FSSG
Financial Sustainability Strategy Group

TRAC Development Group
Supporting and understanding financial sustainability

Management Information Portfolio

Achieving academic and financial sustainability (guidance for forward-looking institutions)

June 2011

Foreword

The Financial Sustainability Strategy Group and TRAC[1] Development Group have been working with the Higher Education sector to further understand the issues affecting financial sustainability. We have listened carefully to the feedback you have given us and have used this to shape our programme of activities.

Having a robust and reliable understanding of what different activities 'cost' your institutions has always been important, but we would suggest that the future outlook for the Higher Education sector means that the importance of this information is increasing. Together with a basis for effectively allocating resources these form the key basis for enabling financial sustainability, which in turn will support the success of your institution.

Over the last 12 months we have, with the support of HEFCE's Leadership, Governance and Management Fund, worked with groups of institutions to collate four good practice guides in the areas of course costing, workload planning (WLP), departmental sustainability and resource allocation models (RAMs).

A key observation from this work has been that the TRAC data set is a valuable and widely used set of data. Clearly there is always scope for improvement, but it is encouraging to have learnt that a number of institutions are already using this data for a variety of purposes.

The purpose of this document is to provide senior managers with an overview and the key observations from these studies so that you can identify how these approaches could benefit your institution and support the achievement of your respective strategies. This is then supported by detailed good practice guides in each area.

The sector is facing challenges that require it to think differently. I hope you find this document and the supporting guides useful in helping you to overcome these challenges.

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[1] Transparent Approach to Costing: activity-based costing system used across UK Higher Education institutions

Contents

1. Improved management information to enable financial sustainability

Higher Education institutions (HEIs) are operating in uncertain times. They are facing an unprecedented array of challenges, both financial and non-financial, and this situation is exacerbated by significant uncertainties.

The financial challenges include reductions in grant funding; the new tuition fee regime and increasing restrictions on student numbers (both home and abroad); and a general economic and fiscal climate that makes raising finance and generating new sources of private income more difficult than in recent years. These all place a premium on a robust understanding of an institution's cost base and on strong financial management.

The academic challenges include the need for institutions to differentiate themselves in the marketplace; the increasing delivery of teaching in non-traditional ways; the rising expectations of students; and the potential rise of competition from the private sector. Coupled with the pressures that already exist on efficiency of research and sustainability of teaching, these mean that an institution's ability to maintain its position in the sector (and for some its very survival) will depend on its ability to plan a sustainable academic strategy; to make well informed strategic decisions about its activities; and to manage these so they deliver increasing academic and financial contributions.

The students are the life blood of any institution and as they become more selective, having high quality facilities and ready access to academic staff who are active and recognised outside their own institutions is likely to influence student choice. The UK's world class research reputation is admired across the world, and also contributes to the value of the student experience. However, there are concerns about the cost of research and development in the UK.

In these challenging times, all institutions need to understand and manage the factors that influence institutional performance and sustainability. Sustainability is about an institution's ability to perform to its appropriate level over the medium term. This is much broader than financial health. It includes the ability to generate sufficient funds to continue to invest in academic development, staff and scholarship, the student experience, estates, infrastructure and facilities. But it is also about having the right academic and other strategies, and being able to implement them in a sufficiently timely, adaptable, and effective manner. So, leadership and management, strategic and operational planning and management of change in the institution also become critical.

There will be tough decisions for many institutions to take, whether regarding changes in academic strategy, the consolidation of activities, growth and expansion in key areas or investment in resources and infrastructure. The best decisions will rely on the availability of relevant and reliable management information in key areas of the institutions' operations. Having access to timely, robust and reliable management information can help institutions to:

- choose sustainable strategies;
- make better decisions about planning and implementing these;
- manage and reduce costs;
- deliver better value for money;
- plan, manage and optimise their use of resources;
- make informed pricing decisions and understand their impact; and
- assess and understand the financial sustainability of their teaching and other activities.

