
Investigation into financial oversight and decision making at the University of Dundee

**Report presented to the Scottish Funding Council
by Professor Pamela Gillies**

19 June 2025

Foreword

There have been numerous reports and horizon scans of the financial health of higher education institutions in Scotland in recent years and, almost without exception, they have indicated a difficult and worsening financial landscape for the sector.

Two important evidence-based documents on the financial sustainability of the Scottish higher education sector by the Scottish Funding Council were published in March 2022 and January 2023. They indicated that the financial environment would indeed continue to be extremely challenging going forward due to already well-known factors. These included, amongst others: the level of funding of the unit of resource for teaching, the funding of research, the rising costs of utilities and other operating costs, the rising costs of the staff pay bill due to increased employee pension contributions and national insurance contributions and declining home student numbers. In addition, international student growth was unlikely to continue due to UK visa and immigration issues and global economic instability.

Despite these very considerable financial pressures and challenges affecting the sector in Scotland, the University of Dundee is the only one of the nineteen Universities and specialist institutions to have suffered a financial collapse.

The Scottish Funding Council commissioned this investigation under clear terms of reference to establish precisely why the University of Dundee's financial position deteriorated so seriously and apparently so suddenly, as revealed to its Court of governors on 12th November 2024.

The main causal factors of the financial failure uncovered by this investigation are largely specific to the University of Dundee. They include poor financial judgement, inadequate management and reporting, poor monitoring of the financial sustainability key performance indicator, lack of agility in responding to a fall in income by the University leadership and weak governance in relation to financial accountability by the Court. Financial oversight was lacking when most needed.

These failings were compounded by the top-down, hierarchical and reportedly over-confident style of leadership and management, a lack of transparency and clarity in respect of financial data, the promulgation of a positive narrative around financial matters and a culture in which challenge was actively discouraged.

Key lessons to be learned for the University of Dundee and the sector are captured in this report. They cover themes relating to: financial acumen; the accurate, consistent, clear and comprehensive reporting of financial data; the importance of a knowledgeable, responsive and effective Court holding senior management to account and the value of an engaged workplace and inclusive University culture in which challenge and dissenting voices are welcomed and listened to.

The University of Dundee continues to retain a vibrant community of very talented and committed staff and students. The University has a strong track record of research success, is renowned for the quality of its teaching and student support, for its entrepreneurial flair and the very considerable contribution it makes to the economic, social and cultural life of the City of Dundee and beyond.

To paraphrase a member of staff who provided evidence to this investigation, my hope is that by rigorously, and clearly accounting for the past, this investigation will support a sustainable future for the University of Dundee which is built on financial competence, transparency and accountability.

Pamela Gillies, CBE FRSE

Professor Emerita and former Principal & Vice Chancellor, Glasgow Caledonian University

Acknowledgements

Grateful thanks go to the members of staff and Court, past and present, who gracefully agreed to be provide evidence and be interviewed as part of this investigation. Thanks also to Trade Unions colleagues who were interviewed and submitted evidence and to the many staff who deposited evidence in the BDO repository. Thanks are also due to the staff who attended the Town Hall event in person and online at the beginning of this investigation and to the Scottish Funding Council for agreeing to be interviewed.

My thanks also to James Aston MBE, Head of the Investigation Team and the BDO team who collated and professionally analysed documentary and testimonial data in this investigation, worked with unparalleled rigour and intensity to deliver these findings within a compressed time scale.

The University of Dundee has facilitated this investigation, but special thanks for her professional administrative skill and support must go to Valerie Dorward.

Pamela Gillies

Lead Investigator

Glossary

Glossary of key terms

Term	Definition
ARC	Audit & Risk Committee
Bank, BoS	Bank of Scotland
Betterment	Savings to be identified
CAG	Court Advisory Group
COO	University Secretary and Chief Operating Officer
Court, University Court	The governing body of the University
CSG	Capital Standing Group
Directorates	Non-academic cost centres
DoF	Director of Finance
DVC	Deputy Vice-Chancellor and Provost
EBITDA/LBITDA	Earnings/Loss before interest, tax, depreciation and amortisation
E/LBITDA for HE, HE EBITDA	EBITDA/LBITDA for higher education, adjusted for movements in pension provisions and capital grants
EU	European Union
Executive	Management of the University who sit on UEG
Exscientia	Exscientia AI Limited
FPC	Finance & Planning Committee
FRP	Financial Recovery Plan
FTE	Full Time Equivalent
FYXX	Financial year ended 31 July 20XX
FY25F	Forecast outturn for the year ended 31 July 2025, based on the P8 reforecast
FY25YTD	Actuals for the eight-month period ended 31 March 2025
H1	First six months of the financial year from 1 August to 31 January
H2	Second six months of the financial year from 1 February to 31 July
HESA	Higher Education Statistics Agency
HUG	Home undergraduate students
I&E	Income and Expenditure
IDoF	Interim Director of Finance
IPVC	Interim Principal and Vice-Chancellor
OPGT	Overseas postgraduate taught students
P5	Financial period 5, December
P8	Financial period 8, March
PG	Postgraduate students
PGT	Postgraduate Taught students
PGR	Postgraduate Research students
PRG	Policy & Resourcing Group

Term	Definition
Principal	Principal and Vice-Chancellor
PY	Prior year
Q1	First quarter of the financial year from 1 August to 31 October
Q2	Second quarter of the financial year from 1 November to 31 January
Questions	Questions refer to the 16 questions as set out in the Terms of Reference
RCF	Revolving credit facility
RUK, rUK	Rest of the UK, being England, Wales and Northern Ireland
S&Ds	Schools and Directorates
S1	Semester 1, the first of two teaching periods in the academic year, running from September to December
S2	Semester 2, being the second of two teaching periods in the academic year, running from January to May
Schools	Academic cost centres, split by educational sector
SFC	Scottish Funding Council
Tay Cities	Tay Cities Region Deal
Tay Cities Projects	The capital projects relating to the construction of the Innovation Hub
UEG	University Executive Committee
UG	Undergraduate students
UODSS	University of Dundee's Superannuation Scheme
University	University of Dundee
USS	Universities Superannuation Scheme
VP	Vice Principal
YTD	8 months ended 31 March 2025
YoY	Year on Year

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Terms of Reference and conduct of investigation

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Terms of reference

The SFC has commissioned an independent investigation to determine the causes and contributing factors to the deterioration of the University of Dundee's financial position as revealed to its Court on 12 November 2024. The SFC wishes to understand how it was possible that the financial deterioration of the University had not been identified by UEG earlier and notified to the SFC. The investigation will seek to understand:

Financial Management

1. The causes of the worsening financial situation, and in particular the balance between external factors affecting income generation and internal factors around governance and cost control.
2. The extent to which, over time, budgets were building in unrealistic savings or income targets which masked the true ability of the University to meet its budget targets.
3. The reasons the University failed to manage its cash prudently, allowing it to deteriorate to critically low levels, and failed to honour the commitment to invest money that had been understood to be ringfenced for future projects.
4. Whether investment decisions (capital, staffing, digital, operational, other) were appropriately agreed against their effects on the University's sustainability.
5. The effectiveness of internal systems and controls.

Financial Reporting

6. The reasons why key signs of distress were not reported to UEG and Court in a timely fashion, and in particular why Court was only informed fully in November 2024.
7. The reasons why the University failed to report in a timely fashion to its key stakeholders.
8. The quality, credibility and accuracy of the information provided to the UEG and Court and their delegated committees and other groups, and whether this had an impact on the UEG's or Court's capacity to understand the situation and provide appropriate challenge.
9. The extent to which these bodies were left with a false impression of the University's financial health.
10. The extent to which any current or former member of the executive or governance structures sought to suppress information about the magnitude of the financial situation.
11. The extent to which any member of staff felt unable to raise concerns of the magnitude of the financial situation.

Governance & Oversight

12. The extent to which UEG and Court and their committees and groups were aware, could have been aware and should have been aware, of the worsening financial situation.
13. The extent to which any reasonable person could have reached a judgement on the basis of the information provided that the University's financial position was worse than presented in the reports provided to UEG, Court and their committees and groups.
14. Whether any of the UEG, Court and their committees and groups failed in their executive or governance responsibilities to act soon enough to respond to the worsening situation.
15. The degree to which any executive or governance failures since the Court meeting on 12 November 2024 have inhibited the ability to address the financial situation and work towards recovery.

Other

16. Such other issues as may emerge from the investigation of the above and which contributed to the deterioration of the financial position

In this report the above 16 Questions are referred to as 'the Questions'.

Conduct of investigation

The SFC set out the purpose of this investigation:

“The investigation is being commissioned to understand the reasons why the University of Dundee’s financial position deteriorated so seriously and apparently so suddenly. The investigation will consider the role of management and governance in the deterioration, the information flows, any cultural issues and whether appropriate questions were asked at University Executive Group (UEG), Court and its committees. The investigation will provide the opportunity for the University to learn lessons from the circumstances that led to the deterioration. Additionally, SFC would be interested in understanding any lessons that would be beneficial for the wider sector in Scotland.”

The SFC also set out the administration of the investigation:

“The investigation will be supported by the University to ensure the Investigator and team has access to the documents and information that is required, and to support such arrangements for interviews, etc, as prove necessary.”

Investigation Team’s approach to the investigation and reporting

The Investigation Team established a timeline for review of 1 August 2021 through to 31 March 2025. The investigation was focused solely on the Terms of Reference to which the Investigation Team aligned its investigation and enquiries.

We began by engaging widely and listening to stakeholders, collecting evidence in the early stage of investigation and then moving to formal interviews and reporting.

The Investigation Team was appointed on 10 April 2024. This report was prepared on an urgent basis and required the review of a large volume of documentation and the undertaking of information gathering meetings and formal interviews in person. We are grateful for the support received.

Some of the evidence naturally came into focus such as the £40.3m cash from the Exscientia sale, which is relevant to how much cash was available at the beginning of the period of our review. Some of the evidence provided background, such as the impact of the currency crash in Nigeria (June 2023) and change in government policy on visas for dependents (announced in May 2023 and effective from January 2024).

Other matters related to historic decisions with, at times, the application of hindsight and / or personal views on the impact (which may not have triangulated with the financial records or be a judgement by the person providing the evidence). Whilst the Investigation Team read all of the evidence that was provided, up to and including 6 June 2025, it did not pursue every avenue nor follow up every invitation for a meeting or further evidence. This is in the context of: (i) this is a focused review with limited time; (ii) a significant number of papers readily triangulated, and progressively so over time; (iii) a number of pieces of evidence overlapped; (iv) evidence gathering through interviews is time intensive and has a high opportunity cost in delivery; (v) not all evidence submitted was relevant (either timeline or scope) and (vi) once the analysis was understood in the context of the 16 Questions in the Terms of Reference, the Investigation Team moved to report writing and completion of this report.

We have looked at decisions, actions or inactions taken at certain times, in the context of what was known at the time or should reasonably have been known. We have not reviewed decisions, actions or inactions using hindsight.

The Lead Investigator and Head of Investigation held an open ‘Townhall’ meeting on 1 May 2025. We were advised by the University that this was attended in person by c.150 people and a further c.250 people joined through the live feed.

The Investigation Team formally met:

- ▶ 14 people information gathering (predominantly current employees in the University), some on multiple occasions
- ▶ 8 people meeting with the Trade Unions
- ▶ 61 people information provided to the BDOinvestigations.dundee@bdo.co.uk email or through the SFC
- ▶ 16 people formal interviews (current and former staff and current and former Court members, two of whom were met as part of information gathering)

Financial Management

Section 2

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Question 1: The causes of the worsening financial situation, and in particular the balance between external factors affecting income generation and internal factors around governance and cost control

Summary

In the year ended 31 July 2023 ('FY23') the University of Dundee had experienced a £33.7m increase (11.5%) in revenue, primarily driven by a high YoY growth of international students and a £7.1m increase (9.9%) in research income. The University went into FY24 with a growth agenda and an ambition for £500m revenue.

The absolute fall in overseas student numbers was cushioned in the finances as the fees from the Semester 2 ('S2') cohort (January 2023) fell into both FY23 and FY24. As YoY recruitment of OPGT in S2 FY24 was so low (393 vs 1,230), the loss of income was predictable.

The University could have changed its expenditure profile, but it did not.

From P5 the University recognised the need for at least £8m of savings, the 'allocation' of these moved to Betterment in P6 (see other Questions) but this was fundamentally flawed as there was a lack of real action. In year and in real time nothing was done in FY24 to change the inevitable outcome. This set the University up for financial failure in FY25.

In FY23 the University had a net cash outflow from operating activities of £7.6m and a further net cash outflow of £17.1m in FY24.

The University had a large capital programme. In FY21 the University sold shares in Exscientia and realised £40.3m cash (see Questions 2 and 3). This money was intended to be used to fund the capital programme. The University spent £43m on fixed assets in FY23 and FY24.

When OPGT recruitment fell below forecast in September 2023 there was a 'warning shot'. When OPGT in January 2024 recruited at 393, this should have signalled an immediate change in the 2024 budgets and operations. Instead, the narrative within the University for investment and growth continued.

The main driver on the income side was a YoY decline in OPGT. Historically the University had a high number of graduates coming from China, India, and Nigeria and these dropped off dramatically (particularly from Nigeria).

The main contributing factors were:

- ▶ the change in government policy on dependents (known nationally to have a disproportionate impact on students from Nigeria) - announcement in May 2023 and implementation in January 2024
- ▶ the devaluation of the Naira (Nigerian currency) in June 2023
- ▶ the drop in world league rankings, notably the fall outside the HE Times university ranking top 250 in 2024 which will have directly impacted recruitment from China and India

Despite this decline in student numbers and resultant impact on revenues, the University did not make significant cost reductions, notably around staff costs which account for c.60% of total costs.

The ratio of Students per academic staff fell from 7.3 in FY22 to 5.5 in FY25. This led to declining School contribution performance and continual decline in operational performance from FY23 onwards.

A full staff recruitment freeze was not implemented until Q3 FY25, following a recruitment slowdown during September 2024 (and in particular of OPGT, see Table 2).

There was also significant growth in other operational expenditure (non-staff costs), which increased from £107m in FY22, to £130m in FY24.

The governance shortfalls in budgeting (and related reporting), forecasting, cash and working capital management were also significant internal factors and are covered more fully in Question 2 and Question 3.

Root causes of the worsening financial situation

Details

In the year ended 31 July 2023 ('FY23') the University of Dundee had experienced a £33.7m increase (11.5%) in revenue, primarily driven by a high year on year ('YoY') growth of international students and a £7.1m increase (9.9%) in research income. The University went into FY24 with a growth agenda and an ambition for £500m revenue.

Within the period 1 August 2021 to 31 March 2025 (the Investigation period) there were large movements in the Universities Superannuation Scheme ('USS') and the University had capital projects underway funded by the Tay Cities deal (see Question 3). The USS deficit recovery plan unwound in FY24 (completely reversing out the £80.3m provision carried at 31 July 2023). Tay Cities had significant capital receipts (£5m (FY23) and c.£30 m (FY24)) and is not relevant to the underlying operating deficits of the University. When these are reversed out (see Table 1 on next page), it is evident that the University was operating at a loss (line 'B' in Table 1) and at a 4.2% margin in FY22.

The presentation of data used on the next page clarifies the understanding of the underlying operations of the University. This was never presented in this way at the University. The underlying data has not been changed and was available at all relevant times. Key aspects of this are the embedded staff costs (YoY increases) and Other operating costs (YoY increases).

The absolute fall in overseas student numbers is cushioned in the finances as the fees from the S2 cohort (January 2023) fell into both FY23 and FY24. As YoY recruitment of OPGT in S2 FY24 was so low (393 vs 1,230), the loss of income was predictable.

The University could have changed its expenditure profile (pulling back the staffing budget, e.g. not appointing to vacant posts from January 2024 onwards and bringing down other expenditure) but empirically it did not. There is further commentary in the responses to other Questions on the governance and oversight and why this did not happen.

From P5 the University recognised the need for at least £8m of savings, the 'allocation' of these moved to Betterment in P6 (see other Questions) but this was fundamentally flawed as there was a lack of real action. In year and in real time nothing was done in FY24 to change the inevitable outcome. This set the University up for financial failure in FY25.

In FY23 the University had a net cash outflow from operating activities of £7.6m and a further net cash outflow of £17.1m in FY24 (see Table 1 on next page).

The University had a large capital programme (as well as Tay Cities). In FY21 the University sold shares in Exscientia and realised £40.3m cash (see Questions 2 and 3). This money was intended to be used to fund the capital programme. The University spent £43m on fixed assets in FY23 and FY24.

When OPGT fell away from forecasts in September 2023 (expected c.1,500 and recruited 1,077) there was a 'warning shot'. When OPGT in January 2024 was expected at c.1,200 and recruited at 393, this should have driven an immediate change in the 2024 budgets and operations. Instead, a message from the Principal was circulated to staff and students on 1 March 2024 (see Question 9):

"In my presentation on Wednesday, I spoke of our many achievements and also the challenges posed by the various headwinds the higher education sector is facing. We have improved our resilience over the past two years, moving into a surplus position after a decade of financial deficits. This allows us to feel more confident, not only in meeting those challenges, but in investing in our strength and continuing on a path of growth".

This set the tone within the University for investment and growth at a time when savings should have been rapidly implemented. The University had no effective processes for cash management through FY24 and was overcommitted on its capital expenditure.

UG joiners

Compared to FY23, FY24 UG student numbers contracted by 367. In FY25 UG student numbers fell by 542 (5.5%). The University is currently forecasting a c.£1.5m fall in UG generated revenue as compared to FY24. As with FY24, the largest decline has been in EU students which have declined by 62.2% (FY24 - 35.4%) This represents a correlative reduction in student numbers as UG students finish their four-year courses and are not replaced.

The principle causes of the drop in UG income is linked to Brexit with the change in status of EU students now classed as international students (and having to pay fees). Compared to FY22, total UG student FTEs reduced 9.8% from 10,391 in FY22 to 9,376 in FY25F. The overall fall was primarily driven by a reduction in EU students (799 - 82.8% over the period) and Rest-of-UK students (299 - 24.3% over the period).

