# FINANCIAL STRATEGY

# 2016 to 2020

# FINANCIAL STRATEGY

**CONTENTS**

1. **Introduction**
2. **Financial Background and Overview**
3. **Key Financial Objectives**
4. **Management of Risk**

**1. INTRODUCTION**

This Financial Strategy provides an integrated, strategic approach to managing the financial position of the University in order to support its strategic aims. The objective is to provide long-term financial sustainability and allow appropriate investment to support the University’s mission, the strategic plan and its vision to be a leading campus-based University.

The financial aims and objectives will be reviewed annually when the financial forecasts are updated. The reviews will need to take account of academic strategies and plans, other supporting strategies and external factors, in order to develop an overall balance that meets the needs of the University.

Essential to the development of the 2015-2020 strategic plan was the recognition that Keele needs to respond to the financial challenges of the sector and to have a strong financial model underpinning its future plans. Whilst Keele wishes to retain the benefits, culture and appeal of being a relatively small University, it was also recognised that growth in student numbers and overall income is essential to deliver economies of scale and increased levels of surpluses, thus supporting the University in maintaining its sector leading student experience and further enhancing its research profile.

Strategic aim 1 is to continue building towards Keele being a broad-based research-led University of about 13,000 students recognised internationally for excellence in education, research and enterprise. This compares with the current position where Keele has a student population of around 8,400 full time equivalents and approximately 10,000 headcount. A further aim is to more than double research grant income from £16.5m in 2014/15 to £26.5m in 2020/21. Overall there are some ambitious aims underpinning the Strategic Plan which seek to increase the University’s income significantly and to generate annual cash surpluses of £10m to £12m by 2020. Alongside these aims, and pivotal to them, is the commitment to provide a sector-leading student experience.

Strategic aim 6 of the University Plan is to transform how we work to ensure the University’s development is sustainable and delivers world-leading teaching and research. A key objective supporting this aim is **to maintain financial sustainability and build income and expenditure reserves** by

* increasing income and generating increased levels of surpluses and cash from operations for investment in the University’s infrastructure, in line with a clear funding plan
* targeting staffing investments in areas of growth, whilst managing staff costs overall
* strategically prioritising the programme of capital development funded by both internal and external sources
* continuing to develop robust risk management processes
* the promotion of fundraising and delivering the development campaign.

These are expanded upon in the key financial objectives of this Financial Strategy which are set out in section 3.

**2. FINANCIAL BACKGROUND AND OVERVIEW**

This Financial Strategy has been developed against a rapidly changing and uncertain financial environment. The University, like all other higher education sector institutions, faces significant cuts in public sector funding and has to respond to the expected implementation of expected adoption of the Higher Education and Research Bill 2016-17. The recent referendum outcome for the UK to exit the European Union also imposes significant uncertainties and potential challenges. The Strategic Plan covers a period of a national reduction in 18 year olds. Recruitment to the UK of overseas students remains challenging and the referendum result will negatively impact the recruitment of European Union students. Competition for research grants is high. The sector is also experiencing significant cost pressures, particularly in relation to pay and pensions. The University intends to respond positively to these pressures and challenges and this Financial Strategy sets out the key principles for enabling it to do so.

Keele University has a turnover of £134m (2014/15 audited statement of accounts). Approximately 50% of this turnover consists of academic fees with only 13% being derived from grants from the Higher Education Funding Council for England (HEFCE). This represents a significant shift from five years ago when income from these two sources was broadly equal. Income from research grants and contracts represents 14% of total turnover.

The University has approximately 8,400 full time equivalent students (2015/16). This includes 7,300 undergraduate students of which approximately 13% are non-EU students. There are approximately 1,100 postgraduate students of which circa 27% are non-EU students. The University employs nearly 2,000 staff and staff costs represent circa 60% of total expenditure.

The University has one wholly owned trading subsidiary company, Keele University Science and Business Park Ltd, which owns the Science Park development site and Home Farm. Keele University Science Park Ltd ceased trading during 2014/15 and an application has successfully been made to Companies House to have this company struck off, effective from 14 June 2016. Keele Facilities Management Ltd also ceased trading during 2014/15 and is being retained as a dormant company.

The University and its subsidiary company, Keele University Science and Business Park Ltd, own fixed assets of in excess of £175m (2014/15 audited statement of accounts). The majority of these assets consist of land and buildings.

