



Financial Sustainability in Higher Education

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—
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Feeling the Squeeze: cost pressures in HE in 2023

Universities continue to face persistent cost pressures:

Long-standing challenges

- More pressure than ever to deliver 'value for money'
- Continued competition for home students
- Ailing infrastructure (both physical and digital)
- Costs of retaining students

Current challenges

- Record energy and commodity prices
- Rising interest rates
- Unprecedented wage inflation
- Post-Covid-19 adaptation / recovery
- Supply chain pressures
- War for talent and the 'Great Resignation'

Challenges on the horizon

- Home tuition fee stagnation
- Changing nature of teaching, learning and researching
- Impact of digital/blended learning and working
- Threats to international student recruitment
- Cost of living crisis amongst staff and students
- Challenges of casualisation and industrial action

Addressing inefficiencies, when combined with investment in technology, can be a key part in improving service quality:

- ✓ More efficient and effective ways of working amongst staff
- ✓ Faster and more reliable advice and support for students
- ✓ Fewer manual tasks and less duplication
- ✓ Opportunities for support services to be proactive rather than reactive
- ✓ Freed-up cash for reinvestment where it really matters

The pursuit of financial sustainability can start in different places

Universities can approach their journey to financial sustainability from multiple starting points, and will want to balance institutional need with the (often long) lead times to deliver benefits.



Stabilise: *Evaluating the current position*

In the short term, Universities can look to focussed interventions which provide robust financial analysis and visibility on current performance. Against this baseline, it is then possible to identify and implement tactical opportunities, improve the financial performance of the current operating model and deliver immediate results.

- What is the current performance and how is this tracking to budget – what is driving / affecting performance?
 - What is our current baseline performance, from a P&L and liquidity perspective?
 - Given our baseline, how does this effect our 2 to 5 year projections.
 - What are the key factors which will affect our current and future performance and what is the financial impact of these?
- We are considering our financing options to support the investment required to meet our strategic objectives.
 - Do we generate sufficient operating cash flow to support our plans or do we need to consider funding?
- Are we at risk of breaching our covenants?
 - What are our strategic and financial options?
 - Do we need immediate funding and what is the quantum of this to support us as we stabilise and realign?

Where are we now and where do we want to be?

Are we operationally efficient and effective?



What is our liquidity position and need for financing?

Are we where we want to be?

- Is our academic model financially sustainable?
 - Are each of our programmes (and modules) profitable?
- Based on our strategic plans are our business and operating models efficient and financially sustainable?
- Could there be more efficiencies from an overall review of professional services target operating model?
- Can you reduce the price or specification of key supplier contracts, and achieve savings in areas such as facilities management or energy?

We are on track with our strategy and targeting growth

- | | | |
|---|--|--|
| • Do we have sufficient liquidity to support our plans? | • Should we raise funding to support our growth initiatives? | • Do we have capacity & capability to deliver on our strategic intent? |
|---|--|--|

Our performance is deteriorating

- | | | |
|---|---|--|
| • We deficit position is worsening, how do we take control? | • What is our true cash position? | • Are we at risk of breaching our financing covenants? |
| | • Do we need to report a reportable event to the OfS? | |

Stabilise: Create a platform for growth

Stabilise

- Based on current position, rapidly **prioritise stabilisation** actions and identify quick wins.
- If not available build a **short-term cash flow** forecast, create a cash steering committee and drive closer cash management.
- Review risk of **covenant breaches** and consider broader stakeholder management which may be required.
- Consider whether you can reduce the price or specification of **key supplier contracts**, and achieve savings in areas such as facilities management or energy?
- Consider whether you can **improve controls** over purchasing and reduce spend on non-essential items?
- Consider whether any Office for Students **regulations** needs to be addressed.



Re-plan

- In order to develop a rapid realignment plan which, will more than likely have to be shared with other stakeholders such as lenders, the following is key:
 - A revised current year forecast and following year budgets (1 to 3 years);
 - Supported by assumptions and detailed support;
 - Prioritise and quantify the short to medium-term impact of key initiatives, these may include:
 - Academic portfolio review
 - Analysis of whether the business and operating models need to change to become financially sustainable
 - Consider the wider estates strategy
- Ideally build a financial model, including P&L (I&E), balance sheet and liquidity (i.e. free cash flow available for investment and debt repayments). Which needs to be built on a monthly basis for 24 months and yearly thereafter – this will support stress testing of assumptions and options analysis
- Consider the financial and liquidity options available and understand the wider financial and execution implications.
- Size the potential cash and investment requirement and understand the funding options available.

