School of Oriental and African Studies
Financial Strategy 2012-2017

1. Introduction

This document sets out the School's Financial Strategy for the period 2012-2017.

The Financial Strategy examines

- The key principles that will underpin the School's strategic aims and corporate objectives – section 2
- The key objectives together with measureable targets (key performance indicators [KPIs] and performance indicators [PIs]) that flow from the key principles – section 3
- The extent to which current plans meet those objectives and targets – section 4
- The necessary actions to breech any shortfall between current plans and stated objectives – section 5

The document also includes a benchmarking analysis (Annex A) which has been used to inform certain targets.

Governing Body are asked to approve the financial strategy.

2. Key Principles

The Financial strategy has indentified five key principles that will underpin the School's strategic aims and corporate objectives. These are

1. Development of a framework in which financial performance objectives are set to ensure the long term viability of SOAS
2. Maintenance of productive capacity to meet current strategic objectives
3. Ensuring appropriate levels of internal cash reserves and external financing for capital and other investments.
4. Provision of a framework for evaluating strategic alternatives and the evaluation and management of risk
5. Integration of the Financial Strategy with other corporate strategies

From each of these flow a set of objectives which are expanded upon below. Where appropriate, targets comprising KPIs and PIs are determined in order to measure current and future performance.

3. Key objectives and targets

3.1 Principle 1: The development of a framework in which financial performance objectives are set to ensure the long term viability of SOAS

3.1.1 To generate a sufficient level of surplus to support investment in estate, infrastructure and academic objectives

Historically the School has used surplus as a percentage of income to define sufficiency. For consistency this will continue to be used but supplemented by a measure which focuses on cash surplus (see below). The eventual target for surplus as a percentage of income is 4%, with an aim of achieving this by 2017/18. In the interim planning period covered by this financial strategy the target rates by year are as follows

KPI 1 : Surplus as a % of total income

	2012/13	2013/14	2014/15	2015/16	2016/17
Target	0%	0.5%	2.0%	3.0%	3.5%

Given, the depletion of cash reserves and the increased level of financing arising from the acquisition of the North Block, the key financial focus will be on generating a level of recurrent surplus that provides additional resource to support new investment **and** funds debt serving costs with headroom to accommodate future market risk and uncertainties. For this reason a key finance performance indicator will be a cash-based measure, (supplementing that based on accounting surplus).

This measure to be termed 'cash generation' is defined as earnings before interest and depreciation changes (or EBITD) less debt servicing costs and release of deferred capital grants.

In determining the appropriate level, attention must be paid to the School's investment requirement and the desire to rebuild cash reserves. Investment requirement is considered in more detail in section 3.2.2 and suggests that a target cash generation of 9 per cent (of income) will create the headroom required to fund new investment and accommodate uncertainty. This 9 per cent target will apply from 2017-18 onwards, the first year following the move into the North Block. Interim targets are set out below

KPI 2 : Cash generation as a % of total income

	2013/14	2013/14	2014/15	2015/16	**2016/17**
Target	3.5%	4.0%	6.0%	8.0%	8.5%

3.1.2 To ensure an appropriate diversification of income

In order to avoid over reliance on one category type of income and mitigate risks of income fluctuations it is necessary for the School to have an appropriate diversification of income. This has become increasingly important following the recent changes in the undergraduate funding and fee regime which has caused a shift from relatively stable grant funding to fee funding which is inherently more volatile.

For this purpose the following targets will be set for the income grouping of research contracts, other income, endowment income and interest receivable.

The following targets will be set for the proportion of total income these categories of income represent, with an aim of achieving these by 2016/17. Interim targets are also included

KPI 3 : Research grants, other income & interest as a % of total income

	2013/14	2013/14	2014/15	2015/16	**2016/17**
Target	13.5%	13.5%	13.75%	14.0%	15.0%

3.1.3 To extend fund raising and development activities

The School will seek to extend fund raising and development activities with a target of achieving a return on investment of 4:1 [PI 1] by 2014/15. Given the volatility of annual income streams measurement will be based on a three year average of investment and income raised.

3.1.4 Maintain financially sustainable Faculties

Faculty Deans will retain some flexibility to manage resources across academic departments, however all Faculties will be expected to achieve a minimum break even financial position as determined by the School's resource allocation model. This measure takes into consideration the agreed cross subsidy to the faculty of Languages and Cultures (£2.03m in 2012/13 to be increased in line with staff cost inflation).

