A guide to the financial aspects of UK HEI offshore activities

UK Higher Education International Unit in association with CHEMS Consulting

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March 2013
Research Series /10

www.international.ac.uk
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Transnational education (TNE) is a success story for UK higher education. There is no doubt that we are leaders in the field delivering high quality courses through a variety of channels to students in their home country. But with such success comes responsibility: a responsibility to all those involved in an institution’s transnational activity and an understanding of the many factors involved in its’ success.

This guide to the financial aspects of UK universities’ offshore activities is a partner publication to our 2011 report, ‘A Guide to Offshore Staffing Strategies for UK Universities’ and provides information and guidance to UK universities on the financial implications of TNE activity. It focuses specifically on TNE and branch campuses as a subset of TNE and touches briefly on the management of offshore activities.

The guide draws on the experience of institutions in the UK, US and Australia, providing a checklist of things to consider, practical advice on how to avoid problems and, we hope, ensure success in TNE. You will note upon reading that we have decided to keep the identities of case studies anonymous unless agreed otherwise. We chose to do it this way given the commercially sensitive nature of the material and, we believe, it has ensured a much more comprehensive view of the experience of key competitors in offshore activities.

The nature of offshore provision has changed significantly as institutions come to understand and manage their activities with a greater degree of sophistication. We have seen a shift from small-scale operations to large-scale, institution-wide programmes which has led to a need for a body of work, such as this, to guide and support UK universities in their TNE activities. While there is a broad range of reports relating to international partnerships, the financial aspects of these activities receives little mention. This guide will go some way to redressing this gap.

We hope you will find this guide useful in your international work. I would like to thank the author, John Fielden and his team, Erica Gillard, Michael Pearson, Dr Madeleine Green and Dennis Murray for producing what I know will be a valuable resource for UK university staff.

As with all our publications, we welcome feedback to ensure our work remains current to the sector, so please do not hesitate to contact the staff in the International Unit.

Dr Joanna Newman
Director, UK Higher Education International Unit
### Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>AUQA</td>
<td>Australian Universities Quality Agency</td>
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<tr>
<td>IBC</td>
<td>International branch campus</td>
</tr>
<tr>
<td>MOA</td>
<td>Memorandum of Agreement</td>
</tr>
<tr>
<td>MOU</td>
<td>Memorandum of Understanding</td>
</tr>
<tr>
<td>NAFSA</td>
<td>Association of International Educators (US)</td>
</tr>
<tr>
<td>OBHE</td>
<td>Observatory on Borderless Higher Education</td>
</tr>
<tr>
<td>TEQSA</td>
<td>Tertiary Education Quality Standards Agency (successor to AUQA, Australia)</td>
</tr>
<tr>
<td>TNE</td>
<td>Transnational education</td>
</tr>
<tr>
<td>UNNC</td>
<td>University of Nottingham Ningbo China</td>
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</table>
Executive summary and ten points to remember

This guide for UK universities examines the financial aspects of all stages of offshore higher education operations and highlights key messages arising from interviews with 23 institutions in the UK, US, and Australia.

The aim of the guide is to provide a checklist of things to consider and practical advice on how to avoid problems with the financial aspects of offshore ventures, and thereby to make them more successful.

The guide is in three sections that reflect the stages of decision-making:

1. Pre-project to MOU
2. Due diligence, developing a business case, Memorandum of Agreement (MOA)
3. Operations

The three stages have messages in common; the guide’s core messages can be summarised as follows:

1. When planning an offshore operation, start small and build up when you have confidence and know your partner well.
2. Invest in extensive due diligence as early as possible and engage professional advisers from both countries.
3. Investigate the country, the partner and the project thoroughly, using the checklists in the Annex of this report.
4. Establish a project team to work through all stages of a partnership or branch-campus project.
5. Ensure that you control the things that really matter, such as admission standards and tuition fee levels.
6. Be ready for the unexpected: there will always be surprises and unpredictable events, either in the host country or in the project. Try to take the long view.
7. Invest time in checking the MOA or contract in great detail and ensure that your partner understands every word. Avoid culturally confusing phrasing.
8. Involve the governing body regularly if the sums are large, the country is unknown to them or there are reputational risks.
9. Build in regular progress and financial reviews with your partner and ensure that you can withdraw from a partnership if things go wrong.
10. Frame the contract so as to recover all costs in full rather than earning surpluses.
Methodology and scope

This research involved structured interviews with senior staff at 16 institutions in the UK, four in the US and three in Australia. The US and Australia were included in view of their significant presences and experience in TNE and IBCs. The researchers also spoke to practitioners in the field. It was recognised that discussions of financial matters are commercially sensitive. A guarantee was offered that no institution would be named unless they agreed to it or the information was published on their website. It was stressed that the aim of the conversations was to elicit advice for the benefit of the sector. This approach enabled the researchers to derive many good practice suggestions and set them in the context of each interviewee’s particular offshore activity.

The interviews comprised a set of structured questions that followed a normal decision cycle when offshore investments or activities are being considered. For this guide the cycle was structured as three stages:

1. A preliminary stage in which an approach is received or made and a partner is identified and investigated; this leads to conversations which may culminate in an MOU with varying degrees of specificity.

2. A due diligence process, often by both sides, which may lead to the development of a business case. If this is positive, it is followed by a Memorandum of Agreement (MOA) or legal contract with terms on which both parties agree to proceed.

3. The operational stage.

This categorisation did not hold in all cases: MOUs vary greatly in precision and the boundary between the first two stages was often blurred. In some cases the first two stages stretched to five years.

Scope of the guide

This guide covers offshore or TNE activities that carry financial risk. In deriving good practice and lessons learned, it covers transnational education (TNE) broadly and international branch campuses (IBCs) as a subset of TNE with the greatest levels of financial and investment challenges. The same financial questions apply to TNE and IBC operations, since they usually expect a financial return and involve selecting and working closely with a partner organisation of some kind. Several interviews were with institutions that run offshore TNE partnerships or joint-degree programmes but many examples used in this guide derive from IBCs.

Parts of this report touch upon the management of overseas activities; this may appear to extend the brief, but the overlap with financial issues is unavoidable. When considering how financial decisions are taken offshore, one must consider what Boards or management structures have been created and what powers or autonomy they have on financial matters.

Authors

This report was written by a team assembled by CHEMS Consulting, as follows:

- John Fielden, Director of CHEMS Consulting
- Erica Gillard, independent consultant
- Michael Pearson, formerly Director of Finance at Loughborough University
- Dr Madeleine Green, Senior Fellow, International Association of Universities; Senior Fellow, NAFSA
- Dennis Murray, Senior Honorary Fellow, LH Martin Institute for Tertiary Education Leadership and Management, University of Melbourne
Introduction and background: TNE and IBCs

This guide provides practical advice on the financial aspects of offshore ventures by UK higher education institutions (HEIs). It discusses how to avoid problems and thereby aims to contribute to the likelihood of success of such offshore ventures. The guide covers all stages of offshore HE operations and highlights key messages arising from the interview schedule.

Universities in the UK are increasingly active internationally for a variety of reasons. For some the driver is the search for partners for research collaboration. For others a main motive is income generation via a dependable source of international students flowing back to the UK campus. For many this includes the desire to widen the range of international students to include those who do not wish, or cannot afford, to travel to the UK.

