Investing to compete

2016/17 Higher Education Finance Director's Survey

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About this publication
In developing this publication, Deloitte LLP has combined perspectives from a number of Finance Directors of Higher Education Institutions with its own expertise and experience in local public sector delivery and education reform.

Introduction

I am delighted to present the findings of our latest Higher Education Finance Director's Survey "Investing to compete."

This annual publication surveys the views of financial leaders from across the sector and provides a snapshot in time of their perspectives on a range of issues and priorities.

In a continuing trend from previous years, the survey highlights a number of challenges facing university finances, including a continuing decline in the level of university surpluses, more borrowing, reduced liquidity and increased pension liabilities. Combined, these challenges continue to put pressure on the sector to adapt, innovate and reform.

Further pressure is likely to be placed on the sector as universities seek to address changes to the policy, funding and operating environment, as a result of the Higher Education and Research Bill and the continuing uncertainty of Brexit. However, despite these challenges the report reaffirms our belief that the UK higher education sector is responding from a position of strength and remains vital to the UK in terms of our long term economic growth, promoting innovation and enterprise, enabling social mobility and developing the skilled workforce of the future.

I would like to express my thanks to those who took the time to complete the survey and to UUK and the British Universities Finance Director's Group (BUFDG) for continuing to support this publication.

Julie Mercer
Global Education Leader, Deloitte

The UK possesses one of the strongest university systems in the world.

It is a sector that contributes over £70 billion to the economy and generates nearly a million jobs in all corners of the UK. Our universities teach and train the graduates of tomorrow and produce world-leading research that benefits us economically and socially.

As this survey reveals, however, universities face a number of challenges. The possible implications of Brexit on our internationally-linked universities are clear and well-documented. Proposed regulatory reforms to the university system, as well as continued debates around the UK's immigration system, will also have an impact on the sector.

To meet these head on – and maintain the excellence and global reputation of our universities – it is important that we continue to invest in higher education. The UK still invests a lower percentage of its GDP on research and development compared to many of our competitors, and below the OECD and EU averages.

To thrive in a competitive environment, universities will also have to continue to ensure they are as efficient as possible and that every pound of investment helps maximise their contribution to the UK's economy and society.

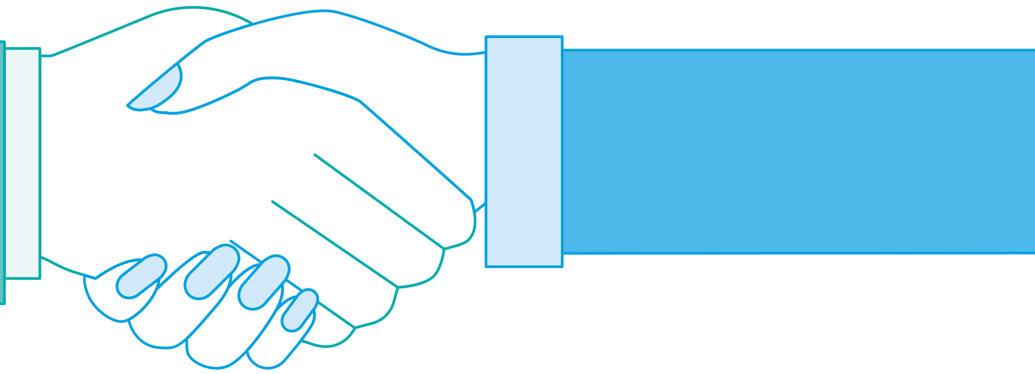
Despite these challenges, the survey is clear that institutions are prepared and will develop their strategies accordingly. Universities are used to managing change and periods of uncertainty and will meet these from a position of strength and resilience.

Nicola Dandridge
Chief Executive, Universities UK

About the Survey

Now in it's fourth year, Deloitte's UK Higher Education practice brings you the 2016/17 Higher Education Finance Director's Survey to provide a unique insight into the challenges and priorities faced by Chief Financial Officers and Finance Directors in the Higher Education sector.

