Three Year Financial Sustainability Plan

Introduction

In partnership with the Our Future Strategy document, this paper sets out the challenges and opportunities ahead for Keele, as we aim to realise our growth potential over the next three years.

The draft strategy (Our Future) has been informed by staff and student consultation and already has many of the building blocks already in place. We have well developed strategies and visions established for our educational and research missions, our People Strategy and Environmental Sustainability. These are alongside a number of other strategies and approaches around Health and Wellbeing, Digital, International, the Estate which continue to emerge and evolve. So we can focus our future attention on the *delivery* of our strategy not in the formulation of new strategies in each of these differing areas. And this will be important if we are to move quickly and respond to the challenges and opportunities ahead.

Future challenges

There are some significant challenges ahead. The higher education sector is now entering one of the most uncertain periods in the sector's history. So the ability to be guided by such a strong, powerful and shared vision across our communities creates a significant opportunity to successfully meet these challenges. And there are clear risks if we don't take full value from such a strong, shared and clear vision. As we encounter the challenges ahead, a strategy which is not shared, owned or clear, would quickly lead us into some difficult futures. We would be financially unsustainable, fail to invest in our staff, see a deteriorating campus and, as a result risk our reputation and attractiveness to both staff and students.

Our recent performance

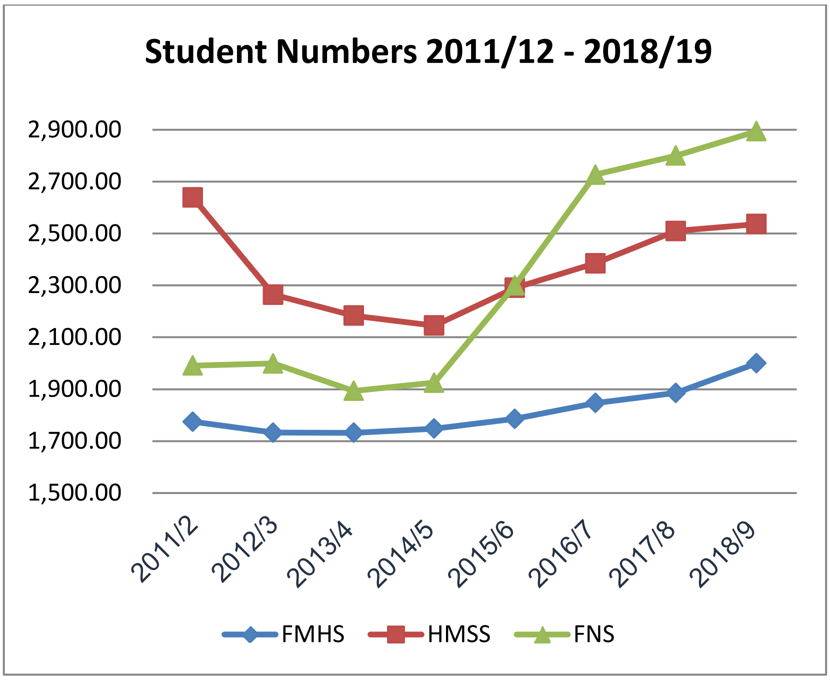
While we and the rest of the sector enter a difficult period, Keele does so from a position of strength. We are one of the so-called 'new elite' in performing well with regard both research (REF) and teaching (TEF) excellence, as demonstrated by the table below:

Institution	TEF Rank	REF Rank	Overall Rank
University of Cambridge	13	1	1
University of Oxford	10	3	2
Imperial College London	28	2	3
University of St Andrews	8	6	4
Loughborough University	6	9	5

University of Surrey	2	29	6
University of Bath	5	24	7
Lancaster University	22	8	8
University of Birmingham	16	13	9
Keele University	3	37	10
University of Dundee	4	32	11

Critical to this success, while constrained, has been a targeted programme of investment to ensure we offer a competitive student experience. This includes investment in each of our Faculties and in facilities for our students across campus, including Barnes Hall and informal learning spaces. These investments have been made using our own reserves, by borrowing money where there is a strong business case that this will lead to increased income (e.g. the Central Sciences Laboratories) or from external grants (e.g. the extension to Life Sciences used HEFCE capital grant income and we have secured £12.5m of ERDF and other external funds to build the Smart Innovation Hub).

