

Strictly confidential

Institutional Risk Monitoring: Categories 1 and 2*
(including Related Bodies At Risk)

B16/04e
Agenda Item 7
24/25 February 2004

Issue

1. Regular update on HEIs in Institutional Risk Categories 1 and 2*, and Related Bodies At Risk.

Recommendations

2. The Board is invited to note:
 - a. The institutions in Categories 1 and 2* and the action in hand on each of them (**Annexes A and B**).
 - b. The graph showing the time series for the numbers of institutions in Categories 1 and 2* (**Annex C**).
 - c. The graph showing the materiality of institutions in Categories 1 and 2* in relation to the sector as a whole (**Annex D**).
 - d. The related bodies At Risk and the action in hand on each of them (**Annex E**).

Timing

3. There are no issues of timing.

Further Information

4. From: Steve Egan (0117 931 7408, email s.egan@hefce.ac.uk; or David James (0117 931 7328, email d.james@hefce.ac.uk); **[Text removed for publication]**

Board Interests

5. Professor Peter Scott is Vice-chancellor of Kingston University which is in collaboration discussions with Wimbledon School of Art, and he is on the board of St. George's Hospital Medical School, so the relevant sections have been withheld from his copy of the paper.

Financial Implications

6. No direct financial implications arise from this paper. The costs incurred by the Council in seeking to help institutions to restructure are met either through moderation funding, as part of standard grant calculations, or through the Strategic Development Fund.

Risk Implications

7. Institutional risk monitoring is a key process for the Council, cutting across and underpinning the achievement of strategic aims: consequently, it is part of the way in which the Council manages its key risks.

Public Presentation

8. Under the requirements of the Freedom of Information Act, we would not expect to publish the reports to the Board on institutional risk monitoring, because to do so might substantially prejudice the interests of the institutions concerned, as well as the Council's ability to fulfil its responsibilities in relation to institutional risk.

Background

9. Attention is drawn to the continuing reduction in the level of risk assessed in both institutions and related bodies overall. At the same time, particular concern remains for the Universities of Luton and **[Text removed for publication]** and the eLearning and eUniversities group of companies.

10. The greatest reduction in risk is in the two categories of lowest risk. The number of institutions in Category 2 has been reduced by 10 and that in Category 3 increased, also by 10, by those moving from Category 2. Four institutions in Category 2* have shown clear improvement and been moved up to Category 2, although, at the same time, four institutions have been moved down to Category 2*.

11. The number of institutions in Category 1 is at almost the lowest level since 1997, when there were eight, and has remained at around two for the past two years. Similarly, the number of institutions in Category 2* is at almost the lowest level since 1998, when there were fourteen.

12. The Leadership Foundation is no longer considered to be At Risk.

Institutions

Institutional Risk Category 1

13. The previous report to the Board on institutions in Institutional Risk Category (IRC) 1 was in December 2003 (B120/03e), when there were two institutions in this category: **[Text removed for publication]**

- University of Luton.

University of Luton

14. Following the arrival of the new Vice-chancellor, the University appears to have become more realistic about its underlying recruitment position. However, following under-recruitment in 2003, the University will be subject to a reduction in its baseline grant in 2004-05 of £1.9m, which could present it with additional cash-flow difficulties.

15. The University has been required to produce a new recovery plan, named Turnaround Strategy by the University, which it expects to complete by the end of April. The Strategy will need significantly to reduce expenditure before 2005-06, which is likely to involve further redundancies and consequent restructuring costs. It is a requirement that the strategy: should contain clear targets and milestones; be credible; that implementation would be effective in operation; and that the University is capable of improving and sustaining student recruitment. The strategy must be validated externally before presentation to HEFCE.

16. Rama Thirunamachandran and Derek Hicks were invited to attend the strategy away-day of the University's board of governors at the end of January and present

HEFCE's perspective on the issues facing the University. The interaction with the Luton board was very positive. The results of the day will be fed into its Turnaround Strategy.

17. The strategy will be monitored rigorously by the HEFCE. Consideration has been given to a contingency plan were the University's strategy either to prove unsatisfactory or were the University to fail to fulfil it. Failure to meet targets could result in conditions being attached to payment of grant. The autumn 2004 student recruitment season will be absolutely crucial and a major test for the University.

18. On the positive side, the new Vice-chancellor has made some changes to the senior management team, which, it is hoped, will have a beneficial effect on the University's performance, and its request to vire its Poor Estates grant of £2m to the Media Arts project has been approved.

[Text removed for publication]

19. The same two institutions remain in Category 1.

20. The reasons for the above institutions being in Category 1, as well as action taken and planned, are given in **Annex A**.

Recommendation: To note the institutions in Category 1 and the action in hand on each of them (**Annex A**).

