



FINANCE COMMITTEE

10 June 2014

MINUTES

PRESENT:

Mr Simon Melliss (*Chair*)

Professor Michael Arthur
(*President and Provost*)
Mr Ven Balakrishnan
Dr Stephanie Bird
Dr Ben Booth
Mr Mark Clarke

Professor Sue Hamilton
Mr John Morgan
Dr Gill Samuels
Professor Alan Smith
Sir Stephen Wall

In attendance: Ms Nicola Arnold (Director of Financial Control and Analysis); Mr Mohammed Zayyan Butt (Student Observer); Professor Stephen Caddick (Vice-Provost (Enterprise)) [*for Minute 87*]; Mr Marc Finer (KPMG) [*for Minute 64*]; Mr Jack Foster (Director, Special Projects) [*for Minute 64*]; Mr Phil Harding (Director of Finance and Business Affairs); Ms Valerie Hogg (Director of Financial Planning and Strategy); Mr Rex Knight (Vice-Provost (Operations)); Mr Nick McGhee (Secretary to Finance Committee); Mr Tim Metzgen (KPMG) [*for Minute 64*]; Mr Richard Smothers (FC member-elect); Mr Martin Walsh (Commercial Director, Finance and Business Affairs) [*for Minute 87*]; Ms Sarah Whitney (FC member-elect).

Apologies for absence were received from Dr Liam Graham and Professor Alan Thompson.

Key to abbreviations used in these Minutes:

DARO	Development and Alumni Relations Office
FC	Finance Committee
HEFCE	Higher Education Funding Council for England
IoE	Institute of Education
NPV	net present value
REF	Research Excellence Framework
USS	Universities Superannuation Scheme

Preliminary Formal Business

61 DECLARATION OF INTERESTS

Discussion

- 61.1 Any member of Finance Committee who had (or who knew of a family member who had) a material, personal, financial or other beneficial interest in any item on the Agenda was requested to declare that interest at the beginning of the meeting in order that such declaration could be recorded in these Minutes. No such interests were declared.

62 MINUTES

Approved

- 62.1 The Minutes of the meeting held on 11 March 2014 [*FC Minutes 46-60, 2013-14*] were confirmed by the Committee and signed by the Chair.

63 MATTERS ARISING FROM THE MINUTES

Received

- 63.1 APPENDIX FC 5/54 (13-14) – a note of matters arising from the last meeting.

Matters for discussion

64 ESTATES AND FUNDING STRATEGY: REVIEW OF FUNDING OPTIONS

Received

- 64.1 APPENDIX FC 5/56 (13-14) – a review of the funding options available to support UCL's Estates and Funding Strategy.
- 64.2 An oral report from Mr Jack Foster (Director, Special Projects), with Mr Marc Finer and Mr Tim Metzgen, KPMG.

Reported

- 64.3 Since their appointment as advisers on UCL's borrowing options in February 2014, KPMG had reviewed UCL's

financial model with a particular focus on challenging the key assumptions. It was KPMG's view that the key challenge was not UCL's ability to raise debt, but the task of identifying the optimal funding solution. A base case and alternative models had been produced to support the evaluation process.

- 64.4 KPMG's recommended model was for a mixture of bank and bond borrowing. Due consideration had been given to the comparative attractions of early entry into the bond market in pursuit of historically low rates, notwithstanding the cost of carry, against those of bank borrowing with a significantly lower commitment fee. In making the proposals KPMG were also mindful of the context of the need to maintain the necessary operational flexibility, and the difficulty of providing a high level of detail on the proposed projects.

Discussion

- 64.5 FC discussed the upper limit of borrowing affordable by UCL, noting that the traditional methods on which such estimates were made (*ie* on the basis of the debt:turnover ratio, or double the interest cover) gave very different results. It was noted in the latter case that the sector was under-leveraged, although this situation was likely to change.
- 64.6 There was an element of public disclosure around bond arrangements, and while this was unlikely to increase significantly the level of disclosure already made as a result of HEFCE regulation, UCL should nevertheless note that it would result in a public review that would be out of the hands of the institution. It could be expected that any covenants arising out of bond borrowing would be light, possibly extending no further than was already required by the regulatory environment.
- 64.7 UCL did not have a treasury management policy that accommodated the proposed scale of debt. Further consideration would need to be given to the extent of the role of the Audit Committee in the process.

