An Alternative Financial Strategy 2.0

Introduction

This document is concerned with the current and future financial strategy of the University of Nottingham (UoN). It outlines how the University's current and projected financial position echoes the very recent history of 2020/21, and it proposes a specific set of actions that taken together would constitute an alternative strategy for managing the University's finances and future to minimise the chance of this situation re-occurring. These proposals follow on from the prolonged work of UCU UoN officers throughout 2023/2024 to engage in constructive and good faith discussions with University management regarding finances. [For more detailed information about the financial figures and sources, please see AFS 2.0 Council.]

When the pandemic struck in Spring 2020, many universities faced financial difficulties, but the University of Nottingham (UoN) also faced serious liquidity problems and was forced to take far more drastic action than other institutions. The *lean financial management* strategy UoN followed, in which long-term infrastructure projects are exclusively financed through annual surpluses while cash reserves are being kept low, was unique in the sector. All non-essential spending was immediately suspended, a voluntary redundancy scheme resulted in the loss of more than 400 members of staff, and fixed-term and postgraduate teaching posts were terminated. In June/July 2020, budget cuts of 15 per cent were imposed on all faculties for the subsequent academic year.

In March 2021, the local University and College Union (UCU) branch presented its Alternative Financial Strategy (AFS). We pointed out that unless university management abandoned this lean financial management strategy, a similar situation would inevitably re-occur a few years down the line. We also stressed that generating annual primary surpluses via persistent cuts in internal budgets corrodes our ability to deliver our core mission and has adverse effects on the quality of our research and teaching.

Our warnings and proposals, however, remained unheeded. The Chair of Council, responsible for the oversight of UoN finances, refused to circulate the AFS to the members of Council. "*The Chair and Council*", we were told, "*are both fully apprised of, and have complete confidence in, the financial positioning of the University and require no additional external input*" (17 June, 2021).

It took less than four years for UoN to find itself in another financial crisis. Large deficits were first noticed towards the end of 2023, as a result of: 1) under-recruitment of especially high-fee paying overseas students after UoN's drop in international rankings; 2) large emergency infrastructure repair costs due to having neglected maintenance for a period of years; 3) high levels of post-Covid inflation eroding the value of tuition fees; and 4) financial overcommitment in new infrastructure, most notably the new Castle Meadow Campus. The reaction had to be as dramatic as in Spring 2020. All non-pay costs were cut, an employment freeze was swiftly implemented and a Mutually Agreed Resignation Scheme (MARS) was rolled out, resulting in the loss of almost 300 members of staff. History had repeated itself.

On both occasions, in Spring 2020 and at the end of 2023, Higher Education as a whole experienced difficulties. Nonetheless, **the way finances have been managed at UoN has resulted in significant additional pressures not affecting our competitor institutions**.

The main problem remains that **UoN focuses on financing (over-) ambitious investment programmes through annual surpluses**. When these surpluses do not materialise, having been too optimistic from the start, cuts are implemented to deliver the investment programme nonetheless.

In the rest of this document, we highlight some examples of the misguided financial management over recent years, especially around the purchase of the new Castle Meadow Campus, without which UoN would have closed the last financial year with a substantial surplus. We then propose, yet again, an alternative financial strategy, the AFS 2.0.

The UoN Finance Plan 2021-23

Since before the pandemic, and including times when interest rates were at a historical low, UoN has persisted in its choice to fund infrastructure projects by creating and using annual surpluses and maintaining dangerously low cash reserves. This is presented as a low-risk strategy, as it minimises debt, and as a cost-saving strategy, as it eliminates borrowing costs. In reality it is very high-risk and it has proven to be costly. Maintaining low cash reserves, which is inevitable if surpluses are used to fund infrastructure, is bound to lead to liquidity problems in a period of financial strain, when credit also becomes unavailable. This is precisely what happened during Covid. Borrowing costs can be offset by the return of investment (which is something a lender would check). In UoN annual surpluses have been created by postponing critical maintenance work and by continuous budget cuts, which have had a negative impact on UoN core-business. Projected surpluses (necessary to approve long-term projects) have come by overoptimistic projections for student recruitment and expenses, as is evident from last year's deficit. As it was discovered only 3 months into the fiscal year and after the budget was finalised, and despite the drastic measures taken, it was large enough that it was impossible to balance the books by the end of the fiscal year.

In fact, despite clear signals of a slowdown in student registration numbers, the University went ahead with the investment plans as outlined in the medium-term financial plan, under the expectation that a reduced surplus in 2023/24 would be followed by a return to historical surplus in the subsequent years. Thus, during the academic year 2023/2024, about £80m of capital investment program had been delivered drawing on cash reserves, despite having to make emergency in-year savings through a combination of hiring freezes and cuts in non-pay budgets.

Considering the volatility of student numbers and the long-term fall in real value of tuition fees, university management should have revised the multi-annual investment plan instead of pushing ahead with investments relying on uncertain future surpluses to recoup the costs of investment.

