure decreased by 6,6% (2019: increased by 9,7% and 2018: increased by 10,5%). Note should be taken of the interruption in this ratio, as an increase would normally be expected in line with Higher Education Inflation. Underspending of funds due to the impact of Covid-19 on operations gave rise to a decrease in total expenditure compared to previous years.

Personnel remuneration increased by 4,7% compared to 7,2% for 2019 (2018: 8,9%). The increase reflects a combined weighted annualised average of the 3,1% COLA adjustment. The COLA increase comprised both a permanent carry-over component effective 1 August 2020, and a cash once-off component paid in November 2020 (for a period of 8 months – 1 August 2020 to 31 March 2021). The total cost of personnel expenditure for 2020 increased to 48,9% of total income (2019: 45,9% and 2018: 47,5%), mainly due to the decrease in income and the impact of the IAS19 valuations. Council-controlled personnel expenditure is closely monitored to stay within the norm set by the Department, i.e. 57,5% - 63,0%. This target includes amounts paid for services outsourced, while the University shows amounts paid for services outsourced as part of operating income. The ratio for total Council-controlled personnel cost compared to total council controlled income was 52,8% for 2020 (2019: 49,7% and 2018: 52,4%). The main reason for this increase in 2020 is the decrease in income, despite the higher than normal number of vacancies as a result of the staff cost mitigation plan in response to the forecasted medium-long term financial impact of Covid-19. The total effect of IAS19 valuations amounted to a R12,2 million increase in staff expenses (recurrent and non-recurrent) for 2020 (2019: R15,0 million decrease and 2018: R20,3 million decrease).

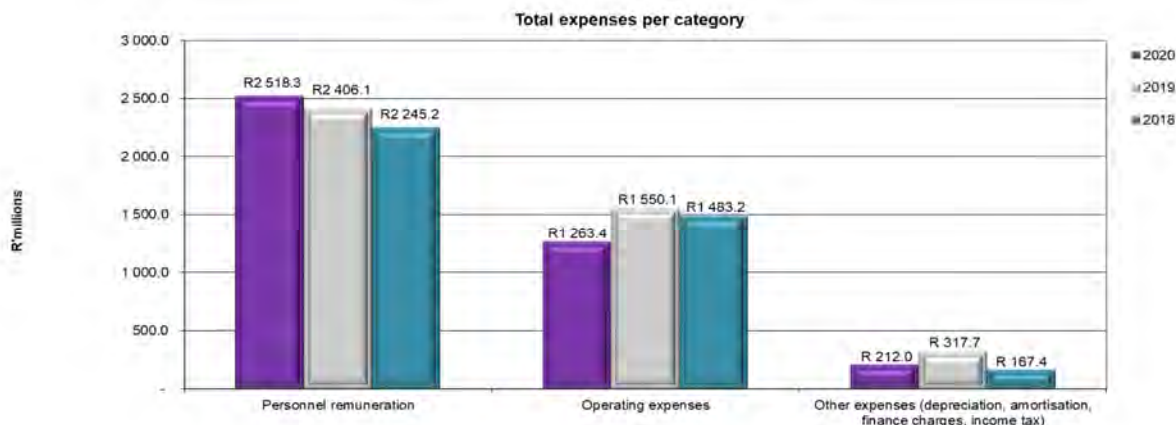
Operating expenditure decreased by 18,5% compared to 2019 as a direct result of Covid-19 and the lockdown levels that prevented certain activities from continuing. During 2019 operating expenses increased by 4,5% compared to 2018 (2018: 11,8% increase). Operating costs represent 31,6% of total income (2019: 36,3% and 2018: 38,1%), which is mainly due to the decrease in income and therefore below the maximum target of 42%. A number of projects had to be carried over to 2021 due to Covid-19.

Expenses include an amount of R54,9 million (2019: R47,1 million and 2018: R47,6 million) written off as irrecoverable and doubtful student debt. The student debt ratio (before impairment) is set to be less than the maximum norm of 20,0% for the sector. The NWU has a student debt (before expected credit loss) to tuition fees ratio of 17,8% for 2020 (2019: 12,2% and 2018: 17,6%). Provision for expected credit loss on student debtors increased by R30,5 million or 49,7% in 2020 compared to the R5,1 million or 9,0% increase in 2019 (2018: R8,6 million or 18,0% increase). The impact of calculating the expected credit loss on sundry debtors was a decrease of R1,1 million in expected impairment for 2020.