Since 2015 we have also managed to recover or increase our home/EU undergraduate student intake quite significantly in all areas. This is alongside a minority of other universities since the cap on student numbers was removed. At the same time, many other universities have seen some significant decreases in student numbers. But we cannot be complacent.



It is clear to see from this graph, that the majority of this growth has come from significant increases in student numbers in the Faculty of Natural Sciences. Student numbers in the Faculty of Medicine and Health Sciences have increased as we have moved away from capped commissioned places and developed new programmes, and student numbers in Humanities and Social Sciences have almost recovered from the significant decline in earlier years.

However the overall impact of this growth is reduced to some extent when we look at total student numbers, including PGT and PGR, and particularly overseas students at all levels. Overall, student numbers have fallen considerably in Humanities and Social Sciences and grown in the other two faculties. This fall in numbers in Humanities and Social Sciences is mainly the result of falls in overseas UG and PGT students.

There are now around 1100 less students in Humanities and Social Sciences than 7 years ago, and around 1300 more students in Natural Sciences and Medicine and Health Sciences than 7 years ago. Nearly 1000 of these are in Natural Sciences.

The overall effect of these changes in student numbers is a change in the efficiency of our income generation from tuition. In Medicine & Health Sciences the ratio of staff costs to income has maintained in recent years. In Natural Sciences the ratio of staff costs to fee income has decreased as a result of significantly increased student numbers. In Humanities and Social Sciences staff costs as a percentage of the income they deliver, has increased, although it has fallen slightly this year compared with last year.

Whilst in some academic areas, costs have either kept pace with or outstripped growth in income, the costs of central services have also increased as we have needed to enhance our support for students, responding to increase regulation and other areas. There has been significant additional income into the Directorates to support this growth but this has not kept pace with the total growth in costs.

We should also recognise that our Faculty figures don’t take into account how central costs, such as Estates costs, relate to each of the faculties. In general terms Humanities and Social Sciences have far fewer demands on the estate in the delivery of teaching and research, compared to the other two faculties.

This is important in helping us recognise that there is no one quick fix or area which we can focus on to strengthen our financial position. We must look to redress the impact of falling student numbers and rising costs in some of the Schools in Humanities and Social Sciences, but alongside this we must also take a very close look at the cost and effectiveness of our central services. We also need to look and see how we can drive increased efficiency in the delivery of our teaching in Medicine and Health Sciences, if we are to reap the benefit of future growth. At the same time we need to make sure that we don’t drive the levels of significantly increased efficiency in Natural Sciences too far that it risks the student experience and our research ambitions.

So we are all facing challenges across campus and need to respond as a whole community to responding to them. A key part of our plan needs to look at how we manage and control the costs of academic delivery and central services and reverse the fall in overseas student numbers, and grow PGT student numbers as part of a wider programme of income diversification. But we have to realise that while these must be addressed, it is the external landscape which is precipitating our issues for us.

The impact of the external landscape on our performance

While we have grown our income via undergraduate home/EU numbers successfully in the past, we can now see this is slowing, largely due to having grown significantly already over the past four years. The tuition fee cap means that even if we can maintain these numbers (which is not a given), then our income will fall in real terms unless we grow in other ways. We are also still only part way through the demographic dip in the number of 18 year olds, and we are all aware of the increasingly competitive environment for students from both the Russell Group and Post-92s. So we have to be realistic in questioning whether continued growth, at least in home/EU undergraduate student numbers, will keep pace with our increasing cost base. In addition to inflationary payroll costs (with no inflationary rise in income) we are aware that we also face some significant additional costs relating to pensions and significant uncertainty in terms of the impact that any implementation of recommendation of the Augar review may have.

