Minutes of the Finance Committee – Thursday 9 May 2014

Present:  
Mr Jeremy McIlroy - Chair  Professor Paul Layzell  
Mr Paul Blagbrough Professor Rob Kemp  
Mr Gurpreet Dehal Mr Graeme Robinson  
Mrs Margaret Jack

Apologies:  
Mr Iain Ross  
Mr Simon Higman

In Attendance:  
Mr Stephen Cox Chair of Council  
Mr Amarbeer Singh President of the Students’ Union  
Mr John Carroll Assistant Director of Finance  
Mr Ian Dancy Chief Executive of the Students’ Union – to item 6.2  
Mr Nelson Mendes Finance Manager of the Students’ Union - to item 6.2  
Mr Mike Berry Director of Estates – from item 9  
Mrs Jenny Febry – Secretary Deputy Director of Finance

1 MEMBERSHIP

To NOTE that there were no changes in Membership. FC/14/60

Apologies were RECEIVED from Mr Iain Ross and Mr Simon Higman. FC/14/61

2 MINUTES

NOTED that the minutes of the meeting held on 6 February 2014 had been approved by circulation (FC/14/01-FC/14/59). FC/14/62

3 MATTERS ARISING FROM THE MINUTES

There were no matters arising not covered elsewhere on the agenda. FC/14/63

It was NOTED that the revised Treasury Management Policy had been agreed by Council on 19 March 2014. FC/14/64

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

It was NOTED that design fees for the library project totalling £2.2m had been agreed by Finance Committee by circulation and approved by Council on 19 March 2014. FC/14/65

It was NOTED that sports Facilities expenditure totalling £2m had been approved by the Finance Committee by circulation. FC/14/66

5 UNSTARRING OF ITEMS

No items were unstarred for discussion. FC/14/67
6 STUDENTS’ UNION

It was confirmed that the financial statements for the Students’ Union (SU) had been signed in February and submitted to the Charity Commission as required. The year to July 2013 showed a small surplus after three years of deficits.

6.1 RECEIVED a report on the Students’ Union Accounts to 31 March 2014.

The results to March 2014 showed a deficit of £18k against an annual budget surplus of £17k, partially due to recruitment costs of the Chief Executive. Some rebates from commercial services were due and thus it was anticipated that break even position was achievable for the full year.

Commercial services were being restructured which could incur redundancy costs but these were as yet unknown. Membership services were being promoted in response to the Student Barometer.

6.2 RECEIVED the proposed Students’ Union Budget for 2014-15.

The SU had been restructured into five operational areas and the budget was constructed on similar lines. The budget for 2014-15 projected a loss of £31k after providing for redundancy costs but the reorganisation of the SU would provide savings of £40k per annum in due course.

The SU grant from College was included at £793k in total compared to £750k for 2013-14. It was noted that the allocation had not yet been finalised with College.

MAJOR ITEMS FOR DISCUSSION AND DECISION

7 FINANCIAL MONITORING

7.1 RECEIVED a report on the College’s position at 31 March 2014.

The forecast for the year was a surplus of £6.9m (about 4.5% of income). The surplus was £800k better than budget, compared to the last estimate in February which showed a small underachievement of budget. The movements in the estimate since February included an increase in the contribution from research grants and contracts of £300k and a reduction in the forecast for restructuring costs by £400k.

In addition, there was a reduction in the expected expenditure on Founder’s Restoration of £0.3m, and a reduction in the HEFCE teaching grant for 2012-13 of £0.2m due to an adjustment for the final student numbers.

It was not expected that there would be major changes in the estimate before year end, although it was noted that there were some risks, including that the new fixed assets system was currently being implemented and the depreciation forecast was based on a high level review.

7.2 CONSIDERED reports on key financial risks:

7.2a Student admissions 2014-15
College was more optimistic than last year on achieving targeted student numbers, particularly Home/EU Undergraduates (HEU UG). HEU UG applications were 12% higher than the previous year and offers made were 20% higher than last year. There were no guarantees that these would translate into students studying at College and there was some unevenness across departments. The increases were partly due to improved processes and additional resources in admissions.

Overseas UG applications were increased from the previous year and in particular with College as a first choice. However many of the applications were for Management and there could be capacity issues as HEU UG applications for Management were also strong.

Overseas Post Graduate Taught (PGT) applications had also increased but the conversion rate for such students was difficult to predict. The organisational improvements would assist in converting applications to students at College.

HEU PGT applications were the weakest area and recruiting at the previous year’s level would be an achievement.

7.2b **Pay and pension costs**

The pay dispute with UCU had been settled with an increase of 2% from 1 August 2014 and acceptance of the 1% increase from 1 August 2013. The threat of industrial action to boycott marking had therefore ended.

USS and SAUL were both undertaking triennial valuations at March 2014 and USS had been undertaking an engagement process in view of the high level of deficit predicted.

The valuation was not yet known, but after taking into consideration lower gilt rates, higher longevity expectations and “de-risking” of the investment portfolio, the valuation of USS could potentially result in a total deficit of £13bn of which College’s portion (based on active members) could be in the region of £85m. The scale of the deficit would require reform of the current final salary arrangements for the calculation of future benefits. After allowing for this, some increase in contribution rates might still be required and College forecasts would include an increased employer contribution rate to 18%.

7.3 **NOTED** a report on HEFCE’s sector comparison of the 2012-13 financial results and 2013-14 forecast for the College. College was close to the median in most measures.

