An Alternative Financial Strategy:
Establishing sustainable finances at the University of Nottingham

Universities are public, charitable non-profit higher education and research institutions. As such, they require a commitment to civic- and community-minded forms of governance and financial management.

However, for several years the University of Nottingham (UoN) has set itself apart from other Russell Group universities in that its Executive Board (UEB) and Council have adopted a very different approach to financial management – a type of 'lean financial management'. This is more commonly associated with the practices of some private sector commercial businesses and is highly controversial (often being linked to poor performance). This 'lean approach' is based on holding low cash reserves and low long-term debt, achieved in large part by maximising 'efficiency'. As this document explains, this model *involves high risk (exposed in moments of crisis) and ultimately undermines the University's commitment to its core remit of teaching and research.*

What do we mean by 'lean financial management'?

All universities need to maintain sufficient liquid assets (such as cash) for dealing with day-to-day operations and to cover any unexpected issues that might arise. Thus, like other universities, UoN's day-to-day activities are financed by income generated from standard operations (teaching, research, commercial activity). However, unlike all other Russell Group universities, UoN operates with extremely low cash reserves and relies on a revolving credit facility (RCF) to maintain liquidity. RCFs are similar to an overdraft, and UoN regularly uses this facility to finance current expenditure, clearing any deficit when money from operations comes in at different times during the year (such as payments of student fees). By generating 'surpluses' on day-to-day activities the University then uses this cash to fund long-term investment projects. *All other Russell Group universities hold larger cash reserves for such activities (and unexpected problems) and use more long-term borrowing to fund investment.*

Why has UoN adopted 'lean financial management'?

This approach allows UoN to keep interest payments relatively low. The University claims that the terms of the RCF that it negotiated in 2019 are particularly advantageous and avoid large interest payments on long-term debt.

What's wrong with 'lean'?

This 'lean' approach to financing is simultaneously imprudent and aggressive. It is imprudent because there are very limited funds the institution can draw on when there is a sudden drop in income or when expenses rise in times of crisis. This problem is widely evidenced where similar practices have been adopted in the private sector. It is aggressive because it requires 'efficiency' to be taken to the extreme, with a negative impact on the quality of teaching and research.

The consequence of this approach can be seen in how the University plans to pay for its ambitious five-year capital investment programme, published in 2019 and worth approximately £430m. It has to be paid for by generating surpluses from day-to-day activities. Paying for large, long term capital projects solely by using short term cash surpluses inevitably puts huge pressure on employees and those whose work is required to generate the surpluses. It is analogous to financing a house purchase without using long-term borrowing, but only an overdraft facility from the bank. It is short sighted planning and was always a major challenge even *before* the pandemic hit.

The pandemic hits
The pandemic and related lockdown in early 2020 involved an immediate 'hit' on income primarily due to decreased revenues from student accommodation and commercial activities. Because the projections for 2020/21 were so dire, and because UoN's commitment to lean financial management left its balance sheet exposed, Nottingham was forced to implement immediate widespread cuts in order not to breach its RCF limit. *This was before it even knew whether its income predictions (and particularly an 80% decrease in international student fees) would materialise.*

In Spring/Summer 2020, all non-essential spending was immediately suspended and a voluntary redundancy (VR) scheme was introduced. Many fixed-term posts and postgraduate teaching posts were terminated and new appointments frozen, while the workload for remaining staff drastically increased. In June/July 2020, UoN projected an overall reduction of £150m in income for the next academic year. Budget cuts of 15% were then imposed across all Faculties to achieve savings of £80m overall. The other £70m were made up of VR (the loss of more than 400 jobs); a freeze in pay increments, cost of living increases and promotions; a suspension of most capital investment and some additional borrowing.

Even though the 80% reduction in international student fees did not materialise and the University's financial position is better than anticipated, the University has still said the 15% cuts need to be 'in force' through 2020/2021 and beyond, to deal with the long term impact of the pandemic.

There has to be a better way . . .
While UoN management describes the above policies as emergency measures, the danger is that the pandemic has led to the lean management strategy becoming more embedded than ever – with fewer people expected to deliver higher targets. Rather than use this moment to reassess this risky financial model, the pandemic is used to justify more 'efficiency savings' required to continue funding the ambitious capital investment programme. *The University has indicated that it expects the same capital development plans to be delivered in the same timescale despite the pandemic.*

The University has set clear targets: it is planning to increase its annual turnover to £880m – an increase of nearly £200m on pre-Covid levels. At the same time, it plans to hold down expenditure so that operating cashflow would double from approximately £50m pre-Covid to over £100m by 2023/24. The surplus would rise to 7% in 2023/24 - the sector average is around 3%. The operating cashflow would rise to 14% in 2023/24 – the sector average is 9%. This points to misplaced priorities. Money that could be spent on research and teaching is being diverted elsewhere.

This strategy clearly comes at the detriment of both staff and students. It can only be achieved by increases in 'productivity' which staff will experience as increased workloads, reduced research time, pay freezes, and deteriorating well-being. Students will experience larger class sizes and fewer bursaries. Teaching and research quality will suffer with obvious consequences for the University's reputation. There has to be a better way.

Facing the future: there is an alternative
UCU Nottingham believes the 'lean' financial model that has been adopted at the University at Nottingham is wrong and is inappropriate for a public university. The pandemic has exposed the structural faults underpinning the University's imprudent and risky approach to financial management. A financial strategy focused on generating cash for capital investment projects, which diverts essential resources from teaching and research, undermines the university's core mission as a public, charitable non-profit higher education institution. Now is the time to return to the University's civic mission, based on the notion of the search for knowledge as a public good. Now is the time to genuinely 'build back better'.

UCU Nottingham believes that there *are* financial alternatives, and these need to be guided by a commitment to prioritising people, and not some form of 'profitability'. It is time to 're-humanise the University' and recognise that it is people that are the foundation of everything the University seeks to achieve.

A viable alternative should be built on the following steps:

- Define a clear mission for UoN as a public, charitable non-profit education institution, which puts teaching and research excellence first.

- Abandon the model of 'lean financial management' and its primary focus on 'profitability' and maximising annual surpluses.

- Adopt a financial strategy based on careful, long-term borrowing for key infrastructure projects in line with practice in other Russell Group universities.

- Review the University's capital investment programme in view of the pandemic, with priority given to investment in staff and students. Some projects may have to be delayed or even cancelled due to the pandemic.

- Open up the discussion of which infrastructure projects should be retained in a broad consultation with all staff.

- Democratise investment decisions by establishing Senate as a key decision-making body.

This strategy has been developed by the University of Nottingham branch of the University and College Union. The branch has drawn on the expertise of several of its own members, many of whom have international reputations in relevant disciplines. The branch has also engaged the services of an external consultant with an expertise in higher education sector finances.