Minutes of the Finance Committee – Thursday 23 October 2014

Present:  
Mr Paul Blagbrough - Chair  
Mr Gurpreet Dehal  
Mrs Margaret Jack  
Professor Paul Layzell  
Mr Nick Perryman  
Mr Graeme Robinson  

Apologies:  
Mr Jeremy McIlroy  
Professor Rob Kemp  
Mr Iain Ross  
Mr Simon Higman  

In Attendance:  
Ms Emma Peagam - President of the Students’ Union  
Mr John Carroll - Assistant Director of Finance - to item 8.1  
Mr Ian Dancy - Chief Executive of the Students’ Union – to item 7  
Mr Nelson Mendes - Finance Manager of the Students’ Union - to item 7  
Mrs Jenny Febry – Secretary - Deputy Director of Finance  

1 APOLOGIES

Apologies were RECEIVED from Mr Jeremy McIlroy, Mr Iain Ross, Professor Rob Kemp and Mr Simon Higman.

Mr Paul Blagbrough took the Chair.

2 MEMBERSHIP

Mr Nick Perryman and Ms Emma Peagam were welcomed to the meeting.

3 MINUTES

NOTED that the minutes of the Meeting (FC/14/60-FC/14/117) and the minutes of the Reserved Areas of Business (FC/14/118-FC/14/121) held on 8 May 2014 had been approved by circulation.

4 MATTERS ARISING FROM THE MINUTES

NOTED that there were no matters arising not covered elsewhere on the agenda.

NOTED that the purchase of Oatlands Cottage, approved by Chair of Council’s action had been reported to Council on 21 May 2014, and had been completed.

NOTED that Council had APPROVED the revenue and capital budgets and additional capital finance for enabling works for the new Library and minor works to the Student Union building on 2 July 2014.

5 DECISIONS AGREED BY CHAIR’S ACTION AND BY CIRCULATION SINCE THE LAST MEETING

NOTED that expenditure of up to £1.25m to provide the investment case and secure detailed
planning consent for the new Student Residences had been APPROVED by circulation of the Finance Committee. Council had agreed to increase the limit of expenditure to £2m on 1 October 2014.

NOTED that the disposal of an antique Magnetometer of the value of £3,550 had been APPROVED by Chair’s Action.

6 UNSTARRING OF ITEMS

No items were unstarred for discussion.

7 STUDENTS’ UNION

RECEIVED a report on the Students’ Union Management Accounts to 31 July 2014.

The full year results showed a small surplus of £1k compared to a budgeted deficit of £17k. Savings from restructuring of the Commercial Services were anticipated in future years and the letting agency was being examined as its income was not yet as expected.

There was increased participation in clubs and societies leading to additional expenditure, but trading and other income had also increased.

The Students’ Union was congratulated upon its results and the improvement from previous periods of deficit. The 2014-15 budget was for a £4k deficit but the aim was to break even as a minimum.

MAJOR ITEMS FOR DISCUSSION AND DECISION

8 FINANCIAL RESULTS FOR THE YEAR ENDED 31 JULY 2014

8.1 RECEIVED a report on the College’s position at 31 July 2014. The final surplus was £8.1m compared to estimate of £7.2m; comprising Main Account Surplus of £4.7m against estimate of £4m and Residences and Catering (RCS) surplus of £3.4m against estimate of £3.2m.

It was noted that the surplus would be invested in the Capital programme and that the sector was encouraged to generate surpluses of at least 5% to be able to sustain investment in capital.

Income overall was about the same as forecast. It was noted that there had been a higher contribution from external programmes, notably the University of London distance learning programmes and the Kaplan collaboration in Singapore had made a strong start.

Staff costs were £63m, £0.4m lower than forecast mostly due to vacancy savings.

CeDAS, the Centre for Development of Academic Skills, had significantly increased numbers of pre-sessional students in the summers of 2013 and 2014, and this had increased its contribution well above the forecast (reported under non-staff costs).