On the basis of current applications and budgeted student numbers across all areas, we are looking at a reduction in income of around £1.6m next year. On top of this, each year our pay costs increase by around £3m. So assuming that no other costs don't change the impact of rising costs against a static level of income is clear; there could be a potential deficit of £4.6m next year. Over the next 3 years, if we do not grow our income and reduce our costs, then we will spend over £11m of our reserves and we only have around £20m of those available to us to spend. So our challenge is simple. We need to reduce our costs and increase our income.

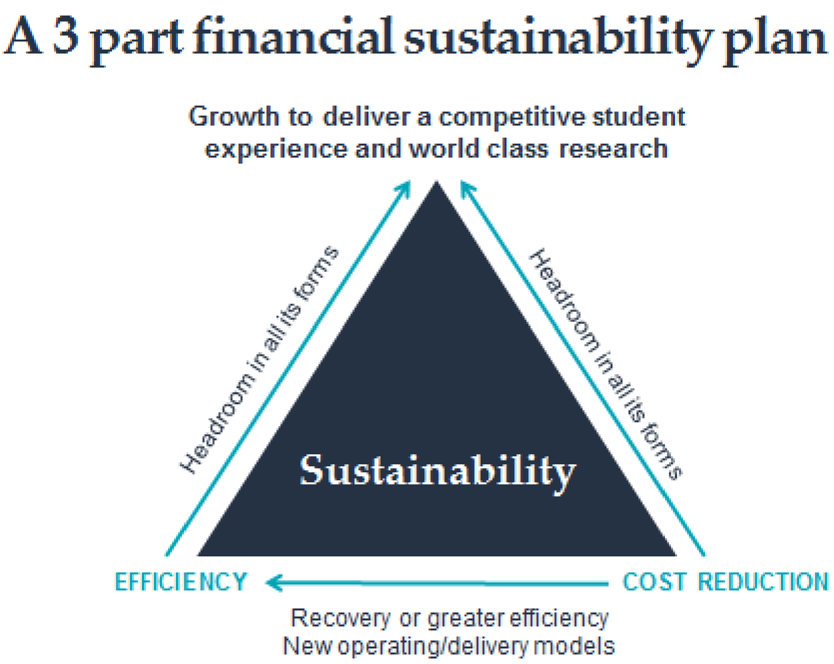
The lack of surplus generation has a number of impacts. It limits the level of investment we can make to remain competitive in both the student experience and research. A key exemplar of this lack of sufficient surplus generation is our inability to invest in more staff in those areas which have delivered growth. Income growth has had to be used to make up for lack of growth or contraction in some areas and that has meant it has not been possible to re-invest in the areas which have delivered this growth. The lack of equity and fairness in this is clear.

A sustainable level of surplus generation enables a university to invest in new academic posts, in research and the student experience, and in ensuring our campus is fit for purpose. The lack of surplus generation and the requirement to use low levels of surplus just to fund basic things like essential maintenance and upkeep of our facilities competes against investment in academic staff, research and the student experience. Low levels of reserves also makes us clearly vulnerable to major unexpected events. This can include significant drops in income due to student recruitment, as has happened at numerous universities, or additional costs we had not envisaged.

A change in the national fees basis, a particular threat when we have a government that seems determined to reduce student fees, would significantly affect our surpluses and ability to invest in our staff or the estate. So the overall plan we are presenting here aims to generate a higher level of surplus generation over the course of the next 3 financial years, in order to better underpin the long term sustainability of Keele and in doing so, enable us to deliver the vision we have set in the new strategy.

Financial Sustainability Plan

The plan is split into three parts: growth, cost reduction and efficiency. Each is taken below in turn. This plan intends to set out how cost reduction and increased efficiency are required to increase headroom in all its forms in order to underpin additional income growth. Our long term sustainability will not be delivered by cost reduction and efficiency alone. Our long term sustainability relies on growth, but at significantly different levels of efficiency and therefore cost.



