CIPFA The Chartered Institute of Public Finance & Accountancy

STRATEGIC CASE STUDY

Dovetown: 8 June 2021

MARKING SCHEME

The answers detailed below show some but not all possible answers that were accepted by the marking team. Marks were awarded for other valid answers that might not be included in this document.

Key to marks:

Calculations or the manipulation of numerical data.

Most calculations will be straightforward such as the creation of accounting ratios to interpret financial performance, or assessment of the sensitivity of particular estimates.

Some specific calculation marks may be allocated but candidates should not be judged solely on whether figures are 'correct', but on how they reached their figures and the reasonableness of their assumptions and approach.

Narrative

The candidate will be required to demonstrate in their narrative responses an assessment of the impact and implications of the analysis performed and application of appropriate elements of the syllabus as part of further critical evaluation. Narrative responses should demonstrably inform decisions being faced within the case scenario.

Marks will be awarded for the evaluation of the information given in the context of the specific issues raised by the case scenario. It should demonstrate consideration of an appropriate breadth of issues, such as financial and non-financial perspectives, stakeholder considerations, ethical considerations, strategic risks and the strategic objectives and environmental context of the organisation. Candidates will be expected to demonstrate professional judgement in drawing from this evaluation appropriate conclusions, making practical and relevant recommendations and focusing their answer to suit the user(s).

The allocated marks should again be seen as a guide. Some additional credit may be awarded (within the total marks available for the section concerned and subject to the requirement for appropriate coverage of a breadth of relevant issues) for points which have been developed with particular insight or cogency.

The marking scheme will identify (in bold) points of particular significance for which marks will be ring-fenced. This will limit the marks awarded to candidates who miss the most salient issues.

Reasonable credit may also be given for any points which have not been included in the marking scheme but are clearly valid in the context of the candidate's own calculations or preceding analysis.

General comments:

It is essential that candidates answer all the questions as set and meet the requirement to achieve a minimum of 25% of the marks available for each question.

Any attempt to evade the terms of the question on the grounds that the situation depicted in the examination scenario is unlikely to have arisen or occurred, or is improbable in concept, should not be awarded any credit.

Question 1 (45 marks)

The Dovetown University (DU) board of trustees has requested a report into the impact of the COVID-19 pandemic on the university's operations, and the implications for strategic and financial planning. Per the email from the Vice Chancellor, Andrea Matthiessen, prepare a briefing note as follows:

Q	Response points	Marks	Syllabus Ref	App'p Std
Q1i)	*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.* ***Calculations – 6 marks – 1 per meaningful percentage change calculated to a maximum of 5 (see spreadsheet) and 1 mark for calculating the forecast reserves.*** ***Narrative - 1 mark per developed point to a maximum of 12 with a maximum of 6 on income issues and 4 on expenditure issues. 2-3 marks are reserved for discussing budget setting considerations.*** Income • Tuition fee income increased by 8.2% from 2017/18 to 2018/19 and by 9.2% from 2018/19 to 2019/20. Tuition fees are likely to have been largely unaffected in 2019/20 by the Coronavirus lockdown as it was already most of the way through the year by the time it impacted Loaland and there would probably have been limited scope for tuition fee refunds, so this shows fairly strong income growth. • From 2019/20 to 2020/21 tuition fee income is forecast to be a 12.2% drop. This is likely to be linked fairly strongly to COVID-19, given the strong growth in the preceding years. It is stated that there were around 19 000 students enrolled at the start of the 2020/21 year versus around 22 000 at the start of the preceding year, and that school leavers in particular are tending to look for jobs straight from school rather than go to university, so some of this drop will relate to that. • Further, the problems with first year drop outs due to predicted grades etc (also a COVID-related issue) will have led to any students that pay in instalments having potentially dropped out without paying for a full year.	17	MA: C2, C3	K: ARC, BA, FI, LSP, SBMG; S: BI, PSDM; B: AV, PS

Q	Response points	Marks	Syllabus Ref	App'p Std
	• However, on the other hand, it is stated that some more vocational courses have experienced increases in demand, and there has been an increase in mature/part time students. Part time students will tend to pay around half the fees of full-time students though, so this may explain some of the decrease as these students will pay a similar amount in fees but over a longer period. • In addition, average fees for distance learners are lower than for face-to-face, so if this balance has shifted towards the former, that may also have contributed to a difference. • HEFB teaching and research grants decreased by 3.4% in 2018/19, 10.4% in 2019/20 and 4.6% in 2020/21. This is in line with the government's desire to wind back university funding, and the decline generally is not likely to be COVID-related especially as the decline was greater in 2019/20 than 2020/21. • Other specific grants decreased by 2.2% in 2018/19 and then 3.7% each following year, and by 9.3% over the three-year period. It is possible that some of the latter decreases may have been COVID-related, given that the percentage decline has risen in 2020/21 – it may be that as many organisations have struggled through the pandemic and the associated economic downturn they may not have been in a position to fund research etc. • Residences, catering and conferences increased by 2.4% in 2018/19, decreased by 5.9% in the second year and fell by a further 4.0% in the third year. The first decrease is likely to be COVID-related, particularly as tuition fee income increased during that year, as the lockdown led to much lower footfall on campus and the closure of campus shops and catering. The second further decrease may also be COVID-related, due to local lockdowns, fewer students, or social distancing measures. • Investment income increased by 10.7% in the first year and then decreased by 17.8% over the two years. This is likely to be COVID-related, as the economy has been struggling since early 2020 and investments held may have lost value, and interest rates are likely to be low due to the government's expansionary monetary policy. However, it may also have been partly due to			

