CIPFA The Chartered Institute of Public Finance & Accountancy

STRATEGIC CASE STUDY

Strategic stage

ADVANCE MATERIAL AND EXAM DAY MATERIAL

08 June 2021

Time allowed: 3 Hours 30 minutes

All questions must be answered. The weightings for each question are indicated.

The examination has been prepared on the assumption that candidates will not have any detailed knowledge of the type of organisation to which it refers. No additional merit will be accorded to those candidates displaying such knowledge.

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NOTES TO CANDIDATES

i) Answers to be prepared as on 8 June 2021 by Blake Woodford, a Finance Manager employed by Dovetown University.

i) All calculations and diagrams provided in source materials should be assumed to be arithmetically correct.

EXAM QUESTIONS

1	Prepare a briefing paper for the Vice Chancellor on the impact of the COVID-19 pandemic on Dovetown University's operations, and the implications for its strategic and financial planning.	**45%**
2	Prepare a draft report for the Dovetown University board of trustees that evaluates a move to a greater proportion of distance learning provision over the coming five years.	**55%**

Loaland

Loaland is an independent country with a population of approximately 60 million people. The national currency is the Loalandian pound (£), which has parity with the United Kingdom (UK) pound. It is a parliamentary democracy, and members of the national parliament are elected for a term of up to five years in single-member constituencies. English is the primary language spoken and used for business.

Loaland's national welfare state provision includes a national health service, some social housing provision, and free education up to the age of 18. These services are funded through national income taxes on residents and companies.

A local tax is administered by sub-national local government organisations, and is based on property values for both businesses and households. Local government organisations also receive income from central government grants (general and ring-fenced), from user charges on certain services, and from other commercial sources. Revenues from these sources fund the provision of local transport and highways, refuse collection, some aspects of local school provision, and other local services.

Loaland has significant naturally-occurring resources such as oil, and an ambient climate that supports wide-ranging agricultural production, and is therefore an affluent country. However, it also has areas of significant deprivation, with poor health outcomes amongst parts of the population, problems that are linked at least in part to low educational attainment for some parts of society.

There are two main political parties in Loaland. Since 2007, the party in power nationally, with a sizeable majority, has been the Loaland Constitutionalist Party (LCP), which is largely conservative and favours a free market economy with low levels of government regulation. The opposition party is the Loalandian People's Party (LPP), a party with socialist roots which favours more state intervention seeking to ensure social justice and equal opportunities for all. The LPP appears to be obtaining increasing levels of support for its plans to address deprivation and improve educational attainment in all areas of Loaland. The next national election is in 2022, and recent opinion polls are suggesting that LPP may win a majority of the seats at that election.

School education is provided for free to all Loalandian children aged 4 to 18, and attendance at school is compulsory from 4 to 16. Overall, the country has a high standard of literacy and numeracy. Almost half of all school leavers go on to some form of higher education.

The Loaland national parliament passed a new Equalities Act in 2018, which made it illegal to explicitly or implicitly discriminate, in the workplace or in wider society, on the basis of gender, age, ethnicity, religion, disability, sexual preference and a range of other protected characteristics.

Higher education in Loaland

Loaland has a variety of higher education opportunities for students over the age of 18, provided by universities and vocational colleges. Higher education is regulated and part-funded by a central government office, the Higher Education Funding Board (HEFB).

Loaland has 90 universities, offering a wide range of degree programmes for students from Loaland (home students) and from around the world (international students). In Loaland, 'University' is a protected name and may only be used by institutions that have been granted university status by HEFB.

In order to be granted university status, an institution has to go through a rigorous application process, its teaching must be of a certain standard, and the institution must also devote a proportion of its resources to research. Once granted university status, there is ongoing light-touch regulation by HEFB to ensure that the university continues to meet these requirements, and that its finances are stable.

Universities are the only bodies in Loaland with the ability to award Bachelors and Masters degrees, and Doctorates in Philosophy (PhDs). Loalandian employers have historically placed a high value on university education, and workers with degrees have tended to attract much higher average salaries in Loaland than school leavers who did not go onto university education.

