



Deloitte.

Making the Grade 2015
The key issues facing the
UK higher education sector

Contents

Operating in a global market	4
Increasing costs and shifting funding	6
Rising student expectations	9
A demand and need for new technologies	12
Linking estates, strategy and the student	14
Attracting and retaining the best talent	16
Making research sustainable	18
Finding a clear way forward	20

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With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges.

Foreword

Since we published our last Making the Grade report, back in 2011, Higher Education has rarely been out of the news. Over the past four years we've seen dramatic changes to the source of funding for undergraduate courses, visa restrictions, and student number controls. The changes to higher education have left their mark on the country with protests, strikes and scars for political leaders. The common observation that the sector is going through a "period of unprecedented change" now seems more like a well-loved but now scratched vinyl that I have overplayed, but never tire of.



But through all this there has been a set of consistent challenges that the sector is continuing to grapple with. Back in 2011, we highlighted the emerging trend that *"rising tuition fees go hand in hand with increasing student demand and the as yet unforeseen impacts of higher education moving towards functioning as a market economy"* and *"companies are demanding graduates with different skills"*. These are no longer emerging trends but driving forces that are shaping the strategies of individual institutions.

In 2011 we identified ten key issues facing the global higher education sector. We've reviewed, assessed and updated these producing our view of the top seven which cover the themes of globalisation, cost, student expectation, technology, estates, talent and research. The diversity of the sector remains one of its strongest attributes and, as this report concludes, each institution must find their own, unique solution to these challenges. The biggest risk to UK HE is that everyone responds to these challenges in such a way that diversity is lost and the distinctiveness of each of our institutions is undermined.

Since the last report it would be fair to say that the sector, as a whole, has fared well. It has seen growth at a time when the rest of public sector (especially local government and further education) have seen significant cuts. But the challenges they faced then, and face in the future are going to become increasingly prominent.

Over the past four years our Education practice has helped Universities and other Higher Education Institutions address the challenges set out in this report and we, at Deloitte, remain committed to continuing to help providers succeed in an increasingly competitive global market. The key issues we have identified will be seen as major opportunities to grow and succeed by those institutions that will thrive over the next four years.

A handwritten signature in dark ink, appearing to read 'Julie Mercer'.

Julie Mercer

Global Industry Lead Partner, Education at Deloitte

Introduction: seven key issues

In 2011, Deloitte identified ten key issues facing the global higher education sector. Four years later and as a new parliament gets underway in the UK, it seems timely to re-visit these issues and set out what the sector must tackle in the coming months and years.

New challenges have appeared since 2011. Funding changes have transformed university revenue streams and demanded them to think even more innovatively than in the past. Rising student expectations twinned with the idea of 'student as customer' has come to the fore. On the other hand, income for universities has grown, and the new tuition fee has provided many universities with a more secure income stream than the rest of the public sector who have found themselves deep in austerity. Infrastructure and technology expenditure are still growing, the UK faces stiff global competition, and the same questions over how best to foster a shared vision alongside distinctive individual strategies continues to be asked.

Our analysis, based on observations across the sector and engagement with our clients, has identified what we see as the seven key issues facing the higher education sector in 2015 and beyond.

There are more than 150 higher education institutions in the UK. Each starts from a different position, each has different circumstances and budgetary pressures, different student bases and subject strengths. Some excel at research with places high up international league tables; others see their priorities in the local area and focus on teaching and learning. We are also seeing considerable focus on international opportunities with many universities seeking to enter new markets either physically or to attract ever-increasing numbers of students from overseas. Each institution will need to address these trends in ways fitting to them and their unique make-up.

The UK HE sector remains a global leader, punching above its weight and generating over £30 billion of revenue for the UK economy. To retain this position, to truly win the global race, it must work to not just react defensively to these challenges but grasp them, transforming and moulding them to its advantage.

Seven key issues facing the higher education sector in 2015 beyond



Operating
in a global
market



Increasing costs
and shifting
funding



Rising student
expectations



A demand and
need for new
technologies



Linking
estates,
strategy and
the student



Attracting and
retaining the
best talent



Making research
sustainable

Operating in a global market

The UK higher education sector makes up a significant part of the global HE industry. It operates and competes within an international market of institutions seeking to attract the best and brightest students, academics and staff from across the world, and must work to maintain and improve its reputation as a global leader by proactively engaging with the international market.