Q	Response points	Marks	Syllabus Ref	App'p Std
	lower funds to invest given the declining reserves position. • Donations fell by 9.8% in the first year then 21.6% in the second year, but rose by 15.8% in the third year (for a total three-year fall of 18%). The more than doubling in the second year fall is likely to be COVID-related, as businesses and individuals would have struggled to make donations in the first half of 2020, but as the level had already fallen quite significantly in 2018/19 and COVID only impacted the latter part of 2019/20 it seems likely that donations had been falling in part due to other factors. However, the rise in the third year may suggest a return to charitable giving once the worst of the national lockdown was over, though the donations are still well below their pre-COVID levels. • The 44.4% fall in sponsorship and university merchandising in 2019/20 is probably partly COVID-related, though this is a significant drop given lockdown affected less than five months of the university financial year. It has increased by 13.8% in 2020/21, but is still 29.2% off its pre-COVID level. • While total income rose by 0.7% in 2019/20, this was entirely due to tuition fees, and total income then fell 8.1% in 2020/21 for a three-year drop of 4.3%. While this is largely likely to be COVID-related, it also seems that in general, income sources like grants were already declining. Expenditure • Expenditure on staff rose 2.7% in 2018/19, likely due to the June 2019 pay review. It then rose 8.9% in the second year, and a further 0.8% in the third. This is likely to be largely COVID-related, as we know salaries have been frozen, but additional staff and overtime were used to migrate existing learning materials on to the online platform, run exams etc in 2019/20. • Other operating expenses decreased 1% in the first year, then rose 18.7% in the second year before dropping by 4% in 2020/21, for a three-year rise of 12.7%. This again is likely to be COVID-related, given that the increased IT costs including a much higher contract payment to Ezio Learn in the latter part of 2019/20. The fall			

Q	Response points	Marks	Syllabus Ref	App'p Std
	in 2020/21 is less easily explained, though may be at least partly due to lower student numbers, given the fall in tuition fee income. • Depreciation and amortisation increased by 3.9% in the first year, then by 6.1% in the second year, then fell 7.7% in the third year. The second year rise may well be partly COVID-related, due to purchase of IT equipment for staff to switch to home working. It is less clear why it has fallen in the third year, and we should investigate whether a major asset is now fully depreciated, or whether the assets purchased for the lockdown have not been correctly accounted for. • Interest and financing costs rose 6.6% in the first year, 19.6% in the second year and 11.7% in the third year, for a total increase of 42.5%. This is potentially partly COVID-related, due to the economic picture. It is possible the university needed to borrow cash to fund asset purchases etc in the second half of 2019/20. • In total, expenditure has increased 12.4% across the two years. Combined with the decrease in income, this has led to an increase in our deficit over the three years of 438%, from £17m to £89m. This is a serious position, and while largely COVID-related, it would appear some of the effects are long lasting and may have serious implications for our going concern. Reserves • The projected year end reserves of £195m would cover only around two years of this deficit, or under 5 months expenditure. With income from grants likely to continue to fall, restrictions on domestic tuition fees and uncertainties around DU's prospects for generating more income from other sources, this is of increasing concern. Budgeting considerations • This analysis demonstrates that it is likely to be challenging to set a budget based on recent years' outturns, due to the difficulties of separating out the impact of COVID-19 to date from the other more general declines in income etc., so an incremental approach is likely to be unsuitable.			

Q	Response points	Marks	Syllabus Ref	App'p Std
	• For this reason, the university should consider a more thorough budgeting exercise, perhaps using a more zero-based budgeting approach. While this may require more time input to produce, it is more likely to be accurate and may be easier to update for changes to student numbers and so on. • However, prior to changing budgeting approaches, DU needs to get clarity on its strategic priorities. The budget will have to reflect these, so, for example, the decisions on increasing distance learning etc., and the COVID-recovery plan priorities, need to feed into the budgeting process. • In addition, given the worsening reserves position, the board should agree on a reserves policy to act as a strict budget parameter.			
Q1ii)	*Evaluate the Chief Financial Officer's proposed adjustments to the 2020/21 financial statements, including their compliance with generally accepted accounting principles.* ***1 mark per developed point to a maximum of 10, with a minimum of 2 and a maximum of 4 for each adjustment. Reference to appropriate accounting standards will be given credit (but is not necessary to answer the question in full).*** <u>Adjustment 1</u> • In part at least the theory is reasonable here, as it is acceptable and appropriate to capitalise staff time when involved in developing an asset, which online courses will be if they continue to be used in future years. • However, the CFO is proposing we capitalise all additional staff costs across two years. It is clear that some extra staff and overtime was down to setting up staff at home, dealing with large amounts of queries and other emergency measures, which means it is unlikely to all be appropriate to capitalise. • If DU wish to capitalise some of the staff costs, we would need to analyse time sheets and job roles to ensure that the staff members concerned were definitely involved in the creation of an online course asset that we will use beyond the year of its creation.	10	FA: C1, C3, D1; CFR: B1; MA: C3	K: ARC, BA, FI, LSP, SBMG; S: BI, EI, PSDM; B: AV, PS