On average, around 15% of a university's funding comes from HEFB, in the form of research grants and teaching grants. Around 50% of a university's funding typically comes from students' tuition fees, and the remaining 35% comes from other sources, such as non-governmental research grants, student rent for university accommodation, student catering and various commercial opportunities. Grants from HEFB for both teaching and research have been steadily declining as a percentage of overall university funding since 2010, as the current government's vision is for universities to eventually be financially self-sufficient.

Tuition fees have been the subject of much debate over many years in Loaland, with some politicians (particularly LPP representatives) arguing strongly that a university education should be free to all Loaland residents, while other commentators (primarily policy review bodies advising the LCP) argue that higher education should be a completely free market with universities able to set fees at whatever level they choose. In 2010, the Loaland government brought in a new benchmarked tuition fee system. This system comprises a benchmark level of fees for each type of course (e.g. a Bachelors in Finance, a Masters in History), and universities are free to set their own fees up to 10% higher than this benchmark, with no lower fee limit. The benchmark then increases in line with inflation each year. In practice, almost all Loaland universities have charged the maximum fee based on this calculation, due to increasing financial pressures and the need to cover costs. Generally, students pay their tuition fees having obtained a loan from a specialist government-backed loans company called Loaland Loans for Students. The student then repays the loan only when their future salary rises above a certain level.

Fees charged by Loaland universities to international students are unregulated, and are typically set much higher than Loalandian home student fees. Loaland has historically been viewed by much of the world as a particularly prestigious and desirable place to study, and most Loaland universities therefore charge higher fees than those set for equivalent courses by universities based in other countries.

Over the past two decades, there has been a significant increase in the proportion of school leavers applying for university courses in Loaland. The government wishes to redress this balance and encourage school leavers into professions that do not require university education. Together with cutting grants to encourage universities to be financially self-sustaining, the government has designed new apprenticeship schemes and is offering grants to organisations offering 'on-the-job' training, to encourage educational attainment while being economically active as an employee.

COVID-19 pandemic

Globally, financial markets and economies had already been suffering a period of significant uncertainty prior to the COVID-19 pandemic that swept the globe from early 2020. In the decade or so before the impact of COVID-19, investment had slumped as individuals and institutions were wary of locking money away for longer terms, and governments, public and private sector bodies were continually looking for ways to cut costs on non-essential services.

COVID-19 affected Loaland significantly, and from March to May 2020 it had one of the highest COVID-19 death rates in the world. The Loalandian national government imposed a strict national lockdown that began in late March 2020 and continued until late May 2020. However, after the government eased many of the restrictions, the country experienced a second wave of infections from September to November 2020, with further local lockdowns and national social distancing measures and other restrictions imposed. Due to the increased capacity and developments in treatment in the Loalandian Health Service, the second wave had a much lower death rate.

By January 2021, the cases of COVID-19 in Loaland had fallen, though organisations and individuals had to accept a 'new normal' of much less close social interaction, more working from home, and restrictions on travel. A vaccination programme also started in early 2021, and by the start of May 2021 around half of the adult population had been vaccinated, including the elderly and those people with pre-existing medical conditions that meant they were especially vulnerable to the virus. In recent months, COVID-19 case levels have continued to be low, and an effective contact tracing system has ensured that any outbreaks in parts of the country have been fairly successively contained. The government still, though, has a clear message regarding the need to maintain social distancing until the entire population has been vaccinated, which may not be until early in 2022.

The economic impact of the pandemic has also been severe. Shares in Loalandian businesses in March 2021 were on average 20% below their March 2020 value, before the pandemic hit Loaland. Smaller businesses were particularly badly hit, with many in the hospitality and retail sectors, in particular, being forced to close permanently. In response to significant falls in economic activity and growth in unemployment, the government pursued a much more expansionary monetary policy from the second half of 2020. Additionally, the government ran furlough schemes whereby it paid a proportion of employee wages for a large number of organisations where their normal business activities were significantly adversely affected by the lockdown measures and other restrictions that were imposed as a result of the pandemic. As at March 2021, Loaland's Gross Domestic Product had fallen by 10% compared to the equivalent point of 2020, and the government deficit had risen to a level not experienced in peacetime. The government is attempting to respond to the challenges of reviving the economy, and has recently brought in a swathe of new grants under it's 'COVID-19 Recovery Programme'.