Table 1 - Summary of financial information

£ million		FY22	FY23	FY24	FY25F
		Consolidated	Consolidated	Consolidated	Consolidated
Income					
Scottish funding council grants		88.0	86.7	86.0	83.9
Tuition fees and education contracts		95.9	117.6	115.5	92.3
Research grants and contracts		71.8	78.9	74.1	74.4
Other income (excluding Tay Cities)		34.1	37.3	37.5	48.6
Investment income		0.5	1.7	1.7	0.7
Donations and endowments		1.7	3.5	8.2	1.6
Total income	A	292.0	325.7	323.0	301.5
Expenditure					
Staff costs		167.5	174.4	184.1	191.8
Other operating expenses		107.6	130.8	129.7	124.0
Depreciation and amortisation		17.4	23.0	19.5	19.8
Interest and other finance costs		2.0	4.9	3.9	0.2
Total expenditure		294.6	333.2	337.3	335.8
Operating Surplus / (Deficit) before USS and Tay Cities	B	(2.6)	(7.4)	(14.2)	(34.3)
USS provision adjustment		50.9	(12.2)	(82.2)	
Tay Cities income				5.1	29.8
Surplus/(deficit) before other gains and share of operating loss in associate		(53.4)	4.8	73.0	(4.5)

	FY22	FY23	FY24	FY25F
EBITDA calculations				
EBITDA standard basis (£ million)				
Surplus/(deficit) before other gains and share of operating loss in associate	(53.4)	4.8	73.0	(4.5)
JV	(0.2)	0.2		
Finance charges	2.0	4.9	3.9	0.2
Depreciation & amortisation	17.4	23.0	19.5	19.8
EBITDA	(34.3)	32.9	96.4	15.6
EBITDA margin	(11.7%)	10.1%	29.9%	5.2%

	FY22	FY23	FY24	FY25F
EBITDA for HE (£ million)				
Standard EBITDA	(34.3)	32.9	96.4	15.6
Capital grants received	(3.7)	(3.9)	(7.5)	(32.7)
New permanent endowments	(0.0)	(0.0)	(0.0)	(0.6)
Staff charge / (credits) arising from pension provisions	50.3	(18.1)	(89.4)	
Exceptional items		1.0		
EBITDA for HE	C	12.3	(0.5)	(17.8)
EBITDA for HE Margin	C	4.2%	3.6%	(0.2%)

	FY22	FY23	FY24	FY25F
Cash Management (£ million)				
Net cash from operating activities	13.4	(7.6)	(17.1)	(22.0)
Cash flows from investing activities	(17.7)	(17.1)	(24.2)	(10.2)
Cash flows from financing activities	(0.8)	(0.8)	(0.7)	(0.9)
Net cash outflow	D	(5.2)	(25.4)	(33.2)

A **Revenue** - for comparative purposes revenue relating to Tay Cities (c.£5m (FY23) and c.£30 m (FY24) has been excluded as it relates to capital grant and other sources of capital funding. This therefore demonstrates the true operational performance of the University

B **Operating Surplus / (Deficit)** - for comparative purposes, the impact of the USS pension (non-cash) provisions / release of provisions and the Tay Cities revenue has been excluded to show the underlying operational performance of the University. The University was accustomed to stating the operating surplus / deficit inclusive of, in particular, the USS provision release, which masks the 'true' operational performance of the University. The University's operating deficit position worsened year-on-year from FY22 and is forecast to further worsen in FY25.

C **EBITDA for HE** - this KPI represents a better indicator of the operational performance of the University as it removes the impact of all Capital Grant Receipts (not just those relating to Tay Cities) and the impact of changes in provisions (non-cash) of the USS and UODSS pension schemes. As for B above, this shows a declining position since FY22. We have not seen any evidence of the use of this metric within information presented to UEG or Court until the current period.

D Outlines the net cash outflows during each of the academic years commencing FY22. This data has been taken from the statutory financial statements / draft financial statements for FY24 / management information for FY25. For statutory reporting purposes net cash flow from operating activities excludes capital grant income which has the effect of increasing operational net outflows and decreasing net cash flows from investing activities. As an example, capital expenditure in FY24 totalled £43.4m against which £18.2m of Capital Grant receipts have been offset.

Operational performance

Revenue

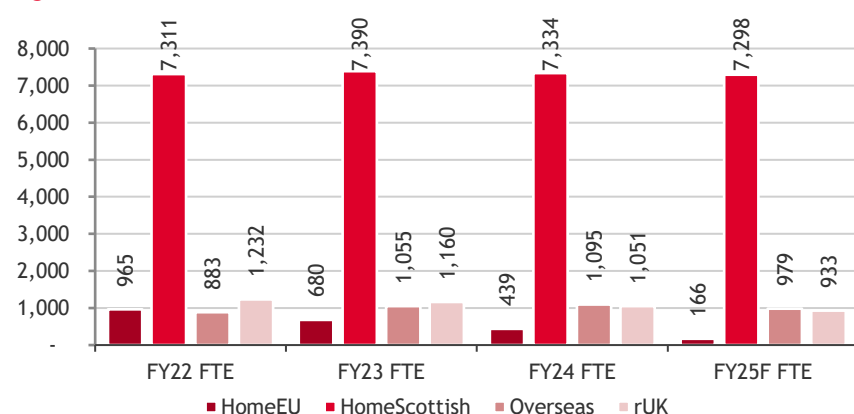
FY24 income was £323m (excluding Tay Cities) and was comparable to FY23 at £325m. This masks falling student numbers, particularly OPGT. Following a strong post-Covid intake in FY23, the University suffered a persistent decline in total new students, falling 1,412 (9.4%) in FY24 and 1,701 (12.4%) in FY25.

The University has had historical retention rates of between 94 and 97% since FY22. The reduction in student numbers was predominantly driven by a reduction in joiners against those graduating.

UG joiners

Compared to FY23, FY24 UG student numbers contracted by 367. In FY25 UG student numbers fell further by 542 (5.5%). The University is currently forecasting a c.£1.5m fall in UG generated revenue as compared to FY24. As with FY24, the largest decline has been in EU students which have declined by 62.2% (FY24 - 35.4%) This represents a correlative reduction in student numbers as UG students finish their four-year courses and are not replaced. The main causes of a drop on UG income is linked to Brexit with the reclassification of EU students to 'international'.

Figure 1 - Total UG student FTEs for FY22 to FY25YTD



Total UG student FTEs reduced 9.8% from 10,391 in FY22 to 9,376 in FY25F. The overall fall was primarily driven by a reduction in EU students (799 (82.8%) over the period) and Rest-of-UK students (299 (24.3%) over the period).

The main driver on the income side was a year-on-year decline in OPGT. Historically the University had a high number of graduates coming from Nigeria, China and India and these dropped off dramatically (particularly from Nigeria).

The main contributing factors were:

- ▶ the change in HMG policy on dependents (known nationally to have a disproportionate impact on students from Nigeria) - announcement in May 2023 and implementation in January 2024.
- ▶ the devaluation of the Naira (Nigerian currency) in June 2023; and
- ▶ the drop in world league rankings, notably the fall outside the HE Times university ranking top 250 in 2024 which will have impacted recruitment from China and India.

Table 2 - OPGT recruitment from FY22 to FY25F

OPGT	S1	S2	Total	YoY decrease	YoY decrease %
FY22	762	851	1,613	-	-
FY23	1,021	1,230	2,251	-	-
FY24	1,077	393	1,470	(781)	(34.7%)
FY25	540	214	754	(716)	(48.7%)

OPGT recruitment in S1 FY24 was strong at 1,077 against the prior year but the forecast was for c.1,500. This is highly relevant as expenditure forecasts had been set against this increase in recruitment additionally supporting the ongoing increases in staffing (absolute numbers through Q1 and into Q2). S2 FY24 was planned as c.1,200 (i.e. the same as prior year ('PY')). When recruitment came in at 393 and not 1,200+, this compromised the basis for forecast income and should have triggered a fundamental review of expenditure. Total OPGT was down by 781. This should have been strongly indicated towards the end of P5 based on deposits and concerns around the sector. The S1 increase in international student recruitment, colloquially referred to as a 'bounce', was attributable to the policy implementation deadline for dependants' visas - the 'bounce' still only kept recruitment stable at the PY level. At P6/Q2 the 'bounce' was no longer relevant.

Impact of declining student numbers

The declining student numbers impacted UG and PG tuition fees in FY22 to FY25, excluding short/other courses and fee waivers.

Figure 2 - UG and PGT revenue from FY22 to FY25F

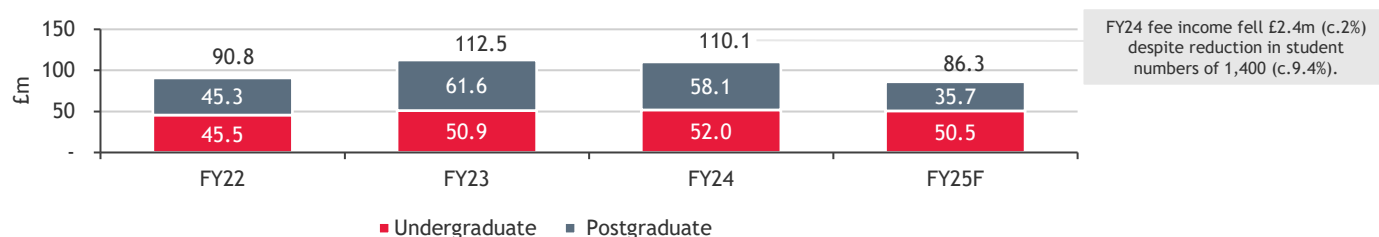


Figure 2 shows total tuition fees increasing to £112.5m in FY23, before a small decline in FY24 to £110.1m. A significant reduction to £86.3m is forecast for FY25F. Whilst tuition fees held steady into FY24, they were supported by carried forward revenue from FY23 and reportedly greater use of pricing incentives (FY23 scholarships had been c.21% of fees compared to the historic c.17%).

Despite this decline in student numbers and resultant impact on revenues, the University did not make significant cost reductions notably around staff costs which account for c.60% of total costs.

Staff costs

In parallel to the decline in absolute student numbers, there was an internal failure to control costs, and we have not seen evidence of a concerted effort until FY25 to cease non-critical recruitment or implement operational efficiencies. Staff costs, excluding adjustments for the USS provision had increased YoY from FY22 (£167.5 m) to FY25F (£192.6 m), a compound increase of 4.8% pa (15% growth).

Staffing stability predicated on financial performance and / or evidenced recruitment growth may have been reasonable. By January 2024, the evidence was to the contrary.

Staff numbers

Opportunities to make savings through unfilled vacancies were not taken and new posts were added with no budgets, and staff FTEs increased 8% from 2,984 to 3,230 from FY22 to FY24. There were 862 new staff joiners in FY23 and 949 in FY24.

Following the recruitment freeze in September 2024, FTEs reduced from 3,230 to 3,110 by April 2025.

During FY24, in parallel with the significant decline in student recruitment, staff headcount grew 7.8% from 4,027 to 4,343 and FTEs increased 4.1% from 3,102 to 3,230.

There was a 5.5% increase in headcount in H1 FY24 and 2.2% in H2 FY24.

During FY24 there was a significant decline in student numbers (fully known in January 2024). In FY24 head count grew from 4,027 to 4,343, an increase of 7.8%, and FTEs increased from 3,102 to 3,230, an increase of 4.1%. The University continued to recruit throughout 2024.

Figure 3 - Y/E student numbers (FTE) v staff costs FY22 to FY25YTD (annualised)

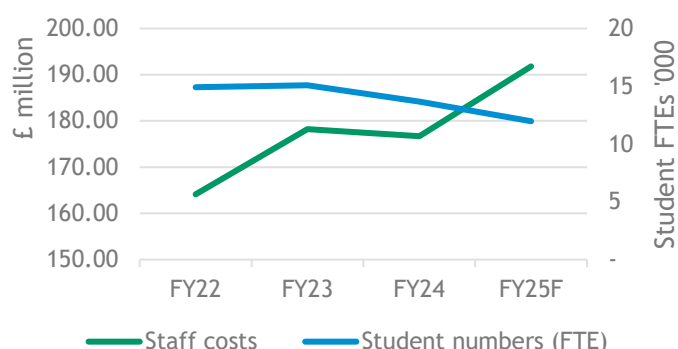


Figure 4 - Student per academic staff ratio FY22 to FY25

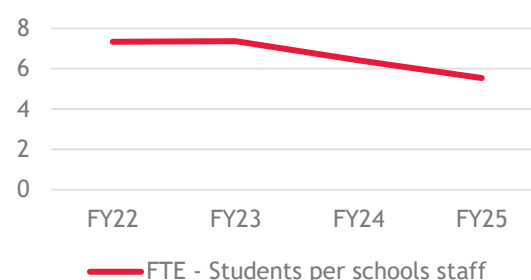


Figure 3 shows that the number of student FTEs dropped from 14,924 in FY22 to 11,975 in FY25F. Staff recruitment and staff costs did not adjust for this reduction in FTEs as during this period staff costs grew from c.£165m in FY22 to £192m in FY25F.

In FY25 YTD overall headcount has declined from 4,343 at the start of the year to 4,183 at 30 April 2025, a reduction of 160 (3.7%). FTE staff numbers have also reduced from 3,230 to 3,110 a reduction of 3.7%. A full recruitment freeze was not implemented until late in Q1 FY25, following a recruitment slowdown (by c.50%) during September 2024. The ratio of students per academic staff fell from 7.3 in FY22 to 5.5 in FY25, as shown in Figure 4 above. This led to declining Schools' contribution performance and a continual decline in operational performance from FY23 onwards.

Other operating expenses

There was significant growth in other operational expenditure (non-staff costs), which increased from £106.7m in FY22, to £130.8m in FY23 (up 22.6%), and remained at £129.7m in FY24. Whilst we have considered FY22 onwards as part of this report, other operating expenses were c.£91m in FY21 and over the 3 years to FY24 there was accordingly an increase of 43%. CPI Inflation increased c.20% between the start of FY22 and the end of FY24. The increase in other operating expenses is analysed in Table 3 below.

Table 3 - Analysis of other operating expenses

	20/21	21/22	% Increase /(Decrease) 21/22	22/23	% Increase /(Decrease) 22/23	23/24	% Increase /(Decrease) 23/24	% growth since 20/21
Academic Departments	11,041	13,811	25%	19,078	38%	18,418	-3%	67%
Academic Services	9,951	10,887	9%	12,250	13%	13,516	10%	36%
Research Grants and Contracts	20,989	23,611	12%	24,517	4%	23,383	-5%	11%
Administration and Central Services	24,041	33,435	39%	46,885	40%	42,228	-10%	76%
Premises	11,925	12,537	5%	14,993	20%	15,515	3%	30%
Other	3,710	3,422	-8%	3,341	-2%	3,584	7%	-3%
Catering and Residences	9,342	9,936	6%	9,739	-2%	13,070	34%	40%
	90,999	107,639	18%	130,803	22%	129,714	-1%	43%

The £23.2m FY23 increase in Administration and Central Services included £13.1m of student related costs (scholarships, bursaries and agents' commissions geared to increasing student intake). The data suggests that the University was increasingly incentivising students (particularly overseas students). Student related costs fell in FY24 by £5m (c.15%) against a backdrop of falling student numbers.

Other increases in Other Operating Expenses include:

- Increases of £4.5m in digital and infrastructure in FY23 and £3.6m in estates and buildings in FY24.
- Core research costs in Academic departments increased £4m (158%) in FY23 and a further £0.4m (6%) in FY24 which reflects reduced contribution in life sciences and the medical school; and
- Catering and residences costs remained relatively stable between FY21 and FY23 however, despite a fall in student numbers they increased by £3.3m (34%) in FY24. This was primarily due to rent payable on student premises with the Q3 FY24 management accounts noting that the University committed to a higher volume of student accommodation that was subsequently underused due to the decline in student numbers.

Question 2: The extent to which, over time, budgets were building in unrealistic savings or income targets which masked the true ability of the University to meet its budget targets

Summary

By P5 FY24 the University had built in £8m of unallocated savings. Following S2 recruitment, there were no opportunities for significant new fee income and the £8m Betterment could more accurately be described as a requirement to reduce costs for which no specific actions or likelihood of achievement had been prescribed.

The failure to reduce costs in FY24 defined the budgetary perimeter for the opening Schools and Directorate staffing and operational expenditure budget for FY25. Without savings flowing from FY24, the cost base was not proportionate to the reduction of tuition fee income following the S2 FY24 OPGT recruitment.

At the UEG meeting of 24 April 2024, in considering the FY25 budget, paper C identified that *"there are a number of Savings opportunities incorporated in [sic] draft budget."* These amounted to £23.3m. The draft budget for FY25 is a deficit budget of £9.4m. If these savings are not met, this is effectively a draft budget for a deficit of £32.7m.

Court agreed the operating deficit for FY25, budgeted to be £11.2m. With the underlying cost structure (embedded staff costs and the level of other expenditure) and embedded savings (still c.£21.5m) this was unrealistic and highly unlikely to be achievable.

There is little evidence that budgets were meaningfully updated to reflect changing circumstances.

Budget setting

The annual budgeting process typically starts at the end of Q2 with initial drafts in April and budgets substantially set for the May FPC meeting and the June Court meeting, ready for submission to SFC by 30 June as part of their financial forecasting requirement. Budget setting was the primary control over the financial performance of Schools and Directorates. Implementation was through the COO (Directorates) and DVC (Schools). Once set each June, there is little evidence that budgets were updated to reflect changing circumstances e.g. economic or geopolitical factors in FY24 impacting international recruitment until the first reforecast at the end of Q1.

Budget setting was iterative and sizeable changes (mainly increasing forecast surpluses) were introduced into each of the FY24 and FY25 budgets as budget setting progressed.

FY24

Version 1.0 initially forecast an operating surplus, excluding Tay Cities income, of £3.2m, predicated on continued growth mainly in OPGT students.

Version 1.1 forecast an operating surplus of £6.3m and was discussed at the UEG meeting on 5 April 2023. It was concluded that the budget should be revised as it did not represent a *"feasible or realistic budget"* and that *"student intake was beyond [the University's] physical capacity"*, with reference to OPGT students into the School of Business. The School of Business was initially forecast to grow revenue from £20m to £36m (FY23-FY24). This was reduced to £31m in Version 3.0 of the budget. Actual tuition fee revenue was £23m i.e. £8m under the reduced budget.

Version 2 was revised for finance costs only before being presented and discussed at the UEG meeting on 1 May 2023. This version 3 was then presented to the FPC at a meeting on 23 May 2023 and agreed by Court on 13 June 2023.

Despite challenge from UEG, budget Version 2.0 included a £0.1m reduction in the budgeted operating surplus reducing it to £6.2m.

FY25

A similar process occurred in preparing the budget for FY25. The first version of the FY25 budget forecast an operating deficit of £39.5m.

Through the introduction of a series of School Betterments (unallocated savings), Directorate Betterments and targeted staff cost savings, the budget was updated to Version 2.0 which forecast a reduced operating deficit of £18.3m.

Further amendments were made to the budget to arrive at Version 3.0, with an operating deficit for the year of £9.4m. Version 3.0 was the first, full draft of the FY25 budget provided to UEG on 24 April 2024 and FPC on 21 May 2024.

At the UEG meeting of 24 April 2024, in considering the FY25 budget, page 3 of paper C identified that *"there are a number of Savings opportunities incorporated in [sic] draft budget"* - these amount to £23.3m. The draft budget for FY25 at this point was a deficit budget of £9.4m. If the savings referred to in April 2024 are not met, the current draft budget could commensurately increase to £32.7m.

This paper (Savings opportunities) of £23.3m was not a paper that went to the May FPC meeting. It appears that FPC were unaware (as a Committee) of the embedded savings, though UEG members who were members of, or attended, FPC were completely aware.

FY25 - continued

There were some minor changes made to this version to arrive at Version 4.0 that were discussed with FPC on 21 May 2024 and subsequently approved by the UEG and Court on 10 June 2024. The operating deficit for FY25 was budgeted to be £11.2m i.e. a £28.3m improvement on the position in Version 1. With the underlying cost structure (embedded staff costs and the level of other expenditure see Question 1) and embedded savings (still c.£21.5m) this was unrealistic and highly unlikely to be achievable.

The extent of known external factors should have been reflected in budgets in the period leading up to the start of FY24 (the factors if not the full impact being known) and should have been identifiable in the budgeting process for FY25. Budgets were consequently formulated on a basis that ignored significant sector issues. For example, the FY25 budget was not updated to reflect known factors until the Q1 FY25 reforecast, c.5 months from being set.

