

## **Newtown University: an instructional case in strategic management accounting**

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### **ABSTRACT**

This paper describes an instructional case used with final year undergraduate management accounting students, designed to introduce the cohort to the use of case studies in learning. The case focuses on the needs for cost savings in a fictional UK University and can be used to cover a range of learning outcomes, including those associated with control, budgeting and the funding of higher education. Use of the case in classroom situations has been a consistently positive experience for staff and students and, in particular, the high level of student engagement and positive feedback in relation to the case has been encouraging.

Keywords: financial control, management control, higher education, reflective learning



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## Introduction

The author is responsible for teaching a final year undergraduate course on advanced management accounting in a UK university. The pedagogy of the course places a strong emphasis on learning through case studies, including developing skills of analysis, synthesis and reflection. This is affected through bi-weekly case classes attended by groups of 10 to 16 students.

One of the significant issues in using case studies is that for many students this represents a new pedagogy for which they require preparation and training. To assist with this learning process the author designed the Newtown University case so that students could begin the process of case analysis through a scenario that was familiar to them, higher education, and allowed them to consider two of the key lecture topics, control and budgeting. The case has the additional benefit of prompting students to reflect on their experiences as 'consumers' of higher education and to consider what constitutes 'value for money' in a not-for-profit organisation.

## Learning Objectives

At the end of the case class students should be able to;

1. Identify, participate in and benefit from case-based learning opportunities.
2. Articulate their understanding of management accounting processes in a group discussion.
3. Identify and understand the key elements of the budgeting process.
4. Identify and evaluate financial and management control mechanisms, including those relating to overhead allocation.
5. Apply their understanding of budgeting and financial controls to simulated real-world scenarios.
6. Use presentation software to communicate accounting information and management recommendations.
7. Reflect on and evaluate their own higher education experiences.

## Case Material

Students are provided with the following case material, which is followed by a series of questions. These questions are addressed by a two-hour group discussion in case classes of 10 to 16 students during which the prompts provided in the Teaching Notes section were used to stimulate and guide the conversation.

## Newtown University Case Study

Newtown University is a medium-sized publicly-funded higher education institution based in the English midlands. It has 12,000 full and part-time undergraduate students and 2,000 full-time post-graduate students across five academic faculties; Newtown University Business School, Faculty of Arts, Faculty of Science, Newtown School of Law and Newtown Social Sciences Unit. The University has a reputation for good quality undergraduate teaching and ranks 30<sup>th</sup> (out of 224 institutions) for student satisfaction in the most recent National Student Survey. In the 2014 Research Excellence Framework (REF) the Psychology department, which is part of Newtown Social Sciences Unit, was rated as 3\* (with work considered to be of international excellence) and no other subject scored above 1\* (with work considered to be of national significance, but unlikely to receive significant funding). In the various league tables produced by the Independent newspaper, the Guardian newspaper and the Sunday Times Newtown University has been ranked consistently as mid-

table and, although the University has attempted a number of initiatives to improve its position, the number of applicants to study at the University has declined by 10% over the last 3 years.

The University Council is responsible for the governance of the institution, including financially, and the Chair of Council, a retired bishop, has publicly stated that the University will seek to maintain a balanced budget. In each of the last five years the University has been successful in generating a small net surplus of between £1million and £2million on a turnover of £32million and these have been held in reserves for future capital investment. Each of the academic faculties is operated as a profit centre, although no staff member is remunerated on the basis of financial performance. All shared services such as library facilities, academic registry and building maintenance are part of the Central Services Directorate (CSD) whose costs are allocated to faculties on the basis of the number of students who are registered as studying at least one module in the faculty.

The budget for the year to 31<sup>st</sup> July 2019 was agreed by Council in May 2018 based on the projected results for the 2018 financial year and planned for an overall operating surplus of £1.3million. In February 2019 each faculty and the CSD were asked to produce a financial forecast for the period until July 31<sup>st</sup> 2019 to identify the projected surplus for the 2019 financial year. The forecasts were submitted to Anita Descartes, the Finance Director, and she became very concerned when she realised that these produced an aggregate forecast operating deficit of £4.8million, around 3% of the total University income. She shared her concerns with the Chair of Council who expressed his alarm at the implication of the figures for future capital projects, especially a proposed new University Faith Centre which was scheduled to be built in 2021 at a cost £12million.

Anita has been asked by the Council to make a presentation to their next meeting summarising the submissions of each faculty and CSD and to identify where savings can be made to reduce the projected deficit. She has written to all the faculty directors, heads of department within CSD, the Vice Chancellor and to the Students' Union outlining the situation and asking for their observations and suggestions. The following documents are extracts from some of the submissions that she has received.