The last of these, transnational education (TNE), has become a substantial set of activities for the UK sector. TNE can be defined as the delivery of UK programmes with UK awards in other countries, often through collaborative arrangements with local partners. The UK Higher Education Statistics Agency has recorded TNE statistics for only three years, but the increase in TNE students on UK degrees is pronounced and overtook the number of international students studying in the UK in about 2010. By 2011-12 there were 571,010 international students studying for UK awards offshore, compared with 435,230 studying in the UK. 87% of the TNE students were located outside the EU.

Australia (which appears to be the only other jurisdiction thus far to count TNE students) was a pioneer in offshore provision and has been delivering TNE programmes for 30 years. In 1997, 35 of the 38 Australian universities had an average of 14 offshore programmes each. By 2005 it was estimated that one in four of all students studying at Australian educational institutions was undertaking that study offshore.

The nature of offshore provision changed as it matured, however, and there was a move away from small-scale, often unincorporated partnerships, to larger-scale operations. This was partly due to quality concerns and a stronger quality review regime by the then Australian Universities Quality Agency (now Tertiary Education Quality Standards Agency) embodied in a TNE Quality Framework. Following this, several institutions closed their TNE operations, with the University of South Australia making the most substantial withdrawal. Figure 1 shows that in 2008-09 there were only 889 offshore programmes compared with 1,569 at the peak in 2003.

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2 See D Murray for a study of how this withdrawal was managed, in J Fielden, ‘Leadership and management of international partnerships’, 2011.
This change, however, was also a consequence of institutions becoming clearer about their motives for going offshore and the likely consequences of so doing. As a result, operations were tightened up. For example, more stringent due-diligence investigations were undertaken and regular financial controls introduced.

Student enrolments were maintained during that period of rationalisation and maturation; in fact in 2011 there were 108,000 TNE students on Australian higher education programmes offshore, one-third of the total of international students⁴. Of these, 80,500 were at Australian branch campuses abroad (of which there were 12 operating in seven countries at the end of 2011).

Existing sources of information and advice
Branch-campus activity is growing significantly, in line with the growth of TNE more generally. The Observatory on Borderless Higher Education (OBHE) defines an international branch campus (IBC) as:

A higher education institution that is located in another country from the institution which either originated it or operates it, with some physical presence in the host country, and which awards at least one degree in the host country that is accredited in the country of the originating institution⁵.

Their survey of IBCs in late 2011 counted 200 campuses established by universities from 24 exporter countries, compared with 162 only 3 years previously. The UK share of these had grown from 13 to 25 over that period (with eight more on the way) and evidence collected in the course of this study has confirmed that this trend continues⁶. The UK is not the leader in offshore campuses: the OBHE findings show that US universities had 78 in 2011 and were planning many more. France had 27 (12 from ESMOD, an international fashion group) and India had 17.

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⁶ In 2012 Times Higher Education reported that two UK campuses were planned in Cyprus (by UCLan and UEL) and interviews for this study revealed other projects that have not been announced.
Growing offshore activity is matched by a growing literature. IBCs are also monitored and analysed by the Cross-Border Education Research Team at the University at Albany - SUNY. Broader TNE has been less studied, partly because of definitional issues and the fact that only two countries record the numbers. Naidoo (2009) attempted a broad analysis of international TNE trends but his data are now becoming a little dated. In 2008 a mapping study for Million+ in the UK showed an impressive number of partnership and collaborative arrangements among its members who had been the first to develop in this area.

Practical issues relating to international partnerships are tackled in publications from the UK HE International Unit and the Leadership Foundation. In 2011 they jointly published a report on staffing issues in offshore operations, to which this is a companion study. In the US and also in 2011, Harding and Lammey published a paper on issues to consider when opening a campus abroad.

But an examination of this growing literature uncovers little on the financial aspects of university activities offshore. The topic gets sparse mention in either publications or websites and was, for example, barely mentioned in the OBHE Global Forum devoted to IBCs in Kuala Lumpur in April 2012.

Table 1 illustrates financial implications in four categories of offshore activity but does not purport to be a comprehensive summary of the resource implications of each category.

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7 See, for example, JE Lane and K Kinser, eds, Multinational Colleges and Universities: Leading, Governing and Managing International Branch Campuses, New Directions for Higher Education No 155 (San Francisco: Jossey-Bass, 2011).
11 See J Fielden, 'Leadership and management of international partnerships', Leadership Foundation and the LH Martin Institute, University of Melbourne, 2011.
14 See www.obhe.ac.uk/conferences/2012_global_forum_kuala_lumpur/2012_Global_Forum_Full_Programme
Table 1. Financial issues in offshore activities

<table>
<thead>
<tr>
<th></th>
<th>Branch Campus</th>
<th>Franchise</th>
<th>Delivery partnership</th>
<th>Dual degree</th>
</tr>
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<tr>
<td><strong>Income</strong></td>
<td></td>
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<tr>
<td>Tuition fee levels and share of them</td>
<td>✔️</td>
<td>o</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Enrolment forecasts</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
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<tr>
<td>Share of surpluses</td>
<td>✔️</td>
<td></td>
<td>o</td>
<td>o</td>
</tr>
<tr>
<td><strong>Costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Due-diligence, professional fees</td>
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<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Land, infrastructure, IT, VLE, equipment</td>
<td>✔️</td>
<td>o</td>
<td>o</td>
<td>o</td>
</tr>
<tr>
<td>Salaries, travel for flying faculty</td>
<td>✔️</td>
<td>o</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Salaries, benefits for resident staff</td>
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<td>o</td>
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<td>o</td>
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<tr>
<td>QA, staff development, other academic and admin support from UK</td>
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<td>o</td>
<td>✔️</td>
<td>✔️</td>
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<td>o</td>
<td>o</td>
<td>✔️</td>
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<tr>
<td>Examination and assessment</td>
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<td>✔️</td>
<td>✔️</td>
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<td>Interest and repayment on loans</td>
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<td>o</td>
<td>o</td>
<td>o</td>
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<td>Taxation and regulations</td>
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<td>o</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Management time</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
</tbody>
</table>

✔️ Applies

o May apply in some cases
Risk
Although academic and reputational criteria rank highest to those planning offshore activities, financial issues can bring a campus to closure or premature collapse. There has been a worrying number of these closures in recent years. The 2012 OBHE report lists 18 since 2008, with 11 having occurred in the last two years. Reasons provided range from restructuring, loss of accreditation to lack of students and the partner going into liquidation or bankruptcy. Three Australian offshore campuses closed, including the well-publicised example of the University of New South Wales which shut its Singapore campus only a few months after opening in 2007. Such events can be expensive; it was reported back in 1998 that the University of Sheffield lost £2m when its partner in a proposed medical campus in Ipoh in Malaysia withdrew for financial reasons15.

Financial losses are only one consequence of things going wrong; the damage to an institution’s external reputation (and internal self-esteem) can be equally significant. This was the reason that the University of South Australia took such enormous care to manage its withdrawal from TNE in several Far Eastern countries. In other cases simple failures of process can be embarrassing, as Box 1 shows. This report will have value if it helps to avoid this story being repeated.

Box 1. When things go wrong
One university had a partnership agreement with a wealthy entrepreneur to deliver one of its courses, using faculty flown in from the UK. In the final year students came to the UK to complete their degrees. It was discovered that the award was not recognised by the host country authorities, although the university had been assured that it would be.

On further investigation the university found that the due-diligence process was deficient; there was no robust business plan and no finance staff involved, although professional tax advice had been taken. No consideration had been given to how an exit from the partnership would work.

The university is now seeking to extricate itself from the agreement with the risk of reputational damage in the country concerned.