Q	Response points	Marks	Syllabus Ref	App'p Std
	• Whether it will be practical to retrospectively collect such information is perhaps doubtful, as it may be unlikely that all relevant staff have maintained time records to the required level of detail for this to be accurately estimated. <u>Adjustment 2</u> • Residences, catering and conferences has decreased by £8m since before the pandemic, and is likely to be at least partly footfall-related, but it will be difficult for us to prove this in its entirety. • Conferences in particular are likely to involve local businesses rather than student footfall, so it's not clear that DU should be claiming for the full £8m per annum. • Regarding the £1m loss of income against donations, and the £1m against sponsorships and merchandising, it will again be difficult to prove that this is related to a reduction in footfall due to COVID – donations in particular is not likely to be largely footfall-related. • Whether any amount is claimable, though, no amount for this should be entered in the accounts now. While it's true that income should be recognised in the year to which it relates, this is simply an application that has been made, the success of which is unknown, and the principle of prudence means we should not recognise income and a debtor until it has been firmly committed. <u>Adjustment 3</u> • It is clear that the university's income has fallen significantly in the last two years, and it is likely that a large proportion of this change is COVID-related. • However, it will be more difficult to prove that income fell by at least 5% as a direct result of COVID-19. In 2019/20, the year the pandemic hit, income actually shows a small increase (0.7%), though the pandemic will only have affected the last few months of the year and if income can be accurately broken down to pre-pandemic and during the pandemic this may not be the case. • Our total income over the two years (2020/21 compared to 2018/19) did decrease by 7.5%.			

Q	Response points	Marks	Syllabus Ref	App'p Std
	However, a portion of this was due to decreases in grant, which is a trend that has little to do with COVID-19. It will be difficult to prove that all of the rest of the decrease in income is as a direct result of COVID-19, so DU may not be eligible for this loan. • In addition, the CFO's statement that this loan should be itemised in the accounts as evidence of improving liquidity is erroneous. Taking a loan for only a year does not, strictly speaking, improve liquidity, as it will simply increase both current assets and current liabilities by the same amount. • In addition, even if it is obtained, it will not have been confirmed at year end, so it is not relevant for inclusion in the accounts, and it does not fulfil the criteria to be included as a post-balance sheet event.			
Q1iii)	*Analyse the potential issues associated with the implementation of the university's draft COVID-19 Recovery Plan, including any potential ethical concerns.* ***1 mark per developed point to a maximum of 12.*** • Redundancy is an area fraught with practical and ethical issues, for example the impact on morale of remaining staff as well as the direct impact on those being made redundant. All other possible avenues should be explored before making staff redundant. • Economically speaking, this is a very difficult time for people and the job market is struggling, so making people redundant at this time may seriously and adversely affect their lives. • It is important to be careful with making redundancies linked to the less popular courses. While these roles may effectively be redundant due to falling student numbers, it does not follow that these staff members could not be successfully redeployed elsewhere. • Also, if redundancies are necessary, it does not necessarily follow that they should be targeted at staff involved with the least popular courses. For many roles, there will be little or no impact on workload of there being lower numbers of students on a course. Any redundancies should be approached more strategically.	12	CGL: H3, H4; SPF: B2; SPD: B2	K: ARC, BA, LSP, SBMG; S: BI, EI PSDM; B: AV, PS

Q	Response points	Marks	Syllabus Ref	App'p Std
	• In addition, staff occupying roles identified as redundant may be the ones that would find it the hardest to find work elsewhere, if their field is declining in popularity generally. • Early retirement incentives, while a potential way to reduce the need for redundancies, have to be handled with care. If these incentives are financial in some way, this may commit resources that could be used instead to pay higher redundancy packages or to reduce the number of redundancies actually required. • It will be vital to avoid discriminating on the basis of age – making incentives available to all staff over 55 may not be appropriate. If it is decided that it is, it will need to be communicated with care and with reference to Loalandian retirement/pensions law and the Equalities Act. • There are other issues with this course of action as well, such as the potential loss of staff with significant experience, and/or having too many staff applying to take these incentives. • A recruitment freeze may be sensible in the circumstances, but care needs to be taken as to how it is implemented and how positions are classed as 'business critical'. There is a risk of remaining staff members being overworked through having to cover additional responsibilities and even whole positions. It is important to ensure that any such policy is set against the impact on staff numbers of policies such as early retirement entitlements, redundancies and the impact of natural wastage. • A review of salaries with the potential for cuts raises ethical issues around the ongoing wellbeing of remaining staff. While a percentage cut across the board may seem equitable, those on lower incomes are much less likely to be able to bear a 5% cut than those on high incomes would be able to bear, say, a 10% cut. • It should be considered whether it might be more appropriate for the university leadership to accept a bigger salary reduction in order to ease the current pressure. • A review of pension contribution levels to offset the need for redundancies is also problematic.			

