The Minutes of the Meeting of the Finance Committee held on 
Thursday 25 October at 3pm in the Huntersdale Boardroom

Present: Mr Jeremy McIlroy (Chairman), Mr Paul Blagbrough, Mr Gurpreet Dehal, Registrar and Director of Operations Mr Simon Higman, Dr Jackie Hunter, Mrs Margaret Jack, Professor Rob Kemp, Principal Professor Paul Layzell, Director of Finance Mr Graeme Robinson.

With: The Assistant Director of Finance Mrs Jenny Febry (Secretary)

In attendance: Mr Stephen Cox (left during item 8.2), Mr John Carroll, Mr Doug German (President Students’ Union), Mr Martin Stokes (left after item 6), Mr Sean O’Donnell (left after item 6).

Apologies: Mr Iain Ross

1 MEMBERSHIP

Mr Doug German was welcomed to the meeting. FC/12/151

2 MINUTES

CONFIRMED and signed the Minutes of the meeting held on 10 May 2012. FC/12/152

3 MATTERS ARISING

TO NOTE that Council APPROVED the Revenue and Capital Budgets, Financial Forecast for submission to HEFCE and the amended Terms of Reference and Schedule of Delegation. FC/12/153

4 DECISIONS AGREED BY CHAIR’S ACTIONS AND BY CIRCULATION SINCE THE LAST MEETING

TO NOTE that a temporary increase in the placement limit with Money Market Funds to £80m was AGREED by email circulation of the members of the Finance Committee and APPROVED by Chair’s Action of the Chair of Council. FC/12/154
TO NOTE that APPROVAL for the leases on the Santander sub-branch and the International Study Centre (in Wettons Terrace), being over £100k in value, was agreed by Chair’s Action.

5 IDENTIFICATION OF ITEMS FROM THE AGENDA TO BE UN-STARRED

No items from the agenda were unstarred for discussion during the meeting.

6 STUDENTS’ UNION

RECEIVED the Students’ Union Financial Statements for the year to 31 July 2012.

It was NOTED that these were the first set of accounts prepared under the Charities SORP (Statement of Recommended Practice) since the registration of the Students’ Union with the Charity Commission as a separate charity. The accounts would be presented to the Trustee Board in November for approval.

There was a reported deficit of £10k which resulted from a reduction in Bars and Entertainments revenue. The refurbishment had not increased business in these areas as much as anticipated.

Summer trading was lower than normal due to the Olympic village and there were increased staff costs. Certain entertainments were less profitable but had been held in response to customer requests.

The financial statements had been audited and would be lodged with the Charity Commission within the eleven month deadline.

The year to date trading for 2012-13 showed a slight downturn of 5% in gross trading compared to the previous year but the Medicine bar was now increasing trading. The October profit or loss would be reported to the November Trustee Board. The target was for a year end surplus at July 2013 and management were preparing contingency plans for 12-13 if the downward trend continued.

The letting initiative U-Let was established and provided a cost effective service to students; some private sector agencies were charging large fees to students but U-Let charged landlords only. It was noted that there was no Principal’s Risk to the Students’ Union.

NUS Extra Cards had increased by 27% and Students’ Union membership of clubs and societies was up 20% compared to the previous year.

Sean O’Donnell and Martin Stokes left the meeting.
7 FINANCIAL RESULTS FOR THE YEAR ENDED 31 JULY 2011

7.1 RECEIVED and CONSIDERED the College’s Management Accounts for the year to 31 July 2012.

It was noted that the final surplus of £7.9m was in excess of the original budget but £800k less that the last estimate.

Income was £643k higher than the last estimate, including higher external course income. A major element of this was income from the University of London Distance Learning Programme as student numbers were higher than estimate. It was noted that it was difficult to obtain data from the University of London until late in the financial year.

Income from the Clinical Psychology course, funded by the NHS, showed a larger surplus including the recognition of some income brought forward. This situation would not recur.

Expenditure was £1.6m more than the last estimate. Academic non-staff expenditure was £396k over estimate as brought forward balances had been spent in the year. IT expenditure of £0.3m was accelerated and included in the year to July 2012 rather than the following year as previously predicted.

There was an adverse variance in Human Resources costs including £0.2m variance on legal and professional fees and £0.1m on staff recruitment. Additionally there was an £100k exchange loss on research projects, notably those funded by the European Commission.

There were also higher costs for long term and recurring maintenance and associated with the change of cleaning contract.

The negative amount under fund raising income of £180k was due to expenditure being netted off income rather than a negative income flow.

7.2 RECEIVED AND CONSIDERED the College Consolidated Financial Statements for the year ended 31 July 2012. Amended Notes 8, and 14 were circulated which showed correct staff cost bandings and historic cost of investments.