In a paper to the OBHE Global Forum in Kuala Lumpur in April 2012 Michael Worton from UCL widened the type of risk involved in offshore activities. He suggested that risks fall into six categories: financial, reputational, logistical/organisational, ethical, the possibility of a diminished student experience and failure to achieve significant impact in the host country.

Of all offshore activities, branch campuses present the greatest financial risk to institutions. Tim Gore at University of London International Programmes offers the following matrix:

Table 2. Types of risk in different offshore activities

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Validation</th>
<th>Franchise</th>
<th>Supported delivery</th>
<th>Branch Campus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputational risk</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Financial risk</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Exercise of control</td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Market responsiveness</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
<td>High</td>
</tr>
</tbody>
</table>


Despite these risks, there are several good reasons for institutions to consider offshore activities:

- Promoting a university’s prestige and visibility in different markets.
- Providing a quality education to nationals who cannot afford to come to the UK (and thereby tapping into a larger market).
- Countering a possible reduction in the number of international students coming to the UK because of visa restrictions.
- An opportunity to tap other research funds to strengthen a university’s research profile and reputation.
- The chance to offer home students study-abroad experience
- Recruitment ground for postgraduate students who will return to the home campus.
- The ability to understand the needs of a country and get to know its industry and government.
- The chance of financial returns.

Stage One: Pre-project to MOU

Origins
The origins of an offshore activity can influence both the process and scale of the financial issues to come. Is the project a response to a proposal from an overseas government or partner, or has it developed internally from a strategic targeting process or an existing relationship? The American interviewees said it was typically the former: they were sought by foreign institutions or individuals or else encountered them serendipitously. None described a process of shopping for partners, comparing what they would bring to a partnership, and choosing. In Australia, universities were also typically approached. However, more are now proactive in identifying and assessing potential partners. In the UK some arose as a result of unsolicited approaches from overseas institutions or governments and others flowed from existing small-scale partnerships or joint activities.

Increasingly, however, UK partnerships are planned as part of a strategic analysis of potential partners in selected countries. UK institutions are becoming more critical and cautious when approached by overseas institutions; one had a rule that the Vice-Chancellor or Pro Vice-Chancellors would not even meet visiting delegations unless their institutions had been subject to limited due diligence.

16UCL’s small campus in Qatar with 18 academic staff has received $1.7m research funding from national research funds, although it only opened in 2011.
diligence. Others turn away almost all enquirers because they follow a strategy of developing a few select global partnerships with peer institutions.

Another common filter is by country. At least two universities in our UK sample had commissioned market research to help narrow down to a few target countries or regions; among those mentioned were Korea, Taiwan, Brazil, Burma and Kurdistan. They then follow up by searching for partners with matching portfolios and values.

**Types of partner**

The interviews covered every kind of partner. The categories include:

- Governments that make either a direct approach or launch an invitation to tender. For example, the University of Westminster was the successful tenderer in response to an invitation from Uzbekistan in 2002 to collaborate in establishing a university in Tashkent.

- Governments or agencies that provide facilities and sometimes cover all costs. The American universities at Education City in Qatar, and Southampton and Newcastle universities at Iskandar in southern Malaysia have such arrangements.

- Public universities that enter into joint ventures or collaborative arrangements to establish a campus or partner in delivery of programmes. A good example of this is the joint-degree arrangement between Queen Mary University of London and Beijing University of Posts and Telecommunications.

- Private for-profit corporations. The principal partners of Nottingham University in China and Malaysia are large companies with strong government connections.

- Private entrepreneurs or proprietors of for-profit educational companies. This group is the one most likely to make unsolicited approaches.

- Not-for-profit organisations. An example is the Grameen Trust in Bangladesh with which Glasgow Caledonian University has a nursing school partnership.

Given a wide range of potential partners, the next stage after initial enquiry will vary in style and scale. There are usually two areas of focus: the suitability of the country and the credentials of the potential partner.

Within the sample of institutions for this guide, practice differed as to how much due diligence was conducted before starting exploratory discussions. In some cases there were filters, unrelated to the category of enquirer:

- A country filter. Do we wish to do business here and are we sufficiently informed about it?

- A set of core values and criteria against which to assess potential partners. One institution judged all potential partners first against these values and then against the corporate strategy. (It also subcontracted its financial due diligence.)

- The motive of the potential partner. If a for-profit company, how fixated are they on profit rather than education? Conversely, one interviewee said that ‘do-gooders’ might not be practical enough about the need to recover costs.

When an enquiry comes from a government, a different set of questions could arise which are likely to be linked to national policy for higher education and where the proposal fits in with it. Government support will be a key factor but care must be taken not to let the availability of facilities and funding divert attention from the other equally important considerations. Some respondents for this study found that governments can be volatile partners and sponsors.
Questions about the country
Foreign universities are usually regarded as for-profit organisations in TNE host countries and the regulatory environments vary significantly between jurisdictions. There may be obvious financial incentives from an Investment Board or similar but these may be offset by cumbersome requirements for registration, accreditation and reporting. Some countries, such as Vietnam and Malaysia, require all private providers to offer specific political or cultural courses similar to those in their public institutions. This has financial implications. Political stability and corruption levels are obviously key questions; for answers, many institutions refer to sources such as Transparency International's Corruption Perception Index, the World Bank's Ease of Doing Business Rankings, and the CIA World Fact Book.

Some of the general financial questions about the country that could be asked either in this initial stage of enquiry or in a subsequent due-diligence exercise are:

1. How robust is the currency?
2. What is the history of inflation and what are the forecasts?
3. How have exchange rates with sterling fared?
4. What is the cost of doing business in the country?
   a. Are there any unusual arrangements regarding pay and benefits for staff?
   b. How would they be taxed?
5. What are the legal requirements on pensions and provision for health care?
6. What taxes would be payable?
   a. What tax rates would be applied to surpluses generated?
7. Are there exemptions for higher education providers from taxes such as import duty, VAT or sales taxes?
8. Are there tax-free periods or tax breaks for new investors?
9. Do foreign or private providers have to make financial guarantees or deposit bonds or securities with the government or its agencies?
10. Can net earnings or surpluses be remitted out of the country?
11. If equipment, books or electronic resources have to be purchased locally, how comparable are the best prices to those at home?
12. Are there government grants available for the purchase of land or infrastructure?
13. Can foreign providers, once established, access national research funds?
14. What reporting requirements are there for foreign providers, apart from external quality reviews?
Questions about the partner

Once a potential partner has passed the ‘values and motives test’ described above, the way is open for academic and financial due diligence. When both sides conduct due diligence in parallel this is a good sign, as it signifies that the other side has good governance standards and is serious about working together. One university interviewed sends a pack containing due diligence information on itself to potential partners and asks them to reciprocate. This removes the sting from the request and makes it easier to insist on obtaining answers.

Most institutions have developed standard checklists of the questions to ask of potential partners, but they need to be tailored to particular circumstance. The key financial questions about a partner, independent of a proposed activity, are:

1. What is its overall financial health?
   a. For private companies, what are the financial circumstances of the directors?

2. How much of its business is in higher education?
   a. What proportion of the overall turnover does HE represent?

3. How does the partner get its capital funds?

4. How willing is the partner to provide capital and equipment funds?
   a. If there is an initial enthusiasm to offer finance, how likely is this to continue if further capital injections are required in five or ten years?