The carry forward on non-staff costs in academic departments represented unspent budgets which were allocated by formula and may be earmarked for large equipment purchase. A policy of eliminating unutilised balances within three years had been introduced recently.

The pay contingency was not fully utilised during the year but the general contingency was
slightly over budget. The remaining budget was not carried forward.

The RCS account increased surplus was due to £100k higher letting income; mainly higher residential from additional pre sessional students. Additionally there were £100k lower than estimated staff costs, mostly due to vacancies.

Cleaning charges were more than budget due to a change of contract plus additional cleaning in new buildings, longer opening hours in the library and weekend cleaning in residences.

8.2 CONSIDERED the Consolidated Financial Statements for the year to 31 July 2014. There were two minor adjustments to the circulated paper; the deferred date for reconsidering the Masterplan on page 3 was amended to January 2015 (from December 2014) and the Auditor’s remuneration in respect of other services in Note 8 was corrected to £3k from £29k, total Other Operating Expenses remained at £47,441k.

The operating surplus was just over the sector benchmark of 5% of income. Cash and investments were £63m and represented 180 days liquidity, it was anticipated that this would reduce to approximately 50 to 60 days by 2020 due to the capital programme.

The Operating and Financial review included a review of principal risks as included in the College strategy.

The Committee congratulated the Principal and staff for a satisfactory year.

The Committee RECOMMENDED the Financial Statements to Council for APPROVAL.

RECEIVED the External Auditors’ report to the Audit & Compliance Committee. The audit work to address three significant sector risks, going concern, revenue recognition and management override, had not identified any issues. The Management Letter points were noted.

RECEIVED the Financial Statements for Royal Holloway Enterprise Limited. The turnover had increased by £42k to £394k. The proportion of cost of sales had increased due to the nature of contracts which included salary payments to the consultants. Therefore the operating profit was similar on a higher turnover.

RECEIVED a report on the Founder’s Endowment Fund which demonstrated that the income had been applied in accordance with the trust requirements. The level of expenditure on specific projects had been relatively low in the year. The accumulated surplus, which is held within the general reserves of College, of £2.2m would be applied to future projects. A condition survey had been commissioned to identify requirements.

The Committee thanked the Director of Finance and his staff for their efforts to achieve a satisfactory audit report in the first year of the new accounting system.

9 FINANCIAL MONITORING

9.1 RECEIVED a report on the student intake for the 2014-15 academic year. It was anticipated that fee income would be £0.5m over budget in total though Home/EU Post Graduate Taught fee income was approximately £1m less than budget. This was offset by additional Home/EU undergraduate students, where the initiatives to improve recruitment and increase the number making Royal Holloway their first choice, had produced results. Overseas student income was forecast to be £0.5m over budget.
9.2 RECEIVED an update on the Pension Valuations. The triennial valuations for USS and SAUL were underway. USS were referring to a deficit of £8bn of which College’s share was estimated as £56m.

The proposed changes to USS benefits included moving all members into the Career Revaluated Benefit scheme and capping defined benefits at the first £50k of salary per annum. Pensions accrued on the portion of salaries over £50k would be defined contribution.

The financial forecast included employer pension contributions of 18% for USS compared to the current contribution level of 16% which amounted to approximately £1.5m more. An increase was anticipated in employer contributions to SAUL of up to £250k per annum.

The USS reforms would require a statutory consultation period of 90 days and the final plan had to be submitted to the Pensions Regulator by 30 June 2015. UCU had balloted members and it was anticipated that there would be some industrial action.

It was noted that this was a significant risk which was not under the control of College.

10 CAPITAL PROJECTS AND DEBT FUNDRAISING

10.1 CONSIDERED a report on current major capital projects and the College masterplan. Runnymede Borough Council had deferred determination of the master plan until January 2015.

Enabling works for the new developments were underway and a £5m bid to HEFCE towards a Science Centre had been submitted.