Performing well in a global context is crucial to the sector's success. It is one of the UK's leading export markets, and has been and remains a key asset of UK plc. It forms a significant revenue stream too. At some £3bn in 2012-13, income generated from tuition fees for international students is a significant contributor to the sector's top line. The sector holds an exceptional reputation, with more universities in the top 10, 20 and 100 higher education institutions than any other country aside from the United States. This comprises an attractive sector brand to market to the world's fastest-growing economies.



In a global economy, our domestic students also benefit from attending institutions that can offer a global perspective to enhance employability. Institutions should work to uphold, enhance and take this global reputation into new territory, drawing students from abroad where it makes strategic sense to do so. Each university is different, and some should look to do this to a greater extent than others; not every institution's student base and characteristics point towards global recruitment. Many have an important regional role to play. But with a rise in student numbers from overseas expected, universities are looking to internationalise their curricula and build or develop international strategies. This is possible through a mixed student profile or, for some institutions, a uniquely international one. Cranfield University, for example, drew 61 per cent of its intake last year from outside the UK.

Whichever route is decided on, organisations should identify how best to incorporate a global outlook into their current strategies in a way which both stretches and enriches their domestic approach and enhances their brand.

At Coventry University, a combination of more than 8000 international undergraduate students studying in the UK, alongside an international experience offer for all domestic students, is aimed at ensuring all students have a global education.

For some institutions, a pro-active outbound approach is viable. This may involve establishing international campuses, as the University of Nottingham has done in Ningbo, China, as well as the University of Central Lancashire in Cyprus. Risks come with such an approach, so advance planning, comprehensive benefit analysis and a robust business plan are imperatives. Other options to increase presence abroad include exchanges and strategic learning partnerships. The Open University Business School teaches 30,000 international students from more than 100 countries and its e-learning space provides global promise to institutions that may wish to follow.

There is not a one-size-fits-all approach when it comes to competing globally. Nor should there be.

It is for individual institutions to assess how best to approach the increasingly international context that the sector finds itself operating in. But each university should clearly understand and articulate its international strategy ensuring that it meets, links and is closely integrated with its wider mission and vision.

Increasing costs and shifting funding



In 2011, we asked ‘what happens when access to funds drops at the same time costs rise?’ In 2015, the UK higher education sector continues to face this financial quandary.

With rising student expectations and intense competition as students take on a larger financial burden for their studies, institutions need to invest in infrastructure, teaching and career support to attract students. Staff, teaching and learning costs are increasing rapidly. Funding sources have shifted from block grants to individual student loans which, with payments at intervals across the academic year, demand greater availability of working capital from institutions than before.

The sector has responded well to this challenge since 2011. HEIs have worked to cut costs; savings are twice the level they were in 2008, and though there is more to do, actual efficiencies have exceeded targets since 2007. There is a trend towards maintaining higher operating surpluses, with many institutions opting to save money rather than taking further risks.

As we move into this new parliament, the future of funding is uncertain. The Department for Business, Innovation and Skills has been asked to make £450m of savings, including from higher education budgets. Measures announced in the summer 2015 Budget indicate positive news for institutions with the fee cap set to rise with inflation for universities that demonstrate excellent teaching, though questions remain over what form the newly proposed Teaching Excellence Framework will take. The need to invest based on rising student expectations of employability continues too. For example, required investment to deliver Science, Technology, Engineering and Mathematics (STEM) subjects is higher than the maximum fee chargeable, and increasing demand for these subjects has restricted room for cross-subsidy. Rising staff and pension costs also continue to loom large for the sector.



Staff, teaching
and learning
costs are
rising fast

Without further transformation there is a significant financial risk for institutions as levels of expenditure start to outstrip growth in income. With the shift away from grant funding and the need for a greater level of working capital throughout the academic year, it is pressing that institutions hold well-considered yet flexible operating models, and a strategic link between their finance and executive functions. Organisations must continue to diversify their income streams. Cost efficiencies can also be found by integrating back-office functions, reviewing the curriculum offer and, where sensible, merging and consolidating campuses.

