

Institutional Risk Monitoring:
Categories 1 and 2*
(including Related Bodies "at risk")

B71/04e
Agenda Item 7
16 September 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. None.

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.

Accountability burden impact

8. The institutional risk system is a risk-based approach to monitoring the health of institutions. Therefore for those institutions (and related bodies) where there is limited concern the accountability burden is minimal. However our interaction with institutions that have greater concern (i.e. those in institutional risk categories 1 and 2*) will increase the demands placed on them, in line with the institutional support strategy, but only in proportion to the risks seen at the institutions.

Public Presentation

9. 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

10. The previous report to the Board on institutions in Institutional Risk Category (IRC) 1 was in June 2004 (B53/04e), when only the University of Luton was in this category. Since then the Birmingham School of Acting, a connected institution of the University of Central England (UCE), has been moved into IRC 1.

Birmingham School of Acting

11. The Birmingham School of Acting (BSA) is a financially weak institution that has made annual deficits for a number of years that have culminated in negative reserves totalling £646,000 (50 per cent of total income). BSA is a connected institution of UCE and as such HEFCE funding for the school is made through UCE. In April, the University informed HEFCE that BSA was facing increased financial difficulties following the introduction of HEFCE mainstream funding, agreed by the Board in January 2004 (B9/04e). The increased financial pressures were due to the fact that when the students were funded through the Dance and Drama Award scheme the school was able to collect significant fees upfront to assist its cash flows over the summer months. The change to HEFCE mainstream funding has increased the pressure on the poor liquidity position. In April the school's bank withdrew its overdraft facility, which put the school in a precarious position. UCE, with HEFCE's agreement, has pre-paid some of the school's 2004-05 funding to solve cash flow problems over the summer.

12. Since the initial contact from UCE there have been various meetings with the University and School, which have resulted in an agreement for the University and HEFCE to jointly fund an independent consultancy report into the financial and academic viability of BSA. Final reports have now been received from the consultants, and the three options suggested were:

- a. Do nothing. This would lead to the school going into liquidation very rapidly and would require HEFCE intervention to secure the position of the existing students. This, is therefore not seen as an appropriate option, since it would effectively mean the closure of the school.
- b. Close down BSA. If HEFCE wanted to ensure that current students complete their studies at the school there would be an additional cost to HEFCE of £1.2million. Academically, this would see the loss of a distinctive high quality provision not just nationally, but more importantly the only such provision in the Midlands.
- c. Restructuring to secure provision. Consultants recommended that the provision should be secured, but noted that the school, by itself, was unlikely to be able to restructure significantly in the short-term to improve the financial position. Therefore the recommended option was to maintain provision through a restructuring involving UCE.

13. The Chief Executive agreed to the recommendation, and authorised the Director (Widening Participation) to negotiate with UCE the transfer of BSA into the UCE group. An absolute financial upper limit of £2million for the period until July 2006 was set for negotiations with UCE. A positive initial meeting was held with UCE on 3 September 2004, and negotiations continue to agree a long term solution for BSA.

14. The reasons for both the University of Luton and Birmingham School of Acting 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*

15. The previous report to the Board on institutions in Category 2* was in June 2004 (B53/04e), when there were ten institutions in this category. They remain in IRC 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

[Text removed for publication]

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 paper in June 2004 (B53/04e), including those with Teacher Training Agency lead accountability. There have been no changes in categories since the end of May, apart from Birmingham School of Acting being monitored as a category 1 institution. For the purposes of consistency, and because the school is not a directly funded HE institution, it has been excluded from the following statistics (including graphs).

Numbers of and Changes in Institutions by IRC				
Category	As at 31.05.04 (B53/04e)	Changes in Category		As at 01.09.04
1	1	-	-	1
2*	10	-	-	10
2	43	-	-	43
3	77	-	-	77
Total	131	-	-	131

17. 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*

18. 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.

19. 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**).

Financial forecasts

20. At the end of July all institutions were asked to submit five year financial forecasts. The Board will receive a full paper on the outcomes of these forecasts at its meeting in November. There are two main sector wide issues that have been analysed, namely the impact of variable fees and the implementation of the national single pay spine.

21. Institutions were asked to indicate the additional income and associated expenditure relating to the introduction of variable fees in 2006-07 and 2007-08. 100 out of 131 institutions included an estimate of the financial impact of variable fees.

