Minutes of the Finance Committee – Thursday 11 June 2015

Present:
Mr Jeremy McIlroy - Chair
Mr Iain Ross
Mr Paul Blagbrough – from item 7
Mr Gurpreet Dehal
Mrs Margaret Jack
Mr Nicholas Perryman

Mr David Williams
Professor Paul Layzell
Professor Rob Kemp
Mr Graeme Robinson
Mr Simon Higman – from item 9

In Attendance:
Mr John Carroll
Ms Abi Jesson
Mr Nelson Mendes
Mrs Jenny Febry – Secretary

Mr Gurpreet Dehal

1 APOLOGIES FOR ABSENCE

There were no apologies for absence. FC/15/66

2 MEMBERSHIP

WELCOMED Mr David Williams as a co-opted Member of the Finance Committee and Ms Abi Jesson and Mr Nelson Mendes who attended from the Students’ Union. FC/15/67

3 MINUTES

NOTED that the minutes of the meeting held on 5 February 2015 (FC/15/01-FC/15/65) had been approved by circulation. FC/15/68

4 MATTERS ARISING FROM THE MINUTES

NOTED that the half-year financial statements had been circulated by email. FC/15/69

NOTED the Treasury Management Policy as agreed by circulation had been APPROVED by Council on 4 March 2015. FC/15/70

APPROVED the fees for Home/EU Postgraduate Research as £4,052; the MSc top up to PGDip Cognitive Behavioural Psychotherapies fee as £1,350; and PGDip Applied Petroleum Geoscience fee as £8,645. FC/15/71

There were no further matters arising not covered elsewhere on the agenda. FC/15/72
DECISIONS AGREED BY CHAIR’S ACTION AND BY CIRCULATION SINCE THE LAST MEETING

Capital Expenditure decisions made by circulation were included under Capital Projects. 

FC/15/73

NOTED that no decisions had been AGREED by Chair’s Action.

FC/15/74

UNSTARRING OF ITEMS

No items were unstarred for discussion.

FC/15/75

STUDENTS’ UNION

7.1 CONSIDERED a report on the Students’ Union Accounts to 31 March 2015. There was a year to date deficit of £19k compared to a budgeted deficit of £6k due to unbudgeted redundancy and recruitment costs. It was anticipated that there would be a small surplus for the full year.

FC/15/76

7.2 NOTED the Students’ Union budget for the year 2015-16 which was based on a 2015-18 strategic plan to produce year on year surpluses. The budgeted income for 2015-16 was £174k higher than that for 2014-15 and included an increase of £30k in the grant from College and another £145k from additional retail opportunities.

The budget included increased expenditure in all areas and allowed for student staff to be paid 20p more per hour than the National Minimum Wage. The Union had a longer term goal to pay the living wage.

MAJOR ITEMS FOR DISCUSSION AND DECISION

FINANCIAL MONITORING

8.1 CONSIDERED a report on the College’s position at 30 April 2015. The forecast surplus was £9.9m against a budget of £6.7m and this was a £2m increase against the figures reported in February, based on the December accounts.

FC/15/79

There was a £1.4m improvement to the main account forecast. This included additional student fee income of £300k, including recognition of non-refundable deposits. There were reduced pay costs arising from unutilised contingencies for pay review costs and sickness and maternity costs, which were lower than the previous year. The forecast for studentship costs had been reduced.

FC/15/80

It was noted that the positive outcome was driven by additional student numbers and this was a result of substantial work to improve recruitment and conversion activities and to raise the College’s profile.

FC/15/81

The RCS profit forecast had risen by £500k due to a number of factors including additional external conference sales, and unfilled posts.

FC/15/82

8.2 NOTED the Period 9 Income and Expenditure Account, Balance Sheet and Cash Flow. It was agreed that this was a clear presentation of the figures and it was noted that the quarter-end process that had now been implemented would improve the accuracy of the management accounts and forecast, and would speed up the year-end process.

FC/15/83
8.3 CONSIDERED a report on key financial risks. Following the employers’ consultation with staff, USS was expected to continue with the proposed reforms, subject to agreement from the Pensions Regulator. SAUL was proposing similar changes and was preparing for consultation. The increased employer costs were included in the budget.

The proposed pay award from August 2015 was 1% and there was the possibility of industrial action.

The number of firm and conditional offers made to students for 2015-16 were in excess of those at a similar point in 2014-15 and consistent with meeting the target. The Post Graduate Taught numbers were less certain due to the later cycle of recruitment.

