



FINANCE COMMITTEE

26 November 2012

MINUTES

PRESENT:

Mr Simon Melliss (*Chair*)

Mr Ven Balakrishnan	Dr Bob Barber
Mr Mark Clarke	Ms Natasha Gorodnitski
Professor Malcolm Grant (<i>President and Provost</i>)	
Professor Sue Hamilton	Professor Alan Thompson
Dr Andrea Townsend-Nicholson	Sir Stephen Wall
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: Ms Sue Barratt (for Minute 18), Mr Jack Foster (for Minute 20), Mr Adam Harman (for Minute 20), Mr Mark Posnett (for Minute 18) and Ms Lois Wells (for Minute 18).

Apologies for absence were received from Dr Ben Booth, Mr John Morgan and Dr Gill Samuels.

Key to abbreviations used in these Minutes:

FC	Finance Committee
FRS	financial reporting standards
GAAP	Generally Accepted Accounting Practice
HE	Higher Education
HEFCE	Higher Education Funding Council for England
LBN	London Borough of Newham
MRC	Medical Research Council
OFR	Operating and Financial Review
REF	Research Excellence Framework
RIBA	Royal Institute of British Architects
UCLU	UCL (Students') Union
USS	Universities Superannuation Scheme

Preliminary Formal Business

15 DECLARATION OF INTERESTS

Discussion

- 15.1 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.

16 MINUTES

Approved

- 16.1 The open Minutes of the meeting held on 16 October 2012 [FC Minutes 1-13, 2012-13] were confirmed by the Committee and signed by the Chair.

17 MATTERS ARISING FROM THE MINUTES

Received

- 17.1 APPENDIX FC 2/15 (12-13), outlining action taken on matters arising from the meeting of 16 October 2012.

Matters for discussion

18 ANNUAL FINANCIAL STATEMENTS

Received

- 18.1 APPENDIX FC 2/16 (12-13) – draft audited Annual Financial Statements for the year ended 31 July 2012, with:
- Annexe 1 – commentary to the Financial Statements;
 - Annexe 2 – a report to the Audit Committee from the External Auditor;
 - Annexe 3 – the External Auditors' management letter;
 - Annexe 4 – a list of minor corrections to the financial statements (tabled at the meeting).

Reported

- 18.2 The only amendment in Annexe 4 that had arisen out of discussion at the Audit Committee meeting of 23 November 2012 was that referring to the risk of an increase in the USS contribution rate following the 2014 valuation of the scheme. None of the amendments were material.
- 18.3 Ms Barratt reported that subsidiary audits were proceeding satisfactorily and it was expected that Deloitte would have completed their work by Christmas. She noted that the US GAAP accounts would not be produced until after completion of the audit, but that there were not expected to be any significant changes from the 2010-11 US GAAP submission.

Discussion

- 18.4 The Director of Finance and Business Affairs would investigate further the issue identified in the management letter regarding the legality of Gift Aid payments where a trading subsidiary has a deficit on its P&L reserve.
- 18.5 FC discussed the scale of Deloitte's non-audit fee, which had increased significantly (to more than £1m) since Deloitte's acquisition of Drivers Jonas, who had previously been appointed to work on the Stratford project. FC discussed whether the current arrangements breached, or could be perceived as breaching, relevant ethical standards. The matter had been discussed extensively by Audit Committee on 23 November; the committee had taken the view that there was no substantive issue of concern. A clear protocol was in place for any appointment of Deloitte to a non-audit function. Reference to the issue would be made in the OFR.
- 18.6 FC members noted the recent proposals for review of financial reporting standard (FRS) 17 and FRED 48 (FRS 102) which, if approved, would affect the requirements for disclosure in respect of pensions assets and liabilities. Ms Barratt confirmed that the level of disclosure in the Financial Statements was consistent with, and in some respects exceeded, the requirements of current accounting standards.
- 18.7 FC discussed the feasibility of making an accurate estimate of UCL's share of the USS pension scheme deficit. It was noted however that any such calculation would necessarily undermine the accounting treatment of the HE sector, requiring as it would a recalculation of liabilities and assets on an accounting rather than an actuarial basis. It was suggested however that consideration be given to inclusion in the accounts of data on the number of UCL members of the USS scheme and the scale of UCL's annual contribution, as these were already matters of public record. This would enable interested readers to make an educated estimate in this respect.

- 18.8 FC members made a number of suggestions on the Annual Report and Financial Statements including:
- that consideration be given to introducing greater clarity on the specific issue of the impact of the new HE funding regime;
 - that consideration be given to inclusion of a greater level of detail on financial risks;
 - a review of the content and format of the OFR;
 - a review of the bullet points on page 3 against the vision outlined in the mission statement.
- 18.9 It was noted that the share of income from joint ventures had been loss-making for each of the past five years. Business income and profits from UCLB were below the level some members expected.
- 18.10 FC requested a report to a future meeting on the balanced impact of increased tuition fees against cuts in public funding.

RECOMMENDED – to Council

- 18.11 **That the audited Financial Statements for 2011-12 be approved (subject to the amendments discussed).**

19 **FINANCIAL UPDATE**

Received

- 19.1 APPENDIX FC 2/17 (12-13) – the Financial Update 2012-13 (October 2012).

Reported

- 19.2 Income was broadly in balance with forecast. There was a significant variance in expenditure, particularly in support areas, which was considerably below budget. The reasons for this would be investigated further.
- 19.3 The Director of Finance and Business Affairs intended that over the next six months financial forecasts would be produced to enable the development of an integrated estates and funding strategy for the coming decade. This would provide FC with a broader understanding of the context in which individual proposals were to be considered, and would clarify issues of funding and affordability, for example: UCL's ability to generate cash from its own efforts; the serviceability of debt; and the necessary targets for philanthropic income.