RECOMMENDED – to Council

- 64.8 **That UCL officers progress plans for securing borrowing of c. £300m, subject to formal approval of Finance Committee and Council being sought to enter into borrowing arrangements once detailed terms were established with lenders.**

65 **UCL BUDGET 2014-15**

Received

65.1 APPENDIX FC 5/57 (13-14) – the draft UCL Budget 2014-15.

65.2 An oral report from Mr Phil Harding, Director, Finance and Business Affairs.

Reported

65.3 At its meeting on 11 March 2014 Finance Committee had approved the outline budget for 2014-15 with a projected surplus of £27.4m (2.5%). Mr Harding noted that this was on the trajectory required to achieve a 5.5% surplus by 2017-18 as envisaged in the Estates and Funding Strategy. Initial projections beyond 2014-15, which reflected investment in new courses and additional staff, gave further cause for optimism that the projected trajectory remained realistic. No uplift in respect of the REF had been incorporated into the budget.

65.4 Income in 2014-15 was projected to rise 9.5%, and expenditure 8%. Contributions from academic areas were projected to rise 13-14%, reflecting a 4% increase in student numbers and a 17% rise in fee income. Mr Harding drew attention also to ambitious budgets for a 13% increase in research income and £12m increase in overhead recovery. The £11.8m (6%¹) rise in Professional Services costs reflected investment in major strategic initiatives including IT systems, ongoing centralisation of admissions, expansion of the DARO team, high ongoing levels of estates costs and an increase in student bursaries.

65.5 The most recent student recruitment data suggested there was some room for an upside on the projected figures, with postgraduate taught and research numbers both up on the previous year. Firm measures were being taken to reduce the rate of expansion in staff costs.

65.6 The budget did not incorporate data relating to the Institute of Education (IoE), other than to include an allowance for costs of the proposed merger. If the merger were to proceed as planned in December 2014 the Institute would be treated as an exceptional item. It was understood that the IoE was currently budgeting a surplus for 2014-15.

65.7 The budget assumed pension contributions in 2014-15 at the current level. It was confirmed that, following the recent

¹ Mr Harding drew attention to an error in the draft budget paper; the Executive Summary on p.2 should have read: 'Professional Services and Corporate Finance costs increase by £11.8m...'

triennial review, any increase in the USS contribution rate with effect from October 2015 would not be backdated.

Discussion

- 65.8 In response to questions on matters of detail, Mr Harding confirmed: that no change had been assumed on the current year in respect of philanthropic income, the future budgeting treatment of which was currently the subject of discussion with the Chair; that approximately half of the total projected capital expenditure reflected refurbishment and modernisation projects that would not deliver significant additional capacity; and that the term ‘reserves’ was to be understood in the specific UCL sense connected with internal departmental mechanisms; expenditure from such reserves was all contained within the income and expenditure statement.
- 65.9 Noting that the surplus would quickly turn to a deficit if accounting for depreciation were differently handled, FC members queried whether the target surplus was sufficiently ambitious, or whether a greater differential between income and expenditure ought not to be budgeted. FC members also queried whether the £1.38m head room for unknown costs in the capital programme was sufficient. It was noted that a further £24m remained in the budget after approval of those projects in the papers for the current meeting, in respect of projects not yet approved.
- 65.10 Consideration would be given to incorporating an element of quantification of risks and opportunities in the budget in future, although it was noted that the overall level of uncertainty in the sector was rising, notwithstanding the apparent buoyancy of UCL’s student market.
- 65.11 FC members noted a year-on-year increase in ‘other’ costs. A breakdown of this category of expenses would be prepared.
- 65.12 It was agreed that a paper setting out the detail of, and rationale behind, the budgeted increase in Professional Services and corporate finances expenses be submitted to the 20 November 2014 meeting of Finance Committee.
- 65.13 Noting that the budget was inevitably going to be challenging in the year between a major investment in staff ahead of the REF and the consequent rise in income, Finance Committee approved the budget whilst suggesting that the budgeted surplus felt insufficiently ambitious.