2. The FSSG/TDG management information projects

To help the sector to respond to these challenges, the Financial Sustainability Strategy Group and the TRAC Development Group have sponsored a series of management information projects (MIPs) that will provide practical support to individual institutions in addressing the challenges that lie ahead. These projects have all had substantial contributions from institutions from across the Higher Education sector, and are therefore grounded in current good practice, and respond to the realities of the challenges that institutions are facing. They outline current experiences and provide practical solutions to the more common difficulties that may be encountered.

The central issue addressed in the series of reports supporting this Executive Briefing is: does your institution have the strategic understanding, management tools and information that make it as well placed as it can be to make the best decisions?

The series of reports deal with an overarching issue (institutional sustainability), which is critical for every institution, and four specific financial management information issues which will be relevant to many. The five projects are:

a. Assessing and managing institutional sustainability.
b. Workload planning.
c. Course costing.
d. Departmental sustainability.
e. Resource allocation models.

The sustainability project worked with 31 institutions and the main funders of higher education (Department of Business, Innovation and Skills, funding councils, research councils) and its outcomes were presented at a conference on 24 May which was attended by many additional (non-participating) HEIs from across the sector. It was reported in the Times Higher Education Supplement on 26 May, and its recommendations will be implemented by all HEIs over the next two academic years.

The other four management information projects were slightly different in scope in that they provide benefits that would only be expected to be taken up by those institutions which are interested in each area. Each was led by a small number of pilot institutions, supported by working groups of institutions, together with some external facilitation. The aim of this approach was to draw on the practical experiences of institutions applying and developing these models in the sector, so that the guides produced reflect workable methods that are more easily accepted by institutions and their teams.

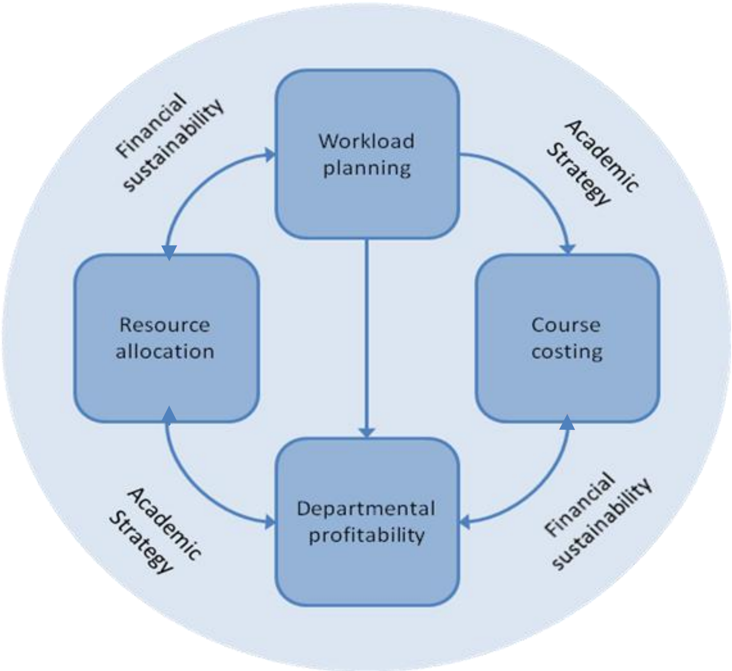
Each project aimed to:

- identify common practices adopted by a range of institutions;
- understand the drivers for the different approaches chosen;
- provide worked examples and case studies; and
- provide practical guidance on how each process has been implemented and the approaches adopted to overcome the common barriers to implementation.

i. The links between the management information projects

The five areas have a variety of links with each other. The outputs from one can be used to inform another and vice versa. There is much useful experience in the sector to draw upon, and some good published guidance in some of these individual areas which is referenced in the individual reports as appropriate. Figure 1 shows how the links can work in practice.

Figure 1: Illustration of the links and relationships between the management information projects and to an institution's financial sustainability.



3. High level summary of the projects

This section provides a brief overview of each project including the reasons why institutions might wish to pursue work in the respective areas together with the benefits that can be achieved. Detailed content for each project is deliberately not provided below, but is provided in the detailed guides. Links to the guides can be found at the end of this document.