Dovetown

Dovetown is a medium-sized coastal city in Loaland with a population of around 400 000 residents. It is surrounded by countryside with significant agricultural activity, and has a very active port that has historically been responsible for much of the country's exports. It is a city that traditionally attracts a significant number of tourists due to its coastal location, its proximity to picturesque countryside, the range of cultural and historic attractions in the city itself and the city's vibrant nightlife.

Dovetown University

One of the city's largest employers is Dovetown University (DU), which is registered in Loaland as both a company and charity, and has been granted university status by government charter. Established in 1922, the University is one of the largest higher education institutions in Loaland. DU has a particularly strong international reputation for the quality of both its teaching and research. The university strives to achieve academic excellence within an ethical framework informed by its values of integrity, social inclusion, community and expertise. Its historic buildings are of significant architectural merit and contribute to the city's attractiveness as a tourist destination.

Loaland has a strong international reputation for higher education, and DU benefits from this by virtue of its teaching and research, and from some high-profile DU graduates who have subsequently achieved international success and acclaim. DU has a strong reputation for traditional, face-to-face learning provision. It is in the top five of Loalandian universities which are most targeted by graduate recruiting organisations based in Loaland. In addition, it is particularly attractive to home and international students due to its appealing location.

University Governance

DU is governed by a board of twelve trustees, who are also the company directors. The board of trustees is responsible for the overall control and strategic direction of the university and meets formally six times per year.

Day-to-day running of DU is delegated by the trustees to the Vice-Chancellor, Andrea Matthiessen (the Chancellor role is traditionally a ceremonial role for a distinguished individual, who does not get involved in day-to-day university business).

DU has an overarching vision, recently reaffirmed by its board in the light of the challenges created by the impact of COVID-19, to deliver the following strategic aims:

1. An excellent student experience, delivered by academic and support staff, and including premises, residences and catering

2. World-class research, based on state-of-the-art research laboratories and other facilities

3. Supporting communities and driving local economic growth, through knowledge exchange with other organisations and through student economic activity.

At the last few board meetings, trustees have also expressed concern at how unprepared DU seemed to be for a major shock such as COVID-19, and are looking for reassurance on how DU might ensure that it has more effective plans in place to cope with such uncertain major external events in the future.

Dovetown University finances

The university's financial year is from 1 August to 31 July. DU observes International Financial Reporting Standards, in line with Loaland government financial reporting guidance for universities.

University teaching is broken up into two semesters per year. The first semester runs from early September to mid-December, and the second semester runs from early January to late May. Final exams and assessments are held in June, graduation events happen in July and there is a summer holiday break in August.

At the start of the 2020/21 year, DU had 19 000 students enrolled, comprising 14 000 undergraduates and 5 000 postgraduates. This number had fallen from 22 000 enrolled students at the beginning of the 2019/20 year, prior to which DU student numbers had been increasing steadily for a number of years. Around 1 000 of DU's students in 2020/21 are part-time (almost all of whom being postgraduates), and the rest are full-time students. At the start of the 2020/21 year, 4 500 of DU's students were international students from around 100 different countries, and the rest were Loalandian (home) students. The overwhelming majority of the students that attend face-to-face tuition courses at DU stay in university-owned accommodation. Students who rent university accommodation have rental agreements for each semester.

DU receives income from a variety of sources:

- Tuition fees and education contracts (i.e., where an organisation pays for courses for a number of its employees). Tuition fees are usually paid by instalments on a semester basis. Part-time students typically pay just over half of the full-time fees for the equivalent annual full-time course fee

- Central government teaching and research grants, which have specific conditions attached to them, and which require regular audits

- Specific research grants from other organisations

- Fees for student residences, catering and conferences

- Sponsorship of particular courses and other activities by local and national businesses

- Specific grants from charities related to particular courses

- Donations from alumni, and from other individuals or businesses

- Investment income

- Sales of university merchandising from online and on-campus shops.