5. How many large projects is the partner company or university committed to?
   a. Is there a risk that it could be over-committed either in terms of funds or management time?
   b. Could the company survive a recession or downturn in the region?

6. How would one describe the partner’s risk appetite?
   a. If things were to go wrong for several years, would it persevere or want an exit?

7. Does it have a good financial reputation in the country?
   a. If the partner is a public university, has it managed its affairs soundly?
   b. If it is a corporation, what do the financial markets think about it? This can best be answered by finance or audit professionals in-country.

8. Is the partner in any legal disputes with third parties?
   a. Has the company any outstanding legal cases against it?

9. Is it the subject of any regulatory or government enquiry?

10. Does the partner understand the limitations and constraints that UK HEIs have on using public money for investment offshore and that this will limit the ability to provide capital funds?

11. Does the partner understand the cost structures of a typical UK HEI and the need to recover full costs when staff time is being charged out?

How many of these questions get tackled at an early stage is a matter of judgement. It may depend on who the proposed partner is, whether there is an existing relationship and the scale of the proposed collaboration. In some cultures it is difficult to ask hard questions at an early stage before the parties get to know one another. These include dispute resolution or an exit strategy, which might seem bizarre subjects to raise at the outset. Australian interviewees advised extreme caution over companies owned and operated by a single entrepreneur because the potential risk of flight or transfer of financial resources to other companies is high.
Some institutions warned of the dangers of rushing due diligence; it can take two years, according to one interviewee. The duration of the investigation will depend on several factors such as a previous history with the partner or the country concerned. It is tempting, when discussions with an agreeable partner are ongoing, to give them the benefit of the doubt when key financial questions are still unanswered.

**Sources of information**

In some countries it is not easy to get answers to financial questions and a wide range of sources has to be tried. The most common ones are:

- The university’s office in the potential partner country, if one exists and depending on its brief.
- The UKTI representative at the Embassy or High Commission for country data and the British Council for reputational questions about the partner. Australian and American universities do likewise.
- Websites of the partner, the host-country Ministry of Education, the national accreditation and quality assurance agencies.
- Academic staff at the UK institution from the potential partner country and any from the potential partner institution. Membership of a consortium can offer access to sources in other UK institutions.
- Other institutions active in the potential partner country.
- Alumni in the country, accessed directly or through the university’s country office if one exists.
- Coverage of the partner or its directors in the media.
- The national register of company records.
- Professional accountancy and law firms in the country.

Interestingly, the last of these is the source most valued by those interviewed for this guide. One said that a key lesson learned was to engage professional advisers from the potential partner country at a very early stage. Another said to ‘involve as many experts as possible at this stage because that will help to avoid pitfalls later’. Any reluctance by a partner to divulge financial accounts was seen by one institution as a clear danger signal. And should several findings be negative, thought should be given to pulling out of the negotiations. In the OBHE branch-campus report, Eversheds warned that ‘it is better to pull back from a collaboration than to embark on it and withdraw later in the full glare of publicity’.

**Financial issues in MOUs**

There are many types and views of MOUs: some are regarded as a licence to keep talking; in some countries they are seen by institutions and governments as an indicator of ‘internationalisation’; in the UK they are generally seen as a first step in a long process; one American institution said that its MOUs set out ground rules for negotiations and specified that potential foreign partners should pay for the costs of its staff to travel to them.

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17Section written by Eversheds LLP, in Lawton and Katsomitros, op cit.
Their style and content inevitably differ, even though most institutions start from a standard version of what they want to achieve. Their focus is usually academic rather than financial. It is therefore rare for all of the issues listed above to be considered at this stage.

Stage Two: The business case and Memorandum of Agreement (MOA)

In this section we consider the two most important elements of the preparatory stage of any offshore venture: the business case (or ‘proof of concept’) which is the internal justification for proceeding and the MOA or contract which is the final legal agreement with the partner.

The business case is the document presented to either the Executive or the Governing Body to request authorisation to enter into legal negotiations. It focuses on financial aspects of the project and reaches conclusions on viability against targets or standards that have been set. One institution interviewed has a rigorous target: that any project offshore must achieve a 20% return in the first full year of operation (in addition to academic benefits).

This phase allows the university to gauge the likelihood of the relationship being satisfactory and successful in financial as well as other terms. There is a strong argument for sharing the business case with the potential partner, as they have to agree with the assumptions in it as the basis for proceeding. Australian interviewees noted that much rides on a high-quality, enforceable contract. They added, however, that informal relations between partners are possibly as important.

At this stage institutions identify a project manager and project team with expertise in contractual and financial issues. One institution suggested that there should at all times be at least two people who are up to date with the detailed progress of negotiations. As noted above, a range of professional advisers may be needed in the host country. Where the creation of an IBC is concerned, there will be a need for professional support on employment issues, market research, procurement, company regulation and incorporation as well as the usual accountancy and legal advisers. Those involved in starting an IBC also emphasise the value of having a full-time presence in the country at an early stage.

Questions for the business case

The scrutiny of professional advisers in the UK and the potential host country will cover the partner, the country and the project, and will cover all the questions listed in the preceding section, if they have not been already answered.

This stage is crucial. An interviewee in the US emphasised this:

Although not everything can be anticipated, and opportunities for mid-course adjustments are important, if you miss something important here, or make serious miscalculations, the consequences can be dire. People talk much more about the importance of the agreement determining the financial (and other) success than anything else. Also important to note is that US public institutions must have all their costs covered by the partner or revenue, and no state monies can be used. [This can lead to optimistic projections.] No matter how careful the planning, there is always the possibility of unexpected occurrences beyond anyone’s control that can derail an offshore operation: political events, economic downturns, new government policies or regulations.
The last point was key to one institution’s experience in the Middle East. A financial meltdown threw all their projections off and they did not have the capital to ride it out. Such uncertainties cannot all be resolved in neat financial plans. As one American interviewee observed, ‘Anyone who has low tolerance for surprises, ambiguity and frequent shifting shouldn’t even think about offshore operations’.

Although most business case calculations are project-specific, there are a large number of common or essential questions to be answered about income and costs. They include:

1. Are the initial budgets comprehensive and realistic?
2. Who pays the marketing costs?
   a. Does the UK institution have any control over the style and content of the marketing campaign?
3. How realistic are the proposed tuition fee levels
   a. How do they compare with national and international competition in the country
   b. Have they been market-tested? Do students in the potential market have the capacity to pay
   c. In what proportion will fee income be shared?
   d. Are there agreed policies on discounting fees and on scholarships?
4. Where fees are tied to the number of students, is there a guaranteed minimum?
5. Is there agreement on when and by what process fees will be increased?
6. What accounting period will be used and what periods of credit will be permitted?
7. How realistic are the enrolment projections?
   a. Is the increase over time believable
   b. How do they compare with the competition and the experience of other foreign universities in the country?
8. Where the HEI’s income is related to student numbers, is there a fool-proof and agreed way of defining them?
9. For UK academic staff, are salary and benefits agreed – both for those resident in the host country and the flying faculty?
   a. Do academic staff agree the basis of travel and accommodation costs (especially flight arrangements)?
   b. Have similar agreements been reached on the pay and benefits for staff recruited nationally and internationally?
   c. Are the costs of covering the workload or replacing the UK staff at the university of origin included?
   d. Are the costs for the necessary programme development or modification in the UK included?
10. If the partner is providing infrastructure and equipment, is it absolutely clear what is and is not included?
    a. Will all equipment, laboratories and IT networks be provided?
    b. Who pays for maintenance and refurbishment?
    c. Is rental for the property fixed or does it increase pro rata to student numbers?
    d. How long is the rent-free period?
11. Is it clear who pays for what at all stages of the student experience on the programme, up to final graduation?
   a. Who covers the costs of graduation ceremonies, including the cost of attendance by university staff and Council members?

