



House of Commons  
Education and Skills Committee

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**UK e–University**

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**Third Report of Session 2004–05**

*Report, together with formal minutes, oral and written evidence*

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## The Education and Skills Committee

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### Footnotes

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## Summary

The UK e-University project was effectively wound up last year by HEFCE, having spent £50 million of public money but having succeeded only in attracting 900 students. We inquired into the issue to find out why this had happened, what lessons could be learnt from the failure of the project, and to consider the future for e-learning and e-Universities in the UK.

Our findings are that the UKeU failed largely because it took a supply-driven rather than demand led approach. This supply-driven approach, combined with the very ambitious nature of the venture in an emerging market that did not sustain the high expectations of demand, and an inability to work in effective partnership with the private sector, led to the failure of UKeU to meet its targets, aims, and objectives. The launch of the first UKeU courses was delayed until September 2003. When launched, they attracted just 900 students against a target of 5,600. Furthermore, despite it being a condition of grant, UKeU failed to attract significant private investment.

We have also concluded that there was insufficient market research. There was no formal market research undertaken to assess either the level of demand or the nature of the demand and the type of e-learning required. There was no systematic evaluation of the markets, no thorough and robust market research, and no understanding of consumer demand.

UKeU also focused too much on providing an integrated e-learning platform. UKeU allowed the development of the technology platform to drive its strategy and the development of programmes. It had a skewed focus on the platform, based on an assumption that once this was right, the original projections of very high student numbers would be easy to realise. Unfortunately this assumption was not based on research evidence, but on an over-confident presumption about the scale of the demand for wholly internet based e-learning.

The project failed to form effective partnerships with, or gain significant investment from, the private sector. UKeU's attempt to form genuine partnerships with the private sector was a commendable aim and could have helped it to stay competitive and market-orientated. Instead, UKeU became another example of how difficult the public sector finds it to form successful partnerships with the private sector. The failure to find private sector partners or investors should, however, have caused the holding company, HEFCE and the DfES to have concerns sooner rather than later about the viability of the project.

One issue which provoked public comment was the awarding of bonuses to senior executives of UK e-U. The bonus scheme and potential share packages are examples of the anomalies that were caused by the fact that the structure and systems were set up under the assumption that private investment would be part of the project. When little investment was forthcoming, the structure and systems were not changed to reflect the circumstances in which UKeU was operating. Systems and structures that may have been considered appropriate when set against the original plan became inappropriate for a venture that was almost entirely publicly funded. We consider that for either the private sector or the public

sector the bonuses paid to senior staff were wholly unacceptable and morally indefensible. The argument that they reflect private sector practice does not stand up to scrutiny. Any company which paid bonuses of this kind having underperformed in the way that UK e-U did would face severe criticism from its shareholders.

We do not want the Government to become increasingly risk-averse as a result of what happened with UKeU experience. Instead it should learn from this experience and, in the future, take a more experimental approach to such high risk ventures. This would involve focussing more on testing various models and prototypes; taking an evidence-based approach; involving the private sector as partners in a more organic process; undertaking effective risk-assessment procedures; and setting open and transparent success criteria for such projects.

We recognise the important role the Government has to play in providing support, information and guidance for e-learning to develop within HEIs. The Government's role in providing an overarching national strategy for e-learning is vital to ensure consistency, coherence, and clarity of purpose in developments across the sector. The Government must clarify its national strategy for developing e-learning in the UK and how it intends to invest in and support e-learning across the HE sector in a way that provides coherent progress.

# 1 Introduction

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1. In February 2000, the then Secretary of State, David Blunkett, announced the ambitious project to establish the e-University as a single vehicle for the delivery of UK universities' HE programmes over the internet. The Government allocated £62 million to the HEFCE for the project over the period 2001–2004.

2. UK e-Universities Worldwide Ltd (UKeU) and e-Learning Holding Company Ltd were established in 2001. In September 2003 UKeU launched its first programmes, attracting just 900 students against a target of 5,600. On 25 February 2004, the HEFCE Board decided that in future HEFCE funding should support the development of e-learning in universities and colleges—in effect the HEFCE terminated UKeU. £50 million out of the Government's allocation of £62 million has been spent on the project.

3. The Committee announced its inquiry into the e-University project on 16 June. Our purpose was to account for the expenditure to date (£50 million), to clarify why the UKeU venture failed, what lessons could be learnt from the failure of the project, and to consider the future for e-learning and e-Universities in the UK.

4. Over the course of the inquiry, we took evidence from Dr Kim Howells MP, Minister for Higher Education; David Young, Chairman of the Higher Education Funding Council for England (HEFCE); Sir Howard Newby, Chief Executive of the HEFCE; Sir Anthony Cleaver, former Chairman of UKeU; Mr John Beaumont, former Chief Executive of UKeU; Sir Brian Fender, former Chairman of the e-Learning Holding Company Ltd; Dr Adrian Lepper, Secretary to the Board, e-Learning Holding Company Ltd; Mr Leslie Stretch, Vice President of Sun Microsystems UK Ltd and Mr David Beagle, Account Manager of UKeU project, Sun Microsystems UK Ltd.

5. One issue about the conduct of this inquiry caused us concern. Meetings of select committees are televised at the request of broadcasters. The first meeting in this inquiry, with David Young and Sir Howard Newby of HEFCE, during which some serious criticisms were made about the way in which UKeU was run, was televised. The second meeting, at which Sir Anthony Cleaver and John Beaumont of UKeU responded to those criticisms, was not. Therefore the criticisms gained wide currency but the responses did not. We regard this as extremely unsatisfactory and it offends against natural justice. **We recommend that the way in which decisions to televise select committee meetings are made is reviewed with a view to giving Committees a more active role in the process.**

## 2 Background to the UKeU

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### Context

6. The original idea for the e-University project was being discussed in 1999 at the height of the dotcom era. The context in which the idea was developed goes some way to explaining the highly ambitious nature of the project. It was a time when there were thought to be no limits to the potential of the internet. The Minister said to us:

‘I think we certainly have to go back to that period when it looked as if it would be possible to deliver all kinds of education on line.’<sup>1</sup>

7. At the height of the dotcom era there was also a sense of urgency that if you didn’t strive to take your share in this global market straight away, you would lose out. David Young, Chairman of HEFCE, said:

‘When the initiative was launched, as I say in 2000, the mood in government and elsewhere was quite clear that there was a much greater risk in failing to grasp the opportunity to make immediate progress on developing the UK as a major player in delivering e-learning to a global market.’<sup>2</sup>

8. By 2000, a number of on-line learning ventures had been launched in the US: the Western Governors’ University, Pheonix University, e-College and many others. The experience of what was happening in the US at this time certainly contributed to the feeling of pressure for the UK to establish its share of the global e-learning market. In a speech that announced the e-University project, the then Secretary of State for Education, David Blunkett, said that the role of the e-University project was to ‘concentrate resources from a number of partners on a scale which can compete with leading US providers.’<sup>3</sup> As the current Minister for HE, Dr Kim Howells, explained in his evidence to the Committee:

‘It was also informed by a kind of fear that the Americans were going to capture students and that they were actually going to capture students in this country.’<sup>4</sup>

9. The context in which the idea of the e-University was formed led to it becoming a highly ambitious global project. It was intended to be the ‘flagship provision of UK higher education excellence,’<sup>5</sup> that would establish the UK as a leading player in the market for online learning. The extent to which the highly ambitious nature of the venture contributed to the failure of UK e-Universities Worldwide (UKeU) will be considered further in this report.

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1 Q 373

2 Q 1

3 ‘Radical changes will prepare HE for the 21<sup>st</sup> Century’, Blunkett, 15 February, 2000, speaking at the University of Greenwich. [www.dfes.gov.uk](http://www.dfes.gov.uk) – press notices.

4 Q 373

5 HEFCE 00/44a Business model for the e-university, HEFCE, 2000.

## Setting up UKeU

### *The Government's proposals:*

10. In February 2000, the then Secretary of State, David Blunkett, announced the project to establish the e-University as a vehicle for the delivery of UK universities' HE programmes over the internet.<sup>6</sup> The ambitious nature of the Government's proposals were clear from the Secretary of State's speech. He said that 'e-learning has become a big business' and, as a result, 'a new national initiative is needed to maximise Britain's chances of success in this global environment.' He announced that it would be the HEFCE that would 'bring forward proposals for a new collaborative virtual venture—a consortium of 'e-universities...to create a new partnership between universities and the private sector.'

11. The Government allocated £62 million to the HEFCE for the project over the period 2001–2004. The guidance that was given to HEFCE in the Secretary of State's Grant Letters in 2000, 2001, and 2003 regarding the UKeU is included in Annex 1.

### *The HEFCE's role in setting up UKeU*

12. Following the Government's announcement of the e-University project, the HEFCE set up a steering committee in February 2000 chaired by Professor Ron Cooke, the then Vice Chancellor of the University of York. In May 2000, PricewaterhouseCoopers (PwC) was employed to develop a business model. CHEMS<sup>7</sup> were asked to undertake some initial market research. PwC reported in October 2000 and, in November 2000, HEFCE consulted the sector on the model that PwC had proposed.

13. In December 2000, an interim management team was appointed with an interim CEO, Nick Winton, and others drawn from the private sector, to establish the new company structure. In spring of 2001 the HEFCE announced the conclusions of their consultation with the sector.<sup>8</sup> 74% of those who responded agreed with the HEFCE board's decision to go ahead along the lines proposed: an operating company and a holding company to oversee the role of the operating company.

14. In its memorandum to us the HEFCE stated:

'Our original model was for a joint venture between a consortium of HEIs (supplying the learning programmes) and private sector partners (putting in the technology, marketing and business drive). However, PwC took the view that many HEIs would be involved in e-learning globally, and so it would be cost-effective to have a central vehicle accessibly by all HEIs.'<sup>9</sup>

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6 'Radical changes will prepare HE for the 21<sup>st</sup> Century', Blunkett, 15 February, 2000, speaking at the University of Greenwich. [www.dfes.gov.uk](http://www.dfes.gov.uk) – press notices.

7 Commonwealth Higher Education Management Service

8 HEFCE and the funding councils in Scotland and Wales consulted all publicly funded HEIs and the universities in Northern Ireland.

9 Ev 1, para 7

### ***The operational structure of HoldCo and UKeU***

15. As recommended in the PwC business model, in 2001 UK e-Universities Worldwide was established as a private company. This was to encourage private investment in UKeU. HEFCE also established a holding company to oversee the work of the operating company.

16. The holding company, e-Learning Holding Company Ltd (HoldCo), was a private company limited by guarantee. The members, whose role it was to appoint the Board of the company and hold it to account, were the HEIs themselves. All but four of the UK HEIs became members. The universities and colleges jointly owned the holding company, through which they licensed the operating company to deliver their courses.

17. The e-Learning Holding Company Ltd (HoldCo) was established in March 2001, with Sir Brian Fender, Chief Executive of HEFCE at the time of his appointment, as Chairman. The holding company was the vehicle through which HEFCE was able to invest public money in the e-University venture without having any direct relationship with the operating company, granting HoldCo funds to invest in the operating company.

18. In October 2001, the operating company was established (UKeU). It was a private company, limited by shareholders. The shareholders for UKeU were the Holding Company, Guillemont Trust (a charity that Sun Microsystems UK vested its UKeU shares in because it chose not to hold shares in UKeU), and Croft Nominees (a company vehicle to hold the contributions from Sun Microsystems UK that were put into escrow). Equal shares were given to the public sector shareholders (HoldCo) and the private sector shareholders (Guillemont and Croft Nominees). Over time, however, as HoldCo needed to invest more public funds into UKeU, HoldCo became the dominant shareholder by a significant margin and this affected the relationship between the holding company and the operating company.

19. In October 2001, the strategic alliance with Sun Microsystems Limited was agreed. It was after this had been agreed that the Chairman of UKeU, Sir Anthony Cleaver, was appointed in November 2001. The board then appointed its own non-executive directors drawn from the private sector as well as the HE sector. The Chief Executive of UKeU (John Beaumont) was appointed in March 2002, along with other key staff.

20. The senior management of UKeU were responsible to the UKeU Board of Directors—appointed by the Holding Company. The Holding Company Board were appointed by HEFCE. The Chief Executive of the HEFCE was the accounting officer responsible for the public expenditure, but not the operating decisions, of UKeU (although through the Holding Company HEFCE had insisted as a condition of grant that UKeU were consistent with best practice in the commercial sector).

21. Once UKeU was operational, it was given a considerable amount of freedom. The original PwC business model formed the blueprint for UKeU, but after it was operational the decisions were those of UKeU. As Dr Howells said in evidence:

‘PwC had produced...a business plan; it had attracted two very distinguished businessmen to run it and the board ...of the holding company contained numbers of distinguished business people and of course academics who had a very real

interest in this. So, theoretically at least, there ought to have been enough expertise there.’<sup>10</sup>

22. The accounting officer was the Chief Executive of the HEFCE, Sir Howard Newby, but he made the point that, as the accounting officer, he could not make any operational decisions. He was there to monitor, not manage the UKeU. Dr Howells, told us:

‘The company that was created, however, was a company which had to operate as any other commercial entity. That meant that individuals from HEFCE had to be very, very careful that they were not seen to be acting as shadow directors.’<sup>11</sup>

## Outcomes and expenditure

23. **The UKeU failed to meet its targets, aims, and objectives. The launch of the first UKeU courses was delayed until September 2003. When launched, they attracted just 900 students against a target of 5,600. Furthermore, despite it being a condition of grant, UKeU failed to attract significant private investment.** The following summary of UKeU progress against its targets is taken from the Business Review of the UKeU, conducted from September to December 2003 by PA Consulting:

‘From initial incorporation in 2001, the e-University didn’t move from its initial start-up into its business launch phase until September 2003, when the first tranche of 16 courses were made available on-line and the first wave of 900 students signed up. However, this position was still significantly behind that originally targeted for this stage of the business plan agreed with UKeU in April 2002.’<sup>12</sup>

‘The original business plan forecast rapid growth to 110,000 students within the UKeU’s first six years, reaching over 250,000 by Year 10. Revenues were forecast to grow commensurately, breaking even by Year 5 (2006–07) and generating gross profits of more than £110m by Year 10. Even by Year 2 (2003–04), the original plan forecast student enrolments of more than 5,600 (downgraded from 12,600 in the first PwC plan) and revenues of £2.7 million. In practice, the UKeU has underperformed against the results forecast by the original plan in respect of courses available, students enrolled, platform delivery and external investment secured.

‘A new and substantially revised business plan was approved by the UKeU Board<sup>13</sup> in November 2003, containing updated forecasts for enrolments, product launches and operating costs. The revised plan was based on significantly lower business volumes than the original plan, targeting growth towards 45,000 students and revenues of £40 million by 2009–10. Expected break-even was forecast for 2007–08.

‘The revised plan was predicated on the availability of a further £30m of capital from HEFCE in addition to the £27m already invested. Unlike the original plan, the

10 Q 375

11 Q 367

12 UK eUniversities Worldwide: 10 Year Business Plan, 1<sup>st</sup> April 2002 to 31<sup>st</sup> March 2012. Referred to as the ‘original plan’, although it was in fact a substantially revised version of the first eU business plan produced by PwC

13 UK eUniversities Worldwide: Business Plan, November 2003. Referred to as the ‘revised plan’

revised business plan contained no provisions for private sector investment within the next six years, although this option was still being explored.’<sup>14</sup>

24. The original Government objectives, and the original HEFCE/PwC business plan, stated that the UKeU was meant to be an effective partnership with HEIs, and that it was meant to be a joint public-private venture. Indeed, one of the conditions of grant was that the business should seek 50/50 public/private funding to put commercial drive and accountability into the venture. Other than Sun Microsystems, who signed a strategic alliance with UKeU in October 2001 to develop the technological platform, and one relatively small private investor (around 1% of the HEFCE grant),<sup>15</sup> UKeU did not secure any private investment. Furthermore, many HEIs pulled out of their partnership with UKeU in the later stages of the project.

25. On 25 February, the HEFCE Board considered a review of the company’s business plan by PA Consulting. The HEFCE Board had to decide whether UKeU’s new business plan justified further public investment. The Board decided that in future HEFCE funding should support the development of e-learning in universities and colleges rather than through UKeU. In February 2004, HEFCE announced it was holding immediate talks with UKeU on restructuring activities and services—in effect the HEFCE terminated UKeU and set about deciding which activities should be maintained and transferred to HEIs.

26. In evidence to the Committee, Sir Howard Newby, Chief Executive of the HEFCE, explained that the advice to the Board came essentially from him:

‘... in light of the ...disappointing recruitment, and in the light of what was going on in the financial markets, the risk...had tilted the other way. This was an unacceptable risk for us...our recommendation to the Board was that the business plan was not sufficiently robust on which to base further investment. The Board took the view to restructure the company in light of that.’<sup>16</sup>

27. Project management of the successful e-China project has been transferred to the University of Cambridge. The e-learning research centre will continue as a partnership between the Universities of Manchester and Southampton and the Higher Education Academy.

28. £62 million was allocated to the e-Universities project for the period 2001–2004. Of this £62 million, £50 million has been spent. The expenditure breaks down as follows:

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14 Business Review of the UKeU conducted from September to December 2003 by PA Consulting, commissioned by HEFCE. Not published.

15 Fortis Lease UK Ltd provided lease funding in August 2003 to finance IT testing equipment at an original cost of £790,000.

16 Q 16

**Table 1 Public expenditure on the e-University project to date**

Public Good Activities	e-China project	£3 M
	e-Learning research centre	£1 million
	Research studies and other disseminations	£2 million
	Advisors: legal and business	£1 million
Commercial Activities	Technology platform development	£14.5 million
	Learning programmes development	£10.9 million
	Sales and marketing (including overseas)	£4.2 million
	UKeU operating costs	£12.9 million
<b>Total expenditure</b>		<b>£49.5 M</b>

Source: HEFCE

29. According to the HEFCE, it plans ‘to use the balance of the £62 million originally provided by Government, alongside other funds, to support the development of e-learning in universities and colleges.’<sup>17</sup>

### **Salary, bonuses and share packages**

30. The UKeU Annual Report 2002–03, published in March 2003, stated that John Beaumont’s basic salary was £180,000 and that he received a ‘performance related bonus’ of £44,914. In March 2003, the Learning Environment (platform) was running a year late and no courses had been launched—initial pilots due to be launched in Spring 2003 were delayed until Autumn 2003. Despite this, Sir Anthony Cleaver was very clear in his evidence to the Committee that, in his opinion, best practice had been adhered to.

‘All the bonuses were awarded against defined criteria which were set in advance and people’s performance was assessed against them. In the same way, the bonuses that were paid to John Beaumont and myself were based on specific numeric objectives agreed in advance by the Remuneration Committee composed entirely of non-executive directors with wide commercial experience who looked at the targets and said, yes, for this year, those are the things that it is realistic for you to achieve. If we

17 HEFCE press notice, 18 June 2004 <http://www.hefce.ac.uk/news/hefce/2004/euni/june.htm>

achieve those, they will in turn provide the foundation on which we will build in the future. I have absolutely no qualms about either the process or the outcome of the bonuses.<sup>18</sup>

31. Sir Anthony Cleaver and Mr John Beaumont would also have received a bonus of 0.5% and 1% respectively of the market value of the company if it had been floated or sold at any point in the future.<sup>19</sup> In evidence to the Committee, Mr Stretch from Sun Microsystems UK Ltd said that he was not surprised by this and described the arrangements as ‘conventional.’<sup>20</sup>

32. Whilst the practice of large bonuses and share packages might be standard procedure in the private sector, UKeU ended up being an almost wholly publicly funded venture. The bonus scheme and potential share packages are examples of the anomalies that were caused by the fact that the structure and systems were set up under the assumption that private investment would be part of the project. When little investment was forthcoming, the structure and systems were not changed to reflect the circumstances in which UKeU was operating. **At the very heart of the failure of UKeU was that systems and structures that may have been considered appropriate when set against the original plan became inappropriate for a venture that was almost entirely publicly funded.**

33. **We consider that for either the private sector or the public sector the bonuses paid to senior staff were wholly unacceptable and morally indefensible. The argument that they reflect private sector practice does not stand up to scrutiny. Any company which paid bonuses of this kind having underperformed in the way that UKeU did would face severe criticism from its shareholders. The non-executive directors who approved these bonuses through the Remuneration Committee cannot escape criticism.**<sup>21</sup>

34. **We are also unable to accept the view of the Chairman and Chief Executive that they were involved in a risk business which made such bonuses appropriate. The company was involved in a new and relatively untried sector, but it carried no market risk. It was backed with £50 million of public money; the risk was to that public investment, not to the company.**

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18 Q 236

19 UKeU annual report 2002–03, page 17.

20 Q 554

21 The members of the UKeU Remuneration Committee were Mr R Hooper (Chairman), Mr K Bedell-Pearce and Professor Sir Alan Wilson. The UKeU report for 2002–03 notes that Messrs Hooper and Bedell-Pearce attended the one meeting of the Committee during the year.

## 3 Why the UKeU failed

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35. **Our findings are that UKeU failed largely because it took a supply-driven, rather than demand-led approach.** There were three main areas where the consequences of such an approach led to failings. Firstly, UKeU pursued a narrow concept of e-learning (wholly internet based e-learning) and did not adapt this initial concept in light of existing research evidence that found that a more blended learning approach was needed (where internet based e-learning is undertaken alongside other, more traditional, learning methods). Secondly, there was a distinct lack of marketing and use of market research—in such new and emerging markets this was a key failure. Thirdly, the project was technology-driven rather than learner-centred focused, with too much emphasis being put on the development of the technological platform.

36. **A supply-driven approach, combined with the very ambitious nature of the venture in an emerging market that did not sustain the high expectations of demand, and an inability to work in effective partnership with the private sector, led to the failure of UKeU to meet its targets, aims, and objectives.**

### Supply-driven rather than demand-led

#### *The concept of e-learning*

37. Dr Howells identified UKeU's two major failings as a lack of understanding of blended learning, and a lack of any serious marketing or market research. He said to the Committee

‘...it was part of what is a new word that I have learned since I have come into this job, ‘blended learning’. We have learned from The Open University that ...you have to, as the jargon has it, engage with students and, if one lesson came out of this lot, it probably is that they should have been much more sensitive to those needs of students the world over.’<sup>22</sup>

38. In the original HEFCE business model,<sup>23</sup> the first objective listed in designing the UKeU was that it must be ‘learner-centred’. UKeU pursued a narrowly focussed concept of e-learning and failed to pick up on evidence that a blended learning approach was needed. There was no research by UKeU about the type of learning demanded. They did not consider conducting research into the pedagogy of e-learning and the needs of the learner.<sup>24</sup>

39. The PA Consulting Business Review of the e-University explains how moving forward with this narrow concept of e-learning set UKeU on a specific course.

‘The decision to focus on the sale and delivery of institutionally-branded on-line degree courses put the e-U in a very specific segment of the global e-learning marketplace (this was the particular decision of UKeU and was not taken from the

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22 Q 373

23 HEFCE publication, 2000 (00/43).

24 This is despite the social inclusion agenda that was specifically raised in the Minister's Grant Letter to HEFCE outlining the aims and objectives of the project, which clearly required further pedagogic research (see Annex 1).

original HEFCE/PwC business model). It is well recognised that this market is still in its emergent stage of development, and that views differ on the potential scale and patterns of demand for e-learning in its different manifestations. The evidence to back going into this specific market is sketchy, except in the USA which is not an eU target nor is it representative of other markets. Therefore the challenge the eU set for itself was to develop a feasible and well grounded sales plan, for both products and markets, in the absence of hard evidential data.<sup>25</sup>

40. UKeU did not have anyone with e-learning expertise in a senior management position. John Beaumont, the Chief Executive, had experience of e-business but not e-learning. This is not to say that there were not people advising them to take notice of the situation. Sir Anthony Cleaver told the Committee that ‘the marketing people’ had identified the need for a blended learning approach right from the start.

‘I think the area which took longest to try and address was the question of blended learning. I think it is true to say that, from the beginning, the marketing people said ‘over time, we really are going to have to do more in terms of on-site support.’<sup>26</sup>

41. There is no doubt that the expertise existed—The Open University for example, has a great deal of expertise in distance learning methods. International expertise could also have been drawn on: the University of Phoenix for example, is a private university that operates increasingly online, but takes a blended approach to learning methods maintaining a certain amount of traditional teaching methods. It has over 100 campuses worldwide. There was information and good practice available, it just was not used.

42. UKeU was very ambitious in the type of e-learning it was pursuing; the full UK HE experience available online. Not only was this was incredibly ambitious, but it meant that it could not be modelled on existing e-learning programmes that did not offer such a full and rich experience. David Beagle of Sun Microsystems said:

‘I think you need to see the difference between UK education and education around the world. Most university education around the world is more like ‘here is the information; take it and go away and deal with it yourself’ whereas the UK university experience is much more about training you how to think in certain ways. Delivering that sort of education over the web is far more difficult than the sort of education that places like Phoenix do, which is more a training sort of activity, and so that is why when we looked at the packages that could possibly be used they were more training packages and could not deliver what was required. In delivering the content they had had an easier run at it than the UK had. By the same token, if the UK experience could be delivered over the web it would be a profitable market, we believe.’<sup>27</sup>

**43. We have found that UKeU inherited a narrowly focussed definition of e-learning and chose to pursue that approach without questioning it at any stage. It did not focus**

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25 Business Review of the UKeU conducted from September to December 2003 by PA Consulting, commissioned by HEFCE. Not published.

26 Q 217

27 Q 489

**on research and development concerning the definition of e-learning, and it did not have a ‘learner-centred’ approach.**

### *Use of market research and marketing*

44. Both the Minister for Higher Education, and the HEFCE identified marketing, and inadequate market research in particular, as the key cause of the failure of UKeU. This marketing failure was based on an assumption that there was a huge unmet demand that existed for wholly internet based e-learning. Too much trust was put on the PwC forecast of student numbers and the general atmosphere of enthusiasm surrounding the ‘dot com boom’ and, as a result, UKeU did not undertake any market research or give sufficient emphasis on marketing, despite spending £4.2 million on sales and marketing.<sup>28</sup> Dr Howells told the Committee that:

‘When I look at it, where I am most mystified is to the lack of any serious marketing. It seemed that there was technological idea here which had no fundamental backing in terms of serious market research. There was an assumption that if you can provide the platform people would flock to it.’<sup>29</sup>

### *The low priority given to marketing*

45. In his evidence to the Committee, Sir Anthony Cleaver, Chairman of UKeU said:

‘From the beginning it was clear that to succeed we had to get three things right: the platform, the courses, and the marketing.’<sup>30</sup>

46. The order in which these three priorities were given is very telling. It is indicative of the low priority given to marketing by UKeU in comparison to the supply-driven concerns of the platform and the courses. A supply-driven approach only works when there is a guaranteed surplus of demand—this was wrongly assumed to be the case for wholly internet-based e-learning.

47. An example of the low priority given to marketing by senior management at UKeU is that they put a stop to the interim team’s proposals to purchase a marketing company to meet the marketing needs of UKeU. John Beaumont and Sir Anthony Cleaver decided that it was unjustified to spend £12 million on marketing (note that over £14 million was spent on developing the technology platform, £11 million on developing courses, and just £4.2 million on sales and marketing—including overseas). Mr Beaumont told us:

‘...there was the suggestion from HEFCE that we should spend £12 million buying a marketing company. We looked at it and said we could not see how that made any sense to spend £12 of the £55 million (on marketing).’<sup>31</sup>

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28 See Table at paragraph 28.

29 Q 373

30 Q 141

31 Q 304

The interim team, including HEFCE, were looking at an acquisition of Scottish Knowledge (a marketing company) for £12 million, and we put a stop to that within the first month or two of us being there.<sup>32</sup>

48. UKeU took the decision not to have a marketing person at senior management level. UKeU originally appointed two Marketing Directors both based in the UK offices—one responsible for ‘corporate’ and the other for ‘retail’ marketing. The Corporate Marketing Director left in the early stages and was not replaced. Neither Marketing Director was on the board of Directors at any time. In his evidence to the Committee, Sir Anthony Cleaver said that this was because nobody with sufficient calibre could be identified.<sup>33</sup>

### *Use of evidence*

49. The original HEFCE business model<sup>34</sup> emphasised the importance of UKeU being ‘responsive to change’ and ‘excellent in terms of fitness for purpose’. To achieve this, UKeU would have to be at the forefront of market research to understand such new and emerging markets. The lack of market research was astounding in terms of selecting markets, courses, and countries to target.

50. Sir Anthony Cleaver described UKeU’s position in terms of the ‘inherited’ market research from PwC. There was no suggestion that they had utilised the information, embedded it in their strategy, or pursued the research needs further. CHEMS did the initial market analysis in 2000 to analyse the extent of the global market.<sup>35</sup> This initial research established that there was a general market, but between 2000 and 2003 much had changed. Market research information was needed even just to keep up with what was a rapidly changing market. Had the market been sufficiently understood, the original ambition of the project, might not have had the effect on the business strategy that it did.

51. Even allowing for the failure to undertake primary research about the market, further market knowledge was available that could have been utilised more effectively. The British Council are a vast source of knowledge that could have been tapped into, for example, but contact between UKeU and the British Council was not to utilise their vast knowledge of higher education markets. In evidence to the Committee John Beaumont said that:

‘In a number of countries we worked directly with the British Council...we have been providing e-learning materials and how to do e-learning to the British Council there.’<sup>36</sup>

52. UKeU only saw the British Council as a possible consumer or deliverer of their products—not as a rich resource for information regarding markets and market analysis. It was thought that the British Council did not have anything to teach them regarding the technology of e-learning, or e-learning products, and the UKeU did not consider learning

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32 Q 305

33 Q 234

34 HEFCE publication 2000, (00/43).

35 Published as chapter 3 of The e-University Compendium, volume 1, ‘Cases, Issues and Themes in Higher Education Distance e-learning’, The Higher Education Academy, 2004. <http://www.heacademy.ac.uk/2249.htm>

36 Q 253

from the British Council about marketing. **It is inexplicable to us that UKeU did not seek to forge a partnership with the British Council to help it to understand the markets that it was trying to enter and to develop strategies for selling its products in them.**

### *UKeU's approach to marketing*

53. The UKeU's approach to marketing was to 'draw on their contacts.'<sup>37</sup> Their market research was anecdotal. There was no systematic evaluation of the markets. There were numerous examples of such an approach given in evidence to the Committee. Having identified the Far East as their first target market, Sir Anthony Cleaver went on to explain to the Committee that:

'Fortuitously, I was also Chairman of the Asia Pacific Advisers for Trade Partners UK and was able to draw on their contacts in that part of the world. In Beijing, Singapore, and Kuala Lumpur on my first visit we talked to the ministries of education and determined how best to proceed.'<sup>38</sup>

54. The question is whether it was appropriate or sufficient that the only market research conducted consisted of the Chairman, Sir Anthony Cleaver, making visits to the Far East, talking to Ministers and Heads of Universities, and then developing ideas based purely on these discussions.

'Korea is probably the best example. On my first visit to Korea I met the Minister of Education. He said 'well, of course we need English. We as a country are not strong in English and internationally that is financially detrimental to us,' and so on. So we were just on the brink, I believe, of being able to provide what was really needed and hence get the volume.'<sup>39</sup>

'There were lots of other ideas I tried to develop in that time. For example, one of the concerns in Malaysia, China and these other places is that it is very expensive for them to send people to the UK for three years.. Why could we not...develop courses where we did two years online in their own country and then they come to the UK for the third year... it was something that I was beginning to talk to people about.'<sup>40</sup>

**55. Evidence to this inquiry suggests that UKeU's understanding of their markets came from anecdotal evidence from individual discussions rather than from systematic analysis. There was no formal market research undertaken to assess either the level of demand or the nature of the demand and the type of e-learning required. There was no systematic evaluation of the markets, no thorough and robust market research, and no understanding of consumer demand. This was typical of UKeU's supply-driven rather than demand-led approach.**

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37 Q 141

38 Q 141

39 Q 171

40 Q 345

### *A technology-driven approach*

56. Considerable focus and finance was given to the learning platform. £14.5 million—almost one third of all money received by UKeU—was spent on developing a new platform in partnership with Sun Microsystems Ltd. In describing UKeU's key priorities in order to succeed, Sir Anthony Cleaver spoke first of the technology platform and said that 'John Beaumont immediately focused on the platform'.<sup>41</sup> It was clearly their number one priority.

57. Sun Microsystems Ltd were signed as a strategic partner in October 2001, but the technology development proved more complex than anticipated. Difficulties in developing this new platform caused delays in the launch of UKeU's courses until September 2003 and problems still existed even then. Furthermore, only a small proportion (around 200) of the 900 students were using the UKeU platform—the majority of students chose to work with individual HEIs' own platforms.

58. It has been suggested that the existing web-based learning platforms could have been used or adapted for use at a fraction of the cost of the new platform. UKeU's decision to develop its own learning environment was not based on any market research or other research findings. The basis for this decision is uncertain, but it was UKeU's opinion that the Government's objectives could not be fully met without developing a new platform. This was linked to the highly ambitious nature of the project. Because of the scale of the project that was envisaged from the start, the idea of gradually developing the scope of an existing platform was not considered.

59. There are examples of successful platforms that have worked, however, and could have been utilised by UKeU if they had been slightly less ambitious about the scale of the operation. The UKeU were evidently aware of such examples. John Beaumont told this Committee:

‘The two examples that are often highlighted in the US are the University of Phoenix and e-College. The University of Phoenix has probably got the largest number of students of a private university. It is increasingly online but across the States, Canada and Puerto Rico there are over 100 campuses so it is a blended approach. The other one which is probably nearer to wholly online higher education is something called e-College which is Nasdaq listed, set up in 1996. Last year their online courses grew by 40%; they have now got about 1.4 million students, of which a good third are wholly online, the rest are hybrid. Those are the two best examples.’<sup>42</sup>

60. When we asked why these successful platforms could not have been used rather than UKeU developing its own complex platform, John Beaumont replied that this had been examined before he and Sir Anthony joined UKeU. **UKeU allowed the development of the technology platform to drive its strategy and the development of programmes. It had a skewed focus on the platform, based on an assumption that once this was right, the original projections of very high student numbers would be easy to realise. Unfortunately this assumption was not based on research evidence, but on an over-**

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41 Q 141

42 Q 324

confident presumption about the scale of the demand for wholly internet based e-learning.

### A failure of partnership

61. In the original business plan, the proposal was to form partnerships with private sector companies. Sun Microsystems UK Ltd joined as a strategic partner in October 2001 and entered a strategic alliance with UKeU. However, Sun decided not to hold shares in UKeU and removed itself from the UKeU Board and, as a result, from any influence over operating decisions. As the project developed, the relationship became one of a supplier and customer with Sun delivering the technology platform. In evidence to the committee, Mr Stretch described Sun's position:

‘we got involved in an intention to partner strategically with UK e-University to provide an e-learning solution to the UK market place and to the global market. That was our initial involvement and the whole intention there was a strategic partnership for us to also build the e-learning platform and the technology that supported the solution and then to partner with e-University in taking that solution around the world and for us to benefit from that, so we took an investment view of this relationship. However, as the venture spun out, our relationship became very much a supplier/customer relationship and the day-to-day focus, particularly in the last two years...became a relationship that I would characterise as a supplier relationship where the focus was to deliver the e-learning platform...’<sup>43</sup>

62. In the early stages of set-up, the interim management team was negotiating with Pearson to come in as a strategic partner. In evidence to the Committee, Sir Brian Fender explained that:

‘Pearson was attractive for a variety of reasons, but it was pretty apparent early on that we would not be able to come to an agreement. Even if they wised to invest money at a significant level it would be pretty impossible to produce an agreement which was satisfactory to universities because they would want far more control than was willing to be conceded.’<sup>44</sup>

**63. UKeU's attempt to form genuine partnerships with the private sector, though unsuccessful, was commendable and could have helped UKeU to stay competitive and market-orientated. Instead, UKeU became another example of how difficult the public sector finds it to form successful partnerships with the private sector. The failure to find private sector partners or investors should, however, have caused the holding company, HEFCE and the DfES to have concerns sooner rather than later about the viability of the project.**

64. We are also unclear about how committed the HE sector was to UKeU. We gained no sense during the inquiry that the individual HE institutions themselves were helping to drive the project forward. We put it to John Beaumont that at the outset of the project everyone had wanted to be on board. He told us:

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43 Q 481

44 Q 607

“I am not sure that is the case. They were asked to put a pound in and I think all but four did, and I am not sure that shows real commitment of an institution. What we did find, as Sir Anthony has said, was in many institutions there were a lot of very enthusiastic academics, but to get e-learning of quality and scale you need the whole institution to support it; it cannot be just a side-line taking 20 to 30 students per intake”.<sup>45</sup>

65. He disagreed with the suggestion that interest in higher education for UKeU had waned as time wore on, saying that those who were interested became more supportive.<sup>46</sup> Despite this, **it appears to us that the wave of enthusiasm which caused all but a handful of higher education institutions to sign up to the UKeU project receded very rapidly, leaving it without private sector investment or active higher education sector engagement.**

### A highly ambitious project

66. The idea for the e-University project was originally developed at the height of the dotcom era when it was thought that anything could be achieved through the internet (see paragraphs 5 to 8). The market for online learning was projected to grow rapidly in the future and, with ventures that had already started in the US, the UK Government was keen to set up the e-University project to ensure the UK would be a major player in this market.

67. **We have found that, although there were ambitious aims for the project before UKeU was established, it added to the pressure by taking very ambitious business decisions.** Not only did UKeU decide to start with the global market first, but they also took on the whole product chain—right from the start.

68. As the PA Consulting Business Review of UKeU stated:

‘Like any new enterprise, the first task for UKeU has been to determine the business model, or value proposition, through which it will seek to generate value and earn income in its chosen markets. Most e-businesses seek to build their competitive position in some but not all elements of the customer value chain. The business model and strategy developed by UKeU for the eU is notable in that it seeks to offer a fully-integrated end-to-end value proposition which reproduces the full customer experience offered by a conventional university. The services offered by UKeU extend from market intelligence through the sourcing of products (from selected universities) to channel management (through country-based business managers and HE partners) to on-line delivery (via its proprietary platform) with associated customer support services, and finally to cash collections from end customers.

‘This is an especially challenging strategy for UKeU to have adopted, since it demands a wide range of very different business capabilities and operating cultures within one organisation. It also entails a high fixed cost infrastructure which must (a) be fully developed before any revenues start to flow, and (b) must then be maintained and serviced before those revenues show a profit. These features of the

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45 Q 198

46 Q 199

eU value proposition lie at the heart of the financial difficulties facing UKeU. The chosen strategy has entailed a very long and expensive start-up phase for the business, not yet completed, which then demands a very rapid ramping up of revenues in order to achieve break-even within an acceptable period.<sup>47</sup>

69. UKeU chose an ‘especially challenging’ strategy that demanded a wide range of very different business capabilities and operating cultures within one organisation. In trying to do it all, UKeU set itself an impossibly ambitious business model. It should instead have focused on just some of the elements of the ‘customer value chain’.

70. UKeU also set itself ambitious objectives as a result of the markets it targeted in the early stages (see paragraph 23). There is no reason why UKeU could not have started in guaranteed markets—or indeed in the home market. In his evidence to the Committee, Sir Anthony Cleaver said:

‘We did not know at the beginning what quick winners would be.’<sup>48</sup>

71. Based on detailed work on target markets by CHEMS and PwC, the original PwC business model assumed that the initial low-risk markets targeted by the e-University would be:

- a) selected UK postgraduate and continuing professional development courses;
- b) servicing the needs of ‘corporate’ universities;
- c) selected overseas markets.

72. The grounds on which UKeU decided to move away from the advice of the original PwC business plan are not clear, other than an ambition to enter the perceived global market for wholly internet-based e-learning. The Minister for Higher Education told us:

‘I think probably it would have been very wise to have had a crack at postgraduate work first. There very often you might have another job, you might be doing other things, and you would want to be primarily based on your PC or your laptop. I think we could have tested that one first before going for this great mass of undergraduates that we assumed would be flocking to this platform.’<sup>49</sup>

‘... (there was) a great deal of ignorance about what...might have been a success...had perhaps the focus been a little narrower at first and less ambitious...it could well have been a success.’<sup>50</sup>

73. In focussing so explicitly on the global market, UKeU was not just migrating from the original business plan, but also failing to undertake one of the explicit aims and objectives for the project as identified by the Minister in the HEFCE Grant Letter of 2001. The 2001 Grant Letter highlighted two particular aims and objectives for which the project was

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47 Business Review of the UKeU conducted from September to December 2003 by PA Consulting, commissioned by HEFCE. Not published.

48 Q 171

49 Q 465

50 Q 394

originally set up, including 'ensuring that the social inclusion agenda remains a priority, primarily through the development of undergraduate courses to reach those in this country who find it difficult to access the more traditional campus-based university' (see Annex 1). In choosing to focus so exclusively on the global market, UKeU clearly failed to meet this Government objective.

## 4 Lessons for Government

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### Accountability and Risk

#### *Accountability of UKeU senior management*

74. The senior management of UKeU were responsible to the UKeU Board of Directors—appointed by the Holding Company. The Holding Company Board was appointed by HEFCE. The Chief Executive of the HEFCE was the Accounting Officer responsible for the expenditure of public money, but not for the operating decisions of UKeU (although through the Holding Company, HEFCE had insisted as a condition of grant that UKeU was consistent with best practice in the commercial sector).

75. An example of the distance between the operations of UKeU, and the accounting officer is that HEFCE were unaware of the bonus scheme in place for senior management at UKeU. In 2002–03, John Beaumont’s basic salary was £180,000 and he received a performance-related bonus of £44,914. It appears that the criteria for achieving the bonus were not particularly stringent. In March 2003 the technology platform was running a year late and no courses had been launched—the initial pilots that had been due to be launched in Spring 2003 were delayed until Autumn 2003. HEFCE told us that they were surprised when they found out about the bonus scheme. Sir Howard Newby said:

“There have been quite a few surprises along the way. I also have to say, on the bonus scheme, that I am not personally very happy with what I know of the bonus scheme that was in Opco, but it was not something that required, or had our approval, before it was put in place and all we could see was that they had a governance structure which looked perfectly straightforward and proper.<sup>51</sup>

“There was a properly constituted remuneration committee which determined the contracts and bonuses payable to the directors and other employees of the company. We had, through Hold Co, insisted, as a condition of grant, that the operating company abide by best practice with regard to the governance of a commercial company, and we are satisfied from the structures they set up that that was indeed the case. I have to say to you I was unaware of the nature of the bonus scheme that the remuneration committee and the board had endorsed, and I share my chairman’s view that the outcomes are not ones we feel very comfortable with.<sup>52</sup>

76. The running of the venture was handed over to UKeU with limited restrictions. The management were able to take their own approach, and that, based on limited information and no further market research, they made strategic decisions about the target markets, courses, pricing strategies, and other major operating decisions. For example, there was a shift in emphasis by UKeU away from the original PwC/HEFCE recommendations—a shift towards the international market. The UKeU board took the view that the major growth market was overseas. Sir Howard Newby told the Committee that:

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51 Q 74

52 Q 83

‘I think there was a shift in emphasis, yes. I do not think it was one or the other but once the e-University Opco board had been set up, they certainly felt that there was a major opportunity here, if you like, for UK export earnings...I think it is fair to say that the Opco board took the view that the major growth market was overseas, especially in Asia.’<sup>53</sup>

77. The fact that UKeU was able to move away from the original PwC/HEFCE recommendation and have this change in emphasis, without having to justify such a move as an evidence-based decision, demonstrates the lack of accountability of the senior management team. As the Minister described the position to the Committee:

‘UKeU was a company which was set up; it had a proper board; it was limited by shares. It should have been able to make the balance between being overly concerned with getting the technological platform right or with marketing or with the product that they were aiming to sell. That is what companies are there for. Sir Anthony Cleaver and John Beaumont were paid a large amount of money to run that company and they both came trailing clouds of great reputation behind them. One would have thought that that company would have had a grip on those kinds of things that were going on inside that company. I do not think HEFCE can be blamed for that and I do not think the department can be blamed for it.’<sup>54</sup>

78. The extent of the free hand that UKeU was given to take such strategic decisions went further than this, though. UKeU did not have a formal statement of its business objectives and strategy, and nor did HEFCE ask for one. The PA Consulting report identified certain strategic directions, but had to infer strategic intentions from other sources. HEFCE said to the Committee:

‘It is true to say that we were a bit surprised that there was no formal business plan, as I would have understood it, in the autumn of 2003. We certainly had had, however, oral briefings from the Chairman of Opco and the direction in which they were taking the business was known to us.’<sup>55</sup>

**79. With no private investors, the sole reliance on public money, and with no direct accountability for the expenditure of that public money, UKeU had a very high degree of freedom. It could be argued that this was necessary in such a high-risk venture, but it should have been more accountable either through controls appropriate for a public sector organisation or through carrying some risk as a private company.**

80. The original proposal was for the accountability and risk to be commercially driven through private investors in UKeU. The original Government objectives, and the original HEFCE/PwC business plan, stated that UKeU was meant to be an effective partnership with HEIs, and that it was meant to be a joint public-private venture. Indeed, one of the conditions of grant was that the business should seek 50/50 public/private funding to put commercial drive and accountability into the venture.

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53 Q 23

54 Q 421

55 Q 59

‘It was a condition of our grant at the outset that the business should seek 50–50 public-private contributions, both to mitigate risk to the public purse but also to put commercial drive and accountability into the venture.’<sup>56</sup>

81. Other than signing a strategic alliance with Sun Microsystems Ltd to develop the technology platform, UKeU failed to secure any significant private investment (see footnote 14). Indeed, proposals UKeU put to HEFCE in 2003 contained no provisions for private sector investment until after 2009. In other words, without such private contributions, there was no commercial drive or accountability in the venture.

**82. An important lesson to be learnt is that senior management should have had either very clear accountability for the expenditure of public money, or risk from market pressures to succeed through private investment in the project. A high risk venture such as this does not necessitate a high risk approach to structure and accountability. Where there is a significant distance created between the accounting officer and the decisions taken by the senior management of the operating company, there needs to be either clear lines of accountability or some market risk.**

### ***Accountability role of HoldCo***

83. UKeU was set up with the intention that the HoldCo would hold 50% of shares in UKeU, representing the public sector half of the venture. The original role of the HoldCo in terms of monitoring UKeU was quite limited. As we have discussed, private sector investment was intended to bring in its share of accountability to UKeU through market forces. The role of HoldCo was to act as a quality assurance body for the HE sector, and to consider the value for money of public investment in UKeU.

84. In its quality assurance role, HoldCo held the licences through which UKeU could deliver HE courses from particular Universities and theoretically could withdraw such a licence if required. Along with the Committee for Academic Quality which HoldCo set up, this hold on licences gave it effective control over quality assurance.

85. The holding company was the body through which HEFCE was able to invest public money in the e-University venture without having any direct relationship with the operating company. HEFCE granted HoldCo funds to invest in the operating company. In light of this, HEFCE expected HoldCo to have a role in ensuring value for money in terms of public investment in UKeU. Sir Brian Fender, former Chairman of HoldCo told us:

‘The Funding Council expected the holding company to be aware of value for money when passing money from the Funding Council through to the operating company, and I think that is a role we accepted, but we have to do it in a rather limited way, as you can imagine, because this is a voluntary or an unpaid Board with a part-time and modestly paid, I might say, Chief Executive, and there is a limit to how we could investigate the value for money of the operating company.’<sup>57</sup>

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<sup>56</sup> Ev 2, para 14

<sup>57</sup> Q 615

86. When UKeU was established, equal shares were given to the public sector shareholders (HoldCo) and the private sector shareholders (Guillemont and Croft Nominees). Over time, however, as more public funds were invested into UKeU, HoldCo became the far more dominant shareholder and this affected the relationship between HoldCo and UKeU. Sir Brian Fender told us:

‘When the next (public) investment was made (through HoldCo) and there was no parallel private investment, then we became the parent company; so that was a matter for concern.’<sup>58</sup>

87. It was as a direct result of the lack of parallel private investment that HoldCo became the sole agency through which UKeU was accountable. Dr Lepper, Secretary to the HoldCo Board, said that:

‘at a fairly early stage the holding company became the parent of UKeU, and a number of us, including the directors, were not particularly satisfied with that situation, because it did mean that the Board was actually responsible for the actions of UKeU when it was not set up to take that responsibility. That is, I think, why Sir Brian said we had to look for an alternative structure.’<sup>59</sup>

**88. Our inquiry has found that HoldCo became the primary accountability agent, but this was not the original intention. As a result, HoldCo only had the formal structures in place for it to perform a very limited monitoring role where this role needed to be much more significant. With no private investment, the structure needed to change to develop the role and capacity of the HoldCo to hold UKeU to account.**

89. HoldCo advised HEFCE that the existing structures needed changing in autumn 2003 at which time HEFCE asked PA Consulting to undertake a full business review of UKeU. Sir Brian Fender told us:

‘Given that the structure was set up as if there were 50–50 funding from the public purse and the private purse, we said, “Hang on, what we have got now is essentially a publicly funded body and the prospect of private investment receding.” I remember raising it with Howard Newby, I think on 9 October, if my memory serves me right, and said, “Look, we have got a mismatch now between the structure and the funding”, and, of course, the Funding Council then set up, it was always going to set up, a review...it is absolutely clear to me that at the end of 2003 we needed a new structure which reflected the fact that it was tax-payers’ money that was going into this project and not a 50–50 mixture.’<sup>60</sup>

### **Accountability of HEFCE**

90. The Chief Executive of HEFCE was the accounting officer for the £62 million of public funds. In evidence given to the Committee in June 2004, Sir Howard Newby, Chief

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58 Q 634

59 Q 629

60 Q 622

Executive of HEFCE, described his role as the ‘monitor, not the manager’ of UKeU. He told us:

‘If I may say so, we are approaching one area...which I personally did find extremely difficult, and that is where my responsibilities as an accounting officer end and those as a shadow director begin. This is what was unique about this venture...when we deal with a conventional university, my role is very clear: I am the accounting officer for the sector, the vice-chancellor or principal is the accounting officer for the institution. That whole relationship is set out in a financial memorandum between ourselves and the governing body of the institution, and my rights and responsibilities are very clear.

‘In this case, because it was set up as a commercial venture, company law comes into play, where I have to be very, very careful—and I was always cognisant of this—of not acting or being seen to act as a shadow director, and yet I had accounting officer responsibilities which might, if it had been a more conventional institution, have led me to act in a way which might have been judged as acting as a shadow director.’<sup>61</sup>

91. As we have seen from the previous section, in practice there was a conflict between the role of the accounting officer and the role of the shadow director. UKeU themselves recognised the conflict. In evidence John Beaumont said that he thought the accountability arrangements could have been better.<sup>62</sup>

92. As the accounting officer, the HEFCE Chief Executive was legally restricted from being involved in operational decisions. This is necessary where private investment is involved, but in this particular case, UKeU was, in practice, wholly publicly funded. **In the absence of risk from market pressures, the accounting officer needs to be able to make accountability reach down to the operational level. The Government will have to consider the implications of this conflict in the role of shadow director and accounting officer for any future projects.** As stated by HEFCE in evidence to this Committee:

‘I think I would want to establish very clearly, as I said earlier, how we get around this problem of shadow directorships conflicting with my accounting officer role. That is a very serious lesson to learn from that.’<sup>63</sup>

93. In evidence given to this Committee, UKeU senior management staff claimed that they should have been given longer to succeed and that the project was cut short before they could deliver against their targets. However, when we consider the evidence that they were pursuing an ‘impossibly ambitious business model’, that they were following a narrow definition of e-learning, that their market research was woefully inadequate, and that they focussed on the development of technology over the needs of the learner, we must conclude that their supply-driven approach was not going to produce the intended results.

94. Why then did HEFCE not call a review of the business model at an earlier stage—for example, when the UKeU had failed to get private investors interested? A risk assessment

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61 Q 25

62 Q 327

63 Q 28

was undertaken, but if there was an agreed set of actions for the accounting officer to undertake based on the assessment of risk, it is difficult to see where they were followed.

95. Marketing, for example, has been identified by both HEFCE and the Minister in evidence to this Committee as the main failing of UKeU. If this is the case, why was this not identified and acted upon at an earlier stage? Press articles have suggested that many HEIs were feeling uneasy about UKeU from as early as 2002. We know that some HEIs pulled out of partnerships with UKeU at various stages. We also know that potential private investors such as Pearsons pulled out of any partnership with UKeU when they had originally shown interest. Why were these signals not picked up on?

96. In evidence to the Committee, Sir Howard Newby explained that:

‘I think it is fair to say, Chairman, that as events unfolded in 2002–03 there were those in the sector who were questioning whether the rather—if I can put it this way—technology-led approach, which the Opco board had adopted, was the appropriate approach. But I have to emphasise, at the time, that was an opinion and, as my Chairman said, we were waiting to get some hard facts before we could authoritatively intervene, rather than trade opinions with those, as you rightly say, who were heavy hitters, who had experience in the IT world, and who had the commercial background as well. Who were we to question their opinion on this matter?’<sup>64</sup>

97. Based on the reputation and expertise of the senior management and board members of UKeU, HEFCE did not believe they were in a position to question their strategic decisions until there were definite output measures—in this case, student numbers. Whilst this is an understandable position for HEFCE to take, it did mean that funding continued for over two years to UKeU without a robust analysis of the business decisions that were being taken.

**98. A key lesson to be learnt is that, in high risk ventures such as UKeU, a great deal more needs to be done to support the accounting officer to enable him to act effectively in his role. The accounting officer must have at least equal expertise available to him as is available to the company in order to hold such an unusual public-private venture to account. The accounting officer in the public sector must have the backing of experts with a high reputation to assess such public-private ventures against agreed benchmarks and criteria for success.**

**99. A group of advisors to HEFCE including members of PwC who produced the original business plan, and experts from The Open University and British Council, for example, could have been put together to keep UKeU in much closer account in terms of the decisions they made. This would have enabled much closer accountability from the start of the project.**

### **Accountability of the DfES**

100. HEFCE's relationship with UKeU was an arms-length relationship, and the DfES relationship with HEFCE as an NDPB is also an arms-length relationship. As a result the accountability to the Minister was very indirect.

101. The Chief Executive of HEFCE was the accounting officer, not the Permanent Secretary of the DfES. It is HEFCE that would be accountable to the PAC. Dr Howells said that the Minister at the time had no choice in these arrangements, and that this was the normal way of funding higher education projects through HEFCE. However, this is not strictly true. The DfES can run higher education projects directly and have done so in the past, for example the Aim Higher project. The choice was made to operate UKeU through HEFCE. Sir Brian Fender told us that the idea for the project came from him,<sup>65</sup> therefore it is not surprising that HEFCE was asked to set up the venture, although it clearly suited the DfES to run the project at arm's length.

102. The question to be asked is whether there is a lesson to be learnt for the DfES in terms of running more projects directly. Did they lose control over the project by handing it over to an NDPB? Would the DfES have run the project differently? The answer to the first question is that the Minister did not lose any influence by having UKeU run through HEFCE. The Minister still had regular update meetings—not just with HEFCE, but also directly with UKeU. We know from HEFCE's evidence that the Minister was regularly briefed on the progress of UKeU by HEFCE. We also know, from evidence given to the Committee by Sir Anthony Cleaver and John Beaumont, that the Chairman and Chief Executive also met the Minister every six months. In answer to the second question, it is not likely that the outcome would have been any different if the DfES had been running the project directly. **We have heard no evidence to suggest that the DfES would have arranged structures differently if it had chosen to run the project directly.**

103. There is a case, in a high risk project involving public money such as this, for the DfES to have agreed with HEFCE measurable benchmarks and criteria for success. The difficulty in this particular example is that there were some agreed success criteria—the involvement of private investors, the launch of the platform, and student number targets. The appropriate risk assessment had been undertaken and agreed by the Minister. Difficult decisions had to be made when there were early signs of the targets not being met (no private investors interested, platform delays). As discussed in paragraph 98, the problem was that those whose role it was to hold UKeU to account did not have equivalent expertise to the UKeU senior staff and board members, and therefore put faith in their reputation and expertise until there were more concrete output measures to consider (very low student numbers). The DfES would have been in no better a situation than HEFCE as the accounting officer in this case.

104. **The lessons for the Government on ensuring accountability are the same as those for HEFCE: in high risk ventures such as this, more needs to be done to support the accounting officer to enable him to act effectively in his role. The accounting officer must have equivalent expertise available to him in order to hold such a public-private venture to account.** The Government needs to learn how to work effectively with private

investors—how to utilise market pressures in joint public-private partnerships and how to involve the private sector in a more organic process of developing new projects. We have expressed concerns about these problems before, in our report on Individual Learning Accounts and in our report earlier this session on the DfES' management of its expenditure.<sup>66</sup> **The DfES must improve its working practices if it is to continue to work with the private sector**

## Evidence-based policy

### *Use of existing evidence*

105. The outcome might have been very different if existing research had been utilised regarding both the approach to e-learning (pure or blended) and the progress of comparable ventures in other countries.

106. Dr Howells told us that there should have been more testing of various models, approaches, and prototypes.

‘I am a great believer in testing models. I think we should be much more evidence based in terms of how we devise policy and run organisations. We probably could have done with more time in terms of looking around the world, perhaps not reacting as quickly as we did to what we perceived to be great threats coming mainly from America of our own students being captured to do degrees by universities like Phoenix and so on.’<sup>67</sup>

‘I think we should pilot and test more often with these kinds of things, so probably we could have been a little bit more modest in our aims and also used some of the great expertise that is out there...I can see that there was a real sense of adventure at the time that this was a great new future and we had to be in there right at the very beginning. It is easy for me to say this with hindsight now.’<sup>68</sup>

107. Robust and reliable market research information could have guided UKeU in a very different direction. Whilst it was the case that UKeU inherited an ambitious project, this need not have had the hold on subsequent strategic decisions that it did have. The ambitious nature of the original idea for the project alone cannot be blamed for the failure of UKeU. If UKeU had made proper use of market research, the initial ambition for the project would have held less importance.

**108. The problem for UKeU was a combination of the ambitious nature of the original idea, and an over-confidence about the level of demand for e-learning which led to an approach which was insufficiently focussed on research and marketing and which was not learner-centred. To be successful, the project's main focus should have been on clearly identifying its market and knowing the demands of its customers.**

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66 Education and Skills Committee, Third Report, Session 2001–02, *Individual Learning Accounts*, HC 561–I, and First Report, Session 2004–05, *Public Expenditure on Education and Skills*, HC 168.

67 Q 464

68 Q 464

109. **The lesson to be learnt is that such high-risk ventures entering new and emerging markets must have a focus on front-line research. They need to have the flexibility to adapt to changing market trends, and directors/managers must be able to make strategic and operational decisions, but these decisions must be evidence-based and rooted in robust and reliable research information.**

### ***The Government's approach to risk***

110. It was HEFCE's responsibility to conduct a Risk Assessment of the project. HEFCE's risk register for the UKeU project was shared with the DfES and endorsed by the Minister in 2001. We were told by Sir Howard Newby that '...the risks which have come to fruition...were risks that were identified in the original register'.<sup>69</sup> It is not obvious what actions were taken to mitigate risks or whether previously agreed actions were taken where risks did occur. Was there an agreed action plan for the accounting officer in light of the risk assessment; and if so were these actions taken?

111. There are lessons to be learnt about the Government's attitude to risk. UKeU was approached not as an experiment or pilot but as a fully fledged project and, as a result, its failure has brought questions of accountability as well as of the lessons to be learnt. We do not wish to make the Government too risk-averse. In his evidence to the Committee Dr Howells raised the issue of risk:

'I certainly think it was a very risky experiment. I would not go so far as to call it a disaster because I am quite interested in the lessons that we have learned. In terms of some of the things that the Americans have tried and failed at, for example, this is pretty modest stuff. There is a very different mentality in this country, by the way, about risk and the consequences of failure...Having said that, the Chairman put his finger on it, this is not private money; this is taxpayers' money. The Chairman also said very early on, 'we have also got to be careful that we do not make the government risk-averse.' I draw from that the lesson that we have to make sure that those structures are right, that they are very clear and very open and that people can measure those yardsticks.'<sup>70</sup>

112. **We do not want the Government to become increasingly risk-averse as a result of the UKeU experience. Instead it should learn from this experience and, in the future, take a more experimental approach to such high risk ventures. This would involve focussing more on testing various models and prototypes; taking an evidence-based approach; involving the private sector as partners in a more organic process; undertaking effective risk-assessment procedures; and setting open and transparent success criteria for such projects.**

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69 Q 102

70 Q 432

## 5 Future for e-learning

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### A learner-centred approach to e-learning

#### *Blended learning*

113. In July 2003, HEFCE consulted on their strategy for promoting e-learning in higher education. Respondents overwhelmingly requested a strategy that emphasises ‘blended’ approaches to learning and teaching—where e-learning via the web or other technologies is augmented by more traditional methods, including classroom sessions, and the use of books and other resources—rather than wholly computer based learning. In promoting blended learning, respondents requested an approach that is not restricted to the use of technology and emphasised that e-learning is a process, not a product.

