Delivering HEI Finances in the new HE Economy

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• State of the Nation
• Institutional and Financial Strategies
• Financial Sustainability and KFIs
• What keeps FDs awake at night?
• Managing New Behaviours
• Implications for the Finance Director and for Governors

• Results for 10/11 showed a stronger position than previous years
• Projected performance for 2012-15 is sound overall
• But enrolments are down and financial performance for some will be poorer than anticipated
• 40% of HEIs are forecasting increased Home/EU students in 12/13!
• Short term capital investment is affordable due to cash reserves held. But infrastructure investment will not be able to continue unless HEIs generate increased surpluses
• A sharp reduction in surpluses is forecast for 12/13
• A wide range of projected results. The main strength remains in a small number of HEIs
• Some HEIs will need to generate better financial results to remain sustainable in the medium term
• Continued strong growth in overseas fee income is expected
• Much lower increases in staff costs are forecast
• Strong liquidity is necessary to manage increased volatility
• Borrowings are expected to increase to 24.6% of income

Figure 2 Breakdown of teaching-related income 2009-10 to 2010-11 actual and 2011-12 to 2014-15 forecast
Cumulative changes in income (real terms)

Funding council grants  
Overseas income  
Tuition fees and education contracts (home and EU)  
Research grants and contracts  
Other operating income

Data based on actual income for the period up to and including 2010-11 and forecast income for the period 2011-12 to 2014-15

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Total income</td>
<td>£22,221M</td>
<td>£22,933M</td>
<td>£23,119M</td>
<td>£24,072M</td>
<td>£25,005M</td>
<td>£26,002M</td>
</tr>
<tr>
<td>Operating surplus</td>
<td>£708M</td>
<td>£1,061M</td>
<td>£719M</td>
<td>£431M</td>
<td>£649M</td>
<td>£875M</td>
</tr>
<tr>
<td>as % of total income</td>
<td>3.2%</td>
<td>4.6%</td>
<td>3.1%</td>
<td>1.8%</td>
<td>2.6%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Historical cost surplus</td>
<td>£805M</td>
<td>£1,307M</td>
<td>£933M</td>
<td>£701M</td>
<td>£824M</td>
<td>£1,028M</td>
</tr>
<tr>
<td>as % of total income</td>
<td>3.6%</td>
<td>5.7%</td>
<td>4.0%</td>
<td>2.9%</td>
<td>3.3%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Cash flow from operating activities as % of total income</td>
<td>8.3%</td>
<td>9.2%</td>
<td>6.2%</td>
<td>5.8%</td>
<td>6.5%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Net liquidity as number of days’ expenditure</td>
<td>98</td>
<td>109</td>
<td>104</td>
<td>88</td>
<td>81</td>
<td>79</td>
</tr>
<tr>
<td>External borrowings as % of total income</td>
<td>21.1%</td>
<td>21.9%</td>
<td>23.5%</td>
<td>24.4%</td>
<td>25.1%</td>
<td>24.6%</td>
</tr>
<tr>
<td>Discretionary reserves exc. FRS17†, as % of total income</td>
<td>46.0%</td>
<td>51.0%</td>
<td>55.2%</td>
<td>56.4%</td>
<td>58.0%</td>
<td>60.1%</td>
</tr>
</tbody>
</table>

† FRS17 is the financial reporting standard on retirement benefits.
Our Vision: To be an **inspiring, innovative** University of **international** renown

Our Mission: To deliver an accessible and inspirational learning experience, to undertake pioneering research and professional practice, and to engage fully with employers and the community

Our Values: Ambition, Student focussed, Pioneering, Integrity, Respect, Excellence (ASPIRE)

Our students can expect:
- An education that challenges and creates excellent career opportunities
- To learn from staff at the leading edge of knowledge and application
- High quality physical and supportive learning environments

Our partners can expect:
- A responsive and flexible University that delivers
- To deal with leading experts in their field
- High quality work delivered efficiently and effectively

Stakeholders

- **S1** Our students can expect:
  - To attract and retain high quality staff
  - To support staff to achieve their best

- **S2** To learn from staff at the leading edge of knowledge and application

- **S3** High quality physical and supportive learning environments

- **S4** A responsive and flexible University that delivers

- **S5** To deal with leading experts in their field

- **S6** High quality work delivered efficiently and effectively

Aims

- **A1** Inspiring our students
  - To provide opportunities to all who can benefit
- **A2** To deliver inspirational learning & teaching
- **A3** To enrich teaching through research and innovation excellence
- **A4** Research and Innovation
  - To strengthen and enhance our research capability
- **A5** To contribute to economic, social and cultural development