12. What provision needs to be made for emergency evacuation of visiting staff?

13. Is there agreement on insurance cover
   a. Who insures what?
   b. Will it cover risks arising from force majeure?

14. What professional and administrative support from the UK will be needed in-country (eg, staff development, marketing, student selection, library, e-resources, financial services)?

15. Is there agreement for support costs incurred in the UK?
   a. Does the partner agree to the HEI charging management fees?

16. Is the basis of calculating UK costs agreed by the partner (eg, full economic cost)?

17. Have realistic estimates been made for external professional fees (mainly legal and accounting) in both countries?

18. What assumptions are made about local inflation rates and the policy for adjusting tuition fees and salary levels in response?

19. What taxes will the operations bear?

20. Can net surpluses be remitted back to the UK
   a. What bureaucratic processes or delays are there in remitting funds either way
   b. Has there been a trial run of remittances to the UK?

21. Will audit requirements be up to international standards
   a. Who selects the auditors?

22. Is there agreement on what are the most critical and sensitive assumptions in the business case?
   a. Does the venture still look good when the key financial assumptions are tested?
   b. What is the worst-case scenario and what would happen to the project if it were to occur?

23. Are payments to be made in sterling or local currency?
   a. If payments are to be made in local currency, how will currency exposure be hedged?

In a majority of cases where an offshore presence is involved and where there was an intent to undertake research from the outset, UK universities have had to provide more of the scientific and laboratory equipment and IT facilities than expected.

Deciding on the level for tuition fees is a sensitive matter. An obvious starting point is the level charged by local private universities (if any) or the best public institutions, if they charge. But other factors are also relevant. One UK university operates in a country where it is common for students in public institutions to pay bribes to teaching and administrative staff; this extra cost in competitor institutions is considered when setting local tuition fees.
Negotiating an MOA or contract

It can take a very long time and many expensive visits for an MOA to be agreed. Newcastle University in England reported that its due diligence and the negotiations for its campus at Iskandar had cost more than £700,000. The reason is that two sets of advisers are usually involved – ideally at as early a stage as possible - and communications are delayed because of different national cultures and procedures. One interviewee gave the points of advice in Box 2:

Another UK institution invested a great deal of time discussing collaboration with a well-known foreign university but the venture failed because it was too difficult to determine what they wanted. They insisted on all legal and financial arrangements being lodged in their country with an education agent who was not established and for whom little financial data were available. Was there a cultural or legal reason why they wanted this? The UK institution never knew. There were wasted journeys and wasted time both ways. They even signed two MOUs - one with the university and one with the agent.

Box 2. Negotiating in a different culture

‘There are always cultural issues. Do they really understand? Have they really agreed? The university finds the need to revisit the key points constantly, even if they are written in an MOA. Some countries regard the final MOA as a starting point for negotiation! There is always a problem with definitions as they are often misunderstood. Finance must be talked about quite early. Partners never understand our ideas on costing and how much we need to recover. We aim to recover full economic costs, including central overheads, and this is a sticking point for many.

It is important to have a team approach to negotiations; more than one person in the university must know the detail and be up to date. In most negotiations it is one person from the International Office and one from the Finance Office.

Since bargaining is a fact of life in many countries, the university learned to aim high at first and then be prepared to come down. The currency of a deal is often an issue and we now insist on sterling, so that the partner bears the exchange risk. But that can be a deal-breaker.’

Although a clear message is that agreements can never allow for every eventuality, one does have to think through all elements of a partnership in order to agree who does what and who pays. A ‘very tight contract’ was recommended, including using words with clear meanings. One UK institution developed a large flow chart to follow the student journey from application to graduation; the chart is used as a basis for discussing the processes at each stage with the partner and agreeing who will be responsible for them or if costs will be shared. Another institution identifies what is not covered in the MOA as much as what is.

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18 See the Newcastle case study in ‘Leadership and management of international partnerships’, LFHE and LH Martin Institute, 2011, p. 13.
**The legal entity**

Most offshore operations do not involve the creation of a new legal entity and the majority of TNE and other partnership operations work on the basis of an agreement between two parties. However, if staff are being employed in a country and if a financial partner is involved, it becomes necessary to create a form of legal entity. The most usual is a registered company in which the HEI and the host-country partner both have shares. Agreeing how this shareholding is split is a key matter in early negotiations, since it will usually form the basis for deciding who makes the key decisions. One HEI interviewed is locked into a situation in which it has only 25% of the company and can be outvoted by its commercial partner on the Board on all decisions. After 15 years of operation it is now seeking to renegotiate this share.

If the UK partner is putting in few funds, the split of shareholding is based either on a haggle that takes into account the reputation and presumed contribution of the UK partner or a formal valuation of the brand and intellectual property. Such brand calculations, for example, led to Nottingham University’s two shareholdings in China and Malaysia being agreed as 37.1% and 29.1%, respectively. In legal terms the two Nottingham campuses are subsidiaries of Nottingham’s partners and only ‘associate companies’ as far as Nottingham is concerned (and not full subsidiaries). But this shareholding is not reflected in the way that the campuses are run and managed; in both cases the agreement is that Nottingham has full control over all academic operations. The degrees are Nottingham degrees and the campuses are treated as part of one global institution.

A summary of the most important financial questions in regard to contracts are:

1. How will any surpluses or losses be shared?
2. What is the Board structure
   a. How will key decisions on tuition and costs be taken?
3. Who decides on physical expansion and how it will be financed?
4. Can the partner underwrite or guarantee a level of income?
5. Is the partner willing to arrange financial guarantees from third parties such as banks or the government?
6. If loans are to be obtained to finance the project, is it absolutely clear who will carry the risk of repayment?
7. Is there agreement on the expected time when the venture breaks even and reaches payback?
8. Does the partner have the resources to weather difficult periods
   a. What is the limit of such capacity?
9. Is there agreement on the criteria to use in deciding when the project should be closed
   a. Is there a clear and agreed exit strategy to follow?
   b. Has the apportionment of costs been agreed if this happens?
10. What is the dispute resolution process?
11. On what grounds can the contract be terminated?
12. Have all the obvious force majeure situations been discussed and is there agreement on what happens to the partnership?
An important part of the business case stage is ascertaining the precise impacts of government regulations at national and sub-national levels. This can be positive and there may be grants or incentives from a Board of Investment eager to encourage inward investment. But in some countries this may present difficulties. One UK university found, after many journeys to a prospective host country, that it was never clear who needed to give permission for what. ‘Expert advice was inconsistent and there was sometimes a cavalier attitude about how to surmount the problems. We found this environment too “flexible” and unnerving and so we withdrew.’

Box 3. Agreeing an exit strategy
A US institution that went through the trauma of a closure says that ‘it is essential when the contract is negotiated to have very clear ground rules for closing the offshore venture. What are the criteria to decide whether to close? What are the trigger points? How will the institution protect students in the pipeline? What will happen to staff and what are their contractual rights? How will the solution be fair to everyone?’

There is one simple message on preparing the business case: do not make assumptions about anything. Our US interviewees listed the following common areas of difficulty: achieving realistic enrolment projections, underestimating hidden costs such as senior staff time, failing to limit the amount of travel and, when a campus is being created, trying to decide what support services were required. For example, does a campus with 300 students require an internal auditor or a campus nurse?