22. For the 100 institutions that did provide forecasts significant additional income was forecast in 2006-07 rising in 2007-08 to reflect a second cohort of students. For these 100 institutions variable fee income is expected to amount to an additional £746million (4.7 per cent of total income) in 2006-07 and £1,402m (8.5 per cent) in 2007-08. After taking into account forecast additional expenditure, which averaged 62 per cent of the additional variable fees, the aggregate benefit to institutions reduces to a net gain of £284million and £542million in 2006-07 and 2007-08 respectively for those who have provided a forecast.

23. Overall the sector is expecting a positive impact on its financial position following the introduction of variable fees. So there appears to be few additional risks to the sector. **[Text removed for publication]** The assumption relating to variable fees adds another risk to the ones already in existence.

24. The Universities and Colleges Employers Association (UCEA) reached an agreement with seven campus unions for the movement to a single pay spine structure from August 2004 (although there is local discretion to delay the start date). In the financial forecasts 56 institutions have explicitly shown some provision for the effects of assimilation into the national pay spine. It is worth noting that although only 42 per cent of the total number of institutions included a clear provision, they represent 53 per cent in terms of recurrent staff costs for the sector. For these institutions, by 2007/08 the increase attributed to the national agreement stabilises at an additional 2.7 per cent of recurrent pay costs in 2004-05. A number of institutions are expecting to pay for these increases from the additional income from variable fees.

25. None of the institutions in IRC 1 or 2* has explicitly included the effects of the single pay spine. This means that some of the institutions could be facing a worse financial position than forecast. The HEFCE Assurance Service is currently in the process of engaging with these institutions to clarify the underlying assumptions and discussing how they will manage any additional costs. An update on this will be provided in the next institutional risk paper in December.

Related bodies

26. The previous report to the Board on Related Bodies “at risk” was in June 2004 (B53/04e), when the three Related Bodies below were considered to be “at risk”. (Income and HEFCE grant refer to the most recent financial year and are intended to give an indication of scale):

	Approximate Annual Income	HEFCE Grant
	£000	£000
• eLearning and eUniversities group of companies	*	38,700#
• Higher Education Statistics Agency (HESA)	1,900	Nil
• Higher Education Academy (HEA)	None - being set up	

* Income has been minimal. # Total funding received from HEFCE to date.

27. Since the last meeting the Higher Education Academy (HEA) has been reclassified as ‘not at risk’. This is due to the HEA addressing the main risks associated with establishing the Academy. Key personnel at the HEA have made progress on audit and governance issues including the establishment of an audit committee. The HEA is committed to satisfying our planning requirements, and the initial project plan has been superseded by an operating plan. A new Chief Executive started in post on 1 August 2004, and the HEA appears now to be in an embedding phase. The HEFCE relationship manager will continue to maintain an oversight on the HEA.

28. The following two related bodies are considered to remain “at risk”:

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

Recommendation: To note the related bodies “at risk” and the action in hand on each of them (**Annex E**).

A

		University of Luton				
IRC 1	May 2001	Student FTEs:	2002-03	2001-02	2000-01	1999-00
<u>Previous:</u>		HE	8,099	8,363	8,960	9,732
IRC 2*	Jan 2001	ALL	8,183	8,419	9,069	9,732
<p>Key risks:</p> <ul style="list-style-type: none"> • Severe decline in HEFCE-funded student numbers since 1999; 2002-03 and 2003-04 significantly under recruited. • Heavy dependence on overseas students. • Poor public and press image. • Poor student progression rates. • History of unrealistic and over-optimistic financial forecasts. • New "Development Plan" (2004) assumes strong growth in student numbers. 		<p>Action to date:</p> <ul style="list-style-type: none"> • June 2001: Recovery Plan finalised. • December 2001: 2001-02 recruitment showed a further decline, though within the range of the Recovery Plan. • November 2003: Revised financial forecasts show HC surpluses between 1.2% and 2.4% of income. • 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. • 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. • 2004 MYFR shows 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. • April 2004: "Development Plan" and supporting financial forecasts received. This focuses primarily on: <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. • 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. • HEFCE Board agreed proposals for release of repayable grant in January 2005 and in principle agreement to provide headroom growth - both subject to putting in place clear monitoring arrangements and achievement of HEFCE recruitment targets. • July 2004: HESA-HESES reconciliation reveals £2.4m over-funding for 2001-02 through 2003-04, though no impact on 2004-05 baseline. • August 2004: Five year forecasts, based on the ambitious recruitment targets in the Development Plan, predict healthy results to 2007-08. • Discussions with the British School of Osteopathy (BSO) regarding an indirect funding arrangement for 348 students are continuing. This would help the University meet its HEFCE student number contract. <p>Next steps & Prognosis:</p> <ul style="list-style-type: none"> • Finalise key performance indicators and monitoring regime with Luton. • Agree treatment of £2.4m holdback and monitor discussions with BSO. 				