Q	Response points	Marks	Syllabus Ref	App'p Std
	As well as the employment contract, there is a psychological contract with staff, and they may expect generous pension contributions to continue. • Reducing pension contributions, alongside possible salary cuts, will affect all staff and potentially our ability to recruit in the future; whereas identifying a greater number of redundant posts will affect a much smaller number so it is important to consider which is more appropriate in the current environment. • While it is good that to make allowances for staff and students at higher risk from COVID-19, this also raises a range of ethical issues, such as issues of equity regarding staff and students who are not categorised as vulnerable. This may lead to knock-on practical issues, such as motivation levels among the non-vulnerable staff or complaints from non-vulnerable students about not being able to access the same provision. • It is also necessary to consider what to do if those who we know are higher risk do not want to receive different treatment. It will be necessary to consider this can be enforced in order to protect staff/students, if they do not see the need for it. • There are similar issues around terminating or postponing 'non-essential' research. This will need clear and robust criteria for how non-essential projects are identified. • The university may be receiving, or have already received, grant funding towards research projects that are identified as non-essential. To terminate projects partway through, quite aside from potentially necessitating the repayment of grant received, may also leave these other organisations without the research that they might have commissioned years ago and may be dependent upon. This will in turn negatively impact the university's reputation and potentially its ability to obtain such grants in the future. • The cancellation of community events such as the 'One Free Day at DU' event may mean the DU is failing to fulfil a community role that is expected of it, and that the community may rely upon.			

Q	Response points	Marks	Syllabus Ref	App'p Std
	• As a major player in the local economy, to cancel events that ties the university to the community may be viewed as self-interested, or shirking its responsibilities to the community and local young and disadvantaged people. One of the university's aims is to support local communities and drive local economic growth, and the cancellation of such community events may be inconsistent with that aim. • There are significant ethical dimensions to the duty of care to students. While a traffic light system around the risk of COVID may be necessary to maintain safety on campus, it is important to be aware of the potential for significant mental harm caused by students being unable to leave their immediate household or residence. • There are also ethical challenges around 'requiring' students not to leave their households. The university is neither a lawmakers or law enforcers, so any sanctions against the breaking of these rules would probably have to involve academic punishment or expulsion from the university, which may have serious effects on the lives of the individuals concerned. • Encouraging a large amount of marketing to the most profitable segment of the university's market (international attending students) creates ethical issues around fairness, and even exploitation. • The university would risk rejecting more able students in favour of those who bring more financial resources, or accepting those who may struggle with the courses and fail, which is breaking our duty of care to students and challenging our integrity as an institution. • In addition, as a Loalandian university with links to the local community and economy, DU would need to be sure that the international students bring more to the economy than the negative impact of not awarding as many places to home students. This is likely to be impossible to quantify, but should be considered by the board and strategy-makers before approving a plan such as this.			
Q1iv)	*Discuss the extent to which scenario planning might be relevant to the university's strategic management activities.*		SPD: A3; SPF: B4	K: ARC,

Q	Response points	Marks	Syllabus Ref	App'p Std
	1 mark per developed point, up to 4 marks each for pros and cons on applicability of scenario planning to DU. • Scenario planning might be a suitable tool for planning for future shocks, as it involves considering drivers of change around which there is a high level of uncertainty and/or dynamism in an organisation's external environment, which would have a high impact on the organisation. • It would be fair to say that there is a high level of uncertainty around whether another pandemic might hit in the future, and further waves of coronavirus may arise (locally or nationally). It is also clear that it would have a high impact on DUs operations. • The scope for other major external shocks is also arguably high. For example, the result of the election in 2022 looks significantly uncertain and is likely to have a major impact on university operations, given the opposition and current government hold very different views about key issues such as university funding, so the impact of LPP coming to power could be an appropriate basis for a scenario. • It might be useful for the university to do some open-ended thinking, such as imagining scenarios around the election result, around future pandemics, and so on, and to think further about whether it is agile enough as an organisation to cope with these kinds of shock in the future. • Scenario plans can be seen as low-cost insurance policies and should mean that DU is less likely to face unwelcome surprises and may allow it to identify strategic opportunities ahead of competitors. • The trustees are concerned that DU was not prepared enough for a global pandemic, which may not have been likely but was highly uncertain and extremely high impact, and scenario planning may have helped the university to be better prepared for it though the nature of it may be so unprecedented that no amount of strategic planning could have ensured adequate readiness for it.	6		BA, SBMG; S: BI, PSDM; B: AV, PS

Q	Response points	Marks	Syllabus Ref	App'p Std
	• On the other hand, scenario planning is time-consuming and may require an expert in the technique in order to achieve useful outputs. It is unlikely that DU has such an expert currently, and with significant pressures due to the pandemic still ongoing, time may also be lacking to devote to this. • While scenario planning should lead to strategies that can be drawn upon if the situation arises, the fact is that due to the high level of uncertainty around the drivers used to develop the scenarios, they may never occur so the strategies will never be used, and the time to develop them may not be productive. For example, DU could scenario plan around LPP winning the next election, but the full impact of that will be unclear until LPP's final manifesto and first few months/years in power. • In addition, it is accepted that the scenario needs to be very specific in order to elicit the best strategies. This therefore makes it even less likely that the scenario will occur in exactly that way in practice. Even if DU scenario planned at this point for a future (second) global pandemic, it is not likely that it would play out in exactly the same way as COVID-19. DU may not be able to predict something so uncertain sufficiently accurately, so the ideas about plans to cope with this eventuality may not ultimately prove useful.			