Execute...

to create a platform for growth

- The execution of the realignment plan is a full time project and Management are rightly tied up in the day to day running of the University and therefore need to consider whether they require additional resource or advisors to help drive the implementation of the plan.
- The plan should be supported by an execution schedule with responsibilities, milestones, and continuous progress tracking.
- Once the execution is in motion, it is key to understand the strategic elements of the longer-term plan and whether anything else needs to be addressed.
- A stakeholder communication plan is also required to consider the universities vast stakeholder pool, including lenders, unions, Office of Students, etc.



Realign: *Strategy Refresh*

Aligning around a refreshed Vision and Strategy enables you to move forward with confidence, to win in the market and grow sustainably. We have a tried-and-tested methodology to support clients in this process that provides benefits including critical friend challenge; broad and deep stakeholder engagement; and, robust grounding in a data-led evidence base



“We are [university name] because we do [x]; we do [x] because we are [university name]”

- Building stakeholder alignment around a clear vision and objectives
- Providing a common view on what good looks like that enables robust decision making

“Where and how could we win? Where are the opportunities?”

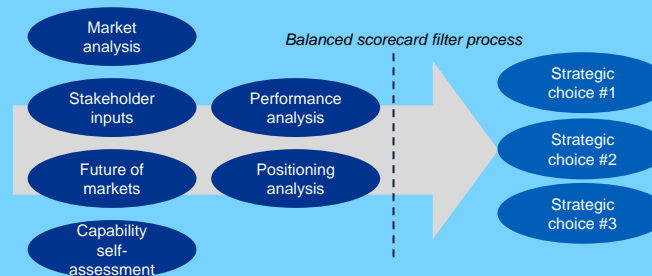
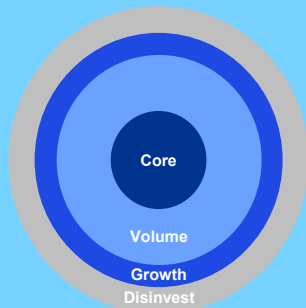
- Understanding sector trends, competitive landscape and internal analysis to be able to identify potential opportunities

“How do the pieces fit together to build a strategy with a coherent narrative that delivers our Vision?”

- Drawing insight from the evidence base and considering it against vision and objectives to determine and assess choices
- Identification of ‘quick wins’

“What is our strategy and how can we make sure it is deliverable?”

- Drafting a coherent strategy that sets the university for success
- Testing and refining based on achievability
- Development of high-level roadmap for implementation



Realign: *Operations fit for purpose*

"The purpose of a Universities is to deliver world class teaching and research, not finance and HR functions"

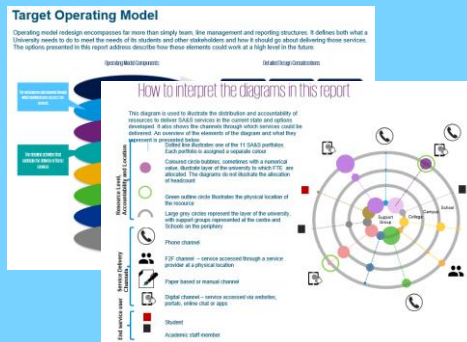
In the medium to longer term, many Universities will need to change to their business and operating models: both to become financially sustainable but also to deliver better outcomes. The first step to achieving this is to align and redesign an operating model that supports the core mission and operations of the University (and to do that within the available funding envelope).



What is the operating model that will help us achieve our strategic vision?

Define the stakeholder strategy to understand the needs and wants of service users

- Design the high level architecture of the target operating model (TOM) components to meet them
- Build out the detailed blueprint of each TOM component



Does the model stack up financially and economically?

- Assess the revenue, cost and capacity requirements generated by the new operating model
- Does the new model meet the financial outcomes we need to achieve?
- Can we afford to invest to achieve our longer term ambitions?