Enhancing our standing

- **A6** Aims
  - To improve core processes and systems
  - To ensure all schools generate surpluses for re-investment
  - To ensure value for money

Financial sustainability

- **A7** To produce employable and enterprising graduates
- **A8** To develop our identity and raise our profile
- **A9** To grow international and postgraduate recruitment
- **A10** To become one of the UK’s 30 largest providers of HE

Growth

- **A11** To enhance our standing

Enablers

- **V1** Valuing and developing our staff
  - To attract and retain high quality staff
  - To support staff to achieve their best

- **V2** To provide opportunities to all who can benefit

- **V3** To promote equality of opportunity and diversity

- **V4** To develop leadership/management skills in a wider range of staff

- **V5** To enrich teaching through research and innovation excellence
- **V6** To contribute to economic, social and cultural development

Key Financial Strategies

- **Strategy for Surplus and Reinvestment:**
  - Cash generated for capital expenditure plans and strategic priorities
  - Financial strength and sustainability

- **Resource Allocation Model:**
  - Eat what you kill + cultural impact of chosen model
  - Minimum surplus and contingency set aside
  - Key priorities
  - Quarterly performance monitoring meetings

- **Controls over:**
  - Staffing appointments/staff % to income
  - Material non-pay expenditure from reserves
  - VFM, including procurement

- **Treasury Management - liquidity and borrowings**

- **KFIs and Key Financial Risks**
Financial KPIs

- Strength – basket, benchmarked
- Sustainability – single, internal

NB: Sustainability Report in Accountability Returns?
Percentage of Estate classed as condition A or B 2010-11

Lower Quartile: 68.40%
Average:               77.22%
Upper Quartile: 90.00%

2010-11 Estate classed as condition A or B against the 2010-11 Security Index

Quadrant A
Quadrant B
Quadrant C
Quadrant D
2010-11 Historical Cost surplus (excluding pension cost adjustments) as a percentage of Total Income

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>59.32</td>
</tr>
<tr>
<td>2008-09</td>
<td>58.79</td>
</tr>
<tr>
<td>2009-10</td>
<td>54.54</td>
</tr>
<tr>
<td>2010-11 excluding staff restructuring costs</td>
<td>52.20</td>
</tr>
<tr>
<td>2011-12</td>
<td>50.39</td>
</tr>
</tbody>
</table>

2010-11 Staff costs as a percentage of Total Income

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>50.00</td>
</tr>
<tr>
<td>2008-09</td>
<td>53.14</td>
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- Lower Quartile
- Mid Range
- Upper Quartile
Financial Sustainability

Cash Flow Required for Strategic Investment and Contingency

- Target
- Historical Average
- Estimated Average
- EBIDA

2010-11 Long Term Borrowings as a percentage of Total Income

Lower Quartile: 4.75
Average: 20.95
Upper Quartile: 32.25

Huddersfield 07-08, 12.24
Huddersfield 08-09, 10.57
Huddersfield 09-10, 9.01
Huddersfield 10-11 & 11-12, 0.00
Financial Challenges

- No clearly stated medium term policy direction, unintended consequences
- Continuous change and uncertainty, lack of effective/early consultation
- Financial sustainability and awareness culture
- Need for higher surpluses to meet capex requirements/estate condition
- Marketisation/competition, but with SNC/penalties!
- Cuts and fall in student numbers plus competition for AABs/ABBs .......
- Fee setting and post-graduate marketplace
- Impact of UKBA intervention on OS recruitment
- Investment for REF and research funding concentration
- Building pressure on pay awards and pension costs
- Continuing inflationary pressure on non-pay costs
- Efficiency and modernisation agenda

Financial Challenges, continued

- Impact of new SLC instalments on cashflow; refund policy; 3 ACRs
- Availability/cost of borrowing
- Investment risk
- Increased risk of fraud
- Engagement with academic agenda eg open-access research
- Costing and pricing
- Regulatory framework (Financial Memorandum with SLC? Private providers?)
- Data demands/quality
- Maintaining quality, support for learning & teaching, the student experience
- Forthcoming CSR and impact on financial support
- Risk management
New Behaviours?

- Entrepreneurial leadership
- Institutional and financial strategies/KPIs
- Communication
- Collective ownership
- Agility
- Financial awareness
- Performance management
- Customer service excellence
- Competition and Marketing: Key messages?
- Growth strategies
- Efficiency and modernisation
- Culture change?

Implications for Finance & Governors

- Permanent change – scenario planning
- Financial sustainability and businesslike approach
- Engagement with academic agenda
- Costing and pricing
- Planning
- Knowledge transfer
- Risk management and new regulatory framework
Questions ?

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