Institutional Risk Category 2*

21. The previous report to the Board on institutions in Category 2* was in December 2003 (B120/03e), when there were nine institutions in this category. They were:

[Text removed for publication]

- Dartington College of Arts.
- University of Greenwich.
- Liverpool John Moores University.
- London Metropolitan University.
- Norwich School of Art and Design.
- St. George's Hospital Medical School.
- Wimbledon School of Art.

22. Since then, four institutions have moved into Category 2* and four have moved out. The reasons are as follows:

[Text removed from table below for publication]

Institution	Reasons for change of Category
Conservatoire for Dance and Drama IRC at 30.11.2003 - 2	The Conservatoire joined the sector on 1 August 2002 and is an umbrella organisation funding four dance and drama schools. It lacks permanent management and outsources its financial management. Monitoring processes for each school's financial performance and

IRC at 31.01.2004 - 2*	compliance with the FM are still unclear, making assessment of the underlying viability of each school difficult. Reporting to HEFCE is still not acceptable. In addition, the Conservatoire plans to admit a further two or three schools in 2004 and it is this extra burden, in particular, which has prompted the move to IRC 2*.
Courtauld Institute of Art IRC at 30.11.2003 - 2 IRC at 31.01.2004 - 2*	The Institute became an independent HEI on 1 August 2002 and planned to use the University of London's administrative systems, but had to make its own arrangements at the last minute and has had difficulty setting up systems. In August 2003, it commissioned a review of its finance department which identified a number of weaknesses, findings confirmed by the HEFCE Audit Service. It has an action plan to correct the problems and it is expected that the problems should be resolved in the next few months. Until then, the Institute should remain in IRC 2*.

Trinity College of Music IRC at 30.11.2003 - 2 IRC at 31.01.2004 - 2*	The College plans to merge with Laban, a school of dance, on 1 August 2004 and has made an SDF bid for £140,000 for consultancy support. The financial position of Laban is not yet known. The College's own financial position is weak and, in addition, it has recently acquired the Blackheath Halls (with a donation), which it intends to refurbish at a cost which could be high. Progress with merger appears generally satisfactory so far, although the potential costs and financial situation of the merged institution have not been well thought through. The College has, therefore, been moved to IRC 2*.
Institution	Reasons for change of Category
London Metropolitan University IRC at 30.11.2003 – 2* IRC at 31.01.2004 – 2	The latest six-monthly merger report showed that the University was on target with its objectives and that recruitment was better than forecast. The 2002-03 financial statements also showed an improved position against forecast. The University had proposed a major property development (c. £40m), which would have put severe pressure on finances and management. However, it now appears that the University will not proceed with this development and so, given positive progress in general, it has been moved into IRC 2.
Norwich School of Art and Design IRC at 30.11.2003 – 2* IRC at 31.01.2004 – 2	Concerns about the financial health of the School have been receding for some months and its current position is better than forecast. The School was therefore moved to IRC 2. It will, however, continue to be monitored.
St. George's Hospital Medical School IRC at 30.11.2003 – 2* IRC at 31.01.2004 - 2	The cost reduction programme has now been implemented and the School has confirmed that it has achieved its target of staff cost savings of £1m. The immediate financial crisis appears to be over, with the 2002-03 financial statements showing an improvement against the previous year. An options review recommendation is imminent which will propose that the School should seek an HEI partner strong in science research to complement its teaching relationship with Kingston. The School appears now to be out of crisis

	so was moved to IRC 2, but the School's discussions on strategic alliance will continue to be monitored.
Wimbledon School of Art IRC at 30.11.2003 – 2* IRC at 31.01.2004 - 2	In the short term, the School is financially sound (in 2002-03 it made a surplus of £575,000 or 9.7% of total income), but its longer term future is less certain. The discussions with Kingston University appear to be progressing well, and developments will continue to be monitored. An SDF bid is expected in March to support the alliance with Kingston. Given the improvement in the School's position, it was moved to IRC 2.

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Dartington College of Arts

23. The College appears to be progressing its major campus project well, but a careful eye continues to be kept on developments.

Liverpool John Moores University

24. The University appears to be making good progress and it may well be appropriate to move it to Category 2 before long.

25. The following nine institutions remain in Category 2*.

[Text removed for publication]

- Conservatoire for Dance and Drama.
- Courtauld Institute of Art.
- Dartington College of Arts.
- University of Greenwich.
- Liverpool John Moores University.
- Trinity College of Music.

26. The reasons for each institution in Category 2* being in that Category, as well as action taken and planned, are given in **Annex B**.

Recommendation: To note the institutions in Category 2* and the action in hand on each of them (**Annex B**).

Institutional Risk Categories for all HEIs

27. The table below gives details of movements in the number of institutions in each Category since those reported in the previous paper in December 2003 (B120/03e), including those with Teacher Training Agency lead accountability.

