



University of Leeds **Economic Impact Study**



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Executive Summary

The economic impact study estimates that the proposed £35m budget cut by the beginning of the 2011/12 academic year by Leeds University will result in:

- Between 625 – 700 university job losses (based on cuts being concentrated in the unrestricted budget).
- A further loss of between 250 – 280 jobs in the Yorkshire & Humber regional economy, primarily in private sector suppliers and services.
- A total UK loss of between 1,187 and 1,330 jobs directly as a result of the Leeds University cuts.
- The effect of 5% - 10% budget cuts across all the higher education institutions in Yorkshire & Humber could result in the loss of 2,911 – 5,823 jobs.
- The loss of a further 3,065 jobs in the region could increase the regional unemployment rate significantly closer to ten percent.
- The gender impact of university and job losses in the UK economy would be virtually the same between men and women based on the scenarios in this study. Although a larger number male university staff could potentially lose their jobs, the reverse is the case for the indirect jobs in the UK economy where a larger percentage of women could be affected by job losses.

The effect on the local and regional economy and the employment multipliers will depend on a number of factors including proposed changes in the sourcing goods and services, increased outsourcing of activities, changes to the capital programme, the effect of increased fees and charges, the short-term economic effect of Voluntary Early Retirement and Redundancy payments, changes in the pattern of full and part-time employment, and the prevailing economic circumstances when the cuts are implemented.

Part 1

Introduction and government-imposed Higher Education cuts

In October 2009 the University of Leeds announced that it intended to plan for a £35m budget cut by the beginning of the 2011/12 academic year, as a result of anticipated major cuts in the University's external funding. The Vice Chancellor established change steering groups and all faculties and schools were required to prepare options.

No information has yet been forthcoming on any of these proposals.
(www.leeds.ac.uk/comms/financial/economies/index.htm)

In February 2010, HEFCE announced a provisional distribution of funding for universities and colleges in 2010-11 following the Secretary of State's grant letter of 22 December 2009 (HEFCE, 2010). The proposals include:

Reduction in recurrent teaching and growth	£215m
Reduction in recurrent research funding	£16m
Reduction in learning and teaching capital	£135m
Total	£449m

The cuts "represent a reduction of 4.6% in the unit of funding – the amount of teaching support for students". There is a lack of clarity about £600m savings for 2012/13 (Universities UK, 2010).

Objectives of impact study

Leeds University UCU and UNISON branches commissioned ESSU to carry out the impact study in December 2009. The study has the following objectives:

- To identify the direct, indirect and induced effect of the planned cuts by Leeds University on the local and regional economy and the wider implications for public finance.
- To assess the potential effects of the cuts on staff, students and citizens.
- To assess the broader and longer-term effects on the University and higher education and knowledge economy

Methodology

The study has drawn on Leeds University corporate information such as annual reports and accounts, strategic plans and human resource strategies. It also draws on recent University restructuring proposals. The economic impact assessment has reviewed earlier local, regional and national assessments of the output and employment impact of higher education. It also accessed Leeds City council and Yorkshire and Humberside regional economic and labour market data.

ESSU economic & social impact studies

The European Services Strategy Unit (ESSU) has carried out a wide range of impact studies, audits and assessments on regional health and social care economies, jobs plans, equalities, closures, outsourcing and privatisation for public bodies, central and local government, and trade unions over the last 30 years.

Financial context

The University of Leeds has reported a relatively strong financial position in the two years to 2008/09, despite the global financial crisis. The

“The University’s financial results for the year show that, despite the turbulence in the global economy and an increasingly competitive higher education market, our overall financial position has remained strong” (Annual Report & Accounts 2007/08).

and a year later:

“The University’s financial results for the year show that, despite the global economic downturn, challenges to key higher education sector funding streams and significant cost pressures our overall financial position remains strong. This financial resilience is evidenced by our total income for the year increasing by 8% to £497m and an £11m surplus transferred to reserves (2.2% of total income)” (Annual Report & Accounts 2008/09).

Finance

The University’s 2008/09 Annual Report shows that short-term finances are in relatively good shape. The ratio of current assets/current liabilities was 1.1:1.0, ie current assets were greater than current liabilities, indicating a short-term ability to satisfy creditors – see Table 1.

In terms of short- and long-term debt, the University had £1.7m in bank loans and repayable grants at 31 July 2009 (compared with £3.7m a year earlier), plus £24.4m in long-term bank loans. Short- and long-term debt was £26.1m; this was 5.3% of total income in 2008-9, a relatively low level of debt to income (in 2007-8, the UK HEI average was 19.6%, and 6.5% at the University of Leeds).