Of note is:

- ▶ Schools and Directorates inputs were variable and formal meetings to challenge and gain buy-in, including for required savings, had been discontinued by FY25;
- ▶ Budget income was highly sensitive to revenue assumptions, in particular overseas tuition fee income. There were a number of headwinds, as referenced in Question 1, which from June 2023 made forecasting more challenging. In FY24 the University over budgeted Tuition Fee income by £28.1m and in FY25, based on the Period 8 forecast resulting in Tuition Fee income being over budgeted by £14.5m (13.5%) and Research Income by £9.5m (11.3%). Budget expenditure should have been reviewed and aligned to income with regular re-forecasting and appropriate action being taken (moving a shortfall to Betterment is not considered an appropriate action).

Performance and in-year reforecasting

The University prepares reforecasts in Q1 and Q2 of each financial year, taking into account the most recent updates on student number intake. Reforecasts in Q1 include a significant reduction in School contribution (a reduction of £27.4m in FY24 and £33m in FY25F) reflecting the crystallisation of reduced student intake for the year and failure to reduce costs, considered further below.

FY24

In S1 FY24 OPGT and OUG student acceptances were 45% and 21% respectively ahead of S1 of FY23. However, S1 conversion rates significantly lagged FY23 and S2 OPGT student acceptances were c.39% behind FY23. This culminated in the University reforecasting the contribution from the Schools down by £27m. Additionally, the reforecasting process built in unidentified savings, which were either not allocated to the Schools in a timely fashion (FY24) or built in as savings which were unlikely to be achieved without centrally imposed measures (£23m in FY25).

By P5 FY24 the University had built in £8m of unallocated savings. Following S2 recruitment, income had no way of recovering.

At UEG 15 April 2024, P8 management accounts are included. The £8m savings at P6 changes description and becomes Betterment. It is an unallocated total and, in the documentation, sits on its own - yet there is no commentary on it nor evidence of challenge. £5.5m of Betterment is allocated as a general savings across Schools and £2.5m of Betterment is allocated as general savings against Directorates. Beyond the knowledge of the Principal, COO and DVC (Directorates and Schools respectively) we have not seen evidence of a delegation of responsibility to define, develop and deliver the Betterments required (also see Question 6).

By P8 there was limited ability to effect change on an appropriate scale (noting this was still an unallocated £8m at individual School or Directorate level). There was some double counting in the Betterment as there were already assumed cost saving in salary costs within the Schools and Directorates (also see Question 9).

The failure to reduce costs in FY24 provided the opening Schools and Directorate staffing and operational expenditure budget for FY25. Without savings flowing from FY24, the cost base was not proportionate to the reduction of tuition fee income following the S2 FY24 OPGT recruitment.

The actual deficit for the FY24 year excluding non-cash pension movements was £7.3m.

FY25

The extent of the likely impact on FY25 Tuition Fee revenue should have been far better understood and actions taken in September and October 2024, particularly as S1 OPGT student acceptances were 15% behind FY23 and 42% behind FY24, whilst S1 OUG student acceptances were 40% and 51% behind those in FY23 and FY24 respectively.

Despite data to support a significant fall off in demand from both OPGT and OUG students leading up to Court approval of the budget for FY25, the University forecasted only a 7.5% reduction in tuition fee income. The actual reduction is forecast to be 20.1%. This represents a c.£30m reduction YoY and an adverse variance of £14.3m (25.3%) against budget.

FY25 - continued

The Q1 reforecast included a significant reduction in Schools contribution by £33m reflecting the lower student intake and failure to react by reducing costs.

As with FY24, the Q1 FY25 reforecast (28 January 2025) built in cost savings including £10m of Betterment. At the Q2 reforecast the view was that £13.4m of Betterment would not be achieved (this included an element of Betterment that had been allocated directly to the Schools, in addition to the £10m noted above).

The Q2 reforecast, which had the benefit of actual S1 and S2 student intake information, reduced expected levels of achievable Betterment by £13.4m. This resulted in a Q2 reforecast deficit of £5.4m. Subsequently, there were minimal movements between the Q2 reforecast and FY25F P8 forecast outturn, with the forecast deficit reducing to £4.5m.

There is little evidence that budgets were meaningfully updated to reflect changing circumstances.

Question 3: The reasons the University failed to manage its cash prudently, allowing it to deteriorate to critically low levels, and failed to honour the commitment to invest money that had been understood to be ringfenced for future projects

Summary

Failure to manage cash prudently

The reasons the University failed to manage its cash prudently are founded in the University's lack of governance, ownership (of cash management and reporting) and transparency. The reasons also align with the responses to Questions 1 and 2.

A lack of robustness in budgeting outcomes led to significant adverse variances. Whilst in FY23 and FY24 the causes of the operating cash variance differed (working capital and reduced tuition fees respectively), there is commonality in that in both years, actual capital expenditure was significantly lower than budgeted.

A continued deterioration in operating performance since FY21 cumulated in cumulative operating cash outflows (i.e. after adjusting for the impact of capital grant receipts and other non-operating items) of £52m in FY23 and FY24. The University spent c.£74m on fixed assets during this period. £31m was spent on Tay Cities related projects (backed by grant funding) and £43m was spent on other fixed assets. In the absence of operational surpluses or other external funding (debt or grant), the £43m of other capital expenditure was funded from cash reserves.

Lack of financial controls, particularly around research finance and research income, resulted in a c.£20m and c.£12m adverse funding gap (the difference between budgeted opening cash and actual opening cash) at the start of FY24 and FY25 respectively.

Timing of cash outflows - aggregated net outflows from 1 January 2023 to the end of FY24 (19 months) were £68m, which reduced available cash from c.£100m to c.£32m. The cash outflow that occurred in H2 FY24 was £42m. This net cash outflow included inter alia: staff costs totalling £95m and purchase ledger costs (understood to be a combination of research expenditure, capital expenditure and general trade creditors) totalling £79m.

In FY24 and Q1 of FY25 the University did not have sufficient visibility over cash or movements in cash. In FY24 the true position was masked by the cushion of the Exscientia monies and availability of an RCF.

The lack of financial control, particularly around research finance and research income, resulted in a c.£20 m and c.£12m adverse funding gap (the difference between budgeted opening cash and actual opening cash) at the start of FY24 and FY25 respectively. This was exacerbated by the cash outlay for Tay Cities (timing differences) and the University's own capital expenditure costs (including the shortfall on Tay Cities) and the operational outflows experienced since FY22.

Through FY24 the University was not controlling its cash in a meaningful way. One of the results of this was the breach of two banking covenants, both of which should have been identified prior to the year end.

Failure to honour the commitment to invest the 'Ringfenced Fund'

On 1 January 2023, the University had cash holdings of £103m, including a £40.3m receipt relating to the sale of the University's interest in Exscientia (a University spin out), which Court and UEG members understood had been 'ringfenced'. The understanding was that the ringfenced funds would be used for 'future strategic investment aligned with the strategy refresh in 2022'. We have seen no plan identifying how this cash was to be utilised separate from general University cash. From papers submitted to UEG and Court £1.5m of 'strategic investment', which might be aligned to the ringfenced funds, has been identified. As such £38.8m of the 'ringfenced' cash should remain. In view of the level of research funding paid in advance of c.£30.6m and FY25 Period 8 forecasted cash position (a £1m deficit), it is evident that none of the 'ringfenced' cash now remains.

The funds themselves were generated by the University. The ringfencing is notional (an internal designation) and is identified only with intent (given how the money came into the University, it is neither a restricted fund nor an endowed fund). The cash was always available for the general use of the University. The cash was never isolated into a separate bank account and may have been used for operational expenditure as well as capital expenditure (the University planned to spend £48m in FY23, FY24 and FY25).

With cash of £32.4m at July 2024 (per draft financial statements), the 'ringfenced fund' is fully integrated into the cash of the University and there is no separate amount.

FPC were made aware of this (May 2024), as was Court (June 2024) in the budget and financial plan papers which showed closing cash as 31 July 2024 as £44.6m.

Detail

During the period from 1 January 2023 to 31 July 2024, cash balances decreased from c.£100m to c.£32m. At the same time, there was a lack of consistency around the reporting of cash and liquidity issues to UEG, FPC and Court. Consequently, no action was taken during this period to arrest the decline, and, at the time of this Investigation, the University is forecasting (as of May 2025) that the closing cash balance at the end of FY25 will be £1m overdrawn.

It should be noted that the May 2025 bank position includes recent inflows of research funding, which have been received in advance of delivery of the projects. Without these, the University's cash position would have deteriorated further (c.£21m).

A lack of robustness in budgeting outcomes led to significant adverse variances. Whilst in FY23 and FY24 the causes of the operating cash variance differed (working capital and reduced tuition fees respectively), there is commonality in that in both years actual capital expenditure was significantly lower than budget. In both years, the reduction in capital expenditure appears to be as a result of project delays not a strategic decision to curtail spending to conserve cash.

In FY23, the University budgeted net cash outflows of £23m. Actual outflows during this year were £25m but masks large variances:

- ▶ adverse working capital movements of £23m resulting from a large increase in debtors compared to budget and a smaller than budgeted increase in creditors.
- ▶ a £13m increase in other operating expenses due to increased scholarships and other student related costs as student numbers grew.
- ▶ offset by growth in tuition fee and other income albeit insufficient to offset the growing cost base; and
- ▶ offset by reduced capital expenditure of £26m.

In FY24 the University budgeted net cash outflows of £27m. Actual outflows for the year were £42m. The £15m variance was largely caused by:

- ▶ tuition fee income being c.£25m below forecast due to lower than budgeted student numbers in FY24 (particularly PGT and S2).
- ▶ adverse working capital movements of £16m.
- ▶ a reduction in other operating expenses totalling £7m, which partially reflected reduced student related costs in FY24 such as scholarships as student numbers decreased; and
- ▶ reduced capital expenditure of £25m.

Actual Sources and uses of Funds

From 1 August 2023 to 31 July 2024 there was a £68m net outflow which culminated in available cash of c.£100m reducing to c.£32m, approximately £42m of this outflow occurred in H2 FY23. The deterioration in the University's cash position continues into FY25 where the University is forecasting a closing bank balance of £1m overdrawn.

The causes of this outflow are summarised below.

Operating cash outflows

The causes of the operational decline are referenced in Question 1.

The deterioration in operating performance resulted in cumulative operating cash outflows (i.e. after adjusting for the impact of capital grant receipts and other non-operating items) of £25m in FY23 and FY24.

Operating cash outflows are forecast to total £22m in FY25F. Operating cash flows have been insufficient to fund the minimum capital expenditure considered to be required by the University annually, see below.

Capital expenditure

The University spent c.£74m on fixed assets during FY23 and FY24. £31m was spent on Tay Cities related projects and £43m on other fixed asset purchases, primarily relating to equipment (£10m), general building maintenance (£8m), digital and technology services (£6m), and the Centre for Targeted Protein Degradation ('CeTPD') (£3.5m). This was £50m less than the £124m budgeted (£55m Tay Cities and £69m other fixed assets) and included £5m of slippage relating to fixed asset underspend from FY22.

£1.5m of the budgeted capital spend in FY23 and FY24 was considered by Court and UEG to be strategic investment and therefore capable of being funded by the 'ringfenced funds'. Thus, the majority of capital expenditure in FY23 and FY24 related to general maintenance and overspend on other capital projects.

In FY25, the University is forecasting capital expenditure of c.£24m. Of this, c.£12m relates to Tay Cities, which appears to be a deferral from FY24. The remainder represents an amount the University considers to be the minimum maintenance / renewal capital spend required to meet contractual and compliance/safety requirements.

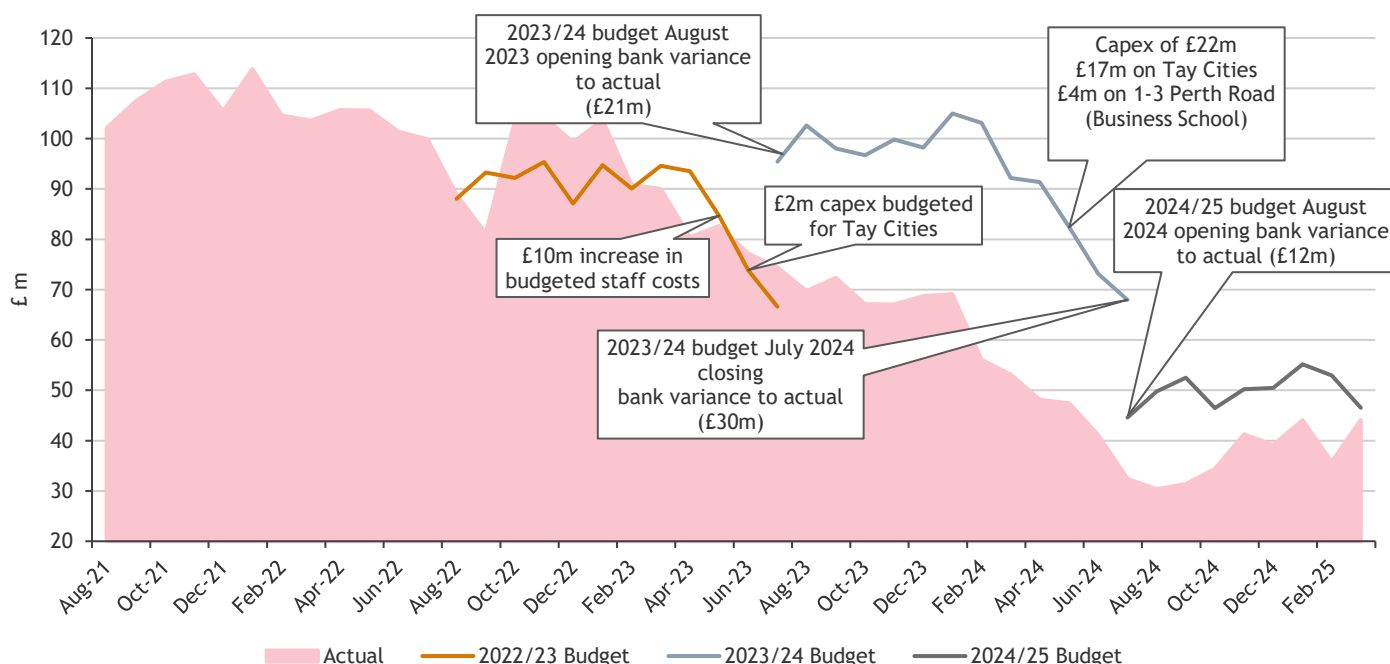
Capital expenditure - continued

Capital spend during FY23 and FY24 was offset by c.£31m of capital grant receipts, including £30m of Tay Cities grant income, and c.£2m of other investing activities (such as investment income and proceeds from asset sales). The University previously received a £5.5m loan from SFC to fund Tay Cities projects which is repayable quarterly from FY25. The University is forecasting a further c.£13m of other net investing activities in FY25 (no breakdown of this amount has been provided) to offset capital expenditure during this year.

c.£48m of the capital expenditure during the three-year period was to be funded internally by the University, including c.£8m in relation to Tay Cities, at a time where operating cash surpluses were / are insufficient to fund the minimum / maintenance capital expenditure requirements of the University. This was not set out in this way to UEG, FPC or Court.

It should have been apparent that the only means of funding fixed asset purchases (including the shortfall on Tay Cities projects) was through existing cash reserves. This does not appear to be the case as there is evidence of decisions around increases in capital expenditure being made in isolation and without regard to the cash position of the University and the operational outflows experienced since FY22.

Figure 5 - Actual cash balance vs budgeted cash balances (including 'ringfenced funds')



Set out above in Figure 5, is a graph showing actual cash holdings by the University in the period FY22 to date, being the pink shaded area. This includes the 'ringfenced' funds totalling £40.3m following the sale of the University's interest in Exscientia. These 'ringfenced' funds were to be used for 'strategic investment purposes flowing from the 2022 strategy refresh'. The chart shows that aggregated net outflows from mid FY23 (January 2023) to the end of FY24 (19 months) were £68m, which reduced available cash from c.£100m to c.£32m. Of particular note, was the cash outflows that occurred in H2FY24 during which the net cash outflow was £42m.

Overlaid on this graph are the budgeted cash balances of the University in the first year of the FY23, FY24 and FY25 budgets, agreed in or around June of each year:

The amber line is the budgeted closing bank balance as per the FY23 budget for FY23. The budgeted cash flow broadly follows the profile of the actual cash balances.

The silver line is the budgeted closing bank balance as per the FY24 budget for FY24. The actual bank balance opened at c.£21m worse than the budgeted position and closed c.£30m worse than budget.

The black line is the budgeted closing bank balance as per the FY25 budget for FY25. The actual bank balance opened at c.£12m worse than the budgeted position.

For FY24 the University was not able to:

- ▶ provide a breakdown of the total working capital movements.
- ▶ verify the quantum of the working capital movements that were expected to reverse in FY24.
- ▶ confirm how much of the working capital reversed in FY24 (from FY23) and the basis for this; or
- ▶ confirm the current status of a significant “unallocated” working capital adjustment.

For FY25, there was a c.£12m difference between the budgeted opening cash balance and the actual cash balance on 1 August 2024. The University has suggested this is made up of £8.5m of cash expected to be received in FY24 but received in FY25 and c.£3.5m unanalysed working capital movements.

In FY24 and Q1 of FY25 the University did not have sufficient visibility over cash or movements in cash. In FY24 it was protected by the (reducing) cushion of the Exscientia monies and the availability of an RCF.

The lack of financial control, particularly around research finance and research income, resulted in a c.£20m and c.£12m adverse funding gap (the difference between budgeted opening cash and actual opening cash) at the start of FY24 and FY25 respectively. This was exacerbated by the cash outlay for Tay Cities (timing differences) and the University's own capital expenditure costs.

Through FY24 the University was not controlling its cash in a meaningful way. One of the results of this was the breach of two banking covenants (both of which should have been identified prior to the year end).

Bank covenants and RCF

Covenants were not formally monitored in real time.

No documentary evidence has been seen to highlight that the risk of these breaches was being considered as part of the iterative reforecasting process which may then have led to pre-emptive mitigating action being taken (including discussions with the Bank in advance of year end). This is referenced in Question 8.

The impact of this is that the University was unable to draw upon the RCF facility in FY25 to fund ongoing operational needs and was required to approach the SFC for funding in FY25.

Since the start of FY25 the University has received c.£13million of pre-paid research funding. But for this money, which was not anticipated, the University was forecasting to run of money towards the end of FY25 (without the SFC funding).

Question 4: Whether investment decisions (capital, staffing, digital, operational, other) were appropriately agreed against their effects on the University's sustainability

Summary

Investment decisions across capital, staffing, digital, operational and other were not appropriately agreed against their effects on the University's sustainability.

Detail

Capital

The University spent c.£74m on fixed assets during FY23 and FY24. £31m was spent on Tay Cities related projects (with £30m grant income attached to the projects) and £43m on 'other fixed asset purchases'. The 'other fixed asset purchases' primarily related to equipment (£10m); general building maintenance (£8m); digital and technology services (£6m); and the CeTPD (£3.5m).

The £74m spend on fixed assets was £50m less than £124m budgeted (£55m budgeted for Tay Cities and £69m budgeted for other fixed assets) and included £5 million of 'slippage' relating to fixed asset underspend from FY22. Capital spend during FY23 and FY24 was offset by c.£32m of capital grant receipts, including £30m of Tay Cities grant income, and c.£2m of other investing activities such as investment income and proceeds from asset sales.