Appropriate training and support (both financial and HR) shall be given to Deans, Heads of Departments and Faculty Administrators in order that they are able to fulfil this role and execute strategic staffing decisions. Appropriate and relevant management information shall also be made available in a timely manner for the purposes of monitoring and planning.

3.2 Principle 2: Maintenance of productive capacity to meet current strategic objectives

3.2.1 Ensure there is the right level of productive capacity in human resource

Bench marking analysis against comparator institutions would suggest that the School expends a high proportion of income on staffing costs. While this is partly attributable to the School's subject base in that arts, humanities and social sciences requires more investment in staffing than in equipment and consumables, the appropriate balance needs to be attained. The target proportion of income to be expended on staffing costs is to be set at 59 per cent to be achieved by 2015/16, with 60 per cent in the interim planning period **[KPI 4]**.

3.2.2 Invest at an adequate level to maintain physical capacity

HEFCE recommendations would suggest that a minimum of 4.5% of the net replacement value of the estate is expended annually on maintaining and repairing those buildings contained within the estate. This target will be adopted by the School **[KPI 5].**

3.2.3 Ensure that the School has the right staff & policies to maximise their contribution to SOAS objectives

This area is fully covered in the School's HR Strategy

3.3 Principle 3: Ensure appropriate levels of internal cash reserves and external financing for capital and other investment

3.3.1 Cash and investments

To hold sufficient cash and short term investments to fund at least 30 days of average expenditure **[KPI 6].**

3.3.2 External borrowing:

To ensure an appropriate use of external financing, at a level that will not put the School at risk

External borrowing will be permitted for activities with an associated revenue stream (that will at least cover the costs of borrowing) or where there is a clear strategic benefit to the School. No predetermined limit will be set other than ensuring that we remain in line with existing loan covenants. Judgement will be exercised in light of the circumstances at the time and overall affordability.

3.4 Principle 4: Provision of a framework for evaluating strategic alternatives and the evaluation and management of risk

3.4.1 Systematic option and investment appraisal

To follow accepted good practice by undertaking full investment appraisal for all projects over £0.75m. This should include

- The identification of full lifetime costs
- Realistic income and expenditure projections
- Agreed appropriate rate of return on investment
- Consideration of risk

3.4.2 Ability to minimise the impact of expected downturns

In order to minimise the impact of unexpected downturns the School will

- Undertake scenario planning, examining a range of consequences and qualifying these within reasonable assumptions.
- Identify and monitor early warning indicators (financial and non-financial) in order for remedial action to be taken promptly
- Build adequate contingencies into budgets. In terms of fee income, a contingency of 2 per cent of fee income will be provided for in the annual budget.

3.4.3 Effective management of financial risks

In order to ensure effective management of financial risks the School will, in accordance with its risk management policy

- Review key financial risks included within the School's risk register on a regular basis
- Maintain a sub risk register for the Finance & Planning Directorate covering operational financial risks
- Monitor the implementation of actions designed to mitigate financial risk

3.5 Principle 5: Integration of the Financial Strategy with other corporate strategies

3.5.1 In order for the financial strategy to remain integrated with other relevant corporate strategies it must both reflect and inform such strategies and as such will be updated on an annual basis.

3.5.2 To promote understanding and acceptance, the financial strategy will be

- published in full on the School's intranet
- presented to Governing Body, Resources and Planning Committee, Faculty boards and the Directors of Professional Services on an annual basis by the Director Finance and Planning

4. Projected financial performance against KPIs

Before considering projected financial forecast against the targets outlined above it is perhaps worth noting the salient assumptions underlying financial projections. These may be summarised as follows:

- Growth of 21% in on campus student numbers in the period
- Annual growth of 5% in research contract income
- Annual fee inflation of 5% applied to all unregulated fees, other than the standard Home/EU PGT fee where 10% is applied
- Increase in staffing numbers of 13% (18% academic, 8% professional services) over the period

The table below sets out the School's projected performance against the target KPIs.