Other expenditure relating to depreciation and finance charges, also including non-recurrent expenditure, decreased by 33,3% (2019: 89,8% increase and 2018: 21,3% increase). Adjustment to financial assets at fair

value through profit or loss (FVPL) instruments included in non-recurring items for 2020, amount to a loss of R10,8 million. This was the result of markets absorbing the economic effect of the worldwide Covid-19 pandemic.

Strict monitoring of income and expenses together with tight budgetary controls heightened awareness and behaviour regarding savings, as well as the impact of Covid-19 on activities, resulted in a higher surplus and therefore a positive contribution towards the University's available reserves. As mentioned above, a portion of the savings can be attributed to timing differences and will result in a spending against reserves in 2021.

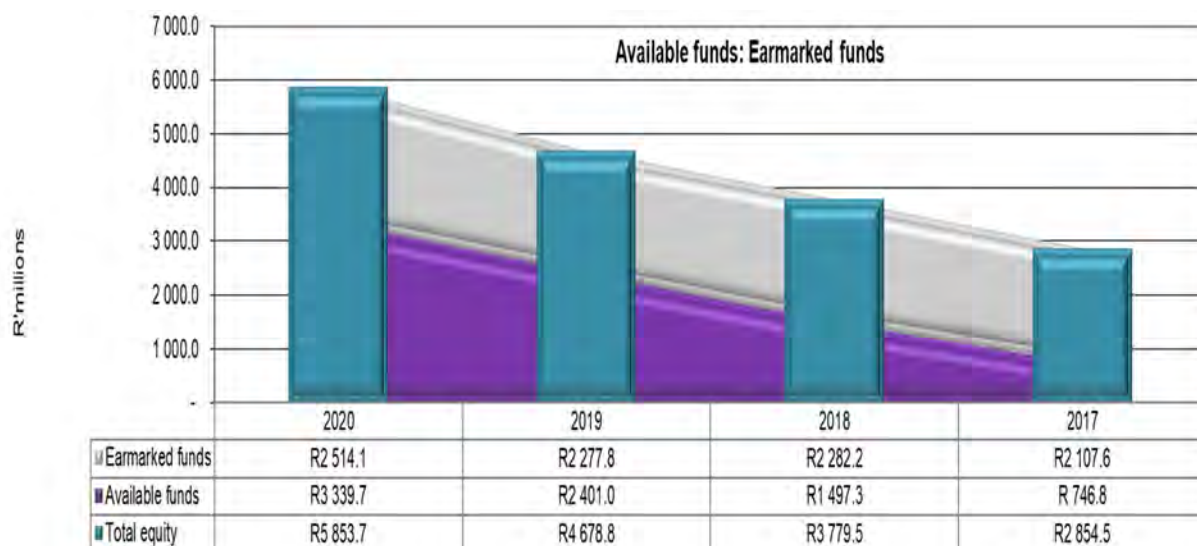


• Equity

The University's equity increased by 25,1% in the 2020 financial year (2019: 23,8% and 2018: 32,4%), mainly due to the higher amount of unspent funds (surplus). A decrease of R0,7 million in the net asset value of employee benefits (pension fund and disability reserve fund) at 31 December 2020 must be noted – as per external actuarial valuation in terms of IAS19 (2019: R53,2 million decrease and 2018: R32,2 million increase). This small deviation is attributable to all members being converted to defined contribution as opposed to the previous combination of defined contribution members and defined benefit members. Investment in property, plant and equipment contributed R61,0 million to the higher equity percentage. The unrealised fair value adjustment reserve increased by R56,8 million during 2020, compared to the decrease of R125,2 million in 2019. This is the result of an increase in unrealised profits adjustments after all profits were realised during 2019 when the University switched to new brokers to manage investment portfolios.

The available funds increased to 57,1% of total equity (2019: 51,3% and 2018: 39,6%), mainly due to the recurrent surplus of 21,8%. Although the University has a normal target of 3% to 6% of turnover for surplus from recurrent activities, the current target is set higher, in an effort to maximize the level of available Council-controlled reserves. The impact of Covid-19 on the University's activities had a material impact on the spending pattern. Some infrastructure and other projects were postponed due Covid-19 circumstances which placed practical restrictions on the NWU, while other projects commenced late in 2020 and will only be completed in 2021 – thus spending against carried-forward 2020 available reserves will take place during 2021.