Sources of finance
The general policy articulated in both UK and US interviews was that the HEI should not invest major capital funds in offshore activities. The UK Funding Council Financial Memoranda and US state legislatures generally prohibit the use of public funds in this way, although reserves accumulated from other income sources can be used. A standard approach is to rely on the overseas partner, whether a government, university or corporation, to provide the capital funding. Even so, a recent survey of US IBCs found three ways in which they are financed19:

- The host-country partner builds the campus and leases it to the HEI.
- The HEI wholly owns the facilities, using loans from the government or private sources in the country. One-third of those in the survey did this.
- The host government pays all the infrastructure costs. One-quarter of those in the survey were in this category; it is common in Dubai, Qatar and Malaysia.

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19JE Lane and K Kinser, ‘A snapshot of a global phenomenon; the results of the first global survey of IBCs’, paper presented at the 2011 annual conference of ASHE.
For UK institutions with IBCs the models are similar, although few were in the second category. (One UK university is planning to establish a small offshore campus financed by alumni donations in the host country.) Once campuses are established and proven not to lose money, they have a financial profile that allows the offshore company or the UK institution to borrow funds for further capital expansion from banks, venture capital providers or international organisations such as the International Finance Corporation, the part of the World Bank that lends to private organisations on a commercial basis\(^{20}\). In order to facilitate such borrowings, some UK universities seek ratings from one of the credit ratings agencies\(^{21}\).

Unsurprisingly, the balance of decision can be swayed by the availability of support from governments of prospective host countries. A survey by the American Council of Education in 2009 found that 16 of the branch campuses it studied received some such support, usually consisting of free facilities, but sometimes financial support for students.

**Stage Three: The operational phase**

Provided the project and financial planning phase has been done well and all salient matters are reflected in the contract agreement, implementation and operation should be reasonably smooth, although the unexpected again can always arise.

Experience from Australia is that the financial plan should treat the design/set up and ongoing operational phases separately and that cash flows should be identified for each phase. Australian interviewees indicated that flexibility, patience and tolerance are required to deliver the project in the operational phase. Considerable time needs to be invested in relationship-management with the partner. Relationship-building extends to the local community, politicians, business people and alumni. This essential investment usually translates into smoother problem-solving and better financial return if carried out honestly and successfully.

**Who controls what? Models of delegation to local Board or partner**

Decisions on the control of operations should all have been made earlier and will be affected by the motivations and degree of exposure desired by the university and the objectives and aspirations of the offshore partner (and in some cases of the host country government). Much depends on the degree of investment, financial control and the degree of risk minimisation required by the parties.

Most of the universities consulted for this guide have embedded the governance of offshore TNE activities within the home university’s governance processes. Where the operations are modest in scale, the offshore venture is usually treated in an equivalent way to teaching within a faculty and is managed by and subject to planning and monitoring by the Faculty Board. Once an annual budget is approved with faculty, a senior person within the faculty has the authority to manage day-to-day matters within those parameters.

Where the investment is larger, as in an IBC, management is usually shared between a local Board and the home institution, and a way has to be found to link the two processes. At Nottingham University this is done by having the two campus Provosts as members of the UK Management Board, which they attend every 3-4 months. Between these meetings they are accountable to a PVC International. Another institution with an offshore campus gives the resident campus director complete autonomy over an annual budget that has been agreed with the partner.

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\(^{20}\) The IFC has made commercial loans to universities in Vietnam, Mexico and East Africa.

Other universities had governing boards to manage the joint venture which contained members from the partner organisation(s). These bodies were usually chaired by the home university Vice-Chancellor, Deputy Vice-Chancellor or PVC and reported to the home university governing body. In one UK case the partner had a majority stake on the Board and selected a host-country national as Campus Rector. He did not prove satisfactory and the host Ministry of Education asked for him to be replaced. This was done with the agreement of the UK institution.

In most cases in our sample, local salaries and tuition fees are decided locally by the Board but development or building plans must be approved by the UK partner. In one US example the chief financial person on the campus reports to the Vice-President responsible for finance on the home campus. Methods of procurement vary. In some cases the advice was to get a local expert to lead this but two institutions interviewed found that better deals could be obtained via UK contacts, particularly in IT. This depends on regulatory issues in the host country.

In some models autonomy is progressively devolved to the branch campus, and this depends on confidence in the offshore partner and the success of the project over a period of time. Our universities had different ways of evaluating their ventures. One requires an annual strategic plan, developed jointly, which goes to the university governing body; others have evaluations every two or three years. In one case this is linked to renewing the contract so that adjustments can be made where necessary or - as a worst-case scenario - to exit the agreement. One American institution insists on an annual review of financial arrangements with the partner because 'one cannot put everything in the contract and one cannot anticipate everything'.

An institution with a joint degree with an overseas partner has created a Joint Steering Committee (chaired by alternating PVCs) that takes all decisions on the numbers of enrolments, tuition fees and the dismissal or removal of staff. The last of these is essential, if contentious, to maintain standards.

Potential areas of financial conflict
It is likely that differences will arise during the contract period if the partner’s financial motives are not the same. This emphasises the importance of a previously agreed process for dispute resolution and for establishing which country’s laws apply to what. One American public institution found that it was prohibited from being bound by any foreign law, while the partner could not accept the law of a US state! An international mediation service was the solution.

Every effort has to be made to set out the main issues in advance. But not everything can be anticipated up front. One university discovered that it had not made clear in the contract who was to pay for graduation ceremonies and their preparation. Another institution planning a large TNE contract got embroiled in arguments about the cost and standard of accommodation for flying faculty from the UK.

The exact number of students enrolled in a joint offshore activity is a key statistic and this can lead to problems of definition or accuracy. A partner may want to increase enrolments and lower admission standards accordingly; it is therefore important for the home campus to have control over these standards wherever possible. In some cases a reverse incentive applies; according to one UK institution, when the fees paid to the UK are a function of numbers ‘a partner will want to quote the lowest number of students they think reasonable, and in the process will exclude any doubtful students.’ Another, with an Indian partnership, found that student attendance was an issue that led to questions about the accuracy of fee income.

The style and content of local marketing can be a cause of conflict because of the reputational risks. With TNE contracts it is common for this to be handled by the local partner, but some institutions retain the right to review all the relevant literature and the marketing programme.
Research overheads are an issue for American universities because, if those earned from a non-US source are set at a lower rate at the offshore campus than the negotiated rate with the US federal government, it can affect the latter rate detrimentally.

Australian interviewees indicated that differences in views were most likely over cost-sharing and profit-generation. In Box 2 it was noted that in some countries it is expected that bargaining should continue after an MOA has been concluded. The Australians indicated that if disagreements arise, ‘reliance on black-letter law is unlikely to suffice and the matter would need to be effectively negotiated between the partners’. The message is that good negotiation skills are important at every stage of the project, not just the early ones. This reaffirms the centrality of relationship-building.

**Tax and remittances**

Some countries do not recognise the existence of not-for-profit entities and most foreign governments regard international universities as profit-making even if they are public institutions at home. Although it is therefore essential to consider taxation, mastering the complexities of local taxation is never easy. Most universities in our sample recommended appointing local professional advisors to help smooth the way on tax, VAT and procurement, but they have to be people who can be trusted. One university reported that developing in-house expertise had proved more reliable than using consultants over the long term. One with a new campus was concerned over how long tax losses can be carried forward, as it is likely that there will be losses in Phase I and through the build-up phase of Stage II. In Years 8 and 9 they may be liable to pay tax.

