



## FINANCE COMMITTEE

14 November 2013

### 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

Dr Gill Samuels

Professor Alan Smith

Professor Alan Thompson

Sir Stephen Wall

*In attendance:* Ms Nicola Arnold (Director, Financial Control and Analysis); Professor Steve Caddick (Vice-Provost (Enterprise)); Mr Andrew Grainger (Director of UCL Estates); Mr Phil Harding (Director of Finance and Business Affairs); Miss Valerie Hogg (Director, Financial Planning and Strategy); Mr Rex Knight (Vice-Provost (Operations)); Mr Nick McGhee (Secretary to Finance Committee).

Apologies for absence were received from Mr Mohammed Zayyan Butt, Dr Liam Graham and Mr John Morgan.

*Key to abbreviations used in these Minutes:*

ASSUR	Annual Sustainability Assurance Report
FC	Finance Committee
FEC	full economic costing
HEFCE	Higher Education Funding Council for England
P&L	profit and loss statement
REF	Research Excellence Framework
SMT	Senior Management Team
SORP	Statement of Recommended Practice
THE	Times Higher Education
UCLU	UCL (students') Union

<b>Preliminary Formal Business</b>
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16 **DECLARATION OF INTERESTS**

*Discussion*

- 16.1 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.

17 **MINUTES**

*Approved*

- 17.1 The Minutes of the meeting held on 23 September 2013 [*FC Minutes 1-15, 2013-14*] were confirmed by the Committee and signed by the Chair.

18 **MATTERS ARISING FROM THE MINUTES**

*Received*

- 18.1 APPENDIX FC 2/14 (13-14) – a note of matters arising from the last meeting.

*Reported*

- 18.2 The Chair had circulated a note in advance of the meeting canvassing members' views on the proposal to submit a revised bid for Bidborough House, WC1. A second bid had subsequently been submitted and an announcement of the outcome of the process was expected in the near future.

<b>Matters for discussion</b>
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19 **ANNUAL FINANCIAL STATEMENTS**

*Received*

- 19.1 APPENDIX C 2/15 (13-14) – UCL's Financial Statements and commentary to the Financial Statements for the year ended 31 July 2013.

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

**Reported**

- 19.3 The Audit Committee had recommended approval of the Financial Statements at a meeting earlier in the day. The external auditor would issue an unqualified opinion. The management letter had identified one grade two recommendation, relating to the recording of donations, and two grade three recommendations.

**Discussion**

- 19.4 FC members made a number of specific suggestions for amendments to the Financial Statements, including: a clearer statement of the key messages and the nature of UCL's ambition and strategy; additional information on the extent of UCL's fundraising ambitions; clarification of the frequency of Council meetings and the committee substructure; additional detail on the nature of 'other costs' listed under Other Operating Expenses; a review of the consistency of the lists of aims given under 'Our vision' and 'Strategy and long term objectives'; and clarification of the statement 'demographic trend suggests there could be up to 12-15% fewer applicants in the UK by 2020'. It was noted that the statements had yet to be signed off by the external auditors, and that it was therefore important that any amendments to the text did not deviate from the measured tone of the current draft. The process of developing and approving a financial strategy was still under way, but that it would be possible to give a clearer strategic outline in the commentary in a year's time.
- 19.5 The shortfall on FEC in research grants was discussed. FC noted the report in this week's THE<sup>1</sup> of UCL's leading position in winning Research Council funding.
- 19.6 FC discussed the accounting treatment of fixed assets and the impact of depreciation charges on the bottom line. The matter had been raised at Audit Committee in the context of a discussion of accounting policies in view of the revision of SORP. It was confirmed that UCL's accounting treatment in this area was typical of the sector.
- 19.7 The substantial fall in the USS pension scheme deficit from £11.5bn (April 2013) to £7.9bn (June 2013) was noted. A revaluation of the scheme was due in March 2014, and the Trustees had commissioned a report on the covenant, due to be completed shortly. It could be expected that a clearer picture of the risk of an increase in contribution rates would emerge early in 2014.

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<sup>1</sup> <http://www.timeshighereducation.co.uk/news/ucl-leads-grant-income-table/2008996.article>

**RECOMMENDED – to Council**

- 19.8            **That the audited Financial Statements for 2012-13 be approved, subject to further consideration being given to the amendments discussed.**

20    **FINANCIAL UPDATE**

**Received**

- 20.1            At APPENDIX FC 2/16 (13-14) – part 1: an update on UCL’s financial performance for the year ended 31 July 2013, with, at part 2, an update on financial performance in Q1 of 2013-14.
- 20.2            An oral report from Phil Harding, Director of Finance and Business Affairs.

**Reported**

- 20.3            The Q1 update was based on actual results from the first two months of the year, including student recruitment data for 2013-14 and revised forecasts submitted by each of the Schools.
- 20.4            The year-to-date surplus variance was £3.5m ahead of forecast, with the full year forecast variance £875,000 ahead of budget. Professorial Services were currently forecasting a negative variance but it was expected that the position would recover by the end of the year.

**Discussion**

- 20.5            With reference to the indication of negative variances in the forecasts at this relatively early stage in the year, FC discussed the use of the budgetary mechanism as a means of exercising control, ie reporting a zero variance position and requiring the relevant faculties to address the situation. It was noted that the faculty budgets were managed on a contribution target basis.
- 20.6            FC discussed the apparent lack of economies of scale as UCL expanded. The distortion in costs brought about by the imminent REF submission date was noted, as was the wide range of financial models between faculties. It would be necessary to bring about a culture change in order that the UCL community would come to accept the need to generate appropriate levels of surplus for capital investment, rather than necessarily reinvesting directly in income-generating activity. FC’s attention was drawn to the fundamental difference between the HE sector and industry, demonstrated by the willingness of HEIs to increase the scale of their

research despite this being their principal loss-making business.