It was noted that the Finance Committee reviewed the statements and recommended them to Council for approval. They would also be presented to the Audit & Compliance Committee for review.

The adjustment for previous years’ management fees, as considered by the Investment Sub Committee in October 2011 and agreed by the Trustees of the Founder’s Endowment Fund in November 2011 increased the surplus by £1.013m.

The surplus of 5.5% as a percentage of income was a key comparator for HEFCE and the fees adjustment had increased this by approximately 1%. It was noted that the previous year’s surplus was affected by the cessation
of consolidating the results of the Students’ Union from April 2011.

There was a strong cash position of £59m at the end of the year which would reduce as anticipated capital spend from cash was undertaken over the next three to four years.

It was noted that the Pensions note 28 reported that USS and SAUL had scheme deficits.

The Financial Statements were RECOMMENDED to Council for approval.

7.3 RECEIVED and CONSIDERED the Executive Report from the External Auditors; BDO. It was noted that a draft report had been circulated in error and a few amendments were circulated, principally that BDO did not expect any going concern issues.

7.4 RECEIVED and CONSIDERED the Financial Statements for Royal Holloway Enterprise Limited (RHE) for the year to 31 July 2012.

It was noted that RHE was a subsidiary company used for consultancy activity whose profit was substantially gift aided to College. Shares in spin-off companies were held by College rather than RHE.

Cost of sales were consultancy payments to academics. In previous years a higher proportion of payments had been waived in favour of College to fund research, such waivers were shown as gift aided profit in the statements.

It was noted that consultancy income was quite low compared to other institutions though mix of departments affected potential consultancy opportunities. It was noted that the Vice Principal, Research would be invited to the February Finance Committee to report on enterprise activities.

7.5 RECEIVED and CONSIDERED a report on the Founder’s Endowment Fund. The report would be presented to the Trustees of the Founder’s Endowment Fund in November.

It was noted that the Market Value of the fund was £31,154k at 31 July 2012 (2011 £31,648k), £3,684k below the RPI protected value.

A summary of the history and requirements of the Founder’s Endowment Fund has been requested by the Investment Sub Committee and would be prepared.

8 FINANCIAL MONITORING

8.1 RECEIVED and CONSIDERED a report on the 2011 HEFCE Financial Forecast Statistics which was submitted to HEFCE in June 2012. These statistics were used for benchmarking in the sector.
It was noted that the sector was showing strong surpluses in recent years and that Royal Holloway was not significantly different from this position. College had a relatively high liquidity but was planning to invest accumulated cash surpluses in the estate. College borrowing was relatively high in the sector but reducing. This was reflected in the relatively high operating cash flow which was needed to service the debt.

8.2 RECEIVED and CONSIDERED a report on the Key Financial Risks.

It was noted that there was a shortfall in 2012-13 admissions compared to target and this resulted in a large shortfall to budget. However there was no further information to that already presented to Council. The student count as at 1 December 2012 would be submitted to HEFCE.

There was a shortfall against target for Home/EU undergraduates who attained AAB or above, as well as for Home/EU postgraduate masters courses. Overseas students were 50 students over target. The post graduate taught students had increased since the previous count, which was a normal pattern across the sector.

The latest admission position would be submitted to the November Council meeting. Measures were being taken to address the situation for future years but the current position translated to a £3m shortfall in income.

It was noted that the next formal valuation of the USS and SAUL pension schemes would occur in 2014, although there was an informal valuation each year. The fall in the gilt rate had pushed the deficit up. The Investment Managers who presented to the Investment Sub Committee had not predicted an increase in the gilt rate for some time to come but there was a feeling that the rate had reached the floor.

The proportion of the deficits at the March 2012 interim valuations relating to Royal Holloway had been estimated using its share of active members as £64m for USS and £12m for SAUL, total £76m. It was possible that if the Schemes were still at very high levels of deficit at the 2014 formal valuation, the deficits would have to be funded by employers and staff, but this would depend on the outcome of the dialogue between the Schemes and the Pension Regulator and the Schemes’ recovery plans.

It was noted that the USS rules shared future increase in funding rates between the employer and employee.

Both USS and SAUL had introduced career average sections of the funds which reduce the accrual rate but USS had a relatively low turnover of staff and it would take some time for this substantially to affect the deficit levels.

It was noted that the situation was outside the control of College but represented a significant potential risk.

It was noted that a 1% national pay increase had been agreed.
Mr Stephen Cox left the meeting.

A new finance system had been selected as the result of an EU tender and the contract would be completed in the following week. Staff had been seconded to the project and three of five backfill positions had been filled. It was recognised that the timescale for go live on 1 August 2013 was aggressive as the system was necessarily complex with College wide use and significant interfaces with other systems.

