

# Empire built on sand

## UCLan's great overseas gamble

UCU briefing

February 2014

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- This briefing note examines the University of Central Lancashire's (UCLan) international strategy and characterises it as a series of great speculative gambles, risking assets and revenue built up with public contributions.
- It shows how UCLan is committing significant resources to fund new campuses in highly controversial locations using fragile financial structures.
- It shows how UCLan Group's structure makes it hard to account for any public money used in these ventures or hold the senior managers and directors responsible to account.
- It calls for greater resources for UCLan's core missions of teaching and research in the UK, and a commitment to financial transparency and democratic accountability from UCLan's senior managers.

### UCLAN'S INTERNATIONAL STRATEGY

Over the last few years, UCLan has embarked on a series of highly risky speculative overseas ventures designed to establish new campuses in overseas markets for students.

This has included plans for new campuses in Thailand, Sri Lanka and Cyprus, as well as establishing a presence in China.

To fund these ventures, UCLan seems to have created equity in a series of holding and subsidiary companies.

- Centralan Holdings Ltd, a 'parent' holding company which seems to have been used to move money around a series of subsidiary companies, including:
- Centralan Property Ltd and Centralan Estates, both property development companies, one of whose principal activities appears to have been to buy and lease back to the university a former university corporation building as part of a plan to 'minimise tax liability'.
- UCLan Overseas Ltd, which acts as an investment company used to finance UCLan's share of various international subsidiary joint ventures, including UCLan Thailand, UCLan Cyprus and UCLan Lanka, as well as UCLan Hong Kong and UCLan Shenzhen.

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It earns income by providing 'consultancy fees' back to its parent UCLan Group. UCLan Overseas earned almost £2 million in consultancy fees from the group in 2013, which helped it offset losses of £1.2 million in its investment activities.

These companies are run for profit with such profits as are made reverting to the UCLan Group in various forms, but the equity for these companies must have been created out of public assets and university assets built up with public contributions over time. In addition, through its 'consultancy' work for UCLan Group, university revenue is being channelled into the activities of UCLan Overseas.

These assets, and income streams, converted into company equity, are now being put at risk by UCLan's senior managers, in their guises as company directors, as they continue their great overseas gamble.

### **RISKY AND CONTROVERSIAL VENTURES**

UCLan's foreign adventures are conducted through a combination of wholly-owned subsidiaries and joint ventures with a foreign partner. We look at three of them in more detail below.

#### **UCLan Lanka – tax breaks, protests and human rights abuses**

UCLan Lanka is a 100% wholly-owned subsidiary of UCLan Overseas and its deal includes a 99-year lease on land owned by the Sri Lankan government, with an added sweetener of a series of **tax breaks and concessions from the Sri Lankan government lasting up to 25 years**.<sup>1</sup>

This is part of the Sri Lankan government's controversial use of 'Free Investment Zones' to encourage foreign investment, including foreign universities. The Free Investment Zones were introduced, despite protests from staff and students about the increase in the number of private universities in Sri Lanka. **Student and staff unions have already protested their opposition to UCLan's investment**.<sup>2</sup>

Amnesty International has also expressed concern about UCLan's investment in the Free Investment Zones, urging UCLan to **'look beyond the Sri Lankan government's spin and take note of the country's appalling human rights record'**, citing in particular the government's failure to address massive atrocities committed during the war and continued moves to silence critics.<sup>3</sup>

UCLan Overseas has transferred £618,000 to UCLan Lanka, mainly to pay for securing a site and pay architects' fees and the company claims to be in **'negotiations with various parties in order to secure the finance necessary to construct this new campus'**.<sup>4</sup>

#### **UCLan Cyprus – loss-making, only 'nominally capitalised' and in the buffer zone**

UCLan Cyprus is a joint venture, 51% owned by UCLan Overseas and 49% owned by the Hassapis Group, a Cypriot property development firm. While this company has opened a campus in Cyprus and claims to have recruited more than 300 students,

<sup>1</sup> <http://en.lankafrontline.com/big-foreign-university-to-be-set-up-in-mirigama/>

<sup>2</sup> <http://www.universityworldnews.com/article.php?story=20130918162822386>