In FY25 the University was forecasting capital expenditure of c.£24m. Of this, c.£12m related to Tay Cities, which appears to be a deferral from FY24, and which was c.£12m under budget, with the balance of c.£11.5m being other capital expenditure i.e. the minimum maintenance / renewal capital spend required to meet contractual and compliance/safety requirements.

The University previously received a £5.5m loan from SFC to fund Tay Cities projects which was repayable quarterly from FY25. The University was forecasting a further c.£13m of other net investing activities in FY25, noting that no breakdown of this amount has been provided, to offset capital expenditure during this year.

Therefore, c.£48m of the capital expenditure in the FY23-25 period was to be funded by the University itself, including c.£8m in relation to Tay Cities. This was at a time where operating cash surpluses were insufficient to fund the minimum (ordinarily) maintenance capital expenditure requirements of the University.

Throughout FY24 and FY24 capital expenditure was not presented to or considered by UEG, FPC or Court in the context of cash and operational expenditure

Staffing

There was a failure to control costs with little or no effort until FY25 to cease non-critical recruitment or implement operational efficiencies. We note that this is not the narrative portrayed by some UEG members but is empirically evident from the financial records.

Staff costs, which account for c.60% of total costs, increased from FY22 - £167.5m to FY25F - £192.6m, a compound increase of 4.8% pa (15% growth), excluding adjustments for the USS provision. This was at a time when international student recruitment was known to be dramatically falling both against forecasts and YoY.

Staff costs were significantly impacted by externally driven single spine and living wage increases which drove £3m one-off payments in FY23 and a 7.7% uplift in FY25.

Key opportunities to make savings by holding vacancies were not taken. Staff FTEs increased 8% from 2,984 to 3,230 between FY22 and FY24 with some 862 joiners in FY23 and 949 in FY24, notably in Life Sciences and Medical schools.

During FY24, in parallel with the significant decline in student numbers, the University continued to recruit.

The main focus of the Human Resource and Organisational Design directorate during FY24 was to help grow headcount. It succeeded as headcount grew 7.8% from 4,027 to 4,343 and FTEs increased 4.1% from 3,102 to 3,230.

This was also at the time when the PRG, a committee reporting to UEG and whose membership included the COO, DVC, Director of People ('DoP') and DoF, approved the filling of Grade 7 and above staffing requests. Grade 7 were posts equivalent of salaries of c.£45,000 and above. We were provided by the University with a spreadsheet for FY24 and FY25 which reported PRG's decisions. It had columns for the financial effect of the approvals, but these columns were left blank.

Consequently, student / academic staff ratios (HESA data) fell to 8:1 by 2024. We recognise that comparison to another HEI could not have been done in real time, it was however self-evident e.g. by YoY internal comparisons that this was not aligned to the financial position of the University.

The embedded staff costs contributed significantly to the FY24 outturn and have impacted on the timing and quantum of any realistic savings for FY25.

A recruitment freeze was introduced in September 2024 and FTEs reduced from 3,230 to 3,110 by April 2025. Some submitted evidence suggests that a number of vacancies have switched into operational overheads by being substituted by contractors.

One of the areas brought to the Investigation Team's attention was the implementation of a new international student registration systems, Tribal Blueprints. This was procured in 2022 noting that it was not tendered as it was bought as an amendment to an existing contract with Tribal.

We have seen no record that universities that had already implemented Blueprints were asked by the University about their experience of using it.

In June 2023 the Admissions team raised major concerns regarding the amount of re-work needed to their processes. In February 2024, the project risk status was changed to 'red'. In July 2024 a list of 'configuration items' (changes that the University wanted) was shared with Tribal who were unable to give target dates for their implementation. Despite this, a go-live decision was made for September 2024.

Following a short delay the system did go live but, according to the University, was unable to be used for seven weeks. No 'work arounds' for offers or admissions had been developed in advance of the system going live and, as the data had been migrated from the old system to Blueprints, we were told that it was not possible to introduce a manual system at the time or revert to the old system which had been 'switched off'.

The risk register reviewed by both UEG and ARC increased the risk of the inability to meet budgeted student growth to 'red' in March 2024 to a score of 16 (on a typical '5x5 score card') - based on the international visa changes but with no mention of Blueprints. Indeed, at the same meeting the risk of the inability to deliver major capital projects was rated as green with a score of 6. When reviewed by the same groups in October 2024 the growth risk had risen, further impacting financial sustainability but again with no mention of Blueprints.

"Student recruitment: the likelihood for risk 13 'Inability to meet budgeted student growth' has increased from to a score of 20. Noting the increased exposure and following discussions with the Vice-Principal (International), this risk is no longer deemed to be within risk appetite."

Finance: the likelihood for risk 12 'inability to achieve and maintain financial sustainability' has been increased to a score of 25, noting the impact of risk 13. Whilst the University has a budget plan in place, the University will run at a deficit this year, meaning the risk can no longer be deemed to be within risk appetite."

ARC members agreed to consider holding a 'deep dive' session on the student recruitment risk.

At the ARC meeting on 12 March 2025, an update to the Risk Register was given. The register notes the inability to recruit students' risk had a High-Risk score (25) and was increasing partly due to challenges with the Blueprints system. We don't know what was discussed as we have not been provided with the minutes of that meeting noting that such minutes would go to the following ARC which is outside the period of our review.

Blueprints has been widely stated as a major factor, if not the reason, for the drop in international enrolments in January 2025. It was certainly a contributory factor but not the only one at that time. A number of decisions taken by the University in the prior 12 months will also have contributed.

Despite the emerging concerns there was no specific internal audit conducted on International Student Recruitment or Blueprints Implementation. However, on the review of two earlier post-implementation internal audits (Business transformation - lessons learned (2023) and Payroll post go-live (2023). Both identified similar issues:

- ▶ no lessons learned exercise had been undertaken following the go-live of the Payroll system
- ▶ a large number of outstanding defects and high priority issues
- ▶ some of the areas for improvement should have been formally documented, agreed and approved from the outset of the project for the Payroll module.

These are equally true of the Blueprints implementation.

The effectiveness of Blueprints has been compromised due to poor procurement practices which led to misunderstandings about the systems capabilities, a lack of full scoping and implementation issues. It is unclear why Blueprints went live without user acceptance testing or Business Continuity plans in place and why it does not appear to have been recognised as a business-critical project at the time as well as given appropriate attention and oversight. The University says that the system remains unable to meet operational requirements causing delays in the admissions process which impacts on international student recruitment, enrolments, a reduction in international fee income and loss of confidence by recruitment agents.

We were provided with a spreadsheet of the cost of intangible asset investments being systems projects (capital only) from 2016/17 (Actual) to 2023/24 (Draft). Some £20.5m was invested of which £7.8m was written off in respect of systems that did not go live, i.e. 38%.

Operational

There was also significant growth in non-staff costs which increased from £106.7m in FY22, to £130.8m in FY23 (up 22.6%) and remained at £129.7m in FY24.

CPI Inflation increased c.20% between the start of FY22 and the end of FY24. Other operating expenses were c.£91m in FY21 and over the 3 years to FY24 there was accordingly an increase of 43%.

The FY23 increase included £13.1m of student related costs (scholarships, bursaries and agents' commissions designed to increasing student intake. The data suggests the University was increasingly incentivising overseas students in particular. This appears to have been successful in FY23 but the revenue headwinds and large historic recruitment from China, India and Nigeria meant the University was more susceptible than its benchmark peers to declining numbers.

Student related costs fell slightly in FY24 by £5m (c.15%) against a backdrop of falling student numbers.

Other key drivers of increases in non-staff costs include:

- ▶ In FY23 and FY24 increases of £4.5m in digital and infrastructure and £3.6m in estates and buildings.
- ▶ Core research costs in Academic departments increased £4m (158%) in FY23 and a further £0.4m (6%) in FY24 which reflects reduced contribution in life sciences and the medical school; and
- ▶ Catering and residences costs remained relatively stable between FY21 and FY23 however, despite a fall in student numbers they increased by £3.3m (34%) in FY24 (see Table 3).

Other

Information provided to UEG and Court lacked appropriate disclosures and cash reporting was not in the management information presented. The University consistently tracked behind budgeted and reforecast performance.

At the time when the net cash outflow was at its greatest (H2 FY24), management accounts stopped being presented to the UEG and Court. No management accounts information was presented to Court for periods 9 to 11 (May to June 2024). A lack of basic controls and information provided to UEG and Court around treasury management, in particular cash flow reporting and forecasting, meant that operational and investment decisions were made without awareness of the University's cash position

The ability of the University to meet budgets and subsequent reforecasts was further hampered by inconsistency in reporting to UEG which could have highlighted emerging liquidity constraints and facilitated increased buy-in to cost savings.

Investment decisions across capital, staffing, digital, operational and other were not appropriately agreed against their effects on the University's sustainability.

Question 5: The effectiveness of internal systems and controls

Summary

Throughout FY24 and in the first quarter of FY25 the University did not have effective internal systems and controls over financial management.

Despite annual follow up by internal auditors and challenge by ARC, several internal audit recommendations remained outstanding, some for years.

Detail

The University is required under the SFC's Financial Memorandum to have *"...regular, timely, accurate and adequate information to monitor performance..."*.

As set out in the response to Question 13, and elsewhere, there was an absence in FY24 of P7, P9, P10 and P11 of management accounts. If the Finance Team could not or would not provide information on a timely basis, this is an indication of either a fundamental breakdown in financial management and governance or is indicative of a culture lacking in transparency and challenge. Whilst there was perhaps some challenge, this was insufficient.

UEG did not have regular, timely, accurate and adequate information to monitor performance. FPC and Court were receiving some information on a regular basis and timed for the Committee and Court cycles. However, the accuracy revolves around Betterment (discussed elsewhere) and other embedded cost savings, and the papers were inadequate i.e. they did not convey an accurate view on cash, covenants, availability of cash for capital expenditure and decisions on capital spend.

The magnitude of the financial situation the University properly identified from November 2024 and onwards was not simply a function of poor student recruitment over the preceding 15 months. The ineffectiveness of internal systems and control in FY24 laid the foundations for the financial collapse in FY25. Such systems may well have been effective or ineffective in FY22 and FY23, but the University's finances had been cushioned by an increasing number of international students and a £40m exceptional receipt from the Exscientia sale.

Throughout FY24 and in the first quarter of FY25 the University did not have effective internal systems and controls over financial management.

Whilst the University has what appears to be a standard operating system of internal systems and controls (i.e. an Audit & Risk Committee and outsourced internal audit), there have been challenges to their operational effectiveness.

Internal Audit

It is a requirement of the SFC's Financial Memorandum that:

- ▶ The institution must have in place an effective internal audit service. The operation and conduct of the internal audit service must conform to the professional standards of the Chartered Institute of Internal Auditors.
- ▶ The internal audit service must provide the governing body and senior management of the institution with an objective assessment of adequacy and effectiveness of risk management, internal control, governance, and value for money.
- ▶ The internal audit service must extend its review over all the financial and other management control systems, identified by the audit needs assessment process; and
- ▶ The head of internal audit must produce an annual report for the governing body on its activities during the year. The report must include an opinion on the adequacy and effectiveness of the institution's risk management, internal control, and governance.

In May of each year the Internal Auditor drafted an internal audit plan based on:

- ▶ the strategy and objectives of the University.
- ▶ its risk profile (whether strategic, operational, or change risks).
- ▶ considering the other forms of management and independent assurance; and
- ▶ what internal audit work was required.

The plan was discussed and approved by ARC before the ARC minutes went to the Court for noting. In October each year, the Convenor of ARC takes the Internal Auditor's overall assessment of the University's internal control systems (from the annual Head of Internal Audit report) and incorporates it into the draft ARC annual report. The draft report is considered and approved by Court in November along with the financial statements, the financial review of the year, the going concern assessment, the letter of representation and the external auditors' closure report, before being sent to the SFC.

The annual Head of Internal Audit Reports concluded:

- ▶ 2021/22 - Partial assurance with improvements required on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- ▶ 2022/23 - Significant assurance with minor improvement opportunities could be given on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. There were 35 actions in 2022/23, of which none are 'High', 15 were rated as 'Medium' and 20 are 'Low'.
- ▶ 2023/24 - Significant assurance with minor improvement opportunities. There were 27 management actions raised during the reviews delivered. There were 35 actions in 2022/23, of which none are 'High', 15 were rated as 'Medium' and 20 are 'Low'.

Despite annual follow up by internal auditors and challenge by ARC, several internal audit recommendations remained outstanding, some for years.

Financial Reporting

Section 3

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Question 6: The reasons why key signs of distress were not reported to UEG and Court in a timely fashion, and in particular why Court was only informed fully in November 2024

Summary

At P5, 2024 there were clear indications of financial distress in the University. The UEG, at its meeting on 7 February 2024, should reasonably have been aware. At UEG on 13 March 2024, noting the significant change to Q2 actual to budget performance and the insertion of the savings need of £8m, the indications of financial distress and delivery risk to achieve required savings should have been obvious.

The Principal either was aware or should have been aware at this point (13 March 2024) and should have taken appropriate action, which would have included advising FPC, ARC and Court.

All members of UEG were aware of the '£23m savings opportunities' built into the FY25 forecast who were in a position to disclose such important matters, alternatively to question and challenge, both at FPC and Court but did not.

A breach of covenant is a significant sign of financial stress. Indeed, covenants are a measurement of lending, and therefore financial, risk and performance. On 4 October 2024 the DoF emailed BoS and asked for consideration of "not introducing" the 'net operating cash to service costs' as it was known then that the test would not have been met as at 31 July 2024. It is not known whether the DoF was aware of the breach sooner than 4 October nor if or when this was reported to the Principal.

From the evidence provided, the Investigation Team believes that the Principal was aware of the breach of covenant on or before the end of October 2024. We do not know why this was not reported to Court as soon as this was known.

A member of the Finance team was present at the meeting of the FPC on 10 October 2024 and was aware of the breach of covenant at that time. The papers did not refer to the breach and the papers gave a false impression on this matter as they state that the RCF is in place at a time when there is an ongoing dialogue with BOS because a breach of covenant.

Members of the Finance Team were present at the ARC meeting on 22 October 2024 and were aware of the breach of covenant at that time. The papers did not refer to the breach and the papers gave a false impression on this matter.

Court was informed of the breach of covenants at its meeting of 12 November 2024.

Detail

At UEG 7 February 2024 there was a review of P5 management accounts and the introduction of £8m of 'additional savings' in order to meet budget. Whilst the savings requirements is articulated somewhat differently as "*no material movement to the overall forecast*" it is a clear sign of distress:

"Whilst there has been no material net movement to the overall forecast for the year, the forecast does assume that additional savings will be delivered. There is a reasonable degree of confidence that staff vacancy and slippage savings will ensure the majority of this is provided given analysis and trends evidenced in the year to date. Furthermore, analysis of Directorates provides assurance that additional savings aligned to this forecast are achievable. Finally, savings across Schools are anticipated with a particular focus on slippage of additional investment in staffing."

These 'additional savings' become Betterment at P6 (Q2) and then were allocated (though only as a 'general allocation') to Schools and Directorates following P8 (see below). While at this point the University was projecting to break even against the initial forecast of £7.6m surplus.

The operating deficit YTD at Q2 FY24 was £15m against a budget forecast surplus of £4m at that point.

At P5, 2024 there were clear indications of financial distress in the University. UEG should have reasonably been aware of these at the time of meeting of 7 February 2024.

At UEG held on 13 March 2024, P6 / Q2 Management accounts were tabled at the end of the meeting for 15 minutes consideration (estimated timing). The accounts show the forecast budget surplus of £7.6m had reduced in the Q2 forecast to £0.1m. In order to achieve the revised forecast of £0.1m there needed to be new savings of £8m. With the significant change in Q2 actual to budget and insertion of £8m of savings, there are very clear delivery risks and strong indication of financial distress.

The Principal either was aware or should have been aware at this point (13 March 2024) and should have taken appropriate action, which would have included advising FPC, ARC and Court.

The Finance Team has said that P7 accounts were not prepared as time was prioritised to developing the financial forecasts.

At UEG 15 April 2024, P8 management accounts are included. The £8m at P6 changes description and becomes Betterment. It is an unallocated total and in the documentation sits on its own. £5.5m of Betterment is allocated as a general savings across Schools and £2.5m of Betterment is allocated as general savings against Directorates. There is no defined ownership below the Principal, COO and DVC (i.e. a University wide responsibility, Directorates and Schools respectively) though each has an obvious role; the YTD running deficit was then standing at £13.6m and the University was forecasting a year end surplus of £0.1m. In the five-year plan, FY24 was updated and to include a Betterment of £5.5m in Schools and £2.5m in Directorates. In addition, the FY24 year end cash balance was forecast at £44.6m. While it is not explicitly stated, any enquiry would have confirmed that that this was 'inclusive' of the Exscientia 'ringfenced' monies as there was no other cash resources. In our view, even without an enquiry, this position was readily apparent.

At UEG 24 April 2024, in considering the FY25 budget, there are several "*Savings opportunities incorporated in [sic] draft budget*". These amount to £23.3m. The draft budget for FY25 at this point was a deficit budget of £9.4m. If the £23.3m savings were not met, this would negatively impact the draft budget increasing the projected deficit to £32.7m.

There has been no explanation given as to why the £23.3m of savings were not identified in papers for the next FPC meeting.

The Minutes of UEG, FPC and Court record the following overlap (i.e. members of UEG who would therefore would have seen the paper on Savings Opportunities) and attendance at one or more of FPC 21 May and Court 10 June 2024):

- ▶ Principal* (UEG, FPC and Court)
- ▶ DoF (UEG, FPC and Court)
- ▶ COO (UEG, FPC and Court)
- ▶ DVC (UEG, FPC and Court)
- ▶ Director of People (UEG and Court)
- ▶ Deputy University Secretary (UEG and Court)
- ▶ Director of University Executive and Strategy Office (UEG and Court)

“*” Note the Principal is Chair of UEG and a Member (rather than 'attending') of both FPC and Court.

There are a number of senior people (see above) who were aware of the '£23m savings opportunities' built into the FY25 forecast who could had the opportunity to elevate, question and challenge the matter at FPC and Court but did not.

It appears that the narrative in UEG was that P7 management accounts were not produced as the Finance Team was concentrating on the forecasts. This is consistent with the timing of the work on forecasts but should never have negated the timely preparation of management accounts. It appears that P7 were never produced.

P8 management accounts were produced and were reviewed by UEG.

P9, P10 and P11 management accounts (April, May and June 2024) were produced in draft but never finalised into papers that reached UEG. It is not clear why this happened or who decided that these papers would not be provided.

Covenants

A breach of covenant is a clear and significant indication of financial stress, a principle that is well understood both inside and beyond the sector.

On 4 October 2024 the DoF emailed BoS and asked for consideration of "*not introducing*" the 'net operating cash to service costs', as it was known then that the test would not have been met as at 31 July 2024. It is not known whether the DoF was aware of the breach sooner than 4 October nor if or when this was reported to the Principal. The DoF resigned on 11 July 2024 and served three months' notice, leaving on 11 October 2024.

The email trail remained unresolved through to the inclusion of the IDoF on 11 November 2024. The IDoF informed the Principal the same day. From the evidence provided, the Investigation Team believes that the Principal was aware of the breach of covenant on or before the end of October 2024. We do not know why this was not reported to Court as soon as this was known.

There was an FPC meeting on 10 October 2024 at which a member of the Finance team was present and who was aware of the breach of covenant at that time. The papers did not refer to the breach and the papers gave a false impression on this matter.

