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Rapid Response Briefing Paper

Leading through adversity: the impact of Covid-19 on university finance

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SUMS is a membership-based higher education consultancy, a registered charity and not-for-profit organisation that provides expert consulting to universities across all professional service areas. We have been talking to university leaders about managing the Covid-19 crisis and their visions for the future. With views gathered from a series of one-to-one interviews, SUMS' Community of Practice Groups meeting virtually, along with student surveys, SUMS is able to take a service-by-service review of university operations. It has found a sector eager to change and seeing positives in adversity.

Here, SUMS Principal Consultant David Becker shares insight from his research into the implications of the pandemic on university finance.

"It sounds like a dreadful thing to say but this is a big opportunity and it would be a shame if the sector doesn't transform"

Finance Director at a UK University, May 2020

1. Leading Through Adversity

University finance directors (FDs) are the custodians and stewards of their institution's financial strategy. Without exception, they are also crucial components in the strategic leadership machines of their institutions. Our conversations with a cross-section of FDs from all mission groups painted a picture of a community of staff who care deeply about their institution and the higher education sector, who are finely attuned to the concerns of both students and colleagues, and energetic – often provocative - in their thinking about how they should lead through this crisis. And the crisis is real. Depending which analyses you examine, the coronavirus pandemic seems certain to result in a total decline of income across the sector of around £2bn. The immediate concerns span issues relating to tuition fees, regulation, pensions and estates. There hasn't been a shortage of headlines in recent weeks about the implications of that shortfall on all these aspects of university operations. Whilst the immediate cash flow issues will hit our institutions hard – one FD cited losses approaching £60m from cancellation and refunding of student accommodation fees, conferences and events – it's the likely drop in student recruitment that's exacerbating the pressure that many FDs feel and which is a key cause of their sleepless nights.

Specifically, it is the collapse in the international student market that is the key issue. The financial contribution that flows from international students subsidises research in many institutions. It's a different financial conversation in other institutions that have little or no research to subsidise but needs international (often business school) student income to fund its core infrastructure. Institutions are recognising the need to think strategically about their reliance on this income stream and how much it costs to be in that market.

"When it comes to the nuts and bolts of operational finance, then the change hasn't been that significant. We may need less space in future, we've discovered more effective ways of doing things. But if we're talking about the implications for university finances rather than the implications for finance teams…well, I don't even know where to start. I expect us to announce initial cuts of £40m within the next month."

Given the gravity of the situation, it's no surprise that finance directors were at the heart of decision-making about the immediate steps their universities have taken in response to financial concerns. As a rule, they have pressed pause on all uncommitted investment in buildings and infrastructure and have introduced emergency spending controls to ensure approval is only given for spending which is absolutely necessary. After some deliberation, several institutions also moved to furlough staff in areas where they felt comfortable that doing so would be within the rules. One FD pointed to purchases being down by 80% as a result of the majority of staff being off-site, and referenced how 'slamming the breaks on staff recruitment' and taking 'a big chunk off capital expenditure' had led to cash balances being higher than they otherwise would have been. This did not, however, disguise the longer-term bleakness of scenario planning, nor impact the overwhelming caution that our interviewees felt about the extent to which government support would – or would not - be forthcoming:

"As a sector, we're dependent on government to bail us out but we need to plan on the basis that they won't. The government view is that there are too many universities."