Question 2 (55 marks)

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:

Q	Response points	Marks	Syllabus Ref	App'p Std
Q2i)	*Using Porter's Five Forces model, analyse the competitiveness of the market for distance learning (DL) provision.* ***2-3 marks for each aspect of Porter's Five Forces effectively applied, up to a maximum of 12*** <u>Competition</u> • Loaland has over 90 universities, suggesting that direct competition in the market may be high. However, we do not have any indication of the number of these universities that offer distance learning, though most are likely to do given all universities will have had to adapt due to COVID-19. • It is likely that rivalry will be intense due to constraints over pricing (for Loaland home students, at least), the number of providers, and distance learning growing in popularity. • Domestically, given the tuition fee regime, it is likely that competition is mainly non-price-based and DU's excellent face-to-face reputation may set it apart from the competition, though there is anecdotal evidence that distance learning may be seen as an 'easy' option, and therefore less prestigious. • It is therefore unclear how far DU will be able to leverage its excellent reputation, based on face-to-face provision, in expanding distance learning provision; the user-friendliness of the interfaces and the flexibility of the provision may be much more important. • Given the tuition fee regime, the impact of alternatives such as apprenticeships and of COVID, and the state of the economy etc in Loaland, it is likely that market competitiveness will become increasingly intense. In the area of distance learning, non-price competition measures may be less reliant on historic reputation for face-to-face teaching, and focus	12	SPD: A3	K: ARC, BA, SBMG; S: BI, PSDM; B: AV, PS

Q	Response points	Marks	Syllabus Ref	App'p Std
	more on factors such as flexibility of provision, quality of technology applied etc. • It is also possible, given the lack of a lower limit to tuition fees that competition becomes more focused on price. This is always likelier in industries where fixed costs are high and it may be that this applies to distance learning. • However, if distance learning can be assumed to be a growing market, this can lead to competition being less intense for those organisations already with a presence in the market such as DU – it can be possible to grow with the market. • In addition, DU faces competition from overseas universities (for both Loalandian and international students), given that distance learning does not have attendance requirements. This suggests the potential for huge and varied competition in the market, so detailed analysis of competitors may prove difficult. Given the uncertain relevance to a distance learning growth strategy of DU's historic basis for its competitive advantage, this is likely to be even more uncertain for the international distance learning market – it is easy to imagine competition here will be more price-based. <u>Threat of new entrants</u> • There is a rigorous application process to become a university in Loaland, so it is not likely that a large number of bodies providing distance learning degrees will enter the market. • However, there are 90+ universities that already have this status, and it is likely that those who do not already provide distance learning options will be considering it given recent events and current market conditions. • However, there are conversely no regulatory barriers to entry for organisations to provide distance learning that does not provide a recognised degree, so the threat of new entrants to the general 'education by distance learning' market is higher. • The caveat to this is that the market may already be saturated with DL courses already provided by universities and other providers, and developing the systems may be costly for brand			

Q	Response points	Marks	Syllabus Ref	App'p Std
	new entrants, both of which may discourage entry. • DU has been active in the market for 10 years, so it may benefit from experience and this could act as a barrier to entry for new entrants. It may also have associated economies of scale. • However, technology is so fast moving that new entrants may have the advantage over established players as they may be better placed to adopt it. • In addition, overseas universities may choose to begin offering distance learning options if not already doing so, particularly considering Coronavirus and new ways of working were a global issue. It will not be possible to realistically analyse the extent of competition from overseas providers. • We do not know to what extent there are equivalent regulatory barriers in other countries and the nature of distance learning is that it is inherently global, especially if not reliant on live delivery which is impacted by time differences. <u>Threat of substitution</u> • Threat of substitution depends on the customer's primary reason for study. Some students will still want a degree of some kind, in which case the threat of substitution (e.g., with other types of courses) is low. • Other students may simply want a qualification, to help them to get their first job, or to re-train for a career change. In this case, they could substitute an academic degree for a more vocational qualification, depending on the field they wish to work in. The increase in schemes such as apprenticeships may increase the threat of substitution. • As an extension of the last point, some may be considering attending university to improve their employability and salary prospects. These individuals may decide instead to get a job straight away and learn through an apprenticeship. • Lastly, some students may simply be seeking learning for pleasure rather than as any link to career prospects, and threat of substitution with			

Q	Response points	Marks	Syllabus Ref	App'p Std
	less formal degrees may be higher for these students. <u>Power of buyers</u> • Individually, potential DU students have low power to demand higher quality or lower prices, as there are 19,000 students in all. • In addition, with HEFB as regulator and tuition fee legislation, courses and tuition fees do not run as a free market, so the buyer has limited power to demand lower prices for courses. • While HEFB does not regulate international provision, it still appears unlikely that an individual international student (or prospective student) could influence DU's provision or prices significantly. • That said, students (or prospective students) could easily form groups to exert pressure, particularly now that applications in general seem to be falling. Buyers in all markets are turning more and more to the internet and reviews to gauge others' experience as a consumer, so we would need to be aware of our ranking on student forums and so on. • DU also has course delivery contracts with organisations for groups of their employees. Such organisations arguably have more power given the large number of universities in Loaland, though that would depend on how significant a part of DU's income this forms, and the alternative options open to the organisations. • In addition, distance learning as a mode is often perceived as a cheaper way to study, and this expectation may put pressure on DU to price its distance learning offer accordingly. • Grant payers could also be considered a 'buyer' of sorts, and are likely to be high power as they could impose conditions on the sorts and modes of courses that could be delivered. • Given the move to more vocational qualifications such as apprenticeships, employers may become a buyer with power as DU could develop courses to award both a degree and fulfil requirements of the apprenticeship.			