This year Deloitte worked in partnership with Universities UK to provide a sector perspective on the issues identified in this publication and to add further insights into our findings.



This report examines the responses to the 2016/17 Higher Education Finance Director's Survey, collated between October and November 2016. There were 39 responses from Higher Education Institutions (HEIs) across the TRAC Peer groups, creating a diverse pool for comparison. To aid analysis the institutions were combined according to their research income, using the following definition:

Research focused – Institutions with a research income of 15% or more of total income

Teaching focused – Institutions with a research income of less than 15% of total income

A challenging climate

UK HEIs are operating in a challenging environment, with many institutions grappling with financial, regulatory, and operational challenges. New technologies, delivery models, and entrants continue to change the market. Adapting to the evolving climate, planning for the future, and managing risks, is placing additional pressure on the sector.

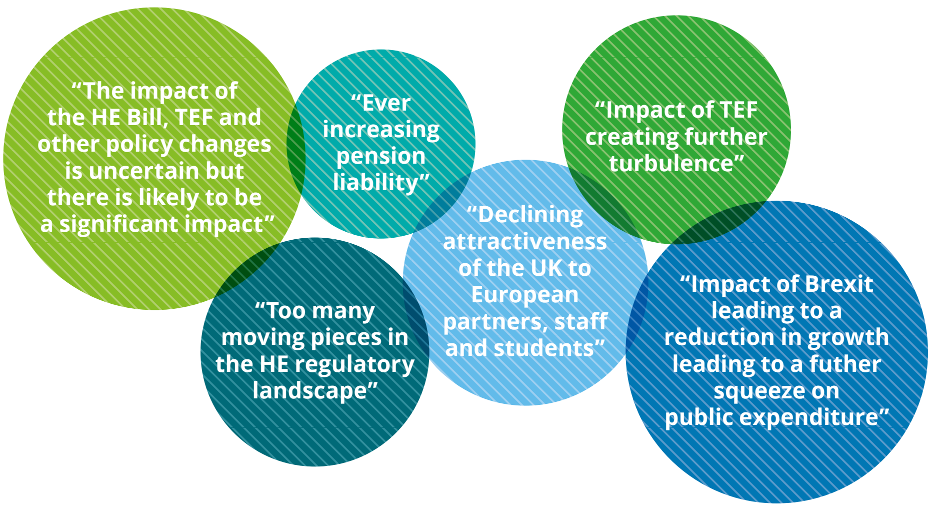
Decline in financial optimism

In last year's report we highlighted that, despite bedding in of the fees regime in England and a clear majority UK Government, the sector appeared to be more uncertain and risk averse than in the last two years.

In a continuing trend, this year, **62% of HEIs are less optimistic** about their financial position compared with 12 months ago – a feeling that is shared equally by research and teaching focussed universities respectively.

What are the major emerging risks for the next 12 months?

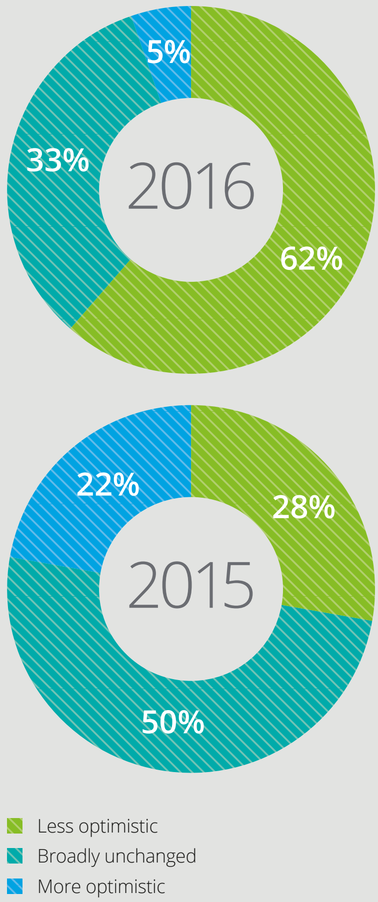
The consequences of Brexit, risks relating to reductions in overseas students as a result of the government's policies on immigration, changes to the regulatory environment, and pension liabilities all featured heavily in responses. However **69% of HEIs affirmed that their investment priorities have remain unchanged**, with a strong commitment to investing in the student experience. This is likely indicative of the uncertainty around what the full impact of the changes will be, but also partially explained by how the consequences of these changes largely impact or involve student recruitment.