There was an ARC meeting on 22 October 2024 at which members of the Finance team were present and noting that each was aware of the covenant breach of covenant at that time. The papers did not refer to the breach and the papers gave a false impression on this matter.

Court was informed at its meeting of 12 November 2024.

Question 7: The reasons why the University failed to report in a timely fashion to its key stakeholders

Summary

There is no record of the SFC being made aware of the potential breach of covenant as at 31 July 2023 (relevant in the period 19 September 2023 to 18 October 2023). The University should have been aware of the issue prior to the year end. No explanation is on record as to why this was not done. From the evidence provided, the Investigation Team believes that the Principal was aware of the FY24 breach of covenant on or before the middle of October 2024.

Whilst the Principal and the COO were each notified of the ongoing dialogue with BoS regarding the breach of covenant on 11 November 2024, on 13 November the COO wrote to the SFC 'on behalf of the Principal':

"The Principal has asked that I drop you a line to let you know that the University will today be announcing to staff and students that it will need to find savings of around £25-30m over the next couple of years to balance the books in the face of ongoing funding pressures and the downturn in the international student market."

The email to the SFC of 13 November falls below the standard of full and transparent disclosure given the known facts at the time. There is no reference to the likely breach of covenant (which turned out to be an absolute breach) which was known by both the COO and the Principal prior to sending this email.

The University advised the SFC on 26 November 2024. The Investigation Team is not aware of any reason for the delay.

Detail

The relevant key stakeholders are Bank of Scotland, the SFC and the University's external auditors.

The University has an RCF with BoS which has several covenants attached to it. If the covenants are breached, access to the RCF can be stopped by the Bank with no further recourse and the University would be unable to access it. Covenants are addressed in more detail in Question 9, but a summary of the main considerations is given below.

The RCF covenants should have been tracked through the year as the 'test' is at year end (31 July). A retrospective waiver (or agreed non-testing) of a covenant does not mean that a covenant has not been breached, it simply means that the Bank has decided (after the event) to provide the University with ongoing access to the RCF.

On 19 September 2023, there is the start of an email exchange between the DoF and BoS setting out a request for changes to the test of one of the covenants for the RCF (in order for it to continue to be available). It is not clear when, or indeed if, the DoF advised the Convenor of FPC, the Convenor of ARC, the Chair of Court or the Principal.

The email exchange does not conclude as to whether there was a breach as BoS formally agreed not to test this covenant as part of the renegotiation of the RCF (which is within their rights to do so). The approval was advised by BoS on 24 October 2023. This retrospective agreement does not change the fact that the test was required as at 31 July 2023. If tested at that date (on the reasonable assumption that the test would be performed in accordance with the lending terms at that date, without change), then between 31 July 2023 and 24 October 2023 the covenant was technically breached and access to the RCF could have been denied by BoS.

On this basis, the RCF should not have been assumed to be available for forecasting cashflow through the going concern period (at this time effectively through to the end of November 2024).

There is no record of this matter being drawn to the attention of the Principal, ARC or FPC as a actual or potential breach of covenant in the prior period (i.e. as at 31 July 2023).

A breach of covenant, whether tested or not, is a reportable event to the SFC under the general overarching requirement to report contained in the Financial Memorandum as it puts at risk ongoing access to facilities (the £40m RCF); internal reporting should be done in real time.

For FY23 it appears that the DoF believed that there was no breach as he was arguing with BoS that if there had been a test then the test would allow certain adjustments. This 'argument' ignored the risks of a retrospective waiver not being granted. Importantly, any such conversation should have been in advance of year end and not afterwards. (See Question 9, Table 4)

The Principal either was made aware or should have been made aware of the potential breach and a judgement made of whether to report this to the SFC. No record has been brought to the attention of the Investigation Team that the Principal was made aware of this. There is no record of the SFC being made aware of the potential breach of covenant as at 31 July 2023 (relevant in the period 19 September 2023 to 18 October 2023). The University should have been aware of the issue prior to the year end. No explanation is on record as to why this was not done.

On 4 October 2024 the DoF emailed BoS and asked for consideration of "not introducing" the 'net operating cash to service costs' as it was known then that the test would not have been met as at 31 July 2024. It is not known whether the DoF was aware of the breach earlier than 4 October 2024, though all covenants should have been monitored throughout FY24 and not left until FY25.

There was no dialogue with the SFC in October 2024 with regards covenant breaches in 2024 and the RCF being at risk. The breaches should have been reported to the SFC immediately on recognition.

The email trail remained unresolved through to the inclusion (on email copy) of the IDoF on 11 November 2024.

From the evidence provided, the Investigation Team believes that the Principal was aware of the FY24 breach of covenant on or before the end of October 2024.

The Principal and the COO were each notified (internally) of the ongoing dialogue with BoS regarding the breach of covenant on 11 November 2024 and the awareness of the external auditors of the matter.

On 13 November 2024 the COO wrote to the SFC on behalf of the Principal:

“The Principal has asked that I drop you a line to let you know that the University will today be announcing to staff and students that it will need to find savings of around £25-30m over the next couple of years to balance the books in the face of ongoing funding pressures and the downturn in the international student market.”

The email to the SFC of 13 November 2024 falls below the standard of full and transparent disclosure given the known facts at the time (as referenced in the response to Question 9 - £40m of required savings in FY25 alone). There is no reference to the technical breach of covenant (which turned out to be an absolute breach) which was known by both the COO and the Principal prior to sending this email.

The University advised the SFC on 26 November 2024. The Investigation Team is not aware of any reason for the delay.

Any delay in notification to the SFC is a further breach of the Financial Memorandum requirement at paragraph 19 which states:

“The chief executive officer of the institution must inform SFC’s Accountable Officer without delay of any circumstance that is having, or is likely to have, a significant adverse effect on the ability of the institution to deliver its education programmes, research and other related activity, including delivery of its Outcome Agreement with SFC. He or she must also notify SFC’s Accountable Officer of any serious weakness, such as a significant and immediate threat to the institution’s financial position...”

No reporting of breaches of covenants was made to the SFC until 26 November 2024.

Question 8: The quality, credibility and accuracy of the information provided to the UEG and Court and their delegated committees and other groups, and whether this had an impact on the UEG's or Court's capacity to understand the situation and provide appropriate challenge

Summary

There were inconsistencies and gaps in the information reported to the UEG, FPC and Court, most notably in FY24 and Q1 FY25; a period of declining operating performance and an overall worsening financial situation. Information was generally presented in a manner which made it difficult to fully understand the true financial performance of the University.

The credibility and accuracy of papers was poor through the lack of completeness of information in written reports (noting that aspects of the absent detail was often well known to some). In many cases, information was produced and notionally appeared credible however, it is arguable that an updated budget can be determined as 'accurate' e.g. Q2 for FY24 when it balances to break-even but includes an £8m Betterment which itself is notional. Credibility however is suspended and falls away on the gentlest of enquiry.

The quality of papers was not there. As discussed in multiple areas of this report, information was neither collated nor presented in a manner that easily supported a complete, full and accurate understanding of the position on a timely basis. This applied equally to income and capital expenditure and their respective impacts on cash. However, and importantly, there was information produced which, with appropriate challenge, UEG, FPC and Court should have been able to assess the ongoing situation from March 2024.

Detail

A comparison of the excel management accounts files prepared by finance to the information included within the UEG papers was undertaken and no material discrepancies in the numerical information was identified. The UEG papers then progress through FPC and Court.

As noted in the responses to Questions 1 and 3, management accounts were provided to UEG for P5 and P6 but were not provided to the UEG for P7, 9, 10 or 11. Management accounts focused on the income and expenditure and operating position, the Q2 and budget pack for UEG in April 2024 included balance sheet and cashflow. P5 and P6 management accounts introduced savings and then Betterment, the credibility of which should have been challenged.

The USS adjustment within the budget pack (Q2) was left unchallenged (see Questions 9 and 12).

The forecast surplus (excluding Tay Cities and pension adjustments) was reported as £0.1m for all of H2FY24 and the budget presented to the Court on 10 June 2024 stated:

"In financial terms, the University has continued to manage its position relatively well in 2023/24 despite the significant reduction in planned tuition fee income and is forecasting a very small operating surplus for the year"

Members of UEG were fully aware of the £23m "additional savings" embedded into the FY25 budget as it went through FPC and Court (see Question 12).

At the end of P10, the University was forecasting a surplus of £1.4m albeit this was after accounting for c.£5m of Tay Cities capital grant income and £6m relating to the USS pension provision. A more accurate reflection of the financial position of the University at this point in time was therefore an operating deficit of c.£9.6m. The actual outturn for the year was a deficit of £14.2m (excluding Tay Cities and the USS surplus).

There was a lack of visibility on cash and liquidity provided to UEG, FPC and Court. The University failed one or more of its covenant tests in Q4 of both FY23 (one) and FY24 (two) (see Question 6).

There was an absence of systems within the Research Finance team to identify the timing of cash receipts and a budget setting process which appears to have assumed pre-paid research funding would remain flat. The impact of getting this wrong was a c.£20m and c.£12m funding gap (the difference between budgeted opening cash and actual opening cash) at the start of FY24 and FY25 respectively, despite budgets being finalised relatively close to the start of the year (June).

As referenced at Question 3, there was a lack of reporting and financial governance relating to cash such that forecast cash shortfalls were not identified.

There were inconsistencies and gaps in the information that was reported to the UEG, FPC and Court, most notably in FY24, a period of declining operating performance and an overall worsening financial situation. Information was generally presented in a manner which made it difficult to fully understand the true financial performance of the University (i.e. Betterment, reversal of USS provision).

The credibility and accuracy of papers was poor through the lack of completeness of information in written reports (though some of the absent detail was often well known to some). In many cases, information was produced and notionally appeared credible however, it is arguable that an updated budget can be determined as 'accurate' e.g. Q2 for FY24 when it balances to break-even but includes an £8m Betterment which itself is notional. The quality of papers was not there. As discussed in multiple areas of this report, information was neither collated nor presented in a manner that easily supported a complete, full and accurate understanding of the position on a timely basis.

However, and importantly, there was information produced which, with appropriate challenge (which was reasonably possible to apply, see Questions 12, 13 and 14), UEG, FPC and Court should have been able to assess the ongoing situation from March 2024.

Question 9: The extent to which these bodies were left with a false impression of the University's financial health

Summary

On 28 February 2024, the Principal told the whole University that “[...the University was] moving into a surplus after a decade of financial deficits. This allows us to feel more confident, not only in meeting those challenges, but in investing in our strength and continuing on a path of growth”.

This was at a time when the Principal was aware that there was an £8m ‘hole’ in the FY24 budget. There were no plans in place to deliver savings necessary to move into a surplus position.

Throughout FY24 there was a lack of adequate financial reporting through to UEG and, as a direct result, also through to FPC and Court. The reporting that did exist (UEG through to FPC and Court) was incomplete and there was of a collapse of financial governance.

Whilst there was some challenge as to the lack of financial information flowing through by some members of UEG, individually and collectively the Principal, COO, DVC and DoF appeared to operate in isolation of facts (or, potentially, disregarding the facts) notwithstanding that they were aware (or should reasonably have been aware) of the critical factors impacting financial performance and cash e.g. the growth agenda, declining student numbers, PRG, and Capital Strategy Group (‘CSG’) commitments). The UEG did not interrogate the cumulative impact or challenge the forecasts set for FY24 contextualised by the reality of the Q2 FY24 outcome and direction of travel.

Court, and its Committees, were aware of a serious issue with regards covenants and the availability of the RCF but missed a number of opportunities to explore the detail. This ‘near miss’ should have triggered more enquiry both with regards July 2023 and systems for monitoring throughout FY24.

At the ARC of 23 October 2023, the section on going concern stated that University management had assessed the RCF and that:

“At the balance sheet date, the University had access to a £40m Revolving Credit Facility (RCF) with the Bank of Scotland. This RCF has never been drawn since its initial agreement in 2016. The RCF has been renewed since the balance sheet date and is now in place until October 2026”

This statement is not true as the renewal was not yet in place and the waiver of the testing of the covenant not agreed.

At the 22 October 2024 ARC meeting, the paper on covenants states:

“At the balance sheet date, the University had access to a £40m Revolving Credit Facility (RCF) with the Bank of Scotland. This RCF has never been drawn since its initial agreement in 2016. The RCF has been renewed since the balance sheet date and is now in place until October 2026”

This statement is not true as the renewal was not yet in place and waivers are not agreed. The University was likely to be locked out of the RCF i.e. unable to draw it down on a failure of covenant testing, it was locked out of the RCF in November 2024.

It is reasonable to question why a number of significant matters went without appropriate challenge e.g. the release of the USS provision (an element of which understated actual staff costs) and the use of Betterments as these link directly through to the ability to deliver staff cost savings.

Detail

At the end of Q2 FY24 (31 January 2024), the Finance team produced management accounts that went to UEG and ultimately formed part of the pack that supported the budget forecast and went through FPC and Court. These included £5.5m of Betterment in Schools and £2.5m of Betterment in Directorates. The origins are seen in the UEG papers of 7 February 2024 where there are “Savings adjustments - including vacancies” of £5.5m in Schools and “Savings adjustments - including vacancies” of £2.5m in Directorates. Whilst the language of “Savings adjustments” changed to Betterment, the values did not. These were unallocated adjustments with no direct ownership by an individual School or Directorate and sat in the forecasts above any School or Directorate i.e. at a level with the senior officers responsible for Schools and Directorates (DVC and COO respectively). The Betterment runs all the way through to the Q2 figures attached to the five-year forecast that went through UEG, FPC and, ultimately, Court.

At Q2 there is no significant new fee income for Schools i.e. the January recruitment is complete. Schools had already built in vacancy savings and there was an element of ‘very optimistic’ double counting. Several Finance Business Partners (accountants working with the Schools) told us that they were concerned about continued staff recruitment from January 2024 when the international student numbers were falling away. They further advised that there was no plan to deliver the Betterment.

The check and balance to vacancy savings was meant to be the PRG (chairing of which alternated between the DVC and COO). It is evident from the accounts and should have been evident on an ongoing basis from both management accounts and simple consideration of the number of requests being authorised, that staffing was not being controlled in line with budgets, particularly when Betterment is taken into account. A number of the authorisations by PRG were notably not covered in existing budgets and approvals went back requesting further savings to cover the new salary.

Whilst the PRG members sat on UEG (COO, DoF, DVC and Director of People), there was no direct reporting of PRG activity to UEG. The impact of the actions of PRG do not appear to have been considered or challenged in the context of a reduction in income and larger variances occurring from Q2. The impact of staff approvals vs budget and forecast do not appear to have been added up at the time and are presented alongside other variances in budget with an accumulation effect.

With the above known background, including £8m of Betterment / savings with no plan to achieve it, UEG held a Town Hall meeting on 28 February 2024 after which ‘A message from the Principal’ was circulated on 1 March 2024 which included:

“In my presentation on Wednesday, I spoke of our many achievements and also the challenges posed by the various headwinds the higher education sector is facing. We have improved our resilience over the past two years, moving into a surplus position after a decade of financial deficits. This allows us to feel more confident, not only in meeting those challenges, but in investing in our strength and continuing on a path of growth”.

The above is misleading. The Principal was aware that there was an £8m ‘hole’ in the FY24 budget. There were no plans in place to deliver savings needed to move to a surplus. This set the tone within the University for investment and growth at a time when savings should have been rapidly implemented.

UEG did not have monthly management accounts in some months - a review of management accounts should have been a standing agenda item. The verbal updates and / or financial extracts that were produced fell far short of what should have been prepared. We understand that papers for UEG were often submitted at short notice (within 24 hours of the meeting) and were to be passed to go through to FPC, ARC and Court. There was limited review time in advance of meetings and some members of the Executive were consistently better sighted on the issues, particularly on staffing, estates and student number projections.

The Scottish Code of Good Higher Education Governance states that the agenda of governing body meetings and supporting papers are expected to be circulated sufficiently in advance to allow for effective scrutiny of proposals, and decisions minuted. The agenda and minutes are expected to be published in a timely manner on the institution’s website. The governing body’s rules must specify the kinds of matter that may not be published for reasons of confidentiality. The papers considered at meetings should be made available to staff and students, unless this would breach confidentiality or would not be in the interests of the institution.

The University’s self-assessment of its compliance with the new Code in February 2025 was that the agenda and papers be generally circulated electronically six days before the meeting, which is in accordance with its standing orders. On investigation, we understand that in practice throughout FY24 and FY25 six days had rarely been achieved.

The Standing Orders make clear what papers are routinely published. We did not find any published papers on the University’s website when preparing for our visits. The self-assessment indicated that this was following web migration and some remedial work on ensuring papers are publicised needs to be reviewed.

The governance breakdown was seen at multiple levels, from UEG to Court.

We were informed that there were dissenting voices expressing concerns on student numbers and finances from a number of Directors and VPs. The University was not reducing staff costs and there was little if any consideration to reduce costs or review cash from February 2024 to June 2024; a critical period when the impact on income from student recruitment was known.

PRG continued to replace staff throughout Q2 and well into Q3 FY24 when it was known that there was a collapse in international student numbers (deposits through to January 2024 and actual recruitment of PG International). There have been assertions that PRG was not rejecting many requests as some ‘pre-filtering’ had already taken place i.e. reducing / deflecting the number of requests to PRG from Schools and Directorates and only putting forward appropriate cases. Whether or not this occurred is a moot point as the empirical evidence is that PRG was maintaining a workforce and enabling recruitment aligned to out-of-date forecasts at a time when income was reduced resulting from a steep decline in international student enrolments (see Questions 1 and 2).

There was a significant capital expenditure planned spend (a fact highly visible to the senior leadership including the Principal, DVC, COO) and no triangulation of costs. Importantly, the DVC and COO sat on both PRG and the CSG and rotated Chairing of these two groups. The finance team, led by the DoF, did not display appropriate control of the University’s finances. It is notable that this went unchallenged by the Principal, Committees of Court and the Court itself.

There were significant cash outflows in H2 of FY24 driven by the timing of operational out flows and capital expenditure (some of which was unplanned) and an approval processes that did not build a picture of the extent of the real cost of projects and where contributions were sourced (including the direct impact on the University).

This was exacerbated by a lack of systems within the Research Finance team to identify the timing of cash receipts and a flawed budget setting process that appears to have assumed pre-paid research funding would remain flat with no functioning in year checks and balances. The impact of getting this wrong was a c.£20m ‘black hole’ at the start of FY24 and a further funding gap at the start of FY25 of c.£12m, despite budgets being finalised relatively close to the start of the year (June).

There was a liquidity crisis and, but for the fact that pre-paid research income receipts had returned to historical levels (c.£27.3m) since January 2024, the University would likely have run out of cash sooner in FY25.

There were a lack of basic controls and information:

- ▶ Treasury management including monthly cash forecasting.
- ▶ Monthly testing for breaches of covenant (given the background of a waiver in FY23 and ongoing access to the £40m BoS RCF as part of the University’s liquidity).
- ▶ Management accounts prepared and sent to UEG throughout the year (absent for P7, 9, 10 and 11).

-
- ▶ Integrated Income & expenditure, balance sheet and cashflow management accounts; and
 - ▶ Capex considerations and cash need not considered, including the actual cost of Tay Cities to the University.