The 2008/09 operating surplus (income & expenditure before tax, sale of assets etc) in the last three years (2008/09, 2007/8 and 2006/7) was £11.5m, £18.2m and £7.4m respectively.

The £11.5m operating surplus was 2.3% of total income. In 2007-8 the University had an operating surplus of £18.2m (4.0% of total income). Although the operating surplus is lower than last year, the university’s 2008/09 accounts show good performance on this measure.

HEFCE’s advice is that higher education institutions should have a 3% operating surplus. In the UK in 2007-8 the average operating surplus was 2.1% of total income (2.0% in England). Leeds University thus compared well with other universities such as Bristol (1.6%), King’s College (0.8%), Liverpool University (0.2%), Manchester University (0.0%), Newcastle (4.0%), Nottingham (1.5%), Sheffield University (3.2%) and University College London (0.1%).

Table 1: **Financial Summary 2007/08 and 2008/09 (£m)**

	2008/09 £m	2007/08 £m	Change %
Summary			
Total Income	497.2	460.2	8
Total Expenditure	485.7	441.9	10
Operating Surplus	11.5	18.2	(37)
Other items	(0.5)	0.1	
Surplus transferred to reserves	11.0	18.3	(40)
Tuition fee and education contracts			
Home and EU students	62.6	51.8	21
International students	40.2	33.1	21
Other fees including NHS teaching contract	24.1	24.3	(1)
Total	126.9	109.2	16
Research grants and contracts			
Research Councils, UK Charities and Government	89.0	78.1	14
Industry, overseas and other	23.6	23.1	2
Total	112.6	101.2	11
Capital expenditure			
Externally funded	21.1	31.2	(32)
University funded	28.6	17.5	63
Total	49.7	48.7	2
Cash and borrowings			
Cash and short-term investments	86.2	86.2	0
Borrowings	(26.1)	(30.0)	(13)
Net Funds	60.1	56.2	7

Source: Annual Report & Accounts 2008/09.

In 2008-9, the University's top-up fee income reached 'steady state', with an estimated £30.8m in additional tuition fee income, before deductions for admin, outreach and bursaries.

In its estimate of top-up fee income to OFFA, Leeds said total additional income would be £36.1m in year 4 (2009-10); followed by a small increase to £37.9m in year 5 (2010-11).

Staff costs

Staff costs (wages and salaries, social security, pensions and severance payments) were £298.6m in 2008/09 – see Table 1, 61.5% of total expenditure compared with 61.1% and 59.9% in the preceding two years.

Staff costs increased 8.7% between 2006-7 and 2007-8: "...emanating from a 6% staged pay award, 158 more FTE staff and career progression through the pay scales" (Annual Report, 2007/08). Average staff costs in the UK in 2007-8 were 57.4% of total expenditure, and 57.1% in England. At comparators in 2007-8, they were Bristol University 61.8%, King's College 62.0%, Liverpool University 58.8%, Manchester 57.6%, Newcastle 54.8%, Nottingham 57.7%, Sheffield 56.4%, University College London 60.5%. So the University of Leeds was towards the higher end of the spectrum on staff costs.

Table 2: Analysis of expenditure by activity 2008/09 (£m)

By activity	Staff costs	Other operating expenses	Depreciation & amortisation	Interest payable	2008/09 total £m
Academic departments	164.1	33.6	2.8	-	200.5
Research grants and contracts	56.5	46.9	1.8	-	105.2
Total teaching and research	220.6	80.5	4.6	-	305.7
Administration & Corporate services	49.1	30.3	0.5	-	79.9
Premises	13.0	32.0	8.4	-	53.4
Residences, catering & conferences	10.4	21.7	3.4	1.5	37.1
Other expenses	0.1	4.2	-	-	4.3
Mobility Incentive Scheme/Premature Retirement Terms	6.2	-	-	-	6.3
Impairment charge	-	-	-	-	-
FRS17 pension net income	(0.9)	-	-	-	(0.9)
Total	298.6	168.8	16.9	1.5	442.0

Source: Annual Report & Accounts 2008/09.

HEFCE funding

In 2009-10 total recurrent HEFCE grant, for teaching, research and other activities, will be £142.4m, according to HEFCE's final grant allocations announced in October 2009. This is a 1.3% increase on 2008-9's funding, somewhat above HM Treasury's 2009-10 GDP deflator, currently at 1.0%. Thus the University of Leeds is getting an above inflation funding increase.

Capital spending

In 2008-9 the university completed over £50m of building schemes. £59m of capital projects are due for completion in 2009/10 (Annual Report 2008/09). The 2007/08 Annual Report referred to seven large schemes planned up to 2011/12, costing £156m, and a further £204m is scheduled to 2015 (p. 17).

