**Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA for HE)**

EBITDA is a measure of operating surplus, excluding the major accounting adjustments and finance charges. It measures operating performance before local decisions on accounting and financing policies are taken into account. It provides an indicator of financial capability to service debt and/or fund capital expenditure from internally generated cash. Its purpose is to understand *underlying* financial performance that is comparable over time and between universities.

There is no standard definition of EBITDA and the HE business model is different from the corporate sector, for example the way HE is funded from capital grants and endowments and the prevalence of multi-employer pension schemes.

EBITDA is a metric that has no formal status. It is not defined in accounting standards, is not part of prime financial statements. Some HEIs use EBITDA for their own internal purposes and some may have banking covenants based on EBITDA.

The last definition of EBITDA for HE issued by BUFDG (May 2016) was revised to take into account the withdrawal of FRS3 and FRS17 but it did not comprehensively address the impact of FRS102.

This revised definition of EBITDA for HE address the impact of FRS102. However, there are 2 challenging issues:

New donations/endowments: Donations may have a recurrent element (annual funds) and the expenditure of both donations and expendable endowments will be charges against EBITDA, albeit with a likely timing mis-match between their receipt in one year and expenditure in following years. EBITDA for HE includes income from new donations and expendable endowments (but see exceptional items below). However, new permanent endowments are excluded from EBITDA as they are capital type transactions where the value of the gift must be preserved.

Exceptional items: there is no longer an accounting standard that defines *below the line* exceptional items. The former FRS3 was in any case restricted to a very limited number of exceptional events, such as profits on asset disposals and fundamental restructuring costs. However, FRS102 permits us to disclose additional line items on the face of the SOCI *when such information is relevant to the understanding of the entity’s financial performance*. It is likely that this option will be used to identify material non-recurrent items as these can distort the understanding of performance. EBITDA for HE therefore permits SOCI additional line disclosures to be adjusted for as they are likely to be akin to exceptional items the disclosure of which will have been filtered through external audit. This provides a strong rationale for allowing EBITDA to be adjusted for these items while providing HEIs with greater scope to identify what items distort reporting of performance, such as profits on asset disposals, staff restructuring costs or major donations for example.

**BUFDG FRG**

**October 2017**

**EBITDA for HE Definition** (revised October 2017)

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| --- | --- | --- |
|  | **Surplus for the Year before other gains and losses and share of surpluses from joint ventures and associates** | Taken from the face of the SOCI. This surplus is before profits/losses on disposal of fixed assets, loss/gain on investments, surplus/deficits in JVs and associates and before taxation. |
| + | Share of profits from joint ventures and associates |  |
| + | Finance charges | Interest payable on debt, finance leases and service concessions, pension deficits and the unwinding of discount rates with respect to the valuation of provisions (e.g. provisions for multi-employer pension schemes). Pension-related finance *credits* should also be adjusted for. |
| + | Depreciation | Gross depreciation including any impairment charges. |
| - | Capital grants received | For non-government capital grants and for government capital grants where the performance model is adopted. |
| - | Release of deferred capital grants | The release in line with depreciation, where the accrual model is adopted for government capital grants. |
| + | Amortisation | Including release of goodwill/(negative goodwill) |
| - | New permanent endowments | Permanent endowments are capital transactions where the original capital is preserved. They should be excluded from EBITDA.  Donations and expendable endowments are included within EBITDA and not adjusted for. Donations can contain a recurrent element (e.g. annual campaigns) and the expenditure of both donations and expendable endowments are charged against EBITDA, even if there is a timing mis-match. However, material new endowments/donations might be considered exceptional items (see below). |
| + | Staff charges / (credits) arising from pension provisions | Relevant movements in balance sheet provisions for (a) SAT defined benefit schemes and (b) deficit recovery provisions on multi-employer schemes. |
| + | Fair value changes to financial instruments | Fair value changes to financial instruments represent non-cash changes to the valuation of these assets/liabilities. This adjustment would only apply to those who have not adopted the hedge accounting policy choice. Those that have adopted hedge accounting will not need to make this adjustment as changes to fair value are recognized in other comprehensive income rather than through the Surplus for the Year. |
| + | Exceptional items | Additional line disclosures on the face of the SOCI, and hence effectively supported by the *true and fair* external audit opinion. |
| **=** | **EBITDA for HE** |  |