

Institutional Risk Monitoring:

Categories 1 and 2* and Sector-wide

(including Related Bodies At Risk) and

Annual Overview of Risk Monitoring for Institutions and Related Bodies

B53/04e
Agenda Item 10
17 June 2004

Issue

1. Regular update on HEIs in Institutional Risk Categories 1 and 2*, Related Bodies At Risk, a list of all institutions by risk category, and annual overview of risk monitoring for institutions and related bodies.

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 full list of institutions by Institutional Risk Category (**Annex C**).
- c. The graph showing the time series for the numbers of institutions in Categories 1 and 2* (**Annex D**).
- d. The graph showing the materiality of institutions in Categories 1 and 2* in relation to the sector as a whole (**Annex E**).
- e. The related bodies At Risk and the action in hand on each of them (**Annex F**).

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 has interests in St George's Medical School and Wimbledon School of Art which are quoted as examples in paragraph 36.

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.

Institutions

Institutional Risk Category 1

9. The previous report to the Board on institutions in Category 1 was in February 2004 (B16/04e), when there were two institutions in this category:

[Text removed for publication]

- University of Luton..

10. Since then, one institution has moved out of Category 2*. The reasons and prognosis are as follows:

[Text removed for publication]

University of Luton

11. The University is commented on in detail in the separate paper B55/04e.

12. Only one institution, the University of Luton, remains in Category 1. The reasons for the institution being in Category 1, as well as action taken and planned, are given in **Annex A**.

Recommendation: To note the institution in Category 1 and the action in hand on it (**Annex A**).

Institutional Risk Category 2*

13. The previous report to the Board on institutions in Category 2* was in February 2004 (B16/04e), when there were nine institutions in this category. They were:

[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.

Since then, two institutions have moved into Category 2* and one has moved out. The **[Text removed for publication]** is commented on in paragraph 10, above. The reasons and prognosis are as follows:

[Text removed from table below for publication]

Institution	Reasons for change of Category
<p>Liverpool John Moores University</p> <p>IRC at 31.01.2004 - 2* IRC at 31.05.2004 - 2</p>	<p>LJMU was moved into IRC 2* in September 2003, following deficits forecast in all years. Although the 2002-03 accounts reported a deficit after a provision of £3.8m in respect of pension liabilities, the underlying result was much better than expected. The 2004 MYFR shows that the probable operating result for 2003-04 will be reduced from the forecast deficit of £1.1m to one of £0.5m. After adjustments, the probable result for 2003-04 will be a surplus of £0.5m. Liquidity is sound and, although still weak, there are sufficient signs of recovery to allay immediate concerns over financial health, hence the recommended move to Category 2.</p>

14. The following ten 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.
- Trinity College of Music.

15. 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

16. The table below gives details of movements in the number of institutions in each Category since those reported in the previous papers in November 2003 (B120/03e) and February 2004 (B16/04e), including those with Teacher Training Agency lead accountability.

Numbers of and Changes in Institutions by IRC								
Category	As at 01.08.03	As at 30.11.03	Changes in Category		As at 31.01.04	Changes in Category		As at 31.05.04
1	2	2	-	-	2	-1	-	1
2*	5	9	-4	+4	9	-1	+2	10
2	59	54	-13	+4	45	-3	+1	43
3	65	66	-	+9	75	-	+2	77
Total	131	131	-17	+17	131	-5	+5	131

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There has been only a small number of changes in category since the February 2004 report (B16/04e), the most significant of which has been the move of the **[Text removed for publication]** from Category 1 to Category 2*, following considerable progress.

17. Although the number of institutions in Category 2* has doubled since the beginning of the year, this masks a number of moves into and from the category, with most spending less time in the category than might earlier have been the case. Of the ten institutions now in the category, five are likely to remain there for the time being but the other five are expected to improve sufficiently to be moved from Category 2* in the short to medium term.