A large number of FDs had also spent considerable time on the phone to the bank in recent weeks. Whilst the general sense was that discussions with banks had largely been supportive, and that any covenant breaches would be considered sympathetically, this was not universal. At least one participant described the process as *"more difficult than I first thought it would be"* and another had been required to front their Vice-Chancellor and Chair of the Board of Governors as part of the process. Discussions with the European Investment Bank (EIB) were also more complex, partly because of the short-term implications of the pandemic but also because of the ongoing Brexit negotiations and how borrowers may be impacted by the outcome. FDs were thinking very carefully about the impact of increased debt and what that might mean for longer-term strategic investment in key initiatives:

"We have an existing debt of around £90m and have reached agreement that we can borrow above that if absolutely necessary but of course that debt has interest attached to it. There's a careful balance we have to strike between surviving in the short-term and investing in our core mission"

The response to government plans emerging throughout April and May was particularly lukewarm in recruiting institutions:

"Our own assessment is that the student number controls won't help us one bit. What's being talked about is that student numbers will be limited to our forecast plus 5%. Well if that's right then stronger institutions will still sweep up students to our detriment. It won't protect us at all"

2. A Feat of Comedic Timing

The timing of the pandemic was so bad that it was described by one finance director as 'almost comical' whilst another used altogether more industrial language to express his frustration. Certainly, the picture for several universities wasn't rosy even prior to the outbreak. The perfect storm whipped up by the regulatory and socio-economic environment had already caused many institutions to instigate large-scale cost-cutting programmes. This cost-cutting was achieved most frequently through the ongoing application of voluntary redundancy (VR) and mutually agreed severance (MAS) schemes. This revealed a particular challenge with the timing of the pandemic:

"We've been through several cost containment exercises in the last decade and now there's very little fat left to trim. It's always possible to make further cuts but that needs to come now with an understanding that we're cutting important activities as well as staff. We can't just absorb additional workload anymore…some things will need to stop"

This sentiment is certainly one with which SUMS is familiar and an area where we are already working with a number of our members to provide facilitation of (and objective challenge to) conversations about which activities are and aren't a strategic imperative. These are discussions which are uncomfortable and emotionally challenging by their very nature. We would emphasise that there is a wellbeing angle associated with any reluctance to tackle these issues. No amount of professional development in the areas of resilience or change can enable a reduced pool of staff to pick up the same volume of activities that they and their colleagues were delivering previously. There is, therefore, both a financial and a human incentive to reconfigure university priorities. A failure to do this simply risks staff burnout, low morale and financial jeopardy, the classic 'death by a thousand cuts'.

3. Reasonable Worst-Case Scenarios

"We were in a healthy position prior to the pandemic. Yes, that's changed. We're going to need to save around £70m over two years and that may even be a little optimistic"

Whilst there was significant variation in the overall scale of anticipated loss of income, the projected decline in many cases could reasonably be described as 'extreme'. However, participants often felt that it was the uncertainty around the next few years which was making planning particularly difficult rather than the raw numbers themselves which are largely based on slightly subjective scenario modelling. There was a consistent level of concern about the lack of certainty emerging from government guidance, as well as an acknowledgement that scenario planning, whilst crucial, had limitations and had to keep being revisited as optimism and pessimism fluctuated:

"We have to assume that there'll be a big decrease in EU and international student numbers – but we don't quite know by how much – and we have to assume that some UK students will choose to defer entry – but we don't quite know how many. We also have to assume that our research income will drop – but we don't quite know by how much or for how long. So given all the assumptions the only prudent thing to do is work on a reasonable worst case scenario and that means a loss income of over £120m over a three year period"

4. Every Cloud Has a Silver Lining

Despite the obvious challenges of the pandemic, the finance directors we spoke to were already weighing up some of the opportunities presented to them by the outbreak. At one level a perceived advantage was simply the *'recognition that financial control which was merely tolerated in the past will now be embraced and even relished!"* but the benefits finance directors had in mind spanned multiple areas ranging from leadership culture through to structural reform, process improvement and appetite to tackle long-standing problems with core business:

"I'm delighted about it in some ways. How long have we been trying to exert some control over the proliferation of our academic portfolio? It's been like wading through treacle up to now, but the financial implications of this coronavirus should speed the process up enormously."

