



FINANCE COMMITTEE

24 NOVEMBER 2010

Any member of the Finance Committee who has (or who knows of a family member who has) a material, personal, financial or other beneficial interest in any item on the Finance Committee agenda shall declare that interest at the beginning of the meeting, and that declaration will be recorded in the Minutes of the meeting.

- MINUTES -

PRESENT:

Ms Anne Bulford (Chair)	Mr Ven Balakrishnan
Dr Bob Barber	Dr Ben Booth
Mr Matthew Burgess	Mr Mark Clarke
Professor Dame Hazel Genn	Professor Malcolm Grant
Professor David Ingram	Ms Susannah Lloyd
Dr Andrea Townsend-Nicholson	Sir Stephen Wall
Professor Jonathan Wolff	

IN ATTENDANCE:

Ms Nicola Arnold	Professor Stephen Caddick
Mr Andrew Grainger	Miss Valerie Hogg
Mr Rex Knight	Ms Liz Mooney
Mrs Alison Woodhams	Professor David Price
Professor Michael Worton	Mrs Alison Woodhams

Additional attendees:

Ms Sue Barratt & Mr Mark Posnett (Deloitte) and Ms Lois Wells (Minute 4)
Mr Colin Plank (Minutes 7 & 11) Mr Jack Foster (Minute 8)

Apologies for absence were received from Mr John Morgan and
Professor Sir John Tooke

Key to abbreviations:

CPSC	Capital Projects Sub-Committee
CSR	Comprehensive Spending Review
EMC	Estates Management Committee
FPS	Federated Pension Scheme
HEI	Higher Education Institution
HEFCE	Higher Education Funding Council for England
LUL	London Underground Limited
RFS	Royal Free Scheme
UCLB	UCL Business
USS	Universities Superannuation Scheme

1 THE MINUTES

Approved

- 1.1 The Minutes of the meeting, held on 30 June 2010 (previously circulated), were confirmed and signed by the Chair.

2 TERMS OF REFERENCE, CONSTITUTION & MEMBERSHIP

2A Finance Committee: Terms of Reference

Received

- 2A.1 Appendix FC 1/01 (10-11).

Ratified

- 2A.2 The Terms of Reference 2010-11 for the Finance Committee.

2B Finance Committee: Constitution & Membership

Received

- 2B.1 Appendix FC 1/02 (10-11).

Noted

- 2B.2 The Constitution and Membership of the Finance Committee for 2010-11.

- 2B.3 The Student Observer for 2010-11, Mr Matthew Burgess, Finance and Services Officer, attended for the first time.

3 MATTERS ARISING (EXCLUDING THOSE ALREADY ON AGENDA)

3A Budget 2010-11

[FC Min.61.11, 2009-10]

Noted

- 3A.1 At the last meeting there was a discussion on VAT and whether it would be possible for UCL to recover more of its input tax, noting that the standard VAT rate was to increase to 20%, which would result in increased input tax overall to UCL of more than £6m p.a. It had been agreed that VAT would appear on the agenda of the next Finance Committee meeting; however a paper was issued to members prior to this meeting on 29 October 2010 explaining UCL's VAT position.

- 3A.2 There was a query as to whether UCL should review arrangements; the Director of Finance confirmed that UCL reviews its VAT position on a regular basis via KPMG its tax advisor. A bigger issue regarding VAT is that HEFCE have suggested that HEIs could use shared service centres and outsource certain activities; however under current rules VAT would need to be paid and would not be able to be recovered. UCL was involved in lobbying the Government on VAT issues around these areas and updates would be provided to the committee as this develops.

*** **MAJOR ITEMS FOR DISCUSSION** ***

4 **ANNUAL FINANCIAL STATEMENTS 2009-10**

Noted

- 4.1 Ms Sue Barratt, Audit Partner and Mr Mark Posnett, Senior Audit Manager, from external auditors, Deloitte LLP, attended for this item of the agenda. Ms Lois Wells, Director, Financial Accounting, attended for the discussion on the Financial Statements.

Received

- 4.2 Appendix FC 1/03 (10-11): draft audited Financial Statements for 2009-10.
Appendix FC 1/04 (10-11): Commentary to the Financial Statements.
Appendix FC 1/05 (10-11): Report to the Audit Committee from Deloitte LLP.
Appendix FC 1/06 (10-11): Deloitte LLP Management Letter, which set out the accounting and major audit issues arising from the audit of the UCL Financial Statements.

