# FINANCE COMMITTEE

## 19 June 2013

## M I N U T E S

*PRESENT:*

Mr Simon Melliss (*Chair*)

Mr Ven Balakrishnan
Dr Bob Barber
Mr Mark Clarke
Professor Sir Malcolm Grant *(President and Provost)*
Professor Sue Hamilton
Professor Alan Thompson
Dr Gill Samuels
Sir Stephen Wall
Dr Andrea Townsend-Nicholson
Professor Jonathan Wolff

*In attendance*: Ms Nicola Arnold (Director, Financial Control and Analysis); 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).

*Additional attendees:* Mr Mohammed Zayyan Butt, Dr Mike Cope (for Minute 82), Mr Jack Foster (for Minute 78).

Apologies were received from Dr Ben Booth, Ms Natasha Gorodnitski and Mr John Morgan.

*Key to abbreviations used in these Minutes:*

| | |
|---|---|
| BIS | Department for Business, Innovation and Skills |
| EBITDA | earnings before deduction of interest, expenses, taxes, depreciation and amortization |
| FBA | Finance and Business Affairs |
| FC | Finance Committee |
| HE | Higher Education |
| HEFCE | Higher Education Funding Council for England |
| ISD | Information Services Division |
| LBN | London Borough of Newham |
| QR | Quality Research Funding |
| REF | Research Excellence Framework |
| SMT | (Provost's) Senior Management Team |
| UCLB | UCL Business PLC |
| UoL | University of London |

## Preliminary Formal Business

74 **DECLARATION OF INTERESTS**

***Discussion***

74.1 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.

75 **MINUTES**

***Approved***

75.1 The Minutes of the meeting held on 26 March 2013 *[FC Minutes 51-73, 2012-13]* were confirmed by the Committee and signed by the Chair.

76 **MATTERS ARISING FROM THE MINUTES**

***Received***

76.1 APPENDIX FC 5/66 (12-13) – a paper summarising action taken on matters arising from the meeting of 26 March 2013.

## Matters for discussion

77 **ESTATES AND FUNDING STRATEGY**

***Received***

77.1 APPENDIX FC 5/67 (12-13) – an update paper on the development of an estates and funding strategy.

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

***Reported***

77.3 The paper set out the scale of UCL's ambition for investment in the estate, including a budget of £280m for development of a new university quarter and a full schedule of other projects

under consideration. Although it was beyond UCL's means to realise every project on the list, an investment of approximately £1.2bn over the coming decade was feasible if a higher level of operating performance could be achieved. Benchmarking suggested that a target surplus of 5-6% over the same period was not unrealistic. The strategy also envisaged borrowing of approximately £250m, commencing in 2014-15.

77.4 Work was now commencing in three areas: to test and refine the assumptions underlying the paper; to determine the needs and priorities for the estate; and to drive up financial performance. Progress reports would be delivered to the Council meeting of 9 July 2013 and the FC meeting of 23 September 2013.

***Discussion***

77.5 Members cautioned against an over-reliance on benchmarking, given the fundamental differences between Russell Group institutions and the lack of any direct comparator for UCL.

77.6 It was suggested that the strategic issues identified by FC at the meeting of 26 March 2013 *[Minute 72.5, 2012-13 refers]* could usefully be embedded in the process as a means of cementing the relationship between the capital plan and the strategic plan.

77.7 Whilst endorsing the intention to raise the level of target surplus, FC noted a number of challenges in this respect. These included: rising staff costs in 2014-15; the reliability of student number projections; and the move towards a cash outflow position. It was suggested that UCL should adjust its accounting for depreciation to reflect the replacement value of assets rather than historic costs. Members noted the practical value of analysing the underlying financial performance in a number of different ways, including EBITDA, pre- and post-debt interest, and in terms of a 'jaws' ratio (ie expense growth rate subtracted from the income growth rate). Members also queried the adequacy of the projected level of investment in estates maintenance and the £280m budget for the new university quarter. It was further suggested that setting a higher target for external contributions (ie above £20m per annum) and a lower target for cost growth (below 3%) be considered. Nevertheless, there was a general sense that the completed strategy, in defining UCL's minimum expectations in terms of financial performance and investment, would in turn support the achievement of such targets.

77.8 Projections for future growth income were below the historical level, but it was suggested that this was a realistic acknowledgement of increasing global competition and continued pressures on research funding. The REF 2014

remained a significant variable. Investment in additional academic staff, which would affect staff costs in 2014-15 but not produce a return in terms of QR until the following year, was a significant element in the expenditure limiting UCL's current ability to increase capital investment.