It was noted that the new Government had announced reduction in BIS funding of £450m across the Higher Education and Further Education sectors.

NOTED a report on HEFCE’s sector comparison of the 2013-14 financial results which had already been presented to Council.

8.4 COLLEGE BUDGET 2015-2016

9.1 CONSIDERED the proposed revenue budgets for 2015-16. The budget had been prepared to support the strategic objectives of student growth, improved research performance and delivery of the capital programme. The budgeted surplus was £5.8m, £2.5m from the Main Account and £3.3m from Residences and Catering.

The budget included £4m fee income growth and a reduction in HEFCE funding of £2m, split between a reduction in teaching grant and reduced research block grant as a result of the last REF.

The budget included investments in academic posts for new programmes and expansion in existing departments as well as funding for research impact and research grant support.

Budgeted income was £2.5m more than the 2014-15 estimate and expenditure £6m more. Of this, £4m was increased staff costs including £1.5m for additional posts. Non-staff increases were focussed on additional student awards and allocations to academic departments, the library and IT.

The new programmes were attracting satisfactory levels of applications, in particular the new Law School.

The RCS budget was on a similar basis to the previous year, but was affected by the closure of Kingswood and Penrose over the summer for refurbishment.

The Committee RECOMMENDED the revenue budgets to Council for APPROVAL.

9.2 CONSIDERED the proposed capital budget for 2015-16. There was an increase of c£1m for investment in IT and management information systems including central timetabling, a replacement HR/payroll system and other projects. The Estates capital budget was in line with previous years.

The Committee RECOMMENDED the capital budget to Council for APPROVAL.
9.3 CONSIDERED a report on the financial forecast to be submitted to HEFCE in July. The forecast surplus was higher than submitted in the previous year due to lower than previously forecast interest on the private placement, but it was noted there were many other movements. The forecast for the capital programme had been increased to £173m including additional forecast costs for the library and the new science building which would include a 250 lecture theatre and be larger than previously planned, as well as a higher estimate for the music and media building.

A condition survey had been carried out which identified major “midlife” capital expenditure requirements for a number of buildings. Work was needed to prioritise the investment requirements and to develop a plan. No allowance for this was currently included in the forecast.

It was noted that achieving student growth was the critical element in the forecast.

The financial forecast was RECOMMENDED to Council for APPROVAL.

10  CAPITAL PROJECTS AND DEBT FUNDRAISING

10.1 NOTED that the following funding for capital projects had been DECIDED by circulation; expenditure of £2.258m for pre-construction expenditure on the Library and Student Services Centre was RECOMMENDED to Council for APPROVAL; the stage 3 Investment Case for Car Park 14 was APPROVED with a budget of £1.445m and the release of £150k for development of the Founder’s entrance and reception project was APPROVED.

10.2 NOTED a report on changes to the capital project governance which had been approved by Council.

‘Pre-Approval Funding’ for development of capital projects to enable a business case to be prepared to stage 3 had been agreed:

- Up to £1m – approval by the Planning and Resource Committee
- Over £1m and up to £5m – approval by the Finance Committee
  Provided that the sums approved do not exceed more than 20% of the estimated project cost
- In all other cases – approval is required by Council

Investment Case approval for the total cost of a project:

- Up to £1m – approval by the Planning and Resource Committee
- Above £1m and up to £5m – approval by the Finance Committee
- In all other cases – approval is required by Council.

A Capital Projects and Assurance Committee (CPAC) had been established to provide gateway approval for each stage for projects over £10m or of strategic importance to College.

10.3 CONSIDERED a case for pre-investment stage funds of c£1.1m for the Science Building. Using the SCAPE framework, the contractors had developed the initial design but a release of £1.5m was now required to take the project to planning and a Stage 3 investment paper for CPAC and Council.
The expenditure was APPROVED.

10.4 CONSIDERED the stage 3 investment case for student residences. To ensure that residences were open for the new year in September 2016, construction had to commence by July 2015. Proposed costs were being challenged by an external cost consultant and final figures would be ready for the CPAC meeting on 20 June. The project was for 621 additional bedrooms, new amenity space for student and extra curricular activities and an energy centre to provide efficient energy to the development.

The financial model for the residences had a net present value of £15m on a £40m investment with a surplus predicted from the first year of operation. The final costs, including College project manager and fees were estimated as approximately £41m. The planning determination would be on 15 July and there was a possibility that issues raised as a result of the application could delay or amend the programme. However the modular design of the residences with the majority of construction being off site ameliorated the risk.