DU's income and expenditure statements for the past three years are attached as Appendix 1.

Prior to 2016/17, DU was able to generate a surplus from its activities each year, which was available for investment in new buildings, renovations to existing buildings, and better research facilities. In the last five years, however, the university's finances have become increasingly stretched and it experienced operating deficits each year from 2016/17 to 2019/20 inclusive.

In addition, the impact of COVID-19 on DU's finances has been significant. The university's systems were not designed to facilitate large-scale remote working, and at the beginning of the national lockdown in March 2020, it incurred significant expenditure on IT assets (laptops, printers etc.) to enable its staff to work from home. In addition, servers had to be upgraded, and DU had to invest in remote examination and invigilation procedures for examinations held from June 2020. There was also a significant decrease in footfall on the university campus as face-to-face teaching was cancelled and all tuition moved online from March 2020 to the end of the 2019/20 year, which had an adverse impact on income in areas such as student catering and conferences.

Distance learning

Over the last 10 years, DU has developed a distance learning provision for some of its most popular courses at both undergraduate and postgraduate level, in order to leverage its excellent reputation across a wider geographical area, both nationally in Loaland (i.e. for home students that cannot travel or relocate to Dovetown), and internationally. In addition, this move was felt to be important as other Loalandian universities were diversifying into this market, and DU's leadership was anxious that it should not be left behind. Prior to the COVID-19 crisis, 8% of DU's undergraduate students, and 20% of its postgraduate students were distance-learners.

Prior to COVID-19, DU offered a selection of its most popular courses by distance learning in addition to continuing to offer a face-to-face tuition programme for the courses concerned. The mechanics of distance learning provision varies between different DU courses, but it typically comprises some combination of the following:

- Live online / streamed lectures – the student must be able to log in and watch at the timetabled hour. This is usually a dedicated lecture for distance learners rather than the live-streaming of the lecture for the equivalent face-to-face course, and sometimes provides scope for live interaction with the lecturer

- Pre-recorded lectures, which can be watched by students at any time after the lecture is recorded and made available

- Timetabled group video calls involving up to eight students and a tutor, in place of face-to-face tutorial group sessions

- One-to-one video call tutorials between student and tutor, whether timetabled or requested by the student in the tutor's working hours

- Online web-based learning materials, which are all delivered through a virtual learning environment (VLE) provided by a Loalandian company called Ezio Learn

- Online examinations, with remote invigilation provided by a company called Felix Vigil.

Prior to COVID-19, DU's distance learning options proved popular, and most of the distance learning versions of courses received a comparable number of applications per available place as the traditional face-to-face courses. However, a recent student survey suggested that the majority of DU's students feel that the distance learning option must be a 'light' version of the course. Due to the distance learning courses focusing more on on-course assessments and assignments than on formal final exams, there is a general perception amongst students that it is easier to achieve good grades as a distance learner than it is as a student on face-to-face courses. In addition, there is a powerful trade union for university lecturers in Loaland that has recently published a series of articles about how the rise of distance learning may be requiring lecturers to re-skill without appropriate support from their employer or time to do so.

There is tension within DU's board and executive management about whether the university should focus much more on distance learning provision, with many arguing that it appears to be more profitable due to the lower overheads and the possibility of using more recorded material. Others are concerned that such a move will erode the university's strong reputation for teaching excellence. In addition, international students on face-to-face courses bring much-needed financial flexibility to the university due to the higher fees that can be charged, and the students are also perceived to contribute greatly to the local

economy. The latter issue can also apply after an international student at DU graduates, as many of them view study at DU as a way of obtaining an initial student visa, before seeking work and ultimately permanent residence in Loaland upon graduation.

In general, though, DU's trustees have been increasingly expressing concerns about a lack of appropriately rigorous analysis of the competitiveness of DU's markets and of its strategic options, and require that any decisions on future strategy need to be based on more detailed consideration of such factors.

