April 2003/**17**

Good practice

Guidance

This report is for information

This good practice guide is aimed at anyone in higher education who is involved in making decisions on investments. It focuses on the principles to be followed, rather than the techniques of appraisal. The guidance is supported by case studies, and examples on the web-site.

Investment decision making

A guide to good practice

HIGHER EDUCATION FUNDING COUNCIL FOR ENGLAND

Contents

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To	Heads of HEFCE-funded higher education institutions Heads of universities in Northern Ireland
Of interest to those responsible for	Investment decisions
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Executive summary

Purpose

1. This document provides good practice guidance for anyone in higher education who is involved in making decisions on investments.

Key points

2. Sound decision-making processes are a fundamental aspect of good governance and management in any organisation. This requires a clear identification of the problem to be solved and objective appraisal of the options, if objectives are to be met and value for money secured.

3. This guide focuses on the principles to be followed, rather than the techniques of appraisal. It is aimed at everyone involved in the process, not just senior managers and members of governing bodies. It outlines the steps for developing an outline business case and then refining it into a full business case for the preferred option.

4. The guidance is supported by a self-assessment checklist (Annex A), case studies in higher education institutions (Annex B), and technical information and further examples on the web.

Action required

5. This report is for information and guidance.

Introduction

6. Sound decision-making processes are a fundamental aspect of good governance and management in any organisation. This requires a clear identification of the problem to be solved and objective appraisal of the options, if objectives are to be met and value for money secured.

7. Decisions should be justifiable: the reasons for them should be analysed and supported by evidence. To obtain maximum value from the appraisal process it is necessary to understand the assumptions on which the decisions are based, and also the circumstances that might lead to a different outcome. Consequently the assessment of risk and uncertainty will be as important as the base estimates for each option.

Using this guide

8. This guide is written for anyone who is involved in an investment decision-making process. It is not just for senior officers of institutions and members of governing bodies. Nor is it just a financial technique, but is applicable to any form of investment decision. It is also appropriate for institutions with a devolved structure, where deans, heads of departments and other senior academics are involved in decision making.

9. We have not attempted to write a textbook on investment appraisal. Techniques of appraisal are amply covered elsewhere. Instead, the main body of this guide concentrates on the principles to be followed, which are relevant to everyone involved in the process. We have illustrated these principles with a series of case studies at Annex B. We have supplemented these with more technical advice and examples in Annexes C, D and E, available with this document on our web-site at www.hefce.ac.uk under 'Publications'.

Principles

<u>Basic steps of appraisal</u>

10. In reaching a decision it is necessary to answer three questions:

   a. What is the problem that we are seeking to solve?

   b. What solution represents the best value, taking into account costs, benefits, risks and opportunities?

   c. Is that option affordable?

11. The appraisal process can be broken down into the following steps:

   a. Define the problem.

b. Define the objectives.

c. Consider the options.

d. Identify, quantify and assign values to the costs, benefits, risks and uncertainties associated with each option.

e. Analyse the information.

f. Consider any other factors that cannot be assigned a value.

g. Present the results.

12. This is only an outline. An institution will need to decide what it can afford within a limited budget, where the project may be a significant factor in terms of overall spending, as well as deciding between competing priorities. Therefore appraisal needs to be seen in the context of developing a business case. This is an iterative process. It should be carried out at an early stage when broad strategic options are being considered, and refined when a detailed solution is being chosen. Institutions may have to re-appraise their options as new information comes to light, or if major developments affect the assumptions underlying the appraisal.

13. In developing this guide, we have assumed that institutions will go through at least two stages: first to produce an outline business case, and then again to refine it into a full one. This guide therefore describes the steps in developing the outline and full business cases. However, institutions need not follow the process dogmatically. A simple decision could well be taken with both stages combined into a single process. By contrast, a significant project might require further iterations before the institution felt it had completed a sufficiently detailed appraisal to proceed with confidence.

<u>How detailed should the appraisal be?</u>

14. All appraisals should follow the same principles, but institutions will have to make their own decisions about how much detail is appropriate. The resources that go into the appraisal should be judged against the significance of the investment decision.

