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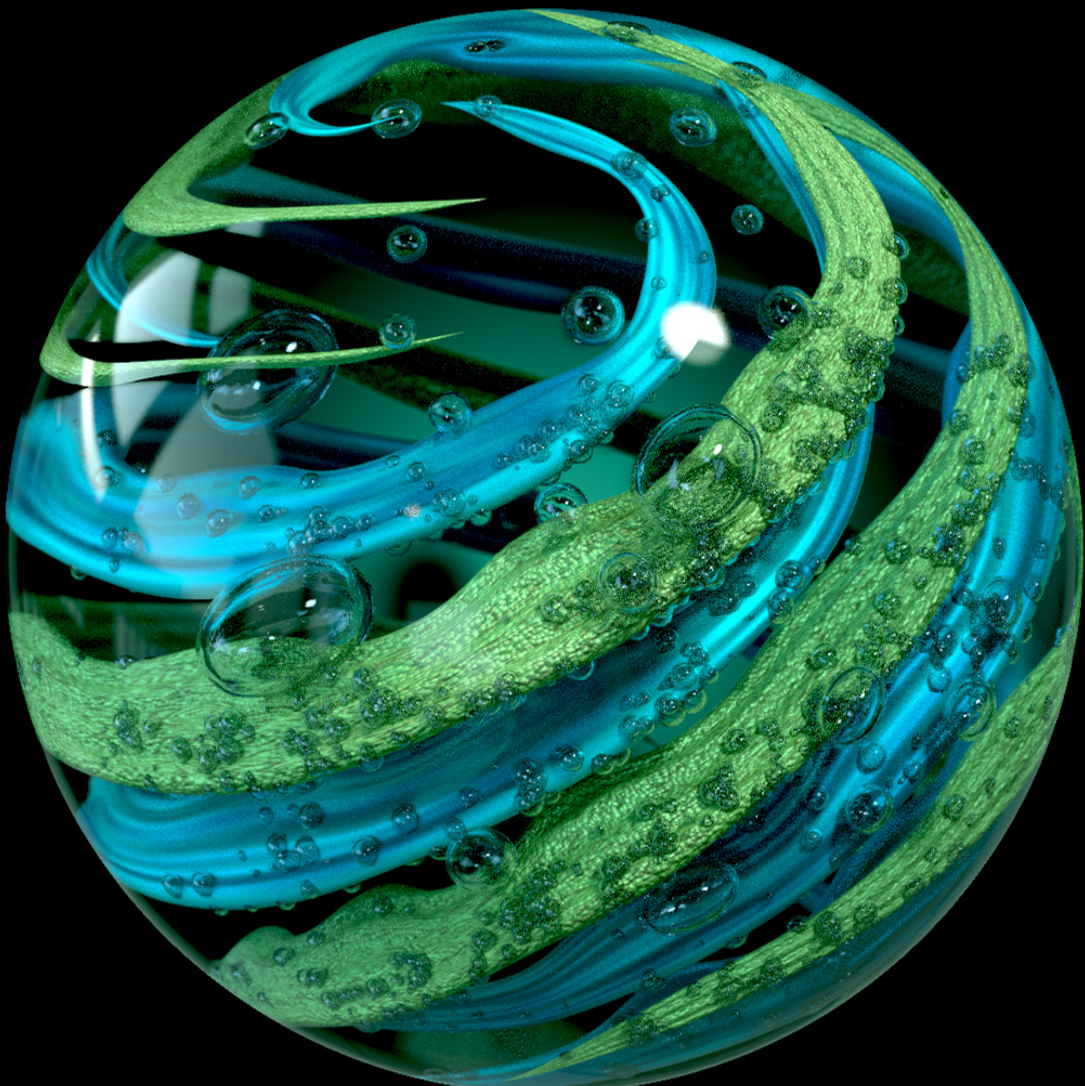

# Future Ready

Fiscal Sustainability in Higher Education

# Contents





# Before COVID-19

Before Covid-19, higher education was facing an increasing imbalance between anticipated funding and necessary expenditures and disruption caused by a number of different drivers.