The sustainability ratio of Council-controlled reserves over total expenditure for the year is 0,84 for 2020 (2019: 0,56 and 2018: 0,38). This trend, as well as the vast improvement in Council-controlled reserves (which increased from R746,8 million in 2017 to R3 339,7 million in 2020), is indicative of the commitment of the NWU towards financial sustainability, and of good progress towards the DHET norm of 1,0.

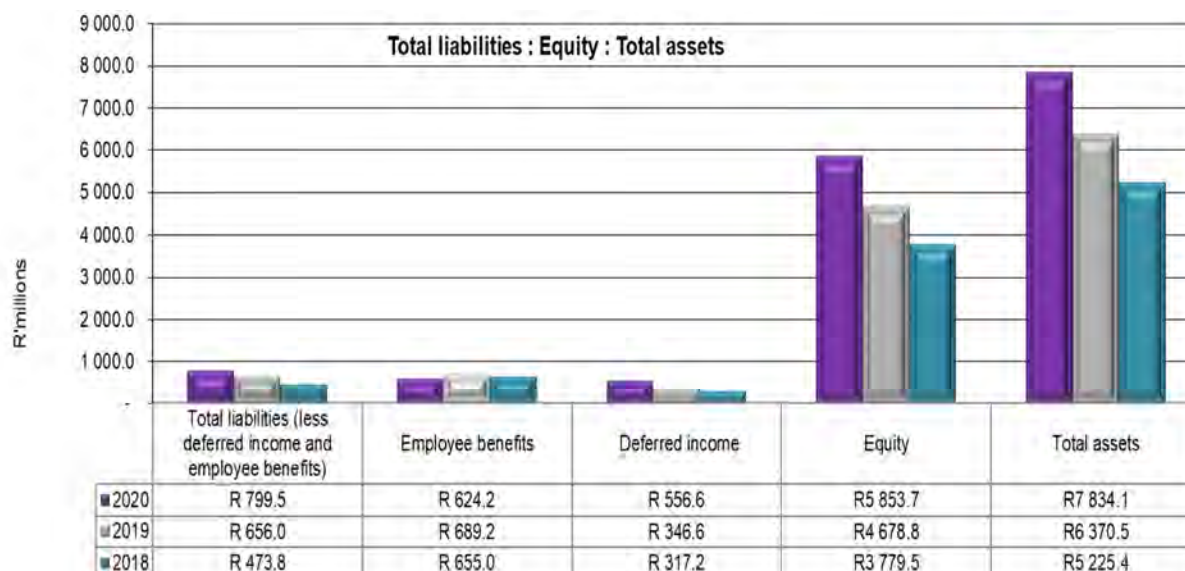


- Solvability**

The total liabilities (R1 980,3 million) at year-end for 2020 expressed over total equity (R5 835,7 million) means the University's ratio of debt to equity is 0,34 (2019: 0,36 and 2018: 0,38). This is the result of an increase of 25,1% in equity (2019: 23,8% and 2018: 32,4%) for the reasons explained above, and an increase of 17,1% in total liabilities (2019: 17,0% and 2018: 5,9%). The amount of R556,6 million (including accumulated interest) relating to the previous as well as the new cycle infrastructure grants, is included in total liabilities under deferred income. The academic year was extended by 15 days into 2021 in order to complete the year successfully. Tuition fees of R67,7 million and residence fees of R11,1 million were deferred for the same period and are included in income received in advance, with no comparatives. The first of three accumulated leave pay outs in the amount of R130,1 million was paid in January 2020. The significance of this impact on the employee benefits liability was countered by a great number of annual leave days carried over to 2021 due to Covid-19 restrictions and operational demands resulting in employees not taking leave.