From the 2015/16 financial year, the higher education sector is implementing Financial Reporting Standard (FRS) 102 which aligns more to international financial reporting standards. To supplement FRS 102, an updated Statement of Recommended Accounting Practice (SORP) has been published which clarifies higher education specific accounting issues. The new FRS and new SORP introduce significant changes to the way the sector reports its financial performance for 2015/16 onwards. An important aim for the University in 2016/17 is the development of relevant and informative performance indicators that allow Council and the executive to accurately monitor income and expenditure.

## 3. KEY FINANCIAL OBJECTIVES

## The purpose of the financial strategy is to ensure the long-term financial sustainability of the University. The key financial objectives to deliver this are set out below. They are considered under the following headings

1. To generate surpluses which produce sufficient cash to support the University’s strategic objectives and provide institutional sustainability
2. To grow and diversify income
3. To operate efficiently and effectively - managing the cost of operations and delivering value for money.
4. To manage capital and other strategic investment projects to deliver future financial benefit to the University
5. To assess and manage risk in all University growth and development activities.
6. To operate sound Treasury Management
7. To closely monitor and respond to the external environment and its impact on the University
8. To effectively report and communicate the University’s financial performance both internally and externally

## A. To generate surpluses which produce sufficient cash to support the University’s strategic objectives and provide institutional sustainability

## A key strategic objective is to improve the level of surpluses in order to generate cash and build-up revenue reserves. This is necessary in order to maintain financial health and to invest in strategic developments. In addition, the funding available from HEFCE’s capital grant programmes has been substantially reduced requiring the University to manage its capital expenditure requirements through cash generation and other external funding.

## The fundamental objective is that the University generates sufficient cash from its operating activities to cover debt service and pension deficit costs, to invest in essential capital projects and to pump-prime prioritised strategic developments. In addition, the University needs to achieve annual surpluses in order to steadily increase its income and expenditure reserves, although reported income and expenditure reserves have improved considerably following the introduction of FRS 102.

## The underpinning financial aim is to increase the University’s income significantly and to generate increased surpluses and cash from operations. Specific performance measures are to generate annual cash surpluses of £10m to £12m by 2020 and to increase reserves, bringing reserves as a percentage of income closer to the sector average. These performance measures will be further developed, and added to, as the implementation of FRS 102 across the sector is developed.

The generation of increased surpluses and cash from operations requires the University to grow its income whilst also managing the cost of its operations – see objectives B and C below.

1. **To grow and diversify income**

Keele must continue to expand income across a range of activities. The University will continue to diversify and grow its activities in order not to be over-reliant on limited sources of income. These activities will be scrutinised carefully to ensure sustainable financial benefit is delivered and all associated risks are identified and considered.

The University intends to grow its student numbers and to develop its research and enterprise undertakings. In addition, the University will continue to generate commercial income where this supports its core activities and optimises the use of its assets.

* **Growth in student numbers and related income**

## The Strategic Plan envisages a growth in student numbers of around 25%. Ideally this will involve an increase in the proportion of international and postgraduate students, but the removal of the cap on home students has enabled greater expansion in this area. The aim is to grow the number of high quality students in popular areas of our current portfolio while looking for new areas to develop.

* **Growth in research activities**

## The University aims to substantially increase research grant income from £16.5m in 2014/15 to £26.5m in 2020/21. In order to achieve this, the University will focus its research on areas of established and emerging strength. Underpinning the growth in research income, is the target of improving the University’s ratings in the next Research Excellence Framework exercise. The University will continue to remain compliant with the Full Economic Cost (FEC) initiative, enabling it to recover appropriate indirect and overhead costs on grants received from government departments.

## The University will build on the strong growth in both home and international Postgraduate Research student numbers which it has achieved over the last five years.

* **Growth in enterprise and engagement activities**

Enterprise activities are an important part of both our teaching and research agendas and as such will help contribute to the research and teaching ambitions above. In addition, the benefits accrued directly and indirectly from the presence of the Science and Innovation Park will be important for both enhancing the academic activity and the estate.

The new University strategy aims to deliver a step change in our partnerships and engagement activity.  A key focus for this over the next 5 years is the role that the University plays in the local and regional economy as an anchor institution.  This presents a number of significant and new opportunities for us to build our engagement capacity (in terms of new roles and new infrastructure) to enable us to undertake this work, and seek external funding resources which are available to support universities to develop this role.