114. Dr Howells commented that he was surprised that UKeU were not pursuing a blended approach to e-learning.

‘Yes, I was very surprised by that because the experience of mixing with other people and of speaking face to face with tutors and lecturers and so on is a key part of university experience and of the learning experience in general.’<sup>71</sup>

‘I think it has been learned and it is a very important lesson. We know, for example, from failures in other countries as well that what people want is not simply to be able to access information and programmes on their screens; they also want face-to-face meetings and they want to be part of something that people of our generation called a university.’<sup>72</sup>

115. The Government’s White Paper ‘The Future of Higher Education’<sup>73</sup> spoke of working with partners to embed e-learning in a full and sustainable way within the next 10 years. The Government and HEFCE have given a strategic commitment to e-learning. However, they have not yet explained how blended e-learning is actually going to be ‘embedded in a full and sustainable way’ in the next 10 years.

116. In their Memorandum to the Committee, the HEFCE said:

‘We are now working with the Department for Education and Skills, and particularly with our implementation partners JISC and the HE Academy, to finalise the strategy and devise an action plan for its implementation. Evaluation of the lessons learnt from the e-University project will form part of the research component of our strategy. We plan to issue the strategy in the autumn.’<sup>74</sup>

117. HEFCE are now planning to publish their strategy early in 2005. **The Government, through HEFCE, must deliver on its commitment to outline its strategy, and action**

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71 Q 459

72 Q 457

73 DfES (2003) ‘The future of higher education,’ White Paper on Higher Education, Department for Education and Skills.

74 Ev 5, para 31

**plan for its implementation, for embedding e-learning in HE in a full and sustainable way.**

### **Future research**

118. Evidence suggests that further research is needed into the future direction of e-learning. UKeU has also taught us that a focus on technology must not drive such research. In evidence Sir Howard Newby said:

‘The first lesson I would learn is that the development of e-learning needs to be learner-centred rather than technology driven. We need to know a lot more about the needs of learners and, if I may get a little bit technical here, the form of pedagogy that e-learning involves’.<sup>75</sup>

119. In a press release in May, the HEFCE said ‘The main aim of the restructuring, is to maintain the development of good e-learning practice, but to anchor that in the UK’s universities themselves. To that end, the e-China project, a UK–Chinese intergovernmental project to foster and exchange e-learning technology and practice, will be housed with the University of Cambridge. The £3 million funding of that project will continue. The UKeU’s e-learning Research Centre, which aims to be a world-class research group in the field, is also to be managed by Manchester, Southampton, and the Higher Education Academy.

120. The Minister clarified the future of the e-Learning Research Centre. Dr Howells said:

‘The e-Learning Research Centre aims to identify and investigate research problems in the field of e-Learning. They, of course, have strategic importance for the sector as a whole. Originally it was set up as part of the e-University’s programme within UKeU and it will now operate under the guidance of the HE Academy. One of its objectives will be to ensure that the HE sector benefits from the work of UK e-Universities worldwide. It is based across two locations, the University of Manchester and the University of Southampton. They will work closely together to ensure that their activities are aligned and to this end their work will include a number of joint projects and research activities. If I could just expand a little on that, the focus of Manchester will be in the area of process modelling based on the concept of an end-to-end process for design development, evaluation, delivery and maintenance of e-Learning, and the focus at Southampton will be on the pedagogic aspects of e-Learning in the end-to-end process of development.’<sup>76</sup>

121. A key part of the research will be to share good practice in both pedagogy and technological development across the sector. From the very first HEFCE consultation in 2000<sup>77</sup> some HEIs recognised the issues of commercial sensitivity in this area. The Government and HEFCE will need to take effective action in their responsibility to give clear direction on these areas of sharing good practice and commercial sensitivity.

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75 Q 136

76 Q 456

77 HEFCE publication, 2000 (00/43)

122. The Minister expressed a strong belief in the fact that there was a bright future for e-learning:

‘Oh yes, there is no question about it. There is too much evidence out there, especially in schools, where teachers are using this very imaginatively. There are some tremendous programmes being devised. It comes back to the question you asked about what it is that people feel comfortable with and what they want.’<sup>78</sup>

123. All the evidence we have received agrees that there is a great future for e-learning. Exactly how that future will unfold is still unknown—five years on from the development of the original idea for the e-University project.

124. Given the increasing role of FE Colleges in delivering HE, it is important that collaborative projects across the two sectors are sought out. There is likely to be a great deal of overlap in terms of the research required into e-learning between the two sectors and we should not be duplicating investment where resources are limited.

125. The Government, through HEFCE, have the remaining £12 million to develop the future of e-learning. In the Minister’s view this was sufficient funds:

‘They have got the residual amount of about £12.5 million at the moment to experiment with. That is a fair chunk of money and I would have to see some very good plans before I would say, "Okay; there is another ten million funds. Get on with it".’<sup>79</sup>

**126. The Government, through HEFCE, should state as soon as possible how it intends to invest the residual £12 million funds remaining from the e-University project in order to meet its commitment ‘to embed e-learning in a full and sustainable way’ over the next 10 years. In doing so, it should keep in mind the importance of collaborative projects across the FE and HE sectors.**

## The market for e-Universities

### *The future of the platform*

127. The technology platform that was developed for UKeU by Sun Microsystems UK Ltd was a functioning platform when the first set of courses were launched in September 2003. Work was still needed to develop the platform further and to iron out the difficulties that emerged through use of the platform, but in essence a working platform existed. Given that £14.5 million of public money was invested in developing this platform, it is important to ascertain the ownership and future of the platform.

128. The value of the platform itself is largely vested in the ownership of the intellectual property rights (IPRs). The IPRs regime for the platform is complex, with some elements owned by Sun Microsystems Ltd, some owned by UKeU, and some owned jointly. Neither HEFCE nor HoldCo could exercise any control over the IPRs. HEFCE is in negotiation with Sun with regard to the ownership of IPRs to try and ensure that the HE sector may

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78 Q 465

79 Q 469

benefit from an asset which might become exploitable in future. Leslie Stretch, Vice President of Sun Microsystems UK, told us that it was Sun's intention to ensure that any future benefits are delivered back to UK education:

‘The intellectual property of the platform has substantial value in our view. Our objective—and we are almost there with an agreement on a memorandum of understanding with HEFCE—is to see that the system has a life and benefits are delivered back to UK education, not just higher education. In high-level, broad strokes that is the plan at the moment.’<sup>80</sup>

129. David Beagle, also of Sun Microsystems, said:

‘...our main aim is to make the ability to use the platform available to UK education in general at no charge, so where the IPR actually rests is, in our view, not the most important thing, it is how we make the benefits of all that effort available to UK education for the universities, schools, FE colleges, what have you, and what we are trying to discuss with HEFCE is how we make the platform (as is) available to them either in total or in individual modules for them to use.’<sup>81</sup>

130. An essential part of closing down the UKeU project was ensuring that, in the final stages, all was done to promote the best use of existing assets and exploiting lessons that had been learnt. It has been suggested by several witnesses that the final stage of close-down was too hurried. The administrator, Robson Rhodes, was appointed in March 2004 and the project was brought to a close on 18 June 2004. It has been suggested that this did not allow enough time to make the most of existing assets and to discuss the lessons learnt and ideas for the future. Leslie Stretch, Vice President of Sun Microsystems UK Ltd said:

‘The short answer is we still see that today and in the closing stages when Robson Rhodes were involved we discussed a number of different options. I feel that we ran out of time to explore those more fully. We have learnt a great many lessons about the governance, about the key parameters around the business venture, and we do not want to throw the baby out with the bath water.’<sup>82</sup>

**131. £14.5 million of public funds was invested in the development of the UKeU technology platform. At present it is not clear how much of this investment can be recovered, or to what use the platform can be put. Whilst it is too early to determine the future value of the platform, it is important that the returns should be maximised and that they should be invested back into e-learning.**

### **Market research**

132. The global market for e-learning is still in its very early stages. It is an emerging market that is not well understood and more research is needed. Little is understood about the importance of brands, for example. Institutions as well regarded as Cornell and Columbia Universities in the United States have had significant difficulties in making e-

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80 Q 563

81 Q 567

82 Q 571

learning projects work.<sup>83</sup> In the original HEFCE consultation with sector in October 2000, some HEIs were concerned that there would be branding challenges in an e-University that worked with a wide range of HEIs<sup>84</sup>. Dr Howells told us:

‘I am not sure that was the reason why there were such abysmal numbers of students signing up to this but I have no doubt whatsoever that if there was a clearer brand --- I get tangled up just trying to say UKeU anyway. I do not know who dreamt that one up but it is not a great title. It is typical of the sort of rubbish that was around at that time.’<sup>85</sup>

133. Manchester and Southampton are continuing the work of the e-Learning Research Centre into terms of process development and pedagogy, but nobody has been identified as conducting market research to understand better the global market for e-learning. If commercial sensitivity is an issue that has been identified for the existing research being undertaken at the e-Learning Research Centre, then it must be recognised as having a much greater impact in terms of market research.

**134. We recommend that the Government, through HEFCE, ensures that thorough and robust market research is undertaken for use by the whole sector in order to maintain the UK interests in the global market for e-learning, keeping in mind the commercial sensitivity of such research, and the potential for collaborative projects between the FE and HE sectors.**

135. In 2003, the global research firm Gartner, forecast that ‘...online learning will be the most widely used web application by 2005.’ Now we are in 2005 that projection seems unlikely to be proved accurate, but there is likely to be a large future global market in e-learning and the Government must ensure that the UK does not miss the opportunity to be a part of this market. The UK needs to be at the forefront of understanding the global market for e-learning.

### **Support and Guidance for HEIs**

136. A key responsibility for the Government, through HEFCE, is the support and guidance needed for HEIs entering the global e-learning market.

137. The original idea to establish the UK as a leading player in the market for online learning, building on its international reputation for high quality provision of HE, was widely supported by universities and colleges—many of whom were already involved in the provision of e-learning, both in the UK and in markets abroad.

138. Edinburgh’s Interactive University (IU), for example, has a teaching programme that, over the past 18 months, has attracted 75,000 students from more than 23 countries.<sup>86</sup> This already includes approximately 1,200 HE students—this is in comparison to the 900 UKeU students. The IU is promoting the reputation of Scotland’s leading HEIs abroad.

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83 ‘The online revolution, mark II’, *The Guardian*, 13 April 2004

84 HEFCE publication 2000, (00/43)

85 Q 461

86 ‘Top Scholar’, *Times Higher Education Supplement*, 19 October 2004

Edinburgh University, Aberdeen University and Heriot-Watt are all offering courses to other countries. In contrast to UKeU, IU is a not-for-profit enterprise and reinvests in programmes to deliver high quality education. As noted by the Minister for Higher Education, branding will have played its part in the success of the IU so far:

One of the reasons is certainly the one the Chairman touched on, which is that Edinburgh is a very clear brand, people want to be associated with it. There was no fog surrounding what it might end up as.<sup>87</sup>

139. Whatever the precise reasons for the success of the IU, the Government, through HEFCE, is responsible for identifying the successful practice that is operating both in the UK and abroad and ensuring that such good practice is shared across the sector. This Committee recommends that the Government, through HEFCE, develop clear guidelines and methods of supporting the sector in entering the global e-learning market—including guidance and support on joint-ventures, branding, market information, pedagogy, systems technology and any other information, advice, guidance, and support they might need.

140. In evidence HEFCE said that they believed the future for e-Universities was to support groups of universities that are developing e-learning capabilities instead of having one single e-University to develop everything. Sir Howard Newby said:

‘That, therefore, puts individual universities or, if you wish, small groups of universities at the forefront of this, rather than having a single e-university attempting to develop, market and sell on behalf of all of the sector.’<sup>88</sup>

141. The Government has not yet clarified its thinking in this area, and has not identified the lessons it has learnt from the UKeU project.

‘I have to admit to this committee that I am still very unclear about this particular project, UKeU. I think we have learned some lessons from it but, whether or not we are going to become great world players, if indeed there are going to be great world players in this area, which I think is a different matter altogether, we ought to have enough humility to ask ourselves if the original idea, exciting though it was, was not a little too ambitious.’<sup>89</sup>

142. The Government clearly does need to draw lesson from what has happened with UKeU. The most harmful outcome for the UK would be for the failure of UKeU to put off other collaborative ventures in e-learning. The global e-learning market is currently estimated to be worth £18 billion.<sup>90</sup> **We recommend that the Government, through HEFCE, clarifies how it intends to invest in and support collaborative ventures in e-learning both across the HE sector, and between the FE and HE sector, in a way that provides equal opportunity and advantage to all those who would wish to be involved in the global market for e-learning.**

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87 Q 474

88 Q 136

89 Q 460

90 *Times Higher Education Supplement*, 19 October 2004

143. A recent report from the Higher Education Policy Institute (HEPI) concluded that the future of e-learning in the UK lies in the need for a bottom-up development of blended learning within departments inside our HEIs. The report found that it was the human infrastructure that was the most important part of e-learning strategies within HEIs—not the technology. It was essential that academics had ownership of progress in e-learning within their departments and key individuals were given the opportunity to drive things forward. It also recognised a the force from ‘student pull’ as IT literate students enter HE with certain expectations. The report concluded:

‘A revolution is under way, and nearly all HEIs in the UK are part of it. Given clear aims, good advice, appropriate help, professional work, and a paced approach, rapid progress should be made. The UK has learnt from its past: the grand initiative era is over. An HEI needs good appropriate pedagogy, sound professional resource, and appropriate planning structures for eL within a coherent institutional framework and infrastructure. It must enunciate that framework for itself and implement it though local infrastructure and with national advice. The role of national bodies is to ensure that such advice is appropriately available, and that those working in eLearning can learn from the experience of others.’<sup>91</sup>

144. The findings of this inquiry concur with HEPI’s conclusions. **Whilst recognising the important role the Government has to play in providing support, information and guidance for e-learning to develop within HEIs, we conclude that the Government’s role in providing an overarching national strategy for e-learning is vital to ensure consistency, coherence, and clarity of purpose in developments across the sector. The Government, through HEFCE, must clarify its national strategy for developing e-learning in the UK and how it intends to invest in and support e-learning across the HE sector in a way that provides coherent progress.**

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91 *Spent force or revolution in progress? eLearning after the eUniversity*, Higher Education Policy Institute, 2005.

# Annex 1

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## Grant letter 2000

I am making available to the Council £62 million for the start-up and capital costs of the 'e-Universities' project over the three years up to 2003–04. This project is intended to be a collaborative venture between HEIs and the private sector. Whilst investment from private sector partners will also be key source of capital, given the potential benefits to all participants, institutions will also need to determine how much of their own resources are needed for effective participation in this venture.

## Grant letter 2001

Over the past year the Government has provided £14m of the £62m allocated at the last spending review for the start up and capital costs of the e-Universities project up to 2003–04. For the remaining two years of this funding I recognise that the Council's involvement in the project will be primarily through channelling funds through the e-Learning Holding Company to then pass on to the main vehicle for delivery, UK eUniversities Worldwide Ltd. The Council should ensure effective mechanisms are in place to secure value for money and fulfilment of the aims and objectives for which the project was originally set up. In particular:

- securing the viability of eUniversities as a self-financing business; and
- ensuring that the social inclusion agenda remains a priority, primarily through the development of undergraduate courses to reach those in this country who find it difficult to access the more traditional campus-based university.

I ask the Council to provide me with a progress report on this innovative project by the end of July 2002.

## Grant letter 2003

E-Universities. 2003–04 represents the final year of the £62 million committed to the eUniversities project, comprising £13 million in capital funding and £14 million recurrent. I continue to look to the Council to ensure effective mechanisms are in place to secure value for money and fulfilment of the aims and objectives for which the project was originally set up and to keep me closely informed on progress.

## Conclusions and recommendations

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1. We recommend that the way in which decisions to televise select committee meetings are made is reviewed with a view to giving Committees a more active role in the process. (Paragraph 5)

### Outcomes and expenditure

2. The UKeU failed to meet its targets, aims, and objectives. The launch of the first UKeU courses was delayed until September 2003. When launched, they attracted just 900 students against a target of 5,600. Furthermore, despite it being a condition of grant, UKeU failed to attract significant private investment. (Paragraph 23)

### Salary, bonuses and share packages

3. At the very heart of the failure of UKeU was that systems and structures that may have been considered appropriate when set against the original plan became inappropriate for a venture that was almost entirely publicly funded. (Paragraph 32)
4. We consider that for either the private sector or the public sector the bonuses paid to senior staff were wholly unacceptable and morally indefensible. The argument that they reflect private sector practice does not stand up to scrutiny. Any company which paid bonuses of this kind having underperformed in the way that UKeU did would face severe criticism from its shareholders. The non-executive directors who approved these bonuses through the Remuneration Committee cannot escape criticism. (Paragraph 33)
5. We are also unable to accept the view of the Chairman and Chief Executive that they were involved in a risk business which made such bonuses appropriate. The company was involved in a new and relatively untried sector, but it carried no market risk. It was backed with £50 million of public money; the risk was to that public investment, not to the company. (Paragraph 34)

### Why the UKeU failed

6. Our findings are that UKeU failed largely because it took a supply-driven, rather than demand-led approach. (Paragraph 35)
7. A supply-driven approach, combined with the very ambitious nature of the venture in an emerging market that did not sustain the high expectations of demand, and an inability to work in effective partnership with the private sector, led to the failure of UKeU to meet its targets, aims, and objectives. (Paragraph 36)

### The concept of e-learning

8. We have found that UKeU inherited a narrowly focussed definition of e-learning and chose to pursue that approach without questioning it at any stage. It did not

focus on research and development concerning the definition of e-learning, and it did not have a 'learner-centred' approach. (Paragraph 43)

### Use of market research and marketing

9. It is inexplicable to us that UKeU did not seek to forge a partnership with the British Council to help it to understand the markets that it was trying to enter and to develop strategies for selling its products in them. (Paragraph 52)
10. Evidence to this inquiry suggests that UKeU's understanding of their markets came from anecdotal evidence from individual discussions rather than from systematic analysis. There was no formal market research undertaken to assess either the level of demand or the nature of the demand and the type of e-learning required. There was no systematic evaluation of the markets, no thorough and robust market research, and no understanding of consumer demand. This was typical of UKeU's supply-driven rather than demand-led approach. (Paragraph 55)

### A technology-driven approach

11. UKeU allowed the development of the technology platform to drive its strategy and the development of programmes. It had a skewed focus on the platform, based on an assumption that once this was right, the original projections of very high student numbers would be easy to realise. Unfortunately this assumption was not based on research evidence, but on an over-confident presumption about the scale of the demand for wholly internet based e-learning. (Paragraph 60)

### A failure of partnership

12. UKeU's attempt to form genuine partnerships with the private sector, though unsuccessful, was commendable and could have helped UKeU to stay competitive and market-orientated. Instead, UKeU became another example of how difficult the public sector finds it to form successful partnerships with the private sector. The failure to find private sector partners or investors should, however, have caused the holding company, HEFCE and the DfES to have concerns sooner rather than later about the viability of the project. (Paragraph 63)
13. It appears to us that the wave of enthusiasm which caused all but a handful of higher education institutions to sign up to the UKeU project receded very rapidly, leaving it without private sector investment or active higher education sector engagement. (Paragraph 65)

### A highly ambitious project

14. We have found that, although there were ambitious aims for the project before UKeU was established, it added to the pressure by taking very ambitious business decisions. (Paragraph 67)

### Accountability of UKeU senior management

15. With no private investors, the sole reliance on public money, and with no direct accountability for the expenditure of that public money, UKeU had a very high degree of freedom. It could be argued that this was necessary in such a high-risk venture, but it should have been more accountable either through controls appropriate for a public sector organisation or through carrying some risk as a private company (Paragraph 79)
16. An important lesson to be learnt is that senior management should have had either very clear accountability for the expenditure of public money, or risk from market pressures to succeed through private investment in the project. A high risk venture such as this does not necessitate a high risk approach to structure and accountability. Where there is a significant distance created between the accounting officer and the decisions taken by the senior management of the operating company, there needs to be either clear lines of accountability or some market risk. (Paragraph 82)

### Accountability role of HoldCo

17. Our inquiry has found that HoldCo became the primary accountability agent, but this was not the original intention. As a result, HoldCo only had the formal structures in place for it to perform a very limited monitoring role where this role needed to be much more significant. With no private investment, the structure needed to change to develop the role and capacity of the HoldCo to hold UKeU to account. (Paragraph 88)

### Accountability of HEFCE

18. In the absence of risk from market pressures, the accounting officer needs to be able to make accountability reach down to the operational level. The Government will have to consider the implications of this conflict in the role of shadow director and accounting officer for any future projects. (Paragraph 92)
19. A key lesson to be learnt is that, in high risk ventures such as UKeU, a great deal more needs to be done to support the accounting officer to enable him to act effectively in his role. The accounting officer must have at least equal expertise available to him as is available to the company in order to hold such an unusual public-private venture to account. The accounting officer in the public sector must have the backing of experts with a high reputation to assess such public-private ventures against agreed benchmarks and criteria for success. (Paragraph 98)
20. A group of advisors to HEFCE including members of PwC who produced the original business plan, and experts from The Open University and British Council, for example, could have been put together to keep UKeU in much closer account in terms of the decisions they made. This would have enabled much closer accountability from the start of the project. (Paragraph 99)

## Accountability of the DfES

21. We have heard no evidence to suggest that the DfES would have arranged structures differently if it had chosen to run the project directly. (Paragraph 102)
22. The lessons for the Government on ensuring accountability are the same as those for HEFCE: in high risk ventures such as this, more needs to be done to support the accounting officer to enable him to act effectively in his role. The accounting officer must have equivalent expertise available to him in order to hold such a public-private venture to account. (Paragraph 104)
23. The DfES must improve its working practices if it is to continue to work with the private sector (Paragraph 104)

## Use of existing evidence

24. The problem for UKeU was a combination of the ambitious nature of the original idea, and an over-confidence about the level of demand for e-learning which led to an approach which was insufficiently focussed on research and marketing and which was not learner-centred. To be successful, the project's main focus should have been on clearly identifying its market and knowing the demands of its customers. (Paragraph 108)
25. The lesson to be learnt is that such high-risk ventures entering new and emerging markets must have a focus on front-line research. They need to have the flexibility to adapt to changing market trends, and directors / managers must be able to make strategic and operational decisions, but these decisions must be evidence-based and rooted in robust and reliable research information. (Paragraph 109)

## The Government's approach to risk

26. We do not want the Government to become increasingly risk-averse as a result of the UKeU experience. Instead it should learn from this experience and, in the future, take a more experimental approach to such high risk ventures. This would involve focussing more on testing various models and prototypes; taking an evidence-based approach; involving the private sector as partners in a more organic process; undertaking effective risk-assessment procedures; and setting open and transparent success criteria for such projects. (Paragraph 112)

## A learner-centred approach to e-learning

27. The Government, through HEFCE, must deliver on its commitment to outline its strategy, and action plan for its implementation, for embedding e-learning in HE in a full and sustainable way. (Paragraph 117)

## Future research

28. The Government, through HEFCE, should state as soon as possible how it intends to invest the residual £12 million funds remaining from the e-University project in

order to meet its commitment ‘to embed e-learning in a full and sustainable way’ over the next 10 years. In doing so, it should keep in mind the importance of collaborative projects across the FE and HE sectors. (Paragraph 126)

### The future of the platform

29. £14.5 million of public funds was invested in the development of the UKeU technology platform. At present it is not clear how much of this investment can be recovered, or to what use the platform can be put. Whilst it is too early to determine the future value of the platform, it is important that the returns should be maximised and that they should be invested back into e-learning. (Paragraph 131)

### Market research

30. We recommend that the Government, through HEFCE, ensures that thorough and robust market research is undertaken for use by the whole sector in order to maintain the UK interests in the global market for e-learning, keeping in mind the commercial sensitivity of such research, and the potential for collaborative projects between the FE and HE sectors. (Paragraph 134)

### Support and guidance for HEIs

31. We recommend that the Government, through HEFCE, clarifies how it intends to invest in and support collaborative ventures in e-learning both across the HE sector, and between the FE and HE sector, in a way that provides equal opportunity and advantage to all those who would wish to be involved in the global market for e-learning. (Paragraph 142)
32. Whilst recognising the important role the Government has to play in providing support, information and guidance for e-learning to develop within HEIs, we conclude that the Government’s role in providing an overarching national strategy for e-learning is vital to ensure consistency, coherence, and clarity of purpose in developments across the sector. The Government, through HEFCE, must clarify its national strategy for developing e-learning in the UK and how it intends to invest in and support e-learning across the HE sector in a way that provides coherent progress. (Paragraph 144)

# Formal minutes

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**Monday 21 January 2005**

Members present:  
Mr Barry Sheerman, in the Chair

Valerie Davey  
Jeff Ennis

Paul Holmes

The Committee deliberated.

Draft Report (UK e-University), proposed by the Chairman, brought up and read.

*Ordered*, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 144 read and agreed to.

Summary agreed to.

*Resolved*, That the Report be the Third Report of the Committee to the House.

*Ordered*, That the Chairman do make the Report to the House.

*Ordered*, That the provisions of Standing Order No. 134 (Select committees (reports)) be applied to the Report.

Several papers were ordered to be appended to the Minutes of Evidence.

*Ordered*, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

The Committee further deliberated.

[Adjourned until Wednesday 23 February at 9.15 am

## Witnesses

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### Wednesday 23 June 2004

Page

**Mr David Young**, Chairman, and **Sir Howard Newby**, Chief Executive, Higher Education Funding Council for England.

Ev 5

### Wednesday 21 July 2004

**Sir Anthony Cleaver**, Former Chairman, and **Mr John Beaumont**, Chief Executive, UK e-University.

Ev 26

### Monday 8 November 2004

**Dr Kim Howells MP**, Minister of State for Lifelong Learning, Further and Higher Education, Department for Education and Skills.

Ev 50

### Wednesday 12 January 2005

**Mr Leslie Stretch**, Vice President, Sun Microsystems UK Ltd and Mr Dave Beagle, Account Manager of UK e-U Project, Sun Microsystems Ltd.

Ev 79

**Sir Brian Fender**, Former Chairman, and **Dr Adrian Lepper**, Secretary to the Board, e-Learning Holding Company

Ev 90

## List of written evidence

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HEFCE	Ev 1: 21
Department for Education and Skills	Ev 68
Sun Microsystems Limited	Ev 77

## Reports from the Education and Skills Committee, Session 2004–05

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First Report	Public Expenditure on Education and Skills	HC 168
Second Report	Education Outside the Classroom	HC 120
First Special Report	Government Response to the Committee's Fifth Report of Session 2003-04: Secondary Education: Teacher Retention	HC 168
Second Special Report	Government's and Ofsted's Response to the Committee's Sixth Report of Session 2003–04: The Work of Ofsted	HC 206





# Oral evidence

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## Taken before the Education and Skills Committee

on Wednesday 23 June 2004

Members present:

Mr Barry Sheerman, in the Chair

Valerie Davey  
Mr Nick Gibb  
Paul Holmes

Jonathan Shaw  
Mr Andrew Turner

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### Memorandum submitted by the Higher Education Funding Council for England (EU1)

#### THE e-UNIVERSITY PROJECT

##### INTRODUCTION: HEFCE'S APPROACH TO SUPPORTING E-LEARNING

1. The e-University project is only a small part of HEFCE's strategic approach to e-learning. We have invested substantially in a world-class information and research network (SuperJanet). We fund the Joint Information Systems Committee (JISC) to provide the resources and research and consultancy support that underpin the use of new technologies. We have also invested substantially in quality enhancement, including support for the higher education sector to innovate in approaches to learning and teaching, such as use of communications and information technologies (C&IT).

2. The e-University project was part of this strategy. It focused on exploring wholly e-based methods of supporting the learning experience, in particular to meet the needs of global learners in an increasingly borderless education system.

3. The SuperJanet network supports all higher education (HE) activity and has increasingly focused on the support needed for learning and teaching. It has recently been extended to the further education (FE) sector, which has provided opportunities to expand C&IT use in that sector, and to increase collaboration between HE and FE. JISC collects and disseminates digital resources, data and information that can contribute to both research and learning and teaching. As well as enriching campus-based learning and teaching, these resources can be used to support e-learning and workplace, distance, blended and flexible learning. Working with practitioners from the HE and FE sectors, JISC identifies the types of research, consultancy and advice that can support innovation. It has recently embarked on a major programme on the technological infrastructure for e-learning-managed and virtual learning environments.

4. HEFCE's Teaching Quality Enhancement Fund (TQEF) has provided an effective "package" of support and encouragement for e-learning and other new approaches to the learning experience at multiple levels—for the individual through personal awards under the National Teaching Fellowship Scheme; for subject communities through the Learning and Teaching Support Network (LTSN); and for institutions through funding for the development of learning and teaching strategies.

5. The LTSN has provided a focus for subject communities of practice to explore new approaches to learning and teaching. These include promoting the use of new technologies, providing online and offline resources, and giving awards for distinguished practitioners in e-learning. We expect the LTSN—now incorporated into the new Higher Education Academy—to play an even greater role in supporting innovation in the future.

##### SET UP OF THE e-UNIVERSITY PROJECT

6. The e-University project was launched in 2000 by David Blunkett, the then Secretary of State for Education. The project was initially taken forward by HEFCE acting in partnership with the UK HE sector and other funding bodies. We appointed a Steering Group involving senior representatives of the HE sector to oversee initial development. PricewaterhouseCoopers (PwC) were engaged to devise the business model for the venture, and we commissioned extensive marketing and technological analysis to inform and supplement the PwC work.

7. Our original model was for a joint venture between a consortium of higher education institutions (HEIs) (supplying the learning programmes) and private sector partners (putting in the technology, marketing and business drive). However, PwC took the view that many HEIs would be involved in e-learning globally, and so it would be cost-effective to have a central vehicle accessible by all HEIs. They

also thought that the vehicle should provide a total solution, bar the learning programmes, for wholly Internet-based e-learning. This was on the grounds that it would give economies of scale, but also that the venture would be at the leading edge in demonstrating the possibilities of wholly e-based learning.

8. PwC's resulting model, which was approved by the sector in consultation at the end of 2000, involved a Holding Company, owned collectively by the UK HE sector, and an Operating Company, formed through a joint venture between the Holding Company and the private sector. The Holding Company would licence the brand to the Operating Company, and the Operating Company would conduct all activities. The Holding Company would oversee the value for money from the public investment and safeguard quality and standards.

9. As a second stage in the project, in autumn 2000 we began the process of inviting the private sector to put forward their joint venture propositions. Given that the Operating Company would need to be commercial in character (to attract private sector partners and to operate in the global market) we appointed a small interim Management Team (Chief Executive, Commercial Director, and Technology and Programmes Director) with the expertise to conduct joint venture negotiations. This formed the embryo for the Operating Company.

10. We also initiated the process of setting up the Holding Company, which would act for the HE sector in the joint venture, by inviting UK HEIs to become members and seeking nominees for the Holding Company Board. All but four UK HEIs agreed to become members of the Holding Company. In March 2001 the Rt Hon David Blunkett MP, as Secretary of State for Education and Employment, announced Sir Brian Fender as Chair of the Holding Company and other members of the UK-wide Board, who had been appointed by HEFCE and the sector's representative bodies—Universities UK and the Standing Conference of Principals (SCOP). The Government agreed to provide £62 million in the spending review that year for the project, for a collaborative venture between HEIs and the private sector.

11. Detailed negotiations with joint venture partners continued over 2001. The original vision was to bring together a consortium of joint venture partners to put in the main functions of the business. However, in October all parties decided that an agreement should be concluded with Sun Microsystems to lock-in the technology solution for the business. Sun agreed to put in £4.8 million in licences, know-how and consultancy towards creation of the technology platform, but agreed to vest their shares in a charity (because they did not wish to hold shares on their books).

12. The Operating Company was incorporated through agreements between that charity, the Holding Company and Sun in October 2001 as UK eUniversities Worldwide (UKeU). The Holding Company nominated three Directors to the Board on behalf of the HE sector. They in turn led on the appointment of Sir Anthony Cleaver as Chairman of the Board and other Non-Executive Directors with commercial expertise. The Board then appointed the Executive team, and John Beaumont joined as CEO in March 2002.

13. The original vision for the venture was that the private sector would "bid in" most of the main functions of the business (technology, sales and marketing—even senior management). A number of interesting marketing propositions were submitted by the private sector, but none of the proposals seemed likely to be compatible with the interests and concerns of the HE sector. (For example, a major publishing house would only invest and partner if it had a controlling share over the company and control over the academic quality arrangements.)

14. It was a condition of our grant at the outset that the business should seek 50–50 public-private contributions, both to mitigate risk to the public purse but also to put commercial drive and accountability into the venture. The Board and Management of UKeU, which had considerable experience of raising private finance, accepted grant on the basis that they could achieve the public-private sector balance. They initially sought to achieve this by acquiring a marketing partner (efforts to acquire such a partner continued into spring 2002). However, once they could not agree favourable terms with a partner, they advised that they would achieve the balance through seeking investors once the venture had some "proof of concept", that is after the launch in September 2003.

15. Once the full Board of UKeU and the Senior Management Team were in place they then drove forward the full set-up of the business from spring 2002. At an early stage UKeU sought project managers to complete the technology platform, and a consortium led by Sun Microsystems won the contract after competitive tender. Earlier in the project we had identified some institutions to act as pilot programme providers, and the company worked with these as exemplars to test and build the platform. The first programmes were launched in March 2003. The full launch was in September 2003.

16. We also supported a number of public good programmes linked to the venture. UKeU project—managed the eChina programme which links selected UK HEIs with Chinese HEIs to develop e-learning programmes, under the umbrella of our memorandum with the Chinese Government. UKeU also project—managed a research centre which involved joint activity with a number of HEIs to evaluate UKeU's experience and further e-learning more generally. We allocated some additional funded student numbers to HEIs to work with UKeU on the development of learning programmes to address widening participation and social inclusion.

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 REVIEW OF THE VENTURE

17. The original model for the e-University put HEFCE at arm's length from the Operating Company. This was recommended in the PwC report and endorsed in consultation because:

- (a) The venture needed to be formed through a strong partnership between the HE sector and any private sector partners, and hence funds were channelled through the Holding Company. The Holding Company could represent the interests of the sector, and particularly could oversee the academic standards and quality for the venture. (The legal arrangements establishing the venture set out how the UKeU brand should be managed, including arrangements to oversee the quality and standards of programmes.)
- (b) The Operating Company would need to compete against private sector providers (for example in the US) and attract private capital, and hence would need to operate under commercial conditions. It was felt more appropriate to the nature and role of HEFCE that it should fund the venture indirectly through the Holding Company, rather than alongside the private sector directly into the Operating Company.

18. Nevertheless, HEFCE was concerned to ensure that proper arrangements were in place to ensure the good use of public money. We concluded a Deed with the Holding Company, as well as detailed conditions of grant to regulate the use of public funds. Main conditions of grant were that the companies would need to submit a robust business proposition and achieve private matched funding. HEFCE also required that the Holding Company should operate under the conditions of the Combined Code on Corporate Governance and should put in place proper audit arrangements. The Holding Company was required to report annually on the venture, particularly focusing on value for money and quality and standards, and to provide exception reports. The Holding Company was then required to put in place "back to back" arrangements with UKeU to ensure that that company met all these requirements. HEFCE was kept informed of developments in the two companies during the set-up period, but its formal monitoring role was at arm's length from UKeU via the Holding Company.

19. We acknowledged and had flagged to major stakeholders (including Ministers) that the project was high risk, as it involved innovative technology, new product development and novel approaches to developing and delivering the learning experience for the HE sector (including commercial approaches). However, both the study that preceded the project ("The Business of Borderless Education", HEFCE, CVCP, SCOP 2000) and the PwC report stressed the strategic importance of investing in global delivery of e-learning. They argued for investment both on the grounds of encouraging the HE sector to explore the massive potential of the Internet, and on the grounds of global competition in e-learning delivery.

20. The main ways in which HEFCE managed risk was to limit our investment in the project (to £55 million from the original £62 million provided by Government) and by paying great attention to the governance arrangements and set-up of the Boards and senior management of the companies. In order for the companies to be able to operate legally, we gave commitment to provide funding up to £55 million. However, we note above that we included conditions of grant that the companies had to satisfy us regarding the robustness of their business proposition, and to secure private matched funding. The earliest at which it was reasonable to conduct a review of the venture to judge performance against these conditions of grant was autumn 2003, when the venture had some business results. HEFCE informed the two companies at an early stage that a review would be needed at this point. We were fully aware that to meet the requirements of administrative law we needed to act fairly and reasonably, and to have an evidence-based and robust approach to the review.

21. Our original intention had been to conduct a wide-ranging review of the project to assess how far it was meeting its original aims and objectives, commencing in November 2003 (when UKeU had informed us that they would provide their business plan revised in the light of launch results). However, we became concerned about the indications of business performance over the summer of 2003. In particular, student take-up in September was very disappointing with 898 students against a 6,500 target. We were also concerned that the company had provided no clear plans on private financing by then, and indeed the poor launch performance would be likely to delay private financing prospects further. We therefore decided in summer 2003 to focus and strengthen the review in the light of our concerns. We appointed PA Consulting to conduct the review, in conjunction with our legal advisers, Beachcroft Wansbroughs.

22. We informed the two companies of the scope and nature of the review, which started in October 2003. PA Consulting's work focused on UKeU's revised business plan submitted in November 2003 and on a series of interviews with the companies and other stakeholders, including HEIs. The PA report was submitted to HEFCE at the end of December 2003. It raised issues of considerable concern. We sent the report to the two companies for comment immediately, noting that it suggested that they were in breach of conditions of grant. The two companies submitted responses to the review report. We then asked PA Consulting to provide a detailed commentary on all points of detail raised by UKeU, and to provide a statement on whether they stood by the conclusions of their report.

23. PA Consulting produced both the detailed commentary and confirmation of their conclusions. While they acknowledged that the business plan might be delivered, and indeed might be exceeded, their judgement was that the balance of probabilities was that the plan would not be delivered. There were clearly a number of high risks in the plan, and the company did not give a very persuasive account of how its experience in

the launch had helped it to reduce risks for the future. PA had examined the sensitivities of the plan and also concluded that the capital requirement to deliver it could be up to £92 million (although it could also be as low as £72 million). They also noted that the revised business plan did not include any firm plans for gaining private investment, but instead suggested in broad terms that a flotation of the company might be achieved in around 2006.

24. The HEFCE Board considered the PA Consulting report, responses by the two companies and the PA rejoinder at its meeting on 25 February 2004. The Board concluded that the venture was in breach of the condition of grant that HEFCE would only fund against a robust business proposition. They were also of the view that the venture had breached the condition of grant on achieving private matched funding, in that the period proposed to achieve matching (by 2006) was probably unrealistic and, in any event, beyond the original understanding between the parties.

25. Finally, the Board did not consider that a robust case for additional public funding could be made (given that the original way to manage risk in the venture was to limit exposure to £55 million). They thought that the market for “pure” e-learning might take off in the longer term and that this was an exciting prospect, but that the opportunity cost of deflecting further funds to the e-University venture in the present HE sector funding climate was too high to be justifiable. They felt that investment in the business model for the e-University (a totally integrated proposition for delivery of e-learning) was also probably unduly risky now for the public purse—given funding pressures on teaching, the present state of capital and commercial markets, and present HE needs in relation to e-learning. In the circumstances, the Board concluded that funding the revised business plan was not justified.

#### STEPS TAKEN FOLLOWING THE REVIEW

26. We informed the Operating Company Board on 26 February 2004 of the HEFCE Board’s decision. We added that we were prepared to consider funding a plan for winding down and restructuring the venture to maintain public good programmes and to capture any value for the HE sector. We also identified a consultant from Robson Rhodes that we had engaged to work on restructuring proposals.

27. The Board of UKeU decided to step down in the light of the HEFCE’s Board decision. The Holding Company appointed a new UKeU Board of distinguished HE figures to oversee the wind-down. HEFCE has continued to fund the company with a view to achieving the wind-down in order to:

- minimise damage to HEIs and students involved in the venture;
- minimise damage to the brand image of UK higher education overseas, and to minimise damage to overseas partnerships represented in the venture;
- guard against damage to HEIs’ interest in and enthusiasm for e-learning, particularly in the light of the Government’s requirement for HEFCE to embed e-learning in HE in the next 10 years, and in the light of our forthcoming e-learning strategy;
- protect and maintain the public good aspects of the venture; and
- preserve any other value in the venture for the HE sector that might be recoverable.

28. UKeU has made the following progress on the wind-down:

- (a) The sales and marketing and learning programmes functions of UKeU have been closed, and HEIs and overseas partners have been informed. The company has arranged for the transfer of overseas partnership and/or accreditation arrangements to HEIs wherever possible.
- (b) The e-learning research centre will now be taken forward by the two HEIs originally involved (the Universities of Manchester and Southampton) working in partnership with the Higher Education Academy. The centre will evaluate lessons learned and disseminate experience from the e-University project for the HE sector more generally.
- (c) The eChina Programme continues, with the programme management arrangements moved to Cambridge University. The programme and individual HEIs involved in it will be unaffected by the change.
- (d) The technology platform is undergoing final modules testing and is expected to complete testing in mid-August.
- (e) Staffing in UKeU has been reduced to 25 staff (from about 70) who are needed either for platform testing or the wind-down.

29. Further information on the wind-down of the e-University covering commercial in confidence matters—including future arrangements for the technology platform, programmes and students—is provided in a separate letter to the Chairman of the Committee.<sup>1</sup>

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<sup>1</sup> Not printed.

## NEXT STEPS ON E-LEARNING

30. The Government charged HEFCE in its recent Higher Education White Paper to embed e-learning in the HE sector over the next 10 years. We published a draft e-learning strategy for consultation in August 2003, in parallel with the Government's e-learning strategy. Responses to our consultation indicate that the HE sector has made progress in e-learning, but more needs to be done to fully embed it. In particular, although the possibilities of wholly e-based learning are important and need to be explored and researched, the HE sector is concerned to fully embed "blended learning"—that is to exploit the possibilities of communications and information technologies appropriately and effectively in all forms of learning, including on campus.

31. We are now working with the Department for Education and Skills, and particularly with our implementation partners JISC and the Higher Education Academy, to finalise the strategy and devise an action plan for its implementation. Evaluation of the lessons learnt from the e-University project will form part of the research component of our strategy. We plan to issue the strategy in the autumn. We envisage that our main objectives will be to support:

- institutions in their chosen e-learning missions—global, national, regional and local—and their chosen partnerships;
- HEIs' strategic leadership and management of e-learning;
- innovation in approaches to the use of new technologies in the learning experience;
- understanding of the use of new technologies to contribute to social inclusion, progression and collaboration across all sectors of learning; and
- the HE sector in securing the appropriate technological infrastructure for e-learning.

21 June 2004

*Witnesses: Mr David Young, Chairman, and Sir Howard Newby, Chief Executive, Higher Education funding Council for England, examined.*

**Q1 Chairman:** I would like to welcome David Young, Chairman of HEFCE, and Sir Howard Newby. David, I do not think you have been before our Committee before, so welcome; Howard is something of an old lag, in terms of his regular appearances here wearing different hats. It is nice to see you both. We have two serious items of discussion with you this morning. We will be asking you some questions to find out one or two things that are on our minds and we would like to start with this problem that seems to have arisen in terms of the e-University. David Young, would you like to make an opening statement on that?

**Mr Young:** Thank you very much indeed, Chairman. Thank you for your welcome this morning. I would first like to start by saying that the e-University was initiated in 2000. That of course was before both Howard and I came on to the HEFCE board, which was at the beginning of October 2001, but I can say that the board always accepted from the outset that the e-University would be a high risk venture, which meant that potentially the rewards were high but that there would be a correspondingly greater risk of failure. When the initiative was launched, as I say in 2000, the mood in government and elsewhere was quite clear that there was a much greater risk in failing to grasp the opportunity to make immediate progress on developing the UK as a major player in delivering e-learning to a global market. If you look at David Blunkett's Greenwich speech in February 2000, when he was Secretary of State for Education and Employment, you can see that that captures the mood of optimism at the time and also the imperative, as was seen then, to take decisive action. The project was launched as a public/private

venture, with the intention in due course of floating off the company into the private sector. That private element was captured initially through the commercial expertise on the boards of the e-University holding and operating companies. It was an ambitious project and if you look in the business world you can find many examples of similar projects which failed to achieve success for a whole variety of reasons. Failure on high risk ventures is part of the entrepreneurial lifeblood for the private sector but it has been an almost unique and certainly an unsettling experience for HEFCE. But we did not go into the venture recklessly, nor did we take the more recent decisions to wind down the venture lightly. We believe that we gave it every possible chance to succeed, but we also believe that we did take decisive and defensible action when we came to the view that they were not going to realise their business objectives. We tried at every stage to manage the risk to public funds in a way proportionate to our commitment. We had to be careful not to direct the activities of the e-University operating company (Opco) and we managed our relationship through the holding company (Holdco)—seeing our role to monitor but not to manage the activities of the e-University. We are not set up in HEFCE to operate in an entrepreneurial environment and I think quite properly we stayed at arm's-length from the operating company. Indeed, if we had operated otherwise than that it could have impacted on the prospect of attracting private finance into the venture. In my experience in the private sector, the most difficult decision in an enterprise of this kind is that of timing, of knowing when to say, "Enough is enough. We have seen enough and do not wish to continue." You can see

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23 June 2004 Mr David Young and Sir Howard Newby

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from our written submission that by the summer of 2003 our concerns were beginning to be coming up our agenda and from that point on I think I can say that we have acted decisively to protect the investment to safeguard public funds. Plainly there will be questions such as the benefit of 20:20 hindsight, would we have set it up in this particular form? I can say on that immediately that HEFCE took a lot of advice, we got a lot of guidance from professionals in both the public and private sectors, and, as we always do, we consulted widely, mainly within the HE sector, about the proposals. We live in a changeable world. The optimism of 2000 has long since evaporated. The circumstances have changed. Life has moved on. You cannot always predict outcomes. You are impacted by other people's actions, which cannot always be predicted, and the turn of global events. We did not have complete control and nor could we have had it. Throughout the development and operation of the e-University we had to be careful not to act as shadow directors and to maintain the integrity of this as a commercial venture and respect the roles of the holding and operating companies. It is very important to say, first of all, that this is one part of our total approach to e-learning and it is very important not to believe that e-learning is dead, even if this particular venture is close to dying. We do not think this is a story of total nugatory effort; there is residual value in the enterprise. We have already learned lessons and we will continue to do so. We believe the inquiry by your Committee, Chairman, is important as a critical component in helping us to do that and to establish the facts, and we are very happy now to answer your questions.

**Q2 Chairman:** Thank you very much for that introduction. I realise this must in some senses be embarrassing for you because you are the organisation that is normally looking higher educationists in the eye and saying, "Come on, you want this money for this, have you done a risk analysis? Have you done a thorough scoping job?" It is your business pack, in a sense, and here you are going to be looking at the same people you scrutinise in terms of their budgets and plans with a certain rueful feeling about this one, are you not? Following up my question, there is a very big difference between chance enterprise, entrepreneurship, when people are investing their private money, from the situation when it is taxpayers' money. This is mostly taxpayer's money we are talking about this morning. It is a lot: £63 million of taxpayers' money. It is not that private investors thought they were on to a good thing, they would make a lot of money if it turned out right. It is not quite the same, is it?

**Mr Young:** It is not quite the same, although fundamentally, I would argue, perhaps it is the same, in the sense that the public sector, just as the private sector, does have to take risk in order to gain reward. You cannot take more risk without also having a chance of failure. This is greater than, for instance, doing what perhaps we are more familiar with, finding capital money for buildings and so on. They are relatively secure enterprises. I think it would be

a major tragedy, almost, if the lesson from this experience was: Do not take risks in the public sector. I think you have to take risk. That must mean that things fail. I think we did have risk registers and all the rest of it and it is certainly not the case that we are not being criticised by some people for acting too soon—I have got too many negatives in there, but, in other words, not everybody is saying that we let this go too long before saying, "Stop". Some are actually saying, "You could have let it go a bit longer." I think possibly the difference between the public and private sector is you may be less willing to take risk as more facts become known to you and fundamentally that was a decision that we had. The assessment of risk had tilted. We are not saying, the consultants did not say, this is doomed to fail. But they did say, and we felt, that the chances of success had now become less, and we were not prepared—in a way that possibly in the private sector one might have been prepared—to go for another year, to put in more money, to take more risk.

**Q3 Chairman:** Looking at your evidence, looking at the stuff you have sent us, it is fascinating, because I got the feeling as I read that—and this is just my opinion, not the Committee's—that the initial "to go" was 2000 and you are not really going/moving until 2002. You have mentioned the then Secretary of State's speech and so on: those were the heady days of the dot.com boom. By 2002 a lot of people have lost their shirts in dot.com, and very naturally had either gone bust or scaled down their plans and done all sorts of things, but, with this venture, two years later, you are still ready and moving or confident. Is that not the case?

**Mr Young:** The first thing I would say is just because the dot.com boom had come to an end does not necessarily mean that all ventures that are based on the net are doomed to failure. I wear a quite different hat as director of a dot.com company, as it happens.

**Q4 Chairman:** But you would agree there was a very different environment in 2000.

**Mr Young:** I would agree with that, but there is a sort of dynamic. Already by 2002 money would have been committed to the project. There was no evidence that the basic business model was flawed at that point.

**Q5 Chairman:** We are going to pursue that. As I understand it, this original money for this project came out of the Restructuring and Collaboration Fund. Is that right?

**Mr Young:** No, I think we were given a specific grant from the department in 2001 of £62 million over three years, so it did not come from the SDF specifically. But the bigger point, of course, is that there is an opportunity cost. One assumes, if the money had not been spent on this, it would have been available. That may not be the case, of course, but it is a reasonable assumption.

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**Sir Howard Newby:** If I may come in it was an earmarked sum of money in our letter of guidance, so that it was £62 million allocated for e-learning, of which £50 million was allocated specifically at the time for the e-University.

**Q6 Chairman:** What was this Restructuring and Collaboration Fund then?

**Sir Howard Newby:** The Restructuring and Collaboration Fund at the time was a fund that HEFCE had to assist universities in restructuring, either on their own or merging with other institutions, and collaboration speaks for itself: it was to fund collaborative activities between universities.<sup>1</sup>

**Q7 Chairman:** What I am getting at is that here we are looking at this problem with e-University, are there any other projects of a similar kind that we do not know about or that perhaps we should know about? Is it something you do on a regular basis?

**Mr Young:** No.

**Sir Howard Newby:** No, this is unique.

**Q8 Chairman:** There is no other—

**Sir Howard Newby:** There is no other activity of this kind.

**Q9 Chairman:** This is the only time you have done this sort of thing.

**Sir Howard Newby:** Indeed.

**Q10 Chairman:** I sound like a magistrate: “Will you be going straight from now on?” One of the fascinating things about the history—and I want you to take us through it, David or Sir Howard, whoever wants to do this, because, having read the evidence, it does seem the crucial thing—is you go to PricewaterhouseCoopers and you get a pretty thorough business plan, they give you some good advice, and all the evidence is that you did not stick to it; you went off and did something else. When I started reading this stuff, I was going to say, “Look, PwC have a real responsibility here.” As I went through the stuff, it seemed to me that PwC did not have a case to answer—because you did not stick to what PwC suggested was a viable business. You allowed this business to go off and do something much more ambitious. Is that not the case?

**Sir Howard Newby:** That is not the case I recognise. Again, I think we may well struggle here because neither of us were around at that particular point in time, but certainly my understanding was that the PwC report advice was followed at the time. There was further advice gained on the market analysis from consultants as well. The issue, I think, was whether the business, as you put it, Opco, should be the kind of business which would cover everything from the technology platform right through to the selling of courses to students all over the world, or whether the business should depend upon a platform already in existence. The view was taken at the time that a new platform needed to be created, because of

issues of scaleability (that is, the sheer volume of students who could use it), and to develop a degree of interactivity which students would be comfortable with. I mean, there are pedagogical issues here which it was felt none of the platforms at the time could service.

**Q11 Chairman:** Forgive me, but my read of this and some of the independent information that this Committee received suggests that the PwC report was quite a sensible and modest proposal, and what then took place was a much more ambitious programme that PwC never had in its document. Do you not recognise that at all?

**Sir Howard Newby:** I do not, I am afraid. No, I do not. I respect the fact that you have had advice from others but that is not what I recognise. The PwC report—and there was more than one report, of course, at the time—

**Q12 Chairman:** But PwC was central, was it not?

**Sir Howard Newby:** It was indeed. Quentin Thompson was the consultant at the time. He is a very experienced individual.

**Q13 Chairman:** Are you thinking of trying to get your money back from PwC for bad advice?

**Sir Howard Newby:** No. I think we have to take the responsibility for what then happened. I do not think we can place that at the feet of PwC. My perception certainly is that the board at the time followed a good deal of the PwC advice. I do not think there was a fundamental difference between the business model proposed by PwC and that which was eventually adopted by my board. There were issues about how what was set up as a commercial venture could operate in an environment where quality was being assured—academic quality—and that led to the insertion, if you like, of what we now call Holdco (the holding company) between ourselves as funders and the operating company as a commercial venture. But the business model to which Opco (the operating company) was operating was fundamentally that which was proposed by PwC.

**Q14 Chairman:** Would you quickly, whichever of you is appropriate, take us through the history, what happened when. First decision to go, what date?

**Sir Howard Newby:** In February 2000 David Blunkett delivered his Greenwich speech. He said, in effect, that there was a global market developing in higher education and specifically in distance and e-learning, and he cited a number of examples of this, most of them American, and felt that it was in the national interest, given that we have a high quality higher education system in this country and that we have the great advantage of English being a global language—

**Q15 Chairman:** You are not blaming David Blunkett for all this, are you?

**Sir Howard Newby:** No, but you asked me for the chronology, so I am taking you through it. He felt it was important that the UK should have a presence

<sup>1</sup> Ev 21

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in this market and he asked the Funding Council essentially to set up a global e-learning venture. The Funding Council set up a steering committee chaired by Professor Ron Cooke, who was at the time vice-chancellor of the University of York. That was in February 2000, immediately following his speech. Then in May, PricewaterhouseCooper, to whom you have referred, were employed as consultants along with CHEMS. They delivered a report in October 2000, and in November we consulted on the model that they were proposing. This is all in 2000. In December 2000, an interim management team was appointed with an interim CEO and others drawn from the private sector, to establish the new company structure, and in the spring of 2001 we announced the conclusion of our consultation with the sector, which was that 74% of those who responded agreed with the HEFCE board's decision to go ahead along the lines then discussed by them. It was proposed that there should be this structure of the holding company and the operating company, with the holding company overseeing the role of the operating company. Later in March David Blunkett announced the board members of Holdco and the members of the Committee for academic quality, which was quality assuring the whole enterprise. During the spring of that year, 2001, all of the higher education institutions of the United Kingdom were invited to hold a share in the holding company. All but four of them did that. Then in October 2001, the strategic alliance with Sun Micro systems was agreed, so we then had a commercial partner. You may want to come back to the details on this, I realise. In November 2001, Sir Anthony Cleaver was appointed as chairman of the operating company and the board in turn appointed its own non-executive directors drawn from the private sector as well as from the higher education world. Then we come to 2002. In March the chief executive was appointed, John Beaumont, and other key staff were appointed. Really, this is quite important in some of the allegations that have been made about whether we were being too dilatory. It was in the spring of 2003 that the first pilot programmes were established. Between 2002 and 2003 there were two key issues which Opco were pursuing: one was the development of the platform with Sun Micro Systems and the other was attracting higher education partners to develop courses with them. Although there had been some slippage during that period, as you are well aware, on the technology platform it was not sufficient, we were informed, to delay the launch of the initial suite of courses in the autumn of 2003. They were duly launched in September 2003. The initial recruitment, as you know, was extremely disappointing when set against the business plan and at that point we did two things. We had already scheduled to have a review of the operation once the first round of recruitment had taken place, so that was going to happen anyway, but we strengthened the terms of that review—as you will know from the PA Consulting report—to ask some more fundamental questions about the business plan. That was in September 2003. By

January 2004 the board received a recommendation that we should restructure the company, so we acted from start to finish in four months on that.

**Q16 Chairman:** Who did that come from?

*Sir Howard Newby:* That came from officers' advice, essentially myself advising the board at its February board meeting this year that in the light of the recruitment, the disappointing recruitment, and in the light of what was going on in the financial markets, the risk, as David has said, had tilted the other way. This was an unacceptable risk for us, and, given that the revised business plan which we had received from the operating company in the autumn of 2003 required an additional investment, on top of the £50 million already earmarked, of £17 million, our recommendation to the board was that the business plan was not sufficiently robust on which to base further investment. The board took the view to restructure the company in the light of that.

**Q17 Chairman:** So that is the complete history.

*Sir Howard Newby:* Well, summary, yes.

**Q18 Chairman:** More or less, yes. It is difficult for you because neither of you were there at the beginning. Did anyone, did your predecessor or predecessors, ever say to the Government look, "We are HEFCE, we do a certain job. This is our job. This is totally outside our remit, it is not our sort of thing"? Because it is not your sort of thing in a way, is it? You say there is nothing else in HEFCE's portfolio of activity like this. Did anyone say, "Secretary of State, it is a very unusual thing. We think it should be done in a different way."

*Sir Howard Newby:* No. I think at the time there was a good deal of enthusiasm in the higher education sector generally, and certainly within HEFCE, for a venture of this kind. I think there was also recognition that to be a major global player in a global market there had to be a substantial private sector involvement, because the necessary funding could not come realistically from the public sector alone. Government would not wish to earmark sufficient sums of money to be a heavy hitter in the global market without significant private sector involvement and certainly there were no spare funds in the Funding Council. You will recall, Chairman, this also coincided at the time with a big debate around top-up fees and how to attract more investment, if you wish, and more income into the sector from other than the taxpayer—and this was at the time of the origins, following the Dearing Report and so on, of the introduction of the flat fee for undergraduates into the sector. So there was always a recognition that for an e-learning venture of this kind to be successful in a global market, it had to attract substantial private-sector involvement.

**Q19 Chairman:** How much did it?

*Sir Howard Newby:* I need to be a little careful here, Chairman. The initial Sun Micro Systems investment was £5.5 million. However, I think it is

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fair to say that the amount, if you costed the Sun involvement over the period, is considerably more than that.<sup>2</sup>

**Q20 Chairman:** I thought Pearsons were involved at one time. Did they bail out at some stage?

**Sir Howard Newby:** Pearsons were one of a number of private sector companies who in 2000 expressed interest in being private sector partners. In the end, at that time, they decided not to pursue that interest. I am afraid I do not know why exactly—you would have to ask them, obviously—but they decided not to pursue it. Instead I think they created FT Knowledge. Their involvement in higher education learning e-learning is now very minimal, although I think they still have a presence in e-learning in schools, which I understand has been quite successful.

**Q21 Chairman:** We were given a figure of £44,000 per course that this has cost. Is that an accurate figure?

**Sir Howard Newby:** I think the figure of £44,000 relates to Baroness Perry's question in the House of Lords about how much per student rather than per course.

**Q22 Chairman:** A mischievous e-mail to the Committee suggested that if you looked at it as a full-time equivalent, it was £1 million per course.

**Sir Howard Newby:** The situation, Chairman—and this is an estimate; I have to be careful here, I cannot pin it down to the exact amount—is that we expect, by the time we achieve the wind-down of the e-University, to have expended £30 million on the e-University: £30–£31 million. There are 16 higher education institutions which have developed courses as a result of this initiative. There were, as you know—it is in the public domain—900 students who were registered for courses which were offered on the e-University platform. You do not need to be too much of a whizz at mathematics to work out that £30 million divided by 900 students is approximately £33,000 per student. It is of course the case in all conventional forms of learning that when any university offers a new course the initial costs will be very high. It costs a lot of money to put on a conventional course and you hope the numbers build up over time to make it worth everyone's while. If the numbers had built up, it would have been worth everyone's while, but the recruitment was extremely disappointing.<sup>3</sup>

**Mr Young:** And it would only be a successful business if it operated at scale. That was always recognised. Indeed, that was very much in our minds when we looked at what they had achieved in the autumn of last year.

**Chairman:** Val, you wanted to come in just now.

**Q23 Valerie Davey:** Yes, I wondered very specifically about the change, as I understood it now, from the PwC report to the later delivery. The one aspect in which I am interested is the fact, as you rightly say in the information you have given us subsequently, of some very good work on e-learning going on, which you were supporting, at different universities. Indeed, there was a British market for it, and, as I understood it, the PwC report was building on a British market, whereas the business plan as it emerged was purely for a global market and did not seem to have that natural progression. Am I right, or is that a misunderstanding?

**Sir Howard Newby:** I think there was a shift in emphasis, yes. I do not think it was one or the other but once the e-University Opco board had been set up, they certainly felt that there was a major opportunity here, if you like, for UK export earnings. A great deal of emphasis was placed on international recruitment but not at the expense of students and home courseware. Even those UK universities which were developing courseware saw an international market for what they were producing in addition to the home market, but I think it is fair to say that the Opco board took the view that the major growth market was overseas, especially in Asia.

**Q24 Valerie Davey:** But HEFCE, with its educational background, perhaps ought to have been more alert to the fact that you develop these things from known good practice, and we had known good practice, and in the account you have just given, the historic outline, as it were, the universities do not seem to have been brought in with their expertise until March 2001, which is some way down the line of developing the business plan. My underlying concern, looking in—and I am not an entrepreneur—is that you have a process of delivery before you have the product.

