

The unexploited opportunity within Universities

Key findings from Alsbridge plc research study on the future of shared services across Higher Education Institutions



In the first quarter of 2009, Alsbridge plc conducted a research study with 58 universities exploring the future of back office support delivery in higher education.

The following white paper outlines the current funding pressures on Higher Education Institutions and explores the opportunity to optimise scarce funds by diverting resources used on back office functions to the front line of academic delivery. We outline three options for doing this, including the creation of shared service entities, and then outline the challenges that need to be overcome before the first steps are taken.

“Universities may face deficit”

BBC news channel, 4th December 2008

“Downturn could hit universities”

BBC news channel, 8th December 2008

“500 jobs may be lost at London Metropolitan University”

The Guardian, 3rd February 2009

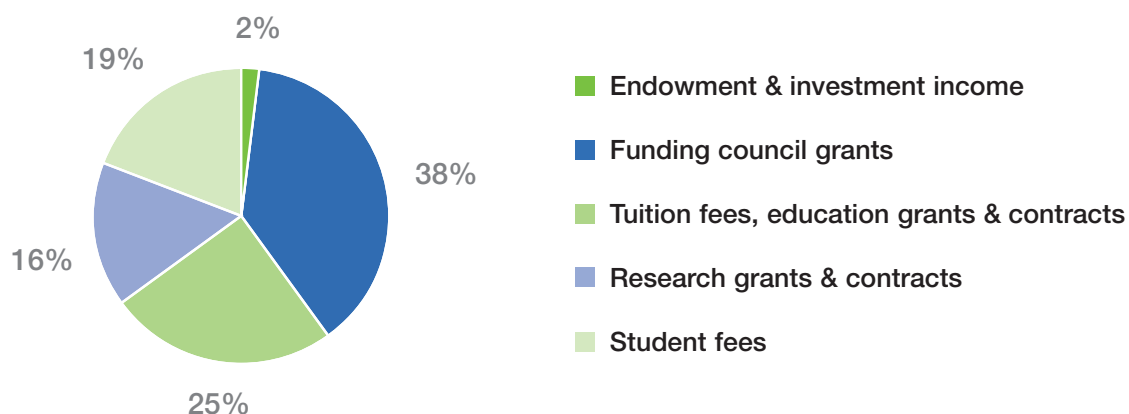
“Documents reveal risk of failure at universities”

Guardian, 23rd February 2009

These are just a selection of recent press headlines flagging the financial crisis faced by some UK Higher Education Institutions.

The problem

The UK Higher Education (HE) sector consists of 169 individual Higher Education Institutions (HEI) with diverse funding profiles. Funding comes from a number of sources with public funding making up approximately a third of the total £21.3bn in 2006/07 (see chart below).



Source data: Higher Education Statistics Agency [HESA] [2008]. Resources of HE Institutions

Many universities are facing an uncertain future over funding for several reasons.

- According to statistics produced by the Higher Education Funding Council for England (HEFCE), publicly funded resource for teaching in higher education per student in England fell by 40 per cent in real terms during the 1990s. HEI suffered significant decline in resources available which continued over a sustained period and is likely to have reduced their overall financial strength. Although this decline has now been arrested through the introduction of two new sources of income for teaching, (Private Regulated Fees from 1998 and Learning and Teaching Capital from 2004), the average unit of funding is not expected to rise above £7,500 per student by 2009/10, when the full 3 year impact of the raised student fees is available to institutions. This is still 17% down on 1990 levels. There is also a real threat that government funding levels will reduce in the near future in a response to the need for centralised savings.
- Research accounts for approximately 35% of HEI costs. Figures from TRAC for 2006/2007 shows that total income from research was £5.9bn against costs of £7.9bn: a shortfall of 2.0bn.
- The income growth seen in some non-publicly funded areas may be difficult to maintain due to increased competition. For example, collaboration deals with UK businesses generated £2.6bn in revenue for Universities. In recession, however, businesses may cut funding on research altogether or outsource their research to lower cost service providers.
- Many British universities rely on funds brought in by overseas students. The British Council, which promotes education overseas, fears that the economic situation may deter students from coming to the UK. In addition the countries from which the UK attracts most of its non-EU overseas students from (e.g. India, Malaysia, China) have seen huge growth in their universities which may also have an impact on the number of students looking to move to the UK. Fees from international students are likely to become more competitive and institutions may find it difficult to maintain growth rates.