Mistakes in 2008 financial plan

The University has claimed that a £20m error in the 2008 financial plan was not the reason for the proposed cuts. However, it does raise questions about the quality of forecasting and planning.

"It is true that there were some errors in the 2008 financial plan. They meant that our forecasts were over optimistic by about £20 million per annum over the period to 2013." (FAQs for Staff, Economies Exercise, www.leeds.ac.uk/comms/financial/faqs/index.htm, accessed 18 January 2010)

This £20m error was 'explained' in the Vice Chancellor's statement to Senate on 21 October 2009 referring to two separate "significant errors in the financial forecasts spreadsheet": an income item (research recovery – i.e. costs recovered from external funders) was double-counted, and an expenditure item (student bursaries) was omitted. Two points are worth noting:

Firstly, while the VC claimed that *"this was not a problem with the actual amount of money in the accounts, this was an error in the planning and forecasting process"*, it is important to note that this *"forecasting error"*, which was carried over into subsequent years in the rolling 5-year forecasting exercise, will surely have led to a matching uplift in forecast expenditures, which have presumably now had to be cut back;

Secondly, the VC noted: *"During the 2008-09 financial year, that [i.e. the £20m error] was in part mitigated by £10 million of upsides [sic] that occurred during the financial year"*. This tells us that the forecasts for that year were additionally wrong to the tune of £10m. More importantly, perhaps, this continues a long-standing pattern in the University's financial forecasting record: as a result of pressures imposed from above

in the budget forecasting process, expenditures are invariably overestimated, while income is underestimated. The consequence is that the eventual outturn yields an unplanned surplus, which can then be distributed as if it is a windfall, when in fact it is produced by the efforts of cost centres (Schools and Services) to cut spending and boost income.

Part 2

Budget reduction scenarios

The economic impact study has been based on the following scenarios:

1. Job reductions based on recent review of Faculty of Biological Sciences.
2. Across the board budget reductions spread over all functions and schools.

By early March 2010 little or no information had been revealed on how the proposed £35m budget reduction will be implemented for the 2010-11 financial year. Draft faculty and school plans are expected to be submitted by the end of March followed by Senate and Council meetings in May as part of the annual Integrated Planning Exercise.

Biological Sciences example

The Faculty of Biological Sciences (FBS) review produced a new academic strategy and structure for the faculty. This was endorsed by Senate in November 2009 but has been challenged by the UCU. The review proposed the loss of 71 posts across all grades – see Table 3. Efforts are being made to achieve these losses through voluntary means (mobility incentive and premature retirement) and redeployment.

Table 3: **Staffing changes in Faculty of Biological Sciences**

Staff Group	Current	New	Reduction in number of jobs	% change
Academic related & support	156.2	120.8	35.4	22.7
Lecturers	40.5	29.7	10.8	26.7
Research fellows	24.0	20.0	4.0	16.7
Professors	45.3	40.0	5.3	11.7
Readers	13.4	10.4	3.0	22.4
Senior Lecturers	36.7	24.0	12.7	34.6
Total	316.1	244.9	71.2	22.5

Source: Review of Faculty of Biological Sciences, University of Leeds, 2009.

A revised FBS budget in September 2008 was based on a 5% reduction in non-staff costs, non-replacement of staff and relinquishing space. However, a ‘root and branch’ review of all activities was carried out in 2009 to address financial and other problems. The review claimed that *“only 76 % of eligible staff were returned for the 2008 RAE - one of the lowest return rates in the university and compared with peers, translating to an annual loss in income of approximately £40k per FTE for every person not returned.”* It also claimed that FBS research income per FTE was well behind peers. Benchmarking also claimed to identify *“teaching contact hours for many staff were below peers – from 2008/2009 workload data, 33% of staff gave fewer than 15 lectures, 20% delivered no practical classes, 30% had no personal tutees, and 30% did not manage any modules.”* The review also reported single figure staff-student ratios in parts of the faculty and *“space use 50% above the norm” (FBS Review, 2009).* The UCU does not accept these problems were the reason for the review in FBS.

The situation in FBS is not comparable to the university-wide budget cuts and hence the scope and scale of the remedial action in FBS may not be mirrored in the university-wide proposals. However, in the absence of detailed proposals from the University, the FBS staffing changes have been used as one scenario to model the wider effect of £35m budget cuts.

Budget reductions

Changes in spending will be concentrated in the unrestricted budget on the basis that contractual commitments, research grants and endowment/charity funding cannot be changed.

The 2008/09 Accounts identify five main sources of finance, which are considered to be restricted – see Table 4.

Table 4: **Estimated restricted funding budget 2008/09**

Funding	Total in 2008/09 £m
Funding Council specific grants (Note 1)	20.8
Research grants (Note 3)	112.6
Endowments (Note 5)	7.0
Heritage asset donations (Note 4)	2.0
Total	142.4

Source: Annual Report & Accounts 2008/09.

