Royal Holloway
University of London

FINANCE COMMITTEE

The Minutes of the Meeting of the Finance Committee held on
Thursday 9 May 2013 at 2pm in the Huntersdale Boardroom

Present: Mr Jeremy McIlroy (Chairman), Mr Paul Blagbrough, Mr Gurpreet Dehal, Mrs Margaret Jack, Registrar and Director of Operations Mr Simon Higman, Dr Jackie Hunter (from item 9.1), Deputy Principal Professor Rob Kemp, Principal Professor Paul Layzell, Director of Finance Mr Graeme Robinson

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

In attendance: Chair of Council Mr Stephen Cox, Mr Stephen Bland, Mr John Carroll, President of the Students’ Union Mr Doug German, Mr Nelson Mendes (to item 7), Mr Sean O’Donnell (to item 7)

Apologies: Mr Iain Ross

1 MEMBERSHIP

There were no changes to the membership of the Committee

FC/13/64

2 APOLOGIES

Apologies were received from Mr Iain Ross.

FC/13/65

3 MINUTES

CONFIRMED and signed the Minutes of the meeting held on 7 February 2013.

FC/13/66

4 MATTERS ARISING

NOTED that there were no matters arising from the Minutes not covered elsewhere.

FC/13/67

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

NOTED that the purchase of land north of the A30 was discussed by circulation and referred to Chair of Council for Chair’s action due to the value of the purchase.

FC/13/68
6 IDENTIFICATION OF ITEMS FROM THE AGENDA TO BE UN-STARRED

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

7 STUDENTS’ UNION

7.1 RECEIVED the Students’ Union Management Accounts for the period to 31 March 2013.

The results to date were satisfactory results to date despite total income being slightly below budget. Income from the lettings Agency was encouraging. Gross profit of 66% was achieved on the bars in a tight market.

Expenditure in the year to date was £578k and better than the budget of £674k, resulting in a surplus of £32k to date. It was anticipated that there would be surplus for the full year although the quieter period of trading was to come.

The spend on student activities appeared as a year-on-year decrease, but this was because the expenditure was shown as a net amount after some income received. There was more student activity membership income and some increased costs in facilities and transport.

7.2 RECEIVED the Students’ Union Budget for 2013-14.

There had been extensive consultation with budget holders and the sabbatical team, resulting in a budget with a small deficit of £17k. There were additional challenges including an increase in the minimum wage and the introduction of pension auto-enrolment from February 2014.

Income from ULet was budgeted in line with projections. The budget included additional sabbatical expenditure such as officer training and travel, student administrative support and affiliation costs for BUCS. There was a reduction in the percentage of VAT recovered due to an increased proportion of membership income.

Essential capital purchases only were included in the budget including a new till system costing £40k and replacement CCTV in Medicine.

It was anticipated that the budgeted expenditure including capital expenditure would be met from the cash flow.

It was NOTED that this was the last meeting that Sean O’Donnell would attend; he was thanked for his contributions over the years.

8 FINANCIAL MONITORING

8.1 RECEIVED and NOTED the Financial Results for the period ended 31 March 2013
The current forecast showed a surplus of £6m compared to the last estimate of £5.7m.

The Main Account surplus was almost exactly the same as the last forecast. However the HEFCE teaching grant estimate had reduced from the last forecast by £700k and was now based on the March 2013 grant letter. Forecast student numbers used to calculate the initial teaching grant had been overestimated and the revision using the December 2012 forecasts had resulted in reduction of the grant. The difference related to continuation students who had been forecasted incorrectly in December 2011. Going forwards the forecasting calculations for 2013-14 had been reviewed and the teaching grant in the budget for 2013-14 was not expected to be subject to a large adjustment in-year.

The core teaching grant was being phased out although there was some subject based teaching funding for higher cost courses.

The decreased grant was offset by an £800k bequest of general nature which was taken to income in the year in accordance with accounting requirements. However College would ensure that the bequest would be applied for a specific purpose and not for general expenditure.

