

Centre for Global Higher Education Working Paper series

Financial Self Help and Institutional Autonomy in British Higher Education

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Working paper no. 119

October 2024

Published by the Centre for Global Higher Education,
Department of Education, University of Oxford
15 Norham Gardens, Oxford, OX2 6PY
www.researchcghe.org

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ISSN 2398-564X

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Michael Shattock, James Hunt and David Palfreyman

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Abstract

The UK university system is experiencing a severe financial crisis at a time when the whole of the public sector is itself facing financial difficulty. The paper argues that rather than relying on what they see as the priority of their case universities should give greater attention to financial self help, to not responding to the freeze in the level of home tuition fees by concentrating on cutting expenditure but to actively look to generating income from new sources and thereby maintain their academic shape until the national position improves. It shows how severe financial downturns have occurred before and how in the first of these, the Thatcher cuts of 1981, one university adopted a 'save half, make half' policy which resulted in an increase rather than a decrease in funding and an enhancement of its academic profile. Economic and other conditions have changed since the 1980s and new solutions need now to be found appropriate

to an institutions circumstances but the principle of exercising an institution's financial autonomy remains valid. One important difference between the circumstances of 1981-82 and 2024-25 is the extreme differentiation between the size and financial profile of institutions in the university sector and particularly their relative dependence on income from home tuition fees. The paper analyses the income streams of a sample of six universities, two Russell group, two post-1992 universities and two post-post-1992 universities where there are variances in dependence from 23% to 62% to show that some financial models are much less sustainable in current conditions than others. The missions of some of these vulnerable institutions in terms of academic profile and roles in their communities are directly in line with the new Government's priorities. The financial vulnerability of these institutions, arising largely from history and location, make a special case for intervention. The most important factor, however, in facing the funding crisis is a change in the internal financial culture of universities and the impact this can have on academic morale.

Keywords: Financial autonomy, Self help, Financial management, Institutional morale, Institutional financial profiles, Financial sustainability.

Acknowledgment: We wish to express gratitude for the involvement and assistance of Rosie Drinkwater, Group Finance Director, University of Warwick and her team.

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The last four years have been increasingly dismal for the funding of British higher education with the Government's freezing of home student tuition fees, a fall in home student expansion in some institutions and doubts about the resilience of the international student market. As a consequence, it is said that 50 or more universities are engaged in cutting their salary bills, freezing vacancies and planning academic redundancies. The Office for Students (OfS) has produced a measured assessment of the financial sustainability of the sector (OfS 2024) which concludes that 'if providers (institutions) are not able to evolve and adapt successfully to the changing financial landscape there is a significant risk that some will become unsustainable'. This statement complements the barrage of pressures by higher education organisations arguing for an unfreezing of the home student tuition fee levels, the student loan element of which, the RAB, is written off against public expenditure. These pressures on government come at a time of acute demands for funding from elsewhere in the public sector and severe competition from departments outside the Department for Education (DfE): the higher education 'bleeding stump' is replicated right across the public sector of the economy.

Are there precedents for the present funding crisis?

It is not as if universities have not faced funding crises before and there is something to learn as to what caused them and how they came through them. The closest analogy to the present situation can be found in the years that immediately preceded the Dearing Report (NCIHE 1997) which saw the Committee of Vice-Chancellors and Principals (now Universities UK) (CVCP/UUK) searching without success for

alternative funding strategies to what had been, until 1992, a regime based on a direct government recurrent grant, which covered approximately 80% of university budgets and 90% of the budgets of polytechnics and colleges; the grant had not kept pace with the growth in student numbers. The Committee's conclusion, rebuffed by the Major Government, was the introduction of 'top up' fees for home students, that is tuition fees created by the institutions themselves to 'top up' the recurrent grant. The funding crisis had become so severe by 1996 that in spite of the rebuff it decided to proceed with a 'special levy' to be charged to the 1997-98 student entry. In a General Election year this provoked the Government, with the support of the Labour Opposition, to create the Dearing Committee to prevent university tuition fees becoming an Election issue. This resulted in the introduction by the Government itself of a home student tuition fee of £1000 in 2000-01. Figure 1. below, drawn from the Dearing Report, shows the decline in government funding measured against a constant student unit of resource in the 1980s and 90s.

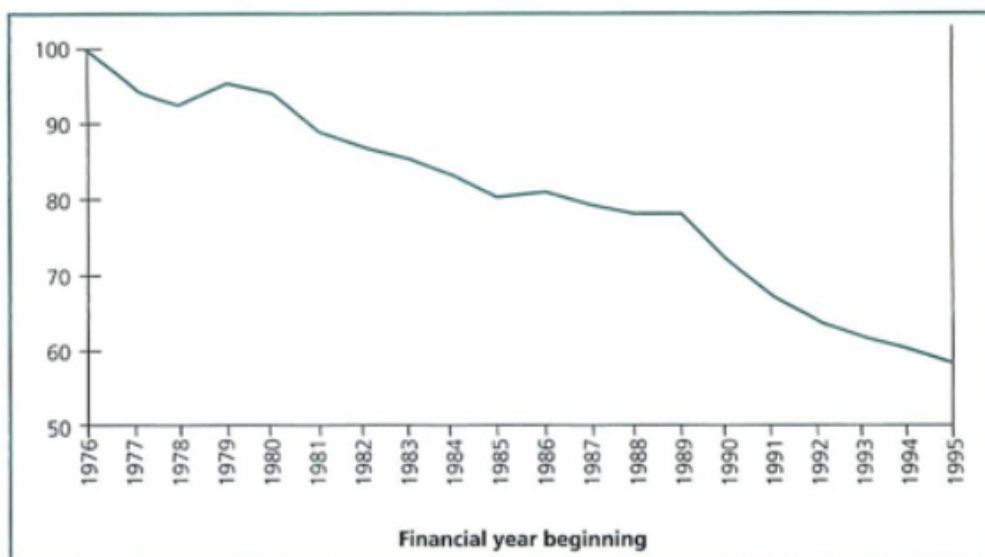


Figure 1. Index of public funding per student for higher education 1976-77 to 1995-96.