The University's unrestricted budget in 2008/09 is therefore taken to be £497.2m - £142.4m = £354.8m.

The number of staff working in unrestricted budget functions has been calculated based on the 6,599 FTE at the 31 July 2009 – see Table 5.

Table 5: **University staffing levels (FTE) in 2007/8 and 2008/09**

	2008/09	2007/08
Academic/Teaching	1,764	1,734
Research	996	1,015
Management/Professional	1,228	1,200
Support	2,611	2,552
Total	6,599	6,501

Source: Annual report & Accounts 2008/09

Table 6: **Staffing costs in 2007/08 and 2008/09 (£m)**

	2008/09	2007/08
Wages and salaries	240.4	221.2
Social Security costs	18.8	18.3
Pension costs (including FRS17)	30.1	27.7
Severance payments	9.3	3.0
	298.6	270.2

Source: Annual report & Accounts 2008/09

Number of jobs rather than FTE

The use of Full Time Equivalents (FTE) indicates the total stock of employment but compresses part time jobs thus under-estimates the total number of people employed by the university or in the regional economy. It is important to identify the total number of jobs. Yorkshire & Humber higher education employment was 29,621 employees full and part time) or 24,215 FTE in 2004/05, giving a ratio of 1.22 when converting FTE to the actual number of employees or jobs.

Applying this ratio to the Leeds University staffing level of 6,599 FTE gives a total the total number of staff of 8,050.

The 2008/2009 accounts reveal that the average cost per research staff is £56,717 per annum, higher than the University average of £45,246. Since research costs account for the substantial part of the restricted funding, we have assumed this ratio applies to the total

restricted budget. Based on staff costs accounting for 61.5% of total costs, the restricted budget employs some 1,545 FTE of 1,885 jobs.

On this basis, the total number of staff in the unrestricted budget is 8,050 – 1,885 = 6,165 jobs.

A 10% budget reduction would, if applied using the above ratios, result in a loss of 616 jobs. However, in the absence of budget reduction proposals from the University, it is reasonable to assume that the 10% budget cut will be weighted more heavily towards reducing staffing costs than achieving a similar reduction in major operating expenses such as fellowships and scholarships; heat, light, water and power; fees and expenses; consumables and laboratory expenses and other costs – see Table 7.

It would be difficult to achieve immediate pro-rata reductions in several of the expenditure categories in Table 7 because they would have a negative economic impact on students and/or were part of longer-term contractual commitments made by the University.

Table 7: Analysis of Leeds University operating expenses 2008/09

Item	Cost in 2008/2009 £m
Equipment purchases and maintenance	17.9
Estate repairs and maintenance	12.4
Consumables and laboratory expenditure	18.8
Printed materials, books and periodicals	7.7
Printing, stationery and office expenses	7.6
Travel and subsistence	10.8
Fellowships, scholarships and prizes	26.2
Heat, light, water and power	13.5
Rent, rates and insurance	10.0
Grants to student union	1.9
Fees and expenses	36.8
Recruitment, training and welfare	4.0
Auditor's remuneration in respect of audit services	0.1
Auditor's remuneration in respect of other services	0.1
Other expenses	0.9
Total	168.8

Source: Annual Report & Accounts 2008/09.

Taking this into account, the University job losses resulting from a £35m budget cut are estimated to be between 625-700 jobs.

Effect on academic staff

If the academic staffing changes introduced in the Faculty of Biological Sciences were repeated on a University-wide basis assuming the job classifications in Table 4 are virtually the same as 'academic professionals' in Table 9, which account for 44.4% of university staff nationally.

Table 8: Potential academic job losses

Staff Group	% change in academic jobs in FBS restructuring	Share of job losses based on national average of 44.4% academic posts in University job losses
Lecturers	25.3	70 - 79
Research fellows	15.0	42 - 47
Professors	28.3	78 - 88
Readers	8.4	23 - 26
Senior Lecturers	23.0	64 - 71
Total	100.0	277 - 311

Source: Review of Faculty of Biological Sciences, University of Leeds, 2009 and The Economic Impact of UK Higher Education Institutions, Universities UK, 2006

Effect of across the board job reductions

A second scenario is based on job losses being evenly distributed across all sections of University staff. The effect of this is illustrated in Table 9, which is based on the HEFCE average employment profile of university staff nationally to illustrate the potential impact on different categories of jobs in Leeds University.