8 **COLLEGE BUDGET 2014-2015**

8.1 **CONSIDERED** the proposed budgets for 2014-15 for recommendation to the College’s Council:

- The summary of the consolidated budgets
- The Main Account revenue budget
- The Residences and Catering Services (RCS) budget

The budget for 2014-15 showed a revenue surplus of £6.8m, 4.3% of income, comprising £3.7m on the main budget and £3.1 from RCS. 2014-15 was the final year of new intake with increased fees compared to leaving students though the increase was offset by reduced teaching and capital grant. Future surpluses at the level required to support major capital investments would be more difficult to achieve. HEU UG fees would be capped at £9k and there would be increased costs, including additional NI contribution costs from 2016, probably higher pension costs and higher operating costs as a result of the expansion of the estate from the library and other projects.
The Main Account budget included a number of movements and changes. As well as the changes affecting HEFCE grant and fee income, there was an increased contribution from research grants. Investment in a new Law department was included in the budget for the launch of the subject from 2015-16 as well as investment in developing Electronic Engineering and a Centre for Professional Services to support PG vocational studies.

The budget included twelve new academic appointments, additional OFFA costs which were applicable for all three years UG students, investment in IT and additional resources for admissions and recruitment (some of which had been agreed in 2013-14). Also included were costs for changes in the Human Resources department and additional Estates costs for major contracts and energy costs as well as increased cleaning of intensively used buildings. Additional savings of £200k from the professional services were included in the budget but had yet to be finalised.

RCS budget showed a surplus of £3.1m and included inflationary increase in residence fees and costs. It was noted that the surplus was required to fund loan repayments of £3.1m and capital investments of £3.3m.

It was noted that the financial forecast was not yet prepared and it was proposed that the equivalent Finance Committee meeting in 2015 was moved to later in May or early June to allow more time to finalise the budget and for the financial forecast to be prepared. The financial forecast for 2014 would be circulated to the Committee before presentation to Council in July for approval.

8.2 The capital budget for the Main Account and RCS

The capital budget included annual allocations for approval, as well as a summary of major capital projects which would be subject to individual approval within College’s governance framework.

The Main Account allocation was as for the previous year at £2.4m plus an allowance for Founder’s Endowment Fund expenditure and £250k for a project to reconfigure part of the SU building, including to move Insanity Radio from its current location in Queen’s Annex.

The RCS capital budget was £3.3m, including £2.5m on projects to improve Penrose Court and Kingswood I residences.

A further £900k was included for information systems including a customer relationship management (CRM) system for student recruitment to professionalise the interaction with applicants. Also planned was a centralised timetabling project to improve the utilisation of teaching space. The academic equipment budget was £600k compared to £1.5m in 2013-14, but this reflected expected investment of up to £1.5m in the estates development plan to replace and relocate research greenhouses.

The summary of major projects included the Library/Student Centre and new residences, with related enabling works and subsequent repurposing of the Bedford Library and McCrea buildings.

The next financial forecast would include funding assumptions for the major projects. It was noted that an interim Finance Committee might be required to discuss funding options.

The revenue budgets for the main account and RCS together with the capital budget of £7.8m...
annual allocations were RECOMMENDED to Council for approval subject to minor amendments such as the SU grant and other un-finalised items.

9  CAPITAL PROJECTS

CONSIDERED a report on current major capital projects and the estates development plan, noting that this was being prioritised in line with College strategy and to support planned student growth.

10  INVESTMENT SUB-COMMITTEE

RECEIVED a verbal report of the meeting held on 8 May 2014.

The committee had received presentations from the two fund managers Aberdeen Asset Management (AAM) and Newton Investment Managers (NIM), as well as a presentation from WM who provide a benchmarking and review service of the fund managers.

NIM had previously informed College that they were changing their relationship from discretionary management of the funds and wished to transfer the investments (c £20m) to a pooled fund, recommending the Charity Growth & Income (CGI) fund, or terminate the investment agreement. The manager of the CGI fund had presented to the meeting.

There had been a wide ranging discussion. The Committee had concerns about the level of exposure of the CGI fund to equities and also that there was no total return objective. Clarification would be sought on some issues concerning the administration and operation of the changed arrangements and how it might affect the Investment Committee’s responsibilities. In the light of the concerns, it was possible that College would need to seek an alternative Investment Manager, which would require an EU tender process and would therefore take some time. Given the issues about timing, as an interim measure the funds would be switched into the CGI fund, probably with a proportion remaining in the Newton Real Return Fund to mitigate downside risk.

11  BAD DEBTS OVER £5,000

APPROVED the writing off of one debt of £9,000.

12*  ENTERPRISE SUB-COMMITTEE

RECEIVED a report from the Enterprise Sub-Committee.

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

RECEIVED reports on:

13.1*  The student debtors position

13.2*  The general debtors position

13.3*  NOTED that no debts have been written off since 6 February 2014.

14*  BENEFACCTIONS AND DONATIONS
NOTED that no benefactions or donations had been received since 6 February 2014. FC/14/110

NOTED that College had received £170,650 from fundraising since 1 August 2013. FC/14/111

15* FINANCIAL REGULATIONS

NOTED that there had been no cases where, for good reason, the normal process for obtaining competitive tenders or quotations had not been followed. FC/14/112

16* FOUNDER’S ENDOWMENT FUND

NOTED the value of the Founder’s Endowment Fund on 25 April 2014 was £34,818k (£34,759k reported on 6 February 2014) compared with the protected value of £36,786k. FC/14/113

17 ANY OTHER BUSINESS

There were no items of other business not covered elsewhere on the agenda. FC/14/114

18 RESERVED ITEM OF BUSINESS

19 PUBLICATION

19.1 AGREED that none of the agenda items require broad dissemination around College. FC/14/115

19.2 CONFIRMED the designation of papers as exempt from the Freedom of Information Act requirements. FC/14/116

DATE OF THE NEXT MEETING

Thursday 23 October 2014 at 4pm in the Huntersdale Boardroom FC/14/117

J Febry
Deputy Director of Finance
13 May 2014