**Sir Howard Newby:** First let me be clear, the university sector was brought in right from the very beginning. There was extensive consultation over the structure of the e-University as it went forward, and, as I said earlier, only four institutions decided not to take up the offer to become shareholders in Holdco.

**Q25 Chairman:** What did it cost them?

**Sir Howard Newby:** £1—because Holdco is a company limited by guarantee. What I was referring to specifically was working with those universities—some of which, you are quite right, had already developed in embryonic form and some of which had developed quite extensively, certain amounts of courseware which could be improved and marketed through the e-University. Some universities were approached by the board to develop courseware from scratch. That is where a lot of investment went, because the e-University believed it had spotted a market in which it was looking for a UK institution or institutions to help them develop. So the sector was brought in right from the beginning. If I may say

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<sup>2</sup> *Note by Witness:* We stated that the investment from Sun Microsystems Limited was £5.5 million. We understand that the correct figure is £5.6 million.

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so, we are approaching one area, which I hope we will come on to, which I personally did find extremely difficult, and that is where my responsibilities as an accounting officer end and those as a shadow director begin. This is what was unique about this venture. To go back to your earlier comment, Chairman, if I may, when we deal with a conventional university, my role is very clear: I am the accounting officer for the sector, the vice-chancellor or principal is the accounting officer for the institution. That whole relationship is set out in a financial memorandum between ourselves and the governing body of the institution, and my rights and responsibilities are very clear. In this case, because it was set up as a commercial venture, company law comes into play, where I have to be very, very careful—and I was always cognisant of this—of not acting or being seen to act as a shadow director, and yet I had accounting officer responsibilities which might, if it had been a more conventional institution, have led me to act in a way which might have been judged as acting as a shadow director.

**Q26 Chairman:** Going back to my earlier question, Sir Howard, that was my very point: Why you? It does not fit really, does it?

**Sir Howard Newby:** It did not fit in that respect, no, but, as I said earlier, there was a recognition by everyone concerned, including myself when I took over in this post, that the e-University would not be a success without substantial private sector involvement. It was not something we could do ourselves.

**Q27 Chairman:** Sir Howard, you keep saying that, and we all agree with that, but why in this form? Why did you not spin it off to the Open University or a cluster of universities and give them the money to do it, so you had that traditional relationship?

**Sir Howard Newby:** Both of those options were very seriously considered and the answer to the question why we did not do a deal with either the Open University or with a cluster of universities was there was such enthusiasm from the sector as a whole for this, to be involved in this, that the sector did not take kindly to the idea that one institution or a group of institutions should in some way be privileged in running this venture.

**Mr Young:** My understanding is certainly that the structure, the Holdco/Opco structure, was specifically recommended in the Pricewaterhouse report which was published for consultation in October. It was not that HEFCE overturned their advice—because you made that point earlier. We will go back and look at it, and if I am wrong we will put a note in, but that is certainly my understanding.

**Q28 Chairman:** If the Secretary of State said tomorrow, “We have this idea that you run this arm’s length venture” on a similar method for some other purpose, what would you say?

**Sir Howard Newby:** I think I would want to establish very clearly, as I said earlier, how we get around this problem of shadow directorships conflicting with my accounting officer role. That is a very serious lesson to learn from that.

**Chairman:** Thank you for that introduction.

**Q29 Mr Gibb:** You have both been very assiduous in disassociating yourself from this operation by highlighting when you were appointed. David Young, you were appointed in June 2001; Sir Howard, you were appointed in October 2001. But some key decisions were taken after that. The impression we have as a Committee so far, I think it is fair to say, is that the failure here was not in the plan; the failure was in the implementation of the plan which falls squarely within the periods that you were in office. For example, Sir Anthony Cleaver was appointed in December 2001 and John Beaumont was appointed in March 2002. Could one of you tell me what commercial experience John Beaumont has had?

**Sir Howard Newby:** John Beaumont was recruited from Energis, where he had been responsible for their IT operations. Before that, from memory, he had been in the academic sector as head of the University of Bath Business School. We can send you a note on that.

**Q30 Mr Gibb:** For how long was he at Energis?

**Sir Howard Newby:** I cannot put an exact figure on it, but my memory would be something in the order of four to five years. But, again, his appointment was not made by us but by the board. I can send you that information, certainly. I am sorry, I just do not have that information at hand.<sup>4</sup>

**Q31 Mr Gibb:** I know you are trying to avoid some company law problems with being a shadow director, but your recollection of events seems very vague and you seem always to disassociate yourself from any of these key decisions. I would have thought as the accounting officer you would have been far more involved in deciding who was to be the chief executive of this very large commercial venture.

**Sir Howard Newby:** No, I was not involved in deciding. I was certainly consulted at the time by the chairman Sir Anthony Cleaver—just as I was consulted at the time about the appointment of Sir Anthony himself, which again was a matter for the then interim board.

**Q32 Mr Gibb:** Should we have some other people before us, then, instead of you two? Should we have Sir Anthony Cleaver and John Beaumont before us? Is that what we should do next?

**Sir Howard Newby:** I think that is a matter for you. If you want to investigate in some detail, which you may wish to do, the detailed operational management of UK e-University, that really was a matter for the board and its senior management. I understand what you are saying about sounding

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vague and disassociating myself, and I am certainly not disassociating myself with oversight responsibility of what happened—absolutely not—but when it comes to the day to day business decisions that were taken, they were taken by the board and its senior management and not by HEFCE.

**Q33 Mr Gibb:** I was just trying to wonder who was responsible for the senior management.

*Sir Howard Newby:* The senior management of Opco was the responsibility of the Opco board and its non-executive directors.

**Q34 Mr Gibb:** Who appointed the Opco board?

*Sir Howard Newby:* Formerly the Opco board was appointed by the holding company, through whom we channelled the funding.

**Q35 Mr Gibb:** So you had no responsibility for that either, then?

*Sir Howard Newby:* No, I have absolute responsibility, as accounting officer, for ensuring that the money that we forwarded to the operating company, via the holding company was properly spent.

**Q36 Mr Gibb:** And you did not have any say in who was appointed to the operating company board.

*Sir Howard Newby:* Absolutely not.

**Q37 Mr Gibb:** Or the holding company board.

*Sir Howard Newby:* The holding company board, yes, because that was a matter on which the Funding Councils, all of us, and the standing committee of principals were involved.

**Q38 Mr Gibb:** So you are responsible but you are just trying to disassociate yourself by saying that indirectly these different people had a decision. There seems to be nobody who is to blame for this.

*Sir Howard Newby:* I am responsible for the funding of the operation.

**Q39 Mr Gibb:** Right.

*Sir Howard Newby:* And for ensuring that public money was properly accounted for and properly spent.

**Q40 Mr Gibb:** Which it was not.

*Sir Howard Newby:* I am not responsible for the management of the company.

**Q41 Mr Gibb:** Yes, but who was responsible for the management of the company?

*Sir Howard Newby:* The board.

**Q42 Mr Gibb:** Who was responsible for that board?

*Sir Howard Newby:* The holding company board.

**Q43 Mr Gibb:** And who was responsible for appointing the holding company board.

*Sir Howard Newby:* We were.

**Q44 Mr Gibb:** Ah!

*Sir Howard Newby:* Together with the other Funding Councils and the standing—

**Q45 Mr Gibb:** At last!

*Sir Howard Newby:* Well, I have already said that once, Chairman, together with the other Funding Councils—

**Chairman:** You do not have to be so theatrical, Nick.

**Mr Gibb:** I just find that whenever the state sector engages in these high risk ventures there is a rapid rush to the door to disassociate everybody from it and we can never find who is the key man or woman responsible for this loss of taxpayers' money. Let me just ask you this question—

**Chairman:** Hang on, Nick, this is our job. This is the first time of being here on this and we are asking questions. If they were not giving us information, I, as Chairman, would immediately point that out, but, as I understand it, Sir Howard and David Young are giving you full answers to questions.

**Mr Gibb:** Which they are doing now. They have said they were responsible for appointing the board which appointed the other board to the management decisions that have led to this course—

**Chairman:** Carry on. I do not want to cramp your style, but I just want to ensure—

**Q46 Mr Gibb:** Sure. My next question really is: Was this new web-based learning platform—and this may be something you cannot answer because these different indirectly appointed people were responsible for it—which £20 million was spent on creating—and, as you said earlier, was a much more ambitious IT system, because you felt that was what was necessary—in the PricewaterhouseCooper plan?

*Sir Howard Newby:* Yes, it was. I referred earlier to this issue of scalability. The existing commercial-based products, it was believed—and I think rightly at the time—could not actually operate on the scale that was going to be demanded of the e-University business plan.

**Q47 Mr Gibb:** I am sorry, I do not follow.

*Sir Howard Newby:* The volumes that were needed. The business plan had to build up to considerable numbers of thousands of students using the e-University platform and at the time none of the existing commercial products could handle that volume of student traffic.

**Q48 Mr Gibb:** What did Pricewaterhouse recommend in their report?

*Sir Howard Newby:* On this particular issue?

**Q49 Mr Gibb:** Yes.

*Sir Howard Newby:* They recommended, as I recall, that the venture would need to handle both the technology platform right through to marketing and sales, as I mentioned earlier. The key, if you like, business decision or structural decision made at that point was that the e-University would handle all

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aspects of e-learning on behalf of the UK e-sector, from the technology side right through to the sales and marketing and student support.

**Q50 Mr Gibb:** What costs were included for this platform in the PricewaterhouseCooper plan?

**Sir Howard Newby:** At the time, the business plan that we funded into, suggested an upper limit of £50–£52 million.

**Q51 Mr Gibb:** For creating the platform?

**Sir Howard Newby:** No, for creating the platform and all the other associated services.

**Q52 Mr Gibb:** I just want to know for creating the platform.

**Sir Howard Newby:** Sun Micro System involved in that was costed at £5.5 million.

**Q53 Mr Gibb:** What did the Pricewaterhouse plan say was the cost of creating the IT platform in their business plan? Or did they not have a cost in their business plan?

**Sir Howard Newby:** I think my recollection was £15–£20 million. I am advised that the original Pricewaterhouse plan did not cost it at that level of detail.

**Q54 Mr Gibb:** So you went ahead with a plan that had really no detail in it at all about the major fixed asset.

**Sir Howard Newby:** No, because that was the first Pricewaterhouse report we received. There were further reports that we commissioned at the time, both subsequent reports from Pricewaterhouse Cooper itself and from other consultants, which we used to assess the scale of investment required to launch UK e-University in 2002 as it was originally proposed. At the time we felt that the total cost of all the e-learning activity in which we would wish to invest was around £50–£52 million, of which, from memory, around £37–£40 million would be invested in the e-University.

**Q55 Mr Gibb:** Do you think the state should be involved in high risk ventures? I understand your point that in the state sector sometimes there is a tendency to be risk averse and therefore uninnovative in the way the state sector delivers public services, but do you think there is a role for the state to be involved in high risk ventures, that are engaged in to create a profit, which I think was planned, of £110 million by year 2010. Do you think that is the role of the state sector? Do you think that is what taxpayers of my constituency are wanting to put their own money into, to engage in these kinds of high risk ventures? Or do you think that is something that really should be left to the stock exchange?

**Mr Young:** It seems to me that is very much a political call. I would go right back and say that the decision to create this venture was fundamentally a perfectly reasonable political decision and there is no reason at all why the public sector cannot engage in a reasonable share of risk in return for a share of the rewards.

**Q56 Chairman:** Do you not spend a lot of time giving money to universities which do just that?

**Mr Young:** We certainly will continue to encourage universities, higher education institutions, to take appropriate levels of risk. I am quite unashamed about that. I think you cannot possibly have a system that is efficient and effective which is without risk, and that must mean that occasionally things will go wrong. What you then have to ask is: Why did it go wrong? Was it a reasonable decision at the time on the basis of the knowledge that you had at the time? How did you deal with it when it started to go wrong? They are common questions in the public and the private sector. For me, I would never say to the Secretary of State that the lesson from this is that we do not take risk. I have always said to ministers that you have to understand that risk needs to be controlled, it needs to be managed, and it must mean that occasionally things will fail. I have certainly said to ministers at an early stage in this project, “Look, this is a high risk venture,” and that is precisely what it means, but that is not a reason for not doing it. It is a political judgment, if I may say so.

**Q57 Mr Gibb:** I thought the political judgment was to create an e-learning platform, not to create a world-hitter in the international markets with a view to creating £100 million a year profit. Could I just ask a final question, but you can come on to answer that point in relation to this final question: Have you referred this whole exercise to the Public Accounts Committee to investigate?

**Mr Young:** It is not a matter for us to refer it to the Public Accounts Committee.

**Q58 Mr Gibb:** If not, would you suggest that a member of this Committee perhaps refers it to the Public Accounts Committee?

**Mr Young:** I actually think that the National Audit Office are perfectly capable of coming to their own judgments on a matter of that kind. If they do decide to investigate, we will cooperate fully in the usual way, and Sir Howard will, if it comes to that, appear in front of the Public Accounts Committee—no question about that and no problem with it either.

**Chairman:** I want to put it on record that the Committee, when we investigate the individual learning accounts, did put on record that we did not want to inhibit innovation and enterprising ventures, but we just needed to learn the lessons when these things went wrong.

**Q59 Paul Holmes:** David Young, in your opening comments you quite rightly warned that it is all very well with 20:20 hindsight to take judgments but you have to look at it from the start point. But you also said, and you repeatedly said, that it was a high risk venture from the start, and you were very conscious of this and you were very conscious of the need to be at arm’s length so that you could draw in private expertise and private money. Without 20:20 hindsight, you were saying from day one, “We have to be very careful here because this is high risk.” Were there not a number of early warning signs that all was not going to go well with this? For example,

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the consultancy report you had done in December 2003 said that right from the start there was never a clear statement from the e-University of what their business objectives and strategy were. If there is no clear statement right at the beginning and HEFCE never asked for such a statement, how can you be measuring what they are doing and how realistic it is?

**Mr Young:** It was a very fast-moving position. It is true to say that we were a bit surprised that there was not a formal business plan, as I would have understood it, in the autumn of 2003. We certainly had had, however, oral briefings from the Chairman of Opco and the direction in which they were taking the business was known to us. If I go back to why is it a high risk, because its trying to do a lot in this venture—I mean, to get the technology right. We all know that there is a risk that it costs more/takes longer when it is a cutting edge project. There is the market risk, which you cannot really establish until you are in the market; there is getting the course material, which is perhaps lower risk; and finally, and crucially, there is the question of getting private capital into the venture. Plainly, we certainly looked all the time at the prospects there, and we got advice from the Opco board, which did contain people with relevant business backgrounds and they also took advice, and we were advised that it would remain possible to bring in that money. But when, finally, you have problems with the platform, problems with the number of students and no obvious prospect of private money in the short to medium term, that was the point when we felt, “Enough is enough. The risks are now too high. We need to restructure.”

**Q60 Paul Holmes:** There are two things there from what you have just said and the first one is back to my original question. You are saying that you were surprised that by 2003 there was no clear business plan and statement of objectives, but surely by that time you had already handed over £40/£50/£60 million of taxpayers’ money to a company which you were then surprised 2½ years later, had no clear business plan. Surely you should have wanted a clear business plan before you handed the money over?

**Sir Howard Newby:** First of all, there was a business plan originally, but time had moved on and we asked for a revised business plan from the company in the summer of 2003, which they eventually brought to us in the autumn. Sir Anthony Cleaver and Professor Beaumont had made a presentation to the HEFCE board in February 2003, so we certainly knew what was in their minds, going forward. But could I come back and say it was not £40/£50/£60 million that was expended at that time or even now on this. I gave you the figures earlier—just for record. The issue on attracting private sector finance was crucial and we were advised by the Opco board that this money would be attracted from the private sector once we had established the e-University as a going concern, as a business. It had attracted the number of students that were laid out in the business plan, then we were advised that the private sector would come in to back it. It was when we saw that the numbers were

nowhere near those that were planned, that we felt that any realistic prospect of attracting private sector into the venture was nil.

**Q61 Paul Holmes:** Was it as late as December 2003 in the PA Consulting report that you realised that the ambition of the e-University was great, because they were looking not to do part of the job or part of the market but to take on the entire process: everything from finding the market to writing the learning platform to marketing itself to collecting the money. They were going to do absolutely every part of the chain which normally any company involved in this area would not do; they would deliver part of the chain.

**Sir Howard Newby:** We were being advised throughout 2002 and 2003, as developments went on, that there was a big market out there, that Opco was actively pursuing it, that there were lots of irons in the fire and they were confident of attracting the kind of student numbers that were in the plan. It was actually in September 2003, when we had the first results of the first round of recruitment on to those first courses that were launched that we realised the numbers were so disappointing. At that point, as I said earlier, we changed the terms of reference of the already planned PA Consulting evaluation for us into something much more wide-ranging.

**Q62 Paul Holmes:** Again, both of you have emphasised a number of times that right from the start it had to be entrepreneurial, it had to get private sector involvement and capital, but there was virtually no private sector capital and even the most optimistic report was saying, “Well, by 2006 we might start to get significant money from the private sector.” If from day one, back in 2000–01, when it was being thought up and set up, you were all saying that it must have 50:50 public sector and private sector, but the private sector money just was not there.

**Sir Howard Newby:** Again, I think we are talking about the balance of risks here. We were still confident and the Opco board was still confident early in 2003 that private sector funding would be attracted to the venture, that it would take a little longer but it was still within the envelope that we had allocated, and that once the venture was up and running and had attracted a substantial number of students who were seen to be successful then there was every prospect of the original business case being upheld. It was when, as I say, in September, we saw the results of the first round of recruitment for the first suite of courses that we felt that was not a viable proposition, and also the revised business plan which the Opco board submitted to the HEFCE board in the autumn of that year itself suggested they needed more time for that to happen, and that was the basis of their request for an additional £17 million on top of the money already allocated. At that point, my board quite rightly took the view that was too big a risk to carry.

**Mr Young:** Could I just add that my own recollection is that in 2001 we were advised that there was a good possibility of private money coming in as

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early as 2003, and that at that time (in 2001) despite what was going on in the financial markets, that did not seem an unreasonable judgment, if there had been by 2003 a business that was plainly working. As I said earlier, I wear a hat with a different company where precisely that has happened, where despite the dotcom collapse, nonetheless, it has been possible to raise private equity provided you have got a business that is meeting its targets.

**Q63 Paul Holmes:** This is the final question from me: is it not provided you have got a business that is meeting its targets and has a realistic plan? Although you started off by emphasising “We knew this was high risk and we had to be very careful”, as late as December 2003 the PA consultant report said “UKeU has yet to demonstrate that there is a substantial and accessible global market, it has yet to demonstrate that it has a well-founded product and it has yet to demonstrate that it has a market strategy for earning profits.” So on every count it was hopelessly failing to demonstrate that anything was viable, two-and-a-half years after the whole thing—

**Mr Young:** I think the crucial point here is that in terms of marketing—what is happening in the marketplace—it was not until the student numbers for the launch in September 2003 were available that you could say without debate “These are the facts; we know now what the numbers are.” Again, one of the things we will continue to chew over is the arms’ length relationship; how much was it reasonable for us to get involved in the detail of “How many students have we got on this course, from that university, in that country?” It was entirely reasonable to say, “The autumn of 2003 is a major milestone and checkpoint when there will be hard figures available, and we will move on from there”.

**Q64 Valerie Davey:** Just on one detail in that scenario: every educationist knows there is no school without pupils; there is no university without students. The fact that the platform was set up with the very remit to do the marketing and to be the support mechanism for students—did anyone show you the basic work which they had done to assess that there was a “big market” out there?

**Sir Howard Newby:** If I may answer this one, Chairman, at the original planning stage a marketing analysis was undertaken by CHEMS to establish the extent of the market worldwide and the areas, both geographical and academic—

**Q65 Chairman:** Who did that?

**Sir Howard Newby:** CHEMS, the Centre for Higher Education Management Studies. They did an initial market analysis—this would be, from memory, back in 2000—to establish the extent of the global market for online learning, and the areas in which there was a real market opportunity, both geographically and in terms of academic areas. So there was that initial market analysis done. Again, I think in retrospect, knowing what we know now, and the PA report is quite clear on this, the Opco took a decision not to have a marketing and sales director at board level. Certainly the PA report suggests that it was not

sufficiently focused on key markets, as a result, in terms of identifying key markets and therefore developing courseware appropriate to those key markets early enough to attract the kind of volumes that their business plan demanded.

**Q66 Valerie Davey:** Are you saying that that initial research was wrong or that it was not asking the right questions?

**Sir Howard Newby:** I think the initial research established at a general level that there was a market out there and it helped to pinpoint some parts of the world where this market was likely to be particularly buoyant—in Asia and South America, for example. However, between then, 2000 and 2003 not only had we talked a lot about the dotcom boom but the education world had moved on as well. A lot more is understood now—and this is one of the lessons we have learned—than was understood in 2003 about the uses to which e-learning can be put in a higher education environment, and that the market we can now see for what one might call pure e-learning, that is e-learning unsupported by any form of conventional learning, is much smaller than that analysis suggested at the beginning, or that indeed was generally believed at the time by other countries, most notably the United States. What we now know is that the market for e-learning is a large one but it is e-learning blended with more conventional forms of learning; in other words, it is e-learning supporting more conventional styles of pedagogy and that is where we see the way forward.

**Q67 Valerie Davey:** That is the very lesson, surely, that our universities, specifically Open University, could have told you and the PWC report, as I understand it, was suggesting should be built on and that understanding was available to you, or to the people setting this up.

**Sir Howard Newby:** I am not sure that that understanding was available at that time. I think the notion of blended learning and managed learning environments was certainly in its infancy then. The Open University, after all, has been around a very long time and as we all know, is a very, very, successful distance-learning organisation, but had not—

**Q68 Valerie Davey:** Blended.

**Sir Howard Newby:**—at the time shown a huge amount of interest in developing an e-learning platform. Indeed, it still does not have one to this day.

**Q69 Chairman:** Who is in charge of marketing then?

**Sir Howard Newby:** There were two directors of sales and marketing: one based in this country and one based in Singapore, reporting to the chief executive.

**Q70 Chairman:** In terms of the structure of the company, I thought you said earlier that Sun Microsystems was in charge of marketing as well as other aspects of the platform.

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**Sir Howard Newby:** No. Sun Microsystems were essentially involved in the development of the technology platform. Obviously it is a question for them, but I have no doubt that in terms of their commercial interest they saw further marketing opportunities stemming from their involvement in this venture, but as far as Opco is concerned marketing and sales were in the hands of two directors, but they were not board members.

**Q71 Chairman:** The astonishing thing about all this as it unfolds it is not actually that you did not have talent there, but you had the crème de la crème; the people who had been involved in this are significant players in the private and public sector, are they not? If you look at the board—Sir Anthony Cleaver and so on—you had some big hitters involved in this.

**Sir Howard Newby:** Yes. Therefore we had confidence in their judgment.

**Q72 Chairman:** Yes. Later we are going to talk about the British Council and we are going to talk about the great success of higher education in attracting students in, but, as Val Davey has said, there was a lot of expertise out there that could have informed you of the real market earlier on. This is all pretty recent stuff.

**Sir Howard Newby:** I think it is fair to say, Chairman, that as events unfolded in 2002–03 there were those in the sector who were questioning whether the rather—if I can put it this way—technology-led approach, which the Opco board had adopted, was the appropriate approach. But I have to emphasise at the time, that was an opinion and as my Chairman said, we were waiting to get some hard facts before we could authoritatively intervene, rather than trade opinions with those, as you rightly say, were heavy hitters, who had experience in the IT world and who had the commercial background as well. Who were we to question their opinion on this matter?

**Q73 Jonathan Shaw:** John Beaumont received a performance related bonus of £44,914. Were you aware of that?

**Mr Young:** Yes, we were aware of it.

**Q74 Jonathan Shaw:** When were you aware of that?

**Mr Young:** After February 2004. When we communicated the HEFCE board decision and the Opco board, at that point, resigned and we put in the Robson Rhodes Consultant, in effect, as a company doctor (he became executive deputy chairman of the Opco board) we were aware of some of the details of the bonus scheme for the first time and of legal advice to the reconstituted Opco board that those bonuses had to be paid as a matter of law. There have been quite a few surprises along the way; certainly surprises on the marketing side, for instance. Now to discover from the PA report about mis-pricing in China and India—it looks rather basic to me that the market research might have turned that up earlier. I also have to say, on the bonus scheme, that I am not personally very happy with what I know of the bonus scheme that was in

Opco, but it was not something that required, or had our approval, before it was put in place and all we could see was that they had a governance structure which looked perfectly straightforward and proper.

**Q75 Jonathan Shaw:** Sir Howard, you said you had confidence in people's judgment; we had the crème-de-la-crème here. What was the basis of the bonus scheme? You said that there was nothing you could do about it; it was legally binding. Presumably it was attached to performance?

**Mr Young:** I still do not have the full details of it, but my understanding of it is that the performance targets were—I would describe them—rather loose.

**Q76 Jonathan Shaw:** How have you made that judgement that they are rather loose? Can you, perhaps, assist the Committee to help us also reach that judgment?

**Mr Young:** I base that on what Bob Stubbs, who is the executive deputy chairman of the Opco board now, has said at meetings. HEFCE set up at the outset a sub-group of the board, which I chair, recognising this was a very unusual situation and we have had almost fortnightly meetings in recent months. So I am basing what I have just said on oral advice that has been given to us.

**Q77 Jonathan Shaw:** What has Bob Stubbs said?

**Mr Young:** What I have said to you: that (a) the bonuses on legal advice would have to be paid and (b) that it looked to be a somewhat unusual structure.

**Q78 Jonathan Shaw:** How is it unusual? How did they get that bonus?

**Mr Young:** I can, really, only repeat what I have just said, that the linking of bonus to performance would seem to be relatively loose and maybe not with the targets that I, if I personally had been doing it, would have chosen to put in place.

**Q79 Jonathan Shaw:** I have details of Mr Beaumont's performance related bonus. You said there were other bonuses. Did other directors of the company receive bonuses as well?

**Mr Young:** They did, including the chairman of the operating company.

**Q80 Jonathan Shaw:** Including the chairman. What do those bonuses total?

**Mr Young:** I would have to put a note on the total.<sup>5</sup> They varied in terms of percentage of salary, I think, between relatively low amounts, like 3%, up to 100%.

**Q81 Jonathan Shaw:** 100%?

**Mr Young:** Yes. Throughout the company, as a whole, I think of the order of 70 staff were within a bonus scheme of one kind or another, which will include the executive directors and senior staff.

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<sup>5</sup> Ev 23

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**Q82 Jonathan Shaw:** This is not very good, is it?

**Mr Young:** I have gone as far as I feel able to go in making plain that I have some personal unhappiness about what I now believe to have been the case.

**Q83 Jonathan Shaw:** So 70 people in this company that really was not performing, to say the least, were all receiving up to 100% performance related bonuses. That is what we have here. I do not know if Sir Howard has a comment.

**Sir Howard Newby:** As I said, first of all our concern was with the governance of the Opco board. There was a properly constituted remuneration committee which determined the contracts and bonuses payable to the directors and other employees of the company. We had, through HoldCo, insisted, as a condition of grant, that the operating company abide by best practice with regard to the governance of a commercial company, and we are satisfied from the structures they set up that that was indeed the case. I have to say to you I was unaware of the nature of the bonus scheme that the remuneration committee and the board had endorsed, and I share my chairman's view that the outcomes are not ones we feel very comfortable with.

**Mr Young:** Can I just make a correction? I have looked at the note I have here. Of 75 employees, 31 were eligible for bonuses, and the actual ones paid ranged from 10–50% but the possibility of it going as far as 100% would seem to have been there in some cases.

**Q84 Jonathan Shaw:** Did you have a conversation with the chairman and chief executive about this?

**Mr Young:** I have had no such a conversation.

**Q85 Jonathan Shaw:** Sir Howard?

**Sir Howard Newby:** No.

**Mr Young:** Bear in mind that the chairman of the operating company stood down when we communicated the decision of the HEFCE board to him.

**Sir Howard Newby:** We certainly had conversations with our legal advisers about these payments.

**Q86 Jonathan Shaw:** Did you have a conversation with the Secretary of State?

**Sir Howard Newby:** I have not, no.

**Mr Young:** No.

**Q87 Jonathan Shaw:** Do you think you should have done?

**Sir Howard Newby:** Our legal advice, to repeat, was that these were, as a matter of law, payable. We had no real choice in the matter. In that respect I am not quite sure what form the conversation with the Secretary of State would have taken. This was a legal obligation, the company had to abide by the law. I repeat, I think both my chairman and myself find the outcomes uncomfortable.

**Q88 Jonathan Shaw:** Mr Young, in your opening statement you said that this was an ambitious project and that there were many similar projects

that had failed for a whole host of reasons. Can you tell us what similar projects there are and for what reasons they had failed? What did you mean by that?

**Mr Young:** My recollection is I did not use the word “similar”; if I did I certainly did not intend it to mean other e-learning projects of a similar kind. What I certainly had in mind was in the private sector, in particular, taking on a venture of this kind, which you could see to be high risk for a number of factors. Mr Holmes, quite correctly, drew attention to one of those factors, which was seeking to do everything within the company itself, which in itself imports risk. You can look around, as it were, at the landscape of companies that got it wrong, for whatever reason, and sometimes things happen. The competition may react in a way that was not predicted and equally if people do not buy what is put on offer when it is put on offer, you have a problem which may have been difficult to predict in advance. That is all I had in mind.

**Q89 Jonathan Shaw:** I understand. Sir Howard, when the Chairman suggested to you “Why was this not given to a collaboration of universities or the Open Universities” your response was that you had thought through all this and you did not want any one particular institution or group of institutions to be in a privileged situation. Some are in more privileged positions than others, anyway—research funding, for example—so it is hardly new, is it? That is a bit thin, is it not, really?

**Sir Howard Newby:** I repeat, we had a lot of enthusiasm from the sector to be involved in this.

**Q90 Jonathan Shaw:** You always have enthusiasm from this sector if there is opportunity to develop cutting edge research.

**Sir Howard Newby:** Yes, but the difference is we have performance in research on which to base our funding; we did not at the time, and do not now, have any performance on which to base our funding of this. One of the issues we were faced with at the time was that those institutions which had taken the greatest interest in e-learning already, before the e-University came along, were not necessarily those with the strongest international brands and those which had the strongest international brands were not necessarily those which had developed an interest in e-learning, although many of them expressed a desire to get into e-learning. The Open University, as I described earlier, is in a rather different category because it certainly has a brand, it has an international brand, but it had not actually developed its distance learning into e-learning. Certainly, whilst the Open University was invited all the time to be a partner in this we did not feel we could hand the whole venture over to the Open University, although that, I repeat, was considered as an option.

**Q91 Jonathan Shaw:** Why is that though? Why, if we have an institution like the Open University which has a proven track record of success, do we feel we have to go and invent this funny old hybrid in a risky situation?

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**Sir Howard Newby:** If we look at the institutions worldwide, that were referred to in David Blunkett's speech at Greenwich, that were already operating in an e-learning environment, they include universities like the University of Chicago, the consortium of Western United States state universities—public universities in the United States—and there was a lot of discussion at the time about MIT, Princeton and Yale becoming involved in worldwide ventures with Chicago and with the London School of Economics. These are major worldwide brands and, in talking about the commercial market, brand is important in this field, like any other.

**Q92 Chairman:** There are rather lesser known brands that have made a success of e-learning, have they not?

**Sir Howard Newby:** Not really, Chairman.

**Q93 Chairman:** No? People talk about the University of Phoenix, for example.

**Sir Howard Newby:** I will come back to that. Of the seven institutions referred to in the then Secretary of State, David Blunkett's, speech as being involved in this area only two remain today, one of those is indeed the University of Phoenix. Of course, what is interesting about the University of Phoenix it's not a pure e-learning organisation; it is actually a very interesting model of a university which predominantly focuses on adult learning and which blends conventional forms of learning—there are bricks and mortar buildings of the University of Phoenix dotted all around the United States and elsewhere—supported by e-learning courseware.

**Q94 Chairman:** It is our job to hold you to account. That is what this Parliamentary Committee is about. We have good relations with HEFCE and we call you to account and we have a familiar pattern of exchange. In this one, the Committee, listening to what you have said this morning, would absolutely understand that these things are high-risk and can go wrong and it is our job to unravel that. Where it becomes scandalous—and we are representatives of the taxpayer—is on this bonus thing. People in Huddersfield, my constituency, are very likely to say to me: "Come on. We can understand that one of these things went wrong, but for bonuses of 50% and nearly £50,000?" Bonuses, as most people out there believe, are linked to some kind of success. Where this becomes scandalous, in a sense, is the bonus. What on earth was going on? Was not someone in the system—you can say it was arms' length and all that—whistle-blowing and saying "Come on"? Was there not anyone saying "Something is going on, paying bonuses when this thing has not earned one penny piece"?

**Sir Howard Newby:** I have some sympathy with the view that—and I can certainly say this about my contract, Chairman—bonuses should not be paid out when there is clear evidence of failure to meet the performance that was expected. My understanding is that the Opco board felt it was necessary to construct the kind of bonus scheme it did in order to attract and retain the kind of talent it required from

the private sector against a public sector salary environment where, as you know, vice-chancellors are paid below the level that a chief executive would be paid in an equivalent size company in the private sector.

**Q95 Chairman:** How much was the chief executive paid? What was his salary?

**Sir Howard Newby:** His salary, from memory, Chairman—and we can send you a note on this—was £186,000.<sup>6</sup>

**Q96 Chairman:** £186,000. That is a lot more than most vice-chancellors earn, is it not?

**Sir Howard Newby:** There are a few vice-chancellors who are paid more than that, but it is at the upper end of the scale.

**Q97 Chairman:** At the upper end of the scale, and a bonus.

**Sir Howard Newby:** And a bonus, indeed.

**Q98 Mr Turner:** There seems to be some sort of confusion about the Pricewaterhouse report—more than one report—and a disagreement about what they said in terms of their advice on who should be the target market. Can you make those reports available to the Committee?

**Sir Howard Newby:** I think you have the powers to ask for them. I do not see why we should not make them available to you. We will send them to you, Chairman.<sup>7</sup> Let me say, there is more than one report—you are aware of that? There was an original PricewaterhouseCoopers' report which advised on, if you like, the fundamental business model that was to be adopted. That was then later followed, in 2001, after the interim management team had been appointed, by a further PwC report. Indeed, the interim management team was supported by PwC and that created a further plan which took matters forward. So there is more than one report, but we will ensure they are sent to the Committee.

**Q99 Mr Turner:** Thank you very much. Mr Young, you said that it was always accepted that this was a high-risk venture, and later on you said that you made it clear to the Minister—I think you said "at an early stage"—that it was a high-risk venture.

**Mr Young:** I can certainly recall a conversation with Margaret Hodge, although it was some little while ago.

**Q100 Mr Turner:** Clearly, that was subsequent to your appointment in March 2001.

**Mr Young:** I was appointed to the HEFCE board in June 2001 and took over from Michael Checkland as chairman on 1 October 2001.

**Q101 Mr Turner:** So that was subsequent to that. What advice did ministers have about the level of risk, as far as you knew, before that conversation took place?

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<sup>6</sup> Ev 22

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**Mr Young:** My understanding would certainly be that from the outset it was always made plain that this had more risk than most of the things—almost all of the things—with which the funding council involves itself.

**Q102 Mr Turner:** I think most of us find it quite difficult to envisage risk. We know that with Russian Roulette there is a one-in-six chance of being dead. Can you give me some sort of measure of the risk which (a) you represented to Mrs Hodge and (b) was represented at the beginning to ministers during the year 2000?

**Sir Howard Newby:** Perhaps I could take this because, in practice, Chairman, it was I who reported to Mrs Hodge at the time, and subsequently to Mr Johnson on a regular basis, about the e-University in our regular meetings. The nature of the measurement of the risk was in what we might call a fairly conventional form—low, medium and high risk were identified. We set up a risk register, that risk register was agreed by DfES in 2001 and it was updated subsequently—but without, I have to say, fundamental changes thereafter. I think the risks which have come to fruition, if I can put it that way, were risks that were identified in the original register.

**Q103 Mr Turner:** Right. So the DfES accepted those risks in 2001?

**Sir Howard Newby:** Indeed they did.

**Q104 Mr Turner:** Did they, in your view, understand those risks? Who set the ball rolling? We know that David Blunkett made a speech, we know he asked you to do things and we know that in February 2000 a steering group was set up and PwC was employed. Was HEFCE asked to give him any advice before he asked you to set up a global e-learning enterprise?

**Sir Howard Newby:** Well, obviously, I was not around at the time but my understanding is yes, HEFCE was involved at that stage. My predecessor, Sir Brian Fender, was quite heavily involved in discussions with ministers at the time about the form in which the e-University might take. One of HEFCE's obligations is to advise ministers on the needs of the sector, and I have little doubt that some of HEFCE's thoughts at the time were, indeed, incorporated into David Blunkett's speech.

**Q105 Mr Turner:** So he had their advice before he made the speech and before he asked you to set the ball rolling?

**Q106 Sir Howard Newby:** Yes. I was President of Universities UK at the time of that speech, so I also know that some of the advice that was fed into the department and to ministers at that time consisted of reports, one of which, at least, had been commissioned by Universities UK itself. That was the Borderless Education report commissioned by Professor Robin Middlehurst at the University of Surrey, which had also surveyed the global scene and tried to assess the potentiality for e-learning in a UK context. That was also fed in at the time.

**Q107 Mr Turner:** Would you like to quantify the risk which ministers were advised on at that stage, or were they not advised on any risk at that stage?

**Sir Howard Newby:** I think, Chairman, I see no reason constitutionally why we cannot send you a copy of that risk register. We are not trying to hide anything here. I do not think it is covered by the confidentiality of advice to ministers—we can check on that—but I certainly have no objection to sending the Committee a copy of that so you can see for yourselves both the risks that were identified and how they were categorised in terms of high, medium and low.<sup>8</sup>

**Q108 Chairman:** That would be most useful, as would your suggestion—going right through to Brian Fender, significantly, PwC, Sun Microsystems, PA and the other two boards—as to who you think are the crucial people that this Committee should interview to continue our forensic investigation into what happened. We will not take them all but we would be grateful to know who you thought were the key players as well. Could you give us that information?

**Sir Howard Newby:** Personally, given the structure that was established, I would have thought the Committee might like to consider inviting someone from the Holdco board, which would probably be Sir Brian, who chaired Holdco, and no doubt someone from the operating company; either Sir Anthony or Professor Beaumont, or both.

**Q109 Chairman:** When you talk about PwC, as a company, we all know there will have been a key person in PwC.

**Sir Howard Newby:** That was Quentin Thompson.

**Chairman:** That is the sort of information we want.

**Q110 Mr Turner:** The next stage was that 74% of the respondents among the higher education institutions leapt on board. Presumably this was on the basis it was not costing them anything.

**Sir Howard Newby:** It was on the basis of them agreeing that there was a real opportunity here that the UK should grasp, and a broad consensus that it should be something that should, as far as possible, involve the whole sector, not just one or two institutions in it.

**Q111 Mr Turner:** So it was 74%. A pretty large number of the institutions.

**Sir Howard Newby:** Yes.

**Q112 Mr Turner:** How many respondents were there, after all?

**Sir Howard Newby:** Again, we can send the precise information<sup>9</sup> but, since at the time this was looked at as a UK venture, there would have been, I guess, probably 104 universities and, possibly, about another 30 or 40 colleges. As a round figure we are saying there was about 150, I would guess.

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<sup>8</sup> Ev 23

<sup>9</sup> Ev 23

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**Q113 Mr Turner:** At what level in an institution would such a decision classically be taken?

**Sir Howard Newby:** In this case it would be taken by the senior management of those institutions—at chancellor and, indeed, vice-chancellor level—advised, no doubt, in many cases by the heads of their education technology units. That was certainly the case in my institution at the time.

**Q114 Mr Turner:** Earlier on, Paul Holmes referred to the lack of private sector capital, and you have used the word “partner”. Judging by the amount of information that has been withheld by Sun Microsystems, what risk were they taking as your “partner”?

**Sir Howard Newby:** Chairman, that is a question you will have to ask Sun Microsystems. They were making a considerable investment, in their terms. There was a financial risk (and, I repeat, I think the amount of money they put into the venture—they would probably claim they spent far more than that, as things have turned out) and there was obviously a reputational risk to them if the venture was not successful. I would imagine those were the two key reasons they would have identified.

**Q115 Mr Turner:** But there was no private sector capital invested in the scheme?

**Sir Howard Newby:** If you mean by that did the operating company have a significant private capital investment, the answer is no. Sun were a partner in developing the platform but they were not an investor in the operating company.

**Q116 Mr Turner:** Could you tell us how big were the holding company board and the Opco board?

**Sir Howard Newby:** Yes, the operating company board had approximately 10 members and the holding company 10 or 12. We can supply you with that information.<sup>10</sup>

**Q117 Chairman:** Can you tell us if at any time people left and when they left?

**Sir Howard Newby:** On the operating company, Sir Alan Wilson, who was a founder member of the operating company board (he was then Vice-Chancellor of the University of Leeds) left the company on his appointment as director general for higher education in the DfES. That would be, from memory, in August 2003.

**Q118 Mr Turner:** You told my colleague that the holding company board was appointed by you and institutions. Exactly what was the process by which members of the holding company board were appointed?

**Sir Howard Newby:** For the holding company board we essentially put out an advertisement for people to apply to put themselves forward as members of that board.

**Q119 Mr Turner:** “We” being HEFCE?

**Sir Howard Newby:** Yes, on behalf of the funding councils and SCOP. We had a very large number of applications from whom the eventual board names were selected by a small working group.

**Q120 Mr Turner:** Of the HEFCE board?

**Sir Howard Newby:** Of HEFCE with our other partners at the time, by which I mean the other funding councils and the Standing Committee of Principals. We also consulted Universities UK on that.

**Q121 Mr Turner:** There was a shadow board in December 2000 and the holding company was set up subsequently. Who appointed the shadow board?

**Sir Howard Newby:** There was a series of interim arrangements put in place to get the whole thing moving and, essentially, we (HEFCE) appointed the interim management committee, but none of those who were in that group, from memory, subsequently became members of either board. Chairman, if I may, I now have the list in front of me. If you would like me to see whether my estimates of the size of these two boards was correct or not? On the holding company there were 12 members of the board, so my initial estimate was reasonably correct, and on the Opco board there were 10 members.

**Q122 Mr Turner:** How often did you review the operation of the holding company board?

**Sir Howard Newby:** The holding company board, as a condition of grant, was obliged to report to the HEFCE board annually, but we received reports from the holding company more frequently than that—on average they were every six months.

**Q123 Chairman:** But that never included the bonus system?

**Sir Howard Newby:** No. I have to say, the first I was aware of the existence of that system was when the Opco board resigned following my board’s decision.

**Q124 Mr Turner:** You insisted, you said, as a condition of grant (presumably, through the holding company board) that best practice be complied with.

**Sir Howard Newby:** In terms of company governance, yes.

**Q125 Mr Turner:** Do you think it was complied with?

**Sir Howard Newby:** The governance structure I would defend. I think it was best practice because what we are talking about is the difference between the structure and the substance of decisions that were made.

**Q126 Mr Turner:** Who was responsible for the remuneration of the chairman of Opco?

**Sir Howard Newby:** That was the responsibility of the remuneration committee of Opco.

**Q127 Mr Turner:** Who was on the remuneration committee of Opco?

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<sup>10</sup> Ev 23

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**Sir Howard Newby:** I think, Chairman, we would have to send you a note on that. They were, essentially, the non-executive directors, as I understand it. We can give you the information, rather than speculate.<sup>11</sup>

**Q128 Mr Turner:** Would you have expected that the Secretary of State, on hearing the advice that you gave him in the spring of 2000, in particular, would have sought other advice from officials?

**Sir Howard Newby:** I would have expected that, yes, and I am pretty sure he must have done.

**Mr Turner:** You, Chairman, described the bonuses as a major scandal.

**Chairman:** I said “scandalous”.

**Q129 Mr Turner:** Scandalous. Where do you think, Sir Howard or Mr Young, the biggest failure lies in this, either the process or the decision making associated with it?

**Sir Howard Newby:** With the company or with the bonus scheme?

**Q130 Mr Turner:** With the whole story, ending up with today.

**Sir Howard Newby:** My personal view is that it is really a marketing failure, and that the markets were not identified and focused upon with sufficient clarity. I think, while the technology platform slipped in terms of the timetable, the slippage was not sufficient to threaten the integrity of the company. We were advised and we are advised now, that the technology platform is an advance on previous platforms but, as we know, in the end, only 900 rather than 5,000–6,000 students registered to use it and I would say that this is a failure of marketing and selling.

**Q131 Mr Turner:** Mr Young is nodding.

**Mr Young:** I would have started in exactly the same way and would say, finally, that the other piece of the jigsaw, which is in the event the non-availability of private sector finance, is more of what I believe is called an exogenous factor, perhaps.

**Chairman:** We do have one more topic to cover, so if you could have a last bite.

**Q132 Mr Turner:** My last question is do you know of any other e-learning projects—of those that were mentioned in the Greenwich speech or others that may have happened elsewhere—that have failed because of a lack of customers?

**Sir Howard Newby:** Yes, a number of them.

**Q133 Mr Turner:** Those are?

**Sir Howard Newby:** The one that I think has probably the highest profile would be Fathom, which was the venture set up by the University of Chicago and a number of American universities with the London School of Economics. That closed down again, because of a lack of student numbers. The Western Governors’ University, as it was called, in the United States, which is the consortium of public

universities in the Western United States, is also no longer operating for somewhat similar reasons. And there are others. Of those that were mentioned in the Greenwich speech those two certainly have struggled because of a lack of student demand, in the end.

**Q134 Chairman:** As you have put your finger on the failure to market the product or to know about the market as being central, it is quite interesting to see that Nigel Bannister was director of marketing. Did he get a bonus?

**Sir Howard Newby:** I do not know. We can, again, let you have that information.<sup>12</sup>

**Q135 Chairman:** Could you find out?

**Sir Howard Newby:** I am advised, Chairman, that he did and it was 3% only.

**Chairman:** I now want to switch, very briefly, to the future of e-learning because this Committee is minded to look at e-learning. As I said earlier, we would not want this experience to cast a shadow over a very important area of development in education generally.

**Q136 Jonathan Shaw:** Whatever, I think, the lessons drawn from the main topic today, as the Chairman said, we want to see e-learning continue in this country. What lessons have been learned? Tell us about the future, Sir Howard.

**Sir Howard Newby:** The first lesson I would learn is that the development of e-learning needs to be learner-centred rather than technology driven. We need to know a lot more about the needs of learners and, if I may get a little bit technical here, the form of pedagogy that e-learning involves, which, as we can now begin to see, is quite different to that of more conventional “chalk-and-talk”. I have to say, one of the elements of value we have extracted from this unfortunate affair is the research component, which of course still survives, where we now know a lot more as a result of the investment we put in about, if you like, what students are looking for and the kind of form of teaching and learning which we need to present to them through this technology. I say that rather than starting off, if you like, with a technology driven solution, where you start off with a piece of technology and then, based on the view that we know what the student ought to want and if the student does not want it in that form that is the student’s problem and not ours—I do not think we could possibly go down that route again. Secondly, I think it really follows on from that, as I said earlier, we now know—perhaps more than anybody did at the time, in fairness—that the future of e-learning lies in what is called “blended” learning; of allying e-learning materials (courseware, in the jargon) to more conventional forms of learning. As I said before, and I think I said Chairman, to this

<sup>11</sup> Ev 25

<sup>12</sup> Ev 25

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Committee before, there is more to being a student than sitting in front of a computer screen. I think that is another important lesson. So the way forward would be to encourage, facilitate and invest in universities which are developing this blend of courseware allied to their existing materials. That, therefore, puts individual universities or, if you wish, small groups of universities at the forefront of this, rather than having a single e-University attempting to develop, market and sell on behalf of all of the sector. I think that is the third lesson we would learn.

**Q137 Jonathan Shaw:** A privileged view?

**Sir Howard Newby:** We still would wish to see e-learning, in the form I have described it, as being part of the warp and weft of the entire university sector. In other words, we would wish to see all higher education institutions pushing forward high quality, blended forms of learning, making use of the new technology but not being dominated by the new technology.

**Q138 Jonathan Shaw:** What is going to happen to the existing 900 students?

**Sir Howard Newby:** Of the 900 students that were present using the platform in September, there are now, on the latest estimate we have, 145 still registered on courses which have not yet concluded. We hope that virtually all of them will have completed their courses or their courseware will be reversioned to another platform to make sure that their interests are catered for before the final wind-down of the e-University which we would anticipate being at the end of July. There may be a very small number—and I am talking of tens, no more than that—of clusters of students on particular courses at particular universities which are totally dependent on the e-University platform. Between now and then, we—and I have to pay tribute to the remaining staff at the e-University—are working very, very, hard indeed to ensure that their interests are properly protected. However, in the end, I would anticipate the number of students who are most at risk is probably no more than 20 or 30.

**Chairman:** That moves us seamlessly on to the last thing we want to talk about, which is rather different, but how that links to international student demand.

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### Supplementary memorandum submitted by HEFCE

#### RESTRUCTURING AND COLLABORATION FUND

##### 1. Questions 5 and 6

Funding for the eUniversity project came primarily from the £62 million provided by the Government specifically for the project in the HEFCE November 2000 grant letter. However, initial funding of £1.13 million was drawn from the HEFCE Restructuring and Collaboration Fund (R&CF) to pay for costs until April 2001 when the £62 million programme grant became available. This was funded from R&CF under the criterion of supporting major collaborative projects in the higher education (HE) sector. These funds paid for initial research studies (many of which are presently being prepared for dissemination as part of getting value for the higher education sector from the project), as well as the set up of the company (since an Interim Management Team for the Operating Company was put in place at the end of 2000).

#### BUSINESS MODELS AND BUSINESS PLANS

##### 2. Questions 10–13 & Question 98

We agreed to provide further clarification about the business models and plans for the project.

3. The first stage of the eUniversity project was the development of a business model for the venture. This was produced by PricewaterhouseCoopers (PwC) and published by the HEFCE in October 2000. We attach the three published documents:

- eUniversity project: business model consultation document (October 2000, HEFCE 00/43).
- Business model for the eUniversity—report to the HEFCE by PricewaterhouseCoopers (October 2000, HEFCE 00/44a).
- Business model for the eUniversity: annexes—report to the HEFCE by PricewaterhouseCoopers (October 2000, HEFCE 00/44b).

4. The business model presented the main lines of how the venture would operate—ownership, funding, and main activities. The main difference between this model and the one originally conceived by the HEFCE was that the PwC model proposed that the venture should involve all United Kingdom higher education institutions, rather than a consortium as we had originally suggested.

5. A more detailed business plan was subsequently produced in August 2001 by the Interim Management Team for the eUniversity (headed by an interim Chief Executive Officer), who were supported by PwC in the detailed modelling work of the plan. We attach a copy of this plan. The plan was one of the bases of the legal documents that set up the eUniversity Operating Company (OpCo) in October 2001 (for example, the plan underpinned the share price offered at set up).

6. We understand that once the new Board and Management were in place in the eUniversity operating company (OpCo) they revisited this initial plan attached to the legal documents and adopted a revised version in April 2002. The April 2002 version informed the set up of the company over the period 2002–03.

7. We were informed by OpCo that they intended to review their business plan again in Autumn 2003 in the light of their launch in September 2003. We agreed that our review of the venture in Autumn 2003 should be based on the plan revised in the light of launch, since this would be the first time that the plan could reflect real performance in the market place. OpCo provided us with the new plan revised in the light of launch in November 2003, and it was this plan that was the subject of the PA Consulting review and of the HEFCE Board decision to cease funding against it in February 2004.

#### 8. Question 19

We stated that the investment from Sun Microsystems Limited was £5.5 million. We understand that the correct figure is £5.6 million.

### eUNIVERSITY EXPENDITURE AND RESIDUAL VALUE

#### Question 22

We estimated that by the time we had achieved the wind-down of the eUniversity we would have spent around £30–£31 million. This has been calculated by estimating the overall expenditure on the project by the HEFCE minus our estimated residual value of this project. The details of the expenditure and residual value are set out in the table below.

	<i>Funding (£m)</i>	<i>Value (£m)</i>
<b>Public Good</b>		
eChina	3	3
e-learning research centre	1	1
Research studies and other publicly disseminated outputs to inform development of eLearning <sup>1</sup>	2	2
Advisers (legal and business)	1	—
<b>Commercial</b>		
Technology Platform development	14.5	1.4 <sup>2</sup>
Learning programmes development	10.9	11
Sales and Marketing (includes overseas)	4.2	0.4 <sup>3</sup>
UKeU operating costs <sup>4</sup>	12.9	—
<b>Total</b>	<b>49.5</b>	<b>18.8</b>

<sup>1</sup> Research studies include: PricewaterhouseCoopers business model, CHEMS study on marketing and HE aspects of eLearning, technology studies (e-Tools, content and learning resources and disability and technology), additional PwC work on production process in eLearning. These studies are presently being edited into a web-publication overseen by the HE Academy/eLearning Research Centre, and will be disseminated to inform the strategic development of eLearning. This also includes HEFCE contribution to the set up of the UUK Borderless Education Observatory, which is now supporting HEIs, and on-going programme on developing guidance for the HE sector on IPRs in e-learning.

<sup>2</sup> We have added an estimate of 10% of funds spent on platform as recoverable value, to reflect ownership of IPRs (still under negotiation) and the learning experience from platform development which will be evaluated and disseminated to inform eLearning development in HE sector.

<sup>3</sup> We have added estimate of 10% of funds spent on Sales and marketing to reflect captured value from overseas partnerships initiated and overseas accreditation arrangements now transferred to HEIs.

<sup>4</sup> Payroll, Fujitsu, finance leases, premises, and other.

### CHIEF EXECUTIVE OFFICER (MR JOHN BEAUMONT)

#### 9. Questions 29 and 95

From the information provided in the eUniversities Worldwide Limited Report and Financial Statements for the year ended 31 March 2003, we understand that the remuneration of John Beaumont in 2002–03 was £226,373 inclusive of benefits and performance related bonus.

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 OPco BONUS SCHEME
10. *Question 80*

We understand that the bonus scheme that operated within OpCo provided for between 0% to 100% of a maximum 50% of an individual's annual salary based on performance review. We attach a copy of the UK eUniversities Worldwide Limited Report and Financial Statements for the year ended 31 March 2003. This report provides information about the remuneration of the directors and includes performance related bonus payments. We have knowledge of the bonus scheme operated by OpCo for the period 2003–04 but have not included the data on payments to individual staff with this supplementary evidence as this is not publicly available information.

## RISK REGISTER

11. *Question 107*

We attach a copy of the Risk Register submitted to the Department for Education and Skills (DfES) in July 2001 at the set up of OpCo.<sup>1</sup> We had regular review meetings with the Department to discuss progress on the project (roughly every six months), which included consideration by the Department of our risk register. We also had discussions with the eUniversity about its own risk register and its plans for delivery against milestones.

## HEFCE CONSULTATION WITH THE HIGHER EDUCATION SECTOR

12. *Question 112*

We consulted with the higher education institutions at a number of points in the eUniversity project:

- (a) At the outset of the project in February 2000. We attach a copy of the circular letter HEFCE 04/00 published on 14 February 2000.<sup>2</sup> We received 85 responses from higher education institutions, and six from further education institutions. Around half of responses outlined activities relevant to the e-University going on in the institution (and a few directly expressed interest to become core or programme partners, either individually or in partnerships). Overall, the announcement of the project was broadly welcomed. The main debate on the proposed model for the e-University was the balance that should be struck between collaboration and competition. The majority of respondents wanted to see a reasonably inclusive model.
- (b) In October 2000 (HEFCE 00/43 attached) specifically on the PwC model (publications HEFCE 00/44a and HEFCE 00/44b attached). We received 77 responses with 57 from higher education institutions (although the other 20 responses included responses from consortia of higher education institutions, many formed in 2000, such as Worldwide Universities Network). The e-University project generally, and the PwC Business Model specifically, attracted considerable support. 74% of HEIs expressed their general support and commended the main aspects of the model. In addition, a number of higher education consortia expressed interest to work closely with the e-University. The majority of institutions commended the change in the model to a more inclusive approach. However, a few were concerned that there would be branding challenges in an e-University that worked with a wide range of higher education institutions.
- (c) We invited UK higher education institutions to become members of the Holding Company (HoldCo) in Spring 2001. All but four UK Higher Education Institutions (HEIs) registered as members.
- (d) Around 70 English higher education institutions submitted proposals to the eUniversity to develop e-learning programmes over the course of the project.
- (e) At the start of restructuring and wind-down, OpCo had contracts and other relationships with around 30 higher education institutions.

## HOLDCo AND OPco BOARD APPOINTMENTS

13. *Questions 116 to 120*

The Board of the Holding Company is appointed as follows: six Directors by Universities UK (UUK); four Directors by HEFCE in consultation with the other UK funding bodies; and two by the Standing Conference of Principals (SCOP). The Chairman of the Board is appointed out of the Board membership by the Board. The present membership of the Holding Company Board is:

Sir Brian Fender (Chairman)—Chairman BTG plc, formerly Chief Executive HEFCE

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<sup>1</sup> *Note:* Not printed.

<sup>2</sup> *Note:* Not printed.

Professor Bob Boucher—Vice-Chancellor, University of Sheffield  
 Sir Colin Campbell—Vice-Chancellor, University of Nottingham (resigned 9 June 2004)  
 Sir Ron Cooke—formerly Vice-Chancellor, University of York  
 Professor Gary Crossley—Principal, Central School of Speech and Drama  
 Mr Walter Greaves—Chairman of Council, Brunel University  
 Professor Gerry McKenna—Vice-Chancellor, University of Ulster  
 Mr Alfred Morris—Vice-Chancellor, University of West of England  
 Professor Tim O’Shea—Principal and Vice-Chancellor, University of Edinburgh  
 Professor Kevin Thompson—Principal, Dartington College of Arts  
 Sir Adrian Webb—Vice-Chancellor, University of Glamorgan  
 Professor Geoff Whitty—Director, Institute of Education

14. Directorial appointments were confirmed by UUK, HEFCE and SCOP in spring 2001. The Board then met in shadow form from April 2001 prior to full incorporation in June 2001.

15. Up to February 2004, the Board of the Operating Company was appointed:

- (a) Three Directors were nominated by the Holding Company: Professor John Bull (former Vice-Chancellor of University of Plymouth), Professor David Wallace (Vice-Chancellor of Loughborough University) and Professor Sir Alan Wilson (then Vice-Chancellor of University of Leeds). Sir Alan Wilson resigned on 30 September 2003.
- (b) The original legal arrangement for OpCo was that three Directors should be appointed by the private sector partners to the venture. OpCo did not attract private sector partners at the outset, and therefore Directors with commercial and other private sector expertise were appointed by the shareholders—the Holding Company, Guillemont Trust (holding shares in respect of Sun Microsystems Limited contributions) and Croft Nominees (escrow agents holding shares in respect of Sun Microsystems Limited contributions prior to milestones delivery by Sun Microsystems Limited).
- (c) The Chairman of OpCo, Sir Anthony Cleaver, was appointed by the Board. Three Executive Directors were also appointed to the Board by the Board: Chief Executive Officer (CEO)—Mr John Beaumont; Finance Director—Ms Elizabeth Selzer; Learning Programmes Director—Professor John Slater, who resigned on 27 September 2002 and was replaced by Professor Dave Unwin from 1 October 2002.

16. After February 2004, the articles of OpCo were changed by agreement of the shareholders and a smaller Board was formed appointed by the shareholders. The present Board is: Mr Eddie Newcomb (Chairman) (formerly Registrar of the University of Manchester), Mr Bob Stubbs (Deputy Executive Chairman) (Robson Rhodes Consultants), Sir Ron Cooke (former Vice-Chancellor of the University of York and Chairman of the Joint Information Systems Committee of the UK funding bodies), Professor Gerry McKenna (Vice-Chancellor of the University of Ulster) and Professor Geoff Peters (Open University).

#### BOARD MEMBERS OF HOLDCO AND OPKO

##### HOLDCO BOARD

<i>Name</i>	<i>Date appointed</i>	<i>Date resigned</i>
Sir Brian Fender (Chair)	25 June 2001	
Professor Bob Boucher	29 June 2001	
Mrs Sandra Burslem	29 June 2001	16 September 2003
Professor Sir Colin Campbell	29 June 2001	9 June 2004
Professor Sir Ron Cooke	29 June 2001	
Professor Gary Crossley	29 June 2001	
Mr Walter Greaves	29 June 2001	
Professor Gerry McKenna	29 June 2001	
Mr Alfred Morris	29 June 2001	
Professor Sir Gareth Roberts	29 June 2001	31 August 2002
Professor Tim O’Shea	29 June 2001	
Mrs Dorma Urwin	29 June 2001	5 December 2002
Sir Adrian Webb	24 September 2002	
Professor Kevin Thompson	1 May 2003	
Professor Geoff Whitty	16 September 2003	

*Appointed by HEFCE*

Fender, Boucher, Roberts, Greaves, Webb.

*Appointed by UUK*

Burslem, Campbell, Cooke, McKenna, Morris, O'Shea, Whitty

*Appointed by SCOP*

Crossley, Urwin, Thompson.