Treading carefully

62% of HEIs feel that now is not a good time to be taking greater risk onto their balance sheet, with research-intensive HEIs more risk-averse than others. Responses showed that HEIs who invested and increased risk onto their balance sheet over the past 12 months, were less likely to take on additional risk going forward. Those institutions that did say they were looking to take on greater risk in the next 12 months, felt that investing in digital teaching and learning technology was a particular priority.

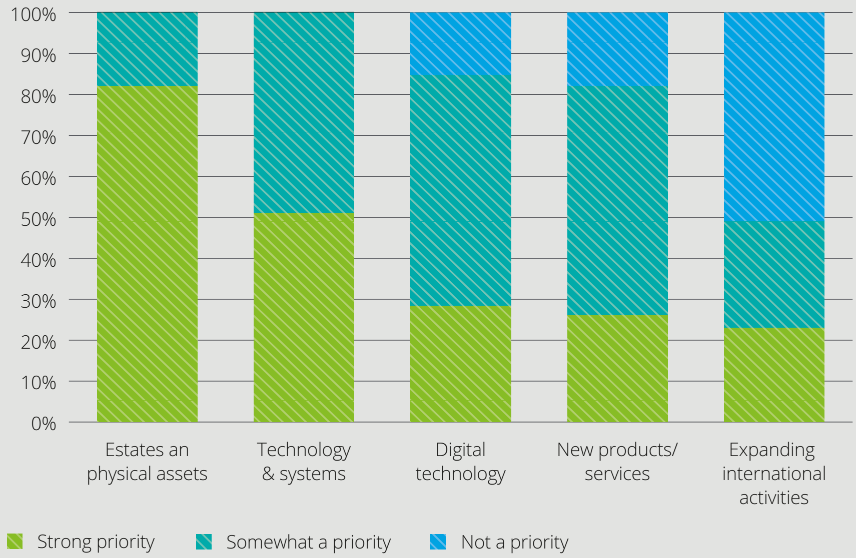
"62% of HEIs are now less optimistic about their financial prospects than they were 12 months ago."



Investing to compete

Despite the apparent apprehension felt by the sector, our survey shows that growth remains firmly on the agenda. The increasing domestic and global competition for academics and students has created a sense of dynamism within the sector: that Universities must invest to compete and to thrive.

What are your key priorities for investment over the next 12 months?



"Brexit will intensify global competition for students and we must invest to stay ahead of international competition."

Investing to attract

With the global competition for students intensifying, UK HEIs are looking to invest to continue increasing both domestic and international student numbers. **Every HEI identified 'Estates and physical assets' and 'Technology and systems' as priority investments** over the next 12 months, with 80% and 51% quoting them as strong priorities respectively. This is demonstrated whereby 62% of respondents expect capital expenditure to increase in the next 12 months, as opposed to just 8% who expect it to fall.

These priorities tie in with the highest priority outcomes. **Enhancing the student's teaching and learning experience was ranked the strongest priority (65%)**, with a better student experience and facilities naturally enabling greater opportunities to attract new students and increase research activity.

For research intensive HEIs, the use of investments to reduce costs was a strong priority for **39%** of institutions, compared to **13%** for teaching-intensive HEIs.

"We currently have a borrowing arrangement with the European Investment Bank on very favourable terms. We hope to access this source of funding in the future, however if this looks unlikely, the focus on internally generated funds as an alternative source of financing future investment will intensify."