9  CAPITAL PROJECTS

RECEIVED and CONSIDERED a report on Major Capital Projects.

Preliminary work on the Bedford library and increase in residence provision was ongoing. It was noted that acquisition of the Runnymede campus was less likely to occur but Council would be fully briefed on alternative developments.

10  FINANCIAL POLICIES AND PROCEDURES

10.1 RECEIVED and CONSIDERED a report on the proposed Tuition Fees for 2013-2014. It was noted that the proposals had been reviewed and approved by the Planning and Resources Committee.

The proposed fees were based on the previous year’s major review of fees which rationalised the fees bands.

The main changes were noted as an inflationary increase of 3% for the majority of courses where the College set the fees, although the Home/EU undergraduate fee was capped at £9k and Home/EU postgraduate research fees were based on the rate indicated by the Research Councils. Certain overseas postgraduate research fees had not been increased to improve competitiveness.

Fees for certain courses, such as Science Foundation year had amendments to fees based on competitor analysis.

Fees for years in industry or abroad had been capped by HEFCE to £1,350 for Home/EU undergraduates or 15% of programme fees for overseas students.

Fees for a limited number of specific programmes had yet to be determined and it was requested that the Committee agreed that these could be agreed by Chair’s Action.

The Tuition Fees Paper was APPROVED.

It was APPROVED that the fees yet to be determined would be agreed by Chair’s Action.

10.2 RECEIVED a report on Treasury Management.
It was noted that the Treasury Management Policy (TMP) had been under review for some time and external advice had been sought from financial consultants, Finalysis. Finalysis had presented their report and the Chairs of the Finance and Audit & Compliance Committees as well as College management. Finalysis were complimentary regarding the Treasury Management performed within College and presented potential improvements for discussion.

Subsequently the levels of surplus cash within College had resulted in an increase in the amount of placement of cash with Money Market Funds to £80m, as agreed by email circulation of the members of the Finance Committee.

The paper summarised proposals for amendments to the TMP which, if agreed would be recommended to Council for approval. It was noted that the Chair of the Audit & Compliance Committee had reviewed the report.

It was requested that a 12 month Cash Flow Forecast was presented to the Committee in future. The low point of cash balances was at year end with an increase on this level of up to 50% in December to February. However the monthly HEFCE funding transfer was becoming less significant and income from the Student Loan Company (SCL) more significant. The profile of the SLC payments was backloaded with 50% received in May.

It was noted that College could not in practice place cash with certain banks such as HSBC and Standard Chartered as their minimum placement was in excess of College’s agreed counterparty limits.

It was AGREED that the temporary increase in the limit of £80m for investment in Money Market Funds, with a limit of £13.5m for any one Fund, be made permanent.

Additionally the recommendation in tabled paper FC/12/46a to limit placements with financial services group to the limit for the highest individual entity within the group was AGREED.

The revised Treasury Management Policy, with the inclusion of the amendments detailed above was RECOMMENDED to Council for APPROVAL.

There were no student debts over £5k submitted for write off.

11 **INVESTMENT SUB COMMITTEE**

RECEIVED a verbal report from the Investment Sub Committee. The Sub Committee had met with the two fund managers, Aberdeen Asset Management and Newton Investment Management. The performance over the last 12 months was more encouraging with a return of 12% over the year.
The managers had a similar perspective on the current situation and expressed caution. There was a different approach to asset allocation. Newton held a higher level of fixed interest bonds whereas Aberdeen were low in bonds and higher in equity.

12 ENTERPRISE SUB COMMITTEE

RECEIVED a report from the Enterprise Sub Committee.

13 DEBT COLLECTION AND IRRECOVERABLE DEBT UNDER £5,000

NOTED the reports on General Debtors and Student Fees Debtors and that nine debts under £5,000 totalling £9,528 had been written off since May 2012.

14 BENEFACIONS AND DONATIONS

NOTED that since May 2012 there had been a £100 benefaction and fundraising income totalling £11,807.

15 FINANCIAL REGULATIONS

NOTED a report on the case where, for good reason, the normal process for obtaining competitive tenders had not been followed.

16 FOUNDER’S ENDOWMENT FUND

NOTED that the value of the Founder’s Endowment Fund on 12 October 2012 was £31,564k (£31,072k reported on 10 May 2012) compared to the protected value of £34,837k.

17 PUBLICATION

AGREED that none of the agenda items required broad dissemination around the College with the exception of the agreed Tuition Fees for 2013-14.

CONFIRMED that the papers were correctly designated for Freedom of Information Act purposes.

18 DATE OF THE NEXT MEETING

NOTED that the date of the next meeting was Thursday 7 February 2013 at 2pm in the Huntersdale Boardroom.

J Febry
Assistant Director of Finance
13 November 2012