The Minutes of the Meeting of the Finance Committee held on Thursday 27 October 2011 at 3pm in the Huntersdale Boardroom

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

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

In attendance: Sir Andrew Burns, Mr John Carroll, Mr Daniel Cooper (President Students’ Union), Mr Stephen Cox, Mr Stephen Bland, Mr Martin Stokes (left after item 6), Mr Sean O’Donnell (left after item 6).

Apologies: None

1 MEMBERSHIP

Mr Iain Ross and Professor Rob Kemp were welcomed as members of the Finance Committee

Mr Stephen Cox and Mr Daniel Cooper were welcomed to the meeting.

The retirement of Mr Bob Potts as Chairman was noted and his enormous contribution to the Committee was acknowledged.

2 MINUTES

CONFIRMED and signed the Minutes of the meeting held on 19 May 2011.

3 MATTERS ARISING

NOTED that the changes to the USS scheme were introduced from 1 October 2011.

NOTED that the University of London in Paris approved the writing off of
the debt detailed in FC/11/35a.

NOTED that advice regarding Treasury Management was obtained from CIPFA’s Treasury Management in the Public Services Codes of Practice and Cross-Sectoral Guidance Notes.

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

NOTED that there were no decisions agreed by Chair’s actions since the last meeting.

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 2011.

It was NOTED that it had been a difficult trading year with a reported deficit of £92k (2010 £30k deficit) which comprised £20k budgeted deficit, £32k restructuring costs and a drop in trading surplus.

Improvements in trading were anticipated for 2011-2012 following the reconfiguration project which cost £1.2m, together with an upgrade to the sound system in the main hall. An unprofitable catering outlet had been closed and the commercial services team restructured. The Union had been rebranded and increased online sales had been seen for memberships and entertainment tickets. Non alcohol-centred daytime social activity had increased and the student activity and employability unit had been introduced.

The Students’ Union was looking to additional income streams such as Ulet Letting Agency and the wifi had been enhanced to encourage daytime trade. Student Activity membership had increased and trading was up 9% compared to last year.

This activity could not have been achieved without the support of College and the reconfiguration to which the Union contributed £200k.

There had been good feedback from the reconfiguration from students and College staff. Sabbatical Officers and relevant staff were now in shared work space and there was an improved working experience for Union staff.

It was NOTED that the increase in the cost of the Sabbatical Officers was due to a change in accounting for accommodation costs rather than an increase in stipend.
It was NOTED that the financial statements had been audited and signed off. It was further noted that the financial statements would have to be prepared in accordance with the relevant Statement of Recommended Practice (SORP) as at July 2012, recognising the establishment of the Students’ Union as a separate registered charity.

The change in status enabled the Students’ Union to explore new avenues for income generation, the level of non-charitable trading would be kept under review to ensure it would not affect the charitable status.

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 Management Accounts for the year to 31 July 2011.

The final surplus exceeded the estimate on the Main Account and RCS. The Main Account surplus for the year was £4.5m (2010 £5.1m) against an estimate of £3m and budget of £2.8m. The RCS surplus for the year was £2.4m (2010 £1.4m) against an estimate of £1.8m and budget of £1m.

Appendix A detailed variances against estimate. Tuition fee income was £361k lower than estimate due to a more accurate calculation of deferred Post Graduate (PG) fees. Higher expenditure on HEFCE capital grants (156k variance) was matched by increased depreciation (£255k variance).

Research Income was £274k more than estimate due to higher than predicted overhead return. The anticipated reduction in research funding and overheads was not yet in evidence.

Course overhead was £262k higher than estimate due to higher income on the Distance Learning University of London (UoL) MBA. The problems with forecasting due to lack of reliable information related to student numbers had been taken up with the UoL.

Interest Income was £391k higher than anticipated due to a fault in the forecasting, this had now been corrected for 2011-12.

Staff costs were £267k less than estimated. Academic Department expenditure was £285k less than estimate; these budgets were carried forward to 2011-2012.

There was a reduction in the required bad debt provision, due to a substantially lower level of debt at the year end which resulted in a large credit and a positive variance of £418k.

Facilities Management non-staff costs were £308k over estimate due to project expenditure that had been written off instead of being capitalised.
Founder’s restoration costs were £201k lower than estimate due to slippage in the scheduling of work.

Appendix F detailed the RCS results as £616k better than estimate due to higher than estimated income of £500k and lower costs of £100k. Income for summer trading had been strong and included events held in preparation for the Olympics.

It was noted that the out-turn position was positive and historically there have been significant variance between budgeted and actual surplus. It was necessary to ensure that business decisions were taken on accurate information.