In addition to Higher Education Innovation Funding (which we predict to increase by 10% each year over the next period) the University is now targeting funding of close to £40m over the next 5 years, from sources including local growth deals from HM Government (from which we have already received £5m towards the capital costs of the smart energy network demonstrator) and European Structural Funds (for which we are seeking the majority of the £40m of targeted investment) for new capital investment and revenue funds for new professional and academic roles.  While the referendum vote to leave the EU has created a level of risk regarding this investment, recent announcements from HM Treasury and our own discussions with government departments lead us to believe that structural funds remain an important source of investment to the University up to our departure from the EU and potentially beyond.

* **Growth in commercial activities**

The University has a good reputation for providing conferencing and other banqueting events. This provides both financial and reputational benefit, as well as maximising the use of our assets, but it is important that these activities are congruent with the academic endeavours of the University and this will now be approached in an integrated way across the University. Improvement of our accommodation and teaching buildings should facilitate enhancement in this area. The contribution from commercial activities is constantly monitored against targets, and against sector competitors, to ensure that the activities continue to deliver financial benefits to the University.

* **Increased income from a development campaign**

The culture in the UK does not naturally include major philanthropic donations to Universities. However, it is important that we explore opportunities that are possible, in particular through our alumni. To enable this, some restructuring of the Alumni and Development teams will be implemented and the new Dean of Humanities and Social Sciences will adopt Advancement and Global Engagement as his cross university portfolio.

**C. To operate efficiently and effectively - managing the cost of operations and delivering value for money.**

In light of the current financial climate it is essential that the University operates efficiently and effectively and also strictly prioritises its revenue expenditure taking account of its strategic priorities. To this end the budget-setting and monitoring process is increasingly aligned to the Strategic Plan and the academic planning process.

Keele will continue to actively manage its cost base, particularly in areas of declining demand, in order to ensure that it remains competitive in an increasingly volatile and market-driven climate. A detailed budgetary control process will be maintained and a suite of performance metrics will be monitored regularly throughout each financial year. The University has established an Effectiveness and Efficiency Group, chaired by the Deputy Vice-Chancellor and Provost which, alongside the Budget Review Group will continually monitor its costs with a view to achieving further savings as a result of efficiencies and process improvements.

The University is committed to the pursuit of economy, efficiency and effectiveness and seeks to adopt good practice and incorporate Value for Money principles in all its activities. The University has a separate Value for Money Strategy and produces an annual Value for Money action plan to deliver the Strategy.

Pay costs clearly need close monitoring. The medium term aim is to bring pay costs as a percentage of income closer to the sector average for pre-92 (research-led) universities. The Efficiency and Effectiveness Group will systematically review staffing levels across the University in order to reduce areas of overstaffing and high costs, making recommendations for improvement. Although as a priority there will be a focus on those areas with high staffing and low contribution levels, and administrative areas with high staffing, there is also a need to ensure that areas of growth benefit from economies of scale and greater efficiencies. Ensuring an appropriate mix of staff within Schools is necessary in order to balance efficiencies, teaching quality and research activities. The efficiency and staffing levels of the administration will be reviewed, with increased efficiency targeted through the overall growth in teaching and research activity.

The Portfolio and Curriculum Development Project is also significant in this regard. This major project aims to enhance the University’s academic portfolio and achieve efficiencies in teaching delivery, particularly as the university increases its student numbers. Recommendations are being implemented which will simplify and reshape the teaching portfolio enabling it to be better articulated both internally and externally. Degree combinations with no or minimal demand are being removed with more concentration on coherent combined degree programmes. This will significantly reduce the number of programme routes available to students. The project will reduce administration costs, freeing up time for research and teaching enhancement, and will facilitate more targeted marketing of courses. This work is essential in order to facilitate the more efficient teaching of additional student numbers both in terms of academic and administrative staffing and teaching and study space on campus.

Enhancements in the use of Information Technology are key to improving services and reducing cost and the University will continue to prioritise and where possible fund IT projects that improve efficiency and/or enhance the student experience.