Source: NCIHE 1997 Chart 3.16.

This chart illustrates three distinct policy turning points in higher education funding. The chart begins in 1976 when the universities' sector dominated the higher education funding model which was roughly geared to staff: student ratios of 1:8 to 1:10. The first significant downturn was the 'Thatcher' cuts of 1981-1984 which were ameliorated in a calculation of public funding per student in universities by a cut of 3% in student numbers imposed by the UGC. There followed a period of continued decrease in

funding until a second downturn was signalled by the decision by Ken (later Lord) Baker, the then Secretary of State, to encourage an expansion of student numbers on both sides of the binary line without having obtained Treasury support (Shattock 2012 p 152). The result was the chronic fall in the unit of resource from 1989 which is paralleled in the period 2016 to 2024. The third turning point is provided by the Dearing Inquiry itself.

For the most recent years we must turn to the chart provided in the OfS report on financial sustainability (2024) (Figure 2). This is not strictly statistically comparable with the Dearing Report chart because the OfS data is for England only. In addition, whereas the Dearing chart uses public expenditure figures which include the research element of the universities' recurrent grant the OfS defines its data as representing the '(tuition) fees and grant for full time equivalent students eligible for UK fees.' The data does not, therefore, include research funding arising from the Research Excellence Framework (REF) which is now a separate funding stream (QR) awarded by Research England: this stream impacts differentially on institutions depending on their REF performance. STEM funding also favoured pre-1992 universities which had well developed science and technology teaching programmes. In 2012 the recurrent grant was replaced by a tuition fee charge of £9,000 supported by a 30 year student loan entitlement. Tuition fee income was open ended to institutions because the previous cap on home student numbers was lifted leaving institutions to expand at will. This again had a differential effect on institutional budgets. The net cost to the public purse, however, was underestimated: the scheme took no account of the potential effects of inflation on a high tuition fee solution and disastrously underestimated student loan repayment rates. Both raised questions as to the viability of the Government's calculations on the costs of the scheme and a continuing ongoing search for a new alternative approach.

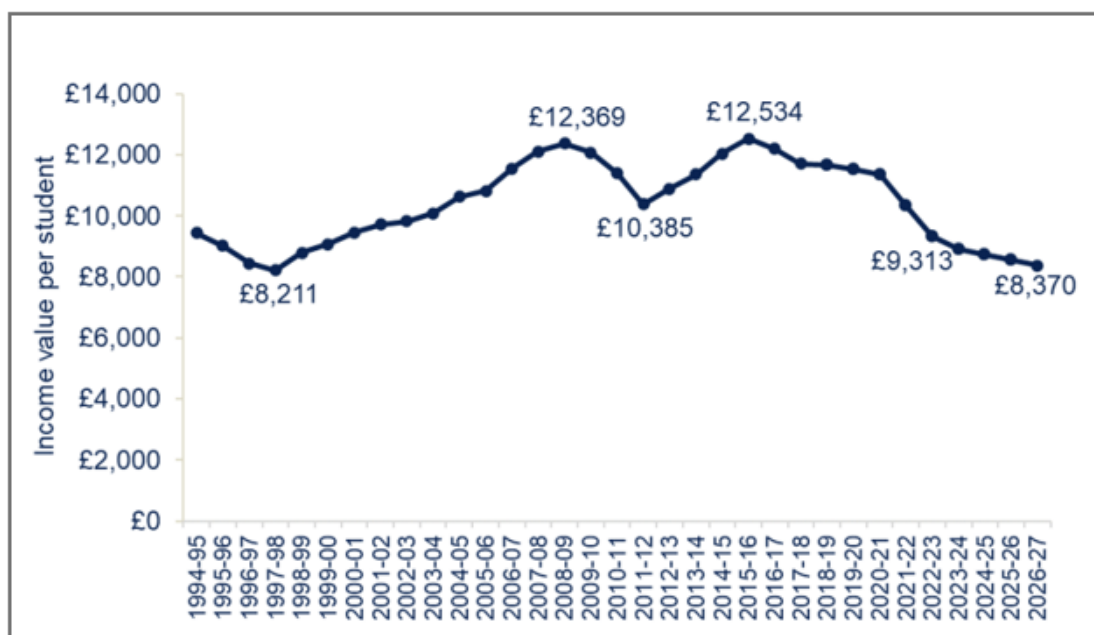


Figure 2. Financial sustainability of higher education providers in England Teaching unit of resource (fees and grant per full-time equivalent student eligible for UK fees), valued in real terms at 2022-23 prices

Source OfS 2024 21 p 9

The OfS chart provides explicit evidence of the ups and downs of higher education funding over the last 20 years overlapping with the Dearing chart in the funding trough of 1996-97. It then climbs in the Blair years, fuelled first by the Dearing £1000 tuition fee and then by the fee increase of to up to £3000, backed by student loan arrangements, effective from 2006. The next policy initiative was the change from recurrent grant to tuition fees, the switch to a market model, which resulted in providing a level of funding initially not far short of the pre ‘Thatcher’ years. The final three years of the chart takes us back to the comparison with the 1996-97 trough.