Q	Response points	Marks	Syllabus Ref	App'p Std
	<u>Power of suppliers</u> • The suppliers govern the cost of inputs to an organisation, so for a university its most powerful supplier is its staff. There is a powerful lecturers' union, which may constrain DU's ability to keep the cost of inputs down. • In addition, DU's reputation should mean it attracts academic staff at the forefront of their field, which may mean they command a premium in terms of salary. • In addition to staff, another powerful supplier if expanding distance learning will be the IT provider(s) for the online platform, online exams/assessments and so on. DU will have to negotiate contracts and activity levels carefully to ensure that they are not exposed to undue supplier power in this area.			
Q2ii)	*Discuss how the university's existing and potential markets could be segmented, and the options for pricing strategies based on these segments.* ***Up to 5 marks for discussion of market segmentation and up to 5 marks for relevant pricing strategies, to a maximum of 8*** • DU already segments its market according to Home (Loalandian) students and International students. Due in part to HEFB's regulation of Home fees, the International students pay more in fees for the same courses and tuition. • DU's market is also segmented according to whether a student is full time or part time, and there may be further strata according to how many years a course takes overall etc. • It may be appropriate to charge a little more over the full course for part time students, as part of the fee will cover administration and overheads, and these students will be studying with the university for longer overall. • DU's market is segmented by location of study, i.e., face-to-face versus distance learning. DU could choose to charge less for distance learning, given that the students will not be on site and therefore not drawing on overheads such as libraries and other campus-based resources. • However, an alternative pricing strategy would be to keep attendance and distance learning	8	SPD: C2; SPF: A6; FM: D1	K: ARC, BA, LSP, SBMG; S: BI, EI, PSDM; B: AV,

Q	Response points	Marks	Syllabus Ref	App'p Std
	modes of the same course at the same price. Both modes of student come out with the same qualification so are effectively purchasing the same thing. In addition, distance learners mostly live and study at home, so their studies are still likely to be cheaper overall than those attending and renting student accommodation. • As a third option, DU could price its distance learning courses based on how much synchronous/asynchronous learning there is, how much tutor input, how many marked assessments, etc, to ensure that it is covering the full cost of each course's provision. • DU could segment its market according to the subject of the course studied; for example, medicine courses are often priced more highly than arts courses, due to demand levels and post-course earning prospects. It is clear that some courses will receive a higher number of applications per place. • DU could view this as an opportunity to use differential pricing and charge more for the popular courses, though within HEFB tuition fee constraints where these apply. DU could also reduce the price of less popular courses, where it still wishes to run them, to encourage more applications and access more contribution to overheads etc. • DU could segment according to 'academic' students, i.e., those studying for a degree, and 'vocational' students, i.e., those studying short courses or other qualifications to improve career prospects, but that do not end in a formal degree award. • The pricing strategy on this segmentation is likely to be that academic courses are charged at a higher rate, and in line with HEFB benchmarks, and vocational courses charged at a lower rate according to how much they cost to deliver. • Vocational courses are likely to be subject to much less regulation than academic courses, and may not require formal exams etc, so charging less for them is also likely to be in line with the cost and still enable DU to make a profit or contribution on them.			
Q2iii)	*Discuss the potential reactions of stakeholders to a move to greater DL provision by DU.*		SPD: B1; SPF: B1; CGL: H1	K: ARC, BA, SBMG;

Q	Response points	Marks	Syllabus Ref	App'p Std
	1 mark per developed point to a maximum of 13, with a maximum of 3 per stakeholder group. A minimum of 2 marks are reserved for impact on the local economy and community. **Students / potential students** • Some students and potential students may welcome a move to greater distance learning provision, due to concerns about virus spread, or simply due to the likely increase in flexibility and reduction in the overall cost of study (e.g., through not having to relocate to Dovetown). • Students already at the university may not view this in a favourable light, particularly if they value face-to-face provision and do not want their study mode to be changed, or resources to be eroded in the move. • There is already evidence that students and others may believe that online distance learning is a 'light' form of study and does not compare to face-to-face in terms of rigour. Students and potential students may therefore not support this move, and those potential students who want face-to-face tuition may even be put off from application by this re-focusing. **Alumni** • The vast majority of DU alumni will have attended DU on traditional, face-to-face courses. They are therefore likely to be sceptical about this move and may view it as 'dumbing down'. Alumni may actively resist this move, through a fear that this will erode DU's excellent reputation, and hence the prestige of their own qualifications. • Significant alumni may be regular donors to DU. We need to be prepared that their support may be withdrawn if they do not approve of the direction of DU strategy. **Funders** • HEFB (teaching grant): The information provided does not make it clear what HEFB's position is on study mode, if any. However, it is worth noting that, as grants to universities are being wound back towards zero, it is unlikely that DU would secure new grant from HEFB for new online courses. On the contrary, if DU is planning to reduce face-to-face provision in order to	13	BCM: B1	S: BI, EI, PSDM; B: AV, PS

Q	Response points	Marks	Syllabus Ref	App'p Std

	provide online study routes, the HEFB grant may fall more rapidly than it otherwise would have.
	
	• Research funders (HEFB research and other grant payers): These funders may be lower interest than other stakeholders, provided that DU continues to conduct research into the same areas and to the same standard as previously.
	