Discussed

- 4.3 The Chair congratulated the Director of Finance and her team on the timely and accurate production of the Financial Statements. The Chair then invited Ms Sue Barratt, Audit Partner, to say a few words about Deloitte's Report to the Audit Committee and Management Letter (Appendix FC 1/05 (10-11) & Appendix FC 1/06 (10-11)).
- 4.4 The **Audit Partner** drew the Committee's attention to the Key Risks (p 2) and the Audit Status (p. 3) and confirmed that all items in both sections were complete, with the exception of one legal letter and UCL's Management Representation letter.
- 4.5 The **Director of Finance** gave an oral report on the Financial Statements for 2009-10, below were the major points.
- 4.6 Income and Expenditure:
- The operating surplus increased from £12m to £30m, this was largely driven by increasing income and keeping our costs under control;
 - Income went up 5.8% to £762m;
 - Funding Council Grants went down by £9m;

- Fees went up 19%, this was because there were 7% more students and there were above inflation increases for overseas students and PGT courses;
- Overseas fee income increased to £74m;
- Research income went up 8% and contribution to overheads went up 12%, which increased UCL's margin;
- Costs were up 3.5%;
- Staff costs went up by nearly 6% and remain 60% of total costs;
- Staff numbers went up by 3%;
- Other operating expenses went up by only 1.9%;
- This was a real success story and was better than the forecast.

4.7 Balance Sheet:

- Net assets up were up 7%;
- Fixed asset additions were £40m (2009 £65m) and there were no major building acquisitions and funds were mainly spent on refurbishments;
- Cash increased by £65m to £164m, which was due to the large surplus, less capital spend and favourable movements on both debtors and creditors;
- Endowments had profited from favourable movements in the financial markets and were up by £10m to £68m (were £65m 2 years ago).

4.8 Overall, there were no exceptional items so the £30m operating surplus flowed through to the bottom line. This £30m represented almost 4% of turnover, which meant that UCL had met HEFCE's target for first time. This was the kind of surplus UCL should be making to prepare itself for the next few years where there would be some financial challenges regarding both income and capital investments (as the CIF funding was likely to go down by as much as 70%).

4.9 The main control point raised at the year end was accounting for fixed assets and the Director of Finance and the Director of Estates & Facilities had agreed to review and improve the process.

4.10 The Director of Finance thanked her team and also the School Finance Directors and Deans for their input and hard work.

4.11 The Provost endorsed the thanks to everyone involved in producing the Financial Statements and stressed that this level of surplus would need to be achieved each year in order to strengthen and maintain UCL in the future.

- 4.12 There were a couple of minor changes to be made to the accounts:
- Members of council to be listed up until the date when the Accounts were signed;
 - The student numbers figure on p. 7 should be changed to 23,000 to be consistent with p.12;
 - Academic Board should be removed from Council's list of committees on p. 17;
 - The insertion of a paragraph in the Statement of Principal Accounting Policies (p. 24) regarding the USS Pension Scheme to state that it is a "last man standing" scheme and to refer readers to the USS website, where they could find information on the latest valuations and read the USS annual report.
- 4.13 Other suggestions:
- Mention should be made in next year's Operating and Financial Review about how UCL had been working towards achieving the four principles of the global vision;
 - The research grants table explanation in the Commentary (p.3, Appendix FC 1/04 (10-11)) could provide more information on UK industry, commerce and public corporations as many research grants also contained industry funding within them.
 - There was a request for staff costs to be broken down further. The Director of Finance agreed that this would be done when presenting the management accounts to Finance Committee during the year.

Approved

- 4.14 The Committee recommended to Council that the audited Financial Statements for 2009-10, as set out at Appendix FC 1/03 (10-11), be approved (subject to document being updated with the minor changes listed above).

5 UCL FINANCIAL UPDATE 2010-11

Received

- 5.1 Appendix FC 1/07 (10-11).

Discussed

- 5.2 The **Director of Finance** reported that the Quarter 1 forecast was still being compiled. Within the figures, tuition fees would be above budget and the annual pay review (not yet settled, the final employer offer being 0.4%) budget should cover the staff

costs. Additional controls on recruitment, put in place in July 2009, were being maintained and there were a number of restructuring projects in the CSS Divisions in progress. The full forecast would be reported presented at the January Finance Committee meeting.

6 HEFCE 5 YEAR FORECAST & COMPREHENSIVE SPENDING REVIEW (CSR) OUTCOMES

Received

- 6.1 Appendix FC 1/08 (10-11) with Annexe 1.