Some striking conclusions emerge from the two charts. The first is that they confirm the parallels between the financial situations in 1996-97 and 2022-23. The second is that the levels of government funding over the whole period have been hopelessly inconsistent and have been heavily influenced by non-higher education issues and by external and mostly political pressures. A third is that policy, where it is discernible, has been made on the hoof, was not future proofed and decayed over the years. This has had a deleterious impact on the stability of the system. The solution adopted by Dearing, that was implemented in 2000, was to seek to redress the situation by injecting an income increase by charging students tuition fees, a policy repeated and

reinforced by the Blair and Cameron Governments. But this option is no longer easily available when tuition fees have reached levels which are a deterrent for home students. Institutions have relied on the continued growth in international student fee income. This has had the effect of further differentiating institutions between those particularly attractive to the market and those less so. But this solution is itself showing signs of slowing down both for wider international political reasons and because the most successful institutional recruiters are reaching limits to their growth in numbers. Higher education and government have historically been a partnership, but a final conclusion must be that government has proved to be an unreliable partner, erratic in funding, short term in conception, eager to claim its role in success and quick to condemn imagined or actual institutional shortcomings. Universities need to come to terms with the fact that the state is not a stable partner and that institutional autonomy requires a significant degree of financial self help.

Reaction to the 1981 cuts: the experience of one university

The late 1970s were a grim time for university finance: the national economy was in serious trouble with wage settlements running at 15% and 20%. Universities were dependent for around 80% of their income on a recurrent grant from the UGC which was unable to keep up with the level of inflation. Rumours abounded about the need to slim down the university system by closing some universities (one or two of the 1960s New Universities were on everyone's list). The University of Warwick decided it had to look outside conventional UGC sources of income and in 1978 its finance committee received its first paper on alternative sources of finance. As far as we knew we were alone amongst universities to contemplate this in any kind of formal way; most universities believed that the Government would come to its senses and resume responsible levels of funding for an expanding system. By 1980 the Warwick finance committee had accepted an income generation target of some £300K p.a. This looks a trivial figure in 2024 but on a turnover of £17m this was not an unambitious target.

When notified of the July 1981 cuts the University found itself facing a grant cut of 10% over the period 1981-82 to 1983-84 and as part of the process in balancing its books it increased the income generation target to £500k giving rise to the slogan coined by David Palfreyman of 'save half, make half.' (A later recalculation suggested that what

we had actually decided was a 33%: 67% split). The success of the programme can be judged by the fact that by 1984 the University's income had risen by 12% instead of being reduced by 10%. In 1990-91, 10 years after the programme began, and when the University's total income stood at £91m, 'earned income' reached £38m per annum and was generating a contribution to general funds of £11.8m of which £8.5m was invested primarily into the academic side of the University. International student tuition fees already provided a growing element in the 'earned income' figures: in 1981 the number of international students was only 200 but by 1991 it had grown to 820.

The 'earned income' approach

The introduction of an 'earned income' approach carried many implications for internal organisation which we did not always recognise at the time. Perhaps the most significant changes were to be found in the Finance Office. Because such a high proportion of the University's income had always come direct in grant form from the UGC the Finance Office was organised essentially as an accounting and financial recording office which had no serious management accounting function. It recorded income and expenditure but had no role in managing it or establishing whether income was 'profitable' or loss making; in universities it can often be the latter. This involved some change in personnel but also the recruitment of a new senior appointment who had business experience in industry but not an accounting background (the holder later moved on to be Secretary of the London Business School). He persuaded us first that 'earned income' activities should be put on a five year strategy target basis with annual 'challenge' meetings for each activity and second that charging policies represented a key both to profitability and to quality of service.

Two other things became obvious. The first was that we needed to develop a 'board' with some operational decision-making powers rather than a conventional committee to take responsibility under the finance committee for the process. The second was that each separate 'earned income' activity needed to report to the 'board' at regular intervals not just at the end of the year. This necessitated the establishment of a separate financial recording mechanism which enabled the income, expenditure and prospective surplus against target to be presented to the 'board' every two months (later extended to quarterly). In addition, a five year 'challenge' meeting was held with

every activity each summer. This determined the forecast income and surpluses for each activity for each of the next five years, the investment in each activity which would be required and the staffing requirements. These figures were then submitted to the finance committee for approval and were fed into the University's five year financial and strategy planning.