Whilst there was some challenge as to the lack of financial information flowing through by some members of UEG, individually and collectively the Principal, COO, DVC and DoF appeared to operate in isolation of facts (or, potentially, disregarding the facts) notwithstanding that they were aware (or should reasonably have been aware) of the critical factors impacting financial performance and cash e.g. the growth agenda, declining student numbers, PRG, and Capital Strategy Group ('CSG') commitments). The UEG did not interrogate the cumulative impact or challenge the forecasts set for FY24 contextualised by the reality of the Q2 FY24 outcome and direction of travel.

The UEG did not interrogate the cumulative impact or challenge the forecasts set for FY24 contextualised by the reality of the Q2 FY24 outcome and direction of travel.

Throughout FY24 there was a lack of adequate financial reporting through to UEG and, as a direct result, also through to FPC and Court. The reporting that did exist (UEG through to FPC and Court) was incomplete and there was of a collapse of financial governance.

FPC did not have all of the information necessary for sufficient oversight. Although Court was (and remains) the ultimate accountable body, for many Governors who also sat on FRC or ARC, this was simply a second missed opportunity to challenge the integrity and completeness of financial information.

On 12 September 2023 at the University Court meeting, Court was asked to delegate to the Convenor of FPC and the Chair of Court authority to approve the final terms for the extension of the RCF by 1 year. The paper was signed by the DoF.

A week later, on 19 September 2023, there was an email exchange between the DoF and Bank of Scotland setting out changes to the test of one of the covenants for the RCF such that it would continue to be available. It is not clear when, or indeed if, the DoF advised the Convenor of FPC, the Chair of Court or the Principal of the potential breach.

The test that was requested to be adjusted related to 'net operating cashflow to financial servicing costs (capital and interest)'; the result must be greater than 1.2. The DoF wished to add back two 'exceptional items' to the net operating cashflow. Without the add-back, and on a like for like testing as set out against forecast years in the FPC paper for the 17 October 2023 meeting, signed off by the DoF, the covenant test would fail (see below).

The exchange does not conclude on whether or not there was a breach as Bank of Scotland formally agreed not to test this covenant as part of the renegotiation of the RCF. The approval was advised by Bank of Scotland on 24 October 2023. This retrospective agreement does not change the fact that the test existed at 31 July 2023 and if tested, and no allowance made for changes to the test before 31 July, the RCF would fall away.

There is no record of this matter being explicitly drawn to the attention of FPC at its meeting of 17 October 2023 as a real or potential breach of covenant in the prior period (i.e. as at 31 July 2023), nor of the fact that there was an ongoing negotiation with the bank. At 17 October the DoF knew the agreement was not in place as did the Convenor of FPC and the Chair of Court (as neither had signed any papers as set out at Court on 17 September). The final agreement appears to have been signed by the DoF and witnessed, but this would not be known until after the meeting.

There is a lack of transparency in reporting to FPC. If this had not been resolved with a waiver of testing, the Bank would have the right to terminate the RCF.

A breach of covenant is a reportable event to the SFC required by the Financial Memorandum under the general overarching requirement to report as it puts at risk ongoing access to facilities (the £40m RCF); reporting should be done in real time.

The University (Principal, ARC and FPC initially) should have made more enquiries of the DoF at the time. If it had been deemed that there was a breach at the year end, this is fundamental to the ongoing availability of finance i.e. the continued availability of the £40m RCF. If the availability of the RCF is to be considered as part of going concern (it was referenced as available multiple times in the Going Concern paper), it must be available on demand. A formal monitoring system should have been implemented at the time and checked throughout the following year (in real time, not retrospectively) by either ARC or FPC.

For FY23 it appears that the DoF believed that there was no breach as he was presenting an argument to Bank of Scotland that if there had been a test, then the test would allow certain adjustments. This ignores the inherent risks of agreeing a retrospective waiver; the DoF's considerations are inappropriately informed by hindsight, and any such conversation should have been in advance of year end and not afterwards.

Court, and its Committees, were aware of a serious issue with regards covenants and the availability of the RCF but missed a number of opportunities to explore the detail. This 'near miss' should have triggered more enquiry both with regards July 2023 and systems for monitoring throughout FY24.

The above sets the context for FY24.

Whilst Paper 4 of the 17 October 2023 meeting covered going concern, the only schedules of testing were forward looking from 2023/24 onwards. On a like for like basis, using the draft financial statements that were part of the same meeting, the calculation would have been:

Table 4 - Covenant calculation FY23

£'000	Actual FY23
Net operating cash flow	415
Loan - capital repayments	1,227
Loan interest	196
Financial Service costs	1,423
Net OCF to financial services costs	0.3
>1.2x	Fail

Whilst the calculation was notably absent from the 17 October 2023 papers; any member of FPC could have readily performed the calculation which would have triggered a meaningful challenge.

Later in the same FPC papers, there is consideration of the 'Treasury Annual Review'. Noting that there was no minuted approval for not testing, the paper states that there are "*new streamlined covenants in place*". This was not the case either at the point of drafting the paper nor at the time of the meeting. The approval for not testing the covenant was advised by Bank of Scotland on 24 October 2023 and the formal legal agreement, the 'Covenant amendment letter', was not signed by the University until 20 November 2023.

Whilst the financial statements on the University's website (as of 19 May 2025) are unsigned, there is a statement on the balance sheet that "*The financial statements were approved by the Court on 21 November 2023 and were signed on its behalf on 19 December 2023*". It is correct that the RCF was in place prior to Court approving the Financial Statements (ultimately supporting going concern assertions) but not at the time FPC or Court were making decisions on the FY23 accounts.

At the ARC of 24 October 2023, the section on going concern states specifically that University Management has assessed the RCF and includes a statement that "*At the balance sheet date, the University had access to a £40m Revolving Credit Facility (RCF) with the Bank of Scotland. This RCF has never been drawn since its initial agreement in 2016. The RCF has been renewed since the balance sheet date and is now in place until October 2026*". This statement is not true as the renewal was not yet in place and the waiver of the testing of the covenant not agreed.

There is no record of challenge at ARC or FPC on the covenants. The overlap of attendees should be noted as at UEG level, it is also noted that the Convener of ARC attends FPC and the Convener of FPC attends ARC. A similar scenario occurs after the year end in 2024, though the outcome is less favourable.

On 4 October 2024 the DoF emailed BoS (copied to a member of the Finance team) and asked for consideration of "not introducing" the 'net operating cash to service costs' as it was known then that the test would not have been met as at 31 July 2024. Whether or not it was known at the time, it appears that a second covenant test would also fail. It is not known whether the DoF was aware of the breach sooner than 4 October, though all covenants should have been monitored throughout FY24 and not left until FY25.

At the 22 October 2024 ARC meeting, the paper on covenants states: "*At the balance sheet date, the University had access to a £40m Revolving Credit Facility (RCF) with the Bank of Scotland. This RCF has never been drawn since its initial agreement in 2016. The RCF has been renewed since the balance sheet date and is now in place until October 2026*"

This statement is untrue. The paper was "*prepared by the [members of the Finance Team] and reviewed and approved by UEG and FPC*". The members of the Finance team were present at the ARC of 22 October 2024.

There is no mention in the papers of an issue with covenants or of any open dialogue with BoS. At that point the member of the Finance team was fully aware that there were potential breaches, and the implication the RCF would not be available.

There is no record of challenge at ARC or FPC on the covenants. Neither member of the Finance team (who were both present) are on record of bringing it to the attention of FPC. Neither member of the Finance team (who were both present) are on record of bringing it to the attention of ARC. While the DoF and members of the Finance team are not members of ARC or FPC, they could have, and should have, raised this matter.

There was no dialogue with the SFC in October 2024 with regards covenant breaches in 2024 and the RCF being at risk. The breaches should have been reported to the SFC immediately on recognition. The breaches should also have been reported to the Principal, Convenor of APC, Convenor of FPC, University Secretary and Chair of Court.

The email trail remained unresolved through to the inclusion of the IDoF on 11 November 2024. Ultimately, the University has no bank RCF facility which remains the case as at 30 May 2025.

There is a lack of clarity through UEG and papers through to Court with regards the value of the reversal of the USS deficit recovery provision.

- ▶ In the FY23 financial statements the actual provision is £80.316m.
- ▶ At UEG 13 March 2024, it is said to be c.£80m.
- ▶ At UEG 15 May 2024, within the management accounts pack for Q2 (which went from UEG to FPC and Court) the amount is £74.18m; and
- ▶ In the latest draft FY25 financial statements that we have seen, there is a note that £2.428m was “utilised in the year” and there is a net release of £77.888m,

To agree back to the 1 August 2023 opening balance of £80.316m, there has to be a net difference of c.£3.7m. Logically this ought to relate to staff costs and an understatement of £3.7m masking core costs. This is not however the main issue; the anomaly is readily apparent in the Appendix to the forecast papers as it is a different number to the one in the FY23 Financial Statements. It appears no queries were raised or reconciliations requested. If they had, we consider that the quantum and interrelationship with the staff costs would have become readily apparent.

It is reasonable to question why a number of significant matters went without appropriate challenge e.g. the release of the USS provision (an element of which understated actual staff costs) and the use of Betterments as these link directly through to the ability to deliver staff cost savings.

Question 10: The extent to which any current or former member of the executive of governance structures sought to suppress information about the magnitude of the financial situation

Summary

Whilst there is circumstantial evidence that some financial information was prepared but not circulated to relevant stakeholders (UEG, FPC, ARC and Court) in FY24, there is insufficient corroborated evidence that any current or former member of the executive or governance structures actively sought to suppress information about the magnitude of the financial situation.

Question 11: The extent to which any member of staff felt unable to raise concerns of the magnitude of the financial situation

Summary

In our view, UEG Executive leadership (Principal, COO, DVC and DoF) did not cultivate a culture of openness and challenge at all levels. Consequently, there was no realistic forum or encouragement for member of staff to raise concerns other than to the Chair of ARC or the Chair of Court. This could be daunting and is not known to have happened.

Staff concerns were not raised through the University's whistleblowing process.

Whilst a number of members of staff were concerned about aspects of the financial situation, very few had visibility across all areas. The culture of the University, see response to Question 16, did not assist in this but was not the root cause.

Detail

The magnitude of the financial situation was visible to an informed reader of the H2 summary and subsequent forecasts. The Betterment of £8m was a clear indication of the gap between performance and budget, but the University did not take decisive action. We consider that a 'standard' reader would quickly appreciate the issues with the minimum of enquiry.

Through the evidence gathering part of this investigation, speaking to staff and reviewing papers both directly from the University and from emails and representations sent to the 'BDO enquiries' email address, it is apparent that there were some significant concerns amongst staff in the University. The concerns were in relation to income, expenditure and capital spending but the true picture (including cash outflows and treasury management) was never put together in one place.

The 'hubris' referred to in Question 16, contributed to the lack of consideration and 'University-wide' view. Concerns were voiced to members of the UEG. Some members of the UEG were vocal and expressed concerns as to the drop in student numbers; most did not have visibility of the whole picture and could not reasonably see it from the limited information they had.

Concerns regarding University finances were not raised through the whistleblowing policy which states:

4. *To whom should a disclosure be made?*

For members of staff:

4.1. *In the first instance, you can blow the whistle by contacting your line manager.*

4.2. *If you do not feel that it would be appropriate to blow the whistle to your line manager, you can contact any of the Responsible Officers set out in the Annex.*

4.3. *In exceptional circumstances, where you feel it is inappropriate to contact your line manager or the Responsible Officers, you may blow the whistle to the Chair of the Audit Committee Committee or the Chair of the University Court.*

4.4. *For the purposes of clause 4.3, "exceptional circumstances" would be judged on the particular circumstances. However, to aid you the University would consider this test to be met if you had a reasonably held belief that disclosing to a line manager or the Responsible Officer(s) would result in (i) you being treated unfairly if you made the disclosure as prescribed; (ii) your disclosure would result in the destruction or concealment of information about your concern, and/or (iii) you have previously disclosed the same or very similar information and no action was taken.*

Responsible Officers

1. *Any UEG member serving from time to time*
2. *Directors of Professional Services*
3. *Deans of Schools*
4. *School Managers*
5. *DUSA Executive*
6. *Trade Union Representative of the recognised Trade Unions of the University*
7. *Chair of the Audit Committee*
8. *Chair of the University Court.*

This also brings to light a conflict.

The University Secretary is also the COO. The University Secretary has a clear duty to the Court and a clear duty to the Principal, the University's Accountable Officer. A whistle-blower may well be concerned of the objectivity of the COO on such a matter as financial performance. The COO de-facto was responsible for communications and oversaw the budgets of all Directorates. He also sat on PRG, CSG and UEG (amongst other groups). In short, the COO was at the centre of many parts of the financial management of the University.

Under the Scottish Code of Good Higher Education Governance 2023:

“The Secretary to the governing body must be appointed to that post by the governing body and, in carrying out the role of Secretary to the governing body, must be solely responsible to the governing body. When dealing with governing body business, the Secretary must act on the instructions of the governing body itself.... The Secretary to the governing body must have a direct reporting link to the Chair of the governing body for the conduct of governing body business (i.e.. agendas, papers, minutes, etc.) and must be available and accessible to all members of the governing body.... The Secretary to the governing body must draw to the attention of the governing body any conflict of interest, actual or potential, between the Secretary’s administrative or managerial responsibilities within the institution and responsibilities as a Secretary to the governing body. If the governing body believes that it has identified such a conflict of interest itself, the Chair should seek advice from the Principal but must offer the Secretary an opportunity to respond.”

From September 2023 there was increased concerns amongst staff as to how the budgets were being managed and the impact of the poor September recruitment (at the time estimated at c.£15m below budget). We note here the ‘tone from the top’ from the Principal which was one of growth and being in a better position than others.

From January 2024 there was increased concern and some uncertainty about the financial state of the University. The University was continuing to spend (e.g. capital expenditure, new posts) and the 28 February 2024 speech by the Principal highlighted that the University was: “moving into surplus” and that “We are already in a better position to focus on how we thrive rather than just survive”.

In our view, UEG Executive leadership (Principal, COO, DVC and DoF) did not cultivate a culture of openness and challenge at all levels. Consequently, there was no realistic forum or encouragement for member of staff to raise concerns other than to the Chair of ARC or the Chair of Court. This could be daunting and is not known to have happened.

Governance & Oversight

Section 4

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Question 12: The extent to which UEG and Court and their committees and groups were aware, could have been aware and should have been aware of the worsening financial situation

Summary

UEG, Court and their committees and groups should have been aware of the worsening financial situation as early as December 2023 and certainly no later than March 2024. There were multiple opportunities afforded to UEG, FPC and Court to establish the position.

13 March 2024 is a point at which UEG should have been more critical of the underlying financial position and provide challenge. It is incongruous to its role that there were no requests from the UEG for P7 accounts to be produced as a matter of urgency and circulated as soon as possible. Instead, P7 management accounts were not produced as effort was directed to the forecasts. This was a point where the University had a chance of understanding the financial issues and taking steps to mitigate the FY24 outcome and plan properly for FY25.

The Principal could have been aware and certainly should have been aware at this point and taken appropriate action, which would have included advising FPC, ARC and Court.

There was a lost opportunity for the Chair of ARC (at the time) not to challenge the Betterment at any of FPC. Albeit that he was 'in attendance', notwithstanding this could have been done in advance of the meeting with the Chair or in ARC or as a Member of Court.

There are a number of people (referenced earlier in the report in Question 6) who were aware of the 'savings opportunities' built into the FY25 forecast who could have made this transparent to FPC and / or Court but did not.

FPC did not react to the signs in the 24 May 2024 meeting and associated papers. These papers were then sent to Court and Court also missed the same opportunity at the meeting on 10 June 2024.

The Principal should have made it clear that in order to achieve an £11m deficit in FY25 this was after additional savings of c.£23m. Consequently, neither FPC nor Court were in full possession of all matters impacting the 2024/25 forecast.

The Principal chaired the UEG on 24 April 2024 and was member of both FPC and Court. He is not however the only person who should have raised concerns.

Detail

The timeline and papers from October 2023 onwards provide a backdrop to the awareness (or otherwise) of a worsening financial position. At each date, it is worth considering what was known, and by whom, and what cumulative and corroborating awareness there was. This builds over time.

At FPC 17 October 2023, a number of members of UEG (see below), all Members of FPC and 12 Members of Court at the time (including the Principal and FPC Members) were aware that the University had covenants connected to its RCF.

Agenda item 3 addressed 'Financial Review of the Year' and included a statement that "*Covenants were renegotiated in 2021 at renewal and there is sufficient headroom against these*". Agenda item 4 addressed 'Going Concern Review 2022/23'. Part of the papers for item 4 were full page covenant testing schedules (3 full pages) on the Bank of Scotland covenants relating to the £40m RCF.

Present [Members of the Committee]:

- ▶ Amanda Millar (Acting Convener);
- ▶ Glenn Allison;
- ▶ Alan Bainbridge (online);
- ▶ Professor Sir Mike Ferguson;
- ▶ Professor Iain Gillespie* (Principal & Vice-Chancellor);
- ▶ Professor Linda Martindale;
- ▶ Ron Mobed (online);
- ▶ Nyasha Mutembwa (DUSA President); and
- ▶ Professor Garry Taylor

The five people with an '**' were UEG members at the time.

In Attendance:

- ▶ Tricia Bey (Deputy Chair of Court);
- ▶ Peter Fotheringham* (Director of Finance);
- ▶ Rose Jenkins (Director of Estates & Campus Services)(online);
- ▶ Dr Neale Laker (Deputy University Secretary)(items 1-3);
- ▶ Dr Jim McGeorge* (University Secretary & Chief Operating Officer);
- ▶ Professor Shane O'Neill* (Deputy Vice-Chancellor & Provost);
- ▶ Dr Alison Ramsay (Senior Policy Officer (Corporate Governance));
- ▶ Member of the Finance team; and
- ▶ Keith Winter (Convener of Audit & Risk Committee)
- ▶ Apologies: Carla Rossini (Convener of FPC)

Papers were circulated in advance of the meeting and all Committee Members and those in Attendance were sent a full set of papers.

Each of the above individuals were sighted on the University having a range of covenants that had to be met in order for the RCF to remain available to the University. UEG, ARC and / or FPC should have been aware and should have requested documented assurance on the ongoing status of the covenants. This should have been provided, as a minimum, at the financial quarter ends and throughout FY24.

At UEG 18 October 2023, consideration was given to the September 2023 intake against budget targets. The paper notes matriculations of 169 international UG students against a budget of 298, and international PGT of 1,104 against a budget of 1,455. At this stage the report notes:

“International Semester 2 applications are 50% lower than at same point last year, though are higher than in 2021. We are focusing on conversion but given the decline in S2 applications and negative coverage of UK’s immigration policy changes, it is highly unlikely that we will meet S2 budget intake.”

The UEG 15 November 2023 considered ‘Student Intake Update’. The accompanying papers commented:

“Finance have calculated the financial impact to be £2.5-£3m worse than previously forecast. The full year financial impact of not meeting budget intake is therefore around £15m.”

The UEG 7 February 2024 included a review of P5 management accounts in which £8m of “additional savings” are introduced in order to meet budget. This is articulated somewhat differently as “no material movement to the overall forecast”:

“Whilst there has been no material net movement to the overall forecast for the year, the forecast does assume that additional savings will be delivered. There is a reasonable degree of confidence that staff vacancy and slippage savings will ensure the majority of this is provided given analysis and trends evidenced in the year to date. Furthermore, analysis of Directorates provides assurance that additional savings aligned to this forecast are achievable. Finally, savings across Schools are anticipated with a particular focus on slippage of additional investment in staffing.”