Discussed

- 6.2 In the past, the HEFCE requirement was that the forecast should be submitted with the annual Financial Statements by 30 November each year as part of the 'Single Conversation' accountability returns.
- 6.3 HEFCE recently announced that Higher Education Institutions (HEIs) could defer submission of the forecast until April 2011 when the outcomes of the Comprehensive Spending Review (CSR) and the Browne Review were known in more detail. However, HEIs were still required to submit a forecast of 2010-11 and a summary of the scenario planning they would be undertaking in relation to the forecast period.
- 6.4 Appendix FC 1/08 (10-11) with Annexe 1 set out the current position with respect to recent statements on changes to Higher Education funding and attempted to quantify the likely impact on UCL. It also described the modelling which had been undertaken on various actions under consideration by UCL and set out a high level forecast of the financial position using a set of current forecast assumptions which were considered reasonable, based on the information available at the current time. These forecasts would be updated periodically to reflect further information as it became known, and decisions as they were made, to form the basis of the Financial Forecasts to be submitted to HEFCE in April 2011.
- 6.5 The **Director, Financial Planning & Strategy** explained that the Committee would usually be presented with the Financial Forecasts at this meeting, but because HEFCE had agreed to change the submission date (as above) the Financial Forecast would be presented to the Committee at the March 2011 meeting (which would be submitted to HEFCE in April 2011).

- 6.6 Appendix FC 1/08 (10-11) set out the current position on each of the changes that had been announced, and set out the modelling that had been undertaken on various actions that needed to be considered by UCL. The table in Annexe 1 summarised the impact of assumptions in two sections; the first looked at external factors and the second detailed actions which required decision by UCL (no decisions had been made as yet).
- 6.7 The Provost confirmed that it was not yet known what the settlement would be, and the new tuition fees were still undecided. This paper set out what would be necessary to achieve a surplus each year up until 2014-15. Some decisions were already known, such as the increase in VAT, the reduction of QR funding and the reduction of fEC. The numbers quoted were the best estimates above the line and the assumptions below the line would all need to be achieved in order to rectify the deficit. The projections were based on fixed student numbers throughout the period.
- 6.8 The Provost went through the “Actions requiring decision by UCL” and confirmed that UCL would not reduce long term maintenance and would continue to invest in research computing and infrastructure. He acknowledged that it would be tough and UCL had no automatic right to charge a premium fee. All in all, the news was not as bleak as expected but it was very difficult for UCL to achieve the surplus required by 2014-15.
- 6.9 There were other factors that UCL would have to take on board such as the change to the retirement age and the achievement of efficiency gains through the review of core processes. There was also a suggestion of breaking the position down between activities e.g. teaching and research, to show the cross subsidies and opportunities in different areas.
- 6.10 On the subject of tuition fees, a query was raised as to whether it was known what other universities might be charging. There was no real information on this at the moment, but the assumption was that most institutions would be charging the full £9,000. It was also queried as to whether the level of demand for places would remain the same should the fees be raised. The Provost explained that currently there were 10.2 applications for every 1 place (Home/EU) so he thought that there would still be a high level of demand even with the higher fees.
- 6.11 The discussion concluded, and the Chair assured the Committee that further discussions on this would be held at the March 2011 meeting prior to the submission of the Financial Forecast to HEFCE in April 2011.

7 UCL STUDENT ACCOMMODATION STRATEGY

Received

- 7.1 Appendix FC 1/09 (10-11).

Discussed

- 7.2 The above paper from the Director of Estates & Facilities, Mr Andrew Grainger and Mr Colin Plank, Chief Estates Surveyor. **The Chief Estates Surveyor** reported that Quayle Munro had been engaged to assist with reviewing UCL's residences strategy. This was an initial paper produced at an early stage to function as a 'scene setter' to set out the key drivers (p. 1) and the potential strategies, which ranged from all assets to be kept to all assets to be sold (see diagram on p. 2).
- 7.3 Acquiring properties was a particular challenge for UCL as it was very difficult to purchase properties in this and neighbouring boroughs and any such acquisitions take considerable time.
- 7.4 The next stage would be to investigate the options suggested in the paper and formulate a more detailed strategy. This would be presented to the Finance Committee in 2011.
- 7.5 There was a discussion as to what the drivers were for the new strategy. The Director of Estates & Facilities confirmed that the financial position was not the only consideration and the student experience was very important. The Chair requested that at the next update to Finance Committee it would be useful to include feedback on the quality of experience from other institutions and feedback from students. There were also wider issues to be discussed surrounding the increase of student fees and accommodation costs. These subjects would be discussed at the Council Awayday in January 2010, as well as student numbers, what type of students UCL might attract in the future (e.g. would they be London-based so that they could stay at home or would they commute etc).
- 7.6 The Committee was in favour of the project being progressed and requested further details on costs and the soft issues to be provided at the next update.