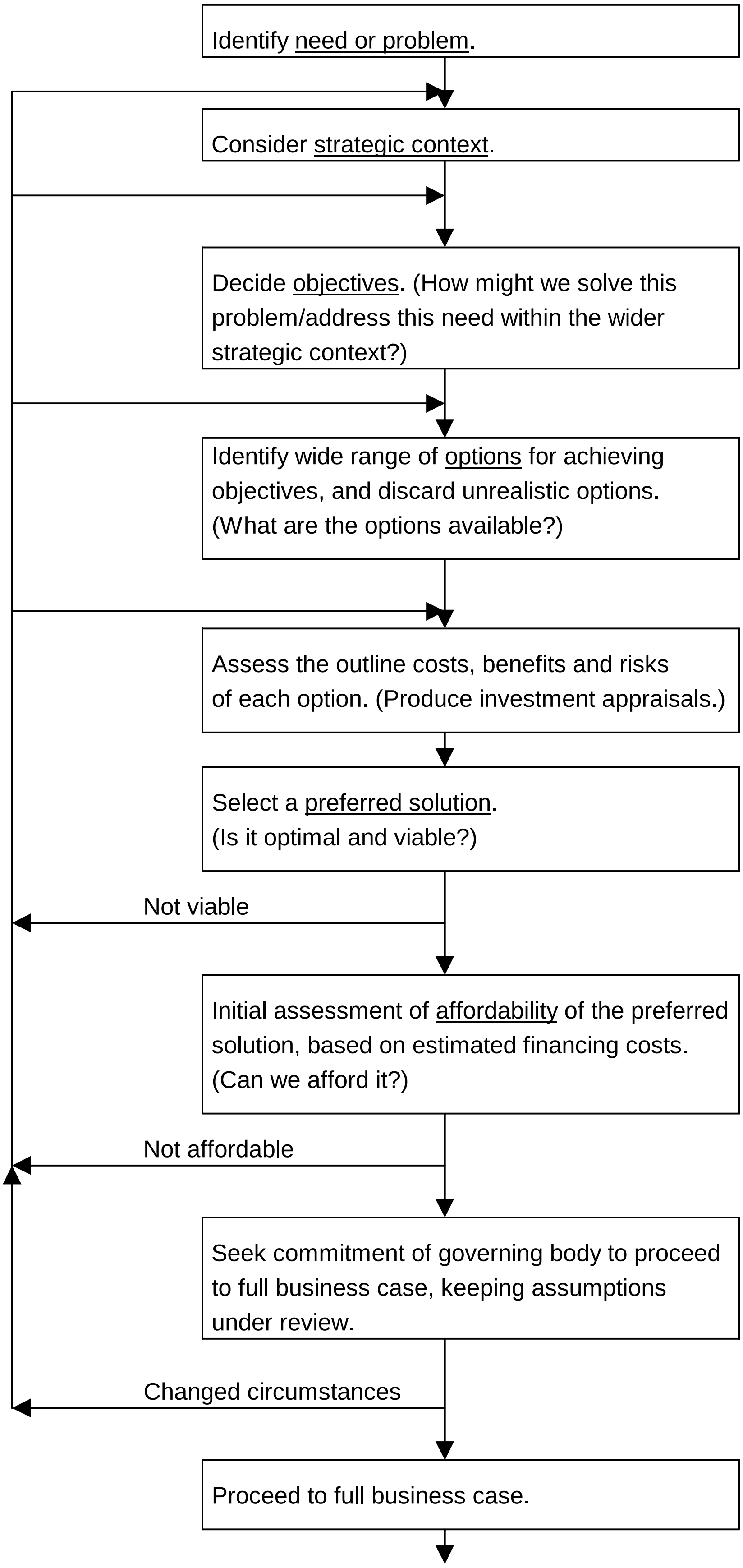
<u>Who makes the decisions?</u>

15. We have written this guide on the assumption that decisions will be taken by the governing body, but it is for each institution to decide the level at which decisions should be taken.

Establishing the outline business case

16. The development of an outline business case is illustrated in Figure 1.

Figure 1 Development of the outline business case



Identify the need or problem

17. At the outset, the institution will have determined that there is a problem to be solved or a need to be satisfied. This must be clearly defined, since it will form the basis of the whole analysis. As the analysis develops, it may call into question whether the problem or need does in fact exist. As a first step institutions should be sure that their requirements cannot be met from re-allocating existing resources. This will be obvious if the problem is clearly stated in the first place. This stage needs to be approached from the standpoint of testing the basic assumptions. Start from a statement of the problem that is to be solved, not a preconceived idea of what the solution might be.

Consider the strategic context

18. The appraisal must be placed in its strategic context. This should refer to the aims and objectives of the institution, the strategic plan, the capital and infrastructure plans, and other relevant policies.