What do you hope to achieve through these investments?

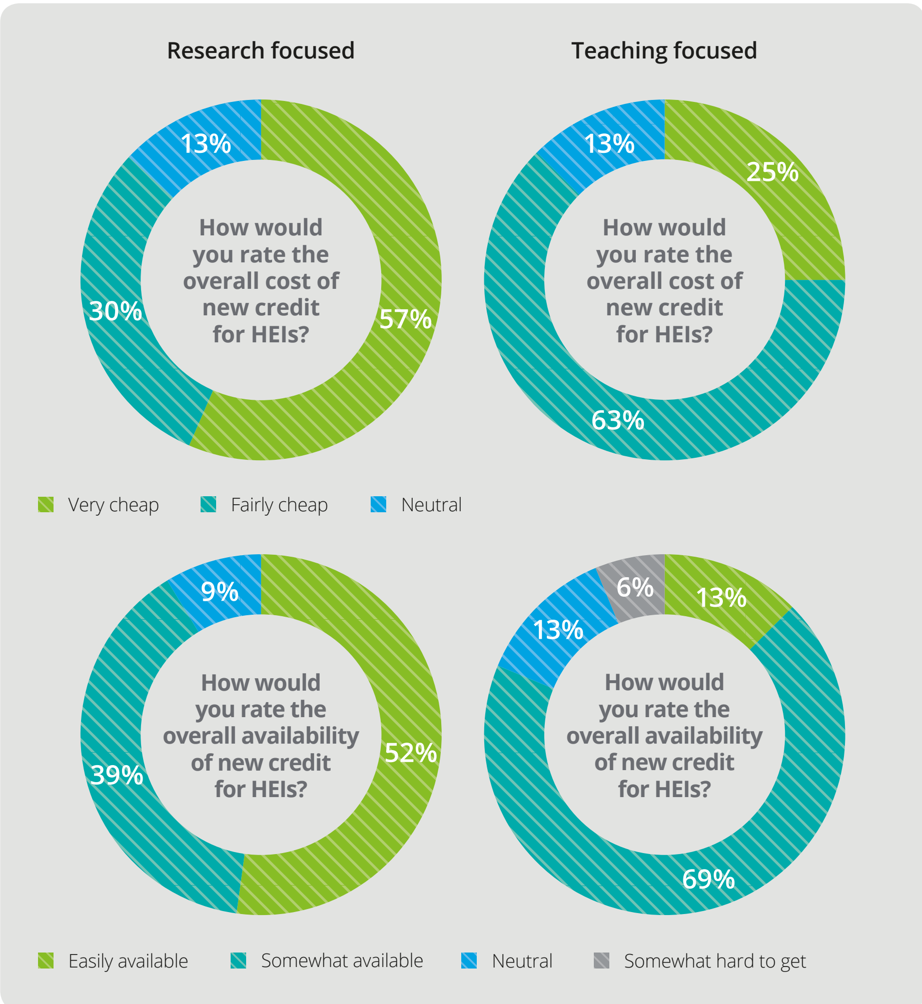
1. Enhance the student experience
2. Increase Postgraduate numbers
3. Increase International numbers
4. Increase research activity
5. Reduce costs

Varying ability to invest

Legislative reform has underpinned the UK Government's commitment to achieving a level regulatory playing field, however, not all institutions will have the same ability to access credit and invest. Institutions who can more easily access credit are able to invest more effectively to secure a competitive edge.

Are teaching focused HEIs being left behind?

54% of HEIs expect their demand for credit to increase, as the pressure of investing to compete increases, yet we are seeing a split between larger researched focused institutions and their teaching focused counterparts in terms of cost and accessibility to credit.



There is a distinct difference in views on the general cost and availability of credit between research and teaching based HEIs, suggesting that financing options for teaching focused institutions are more limited. However, across both groups, credit is viewed as being substantially cheaper compared to 2015.