Part One: Cost Reduction

A plan has been approved by Council, our governing body that sets out this 3 year financial sustainability plan. The plan requires 2 parts of cost reduction. The first is a return to budget performance in areas below budget this year. Any deficits to budget will be recovered over a 3 year period. For some areas this will be a significant financial challenge, while in others (those performing well against their budget) this part of the financial plan will have no impact. The second part of the plan is a 5% reduction in payroll costs, again over 3 years. A 5% payroll reduction is of a magnitude that will deliver a level of payroll saving to drive more sustainable levels of surplus generation. Combined, the requirement to recover to budgeted performance and the 5% payroll reduction results in a combined financial target for each Faculty and each Directorate. This cost reduction will be met by non-replacement of roles, a new voluntary severance programme and a reduction in casual, sessional and agency staff, and in some cases recurrent non-pay savings. While not the most significant of opportunities considering the size of the university payroll bill as a proportion of our total costs, we will also look at other cost saving measures, including non-payroll costs.

In effect this part of the plan commenced last year. We have saved £4.2m in costs as a result of non-replacement of roles and the first VS scheme since the start of the 2017/18 financial year. It is important to point out though, that while the VS scheme and non-replacement of roles reduced our overall costs, we were able to re-invest in a number of new roles as a result of the scheme. The loss of around 50 roles enabled the generation of over 35 new roles, as well as delivering a significant recurrent saving. Over the next 3 years the plan proposes another £7-8m of cost reduction. We plan to phase this over 3 years, with 50% of this target reduction over the first year and the remainder over the following two. Full details of this new Voluntary Severance scheme will be published on Friday 1st March.

The voluntary severance scheme has been approved by Council, the governing body, on 14th February. It will enable agreements to be reached by 26th July. The severance payment will be equivalent to one month's pay for each full year of service completed, plus 2 months' pay, up to a maximum of 12 months' pay. The scheme will be open to all substantive role holders. An open call will run in parallel with a programme of targeted cost reduction across all areas. This will cost up to £6m over the next 3 years. Further details on the scheme itself are on the Keele intranet.

Part 2: Income Growth

The second part of the plan relates to growth that will be enabled by targeted activities in some specific areas. We have identified 5 areas of growth to focus on where we feel there are opportunities to grow student numbers, in particular PGT, overseas and Foundation Year and we will do so from our existing resource base. There will be a need for some investment to achieve this growth, and we will make provision for this. We will further develop our targets in these areas over the next 2 months, however, in some areas it is worth remembering that targets will be based on numbers that we have achieved in the past which should give us some sense of optimism of this growth being possible. We will also be looking at other areas of income growth, such as the Science Park, Conferences and Events.

The five main areas of focus are:

- International
- PGT and Flexible Learning
- Keele Business School
- Digital Education and Research
- Foundation Year

They have been selected as key areas of focus after significant discussion and analysis by UEC. They represent what we collectively feel are the 5 areas where we can most realistically significantly increase new income generation over the next 3 years.

International: Over the last 5 years our numbers have fallen significantly in some areas, particularly in Keele Management School. This is at a time when the market for international students has sustained. So we have lost market share.

Postgraduate Taught and Flexible Learning: While our PGT numbers have held steady, as a proportion of the total student body, our numbers of PGT students is low relative to the sector. A lot of these have historically been international students, so there is strong synergy between what we need to achieve in both PGT and international. However there needs to be a more fundamental rethink of our PG portfolio – not least how attractive it is and whether we are offering the right kind of provision, particularly with regard to programmes which position students well in the job market. We also need to re-think the traditional model and consider more flexible learning approaches, many of which don't revolve around full time campus-based delivery. We have made great progress since April 2018 in the development and delivery of our degree-level apprenticeship provision, with the prospect of over 500 degree-level apprentices studying at Keele in the next 3 years. This is shaping up to be a very significant additional income stream. We also have significant untapped potential in on-line delivery of our programmes.