Impact of COVID-19 on Dovetown University

DU initially faced similar challenges to most other organisations in Loaland when the national COVID-19 lockdown was announced in March 2020. These challenges included getting all staff set up to work from home wherever possible, implementing appropriate social distancing measures for those who could not work from home (e.g. facilities staff who still had to maintain buildings and grounds), and communicating new ways of working and the extra measures to students and other stakeholders.

Specific issues faced by DU have included the following:

- DU had to make all courses effectively distance learning with almost immediate effect and very little warning, from March 2020 and for the rest of the 2019/20 year. Prior to the lockdown, the online distance learning provision was not set up for the volumes of students suddenly needing to use it. DU therefore incurred significant additional administrative staff time and cost in setting up system log ins, communicating the changes to students, and dealing with a high volume of student queries. There was also a large increase in teaching staff overtime (which is paid), as lecturers and tutors had to familiarise themselves with the online systems where they had not used them before, and train themselves to be able to run sessions from their own homes. There was also a significant emergency IT-related outlay in setting up home offices for all teaching and administrative staff, including the capital purchase of a large number of laptop computers to facilitate homeworking. Lastly, the contract with Ezio Learn, the VLE provider, allowed for up to 4 000 students using the VLE, but during the lockdown DU required access to it for all of its 19 000 students. Ezio Learn therefore charged a high fee for this increase in students accessing the system.

- In the 2020/21 year, DU has had to continue to provide distance learning facility to students with health conditions which made them particularly vulnerable to COVID-19, to those self-isolating due to contact with the virus, and to many international students who were subject to international travel restrictions and could not attend face-to-face sessions. This is in addition to attempting to provide appropriately socially-distanced face-to-face provision, and making changes to all of the university's procedures to incorporate changing COVID-19 lockdown and social distancing legislation.

- In the wake of COVID-19, demand from Loaland and international school leavers fell for most types of courses starting at DU in September 2020, as people were more wary of taking on student debt and keener to go straight into job schemes and begin earning income as a result of the highly uncertain economic environment. In addition, universities in general were hit hard by the second wave of COVID-19 infections from October 2020 onwards due to the concentration of students, so applications for September 2021 have fallen further as people do not want to take unnecessary risk.

- In contrast, for business courses and other more vocationally-focused courses, demand at DU has risen, and demand has also risen from mature students. The reasons for this are that unemployment is rising as many businesses have been forced to close permanently or make a number of staff redundant, so many people are considering career changes or gaining further qualifications in an attempt to stand out in the tougher jobs market. In addition, there was increased demand from those who were furloughed during 2020, and decided to sign up to some courses to fill their free time. This has driven a significant increase in demand for part-time courses at DU.

- COVID-19 led to school leavers being given predicted grades by their teachers instead of actual exam results in 2020, and they missed out on the last four months of the school year. Many commentators argue that this has contributed to much higher than usual levels of first-year exam fails and drop-outs by students at DU in 2020/21, which creates financial issues for the university as the spaces created are difficult to fill part-way through a course.

At its February 2021 meeting, the DU board agreed to the formation of a working group of senior managers to develop a COVID-19 Recovery Plan, and the draft plan, attached as Appendix 2, was shared with senior internal decision-makers in late April 2021.

Candidate's role

The candidate is Blake Woodford, DU's Finance Manager. Blake started at DU in April 2020, and reports to the Chief Financial Officer, Michael Byatt. Michael reports to the Vice Chancellor, Andrea Matthiessen. Blake manages two Finance Officers. Blake's role involves strategic management accounting and financial reporting activities.