"There is uncertainty over key medium-to-longer funding streams. Will planned investments in people and infrastructure still be tenable?"

Fewer opportunities for teaching focused HEIs

It seems both more expensive and more difficult for teaching focused HEIs to obtain credit than their research-intensive counterparts. In addition, proportionally less teaching focused universities see corporate bonds as an applicable source of finance, less believe there is spare capacity across the UK HE sector to invest, and more expect a negative impact from competition from providers. This further highlights differences in the operating environment for different types of institutions.

Opportunities and challenges

Although the majority of institutions are now much less optimistic about their financial position compared with 12 months ago, almost all surveyed indicated a strong intention to grow their student numbers.

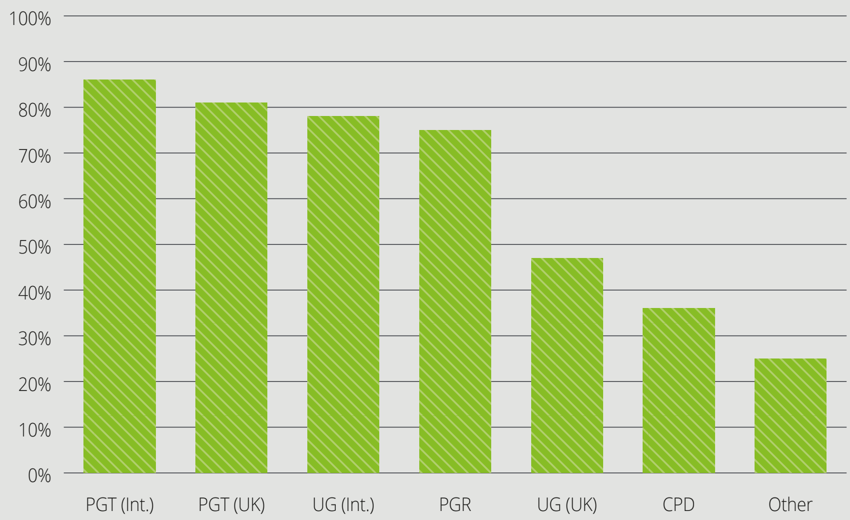
Ambitions for growth were expressed for international students (including EU students) across all levels of study, as well as UK student numbers, predominantly for postgraduate study.

However, **delivering growth may prove problematic**, with early warning signs such as a fall in application numbers of 5% compared to this time last year.

This will only add to the level of uncertainty as HEIs plan for the future, with a number of factors posing as potential risks to their operating environment. As a result, **institutions will need to ensure they have plans in place to respond to a wide range of different potential outcomes** – including if growth in UK and international students does not materialise as planned.

More than ever, **it will be important for institutions to develop strategies to deliver the best possible student experience**, compete successfully in the domestic and global market for students, and manage their finances effectively.

What are your key priorities for investment over the next 12 months?



(Int. students includes EU and overseas students)

"International student recruitment volatility is a key emerging risk over the next 12 months, as a result of immigration policy changes and the potential impact of Brexit"

Investing to compete: drivers of success

1. Best quality student experience
2. Competitive positioning in domestic and international markets
3. Robust financial management

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Our impact
Building skills

By putting our shared purpose into action, we can continue to work towards further improving diversity and skills – making an impact that matters for our clients, people and society.

55,000

Our **Respect & Inclusion film Ask Yourself was viewed more than 55,000 times** on YouTube.

2,000

Deloitte alumnus **Colin Hegarty** made 2,000 maths videos in 2 years, used by over 8m students in over 200 territories across the globe.

800+

Over 800 people signed up to our **LGBT Allies Programme**.

100

We hired over **100 school leavers** via our apprenticeship scheme, BrightStart.

141

Deloitte ASPIRE, a new work experience programme, took on 141 school students, all of whom were eligible for free school meals or would be first in family to go to university.

4,500

Deloitte Access supported over 4,500 students in 17 **UK schools**.

For more information visit **http://www.deloitte.co.uk/impact**

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