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

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

Materiality of Institutions in Institutional Risk Categories 1 and 2*

19. A graph is attached at **Annex E**, 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.

20. 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 E**).

Institutions with Significant Holdback

21. 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 below for publication]

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

Coventry University, London South Bank University and Staffordshire University (all Category 2)

22. All three institutions are expected to be able to manage the reduction in grant but continue to be monitored.

University of Luton (*IRC 1*)

23. The University is commented on in detail in the separate paper B55/04e.

[Text removed for publication]

Related bodies

24. The previous report to the Board on Related Bodies At Risk was in February 2004 (B16/04e), when the four 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):

	Annual	Approximate	
	£000	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
• 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.

eLearning and eUniversities group of companies

25. The eLearning and eUniversities group of companies causes by far the greatest concern amongst the related bodies considered to be At Risk. The Group is commented on in greater detail in a separate paper B56/04e to be presented to the board.

Higher Education Statistics Agency

26. Once the SLA is signed, and this is expected to be soon, HESA will no longer be considered to be at risk.

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Institute of Learning and Teaching

27. The ILT transferred its net assets and staff, etc to the Higher Education Academy on 1 May 2004, as planned, and so no longer exists and need not be considered a risk, although the final accounts will be monitored to ensure appropriate accountability, and because of any impact on the HEA.

Higher Education Academy

28. Additional funding has been agreed to take the HEA through to the end of July. It is anticipated that the HEA need no longer be regarded as At Risk after that.

29. The following three related bodies are considered to remain At Risk:

eLearning and eUniversities group of companies.
Higher Education Statistics Agency.
Higher Education Academy.

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

Annual Overview of Risk Monitoring for Institutions and Related Bodies

30. This part of the paper provides an overview of the risk monitoring process, the broad themes that have emerged in the past year and future developments. It makes particular reference to institutions in Categories 1 and 2*, and also to related bodies considered to be 'at risk'.

In contrast to last year, there has been an increase in the number of institutions in these risk categories, from 7 (an all time low since the current system of categorisation began in 1995) in June 2003 to 11 in June 2004. This number is still considerably below the peak of 20 in 1998-99. Of the five institutions in Category 2* in June 2003, the position of four improved sufficiently during the year for them to move into Category 2. In addition, a Category 1 institution [**Text removed for publication**] also made considerable progress and moved into Category 2*. Nine institutions moved into Category 2* this year and, at 31 May 2004, ten of them remained there.

31. In general terms, there are three main reasons why institutions get into difficulty:

- a. Management weakness.
- b. Significant under-recruitment or loss of other major sources of income.
- c. Risky large-scale projects, particularly involving merger or major estates development.

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32. The following table presents institutions in Categories and 2* during the year according to those broad themes, although there are often other factors that contribute to the overall high level of risk.

[Text removed from table below for publication]

Issue	Examples where significant progress has been achieved	Examples where further work is required
<p>Management issues, such as:</p> <ul style="list-style-type: none"> • Reluctance or slowness to address underlying structural difficulties. • Weaknesses in corporate and/or financial strategy. • Weak financial management and management information. 	<p>Liverpool John Moores University New strategic plan and return to surplus have improved the university's prospects.</p> <p>University of Luton New 'Development Plan' charts a credible strategy for improving recruitment and retention; financial viability is no longer a pressing concern.</p> <p>Norwich School of Art and Design Financial performance has improved, with income growing and costs under control.</p> <p>St George's Hospital Medical School Cost savings have improved the financial position, whilst strategic partnerships remain under discussion.</p>	<p>Conservatoire for Dance and Drama Monitoring arrangements for the growing number of affiliate institutions is under review.</p> <p>Courtauld Institute of Art Action plan to address weakness in financial operations is due this summer.</p>