## 21 ESTATES AND FUNDING STRATEGY

### *Received*

21.1 APPENDIX FC 2/17 (13-14) – the proposed Estates and Funding Strategy.

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

### *Reported*

21.3 The Strategy confirmed the feasibility of funding a ten-year, £1.2bn investment programme with a level of borrowing at around £250m and a surplus of 5.5%, if achieved within four years. Financial projections based on faculty plans suggested a shortfall from the target surplus peaking at £23m in 2020-21 and declining thereafter.

21.4 The modelled student numbers growth of 25% over ten years was front-loaded, with much of the increase already in the system or written into faculty plans. Of the 25% increase, approximately 4% fell beyond that period, ie in the second half of the coming decade. Modelling indicated that, with no further growth in student numbers beyond current levels, the best result UCL could achieve was a 3.5% surplus and capital expenditure of around £870m over the coming decade.

### *Discussion*

21.5 FC discussed the difficulties encountered by lay members in developing a full picture of the extent and implications of the policy decisions available to them. It was suggested that, in order to understand more clearly the institution's financial performance, it would be necessary to develop a picture of the 'steady state' position, divorced from the cycle of growth. It was noted that many apparent policy options were not practicable; freezing student numbers at current levels was unfeasible for example as it would inevitably lead to a deficit position, given the increase in research contracts won over the coming two years.

21.6 The challenges inherent in the Strategy were noted, particularly the need to increase student numbers through a period of declining demographics, and the requirement to service a £250m debt against the background of a history of insufficient surplus.

- 21.7 The Strategy would be revisited at a future meeting following further discussion with members to clarify the questions raised at the meeting.

## 22 ANNUAL SUSTAINABILITY ASSURANCE REPORT

### *Received*

- 22.1 APPENDIX FC 2/18 (13-14) – details explaining the annual sustainability assurance report (known as ASSUR), an additional component introduced to accountability returns from 2012-13 onwards.
- 22.2 An oral report from Phil Harding, Director of Finance and Business Affairs.

### *Reported*

- 22.3 Due to lack of time it was not possible to discuss the matter fully, but FC recommended the report to Council on the understanding that members were invited to send comments to the Director of Finance and Business Affairs outside the meeting.

### **RECOMMENDED** – to Council

- 22.4 **That the Annual Sustainability Assurance Report be approved.**

<b>Matters for approval or information</b>
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## 23 FINANCIAL REGULATION 14 - AMENDMENT

### *Received*

- 23.1 APPENDIX FC 2/19 (13-14) – proposed amendments to Financial Regulation 14.

### *Discussion*

- 23.2 In approving the proposed amendments, FC agreed to review the £5m and £10m thresholds in 18 months' time.

### **RECOMMENDED** – to Council

- 23.3 **That the proposed amendment to Financial Regulation 14 be approved.**

24 **FINANCE COMMITTEE TERMS OF REFERENCE - AMENDMENT**

*Received*

- 24.1 APPENDIX FC 2/20 (13-14) – the proposed revised Terms of Reference for Finance Committee and Audit Committee.

**RESOLVED**

- 24.2 **That the Finance Committee terms of reference be amended as set out at APPENDIX FC 2/20 (13-14).**

25 **WILKINS NORTH TERRACE, REFECTORY AND BLOOMSBURY THEATRE**

*Received*

- 25.1 APPENDIX FC 2/22 (13-14) – integrated project proposals relating to the development of the Wilkins complex.

**RECOMMENDED** – to Council

- 25.2 **That the proposals for the redevelopment of the Wilkins complex at APPENDIX FC 2/22 (13-14) be approved.**

26 **KATHLEEN LONSDALE BUILDING**

*Received*

- 26.1 APPENDIX FC 2/23 (13-14) – proposals to refurbish the Kathleen Lonsdale Building.

**RECOMMENDED** – to Council

- 26.2 **That the proposals to refurbish the Kathleen Lonsdale Building be approved.**

27 **WATES HOUSE**

*Received*

- 27.1 APPENDIX FC 2/24 (13-14) – a proposal to redevelop Wates House.

**RECOMMENDED** – to Council

- 27.2 **That the proposals for development of Wates House be approved.**

28 **HEFCE FINANCIAL FORECASTS**

*Received*

- 28.1 APPENDIX FC 2/26 (13-14) – draft financial forecasts for submission to HEFCE, covering the actual position in 2012-13, an updated forecast for 2013-14 and forecasts for the three years to 2016-17.

**RESOLVED**

- 28.2 **That the HEFCE financial forecasts be approved.**

29 **STRATEGIC RISK REGISTER**

*Received*

- 29.1 APPENDIX FC 2/27 (13-14) – UCL’s Strategic Risk Register and the Risk Analysis Forms for new risks added to the register.

30 **UCLU FINANCIAL STATEMENTS**

*Received*

- 30.1 APPENDIX FC 2/28 (13-14) – annual audited financial statements of UCLU for the year ended 31 July 2013.

31 **CAPITAL PROJECTS DASHBOARD**

*Received*

- 31.1 APPENDIX FC 2/29 (13-14) – the capital project dashboard dated 17 October 2013.

32 **CHAIR’S ACTION**

*Received*

- 32.1 APPENDIX FC 2/30 (13-14) – notification of action taken by the Chair on behalf of Finance Committee since the previous report.

33 **DATE OF NEXT MEETING**

*Noted*

- 33.1 The next Finance Committee meeting would take place at 10:30am on Tuesday 28<sup>th</sup> January 2014.