THE UNIVERSITY OF READING


Introduction

This document sets out the University's financial strategy for the period 2009-2014. It has been developed alongside, and been significantly informed by, the University's Corporate and Operational Plans for the same period. In developing this financial strategy the University has had regard, in particular, to the Guide for Members of Governing Bodies of Universities and Colleges in England, Wales and Northern Ireland produced by the Committee of University Chairman ('the CUC Guide'), 'Effective Financial Management in Higher Education (HEFCE 98/29)' and 'Financial Strategy in Higher Education Institutions (HEFCE 02/34)'.

Background

2. The strategy has been developed in challenging times for the University, and higher education in general, and against the background of the need to demonstrate to all stakeholder groups that the University has clear and robust arrangements for financial planning and control and that these arrangements are embedded within the institution.

3. The financial strategy for the University has, as noted above, been developed alongside the University’s Corporate and Operating Plans. They form an integrated approach to the management of the institution that ensures business and financial issues are considered alongside academic issues when significant changes are planned in the University’s activities. Financial viability is key to the University achieving its wider aims and objectives.

4. The strategy that is set out in this document is designed to address five key issues:
   - The long-term viability of the University and matching resources with objectives.
   - Maintaining productive capacity to meet current objectives.
   - Financing development and investment.
   - The evaluation of strategic alternatives and managing risks.
   - Integrating financial and other corporate strategies.

5. At the same time the strategy needs to embrace a number of operational issues:
   - How is financial strategy developed and integrated within the University’s planning arrangements?
   - How is the corporate plan translated into an operating plan and annual budget?
   - How are the University’s resources managed, controlled and protected?
   - How are the University’s assets identified, safeguarded and fully utilised?
   - How does the University ensure that all liabilities are identified and managed?

Strategy Development

6. The University's financial strategy for the period 2009-2014 is embedded within the Corporate and Operational Plans for the University for the same period. They have been developed together with work done largely by a core group of staff ('the Planning Team') comprising:

- Deputy-Vice-Chancellor
- Director of Finance and Corporate Services
- Director of Academic Services
- Head of Financial Planning and Analysis

7. Work has been overseen by the University's Senior Management Board chaired by the Vice-Chancellor and the final Strategy and Plans have been endorsed by Strategy and Finance Committee and approved by the Council of the University.

Key Strategic Issues

8. The key elements of the financial strategy can be summarised as follows:

i) the requirement to generate an operating surplus each year (excluding asset sales) rising to a figure equivalent to 3% of total annual income by 2016/2017. This will assist with ensuring the long-term future of the institution and provide funds for future investment. A planned operating deficit will only be permitted by Strategy and Finance Committee and Council in the light of particular circumstances, such as the restructuring of the institution, and only against the background of an approved plan to restore the operating surplus at the earliest opportunity;

ii) within the annual budget agreed by Council the University will provide for a centrally held and managed contingency. By 2016/2017 this contingency will be equivalent to 2% of total annual income. This contingency will provide a buffer against unexpected events and provide funds to support new initiatives;

iii) a clear scheme of delegation within the University so that responsibility for financial management and control is clear and unambiguous;

iv) a clear understanding of the financial contribution to the University from the Research Endowment, National Institute for Research into Dairying (NIRD) and Hugh Sinclair Trusts;

v) clear arrangements for the contribution that self-financing activities, both academic and non-academic, and including the University halls of residence, must make to the central University;

vi) planned expenditure in the period 2007/2008 to 2013/2014 of up to £39.4m on safety critical maintenance, in addition to annual budget for planned and reactive maintenance. Against that background the operating surplus will deliberately be suppressed to £1.25m per annum. From 2014/2015 onwards the University will set aside a sum equivalent to 4.5% of annual income, though a mixture of capital and revenue expenditure, to maintain its academic land and buildings;

vii) external borrowing will be permitted for activities with an associated revenue stream (eg Halls of Residence) or where there is a clear infrastructural or strategic benefit to the institution. There is no pre-determined limit on the level of external debt; this judgement will be exercised in the light of circumstances at the time and overall affordability;
viii) a clear pricing and costing strategy for the institution.

9. Against this background the financial strategy provides, through the development of the financial assumptions underlying the University’s Operational Plan, a means by which the University can:

i) integrate financial and other corporate strategies;

ii) ensure the long-term viability of the institution and match resources with objectives over the short and medium-term; and

iii) maintain productive capacity to meet current objectives.

Capital Investment

10. As part of the University’s operational planning proposed capital expenditure plans are developed annually and reviewed by the University’s Senior Management Board. Potential new capital expenditure is evaluated against the University’s business and academic objectives and prioritised as necessary. Schemes will only proceed to formal approval if they:

i) meet the University’s objectives; and

ii) can be funded within the overall constraint of achieving the required annual surplus.

In addition to looking for external funding, either by grant or debt, the University will consider grant funding, or loans, from the trusts for which it is Trustee.

Managing Risk

11. As part of the University’s internal control arrangements there is a comprehensive risk management programme in place which aims to manage and mitigate financial risks to the institution.

Operational Issues

12. Details of the University’s approach to the key operational issues, as set out above, are set out in Annex 1.