The Committee RECOMMENDED the Investment Case to Council for APPROVAL subject to a recommendation by CPAC.

10.5 CONSIDERED an investment proposal of c£1.4m for greenhouses and gardeners’ compound. The moving of greenhouses was an enabling project for other works but would also provide much better quality facilities for funded research in Biological Sciences. Three separate planning applications had been submitted of which one was still outstanding and would be heard on 15 July.

The expenditure was APPROVED.

10.6 NOTED a report on the Private Placement process. The money would be received by College on 16 July.

10.7 CONSIDERED a report on current major capital projects. The Bedford Square refurbishment had been delayed by up to six weeks due to the discovery of asbestos under the floorboards which required specialist removal.

11 INVESTMENT SUB-COMMITTEE

11.1 RECEIVED a verbal report of the meeting held on 11 June 2015. Following a tender process, Rathbones had been appointed as investment manager to replace Newton Investment Managers.

The sub-committee had received presentations from WM regarding the performance of the investment managers and from Aberdeen Asset Management. There had been a 12.3% overall return for the year to March 2015.

11.2 APPROVED the reappointment of Mr Gurpreet Dehal as a member of the Investment Sub-Committee until 31 July 2018.
12 FINANCIAL POLICIES AND PROCEDURES

12.1 CONSIDERED a report on revaluation of land and buildings. As a transitional provision for adoption of FRS102, land and/or buildings could be revalued on a one-off basis on transfer to the FRS102 balance sheet. A valuation had been performed and revaluation of freehold land only would increase assets on the College balance sheet by £103m and revaluation of freehold buildings would increase assets by a further £127m.

The net assets of College would be reduced upon adoption of FRS102 by the required inclusion of a provision for funding pension deficits and the fair value of interest rate swaps. Reclassification of deferred capital grants as creditors would further reduce net assets. Revaluating fixed assets would serve to offset these negative adjustments.

Revaluing land only would not have any Income and Expenditure (I&E) account effect as land was not depreciated. Revaluing buildings would not have an immediate effect on depreciation as the valuation would also extend the depreciation life so that annual depreciation costs would not increase overall. College had several buildings which would require major midlife capital expenditure in the next few years. If the buildings were held at high valuations it was possible that such expenditure would not add to the fair value of the building and so could result in significant negative movements due to write offs.

It was noted that FRS102 would in any case result in potentially large movements on the I&E account for pension provision movements and other adjustments. On balance the Committee considered that the benefit from a stronger balance sheet as a result of revaluing land and buildings outweighed potential additional I&E turbulence.

Therefore it was AGREED to include revalued amounts for land and buildings in the FRS102 financial statements on the understanding that further modelling of the impact would be carried out.

12.2 CONSIDERED a report on proposed Accounting Policy amendments required for compliance with FRS 102. Approval of the amendments was deferred until the restated comparative figures had been prepared and could be reviewed.

12.3 CONSIDERED a report on the Treasury Management Policy in relation to the change in the Ratings Agencies methodologies and the likely downgrading of the credit rating of the College’s counterparty banks.

It was AGREED that it was desirable to continue to make placements with individual banks and that any changes to the Policy required due to ratings movements would be considered and agreed by circulation if necessary.

STARRED ITEMS FOR REPORT AND FORMAL APPROVAL

13* DEBT COLLECTION AND IRRECOVERABLE DEBT UNDER £5,000

RECEIVED reports on:

13.1* The student debtors position

13.2* The general debtors position

14* BENEFACEMENTS AND DONATIONS
NOTE that £261,172 benefactions, donations and fundraising had been received since 1 August 2014.

15* FINANCIAL REGULATIONS

NOTE that there had been one case where, for good reason, the normal process for obtaining competitive tenders or quotations has not been followed.

16* FOUNDER’S ENDOWMENT FUND

NOTE the value of the Founder’s Endowment Fund on 1 June 2015 was £38,475k (£37,613k reported at 26 January 2015) compared with the protected value of £37,248k.

17 ANY OTHER BUSINESS

There was no other business not covered elsewhere on the agenda.

18 PUBLICATION

18.1 AGREED that none of the agenda items require broad dissemination around College with the exception of the agreed tuition fees.

18.2 CONFIRMED the designation of papers as exempt from the Freedom of Information Act requirements.

DATE OF THE NEXT MEETINGS

Additional meeting – Tuesday 15 September at 3.30pm in the Principal’s Meeting Room.

Thursday 22 October 2015 at 4pm in the Huntersdale Boardroom.