RECOMMENDED – to Council

- 65.14 **That the UCL budget 2014-15 be approved.**

66 **FINANCIAL UPDATE**

Received

66.1 APPENDIX FC 5/58 (13-14) – the Financial Update for the year to 30 April 2014 and the forecast for 2013-14.

66.2 An oral report from Mr Phil Harding, Director of Finance and Business Affairs.

Reported

66.3 The full year forecast position was improved over Q2 due to an increase in profit on disposals. The operating surplus currently showed an adverse variance to budget of £1.5m, but there was reason to be optimistic that the year could be brought in on budget.

67 **FINANCIAL PERFORMANCE INDICATORS**

Received

67.1 APPENDIX FC 5/59 (13-14) – the HEFCE financial results and forecast summary statistics 2013.

Discussion

67.2 FC requested that details of income and cost growth be included in the next report.

<p style="text-align: center;">Matters for approval or information</p>

68 **FINANCE COMMITTEE SELF-REVIEW**

Received

68.1 APPENDIX FC 5/60 (13-14) – a paper outlining the annual self-review process, introduced in response to a HEFCE Assurance Review.

68.2 A questionnaire, seeking FC members' views on the operations of the committee, was tabled at the meeting. Members were requested to return completed questionnaires to the Secretary by 30 June 2014.

Discussion

- 68.3 Finance Committee would return to the matter of the self-review at the meeting on 23 September 2014, in light of the responses from questionnaires.

69 REVIEW OF FINANCIAL REGULATIONS

Received

- 69.1 APPENDIX FC 5/61 (13-14) – proposals for review and revision of UCL's Financial Regulations.

Discussion

- 69.2 It was suggested that consideration be given in future to incorporating additional material on risk management in the Regulations.

RECOMMENDED – to Council

- 69.3 **That the revised Financial Regulations as set out at APPENDIX 5/61 (13-14) be approved.**

70 UCLU BUDGET

Received

- 70.1 APPENDIX FC 5/62 (13-14) – the UCLU first estimates for 2014-15.

Discussion

- 70.2 It was noted that the budgeted deficit was beyond the level agreed by the UCLU Trustees.

RECOMMENDED – to Council

- 70.3 **That the UCLU draft Budget 2014-15 be approved.**

71 CENTRAL WELFARE FOR CONSTRUCTION

Received

- 71.1 APPENDIX FC 5/63 (13-14) – proposals to provide centralised site office and welfare accommodation for construction and maintenance works on the Bloomsbury campus.

Discussion

- 71.2 It was noted that the two projects at Minutes 71 and 72 would, if approved, make a significant contribution to mitigating the risk of ‘failure to manage construction activities leading to uncontrolled hazards and significant physical risk’ [see APPENDIX FC 5/74 (13-14) / Minute 83 below].

RESOLVED – on the recommendation of the Estates Management Committee

- 71.3 **That the proposals to provide centralised site office and welfare accommodation at APPENDIX FC 5/63 (13-14) be approved.**

72 **CENTRAL CAMPUS CONSTRUCTION LOGISTICS**

Received

- 72.1 APPENDIX FC 5/64 (13-14) – proposals to engage a logistics partner during the Central Campus Capital Programme.

RECOMMENDED – to Council

- 72.2 **That the proposals to engage a logistics partner at APPENDIX FC 5/64 (13-14) be approved.**

73 **TUFNELL PARK**

Received

- 73.1 APPENDIX FC 5/65 (13-14) – proposals to acquire a ten-year lease on space at the Bush Industrial Park in Tufnell Park.

RESOLVED – on the recommendation of the Estates Management Committee

- 73.2 **That the proposals to acquire a ten-year lease on space at the Bush Industrial Park at APPENDIX FC 5/65 (13-14) be approved.**

74 **ROBERTS BUILDING MATERIALS PROJECT**

Received

- 74.1 APPENDIX FC 5/66 (13-14) – a proposal to refurbish facilities in the Roberts Building.

RESOLVED – on the recommendation of the Estates Management Committee

- 74.2 **That the refurbishment of the Roberts Building as set out at APPENDIX FC 5/66 (13-14) be approved.**

75 **CHARLES BELL HOUSE / MAPLE STREET**

Received

- 75.1 APPENDIX FC 5/67 (13-14) – a request for Finance Committee approval of increased expenditure on the Charles Bell House refurbishment costs, and for approval to enter into a lease for 4-8 Maple Street, with fit out costs.