10.2 RECEIVED an update on the Private Placement. QMPF had been appointed as financial advisors and Mills & Reeve as legal advisors. The appointment of an Arranger, the banker who would make the placement, was underway. However no placement would be initiated until there was greater certainty about planning approval.

11 FINANCIAL POLICIES AND PROCEDURES

11.1 RECEIVED proposals for Tuition Fees for 2015-16. Home/EU Undergraduate fees were set by Government at £9k and the Research Councils had not yet published the Home/EU Postgraduate Research fees.

The majority of other fees were increased by 2.5% with a small number of band changes for post graduate programmes.

The proposed tuition fees were APPROVED subject to confirmation of fees for Home/EU Postgraduate Research, MSc top up to PGDip Cognitive Behavioural Psychotherapies and PGDip Applied Petroleum Geoscience.

11.2 RECEIVED a report on the Invesco AIM Money Market Fund (MMF) and HSBC Sterling Liquidity Fund to provide additional placements within the current constraints of the Treasury Management Policy. It was noted that satisfactory control reports had been received on these funds.

The opening of accounts with the two MMF was APPROVED.
It was NOTED that there were no debts over £5k to be written off.

**INVESTMENT SUB-COMMITTEE**

RECEIVED a verbal report of the meeting held on 23 October 2014.

The committee had received presentations from the two fund managers Aberdeen Asset Management (AAM) and Newton Investment Managers (NIM). The combined performance over the year to the end of September was 8.3%, comprising a return for AAM of 7.7% and NIM of 8.6%.

The investment managers considered the current target return of 8.5% per annum extremely challenging and thought a target of RPI plus 3.5-4% was realistic. WM had previously advised that a return of RPI plus 4.5% was achievable.

The Investment Sub-committee therefore recommended that the return target for investment managers be amended to RPI plus 4% per annum before fees, measured over 3-5 years, with a secondary income target of 3% per annum.

As previously discussed, NIM no longer managed College funds on a discretionary basis. The Committee was concerned that the objectives of the Newton funds no longer coincided with College targets and that the funds had a higher proportion of equity than the Committee considered prudent. The Committee therefore recommended that the College go out to tender for an alternative Investment Manager.

The Finance Committee RATIFIED the proposals for amended targets and a tender for alternative investment managers. The proposals would be presented to Council for APPROVAL for the Scholarship, General Endowment and Hilda Martindale Funds and to the Trustees of the Founder’s Fund for APPROVAL for the Founder’s Endowment Fund.

**STARRED ITEMS FOR REPORT AND FORMAL APPROVAL**

**INVESTMENT SUB-COMMITTEE**

13.1 RECEIVED the Investment Sub-Committee minutes of 8 May 2014.

13.2 RECEIVED the Investment Sub-Committee minutes of 10 July 2014.

**ENTERPRISE SUB-COMMITTEE**

NOTED that there has not been a meeting of the Enterprise Sub-Committee since their last report to the Finance Committee.

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

RECEIVED reports on:

15.1* The student debtors position

15.2* The general debtors position

15.3* NOTED that four debts, totalling £4,657 had been written off since 8 May 2014.
BENEFACTIONS AND DONATIONS

NOTED that a donation of £1k had been received since 8 May 2014.  
NOTED that College had received £98,289 from fundraising since 31 May 2014.

FINANCIAL REGULATIONS

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

FOUNDER’S ENDOWMENT FUND

NOTED the value of the Founder’s Endowment Fund on 10 October 2014 was £34,438k (£34,818k reported on 8 May 2014) compared with the protected value of £36,960k.

ANY OTHER BUSINESS

There were no items of other business not covered elsewhere on the agenda.

RESERVED ITEM OF BUSINESS

PUBLICATION

AGREED that none of the agenda items require broad dissemination around College.

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

DATE OF THE NEXT MEETING

Thursday 5 February 2015 at 3pm in the Huntersdale Boardroom

J Febry  
Deputy Director of Finance  
4 November 2014