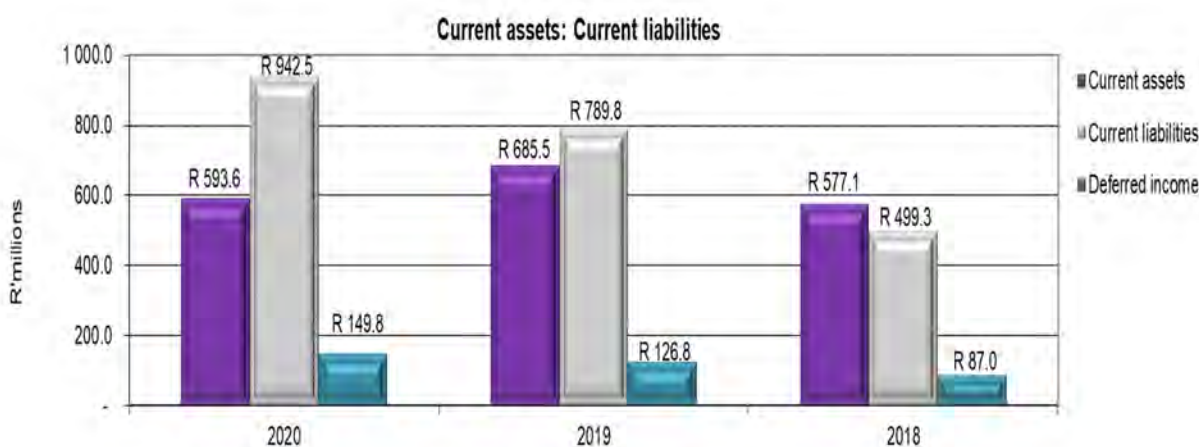
The total liabilities expressed over total assets indicate a ratio of 0,25 for the year (2019: 0,27 and 2018: 0,28). Thus total liabilities are covered 3,96 times by total assets (2019: 3,77 and 2018: 3,61 times).

The Financial Impact Model built in response to the Covid-19 pandemic indicates that a significant negative financial impact can be expected in the medium and long term, and therefore the University will be vigilant in monitoring and managing this potential impact on the current solvability and sustainability, while the current improvement on the Solvency ratio's will go a long way in enabling the University to be able to sustain the potential financial impact.



• Liquidity

The working capital ratio indicates that the current liabilities are covered 0,51 times by the current assets (2019: 0,75 times and 2018: 0,98 times). If the analysis is expressed in rand value, the current assets (excluding current portion of investments) decreased by R91,9 million for the 2020 financial year, whilst current liabilities for the same period increased by R257,8 million. The working capital ratio decreased compared to 2019 due to the R349,7 million larger increase in current liabilities over current assets. This is due to the increase of R23,1 million in the current portion of deferred income (R149,8 million or 12,8% of total current liabilities) relating to infrastructure grants. For 2019 this portion of deferred income represented 13,8% (R126,8 million) of total current liabilities. Included in the current portion of employee benefits is R111,3 million representing the second accumulated leave pay-out that was made in January 2021 to qualifying employees (January 2020 first pay-out: R130,1 million). Council approved a change in the accumulated leave policy during 2019 to reduce the liability over a period of three years.



Funds invested in highly liquid instruments for 2020 improved to R5 510,0 million (2019: R4 110,0 million and 2018: R3 029,0 million), representing an increase of 34,1% from 2019 to 2020. Compared to 2018, funds increased with 81,9%.

	2020	2019	2018
	R million	R million	R million
Cash and cash equivalents	285,3	424,5	215,3
Money market portfolio (NCDs)	4 150,1	3 125,3	2 396,7
Broker portfolio (listed shares and bonds)	1 022,0	543,2	383,5