The largest proportion of job reductions would be academic posts (between 277 – 311 job losses) followed by library assistants, clerks & general administrative assistants (82 – 91), with the next largest job loss (61 – 68) by cleaners, catering assistants, security officers, porters and maintenance workers. Non-academic professionals and laboratory, engineering, building, IT & medical technicians (including nurses) groups of staff would each lose between 50 – 57 jobs. In addition, secretaries, typists, receptionists & telephonists would have between 36 – 41 job losses.

Table 9: Potential effect of across-the-board job losses in Leeds University

Employment in UK higher education institutions (headcount – Number of full and part-time jobs)	UK average %	Potential Leeds job losses if cuts applied across the board based on 625-700 job losses
Managers	3.4	21 - 24
Academic professionals (including professors, lecturers, researchers and other academic posts) - senior academics and professors - senior lecturers & researchers - lecturers - researchers - other grades	44.4	277 - 311
Non-academic professionals	8.0	50 - 56
Laboratory, engineering, building, IT & medical technicians (including nurses)	8.1	51 - 57
Student welfare workers, career advisers, vocational training instructors, personnel and planning officers)	2.2	14 - 15
Artistic, media, public relations, marketing & sports occupations	1.4	9 - 10
Library assistants, clerks & general administrative assistants	13.2	82 - 91
Secretaries, typists, receptionists & telephonists	5.8	36 - 41
Chefs, gardeners, electrical & construction trades, mechanical fitters and printers	1.6	10 - 11
Caretakers, residential wardens, sports and leisure attendants, nursery nurses & care occupations	1.5	9 - 10
Retail & customer service occupations	0.3	2 - 2
Drivers, maintenance supervisors & plant operatives	0.5	3 - 4
Cleaners, catering assistants, security officers, porters and maintenance workers	9.7	61 - 68
Total	100.0	625 - 700

Source: The Economic Impact of UK Higher Education Institutions, Universities UK, 2006

Part 3

Impact on Leeds and region

Assessing economic impact of the university

Impact assessments are frequently presented as all win-win scenarios that do not take account of the counterfactual, in other words the alternative scenario if the facility or organisation did not exist and public resources were used for other functions. The Yorkshire Universities study is an example of this approach (Yorkshire Universities, 2008).

It assumes that all of the economic activity generated by a university would not remain if the university ceased to exist – in other words it assumes that all the public and private funds disbursed by the university would not be used to fund other economic activities, which generated jobs and output. The report focuses almost exclusively on the ‘contribution’ of universities to the local, regional and national economy.

Virtually all higher education impact studies are undertaken to demonstrate the economic advantages of universities and colleges and the contribution they make to the local, regional and national economy, cultural and social life of cities and to the ‘knowledge economy’. They are upbeat, win-win-win descriptions designed to promote and protect the position of the university or higher education sector. They are not used to assess the effect of reduced budgets or other policies with potentially negative consequences.

Furthermore, they do not take account of the responsibilities and economic role of the university in the local economy, for example, the extent to which it causes congestion, influences housing market prices, the physical and social impact on certain neighbourhoods or the university’s role in the property and construction market.

Output and employment multipliers

This study has drawn on a number of economic impact studies in determining the output and employment multipliers. The multipliers take account of University expenditure on goods and services – books and equipment, utilities, stationery, catering supplies and other items (see Table 7) and staff and student expenditure on household spending, entertainment and leisure. Most of this spending benefits the private sector, in particular manufacturing and distribution, retail and construction sectors.

The spatial impact of staff and student expenditure depends on the residential location and travel to work patterns. Higher paid staff usually have a longer journey to work and will spend most of their household income in the regional economy rather than the local economy in Leeds.

The Universities UK study of the economic impact of higher education institutions was based on 171 universities and colleges (Universities UK, 2006). The UK economic impact modelling system and 12 regional extensions is based on type 2 ONS input-output data, Higher Education Statistics Agency and labour force survey data. It is a ‘top down’ model that provides analysis for all, groups or individual higher education institutions. It identified an employment multiplier of 1.99 FTE and an output multiplier of 1.52 – for every £1m of higher education institution output a further £1.52m of output was generated in other sectors of the economy.

The Yorkshire Universities analysis of higher education in the Yorkshire and Humber region used the Regional Econometric Model (REM) for the region (Yorkshire Forward) (Yorkshire Universities, 2008). The HE sector employed 24,215 FTE in 2004/05 which generated an additional 8,725 jobs in the regional economy (a multiplier of 1.36).

This study also used the Universities UK model to provide comparable data. In 2005/06 direct employment higher education was 25,540 FTE with indirect impact (including students' non-HEI expenditure) of 11,733 in the region (multiplier of 1.45) and 27,087 FTE in the UK economy (multiplier of 1.99).