77.9 In order to aid the prioritisation of capital projects, FC requested greater clarity on: the identity of those improvements to the estate that were regarded as essential, rather than simply desirable; the nature of UCL's high margin activities; and the strategic research priorities. The development of joint ventures with other universities was noted as a useful approach to addressing the problem of limited space. It was also suggested that it would be useful for FC to receive benchmarking data on research income per capita of research staff.

## 78 HALLS OF RESIDENCE REVIEW

***Received***

78.1 APPENDIX FC 5/68 (12-13) – a report on UCL's Halls of Residence, as requested at the meeting on 16 October 2012 *[FC Minute 8, 2012-13, refers].*

78.2 An oral report from Jack Foster, Director – Special Projects.

***Reported***

78.3 Following discussion of a paper submitted to the meeting of 16 October 2012, FC had requested additional information relating to the level of demand for student accommodation and comparisons with the private sector. The current paper, which sought to address that request, would be considered by the Estates Management Committee and the SMT in due course.

78.4 Mr Foster summarised UCL's current provision and the level of demand, and drew attention to the planned refurbishment of several UCL and UoL properties in 2014-15 and beyond. The refurbishment programme risked leaving UCL unable to meet its obligations to those students to whom a place was guaranteed. UCL would therefore need either to identify additional provision or to amend the terms of its guarantee.

***Discussion***

78.5 FC was advised of a reluctance on the part of local authorities to approve applications for the development of student accommodation, as the availability of affordable housing was a priority across London. The Greater London Authority had established a working group, with UCL representation, to consider the issue.

78.6 The modest financial return expected by UCL in comparison with commercial providers of student accommodation left it struggling to compete for the purchase of suitable sites in London. It was suggested that under-provision of maintenance of the estate in the past inflated UCL's apparent return in this area, and also that depreciation, because it was based upon book cost, was underestimated.

78.7 FC noted the implied subsidy in UCL's student accommodation provision, as accommodation charges were around 15% lower than the private sector when taking into account UCL's summer lettings. FC queried whether an explicit subsidy (*ie* obtaining beds through nominations agreements and directly subsidising the cost to students) might not prove a preferable arrangement in some circumstances. The importance of UCL branding and the 'UCL experience', and of a diversity of provision, were noted, as was the pressing need for staff accommodation. It was also suggested that the extent of demand for places disguised the decline in suitability of many of the properties over time.

78.8 FC requested, for a future meeting, a further paper outlining the policy and proposed implementation strategy to address these issues, with details of the anticipated financial consequences.

## 79 UCL STRATFORD / NEW UNIVERSITY QUARTER

***Received***

79.1 APPENDIX FC 5/69 (12-13) – an update on the search for a new university quarter.

79.2 Oral reports from Andrew Grainger, Director of UCL Estates, and the Provost.

***Reported***

79.3 The cessation of discussions between UCL and the London Borough of Newham (LBN) in relation to the Carpenters' Estate site had been announced on 8 May. It had become clear that the expectations of LBN in relation to UCL's means of bridging the funding gap between the value of the site for highest alternative use and the cost of preparing it for development had exceeded what UCL could regard as reasonable. Lengthening time horizons and a deteriorating risk profile had contributed to the decision. Discussions had nevertheless concluded on a positive note, with LBN expressing a hope that UCL could nevertheless establish a presence in the borough. Work was now progressing to evaluate a range of sites across London, some of which were in the Stratford area. The proposed locations were being evaluated for their ability to pass a number of hurdles; after consideration of each site against a series of criteria a ranked

shortlist would be produced and details submitted to Finance Committee in due course.

79.4 The Provost drew attention to the recent announcement by Imperial College of a Memorandum of Understanding with Zhejiang University[1] and the securing by Loughborough University of 24,000m$^2$ of space at the Press and Broadcast Centres at the Olympic Park[2].

***Discussion***

79.5 The committee noted the restrictions on major long term development in Bloomsbury and the potential opportunities for expansion elsewhere in London.

79.6 A Working Group of Council chaired by Dr Gill Samuels was now carrying out a scenario planning exercise, and investigating whether outside partners could contribute to the development of an academic vision for a new site.

79.7 It was noted that a new budget for the development of the proposals would be required, as the initial £5m budget had been approved in respect of the Carpenters Estate project.

