NOTES ON FINANCES*

The launch of EG (Evolving Goldsmiths) included the claim that "by 2030 we will have a solid financial foundation to ensure the university is viable and sustainable" without providing any evidence of *how* this would be achieved beyond staff cuts or indeed, any explanation of *how* an institution that had been considered in relatively good financial health in its last set of accounts would now have to wait for a decade to recover sustainability. This document concentrates on responding to these two critical issues through an analysis of significant documents, the 19-20 budget and the First Financial Forecast document (RF1) from Jan. 2020 in particular. Reference to sources is provided wherever possible.

– **TUITION FEES INCOME** A "shortfall of £6 million" tuition fees income has been quoted repeatedly in the EG communications. However, **this shortfall does not represent a significant decline in recruitment, but rather a failure to match growth targets.** Following years of consistent growth, fee income fell from £99,226,000 in 2018/19, to £99,133,000 in 2019/20: a decline of -0.093 %[1]. The shortfall is measured against the 2019-20 budget, which assumed that tuition fees income would rise to £104,470,000 a projected growth of 5.3%.[2] While growth in previous years had been strong, preserving a stretch target overlooked sector-wide indicators that would have called for caution (e.g. the demographic dip, Brexit, departments nearing capacity, the cumulative effect of removal of quotas by 2019, and so on).

– **RESEARCH INCOME** The budget for 2019-20 included a total of £6,500,000 in research grants. This sum **incorporated income from grant applications that were at application stage**. This is a high-risk assumption, and not standard practice. The RF1 signals "a significant reduction in research grant income this year". However, while it removes this assumption, *it fails to remove associated costs*.[3]

– **CAPITAL EXPENDITURE is set to more than double in the 2019/20 budget**, rising from £4,204,000 in 2018/19 to £8,782,000 and remaining high in 2020/21 at £8,682,000. The Enterprise Hub demands an investment of £6,640,000 over 2019/20 and 2020/21, partly offset by capital grants totalling £2,300,000. This leaves **a still substantial cost of £4,340,000 to be met by Goldsmiths**.

Investment in IT is extremely high, from £1,623,000 in 2018/19 to £3,430,000 in 2019/20 and £2,662,000 in 2020/21. The College is capitalising software to a value of £2,460,000 - *much higher than expected for an institution this size*. Aside from references to a backlog, no explanation for this is provided[4].

The budget did not include the cost of leasing Batavia Mews, despite the lease expiring only in Dec. 2020. **The building has remained empty for 2019-20, with subsequent loss of income[5]. Batavia Mews provided an income of £0.5 million a year, with net contributions of £0.3 million towards accommodation overheads[6]. This income has not only been lost for 2019/20, but an additional cost will be attached to servicing the lease until its expiration (at least £212,000), an estimated net loss of £>0.5 million**[7]. It is likely that this situation has arisen as a result of *mismanagement of the project*. Worryingly, these costs have now been introduced in the RF1 *but have been wrapped up in a net figure for professional services savings,* obscuring the costs directly related to Batavia Mews – and misattributing costs to professional services.[8] In addition, *no dilapidation costs have been included in the RF1*.

– STAFFING COSTS The 2019-20 budget assumed vacancy savings of £3.5 million, stating that this had been historically achieved. *This claim is contradicted in the RF1*, where it is taken down to £2.5 million.[9] RF1 mentions that "the annual pay award and USS pension on-cost assumptions used in the budget were very cautious",[10] but no mention of this "caution" appears in the original budget. *If the increase reflected a "cautious" budget for the annual pay award, then the variance would have adversely affected the overall staff budget at the same time as benefiting any vacancy saving.* The former would dwarf the latter. If the opposite was the case, £1million would be missing from the RF1.

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*Text in bold is information that might be particularly significant to our members. Text in italics signal points of concern in the original budget and the high-level update.

[1] CNCL 119, 11-263, Paper F, unnumbered p. 8.

[2] See, "20190617 Council Budget 2019-20 and forecast 2020-21 to 2023-24", p. 12.

[3] (GLG), Jan. 2020, First Financial Re-forecast (RF1) - High Level Update", p. 4, note 10.