#### OPCO BOARD

<i>Name</i>	<i>Date appointed</i>	<i>Date resigned</i>
Sir Anthony Cleaver	1 December 2001	27 February 2004
Professor John Bull**	4 October 2001	27 February 2004
Professor David Wallace**	4 October 2001	27 February 2004
Professor Sir Alan Wilson**	4 October 2001	30 September 2003
Mr Julian Gizzi*	19 October 2001	25 March 2002
Mr Stephen Hocking*	19 October 2001	25 January 2002
Mr Laurence Markham*	19 October 2001	25 January 2002
Mr Richard Hooper	25 January 2002	27 February 2004
Ms Elizabeth Selzer	25 January 2002	27 February 2004
Mr Keith Bedell-Pearce	25 January 2002	27 February 2004
Professor John Slater	21 February 2002	27 September 2002
Mr John Beaumont	4 March 2002	27 February 2004
Mr Rob Rowley	25 March 2002	27 February 2004
Professor David Unwin	1 October 2002	27 February 2004
Mr Eddie Newcomb (Chair)**	25 March 2004	
Professor Geoff Peters**	25 March 2004	
Professor Gerry McKenna**	25 March 2004	
Sir Ron Cooke**	25 March 2004	
Mr Bob Stubbs	25 March 2004	

\* from Beachcroft Wansbroughs appointed for set-up period.

\*\* appointed by HoldCo

#### REMUNERATION COMMITTEE

##### 17. *Question 127*

We understand that the membership of the OpCo Remuneration Committee, drawn from the Non-Executive Directors of the OpCo Board, was until February 2004: Mr Richard Hooper (Chairman), Sir Alan Wilson (until his resignation from the OpCo Board in September 2003) and Mr Keith Bedell-Pearce. After February 2004, the new OpCo Board did not delegate decisions on remuneration.

##### 18. *Question 134*

There were two OpCo directors (not at OpCo Board level) responsible for sales and marketing: Mr Nigel Bannister as director of Sales and Marketing who we understand concentrated on the retail market; Mr Michael Smith as director of business development who we understand concentrated on the corporate eLearning market.

We understand that a bonus payment of 3% (based on 50% of his salary) was made to Mr Bannister in the period 2003–04 on the basis of his performance. We understand that no bonus payment was made to Mr Smith who left the employment of OpCo.

6 July 2004

## Wednesday 21 July 2004

Members present:

Mr Barry Sheerman, in the Chair

Mr David Chaytor  
Valerie Davey  
Mr Nick Gibb  
Helen Jones

Mr Kerry Pollard  
Jonathan Shaw  
Mr Andrew Turner

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*Witnesses:* **Sir Anthony Cleaver**, Former Chairman, and **Mr John Beaumont**, Chief Executive, UK eUniversity, examined.

**Q139 Chairman:** While we are allowing people to settle down, can I welcome Sir Anthony Cleaver and John Beaumont and thank them for coming to the meeting of the Committee to discuss the UK e-University. Sir Anthony Cleaver and I know each other. He has been a formidable player in the way that he campaigns to make British business more effective and efficient. I remember his work on the Tomorrow's Company with the Royal Society of Arts. It is nice to see you here, Sir Anthony. John Beaumont, who again has had a distinguished career in Energis and elsewhere. Again, John, welcome. Basically you know why you are here and what we are trying to get to the bottom of, that is the brief trajectory of the University and why it finished in the way it did very recently. I know you, Sir Anthony, resigned at a particular time. What is the present status of the UK e-University at the moment? Are you still the Chief Executive?

**Mr Beaumont:** No, I stopped at the end of the first week of July and it is being wound down. There are a couple of people there today and it will be concluded by the end of July. So the students that are on existing courses will be looked after, hopefully, by the individual universities for which they are taking the courses.

**Sir Anthony Cleaver:** I wonder, Chairman, if I might make a brief opening statement.

**Q140 Chairman:** I was going to ask you that; I just wanted to know what the status was, because in my programme it says, "former Chair" and it says "John Beaumont, Chief Executive", so I wanted to be clear what the status was.

**Mr Beaumont:** Former Chief Executive.

**Q141 Chairman:** You are both former now. Sir Anthony, would you like to make a brief opening statement?

**Sir Anthony Cleaver:** Yes, I thought it might help the Committee if I gave a brief summary of the history, very brief, and some of the key events. In November 2001 I was approached about the position of Chairman of UKeU. I was subsequently interviewed by the three HEFCE nominated directors of the interim board, Sir Alan Wilson, John Bull and David Wallace. I was shown the PwC business plan, and I said that while I thought the project was very exciting and one that I would like to lead, I could not commit to delivering a 10-year plan which amounted to little more than a spreadsheet. The Vice

Chancellors did not disagree and I became Chairman in December 2001. On reviewing what was already in place, I found relatively little of substance. By far the most valuable element was the specification for the software platform. However, no coding had been done, nor had the software provider been chosen. In terms of content, three pilot courses had been agreed with York, Sheffield Hallam and the Open University. Again, little work had been done and the universities were hampered by the absence of the software platform. On the marketing front, little existed except some market estimates that appeared to be almost entirely desk-based. The plan called for courses to start in October 2002, which in my view was unrealistic, and my first action, therefore, was to defer their start date to spring 2003. My most important task was to put together a strong management team. The key appointments were the Finance Director, a Company Secretary with strong legal background and used to dealing with complex contracts and the Chief Executive. The latter was particularly crucial to our success and I was therefore delighted that we were able to find John Beaumont, who had extensive experience of running a large Internet-based operation and wide academic experience. My other key objective was to appoint strong commercial non-executives. This was achieved by the middle of 2002 with the appointment of Keith Bedell-Pearce, ex-Director of the Prudential and Chairman of the Student Loans Company, Richard Hooper, a veteran of the Telecoms industry with BT and now Deputy Chairman of OFCOM, and Rob Rowley, ex-Finance Director of Reuters and now Deputy Chairman of Cable and Wireless. From the beginning it was clear that to succeed we had to get three things right: the platform, the courses and the marketing. John Beaumont immediately focused on the platform, where we put out a tender and eventually signed a fixed price agreement with Sun in July 2002. The platform went live in March 2003. The second key area was the courses. We wrote to all the universities asking what courses they could develop for us. We were offered nearly 70 courses by 29 universities. We then selected the most promising in terms of the international market, choosing 15 courses to be available from October 2003 and a further 10 from February/March this year, which leads me to the most challenging area: marketing. From what little marketing information we inherited and our own initial analysis, including

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discussions with the British Council, our first target markets were in the Far East. Fortuitously, I was also Chairman of the Asia Pacific Advisers for Trade Partners UK and was able to draw on their contacts in that part of the world. In Beijing, Singapore and Kuala Lumpur on my first visit we talked to the ministries of education and determined how best to proceed. While there was clearly a huge opportunity in all three countries, it was also very clear that each country required a different approach, different pricing and local partners. In other words, the original plan, based on the single price world-wide marketed directly by UKeU with no local support, would simply not work. Consequently, we recruited a man with significant experience of working in the Far East and set about building a team of local agents in the target countries. In conclusion, I would like to cover two issues: private sector funding and the provision of information. The private sector funding issue was reviewed regularly by management and the Board. Experience and our contacts told us that we would need a track record before we could raise money. In autumn 2003 we said that we did not envisage being successful in this area until autumn 2006. At the same time, we did everything we could to cut back our funding requirement so that the plan we submitted at the time of the PA report showed a total requirement of £57 million to break even compared with the £90 million plus of the original plan. I felt, however, that it would be more prudent to assume a total of £70 million. In terms of our relationship with our public sector funders, it is important that you are aware that the monthly management report and the full Board minutes were sent directly to HEFCE and the Holdco every month, ensuring that they were fully appraised of our progress, and regular meetings were also held. In conclusion, I strongly believe that UKeU had a sound future and, if allowed to continue, would have delivered great benefits to the UK in the expanding global market for higher education, and I very much welcome this opportunity to answer your questions.

**Q142 Chairman:** Thank you, Sir Anthony. To sum it up in a nutshell, you think this abrupt termination was quite wrong and could have led to a very successful business. That is what you concluded by saying. Why do you think HEFCE did what they did then?

**Sir Anthony Cleaver:** I find it very hard to understand, and it was a complete surprise to myself and the non-executive directors when their Chairman and Chief Executive walked into the meeting and said "Our Board has taken a decision", and we said, "Could we discuss this?", and they said, "No".

**Q143 Chairman:** It was non-negotiable?

**Sir Anthony Cleaver:** We said, "Is this negotiable?" and they said, "No, it is a Board decision and we are not prepared to discuss it."

**Q144 Chairman:** There is some view that you were . . . We will be coming to look at the marketing strategy in a little while, but in terms of the business plan, if you look at the history as it has been provided to us, it seems uncertain. You have already said you were not very happy with the original PwC business plan. Why was that? Could you tease that out a little bit more?

**Sir Anthony Cleaver:** Yes, because it showed a very rapid increase from a standing start to—I cannot remember the numbers because we discarded them at the beginning. I have them if you would like them, but it was of the order of say 10,000 students in the first year, and that was a year, I could perhaps remind the Committee, in which, at the point of time that John Beaumont arrived, we had not even got the software out to tender let alone written. One had to produce the platform, the universities had to produce the courses to run on that platform and we then had to recruit students. So it was clearly an impossible plan. What we decided we should do was to gain understanding of the market as fast as we could and as we understood it so we constantly revised the numbers, which is why month after month the monthly management report which went to the Board said, "Based on our current feeling, these are the numbers we will aim at", and we constantly aimed high because we thought that was the right thing to do.

**Q145 Chairman:** If there was not a satisfactory business plan when you arrived, when did you get a satisfactory business plan?

**Sir Anthony Cleaver:** We were constantly refining our understanding both of the market and of what universities could and would do and of the way in which we could develop the business. So I would say that we were constantly revising the business plan. In the autumn of 2003 when we were asked for the business plan, what we actually provided was a copy of our model. We had developed a model of the business into which we could put the arrival of a new course, the prices that we were going to charge and the number of students we thought we would get and from that immediately developed the impact of the business; so this was constantly evolving. I think it is important to understand what we are talking about here is a Start-up, and a Start-up which had to operate in many international countries, with multiple partners in the UK, and which was given less than two years to success. I know of no Start-up that could have achieved success in that time.

**Q146 Chairman:** But, if I can ask John Beaumont, you came in?

**Mr Beaumont:** Yes.

**Q147 Chairman:** You would have been aware there was not a business plan that people had accepted as a business plan. Would not one of your first actions have been to say, "We must have a revised business plan that everyone knows about and is aware of"?

**Mr Beaumont:** What we did was take the original PwC business plan and in a sense update it for three things: (1) the new time schedules of when courses

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and platforms were going to come, (2) removing some modelling errors that we found in it, and (3) do more detail, because the original plan only did annual cash flow, and, given the peakiness of cash requirements and the importance of knowing where the funding was coming, we did monthly cash flows. So we updated that original plan by the April/May 2002. What that showed was a change from the PwC plan of year one students 3,500, the new numbers were 340; PwC second year was 12,600, the second year of our remodelled plan was 5,638. Clearly that was just a modelling arithmetic exercise, and in discussions, particularly with Holdco, we said the only way we will be able to get a real projection is when we start to take the first set of students and get to see what the response is to the courses, because in a sense you are creating a market for wholly on-line services; and it was agreed with Holdco that the first real business plan with some numbers that were based on actual results would be November 2003, and then, with those numbers, the 2003 for year one was 1,225 but in the second year going up to 4,660. So initially we had to just do modelling and make assumptions talking to different people, and then we started to use hard numbers that we got from the initial courses in the latter part of 2003.

**Q148 Chairman:** Two more things on this introductory. Holdco—who did you talk to in Holdco?

**Mr Beaumont:** There were quarterly meetings of Holdco, chaired by Sir Bryan Fender, and I would give a quarterly update as a report to that meeting and go along to the meeting and answer any questions about the progress of the business. Holdco was a group of 12 people; it met quarterly and probably on average about six or seven people turned up.

**Q149 Chairman:** Chaired by Sir Bryan Fender?

**Mr Beaumont:** Chaired by Sir Brian Fender.

**Q150 Chairman:** How often, or at all, did you meet any ministerial contact in the Department for Education and Skills?

**Mr Beaumont:** We met the Minister for Higher Education probably every six months, so Mrs Hodge and then Mr Johnson, and then giving them updates. If asked by DfES for any updates, we would obvious reply very promptly.

**Q151 Chairman:** Where did you meet?

**Mr Beaumont:** In their office.

**Q152 Chairman:** In your office?

**Mr Beaumont:** In their office.

**Q153 Chairman:** In their office?

**Mr Beaumont:** Yes.

**Q154 Chairman:** Across here?

**Mr Beaumont:** Yes.

**Q155 Chairman:** At the original budget the figures that we were given were that the original allocation to HEFCE to do this was £63 million?

**Sir Anthony Cleaver:** £62 million.

**Mr Beaumont:** £62 million.

**Q156 Chairman:** £62 million. How much of it was spent?

**Sir Anthony Cleaver:** At the time that we left.

**Q157 Chairman:** Yes?

**Sir Anthony Cleaver:** It was, I believe, £34.9 million.

**Mr Beaumont:** And of the £62, ear-marked for UKeU was £55 million, there was £3 million for the e-China project that we managed and £1 million for an e-learning research centre that was across the universities of Manchester and Southampton.

**Q158 Chairman:** That was extra?

**Mr Beaumont:** That was within the £62 million.

**Q159 Chairman:** So what, Sir Anthony, was the £70 million and £90 million you mentioned in your introduction?

**Sir Anthony Cleaver:** I will try and make it as clear as I possibly can. We believe that we had £55 million committed.

**Q160 Chairman:** You have just said it was £63 million committed?

**Sir Anthony Cleaver:** No, that was including these other projects that were ring-fenced. So we believed for the normal operation of UK universities we had £55 million. That was our understanding. We saw it as our job as the thing progressed and it became clear that private funding was something that I fully believe we could have obtained in time, but we needed to have a track record with several thousand students and so on to do that. For that reason, what we tried to do was to rein back the budget. If I could slightly modify what you may think you heard earlier. We did produce a formal business plan in April 2002 and we have got a copy of that here, and that was submitted and we then updated it from time to time, but, at any rate, we saw it as our role, therefore, to reduce the spending, as far as we could, consistent with continuing to grow the business effectively. We tried when we got to the 2003 budget in the November to see what we could do with £55 million, and we found that if we were going to continue at the same speed we needed £57 million. I have to say, after many years of experience in business, the concept of £57 million £55 million looks very close to me when we are talking about something as complex as this and several years ahead. We therefore said, in our view it would be prudent to assume it would require £70 million, but the plan actually shows £57 million. I would have expected, for example, had we had proper discussions, that it would have centered on: "Can you actually manage for £55 million?", and we could have done something for that.

**Q161 Chairman:** But you just mentioned £90 million. What was that?

**Sir Anthony Cleaver:** That was in the original PwC plan.

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**Q162 Chairman:** Was it?

**Sir Anthony Cleaver:** Yes. So we constantly reduced the cost of this as we went through.

**Q163 Chairman:** So really you thought you were running the staff up over a number of years, you thought you had the £62 million as really ball park—what you could expect to have got from HEFCE—and, before you got anywhere near that limit, they pulled the plug on you?

**Sir Anthony Cleaver:** Yes.

**Chairman:** Good. We have got some basis on which to work.

**Q164 Mr Chaytor:** Sir Anthony, you have written a fairly forceful letter to the Chairman of HEFCE about this issue and in the letter you claim that the PA consulting review was wrong or misleading on over 100 points. Can you tell us on how many of those points was it unequivocally wrong? Which were the most serious inaccuracies?

**Sir Anthony Cleaver:** I think honestly to do that I would have to go through and deal with the individual items. I have here the annotated version of the PA plan which we sent back to HEFCE, and I am very happy for the Committee to have access to that. My biggest concern over the PA report was that they did not talk to the people I particularly asked them to talk to, ie the commercial non-executive directors. It seemed to me that insofar as what they were focusing on was risk, those were the people who sat on our Board, saw the information and from their broad commercial backgrounds were in the best position to take a view on that. The other point that I would make is I do not think there are any risks outlined in the PA report that were not covered in our own risk register. I ran the company according, I think, to the very best principles of commercial corporate governance. One of the things nowadays that good companies do is to have a complete risk register. We started that as early as the end of 2003<sup>1</sup> and we carried on reviewing it quarterly, and that was, of course, also available to anybody who was interested in it.

**Q165 Mr Chaytor:** But those are criticisms of process rather than of fact. Can you tell us where the report was wrong in matters of fact?

**Sir Anthony Cleaver:** For example, some of the names of the people that they quoted were attributed to the wrong organisations. There were those sorts of errors which in some senses—

**Q166 Mr Chaytor:** The inaccuracies are inaccuracies of comparatively minor detail. Is there anything substantive in which the report was inaccurate?

**Sir Anthony Cleaver:** Not in the fundamental sense in that, as you see in the letter, I do not know whether you saw the covering letter that I sent to HEFCE with our response to the PA report, but in that I said that the general thrust is that this is a high

risk venture, and that is something that we have known from the beginning. What we are doing is mitigating those risks as fast as we can.

**Mr Beaumont:** There was very little analysis of the platform and the pedagogic approaches that could be supported for the universities. Really all that was looked at technically was the infrastructure to provide a service, and I think it would have been more pertinent to look at the scope of the platform because that was the major asset that was being created.

**Q167 Mr Chaytor:** But that is again an omission?

**Mr Beaumont:** It is an omission, yes.

**Q168 Mr Chaytor:** Could I clarify one thing. You have said—you say it in your letter and you have said it in your opening statement—that you presented regular reports to HEFCE in terms of the business plan and constantly revised the business plan at regular intervals, but the report says that you did not publish your business strategy. Sometimes it may be an issue of being too late to continue, is it not, but could you clarify this? Are you saying that you did, as far as you are concerned, publish a business strategy in addition to giving regular reports on the revised plans as things developed?

**Sir Anthony Cleaver:** We published a business plan and there was a narrative with that business plan.

**Q169 Mr Chaytor:** Would you describe that as a strategy?

**Sir Anthony Cleaver:** Yes, I believe anybody reading that would say: what are they trying to do in marketing? They are trying to go to these countries; they are trying to get these sorts of students, and so on. That, it seems to me, in the context of this sort of business, is what I would expect to see.

**Mr Beaumont:** It is also consistent with the original three objectives that HEFCE stated.

**Q170 Mr Chaytor:** But the report criticises you for setting an impossibly ambitious business model. Would you agree it was too ambitious?

**Sir Anthony Cleaver:** No, I think our objective was always to go as fast as we could, for the sort of reason that brings us here today. We understood that the pressures on funding in higher education are enormous and that they would wish to see a return as soon as possible. I also had another major concern. This is a huge international opportunity for UK Plc and I felt that we needed to get there. What I found in all the countries I went to—I went to Singapore Malaysia, Taiwan, the Philippines, Hong Kong, Vietnam, Korea—in all those countries I found the same thing—the Americans are there and the Australians are there with various e-learning opportunities. None of them compare with what we had potentially, none of them have something that pulls together a national capability, which was unique, and I felt that this was something we had to drive as fast as we could; and the way that you do that, in my experience, is you set targets that are ambitious and, at the same time, you set a business plan underneath financially which is one that you

<sup>1</sup> *Note by witness:* We stated that as early as the end of 2002, not 2003 as stated.

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believe that you can achieve; and that was the process that we followed, but our understanding changed constantly. I found, for example, on two visits to neighbouring countries one of them had just issued a new ministerial edict that said, "For e-learning we want no local involvement. If somebody come here and offers a course, we want it to rest on the quality of their provision back in the home country and the support and the accreditation that they have there." In the next-door country they said, "You appreciate we are not going to allow any e-learning unless there is some local support provided so there is a spill over benefit to us." Both of those I understand as tenable ministerial positions, but nobody was able to tell me that either of those existed until I went.

**Q171 Mr Chaytor:** But in retrospect, and if you were doing all this over again, would it have been wiser to go for more quick winners in your business plan rather than operating in a fairly segmented area of the market alone. Maybe your targets were too ambitious?

**Sir Anthony Cleaver:** We did not know at the beginning what quick winners would be. Again, part of the objective of the trips was to understand the subject areas, for example. I think you have seen stated, we focused on seven areas eventually which were important. Again, to get a quick winner the course has to be available, the university has to be ready to support it and provide the quality of teaching. We were just on the brink of getting the first courses that we could honestly say were what we really wanted, based on our own marketing understanding. So, for example—and, of course, this was not known to PA because they did their work back in December/November and never came back and asked—it was not known to HEFCE because they would not talk to me between December and February. We were on the brink literally the next week of signing an agreement with City University for their MBA. I have no doubt that that would have been successful, it was already successful internationally with the Bank of China, and that we saw as one of the key planks. We were in the final stages and had signed the first agreement with Cambridge University for a course called "English at your Fingertips". Wherever I went I found that, whatever their stage of development in education, they wanted English. Korea is probably the best example. On my first visit to Korea I met the Minister of Education. His opening words to me were, "You do realise, Sir Anthony, that we have 17 cyber universities in this country", and I said, "I think that your infrastructure here is well-known to be in advance probably of anywhere in the world, but are there things that you need?" He said, "Well, of course we need English. We as a country are not strong in English and internationally that is financially detrimental to us", and so on. What we had developed with Cambridge, I think, would have met that need. So we were just on the brink, I believe, of being able to provide what was really needed and hence get the volume.

**Q172 Mr Turner:** I found two possible break-even dates, one from your original business plan, which was 2006, 2007, that is the plan produced in 2002, and the other of 2007 and 2008, which is the plan you produced in November 2003?

**Sir Anthony Cleaver:** Yes.

**Q173 Mr Turner:** Did you inherit any kind of estimate of when the scheme could break-even from Price Waterhouse Coopers?

**Sir Anthony Cleaver:** There undoubtedly was a break-even date in there. I think it was . . . It was one of those two years, I believe, but I am not certain.

**Mr Beaumont:** I do not think our first change to the Price Waterhouse plan made any fundamental changes to the break-even date. I can check that.

**Sir Anthony Cleaver:** So it was probably 2006–07.

**Q174 Mr Turner:** On your sort of background, Sir Anthony, have you experience of establishing a business of this kind, one which is wholly dependent on public funding but is a risk business?

**Sir Anthony Cleaver:** Depending on public funding, no.

**Q175 Mr Turner:** Do you think that the members of Holdco understood the risk?

**Sir Anthony Cleaver:** I find that very difficult to answer. I met Sir Bryan Fender roughly once a quarter and I certainly talked to him in this context, and Sir Brian, as you may know, is Chairman of a company that trades in intellectual property, which is a very risky area, so I think it was reasonable to assume that he had a fair understanding of those sorts of issues. I cannot talk for the other members of Holdco.

**Q176 Mr Turner:** Could you answer the second question, in respect of the HEFCE Board?

**Sir Anthony Cleaver:** From what little I saw of the HEFCE Board I would not anticipate any great understanding of commercial affairs or risk, and I think from the Chairman's action and his comments in his letter, it is quite clear that he did not understand the operation of a commercial company. To be surprised that the directors resign when they are told that somebody else is going to take the decisions from now on and they would therefore be left with the liabilities strikes me as astonishing.

**Q177 Mr Turner:** Can I put a suggestion to you which you can then respond to. It seems to me you can either say that the people who did not understand the risk were putting up a good deal of money but had no clear appreciation of how long it would take to deliver a return on that money and subsequently got cold feet when they did not see the return as quickly as perhaps their opponent, or there is another explanation. If you have got another explanation I would like to hear it, but what would you say to the first explanation?

**Sir Anthony Cleaver:** I think the first explanation is plausible. I think that probably what happened was that having had a vision, which, as you have heard, I subscribe to totally, "There is a huge international

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opportunity. We ought to be exploiting it”, and so on—and I think that was absolutely right—I think they then set about implementing it and, as you saw, it took two years from the vision to appoint me and hence start the operation. So that perhaps tells you something about the difference between the commercial world and the pace at which these things move, but that is fair enough. I think then they obviously hoped that we would be able to demonstrate very rapidly that we were absolutely on track with the original plan, etc, and from my very first meeting I said, “The original plan we cannot deliver, but we will deliver as fast as we can.” I fully sympathise with the fact that HEFCE must find themselves under enormous pressure with all the universities concerned about funding. I also Chair a higher education institution and I know exactly how the pressures are there, and I am quite sure therefore there will always be people who said, “Do we really need to continue putting this money here when we have got people with immediate problems closer to home?” My conclusion, sadly—and I think I put that in my letter to David Young—is that either one should have given this the chance to succeed or you should not have started it. I think, having started it, they owed it to us to give us long enough to show that we could be successful, and another year would clearly have demonstrated one way or the other and effectively cost, relatively little.

**Q178 Mr Turner:** Despite the concerns which you expressed at your meeting in November 2001 you accepted the estimated break-even point at 2006–07. I am not quite clear when the Price Waterhouse report was written, but you did so in the context of it having taken 18 months to appoint you from the point at which they were handed this?

**Sir Anthony Cleaver:** Because I thought that we were going to drive the timetable from then on rather than them, and I thought that we should do it as aggressively as we could, and the break-even that we were talking of achieving, as you have heard, was in any case to be achieved on a smaller number of students than in the original plan, so in that sense it could be said to be less ambitious.

**Mr Beaumont:** The original Price Waterhouse business model was 2000.

**Q179 Mr Turner:** 2000?

**Mr Beaumont:** Yes, but there were some subsequent reports done as well.

**Q180 Valerie Davey:** We have talked essentially up to now about the process and the business plan. What about the product that you were being asked to sell? Do you think enough work, Sir Anthony, had been done or did you recognise the nature of the product that you were actually being asked to sell?

**Sir Anthony Cleaver:** I think the one part of our inheritance, if I can put it that way, that was very good was the specification of the product. I came to this, and I made no pretence at the time and I make none now, not as an expert in e-learning. I did not know what the characteristics were that were required, and so on. I obviously expected to acquire

people, and I did, who had that understanding. But I very rapidly, of course, as I talked to people both internationally and in this country, tried to find out what was available already commercially, why are we developing a new platform and what are the key characteristics of this platform. I very rapidly formed the view, and it is one that I still hold, that there was nothing available anywhere which was comparable to this. In particular, the underlying philosophy, importantly, was “learner centric”—I am sorry if that sounds like jargon, but it was aimed at what is the experience for the student and how can we make that as effective as possible? Most e-Learning historically has been a cottage industry; it has been an enthusiast in an individual department who has developed some stuff because he wants to get his notes and his course out there, and that is perfectly valid and useful. This presented an opportunity which was taken by the team that HEFCE assembled in the period before we arrived to stand back, take the best expertise in the UK from people like the Open University and so on, and say, “If you were starting from scratch, how would you design it? How would you put it together and what features would it have?” What we set out to build was that. It also, incidentally, had to cover areas that the existing system simply did not cover. We needed, for example, to be able to enrol students remotely on-line, we needed to be able to take payment by credit card internationally, etcetera. So there are whole elements of the system that are totally different from what you would require in an individual university dealing with your own students, and so on. In terms of our success in achieving that, this was a very complex piece of software. Again, I have to say my many years, too many years perhaps, have been spent on large complex IT projects, so we had no real illusions on that, and what we eventually did was to say what do we have to have as a minimum in order for this to function, which is what we got by 2003 for the first courses. We then had subsequent releases which added facilities, enhanced the performance, and so on, and that was still an on-going process. I would not pretend for a moment that what existed on the day we resigned was a satisfactory ultimate product, it still required more work doing on it, and I really cannot comment on what has happened since.

**Q181 Valerie Davey:** But student distance learning is, as you are intimating, complex, and you have just said it needed that research with students, but you are now telling us, as I understand it, that the research had not been done in career or anywhere else to find out what students actually did want if we are going to do it immediately, not developing pilots in this country and beyond, but straight into Korea. Where is the link up between what is a product which we do know something about via the Open University and individual universities and this completely new platform doing something rather different?

**Sir Anthony Cleaver:** I am sorry, I obviously created a misunderstanding by something I said earlier. I think there are two different elements that we are

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talking about here. In terms of the product and the facilities, we were confident from all the discussions we had, everybody we talked to, that what we were producing met the need in terms of the capability for the student to do what they need to do, to ask questions of the tutor, to submit material, to have chat-rooms available to talk other students, to cooperate on projects, and so on. All those facilities we understood; everybody we talked to said, "Yes, that is good; that is what we need." What I said we did not have was the understanding of the market in terms of the course content. The three courses that we inherited, none of them would have been in the top 10 or 15 courses that we needed in terms of the market. I think they were there because the universities concerned had material and were willing to experiment with it, and all credit to them for doing that, but, for example, the York course is a course in public administration and management. While there are elements of UK experience and process that are relevant to other countries, obviously a lot of it needs to be tailored to local experience. What we found, therefore, was that to take the course as standard we got 20 or 30 students per enrolment. Over time what we have discovered was that there was a clear need for many courses for what is called 'blended learning'; in other words personal support as well as the course. At exactly the time, I think in the week before the HEFCE decision, we persuaded York that it would be sensible to commit to providing some on-site tuition in some places in order to get more students, and Singapore immediately signed up for 15 places because they had that. So we were learning the whole time what does the offering have to be in each country on each course in order to be successful.

**Q182 Valerie Davey:** But could the Open University and the British Council not have told you that from day one, and should not the report on which you were basing your business plan have understood that from day one?

**Sir Anthony Cleaver:** The first two calls that I made before any of my colleagues were appointed were first on Helena Kennedy at the British Council and, secondly, on the Open University. So I took all the advice that I could get initially and we retained contact with both those organisations all the way through. Neither of them had the answers. The British Council had not been concerned in detail with e-learning in that way. Their job, they felt, quite properly I believe, was to facilitate individual universities and other British organisations to gain access to the market, not actually to drive the market themselves. So we did take their reports, we took as much input as we could get from them, but there was not the detailed information on specifics that you actually need to make courses successful.

**Q183 Valerie Davey:** Last question. How many people that were directly responsible to you had experience of e-learning, distance learning in this way. This is an educational project you are selling. This is not the norm of a business set up to deal with a boxed product?

**Sir Anthony Cleaver:** Absolutely.

**Q184 Valerie Davey:** This is a relationship between students and teachers. This is something which is markedly, we hope, British in the way in which we are doing it. We think we are the experts at this kind of thing, that we have an incredible lead in it which we had hoped clearly, all of us, in a visionary way, this particular e-University was going to develop, and I think one of the reasons it failed was that we did not have this expertise, but did we, on board?

**Sir Anthony Cleaver:** I think we had as much expertise aboard as was available nationally. As I said, John here had wide Internet experience and had previously been an academic, which I thought was an almost unique situation in the UK; we had on board David Unwin, who was our learning programmes director; he came straight from being Pro Vice Chancellor at Birkbeck, my old establishment, and there he already had an e-learning course underway for which he had been responsible and where he had been involved in the development. The marketing man who looked after the Far East had been working for an organisation that sold educational on-line products from Singapore. We had at the next level down a Chief Architect who had extensive experience, had been involved with the TALL project at Oxford and again had as much e-learning expertise, I think, as anybody I knew in terms of the architecture of the system, and so on.

**Q185 Mr Gibb:** I am not quite clear about whether you were happy with the software platform by the time you left. You made a comment and said, "It was not a satisfactory ultimate product". Would you clarify where you were on the software platform by the time you left?

**Sir Anthony Cleaver:** I will defer to John, if I may, who is closer to that.

**Mr Beaumont:** We launched with the original version in March 2003 and we had a number of updates that were planned, adding additional functionality. We were also taking feedback back from students and academics about changing the existing functionality. The April time slot 2004 is when we had the next big upload, which was going to be a significant re-write and therefore the HEFCE decision in February did affect how we did that. Already though, from late 2003 in turn, as part of our risk management, we had plans to look at, if we were not happy with the new major upload, what we would do to continue the development to satisfy the students and the academics needs.

**Q186 Mr Gibb:** So it still was not right?

**Mr Beaumont:** No, and I think though looking forward, e-learning is evolving and the needs of students and academics creating the content continue to evolve. I think for the next two to three years one would expect to continue to have to develop a platform to satisfy those needs. I think it would be wrong to assume that you had a finished product any time in 2003 to 2004.

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**Q187 Mr Gibb:** What contribution do you think this made to HEFCE's decision to pull the plug, the fact that (a) you had adopted a new platform instead of an existing platform, and (b) that it still was not ready?

**Mr Beaumont:** I do not know the basis of the HEFCE decision, but I think we had a fit for purpose platform in operation from March 2003 and therefore it was not affecting student numbers in a sense; so I do not think there was that aspect. The original reasons for going the platform route ourselves, which HEFCE supported, still stood. We had to be able to capture the different approaches of the different UK universities, particularly high interactivity between students, and I think, secondly, it had to be scaleable and in both a technical sense but also in a commercial sense. A number of the universities that had experience of e-learning (Robert Gordon's Ulster) came to us to say they would like to come to our platform. I think they were concerned about an exposure as they scaled up e-learning commercially as the software cost to them would have increased in that way.

**Q188 Mr Gibb:** Is that a factor, the cost, that HEFCE would have worried that these costs were exacerbating?

**Mr Beaumont:** If we had been allowed to continue, the benefit to UK HEIs would have been a first-class platform at a very good commercial rate because they would have shared the cost.

**Sir Anthony Cleaver:** Let me just add a rider, if you do not mind, which is simply that towards the end of 2003 HEFCE put out a consultation on an e-learning strategy for the sector going forward. We felt that the best way to respond was for us to respond in partnership with JISC (Joint Information Systems Committee) of the universities and the learning and training, the LTSN, which is also in the sector. We submitted a joint entry to that and understood that it was probably the most suitable response that they had. What is going to happen now, I do not know.

**Q189 Chairman:** Can I push you a bit more on the platform, looking at the platform, not quite understanding what that was, but also why such a considerable amount of money was spent. I think your deal with Sun Microsystems was £20 million.

**Sir Anthony Cleaver:** Slightly less than that.

**Mr Beaumont:** Slightly less than that. I can get you the exact figures, Chairman. By the end of April 2004, which clearly has two years of audited accounts and one year of unaudited accounts, we spent £9.2 million on the platform, we had also had £2.4 million of operating costs. We mentioned that we had a fixed price contract with Sun Microsystems for the full version of £9.5 million. We had at that time paid £5.5 million for it.

**Q190 Chairman:** So it is not £20 million?

**Mr Beaumont:** I do not know where the £20 million figure comes from.

**Q191 Chairman:** There was some suggestion that seemed to come out of the last oral evidence that we took that Sun Microsystems was getting a pretty good deal, that it was rather generously in their favour, this contract. Is that right?

**Mr Beaumont:** I think when we arrived the idea that Sun Microsystems was a strategic partner was very important, but to have had an open-ended contract would have been very much in their favour. The fact that we were able to get a fixed price contract for specified functionality I think was a fair result, and I think it was fair to both UKeU and the education sector but also to Sun Microsystems.

**Q192 Chairman:** But people do say, and have said, that you got fixated about having this super-duper, all-singing, all-dancing platform when it was not necessary. You could have got on with the job, as Sir Anthony said, as a Start-up. You wanted to get onto that market quickly; you could have done it much more quickly if you had not had this ambition, first of all, to have this fantastic platform?

**Mr Beaumont:** I do not think we were fixated with the platform. I think the way we approached it was to try and understand the local market needs and then to see which courses in the UK universities would be able to satisfy those needs. You needed a platform as a means to an end. I think if you looked at our organisation only a relatively small number of people were concerned with the platform *per se*, and an important aspect, whatever the platform was chosen, was a twenty-four by seven service to students anywhere in the world; and if one had been providing a service across, let's say, our 15 platforms for 20 universities, that would have been incredibly difficult if not impossible to do. So to have a central core platform, whichever it was, was a sensible approach.

**Q193 Chairman:** Is this investment salvageable? Can it be used by UK universities still? Is all this investment just going to go to waste?

**Mr Beaumont:** I think the way that the HEFCE decision was made and implemented, it is probably unlikely, sadly, that the platform will be widely used. This sort of software—

**Q194 Chairman:** Could you repeat that?

**Mr Beaumont:** I would be surprised if it was able to be widely used.

**Q195 Chairman:** Why is that?

**Mr Beaumont:** It is not a simple application, people would need to be trained on it, people would need to know how to support it, and to really just wind down UKeU in the way it has been, it is highly likely, in my opinion, that sadly that asset will be lost.

**Q196 Chairman:** So HEFCE is making no attempt to maintain the platform or a core group of employees to maintain it?

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**Mr Beaumont:** No.

**Q197 Chairman:** Not at all?

**Mr Beaumont:** No.

**Q198 Chairman:** One thing that comes over from the evidence, and we ought to move on now to marketing, is that when you started this whole operation you had total enthusiasm for the UK e-University sector; everybody wanted to be on board?

**Mr Beaumont:** I am not sure that is the case. They were asked to put a pound in and I think all but four did, and I am not sure that shows real commitment of an institution. What we did find, as Sir Anthony has said, was in many institutions there were a lot of very enthusiastic academics, but to get e-learning of quality and scale you need the whole institution to support it; it cannot be just a side-line taking 20 to 30 students per intake. So in the summer 2002 we wrote to all Vice Chancellors to find out and determine what the real interest was. I think by the time the HEFCE decision was made we had a large interest from enough universities to definitely provide a rich portfolio that would have been successful.

**Q199 Chairman:** It was portrayed to us, perhaps not head-on, but we got the feeling under questioning that there was a suggestion you had started off with a lot of enthusiasm and that had waned. You lost support and there was talk on the streets about—

**Mr Beaumont:** No, I felt that we had got more support from people who recognised that this was a serious part of a strategic option for their university. Going into the quality distance e-learning, on scale, is not something that you add on to a small department.

**Q200 Chairman:** So you are happy with the relationships with your supply chain?

**Mr Beaumont:** With the ones that we had contracts with, we were happy we had significant support, yes.

**Sir Anthony Cleaver:** Could I comment there, if I may, and try to help?

**Q201 Chairman:** Certainly.

**Sir Anthony Cleaver:** I think the analogy between the corporate position and the individual university position and the position on an individual course is interesting. The challenge with e-learning is that it involves investment up front in each case. We reckoned that to develop a Masters course, for example, for e-learning from scratch, probably costs of the order of a million pounds. This is a heavy investment for a university to make, which is why in the original model there was the opportunity for us to provide funding, which they then repaid, in order to help them get started in this way. The benefit, of course, comes that once one has developed that asset then one can take on more and more students with relatively little additional cost and you get the benefit over time from volume. The same in a sense is true with the company. We were making the upfront investment of developing the platform, developing

the understanding, and so on, with the expectation that numbers and the revenue came in subsequently. As far as the universities were concerned, I think we had the whole spectrum of views. You took the point, I think, earlier that a pound may not be a huge investment: some universities were very enthusiastic about e-learning but felt, “We have got our own platform in a limited area. We are keeping abreast of what is happening. We are going to wait and see before we move to these people.” Some people said, “We just do not think that is part of our model. Of course, it will come in time, but we can afford to wait and let other people get on with it.” Other people said, “We already have, for example, a very significant international student body and we see this as a way of expanding and extending that”, Middlesex University probably being the prime example of that. So we had a whole range of views. I also think it fair to say if you have around 150 university higher education heads within that, you are going to have everything from the very cautious to the ambitious and very adventurous, and a lot of them, therefore, were simply playing “wait and see”, and I do not blame them in that context.

**Chairman:** I would like to move now to marketing and product strategy and Jonathan is going to lead on those.

**Q202 Jonathan Shaw:** Mr Beaumont, you said that the platform is not being maintained at present or there are no intentions to maintain it.

**Mr Beaumont:** That is my understanding.

**Q203 Jonathan Shaw:** Have you had a conversation with HEFCE to say that it should be maintained?

**Mr Beaumont:** Between late February and early June, we put what it would take to actually keep the platform, take away the marketing staff, take away the other staff and just have the operational staff and put those figures together and sent them to HEFCE.

**Q204 Jonathan Shaw:** So, they received those?

**Mr Beaumont:** They knew that information.

**Q205 Jonathan Shaw:** What were those figures? What are we talking about here?

**Mr Beaumont:** You are probably talking somewhere between £2 million a year for pure operation, that is not doing any enhancement but it is making sure that it is there working 24/7 and the sort of development that was planned would probably be about another £2 million, so the top would be about £4 million a year.

**Q206 Jonathan Shaw:** But the lights have been turned out effectively?

**Mr Beaumont:** Yes, as I understand it.

**Q207 Jonathan Shaw:** Sir Anthony, you have listed in the chronology that you have provided for the Committee the events for the plug being pulled on the e-University the different courses that you had arranged or planned to launch. We have doctors.net, the City e-MBA, English at your Fingers which you have referred to and also Middlesex Top-Up, the

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Business Information System which you have just referred to at Middlesex University. Presumably, these institutions spend some considerable amount of time and effort getting these courses together.

**Sir Anthony Cleaver:** Normally, that would be the case, yes.

**Q208 Jonathan Shaw:** They have invested a fair amount of money.

**Sir Anthony Cleaver:** If I go through the range of courses, some of them are different. Cambridge clearly will have invested in developing English at your Fingertips. I suspect, they were largely using material they already had from their MBA. As I said, they were already working with the Bank of China and so on. So, their investment would have been less and, in any case, we were only just signing the contract from them to go live in October. So, how much they had spent other than negotiation on the contract and understanding one another I do not know. Doctors.net was rather interesting and I think a hugely exciting opportunity. I do not know whether the Committee have heard of it.

**Q209 Jonathan Shaw:** It sounds like a soap opera.

**Mr Beaumont:** It is a small private sector venture which set out to provide updated information mainly from the Royal Colleges for GPs in the UK. My understanding from them is that there are around 113,000/115,000 GPs in the UK and, of those, around 80,000 have, at one time or another, signed on to doctors.net and some 20,000 to 30,000 use it regularly. It provides, for example, a module on diabetes and, if a doctor decides that he needs to get the latest view from the Royal Colleges on diabetes, he can sign on and do it. The way in which it is funded in the UK is largely through support through the pharmaceutical companies and so on who have effectively sponsored it, so it is a service that is free to GPs. Through a personal connection, I heard about this and talked to their chairman and we thought, here is an opportunity to take this abroad. What about making this available in India, for example, which is one of the places where we talked about doing it? There was huge interest there where we were looking at a relatively small fee, maybe £50 per doctor, but getting it funded in order that 20,000 or 30,000 doctors would sign up.

**Q210 Chairman:** That is not a learning course, that is an information system.

**Sir Anthony Cleaver:** They are interactive modules; the doctors are tested on whether they have learned from it. It is educational; it is coming from UK higher education—

**Mr Beaumont:** For certain of the Royal Colleges, there is a continuing professional development requirement, so there is assessment and so forth.

**Q211 Jonathan Shaw:** The Department for International Development will presumably—

**Sir Anthony Cleaver:** We also talked to DfID in this area. It is another example of having built the platform. There are other opportunities to exploit it which take it wider, which we were looking forward

to exploiting. In their case, they had spent time discussing with us and working out how to put it on to our platforms—they had their own platform in the UK etc—but they would not have spent a huge amount. I have not been involved obviously in any of the subsequent negotiations.

**Q212 Jonathan Shaw:** HEFCE identified marketing and inadequate marketing research as one of the causes of failure. Sir Anthony, you have described to the Committee in your evidence how you went round the Far East talking to various government ministers etc. How do you respond to that?

**Sir Anthony Cleaver:** As I have said, (a) it is an evolving market everywhere and (b) I do not know where you could have gone to get the sort of expertise that we actually needed and I think we developed understanding as fast as we were able to do. Certainly I found in some of the places, Kuala Lumpur, Hong Kong and so on, where I made three visits over the time and, each time, it was clear that we were more credible. When I first went, all I really had was, “This was an ambition from the UK; we have three pilot courses, none of them are written yet; we are going to write a platform and it will be available and so on.”

**Q213 Jonathan Shaw:** So, you were a salesman with not very much in your case.

**Sir Anthony Cleaver:** Absolutely.

**Q214 Jonathan Shaw:** Apart from what, charm and connections?

**Sir Anthony Cleaver:** A few connections and a bit of experience perhaps, but I felt that it was important to do it. When I came back 6 months later and was able to say, “The first version of the platform will go live on this date; these two courses are available now”, they said, “That is interesting, let us talk about this and what we really need is English” or whatever. So, one was developing it. I would just like to counter the idea that perhaps this is some sort of fantasy that we enjoyed and that actually this does not exist. I would be happy to let the Committee have a copy of this. This is a brochure from *Assumption University of Thailand*<sup>2</sup> set up by them specifically to provide e-learning. In it, we are featured, together with Middlesex University, as two of the four providers. They list the courses that we were providing and they say, “Professor Dr . . .” and I cannot pronounce his name “and his team will offer e-learning to 100,000 students per year.” That is the scale of the opportunity that I believe exists. He may be, like me, being ambitious in his targets, but their expectation was that a quarter, roughly, of their students would come from UK e-University students. We needed less than 20,000 students in order to have a profitable operation.

**Mr Beaumont:** Just to put the market analysis into perspective, I went to Thailand to an e-learning conference in January 2003 with some people from HEFCE and, at that time, there was a lot of interest in what e-learning could do in Thailand, at a time

<sup>2</sup> Not printed. See eLearning.au.edu.

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when it was illegal because wholly online courses were not allowed. We had to get the approval of the Ministry of Education along with the Assumption University to be able to get into that position. So, if the market research had been done any time in 2002 in any detail, they would have found massive demand for quality higher education but not a legal delivery system and a capability. Talking through what could be done in quality and demonstrating some of it around January 2003, we were able to progress. The other area of marketing, given that September 2003 was the first intake of our courses, what we were finding as feedback was, has that particular programme run before? Not, has it run on campus before or by traditional distance learning but has it been wholly online because we would actually like to be in the second intake or the third intake? One of the universities that we had partnered with that had had the experience was the University of Ulster; they came to us to help with their marketing; they already had the educational expertise and were using a different platform, but it was the marketing and, for a course that had already run and for which there was a market, biomedical science, and for which it was driven by a five-star department, they were expecting and had experience of 100 students a year. We got 183 in the first intake in the first part of the year when we were marketing in more countries than they were reaching. So, I think the issue of marketing really was about being very specific in understanding local needs and then trying to address them in a very focused way.

**Q215 Jonathan Shaw:** Have any of the Vice-Chancellors of these institutions contacted you since the plug was pulled?

**Mr Beaumont:** Yes.

**Q216 Jonathan Shaw:** What did they say and who contacted you?

**Mr Beaumont:** I think real disappointment and “how can you help us in a transition?” Some universities did not have another platform, so “how can we keep the students that we have with you going?” There was a lot of pragmatic interest. I think while there has been a lot of discussion about the failure of UKeU, a common theme has been that we were not given the time to succeed.

**Sir Anthony Cleaver:** I have not had any direct contact in the part of the agreement that HEFCE insisted on is that we would not comment publicly etc and I felt that I could not add any view. Anything I said could have been misinterpreted or led to a commitment that HEFCE were not prepared to make. I did not feel able to say anything positive.

**Q217 Jonathan Shaw:** We have had a confidential memo—we do not know who it is from—from the staff who worked at UKeU and they have said that the advice from the marketing directors—I understand that you had two marketing directors—was not properly listened to. They were not on the board. The ideas were left to yourselves. Are you aware of that? Are you aware of any discontent within the staff ranks?

**Sir Anthony Cleaver:** Aware? I think that is one particular way of expressing it. As we went through, of course all the time there were debates about, what do we really need? In my experience, marketing directors always need, quite understandably, everything which you can give them, every support. They would like the courses that are lower priced; they would like more of them available; they would like more support paid for in order to help marketing them and so on. It is a normal process that one has that interaction. I think the area which took longest to try and address was the question of blended learning. I think it is true to say that, from the beginning, the marketing people said, “Over time, we really are going to have to do more in terms of on-site support” and that is where we have worked with the universities, so that at the point in time when things finished, we had just got agreement with Middlesex University and they were accrediting four countries that would have been accredited by now, with local support capability to provide blended learning.

**Q218 Jonathan Shaw:** When did they start saying that it is blended learning for the future and that people do not just want to look at a screen, they also want to meet with people?

**Sir Anthony Cleaver:** Some people said that from the beginning and what we learned over time was, I think it would be fair to say, at the undergraduate level, the need for blended learning is fairly normal and fairly clear. At the postgraduate level with specialist courses like the Ulster biomedical course and so on, most people already have the experience and many of them are actually in work using the Internet all day and so on and find it easier to work that way.

**Q219 Jonathan Shaw:** It was very important to understand the customer and what they wanted in order for this venture to succeed. So, would it be reasonable to assume that given it was so important, you would put someone like a marketing director on the board or did you know better?

**Sir Anthony Cleaver:** I do not think it is a question of knowing better. We did not have, at the time, somebody we felt was appropriate to put on the board.

**Q220 Jonathan Shaw:** You, Sir Anthony, described the people that you assembled for this project and it was a very impressive list. Did you try to find someone who you could put on the board? Was that the missing piece?

**Sir Anthony Cleaver:** I think that, had we had such a person, it would have strengthened our position and we were in the process of looking for just such a person at the time things changed.

**Q221 Jonathan Shaw:** Is the fact that you did not have that person which was crucial to the success of the project perhaps why HEFCE came to the conclusion about the marketing that they did?

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**Sir Anthony Cleaver:** I do not think that HEFCE had any understanding; nobody from HEFCE ever asked me about the marketing in that sense, who was doing it, what structure we had, how they were approaching it and so on.

**Q222 Jonathan Shaw:** Did you tell them what you were doing in terms of your quarterly minutes that you told us about?

**Sir Anthony Cleaver:** Absolutely.

**Q223 Jonathan Shaw:** So, at no point did HEFCE say during their regular meetings with you . . . Was it quarterly meetings that you had with them?

**Sir Anthony Cleaver:** No. With HOLDCO, John had quarterly meetings. I met with Howard Newby normally once a month at my request for around half an hour, at which point I gave him an overview of where we were, what we thought the current issues were and so on.

**Q224 Jonathan Shaw:** In any of those meetings during the time that you were in your positions, did HEFCE, or the holding company, or Howard Newby, say to you “For goodness sake, this marketing is not working. What are you doing about this?”

**Sir Anthony Cleaver:** Quite regularly when I talked to Howard Newby, we would end up discussing student numbers and saying that was the key issue and that we both recognised that that was the key issue, to which my response was that first of all we need the right courses, we need time to get those arrangements in place and then I believe we will see the student numbers, but obviously we were disappointed at the numbers that we had. We would have liked bigger numbers because that was the easiest demonstration of the progress we were making.

**Q225 Jonathan Shaw:** Who selected the products? Who chose them?

**Mr Beaumont:** The courses?

**Q226 Jonathan Shaw:** Yes.

**Mr Beaumont:** The initial three pilots were done by—

**Q227 Jonathan Shaw:** I know about those but what about the others?

**Mr Beaumont:** We were the ones that contracted the remainder.

**Q228 Jonathan Shaw:** Who chose them? Was it you? Which individual? It is alleged that it was the two of you, that it was all down to the two of you.

**Mr Beaumont:** No.

**Q229 Jonathan Shaw:** These are important points.

**Mr Beaumont:** When courses were taken to the operating company board for approval, I would get a sign-off from a number of people in my management team. Firstly, the finance director who had looked at the numbers in a joint business plan with the university on the student numbers and so

forth and the cost of developing the course and the cost of replenishing it. I would have a sign-off from the director of learning programmes from an academic perspective because there is the whole quality assurance aspect that went into the Committee for Academic Quality and we would also have a sign off when we had the director of business development and director of marketing and sales, both of those.

**Q230 Jonathan Shaw:** The director of marketing and sales?

**Mr Beaumont:** Yes.

**Q231 Jonathan Shaw:** Why did the director of marketing and sales get a bonus?

**Mr Beaumont:** Last year?

**Q232 Jonathan Shaw:** Yes.

**Mr Beaumont:** There was a set of objectives that we had agreed, not only myself, the HR and—

**Q233 Chairman:** Let us just stick to marketing at the moment.

**Mr Beaumont:** What were the criteria of the marketing director’s bonus? That was put to the Remuneration Committee and, against those objectives, it deserved 3% and that was independently reviewed, externally, because it was done after the HEFCE decision. I have a copy if you would like to see it.

**Chairman:** That would be useful.<sup>3</sup>

**Q234 Jonathan Shaw:** There has been criticism of the marketing. Sir Anthony, you have told us that you could not identify perhaps the person that you wanted of the calibre to put them on the board.

**Sir Anthony Cleaver:** Could I change that? The situation was that we did not find a single person with the range of skills experience and the level that would have merited adding a single marketing director on the board at the point in time when we were first making appointments. What we were most concerned about then was understanding the local market, which is why we specifically chose somebody who had been living in Singapore who understood that part of the world and who was able to build for us the local contacts and the local agents’ association with local universities and so on. So, that was the aspect. Again, this is all a question of building the foundations first and then driving the marketing. We had just reached the stage—remember that the spring of this year was the first time that any courses went second time round and the first time for most of the courses, so we were just at the stage where we now had a portfolio of courses and we had built that infrastructure and we now needed somebody to drive that in terms of marketing. We were ready to do that and we were in the process of dealing with that issue.

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<sup>3</sup> Note: Not printed.

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**Q235 Jonathan Shaw:** Do you think from the outside looking in and in terms of the number of people who go on the courses—and I take the point you were saying about what was going to happen—that it was right for bonuses to be awarded? Normally—and you have both been in businesses—it is not what will happen, it is going to be what has happened?

**Sir Anthony Cleaver:** Absolutely.

**Q236 Jonathan Shaw:** If you delivered all these thousands of students, then, fair enough, you get the bonuses but, if it is a projection—

**Sir Anthony Cleaver:** Absolutely. All the bonuses were awarded against defined criteria which were set in advance and people's performance was assessed against them. For example, for marketing, one of the criteria was to have in place competent agents in a number of territories. So, if that were achieved, that was perhaps 20% of his bonus and it was absolutely right that he should be paid that percentage. In the same way, the bonuses that were paid to John Beaumont and myself were based on specific numeric objectives agreed in advance by the Remuneration Committee composed entirely of non-executive directors with wide commercial experience who looked at the targets and said, "Yes, for this year, those are the things that are realistic for you to achieve. If we achieve those, they will in turn provide the foundation on which we will build in the future." I have absolutely no qualms about either the process or the outcome of the bonuses. Incidentally, they were recorded, just for the avoidance of doubt as to visibility. The first year's bonuses are fully recorded in our annual review which was widely published and sent to all universities etc. So, the suggestion that this came as a surprise to anybody I find unusual.

**Q237 Jonathan Shaw:** Well, it came as a surprise to this Committee and, from my recollection, when we were last interviewing Sir Howard Newby and the Chairman of HEFCE, it came as a bit of a surprise to them.

**Sir Anthony Cleaver:** Perhaps I should leave you a copy of the annual review in which we published—<sup>4</sup>

**Q238 Jonathan Shaw:** Did they ever discuss this with you? Did they say, "Goodness me, you only have about 900 students. It is all very well you talking about English at your Fingertips and doctors.net or whatever, when you have the bottoms on the seats, perhaps you can have some money"? Did they say that to you? Did they raise any concerns about that?

**Sir Anthony Cleaver:** No.

**Q239 Jonathan Shaw:** None at all?

**Sir Anthony Cleaver:** No.

**Q240 Jonathan Shaw:** What about with you?

**Mr Beaumont:** No.

**Q241 Jonathan Shaw:** At no meeting or anything?

**Sir Anthony Cleaver:** No.

**Q242 Jonathan Shaw:** And Howard Newby never said, "Flipping heck, what am I going to say to the Secretary of State when he questions me about this?"

**Sir Anthony Cleaver:** I imagine what he would say is, "I put in place what I believed to be a competent board. I understand that they are operating to all best practice. I understand that they have properly constituted board sub-committees who review this, have set down the parameters and are measuring them accordingly." That would seem to me to be a very proper response.

**Jonathan Shaw:** When did things start going wrong between yourselves and HEFCE?

**Q243 Chairman:** Before we move on to that, Jonathan, as you have moved us on to the share of bonuses, I think we should be allowed to continue that. Sir Anthony, we have been listening intently and you have been very persuasive this morning. On this bonus business, I do feel that you are a very experienced industrialist; you have a lot of history at the beginning of this and John Beaumont too. Surely you must have thought at some stage that with the bonus system, however, it was worked and however, independently, you were making yourself very vulnerable because the taxpayers, the sort of people that we represent on this Committee, our constituents, would look at this and say, "You have 900 students" and John's salary is £180,000 a year which is quite a generous salary I would have thought, certainly my constituents would have thought so, and then to have a performance related bonus of £44,940 . . . That is a lot of money. Surely one of you would have thought, we are sticking our neck out a bit here! Perhaps you should have thought, I should not take this bonus and should wait until its really showing that it is getting somewhere. Did that not cross your mind?

**Sir Anthony Cleaver:** Not for one minute because I believed and I still believe that we were succeeding in developing something for the long term. Could I just address the question of 40 million or whatever the number the press choose on this occasion to use and 900 students and therefore that means so much per student. That is rather like saying, I build a hospital. After week one, I close the hospital. Therefore, the number of patients who have been through have been X and it has cost us £1 million a patient. It is a very foolish way of looking at how you build up something for the long term.

**Q244 Chairman:** We are well aware in this Committee that the tabloids will do that sort of thing. That is what happens in life. We do not take much notice of that. What we do take notice of is that we have to explain this expenditure of taxpayers' money as ministers do and surely one of you must have realised that it looks bad. Whether it was all done impeccably, it does look bad at the stage you were at to take a £44,000–£45,000 bonus.

<sup>4</sup> Note: *The Foundation Year: UKeU Annual Report 2002–03*.

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**Mr Beaumont:** No. I think what we did in the first year which was inherit not a lot of detail, get into service and offer the first set of courses in over 20 countries, was a massive achievement. We had to create an organisation to deliver that service and that was the objectives that were agreed by the non-executive members of the Remuneration Committee and I think that, at the end of that year, they felt had been a massive achievement.

**Q245 Mr Pollard:** Jonathan mentioned the Secretary of State Executive and I remember you saying, Sir Anthony, that you met regularly with ministers. Was there any indication when you were meeting with ministers that they were unhappy about the situation that was developing?

**Sir Anthony Cleaver:** I think it would be fair to say that the first meeting with Margaret Hodge was very early on, I think probably the month in which John Beaumont joined. We went there to talk to her about where things stood, this was right at the beginning, and she turned to me at one stage and said, "This is a very high risk operation, is it not?" and I said, "Yes, it is but I believe that is the only way that we can build what we want to build for the future." She was very pleased when we reported 6 months or so later where we had got to and in fact she was at the meeting of Universities UK at which I presented, to give a progress report to the heads of all the universities and, at that time, we said that we had the platform up and running etc, etc. We spoke to Alan Johnson and gave him a progress report of where we had got to and where we expected to be and we had one meeting with Charles Clarke in December last year, at which again we simply gave him a progress report and he listened and said that he hoped we were getting the support we needed.

**Q246 Mr Pollard:** No worry from either the Secretary of State or the two Ministers of State?

**Sir Anthony Cleaver:** I think "worry" is the wrong word.

**Q247 Mr Pollard:** Concern?

**Sir Anthony Cleaver:** In each case, they were interested in where we were and obviously they understood that the proof ultimately was getting the number of students.

**Q248 Mr Pollard:** I am trying to get whether there was any drive from the DfES or from the ministers that pushed HEFCE towards the final pulling of the plug.

**Sir Anthony Cleaver:** That would be pure speculation and I have no evidence for that.

**Q249 Mr Pollard:** Speculate. You have been quite forceful so far.

**Sir Anthony Cleaver:** I have no reason to believe that any impetus came from the DfES in this context. I think they would view this as something where they had agreed a certain sum of money to HEFCE in order for this thing—

**Q250 Mr Pollard:** And they had to get on with it?

**Sir Anthony Cleaver:** And they would let HEFCE get on with it. That would be my assessment.

**Q251 Mr Pollard:** A short while before this, we had an experience with ILEAs where that all went pear-shaped. Do you not believe there is any carryover of that that made both the ministerial team and perhaps HEFCE themselves a little skittish?

**Sir Anthony Cleaver:** I think the Government are very understandably generally risk averse and I think one would anticipate that for exactly the reasons you have just been referring to. You all have constituents, they all look for things to be handled properly and for public money to be well spent and effective in its use and I fully accept that it was our responsibility to do these things responsibly. The difference of opinion is that I believe we did just that.

**Q252 Mr Pollard:** You talked earlier on about one of your first jobs being to talk to the Open University and the British Council. It seemed to me that you were quite dismissive of that because I think you said that they were involved in individual universities but not doing anything on the e side of things.

**Sir Anthony Cleaver:** No, I am sorry, I hope that is not what I said and it is certainly not what I intended. The British Council did not have an e-learning offering themselves, it was not their role. They were increasingly developing higher technology capabilities in British Council offices because they found that useful, but they saw their role as being to facilitate the entry of individual universities into foreign markets and I think that is absolutely proper. So, there was no extensive e-learning experience as such there.