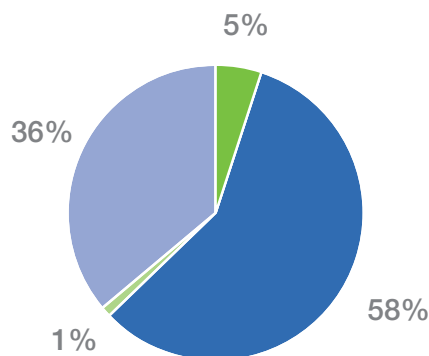
- Student numbers are predicted to decline. A fall in birth rate at the beginning of the century means that the number of students may reduce as much as 6% in the next 10 years which will further reduce revenues.

As a result of the fall in funding, the amount of contact between students and academic staff has fallen and a report by the Financial Sustainability Strategy Group (FSSG) published in February 09, *'The Sustainability of Learning and Teaching in English Higher Education'* warns that staff-to-student ratios are "not sustainable" without a threat to quality. This will impact on the universities ability to recruit students and retain students which impacts funding.

So, the question is how to optimise the usage of scarce funds and target this spending on front line academic delivery?

Where do the resources actually go now?

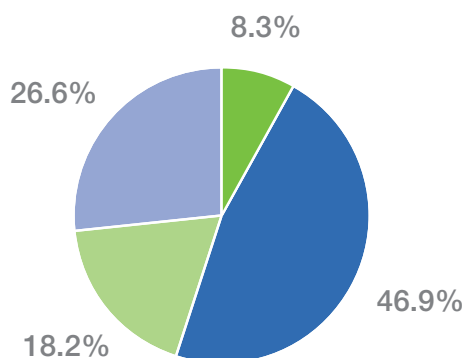
The UK HE sector's expenditure during the year 2006/2007 was £21 billion. Universities employed 364,160 staff and staff costs accounted for 58% of expenditure.



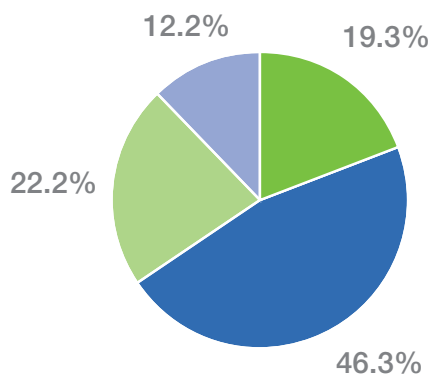
- Depreciation
- Staff costs
- Interest payable
- Other operating expenses

Source data: Higher Education Statistics Agency [HESA] [2008]. Resources of HE Institutions

The figure below show the proportions of both full-time and part-time staff by type.



Full-time staff 2006/07



Part-time staff 2006/07

- Manual
- Academic
- Secretarial & clerical
- Managerial, professional & technical

Source data: Higher Education Statistics Agency [HESA]

Our further research of 58 Universities in the UK showed that over half the HEI in our sample spent 60 to 80% of their revenue on support services. It appears that a greater proportion of the HEI scarce resources are dedicated to support services rather than on front line academic staff (academic staff refers to both lecturing and research staff).

In a climate where revenue streams are decreasing, how can HEI balance their books whilst maintaining their ability to innovate and advance as fast as fast as their competitors?

The opportunity

Diverting resources from back office support services to the front line is an obvious way in which HEI can better utilise their funds. If HEI can reduce the cost of their support services more funds will be available for the recruitment of academic staff, which will improve the ratio of academic staff to students, and provide the investment required to improve the physical infrastructure for teaching and learning. So, how can HEI reduce operational costs of support functions without having a detrimental impact on the quality of the service provided?

There are 3 main options:

1. Optimise the efficiency of the back office operations (e.g. HR, Finance, IT, Procurement, Facilities Management, Student admissions etc.) through process re-engineering and automation.

This is the option that many HEI are pursuing but to realise true benefit from optimisation, significant investment in technology is required. However, lack of funds and skills to implement these programs usually result in organisations just 'tinkering around the edges' and delivering sub optimal solutions.

2. Outsource the service provision to a low cost service provider.

Outsourcing has become an accepted strategy over recent years. It provides the most rapid route to market for relatively low capital investment and increases the focus on back office processes. With more capable service providers on the market, the number of F&A BPO engagements being signed has shown a rapid rate of increase. Companies have more choices in the functions that they outsource and the operating model that they adopt. Shared services are often outsourced in order to ensure that the customer can access proven capabilities and technologies and optimise the economies of scale. However, outsourcing comes at a cost as service providers take a cut of the saving as their profit margin.

