

STEERING A SAFE COURSE

Plans are in place to safeguard the University's financial future, *Julia Paolitto* discovers

AN EARLY HOME FOR UNIVERSITY VALUABLES – THE PAINTED CHEST, USED FROM 1668 UNTIL THE UNIVERSITY OPENED ITS FIRST BANK ACCOUNT IN 1756



Imagine a giant supertanker crossing the ocean that starts to drift ever so slightly off course. It's not very noticeable yet, but hundreds of thousands of tonnes in weight takes a lot of work to steer back on course if not corrected quickly. That supertanker is the best analogy for the current state of the University's financial position, according to Director of Finance Giles Kerr. 'The further you drift off course, the harder it is to get back on track if you don't start nudging things back in the right direction quickly,' he explains.

Oxford continues to lead the UK in generating high-quality research and winning grants, but rising costs and increasing complexities are causing it to miss its key financial target: the 5% operating surplus that is essential to maintain Oxford's core activities. This surplus target, which the University has failed to meet in recent years, reflects the annual costs of renewing the University's infrastructure – the labs, libraries and IT systems that underpin the institution's core teaching and research activities.

So how and where has the University started to go adrift? 'The situation we face now is the result of several gradual changes in our income streams and our cost base,' notes Kerr. 'A number of things just below the surface have been chipping away at our resources and making it cost more to carry on doing what we're doing.' Oxford has been subject to a series of external pressures common to many universities, as well as internal pressures and constraints unique to the way it operates that make responding to those pressures harder. Both government and research councils have cut their funding for equipment and overhead costs, and the University's expanding research

activities have outstripped its ability to recover the fixed costs of those activities.

Oxford's expansion in research activity has also brought with it a rapid increase in academic and especially non-academic staff numbers. Many large institutions develop

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economies of scale that ensure they get more efficient as they grow. But at Oxford 'decentralisation means it is much more difficult to reduce costs through economies of scale,' according to Kerr. The increasing complexity of the environment that administrators have to contend with, combined with Oxford's devolved operating model spreading administrative work across departments as well as centrally, has driven the increase in numbers in a way that is not sustainable in the longer term. This expansion has happened alongside greater expenses associated with attracting and retaining academic staff, and an increase in pension and National Insurance contributions for all staff.

Other factors contributing to the University's

lower surplus include a reliance on the annual transfer from Oxford University Press (which has declined in recent years) and an expansion in the University's estate of 25% in the last decade that has quickly added to the buildings and equipment that will need replacing. Taken together, these pressures mean the University is currently achieving a surplus of around 3%, which is about £25m short of the 5% needed.

While this doesn't amount to an immediate crisis, a number of new measures are being put in place to bring University finances back into line. Chief among these will be controls on the number of non-academic staff the University and its departments can recruit until the operating surplus reaches 5% again. The UniForum benchmarking exercise, in which Oxford is participating with a number of other Russell Group institutions, will help us to better understand how administrative services are delivered, and where the University could be structured to run more efficiently.

The University is also attempting to recover more of its research costs by asking all grant agreements with industry to cover the full cost of research. And a new matched endowment fund has been established to support current academic activities.

The impact of Brexit adds another element of uncertainty – in the form of £60m in research income that currently comes from EU sources, as well as the uncertainty in status of some 2,000 staff and 3,000 students from Europe. Both Kerr and Professor William James, Pro-Vice-Chancellor for Planning and Resources, emphasise that, until the terms of Brexit are set, the ways of planning for its impact are limited. James notes, however, that 'in many ways, we have much greater resilience than other UK universities, and our focus at this point is in reassuring staff and students from Europe and elsewhere that they remain as highly valued as ever, as a vital element in our academic life.'

The coming months will see increasing efforts to make University staff more aware of the University's financial position. But the take-home message is still an optimistic one, according to James: 'We are an extraordinarily successful university, with great resources, first-rate staff and a bright future. However, the financial environment is tight and, to ensure we remain the best, we need to make prudent investments and be efficient in everything we do.'

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