	• However, reputational impact may be an issue for research grant funders. DU's reputations as a teaching body and a research institution are interlinked, so any loss of reputation on one side may affect our ability to attract funders on the other.
	
	• Businesses and individual donors: this is one of the most difficult stakeholder groups to manage, as they will all be supporting DU for different reasons and may therefore have varying reactions to the proposed changes. DU's position and standing with these organisations and individuals may also be jeopardised by making a significant change to the way it operates.
	
	• Such donors may be convinced of the benefits of flexibility for DU, so may continue to provide support when this move is made if they are communicated with effectively.
	
	Academic staff
	
	• DUs staff are likely to be significantly impacted by this change. As DU is a service organisation, the staff's wellbeing will affect service quality as a whole.
	
	  ○ Academic staff will be affected as they will now be teaching / lecturing more online and less face to face, which will require a different set of skills. Depending how online tutorial groups etc. are scheduled, this may also lead to academic staff needing to work longer hours to service the increased student numbers.
	
	  ○ Staff may be frustrated by or anxious about the changes. If they enjoy face-to-face teaching, they may view this as a sign of the direction of the university as a whole, but DU may lose staff who do not want to shift towards online provision.
	
	  ○ However, online teaching may be welcomed by some academic staff as it			

Q	Response points	Marks	Syllabus Ref	App'p Std
	may offer greater flexibility in terms of timetabling (e.g., if sessions do not have to be real time), and staff may welcome the chance to work from home more while still being able to support students' learning. **Other staff** • Administrative staff may also be anxious about the changes. It is likely that some may be affected by having to administer the online courses, log ins, technical issues and so on, and there may be more queries as a result. • Support staff such as those working in catering and DU shops may be against the change as it will eventually decrease their face-to-face customer base, and they would fear their redundancy in the medium term. **Board / decision makers** • Board members may have varied opinions over the amount and type of distance learning provision that should be provided, and about winding back our face-to-face provision. The recently reaffirmed vision mentions premises, residences and catering, as well as supporting communities, which may suggest the board favours the face-to-face element. • Ultimately, the board will be accepting the risks around moving in a new strategic direction, and may require extensive risk assessments and detailed financial modelling before signing off on these changes. **Local economy / community** • DU contributes significantly to the local Dovetown economy and community. Face-to-face student numbers are around 4% of total Dovetown residents, so a significant decrease in attendance will affect local businesses, landlords, and so on. • If DU starts to sell campus buildings as a result of this move (such as Icarus Halls), it will impact the local economy and community more widely. The offer received in 2018 was only speculative and may not be indicative of the future use of the site, but the creation of a casino and/or luxury hotel could have a significant impact on the local			

Q	Response points	Marks	Syllabus Ref	App'p Std
	economy and community, which could be viewed as positive or negative. • It is also possible that a change in attendance mode will, in the medium to longer term, affect tourism to Dovetown. The prestige of the university and its campus contributes to the attractiveness of the area, so if the move affects DU's reputation in any way or creates bad press, this could have knock-on effects to the wider local economy. • As a result of these impacts, local government in Dovetown and potentially even central government will be interested in DU's plans, and local government at the very least should be consulted regarding the impact on the local economy. • Local businesses in DU's supply chain may be impacted by a decrease in face-to-face provision.			

Q2iv)	*Critically evaluate the financial implications of the proposed move to a greater proportion of DL provision by DU.*
	
	Calculations – 5 marks – see spreadsheet Narrative – 1 mark per developed point to a maximum of 12.
	
	• The amended analysis performed shows a positive NPV of £17.76m over five years, from converting 2 000 face-to-face places into 2 500 distance learning places; this suggests that it is a financially worthwhile strategy for DU to pursue.
	
	• Also, in cash terms, by 2026/27, the reduction in income from face-to-face tuition and rentals and the increase in income from distance learning provision and the cost savings on an annual basis creates an annual net saving of nearly £1m.
	
	• However, there are a number of potential concerns with the assumptions built into the analysis:
	
	  ○ We have applied a flat rate decrease in expenditure on staffing and other expenditure, which is likely to be far too simplistic for meaningful analysis.
	
	  ○ There are likely to be variable costs, fixed costs and semi-fixed costs related to student numbers and potential cost
		17	FM: C1, C2, C4; SPF: C3	K: ARC, BA, FI, SBMG; S: BI, EI, PSDM; B: AV, PS

Q	Response points	Marks	Syllabus Ref	App'p Std
	drivers such as course/class numbers, so it would be ideal if there could be a much more nuanced analysis of the cost saving implications, which could be significantly higher or lower than assumed. ○ Fewer face-to-face students would presumably also have a knock-on impact on catering income and probably merchandising income from campus shops; this has not so far been factored in. ○ We have assumed that all offered distance learning places will be filled, but there is no guarantee of this. Though the NPV is positive, a small change in distance learning demand could turn the annual saving into a net cost. ○ It is not clear how the face-to-face places will be cut – whether it would be whole courses being axed, or tutor groups, or a slice across all. Fixed, semi-fixed and variable costs would behave very differently dependent on this decision. ○ Increasing distance learning places may mean a higher proportion of students will be international, which may mean that the average tuition fee assumption is too low. ○ The assumptions made on staff costs may also be too simplistic. The shift to more distance learning and less face to face may require more staff, or at the very least more training, in order to be effective. ○ By moving to a greater distance learning focus rather than face-to-face, we may also be moving to a greater focus on part-time students rather than full-time (as the majority of attending students who relocate to Dovetown are likely to study full-time). This may have knock-on effects on a range of our operations, that we may not have thought through fully. ○ It is not clear how reliable the assumed marketing cost is. A contract of such size is likely to require a competitive procurement process and it is unlikely that this has already happened given the			