There were unspent balances in the academic departments’ budgets of £1,650k. The assumption included in the estimate was that a similar level of budget would be carried forward each year as was brought forward and therefore the in year spend for departments matched the budget.

As part of new systems implementation, there was an exercise to look at credit balances on dormant research projects and credit balances on old student fees accounts. Subject to these reviews, there was potential income of several hundred thousand pounds in each category which might be recognised in the year and was not yet included in the estimated surplus.

8.2 RECEIVED a report on current financial risks.

The majority of UG admissions had been received and the emphasis was on converting these applications to first and second choice by 10 May. First choices received were about 9% down on last year though some of this reduction was due to rejecting some candidates rather than offering them unrealistic challenging offers. The Psychology, Geography and Computer Science departments had increases in first choice by up by 10% but there were eight departments where numbers of first choice were down by 20%.

Overseas numbers applications were up from previous years, however it would not be known for a number of weeks whether RHUL was the applicants’ first choice. HEU UG targets were 137 higher in the 2013-14 budget than 2012-13 which was an increase of 7%, but this was lower than 2011-12 actual numbers.

College was starting to focus on PGT though it was still early in the
recruitment cycle. Applications were lower than this time last year but this was in line with a general downturn in the sector. College was reviewing the courses offered to make them more market orientated. Although HEU PGTs were lower, there was an increase in OS PGT applications, in particular for the School of Management.

PGR numbers looked very good but were relatively a smaller cohort.

Our joint venture in Singapore to run undergraduate Management programmes had just been launched. Part time students would be taught at weekends, and full time students during the week. The forecast had been two cohorts a year each of 75 part time and 55 full time students. The first cohort was part time only and had achieved 95 student and it was predicted that the November cohort would be of 100 part time and 100 full time students.

It had been noted previously that there would be an increase in staff costs due to an increase in National Insurance contributions as a result of the new single state pension, and this was being brought forward to 2015-16.

It was noted that USS were performing a covenant review to show the Pension Regulator that they understood the covenant. The next 2014 valuation could show a large deficit with a potentially serious impact for employers and affecting accounts from 2015-16.

8.3 NOTED a report comparing the College’s financial position reported for 2011-12 within the sector from data produced by HEFCE. College was in good shape financially with strong cash balances and cash flow, average surpluses and above average borrowing.

9 COLLEGE BUDGET 2013-14 AND FINANCIAL FORECASTS

9.1 RECEIVED a summary of the budget for the Main Account, Residence and Catering Services (RCS) and capital investment for 2013-14.

The budget showed a surplus of £6m, which was 4.2% of income against a strategic target surplus of 5%. The budget reflected the flow through of the 2012-13 below target UG number intake.

HEU UG intake for 2013-14 was a key risk. College was targeting an increase over 2012-13, though application numbers were a concern as noted in the previous item.

Employment costs and a reduction in HEFCE grant were lower risks in 2013-14 but were expected to be higher level risks in future.

The Main Account budget reflected the second year of the change in funding regime; including a reduction in HEFCE teaching grant of £4.9m from previous year and the switch to funding from £9k fees. The tuition fees budget was based on the student number target and was a £11.8m increase over the previous year, £9.5m of this from HEU UG students; the effect of
the second year of regime plus 7% increase in numbers.

An increase in tuition fee income of £0.9m was included for HEU PG students with an assumption of growth of 124 students and for OS students an increase of £1.4m in tuition fee income and numbers.

The staff costs budget was £2.4m higher than 2013-14 including an assumption of a 1% national pay award, which had not yet been agreed. The pay award was 1% in August 2012. Additional costs were included in relation to incremental drift up pay scales and investment in some posts as detailed in the commentary.

There was a large increase in costs related to scholarships and bursaries of £1.2m. £700k of the increase were OFFA bursaries which were a condition of charging a £9k fee and the budget included these bursaries for two years’ students, and the following year it would be included for three years’ students. The was also an increase in general College bursaries and scholarships of £500k; mostly PG awards and some new schemes including one with external matched funding.

As part of access agreements, College was obliged to spend 30% of the additional income over basic fees; ie 30% of the increased fee income between £3,500 and £9k. By the end of the third year of the funding regime this would equate to approximately £6m per annum.