Issue	Examples where significant progress has been achieved	Examples where further work is required
<p>Significant under-recruitment and/or loss of other income, at institutions with a relatively weak underlying financial position.</p>	<p>Wimbledon School of Art Reduced RAE funding has been successfully managed, and surpluses achieved; partnership with Kingston University is under discussion.</p>	<p>University of Greenwich [Text removed for publication] continues to make losses, as reserves have fallen to a very low level; a new action plan or</p>

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		exit strategy is needed.
Risky large-scale projects that stretch management capabilities and effort, at institutions where the underlying financial position is not strong.	<p>London Metropolitan University Merger has been achieved successfully, recruitment is stable, and financial results are satisfactory.</p>	<p>Dartington College of Arts Management is stretched by a large estates project, reliant on achieving a large increase in student numbers.</p> <p>Trinity College of Music Proposed merger with Laban raises concern about financial viability; Trinity also active on other projects.</p>

33. Unlike in previous years, very few institutions have had recruitment difficulties. The general pattern of Home/EU student demand has been strong, at a time when overseas recruitment has been expanding rapidly across the sector. **[Text removed for publication]** The University of Luton’s HEFCE contract numbers have continued the decline of recent years. In both cases, overseas recruitment has been buoyant, and this has to some extent mitigated the loss of income.

A key factor in the improvement of many institutions’ position has been management change: either new leadership bringing a different vision or approach to old problems, or new and credible strategies developed by existing management. As an example, the University of Luton’s new V.C. has engaged the University in a debate about its market position and how to improve both recruitment and retention. This is enshrined in the new ‘Development Plan’. Meanwhile, good cost control has avoided a financial crisis. Similarly, the **[Text removed for publication]** has more fully recognised its underlying weakness and worked on a new strategy to ensure institutional viability.

Four institutions moved into Category 2* this year because of inherently risky projects, which might in the long run strengthen their position, but whose scale threatens instability or crisis. **[Text removed for publication]** The viability of Dartington College of Arts’ estates project depends on achieving a large increase in student numbers, which is also a significant risk. Trinity College of Music continues to have ambitious plans, notwithstanding its relative financial weakness, and the proposed merger with the Laban Centre London, whatever the academic merits, presents a challenge to management. **[Text removed for publication]**

34. Although the overall number of institutions in Categories 1 and 2* has increased, we can expect some of them to be a better position within a few months. For example:

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- a. Conservatoire for Dance and Drama: we are awaiting confirmation that internal monitoring arrangements address our concerns.
- b. Courtauld Institute: likely to move back to Category 2 when it produces a comprehensive action plan to improve the operation of its finance function.

Greenwich: the University is expected to take decisions to avoid further **[Text removed for publication]** losses.

The Universities of Luton **[Text removed for publication]** continued improvement at both institutions should result in a downgrading of risk.

Emerging themes affecting institutional risk

Introduction of variable fees from 2006-07

35. The new fee regime from 2006-07 will create more of a market for Home/EU students. Whilst the sector as a whole will get more resources, the pattern of supply and demand may change rapidly, increasing the risk that some institutions will under-recruit or fail to manage change effectively. In addition, students facing greater costs may have different expectations of institutions, in terms of what and how services are provided. Many institutions will find it difficult to make the right pricing and investment decisions, and those that get them wrong may quickly get into financial difficulty.

Changes to the teaching funding method

36. A number of changes will be made to the teaching funding method from 2004-05, although these are not expected to affect institutions unduly. More far-reaching changes to the methodology will be considered later and these could potentially have a more substantial impact on institutions.

Increasing reliance on overseas recruitment

37. The large increase in the number of overseas students has brought a financial windfall, but greater reliance on this market also brings risks. Some institutions are very dependent on a small number of countries, such that changes in the international situation could have a serious adverse impact. The extra income has allowed many to subsidise other activities and avoid cost reductions that would otherwise have been necessary.

Borrowing and interest rates

38. The initial results of a study to be published later this year show that there has been a steady increase in the amount of borrowing in the sector as a proportion of income, and that more institutions are borrowing more money and for longer periods. This has been affordable at a time of low interest rates and improving surpluses.