The success of the 'earned income' programme can be judged by the fact that by the early 1990s it could be confidently asserted that the University's 'earned income' represented a more reliable basis for financial planning than the recurrent grant. Embedded in the programme were now a set of implicit principles:

- The University's core business was teaching and research: the priority must always be its academic purposes—the University was not a business organisation; the 'earned income' programme must be integrated with the University as a whole.
- We should bear in mind the commercial mantra: 'sales are vanity, profits are sanity'. It was relatively easy to generate new income but the test was whether such activities generated surpluses.
- The programme was not planned to be based on wholly new activities, although several emerged over time, nor on a concentration on any one or two particular activities, but to exploit a broad spread of activities which could each make a contribution to overall funding; the process turned out ,however, to be cumulative in that as individual activities seemed to succeed more potential activities appeared on the horizon.
- Income streams from individual activities should be separately managed and monitored as if they were independent 'businesses'— each activity was different, operated on different annual 'business' cycles and demanded different skills.
- Income and surpluses needed to be shared between the centre and departments on the basis of pre-arrived at agreements; departments needed incentives and benefits should be shared (from the beginning academic departments and the centre shared international tuition fee income on a 60:40

basis). Incentives were necessary to persuade departments to contribute to a central budget; if they retained all the income they generated not only would the activities' direct costs to the University be lost but the University would be denied any element of surplus to invest in subject areas where income could not be generated. Moreover it would create large inequities between academic departments. Dialogues on these matters were greatly helped by the University's academic governance structure which provided for a direct relationship between the centre and departments rather than via an intervening faculty organisation.

- Outsourcing of 'earned income' activities in return for a regular income was resisted on the grounds that (a) there was a strong human resource case for having the operation of a common employer on the campus (b) a significant number of income earning activities were interrelated and could be collaborative (c) there was value in having a common University style in responding to external users (d) there could be a loss of control if an outsourced service went into decline and could not be addressed quickly.
- To maximise financial returns the need for continuous investment should be assumed –exploiting a facility without investing to adapt to changes in the market would inevitably lead to a fall in surpluses.
- Charging policies were an important element of any 'business' strategy: high charges had the benefit of inspiring confidence in the user and of ensuring a high quality service.
- 'Internal privatisation', that is merging existing subsidised services and turning them into 'profit' centres offered an opportunity both to improve the set of services and to expand them and open them to external users (e.g. combining the bindery, the printing unit and the photographic service and encouraging external business).
- Generating 'earned income' was 90% 'perspiration' and only 10% inspiration: method was more important than entrepreneurialism though the latter certainly emerged. Not every activity identified turned out to be a success and some

were notable failures but the 'business planning' that was employed was strong enough to close down potential loss makers and redirect others into surplus.

An assessment of the 'save half, make half' approach over 20 years

It is significant that no comparable programme to 'earned income' was contemplated on the savings side in 1981 or thereafter. Over the 1981 cuts period there was some pulling in of horns but the small Humanities departments which the UGC suggested should be reviewed with an eye to closure were sustained and achieved outstanding results in later UGC research assessment exercises. Indeed over the two decades no academic posts were terminated on grounds of financial exigency except in Education where sharp national changes in teacher training policy imposed a change in academic programme.

In 1987, influenced by the national uncertainties of funding and by events in the sector the University established a mechanism for reviewing its overall finances against each line in the budget every two months (later extended to each quarter) so as to improve over time its financial forecasting. The review was conducted by a budget steering group which was energetic in following up shortfalls and surpluses on individual target activities, and reported to the finance committee. This greatly improved the University's financial planning. If the University had been in a deficit situation, like so many institutions in 2024, this would have been an invaluable mechanism for controlling the budget and flushing out areas where savings might be made. As it was it showed by mid- year where underspending was likely to occur and where capital investment might be brought forward in the financial plan, an important facility in an increasingly competitive climate.

The achievement of the earned income programme was to protect the University from the effects of the 'Thatcher' cuts and to greatly lessen the impact of the long slide in the unit of resource in the 1990s demonstrated in Figure 1 above. Perhaps more importantly it changed the University's financial culture both centrally and in academic departments. It did a great deal to provide stability for the academic processes of the University and gave incentives for innovation and new developments. It also supported

a sense of optimism about the future and a culture of financial autonomy which was able and willing to encourage new ideas and their implementation. In 1994 the University became a founder member of the Russell Group, the only one of the 1960s New Universities to do so in that period; it has maintained a top ten position in British ranking tables ever since.

Figure 3 illustrates the distribution between heads of the University’s income in 2004-05 three years after the introduction of the £1000 home student tuition fee and two years before the increase in fee levels to up to £3000:

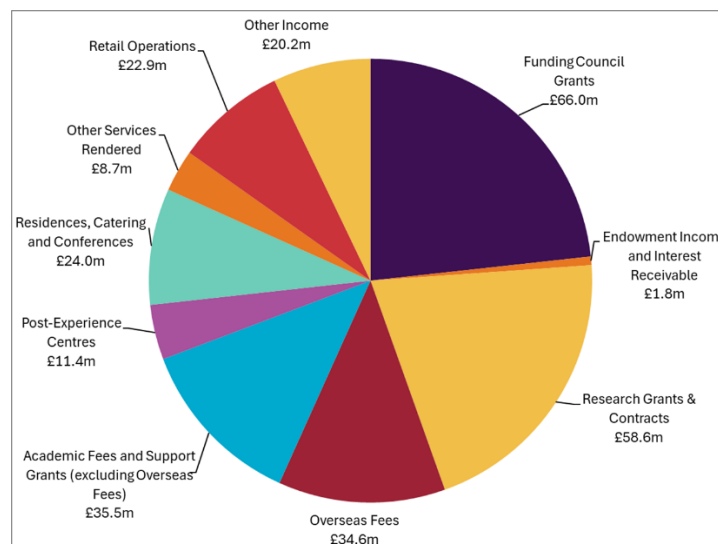


Figure 3. University of Warwick income 2004-05 £283.8m

Source: University of Warwick

The changed position in 2024-05

The last 20 years have seen far reaching changes in the structure of the British higher education scene. There may be instructive financial parallels to be drawn between 1996-97 and 2024-25 but the ways forward are not parallel: in 1996-97 the solution was an independent review, the Dearing Committee, and a decision to generate new income by charging tuition fees to home students; in 2024-25 a policy to increase fees seems to have run out of road and no new policy, or combination of policies has