**D. To manage capital and other strategic investment projects to deliver future financial benefit to the University**

A key aim of the University is to develop the estate to meet the future education, research, academic and social needs of the University. This is covered in more detail in the University’s Estates Strategy and Implementation Plan. The Keele Campus is the University’s biggest single financial asset and it underpins all areas of activity within the University. The Estates Strategy provides a long-term plan for efficiently and effectively developing and managing the estate. The implementation plan highlights short to medium-term priorities and ensures delivery of the strategy.

The University will review all proposed projects and developments against its Strategic Plan, with a view to prioritising projects and only progressing those which deliver its key strategic aims. It will consider the totality of all projects being proposed assessing them against current borrowing and investment levels, the availability of external funding and the University’s overall liability to risk. All proposed capital and strategic development projects will be reviewed in light of this overall prioritisation exercise but will also be supported by costed business plans.

Good quality halls of residence are essential to meet the strategic aim of providing a high quality student experience. The University is in the process of replacing the halls of residence on the Hawthorns site, in Keele village, which currently accommodate 630 students, are not adequate and cannot be economically refurbished. In addition, Keele is working on an agreement with an external provider to implement a major project which will significantly improve its student accommodation, increasing the number of student rooms to in excess of 4,000 and upgrading the overall quality of the halls of residence. A key aim over the period of the Strategic Plan will be to successfully negotiate and commence implementation of this project, including management of the significant financial aspects of it. The external accommodation project together with the current replacement of the Hawthorns rooms will have a transformative effect on the campus and the University’s student accommodation offering.

The University is developing plans for longer-term projects which will significantly improve its academic build environment. Whilst external borrowing may be required for some or part of these projects the University will continue to seek alternative funding, such as European Structural Funding plus funds from the governments City Deal and Growth Deal programmes, for eligible projects. Current expectation is that these projects will enhance our provision and performance in Translational Medical Research, Energy Research and Applied Management.

1. **To assess and manage risk in all University growth and development activities.**

As part of its Corporate Risk Management policy the University has agreed an Institutional Risk Appetite Statement to evaluate and prioritise projects and development work. In accordance with this statement, the University will adopt a responsible approach to risk management, seeking to recognise and manage exposure to risks. In pursuit of achieving its strategic aims and academic mission the University will, therefore, accept a degree of risk commensurate with the potential reward.

Council has approved risk appetite thresholds for key risk areas which will inform the evaluation of projects and development activities. These thresholds consider the exposure in terms of finance, staff resource and finite land resource together with the potential impact on reputation. Council is asked to undertake a regular review of the Corporate Risk Register and Risk Appetite Framework to ensure that the risk appetite threshold criteria and the risk appetite thresholds allocated to key risk areas remain appropriate. The Corporate Risk Register is fully aligned with the University Strategic Plan and Key Performance Indicators and identifies external developments that may affect the University’s ability to deliver its plan, and management actions to mitigate the impact and/or likelihood of identified risks.

All growth and development activities, including those activities undertaken through subsidiary companies and joint ventures, will be risk assessed at initial project analysis stage and recorded in either local risk registers or project risk registers as appropriate. Risk will be assessed in terms of budget overspends, time delays, the potential for failure to deliver the project aims and also in terms of potential reputational damage for Keele. Projects are regularly reviewed against the risk registers and reports are produced highlighting any problems together with mitigating actions. The University will review projects both individually and in totality to ensure overall funding capacity and the University’s overall liability to risk are fully considered.

1. **To operate sound Treasury Management**

Treasury management comprises the management of the University’s cash flows, debtors and creditors, banking, money market and capital market transactions. It includes the effective control of the risks associated with those activities, and the pursuit of optimum performance.

The University will monitor and manage its cash wisely to ensure that there are sufficient cash reserves to meet its long-term investment and annual working capital needs and will continually review the appropriateness of its loan and investment decisions. This area is further covered in the University’s Treasury and Investment Management policy.

Loans will be carefully managed and will reflect the University’s ability to make both the capital and interest repayments. Interest costs should be kept to a minimum taking account of the University’s loan requirements and the favourable position of universities in the loan market.

Surplus cash should be invested to achieve optimum returns whilst reflecting the Institution’s appetite for risk, bearing in mind the overall need to protect the capital sum.

The University contracts with external investment advisers to provide strategic investment advice regarding its portfolio of investments. Markets are going through an extremely uncertain time and this is expected to continue. The University will work closely with its investment advisers to obtain a positive financial return to the University whilst safeguarding the capital value of the investments.