From Prof Pauline Ockham, Vice Chancellor and Chief Executive Officer, Newtown University:

Thank you, as ever, for your sterling work on the budgets and the financial projections. I am, as you might expect, somewhat disappointed by the projected deficit but not entirely surprised. When we set the budget last year I did explain to Council that Universities were about to go through a period of significant and rapid change because of the uncertainty around student fees, the removal of central funding for much of our teaching and the limited research funding that arose from the last REF. I did express my view at the time that our proposed fees were low in comparison to our local rivals and that prospective students seem to consider the level of fee as a mark of quality. However, Council accepted the Chair's recommendation that we keep fees low in order to facilitate access to as many young people as possible and that we would have to live within our means as a consequence.

Obviously, we have failed to achieve this so far.

I think in the short term we should operate a moratorium on all uncommitted expenditure and that all requests to spend more than, say, £100 be approved by the Deputy Vice Chancellor. I know that this will add to his workload but it seems to me that as senior staff we should keep a vigilant watch over all expenditure, and I'm afraid that I don't have the time to do it myself. It might mean that we cut down on some of the overseas conferences that our lecturers attend which could improve their visibility on campus. I would also suggest that we have a staff recruitment freeze with any appointments to posts having to be signed off by myself and Tim

Mill (Head of Human Resources). Finally, and perhaps most controversially, I would propose that we introduce a charge for attendance at this year's graduation ceremony. We do have time to put this in place before the invitations go out and my rough estimate is that we will have 4,000 students graduating. If each of these brings two family members and we charge £25 each then that will bring in £200,000. I expect the SU (Students' Union) won't be too happy but I imagine that they would prefer this to us having to start charging their sports clubs for use of the playing fields.

What I cannot stress enough is that the project to build the new Faith Centre must go ahead as planned. The Chair of Council has made much of our mission 'to provide higher education opportunities to students of all faiths and none' and I know that he sees the development of the Centre as an important way of attracting new students to the University and developing our academic reputation as a national leader in faith-based discourse. Since I am a Professor of Theology you won't be surprised to learn that I agree with his assessment. I am sure that you will find a way of resolving the current crisis (as you always seem to) and I look forward to hearing your presentation at the Council meeting.

Good luck!

Pauline

From Phil Oakeshott, Director of Newtown University Business School (NUBS):

I am very disappointed to receive your request for suggested savings. As you know NUBS has generated a significant surplus of over £5million for the University in each of the last five years and although my current forecast of £3million surplus across the faculty is lower than normal this is mainly due to the reduction in overseas student numbers as a result of the Government's changes to immigration policies. I can only assume that other faculties are operating at a loss (as normal!) and I do not see why my staff or students should pay for the inefficiencies of other subjects, or their inability to recruit enough students to cover their costs. Perhaps the University could consider paying bonuses to faculty directors to encourage them to be more commercial in their approach. This may cost us more in the short term but would certainly result in higher surpluses in the future.

From Dr. Mary Russell, Director of Faculty of Arts:

Hi Annie!

I'm not sure if I've understood your request properly but I think I can suggest two possible ways that we could make a difference to the University finances.

At the moment my faculty has a disproportionate number of part-time students, mainly because of our very successful links with local colleges of higher education. I have noticed that when CSD costs get split between faculties this is done on the basis of the number of students each faculty has whether or not they are full or part time. If my faculty got charged a half-rate for each part-time student rather than a full rate then I have calculated that we would save £450,000, which is bound to help the University in its current position. Also I would like to suggest that we start charging more for car-parking near the campus. My team are always complaining that they can't park near their studios because the Social Sciences students have 9am lectures and use up all the spaces. As a result my lecturers – many of whom are part-timers – have to park further away and end up being late for classes, which really annoys their students. Can I suggest that we have special parking permits for part-time members of staff so that they can park close to the studios and charge everyone else £5 to park in the spaces that are on the campus inner ring-road? I think there are about 600 spaces so that could generate £3,000 per day. Although maths isn't my strong point, I think this could bring in £360,000 for an academic year. Do let me know if you need anything else,  
Mary

From Prof James Kolb, Director of Faculty of Sciences:

Just a couple of observations for you Anita.