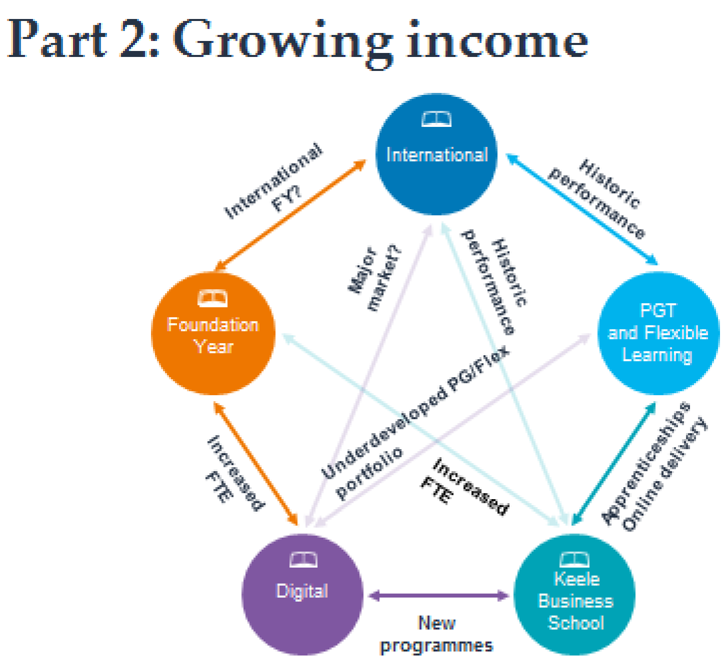
Keele Business School: Keele Management, soon to be Business School, will be a key focus for our strategy. It does deliver significant surpluses but historically these were much more significant. It is an important School for the level of UG recruitment and historically delivered a very significant majority of our international UG and PGT population. The University has therefore relied heavily on KMS. The investment in a new building and move to a Business School model will be an important part of our sustainability plan over the next 3 years.

Digital Education and Research: Education and Research in the digital domain, encompassing but going well beyond our established computing discipline, also offers areas of untapped potential. We have grown numbers recently but recognise we can and should be able to do much more in this area, both in traditional undergraduate recruitment and at postgraduate and apprentice levels. It is also an area of research which cuts across much of our research endeavour.

Foundation Year: This has been an important part of the growth story in recent years. We have increased numbers significantly, believe we have an offer which is attractive in the market place, and feel that with appropriate changes in approach, can be an important part of the growth plan.

Each of the growth plans in these areas will be developed and delivered by a Project Executive Group (PEG), chaired by an academic member of the University Executive. Each PEG will bring together a range of senior colleagues from across the academic and professional service areas to deliver a programme of work.

The work of these groups will be critical to the success of the growth part of the plan. As will engagement of all academic staff. Detailed work programmes will be presented and available for each of these project areas in March with income modelling later this year. At this stage we are predicting that additional income growth from these areas should fall into the range of between £2m and £7m per year. Early projections of the contribution from apprenticeship provision give confidence to this.



The final point to make about these 5 areas of focus for targeted growth is their inter-relationship. The diagram above shows some examples of this. For example, the work on

PGT and International provision will be critical to KBS. New provision in digital disciplines will be a key driver of an invigorated portfolio that is attractive to international students.

Part 3: Efficiency

The third part of the plan relates to efficiency. This is probably the most important part of the entire plan. In some areas, particularly those which are performing well financially (i.e. on budget) the impact of cost reduction could be absorbed over the course of the 3 year plan within existing models of delivery and service provision. For other areas, where there has been more historic and prolonged structural deficit between income and costs, changes will need to be more significant. However in both circumstances, the responses to cost reduction need to be made in the context of not only maintaining delivery, but in finding additional headroom to support growth. So in both cases, in years 2 and 3 there will need to be significant changes in the efficiency and way in which programmes and services are delivered. This will then be critical to underpinning and supporting new income growth activities. Simply sticking with the current ways of working and absorbing cost reductions would be a big mistake. In all areas of the University we will need to think how we quickly release the inefficiencies which have built over time. And we should have a confidence that this is achievable when we look at some of the significant increases in student numbers which have been accommodated in some schools and in the re-design of some areas of professional services in recent years.