Appendix 1

Dovetown University Income and Expenditure Statements

	2017/18 £000	2018/19 £000	2019/20 £000
Income			
Tuition fees and education contracts	197 213	213 428	232 980
HEFB teaching and research grants	60 983	58 914	57 778
Other specific grants	68 919	67 390	64 911
Residences, catering and conferences	80 022	81 975	72 144
Investment income	2 316	2 563	2 309
Donations	8 242	7 437	5 831
Sponsorships and university merchandising	2 580	2 886	1 605
Total income	**420 275**	**434 593**	**437 558**
Expenditure			
Staff costs	257 551	264 427	288 003
Other operating expenses	125 903	124 598	147 856
Depreciation and amortisation	42 342	44 008	46 703
Interest / financing costs	10 987	11 712	14 009
Operating expenditure	**436 783**	**444 745**	**496 571**
Operating (deficit) / surplus	**(16 508)**	**(10 152)**	**(59 013)**
Total reserves brought forward	369 409	352 901	342 749
Total reserves carried forward	**352 901**	**342 749**	**283 736**

Appendix 2

Dovetown University COVID-19 Recovery Plan
(for internal circulation only)

The Dovetown University (DU) COVID-19 Working Group, has developed the following draft Recovery Plan for university operations:

- As the largest percentage of DU's budget is spent on staff, we will have to consider redundancies, for both academic and administrative staff. This will be informed by course application rates for 2020/21 and 2021/22, so that the redundancies can be targeted towards the departments that are less in demand from students.

- We will create early retirement incentives for staff members over 55.

- There will be a staff recruitment freeze, and we will only replace staff that leave business-critical positions.

- Salaries have been frozen since a pay review implemented in June 2019. There will be a full review of salaries, standardisation between departments, and probably percentage salary cuts across all levels and groups of staff.

- We will review DU's contribution levels to our currently very generous pension scheme, seeking to make savings to enable fewer redundancies.

- In the event of local COVID-19 cases rising significantly, staff at greater medical risk will be offered alternative job responsibilities and roles to enable them to stay safe; for example, lecturers on face-to-face courses may be moved to teaching distance learning equivalents from home. Students at higher risk will be the priority for the development of remote learning opportunities.

- We will review all current research projects, beginning with the most resource-intensive, to ensure value for money, and to terminate or postpone non-essential research.

- To avoid further COVID-19 outbreaks, community events such as open days and the popular 'One Free Day at Dovetown University' are cancelled for the foreseeable future.

- We will grade our COVID-19 campus risk as Low, Medium or High dependent on the number of confirmed cases we have within our student body and our staff. Where the risk is Medium or High, we will move to as much online learning as practicable for the relevant course, and students will be required to remain at home and not mix with anyone outside their immediate household.

- To improve our income position, departments will be encouraged to market to international students as much as possible, and to favour these students when considering course applications, provided they meet basic academic requirements.

Question 1 Requirements (1/4)

The Dovetown University (DU) board of trustees has requested a report on the impact of the COVID-19 pandemic on the university's operations, and the implications for its strategic and financial planning. As per the email from the Vice Chancellor, on 7 June 2021, prepare a briefing paper as follows:

		Marks
i)	Analyse the most relevant trends in the 2020/21 projected year end income and expenditure against the previous three financial years, to assess the extent of the impact of COVID-19 on DU's finances, and briefly consider the implications for setting the university's budget for the next financial year.	17
ii)	Evaluate the Chief Financial Officer's proposed adjustments to the 2020/21 financial statements, including their compliance with generally accepted accounting principles.	10
iii)	Analyse the potential issues associated with the implementation of the university's COVID-19 draft Recovery Plan, including any potential ethical concerns.	12
iv)	Discuss the extent to which scenario planning might be relevant to the university's strategic management activities.	6
		45

Question 1 (2/4)

Vice Chancellor Email

Email

From: Andrea Matthiessen, Vice Chancellor

To: Blake Woodford, Finance Manager

Date: 7 June 2021

Subject: Preparation for board report on impact of COVID-19

Blake,

For their meeting this month, trustees require a report on how the COVID-19 pandemic has affected DU. In confidence, I have just agreed with the Chief Financial Officer Michael Byatt, that he will take a period of leave, with immediate effect, to address some personal issues, so I need your help with this report.

I know your Finance Officers have been working with heads of department etc. to prepare the year end forecast, and that it is now likely to be reasonably accurate, with only two months of the year to go and most income and expenditure agreed or committed. However, I am concerned about what it shows, how trustees will react, and the need to produce next year's budget. Could you analyse it against the last three financial years, so that we have a clear understanding of the financial impact of COVID-19?