emerged. The initially very modest solution to introduce tuition fees of £1000 to home students recommended by the Dearing Report has been exploited to its limits, particularly since 2010 with the switch in funding policy between recurrent grant and fees. This, however, has rendered the sector no less dependent on government decision-making than it ever was under the constraints of a grants system linked to institutional student number targets in spite of the rhetoric over market freedom. Equally, economic factors and the development of the university system and its management have made the Warwick 'earned income' programme approach of the post 1981 period much less appropriate or practicable.

In the first place home student numbers have grown nationally from 2,287m to 2,937m and since the 1992 grant of university status to the polytechnics 45 new universities have been created. More significant from a financial point of view international student numbers have risen from 320,000 to 680,000. Institutions have grown much larger and have stretched both home and international targets to take advantage of the income they bring and to provide capital for extensive building or rebuilding programmes. Within the growth in international student numbers, exceptional growth rates in the case of large contributors like China (80% in the last decade) and India (39% over the last two years) raise questions about institutional vulnerability in the event of international political or economic discord. China exercises a particular impact on the internal balances of the British scene. The Chinese student market is strong partly because of the encouragement given for study abroad through the benefits that can be awarded to graduates educated internationally via the hukou (household registration system) which is used to determine access to future social welfare, education and employment opportunities (Ebel 2024) and partly because of its students' concentration on seeking admission only to high ranked universities. An example of the effects of political change is the extent to which student numbers from continental European countries have fallen as a result of Britain's departure from the EU.

In two particular respects the financial structure of some British universities has diversified away from a common model. Both can be seen as examples of financial self-help, but neither could be described as secure routes to financial sustainability. In the first, the UK University Overseas Campus Network (UKUOCN) lists 18 universities

with 38 campuses located abroad and owned or part financed within their own financial responsibilities. This does not represent a full list of universities with overseas campuses and UKUOCN mentions the existence of over 50. UKUOCN regards the development as 'one of the great success stories for UK higher education' and states that 'Overseas campuses exemplify the independence, ingenuity and pioneering spirit of UK universities' but in the same breath also suggests that such ventures need more support from government (UKUOCN 2023 p 8). Universities do not normally publish separate accounts for these ventures but rumour suggests that they do little more than break even financially and are usually loss making. They constitute a significant financial risk factor as well as imposing a drain on central university management time and energy. A further example of 'entrepreneurial' activity is the practice of some universities to establish a satellite campus in London primarily to attract international students. Subject to the commitments entered into this presents fewer risks than creating an overseas campus but nevertheless is subject to similar market pressures.

A second diversification of the financial structure has been the increase in institutional borrowing: since 2017-18 the UK sector's borrowing has fluctuated around £14 bn to just over £15 bn. This has been driven by an absence of government capital support for new or replacement building and an inability to generate annual financial surpluses sufficient to replace it. There has also been the effects of an 'arms race' fuelled by market competition and the wish to improve institutional images. Some institutions have borrowed heavily without obvious routes to repayment. It is alleged that the Government's decision so far not to bail out the sector is causing some lenders to review their covenants with universities. Borrowing, therefore, has increased the risk factor in the financial planning of a subset of institutions and has added a new element of instability in the sector as a whole.

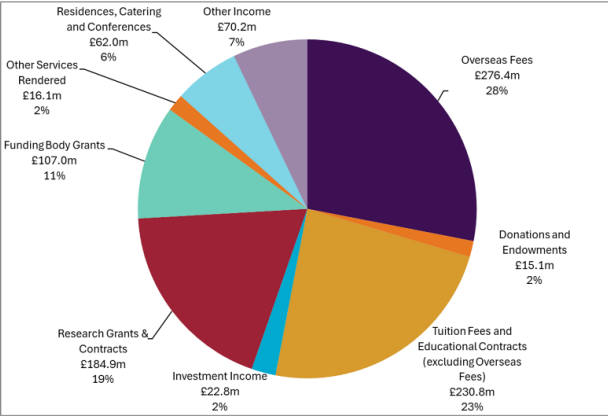
What has also changed is the wider economic climate in which universities operate rendering some of what were the staple ingredients of an 'earned income' policy of the 1980s and '90s significantly less viable. Student finances have greatly lowered returns from retail services aimed at a student market (catering, coffee bars, supermarkets, book shops etc) while the external conference trade (lettings and catering) has not recovered from the effects of the pandemic. Warwick's income shows that the contribution from these sources to total income has fallen from 20% to 12%. Against

that the increase in the contribution from international student tuition fees has risen from £35m, 11% of total income, to £249m, 30% of the total.