Decide objectives

19. The statement of objectives sets out what is to be achieved and defines a firm boundary to the appraisal. It provides the criteria against which options will be judged, and against which the success of the project will be evaluated. Experience has shown that it is a crucial factor in the subsequent steps of the appraisal. Objectives should not be so narrowly defined as to prevent consideration of a range of options, nor so loosely defined as to generate unnecessary work. And of course they should be consistent with the strategic aims and objectives of the institution.

20. The objectives should include the scope (a statement of the range of activities which the project will be expected to provide), and the context (the facilities or services needed to carry out these activities). Institutions may find it useful to express their objectives in terms of time, cost and quality requirements, against which they can measure possible solutions. They will also find it useful to prioritise project objectives to help them judge the balance between conflicting requirements.

21. Technical constraints should not be unduly binding. In all cases institutions should guard against over-specification of requirements. Matters such as the standard of the services or facilities provided, their location, whether it is new-build or refurbishment, and procurement methods such as lease or purchase, should all be treated as options rather than objectives.

Identify the options

22. It is important, particularly for major investment decisions, to consider a wide range of options, even though many may be rejected at an early stage. Rarely will there be no realistic choice of options. Institutions must keep an open mind, and be prepared to ‘think the

unthinkable'. Experience indicates that institutions gain considerable value from using a wide-ranging multi-disciplinary team, and involving the end-users in the development of the project from an early stage. They may also need external professional advice to help them identify options: for instance, estates surveyors to identify locations for new facilities, or specialists to advise what information technology solutions might be feasible.

23. Institutions must include a 'do nothing' option as a baseline, even if it falls short of the operational requirement. It will be the basis for comparing the costs and benefits of all the other options, and for determining the priority attached to the proposal.

24. Where a 'do nothing' option is clearly unacceptable, then a 'do minimum' option should be considered. This situation is rare, but might occur, for instance, if there was a statutory obligation to be met.

25. Before proceeding to a first assessment of costs, benefits and risks, some options can be discarded if they are clearly unrealistic. There must be good grounds for rejecting them: the process must not be used to rule out options just because they do not fit with preconceived ideas.

Assess outline costs, and benefits, risks and uncertainties

26. Appraisal is concerned with obtaining the best use of resources. Where the costs and benefits of a project will accrue exclusively to the institution, then that is all that needs to be included in the appraisal. However, there may be occasions where a project is financed jointly by the institution and another body. For example, an institution might receive support from a lottery board, for a project intended to bring benefits to the public at large, as well as meeting the institution's own needs. Alternatively, it might consider a joint venture with a commercial organisation. In cases such as these the costs and benefits to the wider community, or to other interested parties, will need to be included in the appraisal. Other external costs and benefits should be included only where they are relevant to the objectives of the proposal or could influence the ultimate decision.

27. It is particularly important that decision makers take account of risk and uncertainty. In many cases, their impact can be valued and factored into the decision-making process. Even when the impact cannot be defined precisely, institutions must recognise the potential for risk and uncertainty to influence their decision. The process will be clarified if the risks and uncertainties are set out in a formal risk register. This can be refined as the appraisal process proceeds, and the institution gains a better understanding of the potential impact of the risks and uncertainties, and how that impact might be mitigated. We provide more detailed advice in Annex C on how risk and uncertainty can be handled.

28. An appraisal should contain a list of the factors to be considered in each option, even when it is not possible to quantify them, or value them in monetary terms. Appraisals are often primarily concerned to identify the best value option for a particular standard provision, such as teaching accommodation, but even then the benefits may vary. For instance, the quality of accommodation may affect performance – measured by attendance, actual output

or staff turnover. Other relevant benefits may include a convenient location, and reducing work on split sites. Equally, there may be disadvantages or penalties attached to some options. The appraisal should assess, and where possible quantify and value, all such benefits and penalties.

29. The values included in the appraisals should be realistic and objectively assessed. Being over-optimistic about values or dates could lead to the wrong conclusion. Risk-adjusted comparison is essential to ensure that options are considered on a like for like basis. A sensitivity analysis of the key assumptions should be undertaken to identify those that are critical to success.

Select a preferred solution

30. At this stage, many of the costs and benefits will be difficult to define and quantify precisely. More detailed advice on how to handle these aspects is given in Annex C. The main object is to select a short-list of solutions that can be tested for affordability, so that the institution can decide whether it has a preferred option to take forward for more detailed analysis. Of course, this more detailed analysis will have to consider competing options as well, since the relative costs and benefits may change when examined more closely. However, those that are clearly non-competitive can be discarded at this stage.