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However, the prospect of interest rate rises and increasing volatility in both the home and overseas student markets might put a lot of pressure on relatively weak institutions.

Risks associated with connected and related bodies

39. Increasing interaction between institutions and connected or related bodies may, in some cases, give rise to risk. An example is issues currently arising between one or two universities and the Ufl. Guidance on related bodies is under preparation at the moment.

Related Bodies

40. For the first time we have brought related bodies fully within the risk monitoring system. We categorise them as either 'at risk' or 'not at risk'. When we first reported to the board, in September 2003 (B94/03e), we identified five bodies as being 'at risk', three of which remain in that category. The Leadership Foundation has now been properly established with a business plan. The Institute of Learning and Teaching no longer exists and its assets, liabilities and operations have been transferred to the Higher Education Academy.

41. By far the riskiest related body has been the 'e-University' venture: eLearning Holding Company Limited and UK eUniversities Worldwide Limited (UKeU). We have regularly reported to the Board this year (papers B8/04e, B17/04e and B32/04e) on progress with the business review. Having decided not to fund UKeU's revised business plan, we are now winding down operations, transferring the public good programmes to HEIs and seeking to dispose of the platform. All this will be completed within the next few months, at which point the 'e-University' will cease to exist.

Action taken by HEFCE for institutions and related bodies and institutions 'at risk'

42. The risk monitoring system is designed to identify institutions and related bodies getting into difficulty. Sources of information for our assessments include the three monitoring returns (annual accounts, mid-year finance return and financial forecasts), student data returns, funding changes, strategic options and business reviews, borrowing consent requests and bids to the Strategic Development Fund.

As reported to the board in December 2003 (B119/03e), we are in the process of fully articulating an Institutional Support Strategy, which will bring greater clarity to our response to institutions 'at risk' or 'at serious and urgent risk'. Increasingly we have set up internal project teams (for the, **[Text removed for publication]** Luton and the 'e-University', for example) to coordinate our activity and work with institutions or bodies. The actions we have taken or will consider taking in future with HEIs include:

- a. Increasing the extent of our engagement with an institution's senior management.
- b. Establishing and maintaining dialogue with its governing body.
- c. Requesting a recovery or action plan.

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- d. Seeking further specific information or assurances, including management accounts and audit reports.
- e. Requiring changes to an institution's audit arrangements.
- f. Encouraging a change in strategy.
- g. Negotiating bids to the SDF.
- h. Agreeing funding flexibility, for example to assist cash flow.
- i. Applying specific conditions of grant or conditions attached to borrowing consents.
- j. Brokering discussions on mergers or strategic alliances.

43. One important issue is whether, or how, we should notify institutions of our risk assessment. The principal benefit would be to remove any ambiguity as to the purpose of our engagement with them and focus senior management and governing bodies on what we consider to be the major risks. Such an explicit classification would also allow us to reduce the monitoring burden on institutions not considered to be 'at risk'. Any notification would have to be based on agreed, objective data. However, we are committed to directing more of our resources at institutions 'at risk', to hasten the pace of improvement.

