UPDATE ON THE UNIVERSITY FUNDING POSITION

On 14th March 2011, the University received its letter from HEFCE setting out in detail its recurrent funding for teaching and research in 2011/12.

The HEFCE letter was broadly in line with our predictions. Our total teaching grant for 2011/12 is expected to be £56.1m representing a 4.7% cut in cash terms relative to 2010/12 and our research grant is expected to be £117.5m representing an increase of 1.5%. Overall, our total recurrent grant will be cut by 0.6% in cash terms.

Whilst these numbers are broadly as we expected and do not at first sight appear to be too bad, there are a few points to note. Firstly, the grant is not guaranteed and HEFCE can reduce the grant in-year. Indeed, this is exactly what happened in 2010/11. The teaching grant announced in March 2010 was £61.1m but this was reduced during the year to £58.8m.

Similarly, the announced research grant in March 2010 of £117.8m was reduced in year to £115.8m. So relative to the March 2010 grant letter, our teaching funding has been cut by 8.3% and our research funding has been cut by 0.3%. These in year cuts not only disrupt our finances, they also distort the headline cuts for the following year making them seem much less than they really are.

The second point to note is that these cuts are in cash terms. CPI has just passed 4% so the real terms cut is much greater.

Now that our HEFCE funding is known, the budget for 2011/12 can be finalised. This will allow the Finance Committee to make a recommendation to Council in early May. I expect that this budget will show a deficit of around £9m in 2011/12 increasing further to a deficit of around £13m in 2012/13 before heading back slowly towards balance in 2015/16. Overall, I expect to hold the cumulative deficit to within the £40m total agreed by Council in September 2009.

Financing this period of deficit budgeting will of course require us to spend from our reserves. I believe that this is the right thing to do because to cut deeper would be extremely damaging both to our reputation and to our competitiveness, especially in the run up to the research assessment exercise (REF) planned for 2013.

Nevertheless, deficit budgeting must by very tightly controlled and it is important that we all understand some of the risks which could prevent us returning to a sustainable balanced budget. Firstly, it has only been possible to contain the deficits within the £40m limit by Schools and Institutions accepting a 2% cash decrease in 2011/12 followed by below inflation cash increases of 1% in subsequent years. The financial position is kept under constant review but this level of restraint will be very hard to sustain over the planning period. Secondly,

HEFCE teaching funding will fall rapidly over the next four years and we will only be able to cope with this by moving to the maximum allowed £9k fee for undergraduate fees. Thirdly, we must maintain and grow our research income, and we must reverse the current trend of falling indirect recovery caused largely by switching away from Research Councils towards Charity and EU funding. This will only be achieved by a collective effort to develop and support compelling strategic research initiatives which can attract large-scale funding.

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