Financial turnaround

University of Cumbria
Cumbria University was created in August 2007, following the 2005 Hefce-sponsored Harris report, from an amalgamation of St Martin’s College and Cumbria Institute of the Arts, and the incorporation of the Cumbrian assets of the University of Central Lancashire.

It faced several years of severe financial challenges, having ended its year of formation in 2007/08 with just £0.5m cash and with significant deficits in the three years to 2009/10. It suffered from very high payroll costs as a % of income; estate that was not affordable or fit-for-purpose, plus a legacy of under-investment; and the acquisition of loss-making further education activity.

However, this position was turned around to the situation today, where the university is generating annual surpluses and improving year on year.

2012/13 represented a significant year in the University of Cumbria’s outstanding financial turnaround, showing a sustained business recovery over three consecutive years. The university’s approach in 2012/13 was to focus on three areas of transformational change: cost reduction; significant investment; and improving the efficiency and quality of processes.

Cost reductions were achieved through two cross-institution workstreams: a procurement project and staffing restructuring to achieve pay within sector benchmarks. Significant investment focused on three specific projects along with the extensive due diligence, effective procurement and widespread support required to give the university board the confidence to agree and deliver the investments. Finally, key financial processes were made electronic and more efficient.

By 2012/13 the surplus was £5.4m (8% of income), with cash balances of £17.5m. This exceeded the minimum level the team assessed as necessary for re-investment within the financial strategy.

The changes required have also left a legacy in the organisation’s culture. This is one of widespread ownership in the success of the university, including from the recognised trade unions. There have been contributions from staff across the university at all levels to identify future opportunities, and an understanding that improving efficiency and value for money is part of developing a successful business rather than threatening it. Examples of subsequent changes have included implementing online registration, changing the way that assessment boards operate, introducing multifunctional devices across the whole university, and reviewing contracts to deliver better value. All staff are encouraged to identify efficiencies through streamlining processes and automation.
What we did and why

During the first two years of operation the university faced significant post-merger issues which delayed the implementation of major strategic changes. The university was in a position where the original business plan, and its underlying assumptions, was no longer valid, including the loss of the earmarked funding from external agencies. Put simply, the university had a cost base which was not aligned to income resulting in recurring losses.

The university needed to turn round its performance in a very short space of time. It used benchmark information from the sector to identify the areas on which to focus. The areas reviewed were wide ranging and included:

- Voluntary severance scheme: £4.4m on-going saving from 2010/11. £2.1m one off cost to implement scheme.
- Academic portfolio review: £1m on-going saving from 2010/11.
- Campus mothballing: £1.5m on-going saving from 2010/11.
- Further education: full economic cost losses of £4.8m a year. Direct savings of £3m per annum by September 2011.
- Academic restructure: £2.7m on-going savings from 2010/11.
- Professional services review: £1.9m on-going savings from 2010/11 activity.
- Other measures to improve productivity.

Cost reduction

In 2012/13 the university, through the finance team, drove efficiencies through the budgeting process and led two cross-institution workstreams.

1. The procurement project challenged the organisation to review its costs and consider why it buys, what it buys and how it buys. Rather than employing external consultants, organisational engagement was achieved through senior managers taking control of cost categories. The finance team provided data, ideas and support to managers in their work and this multi-year project is helping to reduce operating expenditure despite inflationary pressures. The approach taken has been wider than just looking at how it buys through the contract end of procurement, such as the use of frameworks and other collaborative arrangements to get better value. It also looks at why it buys by asking the question “do we need something at all or are there other ways to deliver the same result”; and reviewing what it buys in terms of getting the appropriate quality or specification level.

2. Pay within sector benchmarks was achieved through significant restructuring and allied data realignment. Scrutiny of staffing plans was undertaken via a workforce control panel. With challenge and support from the finance team this panel of senior managers considered appointments of all types of staff including temporary staffing and consultants. This process, which is speedy and responsive, also considers alternative options and procurement arrangements. With an average of 2.5% annual pay pressures from increments and pay awards, the university has used the panel to contribute to further reduction in staff costs by £0.5m.

Significant investment

Three specific projects were planned for 2012/13 after a detailed consideration of return on investment and detailed scenario planning. These were a £7m project to redevelop the Ambleside campus, £3m for private cloud infrastructure for the new data centre and the movement of the entire London-based teacher training operation to new premises. In a time of limited capital grants and income uncertainties, the extensive due diligence, effective procurement and widespread support provided the university board with the confidence to agree and deliver these investments.

Improving efficiency and quality of processes

This was at the heart of key financial processes. The ledger was upgraded for the first time in 12 years with a focus on automation and enhanced reporting. Workshops were held with staff across the university to gain buy-in to the project and the requesting of goods and the raising of invoices is now fully electronic. This was accompanied by a cultural move away from local spreadsheets to the use of the ledger.
What impact did it have?