Institutions in Institutional Risk Category 1		Annex A				
University of Luton						
IRC 2*	1/01	Student FTEs:	2002-03	2001-02	2000-01	1999-00
IRC 1	5/01	HE	8,099	8,363	8,960	9,732
		ALL	8,183	8,419	9,069	9,732
Key risks:		Action to date:				
<ul style="list-style-type: none"> Historically weak management, dealing with too many major problems. Severe decline in HEFCE-funded student numbers since 1999; 2002-03 and 2003-04 significantly under recruited. Poor student progression rates. History of unrealistic and over-optimistic financial forecasts. New "Development Plan" (2004) may not ensure institutional viability. 		<p>June 2001: Recovery Plan finalised.</p> <p>December 2001: 2001-02 recruitment showed a further decline, though within the range of the Recovery Plan.</p> <p>July 2003: Draft Financial Forecasts are wholly unrealistic.</p> <p>November 2003: Revised financial forecasts show HC surpluses between 1.2% and 2.4% of income.</p> <p>December 2003: 2003-04 recruitment below target and the previous year. 2003 HESES showed Luton to be 10.3% above contract, resulting in £2m holdback before £0.8m in-year moderation. A further drop in numbers likely as a result of smaller cohorts in the last two years.</p> <p>2002-03 accounts showed an HC surplus of £2.67m (5.2% of income), up from £1.8m in 2001-02, mainly due to cost reductions. Reserves increased to 13% of income, and liquidity reasonable.</p> <p>December 2003: The University explored options to re-finance high interest rate loans and leases, but this would be very costly.</p> <p>2004 MYFR and March management accounts show an HC surplus of £1m for 2003-04, as forecast. This result depends on cost reductions matching the decline in income and higher-than-budgeted redundancy costs.</p> <p>March 2004: Positive QAA developmental engagement in law department with confidence in academic standards and learning opportunities.</p> <p>April 2004: "Development Plan" and supporting financial forecasts received. This focuses primarily on:</p> <ul style="list-style-type: none"> Developing foundation degrees and HR provision in local FECs. Growth in selected subject areas. Improving conversion of applications and retention. Further growth of overseas and NHS student numbers. Culture change. <p>Luton requests that we allow funded growth of HEFCE numbers.</p> <p>An independent review of the Plan by JM Consulting concludes that it is a good plan, which addresses the core issues, and that it represents the right choices from the range of alternatives available to Luton. There are signs of positive culture change and widespread ownership of the Plan. The targets are challenging but 100% delivery is not required. Financial viability is not a concern at present.</p> <p>Next steps & Prognosis:</p> <ul style="list-style-type: none"> Formally respond to the Plan after the June board meeting. Agree key performance indicators and monitoring regime with Luton. University to continue sending monthly management reports. <p>The new Plan and the independent review have given confidence that the university is not in immediate crisis.</p> <p><u>Prognosis:</u> Consider move to IRC 2* in autumn 2004 if recruitment is on target and if the monitoring regime can be agreed.</p>				

Institutions in Institutional Risk Category 2* [Text removed for publication]	Annex B
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Conservatoire for Dance and Drama						
IRC 2*	¼	Student FTEs:	2002-03	2001-02	2000-01	1999-00
		HE	332	331	n/a	n/a
		ALL	332	331	n/a	n/a
Key risks: Note: CDD acts as an umbrella organisation for funding o prestigious dance and drama institutions (affiliates). <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. 		Action to date: 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 Financial Memorandum requirements. <ul style="list-style-type: none"> • CDD monitors each affiliate through an operating agreement. 2003 Financial forecasts: Minimal surpluses and low reserves (2% to 5% of income). C DD aims only to cover its costs before dispersing funds and has no need for future capital investment. 2002-03 financial statements: HC surplus of 1.5% of income, broadly in line with forecast. Reasonable net liquidity. 2004 MYFR: Small deficit, broadly in line with forecast. Liquidity reasonable. Conservatoire still at early stages of risk management. 12 May 2004: Principal assures us that monitoring of affiliates is in place. Next steps & Prognosis <ul style="list-style-type: none"> • Assurance Consultant to meet the FD on monitoring arrangements. • Assess progress in the improvement of management and implementation of monitoring process. • <u>Prognosis</u>: Consider move from IRC 2* if management and monitoring arrangements provide sufficient assurance as required by HEFCE. 				
Courtauld Institute of Art						
IRC 2*	¼	Student FTEs:	2002-03	2001-02	2000-01	1999-00
		HE	335	n/a	n/a	n/a
		ALL	335	n/a	n/a	n/a
Key risks: <ul style="list-style-type: none"> • Improvements needed to financial strategy, management information, risk management and appropriate levels of financial control. • Clear Strategic Plan not yet available. 		Action to date: August 2002: Significant endowments were made to the Institute on condition that it became a free-standing HEI rather than being a department of the University of London. HEFCE board agreed direct funding. 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. 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 £200,000 – better than the forecast HC deficit. Minimal surpluses forecast in future years. Liquidity OK. Management letter confirms the weaknesses highlighted in the review. 2004 MYFR: Projected HC surplus of £249,000 (2.9% of income) broadly as forecast. Net liquidity improved and acceptable. The Director and Accounting Officer is due to leave in September 2004.				