3.1 Institutional sustainability

i. Rationale for the project

This project is effectively about addressing an issue which all institutions will have to actively consider. Institutional governing bodies are responsible for the sustainability of their institutions, and this responsibility was highlighted in the report, Financial Sustainability and Efficiency in Full Economic Costing of Research in UK Higher Education Institutions[2] on efficiency and sustainability of publicly-funded research. Wakeham recognised that sustainability of research cannot be considered in isolation from sustainability of teaching and of the whole institution and recommended that:

- HEI governing bodies take a more proactive role in assuring themselves that there is an institution-wide strategy for financial sustainability and that the HEI has developed measures that assess the extent to which this is being achieved;
- funding councils should consider how a consistent set of metrics can be incorporated into their annual accountability review process of an institution, and they should each produce an annual summary report for the Funders Forum outlining headline information on the overall sustainability of institutions and specific information on the sustainability of the research base.

The aim of the sustainability metrics project was to help the sector by developing an approach to enable it to deliver this additional assurance and information required by funders in a way which is helpful to institutional governing bodies and respects the diversity and autonomy of institutions. As noted by Geoff Crossick in the Times Higher Education Supplement article[3], the project aimed to ensure that 'the sector keeps control of this and shapes what is done, so that it is meaningful and helpful to institutions, rather than have something that isn't very satisfactory imposed on it'.

ii. Outcomes and benefits

The report was based on work with 31 participating HEIs. It reviews current practice in two main areas of institutional performance monitoring and financial strategy, and it shows how institutional governing bodies can draw on work in these two areas to make more consistent and systematic assessments of the sustainability of their institutions. This is much broader than assessing financial health or going-concern as it is really about evaluating the trajectory of the institution in relation to its environment and the role it intends to play in the sector. The report illustrates the various factors that contribute to this assessment and suggests a set of conditions for sustainability that most institutions will need to satisfy if they are to succeed in the long term.

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[2] Report of RCUK/UUK Task Group, 2011. [online] Available at http://www.rcuk.ac.uk/documents/reviews/fec/fECReviewReport.pdf [Accessed 10 June 2011].

[3] Baker, S. 2011. "Keep it up with help of a yearly check"[online] Available at: http://www.timeshighereducation.co.uk/story.asp?storycode=416280 [Accessed 13 June 2011].

The report recommends that all HEIs should make an annual assessment for their own management purposes which compares pertinent targets and that having done this they should make an annual sustainability assurance report to the relevant funding council as a means to satisfy the government and funders' requirements for consistent metrics. However, this will not be a one size fits all solution (which was a problem with the previous sustainability metrics) as a range of Key Performance Indicators (KPIs) will be reported by each institution and some of these will be chosen locally to suit the particular nature and circumstances of the HEI. There will be consistent metrics for the area of financial health (where there is already an annual report by institutions to their funding council) and for a new financial performance indicator (which shows the institution's performance in generating cash from its operations compared with the level of cash generation that it has decided it needs to achieve for sustainability). Other KPIs will cover teaching and learning, research, and other institutional performance areas that the governing body decides are important at any particular time.

The report was presented at an FSSG conference in London on 24 May 2011, attended by representatives from funders and over 70 HEIs, covering all parts of the sector. The recommendations of the report were supported by those attending, and the final report was published on 3 June. At the same time Professor Geoffrey Crossick (chair of FSSG) wrote to all heads of institutions informing them of the publication of the report and the need to plan for their governing body to make a first annual assessment of sustainability for internal purposes during academic year 2011-12.

One participating HEI noted: 'Our governors were very happy with the report – it strikes a good balance between requirements on governing bodies and flexibility to decide our own measures, which we welcome.' Most of the participating institutions report that they will be able to implement this with very little change to their existing plans, although some acknowledge that they will need to make their practice more systematic and comprehensive, which will deliver benefits to the institution.