**Q253 Mr Pollard:** May I just pursue that a little. I went to Russia with some of the Committee here and we were very impressed with what the British Council were doing in Russia all over the place. Going back to what you were saying, they were not on the same wavelength as you were but they had their feet on the ground and knew exactly what the Russians required. Therefore, it would seem to me to be good marketing data that you could actually use and yet you did not seem to follow that through. Yet, you have already admitted that there was a weakness in the market when you were talking to my colleague Jonathan earlier on and it would seem to me that that is where you had stuff that was there, ready on the ground, people knew what they were doing and what the Russians needed, just using the Russians as an example, and you push it to one side.

**Mr Beaumont:** In a number of countries we worked directly with the British Council in identifying local markets and using them to support it, so, for instance, in Brazil and China our international business managers were located in the British Council offices. In the British Council in India, where the first knowledge and learning centres were established for the British Council, we have been providing e-learning materials and how to do e-learning to the British Council there. Some of our courses in Singapore and Malaysia have gone

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through the British Council. In Russia we had had discussions and we were partnering with an organisation called Link which is the partner of the Open University, and they were particularly interested in English language.

**Q254 Mr Pollard:** I think this is a brilliant concept and I am really disappointed it is not happening. Is it revivable at all?

**Mr Beaumont:** I think on a number of fronts—if you look at marketing, the products and the platform—the platform I believe is, let’s say, hibernating. Technically and operationally you could do that but it is not straightforward. In the other two areas there is an enormous amount of trust that has been developed with our partner in United Kingdom universities and particularly partnering overseas universities, including their governments. That is a much harder climb, and it is very sad that the massive opportunity that we have seen will potentially be missed.

**Q255 Chairman:** Let’s stay with marketing for a moment. Your first marketing director was a top marketing person. What happened to him or her?

**Mr Beaumont:** We appointed two at the outset, one to look after marketing to the corporate world—companies, large organisations, both private and public sector—and he was called Director of Business Development, and then the Director of Marketing and Sales was targeting the individual students in specific territories where we had the marketing channel strategy to have overseas partners.

**Q256 Chairman:** One of them left quite early?

**Mr Beaumont:** Yes.

**Q257 Chairman:** Why? Which one?

**Mr Beaumont:** The Director of Business Development. In many respects it was a joint decision. The corporate world particularly, which again I think is a big market, want product. They do not want to talk about what is coming in six, twelve months’ time. Where is your MBA from? Which modules can we take? Can we get it started next month across three countries as a pilot? In many respects the person we appointed did not have anything in his bag to do anything other than open doors about the idea.

**Q258 Chairman:** So the notion that somebody went out of your employment because they were giving you news that you did not want to hear about markets is not true?

**Mr Beaumont:** No, I do not think that is true. We all knew that the corporate selling to large organisations is much more a relationship sale, it is about longer lead times for decision-making, and that was not news to me.

**Q259 Chairman:** So you then had one marketing director?

**Mr Beaumont:** Yes.

**Q260 Chairman:** And that was the person who was still employed until the company was—

**Mr Beaumont:** Until after the HEFCE decision.

**Q261 Chairman:** This was the one who got a 3% bonus?

**Mr Beaumont:** Yes.

**Q262 Chairman:** Was there any suggestion that the kind of information that—was it a he or a she?

**Mr Beaumont:** He. Martin Bannister.

**Q263 Chairman:** — he and his team were giving you, the kind of information that they were coming back with from the markets, was unpalatable, and therefore you ignored it?

**Mr Beaumont:** Not at all.

**Q264 Chairman:** There was no evidence at all, if we had him in front of the Committee, which we might, that the sort of information that was feeding back to you two, if it was unpalatable, you disregarded?

**Mr Beaumont:** The recurrent theme that Nigel and his team wanted was more business courses, particularly a flagship MBA, and we went round to make sure that we could get one from the top international business school. We were in the process of signing a Cass business school up for delivery in October 2004—

**Q265 Chairman:** Sir John Cass?

**Mr Beaumont:** Yes, City University, and we had already got some sponsorship from the BBC for students in India for that. We had to be able to persuade the university that they wanted to do it for us; we could not go and say “We need that course, please do it”, so you had to build the relationship and make sure they felt it was win/win, so I felt we were taking on board the information. The other aspect I think that was fed back quite commonly from the market was about English language constraints, for instance, I think in the original PwC list of countries Brazil was mentioned. Except for, let’s say, a specialist technology course or an MBA you would have to have the courses in Portuguese, which immediately causes a problem because, let’s say, it is a course in bioinformatics, the staff in the UK university would not be able to mark the Portuguese and therefore it would break the quality assurance regime and therefore you would not be able to offer the degree. So language was an issue so we were getting English language courses, and the final feedback was the blending, because the original model was wholly online, particularly for undergraduates, but as soon as you go down the blended route, because it was seen as a degree from a specific university and not UKeU, that university in the UK has to accredit any partner in an overseas country, quite rightly, for quality purposes, and that involves visits, looking at staff, and so forth.

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**Q266 Chairman:** I do not say this in the spirit that I am trying to blame you for this but I get the feeling from what you are saying that the market was not there yet for what you had to offer. Would it be fair to say you were too far ahead of the game? That the market is not mature enough for this product, and that is why really you have had this difficulty getting the numbers?

**Mr Beaumont:** I think the market is there. I think there is a timing issue, and I think it is quite understandable, particularly with parents and students paying serious amounts of money for courses, that they do not necessarily want to be on the first course that is run, and when the decision was made by HEFCE, we were just starting to get what were market-driven courses and we had only one series of intakes.

**Q267 Chairman:** But the product range is not that inspiring, is it? Looking at it and the universities that are offering them, they are not riveting, are they? I am a governor of the London School of Economics, and we have a very strong international global brand. People like it because it is associated with quality and we provide courses that people seem to want. If I am looking at your range of products, firstly, you are a disparate group of institutions—some are well known, some less well known. With all the will in the world, if you have got some poor chap going round the rest of the world selling these products, it is not exactly a riveting bunch of products, is it, yet?

**Sir Anthony Cleaver:** No, and this is what you would find in any market place, is it not? In order to get the top brand universities on your roster, they want to see that it is going to work and so on. They are the people who have built an international brand already, like the London School of Economics, and they will come in once they see it is fine and working well and so on. They do not feel the need to come in at the embryonic stage, so our job was to take the best courses we could get as early as possible, get the thing up and running, and then build the quality which is what we were doing if you look at the ones we say were just coming. It will, of course, please you to know that I did lunch with Howard Davies in order to discuss whether LSE could come on board and it was something he said he was prepared to look at, but these things take time to build.

**Q268 Chairman:** I understand that, but you keep coming back to the three items: marketing, product and platform. There are problems on each of those. You can make excuses and say “earlier development, “have not had time” and all the rest, and I understand that, but then when I turn over, the area that I can get no agreement on at all is this bonus. You said governments are risk averse and that the Government has to justify to taxpayers but I still cannot understand it. What do you describe yourselves as? Are you civil servants? Public servants? Private buccaneers? What are you?

**Mr Beaumont:** My role was chief executive of a company.

**Q269 Chairman:** What sort of company?

**Mr Beaumont:** A limited company.

**Q270 Chairman:** A not for profit company?

**Mr Beaumont:** No. A for profit company.

**Q271 Chairman:** Limited by guarantee but profit making?

**Mr Beaumont:** Yes.

**Q272 Chairman:** But not a normal commercial company?

**Mr Beaumont:** I felt it was to be a normal commercial company.

**Q273 Chairman:** Normal commercial companies are not limited under guarantee.

**Sir Anthony Cleaver:** I do not think we were limited by guarantee.

**Q274 Chairman:** What is the status of this company?

**Mr Beaumont:** I need to check that.

**Q275 Chairman:** Are you telling me you do not know the status of your company? Come on, Sir Anthony, what sort of company is this?

**Sir Anthony Cleaver:** This is a company owned by the holding company funded by HEFCE through their holding company, and the intention was that over time we would bring in private investors and therefore it had to conform to all the normal company requirements, and that was the way we ran it in accordance with all corporate governance, etc.

**Q276 Chairman:** But, Sir Anthony, you are the expert on this. Is it a company limited by guarantee or not? Is it a company that could go belly up? It cannot, can it? The only way is if the Government takes your funding away, or HEFCE takes your funding away?

**Sir Anthony Cleaver:** It is a company funded through the holding company by HEFCE, as it says, principally financed by HEFCE, entirely financed by equity, and has no borrowings. That is the status of the company.

**Q277 Chairman:** And the universities only put up a pound share?

**Sir Anthony Cleaver:** I believe that, yes.

**Q278 Chairman:** So come on, John, you are not a buccaneer entrepreneur in a risky environment, getting up every day thinking “What’s my bottom line going to be tomorrow”, are you? That has not been your role over the last two years, has it?

**Mr Beaumont:** We have had targets to meet both in terms of financial and platform delivery. It is no different from the drivers I had when I was a director of a plc company.

**Q279 Chairman:** Surely it is different if you are lastminute.com when you are struggling to be survivors. It is a bit different if you are chief

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executive of that from being chief executive of this. You did not worry that you were not going to get paid next week, did you?

**Mr Beaumont:** I think the profile is different—

**Q280 Chairman:** But the risk is different, is it not? Be honest, John.

**Mr Beaumont:** I think the risk is about success and failure—

**Q281 Chairman:** Yes but, John, you are on a substantial salary that is higher than for any Vice-Chancellor I know. For most people in this country it is a very serious salary in a non-risk business and you took nearly £50,000 in a bonus and, as I have said, in marketing, product, and platform you have serious problems, so my constituents would ask “Who set a target that enabled you to get £50,000 nearly on top of your salary of £180,000?” What was the process?

**Mr Beaumont:** Three non executive directors—

**Q282 Chairman:** John, I am asking you because it is my job as Chairman of this Committee to push you on this. How can you justify, as almost a quasi public servant, this bonus?

**Mr Beaumont:** Objectives were agreed over a year earlier about delivery on a number of—

**Q283 Chairman:** Tell us about the delivery and the objectives. I am curious because at the moment this Committee is getting the feeling you are hiding behind the non executives, and common sense is to unpeel that.

**Mr Beaumont:** There were six areas for the 2002–03 bonus—

**Q284 Chairman:** Take us through them.

**Mr Beaumont:** 25% was related to the platform and—

**Q285 Chairman:** 25%—

**Mr Beaumont:**—of the bonus potential.

**Q286 Chairman:** To do what with the platform?

**Mr Beaumont:** To ensure an effective e-learning platform is delivered on time and fit for purpose.

**Q287 Chairman:** I thought we were paying £15 million to Sun Microsystems to do that?

**Mr Beaumont:** But somebody has to be accountable that they will deliver.

**Q288 Chairman:** All right. Carry on.

**Mr Beaumont:** That we launch the three pilots that we inherited and develop a more market-driven pipeline of courses—that was 25%.

**Q289 Chairman:** That is product.

**Mr Beaumont:** Yes. Getting other United Kingdom universities to offer their courses for which there was local market demand. Develop a marketing strategy with direct and indirect channels and establish a suitable internal marketing sales business development set of activities.

**Q290 Chairman:** That is another 25%?

**Mr Beaumont:** Included in that was to develop UKeU brand and awareness amongst the target audiences, and that would include particularly overseas. Private funding was 10%, to attempt to raise private funding in line with budget assumptions recognising external market conditions.

**Q291 Chairman:** You did not win any of that, did you?

**Mr Beaumont:** No.

**Q292 Chairman:** So you did not get your full bonus.

**Mr Beaumont:** Financial management, to ensure the management of the company is in line with the board agreed budget, and to develop a robust 10 year plan.

**Q293 Chairman:** Where is the evidence that you had a robust 10 year plan?

**Mr Beaumont:** We updated the PwC plan and explained the markets and the strategy to implement that.

**Q294 Chairman:** So these were your targets set by—?

**Mr Beaumont:**—the three non executives.

**Q295 Chairman:** And at what meeting did the three non executives decide that you had got sufficient of these to get a bonus?

**Mr Beaumont:** There was a remuneration committee meeting on 24 April 2003.

**Q296 Chairman:** April 2003, and that was evaluating your performance in the previous year?

**Mr Beaumont:** That is correct.

**Q297 Chairman:** And how many students did you have by April 2003?

**Mr Beaumont:** We only had the first course from the Open University in operation at that time, and from memory there were 55 but I would have to check that.

**Q298 Chairman:** Let us move on for the moment, but you can see our concerns. We are not trying to make your life difficult here, but it is of serious concern. Listening to that list of targets, to me—I do not know about the rest of the Committee—it seems that you had a pretty tame group of non executive directors who set those targets and then thought you should have won that large increase on your salary, given what you had done.

**Mr Beaumont:** I am not sure I would agree that they were “tame” non executive directors.

**Chairman:** They sound tame to me, John. Is there no one time that you thought “We are not in a risk business, we are a publicly funded organisation. Will it not make us vulnerable as an organisation at some time?”, because I have to tell you, when we were listening to the evidence last time we met HEFCE, we were pretty even-minded about what they were saying. We thought “Well, this is going to be very interesting to balance with what you say when you

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come,” but the one area that shocked us was this bonus. There were other things too, but this particularly concerns me.

**Mr Pollard:** And me.

**Q299 Chairman:** And I still cannot see that you could not have understood there would be a vulnerability of this university at some stage.

**Sir Anthony Cleaver:** Can I unpick some of the comments? Firstly, I think this was always a risk business; we saw it as being high risk, and the fact it is a risk business has just been demonstrated. It has been summarily closed in a way I cannot conceive would have happened to a company with normal shareholders, where there would surely have been some debate between the board and the shareholders saying “Is this the best thing to do? Could we do it rather better? Do you have information that we do not have that suggests we are making the wrong decision?” I have never known such a summary closure, so to say this is not a risk business—it seems to me it is higher risk than anything I have seen in my many years chairing public companies. So, firstly, I do not accept that definition of “not a risk company”. It was a normal company, it was a company which had equity and that equity happened to go back to the state, other than the Sun Microsystems involvement within it, but it was a normal company in that sense and in time we expected to bring in private equity and ask for it to become a more normal company in that sense. So in terms of the nature of the company and the risk I am entirely comfortable that we knew where we stood. As far as the bonuses are concerned, I think this is rather reminiscent of some of the debates one hears about bonuses paid to people in public companies. The sort of thing that happens is that a target is set at one point, people are assessed a year later as to whether they achieved the targets that were set then, 6 months later the company runs into trouble and people say, “And this man got a huge bonus”. The fact is that bonuses have to be checked and assessed at the point in time where you have reached. With 20/20 hindsight you might form a different view, but what we were trying to do was to say “We are not in this for one year, two years or three years”; we were building something which I fully believed would last for many years and would provide a proper foundation for United Kingdom higher education e-learning. In building that, you have to create the building blocks, and the building blocks that John was charged with creating that first year were, firstly, to create a platform. We had nothing. Specification only. In that year we chose the supplier, Sun, we drove the supplier to deliver as much as we could get fit for purpose and on time for those first courses, and that was achieved. I believe that was a very specific objective and that was quite properly remunerated. We were asked to put in place the marketing capability in terms of having the local agents and so on that we needed and we began to put that into place. He was asked specifically to get courses. I think it is a bit facile to take this view that we went out to all universities and back came 69 super opportunities which are directly fit for market,

etc. What we got was a diverse range of things from single sheets of paper that said “We would quite like to do a course in this and if you give us a million and a half funding upfront we can develop one” right the way through to some people giving us a very proper full business case saying “We think we know this market, we believe in these countries there is an opportunity, and therefore . . .” and we chose from those on the range of what we could get from those 69. We did not get the ideal set of courses. We knew they were not ideal but we had to drive the thing forward and make as much as we could so that we were beginning to get funding in to off-set the expenses we were incurring. It was, therefore, entirely proper to say “You are required to get contracted this number of courses”; he achieved that in formal terms, and the remuneration committee quite rightly said “That percentage of the bonus you should receive”. There was an element in there for the private funding and if you look he did not receive his full bonus, and the reason for that was that element was not achieved and therefore he was not remunerated.

**Q300 Chairman:** So the full bonus should have been how much?

**Sir Anthony Cleaver:** The little bonus was 30%, I think, so I make 30% of £180,000 £54,000—

**Q301 Mr Pollard:** That is as much as my salary!

**Sir Anthony Cleaver:** I am sorry but we live—

**Q302 Chairman:** So if you had ticked all the boxes he would have got £54,000 rather than £45,000?

**Sir Anthony Cleaver:** Exactly. Just on the question of remuneration, and I am sure I should not mention this in this particular arena, and I do understand the sensitivities and that there are areas in life that should, no doubt, be remunerated higher, I always had great difficulty as Chairman of a higher education institution looking at the salaries we paid professors, and I feel compared with many other people in life they are significantly underpaid. At the same time, if one is trying to run a business and seeking the best people to run it, you have to pay the market salaries and I would point out that John took a significant cut in salary to join UKeU.

**Q303 Chairman:** But, Sir Anthony, I think where we disagree is on the difference of risk. We understand this is a risk venture in terms of new markets and all the rest. Where I differ with you is the amount of risk you two personally faced compared to a private struggling SME or company making it as a .com venture, where your shareholders will be watching very carefully your results, and if you do not sell you do not get an income, a cashflow, and you go out of business. I am trying to contrast with that. I am also trying to contrast the fact that HEFCE funds universities. You are a university. You were paying John as a chief executive more than any Vice-Chancellor I know of with a bonus system, and I do not understand why there should be a bonus systems

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for the eUniversity when I have never heard of one for any other university in the land, and we interview Vice-Chancellors all the time.

**Sir Anthony Cleaver:** No Vice-Chancellor applied for the position and the headhunters were not able to find one who would have wished to apply for it!

**Chairman:** That's well and good, and I hear what you say.

**Q304 Mr Pollard:** Very quickly, I have just refreshed myself on John Beaumont's CV and it said you were a marketeer, so there were three marketeers involved. Why then was there such a failure in the marketing if there were three of you, and you said yourself that you could not appoint somebody as director of marketing on the board, yet your chief executive was a marketeer by profession and training with vast experience. To other marketeers, why was there such a big failure?

**Sir Anthony Cleaver:** Our view on that remains the same as our view on the enterprise as a whole. We did not fail; we were not given the time to succeed.

**Mr Beaumont:** On the marketing, I do not know whether the Committee has heard from others but when we joined there was the suggestion from HEFCE that we should spend £12 million buying a marketing company. We looked at it and said we could not see how that made any sense to spend £12 of the £55 million. We had some discussions and we had professional advice in making that decision. That company came back and offered themselves for nothing, and we felt that it would still not be a good deal because there was so much inconsistency.

**Q305 Mr Pollard:** Who in HEFCE suggested that?

**Mr Beaumont:** The interim team, including HEFCE, were looking at an acquisition of Scottish knowledge for £12 million, and we put a stop to that within the first month of the two of us being there. Just to correct you, I am not a professional marketeer. For two years I was a director of marketing; I feel that in the 18 months through to late 2003 we had a really good understanding of the local market in a large number of countries for e-learning from UKeU, and that has now been lost.

**Q306 Mr Turner:** The assumption was that this would be a new collaborative venture between AGIs and the private sector. Accepting that you are technically the private sector but otherwise not, I assume that what the Government meant by that was that some big private sector organisation would put a lot of money or expertise in, and when I say "expertise" I recognise Sun Microsystems did, but they were paid handsomely for it. Was this a partnership in any sense that you understand the word, or was it you employing Sun Microsystems?

**Sir Anthony Cleaver:** I think the reality was that we were employing Sun Microsystems.

**Mr Turner:** Thank you.

**Q307 Mr Chaytor:** Coming back to the marketing and the programme that was offered, when did you learn that the Brazilians spoke Portuguese?

**Mr Beaumont:** I made the comment that one of the markets that was identified at a top level, because I suppose there are large numbers of people, was Brazil. We looked at the Brazilian market and there is a large demand for quality and higher education but, except for a very few subjects, that has to be delivered in Portuguese.

**Q308 Mr Chaytor:** But is this not self-evident?

**Mr Beaumont:** Yes, so we did not spend a large amount of time—

**Q309 Mr Chaytor:** But why is Brazil one of your target markets in the first tour of operations?

**Mr Beaumont:** We had a number of courses in the oil and gas area and Brazil was a key market there. Brazil was particularly interested in the English language courses, and we felt that there was a large number. It is also a country that has good infrastructure. Many countries do not have the Internet access capability, therefore there may be a market but it is not addressable.

**Q310 Mr Chaytor:** But if you are living somewhere in the middle of the Amazon, why would you want to do a degree in hospitality management from the University of Derby?

**Mr Beaumont:** I do not think we were marketing that there!

**Q311 Mr Chaytor:** How many people for Brazil signed up for that?

**Mr Beaumont:** Only certain courses were marketed in certain target countries.

**Q312 Mr Chaytor:** But those courses would have had to be delivered in Portuguese so my question is did not anybody in the organisation know that the Brazilians spoke Portuguese? Could they not have found out by clicking a website or phoning the Foreign Office, and had they done that in advance would Brazil still have been in phase two of your marketing programme?

**Mr Beaumont:** I think it would still be in phase 2 but I do not think you would be targeting courses that needed Portuguese language, and we were not doing that.

**Q313 Mr Chaytor:** The same question applies to South Korea, does it not? Is it not obvious that to sell courses in South Korea, your lesson from visiting ministers in South Korea was that the big demand was not for individual courses because they had their own cyber universities; the demand was for English language, but are there not just thousands and thousands and thousands of rival organisations teaching English language in a variety of forms? How could English language teaching be a necessary or a central part of your business strategy?

**Sir Anthony Cleaver:** First of all, the Korean universities themselves felt there was a gap that could be filled this way. I talked to the President—

**Q314 Mr Chaytor:** So there was a shortage of organisations offering English language teaching?

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**Sir Anthony Cleaver:** In the form that they wanted. They wanted English language in a form that students could learn in parallel with their normal learning at the university, and subsequently go on to take further courses in English.

**Q315 Mr Chaytor:** Why do not they just employ a bilingual Korean in the university and teach them? I fail to understand how this could conceivably be a sensible marketing strategy selling—

**Sir Anthony Cleaver:** Well, normal marketing strategies in my experience are developed among other things by going and talking to potential customers and finding out what they want, and it was the President of the Korean National University who specifically said to me “I think it would be enormously valuable if you could provide online English learning which will then enable us also to take on some of the other courses”. They are interested in specific courses in areas where we are strong. Biomedical science, for example. They would like to take our post-graduate degrees in that area but in order to do it they need a greater command of English than they have, so what they want to do is to continue studying in their own language at the current level for their first degree or whatever, because of course one of the big advantages of e-learning is you can do it at your own pace and in your own location, and in parallel develop that English expertise, and that would make us more visible to all the students because they are seeing us and using our platform and so on in that way, and would also leading in to their ability to take these other courses where they saw that we had a particular offering that was valuable. So I think it does make very good sense as an integrated marketing approach.

**Q316 Mr Chaytor:** Was he saying, or are you, that there is nobody else providing this service at the moment? I would have thought you could click on a website and there would be any number of American companies providing English language teaching in this form? How could this be a central function of your strategy?

**Sir Anthony Cleaver:** This is one strand of our strategy. This was one course we were working with Cambridge on and which we were going to deliver. It was one specific strand where I have every reason to believe that over the years we would, in fact, have got very high demand from the combination of Cambridge and the English language. You mentioned the fact that there are a number of American offerings, that is absolutely true, and I do not wish to get into the political arena but in a number of countries they are very anxious not to be specifically and solely dependent on American offerings, so there are other aspects here that are important.

**Q317 Chairman:** But HEFCE looked at you and someone said, “But the problem is they never really did their market research very well, indeed it was patchy and sporadic and not very reliable”, to use terminology from elsewhere. Everything you have

said is very anecdotal. You pitched up in Korea or Taiwan and said to the Vice-Chancellor, “What about this?” and it does not add up to me to be a systematic evaluation of the market against the competition, and that was one of the criticisms we picked up from HEFCE.

**Sir Anthony Cleaver:** We had the PwC report—

**Q318 Chairman:** But that was right back at the beginning.

**Sir Anthony Cleaver:**—which was covering that sort of area; we had frequent reference to the British Council wherever they had reports and we talked to them and worked with them on that aspect, but if you want to get to the specifics of individual courses, where you can supply them, who the right local partners are and so on, I do not think there is any substitute for being there and having local people there who support you and developing the relationships.

**Mr Beaumont:** And for every country that we entered we had a marketing entry strategy, who were our lead partners, what sort of contacts did we need with the Ministry of Education, and so forth.

**Q319 Mr Pollard:** Just quickly, when I ran my own small business before coming into Parliament we often had to do something that would be almost like a loss leader. Is that what you were talking about with the English courses? That is the only rationale I can follow. In a supermarket you would have butter reduced to get somebody through the door and after that they would buy some of the other things. Was that part of your marketing strategy?

**Sir Anthony Cleaver:** I think there was an element that that would be an easy entry for a number of people who would then go on to do other things with us, but we certainly did not expect it, nor did Cambridge, to be a loss leader in financial terms. We expected it to be successful financially.

**Mr Beaumont:** I agree.

**Q320 Valerie Davey:** Coming back to the initial concern that you had to show that something was running, valuable and would develop, surely the home market would have given you that? This is something which increasingly, as you said rightly, more post-graduates than undergraduates are looking to in order to extend their qualifications, and universities here have that experience. Was the platform intended only for the overseas market, or did it have that initial development of United Kingdom students as well?

**Mr Beaumont:** It could be used anywhere in the world so that would include the United Kingdom. With some of our courses they did not want us to market the programme in the United Kingdom because it might cannibalise the students taking the same course but on campus or by more traditional modes, so some of the courses we did not market directly in the United Kingdom, although if they had gone on to the website students would have known about its availability. One of the things we did learn was that a number of courses and universities, rather than just having some of the modules available by

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distance, wanted them to be made available to students on campus as well, and that was the sort of thing we were in specific discussion with individual universities on. What we did find was there was an interest in the platform from a number of UK universities to support their campus activities rather than distance education, because you cannot have an e-learning campus-based offering that perhaps closes in an evening or at the weekend, and we had to be 24/7 globally so could they piggyback on that. We were in quite advanced discussions with a number of universities on that front.

**Q321 Valerie Davey:** So perhaps we have the cart and the horse the wrong way round. Had it been developed, and I take Sir Anthony's point about the timescale, but had there been a business plan which had a securer home market from which to develop through those universities which already had a good track record overseas, that might have been an alternative way of doing it?

**Mr Beaumont:** If your alternative says that there would be demonstrable courses that had already been run that would have been extremely helpful, and that is why, for instance, getting the Ulster courses and the Robert Gordon courses already on their own platforms meant it was easier to get marketing in the first instance, because there was a track record.

**Q322 Valerie Davey:** So why was it not done that way?

**Sir Anthony Cleaver:** I think HEFCE were just coming to the view that they needed a comprehensive United Kingdom e-learning strategy which led to the consultation I mentioned at the end of last year. Prior to that the view was that individual universities were developing their own systems, and they should let those develop and see where they got to. Our own view was that a big part of our objective was to develop a capability for the whole United Kingdom higher education sector. The whole problem here in many cases is simply that to run the sort of service we were providing 24 hours a day 7 days a week and keep it up and running we reckoned would cost, say, £4 million a year. For a single university that is a very big investment, but spread across a range of universities that sort of service is potentially exceedingly attractive, and in my letter to David Young it is one of the things I said I hoped would be preserved because I believed that was still a possibility. I have no idea where they have got to but it does not look as though that will be the case, and I think that will be a loss.

**Q323 Valerie Davey:** I think there are a whole lot of sad people sitting round here today who are desperately looking now for a way forward, so where do we go from here? Given your experience, what do you now suggest? Was this inevitably going to fail in the years you were dealing with it, given some of the factors we have heard about today, or, just leaving the past for the moment, where is all that experience going to be put to good use for the future?

**Sir Anthony Cleaver:** If we had known that it was only going to have two years of life you would never have started. I do not think it failed; it just did not have the time to succeed. I think the strategy for the United Kingdom dimension that you were asking about is very clearly set out in our response to the JISC and the LTSN, so that you have a coherent approach so that the individual universities can do what suits their needs but they are getting a service at a good cost and a high quality. I think that opportunity should not be lost because I am convinced, not only for distance education but for campus-based education, e-learning has to be not only potentially better quality but also a lot cheaper to deliver.

**Q324 Mr Gibb:** Do the American universities do this kind of thing?

**Mr Beaumont:** Yes. From my experience there is probably more campus-based e-learning within the US system than in the United Kingdom. Somebody mentioned earlier it is still a cottage industry, so it has permeated more. There are obviously examples where it is less the case in the US and more the case in the United Kingdom. The two examples which are often highlighted in the US are University of Phoenix and e-College. The University of Phoenix has probably got the largest number of students of a private university. It is increasingly online but across the States, Canada and Puerto Rico there are over 100 campuses, so it is a very blended approach. It uses a lot of people who are in full-time employment—managers, professionals—providing courses, and it is quite different. If there was something between UKeU and US Online Direct it is probably in that space. The other one which is probably nearer to wholly online higher education is something called e-College which is Nasdaq listed, set up in 1996. Their growth has been rapid only in the last two to three years. Their overall funding was probably of the order of the £90–£100 million expected in the original HEFCE PwC. Last year their online courses grew by 40%; they have now got about 1.4 million students, of which a good third are wholly online, the rest are a hybrid. Those are the two best examples.

**Q325 Mr Gibb:** Could you not have used their software platform instead of inventing the wheel again yourself?

**Mr Beaumont:** That had been looked at prior to Sir Anthony and I joining. I think there were probably issues of scope and functionality as well as cost. It would be wrong to get the impression that that £9.5 million fixed price contract for Sun was to allow a load of software engineers to write a new code. The approach was to take the best of individual applications that were to open standards and systems and integrate them, and the power of that is that you get a future proofed architecture that allows that if new things come on you can plug them in. e-learning is going to evolve and this was very important.

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**Q326 Mr Gibb:** Do you think it is right for a state-funded body, which ultimately you are, to have an ambition of creating £100 million a year profit by year 10? Do you think that is the role of the state sector?

**Mr Beaumont:** That is probably an answer that the politicians should give but the fact that the money would be new income to the universities who probably have some form of financial crisis and they are also the key shareholders is important and I think a sensible vision, creating new money from a sector that can benefit from them investing perhaps in more e-learning and more research.

**Q327 Mr Gibb:** But the accountability ranges are rather bizarre, are they not? You are appointed by the holding company, and the holding company is appointed by HEFCE and the chief executive of HEFCE was the accounting officer, and I was never clear when we were interviewing them last time who was responsible to whom. Do you think there is something wrong with the accountability arrangements here? Do you think they could be improved if we tried this again?

**Mr Beaumont:** Yes.

**Mr Gibb:** How? In what way?

**Q328 Chairman:** Sir Anthony?

**Sir Anthony Cleaver:** I would give a different answer. I do not know of a different way. As far as I was concerned, I was asked to run a normal company, a company that operates expecting to have to achieve profit, but in this case a start-up and therefore one that would take some time to get there. You asked a question about Sun and whether it was a partnership or not. They clearly were in a slightly different position from somebody who had not been involved in the beginning, but our main relationship was certainly one of their providing. We were a customer, if you like, and we were buying from them. Essentially this was a company that had a single shareholder, and I think there are always issues in that. When I think of the companies I chair elsewhere, there is always a different atmosphere round a board table where the investor is present also as a director and involved with it, and that of course was not the case here—

**Q329 Chairman:** Sir Anthony, you are famous, very famous, for your report on *Tomorrow's Company*, which really talked extensively about stakeholders, and it seems to me listening to the evidence today and the last evidence session that there was something going wrong with the communication between the stakeholders. You had the Government, you had HEFCE, you had the holding company, you had your supplier universities—let us stop there. I know the consumer and the community come into your analysis as well but they are the stakeholders and it seems to me you were meeting Howard Newby regularly, regularly reporting, and you do not seem to have been given any information that there were deep concerns about what was happening, and you were not picking up the resonance that there were real problems.

**Sir Anthony Cleaver:** When Howard said to me, in I guess October last year, that he thought it was time that an independent view of how we were doing was taken I said I would welcome that and I thought that was entirely sensible. He then said “We will appoint somebody” and a little while later he said “We want to appoint PA Consultants to do this” and I said that my only concern was that the people appointed would understand something about e-learning and the sector and so on. I thought, therefore, that what we would get was an informed report and it might well say “They are doing these things and in this area we can see they are missing a trick”, or “They have done this wrong in this area and it could be corrected” and so on, so that was the sort of report I anticipated. When I saw the PA report and was asked to respond to it, I was disappointed, in particular in the one request that I made to PA. I only met them once, and I made one request to them: you must talk to the commercial non executive directors because they are the people who have commercial experience who are not executives who are not therefore tied in the way we are to “We are the people who developed the plan and are implementing it” and so on, and I think they will give you an objective view. I was conscious, as you would expect, that we were tested by those commercial non executives regularly at the meetings. They said, “Well, the plan is there but are you sure you can get these student numbers?”, etc. They were the people doing that job and I think effectively.

**Q330 Chairman:** And they were not consulted by PA?

**Sir Anthony Cleaver:** No. I asked again when I got the report “Would they now consult them?”. I specifically went to see Howard and said I was concerned they had not been consulted—this was in the period January to February—and Howard’s position was, “I am sorry, at this point in time this is a matter for the HEFCE board and we are not prepared to have discussions”.

**Q331 Chairman:** And have the non executives formed an opinion since this all happened?

**Sir Anthony Cleaver:** They were as astonished as I was at what happened.

**Q332 Chairman:** But have they articulated that anywhere so we could have that as a piece of evidence?

**Sir Anthony Cleaver:** I think probably two of them have written to HEFCE but I think you would have to ask them, to be honest.

**Q333 Chairman:** Two out of the three? How many non executives do you have?

**Sir Anthony Cleaver:** Two out of the five I think have written, but you know who they are and so on. At the one meeting I had with Howard, which he did not wish to have but finally conceded in January, I said, “This is the thing I am most concerned about, that they have not been consulted and I believe they would give a valuable viewpoint” and he said “Well, I think we are going to end up putting three options

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to the HEFCE board—one would be to continue funding on the current basis, exactly as it is; the second would be for immediate termination, and the third would be for some restructuring in the light of what we now know”, and I expected him to go down the third path which is what they claimed on the day they arrived they had done. They said, “We are not prepared to carry on funding on exactly this basis, the original business plan has changed, you have not met some of the things”, and so on, and we said “Fine, we do not wish to terminate immediately”, and we said “Fine”. “So we wish to do some restructuring”, so we said “Well, that’s fine, can we discuss this?” They said “No, we are putting in a man from Robson Rhodes on Monday and he will take the decisions”, at which point we said “As directors can we take it the company’s liabilities will be met” and the answer was “Yes”, and we said “Thank you. You really do not wish to discuss this?” and they said “No, we want you to stop marketing immediately” and that was the end of the discussion. As soon as they had left the room the non executives looked to me and I looked to them and we realised we could no longer discharge our corporate responsibilities. There is no way that you can do that, be liable for things, when somebody else is taking all the decisions.

**Q334 Chairman:** What was the gap between the PA report coming out and that meeting?

**Sir Anthony Cleaver:** Two months.

**Q335 Chairman:** You are a very significant player in this country. As soon as you saw PA, you must have been very concerned.

**Sir Anthony Cleaver:** When I saw the PA report,<sup>5</sup> which I can give you if you have not already seen it—

**Q336 Chairman:** I have seen it.

**Sir Anthony Cleaver:** And my response to it—

**Chairman:** Yes, but you know your way around this country. Why did you not go and see the Secretary of State?

**Mr Pollard:** Absolutely.

**Q337 Chairman:** Why did you not say “I fear that something is going to happen that should not happen”—

**Sir Anthony Cleaver:** Because my interpretation of the statement “We do not expect to continue funding as we were but we are not terminating immediately” was that we would then have a sensible and constructive discussion as to how we could take things forward to everybody’s best benefit, and that discussion we had no opportunity to have.

**Q338 Chairman:** So the PA report came out; after two months you really did not have your usual discussions with Howard Newby—

**Sir Anthony Cleaver:** We responded with a letter saying “Here is our response to the PA report”. It pointed out the areas where we disagreed with what PA had said, and it also put in writing the request that they see the non executive directors.

**Q339 Chairman:** So no one did you the courtesy—

**Sir Anthony Cleaver:** I got no response to that initially. I then pressed for a meeting, and I had one meeting with Howard Newby. Throughout his meetings with me he said “I do not wish to become a shadow director” and I understand that in technical terms, so I said “Well, that is fine”. He said “Therefore, this is purely a matter for the HEFCE board; we will go to them. I expect we will put these three propositions to them and we will be in touch with you”, and I obviously misread what he meant by “restructuring” because I think it was tantamount to immediate closure.

**Q340 Chairman:** So he did not really put it in black and white that storm clouds were there and you were likely to be closed down?

**Sir Anthony Cleaver:** Absolutely not.

**Q341 Chairman:** So you would not have shot off to the Minister to try and save the enterprise?

**Sir Anthony Cleaver:** Exactly.

**Q342 Chairman:** Have you since sought to see the Secretary of State?

**Sir Anthony Cleaver:** No. At the point in time that that decision was taken we, the directors, collectively discussed what our reaction should be and decided that inevitably the various avenues would have been taken, people would have been briefed in a particular direction. HEFCE were insistent that they were going to issue the press release within 24 hours, and I knew that once the press release was issued there was no way we could save most of what we created, because this has always been something that was difficult to bring confidence abroad in what was a new venture.

**Q343 Chairman:** Do you think HEFCE acted in such ways that you could not get to the Minister in time?

**Sir Anthony Cleaver:** I did not try and therefore I cannot answer but, given that one member of the HEFCE board is Sir Alan Wilson, who is the minister’s adviser on higher education, I cannot conceive that a line would not have been put to the minister ahead of time.

**Q344 Mr Gibb:** May I just say finally that I think both of your evidence has been very impressive. I am hugely impressed by what you have both had to say about this matter, and maybe we need to reinterview some people we have seen previously, but just finally, if you had known then what you know now, is there anything you would have done differently?

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<sup>5</sup> Note by witness: HEFCE Publications 2000/00/44A.

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*Sir Anthony Cleaver:* You mean when we started?

**Q345 Mr Gibb:** Yes.

*Sir Anthony Cleaver:* I would never have accepted the job on the basis that it is intended to run for two years. I was proud of having the opportunity to build something that I really felt could be a United Kingdom flagship. United Kingdom higher education does have an enormous reputation internationally, but the whole electronic thrust is moving very fast. Certainly with my involvement with Oxford I have felt from time to time that it is perhaps not moving as fast as it might in relation to some of the leading American universities who are investing heavily on an individual basis. In the same way, I felt there was an opportunity here to exploit what has been built over many years in terms of the reputation of United Kingdom higher education to ally it with a technological base that nobody else had developed because nobody else had done it on a collaborative cross country basis, and that from that we could both generate a better position for the United Kingdom. There were lots of other ideas that I tried to develop in that time. For example, one of the concerns in Malaysia, China and these other places is that it is very expensive for them to send people to the United Kingdom for three years to take a degree entirely in the UK. We like people to come here because they learn something of us and our culture; they make contacts that are valuable in the future, everybody will tell you there are government ministers in other governments who have been educated in this country, we have a particular relationship and that is very valuable. Why could we not multiply that by a factor of three by developing courses where we did two years online

in their own country and then they come to the United Kingdom for the third year? That would have met entirely the Prime Minister's initiative—

**Q346 Chairman:** You did not have that product on offer?

*Sir Anthony Cleaver:* No, but it was something that I was beginning to talk to people about. I suggested it to the British Council and at the Universities UK meeting and so on, so there were huge opportunities here but we were only just in the position where we could see how to take them forward, and I share exactly the mood that I sense many of you have. I am hugely saddened and disappointed by this, and I must admit I have been angry in that I ultimately was responsible for 80 people who had joined an organisation feeling they were going to do something which was in the country's significant interest, and that opportunity has been lost.

*Mr Beaumont:* I have just two comments. It would have been nice to have had the chance to discuss the £55 million plan. We put to them the £57 million but £55 million was still deliverable. The only other comment would be that it is important to get as much out of what has been created because there is a massive market opportunity out there for UK universities, but it is a highly competitive market, and particularly the Americans and people in the Far East will not wait another long time.

**Chairman:** We have had a long session and I know some members of the Committee want to attend Prime Minister's questions, so can I say to you both that we have valued your contribution; I know we have learned a great deal, and we will go away and consider what further evidence we will take. Thank you very much.

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## Monday 8 November 2004

Members present:

Mr Barry Sheerman, in the Chair

Mr David Chaytor  
Valerie Davey  
Jeff Ennis  
Paul Holmes

Mr Robert Jackson  
Helen Jones  
Jonathan Shaw  
Mr Andrew Turner

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*Witness:* **Dr Kim Howells**, a Member of the House, Minister of State for Lifelong Learning, Further and Higher Education, Department for Education and Skills, examined.

**Q347 Chairman:** Good afternoon, Dr Howells. It is very nice to have you here for your first appearance before the Committee, since I have chaired it anyway. There was some speculation that this is in fact a cruel irony in that normally we are asking questions of ministers and they say, "It happened before my time, Chairman", but we have a case here where you were in the department previously. So, perhaps we can find a time when some of the questions we want to ask about are in your previous incarnation. As this is your first meeting with the Committee and we want to start off on a good basis, would you like 10 minutes on some general questions before we get on to the eUniversity just to limber you up?

**Dr Howells:** I would be delighted.

**Q348 Chairman:** When we were doing a recent inquiry into the Transport Bill, we were enthused in our report at children arriving at school aerobically excited!

**Dr Howells:** That was me! That was my initiative!

**Q349 Chairman:** First of all, anyone who reads the newspapers this morning will be concerned that the Committee has been hearing, certainly as individual members, about the problems with the student loans coming through to students and the problems with computers and so on. Although we see you quoted in various newspapers this morning, could you give us an update on just how serious this situation is and how many students are in danger of going without food and shelter.

**Dr Howells:** None is the answer to that latter point. I asked for the latest figures and I received them about 15 minutes ago, so would you like me to give them to you?

**Q350 Chairman:** We would very much like them, yes

**Dr Howells:** We had 817,882 applications received and registered by LEAs and, of those, 738,219 were approved and finalised within the LEAs. That, according to the mathematics here, leaves 79,663 of which 13,828 have been refused or cancelled because they were not eligible. So, the number left was 65,835 and those essentially are the ones that are still awaiting payment or notification. Of that 65,835, 12,193 are students who did not provide the information which LEAs were requiring, so that information has gone back to them. Basically, outstanding are about 53,000 cases and all of those,

as far as I know and I cannot give that as an unequivocal answer, are ones received after the July deadline when the information went out. As I am sure you know, there will be people who would have applied for these loans even a few weeks ago when they finally discovered that they had admission to a university but it is still, as far as I am concerned, a very serious number and we are working very hard to try to get it down.

**Q351 Chairman:** *The Times* this morning said that terms started three months ago and, even by my calculation, that seems an exaggeration, but nothing should get in the way of a good story!

**Dr Howells:** I think generally it is about seven weeks ago.

**Q352 Chairman:** An old interest of this Committee was that we made a recommendation in our first report on student finance that we were interested in students paying a proper rate of return on the money they borrowed because we thought, as that was such a great deal of money, that we could in fact use that money, a considerable amount of money, to provide grants for poorer students. The Government rejected that proposal but at the same time did some quite sophisticated modelling, as I understand, of those sums. There were other suggestions recently that have been coming from Her Majesty's Opposition, for example, in terms of a similar proposal. Can the Committee see any costings that you might have of any proposals that you have received?

**Dr Howells:** I would be perfectly prepared to share the modelling with you. My prints are not on this set of models but, when I was the minister who was charged with taking the first Tuition Fees Bill through Parliament—and I still have the scars to prove it—then we did a lot of modelling at that time and we were very worried that real rates of interest would be very regressive in the sense that if women took time off to have a family, they would find that that interest was making that overall loan figure bigger and bigger and bigger and we were very worried that that would result in those who earned the least having the biggest bill to pay at the end of it and I do not see that that is really any different now.

**Q353 Chairman:** The Committee, in its original report, suggested that it should not be a commercial rate of interest, it should be a small rate of interest

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that could be charged only to those people who were from higher income backgrounds and that could be used as a subsidy, as I said, for poor students. As I understand it, at the time, that was modelled as well, long after your time in the department.

**Dr Howells:** I remember us looking at a very similar model at the time but I know it has been looked at since and it has certainly been looked at in terms of the Higher Education Bill this last time around.

**Q354 Chairman:** Would you share those figures with the Committee if they exist?

**Dr Howells:** Yes, of course I will.<sup>1</sup>

**Q355 Mr Jackson:** I think we all know from the debate we had a couple of weeks ago that the Minister appreciates very, very much personally the extreme political sensitivity of this whole question about university admissions and the operations of OFFA and so forth and he knows how this interacts with the media, how it gets certain vice-chancellors, quite legitimately, very excited and perhaps above all how it can actually seep into the schools and have demoralising and depressing consequences for all sorts of very bright young people. I know that the Minister is very sensitive to this but I do have the perception that the bureaucracy with which he is associated in one form or another does not have that sensitivity. So, I want to ask the Minister two questions about that in the hope that he will say something which will be communicated to those bits of the bureaucracy. First of all, I would like to ask the Minister what he has done to follow up his response to my intervention on his speech last week/10 days ago about HEFCE moving the goalposts by incorporating GMVQs and ASs in the so-called benchmarks. He told me that he had not been consulted about this/was not aware of it until it happened. What has he done about the situation?

**Dr Howells:** I certainly answered the right honourable gentlemen on this matter during the course of the debate and what I told him was that I wanted to talk with HEFCE and with HESA—I am just getting on top of these acronyms and abbreviations now—to ask them why these figures suddenly seem to be so out of sync with certainly what I had been expecting and it seemed what the universities had been expecting. I had a very interesting answer to this. We are certainly going to discuss it and we are going to look at the nature of the figures and what kinds of things are being measured and what should count and should not count. I do not know about you, Mr Jackson, but the extraordinary thing I found is that HESA is owned by the universities, it is of the universities, the figures are produced by the universities, albeit with HEFCE chairing the organisation, and I understand that they were fully consulted on these figures, so they should not have come as a surprise. It may be—and I do not know this because I have not got that far into it yet—that, like so much else in life, there was probably somebody who was dealing with this within individual universities who probably thought

it is okay, this is not going to surprise anyone, and perhaps it was not shared with the universities in question.

**Q356 Mr Jackson:** That is very likely.

**Dr Howells:** And it could well have been that; it could have been as simple as that. I think it disappointed a number of people who had been putting a lot of hard work into trying to reach those parts of our communities which traditionally had not sent students forward to university and it goes for all kinds of universities, not just the ones who are receiving the bulk of the research money like the Russell Group but also those who are doing some terrific work like the East London University, for example, and I think they were all a little not shocked exactly but there was a collective sense of surprise. Some of them seemed to have been happier at that surprise, can I put it like that, than others were but I think it is a bit of a mystery really.

**Q357 Mr Jackson:** I can see that the Minister is concerned about this but it had a very unfortunate impact, I must say, not perhaps particularly on universities but in the way it was inevitably reported and that is the sensitivity which seems to have been lacking in this part of the bureaucracy. If I can come to my second question now. I know the new Access Regulator personally and I have a great deal of respect for him. I listened to him on the *Today* programme this morning where he talked about targets for access in terms of social class—he used the word “targets”. He made a slip of the tongue in which he talked about himself setting targets and then he corrected himself and said that the institutions were setting targets. Would the Minister confirm that it is absolutely not the policy of the Government that the Access Regulator should be setting or should be requiring institutions to set targets for admissions from different social classes to our universities?

**Dr Howells:** Yes, I can confirm that absolutely. OFFA—it seems to me and from my reading of the regulations which I had to take through Standing Committee I think on my first working day in this job, so you can imagine the wonderful weekend I had reading them—is supposed to have a dialogue with each of the universities and that dialogue should review what it is that they are doing to create outreach into various communities, in schools, FE colleges and so on and what they are doing in terms of offering bursaries and any other inducements that are there—the flow of information is a very important one, for example—to make sure that, as an institution, they are being stretched in terms of trying to widen that base of application. What OFFA cannot do is order them to have an admissions target and I think that is where the confusion has come. What OFFA does is about applications. It is about trying to encourage universities to reach beyond where they have got to at the moment. I did not hear Professor Harris this morning but I am sure he would agree with me—I hope he does anyway—that he is not there to tell

<sup>1</sup> Ev 68

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universities what they should or should not do about admissions but he certainly is there to try and help them stretch themselves over applications.

**Q358 Mr Jackson:** I thank the Minister for that. The fact is that the Access Regulator did use these words this morning, I heard him, and I have to say that I think it was a very careless use of words. If the policy is as the Minister says, I personally would support it and I think there would be many people in the House, notwithstanding the views of different parties, who think it is a reasonable approach but, if it is translated into targets and quotas, then that support would be lacking and rightly and deservedly lacking. Could I ask the Minister to send the record of this discussion to Sir Martin Harris and ask him to be a little more careful in the future in the way in which he expresses himself in public about these matters and indeed to ensure that he is clear in his own thinking of the Government's understanding of what his role is.

**Dr Howells:** I can certainly do that. Professor Harris has been a very, very distinguished academic and a very fine Vice-Chancellor. I can only say to Mr Jackson, whose opinion I always value as he knows, that I remember how, in my very first week as Transport Minister, I was on a platform when somebody stood up and asked, "Why does your department spend half of its budget on the railways when only 6% of journeys on wheels are by rail? Why don't you spend it on the motorways?" I remember, because I thought it was a very clever thing to say two or three days into this job, saying, "Because the country is run by train spotters"! I suddenly realised that there was this frozen section of the audience who were rail aficionados—

**Q359 Mr Jackson:** You mean you offended a group of people!

**Dr Howells:** It is early days is what I am saying.

**Mr Jackson:** The Minister is being his usual disarming and charming self but I did find it rather astonishing, after all that has been said and written and in our debate the other day, to hear Sir Martin Harris making such an elementary slip and it is very important that it should be corrected.

**Q360 Chairman:** I think I can speak for the Committee and say that we think highly of the Chairman of OFFA. In fact, he was our host on a visit to Manchester on a previous occasion just after I became the Chair. We think very highly of him but this Committee never believed that OFFA was necessary. We thought that the benchmarking process that HEFCE had, as long as the benchmarking was fair and based on a good basis, worked. Is it not your opinion too that the most recent reports out of the benchmarking process are quite encouraging? Things are moving in the right direction anyway.

**Dr Howells:** They are indeed and it was part of the reason why, like Mr Jackson, I was so disappointed when those figures came out with the room, if you like, for journalistic interpretation that they provided because it is a complicated issue—and we

have spoken about this before, Chairman—and I know that some universities are doing terrific work in communities trying to persuade young people, especially young people but not exclusively, to apply for university but the university that might be doing that work is not necessarily the university where the young people might apply to. Very often, the most extensive work has been done by those universities which have the money to do it and they are not always given the credit for that. It can shield all sorts of activities that are going on out there. Beside the fact that there has been a significant improvement anyway in the numbers of people coming from those poorer socioeconomic groups who have applied for university in general and I think that the universities are certainly to be congratulated for that.

**Q361 Chairman:** Do you not get worried when you read that Sir Peter Lampl is worried about OFFA? He thinks that a lot of the work that universities and his sort of organisation, the Sutton Trust, are doing are getting everything moved in the right direction and then OFFA might put everybody's backs up and you might get less good results and less progress than if you left OFFA out of the Higher Education Act.

**Dr Howells:** No, I think it is a serious observation and I am convinced that Martin Harris will be able to overcome that. He has to reassure people, there is no question about it.

**Q362 Valery Davey:** Can I ask if the Minister has yet had time to consider not just the position of those low-income students from this country but the low-income students internationally for whom in the past this country has given a very generous welcome and it has had huge benefit in the longer term to this country. I know that the Prime Minister's challenge of 75,000 new overseas students has been taken up and I think more than reached, but they are students who are paying and I am wondering whether he has had time to look and consider whether we should not be doing more for those students from developing countries for whom the fee is a barrier and, just to put into that, whether he has had time to look at the situation in Nottingham where I understand that they do some top-slicing of funding from their overseas students to help with some of those from less advantaged backgrounds.

**Dr Howells:** I have heard great things about the Nottingham project but I have not had time yet to visit Nottingham nor indeed to talk with anyone about it. Can I say that the Secretary of State, Charles Clarke, on the first day that I went into the department said that he wanted to see the international agenda of the department increased very significantly. As I interpret it, he means that we have to try to find out much more about the potential that is out there both of us engaging and working with people especially from the developing world but also trying to increase that benefit that you described that flows from students coming here and a number—they are early days for me yet—of complaints that we have had, have been about obtaining visas and travel documents for students, especially from China and it is understandable after

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the terrible disaster with the cockle pickers and so on—and this has never been very far from the cockpit of politics of course—but we are working very hard with the Foreign and Commonwealth Office to try to sort this one out because it has had some serious effects on some of our universities that have come to depend very heavily on large numbers of students. On the question of the effect that the fees themselves have, I do not think we know enough about that at the moment because there are still very large numbers of people applying to come to our universities and I know that a country that is still poor like China, is nevertheless applying students in record numbers because the Chinese Government sees it is a very important qualification and they recognise the reputation of British universities as being second to none and I think that they want their students to be educated here, so they are prepared to put up that financial support to ensure that they are.

**Q363 Chairman:** That is all very well, Minister, but what we are worried about and what Val is worried about is that we have a tradition now of students from affluent backgrounds, whether German, French, Scandinavian, members of the EU, coming to this country in large numbers and do we need more relatively affluent sons and daughters of party bureaucrats coming from China? They are not the sons and daughters of cockle pickers as far as I am concerned who come to our universities as students. The whole thrust is that we now have overseas students where it seems the only criterion is, can they pay lots of fees? Many of us remember the days when we opened our doors to bright students from poor backgrounds and apart from achieving Cheveley scholarships, there is not much else that we are doing, is there?

**Dr Howells:** I do not know, Chairman. I really do not know where the students are coming from, or who they are.

**Q364 Mr Jackson:** Perhaps he could put OFFA on to it!

**Dr Howells:** I will certainly try to find out. That is an interesting thought! OFFA might well say to a university, “Perhaps this could be part of your outreach.” I am not saying that they should though.

**Jonathan Shaw:** Tomorrow’s headline, “OFFA goes international.”

**Q365 Chairman:** Minister, we are obviously going to have to sometimes discipline the length of your answers but we have given you a nice trial there. We may get into something where you might want to make brief answers because you might find that it is some rather difficult territory that we are now going to move into and this is the history of the UKeU project. I want to begin by saying that, from the beginning—and I think this was after your time in this department that this happened, but it was under the previous Secretary of State or certainly in David Blunkett’s time—this was what seemed to be a marvellous idea, the top of the dot.com revolution, but what is interesting is the kind of over arm’s length relationship between the department and

then through HEFCE and then HEFCE had a holding company and then you had the UK eUniversity that was some sort of private entity. It is very arm’s length, so it is very murky territory. What was the department up to? Why did it choose this kind of arm’s length on arm’s length structure?

**Dr Howells:** I have read quite a few fascinating transcripts of your investigations so far on this and I think that probably the most fascinating bit of it has been about what the nature of this company was and is. I note that John Beaumont and Anthony Cleaver seemed to be very confused about what kind of company it was, which I find extraordinary. It was a company limited by shares and, in that sense, it was a private company. When you asked them, “Was it a company limited by guarantee?” they seemed to agree with you at first and they did not change their minds though I have not reached the very last page of the transcript.

**Q366 Chairman:** They were leafing through their notes and we did not get an answer. So, it was a company limited by shares and the shareholders were whom?

**Dr Howells:** The shareholders themselves—and this is where it does become complicated—were, as I understand it, essentially the universities themselves who I think paid £1 each, which does not sound like a great investment to me!

**Q367 Chairman:** It sounds like a very good investment to me!

**Dr Howells:** Looking back at it, certainly. Of course, I think it reflected the way in which higher education is run in this country and funded. The Government give the money to HEFCE and HEFCE then allocates the funding as it sees fit and it has a board and so on and so forth. The company that was created however was a company which had to operate as any other commercial entity. That meant that individuals from HEFCE had to be very, very careful that they were not seen to be acting as shadow directors and that is something that is not unique to this company. There are many arm’s length businesses which Government and Government agencies have to be very careful about in terms of the way in which they act as shadow directors on those companies and this one was no different. As far as I can see, it highlights a very interesting or it poses some very interesting questions about how Government should spend taxpayers’ money. There seems to be general agreement, at least there is in the kind of orbit that I have been floating around in since I came into this job, that HEFCE generally does a pretty good job and this is the proper way to spend £9 billion of taxpayers’ money because that will be HEFCE’s budget next year. If HEFCE, as part of that, decides that it wants to do something like set up an eUniversity, a virtual university or whatever, then it presumably has to have that degree of flexibility to allow it to do so.

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**Q368 Chairman:** That is not the way this worked, Dr Howells, is it? The Secretary of State became enthused about this idea by whoever was pressurising him and he told HEFCE to set it up.

**Dr Howells:** As you know, Chairman, I like things visually and I have a very interesting coloured chart here which says that the eUniversity was included in the HEFCE spending review bid with no student numbers and that was the very first we heard about it.

**Q369 Chairman:** Come on, Dr Howells!

**Dr Howells:** No, seriously.

**Q370 Chairman:** Look, at this level, we are not suggesting anything underhand went on or anything like that. All we are saying is that we understand how politics work. A group of universities and university people, the chattering classes around this area, persuaded the Secretary of State that we would be missing the boat in the worst way if we did not set up something like eUniversity and he told HEFCE to do it. Now, that is on the record surely. You are not saying that somebody in HEFCE dreamt it up on their own, are you?

**Dr Howells:** Chairman, I am too old to be in the business of trying to fantasise about what happened in these things. I am just telling you what I have in front of me here. It says here that, in 1999, eUniversity was included in HEFCE's spending review bid. No student numbers. First short courses were anticipated in September 2002 and the first degree courses in September 2003. Then, it says that, on 15 February, the Secretary of State announced the venture and the Secretary of State of course was David Blunkett and the Minister for Higher Education was Baroness Blackstone. The thing starts to roll from there. I would be delighted to give the Committee a copy of this because you can see that the list of events becomes very dense then. Back in 1999, the background context—and this is a wonderful Civil Service expression—is that there is only one other entry in 1999 and it says this, "Very early predictions that dot.com market cannot sustain level of growth." Remember, this was at a time when NASDAQ—I saw the figure somewhere—was soaring and, within a period of maybe three or four months it crashed and with it crashed a lot of dreams about what was possible to deliver virtually, mostly commercial businesses but also, I suspect, e-learning as well.

**Q371 Chairman:** We have been saying two things in this Committee. We are quite pleased when the department is entrepreneurial and, if you are entrepreneurial, things will go wrong: individual learning accounts that we conducted an inquiry into and you were never involved in that, were you?

**Dr Howells:** No, I was not.

**Q372 Chairman:** We did a forensic examination into that really to learn the lessons, not to condemn it, and to spread across other government departments when you have a public/private sector partnership and what you had to have in the original document

and agreement of partnership and in the contract. In that case, we are very supportive of e-learning. One of the things that we fear is that this debacle will poison the atmosphere around which interesting and innovating policies are pursued on e-learning. So, we do not want that but we do think it is our duty in this inquiry to find out why this went on so long. If this had been a private company, you are absolutely right, in the dot.com, they would have failed to find a market, private investors would have pulled the plug and it would have been history very, very quickly indeed. In this case, because there was public money pumped into it of a very substantial amount, it was going on for a very long time even to—and you will have read the transcript—a situation just before the plug was pulled by someone where the directors gave the senior management team bonuses, some of them of £40,000. This is what we are trying to track and if you can help us in terms of why you think it had this sort of trajectory.

**Dr Howells:** Before we come on to those details about bonuses because I found that as astonishing as you did—

**Q373 Chairman:** We will keep that for later.

**Dr Howells:** I think we certainly have to go back to that period when it looked as if it would be possible to deliver all kinds of education on line and I know a little about it because one of the jobs that I did in 1997–98 when I was at the department was to work on what we then called the telecommunication superhighway for schools and I think it was envisaged that we would be able to do this with all kinds of education at all levels. I remember at the time going, as I am sure you did, Chairman, down to Crawley College of Further Education where they could have lessons with 16,000 people out there in the ether and did regularly and have continued to do so. It was a very brilliant scheme which had very limited horizons. It was about engineering; it was part of what is a new word that I have learned since I have come into this job, "blended learning". We have learned from the Open University that these forms of delivery of learning are not necessarily cheaper than are conventional forms, that you still have to mark papers, you have to, as the jargon has it, engage with students and, if one lesson came out of this lot, it probably is that they should have been much more sensitive to those needs of students the world over. When I look at it, where I am most mystified is to the lack of any serious marketing. It seemed that there was a technological idea here which had no fundamental backing in terms of serious market research. There was an assumption that if you can provide the platform and provide some content, then that would be enough and people would flock to it. The parts I do not know are (a) about the details of any market research that might be done—from what I can see from reading the transcripts, actually there is very little market research done—and (b) were any lessons learned from previous failures to try and deliver this stuff, and to some other schemes that were out there? Was there one called the Western Governors' Scheme in the United States? There were others around. I did

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not think that there were very serious evaluations being made of those at the time. When I read the transcripts, it is all about how they are going to deliver a more comprehensive and a much bigger and much more far reaching service than anybody else had tried up to that point in history in any country in the world. It was also informed—and I will shut up in a second, Chairman—by a kind of fear that the Americans were going to capture students and that they were actually going to capture students in this country. I think that if there were a better illustration of the lack of understanding about that blended learning as we call it now, then I would like to see it because I believe it was very wrongheaded.