Numbers of and Changes in Institutions by IRC				
Category	As at 30.11.03 (B120/03e)	Changes in Category		As at 31.01.04
1	2	-	-	2
2*	9	-4	+4	9
2	54	-14	+4	44
3	67	-	+10	77
Total	132	-18	+18	132

28. There has been a relatively large number of changes in category since the December 2003 report (B120/03e). Fourteen of the eighteen changes indicate a reduction in risk.

29. The semi-annual institutional review, which took place towards the end of last year, identified ten institutions whose improved situations made it appropriate to move them from Category 2 to Category 3 (University College Chester, University College Chichester, Cumbria Institute of Arts, Harper Adams University College, King Alfred's College, Newman College, Nottingham Trent University, University of Northumbria, Royal Northern College of Music and University of Teesside).

30. Several moves from Category 2* to Category 2 had been expected, but a period had been allowed to provide confirmation that trends were leading to sustained improvement (Norwich School of Art and Design, St. George's Hospital Medical School and Wimbledon School of Art). The change for London Metropolitan University from Category 2* to Category 2 was allowed largely by its decision not to proceed with a major capital scheme, which could have posed a significant risk.

31. A graph showing the time series for the numbers of institutions in Categories 1 and 2* is shown at **Annex C**.

Recommendation: To note the graph showing the time series for the numbers of institutions in Categories 1 and 2* (**Annex C**).

Materiality of Institutions in Institutional Risk Categories 1 and 2*

32. A graph is attached at **Annex D**, which attempts to illustrate the materiality of institutions in Categories 1 and 2* in relation to the sector as a whole and to show how this has moved over time. Figures are based on the maximum number of institutions in these two categories in each year, thus showing the greatest level of exposure. Two bases have been used to illustrate the level of materiality of institutions in the two categories as a proportion of the sector as a whole. The first is the number of institutions

in the two categories, and the second is the combined Total Income of those institutions, chosen as a common denominator to represent the overall level of activity in institutions.

33. The graph remains unchanged from the previous report.

Recommendation: To note the graph showing the materiality of institutions in Categories 1 and 2* in relation to the sector as a whole (**Annex D**).

Institutions with Significant Holdback

34. As in recent years, a small number of institutions is expecting significant reductions in grant due to under-recruitment. The following institutions are expecting their baseline grant for 2004-05 to be reduced by more than £0.5m:

[Text removed from table and list below for publication]

	Institution	Adjustment to 2004-05 baseline teaching grant £m
	Coventry University	-2.0
	London South Bank University	-0.6
	University of Luton	-1.9
	Staffordshire University	-2.4

Coventry University (IRC 2)

35. Financially, the University is in a strong position and should be able to manage the reduction in grant.

London South Bank University (IRC 2)

36. Recruitment for 2003-04 is ahead of the targets set out in its Development Plan and the reduction in funding is in line with its financial forecasts, which does not, therefore, give rise to financial concern for the University.

University of Luton (IRC 1)

37. The University is already in financial difficulty and holdback can only exacerbate its situation. See further comment on the University in paragraphs 14 to 18 above.

Staffordshire University (IRC 2)

38. Staffordshire has, again, under-recruited against its HEFCE student number contract. Although it has made a £3m provision for loss in income, the trend of under-recruitment in recent years gives rise to concern. The regional team visited the University in December to discuss the situation. It has already implemented various initiatives to improve its recruitment and financial position and appears to be managing matters. The University continues to be monitored.

Related bodies

39. The previous report to the Board on Related Bodies At Risk was in December 2003 (B120/03e), when five Related Bodies below were considered to be At Risk (income and HEFCE grant refer to the most recent financial year and are intended to given an indication of scale):

	£000	Approximate Annual Income	HEFCE Grant
• eLearning and eUniversities group of companies		* (67)	* 20,900
• Higher Education Statistics Agency (HESA)		1,900	Nil
• Institute of Learning and Teaching (ILT)		2,000	2,000
• Leadership Foundation (LF)		None - being set up	
• Higher Education Academy (HEA)		None - being set up	

** N.B., the negative figure indicates running costs but minimal income last year pre launch, and the grant is for capital expenditure.*

40. The eLearning and eUniversities group of companies causes by far the greatest concern amongst the related bodies considered to be At Risk and the Group is commented on in greater detail in paragraph 48 below and in **Annex E**. The Leadership Foundation is no longer considered to be At Risk.

eLearning and eUniversities

41. eLearning and eUniversities continue to present the most significant risks amongst those bodies considered to be At Risk, financially and as regards the complexity of the issues involved and the potential for embarrassment for the Council if the project were to fail. Major concerns continue to include: student intakes below targets; full platform completion delayed; and that private finance is not being achieved, potentially breaching EU rules, although this risk now appears to be less than previously thought.