7.2 RECEIVED AND CONSIDERED the College Financial Statements for the year ended 31 July 2011. Amended Income and Expenditure Accounts and Consolidated Statement of Historical Cost Surpluses and Deficits were circulated showing an amendment in the placing of the transfer out of the accumulated reserves of Royal Holloway Students’ Union.

It was noted that Note 28 made three pages of disclosure regarding the USS pension scheme but no details of potential liability. The figures included were based on the March 2008 actuarial valuation. The March 2011 valuation was not yet concluded. Employers were being consulted on the actuarial assumptions and current assumptions showed a funding position of 92% on the technical provision basis (March 2008 103%). It was noted that USS would be required to present a recovery plan to the Pensions Regulator. There was a risk that employers and employees would be asked for increased contributions but the recent scheme changes were designed to mitigate this risk.

It was agreed that the USS valuation consultation would be circulated to the committee. The risks associated with the actuarial valuation would be included in the Key Financial Risks in future.

The Corporate Governance pages would be updated in consultation with the College Secretary to reflect the new committee structure.

The Financial Statements, with the adjustments detailed above, were RECOMMENDED to Council for approval.

7.3 RECEIVED and CONSIDERED the Financial Statements for Royal Holloway Enterprise Limited (RHE).

It was noted that RHE was a subsidiary company used for consultancy activity whose profit was substantially gift aided to College.

The reduction in turnover was noted as a consequence of reduced consultancy activity within the Information Security Group; the activity was dependant upon a small number of people. Although the turnover was lower the contribution rate had increased.
It was requested that more information was provided regarding the projects included in RHE and that the level of activity was benchmarked against similar institutions. It was noted that new “third stream” teaching income streams that were being developed were included in the College’s accounts.

It was noted that the newly appointed Vice Principal for Research & Enterprise was experienced in developing consultancy activity and the establishment of spin out companies.

7.4 RECEIVED and CONSIDERED a report on the Founder’s Endowment Fund.

It was noted that the Market Value of the fund was £31,648k at 31 July 2011 (2010 £29,736k), £2,236k below the RPI protected value. The deficit for the year was due to expenditure from the accumulated surplus on restoration of the Founder’s building and environment, and there was a surplus carried forward.

8 FINANCIAL MONITORING

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

Appendix A summarised the position using the first student count for 2011-12. Home/EU student numbers were broadly in line with budget. Overseas student numbers exceeded budget by 283 full-time equivalents and fee income was anticipated to be £3.5m in excess of budget. Problems with entry to the UK by overseas students had not materialised to the extent feared and the School of Management had experienced a large increase in postgraduate students.

The tuition fee contingency of £500k was not required and so was released but additional costs were to be incurred in respect of additional departmental grants (£226k) and staffing (262k) to meet the requirements of additional students. The net effect of the increased student numbers at £3,472k was to bring the budgeted deficit on the Main Account for 2011-2012 of £3,425k (after a provision of £2m for restructuring costs) just into surplus.

It was noted that the additional students had implications for library and other space requirements and there would be further costs incurred to meet the additional student demands.

College was implementing a new requirement that postgraduate overseas students on Management courses would pay a £2k deposit before a CAS is issued which enables the student to obtain a visa. For other postgraduate courses the deposit would be £1k, whereas currently the required deposit was £400 for specified courses only. This was aimed at increasing the predictability of student intakes.

8.2 RECEIVED AND CONSIDERED a report on the impact of changes to student number controls for 2012-2013. College had submitted an Access
Agreement to support the £9k tuition fees as decided by Council. Since then the Government had changed the criteria for student number controls, removing Home/EU students with A level results of AAB (or equivalent) or better from intake control numbers and reducing the control number of non AAB+ students by 8%.

These changes had subsequently been amended to exclude STEM and Modern Foreign Language students from the cut and reduce the remainder by 9%.

College had modelled the impact of reducing the overall net fee to £7,500 which would include applying all the student financial support in the Access Agreement to fee waivers rather than bursaries. A net fee of £7,500 would enable College to bid for additional student numbers from the nonAAB applicants. It was concluded that there were significant risks in this course of action including uncertainty about the outcome of a bid for extra students. In addition students would prefer bursaries to assist with living costs rather than fee waivers.

Therefore College Exec have determined to stick with the £9k fees and had instituted a £1k bursary for each student in their first year who achieves AAB+ or equivalent.

The Committee noted the effect of an 8% reduction of the student control number for each intake over a three year period. This showed that in 2016-17 fee income would be reduced by £7.9m compared to a neutral projection. It was anticipated that College would need to attract an intake of 860 students with AAB equivalent from 2012 in order to offset the 8% reductions, which was 200 more than the current intake.