	<ul style="list-style-type: none"> • University to continue sending monthly management reports. • <u>Prognosis</u>: Consider move to IRC 2* in autumn 2004 if recruitment is on target and if the monitoring regime can be agreed.
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Birmingham School of Acting (BSA)	
IRC 1	Aug 2004
Connected Institution of the University of Central England (UCE)	
2003-04 Full-time Student Numbers: 144	
<p>Key risks:</p> <ul style="list-style-type: none"> • Financially weak institution with cumulative deficits of £646,000. • Liquidity problems: BSA reliant on 'up front' grant payments by UCE/HEFCE (£380K between April and July in 2004). • Cash flows in future years will be reliant on 'upfront' support. • Bank has withdrawn overdraft facility, leading to increased liquidity pressures. • No assets, and current buildings are on short-term leases • Fixed costs are too high for the current level of student numbers (although demand for courses is strong). • Unrealistic business plan • Limited management capacity (due to size) 	<p>Action to date:</p> <ul style="list-style-type: none"> • 1999: BSA joins the Dance and Drama Award (DaDA) scheme with UCE as the connecting institution. • 2003: BSA bids for funding following the transfer of the DaDA scheme from DfES to mainstream HEFCE funding. The Board (B9/04e) agrees that BSA should receive 126 out of the 140 places bid for. • April 2004: UCE informs HEFCE that the BSA is facing increased financial difficulties following the introduction of HEFCE mainstream funding. BSA's bank withdraws overdraft facilities worsening cash flow problems. UCE ask for HEFCE's approval to pre-pay some of the 2004-05 grant to BSA to tide it over the summer months. • May 2004: Meeting with UCE and BSA indicates that the school's financial position is more serious than merely problems of cash-flow. It was agreed that HEFCE and UCE would jointly fund a consultancy study to look at BSA's longer-term financial and academic viability. BSA asked not to recruit any students for 2005-06 entry. BSA produce business plan for period 2004-07, which forecast improvements. • July 2004: Consultants produce an interim report on BSA. The financial summary shows that the school is not viable as it stands and the only choices facing the school are closure, restructure or merger with another institution. The BSA business plan is noted to be based on 'unrealistically optimistic assumptions'. Academically BSA's courses are well regarded, of high quality and national distinctiveness and offer the only such provision in the Midlands. • In 2003-04 BSA is due to make a loss of £118,000 from income of £1.3m, and it will have negative reserves of £646,000. The school has no cash reserves and only has a positive bank balance because of UCE's phased advance of £380,000 of the schools 2004-05 grant. • Aug 2004: Final reports received from consultants. Three options are put forward with the cost of closure put at an additional £1.2m to HEFCE. Some restructuring is possible, but in the short-term BSA would not be able to make sufficient changes to be financially viable. The consultants recommend a preferred solution of UCE taking over BSA. • CEG discussion on options, recommendation is that a discussion with UCE is undertaken to negotiate the transfer of BSA into the UCE group. CEG agree to negotiate to an absolute financial upper limit of £2m (£800k beyond the cost of closure), for the period until July 2006, in order to preserve the provision in the longer term. • 3 Sept: Initial positive meeting with UCE to discuss potential transfer. <p>Next steps & Prognosis:</p>

	<ul style="list-style-type: none"> • Negotiations with UCE continue with regards the transfer of BSA into the UCE group. A long term solution is being sought. • <u>Prognosis</u>: BSA will remain at risk until HEFCE and UCE can come to an agreement over the transfer of BSA.
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Institutions in Institutional Risk Category 2*