First, my estimated costs for the replacement of equipment in the labs may be a bit on the high side. I had calculated that all twelve of the chemistry labs need new health and safety kits which at £3,000 a pop comes to a total of £36,000. I now reckon that we can get away with only six kits, so that's a saving of £18,000 for you. By the way in my costs I included estimates for the refurbishment of the physics block of £360,000, which I see is £20,000 more than CSD put in their projection so that might be another saving for you. Second, I have not included any income from the visiting students from Copenhagen who are due to arrive next month, even though it was in the original budget submission. After last year's debacle when half of them didn't show up I thought I would wait and see how many of them actually made it onto campus before I put any revenue in the projection. In theory we should have 60 of them at £1,500 direct funding each (although if they do all show up I've no idea where I'm going to put them). I'm not sure whether you want to include the income as I thought you accountants were supposed to be prudent in your approach, so treat it as a bonus from me!

Regards, Jim.

From Elizabeth Watts, Director of Newtown School of Law:

I'm sure that you and Council will acknowledge the improving financial position of the Newtown School of Law. From a position three years ago when we recorded a deficit of £1.7million our current projected deficit of £0.8million represents a significant achievement based on a lot of hard work by our highly dedicated staff.

I am bound to observe that our position is not helped by the current allocation of CSD costs, in which any student who takes any part of their course in a faculty is recorded as a member of that faculty for the purposes of cost allocation. We have significant numbers of business and social science students who take just one module of law as part of their course but they all get added to our cost allocation meaning that we make a loss on them. Of course I could simply decide not to allow anyone other than a full LLB (law degree) student to take modules in this School and this would immediately create a break-even position for us. However it would also prevent many of the NUBS students getting their professional exemptions and I doubt whether Phil Oakeshott would be happy with this outcome. Perhaps the solution would lie in the School of Law receiving some of the income from his students as I have proposed on many occasions?

Otherwise I am afraid that I am unable to suggest any savings that might be made without seriously jeopardising the quality of our teaching and scholarship.

Elizabeth Watts

From Dr Socrates Smith, Director of Newtown Social Sciences Unit

Hi Anita

We've had a chat amongst ourselves in the Unit to see what savings we might make and here's our best shot;

- Bigger tutorial groups. At the moment we have tutorials in groups of 10-12 students but we could increase this to 18 (in line with NUBS). This would save a total of 360 teaching hours in an academic year which at roughly £50 per hour (which is the lecturer rate plus 100% on-costs) could save £18,000 from September onwards.
- Fewer modules. Of the 42 modules that we operate in the Unit about a third of them have less than 20 registered students. If we eliminated these modules then I know that our students would be disappointed, especially those doing Applied Behaviourism

which has the highest student satisfaction ratings in the University, but it would remove around 500 teaching hours or about £25,000 of cost from September.

- Finally, we could close down the Forensic Psychology section. This scored the University our only rating of 3\* in the most recent REF but the annual research income we receive of £750,000 is more than offset by the staff and equipment costs of £1,050,000. It would leave us with an empty building but I'm sure that NUBS could fill it up with some of their ever-expanding MBA students!

From Linzie Nagel, Head of Library Services, CSD:

I'm afraid savings aren't really on our agenda at the moment. We are in a transition phase between stockholdings made up entirely of hard copy texts and an electronic-based resource system that will enable all staff and students to access books and journals from a variety of devices either on-campus, at home or on-the-move. This has been a priority of Council for a number of years and will help us to jump up the league tables in future years. I suppose we could start charging fines for students (and staff) who are overdue with returning their books but, to be honest, we are currently trying to reduce the number of books not find more.

From Tim Mill, Head of Human Resources, CSD:

I think there may have been a small problem with the last projection because the financial section was completed by a new member of staff. In the past we have recorded unfilled vacancies across the University as having no cost for the rest of the year and left it up to individual faculties/departments to show a projected cost for these posts if they think they will recruit to them between now and the year-end. This year we included all these vacancies at their full cost for the rest of the year which was a total of £1.2million. I assume that the faculties just recorded the ones they expected to fill as normal. By the way and before anyone suggests that we should have a recruitment freeze you might just want to point out that this is the last year we can employ new staff before the next REF. So if any department wants to boost their ratings – and presumably their funding – in the next research round then now is the time they will need to get new people on the books and stopping recruitment won't really help.

From Helen Rorty, Head of Student Recruitment, CSD:

Dear Anita

Thanks for your request for savings suggestions. As you know we've had to prune back our recruitment activities quite a bit since our budget was cut by 25% last year. We've decided not to go to any recruitment fairs north of Birmingham or south of London this year and all our current spending is already committed. My suggestion is that we increase our tuition fees from the current £6,500 to the maximum £9,250 per annum starting next year. Across our 10,000 full-time undergraduates this would be a gain of £27.5million per year and some of this could be recycled into recruitment activities for the future. I guess we might lose some potential students as a result of these higher fees but then the Office for Students would require us to use some of the new income to pay grants to poorer students and so the net effect is likely to be quite small. Bowlake University already charges £9,250 per year and, unlike us, has seen an increase in student applications, although part of this might be as a result of the new accommodation they built last year. They also gave every new student a free tablet (which my kids thought was really cool).