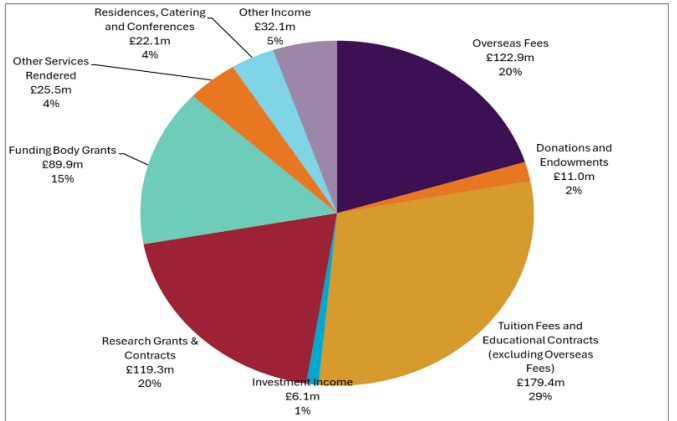
Institutional diversification within the sector

But perhaps the most striking change has been the increasing diversification of institutions. The media (and ministers) tend to refer to universities as if they followed a common organisational structure and faced similar financial problems. In practice the differences are considerable and can be illustrated by reviewing their income profiles as drawn from their 2022-23 published accounts. We have selected two Russell Group universities (universities A and B), two post-1992 universities (universities C and D) and two post-post-1992 universities (universities E and F) as broadly representative and illustrative of different university financial models.

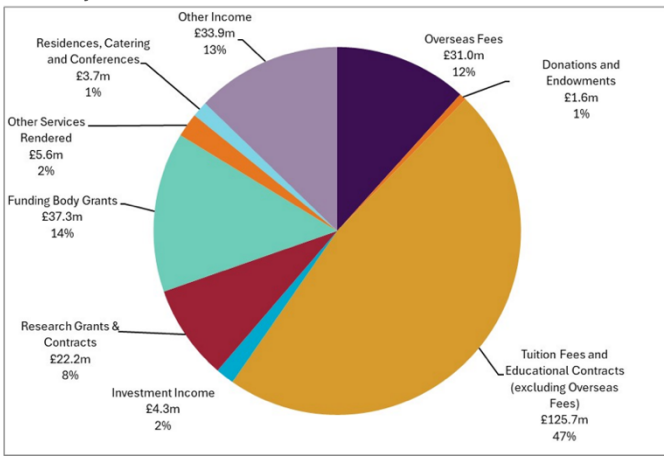
University A - Income 2022/23: £985.3m



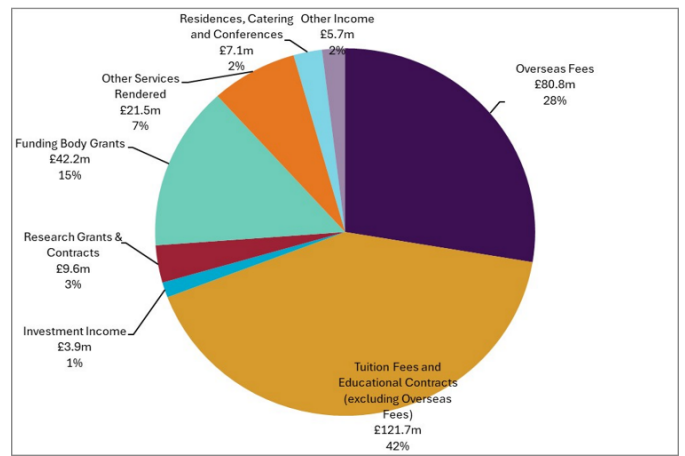
University B - Income 2022/23: £608.3m



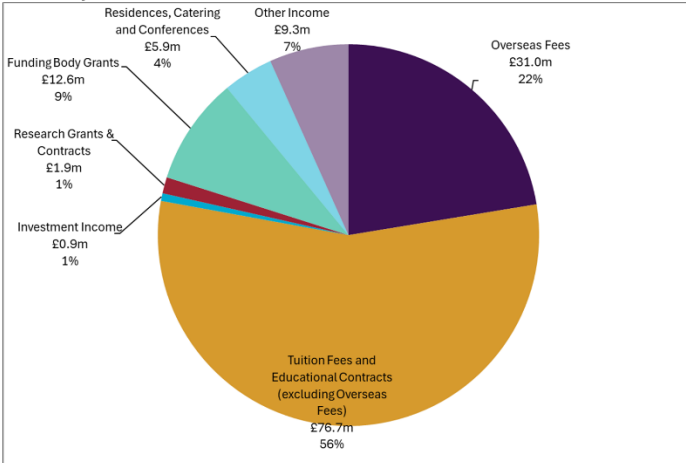
University C - Income 2022/23: £265.3m



University D - Income 2022/23: £292.5m



University E - Income 2022/23: £138.3m



University of F - Income 2022/23: £88.2m

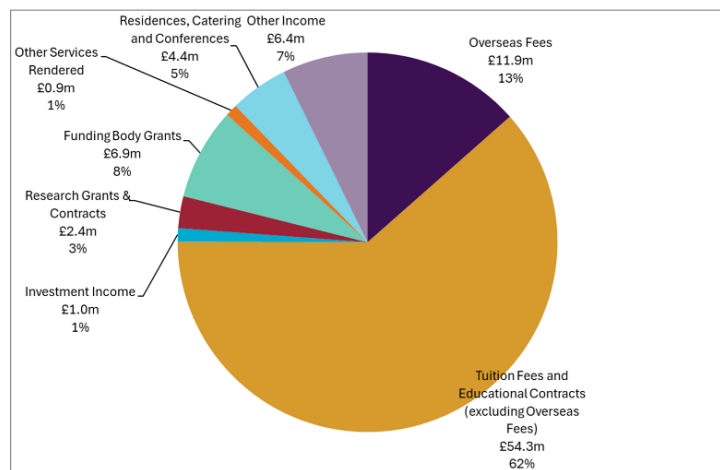


Figure 4: Income distributions in six universities: Russell Group, post-1992 and post-post-1992 universities, 2022-23

