"I tell you naught for your comfort": budgetary prospects for academic libraries over the next few years

Based on a presentation at the UKSG seminar 'Let's not waste a crisis', London, 18 November 2009

The author speculates about the financial prospects for university libraries in the UK over the next few years. It is argued that there are three economic factors which will principally determine funding levels: the performance of the economy generally; stock market performance; and the level of government debt. The need to pay back government debt will be inescapable and will seriously depress revenues for years to come, though a recovery in the stock market and the economy generally could mitigate the severity of the problems. In this difficult environment librarians need to become more effective at demonstrating how central libraries are to university competitiveness, at competing successfully for funding for special initiatives, and at exploring alternative sources of income. The endemic problem of journal price inflation needs to be tackled nationally and internationally.

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I tell you naught for your comfort,
Yea, naught for your desire,
Save that the sky grows darker yet
And the sea rises higher.

G K Chesterton

As I understand it the structure of the seminar where this was originally presented was a bit like Beethoven's Fifth. Beethoven starts the symphony with that famous, edgy gloom, going towards what E M Forster, in *Howard's End* called "panic and emptiness" at one point; but resolves into confident triumph at the end. Quite rightly the overall focus of the seminar was on how we respond positively to adversity. But my job was largely to speak about the adversity. So over the course of this paper there will be some gloom, even perhaps panic and emptiness. But I won't be unremittingly gloomy. I have always tended to agree with Oliver Edwards who said "I have tried too in my time to be a philosopher; but, I don't know how, cheerfulness was always breaking in". So towards the end I hope to let some rays of light penetrate the pervading gloom.

Overall financial situation

I can't really talk to you about the financial outlook for libraries without saying something about the overall economic situation. I'm no economist or financial expert, but I have the good luck to be addressing you at a period in history when I feel relatively unapologetic about that. This is what Lord Melbourne said about Catholic Emancipation: "What all the wise men promised has not happened, and what all the d——d fools said would happen has come to pass". All the wise men of finance told us that if you took hundreds of thousands of dodgy loans to impoverished American house buyers who might default on them if house prices went down, and packaged them up into things called collateralised debt obligations, then, by the alchemy of the higher finance, they wouldn't be dodgy any more. And to convince the sceptics they had wonderful mathematical models to prove it. The damned fools could have told them this wasn't going to work; and sadly the damned fools, not the Cambridge mathematicians, were right.

In thinking about the overall economic situation it's useful to think in terms of three separate but related factors:

- how long we will stay in recession
- the level of government debt
- stock market and investment returns.

How long will we stay in recession (or growing only slowly?)

The third-quarter figures for 2009 showed that most of the Eurozone has come out of recession, but we haven't. Some commentators are predicting quite a long recession, or a long period of sluggish growth. The gloomiest are even suggesting a double-dip recession, where we come weakly out of recession and then go back into it. Obviously there are a number of consequences for us if we are in recession, or the economy remains weak. One is that tax receipts remain low, making it more likely that the funding settlement we get from government will feel pretty punitive. Another is that the amount of research sponsorship we get from industry and the private sector will decline, because their profits are lower and they have to cut back on spending.

A few months ago it did seem as though there was a sort of Keynesian strand in Labour's planning which meant that the government saw itself as supplying – through its own spending – some of the demand that was lacking in the economy. So we could then have hoped that our funding levels might have been protected as part of trying to maintain demand in the economy. But that seems to have died the death and both parties are now vying with one another to sound realistic and tough about the need to cut government spending.