Q	Response points	Marks	Syllabus Ref	App'p Std
	stage we are at in the decision-making process. The final cost could therefore be quite different. ○ We should also assess the impact of appointing a contractor for marketing, both in terms of whether other options have been considered and on existing staff capacity in DU – would existing marketing staff be surplus to requirements or redeployed elsewhere or complement the contractor somehow? Have we considered whether the marketing function has (or could develop) the capacity and capability needed? ○ We are assuming that we could start the marketing for this imminently (in this financial year) and attract 400 more distance learning students by the 2022/23 year. However even from the point of appointing the new contractor, there is likely to be a lengthy lead time to develop marketing strategies and appropriate collateral and for implementation to have a positive impact. The nature of the investment, may mean that many potential customers make their decisions a long way ahead of the course enrolment There is likely to be a long lead time. This assumption may not therefore be realistic, and if we cut down face-to-face places to allow for more distance learners, we may have an even bigger gap in income to cover. ○ Though a change in the discount rate applied would not change the forecast cash flows or (on its own) be likely to create a negative NPV, it is worth considering whether it is appropriate to apply DU's standard discount rate to this proposal. There is inherent risk attached to this proposal and so far no sensitivity analysis has been undertaken. If it is considered that the project would change DUs systematic risk then there is a case for applying a risk-adjusted discount rate. • The scale of the positive NPV is highly dependent on the sale of Icarus Halls, assumed for 2026/27. This raises a number of potential concerns: ○ There is no detailed information to illustrate whether selling Icarus Halls			

Q	Response points	Marks	Syllabus Ref	App'p Std
	would really be possible after only five years; i.e., whether our face-to-face student complement would have decreased sufficiently by then. We are predicting a 2 000 place decrease in face-to-face courses, and Icarus Halls has 2 000 beds, but logistically can we be sure that we will be able to simply not offer accommodation at Icarus Halls after the five years? We cannot be certain that all of the F2F students would have taken up university rental accommodation, let alone specifically in Icarus Halls. Some of the student places may, for example, be filled by local Dovetown students living at home. Cutting these places would therefore not free up an accommodation space at Icarus Halls. ○ Basing the sale receipt for Icarus Halls on two valuations and an offer may be reasonable, but there is no indication that this is net of any costs of sale, which might be considerable. In addition, any delay in the sale or decrease in receipt would have a significant impact on the viability of the NPV. ○ There is no information on how the property market might fare over the next five years, so using an estimate that is already three years old is also unlikely to be accurate. The economic outlook in Loaland is clearly highly uncertain, not least due to the impact of COVID-19 on the future attractiveness of urban business accommodation; consequently, the prospects for the property market are especially uncertain. ○ In addition, if the Icarus Halls accommodation gradually becomes less utilised over the five years, there might be an opportunity to let out some of the rooms for another income stream before sale. ○ Indeed, it is worth exploring whether Icarus Halls could be re-purposed or retained in order to provide an ongoing income stream, rather than a cash receipt in one year.			

Q	Response points	Marks	Syllabus Ref	App'p Std

Q2v)	*Conclude on your findings and make recommendations, including further work to be undertaken.*
	
	1 mark per developed point to a maximum of 5, with 2-3 marks reserved for further work to be undertaken
	
	• While a strategy to focus more on distance learning may be appropriate for DU to pursue from a market (suitability) point of view, acceptability and feasibility are more of an issue.
	
	• Pushing ahead with this as proposed, given marketing lead times, gives very little time to consult major stakeholders, and it looks likely that a lot of their reactions could be negative if this is not well-handled and communicated. This timescale may not therefore be feasible.
	
	• In addition, the financial analysis performed to date is not in-depth enough, and no sensitivity analysis has been undertaken. Based on the forecast increase in distance learners and decrease in face-to-face students, the proposal may not be financially beneficial in the long term.
	
	• It is also only one option with one particular scenario assumed. There may be other options that are more appropriate for DU, or, even if a move to expand distance learning is an appropriate strategy for DU, then there may be different scenarios that would be a better way for DU to do so. Bearing in mind that the Board expects rigorous and detailed analysis of strategic options before any major strategic decisions further such work is likely to be needed.
	
	• It is recommended that this particular proposal is not implemented at this point, but instead further pieces of work, are undertaken including:
	
	  ○ Significant market research, both in Loaland and overseas, to look at how many applications would be likely for new distance learning courses.
	
	  ○ Review the offers of competitors, and consider how we can make sure our marketing efforts set us apart from them.
	
	  ○ Perform a more robust financial assessment, ensuring all cost and income implications are fully identified and are
		5		K: ARC, BA, FI, SBMG; S: BI, EI, PSDM; B: AV, PS

Q	Response points	Marks	Syllabus Ref	App'p Std
	basing the analysis on the soundest demand estimates from structured market research. ○ Undertake a structured risk assessment of the financial analysis using techniques such as sensitivity analysis, simulations or a risk adjusted discount rate as appropriate.			