<sup>3</sup> <http://www.timeshighereducation.co.uk/news/headaches-for-uclan-over-foreign-campuses/2010068.article>

<sup>4</sup> UCLan Overseas Ltd: Directors' Report and financial statements for the year ended 31 July 2013, p2

*The finances of the company are unclear. While it has assets worth 2 million euros, the company is 'only nominally capitalised'.*

**it made a loss of £3.37 million, of which UCLan Overseas's share was £1.69 million. The company is projecting two more years of losses.**

Furthermore, the finances of the company are unclear. While it has assets worth 2 million euros, the company is 'only nominally capitalised'. UCLan Overseas has lent the company 2 million euros (£1.6 million) to support its activities but as the accounts admit, 'if the shareholders are not successful in negotiating a financial restructure, then recoverability of this loan would be at risk. The interest receivable on this loan will be accrued until the cash flow position of UCLan Cyprus Limited is able to service the debt.' In other words, the second phase of the capital development in Cyprus appears to be currently unfinanced!<sup>5</sup>

Once again, the investment is also controversial, having been criticised by UN Secretary General Ban Ki-moon for being built in the buffer zone between Turkish Northern Cyprus and the Republic.

### **UCLan Thailand – a write-off**

UCLan Thailand's fate highlights the financial risks of UCLan's joint ventures.

UCLan announced in January 2012 that it **was investing £7.5 million** in a new joint venture to establish a campus in Thailand. The campus was to be located in the Bangkok metropolitan area and within easy reach of the city centre, the new facility will initially be home to 800 students with a planned capacity of 5,000 in 10 years. The site was planned to offer full-time and part-time undergraduate, postgraduate and foundation degree courses in subject areas such as business, built and natural environment, engineering, creative and performing arts, and languages. The Thai partner was Sittichai Charoenkajonkul, president of a Thai duty-free storage company.

According to UCLan Overseas Ltd's accounts, the joint venture was actually signed in August 2011 and the company set up (UCLan Thailand Co Ltd) to purchase the necessary land.<sup>6</sup> In November 2012, it was reported that **UCLan had invested 'just under £5 million'** in UCLan Thailand with a **further £1.7 million** being held by the company's solicitor in Thailand.<sup>7</sup>

The joint venture secured 35 lots of land. Some of this land was fully paid for, but some had to be secured with a 30% deposit and 70% yet to be paid. UCLan Overseas's accounts make it clear that it was liable for 49% of the cost of these deposits and, presumably, the outstanding balance.

It's not clear exactly what went wrong. The accounts in November 2012 mention the **'partner's circumstances having changed'** and **'restructuring negotiations'** at UCLan Thailand, which were making it necessary to try to negotiate with land owners for extensions to the deadline for paying the balance. The accounts made it clear that UCLan Overseas was liable to lose £1.9 million in investments if agreement couldn't be reached. It was also clear that if the joint venture broke up, there would be an additional cost for UCLan Overseas of around £650,000 as some land parcels could not be sold by the joint venture without the partner's consent. This is presumably exactly what happened as the 2013 accounts say that **'Disputes arose between the parties'** as a result of which the Company dissolved the Joint Venture. **The investment was**

<sup>5</sup> UCLan Overseas Ltd: Directors' Report and financial statements for the year ended 31 July 2013, p1

<sup>6</sup> UCLan Overseas Ltd: Directors' Report and financial statements for the year ended 31 July 2011, p12

<sup>7</sup> UCLan Overseas Ltd: Directors' Report and financial statements for the year ended 31 July 2012, p11

*It's hard to hold UCLan's company directors to account for these speculative ventures. UCLan Thailand was an investment of more than £5 million of which more than £3 million has been lost. Yet no one has been held accountable for this.*

**lost and the equity in UCLan Thailand was written down in value by £3.2 million as a result.<sup>8</sup>**

The risks associated with joint ventures overseas, relying on local knowledge and local entrepreneurs would seem clear and should give UCLan pause for thought in its gambles in Sri Lanka and Cyprus. But there's also another question...