***** OTHER MATTERS FOR DISCUSSION *****

8 ACTUARIAL VALUATION - ROYAL FREE PENSION AND ASSURANCE SCHEME (RFS)

Received

8.1 Appendix FC 1/10 (10-11) with Annexe 1.

Discussed

- 8.2 The above paper from the Director - Special Projects concerning the draft actuarial report, as at 1 August 2009, for the Royal Free Pension and Assurance Scheme indicating a funding shortfall of £12.6 million. Finance Committee were aware of plans to merge RFS with the Federated Pension Scheme (FPS), but in the light of the significant deterioration in the funding position, it has been recommended that a working group be established to review the earlier rationale for merger.
- 8.3 Mr Jack Foster, Director – Special Projects, attended for this item.
- 8.4 The Chair proposed – and it was agreed – that the Pensions Working Group (Chaired by Mr Mark Clarke) be asked to reconvene, although its members should be asked to confirm their willingness to continue their membership.

*** **MATTERS FOR FORMAL APPROVAL** ***

9 **UCL HOSPITAL - POTENTIAL PROPERTY TRANSACTION**

Received

- 9.1 Appendix FC 1/22 (10-11) (tabled).

Discussed

- 9.2 The decision to locate the new Sainsbury Wellcome Centre for Neural Circuits and Behaviour in a redevelopment of the site of the Windeyer Building, rather than on the Royal Ear Hospital site in Huntley Street, had prompted discussions with UCLH Trust, which currently occupied part of the Windeyer Building, in order to secure their timely departure.
- 9.3 The discussions had developed into a broader strategic review of the two institutions' estates interfaces, which led to a potential transaction involving a number of buildings in and around the UCL estate and was subject to detailed negotiation and discussion between the respective Estates Teams, the Provost and the Chief Executive of UCLH, Sir Robert Naylor. Details were still subject to change but a short position paper was tabled at the meeting.
- 9.4 The **Provost** explained the background to the proposed transaction. In brief, the original site proposed for the location of the Sainsbury Wellcome Centre for Neural Circuits and Behaviour was deemed not suitable by the Sponsors. Other buildings within the UCL estate were considered and it was decided that the site of the Windeyer Building was the most suitable. Arrangements had now been concluded for most UCL staff to be decanted into other UCL buildings; however the relocation of UCLH Trust staff was problematic.
- 9.5 A solution had been negotiated with UCLH (as detailed in the Appendix) which provided a favourable outcome for both sides.

Approved

- 9.6 Finance Committee approved the principles contained in the Heads of Terms with UCLH Trust, as outlined in Appendix FC 1/22 (10-11).

10 **WRITE-OFFS**

10A **NHS**

Noted

10A.1 In the financial year ended 31 July 2010 deals were done with three large partner NHS trusts (UCLH, the Royal Free (RFH) and the Royal National Orthopedic Hospital (RNOH)) to clear backlogs of long outstanding debt. A summary of each deal was as follows:

10A.2 UCLH – cleared debt up to and including 31st October 2009:

Payment received £8,554,037.29

Amount written off £1,220,442.74.

10A.3 RFH – cleared debt up to and including 31st December 2008:

Involved matched payment by UCL of amounts owing to RFH.

Payment received £2,025,418.80

Amount written off £ 651,976.22.

10A.4 RNOH - cleared debt up to 31st March 2010:

Cash recoverable £672,000.00

Amount written off £400,000.00

Approved

10A.5 Finance Committee approved the above write-offs totalling £2,272,418.96.

10B **Bloomsbury Bioseed Fund Ltd**

Noted

10B.1 Bloomsbury Bioseed Fund was established in 1999 following a successful bid to the University Challenge Fund. £3m was received from the government with an additional £1m invested from the consortium partners of which UCL invested £700k. UCL reviewed the current portfolio of investments and believed that it would be prudent to write off this investment as it did not believe that there would be any return in the short term.

Approved

10B.2 Finance Committee approved the write-off the investment of £700,000 in BBSF.

11 **CAPITAL CASE FOR APPROVAL: CALEDONIAN ROAD**

Received

11.1 Appendix FC 1/11 (10-11) with Annexes 1 & 2.

Noted

11.2 At prior meetings Finance Committee and Capital Projects Sub-Committee had been advised of this student housing opportunity for which an option to purchase, now expired, had been acquired. It was reported at the June 2010 meetings that the Developer had failed to secure planning permission and an appeal was being considered. An appeal to the planning refusal had been made and the decision was expected on 24 November 2010. UCL supported the appeal and gave written and oral evidence. To secure UCL's position the Option Agreement had been renewed.