		31 March 2004: Annual regional team visit noted some progress. Next steps & Prognosis:															
		<ul style="list-style-type: none"> Follow up HEFCE audit in summer 2004. <u>Prognosis</u>: The completion of the finance office action plan by summer 2004 should allow a move back to IRC 2. 															
Dartington College of Arts																	
IRC 2*	09/03	<table border="1"> <thead> <tr> <th>Student FTEs:</th> <th>2002-03</th> <th>2001-02</th> <th>2000-01</th> <th>1999-00</th> </tr> </thead> <tbody> <tr> <td>HE</td> <td>419</td> <td>430</td> <td>407</td> <td>459</td> </tr> <tr> <td>ALL</td> <td>419</td> <td>430</td> <td>407</td> <td>459</td> </tr> </tbody> </table>	Student FTEs:	2002-03	2001-02	2000-01	1999-00	HE	419	430	407	459	ALL	419	430	407	459
Student FTEs:	2002-03	2001-02	2000-01	1999-00													
HE	419	430	407	459													
ALL	419	430	407	459													
Key risks: <ul style="list-style-type: none"> Deficits in each year from 1999-2000 to 2003-04. Large 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: Jan 2003: College awarded substantial ASNs (for its size) totalling 396 FTEs over the next 3 years. July 2003: Forecasts show deficits for 2002-03 and 2003-04, and then surpluses rising to 7.5% of Total Income in 2006-07, although the recovery is entirely dependent on funded growth. Dec 2003: Recruitment for 2003-04 around 445 students compared with 471 in funding agreement, but better than the 'worst case' position. May 2004: ASN award to be reduced by 180 FTEs. College to model financial impact of reduction in funding. Concern about loan affordability. College still unable to draw down loan as not meeting conditions precedent. Application to re-profile HEFCE grant from July to June received. Finance Director appointed (from University of Plymouth), but will not start until end of June. Principal will leave in summer 2004. 2004 MYFR shows deficit of £66,000 compared with £25,000 forecast. Next steps & Prognosis: Await financial modelling of ASN reduction from the college. <u>Prognosis</u> : To remain in IRC 2* at least until satisfactory recruitment shown in next academic year, confirmation that estates development running on time and budget, and confidence in senior management appointments															
University of Greenwich																	
IRC 2*	08/03	<table border="1"> <thead> <tr> <th>Student FTEs:</th> <th>2002-03</th> <th>2001-02</th> <th>2000-01</th> <th>1999-00</th> </tr> </thead> <tbody> <tr> <td>HE</td> <td>15,323</td> <td>13,901</td> <td>13,682</td> <td>13,170</td> </tr> <tr> <td>ALL</td> <td>15,323</td> <td>13,901</td> <td>13,710</td> <td>13,196</td> </tr> </tbody> </table>	Student FTEs:	2002-03	2001-02	2000-01	1999-00	HE	15,323	13,901	13,682	13,170	ALL	15,323	13,901	13,710	13,196
Student FTEs:	2002-03	2001-02	2000-01	1999-00													
HE	15,323	13,901	13,682	13,170													
ALL	15,323	13,901	13,710	13,196													
Key risks: <ul style="list-style-type: none"> Deficits have depleted reserves, and break-even only is forecast for future years, even after cost savings. Further deficits could breach bond covenants. 		Action to date: [Text removed for publication] losses of [Text removed for publication] between 1999 and 2002) forced a major restructuring programme. October 2003: V.C. to move to Kings College London in August 2004. Baroness Blackstone appointed new V.C. to start in September 2004. 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 one-off costs, Greenwich would have achieved a break-even underlying operating position. Reserves reduced to 2.7% of income. Net liquidity remains healthy. 2004 MYFR: Small HC surplus of £500,000 (0.4% of income), as previously forecast. [Text removed for publication] still struggling and expected to incur further loss [Text removed for publication] in 2003-04 with further staff cuts. Liquidity remains healthy. University may approach HEFCE for help in the event of major and potentially [Text removed for publication]															