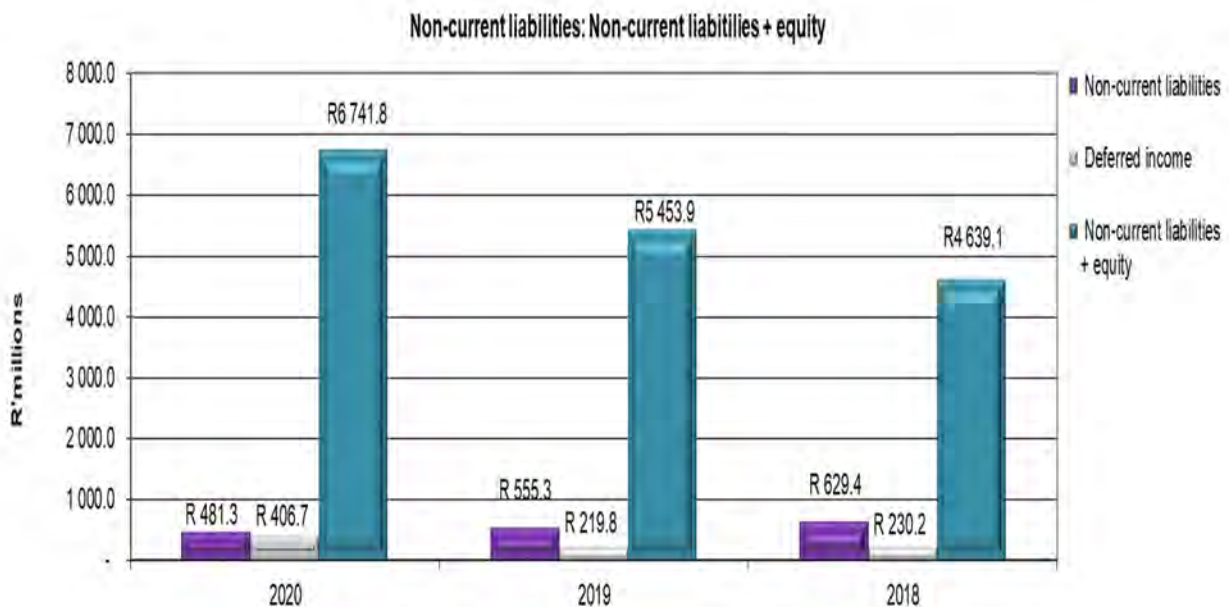
Other investments (unlisted, including associates)	53,1	17,0	33,5
Total investments and cash	5 510,5	4 110,0	3 029,0

The cash-flow situation is monitored closely in order to achieve an optimal balance between long-term and short-term investments to optimise investment income without compromising cash flow for operational needs.

• Gearing ratios

Gearing ratios analyse the extent to which long-term finance is used as a source of financing. It is a longer-term indication of liquidity.

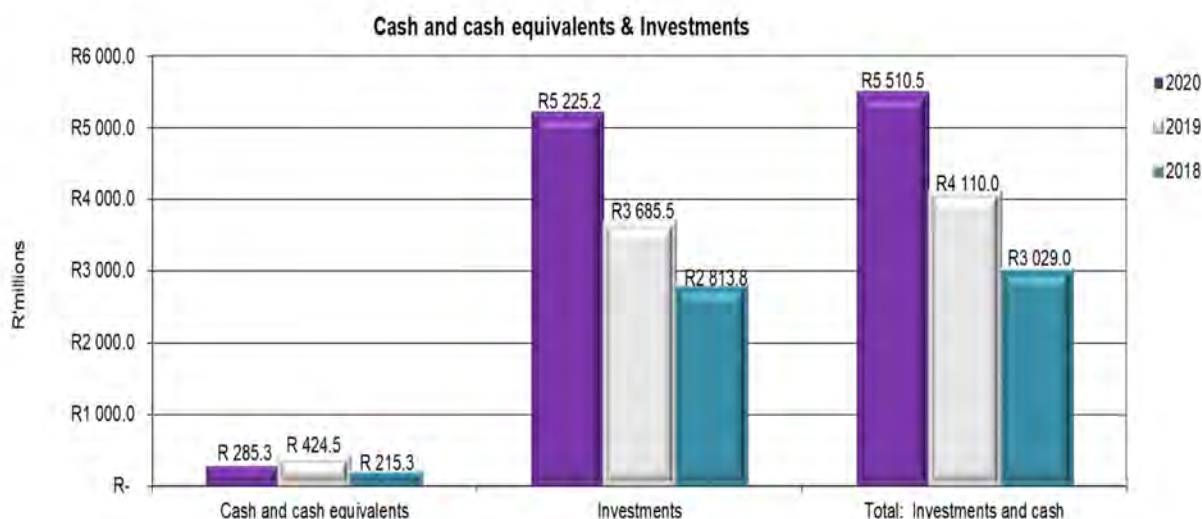
Non-current liabilities represent 13,2% of total funds employed (2019: 14,2% and 2018: 18,5%). This ratio decreased, as equity increased by a large margin, borrowing commitments decreased and infrastructure grant amounts expected to be utilised in 2021 were transferred to current liabilities. Furthermore, R111,3 million of the employee benefits liability was also transferred to current liabilities, representing the second accumulated leave pay-out.