Best wishes, Helen

From Ricky Hume, Student Union (SU) President:

Hey Anita!

The SU Executive met yesterday to talk about the Uni's financial position and frankly we're not impressed. Every year students seem to get charged for more and more things while the costs of running the University, including the Vice Chancellor's salary, go up and up. Last year it was the introduction of photocopying fees for course guides and the year before that it was charging arts students for using their studio space. The one thing that had made it all worthwhile was the promise that the University would be using the money to build a new Faith Centre in 2021 and now we discover from Dr Smith that even that might be off the agenda. We've also heard a rumour that Forensic Psychology might be shut down which would be devastating to us. The University has a recognised international reputation for the quality of its work in that department and it would be a betrayal of all the work of staff and students in Social Sciences if Forensics shut. The SU Exec has already decided that we will lobby Council against that proposal if it is made and, if necessary, we will make it a focus of our summer protest campaign.

The other issue we discussed was the relatively small number of disabled students that the University has. We would like to see the University spend more money on targeting its recruitment at this group so that disabled students have the same opportunities as the rest of us. One measure that we think could help with this is to waive their fees. I know that this would mean that other students were subsidizing the disabled cohort but we believe it would be worth it to encourage a more diverse student body across the Uni. After all isn't that what higher education is for?

Cheers, Ricky

### Questions based on the case

1. Imagine you are Anita Descartes. Create a two-slide presentation that summarises your thoughts and recommendations based on the submissions you have received. You are not required to set out detailed financial projections but you should identify specific costs and revenues that you think will be important in reducing the projected deficit.
2. How would you evaluate the management accounting function of Newtown University, especially the budgeting and forecasting process, from the evidence provided? Are there any problems with financial control or costing systems and, if so, what improvements might you make to the process?
3. If Universities are primarily about education why does their financial performance matter? How and why, if at all, should additional services (such as parking, sports facilities or photocopying) be paid for by students? What services and facilities should a student expect to receive for 'free'?

### Teaching Notes

The author uses the following notes to prompt discussion of the three questions based on the case. The discussion of question three is normally wide-ranging and reflects the public fee-based system of higher education funding in England and Wales.

1. Identifying savings from the case evidence;

Pauline Ockham

- Moratorium on spending; it would take a lot of £100's to get to £4.8m; however some savings are likely from this approach.
- Graduation charges could yield a saving of £200k.

- Strategic priority; the faith centre must be built, is this reasonable given the current financial situation?

Phil Oakeshotte

- It is not up to him who subsidizes what; who should make that decision?
- Will his approach gain him friends amongst the decision-makers?
- Does incentive-based compensation lead to efficiency savings? This depends on the way that the compensation scheme is designed.

Mary Russell

- £450k saving is not a real saving, it would simply displace central costs elsewhere.
- Car parking might generate revenue but why should her staff be exempted?

James Kolb

- £18k saving on health and safety kits is fine as long as there is a risk assessment of the implications for health and safety, including regulatory compliance.
- Double-counting; £360k has been put in his projected expenditure and in CSD. This is a real saving!

Elizabeth Watts

- Raises questions over whether the business school is as profitable as it would like to believe. How should overheads be allocated where multiple service-providers are involved?

Socrates Smith

- Saving teaching hours only cuts costs if you actually reduce the number of lecturers (for full-time staff) or the hourly spend (for part-time staff).
- Note that this is the only time that cutting the Forensic Psychology section is suggested (see Ricky Hume below) and that the offer of £300k saving is done in the knowledge that the University will not choose to take this option.

Linzie Nagel

- Raises questions about whether technological changes to teaching and learning are actually a more strategic challenge to the long-term finances of the university.
- Some savings from charging fines may be possible, but are probably immaterial.

Tim Mill

- Double-counting; £1.2m is a genuine saving (and all because of a clerical error).

Helen Rorty

- Fees; any change in fees would not help this year but could certainly help to claw back some of the deficit in the future.
- What is the value-added of the University? Are quality and price correlated?

Ricky Hume

- How does he know about the proposals for closures? Smith is trying to play both sides!
- Customers always want more, but does a University care if there is no repeat business?

2. Some of the control questions raised include;

- Who is responsible for central costs (eg; unfilled vacancies and new building developments)?
- How do central costs get shared across the institution?
- How is double-counting allowed to happen and what action should the University take to prevent it?
- How is this process communicated to staff, especially management, so that they can understand the real cost of providing their services to students?
- What incentives does this create for student registrations?