31. The preferred solution must be viable. For instance, there would be no point in continuing to analyse what purported to be the preferred solution if there is no demand for the particular course or service.

Initial assessment of affordability

32. At this stage, it is unlikely that the institution will have explored all the procurement options available, or how they might be financed. For a first assessment of affordability, the institution will need to estimate the financing costs to see how they might fit its overall financial strategy. This may indicate that the preferred solution is not affordable, even though it is viable. In these circumstances, the institution may have to consider the next best option, look again at how the option might be financed, or consider a change to the scale of the project.

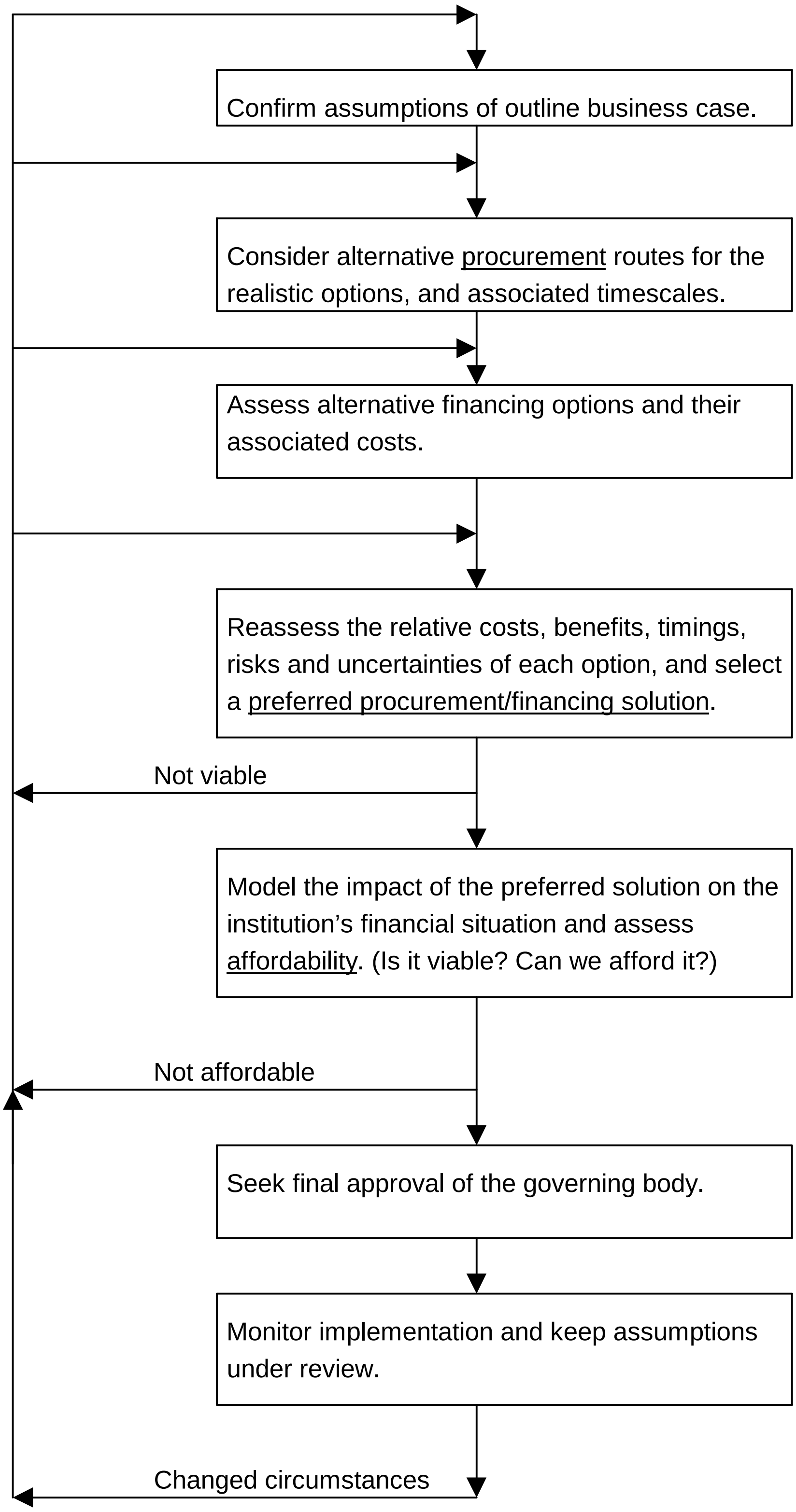
Seek commitment of the governing body

33. Before proceeding to a full business case, institutions should seek the approval of their governing body or the appropriate delegated authority. The decision makers must have an exposition of the business case at an appropriate level of detail to match the scale of the project. It is not sufficient for them to be presented with a ‘take it or leave it’ decision: they must understand the range of choices open to the institution, and the logic behind the selection of the preferred option. Further advice on the responsibilities of governors is available in the ‘Guide for members of governing bodies of universities and colleges in England, Wales and Northern Ireland’. This is published by the Committee of University Chairmen and available from HEFCE (HEFCE 01/20).

Developing the full business case

34. The steps involved in developing a full business case are shown in Figure 2. Institutions should plan to complete all the steps in the appraisal before they commit themselves to a preferred option and agree the final deal, so as to optimise their negotiating position.

Figure 2 Developing the full business case



Confirm assumptions

35. With the commitment of its governing body, the institution can devote more resources to exploring the appraisal options in detail. As a first step it will need to confirm that the original assumptions are still valid. It can then focus on a more detailed appraisal of the realistic options.

Consider procurement routes

36. In particular the institution will want to explore the practicality of different procurement routes. There may be a number of further stages to consider, since each option may have a number of different procurement routes with different costs, benefits and risks. For instance, an option which involved a new building might be procured through a Private Finance Initiative (PFI) solution based on service delivery, or by a conventional design and build contract. Whereas an option to refurbish an existing building might have a different range of procurement options.

Assess financing options

37. At this point the institution will need to explore in more detail the financing options and their associated costs. In some cases, such as PFI, the financing method is closely linked to the procurement route. For more traditional procurement, a number of financing options will still be available, from the use of reserves to a wide choice of short-term and long-term borrowing arrangements. The institution will need to consider the requirements of its Financial Memorandum with HEFCE at an early stage if it is likely to need approval for an increased annualised servicing charge.