As we had argued in March 2021, using primary surplus as the almost unique source of capital spending financing exposes the University to short-term financial turbulence with negative long-term effects on the University core business.

Given the current Higher Education financing model it is clear that large strategic capital spending programs are not affordable any longer and an urgent review of the UoN capital spending program and its financing is required. These events are not only a sign that university management failed to act on signals that their financial projections were incorrect but also indicate that these incorrect projections created substantial costs. University management has persistently made rosy forecasts about income (student fees, research grants, commercial income, etc), while forecasts for expenditures on core business (salaries, consumables, upkeep, etc) have been consistently understated. The balance between these two projections has been the artificially created headroom, which dictated how much is allocated, and in practice overcommitted, to strategic investments.

Strategic investments, like Castle Meadow Campus acquisition and refurbishment or a new medical school, require a multi-year upfront commitment. Once such expenditures have been tendered they are costly to reverse. This lack of flexibility in adjusting strategic investment in the event of unforeseen circumstances (whether because of actual unpredictable events or a failure to reign in overconfidence) has the inevitable consequence that any shortfalls in income can only be compensated by making cuts in core business where commitments are less costly to reverse (consumables, casualised staff, etc). As a result of this fundamental flaw in the university's financial model, we see situations in which it continues to invest in real estate, such as Castle Meadow Campus, for which it will not have the staff and resources to make effective use of.

UoN Estate management

After years of neglect, UoN infrastructure is falling apart. The list of buildings in dire need of repair is long and includes amongst others:

Student halls: UoN's residential strategy *Project Stay* established that UoN student accommodation is lower quality but higher cost than competitor institutions. Instead of being re-invested in their maintenance, income from halls has been absorbed in UoN's general finances. Recent financial constraints have stalled refurbishment of Hugh Stewart Hall, while Willoughby Hall closed altogether in September 2023. Potential income from student accommodation is lost to the private sector as a result.

Sir Clive Granger Building: long-standing heating, plumbing and electrical issues. The building was disconnected from the district heating system to allow repairs in autumn 2024, with reconnection delayed until January 2025. Staff resorting in the past to individual heaters in rooms blew the building's electrics.

Medical School: experiences regular flooding in offices, teaching rooms and laboratories. Impacts on all floors, displacing teams of academics, making some spaces unusable, and damaging resources.

Psychology: roof damage necessitated closure of the third floor in February 2024, putting some testing cubicles out of action and causing staff to cram into shared offices or relocate. School informed this term that UEB had not approved funds for repairs in 2023/24 - decision then overturned a week later by Council. Some offices have single-glazed windows that won't open and close; others broken heaters that can't be repaired owing to asbestos.

Cherry Tree Lodge: consistent roof leaks in the home of Disability Support Services. Area of ceiling collapsed in October 2024, rendering 4 desks in the main office unusable.

BSU Animal House (Medical School): air conditioning (essential to meet Home Office licensing requirements) not properly maintained for years - e.g. no monitors to check fans were aligned, preventing orderly replacement. Constant patching and last minute fixes led to sudden closure in November 2022, causing panic and major research disruption (including to commercial partners, and UKRI and charity-funded projects). Permission to hire 24/7 Estates staff permitted re-opening for a year, followed by long-term closure in November 2023. Animal work split between a commercial facility 14 miles away and a small space at Sutton Bonington, burdening researchers and forcing the University to fund taxis to ferry staff to and fro. Decision still awaited on where future facilities will exist.

Sutton Bonington Small Animal Facility: expansion of small animal facilities completed around 2010 - included new holding rooms, surgeries, behavioural testing rooms. Massive heating failure in 2021 disrupted research. Preparations made for major refurbishment in summer 2023, including removal of laboratory equipment. Then Deputy Vice-Chancellor announced a U-turn in December 2023: facilities to be leased instead from Inotiv, while looking at recommissioning old and building new facilities on University Park. Staff informed in 2024 that it is unlikely new animal facilities would be built at both Sutton Bonington and University Park. Decision still awaited on where future facilities will exist.

Psychology Brain and Body Centre Annexe: annexe with animal MRI machine and limited animal holding capacity - now out of use owing to lack of maintenance. Roof rotten and windows leak. Damage arose from standing water on roof and overflowing blocked drains.

The fiasco of the Castle Meadow Campus project

In November 2021, UoN suddenly abandoned its plan for a far smaller-scale development at Crocus Place and instead acquired Castle Meadow Campus (CMC), even though it had imposed cuts on all faculties of 15 per cent only a year earlier. As in the past, the acquisition and development of CMC was budgeted for with estimated future annual surpluses.

It was immediately evident that the purchase was not part of a well-thought through strategy and was motivated by the seemingly low purchase price, rather than a consideration of the needs of the University in terms of space. Characteristically, as a UCU member present at an early CMC development meeting reported, a senior UoN manager openly stated: '*well, as we now have bought this campus, we also need to find a good purpose for it*'.