You were copied into Michael's recent email detailing proposed adjustments to the accounts. It has been a while since I did any training in financial reporting so I would welcome your evaluation of them.

The trustees also want a critical review of our COVID-19 draft Recovery Plan. A local journalist contacted me today, asking for my comments on a planned article centred around the accusation that our Recovery Plan is 'unethical'. Someone must have leaked the plan. I'm not sure what he means by it being unethical – do you have any thoughts on this?

Lastly, one of the trustees has told me that it would be really useful for us to do some scenario planning bearing in mind, for example, the impact of the pandemic.

Thanks,

Andrea

Question 1 (3/4)

Chief Financial Officer email

Email

From: Michael Byatt, Chief Financial Officer

To: Andrea Matthiessen, Vice Chancellor

cc: Blake Woodford, Finance Manager

Date: 4 June 2021

Subject: Proposed adjustments to the 2020/21 accounts

Andrea,

I know you are concerned about the latest 2020/21 forecast (attached), but there are a few adjustments we can make which I think will improve the picture.

Adjustment 1

Compared to before the pandemic, we spent an extra £24m on staff in 2019/20, and £26m extra on staff in 2020/21 despite a freeze on salaries since June 2019. Timesheets should show that much of this increase is due to a large amount of overtime and extra staff employed in 2020 to deal with the backlog of COVID-related queries and to set up courses online for students to study remotely from September 2020. I believe we should therefore capitalise this £50m, as it relates to course development that will provide benefits for us for a number of years.

Adjustment 2

I have applied on behalf of DU for an ongoing grant from the government's COVID-19 Retail Relief fund. This fund is designed for organisations like ours where footfall significantly affects revenue (i.e., where lockdown/social distancing measures has reduced footfall and therefore affected our ability to generate income). We can claim for any unexpected decrease in income since before COVID-19 due to students not being on campus – catering and the like – so I have claimed the following:

- £8m loss of income against Residences, Catering and Conferences
- £1m loss of income against Donations
- £1m loss of income against Sponsorships and Merchandising.

A decision on this is likely to be received in October this year, and I propose we enter this into the 2020/21 accounts as £10m additional grants income, as I am confident it will be received and it should be entered into the year to which it relates.

Adjustment 3

I have also applied for the government's interest-free 'Spring Back' Loan Scheme, under which we can take out a loan for up to a year. To be eligible, we must prove that COVID-19 adversely affected our operations, which it clearly has, and that our income fell by at least 5% as a direct result of COVID-19, which again I think we can prove. We are unlikely to have the loan confirmed before the new financial year, but we can state in the accounts that approval is likely and that this will improve our liquidity.

Please confirm your agreement to these proposals as soon as possible.

Michael

Question 1 (4/4)

Dovetown University Income and Expenditure Forecast 2020/21

Income	**2020/21 £000 Forecast**
Tuition fees and education contracts	204 544
HEFB teaching and research grants	50 362
Other specific grants	62 528
Residences, catering and conferences	74 083
Investment income	2 108
Donations	6 755
Sponsorships and university merchandising	1 826
Total income	**402 206**
Expenditure	
Staff costs	290 364
Other operating expenses	141 946
Depreciation and amortisation	43 099
Interest / financing costs	15 655
Operating expenditure	**491 064**
Operating (deficit) / surplus	**-88 858**

Question 2 Requirements (1/4)

The Dovetown University (DU) trustees wish to consider a strategy whereby a much more significant proportion of its courses is delivered by distance learning over the coming five years. The Vice Chancellor, Andrea Matthiessen, requires a draft report covering the following issues that the board will need to consider:

		Marks
i)	Using Porter's Five Forces model, analyse the competitiveness of the market for distance learning (DL) provision.	12
ii)	Discuss how the university's existing and potential markets could be segmented, and the options for pricing strategies based on these segments.	8
iii)	Discuss the potential reactions of stakeholders to a move to greater DL provision by DU.	13
iv)	Critically evaluate the financial implications of the proposed move by DU to a greater proportion of DL provision.	17
v)	Conclude on your findings and make recommendations, including further work to be undertaken.	5
		55