Overall, the sector must build on its success and transform further in order to fully offset the risk of financial failure. Each institution has its own mix of subjects, their own unique cost structure, and each will need to reshape its operating model in order to best direct spending, attract revenue, and reduce costs.

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Spotlight: diversifying sources of income



Further diversification of income is needed across the sector to respond to these funding challenges. As a proportion of the total, income from alternative sources remains static at 20 per cent. Universities need to look to earn their revenue in new ways, rather than too strongly rely on government funding. Ways to do this include:

- **Collaboration with private companies and providers** can reduce costs and improve efficiency. Coventry University has partnered with Unipart Manufacturing to deliver a state-of-the-art manufacturing and engineering department, and Royal Holloway has transformed part of its teaching costs by teaming up with Pearson. Nonetheless, resilient barriers to entry, including a lack of strategic alignment in many cases, present a challenge.
- **Alumni funding** is one avenue which the sector has explored successfully in recent years, although at levels still modest compared to the USA, and with significant variation across the sector. Funds raised from donors in the five years to 2012 were seen to have increased from £513m to £693m. Though alumni funding may be more natural territory for Russell Group universities, with more affluent student demographics and entrenched outreach infrastructure, more can be done elsewhere. With HEIs increasingly moving towards American-style 'telethon' campaigns and active engagement of critical relationships, it is important to understand the motivations and approaches that will attract this kind of support.
- **Bond issuance** is a viable option to raise funds, though remains difficult for lower-tier institutions to access. This has become particularly difficult with the increasingly standard use of pre-lending reviews.



Rising student expectations

Increasing the tuition fee cap has led to a focus on the student and their expectations in a way not seen in UK higher education before. Students are now paying more for their studies and expect a more lucrative return on investment, whether in academic quality, employability or the facilities offered to them. Only four out of ten students graduating in 2015 have felt they have received value for money – a striking view from the first cohort to have paid the full £9,000 capped fee for the whole of their studies.



Universities have had to pay close attention to a louder student voice. The National Student Survey is seen as one of the most important barometers for university performance. Universities are more dependent financially on the student than before, with a greater share of their revenue originating from student loans instead of block grants. These changes are illustrative of a shift towards valuing the student experience and the need to view and approach the student in a customer-centric way.

Tough expectations: Those who believe their course was not providing adequate value for money has increased (HEPI-EA Student Academic Experience Survey 2014)



2014: 33%

2012: 18%

Universities perform best when they understand the unique pattern of demand they face. Particularly relevant in light of the lifting of Student Number Controls, universities should work to understand their place in the market, the geographic make-up of their students, and the services, learning and teaching they want. Some attract large proportions of international students; others – like Loughborough University – often face a demand for continued extra-curricular and sporting excellence. Some institutions, such as the University of Salford or Kingston University, have a student base dominated by already local residents, whereas Queen’s University Belfast, as well as a number of other institutions in Wales, Scotland and Northern Ireland, have a highly national pattern of demand. Others attract adult learners, or those looking for vocational routes to employment. Mapping these patterns allows universities to best adapt their strategy to the context within which they operate.

Institutions need to stand out in the market. The sector is becoming more competitive and, in the 2015 summer Budget, the Chancellor announced that the sector would be opened further to new entrants. As competition intensifies and different groups of students call for different offerings, institutions must look to specialise. At its furthest point this may result in specialisation across the market, with universities offering a certain set of courses at appropriate prices. Already it makes sense for some institutions to build on their strengths in this way. For example, the London School of Economics or Imperial College London have phased out certain subjects in order to prioritise those in economics, mathematics and the physical sciences.

It's natural for every institution to want to have the best accommodation, the best lecture theatres, the best libraries. But to really stand out, universities have to distinguish themselves and find their own niche in the market

With these changes in mind university strategies must become more flexible in order to best attract students in a highly competitive market, assessing their position and mapping the customer segments most important to them. This is no easy task. Institutions will need to take difficult decisions on how to target those markets and have processes in place to best optimise those routes, as well as ensure they have the expertise and innovation required while working to overcome embedded cultural conservatism.