Annex B

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Conservatoire for Dance and Drama						
IRC 2*	Jan 2004	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:	Action to date:					
<p><u>Note</u>: CDD is an umbrella organisation for funding 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 accountability processes for affiliates not clear. • Unacceptable reporting to HEFCE because of affiliate accountability issues. 	<p>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.</p> <ul style="list-style-type: none"> • CDD monitors each affiliate through an operating agreement. <p>2004 MYFR: Small deficit, broadly in line with forecast. Liquidity reasonable. Conservatoire finalised risk management arrangements in July 2004.</p> <p>July 2004: appointed a permanent finance director, aiming to strengthen the management and monitoring process.</p> <p>Aug 2004: financial forecasts show marginal surpluses and reasonable net liquidity throughout.</p> <p>Next steps & Prognosis</p> <ul style="list-style-type: none"> • Assurance Consultant awaiting response from Principal about how the Conservatoire monitors the affiliates. • 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*	Jan 2004	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:	Action to date:					
<ul style="list-style-type: none"> • Improvements needed to financial strategy, management information, risk management and appropriate levels of 	<p>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.</p> <p>HEFCE cyclical audit in January 2004 confirms concerns about financial strategy, management and control. Action plan prepared.</p> <p>2002-03 financial statements: Small HC surplus £200,000 – better than the forecast HC deficit. Minimal surpluses forecast in future years. Liquidity OK.</p>					

<p>financial control.</p> <ul style="list-style-type: none"> Vacancies or staff changes in key posts: Director, Finance Director and HR Manager. 	<p>31 March 2004: Annual regional team visit noted some progress. Aug 2004: Financial Forecasts show a deficit of -£334k is forecast for 2004-05 with surpluses thereafter. Reserves are adequate. New Director appointed as from autumn 2004. New HR manager also to start in the autumn. Finance Director left suddenly July 2004 and yet to be replaced. Temporary financial support is being brought in. HEFCE Audit followed up August 2004, most non-financial issues resolved, but many financial management issues will not be resolved until a new Finance Director is in place. Next steps & Prognosis:</p> <ul style="list-style-type: none"> <u>Prognosis:</u> Prompt and satisfactory FD appointment, establishment of satisfactory financial strategy, management and control systems over the next 6 months should allow a move back to IRC 2. 					
Dartington College of Arts						
IRC 2*	Sept 2003	Student FTEs:	2002-03	2001-02	2000-01	1999-00
		HE	419	430	407	459
		ALL	419	430	407	459
<p>Key risks:</p> <ul style="list-style-type: none"> Deficits in each year from 1999-2000 to 2003-04. Large student number growth to manage (around 50% growth over 3 years). Large estates project, which is reliant on achieving student number growth to help fund the development. Management overstretched. 	<p>Action to date:</p> <p>Jan 2003: College awarded substantial ASNs (for its size) totalling 396 FTEs over the next 3 years. Dec 2003: Recruitment for 2003-04 around 445 students compared with 471 in funding agreement, but better than the 'worst case' position. Funding reduced by £221K, but will have second chance to recover this in 2004-05 May 2004: ASN award to be reduced by 180 FTEs. College has now drawn down the first instalment of the loan for the estates project, so cash flow concerns relieved in the short term. Finance Director now started at the college. A new Principal has also been appointed and will start in September. Aug 2004: Financial forecasts show weak surplus position – underlying deficit or breakeven position forecast in each year except 2005-06. Net liquidity reduced to £127K (9 days cover) by 2007-08. Variable fees increase the surplus to around £0.2m (3% of total income). Income assumptions appear cautious after 2004-05, although staff costs appear low Next steps & Prognosis: Obtain regular updates on recruitment position. <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</p>					
University of Greenwich						
IRC 2*	Sept 2003	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
<p>Key risks:</p> <ul style="list-style-type: none"> Text removed for publication] and property write- 	<p>Action to date:</p> <p>Text removed for publication] losses of Text removed for publication] between 1999 and 2002) forced a major restructuring programme. 2002-03 financial statements: HC deficit £7.5m (6.6% of income) following</p>					