Financial Benefits Summary		2020-21									
		11	12	13	14	15	16	17	18	19	20
Revenue	100	100	100	100	100	100	100	100	100	100	100
Costs	100	100	100	100	100	100	100	100	100	100	100
Profit	0	0	0	0	0	0	0	0	0	0	0

Category	Value	Score
End User Experience	30%	3/5
Efficiency and Effectiveness	20%	4/5
Value Quality	25%	3/5
Process Standardisation	15%	4/5

Realign: Academic Portfolio Review

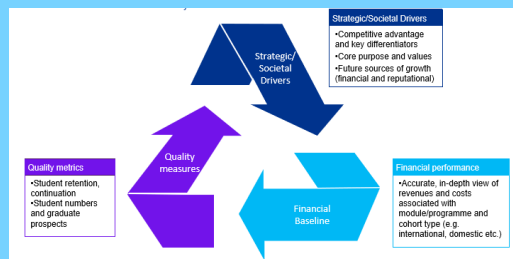

University courses are about much more than financial contribution, but the detail will enable you to make data-led decisions across the portfolio.

Academic Portfolio Review provides an objective and holistic understanding of the current performance and future potential of the entire academic portfolio, at module level. This will then inform your strategy and its short and long term initiatives.



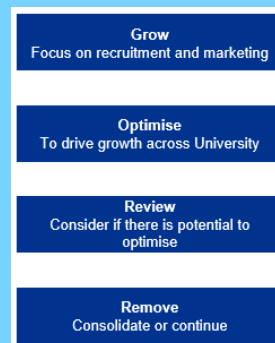

'The Exam Question'

- An in-depth and actionable view of the contribution of each programme and module to the lowest possible level of granularity to allow for detailed and accurate analysis and insight;
- An assessment of the strategic and growth potential of each programme and module to highlight the relative importance of each to the future of an institution in terms of (a) its competitiveness and appeal to students, and (b) its pursuit of societal and civic duties.

How can we take action

- The combination of financial and non-financial understanding detailed above aims to inform decisions on the best course of action for each programme / module within its portfolio across four categories - **Grow, Optimise, Review or Remove** – each with its own strategic initiatives attached to it to achieve sustainable growth.

Be sure to consider wider non-financial factors

- Non-financial aspects should also be considered including:
- calculated strategic potential score and its individual components;
 - current and historical departmental context and situation;
 - potential market demand module / programme / department growth trajectory;
 - contribution to the strategic direction and overall reputation of your institution;
 - focus and enablement of student and staff diversity




Grow: Innovative Growth

Once the foundations for growth are in place innovative, revenue diversification can enable universities to move towards sustainable growth and position for long-term success:




Grow: *Develop the capability to deliver independently*

Developing in-house capability to manage change is key for Universities to remain sustainable and continually self-assess to maintain and improved performance.




Where are the gaps in capability?

- Tailored online learning modules
- Understand the range of approaches in programme management which help balance pace and oversight with being empathetic to stakeholder needs
- Assess current gaps in capability and cultural perception of change
- Ownership for contributing to development of institutional solutions



What are the learning needs across the institution?

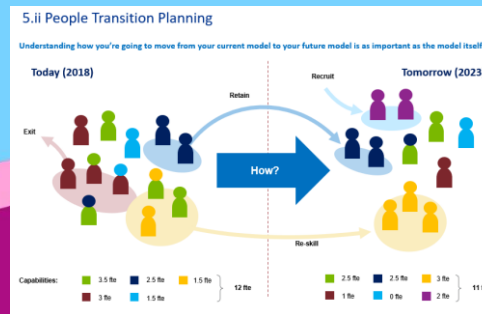
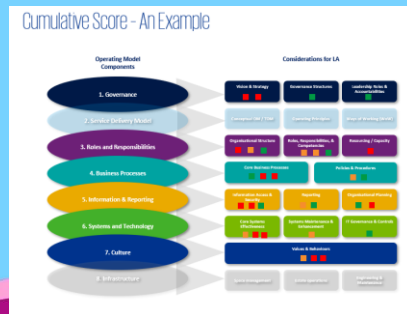
- Identify the learning and coaching needs for teams at all levels of the institution
- Define what the ideal learning environment would be
- Develop an approach to 'watch one, do one, teach one'



What methods and tools are best suited to developing our people?

- Formal virtual or classroom-based training
- Access to external subject matter experts to act as a sounding board
- Templates, e.g. Benefits frameworks, approaches to document management/information
- Bespoke learning platforms and digital content

KPMG has developed a Finance Academy that can be tailored to your delivery requirements.



Our team can help throughout the journey



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