HEI output in Yorkshire and Humber was estimated to be £1.52bn in 2005/06 with a knock-on output of an additional £2.54bn, of which 42% benefited the region. An alternative analysis in this study suggested that total annual expenditure by the HE sector in the region was £2.4bn with 60% of this spending being retained in the region.

A study of the higher education/further education sector in Bradford (University of Bradford, Bradford College and Shipley College) in 2005-06 also used the economic modelling system developed by the University of Strathclyde and supported by Universities UK. The three institutions employed 2,803 FTE which generated a knock-on impact of 2,530 FTE in the UK (of which 1,099 FTE was a regional impact and 1,431 FTE in the rest of the UK). The employment multiplier was thus 1.90 (1.39 regional element and 0.51 in rest of UK).

An analysis of Sheffield's two universities on the Sheffield City Region also used the Universities UK model and identified a regional employment multiplier of 1.41 and 1.93 national multiplier. Direct employment was 7,819 FTE in 2005/06 with 3,191 FTE indirect employment in the region and 7,309 nationally.

In conclusion, the regional employment multipliers ranged between 1.36 and 1.45 and the overall national employment multipliers ranged between 1.90 and 1.99.

Application of multipliers

The composition of the planned budget cuts is a key factor in the application of multipliers. If the budget reductions are spread 'across the board', ie proportionately across both the different categories of university expenditure and the staffing structure, a regional multiplier of 1.40 and a overall national multiplier of 1.90 provide an effective tool for assessing the wider economic impact.

Potential job losses

The loss of between 625-700 Leeds University jobs will lead to an additional loss of between 250 – 280 jobs in the Yorkshire and Humber region plus a further loss of between 312 – 350 in the rest of the UK – see Table 10. Thus the total job loss as a result of Leeds University budget cuts could be between 1,187 and 1,330 jobs. But in practice, the regional and national job losses will be substantially higher when budget reductions in all higher education institutions are taken into account – see below.

Table 10: **Potential university and regional/national economy job losses**

University of Leeds jobs	Knock on impact in Yorkshire & Humber region	Impact on Yorkshire & Humber region	Knock on impact in Rest of UK	Total additional job losses in regional & national economy	Total job losses
625	250	875	312	562	1,187
700	280	980	350	630	1,330

However, if the budget reductions are spread unevenly across expenditure and/or staffing structure, the multipliers will have to be adjusted accordingly.

Assessing economic effects of different types of budget reductions

This section summarises some key issues that affect the economic impact of budget cuts and the use of employment multipliers. New multipliers could be calculated or existing employment multipliers adjusted to take account of different economic circumstances.

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1. **Changes in sourcing goods and services** – The Frequently Asked Questions for staff on the Economies exercise website (www.leeds.ac.uk/comms/financial/faqs/index.htm, accessed 8 March 2010) reports that head of Procurement “has already identified potential yearly savings of over £1m in furniture, stationery and printing” – but important questions arise about how these have been achieved, for example, through a shift from local to cheaper national/global sourcing?
 2. **Increased outsourcing of activities:** If the proposals include outsourcing functions or services this may involve a loss to the local economy – see below. Changes in the sourcing of goods and services and the proportion which is sourced locally/regionally, may change the distribution between regional and national impacts.
 3. **Impact of reductions in different groups of staff:** The employment multiplier may have to be adjusted when information is available on the profile of staff affected by budget reductions. The loss of income in the local economy from a reduction of staff on higher grades could have a larger knock-on effect in spending in the local economy, although this may be mitigated in the short term by the effect of redundancy payments, particularly larger payments to higher paid older staff. There would also be spatial differences depending on the profile of staffing changes, taking into account residential location and travel to work patterns.
 4. **Changes to the capital programme:** Delays in planned investment or specific projects could potentially affect planned student numbers, revenue and future staffing levels.
 5. **Effect of increased fees and charges:** If the University imposes higher charges for services and facilities the financial transfer between students and University would be increased. However, increased fees and charges for students and staff may increase University income but reduce consumer expenditure in the local economy.
 6. **The economic effect of Voluntary Early Retirement and Redundancy payments** made by the University may reduce the effect of a loss of income, albeit for a limited period, and thus the impact on the local and regional economy.
 7. **Part-time employment:** Examine pattern of part-time employment in the university job losses plus the effect of changes in supply chain spending which may also impact on those sectors/industries with a higher proportion of part-time/casual employment – potential differential job impact which the university’s equality audit may not address.
 8. **The prevailing economic circumstances** when budget cuts are implemented as vacancy rates will effect the level of re-employment and thus economic impact. Government financial support to the unemployed and other welfare benefits should also be taken into account.