Spotlight: employability



Of young applicants to university, 77 per cent told UCAS in 2012 that they applied to university to improve their career prospects. Government and applicants alike increasingly and consistently see university attendance as a route to employment. Universities have started to move beyond career services that sit isolated from teaching and learning to a model in which employability pervades the learning experience. Ways in which institutions can lead in the race to best ready students for work include:

- **Curriculum design** provides a way of imparting employability through existing courses. Whether through the inclusion of vocational modules, or by means of sandwich courses, universities can create a link between academic work and the wider world.
- **Employer partnerships** are a means of actively collaborating with organisations in the public and private sector to provide work experience. Apprenticeship schemes are on the increase, with Sheffield University running such a programme with BAE Systems.
- **A strong career support service** integrated into learning, making use of experts and industry links through both pro-active partnership and alumni, gives a go-to service for students.
- **Building employability** into performance monitoring encourages universities and students alike to provide and learn employment skills, and begin to build careers.



A demand and need for new technologies

The advent of new technologies has provided the sector with new opportunities to recast their back and front office functions. The response since 2011 has been positive, with digital spending rising in recent years and continuing to rise.

Many institutions have experienced greatly improved efficiency when technology has been applied in a well-considered way across their functions.



Universities' back offices require attention. There is still a reluctance to utilise technology in integrating and improving administration and student support. Such areas continue to rely on multiple IT platforms for different services. Only 16 per cent of universities surveyed in 2014 intended to implement digital solutions to enhance efficiency; others see it as an additional cost rather than one which will deliver productivity in the long-run. Yet with rising student expectations and demands, integrated and streamlined IT systems can ensure a smoother, more cost-efficient administrative process.

Investment in digital learning and teaching has been quite high in recent years. Where we do see the need for improvement is in making back-office processes more efficient.

There are exciting possibilities for the use of technology in teaching and learning. Virtual learning environments have not always been met with enthusiasm from academics, but when commitment and investment lies behind them, as well as an aligned digital strategy, success stories are heard. Transformative new routes are being opened by technology too. Future Learn, founded by the Open University and now underpinned by 54 global higher education partners, has begun to revolutionise course delivery by providing mass open access learning. More efforts like this to provide a personally tailored digital learning experience will help to allow UK HEIs to draw level with its American competitors and ensure technology is not just a costly addendum but an integral part of their internal and front-facing processes and functions.

Spotlight: shared service centres

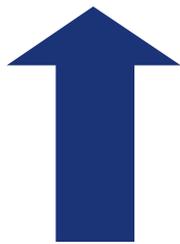
One way in which universities can use technology to reduce costs and improve efficiency is through the use of shared service centres:

- Shared service centres integrate the back office/operational functions of similar organisations in a single structure. They are attracting increasing interest across the HE Sector (with some 10 per cent of organisations considering such a service) as benefits are seen in comparable models across FE, local government and the private sector
- There have been some unique and innovative moves into this space so far, with Edinburgh, St Andrews, Abertay and Sheffield Hallam working together on a shared service management cloud system, substantially saving on costs.
- Collaborations between universities and other organisations are taking place too, such as a shared data centre between the University of the West of Scotland and South Lanarkshire Council.
- Guidance and financial help is available through cost-sharing groups such as Jisc, as well as Efficiency Exchange which has recently created a dedicated space on shared service centres.



Linking estates, strategy and the student

From libraries and accommodation, to lecture theatres and laboratories, buildings are essential to universities and their futures. With an increase in student expectations around both the quality of their teaching as well as leisure facilities, HEIs have risen to the challenge and infrastructure investment has surged in recent years. Now the sector must continue to ensure that their space and their strategy is aligned, particularly as student demand points to dramatically different estate requirements as compared to even the recent past.



Spending up 9% on improving estates (excluding accommodation) on previous year

Changing ways of learning mean different demands are being made of space. For example, there has been a shift from large lecture theatres built for one-way learning to more collaborative workspaces. The same can be said of library spaces, with a move towards shared areas fit for group work over independent workstations. These changes have driven significant investment in new premises so that institutions reflect student demands.