Despite the uncertainty a number of staff appointments had been made for successful programmes and strategic partnerships. College had invested in staff where there was student demand and within the professional services to meet regulatory requirements.

In the longer term, College was working on its strategic plan and raising its profile and corporate identity.

The RCS Budget was slightly more predictable and was showing a good surplus for next year, although it was slightly less than 2012-13 due to the ending of the Olympic effect. RCS had introduced a lower cost catering offering to deal with feedback regarding high cost.

Accommodation fees had increased in line with inflation with some additional increase for Founder’s after its major refurbishment. The shop would be moved to smaller temporary accommodation during the year because of the Library development with a consequent impact on the turnover.

The Committee RECOMMENDED the budgets to Council for APPROVAL.


Appendix A showed major building projects which were subject to individual approval as part of the capital programme. The forecast included
the assumption that the library project would proceed with the associated costs of temporary buildings, car parking rearrangements and the repurposing of the Bedford library; a total of £50m including a contingency. Council would be asked for approval of the project in November 2013.

The boiler house development was noted and was considered under item 11.2.

The capital expenditure programme for annually budgeted smaller projects included Estates and Founder’s Endowment Fund cyclical projects and minor works, and academic equipment and IT investments.

The Committee RECOMMENDED the capital budgets to Council for APPROVAL.

9.3 RECEIVED the Financial Forecast which showed the 2013-14 budget and the forecast for the following three years.

The forecast included the budget, student forecasts and capital expenditure considered in the previous papers.

From 2016-17 there was limited income growth, including no anticipated increase in the fee level for HEU UGs, though it was assumed there would be continuing cost increases. The new library would lead to increased depreciation and running costs but would assist with income growth/protection and increased competitiveness.

The forecast included £50.5m for the library and associated projects and the cash position after library investment was calculated as 50-60 days expenditure which was in line with target. Although this level was seen as reasonable it depended on achieving the forecasts. Additional capital investment in the medium-term would require external financing and this would need to be serviced from improved income growth and cash flow.

There was no provision for making up the College’s share of the pension deficits which could potentially be in the tens of millions, and depended on the 2014 valuation.

The forecast would be considered by Council together with a commentary, and Council would be asked to approve it for submission to HEFCE.

10 FINANCIAL POLICIES AND PROCEDURES

10.1 RECEIVED proposed ‘housekeeping’ changes to the Financial Regulations to include the provision for electronic workflows in the new finance system to be introduced from 1 August 2013.

The amended Financial Regulations were APPROVED.

10.2 RECEIVED a report on the introduction of a third pension scheme to enable College to comply with statutory provisions on Auto Enrolment.
It was recommended that College appointed NEST (National Employment Savings Trust) as the third scheme as this provided a low cost flexible option and was specifically founded to meet the requirements of the Auto Enrolment legislation. NEST provided an easy to enter and exit scheme, with low management costs.

NEST had been approved by PRC and the unions had been consulted.

The appointment of NEST as the College’s third pension scheme was APPROVED.

10.3 RECEIVED proposed changes to the Travel, Subsistence and Personal Expenses Policy which incorporated changes required due to the introduction of the new finance system from 1 August 2013 and subsequent changes when a web based expenses system was introduced later in the financial year.

The amended policy was APPROVED.

10.4 RECEIVED a report on the change in the rules for some of the Money Market Funds in which College invested cash balances. The changes provided for the occurrence of negative interest yields in their Euro funds which were under the same umbrella terms and conditions as the sterling funds. It was noted that there was no current indication that there would be negative yields for sterling funds and notice would be given before any such provisions were applied. The liquidity of a fund would be increased before any change to allow for capital withdrawal.

It was AGREED that College would continue to invest in the Money Market Funds.

10.5 RECEIVED a report on the replacement of UK GAAP (Generally Accepted Accounting Principles) with FRS (Financial Reporting Standards) as the basis for preparation of the College’s accounts which would be required for the financial statements for the year to 31 July 2106.