Further evidence mounted quickly, most notably:

- 3 years later it is still not clear what exactly CMC will house. CMC became Grade II listed soon after purchase, which significantly limits UoN's ability to modify and repurpose spaces. During 2023, the idea that the Business School was to move to CMC was circulated and used to justify CMC's purchase. Serious and fully justified concerns that CMC does not have the necessary large lecture halls to accommodate the respective teaching were swiftly dismissed, with UEB and Business School leadership framing this as a fantastic growth opportunity for the Business School that necessitates adapting teaching practices to the space (rather than the other way

around). In October 2024, however, it was announced to Business School staff that relocation to CMC is not seen as a viable option anymore and that the whole School will remain on Jubilee Campus, with only its executive education function moving to CMC. As the move of the whole Business School has been abandoned, the purpose for CMC is completely unclear. The campus had been bought before UoN's exact teaching and research needs had been determined.

- It is highly dubious whether UoN can afford to complete the redevelopment needed to make CMC usable and recover the cost in any sensible timeframe. While management had known about the potential Grade 2 listing, the knock-on financial consequences were not factored into overall plans. Council approved the initial acquisition cost of £37.5m (Council Minutes, 12 October 2021) and then an additional £47m + VAT, hence £54m funding envelope (Council paper C/23/22) for a 10 year development plan, i.e. £91.5m overall. This was to cover a refurbishment of the campus to an appropriately high standard to support occupation. It covered all of the buildings. It was based on a Gleeds report that stated any further refurbishments to support teaching, learning and research would require further investment business cases. In short, UoN had budgeted £91.5m for purchase and base refit before any teaching fit out.

- In most recent developments, the sale of CMC in part or whole is currently being discussed by management, as it has finally accepted that the campus does not fulfil UoN's needs. How much of the invested money can be recovered is unclear.

The way forward

In order to ensure a sustainable future for UoN, and taking into account the key lessons from the two financial crises of 2020/2021 and 2023/2024, we need an alternative financial strategy:

- In the current Higher Education financial landscape, extreme caution is necessary in pursuing strategic capital spending programs, which are not affordable given uncertain revenue generation prospects. "Shrink the portfolio of activities in order to finance strategic capital investments" is a risky strategy that should not be pursued, as it reduces capacity in an uncertain environment. Instead, the university should focus on retaining capacity to deliver on its core mission, while stabilising finances by developing a *sustainable medium term financial plan*. To this end, an urgent review of the capital spending program is required, since **£570 mil capital spending program** as outlined in the 24/25 MTFP (source: Future Nottingham - Strategic Case for Change Nov 24) is **not affordable**. **Put on hold all unnecessary capital investment**!

- Develop and introduce **new procedures of financial accountability**. Council currently approves major expenditure and there is no other body or process that assesses the outcome of these decisions in the long term. We urge Council to scrutinise the MTFP taking into account our input so that the same mistakes do not happen again.

- **Involve the university community in strategic planning** that requires major and long-term financial investment, recognising that staff are the true long-term

stakeholders of such decisions. Broad consultation with Schools and staff groups needs to be followed by a suitable democratic decision-making process that involves the university community. In particular, **Senate**, as the only university (partially) elected body which oversees education, teaching and research, **should be involved in all long term planning, including finances**.

- Abandon the practice of using primary surplus as the almost unique source of capital spending. Develop and implement a long-term strategy for financing key investment projects based on careful, long-term borrowing and an increase of philanthropic income specifically aimed at strategic capital investments.

- Allocate capital investment funding only to programmes that are part of a **long-term investment strategy** and only after a **thorough business case** including in depth risk assessment, clear definition of use, and costing to the point of use has been made available and approved via the new mechanisms suggested above. Early and thorough planning and vetting is not only necessary to avoid mistakes of the past, such as CMC, but also to create the conditions in which the University can convince lenders and donors to support investment projects.

- Prioritise maintenance and upgrade of existing infrastructure over new strategic capital investments, such as CMC, as a far more cost-effective way for UoN to provide suitable environments for research and teaching.

- Re-introduce a contribution-based finance model, instead of the current cost-based model, giving Schools control of how they allocate the resources they generate, to enable long-term planning and reward efficient local financial management.

Conclusion

Higher Education in the UK is in a financial crisis. While the value of tuition fees has been eroded over time due to high inflation, increasing obstacles for overseas students to come to the UK has damaged the sector further. Nevertheless, this is only one part of the story about the financial crisis at UoN. Misguided financial and infrastructural estate management acutely exacerbated UoN's specific situation.

Resistance to change from academics is often identified as the main obstacle to reforms necessary to address current challenges in Higher Education. However, the real issue is not whether staff are willing to change. The real questions are, has management learnt the lessons of past 'leadership directives', where these have led to financial losses and eroded our ability to deliver on UoN's core mission, teaching and research? Will management accommodate a different model of funding, as detailed in AFS 2.0? Will they change the ways UoN is currently run and include stakeholder advice? Will Council acknowledge that these steps are necessary for the future success of this globally important Research and Teaching university?