In order to address areas of concern about the quality of the student experience, additional expenditure to upgrade teaching spaces and create additional reader space in the library was being considered with some work to be scheduled for the Christmas break.

8.3 RECEIVED and CONSIDERED a report on the implementation of the Annual Assessment of Institutional Sustainability during 2011-12 as required by HEFCE.

A report had recommended a number of areas (including teaching and research) for the assessment and that HEIs should develop metrics for monitoring sustainability. The metrics would include some financial measures, for example liquidity, surplus and cash generated.

Institutions were required to report such metrics from 2012-13 and it was agreed that these requirements would be incorporated in the KPIs and metrics that were already part of the planning process.

9 CAPITAL PROJECTS

9.1 RECEIVED and CONSIDERED a report on Major Capital Projects.
It was noted that the recent investment in infrastructure had enabled a major water leak to be mended within two hours and with no disruption to the campus supply.

The Masterplan for College would once more be discussed with the Local Authority at a meeting scheduled for November.

The Sutherland House project was anticipating a decision on planning in mid December which would mean a project overrun of five weeks. The delay would be ameliorated if possible but it was noted that the contingency on the project was only £119k which was extremely low for the size and stage of project.

The Students’ Union Refurbishment was extremely successful and proposals for an extension to the Bedford Library were progressing.

It was noted that a private developer had achieved planning permission for 125 student bedrooms on a site adjacent to the campus, with College support, but with no financial commitment from the College.

9.2 RECEIVED and CONSIDERED a report on the financing of additional Students’ Residences. The Principal’s Manifesto had identified the need for an additional 1,500 student residence places which would cost approximately £75m. The process for identifying and progressing financing options would continue in parallel to identification of suitable locations and planning processes.

The recent agreement with Study Group International had increased the requirement for student residence places with the potential for 600 places for Study Group students and first-year undergraduates at College recruited from this programme.

A meeting had been scheduled with a Financial Adviser to explore funding options. It was suggested that existing loans could be rolled up into a public bond and this option would also be considered.

9.3 RECEIVED and CONSIDERED a report on the recovery of VAT for the Students’ Union Refurbishment.

The proposal to ‘Opt to Tax’ the rental for the Students’ Union building was agreed subject to professional advice.

10  FINANCIAL REGULATIONS AND COLLEGE POLICIES

10.1 RECEIVED and CONSIDERED a report on the proposed Tuition Fees for 2012-2013.

A full review of fees had been undertaken to rationalise and restructure the discretionary fees charged. The proposed fees had been agreed by the
Planning & Resources Committee and the Academic Planning Committee in consultation with the academic departments.

Section 3.6 of Annex III had been amended to comply with HEFCE regulations in that fees for study abroad students with full course credits could be no more than 50% of the equivalent fees on campus.

The Tuition Fees Paper was APPROVED in its three sections; policy for setting tuition fees, fees for 2012-13 and Annex.

It was APPROVED that the fees yet to be determined by outside agencies (eg Island and HEU PGR fees) would be agreed by Chair’s Action.

10.2 RECEIVED and NOTED a paper on the Proposals for Changes to USS Statement of Investment Principles.

10.3 RECEIVED a paper on Amendments to Code of Practice for the Exploitation of Inventions and Patents which represented a codification and clarification of the existing policy.

It was AGREED that the policy should be Recommended to Council for Approval.

10.4 RECEIVED proposed amendments to the Financial Regulations resulting from the changes in Committee Structure and Roles of Senior Staff and the change in status of the Students’ Union.

The changes were APPROVED.

10.5 RECEIVED a report on Treasury Management.

It was AGREED that a process for market testing Treasury Management Specialists should be developed.

The use of Legal & General Investment Management Sterling Liquidity Fund and Insight Liquidity Fund was APPROVED.

It was AGREED that the increase in limit to £60m for investment in Money Market Funds, with a limit of £10m for any one Fund, be RECOMMENDED to Council for APPROVAL.

10.6 The writing off of one student debt totalling £12,173.20 was APPROVED.

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 value of funds had fallen over the last year but rallied somewhat in October. The recently changed Total Returns Criteria of 8.5% over 3-5 years and the subsequent flexibility in asset allocation had proved beneficial.
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 three debts under £5,000 totalling £1,031 have been written off since 19 May 2011.

14 BENEFACIONS AND DONATIONS

NOTED that since 19 May 2011 there had been a £7k benefaction and fundraising income totalling £31,328.

15 FINANCIAL REGULATIONS

NOTED a report on the cases 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 13 October 2011 was £29,964k (£32,008k reported on 19 May 2011) compared to the protected value of £34,086k.

17 PUBLICATION

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

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 26 January 2012 at 2pm in the Huntersdale Boardroom.

J Febry
Assistant Director of Finance
14 November 2011