Question 2 (2/4)

Vice Chancellor email

Email

From: Andrea Matthiessen, Vice Chancellor

To: Blake Woodford, Finance Manager

Date: 7 June 2021

Subject: Moving to more distance learning

Blake,

Before going on leave, the Chief Financial Officer was analysing the scope for DU to move to a greater proportion of DL provision, to try to capitalise on recent moves to more digital provision in the market, and to improve our financial position. I need your help in preparing a draft business case for trustees, which will focus on the suitability of the proposal in terms of the competitiveness and segmentation potential of the market, acceptability in terms of stakeholder reactions, and its financial feasibility.

He sent me the analysis below. The assumptions he used are on the following sheet. However, this analysis omits the impact on Icarus Halls and the marketing costs; these should be included and I will send you the relevant details to amend the analysis.

	Year 0	Year 1	Year 2	Year3	Year 4	Year 5	Total
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Reduction in face- to- face income	0	-4 935	-9 870	-14 805	-19 740	-24 675	**-74 025**
Increase in DL income	0	5 065	10 130	15 195	20 260	25 325	**75 975**
Saving on staff and operating expenses	0	2 232	2 232	4 464	4 464	6 696	**20 088**
Net cash flow	**0**	**2 362**	**2 492**	**4 854**	**4 984**	**7 346**	**22 038**
Discount factor	1	0.9709	0.9426	0.9151	0.8885	0.8626	
Discounted cash flow	**0**	**2 293**	**2 349**	**4 442**	**4 428**	**6 337**	**19 849**

Thanks,

Andrea

Question 2 (3/4)

Assumptions used for financial feasibility analysis

The analysis assumes the following:

- A reduction in face-to-face on-campus teaching places over the five years of 400 places per annum from 2022/23 onwards

- An increase in online DL teaching places over the five years of 500 places per annum from 2022/23 onwards

- 2020/21 student numbers and forecast outturn are used as the basis, with the pre-COVID-19 ratio of face-to-face to DL, and assumed that half of the places moving to DL are undergraduate, and half of them are postgraduate

- Average fee levels (undergraduate/postgraduate and face-to-face/DL) will remain the same, as follows:

	Undergraduate	Postgraduate
Face-to-face	£9 550	£15 130
DL	£6 830	£13 430

- As there would be fewer students on campus, expenditure on cleaning, pastoral care, catering etc. will decrease, so the following reduction in overall staff and operating expenditure is assumed:

  - 0.5% in 2022/23 and 2023/24
  - 1% in 2024/25 and 2025/26
  - 1.5% in 2026/27

- In line with the standard for DU business case appraisals, a 3% discount rate has been applied.

Question 2 (4/4)

Information on marketing cost and Icarus Halls

Email

From: Andrea Matthiessen, Vice Chancellor

To: Blake Woodford, Finance Manager

Date: 7 June 2021

Subject: Moving to more distance learning (DL)

Blake,

Further to my earlier email, the NPV analysis of the proposal to move to more DL should also include the extra marketing costs and the impact on Icarus Halls, as detailed below.

Marketing

The company we usually use when it is necessary to use external expertise for marketing to supplement our employed marketing staff, Wings Marketing, has just quoted £80 000 a year to promote our expanded DL offer, covering both Loaland and international markets. This amount would be payable annually in advance, for five years, with the first payment due in July 2021.

Icarus Halls

Icarus Halls is the DU student accommodation building thought to be most marketable due to its location off campus. You should assume that we will move 400 students out of Icarus Halls each year from 2022/23 onwards in line with the decrease in face-to-face places, until Icarus Halls is empty. It currently accommodates 2 000 students and generates average annual rental income of £3 200 per student.

Once the full reduction in face-to-face provision has occurred in 2026/27, we can sell Icarus Halls. Based on two estate agents' valuations and a speculative offer from a luxury hotel chain, the most recent valuation of Icarus Halls, in 2018, was £18 000 000.

Thanks,

Andrea