<p>downs have depleted reserves.</p> <ul style="list-style-type: none"> • Net Historic Costs position not improving from break-even • Further deficits could breach bond covenants. 	<p>major property write down and further restructuring depleted reserves. The underlying position was break-even. Net liquidity remains healthy.</p> <ul style="list-style-type: none"> • Regional team visit on 11 June. Audit visit 29 June. [Text removed for publication] • 21 July: Meeting with the Finance Director to consider 2004 Financial Forecasts and overall financial position of Greenwich. Overall surplus of £2.5m forecast in 2004-05 due to capital receipt, Breakeven forecasts thereafter. [Text removed for publication] <p>Baroness Blackstone appointed new VC to start in September 2004.</p> <p>Next steps & Prognosis: <u>Prognosis:</u> Await 2003-04 final accounts and 2004 recruitment, then consider move to category 2.</p>															
Trinity College of Music																
<p>IRC 2* April 2004</p>	<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>456</td> <td>459</td> <td>533</td> <td>534</td> </tr> <tr> <td>ALL</td> <td>456</td> <td>459</td> <td>533</td> <td>534</td> </tr> </tbody> </table>	Student FTEs:	2002-03	2001-02	2000-01	1999-00	HE	456	459	533	534	ALL	456	459	533	534
Student FTEs:	2002-03	2001-02	2000-01	1999-00												
HE	456	459	533	534												
ALL	456	459	533	534												
<p>Key risks</p> <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 many initiatives. 	<p>Action to date:</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 smaller surplus, net liquidity positive but very weak.</p> <p>April 2004: Laban reveals a large VAT liability and liquidity problems. 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 reasonable with respect to its current regulatory framework, though some cultural change will be necessary to meet HEFCE regulatory requirements. Merger financial forecasts still not available.</p> <p>28 June: Further update on merger issues. VAT liability now agreed at £0.7m (to be paid over ten years), and merger postponed until August 2005.</p> <p>Aug 2004: financial forecasts show surplus of 1.5%-3% of income for each year with very weak net liquidity throughout. The forecasts do not include the costs of the merger and new single pay spine, therefore appear unreliable. The financial position could be worsening in the medium term.</p> <p>Next steps & Prognosis:</p> <p>Still awaiting finalisation of Due Diligence report on Laban and resolution of its financial position and liquidity. 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>															

Related Bodies – At risk		Annex E
eLearning Holding Company Ltd / (UK eUniversities Worldwide Ltd)		
Relationship Manager: Alice Frost		
AT RISK	Total Income for 2002-03 Funding received from HEFCE to date	minimal £38.7m
<p>Current key risks:</p> <ul style="list-style-type: none"> • In carrying out his duties as Accounting Officer, HEFCE chief executive could be considered to act as a shadow director. • Participating HEIs may become disengaged from eLearning activity. • Adverse outcome of Select Committee hearing may undermine public confidence in HEFCE. 	<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 has grant-aided eLearning to invest in shares in UKeU, with funding capped at £55m, although recently HEFCE has directly funded UKeU. The total HEFCE commitment is capped at £62m, including “public good” activities. • 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. • Public good programmes have been transferred to HEIs. • Redundancies in April and July leave few staff employed by UKeU. • June: In the absence of satisfactory offers from third parties for the platform, the entire business is being wound up. • HEIs have transferred students to other platforms. • 30 July: UKeU has reached a creditors voluntary arrangement (to be confirmed by 27 August). Smith & Williamson are the joint supervisors, tasked with realising the assets and making payments to creditors. The initial deadline for completion of the CVA is 30 April 2005. Our board has agreed to provide £4.5m funding to cover staff redundancies, a contribution to the CVA, and settlement of sums owed to HEIs. • To the extent that English HEIs do not receive payment in full under the CVA, we intend to provide development funding for continuing eLearning activity. • June/July: Select Committee hearings, with a report due in the autumn. <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 oversee the process. • Maintain dialogue with Ministers and other key stakeholders. • Continue to work on a communications/media strategy. • <u>Prognosis:</u> When the CVA is in place and payments are made, the UKeU will cease to exist. 	

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
<p>Key risks:</p> <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. 	<p>Background:</p> <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. <p>Recent Developments:</p> <ul style="list-style-type: none"> • A revised SLA was drafted in February 2003, the main changes being: <ul 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 an HEFCE observer on the HESA Board. • February 2004: Initial agreement now reached on principles of SLA, detail to be agreed. <p>Next steps & Prognosis:</p> <ul style="list-style-type: none"> • There has been some slippage on progress. HESA agrees in principle to the contract but has raised a number of questions including that of TUPE liability. Discussions will continue on agreeing the SLA. • <u>Prognosis:</u> Once the SLA is signed, HESA will no longer be considered at risk. 	