Universities, then, have invested and need to continue to invest in estates. But as the UK economy strengthens, there has been an upsurge in construction activity across the economy. This rising demand for large scale construction has placed pressure on the industry to delivery major infrastructure projects. It is a stretched sector, with high costs and at least 45,000 new workers required across the sector per annum. Those in charge of executing estate strategy should be conscious of this and ensure mitigations are in place to deal with the consequent impact on delivery costs and timescales.

An institution's approach to its estate needs to be aligned to its medium and long term aims. When investing in infrastructure universities should be sure that it is well-targeted, approved across the organisation and aligned to wider corporate strategy. All too often, single departments have steer over space utilisation when a wider perspective could deliver significant efficiencies.

Approaches to estate management are not always aligned with a university's strategic view. If they are, the use of space and corporate strategy will be greatly enriched.

Strategy must run through the whole organisation. It is harder for smaller and lower-tier institutions that may not have the reputational ability to attract funding, and universities should not be expected to mimic businesses. Nevertheless, it is crucial that corporate strategy runs throughout, achievable through further communication between functions as well as tighter governance and sign-off frameworks. Rationalisation of estates leads to greater efficiency and performance – a number of institutions have enhanced their space utilisation and reduced their operating costs per metre squared through estate rationalisation strategies.

Higher education institutions are distinct organisations, and need to listen to the needs of various academic departments. But for buildings to work best for universities, it is important that the thinking behind them reflects that of the university's vision.

Attracting and retaining the best talent

Having the best people in front of students and behind the scenes is especially important for the higher education sector. Universities' very reputation relies on teachers and researchers within them. Offerings to students are built around their staff, and a high quality of talent enhances the eminence of research produced. It is crucial that the staff on university books are those best placed to bring success, rigour and new thinking to the institution and its aims and priorities.

How do universities recruit staff which fit with their overall strategy while ensuring their talent is reflexive, intuitive and questioning? That is the question higher education institutions need to ask of their recruitment strategies.

In the same way that the use of space and technology should reflect strategy, so should the composition of a faculty. Universities must work to align recruitment with their corporate strategy and priorities. They should not be reluctant to hire people from the corporate world for their management functions, and should work to align incentives while being sensitive to the impact this may have on a university's culture. Recruitment strategy must reflect the particular context that universities operate in, the strategy they have set and the challenges they face.

Incentives in recruitment are all too often skewed towards research and not teaching. Ways to overcome this involves creating specific teaching posts and increasingly standardised teaching courses, as well as use of graduate students in teaching. There are also cost-efficient moves across the sector to 'outsourcing' teaching through staff not affiliated to the university, particularly through e-learning, though parallel concerns exist about the impact of this on teaching quality. It is important to strike the balance between research and learning – with increasing calls to place learning and the student at the forefront of universities' approaches, it poses the question whether they should employ more teachers, train researchers in teaching skills, or recruit those with skills in both. This is a question that requires analysis from each institution depending on the nature of their own departments, faculty, and the relationships that underpin these.



The Teaching Excellence Framework will place further focus on the quality of teaching in universities and could result in a number of unexpected outcomes.

Employing the right members of faculty can be a successful strategy to attract students, though is not without risks. As student expectations have risen, to be taught by a leading figure in their field is an alluring prospect for many students. But institutions should be careful not to over-state this, for example by using a 'big name' to attract students only for fresh undergraduates to be told the professor only teaches research students. Such practices are increasingly being defined as degree mis-selling and the Competition and Markets Authority has turned its attention to this in recent months. More innocently, sabbatical periods also pose potential interruptions.

There are a number of ways to attract the best faculty for every university. Despite pay restraint across the sector set by a national pay settlement, there is also increased pressure for individual negotiations on pay for specific members of staff, particularly those most aligned to a university's needs. This shift towards pay flexibility raises challenges to leadership but can also act as an effective recruiting tool. Performance management can also be enhanced. While maintaining distinctions between academic and back-office staff, as well as college and department responsibility for certain employees, integration of systems and open data would allow for traceable performance analytics. All these measures help to ensure that not only the best are recruited, but that they stay the best.

Making research sustainable

Research is core to universities' work. Across the UK, research enriches and adds to our everyday lives – whether that be Kingston University's development of a digital imaging system for sporting events, the University of Hertfordshire's creation of a child-like robot to help those with autism, or the industry-leading research at Cardiff Metropolitan in making surgical procedures safer and less intrusive.