Local economy impact

It is not possible at this stage, because of the lack of information on the planned budget cuts, to provide a more detailed assessment of the impact on Leeds and the city region. Clearly the loss of between 625 and 700 university jobs plus a further 250 – 280 jobs in the local/regional economy will affect local communities in the city. Furthermore, these job losses will be additional to job losses in local government, the NHS, government departments and other public bodies. In addition, budget cuts at Leeds Met, which employed 2,506 FTE - 955 academic staff, 1,319 support staff and 232 operational staff in 2008/09, will have further negative impacts on employment and the local economy.

Yorkshire and Humber Regional impact

Yorkshire Universities identified 24,215 FTE and 29,621 employees in full and part-time jobs in higher education in the region in 2004/05 (Yorkshire Universities, 2008).

The Regional Econometric Model (Yorkshire Forward) identified a further 8,725 FTE in the regional economy arising from spending by higher education institutions, staff and students. The same study applied the University of Strathclyde model developed for Universities UK using 2005/06 data of 25,540 FTE in higher education generated a further 11,733 FTE in Yorkshire and Humber with 27,087 FTE in the UK – see Table 11.

In terms of actual number of full and part-time jobs, higher education and the knock-on effect supports a total of 44,728 jobs in the region and a total of 63,152 in the UK.

Table 11: **Higher education employment and impact in Yorkshire and Humber****

	Direct HEI employment	Knock-on effect		Direct and Knock-on	
		Yorkshire & Humber	UK	Yorkshire & Humber	UK
FTE	25,540	11,733	27,087	37,273	52,627
Estimated number of jobs*	30,648	14,080	32,504	44,728	63,152

Source: Impacts of Higher Education Institutions in Yorkshire and the Humber, Yorkshire Universities, 2008.

* Based on converting FTE to actual number of jobs ratio of 1.2. ** Excludes the Open University in Yorkshire & Humber, the Hull Campus of the University of Lincoln and HE in FE Colleges.

Budget cuts in the region's eight universities and three higher education colleges could result in a significant loss of jobs. For example, if 5% - 10% cuts were imposed across all the higher education institutions in the region, between 1,532 – 3,065 jobs would be lost.

The full impact of higher education and regional economy job losses would be between 2,911 – 5,823 jobs.

Labour market and unemployment

Unemployment in the region increased to 240,000 in October-December 2009, an increase of 37,000 on the same period the previous year (Yorkshire Forward, 2010). Only the North East has a higher unemployment than the 9.1% prevailing in Yorkshire and Humberside. The level of vacancies in the region fell sharply in January 2010 compared to the previous month, a seasonal pattern. However, although only 17,200 vacancies were registered this was 4,400 higher than a year earlier.

The loss of a further 3,065 jobs in the region could increase the regional unemployment rate significantly closer to ten percent.

Public finance impact

Every 1,000 increase in unemployment costs the government about £10m taking into account unemployment benefit and lost tax revenue. However, this figure does not take account of other costs such as the loss of output, the effect on public health, training and economic development initiatives.

Part 4

Impact on staff and students

Equality impact

The University is required to undertake an equality impact assessment of its proposals. This will identify “how job reductions may impact disproportionately on particular groups” (FAQs for staff, website). This is an important assessment, but is only one aspect of what should be a legal requirement to carry out a comprehensive integrated economic, social, environmental, health and sustainable development assessment of major policies, projects and programmes.

More fundamentally, a social justice perspective is required that combines eliminating discrimination with strategies to reduce inequalities, redistribution and improving life chances, improve quality of life and community well-being, participation, involvement and governance

Gender impact

Although academic staff are predominately male (64%/36%), the gender ratio is the reverse in professional and managerial staff, support services and in services in the regional economy.

Table 12: **Gender profile of Leeds University staff**

Employment group	% Male	% Female
Academic staff	64	36
Professional & Managerial	45	55
Support	37	63

Source: A Strategy for Human Resource Management and Development, University of Leeds, May 2006.

If the university-wide staffing reductions mirror the FBS model described in Part 2, then academic related and support staff will account for 22.7% of the job losses. Academic staff – professors, lecturers, researchers – would account for 77.3% of job losses. Table 14 summarises the gender impact showing that an equal distribution of job losses between men and women.

Whilst 61% of female academic staff worked part-time in 2006, the percentage for support and professional and managerial staff was considerably higher at 77% and 76% respectively.

Table 13: **Part-time working pattern of Leeds University staff**

Staff group	Female	Male
Academic	61	39
Professional & Management	76	34
Support	77	23

Source: A Strategy for Human Resource Management & Development, University of Leeds, March 2006.

The gender impact of university and job losses in the UK economy would be virtually the same between men and women based on the ratios in Table 13. Whilst the gender ratio in the university leads to a larger number male staff potentially losing their jobs, the reverse is the case of the knock-on effect in the UK economy with a larger number of women affected by job losses – see Table 14.