In a similarly positive vein, and despite the projected black hole in future income, the implications that the remote working regime has had on operational finance teams themselves were also felt to have been largely positive:

"We were still more reliant on paper-based systems than we should have been and we all knew it, despite the noise in recent years about digitisation. A lot of our payroll was paper based, most of our online forms were just Word and Excel documents which people printed off. Even the way we were audited by [a big commercial firm] was outdated because they always wanted to see paper copies of everything. We were still handling cheques and hardly anyone had ever worked from home before but the fact we had no choice but to innovate was what moved us forward. We've modernised more in three weeks than we had in three years"

Several respondents referenced the previous reluctance there had been across their operational teams to adopt remote working arrangements and credited the pandemic with transforming the culture of office presenteeism in a matter of days. One respondent recalled how his teams still believed that neither systems nor people could cope even beyond the first week of lockdown, but that the experience since then has liberated thinking both within the financial services department and elsewhere in the university. Whilst those sentiments were echoed to a large degree by other respondents, there was also acknowledgement that the speed of innovation had bred slight discomfort in some quarters, as well as occasional difficulties:

"People love to hate us but that's because we have a duty to manage financial processes tightly, to record them for audit purposes and ensure there are safeguards in place for authorisation. Everything has gone ok so far but the swift change means any areas where we were vulnerable might be highlighted more than they would have been otherwise". Not all of the benefits identified were financial in nature. Several FDs expressed views that underlined their commitment to wider strategic leadership issues and not just financial sustainability:

"I'd like to think that things will change in terms of pedagogy, that this will totally reverse the way that we deliver. That we will get rid of the old model of 500 in a lecture theatre. It's an opportunity to flip the model, stop transmitting and change the rigidity of the structure. Also, we can have more than one intake a year!"

More than one respondent also referenced the emerging effect that the pandemic had had on his leadership team, suggesting that they now realised how much more capable they were than they thought.

5. Agent Provocateur? The Case for Wholesale Reform

We heard some interesting - and frequently provocative - thoughts from our participants during the course of our conversations. These ranged from a strong belief that government support would damage the speed of change that UK higher education should be pursuing, through to frustration about the numbers of tertiary education providers that sometimes exist within one geographical region. When asked to unpack these issues further, the respondents pointed to the presence of a 'burning platform' as a prerequisite for successful change - and suggested that any injection of support would simply decrease the appetite in some institutions for the far-reaching transformation that was otherwise within their grasp. In a similar vein, some finance directors questioned whether, in a time of deep financial peril, it was in any way necessary or prudent for providers within the same geographical region to continue operating their own sets of professional service provision. It is fair to say that these views were not, however, universal! An equal number of participants emphasised an absolute need for government support, albeit with conditions attached that would still encourage further modernisation.

Notwithstanding the above, it was clear that there was significant appetite in some quarters to pursue wholesale changes that go well beyond the objectives of previous years' internal change objectives – and that ambition was present to some extent in pockets of all mission groups. With reference to some of the initial communication emerging from Universities UK (UUK) a finance director at a large modern institution commented that '*I couldn't help but note the little paragraph pointing towards rationalisation and mergers!"*. This subject proved a fertile one for further exploration:

"If you take a look at the rationalisation and mergers of banks and building societies in recent times, when you look at what's happened in FE, when you take into account the sheer volume of calls on the Treasury for financial aid, it must surely be a given this time that institutional failures are coming down the track? It feels unavoidable to me and we have to chart a course which allows us to exploit the situation and not be consumed by it"

In turn, this opened up discussion about what it would mean for a university to 'survive and thrive' in a post-lockdown world. These discussions revealed a slight tension between how possible it was to balance the short-term response to immediate cash flow problems with strategic creativity about how to future proof an institution. It would be over simplistic to suggest that finance directors weren't thinking hard about both these issues but there was often a natural bias towards one over the other. An example of focus on a longer-term ambition included the statement that:

"Our key objective has to be to gobble up the post-16 education offer across the entire region and create something approaching a monopoly. Financially and reputationally that's fraught with difficulties, but my role is to find ways to support the process. If we can do it then we'll secure a pipeline of degree-level students for future years whilst also making a difference to widening participation and access. If we don't do it we'll simply be taken over ourselves by another institution"

FDs emphasised the need to diversify income so that there was less reliance on Chinese students or the government. So broadening the product base for example by provide on-line courses overseas which was an opportunity for universities with a strong brand. More than one respondent welcomed the increased appetite for flexibility in the delivery of programmes, including multiple start dates and in country delivery. Whilst in the past there has been little appetite for shared services, the topic is now firmly back on the agenda.