These additional savings become Betterment at P6 (Q2) and then are allocated to Schools and Directorates following P8 (see below). At this point, the University is projecting a break even against the initial forecast of £7.6m surplus.

The operating deficit (year to date) at Q2 is £15m against a budget forecast of £4m at this stage; as there are ‘only’ £8m of additional savings, it is implicit that the second half of the year will pull back a different spend profile recovering the other £7m. This appears to have gone unchallenged.

UEG 13 March 2024, P6 / Q2 Management accounts are tabled at the end of the meeting for 15 minutes consideration (estimated timing). The accounts show the budget surplus of £7.6m reduced in the Q2 forecast to £0.1m. In order to get to £0.1m there needed to be new savings of £8m.

Given the significant change in Q2 actual to budget and insertion of £8m of savings, there are clear delivery risks. Risks include: cashflow and meeting year end covenants; the challenges in savings (no future fee income at this point as recruitment has ceased) and contingency planning.

13 March 2024 is a point at which UEG should have been more critical of the underlying financial position and providing challenge. It is incongruous to the role of UEG that there were no requests for P7 accounts to be produced as a matter of urgency and circulated as soon as possible. Instead, P7 management accounts were not produced as effort was directed to the forecasts. This a point where the University had a chance of understanding the financial issues and taking steps to mitigate the FY24 outcome and plan properly for FY25. The Principal could have been aware and certainly should have been aware at this point and taken appropriate action, which would have included advising FPC, ARC and Court.

UEG 15 April 2024, P8 management accounts are included. The £8m at P6 changes description and becomes Betterment. It is an unallocated total below specific Schools (£5.5m) and Directorates (£2.5m). There is no ownership below the Principal, the COO and DVC (Directorates and Schools respectively). The running deficit was then £13.6m and the University was forecasting a year end surplus of £0.1m. In the five-year plan, FY24 is updated and includes a Betterment of £5.5m in Schools and £2.5m in Directorates, as is a FY24 year-end cash balance of £44.6m (i.e. inclusive of the Exscientia monies).

Any probing at this point should reasonably have highlighted not just the issues in the FY24 budget but the underlying financial exposure in the FY25 as well (and further years).

On 22 April 2024 a ‘Message from COO to Directorates and DVC’ was circulated to Schools:

“From the Finance Team’s latest review of our Period 8 results, it appears highly unlikely we will deliver a breakeven position without further action... A savings target of £[xx] has been identified for your School.”

This was the point where the Betterment being carried at Q2 of £8m was allocated to Schools and Directorates. The allocation was not challenged with either rigour or curiosity and ran contrary to the messaging seen in the last few months in the University i.e. a growth agenda.

The UEG 24 April 2024, in considering the FY25 budget, noted that there were a number of “Savings opportunities incorporated in [sic] draft budget”. These amounted to £23.3m. The draft budget for FY25 at this point is a deficit budget of £9.4m. If the savings were not met, this is in effect a draft budget for a deficit of £32.7m.

This is one of the critical meetings in understanding what was coming in November 2024. At a basic (deliberately non-complex) level: If opening cash is likely to be c.£45m, capital projects are ongoing and there is a budget exposure of £33m. that would leave working capital of just £12m before capital expenditure. The £40m RCF is highly likely to be needed, and it was widely known that the University has a number of covenants attached to the RCF.

In the papers for FPC on 2 May 2024 there is a FY24 balance sheet at Appendix 5. This clearly shows projected Cash of £45m and Investments of £32m. As at 1 August 2023, £30m of the investments was Endowment assets (i.e. definitely not related to Exscientia). It is clear from this that the ringfenced monies will have been expended or blended into the general cash held by the University as at by 31 July 2024.

The UEG 15 May 2024, considered forecast operating surplus (net of Tay Cities) for FY24 of £0.1m and forecast deficit in FY25 of £11.2m. The narrative on the incorporated savings has been lost.

The paper on budgets and forecasts notes:

“Following approval by UEG, the budget proposal will be shared with Finance & Policy Committee on 21st May and Court on 11th [sic, actually 10th] June”

The paper was approved. The paper then went to FPC.

At FPC 21 May 2024 the budget papers were considered. Critically, there is a paragraph drawing attention to inbuilt savings to support the £11.2m deficit budget:

“Underlying costs are lower than previously assumed - this is both as a result of improved pension costs and a managed reduction in budgets available to all schools and directorates as a consequence of lower student numbers and income. An element of cost reductions will flow directly from lower student numbers, whilst other cost saving will be required from discretionary budgets and not recruiting additional staff as previously assumed.”

Nowhere is it mentioned that these savings amounted to £23.3m. Whilst some could have been eliminated, moving the planned deficit from £9.4m to £11.2m i.e. increase the deficit by £1.8m and reduce the savings by the same amount, this highlights the issue of ‘in-built’ savings of £21.5m.

The balance sheet and cashflow (part of these papers) show cash at year end of £44.6m (i.e. **inclusive** of the Exscientia monies).

The Minutes of UEG, FPC and Court record the following attendee overlap (i.e. attendance at two or more of UEG 15 May, FPC 21 May and Court 10 June 2024):

- ▶ Principal* (UEG, FPC and Court)
- ▶ DoF (UEG, FPC and Court)
- ▶ COO (UEG, FPC and Court)
- ▶ DVC (UEG, FPC and Court)
- ▶ Director People (UEG and Court)
- ▶ Deputy University Secretary (UEG and Court)
- ▶ Director of University Executive and Strategy Office (UEG and Court)

‘**’ Note the Principal is Chair of UEG and member (rather than ‘attending’) of both FPC and Court.

For completeness, we note that the Senior Policy Officer (Corporate Governance) attended, as minute taker both UEG and Court but had a direct reporting line to the COO in his role as University Secretary.

There are several people (see above) who were aware of the ‘savings opportunities’ built into the FY25 forecast who could have made this transparent to FPC and / or Court but did not.

The University operates a practice of the Chair of FPC being in attendance at ARC meetings and the Chair of ARC being in attendance at FPC meetings. Each would receive the full papers for ‘the other’s’ meeting.

There was a lost opportunity for the Chair of ARC (at the time) to challenge the Betterment at any of FPC (albeit he was ‘in attendance’ but this could have been done in advance of the meeting with the Chair) or in ARC (thereby demonstrating professional curiosity and questioning the £8m of savings) or as a Member of Court.

Given the overlap of Members and attendees at FPC and ARC, this should also have ignited challenge at ARC.

The Principal should have made it clear that in order to achieve an £11m deficit in FY25 this was after additional savings of c.£23m. Consequently, neither FPC nor Court were in full possession of all matters impacting the 2024/25 forecast.

The Principal chaired the UEG on 24 April 2024 and was member of both FPC and Court. He is not however the only person who should have raised concerns.

On 2 July 2024 there is a clear realisation of a significant gap in the FY25 forecast. The DVC and COO (mirrored emails) wrote to Schools and Directorates advising (respectively):

“Since the budget submissions were made in late March, much has happened in the sector which has resulted in changes to some of the key underlying assumptions in the budget particularly around student recruitment. Following the recommendations from the Student Numbers Planning Group, our international open recruitment is now budgeted to reduce by 25% in year 1 and be flat in year 2...The change in tuition fee projections alongside the first version of the budget submission led to a projected deficit of close to £40m in 2024/25. As I have discussed with you, the scale of the deficit has necessitated significant actions affecting all of the need for £40m of savings.”

This is three weeks and one day after the meeting of Court at which the Principal, COO, DoF and DVC were present. Notably the VP International, as early as April 2024, was forwarding the position that the downside OPGT scenario was more likely to be -35%. the actual outcome was c. -50%.

At no point in July, August or September does there appear to be communication with the Chair of ARC, Chair of FPC, Chair of Court or the SFC about the scale of the issues.

On 15 August 2024 an email was sent out on behalf of the COO, DVC and DoF to all Deans and Directors. The “Budget update” including “identified savings” which were required to reach the £11.2m deficit of:

Table 5 - Breakdown of “identified savings”

	£m
Schools total savings	10.7
Directorates total savings	7.6
Central savings	6.0
Total savings	24.3

The note ended with the following statement:

“It is proposed that these changes to Schools and Directorates budgets are allocated post confirmation of the September intake and with an updated forecast of the likely January intake. This will enable a better assessment of the impact on Schools and Directorates and an allocation of the total budget adjustment that better reflects the actual outcome. The numbers in Appendix 3 should be used as a working assumption by each School and Directorate in the meantime.”

From September, the University entered its “annual report preparation and signing” cycle.

In the FPC of 10 October 2024, one paper recognises the downturn in student numbers against forecast: a drop in S1 enrolments for all students of 690 of which 436 are international. The paper attributes a loss of income of £11.0-£12.1m dependent on S2 recruitment. The paper also notes that the FY25 budgeted outcome is already behind.

There is no note (or minuted challenge) of the ‘built in’ £23m of savings already in this budget. It follows that to achieve a revised operating deficit of £14.7m, savings of a minimum of £30.5m are needed. The FPC minutes do not record consideration of the inbuilt additional savings, nor do they record the £11.0m to £12.1m of savings needed driven by S1 recruitment. Although Court is not directly sighted on this, there is a significant overlap of membership at FPC and those attending with the Membership and attendees at Court on 12 November 2024.

From this point onwards there is an unravelling of the forecast position for FY25 and further affirmation that budgets are being missed.

Question 13: The extent to which any reasonable person could have reached a judgement on the basis of the information provided that the University's financial position was worse than presented in the reports provided to UEG, Court and their committees and groups

Note

In terms of what was provided to UEG, FPC, ARC and Court (being the most relevant meetings), the timeline and content of relevant papers is detailed in the response to Question 12 and is not repeated here in detail. Cross references to dates are made.

Summary

The objective standard of a 'reasonable person' is nuanced in the context of this matter as the only people who could have reached judgements on the financial position were either University Executive members or Members of Court.

At any point between March 2024 and September 2024 a reasonable person could have reached a judgement on the basis of the information provided that the University's financial position was worse than presented in the reports provided to UEG, Court and their committees and groups. This was well in advance of the announcements in November 2024.

In the elevated case (see below), there are multiple (further) points where a reasonable person could have reached a judgement on the basis of the information provided that the University's financial position was worse than presented in the reports provided to UEG, Court and their committees and groups.

Detail

The objective standard of a 'reasonable person' is nuanced in the context of this matter as the only people who could have reached judgements on the financial position were either University Executive members or Members of Court.

Base case

Taking this at face value, a reasonable person would have an open mind and be both constructively challenging and curious. Whilst reading a balance sheet and income and expenditure account may not be second nature (as it would for a qualified accountant), they would be able to challenge budget deficits, understanding the financial impact of falling student numbers.

A reasonable person would have read the papers before going into meetings (albeit many papers are circulated late) and noted 'oddities', exceptions and matters requiring explanation or clarification for discussion.

From 13 March 2024 to 10 June 2024, Betterment runs through the papers and meetings. Betterment is a novel term and rarely (if ever) seen in higher education. A conversation on Betterment also opens enquiry by the reasonable person: "if Betterment is in this set of numbers (FY24), why is it not in that set of numbers (FY25)". The FY24 budget and outturn and FY25 forecast pack progress from UEG through to FPC and through to Court.

On the detail for FY24, curiosity should have given rise to challenge (and at any of UEG, FPC or Court) to the £5.5m Betterment in Schools and £2.5m in Directorates. These are significant and prominent values sticks. The USS pension adjustment is equally prominent noting that the adjustment of £74m does not match the £80m adjustment in the prior year accounts; begging the question as to why not.

A number of University Executive members or Members of Court saw these numbers on multiple occasions.

At face value, the University's papers highlight significant assumptions in forecasts against budget (e.g. the £8m Betterment). This should have been challenged at the time as an unallocated 'balancing figure' to achieve what was a notional surplus or break-even.

The curiosity of one person, whether at UEG, FPC, ARC or Court, is the catalyst for another member to ask a related question that often goes to the core issue. The absence of curiosity and challenge promoted a culture of unquestioning acceptance of finance papers.

It was well known in the University that recruitment had fallen significantly in January 2024 and there was visibility on the downside impact on income.

The absence of P7, P9, P10 and P11 management accounts should have been of considerable concern, and a reasonable person should not have accepted this status. A conclusion that the financial position was worse than presented was a reasonable conclusion i.e. if the Finance Team could not or would not provide information on a timely basis, this is an indication of either a fundamental breakdown in financial management and governance or a sign that something is not being fully disclosed.

Through July 2024 to September 2024 there were significant indications in the University and flowing through (directly or through absence) UEG that £40m of savings needed to be made (all UEG members would have been aware of the emails from the COO and DVC). At any point between March 2024 and September 2024 a reasonable person could have reached a judgement on the basis of the information provided that the University's financial position was worse than presented in the reports provided to UEG, Court and their committees and groups. This was well in advance of the announcements in November 2024.

Elevated case

The Scottish Code of Good Higher Education Governance (2023) sets out a number of relevant matters:

The governing body has ultimate responsibility for all the affairs of the institution and must ensure that there are appropriate arrangements for financial management.

The preamble to paragraph 16 states that: *“The governing body must have a balance of skills and experience among its members sufficient to enable it to meet its primary responsibilities ...”*

At Para 54 it states that: *“Induction should cover the governing instruments and governance framework of the institution including this Code; the role of a trustee; separation of governance and executive functions;... relevant financial knowledge and skills”*

Whilst the Code does not address the application of such knowledge and skills, it is implicit that there is an expectation that members with skills and experience in finance apply such skills in a meaningful way. It is not unreasonable to expect a particularly highly qualified or experienced Member of Court to exercise a higher level of skill and expertise than would otherwise be expected of someone without those skills.

Drawing on the University’s information about the primary responsibilities of the Court (updated 27 January 2023), the primary responsibilities of Court include:

- ▶ *“to oversee the management of all of the revenue and property of the University and to exercise general control over its affairs, purposes and functions, taking all final decisions on matters of fundamental concern to the institution;*
- ▶ *“to approve financial strategies, long-term business plans and annual budgets for the University and to ensure its solvency and safeguard its assets;”*

In terms of financial literacy (at Court or Executive), an accountancy qualification would certainly increase the expectation of an individual’s expertise. In terms of Executive, the assessment of ‘reasonable’ should be made against the job description, effective role and responsibility for financial matters.

The Principal is rightly singled out as ‘Accountable Officer’. The SFC Financial Memorandum states that the Principal is *“accountable directly to the governing body for the proper conduct of the institution’s affairs”*.

In this elevated case, the assessment of financial information is a requirement. We comment that none of the University’s financial information is overly complicated for someone experienced in the sector or significantly different to that of another University.

The role of covenants and RCFs is well understood as is the inter-relationships of operational expenditure, capital expenditure and cash. The underlying issues were clear as early as March 2024 and no later than June 2024 (when the FY25 forecasts were signed off).

In the elevated case, there are multiple (further) points where a reasonable person could have reached a judgement on the basis of the information provided that the University’s financial position was worse than presented in the reports provided to UEG, Court and their committees and groups.

Question 14: Whether any of the UEG, Court and their committees and groups failed in their executive or governance responsibilities to act soon enough to respond to the worsening situation

Summary

UEG as a group failed throughout the latter part of FY24 to properly respond to the worsening situation and collectively failed to make appropriate disclosures under the Nolan Principles to FPC and Court.

FPC failed in its reviews of FY24 forecasts for FY25 (21 May 2024), and again at its following meeting on 10 October 2024. There was no unexpected event or culmination of unexpected events beyond those impacting the sector as a whole. The University was not 'different'. This was an embedded issue and was reasonably foreseeable in May 2024.

Court failed in its governance responsibilities in June 2024.

The failure of the University's financial governance system was self-inflicted and experienced multiple times and at multiple levels. This led to a failure in identifying the worsening situation and not responding early enough.

Detail

UEG's members included the Principal, COO, DVC and DoF, each of whom was aware in part or in totality of the worsening situation (though not documented as such through UEG).

The Principal was responsible for the proper conduct of the institution's affairs; the COO and DVC were responsible for PRG and CPG as well as having line responsibility for Directorates and Schools respectively. The DoF had oversight of all aspects of finances at the University (income and expenditure, balance sheet and cashflow). Collectively and individually each of these members of UEG had, or should have had, high visibility of the ongoing situation. Other members of UEG had sight of some parts of the situation (predominantly income) but were not sighted on all.

The narrative in UEG was that P7 management accounts were not produced as the Finance Team was concentrating on the forecasts. This is consistent with the timing of the work on forecasts but should not have negated their timely preparation. It appears that P7 management accounts were never produced.

P8 management accounts were produced and were reviewed by UEG. P9, P10 and P11 (April, May and June 2024) were produced in draft but never finalised into papers that would reach UEG. It is not clear why this happened or who decided that these papers would not be provided. Verbal updates were given by the DoF, without formal management accounts, from May to July.

The Chair of UEG (the Principal) did not prioritise these as a standing item nor put them on the agendas for relevant UEG meetings through this period.

The timeline and relevant references are further detailed in the response to Question 7 above.

UEG as a group failed throughout the latter part of FY24 to properly respond to the worsening situation and collectively failed to make appropriate disclosures under the Nolan Principles to FPC and Court.

FPC failed in its reviews of FY24 forecasts for FY25 (21 May 2024) and again at its following meeting on 10 October 2024. Greater scrutiny, challenge and curiosity should have been forthcoming and would reasonably have exposed the worsening situation. There was no unexpected event or culmination of unexpected events beyond those impacting the sector as a whole. The University was not 'different'. This was an embedded issue and was reasonably foreseeable in May 2024.

Court failed in its governance responsibilities in June 2024 effectively approving papers through without appropriate reflection. Members of Court have a personal responsibility as well as a collective responsibility and a number had sight of relevant papers through any of UEG, FPC and ARC yet did not 'speak up' in June.

The University routinely put papers through at short notice, both to UEG and onwards to FPC. The response to Question 12 highlights the timeline and multiple points of failure to acknowledge and challenge reports. As covered in more detail in the response to Question 9, the University's self-assessment was that papers to FPC were often only issued five days before meetings.

The failure of the University's financial governance system was self-inflicted and experienced multiple times and at multiple levels. This led to a failure identifying the worsening situation and not responding early enough.

Question 15: The degree to which any executive or governance failures since the Court meeting on 12 November 2024 have inhibited the ability to address the financial situation and work towards recovery

Summary

There is a failure of governance as Court Advisory Group (CAG) was not properly convened. It was also poorly constructed as it gives rise to an immediate conflict of interest for the Convenor of ARC for any objectivity of the ARC as he is part of the core group providing advice to UEG.

This conflict of interest was neither considered nor addressed.

ARC should have met and been sighted on the FY24 audit progression, the recovery plan from a risk perspective and be able to stand back from the Advisory Group and the Resilience Committee and consider the actions being taken (and inactions) relevant to the risks of the ongoing operation of the University.

ARC not only has a legitimate remit across these matters but, from a governance perspective, ARC's 'absence' through the period November to March falls far below expectations during a period of such turbulence. This should have been recognised by the Convenor of ARC, the COO (as University Secretary), from January 2025 by the Acting University Secretary and throughout November 2024 to March 2025 by the incumbent Chair of Court (noting the Chair of Court changed on 17 February 2025).

There are a number of instances where papers are not circulated in advance of meetings or are provided retrospectively, this is poor practice (regardless of the considered confidentiality of content and is contrary to the University Statutes). Good governance and considered decision making cannot happen in a vacuum and the Executive needed to work within the Court and Committee structure of the University.