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	<p>costs.</p> <p>Next steps & Prognosis: Annual visit on 11 June.</p> <p><u>Prognosis:</u> The provision of a satisfactory action plan by December 2004, either to prevent further [Text removed for publication] or to provide a realistic exit strategy, would enable Greenwich to move out of 2*.</p>
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Trinity College of Music						
IRC 2*	01/04	Student FTEs:	2002-03	2001-02	2000-01	1999-00
		HE	456	459	533	534
		ALL	456	459	533	534
Key risks		Action to date:				
<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. Small institution dealing with a plethora of initiatives. 		<p>December 2003: Merger project team established.</p> <p>2002-03 accounts: Large HC deficit (5.7% of income), negative net liquidity and very low current ratio (much worse than forecast); ASC at 2.8%.</p> <p>2004 MYFR: Forecast surplus reduces from 3.3% to 1.4% of income, due to additional expenditure. Net liquidity is positive but very weak.</p> <p>April: Laban reveals a VAT liability of between £0.6m and £1.5m and liquidity problems; the merger is on hold until this is resolved. Due Diligence also highlights problems with financial management and deficits.</p> <p>28 April: Assurance Consultant assesses Laban's risk management, control and governance to be performing well under its current regulatory framework, though higher standards will be needed in future.</p> <p>17 May: Meeting with both institutions. Laban queries the Due Diligence findings and assessment of its financial prospects. The merger is now postponed until December 2004.</p> <p>Next steps & Prognosis: Await finalisation of the Due Diligence report on Laban and resolution of its VAT and liquidity issues. Await forecasts for the merged institution.</p> <p><u>Prognosis:</u> To remain in Category IRC 2* until there is sound evidence that the merged institution will be financially viable and stable.</p>				

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Related Bodies - At Risk

Annex F

eLearning Holding Company Ltd / (UK eUniversities Worldwide Ltd)					
Relationship Manager: Alice Frost					
AT RISK	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">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;">£33.6m</td> </tr> </table>	Total Income for 2002-03	£0.005m	Funding received from HEFCE to date	£33.6m
Total Income for 2002-03	£0.005m				
Funding received from HEFCE to date	£33.6m				
<p>Current key risks:</p> <ul style="list-style-type: none"> • HEIs are not engaged in the venture. • In carrying out his duties as Accounting Officer, HEFCE chief executive could be 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. • Poor final decision leads to waste of resources, damaged reputation and adverse impact on staff, students and HEIs. • Platform disposal is not handled effectively, leading to poor VFM and legal exposure. 	<p>Background</p> <ul style="list-style-type: none"> • eLearning is a company limited by guarantee whose members include 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 grant-aids eLearning to invest in shares in UKeU, with funding capped at £55m. The total HEFCE commitment is £62m, including "public good" activities. • 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 programmes. • 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. • A Sub-Group of the HEFCE Board oversees the review process. <p>Action to date:</p> <ul style="list-style-type: none"> • February 2004: HEFCE Board decides not to fund UKeU's (revised) business plan but to "wind-down and restructure" activities. • A company doctor from Robson Rhodes appointed executive deputy chairman, to run the company. • HEFCE funding is subject to demonstration of need. • Public good programmes are being transferred to HEIs. • Redundancies in April have reduced the cost base. • Work continues to complete the platform in June. • We are seeking disposal of the platform to a third party; expressions of interest by 21 May, and offers by 11 June. <p>Next Steps & Prognosis:</p> <ul style="list-style-type: none"> • Continue to work with UKeU on the wind down. • The board sub-group continues to meet fortnightly. • Report back to the Board in June with "preferred bidder" details. • Resolve disengagement from HEIs. • Provide a minimal level of funding during this period. • Maintain dialogue with Ministers and other key stakeholders. • Continue to work on a communications/media strategy. • Prognosis: When the platform is disposed of and liabilities are settled (if this a solvent wind-down), all operations will cease. 				