Whilst others were very much zoned into the issues of 'here and now', seeing immediate cost control as a necessary hurdle to be leaped over before broader ambitions could be countenanced:

"Survival depends on cutting our cloth. There's a huge gap between what we earn and what we spend. I want all unnecessary costs out of the business – ideally by yesterday. I expect all my colleagues to support that process. If that means they can't have biscuits at their meetings when we get back to campus, then so be it."

A number of FDs recognise the need to engage with Heads of Procurement as business partners, to come together on the challenge of managing third party spend and to explore fully what Procurement can deliver. Much efficiencies work focuses upon staff costs, but addressable spend for medium size universities, on average, is over 45% of total spend. Before moving to cut pay budgets, university executives want to ensure they have explored all options to reduce unnecessary costs. This is a time that offers opportunities to reimagine services.

While FDs emphasised the need to diversify income, some also recognised the need for innovation to help them ensure that when the upturn in demand comes, they will be able to respond and deliver. Universities will need to ensure that they can access the expertise and assets they will need.

6. What Happens Next?

When thinking about how Covid-19 might change their approach, finance directors speculated on issues spanning operational finance through to adaptive leadership, structures, culture and processes:

"We need to revisit what Finance does." "We need a better understanding of our costs, cross subsidies and the areas that need investment. We need to be more data driven." Another commented that *"a review of staffing structures is unavoidable. We have an overdependence on fixed-term contracts and it would be preferable to have fewer, better contracts. At the moment we have fixed-term teaching only or fixed-term research only. Universities moved away from the classic 'lecturer who did everything', maybe we need to move back to that. This will involve working at pace and it's whether our HR colleagues are able to cope with the shift"*

We asked all our interviewees to reflect on their experience during Covid-19 and to comment on their top three critical success factors for universities in dealing with unprecedented change. The most common factors were:

1. Be clear that for any financial difficulties and complexities, it's still delivery of a high quality and consistent student experience that we need to place at the heart of decision-making. When universities lose sight of that they risk making decisions that may seem sound from a corporate risk perspective but which actually damage the very fabric that previous success is made of.

2. Be authentic in communications, clear in language and honest at all costs. It's ok to admit you don't know everything, and the more unpalatable the message the more it needs to be expressed without spin. Be data driven and be transparent.

3. All those in senior leadership positions need to act with collective responsibility instead of seeing it as their role to represent their department's concerns to the university. Now is not the time for well-paid managers to resist the fundamental change ahead. Similarly, now is not the time for long, drawn-out consultative processes and institutions should seek to co-create the solutions, at pace and without excessive bureaucracy.

FDs hold a unique position in the organisation. They are responsible for providing a commercial perspective and managing the business risks of the university. They emphasised the importance of the role in explaining the current financial situation and the plans to mitigate it to external organisations, Council, Senate and staff. One FD remarked that perceptions of the role have shifted dramatically and many staff now appreciated that FDs are not a "necessary evil", but instead a critical role that supported the values and purpose of the institution. Although troublesome times lie ahead, our conversations left us in no doubt that finance directors stand ready to play active and visible roles in helping their institutions transition to an operating model that will be fundamentally different to any that have gone before.

SUMS' consultants are gathering in-depth views from university leaders across the full breadth of university operations. We'll be publishing their service-by-service findings later this month. Register here to receive your copy of our full sector report.

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