42. A wide-ranging review has been carried out by PA Consulting, which raises concerns that the business may not be viable and that the plan does not offer the possibility of private sector funding - of considerable concern as the Council's grant is conditional on matched funding. A further £17m has been requested to meet the risks identified by PA Consulting. Legal advice is being taken.

43. A separate paper on eLearning and eUniversities is (B17/04e) is to be presented to the board.

Institute of Learning and Teaching

44. The risks involved with the ILT should be mitigated and eventually eliminated by the decision of its members to dissolve the ILT and transfer its activities to the Higher Education Academy. Funding for the ILT agreed by the Council gives leverage to impose conditions ensuring progress towards dissolution and transfer of assets.

Leadership Foundation

45. Although the LF is still in the process of being set up, it has now appointed a chief executive, Ewart Wooldridge, a chairman, James Ross, and remaining members of the board. The first meeting of the board has taken place. The memorandum and articles of association and charitable status are now in place, the funding agreement is nearing completion, and the business strategy and plan are proceeding on target. Given the above, the LF is no longer considered to be At Risk.

46. The following four related bodies are considered to remain At Risk:

- eLearning and eUniversities group of companies.
- Higher Education Statistics Agency.
- Institute of Learning and Teaching.
- Higher Education Academy.

Recommendation: To note the related bodies At Risk and the action in hand on each of them (**Annex E**).

University of Luton					
IRC 2*	1/01	Student FTEs:	2001-02	2000-01	
IRC 1	5/01	HE	8,363	8,960	
		All	8,419	9,069	
				1999-00	
				9,732	
				9,732	
<p>Key risks:</p> <p><u>Management</u></p> <ul style="list-style-type: none"> Historically weak, undertaking too many demanding requirements simultaneously. New VC appears more realistic. <p><u>Recruitment</u></p> <ul style="list-style-type: none"> Severe decline in HEFCE funded student numbers since 1999. 2002-03 and 2003-04 significantly under recruitment. <p><u>Student Progression</u></p> <ul style="list-style-type: none"> Progression rates may be deteriorating. <p><u>Financial Management</u></p> <ul style="list-style-type: none"> Forecasting poor. History of unrealistic and over-optimistic forecasts. <p><u>Financial Situation</u></p> <ul style="list-style-type: none"> Reducing liquidity for next 3 years. History of poor student debt collection. Major capital expenditure plans. <p><u>Strategy</u></p> <ul style="list-style-type: none"> New strategy (2004) may not address the fundamental problems. 		<p>Action to date:</p> <ul style="list-style-type: none"> June 2001: Recovery Plan (RP) (Model 1) plus two lower level contingency plans (Models 2 and 3) finalised. December 2001: Further reduction in 2001-02 recruitment, though close to Recovery Plan (Model 2) target. Luton offered £1.15m R&CF grant and £1.15m repayable grant. July 2003: Draft Financial Forecasts show HC surpluses ranging between 2.5% and 5.8% of income, but based on unrealistic growth in HEFCE funded numbers and academic fees, against staff reductions. These forecasts could not be relied upon. September 2003: New VC wants to work with HEFCE and have realistic future plans. The University is exploring options of using Poor Estates grant towards its Media Arts project and has put the Plaza project on hold until full financial appraisals have been undertaken. November 2003: Revised financial forecasts appear more reasonable with HC surpluses between 1.2% and 2.4% of income, and based on 2003-04 numbers (4600 FTE). Further drop in HEFCE funded students is expected over the next two years, to allow flow through of high drop out rates, before a recovery from 2005-06. This would mean significant cuts in expenditure and further redundancies. A deficit is likely in 2003-04 after taking account of the loss of income and severance costs. 2002-03 financial statements: HC surplus of £2.67m (5.2% of income) and reserves increasing to 13% of income. Liquidity reasonable although it is expected to reduce over the coming year as a result of £9m planned capital expenditure. 2003 HESES reveals that Luton will be 10.3% above contract, which would result in £2m holdback. This has been provided for in the 2002-03 accounts and 2003-04 forecasts but could present cash difficulties. December 2003: Exploring options to re-finance high interest rate loans and leases, but subject to significant breakage fees (between £4 and £8m). This would increase overall borrowing, and doubts remain on whether any lender would be willing to assist in such a refinancing package. <p>Next steps:</p> <ul style="list-style-type: none"> University to continue sending monthly financial reports. Obtain revised out-turn and cash-flow forecasts for 2003-04. Monitor capital and borrowing plans. New recovery plan to be produced and validated externally. It should 			