3.2 Workload planning

i. Rationale for the project

Workload planning is about optimising the use of the most valuable and costly resource in higher education, and about planning to support the investment in, and development of staff. A cohesive workload planning model provides a basis for enabling a fair and equitable allocation of work to academic staff across the institution. Given that staff are an institution's greatest asset, steps that can mitigate any dissatisfaction with workloads can only be a benefit to the institution. Information on workloads also provides a basis for more tangibly aligning the balance of time and focus of staff with the priorities of the institution. Of course, this can happen without a formal process, but the process can provide additional reassurance and accountability. A further by-product of this process can be improved efficiency through a reduction in sessional and temporary staff.

Given that the sector spends upwards of 55% of income on staff costs, a consistent approach to workload planning provides an essential set of information, which is commonly not held, or not held in a form that is accepted as being representative of actual activity. This more reliable information can enable a more fair and equitable distribution of work, improve the cost information that is reported both through the course costing and departmental sustainability models and also (in the right conditions) replace the requirement for academic staff to complete TRAC time allocation returns. It will inform the costs of teaching and other activities, and research cost rates. It can also inform resource allocation models, depending on the nature of the resource allocation model adopted.

ii. Outcomes and benefits

Workload planning models vary in design from being 'output driven', whereby the model seeks to quantify and measure the delivery of outputs; compared to more 'input driven' models, that account for the units/hours input, in the belief that the outputs will then be generated. The most important thing is that an institution develops the model that will work best for them, both in terms of cultural acceptance and delivery of the required results.

A common misconception is that models can only work for 'teaching' activities. It is correct to say that research is less tangible in terms of planning the absolute time required in any one year, beyond that which is contracted, but where this is the case, there are pragmatic approaches to including time in a workload plan, and the detailed guide explores these further.

There may be cultural issues encountered in implementing a workload planning process, but the benefits greatly outweigh the initial challenges of implementation. We also understand that in many cases, the unions are supportive of these processes, rather than opposing them.

The key benefit from implementing workload planning is the ability to have a complete picture of workloads, which can then be used to target the allocation of resources to priority areas and to enable a more equitable and transparent distribution of workloads.

3.3 Course costing

i. Rationale for the project

The ability to understand the cost of course provision lies at the heart of an institution's capacity to make effective decisions, to manage resources and to achieve financial sustainability. It is also an essential precursor to prioritising resources efficiently and to making effective pricing decisions. It may be assumed that course costs are already fully understood, but this is not the case. Although some form of process operates in some institutions, there has not been consistent visibility of course costs, and this information has not always been used in an active way to critically appraise the delivery mechanisms and approaches.

Understanding the cost of the courses that institutions provide is more important than it has been before, as a result of a tightening financial environment together with the need to establish fees for courses. It is also valuable information to other processes, as summarised below:

- a course costing process needs cost drivers to enable costs to be allocated to modules and courses. Therefore the workload planning data can provide the data required to allocate academic staff costs. Similarly, depending on the approach adopted, course costing can feed and/or corroborate the resource allocation model;
- the approach to departmental sustainability may identify the need to understand further the reasons for apparent cost anomalies between courses, thus the course costing approach can provide a 'drill down' in order to explain such queries;
- indirectly the course costing information can also provide further perspective on the appropriateness of the resource allocations that are made via the resource allocation model.

The aim of course costing is, quite simply, to understand the nature and level of resources required to deliver a degree course, module or other unit of teaching. This can be achieved through a 'bottom up' approach, whereby costs are estimated, based on estimated inputs, or via a 'top down' approach whereby costs are apportioned down to courses and/or modules. Commonly the approach adopted is influenced by the way in which the institution wishes to use the information e.g. portfolio analysis, versus estimating the cost of new programmes.

ii. Outcomes and benefits

Like any costing exercise, course costing processes will use certain judgements and assumptions, but provided that these decisions are made in a collaborative way and are suitably validated, course costing has a number of benefits, which are summarised below:

- clarity as to whether the costs are covered by the income received;
- a basis for benchmarking delivery methods across the institution and externally, to the extent that this information is available;
- a basis for informing and justifying the pricing of programmes and courses;
- providing insight into the key drivers of cost at a course level.