#### **Where did the Thailand money come from?**

The first phase of capitalisation of UCLan Thailand was achieved with '**cash from UCLan Overseas Ltd**' and land from the Thai partner. The 'cash from UCLan Overseas' appeared on the company balance sheet in 2011 as 'current assets' (ie it was sitting in their bank account). It was certainly not derived from profits as the company has made losses for the last two years. Instead it was channelled into the Overseas account via Centralan Holdings Ltd. In 2011, **Centralan Holdings created another £5 million worth of equity in its Thai subsidiary which it paid by a transfer of cash into Overseas' bank account.**

**This transaction was part of creating just under £10 million of equity in UCLan Overseas as a whole in 2011.<sup>9</sup>**

The question is, **where did Centralan's money come from?** Centralan itself is a holding company with no real business activity. Its own 2011 balance sheet records the new equity in the form of investments but where was the money remitted from?

In its original press statement, the university was at pains to say that 'no public funding was used' in the Thai developments. But that's not the same thing as saying no publicly developed assets were used.

When approached on this subject by Times Higher Education, UCLan said '**The money came direct from UCLan and was built up from other overseas activities (in China) over several years**'.<sup>10</sup>

We think this statement is too vague. When public funds and assets may be at stake, we believe that the university needs to be absolutely transparent about this money and open up its books.

#### **UCLAN'S GROUP: OPAQUE AND UNACCOUNTABLE**

One of the reasons that it's difficult to pin down where the money came from is the composition of the Group. For example, UCLan's Chinese companies are registered in Hong Kong and they are not required to register documents at Companies House. UCLan's subsidiary companies are also very small, which means that they have to post only the sparsest accounts and they are exempt from having to disclose transactions between group companies. Finally, the consolidation of the group's accounts into one financial statement means that it's difficult to trace individual transactions.

Similarly, it's hard to hold UCLan's company directors to account for these speculative ventures. UCLan Thailand was an investment of more than £5 million of which more than £3 million has been lost. Yet no one has been held accountable for this.

<sup>8</sup>UCLan Overseas Ltd: Directors' Report and financial statements for the year ended 31 July 2013, p1.

<sup>9</sup>See Centralan Holdings Ltd: Directors Report and financial statements for the year ending July 31, 2010, p. 9 and Centralan Holdings Ltd: Directors Report and financial statements for the year ending July 31, 2011, p9

<sup>10</sup><http://www.timeshighereducation.co.uk/news/headaches-for-uclan-over-foreign-campuses/2010068.article>

*Is it right that assets and revenue generated from public investment should be frittered away in speculative ventures overseas while students and staff at UCLan suffer?*

*UCU believes that it's time to rebalance UCLan properly and focus it once more on its core mission in the UK.*

One reason it's so hard to hold those responsible to account is that the directors of the companies and the senior management of the university are almost entirely one and the same people. For example, out of six directors of UCLan Overseas Ltd, five are also either members of the Senior Management Team or the Directorate of UCLan.

That means that those commissioning £470,000 of consultancy services on behalf of the university and those providing the consultancy services on behalf of Overseas are in fact, in many cases the same people.

#### **REBALANCING UCLAN: FOR SPECULATION OR EDUCATION?**

UCLan is currently threatening to cut 75 posts and force people out of their jobs.

It is also attempting to drive through a 'rebalancing' of its academic workforce to cut staff costs in the core university.

The obvious suspicion is that the university is attempting to create financial headroom to allow for further remittances to its subsidiary companies and their speculative investments.

Students take on a lifetime of debt to study at UCLan.

**Is it right that students in the UK and in the region should have the quality of their education downgraded while the university continues to fund speculative ventures overseas?**

The public makes a massive contribution to UCLan. It subsidises student loans and will pay for 40% of the cost of every UK student enrolled at UCLan. It pays through recurrent funding and grants used to develop university properties.

**Is it right that assets and revenue generated from public investment should be frittered away in speculative ventures overseas while students and staff at UCLan suffer?**

UCU believes that it's time to rebalance UCLan properly and focus it once more on its core mission in the UK. That's why we're calling on UCLan's senior managers to:

- **Open up the books on their Group companies and make the flow of funds between their enterprises transparent.**
- **Enter discussion with the unions and students over opening up UCLan's governance to greater democratic oversight.**
- **Resolve the industrial dispute over jobs and contracts before strike action becomes necessary.**