Discussion

- 75.2 FC discussed the investment in light of its substantially negative NPV. Charles Bell House was an important research facility that was in particularly poor condition. An alternative opportunity was nevertheless being evaluated. It was noted that it may prove necessary to seek approval by Chair's action before the next meeting of Finance Committee.

RECOMMENDED – to Council

- 75.3 **That the proposals at APPENDIX FC 5/67 (13-14) be approved.**

76 **INSTITUTE OF OPHTHALMOLOGY AND MOORFIELDS**

Received

- 76.1 APPENDIX FC 5/69 (13-14) – a proposal to move to the next stage of the project to relocate the Institute of Ophthalmology, with its key partner Moorfields Eye Hospital, from the existing site at Bath Street / City Road, with associated professional fees of £10m.

- 76.2 FC urged that an estimate of the professional fees to be incurred in 2014-15 be included in the budget.

RECOMMENDED – to Council

- 76.3 **That the proposal to move towards the next stage of planning for the relocation of the Institute of Ophthalmology be approved.**

77 **GAS AND ELECTRICITY PROCUREMENT**

Received

- 77.1 APPENDIX FC 5/68 (13-14) – proposals to extend the existing energy purchasing arrangements for a further two years.

RECOMMENDED – to Council

77.2 **That the proposed extension of the current energy purchasing arrangements as at APPENDIX FC 5/68 (13-14) be approved.**

78 DEBT WRITE-OFF

Received

78.1 APPENDIX FC 5/70 (13-14) – proposals to write-off debt of £216,691 due from Arius 3D.

RESOLVED

78.2 **That the proposals for debt write-off at APPENDIX FC 5/70 (13-14) be approved.**

79 SENATE HOUSE LIBRARY

Received

79.1 APPENDIX FC 5/71 (13-14) – proposals to enter into an agreement with the University of London for use of space at the Senate House Library.

RESOLVED – on the recommendation of the Estates Management Committee

79.2 **That the proposals at APPENDIX FC 5/71 (13-14) be approved.**

80 OFFSITE DATA CENTRE

Received

80.1 APPENDIX FC 5/78 (13-14) – proposals to establish a new offsite data centre for UCL.

RESOLVED

80.2 **That the proposals to establish an offsite data centre at APPENDIX FC 5/78 (13-14) be approved.**

81 CAPITAL PROJECTS DASHBOARD

Received

81.1 APPENDIX FC 5/72 (13-14) – the UCL Estates Capital Projects Dashboard, 28 April 2014.

82 **HEFCE GRANT ANNOUNCEMENT**

Received

- 82.1 APPENDIX FC 5/73 (13-14) – a note on the HEFCE grant announcement of March 2014.

83 **RISK MANAGEMENT UPDATE**

Received

- 83.1 APPENDIX FC 5/74 (13-14) – an update on UCL’s Strategic Risk Register for 2013-14 and the associated Risk Improvement Updates.

Discussion

- 83.2 It was suggested that the target level of risk (ie UCL’s risk appetite in each category) could more explicitly be incorporated into future iterations of the update. It was further noted that it was becoming common practice to include on risk schedules anything with an impact of 5, whatever the likelihood rating, and that UCL might consider adopting this approach in future.

- 83.3 It was agreed that this item be revisited for discussion at the meeting on 20 November 2014.

84 **CHAIR’S ACTION**

Received

- 84.1 APPENDIX FC 5/75 (13-14) – a note of action taken by the Chair since the last meeting.

85 **FINANCE COMMITTEE MEMBERSHIP 2014-15**

Received

- 85.1 APPENDIX FC 5/76 (13-14) – details of the membership of Finance Committee in the academic year 2014-15.

86 **FINANCE COMMITTEE MEETING DATES 2014-15**

Received

- 86.1 APPENDIX FC 5/77 (13-14) – dates of Finance Committee meetings in 2014-15.

Noted

86.2 Meetings were scheduled as follows (10:30am in each case):

- 23 September 2014
- 20 November 2014
- 27 January 2015
- 26 March 2015
- 2 July 2015