There is, however, no 'one size fits all' approach to course costing. Institutions will need to decide for themselves what they want to achieve, what resources they can devote to it and what data they have available.

3.4 Departmental sustainability

i. Rationale for the project

Universities are diverse businesses, with many different activities being led by a single area (school/department etc.), which can make it difficult to understand the return that is generated by these different activities. An analysis of departmental sustainability can provide this information and in so doing, provide a basis for identifying investment and efficiency opportunities as well as decision making.

The objective of departmental sustainability is to be able to identify which areas of the institution are making a sustainable return and which areas are not. It enables an institution to look at discrete sections of the institution and how they are performing financially. This should significantly enhance an institution's capacity to make effective decisions, to manage resources and to achieve financial sustainability.

ii. Outcomes and benefits

The benefits that are delivered by a departmental sustainability model are similar to those identified for course costing, although they are clearly at an elevated level or focusing on different activities. In summary, the key benefits are:

- assessment of whether activities are profitable, or the level of subsidy they require;
- a basis for benchmarking across the institution in order to understand and share practice of efficient delivery models;
- a basis for critically assessing the areas where subsidies and support can be provided; and
- provide feedback on the appropriateness of pricing decisions/approaches.

The departmental sustainability process can, depending on the model adopted, mirror parts of the resource allocation model. The key difference can be that some resource allocation models allocated resource on an 'earned income' basis, which may not be the same as analysing the sustainability of different areas.

Departmental sustainability can also provide a corroborative analysis that can sit alongside the resource allocation model to provide a 'sense check' on the reasonableness of the allocations made.

A further relationship exists with the course costing process. Depending on the approach adopted to departmental sustainability, course costing could be an extension of this process, effectively apportioning teaching costs from the department level to the course and module level.

Institutions that have implemented departmental sustainability have commented that it has given them a comprehensive picture of how different activities perform, which has not previously been known. This has then contributed to decision making and has provided a basis for benchmarking practices internally in order to enhance efficiency.

3.5 Resource allocation

i. Rationale for the project

Resource allocation is part of what should be a wider management process, which should ensure that all the resources within the institution are being managed effectively and that the relationship between inputs and outputs is understood. It is a key part of the budget setting process as it determines the basis on which resources will be allocated to different parts of the institution. However a key difference, and indeed benefit of a resource allocation model is that it provides an objective and consistent basis on which resources are allocated. This differs to a budget setting process, which often takes a prior year's budget as the starting point for future years – this rarely takes account of whether that budget is appropriate, relative to the level and mix of activities.

ii. Outcomes and benefits

There are a variety of methods that are deployed across the sector for effecting the allocation of resources. These include income led models, whereby departments receive the income that they earn, along with contribution targets; or those which apportion central costs to departments, therefore setting the budget that is to be achieved or bettered.

A variety of resource allocation models exist, some which are based on the apportionment of income earned and others that include the apportionment of central costs to schools and departments. Where models involve the apportionment of costs, there are some direct links with processes such as workload planning, and departmental sustainability, as identified above.

Where the outcome from the resource allocation model meets some challenge or resistance, the information generated by the course costing and departmental sustainability processes can further support the rationale for the resource allocation model process and outcomes. In certain cases it may also be the case that the resource allocation model is used to incentivise parts of the institution to achieve efficiency or develop its activities. In these cases, information from the course costing process can justify and support these decisions or indeed provide insight into how the resources allocated in the resource allocation model can be delivered.

Resource allocation models are beneficial to institutions as they:

- enable the prioritisation and alignment of resources;
- provide a fair basis on which resources are allocated; and
- provide a basis for linking activity levels to resource budgets.

Whatever method of resource allocation is followed the key benefit is that it enables institutions to prioritise the allocation of resources in a way that is aligned with the strategic priorities. It can also provide a basis for incentivising certain activities in addition to influencing behaviours that are conducive to achieving financial sustainability.