Detail

Following the 12 November 2024 Court meeting, both the Convenor of FPC and the Convenor of ARC met with the UEG to discuss what steps were being taken to prepare a recovery plan. *'To prevent duplicate meetings'*, a Court Advisory Group ('CAG') was established in early December 2024 which met weekly with UEG officers, to offer the University guidance and advice in preparing a financial recovery plan. Frustration was felt by some Court members due to a lack of communication on progress. They recognised the plan was highly sensitive, and the priority was to develop a robust and credible recovery plan.

The Resilience Committee

The minutes of the Court meeting of 10 December 2024 report that since the Court's November meeting an *'Advisory Group'* comprising the Chair of Court, the Convenor of ARC and Convenor of FPC *'had been established to support UEG'* and had met twice. It appears that other Court members were unaware of this as *"Members sought to understand the situation that had arisen since the meeting of Court"*. There is a failure of governance as CAG was not properly convened. It was also poorly constructed as it gives rise to an immediate conflict of interest for the Convenor of ARC for any objectivity of the ARC as he is part of the core group providing advice to UEG. This conflict of interest was neither considered nor addressed.

The Chair proposed to Court, at the same meeting, establishing what became known as the *'Resilience Committee'*. There were no terms of reference provided. Court members expressed concerns about its composition, decision making powers, how it would report to Court and in what timescales. Despite their concerns, Court agreed to the establishment of the Committee. This is a failure of governance as Court did not know what they were agreeing to.

At an additional meeting of Court on 4 February 2025 (a meeting without an agenda or papers) the Chair advised that the Resilience Committee met once on 18 December 2024 (minutes were not supplied) and that a union representative had been added to the membership and that the Court Advisory Group had continued to meet weekly with UEG.

Court received the minutes of the first meeting of the Resilience Committee on 25 February 2025. It included the following membership:

- ▶ Amanda Millar (Convener)
- ▶ Glenn Allison (Convenor of ARC)
- ▶ Tricia Bey (Deputy Chair of Court)
- ▶ Manaswi Budhathoki (President of DUSA)
- ▶ Professor Linda Martindale
- ▶ Carla Rossini (Convenor of FPC)

Its objectives were:

- ▶ To ensure the development, delivery and implementation of a credible Recovery Plan to address the current financial situation of the University;
- ▶ To provide, efficient and effective oversight of the IPVC and UEG in respect of the Recovery Plan;
- ▶ To take such action as required to secure the financial sustainability of the University; and
- ▶ To generally oversee the transition in leadership of the University in the short term.

Its powers and delegated responsibility were:

- ▶ The powers of the Resilience Committee were noted as being to achieve the objectives set out in the Terms of Reference; and
- ▶ Use of these powers would be limited to achieving these objectives where decisions may be required at pace and then reported to the next meeting of the Court.

The membership of the Convenor of ARC on each of the Resilience Committee and the Advisory Group demonstrates poor governance. The Convenor of ARC loses independence and objectivity at a key time when ARC should be able to stand back and consider the risks of the University and advise on any actions that should be considered and any safeguards needed. ARC did not meet from 22 October 2024 to 12 March 2025 which shows poor governance practice as the ARC is a mandatory committee with a clear remit here.

ARC should have met and been sighted on the FY24 audit progression, the recovery plan from a risk perspective and be able to stand back from the Advisory Group and the Resilience Committee and consider the actions being taken (and inactions) relevant to the risks of the ongoing operation of the University.

Within its Terms of Reference ARC has, *inter alia*, the following duties and responsibilities:

- ▶ to satisfy itself that suitable arrangements are in place to ensure sustainability.
- ▶ to advise the Court on risks relating to the University strategy; and
- ▶ focus on risk and key issues.

Fundamentally the University's arrangements to ensure sustainability are moving rapidly. The University's strategy has moved from the position in November 2024, to a fundamental question of viability. This means that risks and key issues will have moved on considerably from the ones considered prior to the recognition of the financial situation.

Risks have moved from, for example:

- ▶ financial sustainability to short-term solvency and medium-term viability.
- ▶ cash modelling based on an assumed £40m RCF to no visible lines of finance other than from the SFC.
- ▶ national and international reputation (and impact on students (current and future) and staff; and
- ▶ redundancies which have different attendant risks and issues profiles relating to ongoing teaching and research and infrastructure (directorates) costs.

ARC not only has a legitimate remit across these matters but, from a governance perspective, ARC's 'absence' through the period November to March falls far below expectations during a period of such turbulence. This should have been recognised by the Convenor of ARC, the COO (as University Secretary), from January 2025 by the Acting University Secretary and throughout November 2024 to March 2025 by the Chair of Court. The Deputy Chair of Court was a Member of ARC.

ARC should act as '*the conscience of the University*' (a concept from the Committee of University Chairs Audit Code of Practice, 2020). ARC should be able to go 'where it likes' and 'how it likes' across areas of perceived risk in the University with a curiosity to open up, understand and assist Court from an objective standpoint.

In the Court's discussion of the Resilience Committee on 25 February 2025 it was agreed not to extend the life of the Resilience Committee at this time.

Development of the Recovery Plan

At the FPC meeting on 28 January 2025 the IPVC gave a presentation '*Reframing the University Strategy*'. The IPVC and Interim Director of Finance ('IDoF') presented on progress made towards the development of a financial recovery plan. The Court considered that the plan as presented was not at a sufficiently advanced stage to be presented to the Bank or SFC, needing work in key areas and further interrogation of the projected figures. Again, there was no paper to accompany the presentation.

Similarly, at the additional meeting of Court on 4 February 2025, Court was advised that "*the projected deficit had increased from £36.9m the previous week to £40m*". Members stressed the urgency of the cash position and need for additional savings. We note that PwC had been appointed to provide third-party assurance of the University's figures.

The minutes suggest there was another discussion on the progress of the Recovery Plan but the Investigation Team has not been provided with a minute of that discussion. The P5 FY25 management accounts presented to FPC the previous week were in an improved format to those previously presented. The forecast deficit had grown to £36.8m (excluding Tay Cities); forecast cash to a negative £2.1m and two of the three banking covenants would be in breach of the 31 July 2025 (albeit the RCF is currently unavailable).

At the Court Meeting on 25 February 2025, UEG report provided four paragraphs on the Financial Recovery Plan ('FRP') development progress - adding little to what was in previous minutes.

At the same meeting, rather than extending the Resilience Committee, Court agreed that "*following Court's approval of the Recovery Plan, weekly meetings of the Court would be held online*". These meetings would focus on the status of the FRP, receive updates on banking matters and the Financial Statements as well as understanding the University's position in relation to solvency.

At its meeting on 10 March 2025, Court received a further presentation on the FRP. The Court was not clear on what they were being asked to do:

“Court requested clarity on what was being asked of it in relation to the FRP. Members were advised that a paper on the FRP would be circulated to the Court following Principal’s Questions on 11 March but that further iterations of the FRP would be forthcoming prior to Court’s formal approval being sought.”

At the March FPC meeting the P7 management accounts were presented and another verbal update given on the FRP - again with no advance paper. A paper updating the recruitment position for the September 2025 intake was provided with context on performance in key markets. Its covering paper indicates that student intake updates are a regular item at FPC, until 2025 this was not evident from the papers the University provided to the Investigation Team.

As above, there are a number of instances where papers are not circulated in advance of meetings or are provided retrospectively, this is poor practice (regardless of the considered confidentiality of content and is contrary to the University Statutes) - good governance and considered decision making cannot happen in a vacuum and the Executive need to work within the Court and Committee structure of the University.

Other issues identified in the course of the investigation

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Question 16: Such other issues as may emerge from the investigation of the above and which contributed to the deterioration of the financial position

The single pervasive issue that emerged from the investigation was the extent to which cultural context and values in relation to leadership and governance contributed to the financial difficulties experienced by the University.

Data for this section of the report was derived from 18 submissions from a broad range of University staff to the BDO evidence repository, 28 information gathering meetings and formal meetings with individuals, a group interview with Trade Unions officials, reviews of Court effectiveness and observations made at the Townhall event on 1 May which was reported as being attended in person or online by c.400 staff and student representatives.

Summary

A summary of submissions made to the investigation include comments on: issues in the presentation, clarity and interrogation and understanding of financial data; inhibition in expressing opinions most especially dissenting views; leadership style promoting a positive narrative; lack of collaborative working at UEG; poor transparency with respect to decision making and information sharing; and limitations in the challenge from Court and in monitoring key performance indicators. However, there were individual and collective failures in the financial governance of the University.

A values-led University culture, which privileges transparency and accountability, is likely to actively support evidence-based collaborative decision making, integrity and openness to challenge and debate.

Cultural issues were not the primary cause of the financial collapse of the University of Dundee. Aspects of the culture of the institution as outlined below, may have facilitated or been associated with a lack of transparency and of the limited challenge to the prevailing discourse on financial matters.

Detail

Data driven decision making, integrity and transparency

This report documents the poor quality of financial information provided to the UEG and Court by the DoF. Adequacy in this aspect was not achieved. In this investigation the DoF reported that he was never unduly influenced by anyone on UEG in the preparation of accounts and reports on finance to UEG to Court and to SFC. He did note the need for more honesty in discussions around finance.

Notwithstanding this, information that was available was not routinely shared and communicated ‘down’ the University from UEG to Schools and beyond, in what was described as a “top down” hierarchical structure with few avenues for ‘bottom-up’ information and professional views to be relayed to the UEG.

It is therefore not surprising that many respondents thought communication and data driven evidence-based decision-making on cost control and spending was weak.

A perception that the key University decisions were made by a ‘triumvirate’ of the Principal, DVC and COO at their weekly meetings was prevalent, although the DVC and COO did not believe these meeting were pivotal to key decision making. There was nevertheless thought to be little transparency or inclusivity in relation to how decisions were made across the institution and the culture of empowerment outlined in the Strategy document was not perceived to be in evidence uniformly across the institution.

Listening, valuing people and working together

A considerable proportion of submissions from individuals from across the spectrum of roles in the University covering professional, administrative and academic positions, commented on the way in which dissent, or challenge was routinely ‘shut down’, particularly by the Principal who, we understand did not welcome difficult conversations. This was reported in Schools, Senate and UEG. It was suggested that this hindered open and honest discussion about finances and other matters in these fora.

Few dared to speak truth to power, although one member of UEG (VP (International)) is reported to have challenged the Principal in a variety of different settings. Female members of staff in particular, reported being spoken over, sidelined or discussed in public as being obstructive if they attempted to be heard and there were reports that the University policy on dignity and fairness was not upheld in a number of instances.

Leadership characteristics

It was noted by many individuals that the Principal, who was an excellent public speaker, tended to control the narrative to Court and elsewhere, consistently painting a picture that all was well in the University, highlighting the institution’s successes, working well with donors and external stakeholders, rightly praising the achievements of students and bestowing esteem upon the University by his election as Convenor of Universities Scotland.

There were however many reports to this investigation that the Principal frequently demonstrated hubris, or excessive pride in his role. Hubris is relevant insofar as it can be characterised by dangerous over self-confidence and complacency, often in combination with arrogance, contempt towards people who offer criticism and obsession with personal image and status. Additional comments were noted regarding the Principal’s overbearing leadership style, behaviours and dislike of potentially awkward confrontations or questioning and the potential adverse impact these factors may have had upon individuals and the overall culture of engagement within the University.

Governance

Many respondents, most of whom who were not Court members, queried why Court were not asking key questions about finances and suggested: lack of attention to detail at Court Committees; a seeming willingness to accept everything was going well; an unwillingness to challenge the Principal and UEG; and an initially difficult relationship between the Principal and the Chair of Court.

Court was not perceived by most respondents who mentioned it, to be a forum for detailed discussion and debate especially about financial matters which were assumed to be ‘fine’ because the Principal had consistently told them ‘all was well’.

Court was briefed orally by the Principal on the state of financial health of the sector and routinely and confidently advised that Dundee was “*bucking the trend*” and doing better than most. This optimistic picture of the financial health of the University was reported by Court members to be mirrored by the DoF, but discussions of the budget at Court were also noted to be perfunctory prior to 12 November 2024.

It is unclear whether Court members were aware of two key documents on the financial sustainability of Universities published by the SFC. The first of these important documents in March 2022 warned that the levels of growth in international fee income achieved by Scottish institutions in recent years was unlikely to continue and that cash balances were a key performance indicator. It has been noted by this investigation that the key metric of cash as a signifier of financial sustainability was not routinely monitored by UEG or Court.

The second report in January 2024 made it clear that the SFC expected Universities to be alert to the risks to the financial health of their institutions and have scenario and contingency plans in place to address them. Universities were furthermore expected by the SFC to constantly review the situation so that corrective actions could be taken rapidly as risks emerged. What does appear apparent from this investigation is that such considerations and preparations were not in place by the University or considered by Court earlier than 12 November 2024.

Court members noted that they were taken by surprise at that point that the £40m ‘ringfenced’ money from the Exscientia shares sale had been spent, that the cash position was extremely poor and that bank covenants had been broken meaning borrowing was impossible. They felt deceived.

Whilst this sentiment may be true, the analysis does not support it as there was information in the FPC papers of 21 May 2024 that show the monies were no longer ringfenced and formed part of year-end cash, forecast as £44.6m. These papers also went to Court on 10 June 2024 as part of the budget / forecast pack.

In the review of Court effectiveness carried out in July 2024 members did express concerns about the large savings required from Schools to deliver.

The FY24 budget and the term Betterment used in the paperwork was reported to be poorly understood by many Court members and others in UEG. The timing is interesting as UEG, FPC and Court had all agreed the budgets and forecasts in April, May and June 2024 without challenging the £8m Betterment that was included in the Q2 management accounts (and was part of the pack) at the time.

It could be inferred from these submissions that there were numerous concerns including: the presentation, clarity and interrogation and understanding of financial data; inhibition in expressing opinions most especially dissenting views; leadership style promoting a positive narrative; lack of collaborative working at UEG; poor transparency with respect to decision making and information sharing; and limitations in the challenge from Court and in monitoring key performance indicators. These factors, respondents felt, contributed to the failure to recognise and respond to financial problems in an appropriate and timely manner. However, there were individual and collective failures in the financial governance of the University.

A values-led University culture, which privileges transparency and accountability, is likely to actively support evidence-based collaborative decision making, integrity and openness to challenge and debate.

Cultural issues were not the primary cause of the financial collapse of the University of Dundee. Aspects of the culture of the institution as outlined above, may however have facilitated or been associated with a lack of transparency and of the limited challenge to the prevailing discourse on financial matters.

Scottish Funding Council

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Review of FY24 outturn and FY25 (and onwards) forecasts - June 2024

The forecast pack, including Q2 budget and outturn) was sent by the University to the SFC following the Court meeting of 10 June 2024. The same comments that are made in the report on the FY24 outturn (31 July 2024) of FPC and Court are equally relevant to the SFC review, albeit SFC officers will not have had the background information that UEG and Court members had.

This still leaves the £5.5m and £2.5m of ‘Betterment’ (see report) and a £74m USS adjustment (while expecting an £80m adjustment) unexplored. Investigating these matters at the time should have resulted in further detailed enquiry of current year performance and contingencies in FY25 - already a deficit of £11.7m but with an undisclosed £23m of budgeted savings within it.

Lessons that may be beneficial for the wider sector in Scotland

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Lessons that may be beneficial for the wider sector in Scotland

The responses to the Questions provide the opportunity for the University to learn lessons from the circumstances that led to the deterioration.

Standing back, the well-established Scottish Funding Council's Financial Memorandum ('FM') with Higher Education Institutions and the Scottish Code of Good Higher Education Governance in Scotland ('Scottish Code') are fit for purpose.

Whilst the University was obliged to comply with the FM, it did not. Whilst the Scottish Code provides a framework for adequate and effective management and governance arrangements, the University failed to operate effectively in practice (both governance and management).

There are a small number of general lessons:

1. The UEG, or equivalent, should actively consider and challenge the management accounts of the institution from a position of understanding of the totality of operations. There needs to be:
 - An integrated income & expenditure, cashflow and balance sheet.
 - Transparent cash reporting and cash management i.e. budgeted and allocated cash, unallocated operational cash.
 - Control and reporting of capital projects in a way that is not separate to or segregated from the whole university financial reporting; and
 - Transparent treasury management (especially if RCFs or loan finance is being used or is available);
2. Active and critical appraisal and challenge of the Risk Register;
3. Where there are obvious sensitivities (high risk rating) on student recruitment or financial sustainability, there should be regular updates to the Finance Committee (or equivalent) as a check and balance on budgets and forecasts;
4. Where there are loan or RCF covenants, depending on headroom these should be reported to UEG on a monthly or quarterly basis (in real time and based on the prior month's management accounts);
5. There needs to be a culture (in practice) of the validity and value of questioning at all levels in a way that is without fear;
6. The Chair of UEG (ordinarily the Principal) should be receptive to challenge;
7. Curiosity should be encouraged (and whether at UEG, ARC, Finance Committee or Court) - one person's 'innocent question' ("I don't really understand but...") is often a catalyst for another person and the engagement leads to a far richer understanding and potentially uncovering of risks and issues that are worthy of debate;
8. There should be clear and unambiguous early communication to Court and its committees regarding matters of importance to the whole university;
9. Minutes should reflect challenges and not bias. They should also make clear how decisions were arrived at;
10. Both the UEG and all members of Court should live the nine principles of public life;
11. The ARC should be able to stand back on any matter and review or enquire. The ARC should be the conscience of the University - the ultimate back stop for any matter.
12. The University of Dundee had a practice of the Chair of FPC 'in attendance at ARC' and the Chair of ARC 'in attendance at FPC'. This overlap can appear functional in theory but from a best practice perspective often falls over in practice. The respective Chairs can readily get sucked into the detail and, in particular, the Chair of ARC returns to ARC with a pre-set and (likely) biased view. ARC should retain an element of independence in the overall governance and certainly absolute objectivity - this is readily lost. Best practice would be for no overlap - there will be members of the Executive that do attend both and the different lenses are helpful;
13. In extremis, and it is seen (UK wide), institutions have a habit of forming a 'Committee of Chairs of Committees' or similar. In doing so, the Chair of ARC automatically loses their objectivity. The 'conscience of the University' is lost and objectivity over new and emerging risks can readily be overridden by a bias from prior (and detailed) consideration in a different context to ARC's considerations;
14. Papers must (not should) be provided in advance of meetings (and regardless of UEG, Court or its committees). Papers should be provided to give members time to read and consider in advance;
15. Papers should never be provided retrospectively, this is poor practice, regardless of the considered confidentiality of content - good governance cannot happen in a vacuum and the Executive need to work within the Board and Committee structure of the University;

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16. There are few instances in Scotland where the University Secretary (or equivalent) is the Chief Operating Officer of the institution, but this dual role can create conflicts of interest that are difficult to resolve in real time. While there will be a direct reporting line to the Chair of Court / Governing Body, there will also be a reporting line to the Principal. These two lines often work 'until they do not'. Care should be taken to ensure the primary responsibility is always to the Chair of Court;
 17. The FM could usefully be updated for 'responsibilities of the Principal' and in particular in the role as 'Accountable Officer' and the responsibilities of Chair of Court; and
 18. A values-led University culture, which privileges transparency and accountability, is likely to actively support evidence-based collaborative decision making, integrity and openness to challenge and debate.