Source: Published accounts universities A, B, C, D, E and F

The most compelling comparison is one of size with the financial turnovers of the Russell Group universities standing at just short of £1bn and £600m respectively and university E standing at £138m and F at £88m. A corollary of this is that universities E and F are substantially financially dependent on income from home student tuition fees to the extent of 56% and 62% respectively while A and B are dependent on only 23% and 29 % of their total income from that source. Universities C and D, the post-1992 universities, fall at mid points of 47% and 42%. It is clear that A and B and E and F represent fundamentally different financial models, with C and D occupying intermediate positions: falls in home numbers in universities C, D, E and F would not have the same effect in A and B nor would be so likely. Turning to international tuition fees the disparities appear to be largely, but not identically, replicated: the income from international tuition fees for A and B amount to £276m and £122m respectively whereas E and F amount to only £31m and £12m respectively. Here the post-1992 universities offer a more varied set of figures with C at £31m and D at £80m, the latter perhaps reflecting study outside the UK on offshore sites and campuses. The percentage contribution of this income stream to the total is also more variable amounting to 28% at university A, 20% at B, 12% at C, 28% at D, 22% at E and 10% at F though this may not fully reflect the risk factors for individual institutions in any general fall in international numbers depending on international ranking, subject mix and institutional location

Another factor in emphasising the differences in the financial model is the level of research funding and its component contribution to total income. (In financial terms research may at best just cover its costs in some institutions but more likely, at least in Russell Group universities, is carried out in deficit and cross subsidised through income from international tuition fees). The disparities in research funding between the financial models is extreme: while universities A and B generate £185m and £122m respectively the highest figure for the other universities is £22m and universities E and F stand at only around £2m. Of itself, research funding, as 'in and out' finance, may not contribute anything to a bottom line but its impact on the character of the overall income picture and on an institution's ability to attract international students, either as a consequence of international rankings or of particular relevance to postgraduate students, is immense.

If one compares the staple 'earned income' components of the Warwick chart for income in 2004-05 with those of these universities in 2022-23 one sees that the contributions seem largely to be determined by the basic financial model. One notable exception is the income generated from student residences, catering and conferences where it appears that there are lower activity levels at universities C and D than the rest implying a lower commitment to student residences, a potential comparative deterrent to international student applicants.

In the light of the above it is interesting to compare the surplus/ deficit position of each university. Here the position of the Russell Group universities in 2022-23 is stronger than the rest with university A achieving a surplus of 4.1% and university B, 1.8%, while universities C, D, E and F achieved --1.5%, --8.2%, --5.9%¹ and +0.8% respectively. None of the institutions reached the surplus of 5% generally recommended as the appropriate figure to aim at. A final comparison might be made with Warwick where the turnover in 2022-23 fell midway between university A and university B at £839m but the surplus stood at 8.9%. A feature of the distribution of individual surpluses across the Warwick accounts was that the contribution predominately flowed from academic departments rather than from related managerial sources.

¹ This figure is subject to possible pension cost adjustment.

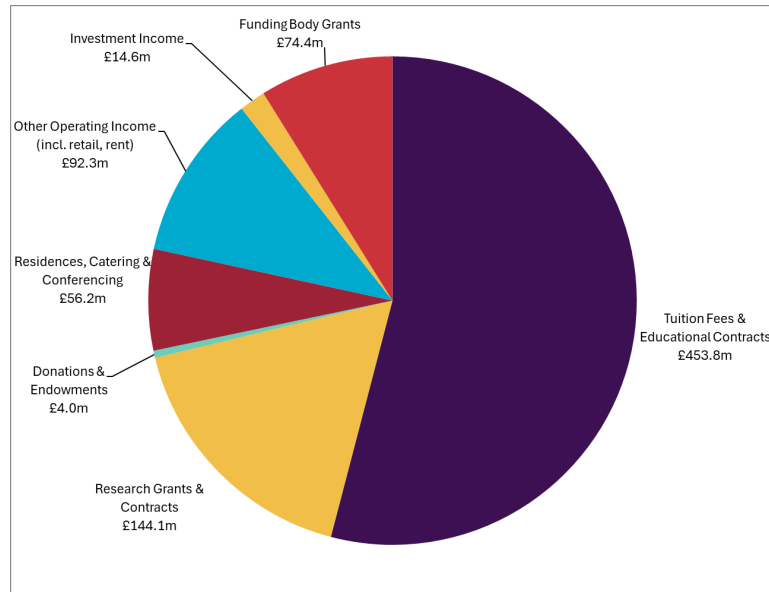


Figure 5. University of Warwick distribution of income 2022-2023: £839,4m

Source: University of Warwick

Financial autonomy and university self help

The financial management strategies adopted by the six profiled universities are necessarily determined by their institutional financial models the greatest differences of which are that universities A and B are dependent on tuition fees (home and international) only to the extent of about 50% of their income while universities C, D, E and F are dependent to the extent of 59%, 70%, 78% and 75% respectively in a situation where the figures for both home and international tuition fees are threatened. This focuses attention on the rest of the activities which make up total income. It is clear that student related retail services and conference trading are no longer, or at least for the time being, significant income earners in any of the institutions; external donations and endowment income make a minimal income contribution even to the older universities. This leaves research income as the major component, but only in universities A and B. Research funding may not cover its costs but it confers other advantages: it brings reputation and is a key element in attracting international students; it can also provide an invaluable teaching supplement to worsening staff: student ratios from contributions from research staff and Ph D students and it can contribute considerably to academic infrastructure. There is little doubt that universities more highly dependent on tuition fee income are considerably more

financially vulnerable in the present financial climate than research intensive or even research active universities.