4. The case for enhancing management information in institutions

The four specific management information areas reviewed are not new to institutions in many cases. For example, workload planning is a process that many institutions have in place. However, in many cases it is not consistent, it does not provide any management information and the results are not used to inform other processes e.g. course costing, resource planning etc.

A further observation was that approaches to matters such as course costing have not always been coherent and robust, possibly reflecting that this information has not been a key focus in the past.

The four management information projects are key levers that can enable efficiencies to be identified and realised. The outcomes can provide further insight, which in turn can inform key decisions regarding resource priorities, portfolio choices, staffing requirements and decisions regarding the continuance of certain activities. Together, these will position the institution to be financially sustainable and resilient, generate the funds required to enable investment and gain competitive advantage against other institutions in the sector.

They also provide a catalyst, in certain cases, for changing and influencing behaviour. For instance, institutions highlighting the cost of space occupied by different parts of the institution has been found to generate different behaviour in terms of Colleges'/Departments' desire to occupy the same amount of space.

5. Ten key messages for senior management

There are a number of key themes that apply consistently to each of the aspects of management information considered by the five projects. We summarise here the top ten.

1. **Be clear about what you are doing and why you are doing it** – This will help you to decide what you need to do, identify the resources you will need, get people on board and make sure that you know when to stop.

2. **Recognise that management information will not make decisions for you** – It is the means, not the end. It will give you a greater understanding of the issues at hand and may complement other information, but ultimately you will still need to make the decisions.

3. **One size does not fit all** – All institutions are different, so you will need to develop an approach to course costing, departmental sustainability, resource allocation or workload planning that suits your institution's own particular circumstances. The guides have the benefit of providing a range of different perspectives together with a critical appraisal of the advantages and disadvantages of each approach.

4. **Design is easy, implementation is not** – Developing an approach to improving management information is just the first step. Rolling it out consistently across the institution is likely to be just as challenging, if not more so. This is explored in the guides and tactical guidance is provided to ease the challenges of implementation.

5. **Engage with a broad range of stakeholders** – The involvement, engagement and support of senior management, academics, finance, planning, information technology and other staff will be vital. Get them on board by listening and responding to their needs and by 'selling' to them the benefits of what you are doing.

6. **Clear and visible commitment from the top is crucial** – It will demonstrate that this is something that the institution takes seriously, and will also help to ensure that the action that you are taking receives the resources that it requires in order to be successful.

7. **Develop clear links to TRAC** – The TRAC data that the institution already collects can play a vital role in improving management information. Furthermore, improving your management information processes can help to further improve the TRAC data.

8. **Keep your information up to date** – Management information will need refreshing periodically. Decide at the start how you will update it and how frequently you will do so. Out of date information leads to out of date decisions.

9. **Think about how best to present management information** – Different users will require different information, depending on what they will use it for and what decisions they will need to make. Try to make management information focused and user friendly.

10. **Take a balanced view of financial and non-financial factors** – However management information is presented, users should always be given sufficient contextual information to

make balanced decisions. This may include, for example, presenting costing or sustainability data alongside information on teaching quality and student satisfaction.

6. Overall summary

The need for good practice guidance and support in the areas covered by the MIPs was identified by the sector. The guides produced address these needs and the changes in the external environment would suggest that these guides have arrived at an opportune time. They key now is the decision you take as an institution regarding the enhancement of your approaches and management information in these areas.

82 institutions expressed interest and have participated in these studies, which shows the level of support and interest in the topics covered. Institutions will have to evaluate the areas where they wish to enhance their management information systems, but given the external environment now facing the sector, tightening control and oversight in all four areas is likely to place the institution in a better position and enable it to continue to develop and thrive in the future.

The detailed management information project reports can be accessed at
http://www.hefce.ac.uk/finance/fundinghe/trac/tdg/mip.asp

7. Key questions and next steps

To assist institutions in prioritising the areas that are likely to be of greatest importance to them, the diagram below provides some key questions along with the projects that are likely to prove most useful addressing the question: