FINANCE COMMITTEE

11 March 2014

M I N U T E S

PRESENT:

Mr Simon Melliss (*Chair*)

Professor Michael Arthur (*President and Provost*)
Mr Ven Balakrishnan
Dr Stephanie Bird
Mr Mark Clarke
Dr Liam Graham
Professor Sue Hamilton
Mr John Morgan
Dr Gill Samuels
Professor Alan Smith
Professor Alan Thompson
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 59*]; 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).

Apologies for absence were received from Dr Ben Booth.

Key to abbreviations used in these Minutes:

EEE	[Department of] Electronic and Electrical Engineering
FC	Finance Committee
HEFCE	Higher Education Funding Council for England
LLDC	London Legacy Development Corporation
OFFA	Office for Fair Access
RNOH	Royal National Orthopaedic Hospital
TRAC	transparent approach to costing
USS	Universities Superannuation Scheme

Preliminary Formal Business

46 DECLARATION OF INTERESTS

Discussion

46.1 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.

47 MINUTES

Approved

47.1 The Minutes of the meeting held on 28 January 2014 *[FC Minutes 35-45, 2013-14]* were confirmed by the Committee and signed by the Chair.

48 MATTERS ARISING FROM THE MINUTES

Received

48.1 APPENDIX FC 4/41 (13-14) – a note of matters arising from the last meeting.

Matters for discussion

49 FINANCIAL UPDATE

Received

49.1 APPENDIX C 4/42 (13-14) – the Financial Update (March 2014).

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

Reported

49.3 Mr Harding apologised for the late circulation of the paper. This had been caused by ongoing analysis of the reasons behind

the projected shortfall against the budgeted surplus for the current year, despite the half-year position being marginally ahead of budget. While the operating surplus position was satisfactory, a range of capital and other exceptional items had had a significant negative impact on the full year forecast.

Discussion

49.4 FC members noted that, if disposals were discounted, the surplus as a proportion of turnover was projected to fall. It was also noted however that UCL's financial performance appeared relatively healthy if the £1.8m of unanticipated feasibility costs were discounted.

49.5 FC members enquired after the reasons for the negative variance against scholarships and education, utilities and property costs, and professional fees. It was noted in response: that increased bursary expenditure was a function of increased student numbers, under the terms of the OFFA agreement; that the negative variance on utilities was in part due to mis-allocation of spend to budgets, and was therefore compensated for in other costs; and that a significant factor in the expenditure on professional fees was a higher than projected use of contract staff in the Information Services Division, which in turn explained in part the underspend on staff costs. In respect of the expenditure on scholarships, it was further noted that at the point of acceptance UCL was unaware of a student's financial circumstances, which made it impossible to predict with any precision the necessary expenditure in this regard. It was suggested that the Financial Update might in future usefully seek to distinguish between the fixed and variable elements of bursary provision.

49.6 It was suggested that UCL regularly recruited more students than had been predicted, and should therefore consider developing a budget management protocol specifically in respect of over-recruitment of students. The inherent difficulty of budgetary management of a contribution model against the background of year-on-year increases in the level of activity was also noted. It was further suggested that the institution would struggle to improve its financial performance without establishing a more substantial gap between the rate of income and cost growth.

49.7 A recovery plan was being developed to address the adverse variance in the School of Life and Medical Sciences.

49.8 Professional Services Divisions were obliged to accommodate an increased volume of activity on a fixed budget. The current adverse variance had been affected by increased feasibility and estates costs as well as other exceptional unbudgeted items including fees relating to the possible merger with the Institute of Education and the transfer of MRC units.

49.9 In response to questions, Mr Harding noted that: the forecast fall in scholarship income at the full year was the result of phasing of the spend in this respect; that contribution targets for faculties were calculated on a percentage basis but were fixed in cash terms once the budget had been calculated; and that recovery of research overheads were not constant, but reflected the need for increased space and staff numbers.

49.10 The financial impact of the withdrawal of the mandatory retirement age was difficult to model. The Director of Finance expected to receive data on the impact on the staff profile from the Human Resources Division shortly.

50 STUDENT ACCOMMODATION STRATEGY

Received

50.1 APPENDIX C 4/43 (13-14) – a review of the operation of UCL's student residences, with proposals for the future strategic direction.

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

Reported

50.3 The provision of student accommodation was critical to UCL's ability to attract students; this was reflected in the nature of the guarantee. A shortfall of 700 rooms was anticipated in 2014-15, rising to 1,400 by 2022-23. A projected 200 additional bed spaces could be created by redeveloping existing UCL residences, but it would also be necessary to acquire new stock. The paper proposed that partnership arrangements with the private sector be actively pursued.

Discussion

50.4 700 rooms were being sought via nomination rights from private sector providers in 2014-15. It was suggested that the 1,000 assumed nominations in the forecast from 2017 were not appropriately reflected in the capital expenditure plan.

50.5 Accounting regulations did not permit the establishment of a sinking fund in respect of strategic maintenance, but this could be covered by cash balances accrued in student accommodation accounts.

50.6 Maintenance costs were included in the Estates and Funding Strategy but the cost of acquisition of new stock was not. It was agreed that the full cost of building new accommodation would henceforth be included in the Estates and Funding Strategy in order to ensure consistency between the forecast

for student accommodation and the projected student numbers.

50.7 FC members suggested that ten years may be too long a cycle for a refurbishment programme, and asked that further consideration be given to this point.

50.8 It was agreed that the first recommendation should be amended to read 'Maintain existing residence guarantees for students', with any future amendment to that policy being addressed at the appropriate time.

RESOLVED

50.9 **That the proposed strategic direction for UCL's residences set out at APPENDIX FC 4/43 (13-14) be approved.**

51 UCL BUDGET 2014-15

Received

51.1 APPENDIX C 4/44 (13-14) – a note outlining the process for determining the parameters of the 2014-15 Budget, the target surplus, and its translation into individual contribution targets for Schools and Faculties.

51.2 An oral report from Valerie Hogg, Director of Financial Planning and Strategy.

Reported

51.3 The target surplus of £27.4m for 2014-15 was based on an even phasing over four years of the improvement necessary to achieve a surplus of 5.5% by 2017-18, as set out in the Estates and Funding Strategy. Calculations of contribution targets on this basis were shown at Annexe 1. The Budget also included provision for an increase on expenditure on information systems and the library, additional depreciation charges, borrowing costs, and an additional £2m for the Strategic Investment Fund.

Discussion

51.4 Individual faculty contribution targets were calculated on the basis of student numbers, staff numbers, and space occupied. Calculations were formulaic and based on the TRAC model. Although contribution targets were set at faculty level, Deans within a School were permitted to agree adjustments between them. The faculties were now working on their individual budgets. The Bartlett had noted that it would struggle to achieve the target for 2014-15, which represented a 45% increase on the current year.

51.5 Some FC members urged UCL to pursue a greater differential between income and costs, noting the underestimate of depreciation charges suggested by the TRAC data. The impact of any undervaluation of assets on the cost of borrowing was also noted. It was suggested however that the value of property was a secondary consideration; cashflow and the rate of expenditure on the estate were key.

51.6 The forthcoming revaluation of the USS pension scheme was discussed. The current assumption was that employers' contribution rates would not rise until autumn 2015, given the 31 March valuation date and the 15-month period needed to agree a recovery plan.

51.7 The Director of Finance and Business Affairs was content that the projected surplus was appropriate within the context of the targets set by the Estates and Funding Strategy, and reflected appropriately the Executive's judgment of the contribution rate rises that could reasonably be borne by faculties.

51.8 In conclusion the Chair asked that further consideration be given to the 1% efficiency targets for Professional Services, and the rate at which this could be achieved. He requested also that a future FC meeting receive additional clarification on the economics of research, addressing such topics as overhead cost recovery and charitable income. The Chair would discuss the matter further with the Director of Finance and asked that any other FC members interested in being involved in this process contact Phil Harding.

RESOLVED

51.9 **That FC approve the basis on which the UCL Budget 2014-15 is being prepared.**

52 TUITION FEES 2015-16

Received

52.1 APPENDIX C 4/45 (13-14) – a proposal for the minimum tuition fee rates to be charged for UK/EU graduate programmes, and all overseas students, for the Academic Year 2015-16.

52.2 An oral report from Valerie Hogg, Director of Financial Planning and Strategy.

Discussion

52.3 Students would prefer a fixed rate annual increase to facilitate financial planning. UCL was sympathetic to this position although it would be necessary to change the matrix of fees charged and undertake some systems development.

52.4 It was confirmed that historically the rise in fees at UCL was broadly comparable with other Russell Group institutions in London.

52.5 It was requested that, before the paper was forwarded to Council, an element relating to the provision of scholarships and bursaries be incorporated into the text.

RESOLVED

52.6 **That the minimum tuition fee rates to be charged for UK/EU graduate programmes and all overseas students for the academic year 2015-16 be approved.**

Matters for approval or information

53 **RUSSELL HOUSE**

Received

53.1 APPENDIX FC 4/47 (13-14) – a business case in support of the acquisition of two floors of Russell House.

Discussion

53.2 It was confirmed that the proposed lease was for 15 years, with a break at 10 years.

RECOMMENDED *– to Council*

53.3 **That the proposed business case for acquiring two floors of the Russell House (APPENDIX FC 4/47 (13-14)) be approved.**

54 **66-72 GOWER STREET**

Received

54.1 APPENDIX FC 4/48 (13-14) – a proposal to refurbish and remodel 66-72 Gower Street.

RECOMMENDED *– to Council*

54.2 **That the proposal to renovate and remodel 66-72 Gower Street (APPENDIX FC 4/48 (13-14)) be approved.**

55 **BOSTON HOUSE**

Received

55.1 APPENDIX FC 4/49 (13-14) – a proposal to acquire Boston House, Fitzroy Square on leasehold until January 2019.

RECOMMENDED *– to Council*

55.2 **That the proposal to acquire Boston House, Fitzroy Square on leasehold until January 2019 (APPENDIX FC 4/49 (13-14)) be approved.**

56 **RNOH / STANMORE**

Received

56.1 APPENDIX FC 4/50 (13-14) – a proposal to create a UCL/RNOH Bioengineering Hub in a new building constructed in partnership with the RNOH.

RECOMMENDED *– to Council*

56.2 **That the proposal to construct a new building at the RNOH/Stanmore site, as set out at APPENDIX FC 4/50 (13-14)), be approved.**

57 **CAPITAL PROJECTS REPORT**

Received

57.1 APPENDIX FC 4/51 (13-14) – the capital project dashboard dated 17 February 2014.

58 **UCL CAMPAIGN UPDATE**

Received

58.1 APPENDIX FC 4/52 (13-14) – an update on philanthropic and supporter engagement activities connected with the UCL Campaign.

Reported

58.2 The Chair reported that he would like to see greater clarity in the link between DARO activity and the financial accounts; he had discussed the matter with the Deputy Director of Development and Alumni Relations earlier in the week. A further paper would be submitted to FC in September 2014.