Table 14: **Potential gender impact of 700 Leeds University job cuts**

	Male	Female	Total
Academic staff 64/36 male/female (77.3% of 700)	346	195	541
Academic related & support staff 45/55 male/female and 37/63 male/female (22.7% of 700, assume average 40/60 male/female ratio)	72	87	159
Knock-on employment in UK economy (40/60 male/female given high percentage in services sector)	252	378	630
Total	670	660	1,330

Quality of learning

The quality of learning could be affected by the imposition of higher student-teaching ratios. The assumptions underpinning increased efficiency and productivity in all aspects of academic, corporate and support functions should be transparent so that the effectiveness of systems and procedures can be (re)assessed.

Costs of Outsourcing

The University may propose outsourcing some support/ancillary or other services in order to achieve 'savings'. However, savings rarely materialise or are substantially reduced when all the transaction costs (such as client-side staff costs, procurement, contract management and monitoring) are taken into account (Whitfield, 2006). Many contractors try to avoid TUPE regulations so that they can change terms and conditions, hire new staff at lower rates and minimise pension responsibilities. The effect is usually to significantly increase staff turnover with a negative effect on the quality of service (European Services Strategy Unit, 2007).

Contract culture

Increased outsourcing could lead to a change in culture of the university. Wider use of private contractors, increased use of part-time and short-term contract teaching and professional/management staff could make it more difficult to achieve inclusiveness, community and other values. The use of part-time and short-term contract teaching staff will seriously undermine the benefits achieved in the last 4-5 years from the University converting many short-contract teachers to permanent posts (application of the four-year rule, under which anyone working, even on an hourly basis, for four consecutive years is entitled to a permanent proportional contract at a specified grade).

Part 5

Knowledge economy

Many of the forecasts for the knowledge economy and the claimed economic benefits were made *before* the global financial crisis and global recession. The University may argue that the forecasts of economic benefits from spin-offs, research, knowledge transfer and skilling the workforce will remain intact irrespective of the budget cuts, unless there are specific budget reductions in business development.

The Yorkshire Universities study identified a series of positive impacts on the regional economy, health and well being, society and community, culture and sport and skills (Yorkshire Universities, 2006). Clearly, positive impacts claimed in a period of economic growth and university expansion may have the opposite effect in a period of spending cuts. At this stage it is not possible to examine how the proposed 10% budget cuts will affect the University's contribution to these benefits in Leeds and the region. The budget proposals should be subjected to rigorous analysis using the above headings once they are disclosed.

If student numbers remain on target and the current range of graduate and postgraduate courses and specialities are retained, for example in health and dentistry, the community benefits are to be unaffected. However, the cuts could include a range of measures, such as reductions in community access courses, which could result in fewer people gaining access to courses and skills. A University drive to increase the proportion of private income might include new and/or higher charges for services and this could have a negative effect on students, staff and the community.

Impact on the University's corporate strategy

The University's Strategy Plan was 'refined' in 2009. Since "*...there is a strong sense of 'ownership' of the map by the whole University community. The strategy map is a living document which informs everything we do*" (Strategic Plan, 2009) the effect of a 10% budget reduction could be expected to require significant revision and further consultation.

The Plan has four themes – "*Enhance our standing as an international University, Achieve an influential world-leading research profile, Inspire our students to develop their full potential and Increase our impact on a local to global scale*" (ibid).

The Strategic Plan focuses on Leeds becoming a "*world-class university*" and seeks to "*...ensure we embed internationalisation into our activities*" with the objectives of "*a place among the top 50 universities in the world*". Other statements include:

"...strategic goal of delivering international excellence in all our areas of research, with defined peaks of world-leading performance."

"We will work with business, public and third sector partners to create social and economic benefit."

"The development of a sustainable environment with first-class facilities is on-track. By 2015 we will have completed a £300m capital investment programme to provide the University with the first class facilities appropriate for a world-class institution."

"...our vision and level of ambition will require the University to grow and diversify sources of profitable income to invest in our future. It is a key priority for us to be able to achieve our vision with a reduction in our dependency on HEFCE funding. We will achieve this by rebalancing and diversifying income across all of our activities."

Budget cuts on the scale planned were clearly not envisaged when the growth-growth, win-win plan was drawn up. Irrespective of whether the budget cuts are across the board,

concentrated in non-academic functions or targeted in certain academic areas, the strategic plan will need revision. If the University genuinely wants to “*value and develop all our staff*”, this must include full engagement and participation of trade unions and staff.

A ‘world class university’ is also one that gives much greater attention to its economic and social impact on the neighbourhoods in which it is located and its role in the city and regional economy.

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