## Fiscal context

**From a fiscal perspective, the sector was characterized by:**

- Labour intensity with costs that rise faster than inflation and government funding (and in the case of salaries, often backed up by collective bargaining agreements)
- Strict regulation surrounding the amount of this cost that can be passed on to constituents (i.e., in the form of tuition)
- Increasing competitiveness for staff, domestic and international students
- High deferred maintenance deficits
- A trend toward paying for performance outcomes, and
- Increasing reliance on external funding, i.e., international students, to bridge the gap.

The combination of shifting demographics, increasing competition for staff and students and changing market dynamics was creating an ever increasing deficit between revenues and expenses.

For a while, the deficit was (partially) offset by international enrolment. Although trends indicated strong growth in international enrolment, this growth may now be at risk, further exacerbating deficits.

Simultaneously, a change in relationship between higher education and the public purse was emerging. Public sector, facing its own affordability challenges, was implementing funding model changes the net effect of which was funding decreases for higher education institutions. In Alberta, for example, provincial funding was cut 5% in the 2019 budget and offset by a removal of a tuition rate freeze, lessening the burden on taxpayers but forcing institutions to make difficult decisions about how to recover those lost funds without hiking tuition to uncompetitive levels.

## The broader higher education context

Pre-Covid-19, the higher education sector was also experiencing disruption from a number of different drivers as shown in Figure 1.

**Student attraction**

- Increased competition
- Demographic shifts
- Increased heterogeneity
- Increasing internationalization

**Student expectations & experience**

- Student as a customer not a product
- Demand for flexibility
- Demand for digital connectivity
- Demand for wider range of campus services and 1st class facilities

**Student success & outcomes**

- Defining and measuring "student success" - retention, achievement, employment and progression
- Degrees, certificates, qualifications
- Traditional, online, co-curricular, experience based and hybrid models

**Financial pressure & accountability**

- Reduced government funding
- Tution pricing and financial aid - regulation and change
- Driving new business ventures and sources of revenue
- Increasing focus on outcomes and value for money

**Technology & data**

- Technology is everywhere
- Institutions struggling to keep up with rapid pace of change
- Student demand for 21st century learning
- Data and cyber security

**The future of work**

- Changing workforce (Internal/external) requirements
- Demand for hot skills and programs
- Automation/AI threat to many jobs

**Administration**

- Rising faculty and administration costs
- Pressure to do more for less
- Increased accountability
- End of life systems

**Community & engagement**

- Student/staff want to be part of meaningful collaborative community
- Diversity and inclusion
- Environmental and community sustainability

Figure 1: Higher Education disruptors

Students were already digital natives and had high expectations for their education. Institutions needed to adapt their systems and campuses to meet the unique and evolving needs of this new breed of learners, who increasingly were paying a higher proportion of their education costs. Higher education institutions were facing considerable cost pressures impacting long-term sustainability and limiting capacity for student wellness and quality of education investments.



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# And then COVID-19

COVID-19 has, and will continue, to contribute to widespread uncertainty, and present a number of urgent and complex challenges across the higher education sector. Colleges and universities have had to act fast to respond to a number of immediate functional and operational issues, including the transition to remote delivery and online learning as well as determining strategies for marking, graduation and providing additional support to students through wellness programs. Potential revenue impacts from Covid-19 are even greater with the pushback from students expecting lower tuition fees due to a different education delivery model for which they did not sign up. This has raised the fundamental question of education value.

The framework, Respond-Recover-Thrive, offers a three dimensional view on crisis management over time. Institutions are currently in the brunt of the Respond phase, and have done a lot work to mitigate immediate issues. It is now important to carry on into assessing long-term implications and planning for multiple scenarios as there is still so much unknown about the impact of Covid-19 and the resulting economic impact. The aim of this planning will be to prepare for minimized harm, and be well positioned for recovery.