Stock market and investment returns

Again, you don't need to be a financial expert to notice that the stock market now zooms about in a way that often seems to bear little relation to the real economy or even the real world. Wall Street crash gloom and irrational exuberance succeed each other with no apparent logic. As the credit crunch began to bite, the FTSE 100 dropped to 3,500 but now, for reasons which it's difficult for a layman to fathom, it's back up at 5,200. "Go figure", as the Americans say. As unreal as the logic behind all this, the consequences for us are very real. To single out a couple:

- it means that the investments of charitable foundations, like the Wellcome Trust, don't yield as much which, in turn, impacts upon their ability to support university research. There are two trusts, in fact, which have had a considerable direct impact upon university libraries over the last few years: the Wellcome, because of its pioneering approach to open access and the grants it has given to pay open access publication fees; and the Wolfson Foundation which has made considerable sums of money available to Research Libraries UK (RLUK) for building improvements
- but the most important consequence of changes in stock market and investment profitability is for our pension funds. The Universities' Superannuation Scheme, for example, is heavily dependent upon the performance of equities. So the more investments underperform, the more the pension funds struggle. And that means that either the benefits become less generous, or we and our universities have to pay more in to them.

There is a third consequence of poor investment performance which is, in fact, sort of benign, but I'll come back to that later.

The level of government debt

This is probably the real killer for us. In bailing out the banks, the government has contracted such a huge debt that the need to pay it back will seriously depress government spending for, probably, a decade to come. In theory the government could pay this off over a very long period, as it did with Second World War debt, the last instalment of which was paid on 29 December 2006. But in practice, both parties seem to envisage a shorter repayment period. You could actually have a scenario where the economy bounces back into rapid growth and the stock market roars away again, but our funding levels remain low because of the need to pay back the debt. We'd then have the situation that the famous economist J K Galbraith described as "private affluence and public squalor". Again, I'm going to come back to that later, because there are, curiously, some opportunities in that.

Current financial position of universities

So the overall economic situation is really pretty bleak for publicly-funded bodies. And to the extent that we get our funding from the government, it's almost impossible to envisage a sunny financial scenario for universities – even if the economy recovers and investment yields bounce back.

The consensus is that most of the real hardship for us is yet to come. There have already been some reductions in funding to universities, but most finance directors would say that we ain't seen nothin' yet.

There have already been some areas where government funding to universities has reduced:

- the withdrawal of funding for ELQ qualifications, for example, reduced overall university funding by about £100m
- adjustment down of the T grant compared to the original projection
- Research Councils adjusting their grants downwards to reflect a decline in inflation.

We have also, of course, had a situation where 10,000 additional student places were allocated on a fees-only basis. That is: the universities that successfully bid for those numbers didn't get any Funding Council money for them, just the £3,000 fee the student paid. So more money comes into those universities in total; but the funding per student – often referred to as the 'unit of resource' – goes down.

To be honest, the biggest pressure on university budgets over the last couple of years has probably not been any reduction in funding, but the fact that we got an 8% pay rise last year, when inflation was already going down spectacularly in the wake of the credit crunch. That may have been lucky for us as individuals; but it's hard for our universities because there was nothing like an 8% increase in government funding to pay for it.

Having said all that, the reductions in budgets that most libraries have reported this year seem greater than are justified by any reductions in funding *to* universities or by the pressure of increased wages. In 2008/9, some seemed to get caned, but some seemed to emerge relatively unscathed. In 2009/10 almost everyone I've talked to reports something on a continuum between serious efficiency gains and swingeing cuts. At one leading research-led university, for example, the Library has had a 3.5% cut in its pay budget this year, following a real terms cut of 8% last year; and a 5% cut in its non-pay budget. What's happening there seems to be happening at other universities: they are cutting pre-emptively, so that we'll be prepared when the real cuts to university funding begin to bite.

The financial future for universities

So what is this financial future that we're cutting pre-emptively for? How bad is it going to be? No one really knows, but I think it's fair to say that there are areas where we know funding will dip disastrously; and other areas where it probably will but it might not if we're lucky.

We already know, for example, that Higher Education Funding Council for England (HEFCE) capital funding drops off a cliff in 2010/11. The grant letter from the Secretary of State to HEFCE says that capital funding will drop from £938m this year to £488m – not quite a halving but not far off.

We also know that the overall funding to the department that covers universities will be cut by at least a couple of billion over the next planning period. In the 2009 budget it was projected that the Department for Innovation, Universities and Skills (DIUS) needed to save £1.9bn over the planning period, including £400m in 2010/11. Not all that £2bn has to come from universities, but it points, on the face of it, to very substantial cuts in our funding, given that the total funding for universities is about £16bn.