## 80 FINANCIAL UPDATE

***Received***

80.1 APPENDIX FC 5/70 (12-13) – the Financial Update (April 2013).

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

***Reported***

80.3 The forecast surplus, which was unchanged at £10.1m, now incorporated the downward adjustment to the HEFCE teaching grant noted at the previous meeting *[FC Minute 54.4, 2012-13]* as well as the impact in the current year of additional recruitment ahead of the REF.

80.4 Academic areas were forecasting a £5m shortfall on budget, mostly on non-core activities. Research grant income was £24m above budget, with a slight fall in overheads. Professional Services were showing a small favourable variance. Cash was £34m above target but a £14m cash outflow, subject to capital expenditure and the rate of debt recovery, was anticipated across the year. The NHS debt situation continued to improve.

[1] http://www3.imperial.ac.uk/newsandeventspggrp/imperialcollege/newssummary/news_17-5-2013-15-14-49

[2] http://www.lboro.ac.uk/service/publicity/news-releases/2013/84_LUIL.html

***Discussion***

80.5 It was suggested that the accounting treatment of reserves in the paper was unduly opaque. It was confirmed that UCL's arrangements for reserves related to the incentivisation of academic areas to exceed their targets through a mechanism of ring-fenced funds. The issue would be considered as part of a forthcoming review of the financial model.

80.6 FC discussed the role of UCLB in capitalising on opportunities for developing contract research income. FC requested, for a future meeting, financial data that would enable members to review the key assets of UCLB with a view to developing a clearer understanding of the portfolio. The role of UCLB in facilitating grant income was noted.

81 **BUDGET 2013-14**

***Received***

81.1 APPENDIX FC 5/71 (12-13) – the budget for 2013-14.

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

***Reported***

81.3 The budget had been set within the context of projected improvements in the surplus towards the target level of 5-6% over the next 3-4 years. Work on an implementation plan to achieve that improvement was underway.

81.4 FC noted that 2013-14 would carry extra costs of approximately £3m in respect of staff costs related to the REF, as the QR return on that investment would not be received until the following year. An additional £3m depreciation charge over the level in the current year had also been budgeted.

***Discussion***

81.5 Postgraduate recruitment was currently predicted to fall slightly below target for UK/EU students, but was substantially above target for overseas students. Despite significant variation between subject areas, the overall picture was similar for undergraduates. The challenges presented by demographic shifts in the medium term were noted.

81.6 Noting that profits on the sale of capital assets could be drawn into the balance sheet but that capital expenditure was not reflected at historic cost, FC discussed the importance of assessing the bottom line independent of exceptions. The proper scope of 'special factors', for example with respect to

donations, was discussed. It was noted however that such items could not be cleanly disentangled from the rest of the budget; the budgeted donations figure was significantly affected by the spend on the Sainsbury Wellcome Centre, and the current treatment of capital was justified by the practice of accounting for depreciation.

81.7 Major components of UCL's financial performance in 2013-14, such as research grants, student fee income and staff costs, were already broadly predictable. In this context FC discussed whether the current timetable for approval of the budget was appropriate. In discussing whether a draft budget for the following year (ie 2014-15) should in fact be considered by FC at this stage, it was noted that the HEFCE financial forecasts paper (APPENDIX FC 5/73 (12-13)) provided much of the relevant data.

81.8 In drawing discussions to a close the Chair requested the following:

- a reconciliation of the £10m projected surplus for 2012-13 with the budgeted £16m surplus for 2013-14, on a like-for-like basis net of exceptional items (to be circulated ahead of the next meeting);
- a paper detailing those measures put in place for 2013-14 that were expected to bring about an improvement in UCL's financial performance (for the next meeting).

81.9 The Chair proposed to report to Council at its meeting on 9 July 2013 that FC had approved the budget whilst expressing a general sense that the level of target surplus was inadequate.

***RECOMMENDED*** *– to Council*

81.10 **That the UCL budget for 2013-14 be approved for recommendation to Council.**

## 82 PROFESSIONAL SERVICES STAFFING LEVELS

*[Dr Mike Cope, Director of ISD, was in attendance for this item]*

***Received***

82.1 APPENDIX FC 5/72 (12-13) – a paper detailing staffing levels in ISD and the scope for outsourcing, in response to FC discussion at the previous meeting *[FC Minute 54.8, 2012-13].*

82.2 An oral report from Dr Mike Cope, Director of ISD.

***Reported***

82.3 The range of services provided by ISD was broader than was usual with IT departments elsewhere in the sector.

82.4 As requested at the last meeting, the paper attempted to distinguish between 'shared' IT (desktops, networks, servers

and administrative services, *etc*) and 'mission-aligned' IT (*ie* IT directly supporting research and teaching). Progress was being made on the goal of increasing efficiency in shared services to enable resources to be switched into IT services for research and teaching.