Funding for research has become more difficult to access since 2011. Availability has moved away from block grants, and is now spread more thinly, and open to intense competition. Some departments, particularly in the humanities, struggle to establish revenue streams for research at all. Research is also a costly affair; it is in deficit, only recouping around 75 per cent of its costs. The link between teaching quality and student fee cap increases may also put pressure on research funding as institutions look to invest more in order to excel on the proposed teaching excellence framework.

Solutions to this issue are often bitter pills. Some universities have taken to cross-subsidising research from learning and teaching budgets. Research being integral to learning, this is an understandable route to take, though departments do lose out as a result. Other options are to look to corporate and charitable funding. Though increasing in recent years, these sources remain uncertain, and do not provide ample security to build strategy or long-term research priorities out of. There have been some signs of promise, particularly where STEM subjects are concerned. Increase in research spending was promised in the 2015 Budget, and postgraduate loans announced in the 2014 Autumn Statement will enrich the research pipeline.



Cross subsidies are taking place at an increasing rate in order to plug the research gap

How can institutions best stand out on the Research Excellence Framework (REF)? Institutions must try to work as best they can in a challenging funding environment, putting together well-considered and targeted bids aligned to their wider strategies. They should also consider the type of funding they aim for depending on their position, choosing between smaller discrete applications or larger proposals. And as university income streams shift away from government, universities should look to earn income from outside of simple one-way government funding, working with new partners and organisations to diversify the money they use to underpin research.

Monitoring how government measures research is important. Outcome remains the key focus, but collaboration and networking between researchers and policymakers is more key than ever. However, there are different measures – the Scottish Executive has increasingly rewarded emerging research, which has led some to feel that the best proposals are not being recognised. Whether this particular practice continues or not, it seems clear that the integrity and security of higher education research – so embedded and important to our daily lives – will remain on university risk registers for the foreseeable future.

7 challenges, over 150 points of view – Finding a clear way forward

The higher education sector must transform further in order to adapt to the seven key issues facing it. Progress has been made with regards to funding, global competition, research, estate strategy, technology and viewing the student as customer since 2011. But more must be done to fully turn these issues to the sector's advantage.

The sector includes more than 150 separate institutions, all with their own context, circumstances, budgets, patterns of demand and strategies. While this diversity is one of the key strengths of this sector, every institution faces a similar set of challenges. Each must view them through their own prism and work to find its own answer to these shared issues.

It will be an answer inextricably linked to the unique circumstances, culture and way of working. Each university will need to challenge itself and stretch itself, while also drawing on its intellectual curiosity and the qualities that make it a leading academic institution.

There is not and should not be a one-size-fits-all approach to the change required. Some solutions will work for some, whereas for others different approaches will be necessary.

If each of these 154 institutions can find their solution, then they not only strengthen themselves but also the sector as a whole. And that sector in turn will bolster its hold over the international student market and continue to define itself as a global leader.

Finding a clear way forward – key features of success

For universities to find a clear way forward in dealing with these issues which works for them, we have identified some key features they will need to build and develop.



- **Alignment of strategy** – priorities need to be understood from the top to the bottom of each higher education institution, particularly in regards to large pieces of investment or changes. Universities should not lose their distinct identity, and it is important to find a balance between corporate strategy as well as academic decision-making.
- **Project management and controls** – project management is key to delivering large-scale change and responding to the demands on the sector. Proper governance, planning, risk frameworks, reporting processes and other safety nets will all help universities rise to challenges in as risk-averse a way as possible.
- **Adaptive capacity expertise** – whether delivering a new building project, a digital transformation, or carving out a niche in the market, expertise is required. HEIs should look to develop the adaptive capacity they need from decision-making to project delivery to ensure they have the right skills and experience to transform.
- **Commitment** – the most successful projects have been underpinned by a real commitment and enthusiasm throughout the organisation. Cultural as well as financial, authentic and shared commitment keeps projects on track from development to success. This helps to guide much-needed transformation from inception to life.

Deloitte can help universities further in building these features and facing the challenges that lie ahead for the sector. Please contact Julie Mercer or Catherine Aiken with any queries, thoughts or questions you may have.

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