I don't know exactly how that applies to the newly-configured BIS Department (Department for Business, Innovation & Skills) run by the 'Dark Lord' Peter Mandelson, but we're probably not talking very different figures. If, as now seems very likely, the Tories are elected, it could be even worse. They may do what Labour did between 1997 and 1999 and stick to the spending plans of their predecessors. But Labour were doing that to show that they weren't irresponsible lefties squandering the nation's wealth. The Tories will be wanting to show how tough they are, so will have an incentive to reduce funding even more. The political imperative of maintaining reasonable levels of spending on schools and the NHS also suggest something like a 10% cut in budgets to other departments.

So directly allocated government funding – the block grants to universities – is going to come down substantially. It seems a safe guess that the money that comes to universities indirectly, through the Research Councils, will come down by a similar proportion.

I think it might help at this point if I make all this a bit more concrete by thinking about how this will affect the University of Barchester, one of the old civic universities.

- Total income at Barchester in 2008 was about £340m.
- The biggest single element of this was the funding council grant – mainly the block grants for teaching and for research – which comes to £107m, nearly a third of the total income.
- The next biggest element was £93m for research grants and contracts, about 27% of the total. This is a mixture of grants from the Research Councils, grants from charitable trusts like Wellcome, and research sponsored by industry. Barchester is a research-led university, so in a teaching-led university the proportion of income that comes from research would be lower.
- The third biggest element is £66m for 'other operating income', about 19% of the total. This is stuff like hall fees, receipts from refectories etc.
- The fourth biggest element is £63m for academic grants and fees, about 18% of the total. This is a mixture of the £3,000-ish fee per home student and fees from overseas students.

Finally we have endowment income of about £12m, or 4% of the total. Let's apply something like a worst-case scenario to all that:

Let's say that block grants decline by 15%. That takes the £107m down to £91m. Let's say the research grants and contracts reduce by a similar amount, taking them down from £93m to £79m. We'll assume that the other operating income stays about the same and that the half of the grants and fees income attributable to overseas income declines by 15% because Barchester runs into recruitment problems, reducing its £63m to £58m. Finally, let's assume that its investment income halves from £12m to £6m because of poor investment performance.

All that has taken Barchester's total funding down from £340m to £299m, or a reduction of 12%. If you add to this a need to find additional funding for pensions and the fact that Barchester, like many universities, has an ambitious campus improvement programme, you can probably assume that the grant to the Library would go down, in this scenario, by about 15%. That would take the £8m budget in the Library at Barchester down to £6.8m. So they'd have to find £1.2m in savings, probably over a three-year period – and find the money for journals inflation.

This is pretty bleak! Is it really going to be as bad as that? Is there anything to be cheerful about? Is there anything we can do?

Reasons to be cheerful

Firstly, I doubt it will be quite as bad as that in the aggregate. The scenario I've set out assumes that not only will government funding continue to be low, because of the need to pay back the debt, but that the economy remains seriously depressed, the yield from investment income remains low, and overseas recruitment declines. If we continue to take a pessimistic view of the government block grants but take a more optimistic view of these other areas, then we're looking at something like a 12% cut, rather than the 15% I started with. This means rather than having to find £1.2m from the library budget over three years at Barchester, they will have to find £960,000.

The next reason for optimism is that it now seems very likely that the next government will allow student fees to go up. All the political parties are trying to distance themselves from any earlier opposition to fees; and Labour and the Conservatives are both clearly positioning themselves to be able to accept the recommendations of the Fees Review Panel set up under the chairmanship of Lord Browne. And the composition of that panel is such that it will, almost inevitably, recommend the lifting of the cap on fees, probably to about £5,000. In Barchester's case, that would mean that the fee income would have gone up by about £5m when the first higher fee-paying cohort arrive, £10m when first and second years are paying a £5,000 fee; and £15m when first, second and third years are paying a higher fee. That takes the reduction in budget for Barchester down to about £20m; or a 6% reduction. Quite by coincidence, when I asked a friendly ex-Vice Chancellor (VC) to say what the overall cut was likely to be, he guessed 6%.