Re-assess and select preferred solution

38. In analysing the various combinations of options, procurement routes and financing options, institutions will need to consider in detail the risks and uncertainties associated with each. More detailed advice on how these should be treated is given in Annex C. At this level of analysis, it is likely that the prospective solutions will have different levels of risk, and so comparisons will have to be made on a risk-adjusted basis. This is particularly true if PFI solutions are being considered, when transfer of risk is one of the benefits being sought.

Financial impact and affordability

39. The institution will need to re-assess the impact of its preferred solution on its overall financial situation, in the light of the increased level of detail available in the full business case. This will be the basis for the analysis of affordability that it will present to the governing body for final approval. If at this stage the chosen solution appears unaffordable, this may signal that the initial assumptions need to be revisited.

Presenting the results

40. The results of the appraisal should be set out in a comprehensive report. A detailed checklist is provided in Annex A, and further advice in Annex C.

Approval

41. Governors will need to understand the logic behind the choice of the preferred solution, but also the risks and sensitivities that go with it. Even when approval has been given, the management of the institution should advise the governing body if subsequently any of the assumptions are invalidated, as this may alter the decision reached.

Monitoring and evaluation

42. At the time of the appraisal it is important to plan for monitoring during implementation and post-project evaluation of the decision. This provides feedback into future decisions. Evaluation should cover the extent to which the objectives were met, any cost and time overruns, the relationship between estimated and actual costs and benefits, and any implications for future decisions.

43. The appraisal report should specify the monitoring data which will be collected in the course of implementation. This will serve as a management tool while the project is under way, and provide the main information for the evaluation. The appraisal report should also outline how a full evaluation might be carried out. The decision whether to proceed with a full or partial evaluation can be taken at a later stage.

44. The evaluation should usually be carried out when the investment stage is complete and when enough experience has been accumulated of operation and maintenance.

Annex A

Appraisal checklist

Specifying the objectives

- How does this appraisal relate to the strategic aims of the institution?
- Is the problem clearly defined?
- Are the objectives supported by adequate background information, such as a strategic plan?

Identifying the options

- Has a sufficiently wide range of options been considered?
- Has the ‘do nothing’ or ‘do minimum’ option been explicitly considered?
- Have all realistic procurement options been appraised (including PFI and other innovative forms of procurement)?