While Covid-19 has forced some rapid and fundamental changes to education delivery in the immediate term, the longer term impacts to the higher education context are yet to be known. There is little doubt, however, that fiscal sustainability will be one of the key objectives through the Recover and Thrive phases.

To achieve long-term sustainability as a sector, a holistic approach is required that includes sector-wide collaboration to stabilize and modernize. For each institution, fiscal sustainability is both the foundation on which success has to be built but also an opportunity to differentiate and create competitive advantage.

# The Road to Fiscal Sustainability

With the dynamic of the public funding relationship changing across jurisdictions, institutions must be prepared to develop a workable blueprint, based on driving cost efficiency, profitable revenue growth and balancing budgets, for navigating evolving fiscal circumstances. In order to successfully deliver a program to realize cost efficiency and strategically drive revenue upward once new affordable budgets are set, institutions will need to be prepared to do “more with less”: a daunting execution challenge.

While the strategies for each institution will need to be highly bespoke, there are commonalities that will drive decision-making for increased sustainability. One certainty is that the sector will not be able to follow a traditional approach:

- Institutions will need to avoid widespread program and human capital (salary) cuts as a deficit reduction approach. Institutions cannot be perceived as cutting costs in their primary value offering: the educational product being offered to students. This is not simply a matter of salary and program cuts but more about strategic decisions that consider efficiency. Consider, for example, teaching, technology and program offering efficiencies that can be leveraged to drive value.

- Similarly, cost containment cannot be at the expense of losing top researchers, the funding/grants that go with them, and the inevitable benefits of research outcomes i.e., on brand and attracting top talent and students. Institutions will need new and innovative approaches to balancing costs with value and brand drivers.

- Service levels will need to be maintained while seeking to drive savings through administrative efficiencies: realizing an efficiently scaled, self-sufficient, and sustainable higher education sector should go further than program amalgamations and must involve rethinking how revenue can be creatively driven upward while achieving operation efficiencies in tandem. Consider, for example, how technology can drive back office efficiency, revenue generation and an enhanced, streamlined student experience.

- Institutions must also continue to develop long-term investment plans and continue to deploy capital strategically. Fiscal sustainability will be about adaption to future trends. Three examples of required capital deployment will include:



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  – Investments in technology for teaching, administration and student connection/wellness – this has never been more important, as evidenced during the Covid-19 crisis, but is also an enabler for many of the efficiencies needed on the road to fiscal sustainability
  – First class facilities - students remain demanding of world class infrastructure and the condition of facilities is a source of competitive advantage, and
  – Addressing deferred maintenance - as a means to protect infrastructure and extend the useful life of assets to extract as much value from past investments as possible.

- The obvious strategy of driving up revenue via increased intake, especially of international students, should be pursued with care. The quantum and sources of revenue are fluctuating, decreasing stability in the sector. Examples of changes in Ontario, for example, include corridor funding (fixed funding within a band of enrolment numbers), Strategic Mandate Agreements and Outcomes linked funding.

# The Delivery Challenge Ahead

It is important to start the journey to fiscal sustainability with a clear approach and enabling next steps:

## Approach

- Change the Default Status: by changing the default from "cut", to "reform", higher education institutions can rethink how to fulfil their obligations economically without sacrificing quality. This includes considerations about what lessons can be learned from comparable jurisdictions, such as the UK.

- Show that it is Not All Pain: incorporate the reforms into a broader modernization agenda and show how a student-centric focus on digitization, self-service, and other 21st century strategies can also result in higher quality program offerings.

## Steps

- Get Clarity on the Numbers: build a trustworthy, widely accepted set of numbers that measure the baseline, the target and the actual benefits. Absent these data points, there will be confusion as different stakeholders use different metrics and different data sources. With this data, it is easier to set targets and communicate evidence of progress, thus driving momentum.