Two key cross-cutting projects will be key to this transformation, particularly in years 2 and 3 of the plan. The One Keele project aims to bring forward a new operating model in our approach to professional services support across Keele. It will take a simple measure of success as being the delivery of support processes which are better for students and simpler for staff. A large part of that will be via consideration of a so called 'digital first' approach – where we consider the opportunities digital and AI solutions can bring to our routine and burdensome processes. The project executive group for One Keele will be co-chaired by Professor Pauline Walsh and Dan Perry.

In parallel to OneKeele will be Portfolio 2020. The group overseeing this project will be led by Professor Mark Ormerod and delivered with Schools in partnership with KIITE. The project will look at releasing inefficiency across UG and PG portfolios and using this efficiency to support the development of new provision and new income generation.

Conclusion

So what will the impact of all this be? We are continuing to develop the financial plans for the next 3 years to predict this. These will be presented to Council in May and be available after then. We feel that the 5 areas of growth can deliver additional income, partly based on historic performance levels, of between £2-7m a year. We will develop more specific targets and estimates for these later this year.

The cost reduction proposals will cost about £6m over the next 3 years, and reduce recurrent payroll costs by £7-8m each year from 2021. We will need to spend some money on investing in those areas supporting growth in new income. That will need careful consideration, but is likely to be in the order of £1-2m. Clearly investment in growth, actual increases in income and cost reduction will all interplay with each other, and will be closely monitored.

As things stand today, we are confident that the plan can start deliver surpluses of £8m per year. But we have to continue to test the reality to this. There are a number of assumptions in this, including confidence of no major drops in UK/EU undergraduate student numbers and we have not taken into account the potential impact the outcomes of the Augur review might have on tuition fee income. While this might be more than 1-2 years away and the impact if any is unclear, it would clearly re-shape some of our approach. We are also aware that discussions on the future of pension contributions may have a significant additional financial impact on us in the near future.

So in summary the 3 part plan aims to reduce costs by £7-8m per year by 2021, in addition to those savings already achieved, and target new growth of between £2-7m per year by 2021. The success of both of these will be underpinned by changes in efficiency in how we deliver our academic programmes and professional services, particularly in the long term and in those areas facing major changes to levels of resources.

We aim to implement the majority of these cost reductions via ongoing scrutiny of the need to replace roles, and reduce budgets for the use of sessional, agency and casual staff – and most importantly, open a new VS scheme which will be open to applicants from across Keele – but also target areas where significant cost reductions are to be achieved.

We are confident at this early stage that the plan will return us to a minimum level of sustainable surplus production and therefore reduce our vulnerability and increase our long term sustainability in a little more than 3 years. But we recognise that this impact needs to be assessed further to make sure we are realistic in our assumptions.

In developing the plan we have clearly considered what some of the major issues are to manage during its implementation, not least how we manage our collective morale, particularly in areas where there will be significant changes quite quickly. Our commitment to the University's People Strategy remains unchanged. This strategy has a number of strands we are now delivering, including our first staff survey. The outcomes of this survey will provide an opportunity for staff to respond on a range of issues we need to understand and respond to. We have also just submitted our first application to be recognised under Advance HE's Race Equality Charter scheme, in addition to having made excellent progress in terms of Athena SWAN accreditation across Schools.

The ability to bring forward new approaches to delivery both in terms of academic programmes and professional services will be key to success, and if we don't, this will be a major risk. So supporting these transitions, particularly via the OneKeele and Portfolio2020 projects will be key. Transforming how we do things in order to generate head room to invest in growth, both in terms of time and money, will be critical to the success of the plan. We clearly need to continue to model the impact of the plan against the underlying financial position of the University and changes which may occur such as changes in recruitment, fee levels, etc. Above all we need to make sure we have clear and unambiguous communication and engagement as we move forward to collectively deliver this plan.

By implementing this plan, we will be able to secure the future of Keele, not only for the short-term, but for the years to come. Keele's founding vision was ambitious and we should continue that ambition as we move forward together into 'Our Future'.