Valuing costs, benefits, timing, risks and uncertainties

- Has account been taken of all the direct costs and benefits accruing to the institution?
- Are there any wider considerations?
- Have all relevant costs, income streams and benefits (over the life of the project) been included?
- Has allowance been made for running costs over the life of the project?
- Have maintenance costs over the life of the project been taken into account?
- Does the appraisal take account of assets that are already owned (opportunity costs)?
- Does the valuation of the property represent the opportunity cost?
- Is there any double-counting of costs and benefits?
- What allowance has been made for non-financial aspects?
- Have uncertainties in key assumptions been identified and tested?
- Have risks been assessed and valued?

Analysing the results

- Has the net present value been calculated for each option?
- Are the price base and the base date for discounting explicitly defined?
- Has an appropriate discount rate been used?
- Are all costs expressed in real terms?
- Is there a relative price effect to take into account, where prices change at a different rate to general inflation?

Assessing affordability

- Has the impact on the institution’s overall financial position been assessed?
- Can the institution accept the best and worst case scenarios?

- Does the preferred solution require HEFCE approval?

Presentation of results

- How does the chosen option compare with the alternatives?
- Are the results set out clearly, in an appraisal report, in a logical order and with all relevant assumptions made clear?
- Are tables available showing the details of costs and benefits for all options?
- Do they show the effects of risks?
- Do they show the influence of sensitivities?
- Is the overall financial impact clear?

Monitoring and evaluation

- Is provision made for monitoring project performance?
- Are proposals included in the appraisal report for evaluating the project and its performance once implemented?
- Is the timescale for evaluation defined?

Annex B

Case studies

Case study 1 University of Sheffield and overseas collaborative provision

1. In common with several other higher education institutions, the University of Sheffield is committed to the delivery of courses off-campus, through a programme of franchising and validation agreements. Its Board of Collegiate Studies is responsible for the validation and licensing of such schemes.

2. Some of the university's collaborative schemes were established with partner institutions overseas. Such arrangements are seen as bringing benefits to both parties.

3. The Board of Collegiate Studies has established procedures to run in parallel with the academic evaluation of prospective partner institutions, in accordance with the following principles:

   a. Existing financial directives state that heads of department are responsible for 'the effective, efficient and economic use of the resources allocated to the department'. Therefore, for each proposed project the head of the academic department concerned shall nominate a project leader who will provide the academic advice and expertise required to consider and, where necessary, progress the project.

   b. To ensure compliance with existing financial directives, the project leader is to make an assessment of the resources required to consider, implement and operate any proposed project, before any contractual commitment is made. This submission is to be passed to the finance department for formal costing. Each submission is to be countersigned by the relevant head of department to confirm that the proposal has their approval and that the resources are sufficient (this implies that a source of funding has been identified).

   c. The finance department will use the information supplied by the initiating department to provide a full costing, with copies being supplied to the project leader and the Office of Collegiate Studies.

   d. Where appropriate the finance department will prepare a financial model, suitable for inclusion in a business case, to facilitate a sensitivity analysis of key factors and an assessment of the financial viability of the project.

   e. A representative of the finance department will be involved in all financial and contractual discussions with any potential partner or applicant institution.

f. A representative of the finance department will be present on any initial inspection visit, with the brief to investigate the financial status of the applicant and explore potential financial arrangements.

g. Following the investigation and discussions in paragraphs 3e and 3f above, the finance department representative will prepare a financial report to assist in the decision-making process. This report will cover:

- the forecast income and expenditure, identifying any assumptions used in preparing the forecast
- an assessment of the financial status of the applicant
- any recommendations as to contractual terms to be included in any proposed agreement
- any specific areas of risk which should be notified to the Board
- comments regarding an exit strategy from any agreement.

h. Other elements to be checked include:

- ensuring that there is the ability to provide the infrastructure to deliver the course and adequate financial management support
- the legal status as well as the financial statements of the prospective partner and its capacity to enter into a contract
- references from other UK partners and from government officers, including ones in the country in which the potential partner is based.

i. Periodically the Board will ask for reports on the financial progress of each project, detailing – as a minimum – the income received and expenditure incurred together with any relevant information consistent with good management.

4. Following these principles, the Board should have comprehensive information, not only on the academic issues but also the financial matters relating to any potential partner, sufficient to enable an informed decision to be made. Such information would also help in the preparation of any formal agreement consistent with effective management of risk.