I'm dealing here, of course, with what will happen to university budgets on average, though there will be wide variation between the fortunes of different universities over the next few years. Those that do well on international student recruitment, for example, might largely ride out the storm. Institutions with a predominant emphasis on STEM subjects (science, technology, engineering and mathematics) will probably do better than those that are arts and humanities-based. If the lifting of the fee cap to £5,000 opens up a market in fees, those that can confidently charge £5,000 per student will be better off than those that feel they need to price themselves into the market at £3,500.

Can we do anything to mitigate our financial woes in libraries?

I've approached this so far as though whatever happens to university funding will simply apply pro rata to libraries. So if your institution gets a 10% cut, then the library will get a 10% cut. That is the way things tend to happen in universities. And as far as I can tell, those that are modelling different levels of cut at the moment are tending to apply an identical figure to most departments of the university. I don't think we should just be passively resigned to this in libraries, though, and I want to finish by listing some of the things we can do to at least mitigate the severity of the financial blow.

Firstly, of course, we can make the most of the evidence that exists of the value and impact of our services. Although VCs will be desperate to save money over the next few years, they will be equally desperate to channel what little money they have into things that will improve their competitive position. So it's important to convince them, for example, that investing in the library will help to keep National Student Survey (NSS) scores buoyant.

Secondly, we will need to become adept at bidding for pockets of additional funding. It's probable that over the next few years there will be more 'contestability' in the distribution of Funding Council funding. Les Ebdon at Luton cynically but accurately said this meant that "Effectively, universities will have to bid for small jam jars of money which are currently part of their Funding Council grant". Although in many ways this is an annoyance from the point of view of a VC, it might be an opportunity for us. So you might lose your refurbishment project on the swings of the capital reduction I mentioned earlier, but regain it on the roundabouts of contestability. The thing is to have your bid ready for when the opportunity arises.

Thirdly, the Tories have made it clear that if they take the cap off fees, universities will need to show, in return, that they are doing things with that extra fee income that improves the student experience, not siphoning it off for other purposes. Again, if we exploit the evidence we have of the importance of library provision to students, and of the way in which new services would improve student satisfaction, we are in a strong position to make bids for some share in that extra fee income. We might well find ourselves in a position where core library services are being cut at a time when additional non-core services are being introduced, but I suggest that that's a paradox you may need to get used to.

Fourthly, there are a number of variables in our funding that we might seek to nudge in the right direction, depending upon where you are on the continuum for each of these variables. If you look at the Society of College, National and University Libraries (SCONUL) statistics, for example, there are wide variations in the amount of income universities generate per FTE. If you're at the lower end it might be worth looking at whether or not you're missing a trick. Again in the SCONUL statistics there are huge variations in the proportion of university expenditure that goes to the library in different institutions. You can get instances where one university library gets 2% and another gets 4%. If you're at the frugal end you need to make something of that in your budgetary negotiations.

Fundraising from benefactors and alumni is another area that we could get better at, particularly for funding capital projects and areas with high donor appeal like Special Collections and Archives. Aberdeen have now raised over £15m towards the £50m they need for their new library. While we may not all be able to emulate their achievements, and the scope for this sort of fundraising varies between institutions, I think it's worthwhile for all of us to cultivate a good relationship with the people in the university responsible for fundraising. I come back, as well, to the Galbraith point I made earlier about private affluence and public squalor. We might have a situation in a few years' time where business is doing very well, and there are a lot of rich people around, but, because of the need to pay back the debt, our funding levels are still very depressed.

The final *sort of* optimistic point I want to make is that the financial pressures we are under might finally provide the spur for us to take some collective action to resist unjustified price rises by the publishers. I said earlier that the decline in investment yields might in one respect be benign and I said that I would come back to that. What I was thinking of was that the decline in the value of the endowments of the major US universities has put them under real financial pressure. And that means that an international effort to resist journal price rises has more likelihood of success.

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