



Hard Hats Time

November 2009



The World Changed in 2008





What happened?

- Prosperity Fuelled by debt
- Bankers were Masters of the Universe
 - But didn't know what they owned (or didn't)
- Everyone was winning.....to different extents
 - But we all new borrowings were too high
 - Did we really believe that growth was perpetual?
 - Did we really think we have defeated boom & bust?
- Reality check – cash is king
- We'll all have to pay.....to different extents

University of St Andrews

US\$1,200,000,000,000

Worldwide losses to date

University of St Andrews



US\$2,800,000,000,000

IMF Estimate of total losses



Where are the losses

Write offs to date (US\$trn)

- Worldwide 1.2
- Americas 0.6
- Europe 0.5
- Asia 0.1

IMF Estimates (US\$trn)

- Worldwide 2.8
- Americas 1.0
- Europe 1.6
- Asia 0.2

Source: Schroders Asset Management



US\$2,800,000,000,000

• Microsoft

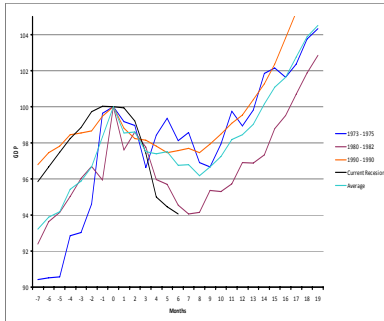
- Market Value US\$229,000,000,000
- Annual Sales US\$ 54,000,000,000

• Oracle

- Market Value US\$103,900,000,000
- Annual Sales US\$ 23,500,000,000

Source: Schroders Asset Management

How deep, how long?



Impact on UK Economy



- Uncertain
- Probably long, slow recovery
- Public sector debt (HMT@ April 2009)
 - At 2007/ 2008 £527billion
 - GDP £1,444billion – debt at 36.5% of turnover
 - At 2013/ 2014 £1,370billion
 - GDP £1,798billion – debt at 76.2% of turnover
 - Excludes liabilities and unrealised losses from financial sector interventions

Source: Schroders Asset Management

What does it mean for us?



What are Universities?



- Independent Charities
- Established to promote
 - Learning & Teaching
 - Research & Knowledge Transfer
- In receipt of significant public funds, but not 'public bodies'
- All with own markets / characteristics
- Responsible for own destiny and security

Universities Journey



- Spring / Summer of 2008
- Inflationary pressures
 - Rising pay costs – CoL & Pensions
 - Utility Costs rocketing
 - Technology, funder and customer demands
- Public funding not keeping pace with costs

What's happened so far?



- Earnings under pressure
- Investment funding harder to get
 - 1st availability, now cost
- Endowment funds reduced
 - Capital values & earnings
- Pension deficits growing
 - Assets 1st, now liabilities

Act for additional provision in favours of the Universities



Our soverane lord and the estates of parliament, takeing into serious consideration the condition of the severall universities of this kingdome, and finding that the present mean and incompetent provision of the masters and professors thair of is so prejudiciall to the flourishing of these seminaries of church and state that, unles some considerable augmentation be settled upon them for their encouragement, the ablest and fittest persons of ingenious spirits and education will shun and avoid the undertakeing of functions in universities for want of such ingenious means as should invite, entertean, encourage and obleidge men sufficient for such laborious employments, to the great decay of learning and detriment of all ranks of persons in the kingdom.

16

Sources of Income – what?



- 2007/08 Income circa £23,440million
- Teaching – c£11,860m –51% of Total
 - Range from 1.7% to 96.1%
- Research – c£9,206m –39% of Total
 - Range from 1% to 70%
- Other –10%

Source: UUK

17

Sources of Income – who?



- Main Funding Councils – £8,508m (36%)
 - Range 73% to 0%
- Student Fees – £6,254m (27%)
 - Range (42% to 1%)
 - Non EU about 30% of Fees (57% to 0%)
- Research grants – £3,722m (16%)
 - Range 61% to 0%

18



Expenditure

- Pay costs 57% (72% to 2%)
 - Above inflation increases
 - Widespread pensions deficits
- Other pressure areas
 - Utilities
 - Infrastructure demands
 - Technology drivers
 - Customer expectations

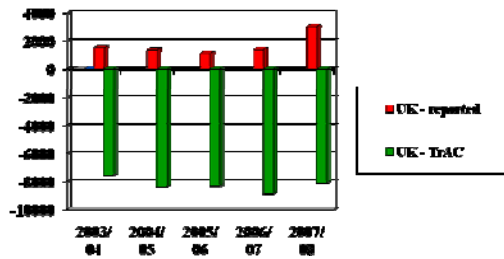


Financial Sustainability

- The ability to generate sufficient resources to meet all of the costs required to deliver services on an ongoing basis.
- 2007/ 2008 Earnings (I&E A/C)
 - Reported collective surplus of £870m
 - Before asset sales (on HC basis) £555m
 - Operational surplus 2.3% of turnover



According to TrAC University Surpluses (£'000)





Where do we start?



Cost Avoidance – What Pressures?

- General inflation vs Government inflation
- Pay growth c25% 2006 to 2009
 - Framework, Cost of Living & Incremental Drift
- Pensions – Final Salary, employer holds risk
 - USS, +2% now, what’s next, who’s in control
 - Local Schemes, Local Govnt Schemes...
- Energy – natural resource crunch?
- Capital rationing
- Insurance, building maintenance, currency fluctuations, customer expectations...

23



Competitive Threats

- UK sector reputation for quality
- Recessionary threats – dependence on non EU
- Global Competition
 - Chinese expansion?
 - US wakening up?
 - Other markets – Australasia, Canada?
- Impact of RAE / REF settlement

24



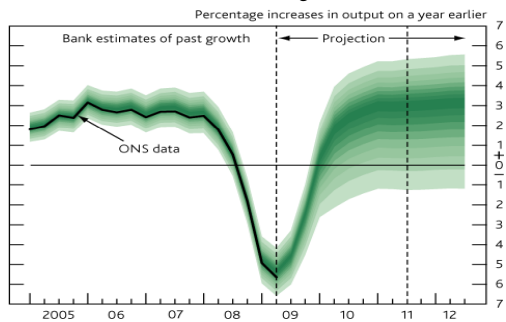
Business Growth vs Cost Cutting

- Business Growth
 - Easier for managers to talk about, but have to deliver
 - Everyone is trying to do it – it's difficult
 - Must know your areas of strength and plan
- Cost Cutting
 - Easier for A/Cs to talk about, takes less imagination
 - Don't let things break, they cost more to fix
 - If you do what you've always done, you'll get what you've always got – seriously re-engineer processes
 - Consider not doing what you can do without

25



Bank of England Economic Projection





Making things better

- Income – who pays you, for what?
- Expenditure – do you need to spend it all?
- What are you good or bad at?
- What do you want to achieve?
- What does success look like?

27



What can you do to help?



What needs done?

- If you do what you've always done, you'll get what you've always got
- What can you do differently?
 - What can you stop doing, with no real impact?
 - What can you enable others to do differently?
 - Whose service can you improve?



Bunker time?

- What will 'they' do to make it better?
- What are the ingredients of success?
- IT can lead business transformation
- Hard decisions must be taken



Overall

- The world has changed
 - But the old problems are still there
- Financial Sustainability is the goal
- Understand your organisation & its context
- It's everyone's job to make things better
- Effective leadership is critical

31