It was noted that there would be changes to the presentation of the financial statements including recording a pension liability for a deficit recovery plan agreed with the Pensions Regulator on the balance sheet.

11 CAPITAL PROJECTS

11.1 RECEIVED a report on the new finance system. The project was on track and on budget and it was anticipated that the system would go live on 1 August 2013 as planned. There had been delays in completing Integrated Systems Testing but these had been absorbed into the timetable, although there was now no time contingency left.

11.2 RECEIVED a report on Capital Projects.
A master plan for the campus would be submitted to Runnymede Borough Council in October 2013 for approval in early 2014. Planning consultants and other professionals had been engaged for ecological studies, air quality, noise and other studies.

Initial consultations had taken place and there would be a process of wider consultation with the College community and local community, with a presentation to Council on 26 June.

The master planning forecast costs would be met from allocations in the current year and the budget in 2013-14. If there were unforeseen costs, further funding would be required.

If the submission or Local Authority plan was challenged, College could incur additional fees, such as legal fees which could be substantial but could not currently be quantified.

The Sutherland House Drama Theatre had been handed over, but a snagging list still remained. There was a £20k negative outcome over budget including additional costs for more landscaping to satisfy neighbours.

The theatre had been well received by staff and students after a long period of disruption.

The library project would be presented to Council in November. To date £447k in fees had been agreed to bring the project to the end of design development. The professional team were being appointed using EU Compliant framework agreements to meet time restrictions.

The Boiler House would be repurposed to a 250 seat lecture theatre by September 2013, using retractable seating to provide a dual use as a flat floor facility. To meet the time restraints a commitment to purchase the retractable seating had already been made and the project was at stage 2-3 of the governance process.

A budget allocation had already been made for fees to the end of stage 3. The original projected cost of £3.5m was in the capital budget and final costs were being finalised. The usual approval process would be to ask PRC for approval and then the Finance Committee. However, due to the tight timescale it was requested that a mechanism be approved to keep the project on schedule.

It was noted that provision of a 250 seat lecture theatre was business critical and the student number forecasts for 2013-14 were dependent upon its availability in 2013.

A budget of £3.5m was AGREED upon approval of the project by PRC with a report to the next Finance Committee.

It was noted that phase 2 (pantries and bathrooms/toilets) of the Founder’s Residential Refurbishment was on schedule and budget and that phase 3
(corridors and stairs) would be completed by the end of September.

12 **INVESTMENT SUB-COMMITTEE**

RECEIVED a verbal report from the Investment Sub-Committee, which had included presentations from the WM service who provided an independent benchmarking service and the two fund managers, Aberdeen Asset Management (AAM) and Newton Investment Managers (NIM).

The performance of the funds had been good over the last quarter and year but both managers pointed to uncertainty affecting the achievement of the investment return targets over the next few years.

13 **BAD DEBTS OVER £5,000**

There were no bad debts over £5,000 to be written off.

14 **ENTERPRISE SUB COMMITTEE**

NOTED a report from the Enterprise Sub-Committee.

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

NOTED the reports on General Debtors and Student Fees Debtors and that no debts under £5,000 had been written off since 9 February 2013.

16 **BENEFACIONS AND DONATIONS**

NOTED that since February 2013 benefactions of £383 and CAN$147,046 had been received; fundraising income since that date totalled £93,873.

17 **FINANCIAL REGULATIONS**

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

18 **FOUNDER’S ENDOWMENT FUND**

NOTED that the value of the Founder’s Endowment Fund on 30 April 2013 was £33,473k (£32,788k reported on 7 February 2013) compared to the protected value of £35,747k.

19 **PUBLICATION**

19.1 AGREED that none of the agenda items required broad dissemination around the College, with the exception of the revised Financial Regulations and Travel, Subsistence and Personal Expenses policy.

19.2 CONFIRMED that the papers were correctly designated for Freedom of Information Act purposes.
DATE OF THE NEXT MEETING

NOTED that the date of the next meeting was Friday 25 October 2013 at 3 pm in the Huntersdale Boardroom.

J Febry
Deputy Director of Finance
20 May 2013