• Cash flow

The University generated a surplus of R1 164,0 million for the 2020 financial year (2019: R953,4 million and 2018: R810,8 million), excluding total IAS19 adjustments, while the net cash flow amount generated from operating activities was R1 090,4 million (2019: R1 045,6 million and 2018: R782,2 million). The total net cash flow decreased by R139,2 million in 2020, taking into account i.a. R298,3 million net investment income, transfers of cash and cash equivalents to longer term investments (R1 483,5 million), investment in property, plant and equipment (R210,2 million) and a R210,0 million increase in deferred grant income. For the 2019 financial year the net cash flow increased by R209,3 million and for 2018 decreased by R148,2 million.

The University manages and plans cash flow needs with great caution, even more so in response to the potential financial impact of Covid-19, and effective decision-making resulted in the University currently being in a viable cash-flow situation, with reference to total cash and cash equivalents and investments. Although 32,5% of the money markets investment portfolio has maturity dates during 2021 and is shown as part of current assets, the nature and purpose of these investments are long-term, focusing on investments with a period of 12 months and longer to optimise returns. Funds are reinvested as they become available on maturity, taking cash flow needs into consideration.



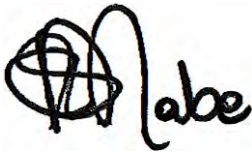
- Conclusion**

With regard to the University as a tertiary institution with the core business of teaching-learning, research and implementation of expertise (including community service), the NWU again added material value to the economy, and was able to achieve its financial goals. In this regard the following can be highlighted:

- NWU still provides affordable higher education.
- 15 454 students received degrees and diplomas during 2020.
- The University remains committed to supporting and enhancing academic performance and awarded bursaries in the amount of R211,0 million from own funds to students.
- The NWU's Financial Aid offices administered a total of R2,4 billion bursary funds in 2020.
- Student support was enhanced during Covid-19 by providing 3 534 laptops with a value of R19,8 million to qualifying students.
- 27 021 students received data in the amount of R12,4 million in order to continue their studies online and finish the academic year successfully.
- Printing of study material and courier expenses totalled R18,0 million to assist students during difficult Covid-19 circumstances.
- 64 180 face masks were provided to our students to protect their health and to comply with the set protocol.
- Residence fees of R25,0 million were refunded to qualifying student accounts to compensate for accommodation not used during applicable lock down periods.
- The cash flow investment in property, plant and equipment amounts to R210,1 million (2019: R398,5 million and 2018: R179,5 million), which is mainly attributable to DHET infrastructure and efficiency funding. (Not all projects have been completed, resulting in macro-maintenance to be carried forward to 2021). Total assets increased by 23,0% (2019: 21,9% and 2018: 23,8%). However, this is less than planned for, due to 111 days being lost on building sites due to Covid-19 lockdown.
- The increase in the available reserves to 57,1% of total equity from a very low base at the end of 2014 (although some spending against this reserve is to be expected as explained above).
- The maintaining of a sound solvency position and optimal liquidity levels during the 2020 financial year to ensure that the NWU remains a going concern.

Council and Management are jointly committed to managing the NWU in such a way that the sound financial position will be sustained in 2021, as well as in the medium and long term. It needs to be pointed out that our two largest sources of income, namely state subsidy and tuition fee-related income totalling 77,3% of turnover (2018: 73,6% and 2018: 75,3%), increased once again in during 2020 – emphasising our dependence on these income stream one funds. In addition, our number of students funded by NSFAS increased from 4 837 in 2015 to 22 280 in 2020, adding to the dependency on state funding. Income stream three revenue decreased year on year as a percentage of total income, putting pressure on the viability of the University.

The biggest challenge for NWU and the Higher Education Sector as a whole in the months or even years to come, is the successful management of the continued uncertainties that the Covid-19 pandemic brings and to adapt to rapidly changing circumstances. The possible financial impact will without a doubt be significant in the medium to long term and all resources must be applied with great caution. Further pressure will definitely be added by the wide-spread weakened South African economy and conditions as experienced by other sectors and individuals also affected by the Corona virus, which will influence the University in many forms and ways. The NWU Management and Council are of the opinion that the financial results of the past few years provide the basis for sound decision-making during this difficult time to steer the NWU, together with all stakeholders, through this difficult situation in a sustainable manner.

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MR CS MABE
CHAIRPERSON: FINANCE COMMITTEE

A handwritten signature in black ink, appearing to read 'E de Beer', with a large, flowing 'E' and 'B'.

MS E DE BEER
EXECUTIVE DIRECTOR: FINANCE AND FACILITIES