KPI	2011/12 Actual	2012/13 Budget	2013/14 F/cast	2014/15 F/cast	2015/16 F/cast	2016/17 F/cast
1.Surplus as a % of income – projection	4.3%	-0.1%	-0.9%	1.0%	2.1%	2.3%
Target		0%	0.5%	2.0%	3.0%	3.5%
Projection £'000	2,963	-84	-692	865	1,960	2,206
Target £'000	2,423	0	383	1,668	2,755	3,381
Excess/(shortfall) v target £'000	541	-84	-1,075	-803	-795	-1,175
2. Cash generation as a % of total income – projection	7.3%	3.6%	3.0%	4.9%	6.7%	7.4%
Target		3.5%	4.0%	6.0%	8.0%	8.5%
Projection £'000	5,064	2,599	2,306	4,074	6,195	7,162
Target £'000		2,505	3,067	5,004	7,348	8,211
Excess/(shortfall) v target £'000		94	-761	-931	-1,153	-1,049
3 Research contract and other income as a % of total income –projected	14.6%	13.8%	13.2%	12.6%	12.7%	12.6%
Target	15.0%	13.5%	13.5%	13.8%	14.0%	15.0%
Projection £'000	10,139	9,871	10,104	10,479	11,620	12,172
Target £'000	10,383	9,662	10,351	11,468	12,859	14,490
Excess/(shortfall) v target £'000	-244	209	-247	-989	-1,238	-2,318
4 Staff costs as a %of total income	60.1%	61.0%	62.1%	61.6%	59.7%	59.7%
Target	60%	60%	60%	60%	59%	59%
Projection £'000	41,602	43,691	47,595	51,357	54,840	57,634
Target £'000	41,532	42,941	46,003	50,043	54,191	56,993
Excess/(shortfall) v target £'000	-70	-750	-1,592	-1,314	-649	-641

5. Expenditure on repairs and capital buildings as a % of net replaceable value	5.7%	8.6%	12.2%	17.0%	7.7%	4.1%
Target	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Projection £'000	6,727	10,257	14,474	20,220	11,716	6,223
Target £'000	5,327	5,358	5,358	5,358	6,843	6,843
Excess/(shortfall) v target £'000	1,400	4,899	9,116	14,862	4,873	-620
6. Net liquidity days	87	66	121	34	37	39
Target –minimum	30	30	30	30	30	30

The School is projected to fall short on all targets relating to surplus, cash and income generation in addition to the target relating to staffing costs.

Targets for capital expenditure and liquidity are largely met throughout the planning period.

5. Actions to address target shortfalls

Table 1 above would suggest that actions should be centered on:

- Cost reduction, with a greater emphasis on staffing cost reduction
- Improving the levels of other income, including research grants and contracts
- Further growth in distance learning activities

It should be noted that further on campus student growth is not considered as the projections already include growth.

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ANNEX A

Comparative financial performance

Some inferences regarding relative institutional financial performance can be gained by benchmarking relevant financial performance indicators (PIs) across a group of comparable institutions. The data for this exercise is derived from 2010/11 HESA data. The HEIs included have been chosen to include the members of the 1994 group together with comparator institutions within the Russell Group. The results of this benchmarking exercise are included as in the table below. Whilst complete robustness of the data cannot be assured (conformity of treatment may vary slightly in individual HESA returns) some interesting results arise.

Summarising the results for 2010/11:

The School's surplus at 3.3 % of income is above the group average.

Research grants & contract income and other income forms a significantly lower proportion of total income than that of our comparators (17% compared to a group average of 35%).

Total income per academic at £152k is significantly below the average of £185K and is the lowest within the group. Given that we are very close to the average fee income per academic, this is largely attributable to the low level of research grants and contract income per academic. While it the case the other institutions with a science subjects will be able to generate significantly higher research income, the LSE with a similar subject base generates £34k per academic compared to our £16k per academic.

The School as a consequence of its high proportion of overseas student has a relatively high fee per student (£8.5k compared to the group average of £6.1k). With the introduction of £9k undergraduate fees this position is likely to change.

The School has the lowest student to academic staff ratio with 11.5 students per academic staff, compared to an average of 16.8.

The School appears to be slightly less efficient in terms of support staff to students with 13.3 student ftes to each support staff compared with an average of 14. It is notable however that the average is skewed by the high student to staff ratio within Birkbeck and Goldsmiths and that we may wish to be more in line with the Russell Group institutions where the average is 11.6 fte.

Staff costs as a percentage of total income are 61% compared with the average of 57%. The proportion of staff costs attributable to academic staff is at 60% in line with the group average, although the School employs a high proportion of teaching only staff (36% compared to the group average of 17%).