2012/13 represented a significant year in the University of Cumbria’s outstanding financial turnaround. Having ended its year of formation in 2007/08 with just £0.5m of cash and significant deficits in the three years to 2009/10, by 2012/13 the surplus was £5.4m (8% of income), with cash balances of £17.5m. This exceeded the minimum level the team assessed as necessary for re-investment within the financial strategy.

Financial performance of the University of Cumbria since 2007/08

These graphs illustrate the dramatic turnaround in university finances in recent years and the strong performance of the institution in 2012/13.
Cash generated from operations

![Cash generated from operations graph]

Total university staff costs

![Total university staff costs graph]
Lessons learned

There are lessons to be learned from the focus that was applied to getting the finances under strict control in a very challenging situation.

Lessons learned and key enablers for success include:

1. The university sector operates within a framework of recognised practices and terms and conditions and sometimes these can be seen as inhibitors to change. However, within this there is room for flexibility and staff changes can be achieved.

2. The role of the finance team was crucial and they were at the forefront of establishing a robust and sustainable institution. They created strong strategic frameworks and enabled change throughout the institution by engaging with all internal stakeholders.

3. Full and clear commitment from all senior leaders is needed to ensure change can be implemented in a relatively short timescale.

4. Sound background information, such as the use of benchmarking, can significantly assist in pinpointing where the focus for action should be.

5. When considering this change, the need to do things “within the rules” but not to let perceptions of constraint within the rules undermine the overall goal.

6. It’s important to be very clear on the objectives, and ensure robust processes and guidance to support gaps in knowledge and skills are available from the outset.

Finally, communication is vitally important, but it needs to be communication with clear explanation of what the end result will be, not just what is planned. In particular, consultation with trade union colleagues relies on a partnership approach and an understanding that where reductions in staffing are necessary, working together will lead to the best deal for individuals.

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NEW CASE STUDIES WILL FOLLOW THIS LAUNCH SERIES, SO PLEASE CHECK BACK ON OUR WEBSITE FOR THE LATEST RESOURCES.
About the case studies

This series of case studies has been developed from the work of the Leadership Foundation and partners for the report ‘Efficiency, Effectiveness and Value for Money’ led by Professor Sir Ian Diamond and published by Universities UK in February 2015.

Partners in the ‘Diamond’ higher education workforce group (UCEA, UHR, Hefce, GuildHE, UUK and the Leadership Foundation) commissioned the case studies with support from the joint Hefce/Leadership Foundation Innovation and Transformation Fund.

Dr Lesly Huxley, director of membership and organisational development, leads the LF’s Innovation and Transformation Fund and our contribution to the HE workforce group. She said: “The leadership, development and commitment of people at all levels in higher education is fundamental to successful change and delivery of greater effectiveness in the core activity of our universities and colleges. These case studies and other work funded through the second phase of the Innovation and Transformation Fund show the importance of staff engagement and development in helping higher education institutions improve organisational performance.”

Gwen Wileman, LF Associate, who worked with the universities to develop this series, explained: “The case studies all provide powerful success stories and some real measures of impact on efficiency and effectiveness. However, the challenges of culture and complexity also come through loud and clear and there are many lessons to be learned and shared.”

About the Innovation and Transformation Fund

Acknowledging the central role of leadership in driving change, in 2012, together with Hefce, the Leadership Foundation initiated a £1m, UK-wide Innovation and Transformation Fund (ITF) to progress key themes of the first ‘Diamond Report’ on efficiency in higher education. Nine projects were funded and have now concluded.

Sir Ian Diamond was invited by the Department of Business and Innovation Skills to lead a second phase of this work early in 2014, looking particularly at organisational change and development, the higher education workforce, estates and research assets, open data and evidencing efficiency.

In 2014-15, further joint investment totalling £500,000 is supporting the sharing of existing effective practice particularly in the leadership, management and development of the higher education workforce. A key to the Innovation and Transformation Fund is in unlocking and making best use of good practice. For more information go to: www.lfhe.ac.uk/ITF

About the Leadership Foundation

The Leadership Foundation is a membership organisation that delivers leadership development and consultancy advice to higher education institutions in the UK and around the world. The focus of the Leadership Foundation’s work is to improve the management and leadership skills of existing and future leaders of higher education. The services provided include consultancy, leadership development programmes and events, including a major series of events for governors. This work is supported by a highly regarded research and development programme that underpins the leadership development programmes and stimulates innovation.

The Leadership Foundation has a small team of experienced leadership and organisational development professionals drawn from higher education, other parts of the public sector, and also from the private sector. Much of the Leadership Foundation’s work is delivered in partnership with the higher education sector and other partner organisations. www.lfhe.ac.uk

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