**Chairman:** Thank you very much, Minister.

**Q374 Helen Jones:** Minister, we have this structure of a private operating company and a holding company. Who chose that structure? What was the DfES involvement in choosing it? Can you tell us what other models were considered? Were any others considered and, if they were rejected after that, what were the reasons for doing that?

**Dr Howells:** I think that the model that came forward, especially in terms of accountability, was the one that HEFCE decided that this was the proper model. So, there would be a holding company and an operating company, but there was always the problem—and it is the problem to which the Chairman alluded originally—that you can have accountability that runs through those three organisations but, in the end, the person has to answer for it to the Public Accounts Committee as the accounting officer who presumably is Sir Howard Newby of HEFCE and he is the one who has to answer the questions and be responsible for what has happened in terms of the eU venture.

**Q375 Helen Jones:** The original objectives envisage this, if I am right, as a public/private partnership. There was to be private funding in this company, I think 50/50. That never happened, so we ended up with a private company being funded wholly by public money. Can you tell us what went on inside the DfES while that was happening? What was the monitoring of how this company was progressing? If bringing in private funding was a condition of grant, when did the alarm bells start to ring? Why did no one say much earlier, “What is going on here? Why is there no private money coming in?” Why did no one say, “We will withhold grant unless this happens”?

**Dr Howells:** My reading of Sir Anthony Cleaver and Mr John Beaumont’s evidence is that they were not given long enough to have a crack at this, but the Chairman, quite rightly, said, “Hang on, there were signs right the way along that this was not happening.” One of the clearer signs was this lack of private investment. I think Sun Systems put a certain amount of money in and that was seen as a very encouraging move when it happened, but nobody followed or I do not think anybody very substantial followed if anyone at all. At that point, HEFCE and the companies would have had to make a decision

about whether or not they thought that the lack of investment was due to the non-viability of the model that had been created. Remember that it was consulted upon before it went forward, Price Waterhouse Coopers had produced what some call a spreadsheet and others call it a business plan; it had attracted two very distinguished businessmen to run it and the board of HEFCE and of the holding company contained numbers of distinguished business people and of course academics who had a very real interest in this. So, theoretically at least, there ought to have been enough expertise there to have made the decision, as I think HEFCE and the holding company and the operating company had to make the decision, about why it was that that private investment was not forthcoming. I am not clear in my own mind whether they made the decision that they did because of the commercial atmosphere at the time, the middle of the dot.bomb crash—well, if we can hold on for a little bit perhaps, if we can subsidise it with public money for a while, then people will see that this is a good venture and they will start to invest in it, which is roughly what Anthony Cleaver and John Beaumont told this Committee. It was certainly something which was a decision where, once it had gone out to HEFCE and to those companies, they had to make it and it was not a decision for the Secretary of State to make although the Secretary of State clearly had an interest in ensuring that part of that massive grant which went across to HEFCE was properly being spent.

**Q376 Helen Jones:** That is, I think, where we have the problem. I understand what you are saying about the role of HEFCE but this was, at the end of the day, public money that was being spent. What exactly was the relationship between the DfES and UKeU once it was operational? I think what we are trying to find out is, why were no alarm bells ringing inside the DfES long before the plug had to be pulled on this?

**Dr Howells:** If I could just look at my chart. There were meetings which took place. I know that, for example, on 7 March 2002, my predecessor, Margaret Hodge, met UKeU and HEFCE and asked to establish regular meetings.

**Q377 Chairman:** We were told by Sir Anthony Cleaver that your predecessor met every six months with them.

**Dr Howells:** The next meeting was on 17 October and, if that is six months later, then that sounds true to me. Regular meetings: with the meetings Margaret Hodge would have been holding every day, once every six months is pretty regular in my book.

**Q378 Chairman:** Six months is regular, but that means she knew what was going on or not going on.

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**Dr Howells:** I cannot answer that.

**Q379 Chairman:** Dr Howells, if you were in the job at that time, surely you would have asked each time you met how the whole thing was developing and how many students did you have, would you not?

**Dr Howells:** I certainly would have asked those questions, yes, and I believe that those questions were asked both by Margaret Hodge and by Alan Johnson who I know expressed some worries about the very, very, low numbers of students.

**Q380 Chairman:** Ministers come and go, as you know only too well—

**Dr Howells:** Better than most!

**Q381 Chairman:** What about your senior civil servants who specialise in this area? It was they who should have been the continuity. They should have been alerting everyone to what was going on and not going on in this venture.

**Dr Howells:** I can only tell you what I know of the civil servants with whom I deal now and I think that, partly in order to take the Higher Education Bill forward, they are an extremely good team of civil servants. I have had five different jobs in Government since 1997 and they are amongst the best I have come across. I am absolutely certain they would have known that there were problems there but, if I could emphasise, this was an organisation which was held very much at arm's length, it was HEFCE who were doing this and I think it is all very well to say with hindsight, "Yes, but you should have known this" and it is very easy to say that HEFCE could have interfered and said, "No, wait a minute, you are not doing this properly", but they also were bound by their worries about being seen to be shadow directors and being held responsible for some of those decisions that were made on a day-to-day basis.

**Chairman:** I have taken Helen off her track.

**Q382 Helen Jones:** I hear what you are saying but we come back to the point that this was all being funded by public money. So, what were, if you like, the benchmarks inside the DfES for deciding whether or not this was working, whether this was a success? You say that ministers held regular meetings about it and they have expressed their concern, but why was there nobody saying, "There is a problem with this. It is not working"? What were the criteria for deciding whether it was a success or not?

**Dr Howells:** I can only repeat that it was not a call for the Secretary of State. This money is handed over to HEFCE to run higher education and this was an aspect of it. Remember, this was a lot of taxpayers' money but it is a very, very small part of the massive undertaking of running universities in this country or of funding universities in this country.

**Q383 Mr Jackson:** There seems to be a bit of a parallel here with what the Minister was telling us about these benchmark statistics earlier. Ministers get the stick and they have to take the brickbats in the press or in Parliament when these sorts of things

are done and I think it behoves the people who have to do these things in these subordinate agencies to run them properly, so I have some sympathy with the Minister in this situation but there is a wider moral.

**Dr Howells:** I agree entirely with that analysis. I think that we have come now, especially in the past 20 years in which you have and I have been involved in politics, Chairman, to a stage where a great many tasks that involve huge amounts of taxpayers' money are performed at arm's lengths from Government and from departments and I think it is a very interesting philosophical question about what happens when something goes wrong because things do go wrong, very often.

**Q384 Jonathan Shaw:** Is it not the case that ministers and departments make that choice? Choice is the buzz word in public services now, Minister, and the Department for Education and Skills made the choice to have the arm's length organisation and it could have run it itself.

**Dr Howells:** No. HEFCE is the organisation that is charged with financing at least that part of the public purse that goes into higher education and the decision to create this company in the way that it was created was a decision that HEFCE made. They have certain rules to obey as well of course and those rules are not entirely the property nor the creation of a department like education. Indeed, business rules generally are part of the panoply that has been created by the Department of Trade and Industry but they have to be in statute. Those are the laws of commerce.

**Q385 Jonathan Shaw:** It feels, from what you are describing, that it is all quite detached really. We appreciate that you are new to the job but is that detachment because you are new to the job or is that sort of detachment and responsibility a reflection of how the department sees their role in this debacle?

**Dr Howells:** I think it is very much the latter. The department issues a grant letter to HEFCE, it indicates the kinds of things it is interested in, what it thinks its priorities ought to be as a government, what the policy is of course, but the day-to-day running of what it is that HEFCE does is down to HEFCE and it is down to the quality of the board and the individuals who are there and they make the decisions. We cannot suddenly override those decisions because they are part of the structure of the way in which universities in this country are funded.

**Q386 Jonathan Shaw:** We have seen departments override decisions in the past when it suits them, surely.

**Dr Howells:** Like what in education?

**Q387 Jonathan Shaw:** What is the conversation that you are going to have with HEFCE when you are discussing this issue? What is the first question that you are going to put to Sir Howard Newby?

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**Dr Howells:** I am going to ask him why I have the impression that marketing was so poor. In fact, I have asked him this question already because I met them to discuss it, albeit rather briefly.

**Q388 Jonathan Shaw:** What was the answer?

**Dr Howells:** They said that they depended very heavily on the assumptions or plan that Price Waterhouse Coopers had put together and that there had been a good deal of consultation on this and that some very experienced business people had been involved in it. Also, as the Chairman inferred very early on, there was a kind of general atmosphere around that this was the way forward. I think this Committee has expressed its enthusiasm for this kind of project and I think that HEFCE sees its early actions as taking place within an atmosphere which probably soured very quickly.

**Q389 Jonathan Shaw:** Do you think there is any strength in the argument put forward by Sir Anthony Cleaver—and you referred to it when you were answering questions to the Chairman earlier on, Minister—that basically HEFCE bottled it and whilst the project has been around for a long time, not a lot had really happened until, I think, 2003, so it did not really have much of a chance to test any marketing that you might have had concerns about? In a marketing strategy, there is a lead-in time in order that you might see results come back. So, what about that? What about Sir Anthony Cleaver, a very highly respected businessman who has all the right credentials and, as you have also referred to, many other people who were involved in UKeU have a good track record, perhaps far more experience than the people from Price Waterhouse Coopers to whom you refer. Did HEFCE bottle it? Did they not wait for a proper period of time to see a return on the investment, public money?

**Dr Howells:** This is the critical question.

**Q390 Jonathan Shaw:** What is your assessment?

**Dr Howells:** Mrs Jones was asking me why on earth this was allowed to continue running when there was no private money going in and it went on for quite a while, it went on for the best part of 18 months certainly before very serious questions started to be asked about why that private investment was not forthcoming.

**Q391 Jonathan Shaw:** You answered that question yourself. You said that the dot.com market bombed and so there obviously had to be another look at it and that is perhaps the answer to my colleague's question.

**Dr Howells:** You think that HEFCE should have had another look at it?

**Q392 Jonathan Shaw:** The reason why perhaps private money did not come in in terms as had been anticipated in the first place was because it coincided with the dot.bomb as you referred to it, so I think that is a reasonable explanation. The other point is, was there a market out there and it certainly seems that the eChina project has proved to be very

successful. So, that is something to test which would suggest that there was a market and that people should have had a little more faith in the very experienced business people who were running this outfit.

**Dr Howells:** We can look at it now. I think I would have come at this completely differently. I would have wanted to know what marketing had been done and whether the private sector saw this as a serious business opportunity or whether it was part of this dream that was around at the time that, as long as you were 18 years of age and you had a database, you were going to become a millionaire in a fortnight.

**Q393 Jonathan Shaw:** In your chart of meetings, does it tell us whether anyone else in the department also might have had your idea of finding out about the market or are you unique to consider that sort of marketing strategy?

**Dr Howells:** No. I could not tell you if any of my predecessors as ministers were particularly concerned with what I look at, looking back on this, as the lack of serious marketing. I do not know that. You would have to ask them.

**Q394 Jonathan Shaw:** That really is not good enough, is it, Dr Howells? We cannot bring forward ministers who have transferred from different departments or who might not be in government at the moment. We want to know what the Department for Education and Skills view is and, as Robert Jackson said, you take the brickbats. You have to answer to Parliament. This is a parliamentary committee. What is the department's view of the marketing?

**Dr Howells:** I think the department, looking back at it now, probably does think that there was not enough marketing done. In a sense, I am the department now and, since I am up before you, I will tell you now that I do not think there was sufficient high-quality marketing done and, because of that, the kinds of anomalies that I highlighted earlier on became evident and we had a lot of money going into constructing a platform and, in my view, not enough money going into content and a great deal of ignorance about what programmes might have been and the software might have been to carry those programmes which might have been a success. From reading the transcripts of this Committee's interviews with various players, it seems evident to me, for example, that there is a hunger out there for English and that, had perhaps the focus been a little narrower at first and less ambitious in terms of a much wider range of subjects being offered, it could well have been a success. It is easy to say that with hindsight and, at the time of course, as I say, they were extremely worried that the Americans were going to move in and clean up. I have seen no evidence that that is the case.

**Q395 Mr Turner:** Could you read again please the first sentence of that spread sheet, 1999?

**Dr Howells:** The one to do with HEFCE or the very early predictions of the dotcom market?

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**Q396 Mr Turner:** No, the one about the spending bid.

**Dr Howells:** “eUniversity included in HEFCE spending review bid; no student numbers; first short courses anticipated September 2002; first degree courses September 2003”.

**Q397 Mr Turner:** It is interesting that your civil servants are protecting you from anything that happened before then. Why do you think they have not told you where the idea came from?

**Dr Howells:** I have no idea, Mr Turner. I thought the genesis of the idea was around then.

**Q398 Mr Turner:** Is it not your job to find out?

**Dr Howells:** It probably is and I will try to get round to it.

**Q399 Mr Turner:** This would have been a useful date, I think, to find out. The point is that this idea came from somewhere and either it came from HEFCE or it came from the department. The information we have is that it came from ministers. Is that your understanding?

**Dr Howells:** I can only give you the information that is in front of me, Mr Turner, but I can imagine it coming from a lot of sources. If, for example, I had been a minister at the time I may well have been at an international conference and I probably would have seen, as inevitably there are at these international conferences, stands which show whiz technology that promise to capture the world, and I may well have gone back and said to the department, “Hey, we had better do something about this or these Americans are going to clean up”. I do not know if that conversation took place or if such a conference ever took place, but I can imagine that that is the sort of thing that might happen. Believe me, politics is not entirely a rational business.

**Q400 Mr Turner:** I am sure you are quite right about that, but our job is to try and identify what rationality exists and, among other things, who is responsible. It seems to me that this is a relatively large sum of money that got from spending review bid to ministerial announcement in February 2000. We are not quite clear what the date is.

**Dr Howells:** I have got here, “15 February Secretary of State announces venture”.

**Q401 Mr Turner:** 36 days into the New Year we have got a decision. That must be a world record for the Department for Education and Skills.

**Dr Howells:** If they had been any slower you would probably have criticised them.

**Q402 Mr Turner:** I will draw up a list. The question I was going to ask was, when did the department receive the spending review bid in 1999?

**Dr Howells:** I do not know; I will have to find out for you. I have got something here which might interest you. It says, in wonderful handwriting, “The idea came from discussions between HEFCE and senior officials based on emerging research, not least the

report *The Business of Borderless Education*, funded jointly between HEFCE and UUK”, and it says in brackets “CVCP then”.

**Q403 Mr Turner:** The Committee of Vice Chancellors and Principals, yes.

**Dr Howells:** And the bid came at the end of 1999, November or December.

**Q404 Mr Turner:** So a bid in November and £60 million in February. I wish I could achieve such success when I ask for money from someone. What concerns me is that this decision appears to have been made on the hoof without sufficient information. When the money was granted to HEFCE was it a particular line in a budget hypothecated for this purpose and, if so, what were the conditions of grant?

**Dr Howells:** I do not know if it is a particular line in the budget. I can certainly try and find out for the committee.

**Mr Turner:** That would be very helpful.

**Q405 Chairman:** Can I just say to the civil servants that we prefer notes to conversations.

**Dr Howells:** Sorry; it was my fault, Mr Chairman. I leaned back.

**Q406 Mr Turner:** Had the department worked out at the time it gave the money what were the criteria for success that it was going to measure this against?

**Dr Howells:** I would have thought that when the Secretary of State made his announcement he probably believed that it was going to be a great success and that Britain would steal a lead on the rest of the world. If you were to ask me would the Secretary of State have had a very specific set of numbers in mind about how many students and so on, I doubt if he would have. This would have been a concept which, as we know from your deliberations, resulted in a great many risks being taken and I think there would probably have been a great many unknowns but there was a good deal of confidence around whether the delivery of education in this way had a big future and, from my sense of this committee, we still believe that this has a big future.

**Q407 Mr Turner:** For many years, Minister, well informed people were convinced that the earth was flat. That does not answer the question. Could you find out please whether there were—and you say you doubt it—any set criteria for success, and could you tell me how the HEFCE grant letter referred to this project in terms of its place in their priorities and the strength of government support for it?

**Dr Howells:** Yes, I will certainly try to find those instructions if they exist. I can tell you, Mr Turner, that the announcement in November 2000 was that the £62 million was to be spent between 2001 and 2004 and that it was indeed a specific line in the budget with outline conditions.

**Q408 Mr Turner:** Good, and you will let us know what the outline conditions were?

**Dr Howells:** I will indeed.

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**Q409 Chairman:** How much of that £62 million do you think was actually spent?

**Dr Howells:** From the transcript from this committee I think at least £50 million, and I am told there is a £12 million residue there which is now being used to look at the possibilities of developing other forms of eLearning in conjunction with some specific projects.

**Q410 Chairman:** Minister, other colleagues want to come in, but what Andrew was trying to probe is something that early on, when we talked to HEFCE, came out of that discussion. HEFCE more or less said, "Look: it was not us. It is not the sort of thing we do. We have never done this before" and so all the forensic evidence points to the government or a minister saying, "This is a good idea. Do it even if you have to do a totally different thing you have never done before". Therefore, in a sense I am pushing back the question you pushed at Jonathan. You said, "Give us an example that the department has done that sort of thing before". You give me an example, Minister, where HEFCE has ever done anything like this before.

**Dr Howells:** I do not think HEFCE ever did anything like this before, but I may be wrong. I will certainly try to find out if HEFCE did that.

**Q411 Chairman:** That was the evidence they gave us, "We have never done it before", so it did look as though the fingerprints of the Secretary of State or someone in government at ministerial level was pushing HEFCE to do something they were quite uncomfortable with. That came out of the evidence.

**Dr Howells:** Yes, that is the sense I got from reading the evidence to this committee as well, I must say.

**Q412 Valerie Davey:** What HEFCE did have, however, was education experience and it seems to us and from your comments earlier that that element, the market research element, into the product, not the process, how it was going to be delivered, was the bit that was lacking. Is it your analysis that HEFCE went out in a blaze to find the people who would deliver without actually putting into the contract what they wanted delivered?

**Dr Howells:** That is the most fascinating part of the interview that you had with Sir Anthony Cleaver and John Beaumont, because there was talk of travelling around the world and trying to understand what was out there. There was a very interesting discussion, for example, with Mr Shaw about Portuguese, "Did you not know that Portuguese was the language of Brazil?", and what came across, I find anyway, was that it looked a bit amateurish and as if it had not actually been thought through, and also that the material which should have been provided and could have been provided would, of course, have had at hand, backing it, the information about language and about how students in other countries would be capable of using this delivery system if they did not speak English. From what I can see from the oral evidence

that was given to this committee I am not convinced that that work had been done before the organisation was up and running.

**Q413 Valerie Davey:** Leaving aside the details of the language of Brazil, the practical problems of transferring education through e-systems was relatively well known to the Open University, to HEFCE, via the other universities who were already using it. What I am asking is do you know whether they used that experience in writing the contract with their arm's length business magnates in order to have something of value for the £60 million plus which they had at their disposal?

**Dr Howells:** From my own discussion with HEFCE and from reading the transcripts of this committee and from the briefings that I have had, I think they were very much aware of the strengths and weaknesses of the systems that were already out there. Remember, I think there was some discussion about asking a university to run it. The Open University I think was mentioned and some others too, but it was felt that if it was going to be this big bang approach it had to be a completely new creature. Subsequently it appears that there was not a platform, nor indeed the software, that could have provided eLearning on that scale. Indeed, I guess you could still argue that this is a unique enterprise, that the platform that was created has no parallel elsewhere.

**Q414 Chairman:** It is a pity it is not being used for anything.

**Dr Howells:** It is. They put it up for sale, I understand, and some of the people who bid actually wanted to be paid to take it on. I think that indicates just how wary people were of what I see as that central problem of a lack of marketing.

**Q415 Paul Holmes:** Just going back to your exchange with Andrew Turner, you were saying that you did not know if the Secretary of State at the time, David Blunkett, had any clear targets when he talked about launching this scheme. That was February 2000, but by October 2000 PricewaterhouseCoopers had produced a very clear plan. Initially they were saying that by year two, 2003–04, there would be 12,600 students. Then that plan was altered to 5,600, but in fact in total there were never more than 900 in the entire course of the programme. There was a very clear target which was then halved, but even that was nowhere near reached, and all the objectives and targets that were set from 2000 were missed—the number of courses available, the students enrolled, the platform delivery, the lack of external investment. Everything was missed. As you say, the appropriate minister again, Margaret Hodge, did have six-monthly meetings. Even though this was in the hands of HEFCE at what point then or in a future situation like this would you expect a minister to say, "Every target is being missed. What are we doing about it?"

**Dr Howells:** The pat answer is to say that this is not a call for a minister; it is a call for HEFCE.

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**Q416 Paul Holmes:** What was the point of the six-monthly meetings then?

**Dr Howells:** Certainly they wanted updates. I would not say it was true that the Secretary of State who made the original announcement, David Blunkett, did not have any targets in mind. He may well have had some specific targets. I am just saying that I do not know exactly what they were, but certainly in David Blunkett's mind would be this HEFCE-created creature which would be a world winner and would make sure that the Americans did not steal a march on us. That in itself was a pretty ambitious target, I would have thought, and specific in its way too, because nobody had created such a company previously. The difficulties and anomalies in this arise when you look at the nature of that arm's length relationship that the department or government has with an organisation like HEFCE and then its relationship with this new creature that is created which HEFCE has never done before and where they are very wary of being seen as shadow directors. It is a complicated means of creating this creature. One wonders if it could have been created in some other way. I am not sure actually. It was an experiment, and a risky experiment.

**Q417 Paul Holmes:** So, rather as with the ILAs, presumably the government is going to learn some very careful lessons from this to guide future projects of a similar kind?

**Dr Howells:** Yes. We ignore these kinds of objectives at our peril because, even though what emerges will be very different from that which David Blunkett might have envisaged back in 2000, I am pretty sure that this kind of learning is going to increase and with it, of course, the whole issue of the economy and jobs and the position of British universities.

**Q418 Paul Holmes:** You might well say this again was down to PricewaterhouseCooper or HEFCE and the people who were running the thing, but again it would seem to me that the government needs to learn some lessons from this. It has been suggested that the way the thing was structured was that the HEFCE managers were educationalists with no practical experience of the software side and that Sun Microsystems had total control for a long time, a free hand in developing the software side and that is where a lot of this went wrong, and that the HEFCE educational managers either did not know what questions to ask or, when they did try to ask questions, the Sun Microsystems managers were very cavalier and said, "Keep your nose out". Do you know anything about that?

**Dr Howells:** I do not know about those "Keep your nose out" discussions. They may have gone on at the time but I think there were some people involved in this with a lot of experience in industry and retail and commerce in general. I do not think that the management structure itself can be identified as a bunch of professors who had never run anything bar a department.

**Q419 Paul Holmes:** Again, it has been suggested that part way through HEFCE did appoint a manager who had some software development experience and when he started to question what Sun Microsystems were doing Sun Microsystems at one point just refused to work with him.

**Dr Howells:** I did not know that.

**Q420 Paul Holmes:** No?

**Dr Howells:** No.

**Q421 Paul Holmes:** And that finally, when the independent consultants came in they agreed with all the fears that had been raised by this point. That was when, within a very short space of time, HEFCE pulled the plug. If these things are true, and presumably as part of the investigation to learn lessons from this you will look at that, that Sun Microsystems had the total whip hand over people who did not really know about that technical side of the project and that even when people were appointed who asked the right questions and were just saying, "Keep your nose out", obviously that is something that needs to be built into any future project and you cannot just say, "It is for the company, HEFCE, whoever, to oversee that. That is not our problem". Surely if the department in this case is initiating this project they must take responsibility.

**Dr Howells:** I do not know, Mr Holmes, because I do not think it was even HEFCE's problem. UKeU was a company which was set up; it had a proper board; it was limited by shares. It had to make decisions about the technology that was used. It had to ensure that companies did not, as you put it, have the whip hand over anybody else. It should have been able to make the balance between being overly concerned with getting the technological platform right or with marketing or with the product that they were aiming to sell. That is what companies are there for. Sir Anthony Cleaver and John Beaumont were paid a large amount of money to run that company and they both came trailing clouds of great reputation behind them. One would have thought that that company would have had a grip on those kinds of things that were going on inside that company. I do not think HEFCE can be blamed for that and I do not think the department can be blamed for it.

**Q422 Paul Holmes:** Are we not though seeing a trend emerge across a number of areas whereby in this sort of deal some private technical company gets control of what is going on and then if things go wrong we are told it was all arm's length, the government cannot be held responsible and so on? I am thinking of Capita in the case of the ILAs, I am thinking of Sun Microsystems here, I am thinking of the Department of Work and Pensions questions just before we came here, earlier this afternoon, of EDS and the pension credit, and all the time we keep being told by the appropriate government department, "They were the experts". That is fine, they are the experts, but it is not private money that

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is going down the drain here when an expert private company makes a mess of it. It is taxpayers' money and nobody seems to be accountable.

**Dr Howells:** I could not have expressed it better myself. In the end, as Mr Jackson told us, we are accountable. I have got to come here or stand at the despatch box and explain why this has happened. I would describe that as a very interesting philosophical debate and it is not one that is going to go away because to say perhaps that what we should do is take this thing back in-house also begs some very serious questions. Can ministers, these transitory creatures,—

**Q423 Paul Holmes:** Or, to learn from those three examples, should we have used rather more oversight and control?

**Dr Howells:** Already you will have seen from John Beaumont and Anthony Cleaver's evidence to this committee that they felt that there was a lot of bureaucracy, that they did not have perhaps the commercial freedom that they wanted and, what is more, those people who were concerned with accountabilities, namely, HEFCE, closed them down. They described being astonished by the fact that they suddenly had the rug pulled from under them. What you are asking me is, "Is that right or is that right?", and I have to say to you that there is never an easy judgment to make on these things but that if government continues to do what it has done for the last half century, which is to say, "We appoint people we think are very good to perform functions that are central to government in this country but not run by ministers", those are very nice judgments to have to make, believe me.

**Q424 Chairman:** But the big difference about this, Minister, is this. It is a totally different qualitative issue. We asked someone to do something and we said, "Here is the money. You do not have to get anybody to invest in this project. It does not have to obey any of the other commercial rules that any company would have been involved in". Even universities did not invest, as you said, more than £1 per share. Universities, as you will say later, are running on a smaller scale very successful schemes like this, and Edinburgh is one example. This committee in part, is about checking what has happened and giving some advice about avoiding it happening again, as we did in ILAs, in terms of our report. What is the unique thing about this one is that it is not that ministers have to deal every day with £62 million of taxpayers' money. I would like you and I to have £31 million each for Huddersfield and Pontypridd; we would have been very pleased with that.

**Dr Howells:** We certainly would.

**Q425 Chairman:** It is a lot of money and we just said, "Go away and do it", with none of the usual commercial pressures and parameters. This is what we tried to get across to Messrs Cleaver and Beaumont, and we are also trying to get across to you as a Minister and other ministers that if you do this sort of thing it is neither fish nor fowl.

**Dr Howells:** I can only say, Mr Chairman, that this may be unique in terms of what HEFCE has had to do but the way in which we do not expect the private sector in these joint ventures to take risks is far from unique. I saw it time and again on the railways, for example, as a transport minister, where many companies never carried risk or, if they did, it was a very small amount of risk in terms of their financial investments. I do not think this is any different. All too often I fear that in government there is a sense that the government will pick up the tab when things go wrong and I think the government was expected to pick up the tab on this one as well, but this time, of course, through HEFCE, and it is HEFCE that had to step in and say, "Okay; we are going to change the terms. You will not have to get 50-50 funding. Clearly with the crash in the dotcom market it might be very difficult to do, so we will tide you over for a bit". It is that "tide over for a bit" decision which probably resulted in HEFCE thinking, "Well, hang on a minute. They do not look as if they are going to get the students and they are certainly not going to get private sector investment. How long can we support this for? Not very long. We can be using this money in different ways", and I think that is probably what happened.

**Mr Jackson:** Chairman, we are in the business of trying to draw some lessons. I suppose historically the minister must be right, that this was a period, when this was being conceived, of great exuberance in the dotcom business and the truth is that a hell of a lot of very reputable individuals and companies lost a lot of their money in similar punts. We are now talking about a loss of taxpayers' money and it is serious. I would have thought with regard to lessons that first of all I do not think the appropriate lesson is that ministers should do it. I think that would be even worse. I think this is really a problem about picking winners, something the government has a long record on. Somebody thinks it is a good idea of industrial policy. It is a bit like De Lorean. The government is not good at picking winners and should avoid doing it. I think the main lesson from this is to proceed in an organic way and not to get too far ahead, and for that you require commercial partners. That is a very good test as to whether this is really a viable project and so I hope that the government has learned its lessons. There are some analogies with what happened with the Open College, the same sort of story.

**Q426 Jeff Ennis:** I want to ask a series of questions about lines of accountability. We have explored quite a number of those. The only outstanding point as far as I can see from this dog's breakfast is what role did the minister play in the decision to pull the plug on the eUniversity? Did he play any role?

**Dr Howells:** Not that I am aware of, Mr Ennis. I repeat that it was not for the minister to make that decision; it was for HEFCE's board to make that decision. We might not like this because a lot of the questions have been about accountability and how this government views these things, but this was a company that was created out of the money that HEFCE allocated. In the end, of course, it comes

back to the department because that was £62 million that was allocated and announced by the Secretary of State so we have to answer for it.

**Q427 Jeff Ennis:** So at what point do we know when the minister was informed that the plug would have to be pulled by HEFCE?

**Dr Howells:** I think the same day. From what I can deduce the Secretary of State or the Minister of State, I am not quite sure who it was, was informed by HEFCE that they were going to take this action.

**Q428 Jeff Ennis:** We have already touched upon what I call the churn factor of ministers. Every department has a churn factor of the number of ministers it has, but I guess Education and Skills has got the yellow jersey as it were, in terms of churn factor of all the government departments, certainly since I have been in Parliament. Has this played a part in issues like the ILAs, the eUniversity? Has this been a factor, the fact that we keep changing our ministers so regularly and the portfolios that they have?

**Dr Howells:** The main minister in any department by miles is the Secretary of State. I have served under a lot of Secretaries of State. They do not change as often as ministers do. I told somebody that transport ministers have a life expectancy of a tail gunner in a Wellington and it is probably true.

**Helen Jones:** Not as long as that surely!

**Q429 Jeff Ennis:** I take the point you are making, but from my experience, and I served as PPS with Tessa Jowell for a while in Education and Employment, during this sort of period we are talking about, towards the end of the first term, it appears to me we were doing a lot of what I call blue sky thinking in education. Many of the issues that we were doing blue sky thinking on seem to be coming back to haunt us to some extent. Do you think we ought to be thinking more about red sky thinking in future?

**Dr Howells:** Very good!

**Q430 Chairman:** I think grey sky thinking.

**Dr Howells:** This does happen and it happens in the lives of all governments when people are looking for big ideas and something that is going to appear to have revolutionary implications and at the time everybody was looking at this dotcom stuff. I was then working at DTI and trying to get banks to invest in British films. The bankers I met treated it with scorn. These were exactly the same financial advisers who were putting money into these dotcom companies that had nothing going for them and were gone within a couple of weeks. It is okay, I think, to look at a department in the public sector and say, "You try something like this and you get it wrong". Every single one of us around this table except the very cleverest in financial terms probably lost several thousand pounds as a consequence of the investments that were made on our behalf by bankers and insurance companies and the rest during this very same period. Believe me, making these kinds of decisions the wrong way is by no means unique to government.

**Q431 Chairman:** We pay our money and we take our chance if we are investing. A lot of people lost money in dotcom. Some made money in dotcom, especially if they took their money quickly. It is different when it is taxpayers' money, is it not?

**Dr Howells:** Yes, absolutely, and that is why I am sitting here.

**Q432 Jeff Ennis:** We have explored what I hope is the unique nature of the arrangements that have been made to set up the eUniversity. My final question is, is it unique? We are not going to have any more of what I call these very elaborate arrangements set up to try and deliver something in the public sector which, because of the blurred lines of communication and responsibility, has resulted in this particular project being something of a disaster?

**Dr Howells:** I certainly think it was a very risky experiment. I would not go so far as to call it a disaster because I am quite interested in the lessons that we have learned. Mr Jackson enunciated some of them for us. In terms of some of the things that the Americans have tried and failed at, for example, this is pretty modest stuff. There is a very different mentality in this country, by the way, about risk and the consequences of failure. The Americans put it down to experience and will put it in their CV as something that companies ought to be very interested in, "I failed and I have survived". Having said that, and the Chairman put his finger on it, this is not private money; this is taxpayers' money. The Chairman also said very early on, "We have also got to be careful that we do not make government risk-averse". I draw from that the lesson that we have to make sure that those structures are right, that they are very clear and very open and that people can measure those yardsticks. I do not know whether that was the case with UKeU but I would have thought that some of the mystery that this committee has explored, we could have done without.

**Q433 Chairman:** If we were to return to being risk-averse as traditionally governments have been, there would not be an Open University with its track record.

**Dr Howells:** Absolutely.

**Q434 Chairman:** So we should not dwell on only the failures of taking risk. The National Audit Office reported only last week on the failings with IT procurement in government. When something like that comes out does every department take it seriously? We always wonder about this because when we did our inquiry into individual learning accounts we did talk about this private sector relationship and the importance of getting contracts understood by all parties. We hope that not only did the Department for Education and Skills take lessons from that but also other departments. When something comes out on IT procurement is that compulsory bedtime reading for senior civil servants or what?

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**Dr Howells:** No question about it. I know, because I spent many a happy afternoon on the Public Accounts Committee, that senior civil servants take those hearings and the hearings of this committee in the Department for Education and Skills very seriously. Having said that, I have also been very interested in the way in which the private sector copes with IT systems failures. Believe me, they are as common there as they are in the public sector and they are sometimes the same failures and the same companies involved. It is put down to experimentation in a very different way in the private sector. It is in the public sector where we expect the thing to be gold-plated and it has to work and it has to work from day one. In my experience there are very few systems that work like that. That is why it is very valuable that we read the accounts and the analyses of failure where it happens in all these, and also read very carefully and learn the lessons from those systems that succeed. There are many examples of systems that have succeeded and have made life better for a lot of people. We would certainly expect all the civil servants in our department to be very assiduous in terms of reading the accounts of systems failures elsewhere.

**Q435 Mr Chaytor:** Minister, one of the individuals involved whom we have not referred to yet was the former Chief Executive of HEFCE. After he stepped down from being Chief Executive he was then appointed as the chair of the holding company. Who appointed him?

**Dr Howells:** HEFCE must have appointed him. I think they appointed the board of the holding company.

**Q436 Mr Chaytor:** So there was no ministerial involvement in that?

**Dr Howells:** No.

**Q437 Mr Chaytor:** He would have been one of the individuals talking to the department's officials as part of the germination of the project?

**Dr Howells:** Yes, I would imagine so. Normally that kind of dialogue would go on.

**Q438 Mr Chaytor:** Do we know when Sun Microsystems were involved or what was the process of gaining their involvement?

**Dr Howells:** If I could look for a moment at my chart I will try to locate this exact date.

**Q439 Mr Chaytor:** Was there an open tendering process?

**Dr Howells:** I am not absolutely sure. I will try to find out for you. I do not know and I cannot locate it on here either.

**Q440 Mr Chaytor:** It would be useful to know also if there had been any previous discussions between Sir Brian Fender and Sun Microsystems or between the department and Sun Microsystems. It would be very helpful if we could understand exactly what the relationship was and whether it was an open process or a preferred bidder or whatever.

**Dr Howells:** I have found in the blue sector, which relates to the year 2001, "19 October, strategic alliance signed with Sun Microsystems". That is 19 October 2001. On 28 November Sir Anthony Cleaver was appointed Chair of UKeU after being interviewed by non-executive directors. Also, UUK, the SCOP and all HE funding councils appointed "hold co", which was the holding company, so they all had a hand in that, and Brian Fender was elected chair for the entire holding company board at the first meeting.

**Q441 Mr Chaytor:** So the strategic alliance was signed in October 2001 but it does not tell us on your—can we have a copy of that flow chart because it would save a lot of time?<sup>2</sup>

**Dr Howells:** Yes, of course. It is the kind of thing that is needed, I think. I cannot see anything else on here about—

**Q442 Mr Chaytor:** The question that interests me is how was it decided and by whom, that a strategic alliance should be signed with one company rather than having an open tendering process.

**Dr Howells:** They might have been the only company that came forward. I really do not know.

**Q443 Mr Chaytor:** It is unlikely they would suddenly have emerged out of the blue in October without some previous contact with either HEFCE or the department or ministers. That is my point.

**Dr Howells:** I will certainly try to find out.

**Q444 Mr Chaytor:** Can I ask one further question on accountability, or rather the accounts? Do we have a breakdown—I cannot recall if we were told this in the previous evidence session—of how the £50 million was ultimately spent because obviously some went to the e-China project, some went to bonuses to the Chief Executive and the staff, but we are assuming the bulk of that was spent on the development of the platform with Sun Microsystems. Is that right?

**Dr Howells:** Would it help the committee, Mr Chairman, if I read out the main headings and where the money went?

**Q445 Chairman:** Carry on.

**Dr Howells:** This is a document which I will gladly share with the committee.<sup>3</sup> It says that £62 million was allocated to the eUniversity's project for the period 2001–2004. "Of this amount HEFCE anticipates spending a total of around £50 million", and they have indicated the breakdown as follows, first, that what are called the public good activities; e-China £3 million; eLearning Research Centre £1 million; research studies and other disseminations, including the HEFCE contribution to the borderless education report which I mentioned earlier, £2 million pounds; advisers, legal and business, £1 million pounds; and then on the commercial side, the technology platform development £13.9 million; the learning programmes

<sup>2</sup> Ev 68

<sup>3</sup> Ev 68

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development £11 million; sales and marketing, including overseas, £4.2 million; and UKeU operating costs £13.4 million. According to this arithmetic the total is £49.5 million. I will hand this over.

**Q446 Mr Chaytor:** Thanks very much. We are told that the Chief Executive and the Chairman met with the Minister every six months from the date of the launch of the company. Presumably those meetings were minuted and the question is therefore, in the minutes of those meetings was the full scale of the difficulties clearly reported by the Chairman and the Chief Executive?

**Dr Howells:** I assume they would be minuted, Mr Chaytor. Just about every meeting I have ever been in has been minuted. I do not know what happens to those minutes, I have to say. I am sure there must be some record of the nature of the discussion.

**Q447 Chairman:** Can we have the minutes?

**Dr Howells:** I will have to check on that. I do not know what the protocol is but I will check.

**Q448 Chairman:** I think we are allowed to have papers and persons, are we not?

**Dr Howells:** You know I am a very generous person and if I can get them to you I will. Mr Chaytor, it was an open process by which Sun was chosen. There was a general call for private sector partners made in late 2000 and lengthy negotiations with potential partners, and it was narrowed to Sun by October 2001.

**Q449 Mr Chaytor:** We have asked if we can see the minutes because if the company was established in late 2001 and it was all folded in mid 2004 there must have been at least four meetings between the Chief Executive and the Chairman and the Minister if they took place every six months, must there not?

**Dr Howells:** I shall take the message back to the Secretary of State, Mr Chairman.

**Q450 Chairman:** Minister, who is the most senior person you have met at Sun Microsystems since you came to the job?

**Dr Howells:** I have not met Sun Microsystems.

**Q451 Chairman:** Are you going to?

**Dr Howells:** I had not thought about it, to be honest.

**Q452 Chairman:** If you bought a new car and something was fundamentally wrong with it, or a computer or a hi-fi system (if you can still call them hi-fi systems), you would be very keen to see the manager of the place that sold it to you, would you not?

**Dr Howells:** Yes, I probably would.

**Q453 Chairman:** So if this chap has taken £13.5 million, or his or her company has, would it not be sensible for someone senior somewhere to talk to Sun Microsystems and say, "This is an awful lot of money and the platform seems to have problems and we cannot even sell it second-hand. Could we have

some of our money back?" with, in parenthesis—"And, of course, you get a lot of other business from government departments and we want to continue in a good relationship". If you could get £10 million pounds back you would be assured of a place in the Cabinet, would you not?

**Dr Howells:** I doubt it!

**Q454 Chairman:** Seriously.

**Dr Howells:** I am sure it would be an interesting meeting. I can remember when I was working on the Computers for Schools programme back in 1997–98 I met a number of companies because there were lots of fears around, and you will remember this, Mr Chairman, that there was not enough competition about, that certain companies were being favoured above others and so on because of existing reputations, and they were very interesting meetings because you got a very different perspective, of course. I had not planned to meet Sun Microsystems. It sounds like a good idea to me, and if I can get £10 million back for the nation, well—

**Chairman:** If you get it back I will have some for Huddersfield and you can have some for Pontypridd. Mr Jackson is going to take us now into the future of eLearning.

**Q455 Mr Jackson:** I guess the Minister has already answered the question about the web-based learning platform that cost over £20 million. Can any public funds be reclaimed through the sale of this platform? Would you like to say a bit more about this?

**Dr Howells:** I did try to explain, Mr Jackson, about the difficulty that they had with selling this. As you know, because you dealt very much with this, the whole business of the value of intellectual property is that it is never easy. I certainly think there must be a residual worth in this but what it is exactly I have absolutely no idea. Whether that platform as it exists at the moment can be taken by someone else I also do not know, but I do know that there are a number of universities who are very interested in seeing whether or not that platform or the model on which it was based might enhance their own efforts to promote eLearning.

**Q456 Mr Jackson:** Perhaps I might ask the Minister to keep in touch with the committee about the progress that the department makes in getting some value for the taxpayer from this. What about the eLearning Research Centre? What is happening on that front?

**Dr Howells:** The eLearning Research Centre aims to identify and investigate research problems in the field of eLearning. They, of course, have strategic importance for the sector as a whole. Originally it was set up as part of the eUniversity's programme within UKeU and it will now operate under the guidance of the HE Academy. One of its objectives will be to ensure that the HE sector benefits from the work of UK eUniversities worldwide. It is based across two locations, the University of Manchester and the University of Southampton. They will work closely together to ensure that their activities are aligned and to this end their work will include a

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number of joint projects and research activities. If I could just expand a little on that, the focus of Manchester will be in the area of process modelling based on the concept of an end-to-end process for design development, evaluation, delivery and maintenance of eLearning, and the focus at Southampton will be on the pedagogic aspects of eLearning in the end-to-end process of development.

**Q457 Mr Jackson:** I wonder if the Minister has any comments in the light of this whole fiasco on the question whether the Research Centre, as he has described, is going to be learner centred rather than technology driven because I think part of the problem in all of this was being over-excited by the technological possibilities and under-informed about the potential interest amongst learners. Is that lesson going to be learned in this context?

**Dr Howells:** I think it has been learned and it is a very important lesson. We know, for example, from failures in other countries as well that what people want is not simply to be able to access information and programmes on their screens; they also want face-to-face meetings and they want to be part of something that people of our generation called a university.

**Q458 Mr Jackson:** The Minister used the phrase “blended learning” earlier. I thought at first it was “blinded learning”. I wonder if he could tell us a little bit about the DfES’s efforts to promote blended learning. He might begin by explaining what it is.

**Dr Howells:** It is a very good question. I have just come across this phrase myself. It is a process which the OU has been very good at, for example, of being able to access some part of the course by, in the early days, radio and television, now via PCs and other technologies, and also making sure that people get to meet their tutors and their lecturers at some stage and each other. That is what I understand by “blended learning”; it is a blending of more traditional methods with using new technological platforms.

**Mr Jackson:** Chairman, the government have a general commitment and the DfES has a specific commitment within that to “embed eLearning” and e-processes over the next 10 years. Could the Minister tell us a little bit about the progress that has been made in that direction?

*The Committee suspended from 5.35 pm to 5.46 pm for a division in the House*

**Q459 Chairman:** Minister, thanks for coming back with such alacrity. We were talking about blended learning. You are absolutely right. It goes back to the lessons that were learned in the Open University, that television and radio programmes did not do it all. You had to have excellent quality published material, tutor marked assignments and human beings to tutor you because it did not work without it. Blended learning is nothing new, but you were surprised that certain people in this organisation did not seem to understand that there were problems.

**Dr Howells:** Yes, I was very surprised by that because the experience of mixing with other people and of speaking face to face with tutors and lecturers and so on is a key part of university experience and of the learning experience in general. I worry about it beyond this project. There are also tensions which can arise with some of the universities that a lot of people in this country aspire to which receive an enormous amount of research funding but where I suspect there are some students who might be very brilliant (they probably have to be to get in there) but who perhaps do not always receive the attention they should receive as part of that learning experience. It is something we have got to look at.

**Chairman:** An interesting one for another inquiry.

**Q460 Mr Jackson:** Chairman, the Minister was about to answer the question I put to him about embedding eLearning into the DfES’s target and its progress towards this.

**Dr Howells:** It certainly is an important part of our aims for the future. I have to admit to this committee that I am still very unclear about this particular project, UKeU. I think we have learned some lessons from it but, whether or not we are going to become great world players, if indeed there are going to be great world players in this area, which I think is a different matter altogether, we ought to have enough humility to ask ourselves if the original idea, exciting though it was, was not a little too ambitious. I do not know. I am sure there are lots of people who will disagree with me and these things take on a life of their own, of course, once they start rolling. It is quite clear that there was great enthusiasm amongst those who were working for UKeU and running it as well as people inside the department and inside higher education in general who thought that this was an important way forward.

**Q461 Chairman:** Did you not put your finger on it in a sense by the remarks you made just before we came back to Robert’s questioning, that is, that people do not sign up for the best possible course in the world; they sign up for an institution with a record, with a brand, with a reputation, that they want to be part of? Paul is going to take us through the last bit of questioning on the University of Edinburgh’s more modest but successful scheme where people in a sense want to do a course, even if it is distance learning, with Edinburgh or with the London School of Economics or with Brunel or whatever, and that is in a sense part of what seemed to be missing when I was again re-reading some of the evidence that we have taken, that although there were lots of universities involved in this scheme what had been taken out was that people were saying, “I did that course with—” —a particular institution?

**Dr Howells:** I am not sure that was the reason why there were such abysmal numbers of students signing up to this but I have no doubt whatsoever that if there was a clearer brand—I get tangled up just trying to say UKeU anyway. I do not know who dreamt that one up but it is not a great title. It is typical of the sort of rubbish that was around at that time.

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**Q462 Chairman:** You are just about the most experienced minister in the government, Dr Howells. You have been in, I think, five departments.

**Dr Howells:** Four departments really but I am a retread from Education.

**Q463 Chairman:** Five different experiences.

**Dr Howells:** Five different learning experiences.

**Q464 Chairman:** The average length of a ministerial career is something like two years and three months and you have lasted somewhat longer than that. If you had done this yourself, if you had been in charge of this, would not common sense have said, "Give £10 million to five universities or £5 million to 10 universities and see what they can do"? Would you not have come up with something a lot more sensible?

**Dr Howells:** I am a great believer in testing models. I think we should be much more evidence based in terms of how we devise policy and run organisations. We probably could have done with more time in terms of looking around the world, perhaps not reacting as quickly as we did to what we perceived to be great threats coming mainly from America of our own students being captured to do degrees by universities like Phoenix and so on. I think we should pilot and test more often with these kinds of things, so probably we could have been a little bit more modest in our aims and also used some of the great expertise that is out there, Edinburgh being one of them, although I know there are discussions going on with Edinburgh and with the Open University and with a number of other universities about how this could have been done. I can see that there was a real sense of adventure at the time that this was a great new future and we had to be in there right at the very beginning. It is easy for me to say this with hindsight now.

**Q465 Chairman:** But do you still believe in the future of eLearning?

**Dr Howells:** Oh yes, there is no question about it. There is too much evidence out there, especially in schools, where teachers are using this very imaginatively. There are some tremendous programmes being devised. When people are older they want other things. After all, school is very much a collective activity, a very community based activity. It comes back to the question you asked about what it is that people feel comfortable with and what they want. You have not asked me this, Mr Chairman, but I think probably it would have been very wise to have had a crack at postgraduate work first. There very often you might have another job, you might be doing other things, and you would want to be primarily based on your PC or your laptop. I think we could have tested that one first before going for this great mass of undergraduates that we assumed would be flocking to this platform.

**Q466 Chairman:** So you agree with this Committee that there is a great future for eLearning?

**Dr Howells:** I do indeed.

**Q467 Chairman:** And £50 million in a sense has gone down the tube on quite an expensive experiment. Are you going to give some more money to progress eLearning in a different way?

**Dr Howells:** I am notorious at being tight-fisted as far as taxpayers' money is concerned.

**Q468 Chairman:** The rail industry seemed to do all right with you.

**Dr Howells:** Well, no. A year last June when I was appointed Minister of that department the cost of the West Coast mainline upgrade was £13 billion. It is now £7.6 billion. Helping Alistair Darling, who is also very careful with taxpayers' money, to bring that down was—

**Q469 Chairman:** But are you going to put a bit of money into eLearning?

**Dr Howells:** They have got the residual amount of about £12.5 million at the moment to experiment with. That is a fair chunk of money and I would have to see some very good plans before I would say, "Okay; there is another £10 million funds. Get on with it".

**Q470 Chairman:** So HE has got enough money altogether anyway, has it? You are the Higher Education Minister. You are content with how much money they are getting?

**Dr Howells:** Yes, I am broadly content with it. It is a huge budget, £9 billion, plus money coming in from other sectors. I think that is a pretty good start for higher education.

**Chairman:** I can see we are going to have some robust exchanges in the future.

**Q471 Paul Holmes:** We have partly covered this subject but, just to summarise, you have got a global e-market estimated at about £18 billion in value and we have had a brave attempt to get to the forefront of that which ended in disaster, so there are three ways the government could go now. You are now the Minister responsible as opposed to saying, "This all happened before I was there". Do you say, "We got our fingers burned like we did with ILAs, so we do not want to touch it with a barge pole any more, or do you say, "We will put some more money into a new venture", and we have partly touched on that, saying they have still got £12 million to experiment with, or do you say, "We will just leave it to the private sector, to the universities, and let them get on with it"?

**Dr Howells:** Or to other countries, of course.

**Q472 Paul Holmes:** Yes.

**Dr Howells:** A bit like the space programme.

**Q473 Paul Holmes:** So what are you going to do?

**Dr Howells:** I think we have to be very astute about ensuring, based on the kind of model that was created by HEFCE or by creating a new model, that we are there or thereabouts. We cannot afford to ignore this area because there is a good deal of truth

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in the fears that were expressed in and around 2000 that this is a market that is up for grabs; there is no question about that. It may not be the market which UKeU identified, although there will be elements of it in there, but there is certainly a good market out there, if only to learn English.

**Q474 Paul Holmes:** In looking, for example, at why this experiment failed but other experiments seemed to be more successful, the Chairman or yourself said that the Edinburgh example was a more modest example. It was modest in terms of money because it did not have £62 million of taxpayers' money but where the eUniversity got 900 students for £62 million the Edinburgh University example has got 75,000 students from 23 countries. For a lot less money they have much more successfully hit a very large market. Why have they done so well whereas this particular experiment was a disaster?

**Dr Howells:** One of the reasons is certainly the one the Chairman touched on, which is that Edinburgh is a very clear brand, people want to be associated with it. There was no fog surrounding what it might end up as. Mind you, it is subsidised by Scottish Enterprise, the old Scottish Development Agency. They have put a bit of money into the pot. By the way, I made a mistake, as usual. It is not Edinburgh University; it is Herriot Watt University in Edinburgh that has been running this. I am also told on good authority that I have overestimated the higher education budget by £3 billion. It is £6 billion. It works up towards £9 billion.

**Q475 Chairman:** I think that is what you want it to be. I think we have got that written down.

**Dr Howells:** I am giving secrets away here.

**Q476 Chairman:** We have got the information that Edinburgh is a consortium of three or four universities in Scotland.

**Dr Howells:** Yes. It has got 80,000 students who mainly are studying highers and it has got about 1,200 students who are studying HE.

**Q477 Paul Holmes:** In conclusion, which way are you leading as the Minister who is now responsible: to let consortiums like Edinburgh, Aberdeen and Herriot Watt get on and be very successful, to just use the last of the £12 million and not put any more in, or what?

**Dr Howells:** We have to ask for and receive proposals on how this thing gets taken forward. The last thing we need after this experience is an open cheque book. We need ideas and we need solid business plans. I think there is a future here but we have to be very careful after this. This is taxpayers' money.

**Q478 Paul Holmes:** So you are asking for bids from everybody who reads the minutes of the select committee?

**Dr Howells:** I have not formally gone out and asked for bids off anybody, but I hope they have got the message that we are certainly interested in these kinds of ideas.

**Q479 Mr Chaytor:** Before we leave this can we just look to the future a little bit and ask about the eLearning Research Centre, which I understand is now jointly run between Manchester University and Southampton University? What is it going to research? Is it going to research the technological side, is it going to see how the technology works, is it going to be a more market-focused research operation, or is it going to be entirely abstract and theoretical? Is it going to be of any use in advising government or other universities about how they might break into this global market?

**Dr Howells:** It is operating now under the HE Academy which is a very new organisation which Paul Ramsden and Leslie Wagner are running. They are running the eLearning Research Centre on these split sites in Manchester and Southampton. I think you may have been out of the room, Mr Chaytor, when I said that the focus of the Manchester site will be in the area of process modelling based on the concept of an end-to-end process for design development, evaluation, delivery and maintenance of e-learning, and at Southampton, which I know Mr Turner would be interested in, the focus is going to be on the pedagogic aspects of eLearning in that end-to-end process of development. They are complementing each other's work. The thing to say, Mr Chaytor, is that everybody is watching them very closely and I know that Paul Ramsden, who is the Chief Executive of the HE Academy, is very interested in these concepts, and Leslie Wagner, because they have had experience in other parts of the world in how you allow people to access very sophisticated elements of learning when the geography is difficult.

**Chairman:** We have enjoyed this evidence session, Minister. Thank you for a full, frank first meeting with the committee. Just like you are going to be watching the HE Academy, we will be watching you.

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**Supplementary memorandum submitted by the Department for Education and Skills**
**REAL INTEREST RATES AND STUDENT LOANS: SOME CASE STUDIES****KEY POINTS**

- Those who benefit least from higher education—such as dropouts and low income graduates—are more harshly affected by positive real interest rate regimes;
- low earners are the hardest hit, and the higher the interest rate, the more worse off these low income borrowers are. They pay more in interest charges and take far longer to repay their debt than those with higher incomes;
- only those on very high incomes are likely to be little affected by positive real interest rate regimes;
- career breaks exacerbate the negative impact on borrowers of real interest rates;
- without the safeguard of policy write-offs after 25 years, there would almost be no limit on the total liability of low income earners;
- however, such safeguards—including targeted interest subsidies—would partially offset the savings from charging real interest rates in the first place.

**BACKGROUND**

This paper sets out some hypothetical, but illustrative, case studies on the impact of charging different real interest rates on student loans. It is an update of the work presented to the Education and Skills Select Committee in Spring 2002. Unlike the earlier work, it now takes account of the proposed £15,000 repayment threshold and the 25 year write off policy.

The case studies based on students who leave higher education with Government student loan debts of £10,000 and whose income over their working lives can be categorised as “low”, “medium” or “high”<sup>1</sup>. Tables 1a and 1b summarise the income profiles used in these case studies, in cash and real terms respectively.

The case studies illustrate and show the effects of charging real rates of interest of 3.5% or 6% for all borrowers (ie there are no exemptions). These amounts are on top of inflation, so the nominal interest rates are therefore 6% and 8.5% (assuming inflation at 2.5%).

A real rate of interest of 3.5% is needed to eliminate the interest subsidy on the loans. This is because under Government accounting principles, the resource cost of issuing student loans/of which the interest subsidy is the largest element/is currently estimated using a real terms discount factor of 3.5%

The repayment terms are the same as under the current system, ie graduates pay 9% of their salary above the repayment threshold, but outstanding debt is written off after 25 years, in accordance with the proposed new policy. The case studies are based on borrowers leaving HE and eligible to start making repayments in April 2005, when the repayment threshold will be increased from £10,000 to £15,000 (and subsequently assumed to rise each year with inflation).

**Table 1a****AVERAGE INCOME PROFILES<sup>2</sup>, IN CASH TERMS**

<i>Annual income (£k)</i>	<i>Years after leaving HE</i>					
	<i>0</i>	<i>5</i>	<i>10</i>	<i>15</i>	<i>20</i>	<i>25</i>
Low	9	22	29	38	50	63
Medium	12	31	45	62	89	124
High	17	50	76	104	145	209

**Table 1b****INCOME IN REAL TERMS (ADJUSTED FOR INFLATION), 2005 PRICES**

<i>Annual income (£k)</i>	<i>Years after leaving HE</i>					
	<i>0</i>	<i>5</i>	<i>10</i>	<i>15</i>	<i>20</i>	<i>25</i>
Low	9	17	20	23	27	31

<sup>1</sup> The analysis uses lifetime income profiles from the Department’s student loan repayment model, and is restricted to those leaving higher education before the age of 35. The income profile of “low” earners is the average of those in the 3rd lifetime income decile, for “medium” earners we use the average within the 7th decile and the 10th decile for “high” earners.

<sup>2</sup> These income profiles include those borrowers who dropout of HE before completing their course. If the analysis was restricted only to graduates, the income profiles may well be slightly higher.

Annual income (£k)	Years after leaving HE					
	0	5	10	15	20	25
Medium	12	25	32	38	49	60
High	17	40	53	64	79	101

#### No career breaks

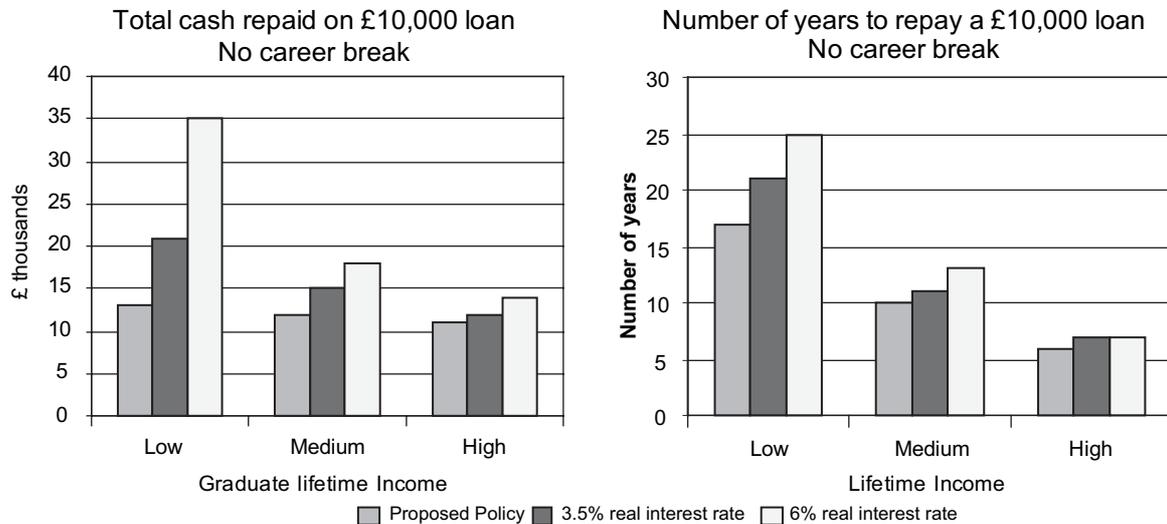
Table 2 below shows the effects of charging a non-zero real rate of interest on the repayment of a £10,000 debt. Borrowers are assumed not to take any zero-income career breaks during their working lives<sup>3</sup>.

**Table 2**

#### REPAYMENTS ON A LOAN OF £10,000 (ASSUMING NO CAREER BREAK)

	Amount of cash repaid £k			No of years taken to repay		
	Current policy	3.5% RRI	6% RRI	Current policy	3.5% RRI	6% RRI
	Low	13	21	35	17	21
Written off > 25 yrs	n/a	n/a	1			
Medium	12	15	18	10	11	13
High	11	12	14	6	7	7

The graphs below illustrate the figures in the table.



#### COMMENTARY ON CHARGING POSITIVE REAL INTEREST RATES

It is obvious from the charts above that borrowers who go on to earn relatively low lifetime income are the hardest hit by the imposition of positive real interest rates on student loan debt. For example, with a 3.5% real interest rate, a low income borrower would repay over 60% more in cash terms compared to what they would pay under the current policy of 0% real interest rates. In contrast, medium earners would repay 25% more and high earners would only repay around 10% more.