1. **To closely monitor and respond to the external environment and its impact on the University**

The expected adoption of the Higher Education and Research Bill 2016-17, currently at Committee stage, will introduce fundamental changes to the sector. Significant issues over the period to 2020 are expected to include the introduction of the Teaching Excellence Framework, the introduction of a new student fee regime, changes to the role of HEFCE as regulator together with revised mechanisms for national oversight of teaching and research activities and the student experience, and revisions to the Research Excellence Framework. It is inevitable that other, as yet unknown changes, will also occur during the period covered by the Strategic Plan. This uncertainty has been significantly increased by the result of the EU referendum, the consequences of which are currently unknown and will only be clarified over the next few years.

The current difficult and uncertain economic climate, including historically low gilt yields, impacts universities’ financial activities including the ability to secure new funding, investment returns and managing defined benefit pension schemes. Again the uncertainty is exacerbated by the result of the EU referendum.

In order to maintain financial sustainability it is essential that the University monitors and reacts to the external environment and changes. A key objective, therefore, is that the University should routinely monitor the external environment affecting Higher Education and the University’s position and take appropriate action to ensure continued sustainability and quality of education and research activity. External developments in the sector and the University’s response to them need to be modelled and built into financial forecasts.

A suite of Key Performance Indicators has been developed to monitor the sustainability of Keele activities across teaching, research and other critical areas such as estate management. These will be critically monitored and reviewed in light of the external environment and corrective actions instigated in areas of concern. The Corporate Risk Register is also closely aligned to these Key Performance Indicators.

1. **To effectively report and communicate the University’s financial performance both internally and externally**

In order to effectively monitor and manage the University’s financial performance it is essential that the financial impact of all its activities are effectively and transparently communicated across the University and that its financial performance is benchmarked against other relevant institutions. External stakeholders, such as HEFCE, banks and credit-rating agencies, also need to understand the University’s financial performance and position. This issue has become particularly acute following the implementation of Financial Reporting Standard (FRS) 102 across the higher education sector from the 2015/16 financial year.

The new FRS introduces significant changes to the way the sector reports its financial performance from 2015/16 onwards. Indeed the 2014/15 comparator accounts will change significantly when compared with the audited 2014/15 statutory accounts. The new accounting policies will introduce volatility to the overall financial reporting of an institution and will impact both comparisons with previous years’ performance and also comparisons across the sector.

Accordingly, major objectives for 2015/16 onwards are to present the accounts and accompanying narrative in a way that enables readers to understand the underlying financial performance and to develop relevant and informative performance indicators that allow Council and the executive to accurately monitor income and expenditure. The University will work with HEFCE and the sector in the development of revised financial metrics.

## 4. MANAGEMENT OF RISK

There is an overall risk that the University fails to achieve the key financial objectives outlined in this strategy. These objectives are closely linked with other objectives throughout the University and the University has implemented procedures to manage these risks through the Risk Management Policy.

The University has a well-established risk management framework consisting of a Corporate Risk Register (linked to the University Strategic Plan), embedded local registers and a risk appetite framework to inform decision-making and prioritising of strategic projects by Council. The University reviews its risk register, key strategic objectives and risk management processes in conjunction with its internal auditors through a process known as risk assurance mapping in order to prioritise audits on the annual Internal Audit Programme.

Based on revised management approaches to ensuring delivery of the Strategic Plan, use of KPIs and the interdependency with risk management, the Corporate Risk Register has been revised in format and updated. The more streamlined risk register is intended to provide a more agile and pro-active approach to the management of risk, by focusing on those key risks that are likely to affect the delivery of the Strategic Plan. Corporate risks have been mapped against the six aims of the Strategic Plan, which collectively capture all aspects of the University’s activity including the key objectives underpinning the Finance Strategy.

The University Executive Committee is responsible for the operational management of risk and, accordingly, it reviews the risk register on a regular basis taking account of broader institutional progress against the Strategic Plan.

The Audit Committee is responsible for ensuring that the University has a robust process of risk management in place and therefore receives the full Corporate Risk Register. Council is responsible for the oversight of risk management and receives a strategic level overview of risks together with an accompanying narrative. This narrative provides a contextual summary, captures in more detail the potential effects of the risks on the achievement of the strategic aims and outlines the management approaches in place.