

Medium Term Financial Strategy

(This is a revised version of a paper prepared for Planning Group in July)

- 1 The Financial Strategy – simply stated - is to sustain the improvement in our financial health that has been achieved over the last few years (as measured by the surplus on Income and Expenditure and liquidity). This will require continuing strict control of expenditure and efforts to increase income.
- 2 To remind ourselves: the prediction for 2003/2004 is an operating surplus of about £1.1m with a cash position in July 2004 of over £20m. This surplus is at the lower end of the acceptable range, though the increase in overseas student numbers will have a positive impact. The major risk is that the pay settlement will exceed the 3.5% for which we have budgeted. As things are, we cannot make further commitments to recurrent expenditure and, rather worryingly, we have not been able to earmark as much to backlog maintenance as we would have wished.
- 3 In the following years the forecasts show a declining surplus (to zero operating surplus in 2006/2007), reflecting the fact that the increase in pay expenditure is likely to exceed the increase in HEFCW grant. The cash position, on the other hand, is pleasing; we are forecasting a figure of £25m by the end of 2006/2007, after taking into account committed expenditure (e.g. on the InterPol building). As far as the surplus goes, this is the 'do nothing' scenario, and clearly we must strive to ensure that it recovers to about £1.5m p.a..
- 4 There are a number of 'risk' factors. For 2004/2005 the most obvious are
 - the level of the annual pay settlement
 - the impact of Job Evaluation (potentially quite large, probably about 5% of the pay bill)
 - the predicted poor settlement for the sector in Wales
 - the increasing requirements of compliance: Welsh Language Scheme, Freedom of Information, Discrimination Legislation, Employment legislation generally; taken together these form a significant additional resource requirement.

Thus 2004/2005 could be a difficult year for us – and these are only the risks we know about.

- 5 There are obviously other risks in the slightly longer term, for example:
 - the impact of the new fee structure and the uncertainty in Wales in this regard
 - the extreme difficulty Welsh institutions may have in competing with English universities operating in a very different environment
 - the intensifying selectivity of research funding
 - the requirements associated with *Reaching Higher*.

- 6 On the expenditure side, strict control will of course be maintained, but we must also continue with our policy of making recurrent commitments only when corresponding savings have been achieved. This is a continuation of present policy; we have the mechanisms in place – provided we retain the will to manage.

- 7 In relation to non-core activities, we shall continue to monitor the trading position of the Arts Centre, and we are embarking on an external review of the Farms in order to ensure that they are financially stable and to maximise their contribution to teaching and research. The other trading activity, Residential Services, has at present a reasonably healthy impact on the Income and Expenditure account, and this must continue.

- 8 Backlog maintenance continues to be a major concern. Together with the requirements of the Disabilities Discrimination Act, considerable expenditure will be required on academic and residential buildings. This is a key element of the financial strategy. We have established a working group to consider the future strategy for residences and will give careful attention to develop a long term programme.

- 9 In order to be able to take advantage of opportunities and invest appropriately we are entering a phase in which we should pay more attention to generation of income – new sources and, perhaps more importantly, the development of existing income streams.



Income Generation

- 10 The major source of income remains **undergraduates**. We know that there will be no additional funded student numbers in Wales – except possibly for foundation degrees. Hence the requirement in the medium term is to protect our present funded student number. What new developments in our portfolio do we wish to support? We have identified a few already, for example Criminology and Psychology. Are these feasible, and what other areas are possible?
- 11 New subject areas need investment, both capital and recurrent. Where can the required recurrent resources be found? In the context of no expansion of student numbers, this can only be achieved by redistribution. Since we probably should not exceed about 104% of funded numbers, investment in new areas implies withdrawal from some current activity. Restructuring of this kind is painful, but I see no alternative to facing the reality of our position.
- 12 There is scope to expand **Postgraduate taught** provision. How do we identify themes to be supported? How centrally directed should this be? There is also an opportunity to develop some **postgraduate professional training** courses.
- 13 The scope to increase the number of **research students** is less clear, partly because funding for research students is closely associated with Research Council grant income. However there is concern that some departments do not manage research students as closely as they should.
- 14 The income derived from fees paid by **overseas students** is significant. Therefore we must continue to explore new markets, both geographic and in subject area. This is the current approach, and it is proving successful. We have agreed to greater investment in recruitment (through D&EA).
- 15 In several of the areas noted in 10 to 13, we must assess whether the fees charged are appropriate; they should be realistic - realistically high on the one hand, and realistic in terms of what the market will sustain on the other.
- 16 **Research income (QR)** is substantial, and our approach to the next RAE is obviously crucial. While we must await the results of the present consultation, we already know the broad outline of the form.

One interpretation is that we will derive benefit from high quality research, without units being pulled down by the averaging process previously used (though the meaning of the '80% rule' is critical). Consequently our policy on appointments and probation must seek to ensure that we have a significant cohort of researchers of international excellence. We must address the central question of how we respond to the increasing selectivity in the distribution of QR income.

- 17 We certainly need to increase income from **Research Councils** and other external sources of research support. In the light of the OST consultation, I believe that we shall provide more central support for the costing of applications and possibly the management of large grants. There is, equally, a strong need to increase income from **contract research**.
- 18 We have not yet derived benefits in terms of direct income from **commercialisation activities**.. Gradually there is greater acceptance of third mission complementing both teaching and research. Some departments, especially those facing difficulties in the recruitment of students, should look to third mission activities to increase their income. This will require guidelines on the sharing of income between the university centrally, the department and (possibly) individual members of staff. We are making progress in developing a consultancy policy and modernising our IP arrangements.
- 19 The contribution of **Residential Services** to our income is important, and we must continue to monitor progress carefully. At the same time we will consider further opportunities for partnerships in providing residential accommodation.
- 20 Generally, in all areas of income generation, our charges should be commercially robust, moving away from the 'low price culture' which is deeply ingrained in some areas.