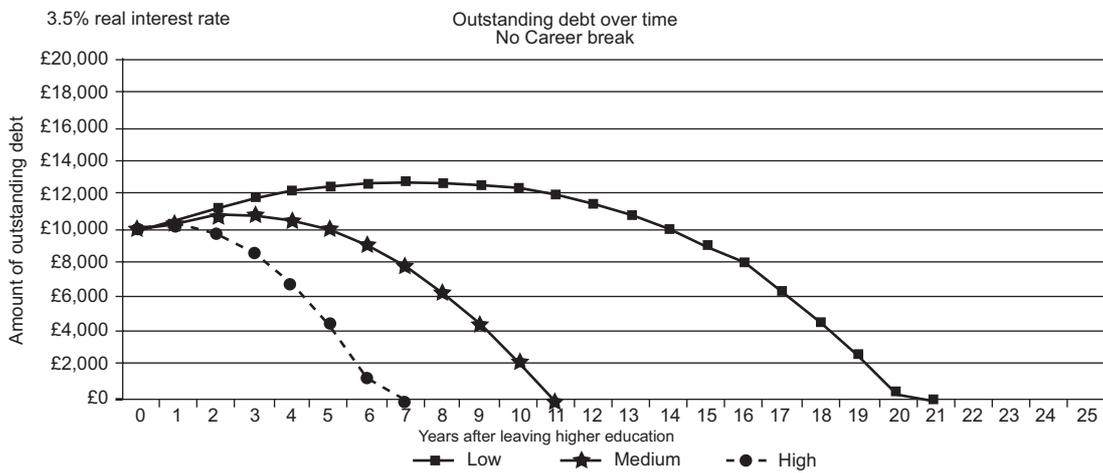
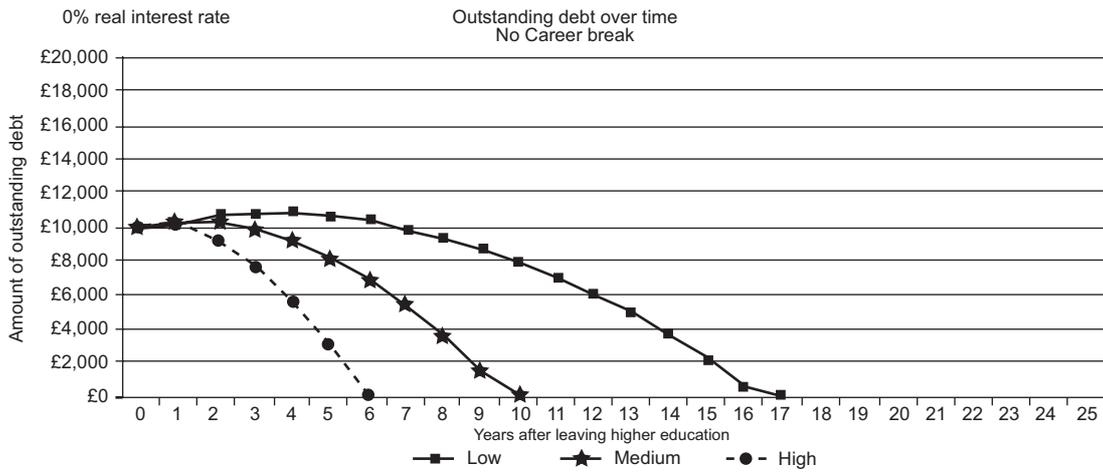
The second chart shows the reason for this. Medium, and especially high earners, are still able to repay their debt fairly quickly, even with higher interest payments. However, low earners are still repaying between four and eight years after they would have stopped under the current policy of 0% real interest rates.

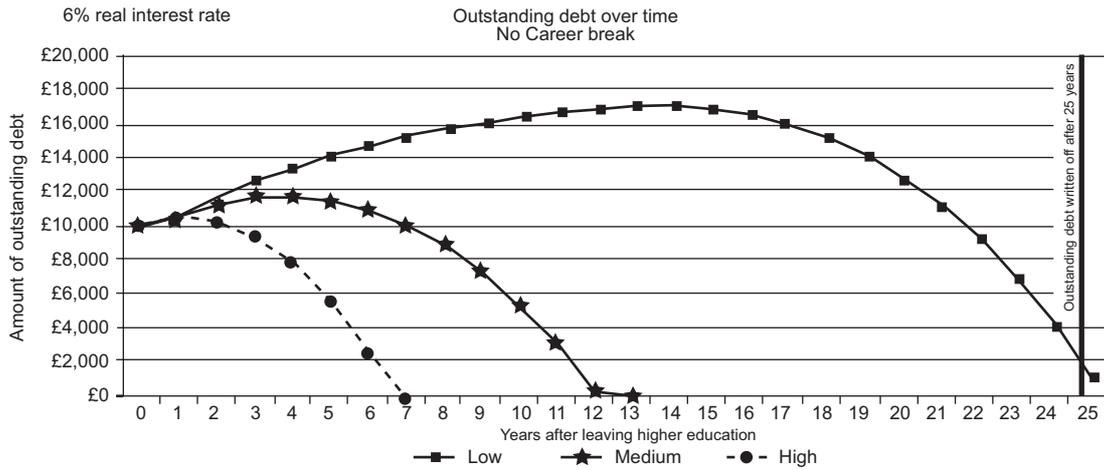
<sup>3</sup> Although to some extent, zero earnings due to economic inactivity are already implicitly factored into the average earnings profiles in the repayment model. Borrowers who don't take career breaks might therefore, in reality, earn a bit more than these earnings profiles might suggest. However, the profiles do serve to illustrate the salient points.

<sup>4</sup> The outstanding balance of debt—around £1,000—is written off after 25 years.

The charts below show how borrowers' outstanding debt balances change over time under different interest rate policies (after interest had been added and repayments have been netted off). With a 3.5% real interest rate, the low income borrower does not make sufficient repayments in the early years to pay off all of the interest on the debt, and they have to wait around seven years before they start to see the cash value of their debt falling. The high-income borrower pays enough each year to cover the interest and reduce the principal of the loan, and they only take one extra year to repay their total debt (compared to an extra four years for low earners).

The impact of 6% real interest rates is even more dramatic. Low earners repay around 170% more than under the current policy, and would take an extra nine years to repay (or they would have their remaining balance written-off after 25 years under the proposed new policy). Furthermore, they would have to wait around 13 years before they saw their level of debt falling in cash terms. In contrast, high earners would repay around 25% more, but would take only one more year to repay their debt.





*Five year career break*

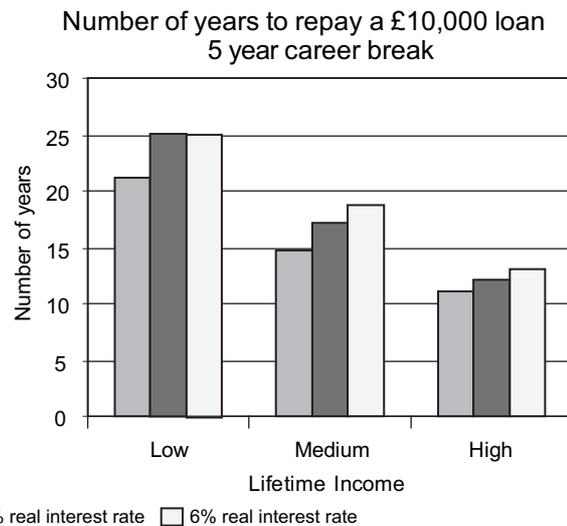
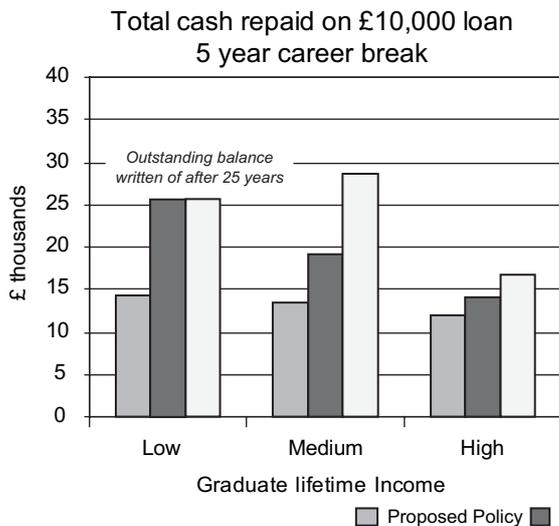
Table 3 shows the same information as table 2, but we now assume that after spending five years in the labour market, borrowers then take an unpaid five year career break. On returning back to work, it is assumed that borrowers earn the same level of real income as when they left employment, and resume the same upward profile in nominal income terms.

**Table 3**

**REPAYMENTS ON A LOAN OF £10,000  
(ASSUMING A FIVE YEAR CAREER BREAK)**

	<i>Amount of cash repaid £k</i>			<i>No of years taken to repay</i>		
	<i>Current policy</i>	<i>3.5% RRI</i>	<i>6% RRI</i>	<i>Current policy</i>	<i>3.5% RRI</i>	<i>6% PPI</i>
Low	14	26	26	21	25	25
Written off > 25 yrs	n/a	3	28			
Medium	13	19	28	15	17	19
High	11	14	17	11	12	13

The graphs below illustrate the figures in the table.



COMMENTARY ON CHARGING POSITIVE REAL INTEREST RATES

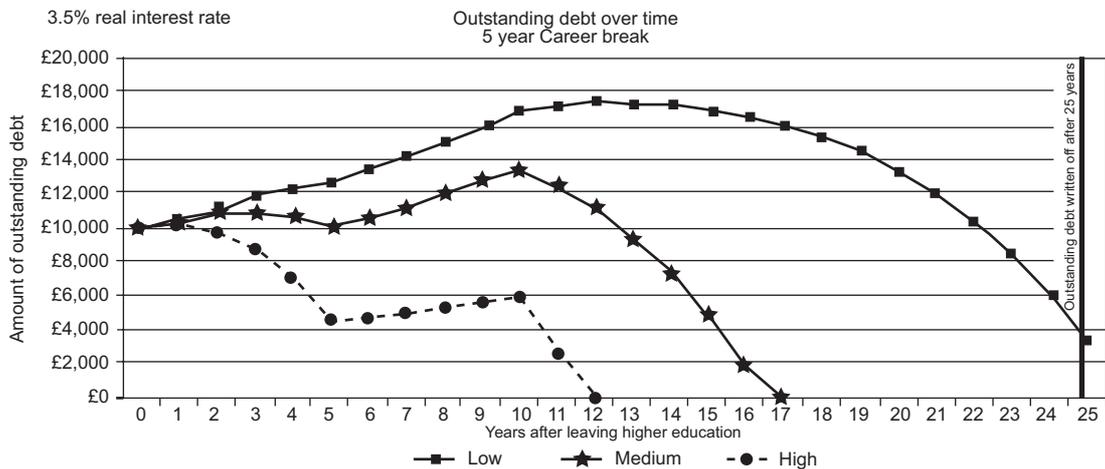
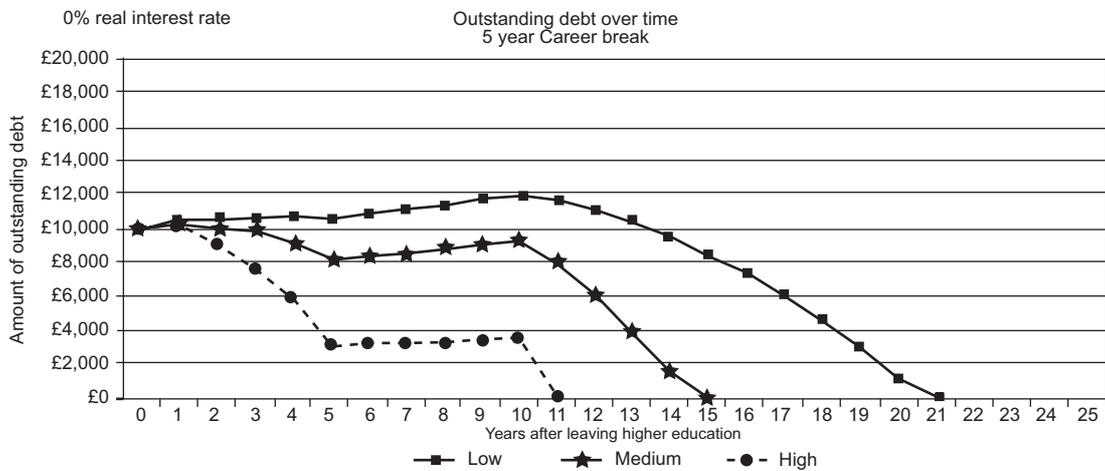
Comparing tables 2 and 3, it is clear that taking a career break hits the low earners more, as debt mounts up and they don't subsequently go on to earn enough to repay the remaining debt quickly, unlike high earners who appear to be much less affected.

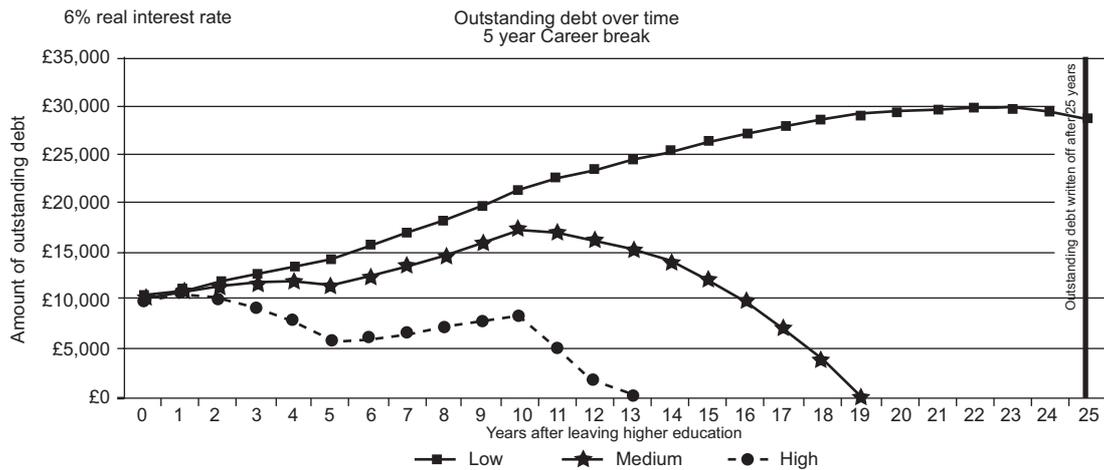
Career breaks tend to exacerbate the negative impact on borrowers when positive real interest rates (with no subsidies) are introduced. For example, with a 3.5% real interest rate, a low income borrower would now repay over 85% more in cash terms compared to what they would pay under the current policy of 0% real interest rates. Medium earners would repay 45% more and high earners would repay around 25% more. So all borrowers are worse off, in terms of the cash value of repayments, under positive real interest rate regimes, but again it's the low earners who are affected the most.

The charts below show again how borrowers' outstanding debt balances change over time under different interest rate policies, once we allow for unpaid career breaks. With a 3.5% real interest rate, the low income borrower has to wait around 13 years before they start to see the cash value of their debt falling, and even when they resume their earnings path, they don't earn enough to fully repay their debt before it is written off for policy reasons after 25 years. The high-income borrower is also affected, having to repay 25% more in cash terms, but he still takes only one more year to repay his debt.

With policy write-offs after 25 years, low earners taking career breaks are no worse off under a 6% real interest rate regime, compared to 3.5%. It is the middle income earner who is hit the hardest, having to repay over twice as much in cash terms as the under current 0% policy, with the high earner paying over half as much more.

Other things being equal, the higher the real interest rate, the more exaggerated the impact, especially on low earners. So for these borrowers, the proposed policy of writing off outstanding balances after 25 years acts as an important limiter on their total liability. However, the higher the interest rate, the more likely we are, under such a policy, to increase the amount of debt written off. This obviously offsets some of the large cost savings from increasing interest rates in the first place. In our example, under a 3.5% real interest rate, the low earner would have an outstanding balance of just over £3,000 after 25 years, which would be written off for policy reasons. Under a 6% interest rate, the balance written off would be over £28,000 as the borrower would never earn enough to meet the annual interest charges.





#### Debt on leaving higher education

The case studies presented are based on students leaving HE with a debt of £10,000. We still see the same patterns of impact as debt on leaving HE increases, as the following tables illustrate for a debt of £15,000, but the magnitudes of impact are larger. This is mainly because the higher the debt on leaving HE, the higher the interest charges on outstanding debt, and the greater likelihood of not paying off the debt before the 25 year repayment cap.

**Table 4**

REPAYMENTS ON A LOAN OF £15,000  
(ASSUMING NO CAREER BREAK)

	Amount of cash repaid £k			No of years taken to repay		
	Current policy	3.5% RRI	6% RRI	Current policy	3.5% RRI	6% RRI
Low	21	35	35	20	25	25
Written off > 25 yrs	n/a	5	40			
Medium	18	25	34	13	15	17
High	17	20	23	8	9	9

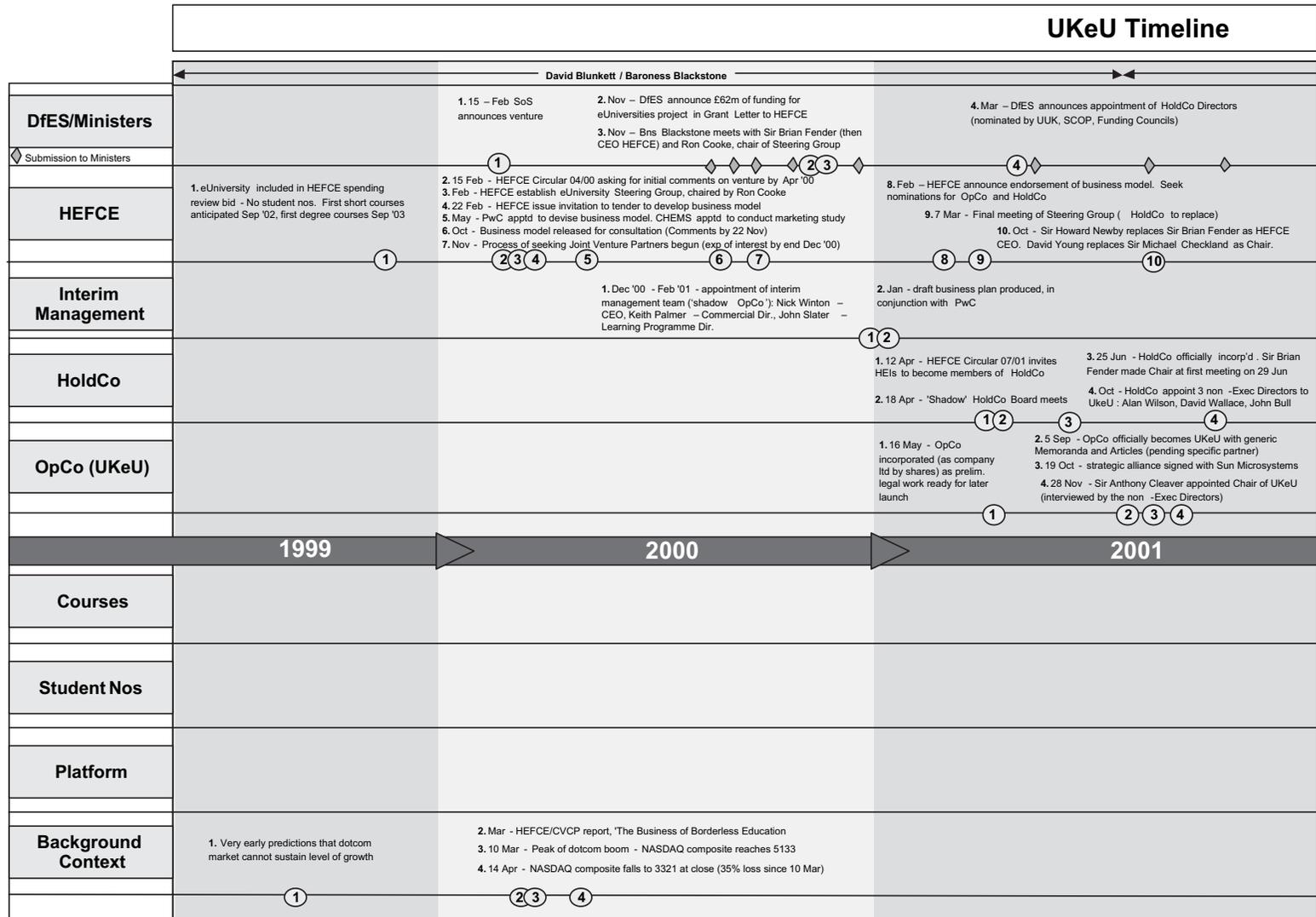
**Table 5**

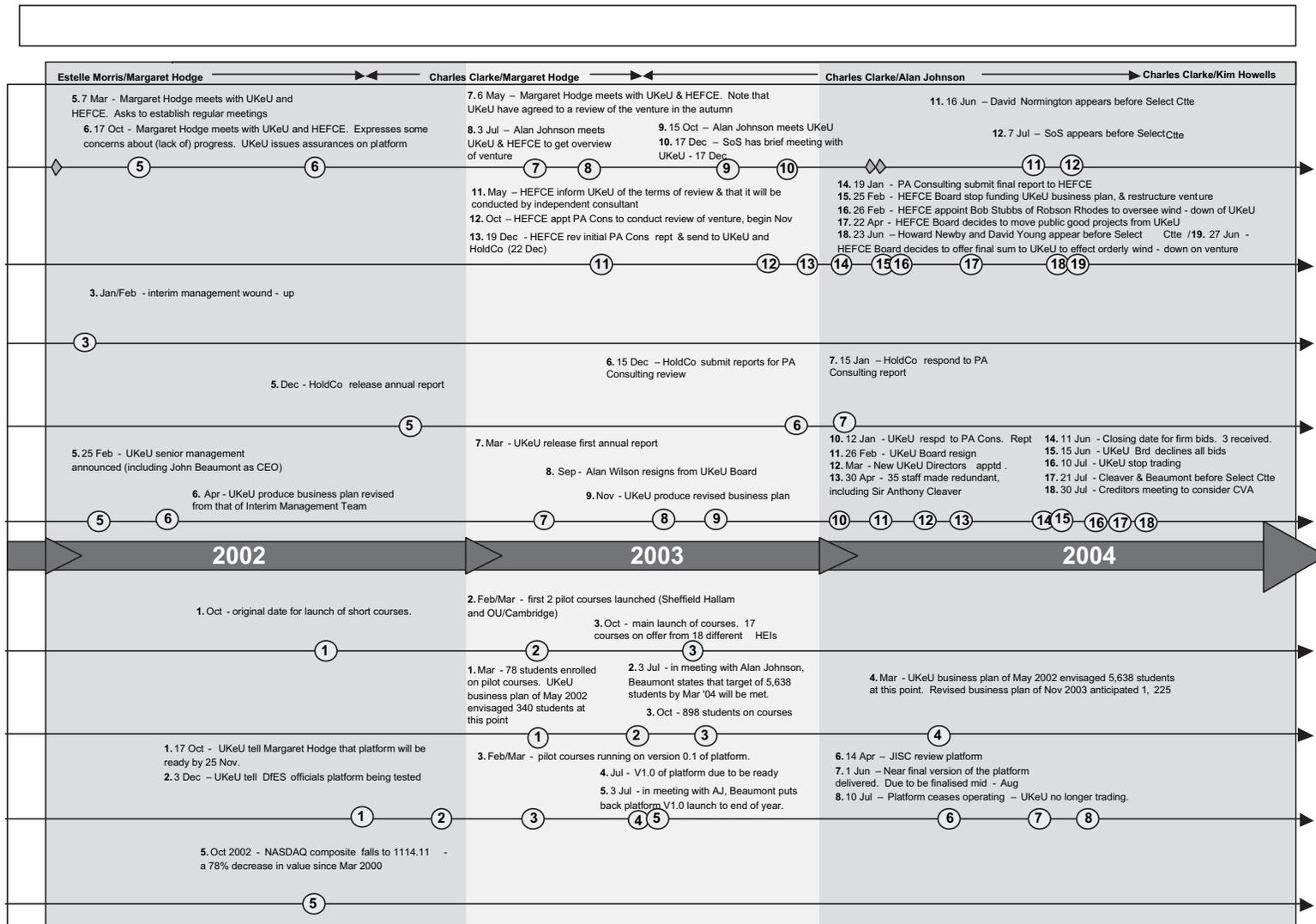
REPAYMENTS ON A LOAN OF £15,000  
(ASSUMING A FIVE YEAR CAREER BREAK)

	Amount of cash repaid £k			No of years taken to repay		
	Current policy	3.5% RRI	6% RRI	Current policy	3.5% RRI	6% PPI
Low	23	26	26	25	25	25
Written off > 25 yrs	n/a	25	67			
Medium	20	33	56	17	21	25
High	18	24	32	13	14	16

Higher Education: Analysis Division  
Department for Education and Skills

November 2004





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 FUNDING OF eUNIVERSITIES PROJECT

£62 million was allocated to the eUniversities project for the period 2001–04. Of this amount, HEFCE anticipates spending a total of around £50 million. They have indicated the breakdown as follows:

	<i>Funding (£m)</i>
<i>Public good activities</i>	
eChina	3.0
e-Learning Research Centre	1.0
Research studies and other disseminations (including the HEFCE contribution to the “Borderless Education” report)	2.0
Advisors (legal and business)	1.0
<i>Commercial</i>	
Technology platform development	13.9
Learning programmes development	11.0
Sales and marketing (including overseas)	4.2
UKeU operating costs	13.4
<b>Total</b>	<b>49.5</b>

*November 2004*

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**Wednesday 12 January 2005**

Members present:

Mr Barry Sheerman, in the Chair

Valerie Davey  
Jeff Ennis  
Mr Nick Gibb

Paul Holmes  
Jonathan Shaw  
Mr Andrew Turner

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**Memorandum submitted by Sun Microsystems Limited (EU 5)**

**INTRODUCTION**

1. Sun welcomes the opportunity to give account of its involvement in the UKeU project.

**SUN IN EDUCATION**

2. Sun as a company started 21 years ago in higher education (SUN stands for Stanford University Networks) and has always maintained a strong focus on this sector. To this end Sun has a dedicated global line of business (that has existed since its inception), which focuses exclusively on the education and research community and includes all education establishments from nursery schools through to further education colleges and Universities.

3. Sun has a number of formal programmes to complement the on-going account management activities including the Centres of Excellence programme spanning teaching, research, entrepreneurship, and hiring, providing avenues for partnership between Sun, educational institutions and third parties. In the UK, Hull University, Oxford University, University of Edinburgh and Imperial College, London all are accredited Sun Centres of Excellence. Sun is also currently a leading member of all established eLearning international standards bodies.

**BACKGROUND TO SUN'S INVOLVEMENT IN UKeU PROJECT**

4. Sun believes that a massive increase in the use of eLearning is essential if the increase in student numbers (including lifelong learning) that must occur is to be achieved. Further, Sun believes that eLearning should be based upon an open standards framework such as that defined by Joint Information Systems Committee and the global learning consortia IMS which ensures that the eLearning world stays open, competitive and gives users best value for money.

5. Sun believed that the UKeU had the potential to be a major force in the growth of the use of eLearning and accordingly it wished to work in partnership with UKeU to achieve this. Sun viewed its investment as furthering Sun's and the UK education's strategic goals while creating a joint business stream of great value to the UKeU, UK Universities and Sun.

**SUN'S INVOLVEMENT IN UKeU PROJECT**

6. In November 2000, Sun responded to the initial invitation for expressions of interest in a joint venture to create UKeU that was advertised in the *Financial Times*. The goal of the tender was to select a private company that would be willing to invest in the new UKeU. The OJEC tendering process was used and through a series of selection processes, Sun was eventually selected as the private sector partner.

7. Sun's proposal included the following main points:

- Sun invests £5.5 million into the UKeU;
- Shares of equivalent value in UKeU created by Sun's investment were to be gifted to a charitable trust set up for the benefit of UK higher education institutions;
- Sun would work in partnership with the UKeU to sell the companies products (including the eLearning platform) worldwide; and
- Sun would provide marketing assistance.

8. In October 2001 Sun and UKeU entered into a Strategic Agreement which captured the above mentioned points of Sun's proposal.

9. In November 2001 UKeU issued through the OJEC tendering process a request for proposals for a Platform Systems Integrator and Datacentre Managed Services Provider for the eLearning platform.

10. In February 2002, through this competitive tendering process, Sun was selected by UKeU to be the Platform Systems Integrator and entered into a supply agreement with UKeU to deliver a basic eLearning platform with minimal functionality that was known as ELP 0.1 or the interim release ("Interim Release"). The Interim Release was intended to be an interim solution to give UKeU a production eLearning platform to deploy courses, attract students and become self-funding as soon as possible.

11. In July 2002, partway through development of the Interim Release, the UKeU renegotiated the contract with Sun and the parties agreed to implement a full version with more functionality known as ELP 1.0. The total fixed contract price for both Interim Release and ELP 1.0 was initially £9.65 million, but as a result of a number of requests for change to specifications by UKeU during development, this was revised with agreement between the two parties to approximately £11.7 million.

12. In March 2003, the Interim Release was delivered and deployed in a live environment and students commenced UKeU courses on the eLearning platform.

13. In May 2003, the parties agreed in a stage plan, for ELP 1.0 to be delivered in modules comprising ELP 1.a, 1.b, 1.c and so on with 1.h as the final module ("Stage Plan"). Under the Stage Plan, UKeU would pay 10% of the contract price on signature of the Stage Plan and a certain percentage of the contract price on acceptance of each module by UKeU.

14. Sun delivered the modules and acceptance certificates were signed by UKeU between 29 May 2003 and 3 June 2004.

15. The Interim Release and each module as it was accepted by UKeU, was deployed into a live environment. At the time of delivery of final module ELP 1.h, there were approximately 140 students using the eLearning platform.

16. On acceptance of each module by UKeU, Sun issued the relevant invoice. Approximately £4.2 million in total was invoiced for modules ELP 1.a–1.f which UKeU failed to pay.

17. In October 2003 Sun commenced negotiations with UKeU for payment of the outstanding invoices while continuing to deliver technical helpdesk services and continuing development of final module ELP 1.h in accordance with the Stage Plan.

18. In November 2003 following the above discussions, UKeU paid approximately £1.3 million in total to Sun which reduced the invoices outstanding.

19. In March 2004, HEFCE appointed Robson Rhodes as administrator of UKeU. Sun UK senior management had on-going meetings with Bob Stubbs, from Robson Rhodes, who was appointed as Executive Deputy Chairman of UKeU.

20. In 9 June 2004 a further payment of £880,000 for previous modules was made on delivery and acceptance by UKeU of final module ELP 1.h.

21. In 18 June 2004, UKeU served a notice of termination of the supply agreement on Sun effective immediately with work and invoices remaining unpaid.

#### CURRENT STATUS OF THE eLEARNING PLATFORM

22. Sun has performed no further work on the eLearning platform since termination by UKeU. Sun has however, had several discussions with HEFCE to discuss how the jointly owned intellectual property rights in the eLearning platform may be deployed in a free community source form to benefit the UK education community.

#### CONCLUSIONS

23. Sun continues to invest in education and would be willing to participate in a similar project in the future. Sun is committed to the development of open eLearning and believes that the initial goal of the project was a valid one, and the type of eLearning environment that it sought to bring about, will be essential in the future if the number of students and life-long learners is to increase.

6 January 2005

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*Witnesses: Mr Leslie Stretch*, Vice President, Sun Microsystems UK Ltd, and *Mr David Beagle*, Account Manager of UK e-U project, Sun Microsystems Ltd, examined.

**Q480 Chairman:** Good morning, could I welcome Leslie Stretch and David Beagle to the proceedings of our Committee. Leslie Stretch is Vice President of Sun Microsystems UK, and David Beagle is Account Manager of the UK e-U Project, Sun Microsystems Ltd. Thank you very much for coming before the Committee. You will know the role of this Committee is the scrutiny of the Department for Education and Skills and anything in that vast empire is our business. We have been looking at the UK e-U experience and there is no doubt as we have conducted our interviews that we have found that Sun Microsystems are a major player in this whole enterprise, so we want to go through the process forensically just to see how your role materialised, as we see from your briefing, from your response to the advertisement in the *Financial Times* and so on. Mr Stretch, would you like to give us a two-minute account of your involvement to get us started?

*Mr Stretch:* I have a short opening statement about Sun Microsystems for people who do not know anything about our company. Is it alright to go through that?

**Q481 Chairman:** As long as it is not too long.

*Mr Stretch:* Sun Microsystems employ 3,000 people here in the United Kingdom and we have the largest manufacturing footprint of our company anywhere in the world here in the United Kingdom. We have been involved in the education sector for 20 years. The UK e-University involvement came to a contract head four years ago, effectively, when we got involved in an intention to partner strategically with UK e-University to provide an e-learning solution to the UK market place and to the global market. That was our initial involvement and the whole intention there was a strategic partnership for us to also build the e-learning platform and the technology that supported the solution and then to partner with e-University in taking that solution around the world and for us to benefit from that, so we took an investment view of this relationship. We invested initially £5.5 million in kind of services and products into the venture. However, as the venture spun out, our relationship became very much a supplier/customer relationship and the day-to-day focus, particularly in the last two years when I was involved closely in monitoring the situation at e-University, became a relationship that I would characterise as a supplier relationship where the focus was to deliver the e-learning platform, and we have got to where we are today. The financial treatment for us is highly confidential because it is commercially quite sensitive, however, we have provided a statement to the Committee on the financial treatment and I am happy to take any questions on that. The headline for me is that we sit here today with substantial losses from the venture, and that includes our initial investment which we wrote out four years ago, and in our last financial year we wrote out some other substantial losses related to the termination of the venture.

**Q482 Chairman:** Okay. In terms of your involvement in the setting up of this, what was the first point of contact and how did that develop? You started presumably negotiating the contract and the basis on which you would work with the e-University before the private company was established; is that right?

*Mr Stretch:* I will ask David Beagle to answer that.

*Mr Beagle:* The original contacts were with the selection committee and the selection committee consisted of the interim directors of the University, so that was Nick Winton, Professor John Slater, Dr Keith Palmer who was on secondment as the Financial Director from Rothschild's. There were people from PwC, there was one representative from HEFCE, and there were also people from Ove Arup on that committee, and that was who the original conversations were with.

**Q483 Chairman:** Which committee?

*Mr Beagle:* It was called the selection committee.

**Q484 Chairman:** No, the last thing you said?

*Mr Beagle:* From Ove Arup.

**Q485 Chairman:** What about the relationship with the holding company? Did you have a relationship with the Higher Education Funding Council? Did you meet anyone from the Higher Education Funding Council?

*Mr Beagle:* The person who sat on that committee we met every time the committee met. We were told that it was not proper for us to talk about the University to HEFCE directly without the committee's approval first. We did have a meeting with Sir Brian Fender during the process and occasionally had meetings with Alice Frost, who was directed to look after that but those were infrequent. Pretty much all of the meetings were with people from the selection committee.

**Q486 Valerie Davey:** Can we just clarify who the member was from HEFCE on that selection committee?

*Mr Beagle:* Linda Josh.

**Q487 Chairman:** What we are trying to get at is the legal entity. As we understand from the evidence that we have taken that must mean either HEFCE or the holding company because there was no private company at that time.

*Mr Beagle:* We were dealing with the committee who were representing HEFCE but the day-to-day conversations were with the committee or people from the committee. Most conversations were with John Slater because we were talking mostly about e-learning and how we could invest in the e-learning experience.

**Q488 Chairman:** Look, we are not here to castigate anyone here. Our job is to find out what happened. What is your view, both Mr Stretch and Mr Beagle, of what has gone wrong? Two stories have come to this Committee. On the one hand, people say this

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was a great idea, and if only it had been given more time it would have worked. Others say it was misconceived from the very beginning. Like a lot of other people, like Columbia University and Cornell and some big players in the United States, they thought it was a goer, they thought it was a very interesting niche to get into, and they got their fingers burnt. Of those two stories to which one do you subscribe? What is your analysis of what has gone wrong?

**Mr Stretch:** My view today is that the intention behind this was good. My view today is that there was no reference architecture for this business venture anywhere on the planet at the time of start up and initiation, so between all of the entities involved, including ourselves, nobody had the track record of experience of bringing e-learning to the market in this way by building the platform and so on. There was no off-the-shelf solution either from a technical perspective or from a business perspective. There was no other business we could look at and say that is the business model, so it was all based on intuition. Looking at it now, the global market is well-studied for this service. The opportunity for this service in my view runs to billions of dollars. My view then and is today that the UK has an opportunity to take the lead. The UK has the best branded content to take the lead in this market space and that is why we took an investment view of this venture, but at the time I do believe that the argument that says the parameters of time and money and possibly the measurements were wrong is true, and it is true because nobody had any reference to point to say this is the way you set up a business venture of this nature (because that is what it was); this is how you manage the relationships with the higher education entities involved; this is the way you acquire customers to the market. There was no reference, there was no text book for anyone to look at. Looking back now I would agree, if I refer to Sir Anthony Cleaver's comments, broadly from a 30,000-foot level that the whole venture was not given enough time and enough money to succeed, and indeed in the original plan the budget allocated to get the venture up and running was substantially more than the £57 million or £60 million that was eventually laid out. We still believe in the opportunity and indeed between ourselves and HEFCE we are in the process of agreeing how we move forward because there is at least a working system here, there is a working platform. That is my view.

**Q489 Chairman:** What is the reason that people like the University of Phoenix and other players round about the same time have conquered these and launched very successful programmes? Why is it that they could do it and you guys could not?

**Mr Beagle:** I think you need to see the difference between UK education and education around the world. Most university education around the world is more "here is information; take it and go away and deal with it yourself" whereas the UK university

experience is much more about training you how to think in certain ways. Delivering that sort of education over the web is far more difficult than the sort of education that places like Phoenix do, which is more a training sort of activity, and so that is why when we looked at the packages that could possibly be used they were more training packages and could not deliver what was required. In delivering the content they had had an easier run at it than the UK had. By the same token, if the UK experience could be delivered over the web it would be a profitable market, we believe.

**Mr Stretch:** I have a slightly different view on that, a slightly higher level view, and it is that the UK e-University was drawing contact from a number of different players. The governance bodies involved in the set-up were different. When you have one university moving ahead there is a different set of potential outcomes. There is also a different offer. I think the e-University offer was much richer and potentially much deeper. The brands involved were second to none. One university setting up and doing it is fine but, as I understand it, on the timing of a number of universities who went down their own road and the level of success they have achieved, the story is not complete there, so I think there is a different case.

**Q490 Chairman:** What do you say to the critics who would suggest that it was Sun Microsystems' inability to deliver this platform on time that was one of the major reasons for failure and that if you had stuck to the deadlines, if you had produced this platform on time, these problems would not have arisen, the momentum would have been there, and the dynamics would have been a great deal better. HEFCE's eventual feeling was that things were not happening fast enough and they had to pull the plug and it really was down to this problem, everyone talks about this technology-driven solution that you did not deliver on time. Is that a fair criticism?

**Mr Stretch:** No, I do not think so. HEFCE have never levelled that criticism at us.

**Q491 Chairman:** They did when they came to us.

**Mr Stretch:** They have not levelled it at me directly so my view is that the design of the system, the specification of the system, the requirements definition of the system were not done by us; we were the supplier.

**Q492 Chairman:** You said you became the supplier but you were really into the discussion right at the beginning, the nuts and bolts of planning it, you were there really early days, were you not? You were there before the chairman and chief executive were appointed?

**Mr Stretch:** Not designing the specification of the system.

**Q493 Chairman:** Your contract had been settled before there was a chairman and chief executive of UK e-University. That is true, is it not?

**Mr Stretch:** A contract had been settled but that subsequently changed.

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**Q494 Chairman:** Take us through that. We have got dates here where you should have delivered the platform but you did not, so why did you not deliver the platform on those dates?

**Mr Stretch:** The contract subsequently changed from initially a time and materials contract to a fixed price contract when Sir Anthony Cleaver and John Beaumont came on board, so that was a key change for everybody. There was a live system and when it was delivered here and was in use through the user experience, as is common on projects of this nature, there were change requests, the market was telling the e-University that certain elements and features had to be changed to suit the needs of users and so those came into effect and the contract grew in value from £9.5 million or so to around £11.1 million. As a result we were paid only £7.1 million so I do not quite agree with your analysis of the situation.

**Q495 Chairman:** It is not my analysis, Mr Stretch, it is what we have been given as evidence, the failure to deliver the platform slowed the whole process up and you are saying that you did deliver on time.

**Mr Stretch:** We had a working system, we had users using the system, there was no limit to the number of additional customers that could have been taken on to the system, it was there.

**Q496 Chairman:** And so the system is absolutely, totally complete as at the present moment? It is a platform that could be used by somebody else if there was an opportunity? The whole thing is there, it is done, dusted, complete? It is like buying a beautiful new car, it has got all its wheels and engine, everything, it is all done?

**Mr Stretch:** I will let David Beagle answer the technicalities.

**Q497 Chairman:** Mr Beagle, is this platform 100% finished?

**Mr Beagle:** I think a better simile would be, say, the building of a hotel, where individual contracts are placed for the shell of the building, fitting out the rooms and so on, and we delivered all of those contracts and we have acceptance certificates that say the University accepted those elements and the platform that was delivered just before the e-University was closed was a working platform. Saying it is 100% complete—In all of these things people using it say, “I would prefer it if instead of it being up there on the screen it was down here,” and those sorts of things you do after the launch, so apart from those types of activities, yes, it was complete.

**Mr Stretch:** I think it is probably fair to say that the content of the system goes beyond the original design specification because of the change phases that we got into, so it is not quite like the car analogy; there are iterations of change coming in from different angles, from the user angle, market angle and so on.

**Q498 Chairman:** You are one of the most prestigious companies in this field, are you not? You are well-known to us. You do wonderful work in prison education IT that we know of. You are market

leaders so you know the nature of these contracts and they are always going to change. You have been there, you have done that with other government departments and other countries so you are familiar with the concept that the contract will change. You seem to be suggesting that they changed the rules so that you could not really perform as you would like to have done.

**Mr Stretch:** No, I am not suggesting that at all. The whole scenario has not played out. Our contract was terminated, the funding was withdrawn, the funding ran out. The changes were fine and they were all agreed. It was good practice to have users come along and look for changes to functionality to keep up with the needs of the market. That is fine, but the venture was terminated abruptly and I go back to my opening comments, about whether this had the time and money to play out. Who knows how much time and money it would need. I go back to my opening comments about the reference architecture and where we can point to similar experiences because if you look outside of this field and you look at other on-line dot-com ventures the spectrum of variables of time, money and measurement is huge. There is no one predictable pattern. I still believe looking back at this now that there were two successful business people drafted in at the chairman and chief executive level to run this. They had strong track records and were more than capable of succeeding with this, but I do not know of any venture that had this type of set-up in terms of the investment profile, the limit to it, and the measurement of time dynamics of the venture.

**Q499 Mr Gibb:** SUN stands for “Stanford University Networks”; is that right?

**Mr Stretch:** That is correct.

**Q500 Mr Gibb:** Are you still connected with Stanford University? What is the relationship between Sun and Stanford?

**Mr Beagle:** It is still a very close one because the company is based in Palo Alto so it is geographically very close and the senior members of Sun’s executive have very close daily contacts with the university.

**Q501 Mr Gibb:** Are the shares in the ultimate Sun holding company owned by the university?

**Mr Stretch:** No, the structure of ownership of the company is in our accounts. It is a public company floated on Nasdaq many years ago.

**Q502 Mr Gibb:** You are totally spun off from the university but you still have contacts?

**Mr Stretch:** Still have a lot of contacts.

**Q503 Mr Gibb:** Does Stanford University, which is a very strong brand, one of the top universities in the world, have this kind of e-learning platform available or service available to them?

**Mr Stretch:** I am not sure I could answer that. I do not know the details.

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**Q504 Chairman:** Mr Beagle, do you know?

**Mr Beagle:** We have been talking with Stanford and other universities in the California area about e-learning systems like this but over the last few years there has been a freeze in California on spending on that sort of area so those projects have not moved forward very much.

**Q505 Mr Gibb:** So Stanford University, a leading university in the world, did not really think this was a business venture they wanted to get into?

**Mr Beagle:** They do want to get into it. It is just they cannot at the moment spend the money on doing so.

**Mr Stretch:** Let's be very specific. We have had no discussions with Stanford University whatsoever in relation to this type of venture or this venture, none at all, let's be very clear about that.

**Q506 Mr Gibb:** It just seems odd that you are happy to do it in the UK but one of the leading universities in the world does not want to get into this business. Is that not a kind of warning shot?

**Mr Stretch:** Who said they did not want to get into the business?

**Q507 Mr Gibb:** Well, they did not get into the business.

**Mr Stretch:** I do not know if they wanted to get into the business or not so let's stick with my original answer to the question which is we do not know if they want to get into the business or not but there are other prestigious universities that do and have. We had the example of Phoenix and so on. We believe e-learning is an excellent opportunity for some sort of entity in the UK, whether it is a single university or whether it is something again driven by HEFCE. We absolutely believe that market is—

**Q508 Mr Gibb:**—But you did say, did you not, that Phoenix was more of a training style more suited to this kind of package but for the more academic universities that teach a different style this is a more difficult way of engaging in that kind of teaching?

**Mr Stretch:** That might be the case. It might be more difficult but that does not mean—and I see your point—that it is not a good venture for them to be involved in.

**Q509 Mr Gibb:** Why did the e-University learning package in the UK fail? I thought that was the reason, that British universities have this different kind of teaching, that they teach students how to think and not just train them in facts and figures. I am trying to work out why it failed if you think it could happen and that the Phoenix example could have been a good example.

**Mr Stretch:** That goes back to my original point, which is where do we define failure, where do we judge it as a failure. There was no reference architecture at the time for this business venture. My position is that I do not believe there was sufficient time and investment given to this venture. That is my view. There are so many different strands and strata of e-learning solutions and potential e-learning solutions and potential segments of the market, I do

not think that is the reason. I do believe it is the time and money and perhaps the governance and set-up, issues like that.

**Q510 Mr Gibb:** But inevitably the software will be more complex than that used by Phoenix because of the type of training or teaching that takes place?

**Mr Stretch:** There are totally different elements. I am not familiar with the Phoenix system but a single university drawing on its own content as one example is quite different from the concept, as we understood it, behind the e-University where they were drawing on lots of different sources for content and lots of different types of content, so that is a lot more complex but the potential service on offer was much richer than a single university could offer.

**Q511 Mr Gibb:** Would it have been better therefore for the big universities in Britain to do this individually?

**Mr Stretch:** I do not know that.

**Q512 Mr Gibb:** Can I just ask you about the structure of UK investment. Your investment was put into shares and then those shares were vested in a charity. What was the reason for that structure?

**Mr Beagle:** The shares that were issued were vested by us in a charitable trust for the benefit of UK universities. The reason for that was that the shares issued were quite a small element of the total shares of the company and so we felt it was best to put that somewhere for the benefit of the whole enterprise rather than hold it within Sun which would have been of no benefit to the goals that we had.

**Q513 Mr Gibb:** So it was nothing to do with getting them off your books, it was to do with lack of synergy with your other activities?

**Mr Beagle:** To go back to Leslie's original statement that we were looking at this as an investment, the reason we were investing is that we believed very strongly that the e-learning market-place was going to be huge in the future but it needed a start into a more open way of doing it and funding to be able to do that, so it benefited us more in the long term for that money to be returned into the sector rather than us hold it.

**Q514 Mr Gibb:** So how would you eventually profit from this business if it succeeded?

**Mr Beagle:** The intention was that we would profit by the reimplementation of the platform both within the UK and outside in the rest of the world and also from the reselling of the e-University's services outside in the world.

**Q515 Mr Gibb:** What role did Sun play in incorporating the operating company UK e-U?

**Mr Beagle:** None at all.

**Q516 Mr Gibb:** What role did the charity have in the operating activity? Presumably nothing, it was just—

**Mr Beagle:** I cannot answer categorically, I do not know.

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**Q517 Chairman:** You have not said what percentage of shares this charity owned of the company?

**Mr Beagle:** It varied but the highest level it was at was about 22%, I think was the original, but as the shares diluted it became less than that.

**Q518 Chairman:** That was 22% of that company but did you have any guarantee if the company had been launched on the stock market that the charity would have had a share in that?

**Mr Beagle:** I do not know. I am not certain of that.

**Q519 Chairman:** But you were there, you helped devise this strategy.

**Mr Beagle:** Yes, but we were not part of the charity, we were not involved in the charity. The board which headed the charity had those sorts of discussions.

**Q520 Chairman:** Who was the chairman of the board of the charity?

**Mr Beagle:** I do not know.

**Q521 Chairman:** Who was on this charity then?

**Mr Beagle:** The set-up of it was to be arranged by HEFCE's lawyers.

**Q522 Chairman:** So this is a theoretical charity?

**Mr Beagle:** The charity existed but I do not know who the people were.

**Q523 Chairman:** You could give us details of the charity—

**Mr Beagle:** I could find out.

**Q524 Chairman:** You could give us the charity trustees?

**Mr Beagle:** I could find that out.

**Chairman:** You could, jolly good.

**Q525 Jeff Ennis:** Just a supplementary, Chairman, to the question about the setting up of the charitable trust. Were there any alternative models considered instead of the charitable trust?

**Mr Beagle:** Yes, we reviewed things like Sun taking the shares into ownership and setting up a separate company to own those shares, things like that, most of which did not fulfil the strategic goal or were too expensive to go forward.

**Q526 Jeff Ennis:** Looking back in hindsight would one of the alternative models have been a better option, do you think, in terms of delivery of the project?

**Mr Stretch:** Yes, I think so.

**Q527 Jeff Ennis:** Which one would that be?

**Mr Stretch:** I am not sure but I think the whole governance needs to be reviewed and I think we could have taken a stronger role in the governance. As it was we did not want to participate directly in the financial benefits if any accrued there, which is why we got into the charity discussion. Looking back now had we taken a seat on the board, for

example, then the original intent of the strategic partnership might have followed through, so I think that is one thing that has occurred to me since—

**Q528 Jeff Ennis:** You seem to be indicating to me that you just went along with the setting up of the charitable trust rather than supporting it from a Sun perspective?

**Mr Stretch:** No, we had not been there before, we had not done this before and we thought that was a good vehicle to produce value for the UK education sector. Our main focus had to be on delivering the system and then benefiting from partnering in the sale of the system. Holding the shares at the time did not register with us as something that was going to be that interesting. It looked like a long-term venture and it was important for us not to be seen to be profiting from it.

**Q529 Jeff Ennis:** Did you signal any warning bells at the time?

**Mr Stretch:** At the original start of the—?

**Q530 Jeff Ennis:** At the suggestion to set up the charitable trust?

**Mr Stretch:** I did not hear any warning bells from the suggestion to set up the trust. There were certainly warning bells around. In any project of this nature there are concerns and we did a risk assessment and it was a difficult risk assessment getting into this, but we felt that the potential gains and we still feel the potential gains based on the platform that exists today and what we resolved with HEFCE are substantial, so we decided to take the risk.

**Q531 Mr Turner:** Accepting that this is a one-off and that neither of these analogies of the hotel or the car is perfect, it seems to me that you were asked to tailor a system to the requirements of a client and, as when any suit is made, the client comes back occasionally and has it adjusted, but basically that was the model. It was not a partnership. It was you making something at the client's request. Is that correct?

**Mr Stretch:** That is what it became and if I refer to Sir Anthony Cleaver's account, he makes the same assessment. It became a supplier/customer relationship. At the outset the intention was more strategic but once we got into developing the system, the day-to-day focus was delivering that system and that is where all the energies were put.

**Q532 Mr Turner:** So what was your picture of the strategic nature of the partnership and did that disappear or did it just go below the surface with the expectation that it would re-emerge while you were dealing with the detail of construction?

**Mr Stretch:** That is a very good way of putting it. My view is that when Sir Anthony Cleaver and John Beaumont came on board we had two capable people driving the marketing mission, bearing in mind that there had been no entity that they could follow that had successfully marketed this service, it did not exist, and there was not a lot for them to draw on, and I believe that they were capable of taking the business forward. I believe that our focus

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(and indeed we were directed to focus) was on delivering the system, and that was the number one priority, but I did also believe that ultimately when we had got to the situation through the change control phases where we had a stable number of users and students and so on using the system, there would be a point where we could take a breather and re-look at our involvement in the strategic marketing plan and we were keen to do that, but it felt right then to focus on delivery of the system.

**Q533 Mr Turner:** The reason I ask these questions is because we have time and time again a history in the Department for Education and Skills of private companies entering into what appears to be a partnership with government which turns out to be a contract for delivery of the project. On the one hand that might be because government is incapable of partnership or on the other hand it might be because private companies are not willing to run risks in dealing with government, which if you watched *Dragons' Den* last night on telly, involve them losing some income now in the expectation of gain later. You have been paid for a project which you undertook. You did not invest, you did not lose money now for the sake of gain later in that partnership, did you? What is your observation on those two different reasons for these partnerships not getting off the ground?

**Mr Stretch:** I do not think that we can draw general conclusions about the ability of government and the private sector to partner based on this experience, in my opinion. We were playing with a lot of money here. *Dragons' Den*, which I watched last night as well, was playing with £50,000 and I thought they were a very risk averse group of entrepreneurs indeed. We invested £5.5 million of ours in kind in products and services. The system had a value on the renegotiated fixed price contract of £9.5 million. When the change control elements came in that moved up to £11.1 million. We received £7.1 million. Our costs to deliver, involving our contract staff, our products and components and third party contract staff and products and components, substantially exceeded that in an unprecedented way for Sun Microsystems in the United Kingdom. We have never done that before so we were not paid for the system.

**Q534 Mr Turner:** Was that intentional or unintentional?

**Mr Stretch:** It was not intentional to go quite as deep. The original £5.5 million was the intention and then we hoped we would break even on the project. We did not expect to face the losses that crystallised in our previous financial year (these are not current losses) and we did not expect to be in that position at all.

**Q535 Chairman:** Let's tease it out a bit because we represent the taxpayers in this Committee and there is a lot of taxpayers' money which seems to have been lost. You are saying that you lost as well, but looking at the figures you received £11.1 million?

**Mr Stretch:** No.

**Q536 Chairman:** How much did you receive?

**Mr Stretch:** £7.1 million.

**Q537 Chairman:** What is the nature of the investment of the £5 million? You did not stump up £5 million in cash, this was in kind?

**Mr Stretch:** We provided in kind products and services and we placed a value on those products and services of £5.5 million. We believed that HEFCE at the time had an independent body place, a value of £11 million on what we contributed in kind. We took a book value four years ago and wrote it off at £5.5 million. That is as real to us as cash.

**Q538 Chairman:** When you say it is an investment, Mr Stretch, most people who would invest in your company would say here is an investment, so when did you anticipate the return on that investment? You said you invested. When you started where was the return going to come?

**Mr Stretch:** The return was going to come at the point in the business plan when e-University was up and running in the United Kingdom and had reached the milestones which were laid out and which were agreed between the UK e-University and HEFCE in terms of numbers of students and users. At that point we thought we would be in a good position to launch with UK e-University a global marketing campaign to sell both the system and the service so at that point, which was four or five years from the original agreement, we would begin to see substantial returns from a global market that is still there today.

**Q539 Chairman:** The returns would flow into UK e-University or to you directly?

**Mr Stretch:** Both.

**Q540 Chairman:** How would that work?

**Mr Stretch:** The potential engagements from this for us and for the University would have many different shapes. There could be the service that is provided by the University. We could have even looked at providing the service. We could have resold licences for the platform. There are a number of different ways.

**Q541 Chairman:** So other universities could use a similar platform?

**Mr Stretch:** Also the commercial sector. E-learning represents a huge amount of HR investment in the key commercial markets.

**Q542 Chairman:** You may find some of these questions irritating but we want to nail them. Who could get a share of the profits? It seems a simple question. You are saying that this market would expand, you would have all sorts of contracts but surely that money would flow to UK e-University if it was a great success?

**Mr Stretch:** From the underpinning components that I supply just as a computer hardware and software company. I would expect to benefit mostly from selling my standard, traditional components

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that would support users and the platform. That is where I would make most of my money—from my core products and services.

**Q543 Chairman:** Okay, take us back to this £5 million shares put into the charity. Whose idea was the charity idea then?

**Mr Stretch:** I would have to go back to David Beagle.

**Q544 Chairman:** Come on, David, whose idea was it? It is a murky idea. As Andrew says, all the time we look at the relationships between government departments and commercial providers and because we have got a lot of experience in this (in individual learning accounts and much else when Capita was involved) we find an “it’s not me, gov” mentality. The private sector comes in and says we were partners at one stage but then we became service providers. We sit here and think come on, the real private sector entrepreneurial group was you so we would have expected you to be the driver in terms of knowing what the market was like, how you run this thing. You were not going to expect a bunch of bureaucrats to know that, were you?

**Mr Beagle:** The original idea for the charitable trust came out of think-tank that we held with people such as John Slater when we were trying to work out the best way of making this happen. I cannot remember whether it was us or John Slater who had the original idea of the charity but it came out of that meeting. We then assessed that against all the other options and at the time that seemed to be the best way of going forward because a large part of it was, as you said, where we expected to make money out of it. The forecast in the original e-University business plan for money coming out as dividends for those shares was for around 2007–08, that sort of timescale. We were expecting to be doing reimplementation of the platform round about now, that was the original expectation, and we saw that as far more of a significant business for us and that is what we wanted to focus on, and to a degree we thought it would be good PR to put those shares back into the sector, so the sector benefited from it, not us.

**Q545 Chairman:** So if it had been a wonderful success would that be the company as it stood getting dividends or the company after launch?

**Mr Beagle:** I am sorry?

**Q546 Chairman:** Well, there were proposals, were there not, to launch this as a company on the stock market if it was a success. We have got that information from Companies House. We know that there were arrangements that on launch certain people would get a percentage of the dividends. You must have known about that?

**Mr Beagle:** We knew that was the plan but I go back to what I said previously, that was so far in the future and in our view would be much smaller than the real idea which was to benefit from the delivery of extra platform elsewhere.

**Q547 Chairman:** You are the private sector entrepreneur. You cannot remember whose idea it was to set this charity up but you surely must know who had the share ownership? Who were the other shareholders?

**Mr Stretch:** One of the points that worried me about that was that the interim chief executive in the start up phase—

**Q548 Chairman:**—John Slater?

**Mr Beagle:**—The chief executive was Nick Winton.

**Mr Stretch:**—was not there halfway through the project. We really were not interested. We are a computer company, we are not an investment bank. We are interested in the education sector and we made an investment. It was uncharacteristic of us to make that sort of investment. We had not done that before. We had built and delivered systems before but our business plan was very simple. It was to get benefit from providing our core technologies to underpin the platform. Making money from the service or the flotation of the company was never on our agenda and that is why a small amount of shares were placed in this charitable trust.

**Q549 Chairman:** It is not small, you said 20%.

**Mr Stretch:** It varied. It became diluted over time and it would not have mattered if it was 8%, we did not benefit.

**Q550 Chairman:** It matters to us, Mr Stretch, because we are trying to understand this very murky area of why this charity was set up and who owned the shares and if they were not owned by the charity who were the other shareholders?

**Mr Beagle:** All the universities in the UK had shares in the university.

**Q551 Chairman:** We all know they had a £1 share.

**Mr Beagle:** The rest of the shares were owned by HEFCE. My understanding is that the rest of the shares were owned by HEFCE.

**Q552 Chairman:** But were you involved with the discussions about launch on the stock market, different people would have shares of the company at that stage?

**Mr Stretch:** I was not.

**Q553 Chairman:** Neither of you?

**Mr Beagle:** No.

**Q554 Chairman:** So you would not be aware that the chairman and chief executive would have had a percentage of the company on a successful launch?

**Mr Stretch:** I was not, but it would not surprise me. That is conventional.

**Q555 Chairman:** This is not a plot, we just want to know. Other witnesses say you were a strategic partnership, you say you were a service provider. That is what we are trying to get at. It seems to me you started off as a strategic partner and then the role changed.

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**Mr Stretch:** There are three pictures you paint there, one, service provider, one partner and then the third picture we started out with strategic intent and ended up as a supplier. That is the picture I have and that is certainly the picture Sir Anthony Cleaver has, as he said in his account.

**Chairman:** Okay. We will just press on. Jonathan wanted to come in.

**Q556 Jonathan Shaw:** Mr Stretch, you said in your opening statement that you thought the parameters of the time and money were wrong. Could you just expand on that a little bit. When did you come to that conclusion?

**Mr Stretch:** It is a conclusion that I came to with the benefit of hindsight.

**Q557 Jonathan Shaw:** Yes, of course.

**Mr Stretch:** I started to feel like that in the closing stages. I became involved on a fairly detailed basis when I took on the role of Managing Director for Sun Microsystems UK Ltd two years ago because it had a very high priority in the business and it was really towards the end, towards the termination when we saw the appointment of Robson Rhodes to oversee the business that I started to think about how we had got into that position, and that is when I started to think about the whole issue of investment and time and how we could have made the venture a success, but it is a conclusion I come to with hindsight. I have not discussed it with Anthony Cleaver, but I have noticed he made a similar statement, and I tie it back to the original plan which had a budget essentially of £90 million and that is not where we ended up.

**Q558 Chairman:** Where did you get that figure from?

**Mr Stretch:** I picked that out from the written account of Sir Anthony Cleaver's statement to this Committee.

**Q559 Jonathan Shaw:** When we try and draw together our conclusions when we publish our report there are perhaps two lines of enquiry. Is it that the HEFCE were worried as this was a fantastic venture for education and was going to be hugely profitable or that this was an idea that was never going to take off and everyone is trying to avoid having the finger of blame pointed at them? Those seem to be the lines of questioning. I think you said that you were closely monitoring the delivery of the learning platform. In your discussions with Sir Anthony Cleaver what were those discussions in terms of the relationship with HEFCE? Was there a perceived panic, was there a concern that this was going to go belly-up and there were going to be lots of inquiries such as this, or was it, "We need to remain calm to be able to see this project through?"