- There is no obvious link between revenues and costs/services. What is the University offering and what are the links between funding and service?
- Incentives for staff; what happens if the university makes a loss?
- Why do vanity projects seem to be allowed to prevail, such as the Faith Centre?
- Is there evidence of a lack of teamwork within the senior management network?
- Is there evidence of game-playing within this process?

3. Universities are like any organisation; they have to be financially sustainable in order to meet the needs of stakeholders (this includes the government and possibly the wider public). There are essentially three sources for funds for universities;

- Students
- Government
- Private enterprise (or charity/philanthropism)

The balance between these sources is a matter of political (and philosophical) choice.

A different approach is to examine what the expenditures are;

- Teaching
- Research
- Cultural/Community

The allocation of funds between these activities is a strategic choice as is the determination of which services students should pay extra for.

### **Reflections from Practice**

The author has used the Newtown University case for five consecutive years and the student feedback has been very encouraging. In particular, students report that they can relate easily to the context of the case and that the control issues raised are relatively straightforward for them to comprehend and discuss. Indeed this case usually prompts a discussion that has to be curtailed at the two-hour mark and students often express surprise at the amount of time that passed. More usefully the case normally generates contributions from all class members without requiring the tutor to force a student to speak. This is important in establishing the ground rules for future case classes and enables students to identify how the classes will operate without feeling that they have nothing to contribute. It has been demonstrated (classically by Marton and Saljo, 1976) that active engagement with a subject lead to deeper and more meaningful learning than the surface learning associated with traditional lectures. The author has found that typical student engagement with the Newtown University case is strong with consistent evidence of students having prepared substantial answers to the case questions in advance.

The author finds it useful to start the class by inviting students to compare their presentations of savings in pairs and then for each pair to summarise what savings they believe exist in the case and to comment on any disagreements they had. By the time all pairs have contributed, there is usually enough material to work through each of the submissions individually as indicated in the Teaching Notes. Given the instrumentality of accounting students (see, for example, Scully and Kerr, 2014) it is sensible to provide the class with a summary of savings provided in the Teaching Note as this enables the students to feel that they have taken some tangible output from the session, even though some of the savings are contestable.

In terms of the learning objectives the author has found that students identify many of the control weaknesses indicated in the Teaching Notes. However, relatively few students are able to articulate the issue around overhead cost allocation and this represents a good opportunity to remind students about this topic and re-iterate the importance of understanding

the implications of the selection of the allocation method, especially in a service environment. In particular the problem with double-counting the Physics building costs often needs to be teased out and in-class experience suggests that it may be more effective to discuss the double-counting of vacancies first as this often encourages students to consider other ways in which costs may be incorrectly duplicated.

Some of the discussion of control mechanisms concerns the appropriateness of academic staff to make management decisions. Students will often question the wisdom of allowing academic staff to make financial decisions when they do not have the necessary skills or training. The suggested control of using the Deputy Vice Chancellor (DVC) to approve all expenditure over £100 is often derided as 'impractical' and generates a discussion about what response the DVC might give to this suggestion. The author has experienced cost-cutting measures in a University, including the use of this exact control mechanism and can report that the DVC involved effectively rejected all requests for spending, for reasons of economy and expedience, and ultimately this control saved the University more money than any other cost saving technique.

Question 3 often stimulates a very thoughtful conversation around 'value for money' in higher education and, as these students are in their final year, usually includes a debate around 'why did we come to university?'. The author has found that much of the discussion surrounds concepts of employability but that students rarely try to analyse this in a quantitative manner, preferring instead to use more generic statements like 'I believe that I will get a better job as a result of coming to university'. When challenged about what constitutes a 'better' job many students express surprise at the question having assumed that better is synonymous with 'higher paid' and this may be a good point at which to open out the discussion to consider what other criteria may be used, including the role of skills development.

At the end of the course the author conducts an anonymous course evaluation questionnaire with some open questions for students to report their most and least favoured experiences on the course. Over the five years of the author's use of this case at least one student each year has specifically referred to the Newtown University case as being a favourite learning experience, often couched in terms of the perceived relevance to the student of the scenario, the questions and the reflective discussion.

## Summary

The Newtown University case study is an instructional tool used with final year undergraduate management accounting students. The case provides opportunities to discuss a range of learning outcomes, including those associated with control, budgeting and the funding of higher education. Use of the case in classroom situations has been a consistently positive experience for staff and students and, in particular, the high level of student engagement and positive feedback in relation to the case has been encouraging.

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