***Discussion***

82.5 The rate of successful delivery of projects had improved significantly since the introduction of a project management delivery unit a year ago. The role of project management in predicting and meeting the demand for the introduction of technological developments across the institution was noted.

82.6 VAT was payable on outsourced costs except where this was structured as a shared service using a cost sharing group; the possibility of developing shared services in partnership with other institutions was being explored in a number of areas.

82.7 FC noted variation between academic areas in the extent of computationally-based activity, and the value of permitting sufficient flexibility to develop appropriate local arrangements.

82.8 UCL's provision of high performance computing was broadly comparable with its competitors. It was suggested that UCL was ahead in research data provision and a national leader in research software development. Progress was being made in respect of the student experience but UCL was still some way behind its peers in this respect. Good progress was expected over the summer when a new desktop environment was due to be introduced together with a new printing system which would enable students to print from their own devices. It was suggested that there may also be value in benchmarking outside the HE sector, *eg* against research-based industries.

82.9 The Chair suggested that the securing of appropriate value for money in respect of commodity IT was a matter that FC should keep under review, and asked for a further update in 12 months' time.

## 83 HEFCE FINANCIAL FORECASTS TO 2015/16

***Received***

83.1 APPENDIX FC 5/73 (12-13) – the annual accountability returns for submission to HEFCE.

***Discussion***

83.2 FC noted the increasing significance of the income stream from teaching. Members also drew attention to the sharply rising proportion of income from non-EU domiciled students and BIS Research Councils, and the implications this carried for risk management, although the feasibility of the projected non-EU figures was queried. It was noted that the projected rise in BIS Research Council income was principally due to the proposed transfer of MRC units.

## 84 FINANCIAL PERFORMANCE INDICATORS

***Received***

84.1 APPENDIX FC 5/74 (12-13) – the HEFCE financial results and forecast summary statistics 2012.

***Discussion***

84.2 FC noted the rising staff costs as a proportion of total income and the significance of this one element in the level of surplus.

84.3 It was suggested that some historic data in the forecasts was inconsistent with that presented in the financial forecasts (see Minute 83 above). This was due to HEFCE's retrospective incorporation of School of Pharmacy activity, prior to its merger with UCL on 1 January 2012, in the summary statistics and indicators.

## 85 FRANCIS CRICK INSTITUTE – UPDATE

***Received***

85.1 APPENDIX FC 5/75 (12-13) – an update on progress with the development of the Francis Crick Institute at King's Cross.

***Discussion***

85.2 It was confirmed that all sub-contracts had been novated to the main contractor, Laing O'Rourke.

85.3 There was some concern that the £20m contingency might prove insufficient; nevertheless the partners were committed not to increase the size of their contribution, so a deferral or reprofiling of the set-up activities would in those circumstances be necessary.

## Matters for approval or information

86 **EU PROCUREMENT REGULATIONS**

***Received***

86.1 APPENDIX FC 5/76 (12-13) – a paper summarising proposed changes to UCL's arrangements in respect of EU procurement.

***Discussion***

86.2 It was anticipated that the proportion of UCL's 2012-13 income drawn from public funding would fall below 50%. The paper proposed that, in that event, UCL adopt a principle of voluntary compliance. This was an approach that had been shown to be successful at other institutions.

***RESOLVED***

86.3 **That, in the event of the proportion of public funding for 2012-13 falling below 50%, UCL conclude that it is not a contracting authority for the purpose of EU procurement.**

87 **STUDENT FEES**

***Received***

87.1 APPENDIX FC 5/77 (12-13) – proposals for tuition fee rates to be charged in the academic year 2014-15.

***Discussion***

87.2 FC discussed the degree to which an informed decision could be taken on this matter in the absence of comparator information regarding fees at other institutions. With the exception of the UK/EU undergraduate fee, a maximum level for which was set by Government, the proposed fees were a minimum to be applied across the institution, with responsibility for the setting of fees for each individual programme devolved to faculties. The minimum fee level had been agreed by SMT following a consultation process between departments and School Finance Directors. The statutory duty to approve fees

lay with Council[3], which formally delegated the matter to the Finance Committee, as reflected in FC's Terms of Reference.