The decision by the new Government not to provide help, at least for the time being, to alleviate the universities' position puts an emphasis on the need for self help and particularly for the universities with the most vulnerable financial models. The effect of the previous Government's decisions has been to reduce the value of home tuition fees by 35% (PwC 2024) and to weaken the international student market by charging high visa fees and by denying visas to the families of international students on one year postgraduate courses. This set of decisions adversely affects all six of the profiled universities but clearly the four institutions most dependent on income from home student tuition fees are the most obviously affected. Government tuition freezes thus discriminate between different university models. Yet institutions falling into the E and F category by attracting higher proportions of locally based students than A and B model institutions and by acting as 'anchors' for economically marginally 'left behind' communities most naturally fulfil government 'levelling up' policies (Shattock and Horvath 2023).

Such decisions, taken only a few years after it had switched funding policy from a grant based to a market based system, serve to re-emphasise the inconsistency and unpredictability of government funding policies towards universities over the years. Recognition of this should make universities more aware of the importance of financial self help. The Warwick narrative from the 1980s illustrates one reaction to severe financial down turn but the economic conditions are now very different. However, the adoption of a self help approach as distinct from an automatic retrenchment approach, of investing in perceived strengths rather than across the board misery, will be good for staff morale which is essential to corporate recovery. A great strength of universities A and B is that the multiplicity of their sources of income and a lack of over dependence on one large item like home student fees gives their budget a better balance and more options. Moreover in an open ended system they are more able to expand home student numbers at the expense of lower tariff institutions to seek to maintain income levels.

Trying to balance the books by growing student numbers at below cost, however, offers only a short term solution to what may be a medium to long term set of difficulties

and may have undesirable academic consequences. Equally, relying on a stable, or even on an expanding, international market, holds considerable risks. The dependence on the growth of the international market over the last decade has distracted institutions from exploring other potential areas of financial self help. It is time for universities, even of the A and B models, to address a broader range of self help strategies to maintain their standing and withstand the fluctuations of an even more unstable funding environment. The automatic recourse to retrenchment is not the way forward and can only force universities into defensive modes of decision-making, restricting positive responses towards innovation rather than creating conditions favourable to investment in new ideas; they risk losing key academics to international competition.

It is self-evident that the weight of the decision to freeze home tuition fees falls on those institutions most dependent on home tuition fee income. If universities are to fail that is the university model most likely to do so. The effect of the Conservative government's policy has been to penalise particularly a whole category of institutions already disadvantaged in a competitive market by their size, location and lack of international reputation. These more vulnerable institutions need urgently to develop alternative strategies including investing in niche academic strengths, sharing some selected back office services, addressing disparities in pension arrangements and developing partnerships with other organisations to provide services to the local community. One important safeguarding possibility might be to broaden the institutional base by expanding into related sub degree and further education fields. This would cross the fault line between higher and further education but would be educationally progressive and in line with contemporary thinking about moves towards a tertiary system.

Over the last two decades universities have engaged in individual self help enterprises in establishing overseas campuses or engaging in large scale borrowing, though neither of these are by any means risk free, but perhaps the biggest risk in such ventures was that they became examples of institutions putting too many of their eggs into one basket where failure then or, in the future, could have significant impacts on institutional budgets. The Warwick approach, in what was then a smaller and more vulnerable institution, was to engage in a spread of activities each of which might

produce relatively modest surpluses but which together added up to a significant contribution to central funds; the failure of any individual activity would not have had much impact on the budget as a whole. Again, in achieving savings the approach was to be very selective rather than to set across the board targets.

The most important factor in financial self help is an institution's financial culture. Some principles from the list employed by Warwick in the 1980s might be regarded as having a wider institutional currency: not confusing income with generating a surplus— income can be all too easily loss making, the need to share income and surpluses between central university authorities and departments, the need to maximise returns by continuous investment, the recognition that good business planning represents a crucial factor.

British universities have, historically, cherished a belief in their autonomy and the European Universities Association (EUA) has reinforced this by publishing autonomy rankings which put the UK at the top of a European list (Privat et al 2023) but in practice the rankings are based on institutional operational freedoms rather than on system autonomy. The decision to move away from a grant to a market system seemed at the time to point to a reinforcement of institutional autonomy but the government's retention of the control of fee levels and its refusal to raise them in line with inflation levels has revealed an arbitrary control over the system at least as powerful as under a grant based approach. The reduction in tuition fee levels is now so severe in a period of austerity that it will be difficult to reverse. This paper has tried to show how over a long period government has been an unreliable and inconsistent funding partner to the British university system and that the only solution for institutions is to improve their provisions for self help. While it is unlikely that any university will go bankrupt unless through problems of borrowing or overseas campus collapse the danger of a visible decline in the quality of the system must be all too apparent. Institutions have to feel responsible to see that this does not happen.

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