Key point of good practice

5. By establishing a formal procedure to collate the necessary information, the university has facilitated a proper appraisal of the viability, affordability and risks of potential collaborative projects.

This case study was prepared with the assistance of David Bearpark, Director of Finance at the University of Sheffield.

Case study 2 Merger between Chester College of Higher Education and Warrington Collegiate Institute

1. Warrington Collegiate Institute is a further education college. However, 28 per cent of its activity was higher education, centred on a separate site, the Padgate campus. During 1997 it identified potential difficulties in future student recruitment, and a need to establish a new position and a distinct identity remote from further education.

2. As a first step the institute initiated discussions with the University of Manchester, which it saw as the natural focus of a partnership since the university validated its higher education activities. However, after considerable discussion at all levels it became clear that the respective visions of the two institutions relating to the future role of the Padgate Campus in the work of the university could not be reconciled. The distinct identity of the Padgate campus would be lost, and early in 2001 it was agreed that a merger with the university would not be appropriate.

3. The institute therefore researched other potential partners among higher education institutions in the area. It identified a number of key factors which would inform a decision:

- a shared vision
- shared priorities
- consistency between strategic plans
- size and structure
- a willingness to integrate the institute as an equal partner
- the need to protect the interests of higher education in Warrington and its immediate environs.

4. An initial appraisal of potential partners was based on these qualitative factors. As a result, the institute identified Chester College of Higher Education as a potential partner. Both parties accepted that a proper assessment of this option would involve significant resources, both financial in undertaking due diligence studies, and in senior management time in progressing the merger project. A wide range of interested parties would have to be consulted, and a number of decision makers would be involved. Further exploration of the possibilities could only proceed on the basis that the governing bodies were committed to the process.

5. Both parties identified a number of risks to be managed if a successful merger was to be achieved. Significant among these was the importance of local politics, and the need to generate acceptance of the proposals outside the two institutions themselves. Much effort was directed towards mitigating the potential impact of such risks.

6. It was clear that a detailed appraisal of the merger option would require a number of technical issues to be addressed. To manage this process, the institutions set out a timetable for the decision-making process, and established an activity matrix as an aid to structured decision making.

7. The decision-making structure was based on a Merger Steering Group, formed from key staff in Chester and Warrington. Its work was supported by six sub-groups, each chaired by a member of the steering group:

- strategic management and external liaison
- human resources and communications
- finance and estates
- curriculum planning
- information technology
- quality management and student support.

8. Terms of reference were established for each sub-group and a task list was derived from the activity matrix. The steering group met every three weeks to receive reports from the sub-groups and to consider the outcomes and issues that arose. Underlying the whole process was the need to construct a bid to HEFCE's Restructuring and Collaboration Fund which would justify the cost of the merger.

9. The governing bodies accepted that the commitment of resources to the appraisal process constituted a risk in its own right, which had to be managed. A number of 'staging posts' were established, at which the intention to proceed further could be confirmed. This led to a point where the governing bodies of both institutions could take an informed decision.

10. A merger was achieved in August 2002.

Key points of good practice

11. The way in which the decision process was managed shows:

- recognition that the decision had to be taken in a strategic context
- identification of the qualitative factors which would inform a decision
- commitment of all parties, from governing bodies downwards, to resource the decision-making process at an appropriate level
- a recognition of the risks that could impede a successful conclusion, and steps taken to mitigate those risks
- a structure that facilitated the involvement of stakeholders in the decision-making process
- a staged approach to a final decision
- the importance of close monitoring of progress, and maintaining staff commitment to the project throughout a lengthy process.

This case study was prepared with the assistance of Professor Tim Wheeler, Principal of Chester College of Higher Education, and Dr Malcolm Rhodes, Assistant Principal, Corporate Planning and Development.

Case study 3 University of Exeter – involvement with Combined Universities in Cornwall

1. The Combined Universities in Cornwall (CUC) is a partnership, of which the University of Exeter is a founding member, between a number of higher education institutions and further education colleges. The partnership aims to draw on the strength of its members to offer Cornwall a major increase in higher education opportunities. This will be delivered through a 'hub and rim' concept, with the rim being largely provided by the further education colleges, and the hub provided at a new campus, Tremough, housing developments by Falmouth College of Arts and the University of Exeter.

2. Developments are to be undertaken in two discrete and self-sustaining phases. In the first phase the university's contribution will be mainly the provision of teaching and research in science subjects, and will include a relocated and transformed Camborne School of Mines (CSM), and the Institute of Cornish Studies. This case study is principally concerned with the decision-making process which committed the university to the first phase.