3. Collaborate to share services.

Considerable savings can be achieved by setting up a shared service centre to eliminate duplication of effort and to capitalise on the synergies created by handling the same processes in one pooled area. At the same time, further efficiency gains can be realised within a shared services environment by the application of technology solutions.

HEI and other education institutions have similar business models, aims, objectives, challenges and cultural fit it. This should make it easier to agree a common technical architecture and process design that would meet the needs of the institutions and is capable of delivering a high quality of service. Sharing a common technology platform will enable the institutions to gain the benefit of state of the art systems whilst sharing the cost with the other partners.

Why haven't HEI collaborated to share back office services?

One of the main reasons is that HEI are highly competitive. Universities have historically "stood alone" as discrete entities and this has been sustained by the specialised identity that each establishment has, normally associated with being well known for a particular discipline or faculty. There is a perception that they will lose their competitive edge if they share resources. But is this really true? If you consider what has happened in the telephony and utilities sector in the last decade, there is clearly a precedent where competitiveness is preserved even where telephone lines and electricity cables are a common facility. Another good example of competitive organisations collaborating in the delivery of back office functions is the Research Councils. The Research Councils UK (RCUK) Shared Services Centre Project which is probably the largest shared service initiative in the sector covers all seven Research Councils, HR, payroll, finance, procurement, IT, telecommunications and grants processing. So it appears that a "competitive edge" can be preserved whilst co-operating on the delivery of support services because back-office operations are not in the public eye.

There are also good examples in the HEI sector of shared service provision although in the main this has been restricted to small non critical services shared on a regional basis. Two such examples are the University of the West of Scotland and South Lanarkshire Council share a data centre, and the Association of Northern Ireland Colleges (ANIC) consortium manages the supply of Corporate Information Services to the country's six large multi-site Further Education colleges.

There are also national organisations that do provide services to nearly all HE establishments. Amongst the best known of these are:

- The University and Colleges Admissions Service (UCAS) which processes applications for full-time undergraduate courses at UK universities and colleges;
- The Joint Information Systems Committee (JISC) which provides networking and specialist information services in both HE and further education (FE) sectors;
- The Student Loans Company (SLC) which provides financial services, in terms of loans and grants, to students annually in colleges and universities across the four education systems of England, Northern Ireland, Scotland and Wales; and
- The Higher Education Statistics Agency (HESA), which collects, analyses and disseminates quantitative information about higher education in the UK.

This shows that it is feasible for a collection of HE entities to join together in a collaborative arrangement for the purpose of creating a more efficient support services structure without losing the ability to retain one's educational identity and remain competitive. The barrier that needs to be overcome is more of a cultural one.

Practical steps to moving to shared services

One of the first decisions to be made is to determine who to share with. Do you:

- Share with other HEI?
- Share with Further Education institutions?
- Share with a local authority?
- Share with other institutions / organisations in a particular geographical area?
- Join an existing collaboration arrangement such as the NHS/Steria Shared Business Services centre

To get started it is necessary for one university to take the lead and start initial discussions with potential candidates for collaboration to ascertain if there is enough interest from other potential partners and also if there is the critical mass to make it viable. Once a potential group has been identified there needs to be a series of exploratory discussions to set the scope for sharing and to agree some basic principles. At this point it would be necessary to develop a strategic business case that articulates the art of the possible, explores potential sourcing options and delivery vehicles, and develops a high level cost benefit case.

The strategic business case should give the interested parties enough information on what a collaborative model would look and feel like, the costs, benefits and risks to enable them to make a decision on whether or not to proceed further. It would be prudent to enlist the help of a professional shared services / outsourcing practitioner to act as an independent body that looks at the interest of the group as a whole and ensures that mutual trust is preserved. A professional advisor can also bring experience from other projects to challenge traditional thinking and overcome some of the inhibitors that could stand in the way.

It just needs one forward thinking university to take the first step.

In the private sector the concept is well established and organisations have seen shared services as a key vehicle for transforming back office support activities. Over the last twenty years over 75% of FTSE 100 companies and numerous other national and multinational organisations have moved to this model to reduce costs and improve efficiency.

In the public sector the uptake of shared services has been slower. However, nearly all central government departments now have some sort of collaborative arrangement in place. Progress in local government has lagged behind but is now building up momentum.

Can HEI afford not to move to a collaborative model? It would take just one small group to take the first step and prove that the model will actually work for the industry. Isn't it time for change?

For further information on taking the first steps, contact the Alsbridge plc Public Sector Practice on +44(0)20 7242 0666 or email helen.ricardo@alsbridge.eu

About Alsbridge plc

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