**Mr Stretch:** I think it was the latter. The focus was to remain calm to deliver the system and to see the venture through. I definitely did not get that transmission of feeling from any of the meetings that I had with John Beaumont, or Sir Anthony Cleaver.

**Q560 Jonathan Shaw:** So when you received the phone call or letter to say the plug is being pulled, was that a shock, was that a bolt out of the blue?

**Mr Stretch:** Towards the termination point it started to become clear that there were those issues. It was not a bolt out of the blue, but our day-to-day discussions with the chief executive and the chairman were really focused on delivery and revisions to the system.

**Q561 Jonathan Shaw:** Can you just tell us towards the end when things were becoming bleak what were the messages that you were receiving that made you reach that sort of conclusion? Was there an inevitability that you are describing?

**Mr Stretch:** No, there was not an inevitability and in these things there is never an inevitability until you see in black and white the notice of termination. Even when Robson Rhodes became involved to oversee the company we explored many different avenues in order to give continued life to the venture and indeed those discussions are not over because we are agreeing a way forward on the platform with HEFCE where UK education will benefit. So it is really when you see it in black and white that it crystallises it for us. Until then you have to continue running the business venture. I presume that is what the board were doing and we had to continue with the delivery activities and the change control issues that came up and we continued to do that after the appointment of Robson Rhodes.

**Q562 Jonathan Shaw:** We know that you are in discussions with HEFCE about the future of the platform?

**Mr Stretch:** Yes.

**Q563 Jonathan Shaw:** We know that there are commercial issues which you would not want to disclose at this time, and we understand that, but £14 million of public funds has been used to develop this platform. Without, if you can, divulging commercially sensitive information, which we appreciate, can you clarify what you think is going to be done with this learning platform?

**Mr Stretch:** There are a number of options at the moment. We have a working platform and it has substantial value. The intellectual property of the platform has substantial value in our view. Our objective—and we are almost there with an agreement on a memorandum of understanding with HEFCE—is to see that the system has a life and benefits are delivered back to UK education, not just higher education. In high-level, broad strokes that is the plan at the moment.

**Q564 Jonathan Shaw:** You said that the intellectual property has got a substantial value. Who is the ownership of that intellectual property with?

**Mr Stretch:** The intellectual property is assigned to the system in component form so there are self-contained modules. The majority of the intellectual property is owned by Sun Microsystems UK Ltd.

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**Q565 Jonathan Shaw:** Right, and the rest is owned by?

**Mr Stretch:** HEFCE, I guess.

**Mr Beagle:** HEFCE. It remains with HEFCE, we believe.

**Q566 Jonathan Shaw:** Can you give us a percentage?

**Mr Stretch:** I cannot give a percentage.

**Mr Beagle:** No.

**Q567 Jonathan Shaw:** Okay, well what is going to happen to that intellectual property? Are you keeping it or are you going to give it to HEFCE? Given that it is £14 million that was paid out by the taxpayer to develop the intellectual property, where is it going now?

**Mr Stretch:** David is involved in the memorandum of understanding so he could answer.

**Mr Beagle:** We are quite involved in these commercial discussions and so some of them are commercially in confidence, but our main aim is to make the ability to use the platform available to UK education in general at no charge, so where the IPR actually rests is, in our view, not the most important thing, it is how we make the benefits of all that effort available to UK education for the universities, schools, FE colleges, what have you, and what we are trying to discuss with HEFCE is how we make the platform (as is) available to them either in total or in individual modules for them to use.

**Q568 Jonathan Shaw:** Do you think that this saga has damaged opportunities for global e-learning? Is this issue reverberating around the world? We like to flatter ourselves and think that people are watching. Maybe that is not right.

**Mr Stretch:** Not yet.

**Q569 Jonathan Shaw:** Not yet! Right.

**Mr Beagle:** I think it is true to say that there was a great deal of interest in the e-University project from around the world while it was on-going and there were a number of places which were interested in taking the platform as and when it became available. Particularly universities abroad were very envious of UK universities and having that sort of project and that sort of investment in making the next big leap in e-learning and so there is disappointment that it has come to where it has but there is still a lot of interest in what can be got out of this.

**Q570 Jonathan Shaw:** Do you think that this project is retrievable? Do you think that if there is a will that this project could be put back on road?

**Mr Stretch:** Absolutely, and that is our intention. I think that the opportunity is there. The market size is well documented and the opportunity is well documented, particularly in the commercial sector where there are some very innovative aspects to the working system that is delivered, and we have a system that is delivered there that we can get to work on immediately, so I think it is. I think it needs very detailed analysis on how we take it forward.

**Q571 Chairman:** Mr Stretch, just to pull you out on that a bit. I am hearing two voices really. One is that you are an entrepreneur, you are one of the most successful companies in your field, with a high reputation. Many of us on this Committee admire much of the work you do. You are saying here is a damn good project, no-one should have pulled the plug on it, it is a great commercial opportunity out there, world conditions are changing in its favour. As an entrepreneur I would have thought your company might have said, "The government has got cold feet, why don't we take over and run it. We have got all this money from the taxpayer to subsidise this thing." Why did you not see this as a commercial venture and run with it yourself as a unique entrepreneurial opportunity?

**Mr Stretch:** The short answer is we still see that today and in the closing stages when Robson Rhodes were involved we discussed a number of different options. I feel that we ran out of time to explore those more fully. We have learnt a great many lessons about the governance, about the key parameters around the business venture, and we do not want to throw the baby out with the bath water. It is a very good working system and it has a lot of value. There is definitely a vehicle that can take this forward so that is an on-going situation.

**Q572 Chairman:** So here you have a platform which you say is unique and a really good thing. You have got all the UK universities with a pound share and a commitment. Even going on in that partnership alone and running at some point the systems with UK university—forget HEFCE and the British Government—(a) why have you not done that and (b) why have you not attracted one single pound or dollar of commercial partnership money in the whole of this venture? It started off that it was not going to be Sun Microsystems' money and UK universities' money and HEFCE money and government money, it was going to be attracting other private investors, if it is so good why has there not been a pound of investment from anyone else?

**Mr Stretch:** That second part of the question is pretty hard for me to answer, given that clearly halfway through the relationship we became a supplier, as I have said, in terms of delivering the system. At no point was I tasked with participating in investor relations for the business, participating in fund-raising—at no point did that come up—and we did not take the initiative because we were focused on the day-to-day running. I do not feel that if we had raised that initiative it would have necessarily been welcomed, not for any bad reasons—it just did not come up—but we are now forced into a position where we want to bring life to the platform so we have to look at those options and there is some commercial sensitivity around what those might be.

**Q573 Chairman:** Are you telling me that there is now still a potential of you with other commercial partners and the UK universities, breathing life into this project?

**Mr Stretch:** I think there has to be.

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**Q574 Chairman:** As a commercial venture?

**Mr Stretch:** Yes.

**Chairman:** We have not heard that from anyone else, but thank you for that.

**Q575 Valerie Davey:** One of the criticisms of this venture is that it has been so service and delivery driven that the content of what you are delivering did not get the scrutiny in those early stages that it should have done. I had not realised until some of the more recent information you sent us that you have actually got an education involvement and background. I have two questions. First of all, you have analysed in part the difference of what this venture was going to deliver as compared to a single university. Were you at all involved in the content of what was being delivered? Secondly, if you are now thinking that there is life in this for the future, will you be more critical or more involved in what you actually deliver as well as the platform to deliver it?

**Mr Stretch:** I could answer the last part of the question, then I will ask David Beagle to take the details. There is certainly life in the platform. There is no life in the venture; that is over. There is definitely life in the platform.

**Q576 Chairman:** I am sorry you seem to be going back on what you said to me. There is no life in the venture?

**Mr Stretch:** The venture is over, is it not? There is no more UK e-University?

**Q577 Chairman:** I thought you were just saying you could breathe life into it with a partnership between the British universities, your platform and other commercial sponsors to do exactly the same thing?

**Mr Stretch:** I think technically it is a fresh start. The only thing that is left is the working platform.

**Q578 Chairman:** And the relationship with universities, and the course presumably?

**Mr Stretch:** Yes, but there is no UK e-University. Yes, I agree.

**Q579 Chairman:** Everything is there except the old management, is it not?

**Mr Stretch:** Yes.

**Q580 Chairman:** All the assets are there, are they not?

**Mr Stretch:** Yes, as far as we are aware.

**Q581 Chairman:** The only thing that has changed is the Government has stopped giving you any money to it?

**Mr Stretch:** Yes, and the management team of the UK e-University are not involved any more.

**Q582 Chairman:** This is what worries the Committee: if it is so good, why did not John Beaumont and Anthony Cleaver and you guys say, "We will do it on our own"? That is the question I asked you, and no one seemed to answer that.

**Mr Stretch:** As I think I answered in an earlier question, the termination is only real when you see it in black and white, and we were continuing to work, we had our heads down working on the delivery of the system and the changes to the system, the revision, and so on. The time-frame that we had from the involvement of Robson Rhodes and the direction that we thought the venture was then going to take was very short. We did explore in an unfinished way, I feel, those options. You are kind of asking me why am I not going to become an investment banker and stump up £60 million.

**Q583 Chairman:** No. I am saying if you were Lord Hanson, you are an entrepreneur, you would say, "Good, there are assets there, the Government has gone away, all that work has been done for free, we are going to take this over and run it. What a wonderful opportunity", but we cannot see evidence of people, you or other people, clamouring to do that.

**Mr Stretch:** There is a detail why other people would not clamour, and that is that we own the majority. Sun Microsystems UK Ltd owns the majority of the IPR. That makes it very unappealing to anybody else to come forward, because we own the intellectual property, and we put a high value on that; so that would probably deter other companies from taking it over in that sense that you mention; but in terms of us going forward with some ideas that we have developed and are beginning to develop quite seriously with HEFCE, that is another matter, and we want to be able to do that.

**Q584 Valerie Davey:** Can I come back to the content of what you are actually delivering and how involved you either were or would be in that with the universities?

**Mr Beagle:** Mr Chairman, from the beginning the ownership of the delivery of the content was with the universities; so the direct relationship was between the e-University and the individual university. People from Sun, however, did sit on all those meetings and our role there was to basically say what was possible so the universities would have an idea of how they would deliver their content, and we, as the experts on how the platform actually worked, would say, "Yes, you can do that", or, "No, you cannot do that", or "You could do that but that would require an awful lot of investment."

**Q585 Valerie Davey:** Was blended study involved at that early stage?

**Mr Beagle:** Blended is the new way of talking about e-Learning. It has always been blended; there has always been an element of delivering on hard copy, or CD's, or whatever, in any of the deliveries; so that was from the very early stage. The intent was to be able to deliver a full UK university experience to somebody sitting in Outer Mongolia who could not get to anything else apart from a connection to the

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Internet. That was the end dream goal, and that was what we were aiming for. Obviously that is the dream goal, but then you come back to what is the realistic goal, and a lot of that was using other methods of delivery, being paper, that sort of thing.

**Q586 Valerie Davey:** But not in direct contact at any stage with the student?

**Mr Beagle:** No. There were plans to authorise people more local; so they were making relationships with universities in the countries to act as local tutors. I am not certain how far those negotiations went, but there were plans to do that.

**Q587 Mr Turner:** The administrator was appointed in March 2004, the plug was pulled on 18 June. Was that precipitate?

**Mr Stretch:** It felt very intense and rapid to us, but we had never been through that before; so I have nothing to compare it with as precipitate or not, but it felt very intense and very quick and I felt that some of the potential discussions were inexhausted, that some of the options were non-exhausted, and we had just begun to think in terms of the structure of the university, the governance, the marketing and what the potential really could be. That was a very difficult phase because we were also still delivering revisions to the system.

**Mr Beagle:** Mr Chairman, I think when Robson Rhodes were first involved they gave us as their remit that they were there to restructure the e-University and to restructure it as a going concern, and that is where all our efforts with them were focused in the first couple of months of that period. It was only right at the end that the option of closure suddenly became much more the one that was being looked at. At that point it did seem this was happening very quickly, but most of the effort was put into trying to restructure it as a going concern with a lower cost base.

**Q588 Mr Turner:** Do you think it was precipitate?

**Mr Beagle:** I echo what Leslie says. I have not been through that process before. It did seem quick at the time, but that might be the way these things go normally.

**Q589 Chairman:** When it all happened, what sort of meetings did you hold? In those final days and couple of weeks you must have had pretty high level meetings with whom?

**Mr Stretch:** We had a lot more high level meetings than we had previously had. We had them with John Beaumont initially and then with Bob Stubbs, who was Robson Rhodes' representative, the administrator's representative, and they were happening sometimes on a weekly sometimes on an almost daily basis looking at different options; so it was quite intense.

**Q590 Chairman:** There was a holding company chaired by Sir Brian Fender. What role did they play? Did you meet Sir Brian and did the holding company have any—

**Mr Stretch:** I did not meet Sir Brian.

**Mr Beagle:** We had one meeting with Sir Brian and a lot of the HEFCE Board Members right at beginning of that process where we were asked about our views of the platform and how it could be used, but after that we were dealing with Bob Stubbs.

**Q591 Chairman:** But you are a commercial company. You were a strategic partner, as you said, Mr Stretch. You changed halfway through to a service deliverer. You must have had opinions. One thing that has astounded this Committee is that quite shortly before HEFCE decided to pull the plug on this, when there were a tiny number of students, the company decided to award bonuses, in the case of the Chief Executive and the Chairman very substantial bonuses. Does that surprise you? We are talking of a 35% bonus on salary.

**Mr Stretch:** We were not in that discussion, we were not making judgments on the governance of the business, and there was some debate. There were various different reports on the level of students using the system. We were not involved in any of those discussions at all, and we would not be involved, given our position, in judgments on the governance. Had we gone back to an earlier point, if we were doing this now a lot of different promises would change, and if we were going to make the investment we would insist on seeing the Board and would have taken a view, but looking back now it is hard to take a view. At the time we were not privy to that, but we also were not privy to the state of the bank account. We were not kept up to speed until the very late discussions with Bob Stubbs on the real financial position; so a lot of the time we would be guessing. That could waste a lot of energy. We focused the energy on continuing to work on the system and on the user experience.

**Q592 Chairman:** The Minister when he was in front of us said you might give a substantial amount of money back to the government, £14.5 million. Is there any likelihood of that?

**Mr Stretch:** I presume the Minister does now understand the true financial treatment I have laid out here. I think if he looks at that he will understand that we have faced substantial losses. They were all written out in previous financial years for our company, thankfully, but they were unprecedented in the 20-year history of Sun Microsystems UK Ltd and very painful. Inflicting more pain on us is not something I want to look at. I think what we need to look at here is what we do with HEFCE and the intellectual property and the platform going forward. In terms of giving money back to the Government, I think it is important to understand that our entire software portfolio, or most of our key software portfolio, including our desktop software, is provided to the UK education sector free of charge, and that is not a practice that is followed by any of our competitors. That has substantial

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commercial value. I feel that we delivered to the best of our ability on the obligations and I do not feel that we are in a position to be handing money back.

**Q593 Chairman:** Mr Stretch, Mr Beagle, I thank you for being so candid with the Committee. We have learnt a lot from your evidence. Thank you indeed for this reasonably long session.

**Mr Stretch:** Thank you.

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*Witnesses:* **Sir Brian Fender**, former Chairman, and **Dr Adrian Lepper**, Secretary to the Board, e-Learning Holding Company, examined.

**Q594 Chairman:** Sir Brian, can I welcome you and Dr Adrian Lepper to our deliberations and thank you for coming. You know what this inquiry is about. You have been sitting at the back while Sun Microsystems gave their evidence. You are an extremely distinguished academic and university administrator and you have played so many roles in so many organisations that the Committee is involved with. As they say, we have history. I have always admired you, both as an academic but also because of your reputation as a bit of a buccaneer and an entrepreneur. I say that in the nicest way. You have a reputation of making things happen, and one of the things that you seem to have made happen from most people's point of view is that you were the inspiration for the UK e-University. Is that true?

**Sir Brian Fender:** I think to some extent it is, and it is a disappointment for me to be here because of the demise of UK e-U, and I think a fair amount of responsibility for that falls on my shoulders.

**Q595 Chairman:** Did you persuade the then Home Secretary, David Blunkett, to go with this? In a minute I am going to ask you if you want to make a more general statement, but I just want to clear those two things up?

**Sir Brian Fender:** Yes, I will do that. I came to the view, and discussed it, of course, with my senior team in the Funding Council, that we needed at that time (1999) to send out a strong message about the importance of e-Learning to the higher education community, and we formulated ways in which that might happen. The best way, in our view, was to try to harness all the resources of UK universities and make those available really to three groups of people, three markets, if you like: the overseas market on the one hand (a very obvious way of adding value, if a project was successful), I think I always thought that in the end probably the most important market was the corporate market (businesses more generally), and finally, if you had successful operations, if you had successful programmes, they were bound to filter back into the UK higher education experience itself. In some ways the UK higher education market was the easiest, because you had students there to support it and staff there to support the programmes, but, of course, it was more difficult if you made that the first goal in the context of trying to get all universities to work together in one place because to some extent it would then be a competition for existing universities. It seemed very sensible to focus on this overseas market, this very big market. There was a lot of interest at that time. You have to take it in the

context of 1999–2000 in which there probably was too much hype. After all, telecommunications companies paid £22 billion for 3G licences for which commonly now pay a tenth of that. There was some feeling, I think, that digital technologies would move more quickly than they have turned out to do, and I can give you some reasons why that has turned out to be so, but the concept of using the skills of all the universities focusing in this way on an e-Learning delivery seemed a very attractive way of sending out a message that British higher education was up to speed in modernity as well as in its conditional deliveries. There were some good reasons why the UK could be expected to lead. First of all, we have this very successful collaboration of Joint Academic Network (JANET) with the production of a high band-width network and with it the associated development of middle ware, the supporting technologies, and, in addition to that, a rather high experience of collaboration. Universities did get together—there were a number of good examples in the teaching area, the learning support network, and so on—so there was a good prospect that universities would be able to combine and make the most of the opportunity. That is quite different a model from the Open University. The Open University was a single university adapting, of course, e-Learning into its programmes, because its programmes essentially are print on paper, and, as a single university, I think we had discussions with the Open University, we kept in close touch with them all the time, and although the e-University started with a small capital base and a big development programme ahead of it, nonetheless I think they recognised the potential power of having all universities engaged.

**Q596 Chairman:** Thank you for that. Can I take you back to the question. Did you persuade the then Secretary of State—

**Sir Brian Fender:** What we did was put in a bid in the spending round, and we said this was important, we thought it was an initiative. After all, there are several initiatives that you put forward before any spending review, and we said this was an important one. It was one of several, I might say. We produced the arguments for it rather along the lines that I have given you just now, and the process was dealt with by my colleagues in the Funding Council and civil servants and, in the end, the Department did decide to put it on its agenda and the Secretary of State, as you well know, in February 2000 made a statement saying that he personally thought this was a project worth support.

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**Q597 Chairman:** Sir Brian, you are a brilliant networker. Do answer the question though. Did you talk to David about it?

**Sir Brian Fender:** Not directly, no.

**Q598 Chairman:** Never directly?

**Sir Brian Fender:** No.

**Q599 Chairman:** Or to the Chancellor of the Exchequer?

**Sir Brian Fender:** No.

**Q600 Chairman:** But you were a passionate advocate of doing it?

**Sir Brian Fender:** Yes.

**Q601 Chairman:** That comes through. That is not a criticism?

**Sir Brian Fender:** You have to understand though, I always thought it was better if the Funding Council kept as much independence as reasonable. That does not mean to say that we were kind of bolshy with respect to what the Government wanted to do. We were very conscious of the Government's agenda, we wanted to support that as much as possible, but in developing projects of this kind, or initiatives of any kind, it is helpful if you have as much internal challenge as possible, people questioning us, saying, "Why are you doing it that way?" You want to try, if you like, to create as much debate as possible. I think in retrospect one can see there was not quite enough challenge here about the basic assumptions, first of all, about the way of taking it forward and the probability of success, but, of course, it is easy to say that now.

**Q602 Chairman:** Of course. It is easy to have hindsight on these things. When Howard Newby, your successor, or one of your successors, came in front of the Committees, what he highlighted was that it was very unusual. The Higher Education Funding Council has a role, as you know, and reports to this Committee. This is a very unusual thing for it to be put in charge of. He thought it was very unusual.

**Sir Brian Fender:** I would not expect funding councils to be boring and do exactly the same thing. It is not as unusual as all that; it depends which aspect you are talking about. It is certainly not unusual for a funding council to come up with an initiative which it thinks will help with teaching or research or for that matter, a third mission.

**Q603 Chairman:** But not then to run it itself.

**Sir Brian Fender:** There are other models. In the way that it was set up, because the Funding Council was not running this directly, as you know, it set up a rather complicated structure in order that it could be some distance from it. Actually I noticed in the earlier evidence that there seemed to be some suggestion that this was extremely unusual. I do not think it is entirely. UK Education Research Network Association (UKERNA), which is very successful at buying and creating the network for JANET, was a private company set up with certain

freedoms to develop in the private sector. Fortunately, I think, they were persuaded that was not a sensible thing to do and they should stick to their main task of creating a really high-class network, but in fact that was a private company with an intermediate in JISC (Joint Information System Committee), as you well know, and the Funding Council keeping an eye on it and, of course the Funding Council is well used to working with autonomous bodies in the sense that the Funding Council has relationships with 130, or whatever it is, universities and higher education colleges which are autonomous bodies. You are still used to having a dialogue with them and expecting responses either way.

**Q604 Chairman:** But you will accept Howard Newby, in his evidence, did think it was rather an unusual initiative?

**Sir Brian Fender:** Yes; I thought it was rather less unusual.

**Q605 Chairman:** Looking back, you have heard the evidence, you have probably read the evidence?

**Sir Brian Fender:** I have read the evidence, yes.

**Q606 Chairman:** What is your reflection on the trajectory of this thing that was really very much one of your initiatives? As I say, this Committee is not here to do a ghastly job on the thing. I think all the Members of this Committee would very much have liked this initiative to have succeeded and thrived—that is the truth of it, I think—but can you just peel away why it has gone wrong?

**Sir Brian Fender:** I think you cannot apportion blame. If you are going to put any blame you should put it on me, I think. I will try to explain why. You had a very good and forceful defence of UK e-U by Tony Cleaver and John Beaumont, and they were right, they had made a lot of progress, they did need more time. On the other hand—and I am sorry I sound like an Observer leader—the Funding Council was right to say, "But hang on, what are the probabilities of success even if we provide more time and some more money?", and then I think you get into a rather difficult area for judgment. I will try to say why. As I said, Tony Cleaver and John Beaumont and the whole UK e-U team made a lot of progress, but they were essentially dealing with four big issues. As well as advocating what I think it is an important strategic important aim, and I think is still an important strategic aim, I should have given a little more thought to the difficulties associated with these four tasks. Let me say what the four tasks are. The first task—let us pick up on the last point we were listening to—was to create a platform which did push forward the potential for e-Learning. I had little thoughts about the way that the interim management team and the PricewaterhouseCoopers' advice went. You have to. You do not accept everything that is given to you. They were experts; they put a lot of time and effort into it. One of my concerns was the question of this platform, because a lot of resource was going to go into it, and I went to Georgetown University and

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talked to the Blackboard people there and listened to the users of Blackboard at that time. At that time I think there was Blackboard use in FE colleges but not in any higher education institution, or maybe just one. It was a clearly valuable platform for on campus working. You have to kind of think of e-Learning developing, I think. It is not my definition of the stages of it, but they are helpful, I think, to consider. The first is that you simply use digital technologies to add convenience. This is a question of using PowerPoint and email and relatively simple things which do not change the culture of teaching and learning significantly at all. The next stage is that you bring in onto the platform the management of both the teaching staff and the students in the whole learning/teaching experience, and that is what WebCT and Blackboard do and did at that time successfully on a campus basis, but you have to go further than that. You have got to try and produce a platform which is easily usable by a much wider audience than the familiarity of a particular campus, and you have to also make it easy to move forward to the third stage of adaptation to e-Learning, which is the incorporation of material outside that which is available to the normal teaching and learning coordinates. Of course, as digitisation goes on a long time—we have recently read about Google getting involved with universities to digitise books, and so on—the number of learning objects which are available and which can be incorporated into a teaching programme are increasing rather rapidly, and you want a platform that is well capable of doing that. Even on the second level of a management tool, the ability to be able to incorporate a sophisticated range of missions and assessment, and so on, into one package is very helpful. Then there is, finally, a fourth stage, which hardly anybody has reached, but that is a goal that needs to be considered, which is when you have got sufficient familiarity with the use of digital e-Learning that is when it begins to change the very nature of how you do teaching and learning, but we are a long way from that yet. One of the difficulties, I think, is that UK e-U faced was the relatively slow change of both the student learner and staff members in moving up that hierarchy of increasing sophistication. So we have a difficult platform to build, there was this cultural change necessary by teachers as much as anything else, and, although you could be rather hopeful that the UK had dabbled in this through the Teaching and Learning Technology Programme, rather a lot of money went and encouraged a lot of individual groups to develop software and understand better how e-Learning might take a part, I underestimated, I think, the difficulties there. We have only done two of the three difficulties. There are four difficulties. The third difficulty is in understanding our market well enough, particularly if it is overseas: what the students want; how much customising we have to do; what are the cultural changes? I mean in terms of the material level, I mean just the way we were operating, and although you might consider trying to deal with the isolated student in Outer Mongolia, as referred to earlier, in practice that means

establishing relationships with higher education bodies in a variety of countries. That is not easy to do, I think, and we probably underestimated that as well. There are now three major under-estimations. The fourth is attracting the private sector, and that in itself is a difficult exercise. Although in all three of those areas, apart from attracting private money, the UK e-U made significant progress, took us further forward; and it was entirely reasonable for Tony Cleaver and John Beaumont to say, “Give us more time. We are getting on top of this and we have built a good deal of momentum”, the hanging cloud of insufficient student numbers meant that it was going to be difficult to carry on that momentum and they would almost certainly need more money and more time than perhaps it was reasonable to give them.

**Chairman:** We have a very good picture, Sir Brian.

**Q607 Valerie Davey:** Thank you for sharing your vision, because I think it is visionary and we value your contribution to all of this. As the Chair has already said, there is nobody sitting round here who would not have liked it to succeed. The one area which we have homed in on, as you have heard earlier, and where perhaps you might add five, although it is probably incorporated in one of your four, is the very pragmatic element of feet on the ground setting the whole thing up initially and getting the right people onto that interim management. Can you tell us how you went about that and who, in fact, was chief executive of that interim management?

**Sir Brian Fender:** Yes, I agree with you. That was important, though there were two elements. There is the Pricewaterhouse team, as expert a team as we could lay our hands on, who were there, if you like, to help set up the structures, to produce a business plan, though this early in the game I do not think you would put a lot of credibility on that. It would clearly be for the real managers to reform that business plan, but at least it was something to start with. The Pricewaterhouse team was important, and that, I think, was the strongest team we could lay our hands on. Then there was an interim management team: Nick Winton was appointed by the Funding Council as Chief Executive, they had John Slater—very experienced, nobody more experienced really—from JISC who has been doing this kind of thing for a great many years, understood the higher education system in this area as well as anybody, and then we had a secondee from Rothschild’s. They had their views. Again we did our best to find a team which would be—You will remember that we were exercised to try and bring in private money as much as possible; indeed, you might say, “Why did you not do it the conventional way, which is to start with public funding, of course allocate money in the normal process and build up that way?” If you turn the clock back, that is what I would do, but in 1999–2000 you would not have got the money for that, I believe. People said, “No, no, we have got lots of people willing from the private sector to throw money into this area. You have got a very good proposal. Surely people will want to do it.” Unless you have been in the game of raising money from the

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private sector, I think it is easy to think how easy it is. First of all, they are necessarily very hard-nosed and they would be a good deal more hard-nosed by the time the company was set up and looking for it. Secondly, they wanted a lot of control. Anybody who has had any conversation with venture capitalists will realise that they let you do next to nothing. So there was clearly a blank here. Put the blame on me if you like for not pointing out forcibly enough the essential potential serious conflict between higher education institutions used to doing it their way and we have had strong views about how e-Learning could be exploited. One of those strong views was that they wanted to control the whole system from entry to graduation, because that is what universities do, a lot of their brand, their reputation, is associated with that longitudinal process from beginning to end, but, of course, a private investor into e-Learning is much less interested in that and much more interested in the fragmentation advantages which you get from e-Learning and would want the control to be able to say, "No, I am not interested in that. What we want is a module that we will sell wherever we want to at whatever price we want to." I think the conflicts there are quite reasonable, and I certainly had conversations and the interim team pursued those with Pearson. Pearson was a very attractive strategic partner in this. I think, as we have heard, there were discussions with Sun Microsystems and they realised the potential for them as a strategic alliance partner, but in the end, as we have seen, the actual operating circumstances meant they became much more of a supplier. Pearson was attractive for a variety of reasons, but it was pretty apparent early on that we would not be able to come to an agreement. Even if they wished to invest money at a significant level it would be pretty impossible to produce an agreement which was satisfactory to universities because they would want far more control than was willing to be conceded. So you then left, in terms of attracting private capital, and the company was set up. I will come to why it was set up in the way it was in a moment, and an additional reason. Having not been able to bring in an alliance partner, you are then faced with saying, "Let's make a success of this operation sufficiently, so demonstrating it is commercial, that indeed you can create a partnership in which private sector needs are met just as well as the university needs. Do it by demonstration, lead by example and then try to draw people in", which is where we were. The second reason, I think, why the Interim Committee was so committed to the private approach, which was one of my nagging doubts, because I did actually understand how difficult it was to raise private capital—I had a nagging doubt about it—was because they wanted to inculcate into the HEIs, in order to make this successful, a high business approach; in other words they wanted universities to be properly business-like and, therefore, in their commercial dealings to deliver on time, etcetera, etcetera—all the things that actually universities are quite good at doing, but there will still be certain a nervousness about whether they will always do that

in the most effective way—and, if you are going to go out globally, you need to be able to be sure that you will get those deliverables. I think UK e-U demonstrated that it was not all that easy to come to contractual agreements with universities, and I did not understand that.<sup>1</sup>

**Q608 Valerie Davey:** You have just raised so many questions, I think I will come back to the one you posed yourself. Why did you set it up in this way? Given that you had obviously had doubts very early on as to the relationship which you were trying to forge between the private sector and the universities and HEFCE, why did you go forward with the plan that you did?

**Sir Brian Fender:** You cannot let personal doubts dominate when you have hired people that are the best you can get and listen to their expert advice. If I as Chief Executive of the Funding Council had run off on my personal whims, that would have been quite wrong. That is not my job to do. It is not my money, it is the tax-payers' money, and I have to have proper processes for making the best decisions that can be made. I set up, I think, with the help of my colleagues, the right kind of groups to provide that advice and take it forward, and I have to live with that.

**Q609 Paul Holmes:** Sir Brian, can we go back briefly to one of the opening questions from the Chair. He was asking what role you played in initially creating the idea of setting the system up and in talking to ministers, and you said that you did not talk directly to David Blunkett. Your successor as Chair of HEFCE, Sir Howard Newby, said to the Committee, "My understanding is, yes, HEFCE was involved at that stage. My predecessor, Sir Brian Fender, was quite heavily involved in discussions with ministers at the time about the form which UK e-U might take, and one of HEFCE's obligations is to advise ministers on the needs of the sector. I have little doubt that some of HEFCE's thoughts at the time were indeed incorporated into David Blunkett's speech." How big a role did you play? Did you talk ministers, if not to David Blunkett?

**Sir Brian Fender:** No, I did not sit beside David Blunkett and say, "You should push this up your agenda when you make your speech." What we did was to make a submission, as I said, to the Spending Review which outlined the arguments and the advantages of pursuing the e-Learning initiative, and then, of course, there was the toing and froing which takes place between my colleagues in the Funding Council and the civil servants. Certain questions came from ministers which were discussed, because they did their proper job of challenging certain proposals—for example, the question would we be selective in the number of universities that we brought in to move the requested project forward in the early stage—and it was the view of ministers we should try to restrict that to a

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<sup>1</sup> *Note by witness:* UK eU demonstrated that it was not all that easy to come to contractual agreements with universities, and I **did** understand that, not didn't understand, as stated during the session.

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small number of universities with higher brand. Indeed, we did pursue that in our consultation with universities, who were rather quick to wish the project to be inclusive, and there are good arguments for that. Particularly good programmes for e-Learning are not necessarily associated just simply with brand; brand is much more associated, as you well know, with research ability rather than teaching ability; so I think we were right to be open and to have a big range of universities contributing. There was that kind of dialogue which took place between my colleagues and the civil servants and leading on into ministers, but did we have a round table discussion with ministers? No, we did not. I am not sure that that would have been particularly helpful. I think there was a perfectly good discussion between the Funding Council and the Department in the way that I have described.

**Q610 Paul Holmes:** So Sir Howard Newby is wrong when he told us that you were heavily involved in discussion with ministers?

**Sir Brian Fender:** It depends on what you mean by “heavily involved.” If you looked in the correspondence between the Department and the Funding Council you would find, no doubt, a full record of discussions on this topic, as you would on any other topic where we were proposing an initiative or responding to a policy from the Government. All I am saying is that there are different styles, different ways in which chief executives of funding councils operate. Mine was to keep as much clarity and perspective from the Funding Council as was desirable, in my view, in order to have the best possible debate with government if there was an issue that needed debate.

**Q611 Paul Holmes:** In all the dialogue between government ministers and HEFCE, where did the initial initiative come from, the initial idea? Was it from you and HEFCE to the ministers or did the ministers come to you and say, “We have had this great idea for an electronic university”?

**Sir Brian Fender:** I think ministers would say that, indeed, the first proposals came from the Funding Council decision.

**Q612 Paul Holmes:** Came from?

**Sir Brian Fender:** Came from the Funding Council. If you look at the spectrum of activities in higher education, you would find some which initiated with the Funding Council. You can read the text. It is there easily if you look. In those days, in the Blunkett era, the letter of guidance from the Department was a full and lengthy one, and you could see it very clearly—there was no attempt to hide it—where the Department was welcoming initiatives taken by the Funding Council and where we were being told what we should do.

**Q613 Paul Holmes:** Within HEFCE where did the idea emerge from? Did it just emerge from a collective group or was there one key person who said, “Let’s look at this”?

**Sir Brian Fender:** Why I am taking a good measure of responsibility for this is that I was influenced. I went with my Head of Policy to Aspen Colorado, where they have regular meetings of largely but not exclusively private universities in the States, well-known universities in the States, and there was a rather good debate around the strategic changes that higher education faced, and included in that was the role that e-Learning would play. I came away from that, a three/four day conference, and I talked direct with the Director of Policy and others of my colleagues and was rather resolved at that time. I think it has to be said that we needed to raise the profile of e-Learning; we needed to make sure that universities were fully aware of the changes which we now accept as happening all the time. What you cannot predict in a period of rapid change is exactly how it is going to happen and at exactly what rate, but everybody knows the digital invasion, if you like, of practice is taking place very rapidly and I just wanted to make sure that higher education was not caught flat-footed.

**Q614 Paul Holmes:** In December 2000 an interim management team was set up. Who was the interim chief executive officer?

**Sir Brian Fender:** Neil Wyndam.<sup>2</sup>

**Q615 Paul Holmes:** Where exactly did the idea come from of having this complicated system that we have already talked about of the holding company and the operating company?

**Sir Brian Fender:** That was a recommendation from the Pricewaterhouse team who looked at structures and devised this. The operating company was expected to operate as a private company would. That was to make it attractive to private investors, and it is modelled in quite a conventional way as a private sector company, and, indeed, with governance which would be appropriate for a listed company; but then, of course, there had to be a way of relating to the public funding, and so the holding company this was created really for two reasons. The most important, in a way, was to resolve any potential conflicts between the commercial drive of UK e-U and the reputation of institutions in terms of what was offered, the quality of the programme. The holding company was there to hold the licence, so if UK e-U went off and did things that did not maintain or add to the reputation of British universities, then we could withdraw the licence, and we held the trademarks and the web addresses, and so on, as a means of being able to do that. I think that was a sensible safeguard. If you set up a commercial company, you may make short cuts and you do need to have a handle on that. What we also created was the Committee for Academic Quality. We had a lot of debate about who that should report to. In the end it was, I think rightly, decided it was a committee of UK e-U but it would report through UK e-U to us—by “us” I mean the holding company—and would have the right to come to the holding committee if it had concerns. So one of the big roles for the holding company was that whole issue of quality,

<sup>2</sup> *Note by witness:* The interim chief executive officer was Nick Winton, not Neil Wyndam.

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reputation and the licence. It did have another role, and you will see the Funding Council expected the holding company to be aware of value for money when passing money from the Funding Council through to the operating company, and I think that is a role we accepted, but we have to do it in a rather limited way, as you can imagine, because this is a voluntary or an unpaid Board with a part-time and modestly paid, I might say, Chief Executive, and there is a limit to how we could investigate the value for money of the operating company. We were not powerless in that. We had the right, and took it with great care, to nominate the Board members of UK e-U. It was entirely our right to do that, and we exercised it, as I think you have seen, in producing a good Board with a range of experience. Particularly if I think of the university representatives, not only were they extremely experienced academic and university administrators, but they had an interest in setting up companies or in e-Learning, and they proposed a chairman which with Tony Cleaver's experience it was easy for us to accept, and private sector nominees, again, were, I think, as strong as we could get. So that was one way we had an influence over the operating company, an important one, but we did monitor. They came and they presented to the holding company, which meant about three or four times a year they made presentations. We received information from them, we made sure that they did have governance practices which were acceptable in the wider world and I like to think we did what we could with the time and resource available, but you could question Adrian about his diligence. He and I met once a month. We exchanged issues and looked at issues. When it came to this difficult period in the autumn of 2003 when we were all waiting, the Funding Council was waiting, the holding company was waiting equally avidly for a revised business plan and there was, I think, a misunderstanding which arose from the fact that they were operating as if they were a private company and we were expecting information as if they were a body spending public money. So we got a set of figures, which were projections, without which I would have expected, looking at it from a public sector perspective, a whole series of supporting arguments. They, of course, following private practice, rarely do that.

**Q616 Chairman:** They rarely do?

**Sir Brian Fender:** They rarely provide you with a strategy. The new legislation introduced by Patricia Hewitt, which comes into force on 1 April requires an operating and financial statement, so you will get in future a glimpse into the strategy of private companies, but it is perhaps not quite so surprising that UK e-U, set up in the way it was, rightly or wrongly, was a bit reticent about what its approach was.

**Q617 Paul Holmes:** One of the points of the holding company was to keep HEFCE distanced away from the detail of what was happening. Is that right?

**Sir Brian Fender:** Yes.

**Q618 Paul Holmes:** Was it therefore wise that on 29 March HEFCE appointed yourself to be Chair of the holding company?

**Sir Brian Fender:** No, it did not. It was the Board who elected the chairman.

**Q619 Paul Holmes:** So HEFCE played no role in appointing you as Chair?

**Sir Brian Fender:** They might have expected me to be appointed as the Chair, but it was up to the Board. Some Members of the Board of the holding company were appointed by the Funding Council and some by Universities UK, and there was a SCOP representation as well. To be honest, I think it may well have been expected that I would be appointed Chairman. I was independent; I did not have a university to run, etc.

**Q620 Chairman:** It was your baby?

**Sir Brian Fender:** I was experienced and I had had some hand in its initial formulation; so I think it was probably expected that I would be Chair.

**Q621 Paul Holmes:** There is a puzzle about that, because if the holding company is supposed to keep HEFCE at a distance but it appoints as Chair of the holding company the person who is Chair effectively, whose idea largely it was to set the whole idea up in the first place and who remains Chair of HEFCE for another six months, for a while you have been both Chair of HEFCE and Chair of the holding Board, yet the holding Board is supposed to keep HEFCE at a distance. I do not quite understand the logic of that?

**Sir Brian Fender:** I am looking at the timing. The first meeting of the Board took place on 29 June 2000. I left the Funding Council at the end of September. So that overlap which you refer to was only two months, three months. Yes, I think, again with a bit of hindsight, it might have been better if I had not accepted that chairmanship, but, on the other hand, at the time, given that the holding role was rather restricted in the way I have demonstrated, it seemed a useful element of continuity.

**Q622 Paul Holmes:** The Chairman early in the meeting was referring to (and some might say it was normal business practice) the fact that the Chair and the Chief Executive on the launch of the company would get a certain number of shares as a dividend. Is that correct and would that apply to you?

**Sir Brian Fender:** No. No, I was totally unpaid. I did it as a *pro bono* activity out of the goodness of my heart! No, I was interested clearly in it being a success, and this was a contribution I could make, but, no, the UK e-U is a different matter. That was an operating company, operating, as we have described, in a private sector manner, even though—this is the difficulty—it was receiving public funds. As it evolved as part of our monitoring process (and remember that, if I have got it right, Tony Cleaver was appointed in November 2001) John Beaumont came in in March 2002, and, of course, you give people quite a period of time to get going, to familiarise themselves with the issues and to formulate their own plans), around the middle of 2003, I think Adrian will testify, we began to look at the kind of issues that it (the Holding Company)

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should be doing even in our rather limited diminutive role, and one of these was the structure. Given that the structure was set up as if there were 50:50 funding from the public purse and the private purse, we said, “Hang on, what we have got now is essentially a publicly funded body and the prospect of private investment receding.” So I asked Adrian to look at models of publicly funded bodies which nevertheless had a trading arm. The Met Office, I think, was one that I suggested you look at, and that has a significant trading arm, but there are others: the British Library, the BBC. It is not uncommon for there to be this commercial activity. We decided—we raised the issue with the holding company Board—that we ought to be contemplating this change in structure. I remember raising it with Howard Newby, I think on 9 October, if my memory serves me right, and said, “Look, we have got a mismatch now between the structure and the funding”, and, of course, the Funding Council then set up, it was always going to set up, a review. I might say that if the Funding Council had not set up a review, the holding company would have set up a review. It was clearly necessary to do that at the end of 2003. This issue then, in a sense, was subsumed by the bigger issues about the viability of the business plan; but it is absolutely clear to me that at the end of 2003 we needed a new structure which reflected the fact that it was tax-payers’ money that was going into this project and not a 50:50 mixture.

**Q623 Paul Holmes:** Were you the Chair of the holding company right through to the end when the plug was pulled?

**Sir Brian Fender:** Yes; I am still there.

**Q624 Paul Holmes:** Did you argue with HEFCE that they should not pull the plug and should continue?

**Sir Brian Fender:** I think I have given my answer very clearly on that. I understand very fully the evidence given by Tony Cleaver and John Beaumont about more time. I understand equally well both the bigger political picture and the risks associated for HEFCE with continuing, given, if you like, the issues which were still being developed in UK e-U. I am sorry to be, as it were, not pointing one way or the other, but it is a complex issue and I think I can see the perspectives of both sides very clearly.

**Q625 Paul Holmes:** One last question. From your point of view as somebody who was there with the initial idea, who was there when it was being set up, who was Chair of the holding company all the way through, I wonder if you could clarify: the technology platform itself was due to be operating by April 2002, but it was not actually operating until September 2003, 18 months later. Was that a failure of Sun Microsystems in technically developing the platform or was it because, as some of the evidence suggests, because the various people involved, like the holding company and UK e-U, kept renegotiating the contract, making new specifications?

**Sir Brian Fender:** The holding company had nothing to do with the relationship with Sun Microsystems. That was entirely a matter for the operating company. Our role really was limited. As I have said to you, I am taking a lot of responsibility for this, unfortunately, but not in the day-to-day running of the company. That was the operating company’s responsibility. Again, I have indicated that we perhaps under-estimated the difficulty of the issues in these various areas, and the platform was one. I think it is entirely reasonable (and PA Consulting drew attention to this) when you bring in a better bit of software, and I do not have problem about that, as I said, I went through the exercise of trying to say should we take a commercial platform and I thought the balance of arguments was for pushing on, but you need a lot of investment to make that develop gradually over time. You got a very clear answer from Sun Microsystems about that, I think. They said, “We have got something which works, but we would expect to make it better, we would expect to take account of the users’ input into that, we would expect to have reports from the universities as to how they felt it was operating”, and so on. I think they were right that if you go through that development process, if you have got the time and money to do that, you have got a really interesting product with a potential use which was outside UK e-U’s own programme, if you like. I think UK e-U were right to look at the diversification of their resource, their income, as they got more into the job, but I feel for them rather because they had as an operating team less than 18 months before PA were into them and they were being crawled over. One set of low figures was quite a dramatic result for that; on the other hand, there was no guarantee that the figures would pick up in the way that I wished.

**Q626 Chairman:** In terms of the holding company, how often did it meet?

**Sir Brian Fender:** I think we scheduled either four meetings and then typically held three. There were more meetings held at the beginning, but in the routine operation we met, I think, three times a year.

**Q627 Chairman:** Dr Lepper, you would agree with that?

**Dr Lepper:** Yes.

**Q628 Chairman:** Can we have a note of how often you met?

**Dr Lepper:** Yes, I will give you a complete list of the dates of meetings.<sup>3</sup>

**Q629 Chairman:** Were you happy about the relationship between the holding company and the operating company?

**Dr Lepper:** No. I think, as Sir Brian has said, at a fairly early stage the holding company became the parent of UK e-U, and a number of us, including the directors, were not particularly satisfied with that situation, because it did mean that the Board was actually responsible for the actions of UK e-U when

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it was not set up to take that responsibility. That is, I think, why Sir Brian said we had to look for an alternative structure.

**Q630 Chairman:** But it never came?

**Sir Brian Fender:** It was taken over by the *force majeure* of PA Consulting's report and the HEFCE actions.

**Q631 Chairman:** But in terms, Dr Lepper, do you have any regrets in terms of your oversight? Were there views expressed about this thing, not just the structure, but let me give you one example. On the evidence from Sun Microsystems, they started off as strategic partners and, as the Chief Executive said, halfway through, changed to being a service provider. Would that have been discussed at Board level? In a sense you were losing your partner: someone who looked like a partner at the beginning was stepping down to be a service provider. Did that worrying the holding company?

**Dr Lepper:** I think you have to be careful what you mean by "strategic partner" and what you mean by "supplier".

**Q632 Chairman:** Yes, but the evidence we were given by John Beaumont and Sir Anthony described them as a strategic partner. We are using their language; we are not inventing this language?

**Dr Lepper:** I am not suggesting you are inventing it, but I am saying you have to be very careful what you mean by this term. What Sun Microsystems said today was not entirely accurate. What happened was that they made available to UK e-U certain services and licences to be provided in the future, and for that shares were vested in a nominee company under an escrow arrangement where they could be released when these services were actually provided. Can you say that means a partnership? Obviously these services that were vested, services that were going to be provided in the future, could only be released on the basis of other investment and other payments to Sun Microsystems.

**Q633 Chairman:** How does that relate to the charitable element of all this?

**Dr Lepper:** Under the escrow arrangements, when these services were actually provided by Sun Microsystems, then the nominee company handed them over to the charitable trust. A very small amount of shares were handed over to the charitable trust because most of the provision for Sun Microsystems was for licences which would be taken up when students were studying, and, as we are only too well aware, the number of students studying was very small, therefore the licences taken up were also very small.

**Q634 Chairman:** As the holding company you had a supervisory function of sorts. Were you concerned about this complicated structure of the charity, and so on?

**Dr Lepper:** I am not concerned about the structure of how these shares were allocated or the charity because it did not concern us as a holding company.

I was concerned because, of course, at the beginning the shares purchased by the e-Learning Holding Company were the same as the number invested to the nominated company, so it was a 50:50 arrangement, and UK e-U were therefore an associate company. When the next investment was made and there was no parallel private investment, then we became the parent company; so that was a matter for concern.

**Chairman:** Good. I am glad that we have cleared that up

**Q635 Mr Turner:** There are a lot of different layers to this and I am not sure that there are not a lot of onions! Could I quote something? I will tell you where it comes from later: "The targets underpinning the project were unachievable. The project was conducted under unreasonable time constraints. The speed of delivery was given undue prominence in the contract. The contractors never looked likely to complete within the agreed timescale. Pressure of speed made it an over-priced contract. Premiums were added on and there was not adequate supervision. There was failure to transfer the risk from the public to the private sector." I underline that because it so closely reflected my view of what happened to ILAs. How reflective would you say those quotes are of what happened in this case?

**Sir Brian Fender:** I would not have put it in that language exactly. I think if you set a business plan which was as demanding as UK e-U set, then, in effect, they were putting themselves under considerable pressure given the various obstacles that they had to overcome. They were capable people, so they could have overcome those obstacles, but, of course, they were very demanding and you could describe the demands on them a little in that language. I have referred to the problem of the private and public dimension earlier. You would go about it in a different way if it were purely private funding. Does that answer the question?

**Q636 Mr Turner:** It does indeed. It comes from a report by the Prison Service Ombudsman, something the Home Office did in respect of Yards Wood, in fact; but what it seemed to suggest to me was that there is an endemic problem in this relationship between the public and private sector, I was interested, therefore, in what you said in answer to Val Davey when she asked you, "Why did we not do it the conventional way?", and you said, I think, or you took that to mean "by public funding"? My response to the conventional is by private funding. There is clearly a difference of culture there?

**Sir Brian Fender:** I think I meant the conventional route as far as the funding aspect was concerned.

**Q637 Mr Turner:** Right. What we actually got is a third way, neither private nor public but a combination of the two. Do you think that the universities got the control that you said was the justification for the significant involvement of public money as against private money in this operation?

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**Sir Brian Fender:** I think in certain areas, no, they would have some disquiet, and the Committee has addressed some of those issues—the question of bonuses, the question of salary levels, and so on—and I think they are ones which would not have applied if it had been a publicly funded operation from the beginning. If you took a relatively poorly paid academic, you might say, “Hang on, what is going on here? They are using tax-payers’ money to get rewards which are better than we would expect”, and I understand that perspective, but the truth of the matter was that the company, as I have said, rightly or wrongly, was set up as a private looking vehicle, a private operating vehicle, in order to maximise the chances of getting private investment.

**Q638 Mr Turner:** But the reason you gave earlier for the public sector, for the universities retaining what they thought was going to be an element of control—you said you did not point out forcibly enough the conflict between HE and private—was because of the dangers of fragmentation which the private sector may see as an advantage, whereas the universities would want to control entry, process and graduation?

**Sir Brian Fender:** Yes.

**Q639 Mr Turner:** Did they ever get to the point? I know the project did not get to the point, but did UK e-U get to the point where it was clear that the universities did control entry, process and graduation: because, given the composition of the boards of the two companies, I cannot see for the life of me how any university could control entry or process. They could control graduation?

**Sir Brian Fender:** The admission of students they can control. The programme was their programme, so therefore the process was theirs. What UK e-U was doing was providing the platform, providing the 24 hour by seven day back up to that service, and it was providing the marketing arrangements. In fact the marketing you could describe as a joint exercise, because the universities themselves would be marketing these programmes, but in terms of outreach to parts of the globe that the universities could not reach, then that was a role that was to be taken by UK e-U.

**Q640 Mr Turner:** But private sector universities across the world control admission, they control the programmes, they presumably limit the available teaching resources to individual students according to some agreement. What I do not understand is why it was felt that this could not be a private sector operation?

**Sir Brian Fender:** I am sorry, it could. There is no difficulty of operating in that way through UK e-U as a public/private exercise or a fully commercial one. What I was raising was an issue which you can easily see in e-Learning, which is that, because of the flexibility in delivery, you can take part of the programme and sell it to who wants it when they want it. It is this ability to learn when you want to as a learner which is one of the attractions of e-Learning, and it also means—and there is some

evidence that is what students want to do—that you will take only the bit that you need. Sometimes you might want the whole lot, including the delivery programme, but in other cases you might not.

**Chairman:** I am afraid we are running out of time for this session and we have got two or three important questions that we want to quickly ask you, Sir Brian and Dr Lepper.

**Q641 Mr Turner:** Fair enough. I will try and limit it to one further question. There is nothing inherently contradictory about this project being run by the private sector.

**Sir Brian Fender:** No.

**Q642 Jeff Ennis:** Sir Brian, why was UK e-U reporting directly to the Minister every six months if HEFCE was running the UK e-U project and it was the role of the holding company to keep them in the account?

**Sir Brian Fender:** I did not catch the first part of your question.

**Q643 Jeff Ennis:** In previous evidence we have been told that UK e-U were reporting directly to the Minister every six months. Why were they doing that if it was the role of the holding company to do that?

**Sir Brian Fender:** I think “reporting” may be the wrong word. I think UK e-U almost certainly recognised that the DfES and the Funding Council were, of course, important stakeholders, so they went and they talked to them. I think I would have done the same to be honest. The formal route goes through to the holding company—there is no doubt about that—but they took an opportunity to go and explain what they were doing both to the Funding Council and the DfES. That is sensible; they had the money. It would be wise of them to keep those bodies up-to-date.

**Q644 Jeff Ennis:** Did the Minister ask them to do that or was it just a courtesy thing that they did?

**Sir Brian Fender:** I have no idea. I should have thought, just as I have said, there was an advantage to the UK e-U in going and explaining to the principal stakeholders, more importantly than the holding company, what they were up to, I would have thought the Minister or ministers and the Funding Council were equally interested in what the e-Learning company was doing, I mean the operating company.

**Q645 Jeff Ennis:** Have you any thoughts why the holding company did not identify any earlier the major failings that patently became obvious later on from UK e-U?

**Sir Brian Fender:** I have said, and this is an issue, you always have a subsidiary company, which in effect, UK e-U became; and I know that in other worlds you have this delicate judgment between giving them a chance to get going, giving them encouragement and then stepping in, if you like, and steering, but I can tell you, that judgment is a really difficult one. If you do let them off and go native too far, you can get into difficulty. If you stifle them by over managing

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them through this supervisory role, the parent company squashing, if you like, the initiative of the subsidiary company, that clearly is a bad thing too. We tried to find a route between them. I do not have any doubts that we would. As I started to say, in June we thought the structure should be changing in terms of the nature of the funding and I think we go on from there that, as a consequence of that, the supervision would have to change. I think that is inevitable. I say, in practice, I think the model that would have had to be adopted had UK e-U gone on was something much closer—I am going to use the Met Office as an example—significantly public money fulfilling a public and an important public purpose but at the same time, under strict circumstances, operating in a commercial way.

**Q646 Chairman:** Dr Lepper, the thing that would stick in to core for a lot of my constituents is the fact that we had a Chief Executive and a Chairman. The Chief Executive was paid £180,000 a year. That is quite generous even in terms of a Vice Chancellor, is it not, Sir Brian?

**Sir Brian Fender:** I think in earlier correspondence it was said it is in the upper region of Vice Chancellor pay.

**Q647 Chairman:** As a holding company, did it ever cross your mind when there were so few students, the platform was not even delivered, that this bonus payment was a bit rich coming from taxpayers' money?

**Sir Brian Fender:** If you ask me personally I was not happy about the bonus payments that were made. I do think we had to recognise that we had set this body up as a commercial operation to look to the outside world as if it was a start-up company and had recruited people in who had those skills and who would expect that type of remuneration package in the type of companies for which they sought employment.

**Q648 Chairman:** But when Mr John Beaumont read out his target it sounded like the job. All of us on this Committee were astonished. He went through: "Do this. Market it. Get the platform". It was the job, and out of that came a bonus of £40,000. That astonished the Committee. Did it not, Sir Brian, worry you?

**Sir Brian Fender:** I am afraid that I realise that it is normal practice to do that. What it was doing, in effect, was setting targets which were milestones for the progression of the project. You might say it is the job. It is customary to have bonus payments which should be sufficiently challenging, I do not deny that, and it was not our job to scrutinise those and it was not our remit to do that. I would have expected, because I do that in another world, to set challenging milestone targets and those to be achieved in order to get the bonus, but the notion of bonuses for something intermediate before the delivery of the students does not altogether surprise me. Of course, if UK e-U had gone on into 2004–05 in terms of

delivery, then, of course, I would have expected bonus payments to be heavily weighted towards the recruitment of students.

**Q649 Chairman:** Absolutely, but you were there as the holding company. You are not only, as I described, a bit of a buccaneer and entrepreneur, you are also a diplomat. I have really got to push you. Do you think this enterprise should have been given a little bit more time?

**Sir Brian Fender:** Our advice on the lines of the PA Consulting report was, of course, to try to maximise the value we could get from the company and what had gone into it so far. I think that implied more time. It is no good dealing with hypothetical situations.

**Q650 Chairman:** Howard Newby must have phoned you up and said, "I think we are going to have to pull the plug on this, Brian." What did you say?

**Sir Brian Fender:** We gave him advice which said—No, it was not quite as simple as that; life is not. What they had and had considered were effectively two options: one was immediate termination and the other was a restructuring wind-down operation and I think within that second option, which we were in favour of, we wanted, of course, as much restructuring and as little wind-down as possible—I think that is fair enough—basically to extract as much as one could from the work that had gone in, but you do then get into a judgment between that, and it was not for me to second guess. They had the money. The Board of the Funding Council is a highly competent Board with a lot of experience on it. They are entitled to make the judgment. It is their money. Am I being diplomatic?

**Q651 Chairman:** I have got the message.

**Dr Lepper:** Would it help if I read out what the Board actually reported to HEFCE at this time?

**Q652 Chairman:** Yes?

**Dr Lepper:** It said, "The Board was in no way surprised by the current trading position of UK e-U, nor that problems have arisen in the implementation of the learning platform; neither reflected adversely on the commitment or competence of the senior management or staff of UK e-U. The Board did, however, recognise, as acknowledged by UK e-U, that the projections of students under the revenue had no objective base and were subject to a high level of uncertainty. The projections could be exceeded, but significant risk existed that a shortfall would occur. In these circumstances, the break-even point for UK e-U would recede further into the future with the prospect for private financing receding in parallel and additional financial support from public funds would be necessary if UK e-U were to remain business." That is what we reported in December 2003 to HEFCE. Obviously in that situation it would be for HEFCE to decide if it wished to continue and provide additional funding. We have given our advice.

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**Q653 Chairman:** What was your personal view? Would you like them to have had more time?

**Dr Lepper:** I think I would have preferred there to be more time to resolve this issue because I think the whole thing remains unresolved at the moment as to

whether it could have succeeded or not. It also remains unresolved what is the role of e-Learning in distance teaching for UK universities.

**Chairman:** Sir Brian, Dr Lepper, it has been a pleasure to have you before the Committee and we have learned a lot in the process. Thank you very much indeed.

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**Supplementary memorandum submitted by Dr Adrian Lepper, Secretary to the Board e Learning Holding Company**

**1. DATES OF MEETINGS OF eLEARNING HOLDING COMPANY LIMITED BOARD**

The board met on the following dates:

29 June 2001  
 5 October 2001  
 31 October 2001  
 14 February 2002  
 24 September 2002  
 6 December 2002  
 18 March 2003  
 16 September 2003  
 5 December 2003  
 10 March 2004  
 8 June 2004  
 29 September 2004

**2. SUN INVESTMENT IN UKeU**

In a Strategic Agreement dated 19 October 2001 UKeU agreed to place 3,862K shares at a given value of £1.45 per share in the custody of Croft Nominees. SUN had offered the following discounts to UKeU

	£K
Professional Services	314
Hardware	300
Licences	5,007
<b>Total</b>	<b>5,600</b>

These shares were to be transferred to the Guillemont Trust when Sun had provided or made available the products and services. The Guillemont Trust would make charitable grants out of any dividends received.

In April 2003 UKeU decided that they no longer required some of the licences. 1,448K UKeU shares were transferred from Croft Nominees to eLHC who paid UKeU £2.1 million.

Most of the shares were still in the custody of Croft Nominees at the time of the agreement by the UKeU creditors of the Company Voluntary Arrangement in July 2004. This is because most credits related to student licences that had not been taken up.

**3. eLEARNING HOLDING COMPANY LEGAL STATUS**

The eLearning Holding Company Limited (eLHC) was incorporated on 25 June 2001 as a company limited by guarantee. All UK HEI's were invited to become members and all but four did so. Members of a company limited by guarantee undertake to pay £1 towards the liabilities of the company if it is dissolved. They make no investment in the company and cannot obtain preferential benefit from its activities over non-members. They receive the annual report and can pass resolutions at company meetings. The intention was that eLHC would, after covering its operational expenses, distribute any dividends it received from UKeU through a charitable trust to the benefit of UK HE. Its initial operating expenses were met by a small grant from HEFCE.

**4. STATEMENT BY BOARD OF eLHC**

In December 2003 the Board reported to HEFCE that "it was in no way surprised by the current trading position of UKeU nor that problems had arisen in the implementation of the learning platform. Neither reflected adversely on the commitment or competence of the senior management or staff of UKeU. The Board did, however, recognise, as acknowledged by UKeU, that the projections for student numbers and revenue had no objective base and were subject to a high level of uncertainty.

The projections could be exceeded, but significant risk existed that a shortfall would occur. In these circumstances the break even point for UKeU would recede further into the future, with the prospects for private finance receding in parallel, and additional financial support from public funds would be necessary if UKeU were to remain in business.”

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