- Build a Balanced Portfolio: one of the biggest traps is to take on too many initiatives at once, or construct a cost reduction portfolio that lacks coherence. A structured "hopper" approach should be used to identify priority cost pressure points, revenue generation opportunities and capital investment requirements which can be assessed both independently and as part of a holistic program.



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- Mobilize the Program: a sustainability program needs different skills at the center, and a different approach to control than traditional cost-reduction programs (whose purpose is usually to deliver a short-term survival outcome at the expense of longer-term strategic thinking).

- Set up a program for change: While needing to be customized for each institution, a potential fiscal sustainability framework with which to start contains four levers: efficiency, model changes, policy choices, and exit/divestiture[1]:

| Driver | Description | Savings Potential |
|---|---|---|
| Efficiencies represent incremental opportunities to do what you do better[2] | Remove waste from existing processes | |
| Model Changes relate to doing what you do more strategically through more strategic structures and delivery models. | Reconfigure existing programs to realize the same quality output more efficiently | |
| Policy Choices link to initiatives that fundamentally determine which services are to be delivered and how. They represent areas of significant potential but carry risk and are complex to implement | Change the policy outcome or change policy for different outcomes | |
| Exit/Divestiture involves moving assets and program delivery to third parties better placed to manage and execute on behalf of the institution. | | |

Figure 2: Example fiscal sustainability framework

1. Red Ink Risking: The Road to Fiscal Sustainability. Deloitte Research Study.
2. Red Ink Rising: The Road to Fiscal Sustainability in Canada. Deloitte Publication.

## Critical Success Factors

There are several critical success factors that the sector should build into its approach:

- During Covid-19, many institutions have focused on achieving short term efficiencies, indeed physical distancing and travel restrictions have naturally led to a decline in some expense categories. While continuing to look at short term efficiencies, it is important to focus on sustainable, long term, 'transformational' opportunities to impact savings and identify profitable, revenue generating options.
- In the Thrive phase, the world will look very different than before and face an economic depression of indeterminate length. Look for demographic and core-competency specific opportunities for revenue generation i.e., capitalize on your strengths.
- Covid-19 has forced a rapid change in program delivery for many institutions, and made possible what many would have thought impossible only a few months prior. Continue to challenge existing policy choices that drive program structure and spending, avoid the temptation to cut costs for the sake of short-term savings, and be unafraid to make significant strategic investments for the future.



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## Avoiding Potential Pitfalls

In our experience, there are a number of potential traps that the sector must avoid to be successful:[3]

- Be aware of "holy grails" or superficial opportunities that block you from addressing the real fiscal impediments.
- Recognize and mitigate "cultural blockers" that inhibit successfully identifying benefit realization. The heart of the issue is how to tackle vested interests, address the 'pathology' that builds-up around certain forms of service delivery or administrative practice, and align leadership messages. In higher education institutions this is further complicated by devolved authority and complex organization structures.
- Be diligent in testing implementation plans and demanding disciplined follow-up. The potential for overlap and double-counting is significant and should be managed closely, and the required return on investment should be kept in mind when deciding how to make strategic capital expenditures.
- Be diligent in not overstating benefits and underestimating implementation costs.
- Ensure you identify sufficient savings to achieve the goal.
- Don't get fooled into miscounting one-time windfalls as structural cost reduction.

3. Red Ink Rising: The Road to Fiscal Sustainability in Canada. Deloitte Publication.

# Conclusion

To achieve fiscal sustainability successfully, there must be real accountability for performance. Accountability requires visible leadership from the top, active monitoring of commitments and actions, and dedicated oversight to challenge assumptions and report on progress and benefits realization. There are actions you can take today, leveraging and building on the scenario planning and analysis already being undertaken due to Covid-19, to realize the benefits from fiscal sustainability. The journey is not just about addressing the deficit now, but also the need to invest to be competitive in the future.

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