One UK university has a joint degree programme in China which cannot make a profit under Chinese law; remittances back to the UK therefore have to be based on recovery of costs incurred. The university is deemed to have a permanent establishment in China (even though it has no legal presence) and this means that it has to pay corporate income tax and business tax, while the UK teaching staff have to bear Chinese income tax (usually at the top rate of 45%). These payments are handled for them by an international accountancy firm which also organises the remittance of funds back to the UK, once the authorities are satisfied that all taxes have been paid.

Historically, for many Australian universities taxation was not problematic because the local partner and the Australian university were each responsible for their own taxes in their own jurisdiction. But Australian universities report that an increasing issue in some countries is the tightening of local taxation requirements on profits. This has already happened in Singapore and Malaysia. The lesson is that universities need to be vigilant of emerging trends at an early stage and need ways of monitoring changes in the regulatory environment.

**Cultural factors**

All staff should be attuned to the cultural and linguistic nuances of host countries. Some universities provide training in languages and cultures. Australian interviewees affirmed the notion that in some cultures ‘yes’ may signify only ‘I hear you’ rather than agreement. Because education is not permitted to be profit-making in China, a different form of words is necessary to express the point: it is prudent to talk about ‘ensuring all costs are met’. Negotiation over difficult financial points is often necessary. Where there is significant disagreement, success requires sensitivity, patience and a willingness to enable the opposite party to ‘save face’ as need be.

US interviewees also encountered differences in interpretation of contract wording. One university thought it had negotiated an overall budget for faculty, with an illustrative distribution of faculty by rank (professor, associate professor, assistant professor) in the contract. The partner, however, wished to hold the university to that distribution of a third each, although the university could achieve savings and have more faculty by hiring an associate and assistant professor instead of one full professor. This emphasises the importance of being clear on how a contract can be interpreted.
Several interviewees noted that bargaining is a fact of life in many countries. When negotiating fee rates or profit shares in such cultures, some universities have learned to start high and to be prepared to reduce expectations thereafter.

UK and US anti-corruption legislation is among the toughest in the world. Even if people in some countries find this tiresome, universities must make their core principles explicit from the beginning and emphasise that these are not negotiable. US institutions are also subject to other federal and state regulations and compliance issues that may puzzle foreign partners, but they cannot be avoided.

### Realistic financial and other outcomes

Interviewees were asked what financial outcomes are expected from offshore activities. For IBCs, it was felt that 5-10 years were needed to see a return on investment. One UK university said that 10 years was the minimum. Australian interviewees said that a good sensitivity analysis was required because, in most cases, break-even points are not reached in the first five years and may take 8-10 years. Some added, ‘you are not in this just for the money; there have to be other benefits’.

Given the long experience of Australian universities in offshore operations, it is worth noting their views on what financial outcomes are reasonable. They report that:

- They make suitable, in some cases significant, financial returns through offshore operations. Some also reported they achieve other benefits – staff international exposure and funded research activity in the host country. Although some ventures were less profitable than others, the most successful Australian universities have average profit margins of 8-10%.

- Financial variances can be caused by a number of factors, some not fully in the control of the partners, including effectiveness of marketing, responsiveness of the market, underestimates of costs, unexpected costs and general market unpredictability. If financial modelling has been adequate and if monitoring is effective, such variances may be minimised.

- Patience is required if repayments and repatriation of funds back to the home university are protracted. Many universities report delays of six months to a year for receipt. This is the nature of the beast and requires perseverance.

UK universities interviewed had different financial objectives:

- Some did not expect to make financial surpluses for export to the UK. Surpluses generated offshore would be reinvested there – either in expanding physical infrastructure or funding research capacity and facilities. Some universities were keen to build up a strong research presence in the host country using funds from national and regional sources. Nottingham University received $40m from the Government of Malaysia for its Crops for the Future Research Centre in Malaysia, and £17m for its Doctoral Innovation Centre in Ningbo was part-funded by the Chinese Ministry of Science and Technology and Ningbo Municipal Government.

- Some did expect to produce income from their share of the tuition fees charged to offshore students, although the size of this share ranged widely according to contract. They expected this flow of income to meet all UK costs and to generate a contribution to UK overheads.

- Others did not expect to generate much surplus from TNE activities but relied on extra income earned from the flow of students back to UK either in third year or for postgraduate studies.

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22 Such as the Foreign Bank and Financial Accounts regulation, Export Control regulations that prohibit the unlicensed export of certain commodities, the Office of Foreign Asset Control Compliance, the Clery Act (requiring reports of violence on campus) and the Foreign Corrupt Practices Act.

23 The University of Nottingham: Research at our international campuses’, 2012. See www.nottingham.ac.uk/research/documents/international-research-final-pdf.pdf
• One UK university involved in TNE referred to scale as an influence on profitability: the more students enrolled, the more likely that operational costs would be covered. For this reason many have sought to get their TNE partners to guarantee a minimum level of income.

Figures on financial returns from offshore activities should be treated with care, since a key element will be the completeness or accuracy of the cost calculations on which the return is based. Has all management time and travel costs been included? Does the university expect to recover full economic costs or simply the direct costs? And what treatment is given to the considerable up-front due diligence and preparatory costs? If all these costs and academic and management time are included, net financial outcomes could be modest.

**A note on governing bodies**

At what stages should university governors be involved in offshore activities? The answer depends on factors such as the type of activity, the risk appetite of the Board, the country in which the project is located, the reputational risk and the financial investment involved. For governors, reputational risk is as crucial as financial risk. Although it is unusual for governors to become directly involved in operations, one US university reported taking its governors to its campus in the Gulf for a meeting and considers that it had beneficial consequences. Another uses a risk log to review activities before each meeting with the partnership board; only serious issues arising from this are reported to the governing body.

In both the US and UK, governing bodies generally start from a position of unease, although that changes as they gain familiarity and hear success stories. Australian universities may only tell governing bodies of the outcomes of offshore activities as part of annual financial reports – even a one-line item in a budget paper. All interviewees said that proposals with substantial capital requirements or with possible risks are reported to governing bodies and monitored regularly. Significant capital expenditure requests from existing campuses also come to governing bodies. Offshore ventures might appear on risk registers presented to the Board or Audit Committee but day-to-day risk management is done at management level.

As a general rule, HEIs in the UK do not bother their Councils with small investments - a figure of £1m was mentioned by one as a cut-off point, but a venture into less-familiar countries such as Vietnam, Burma or Korea could require early notice, regardless of the sums involved. Equally, consideration of countries with poor human rights records can easily spark discussions on university values and their bearing on business decisions.

There are three obvious entry points for advising governing bodies of offshore projects. The first is the commencement of negotiations and due diligence, when the Board may be asked to authorise expenditure on fees; second is the completion of the business case which, if the sums are material, will require formal approval; last is signing the Memorandum of Agreement with the partner.

In one institution an International Strategy Board, containing two members of the governing body, was established to oversee international activities and take initial decisions on new projects. Some institutions use time in Away Days with members of the governing body to discuss international strategy and offshore activity generally without reference to specific projects24. This serves to sensitise them for later proposals and ascertain their degree of risk-aversion to projects and cultures.