	<p>include options available to the University and explain why the new chosen strategy is better and more viable than previous plans. New plan expected by April 2004.</p> <ul style="list-style-type: none">• Meanwhile, meet around every 6 weeks to assess progress.
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Conservatoire for Dance and Drama					
IRC 2*	01/04	Student FTEs:	2001-02	2000-01	1999-00
		HE	331	n/a	n/a
		All	331	n/a	n/a
<p>Key risks: Note: CDD acts as an umbrella organisation for the funding of prestigious dance and drama institutions (affiliates).</p> <ul style="list-style-type: none"> Lack of permanent management at the Conservatoire. Financial position of affiliates is not reported, and the Conservatoire's monitoring processes not clear. Unacceptable reporting to HEFCE. 		<p>Action to date:</p> <ul style="list-style-type: none"> August 2003: Total affiliates increased to 4. Two to three to join in 2003-04. CDD's relationship with affiliates is subject to a Financial Memorandum but HEFCE relies on CDD to ensure that funds are used as designated and that affiliates meet FM requirements. The affiliates are not required to report to HEFCE on their activities or performance, so difficult to assess the underlying viability of each school. CDD operates with minimal staff. The Finance Director position is outsourced. The CEO role is assigned to one of the school principals; the governing body is active and has a majority of independent governors. 2003 Financial forecasts: Minimal surpluses forecast. Reserves low, at 2% to 5% of income - CDD's aim remains to cover its costs before dispersing funds and has no requirement for future capital investment. 2002-03 financial statements: HC surplus of 1.5% of income - broadly in line with forecast. Reasonable net liquidity. January 2003: visit to CDD. Concluded that it should remain in IRC 2*. <p>Next steps:</p> <ul style="list-style-type: none"> Ongoing discussions to move to a more focused and structured management approach and reporting to HEFCE. 			

Courtauld Institute of Art					
IRC 2*	1/04	Student FTEs:	2001-02	2000-01	1999-00
		HE	n/a	n/a	n/a
		All	n/a	n/a	n/a
Key risks: Financial Management <ul style="list-style-type: none"> Numerous finance department problems. Incomplete long term maintenance and information strategies. Underdeveloped costing and pricing. Major capital expenditure plans. Limited corporate financial management information. Management <ul style="list-style-type: none"> Unclear strategic direction, lack of strategic plan and subsidiary strategies. Lack of HR strategy. 		Action to date: <ul style="list-style-type: none"> Institute ceased to be a department of University of London, becoming freestanding HEI in August 2002. It had planned to use University of London's administrative systems, but at a late stage in preparations for independence had to make its own arrangements Autumn 2003: the Designated Officer and Secretary and Registrar felt growing concern about the performance of the finance department and commissioned a review from a recently retired finance director. The review identified many weaknesses in the finance department's structure, priorities and disciplines. December 2003: the Designated Officer wrote to our Chief Executive, assuring him the Institute had an action plan to correct the problems. HEFCE cyclical audit in January 2004 confirmed the above. 2002-03 financial statements: Small HC surplus of £200,000 better than the forecast HC deficit. Minimal surpluses forecast in future years. Liquidity adequate. Next steps: <ul style="list-style-type: none"> Monitor delivery of the Institute's action plan Follow up HEFCE audit in summer 2004. 			

Dartington College of Arts					
IRC 2*	09/03	Student FTEs:	2001-02	2000-01	1999-00
		HE	430	407	459
		All	430	407	459
Key risks: <ul style="list-style-type: none"> Deficits in each year from 1999-2000 to 2003-04. Huge student number growth to manage (over 80% assumed over 5 years, but more has been awarded). Large estates project, which is reliant on achieving student number growth to help fund the development. Management overstretched. 		Action to date: <ul style="list-style-type: none"> Jan 2003: College awarded substantial ASNs (for its size) totalling 396 FTEs over the next 3 years. July 2003: Proposed borrowing for estates project increased to £1.25 million (ASCs around 3.9%). July 2003: Forecasts show deficits for 2002-03 (2.5% of Total Income) and 2003-04 (0.6%), and then surpluses rising to 7.5% of Total Income in 2006-07, although the recovery is entirely dependent on funded growth. Staff costs appear low, but College has assured us that they are reasonable, and other assumptions are generally cautious. Nov 2003: The College may receive a reduced premium on its ASNs from 2004-05, which is still under debate. The potential financial impact is currently unknown. Dec 2003: Recruitment for 2003-04 around 445 students compared with 471 in funding agreement, but better than the 'worst case' position. Dec 2003: Borrowing now arranged. Accountant has left, so in a position to recruit senior finance person. 2002-03 accounts show £3,000 deficit instead of forecast £89,000 deficit, but much of improvement is due to unrealised investment gains. Next steps: <ul style="list-style-type: none"> Assess the financial impact of reduced premium on ASNs. 			