11.3 Mr Colin Plank, Chief Estates Surveyor, attended for this item.

Discussed

11.4 Some concerns were expressed about the suitability of the area for student accommodation given the current lack of amenities and personal security issues in the locality. It was however noted that Unite already had a student accommodation centre very nearby housing around 1,000 students. In the new UCL building, a small supermarket would be provided which would draw people in from around the area, and the location had excellent transport links. It was also remarked that students expected to experience London in all its forms and it was felt that the benefits of the site would outweigh the drawbacks.

11.5 It was agreed that this site would be a good opportunity for UCL and that opportunities to acquire sites like these were few and far between.

11.6 Since the Finance Committee meeting UCL has been informed that the planning appeal had been successful. However the purchase was still dependant on receiving London Underground's consent to the works. The application has been made to London Underground Limited (LUL) and a decision has not yet been made.

Approved

- 11.7 Finance Committee approved the exercise of the option to purchase and acquire a “turnkey” development of this student housing scheme (which would provide approx. 350 bedrooms together with ancillary offices (circa 7000 sq feet) and 2 ground floor retail units) at a total cost of up to £42m for the freehold, including ancillary acquisition costs.

12 BANKING MATTERS: AUTHORISED SIGNATORIES

Received

- 12.1 Appendix FC 1/12 (10-11).

Noted

- 12.2 The above paper was a detailed list of signatories as at 1 December 2010, subject to the approval of Finance Committee.

Approved

- 12.3 Finance Committee approved the following removals from the Authorised Signatory Listing:-

List A
Arthur Wasserman

List B
Ray Waters
Niyi Akinmutande (Account 40178691 only, wef 1 December 2010).

***** MATTERS FOR INFORMATION *****

13 UCL UNION FINANCIAL STATEMENTS 2009-10

Received

13.1 Appendix FC 1/13 (10-11).

Noted

13.2 The annual audited financial statements of UCL Union for the year ended 31 July 2010, including the Trustees report which summarised the financial out-turn for the year on pages 5-6.

14 UCL BUSINESS PLC SUBSIDIARY & ASSOCIATED COMPANIES

Received

14.1 Appendix FC 1/14 (10-11) with Annexes 1-3.

Noted

14.2 The above report (with Annexes 1 & 2) was a summary of the draft Profit and Loss accounts and Balance Sheets, with a Commentary thereon and a Metrics illustration of UCL's subsidiary companies for the year ending 31 July 2010, for those forming part of UCL Business Management.

14.3 Annexe 3 was a completed checklist to the UCL Finance Committee, which confirmed that UCLB was compliant with all requirements, as laid out in the Memorandum of Understanding.

15 INSURANCE RENEWAL

Received

15.1 Appendix FC 1/15 (10-11) with Annexes 1 & 2.

Noted

15.2 The above paper, from the Insurance Manager, Financial Accounting, which provided information on UCL's insurance premiums for 2010-11 which totalled £1,581k (after taking account of the recharges). This represented an increase in premium costs over the previous year of 6%.

16 **CAPITAL PROJECTS UPDATE**

Received

16.1 Appendix FC 1/16 (10-11).

Noted

16.2 The above appendix included the Estates and Facilities Division's new Capital Project's Dashboard (which contained all live Capital Projects >£250k, as at 5 November 2010), presented at the Estates Management Committee (EMC) meeting on 24 November 2010.

17 **CAPITAL PROJECTS SUB-COMMITTEE (CPSC)**

Received

17.1 Appendix FC 1/17 (10-11).

Noted

17.2 The minutes of the final Sub-Committee meeting, held on 11 June 2010.

18 **INVESTMENTS COMMITTEE**

18A **Minutes**

Received

18A.1 Appendix FC 1/18 (10-11).

Noted

18A.2 The minutes of the Investments Committee meeting held on 19 April 2010.

18B **Endowment Funds**

Received and noted

18B.1 Appendix FC 1/19 (10-11) was a *Guide to Endowed Funds and how they are managed at UCL* from the Director of Finance.

19 **UNIVERSITIES SUPERANNUATION SCHEME (USS) PENSION UPDATE**

Received and noted

19.1 At Appendix FC 1/20 (10-11) with Annexe 1 was an update from the Director of Finance.

20 **FINANCE COMMITTEE MEETING DATES**

Noted

20.1 The next meeting would take place on 26 January 2011, in the Council Room, at the new time of 2.30pm.

20.2 The confirmed dates for the remainder of 2010-11 were:

- 23 March 2011
- 29 June 2011.

ALISON WOODHAMS
Director of Finance and Secretary to Finance Committee
16 December 2010