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24One useful tool is the Leadership Foundation’s publication on Internationalisation in the Getting to Grips series for members of governing bodies. See www.lfhe.ac.uk under Governance/publications.
Checklists of financial issues

This annex presents four checklists for the use of managers involved in planning and managing offshore activities. They focus on the financial questions that need to be asked at the various stages of decision-making. The four checklists are:

A. Questions on a proposed host country
B. Questions on a potential institutional partner
C. Questions for a business case
D. Questions for a Memorandum of Agreement or contract

A. Questions on a proposed host country
1. How robust is the currency?
2. What is the history of inflation and what are the forecasts?
3. How have exchange rates with sterling fared?
4. What is the cost of doing business in the country?
   a. Are there any unusual arrangements regarding pay and benefits for staff?
   b. How would they be taxed?
5. What are the legal requirements on pensions and provision for health care?
6. What taxes would be payable?
   a. What tax rates would be applied to surpluses generated?
7. Are there exemptions for higher education providers from taxes such as import duty, VAT or sales taxes?
8. Are there tax-free periods or tax breaks for new investors?
9. Do foreign or private providers have to make financial guarantees or deposit bonds or securities with the government or its agencies?
10. Can net earnings or surpluses be remitted out of the country?
11. If equipment, books or electronic resources have to be purchased locally, how comparable are the best prices to those at home?
12. Are there government grants available for the purchase of land or infrastructure?
13. Can foreign providers, once established, access national research funds?
14. What reporting requirements are there for foreign providers, apart from external quality reviews?
B. Questions on a potential institutional partner

1. What is its overall financial health?
   a. For private companies, what are the financial circumstances of the directors?

2. How much of its business is in higher education?
   a. What proportion of the overall turnover does HE represent?

3. How does the partner get its capital funds?

4. How willing is the partner to provide capital and equipment funds?
   a. If there is an initial enthusiasm to offer finance, how likely is this to continue if further capital injections are required in five or ten years?

5. How many large projects is the partner company or university committed to?
   a. Is there a risk that it could be over-committed either in terms of funds or management time?
   b. Could the company survive a recession or downturn in the region?

6. How would one describe the partner’s risk appetite?
   a. If things were to go wrong for several years, would it persevere or want an exit?

7. Does it have a good financial reputation in the country?
   a. If the partner is a public university, has it managed its affairs soundly?
   b. If it is a corporation, what do the financial markets think about it? This can best be answered by finance or audit professionals in-country.

8. Is the partner in any legal disputes with third parties?
   a. Has the company any outstanding legal cases against it?

9. Is it the subject of any regulatory or government enquiry?

10. Does the partner understand the limitations and constraints that UK HEIs have on using public money for investment offshore and that this will limit the ability to provide capital funds?

11. Does the partner understand the cost structures of a typical UK HEI and the need to recover full costs when staff time is being charged out?

C. Questions for a business case

1. Are the initial budgets comprehensive and realistic?

2. Who pays the marketing costs?
   a. Does the UK institution have any control over the style and content of the marketing campaign?

3. How realistic are the proposed tuition fee levels?
   a. How do they compare with national and international competition in the country?
   b. Have they been market-tested? Do students in the potential market have the capacity to pay?
   c. In what proportion will fee income be shared?
   d. Are there agreed policies on discounting fees and on scholarships?

4. Where fees are tied to the number of students, is there a guaranteed minimum?

5. Is there agreement on when and by what process fees will be increased?
6. What accounting period will be used and what periods of credit will be permitted?

7. How realistic are the enrolment projections?
   a. Is the increase over time believable?
   b. How do they compare with the competition and the experience of other foreign universities in the country?

8. Where the HEI’s income is related to student numbers, is there a fool-proof and agreed way of defining them?

9. For UK academic staff, are salary and benefits agreed - both for those resident in the host country and the flying faculty?
   a. Do academic staff agree the basis of travel and accommodation costs (especially flight arrangements)?
   b. Have similar agreements been reached on the pay and benefits for staff recruited nationally and internationally?
   c. Are the costs of covering the workload or replacing the UK staff at the university of origin included?
   d. Are the costs for the necessary programme development or modification in the UK included?

10. If the partner is providing infrastructure and equipment, is it absolutely clear what is and is not included?
    a. Will all equipment, laboratories and IT networks be provided?
    b. Who pays for maintenance and refurbishment?
    c. Is rental for the property fixed or does it increase pro rata to student numbers?
    d. How long is the rent-free period?

11. Is it clear who pays for what at all stages of the student experience on the programme, up to final graduation?
    a. Who covers the costs of graduation ceremonies, including the cost of attendance by university staff and Council members?

12. What provision needs to be made for emergency evacuation of visiting staff?

13. Is there agreement on insurance cover?
    a. Who insures what?
    b. Will it cover risks arising from force majeure?

14. What professional and administrative support from the UK will be needed in-country (eg, staff development, marketing, student selection, library, e-resources, financial services)?

15. Is there agreement for support costs incurred in the UK?
    a. Does the partner agree to the HEI charging management fees?

16. Is the basis of calculating UK costs agreed by the partner (eg, full economic cost)?

17. Have realistic estimates been made for external professional fees (mainly legal and accounting) in both countries?

18. What assumptions are made about local inflation rates and the policy for adjusting tuition fees and salary levels in response?

19. What taxes will the operations bear?
20. Can net surpluses be remitted back to the UK?
   a. What bureaucratic processes or delays are there in remitting funds either way?
   b. Has there been a trial run of remittances to the UK?

21. Will audit requirements be up to international standards?
   a. Who selects the auditors?

22. Is there agreement on what are the most critical and sensitive assumptions in the business case?
   a. Does the venture still look good when the key financial assumptions are tested?
   b. What is the worst-case scenario and what would happen to the project if it were to occur?

23. Are payments to be made in sterling or local currency?
   a. If payments are to be made in local currency, how will currency exposure be hedged?

D. Questions for a Memorandum of Agreement or contract
1. How will any surpluses or losses be shared?

2. What is the Board structure?
   a. How will key decisions on tuition and costs be taken?

3. Who decides on physical expansion and how it will be financed?

4. Can the partner underwrite or guarantee a level of income?

5. Is the partner willing to arrange financial guarantees from third parties such as banks or the government?

6. If loans are to be obtained to finance the project, is it absolutely clear who will carry the risk of repayment?

7. Is there agreement on the expected time when the venture breaks even and reaches payback?

8. Does the partner have the resources to weather difficult periods?
   a. What is the limit of such capacity?

9. Is there agreement on the criteria to use in deciding when the project should be closed?
   a. Is there a clear and agreed exit strategy to follow?
   b. Has the apportionment of costs been agreed if this happens?

10. What is the dispute resolution process?

11. On what grounds can the contract be terminated?

12. Have all the obvious force majeure situations been discussed and is there agreement on what happens to the partnership?
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The UK Higher Education International Unit (IU) is the only sector body to represent all UK higher education institutions internationally. It is charged with initiating and delivering projects and activities to support and develop the breadth and depth of the UK HE sector’s international activities. The IU is a central observatory, intelligence and delivery unit on HE internationalisation and policy developments for UK higher education institutions.

The IU works to support the development and sustainability of the UK HE sector’s influence and competitiveness in a global environment and promotes the sector’s distinctive strengths internationally. It supports the sector’s engagement in European Union and Bologna Process policy debates.

The IU is funded by the Higher Education Funding Council for England, Higher Education Funding Council for Wales, Scottish Funding Council, Department for Employment and Learning (Northern Ireland), GuildHE, Universities UK, the Higher Education Academy and the Quality Assurance Agency for Higher Education.