University of Greenwich						
IRC 2*	08/03	Student FTEs:	2001-02	2000-01	1999-00	
			HE	13,901	13,682	13,170
			All	13,901	13,710	13,196
Key risks: <ul style="list-style-type: none"> Deficits have depleted reserves, and only breakeven is forecast for future years, even after cost savings. Further deficits could breach bond covenants. Vacancy of Director of Finance post to be filled. VC moving on to another institution. 		Action to date: <ul style="list-style-type: none"> Following substantial [Text removed for publication] losses [Text removed for publication] between 1999-00 and 2001-02), the University undertook major restructuring programme. 2003 Financial forecasts: Deficit of £8.3m (7.5% of income) forecast for 2002-03 following higher than anticipated property write down and further restructuring and staff severance. Future results at only breakeven but net liquidity should remain reasonable. July 2003: Director of Finance left; replacement expected in February 2004. October 2003: VC to move to Kings College London in August 2004. 2003 HESES confirms 2003-04 recruitment within contract. Good increase in TTA funded numbers. Overseas should be on target and steady from last year. 2002-03 financial statements: HC deficit £7.5m (6.6% of income) following major property write down and further restructuring, but slightly better than forecast. Excluding the one-off costs, Greenwich would have achieved a breakeven underlying operating position. Reserves reduced to 2.7% of income. Net liquidity remains healthy. Next steps: <ul style="list-style-type: none"> Await appointment of new FD and an update on latest 2003-04 financial position with confirmation on whether planned cost savings are being achieved, before deciding whether to move to IRC2. 				

Liverpool John Moores University

IRC 2*	09/03	Student FTEs:	2001-02	2000-01	1999-00
		HE	16,926	15,958	16,823
		All	16,945	16,015	16,902
<p>Key risks:</p> <ul style="list-style-type: none"> Financial recovery is not being achieved, even after restructuring; further deficits forecast. Reserves reduced to less than 4% of income. Heavily dependent on overseas and funded home/EU growth. 		<p>Action to date:</p> <ul style="list-style-type: none"> VC now has over a year's experience and has led development of a realistic, credible and comprehensive new strategic plan, discussed with the University in December 2003. July 2003: Financial forecasts show large operating deficits in all years, with break-even at historical cost level in 2003-04 and 2004-05, and increasing HC deficits in later years. Liquidity healthy because of assumption that all estates development is fully grant-funded. 2002-03 financial statements: deficit of £0.5m (£0.3m better than forecast), after provisions of £3.8m for future pension liabilities. Underlying operating result therefore much better than expected, implying that 2003-04 outturn will also be better than forecast. [Text removed for publication] 2003 home recruitment to target, overseas recruitment strong. Ability to withstand any future recruitment shortfall helped by better financial state. <p>Next steps:</p> <ul style="list-style-type: none"> Reconsider risk category after review of 2004 Mid year Financial Return. 			

Trinity College of Music						
IRC 2*	01/04	Student FTEs:	2001-02	2000-01	1999-00	
			HE	459	533	534
			All	459	533	534
Key risks <ul style="list-style-type: none"> Poor financial health: deficits and weak liquidity. Implications of the merger with Laban for governance, management and financial health. High refurbishment costs for the Blackheath Halls. Small institution dealing with a plethora of initiatives. 		Action to date: <ul style="list-style-type: none"> August 2001: relocation to the Royal Naval College at Greenwich. March 2003: awarded ASNs grants of £1.9m for alliance with Laban. July 2003: acquired the Blackheath Halls with finance from a charity. The Halls have operated at a loss and also require major refurbishment. 2003 Financial Forecasts: return to operating surpluses by 2003-04, with receipt of full specialist premium; positive but weak net liquidity; borrowing manageable and reserves adequate. August 2003: announced the merger with Laban by 1 August, 2004. October 2003: SDF bid for £140,000 for consultancy and legal costs of merger. December 2003: merger project team established and regular meetings with HEFCE scheduled. 2002-03 financial statements: large HC deficit (5.7% of total income), negative net liquidity and very low current ratio - much worse than forecast; ASC currently at 2.8%. February 2004: Meeting with College. Progress with merger appears generally satisfactory so far but potential merger costs and financial situation of the merged institution not well thought through. Other issues, including refurbishment of Blackheath Halls discussed. Trinity and Laban pressed to produce financial forecasts for the merged institution. 				
		Next steps: <ul style="list-style-type: none"> Clarify Laban's financial position and potential impact of merger. April 2004: meet the College. 				