***RESOLVED***

87.3 **That the proposed student fee levels at APPENDIX 5/77 (12-13) be approved.**

88 **UCLU DRAFT BUDGET**

***Received***

88.1 APPENDIX FC 5/78 (12-13) – the UCLU budget first estimates for 2013-14.

***Discussion***

88.2 FC noted that, against the background of UCLU's healthy cash position, projected cash outflows of £209,000 in 2013-14 and £150,000 in 2014-15 were manageable. FC's attention was drawn to a sharp rise in governance (*ie* staff) costs from a projected £484,000 in the current year to a budgeted £738,000 in 2013-14.

***RECOMMENDED*** *– to Council*

88.3 **That the UCLU budget at APPENDIX 5-78 (12-13) be approved.**

89 **BENTHAM HOUSE AND HILLEL HOUSE**

***Received***

89.1 APPENDIX FC 5/79 (12-13) – a proposal to redevelop Bentham House and Hillel House.

***RECOMMENDED*** *– to Council*

89.2 **That the redevelopment proposal at APPENDIX 5/79 (12-13) be approved.**

90 **ANATOMY BUILDING**

***Received***

90.1 APPENDIX FC 5/80 (12-13) – a proposal to refurbish the Anatomy Building.

[3] Statute 6 (2) (e) refers.

***RECOMMENDED** – to Council*

90.2 **That the refurbishment proposal at APPENDIX 5/80 (12-13) be approved.**

## 91 ARCHWAY CAMPUS

***Received***

91.1 APPENDIX FC 5/81 (12-13) – a proposal to dispose of the Archway campus.

***RECOMMENDED** – to Council*

91.2 **That the proposal to dispose of the Archway campus at APPENDIX 5/81 (12-13) be approved.**

## 92 CLIFFORD PUGH HOUSE

***Received***

92.1 APPENDIX FC 5/82 (12-13) – a proposal to dispose of Clifford Pugh House.

***RECOMMENDED** – to Council*

92.2 **That the proposal to dispose of Clifford Pugh House at APPENDIX 5/82 (12-13) be approved.**

## 93 STRATEGIC RISK REGISTER

***Received***

93.1 APPENDIX FC 5/83 (12-13) – an update on UCL's Strategic Risk Register 2012-13.

***Discussion***

93.2 FC discussed whether the 'intolerable' status of risk 17 ('failure to agree and implement transformative estate strategy including satellite estates and accommodation for academic growth') was appropriate, given that there was a programme in place to address the situation.

93.3 It was suggested that the target level of risk, actions to be taken and a target date by which changes to the risk profile were to be achieved could all usefully be incorporated into the schedule. This would be considered as part of a forthcoming review.

94 **CAPITAL PROJECTS WORKS CONTRACT PROCUREMENT**

***Received***

94.1 APPENDIX FC 5/84 (12-13) – a summary of a strategic review of capital projects works contract procurement.

95 **CAPITAL PROJECTS DASHBOARD**

***Received***

95.1 APPENDIX FC 5/85 (12-13) – the capital projects dashboard, May 2013.

96 **BANKING MATTERS**

***Received***

96.1 APPENDIX FC 5/86 (12-13) – a note on banking arrangements in respect of UCL's operations in Qatar.

97 **INVESTMENTS COMMITTEE – MINUTES**

***Received***

97.1 APPENDIX FC 5/87 (12-13) – minutes of the Investments Committee meeting of 24 January 2013.

98 **FINANCE COMMITTEE MEMBERSHIP 2013-14**

***Received***

98.1 APPENDIX FC 5/88 (12-13) – a note on Finance Committee membership for the academic year 2013-14.

***Reported***

98.2 The Chair noted that Dr Bob Barber, Dr Andrea Townsend-Nicholson and Professor Jonathan Wolff were all due to step down from FC at the end of the current session, and thanked them for their contribution to the work of the committee over the past six years.

98.3 The Chair drew attention to the award of a knighthood in the Queen's Birthday Honours 2013 to Professor Sir Malcolm Grant, who would be stepping down as President and Provost of UCL at the end of the current academic year. He paid tribute to the Provost's stewardship of the institution. The Provost

noted that it had been a great pleasure working with the Finance Committee and paid tribute to the contribution of the committee members, notably the lay members, to the life of the university.

## 99 FINANCE COMMITTEE MEETING DATES 2013-14

***Received***

99.1 APPENDIX FC 5/89 (12-13) – a note on dates of meetings of the Finance Committee in 2013-14. The meetings, which would all take place in the Council Room, were scheduled as follows:

- 23 September 2013, 10.30am
- 14 November 2013, 11:15am
- 28 January 2014, 10.30am
- 11 March 2014, 10.30am
- 10 June 2014, 10.30am