3. The two main benefits for the university which the CUC offered were:

- the opportunity to expand in particular academic subject areas through access to resources which would not be available at its Exeter base
- the opportunity to deliver an important element of its regional mission in the South-West, by providing higher education facilities in Cornwall which would act as a catalyst and driver for economic regeneration.

4. In addition, the prospect of a new multi-subject hub at Tremough offered another option in the university's consideration of the future of Camborne School of Mines, situated in a separate location at Pool, Cornwall. Other options under consideration were:

a. Do nothing.
b. Stay at Pool, with the same courses but with some refurbishment.
c. Stay at Pool, but with an enlarged footprint similar to that proposed for CUC.
d. Move to Exeter.
e. Closure.

5. A detailed analysis showed that all these options had a significant downside compared with CUC, and all except the 'do nothing' option carried significant financial penalties.

6. The capital funding requirements for the development were to be met from a number of sources, including:

- European Union Objective 1 funding
- contributions from the Regional Development Agency
- grants from the Department for Education and Skills via HEFCE.

7. Core recurrent funding was to come from additional teaching and research grant from HEFCE. Working capital would be from HEFCE and Objective 1, to bridge recurrent funding gaps before all the students were recruited, and until eligibility for quality-related research funding in respect of new academic staff was established.

8. The university took the position from the outset that it would only proceed with the project if adequate capital, recurrent and working capital resources could be secured. It was not prepared to take on any form of borrowing to support academic activities, nor to transfer funds from its Exeter-based operations. However it was prepared to entertain borrowing to provide student residences and other facilities with identified income streams.

9. The project had many stakeholders. The responsibility for developing the proposals and bringing them before the university Council rested with a small senior management team. But both the Senate and the senior management group (consisting of heads of schools and administrative divisions) were kept informed and given the opportunity to discuss the project.

10. However, the ongoing operation of its activities on the Tremough campus would still represent a major commitment for the university, and the key decision rested with the university Council. To aid its decision making, the Council established the Council Ad Hoc Advisory Group (CAHAG). Its terms of reference were to:

- develop an understanding of current developments under the CUC initiative, with emphasis on aspects which impinge on the governance of the University of Exeter
- provide advice to the Policy and Resources Committee and to Council on any major decisions relating to the CUC, with particular reference to governance responsibilities. Specific attention will be given to the robustness of recommendations made to these bodies from the financial, risk assessment and risk management viewpoints.

11. Membership of CAHAG was drawn from senior lay and academic members of Council who were not involved in developing and managing the project. CAHAG met the management team regularly to develop its understanding of how the team was going about its work, but did not seek to influence the direction of that work.

12. Below is a summary of the information provided to the Council to inform its decision. This gives an overview of the work which contributed to the decision-making process, and illustrates the breadth of the issues considered.

   a. The combined plan – based on a comprehensive and thorough market assessment of demand for student places. It showed how the proposals for a phased development at Tremough would meet this demand, and set out the capital and recurrent costs of the project.

   b. The academic plan – setting out proposals for the integration of teaching and research activities on the new site, and responsibilities for quality assurance.

c. The constitution – setting out proposals for the governance and administration of the CUC initiative.

d. A master plan – defining the physical characteristics of the Tremough development. A framework for its operation was set out in various legal documents.

e. A financial plan – showing the level of surplus which the project would generate, with a sensitivity analysis illustrating the impact of significant income risks.

f. Alternative strategies – with a detailed analysis.

g. Risk analysis. The CAHAG's specific focus on risk led to the development of a detailed risk register, identifying the key risks and actions that could be taken to mitigate them. It also identified the exit strategies available to the university. The risk analysis provides an ongoing basis on which to review the progress of the project.

h. An independent report by CAHAG to inform the Council's decision.

<u>Key points of good practice</u>

13. The management of the decision-making process shows:

- recognition that a decision would need to be based on a wide number of considerations, and not just a financial analysis
- a structured approach to the identification and management of risks
- the need to reconcile the strategic objectives of a number of stakeholders
- consideration of how best to inform a decision involving a number of complex and inter-related issues – which led in this case to the establishment of an advisory group.

This case study was prepared with the assistance of Ian Powell, Registrar and Secretary of the University of Exeter, Russel Seal, Professor John Inkson and Professor Stephen Lea.