eLearning Holding Company Ltd / (UK eUniversities Worldwide Ltd)					
AT RISK	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Total Income for 2002-03</td> <td style="text-align: right;">£0.005m</td> </tr> <tr> <td>Funding received from HEFCE to date</td> <td style="text-align: right;">£32.1m</td> </tr> </table>	Total Income for 2002-03	£0.005m	Funding received from HEFCE to date	£32.1m
Total Income for 2002-03	£0.005m				
Funding received from HEFCE to date	£32.1m				
<p>Key risks:</p> <ul style="list-style-type: none"> • eLearning (via UKeU) turns out not to be a viable business proposition. • HEIs are not engaged in the venture. • HEFCE provides funds without proper accountability arrangements in place. • In carrying out his duties as Accounting Officer, HEFCE chief executive is considered to act as a shadow director. • HEFCE is found to be 'state funding' a commercial venture. • HEFCE is not able to achieve 'public good' objectives. • Negative publicity (e.g., about student numbers) has an adverse impact on the venture. • The Autumn 2003 review has an adverse impact on the venture. 	<p>Background</p> <ul style="list-style-type: none"> • eLearning is a company limited by guarantee whose members are most of the UK's HEIs, and through which HEFCE and other HEFCs seek to establish the UK as an international force in e-learning. HEFCE grants aids eLearning to invest in shares in UKeU. • eLearning owns the trading brands licensed to UKeU. It has a role in monitoring the value for money and quality standards of UKeU. • UKeU is developing the IT platform to deliver on-line courses (including student services). It supports the development of academic material from UK HEIs, and markets the services. Sun Microsystems plc (through The Guillemont Trust) also has shares in eUniversities. • There is regular liaison between the HEFCE Chief Executive and UKeU's Chair, and frequent joint meetings with DfES. • UKeU is separately funded by HEFCE for specific 'public good' activities and a programme of research into aspects of e-learning. • HEFCE's formal link is with eLearning, not with UKeU. The relationship is set out in a Deed supplemented by specific conditions set out in a number of funding letters. • HEFCE's funding of eLearning for investment in UKeU is budgeted at £55m, of which some £32.1m has been released. Our funds are conditional on matched private funding. • Advice taken suggests that the risk of breach of EU State Aids rules may be less than previously thought. <p>Action to date:</p> <ul style="list-style-type: none"> • KPMG have carried out an internal audit of our management of the project. • PA Consulting's review of UKeU's November 2003 business plan raises concerns that the business may not be viable; also, the plan does not offer the prospect of private sector funding. • 12/15 January 2003: Responses to this report received from the two companies; UKeU requested a further £17m funding to meet the risks identified by PA. • PA and our lawyers are advising on our options for UKeU's future. • UKeU requested a further payment in late January to fund operations. <p>Next Steps:</p> <ul style="list-style-type: none"> • Evaluate responses from UKeU and eLearning. • PA and our lawyers to provide advice on our options for the 22 January Sub-Group meeting and the Board in February. • Obtain advice on State Aid on the preferred option. • Decide the level of funding for the remainder of the review period. • Meet Ministers (January/February 2004). 				

	<ul style="list-style-type: none"> • Prepare communications strategy with other stakeholders on progress of venture and review (DfES, eLearning, other HEFCs). • Prepare media strategy for use if rumours start, and in the event of eventual decision to wind-up the venture.
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Higher Education statistics Agency (HESA)	
AT RISK	Total Income for the most recent financial year £1.9m Funding received from HEFCE for the same period NIL
Key risks: <ul style="list-style-type: none"> • Lack of clear agreement between HEFCE and HESA. • A major failure by HESA could impact on HEFCE's ability to monitor financial health, produce performance indicators, determine recurrent funding and award WP, disability and mature premiums. 	Background: <ul style="list-style-type: none"> • HESA was set up in 1993 following a Government call for more coherence in higher education statistics. It is based in Cheltenham and is now the central source for higher education statistics. • HESA is the only agency not to receive funding from HEFCE, deriving its income from subscriptions paid by all HE institutions. The current SLA with HESA was agreed in January 1995. Since then, HEFCE has become increasingly reliant upon data provided by HESA, yet has no power to ensure the reliability or accuracy of that data. Recent Developments: <ul style="list-style-type: none"> • Recognising that the impact of any major failure by HESA would be much greater now than when we first received data, a revised SLA was drafted in February 2003, the main changes being: <ol style="list-style-type: none"> a. The inclusion of audit rights. b. A move to provide some income through direct funding rather than through subscription. c. The introduction of observer rights on the HESA Board. • HESA's Chief Executive responded in May, raising objections to many points, but most notably to a HEFCE observer on HESA Board. Negotiations are, therefore, ongoing. • February 2003: After protracted negotiations, agreement has been reached on the SLA, which is currently being finalised. Next steps: <ul style="list-style-type: none"> • Finalise the SLA with HESA.

