

Business Flexibility and University Finances

For teaching-led universities, as student numbers fluctuate (fall), their support services costs need to become more flexible with that demand and funding change. Some of these changes rely changing the kind of contracts that the university strikes with its new employees and new suppliers. Other changes involve a change in university policy. Or change in staff incentives - to allow key staff to switch between research and teaching, based on the needs of the employer.

Seven steps the universities can take are as follows:

1. During the relatively good times, make more 'fixed' support costs into costs that vary directly with student numbers. For example, progressively create a larger portfolio of fixed term employment contracts and scalable rental space on campus. A related opportunity is to embrace flipped learning (online home lectures with on campus project, lab and assignment work), so that surplus space can be rented out commercially to event and SME start-up clients.
2. Convert a greater proportion of variable costs (software licence costs, utilities, soft services and research volume sensitive costs) into student-volume sensitive costs instead.
3. Diversify income sources so student volume fluctuations have less short-term impact. To elaborate, suggest looking in three directions; investment portfolio income, commercial revenues and funded research revenues.
4. During asset procurement, buy small, scalable units of capacity, with a ready resale value (a built-in put option i.e. buy-back price).
5. Build a cash reserves buffer (refer university treasury reserves policy) to smooth out the fluctuations threatening long run financial performance.
6. Invest in quality flexibility. Then, as sector competition intensifies, can turn on the quality tap at will, to mitigate against falling student numbers. It means having the courage and foresight to hold back on using the best teaching resources in the good times. To elaborate, for leading professors who excel at both teaching and research, encourage them to focus on research in the good times. And teaching in the hard times.
7. Split core-funded teaching and support activities from non core-funded. Non core-funded is discretionary. It can be repositioned as 'user pays', to cover its costs plus a required margin. Creating this split will likely require some modifications to the account code structure in the university finance system, effectively creating an activity-based costing regime.

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