Higher Education Statistics Agency (HESA)	
Relationship Manager: John Thompson	
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 a 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. Based in Cheltenham, it 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. Recent Developments: <ul style="list-style-type: none"> • A revised SLA was drafted in February 2003, the main changes being: <ul style="list-style-type: none"> ○ The inclusion of audit rights. ○ A move to provide some income through direct funding rather than through subscription. ○ 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 an HEFCE observer on the HESA Board. • February 2004: Agreement now reached on the SLA. Next steps & Prognosis: <ul style="list-style-type: none"> • There has been some slippage on progress. The aim is to get a CEG paper with the draft SLA to go to HESA very soon. <u>Prognosis:</u> Once the SLA is signed, HESA will no longer be considered at risk.

Higher Education Academy		
Relationship Manager: Sheila King		
AT RISK	Total Income for the most recent financial year	N/a
	Funding received from HEFCE for the same period	N/a
<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. • The ILT was reluctant to join but voted in October 2003 to do so. • The new academy might not be financially secure. • Proposals for mandatory subscription by HEIs only received 29% support in recent FM consultation. So, this condition of grant has been limited to three years, by when the Academy will have to be marketing and providing a good service to secure future subscriptions. • Methods of financing the new academy must be found that do not trigger a VAT liability. • The costs of LTSN subject centres might escalate, requiring either 	<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 new HE Academy will draw together the various strands, including those currently being managed the ILT, the LTSN and the NCT. <p>Recent Developments:</p> <ul style="list-style-type: none"> • October 2003: Legal incorporation of the Academy took place. The interim board of three chaired by Leslie Wagner (LW). • An interim project manager John Webster (JW) was engaged to support the change management work. • January 2004: Professor Paul Ramsden appointed as Chief Executive. He will take up his post in August. • March 2004: Project team met LW and JW to discuss long-term business planning, transitional management (including finance systems) and governance arrangements. Concerns expressed and partly allayed in exchange of correspondence. • April/May 2004: Most senior appointments made; interim finance director appointed. Robson Rhodes appointed to bolster project management process. • Discussions continue with the other UK funding councils, to ensure consistency of approach, clear accountability with minimum burden, and clarity of priorities. • £1m transitional funding has been agreed to enable the Academy to operate until June 2004. Discussions continue as to the level of funding from August and the terms of the funding agreement. • 1 May: Completion of transfer of staff, assets and liabilities from the ITL (including LTSN executive and generic centre). <p>Next Steps & Prognosis:</p> <ul style="list-style-type: none"> • Long-term funding, mainly from the UKFCs and institutions, (whose subscriptions will be paid from HEFCE grants) will be assessed in early 2005 following a review of the new business plan and its underpinning budgets. Funding from 1 August 2004 will be considered to be transitional, based on the sum of the component parts. • All funding will be subject to a series of accountability conditions set out in a formal funding agreement. The transitional funding 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. • <u>Prognosis:</u> The Academy will continue to be at risk until at least the end 	

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additional (HEFCE) funding or a reduction in outputs.	of 2004, when it should be possible to make early judgements on its performance and to review its draft business plan.
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