[4] Goldsmiths is depreciating anything over £10k, which is unusually low. Overall its depreciation/amortisation is nearly 10% of annual income, when 6-7% would be typical and this percentage has risen steeply since 2013. *Goldsmiths might be hitting its KPI for operating cashflow because of this policy.*

[5] Land registry, TGL117257

[6] 20190617 Council Budget 2019-20 and forecast 2020-21 to 2023-24"

[7] This is the yearly rental, subject to revision, in the original lease, Land registry, TGL117257

[8] "(GLG), Jan. 2020, First Financial Re-forecast (RF1) - High Level Update", p. 3, note 6.

[9] "20190617 Council Budget 2019-20 and forecast 2020-21 to 2023-24", p. 15, n. v *cf.* "(GLG), Jan. 2020, First Financial Re-forecast (RF1) - High Level Update", p. 2, n. 2.

[10] "(GLG), Jan. 2020, First Financial Re-forecast (RF1) - High Level Update", 1.

The RF1 noted a number of **new posts approved after the budget amounting to £0.7 million.**

The report to the OfS (Dec. 19) stated "we have assumed staff headcount reductions of 2.5% in 2019/20, 5 % in 2020/21, 3.1% in 2021/22 and 1.5% in 2022/23. This is a total reduction of 12.1% that will reduce costs by around 11%".[11] Reductions on this scale would mean **1 in 8 staff will go**. The figures in the report to the OfS (Dec. 19) indicated **54.65 fewer FTE academics and 70.45 fewer FTE staff in professional services** by July 2023[12]. **These figures have now been revised upwards and accelerated**, with the Reforecast document demanding a 15% cost reduction in professional services by July 2022.[13] *Restructuring costs remain set at £2 million for 2019/20 and £1 million each in 2020/21 and 2020/22 in the re-forecast, despite projected staff reduction rising from 12% to 15%*. We have yet to see any published figures about savings made in previous VS schemes in 2010 and 2015.

Should EG go ahead, it is not unreasonable to predict that new posts will also have to be created to support the new SMT roles, to maintain BAU (business as usual) while the restructuring process is taking place, and to oversee the restructuring itself. **These costs will be significant and will involve either assuming a larger deficit or reducing costs even more aggressively elsewhere.**

– ERRORS AND OMMISSIONS IN THE JAN. 2020 REFORECAST

Aside from those listed in this document, several further errors and omissions were found in the RF1 presented in January 2020 by the Interim Head of Finance to the Goldsmiths Leadership Group. Together they present **a worrying picture of the process followed to both prepare and scrutinise these documents**. They also cast doubt on the figures presented to Council. Appendix 1 that will follow, provides a detailed analysis of the most pressing questions, which were presented to the Interim Head of Finance and the deputy Head of Finance in a meeting with UCU and Unison on 5th March 2020, where the unions' concerns were "noted" but not answered.

– ACTIVITY-BASED COSTINGS (ABC) methodology and its associated overhead recovery model has been applied in order to devolve responsibility from SMT to departments for all deficits incurred. These costs are supply-driven, with departments having no say on how Professional Services costs are budgeted and managed. The "cost drivers" behind the model (Student FTEs, square footage of estates, etc.) are too broad and generic to identify the real costs of "activities". The methodology has clearly been framed as a way of identifying departments (and schools) that "challenge the concept of sustainability", and disciplining (or cutting them?) accordingly, The ABC methodology diverts any blame or accountability from SMT – whose actions are effectively black-boxed by this way of presenting costs, serving to obscure any imprudent or incompetent management of college finances.

Summary:

Current financial difficulties stem largely from an over optimistic budget from 2019-20, which aside from a stretch target in fees income, which was not met, contained a number of assumptions that were difficult to justify. Their removal has created a substantial deficit in budget versus revised forecast. These assumptions have been replaced by some identified savings, but their presentation is marred and suggests *some serious errors and omissions*. The proposed re-structure, far from being a cost-saving exercise will be a costly operation that will plunge us further into debt and/or demand large-scale redundancies. The Evolving Goldsmiths process *undermines* our largest existing income stream (tuition fees) in order to pursue high risk strategies (distance learning, corporate training, knowledge exchange, philanthropic giving, rental income...) at high speed without a sound business plan in place. Far from securing Goldsmiths' future, these proposals could instead jeopardise it.

[11] OfS Annual Financial Return 2019 Tables, "Assumptions". It is worth noting *that this contains a miscalculation as the yearly reductions were summed,* the actual figure would have been 11.6%.
[12] OfS Annual Financial Return 2019 Tables, "Staff"
[13] "(GLG), Jan. 2020, First Financial Re-forecast (RF1) - High Level Update", p. 4, n. 11.