Institute of Learning and Teaching (ILT)		
AT RISK	Total Income for 2002-03	£Not yet known
	Funding received from HEFCE for 2002-03	£2.7m

<p>Key risks:</p> <ul style="list-style-type: none"> • ILT is only viable if it achieves breakeven membership. The new HE Academy makes this unlikely. • Management is considered weak. ILT has developed more slowly than expected and membership recruitment has been slow, partly because of perceived poor leadership. • ILT activities that support HEFCE objectives will be superseded by the Academy. The Academy would benefit from absorbing ILT's existing expertise, membership and data resources. If ILT does not join, the Academy will have to replicate activities, take longer to become effective, and risk HEFCE's objectives. • The ILT is very reluctant to join the Academy. It may try to undermine the Academy or compete with it, reducing the effectiveness of both. • HEFCE's conditions of funding, scrutiny rights etc. are not well documented. 	<p>Background:</p> <ul style="list-style-type: none"> • The ILT was set up in response to a Dearing recommendation to establish a professional institute for learning and teaching in higher education. It was launched in June 1999 and the four higher education funding councils provided initial funding (HEFCE contribution £1.6m). • Its purpose is to increase the profile and importance of teaching in HEIs so that it can rank alongside research as a long-term career aspiration for academics. Its approach is modelled on professional organisations in other industries such as the accountancy bodies, providing membership services on behalf of an annual payment. <p>Recent Developments:</p> <ul style="list-style-type: none"> • ILT's financial position is deteriorating and it is seeking the release of HEFCE funding to sustain cash-flow over the next few months. • In October 2003 the members voted to dissolve the ILT and transfer its net assets to the new Academy. This can only happen when the Academy becomes registered as a charity, which might be in February 2004. • HEFCE is making payments to sustain interim solvency, but these have been linked strictly to the timetable for implementing the agreed transfer into the Academy. Funding from January 2004 is within the context of overall funding for the Academy. • The request for additional funding gave HEFCE the leverage to impose proper grant conditions and gain monitoring and access rights. <p>Next steps:</p> <ul style="list-style-type: none"> • Continue to monitor both the financial position and the progress towards the dissolution and/or transfer of assets.
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Higher Education Academy	
AT RISK	<p>Total Income for the most recent financial year N/a</p> <p>Funding received from HEFCE for the same period N/a</p>
<p>Key risks:</p> <ul style="list-style-type: none"> • The current business plan is too restrictive so needs significant revision. • Delays in appointing essential, skilled staff after incorporation. • Confusion over the work to be absorbed by the academy: • HESDA is likely to join the Leadership Foundation but pass its quality assurance work to the academy. The ILT was reluctant to join but voted in October 2003 to do so. • The new academy might not be financially secure. • Sector support for the academy might be poor. • Methods of financing the new academy must be found that do not trigger a VAT liability. • The costs of LTSN subject centres might escalate, 	<p>Background:</p> <ul style="list-style-type: none"> • The Teaching Quality Enhancement Committee called for a review of the various initiatives designed to improve learning and teaching in HE, partly in the light of the experiences with the Institute for Learning & Teaching (ILT). • The proposal is to set up a new body that will draw together the various strands. These are currently being managed by HESDA, the ILT, the LTSN and the NCT. <p>Recent Developments:</p> <ul style="list-style-type: none"> • A more appropriate business plan has been produced; KPMG was engaged to check the financial aspects to ensure robustness. There has been one discussion between the HEA and HEFCE of the proposed budgets for the period to July 2004 and the year to 2004-05, both of which seem to require levels of subsidy beyond what seemed likely. • October 2003: Legal incorporation of the Academy took place. The interim board of three includes Leslie Wagner. • January 2004: Charitable registration achieved. • January 2004: Professor Paul Ramsden appointed as Chief Executive. He is currently PVC for Learning and Teaching at the University of Sydney. He will take up his post in August. • Discussions are underway with the other UK funding councils, to ensure consistency of approach, clear accountability with minimum burden, and clarity of priorities. Discussions are on-going as to the level of funding, annual grant funding letter, and funding agreement. • An interim project manager was engaged to support the change management work of Leslie Wagner. • Current proposals to make Academy subscriptions a condition of grant only received 29% support in recent FM consultation. Therefore, this condition of grant will be time-limited to three years, after which Academy will have to respond to the sector's needs to maintain subscriptions. • £1 million transitional funding was agreed to enable the Academy to operate until 31 March 2004. <p>Next Steps:</p> <ul style="list-style-type: none"> • Funding, mainly from the UKFCs and institutions, (whose subscriptions

<p>requiring either additional (HEFCE) funding or a reduction in outputs.</p>	<p>will be paid from HEFCE grants) will be assessed following a review of further revisions to the business plan and its underpinning budgets.</p> <ul style="list-style-type: none">• Further transitional and, in due course, recurrent funding will be subject to a series of accountability conditions set out in a formal funding agreement. The transitional funding agreement will also be subject to conditions about business plan development and value for money.• Discussions with UUK/SCOP will continue, with a view to ensuring that the sector's needs are addressed, as well as a good level of subscription.
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