Discussion

- 19.4 FC welcomed the proposals for financial forecasts. Individual members suggested that it would be useful for this to

incorporate an element of historic benchmarking data, and for the data to be provided both with and without the Stratford projections.

19.5 It was suggested that FC would benefit from an additional meeting devoted to the subject of financial planning once the proposed financial forecast had been completed. The Chair supported this idea in principle.

19.6 A series of new developments were planned for UCL's financial reporting, including incorporation into the quarterly forecasts of actual and forecast performance by Faculty, balance sheet data, head count information, and more detailed information on capital projects and equipment spend. FC welcomed the proposed initiatives.

20 UCL STRATFORD

Received

- 20.1 APPENDIX FC 2/18 (12-13) – a UCL Stratford update, with:
- Annexe 1 – proposition document dated 11 October 2012;
 - Annexe 2 – cash flow projection to 2020-21;
 - Annexe 3 – statement of project spending.

Reported

20.2 Adam Harman (newly appointed Project Director, UCL Stratford) reported that UCL was currently engaged in negotiations with the London Borough of Newham to broker an agreement on main commercial terms, with a view to providing draft Heads of Terms for discussion at the meeting of FC on 24 January 2013 (and by the LBN cabinet on the same date), subject to subsequent approval by UCL Council on 5 March 2013. FC discussed the timing and order in which the matter would go to the relevant bodies. The possibility of rescheduling the next meeting of either FC or (UCL) Council was discussed. It was hoped that a draft of the principal commercial terms might be made available to FC members, as well as members of UCL Council, before Christmas. The Chair of Council noted that it was essential that nothing significant be confirmed before Council as a body had had an opportunity to discuss the Heads of Terms, and hence it was unlikely that any proposals from UCL would be considered by the LBN cabinet on 24 January 2013.

20.3 UCL was now in the process of appointing a legal team and had initiated the procurement process for appointment of master planning in the disciplines of: architecture; cost consultancy; transport/traffic consultancy; and engineering, with a view to confirming appointments by the end of March 2013.

Discussion

- 20.4 A member of FC suggested that the plans for development at Stratford needed to be academic-led, and that when considering the draft Heads of Terms, it would be important to understand the financial viability of the activities anticipated to be undertaken.
- 20.5 Another member drew attention to the significant increase in the forecast Contribution Target by 2020-21, when UCL was anticipating commencing its presence on the Stratford site, and was concerned that the financial impact upon Schools, and consequently the current activities carried out in Bloomsbury, should be considered in detail before committing to the Stratford development.
- 20.6 It was noted that the cash flow forecast included in excess of £1,000 million capital expenditure, including £240 million against the Bloomsbury Masterplan, and there was a general comment that consideration might be given to postponing elements of the masterplan.

21 TRANSFER OF MRC UNITS

Received

- 21.1 APPENDIX FC 2/19 (12-13) – an update on the proposed transfer of three MRC units to UCL, with, at Annexe 1, the business and academic case, and at Annexe 2 the current financial modelling.
- 21.2 The timescale for discussions with the MRC on the terms of the transfer process had been extended. The academic case in terms of teaching and increased research income was strong, but the case for the transfer would be perhaps fatally weakened if the REF transfer window for academic staff were to be missed. Capital costs of approximately £400,000 were anticipated. A further presentation on the matter would be given at the FC meeting on 24 January 2013.

Discussion

- 21.3 It was understood that the pension scheme to which the MRC staff concerned contributed was currently in surplus.

Matters for approval or information
--

22 **ARCHWAY VACATION AND DISPOSAL STRATEGY**

Received

- 22.1 APPENDIX FC 2/20 (12-13) – a proposal to vacate and dispose of the Archway Campus, freehold for which was jointly owned with Middlesex University.

RECOMMENDED – to Council

- 22.2 **That the vacation, re-provision and disposal of the Archway Campus in accordance with the terms set out at APPENDIX FC 2/20 (12-13) be approved.**

23 **CHARLES BELL HOUSE**

Received

- 23.1 APPENDIX FC 2/21 (12-13) – proposals to appoint a design team to reach RIBA Stage F, proceed to tender and deliver complete refurbishment of Charles Bell House within a budget of £13,691,000.

RECOMMENDED – to Council

- 23.2 **That the appointment of a design team to reach RIBA Stage F, proceed to tender and deliver complete refurbishment within the budget of £13,691,000 as set out at APPENDIX FC 2/21 (12-13) be approved.**

24 **BERNARD KATZ BUILDING**

Received

- 24.1 APPENDIX FC 2/22 (12-13) – proposals to upgrade the Bernard Katz Building at a total estimated cost of £3.63m.

RECOMMENDED – to Council

- 24.2 **That the refurbishment of the Bernard Katz building at a total estimated cost of £3.63m be approved.**

25 **CRUCIFORM STUDENT HUB AND LIBRARY**

Received

- 25.1 APPENDIX FC 2/23 (12-13) – a proposal to create a new Student Hub in the basement of the Cruciform Building.

RECOMMENDED – to Council

- 25.2 **That the reconfiguration and refurbishment of the Cruciform Basement as a Student Hub on a budget of £6,573,000 be approved.**

26 **69 WILSON STREET**

Received

- 26.1 APPENDIX FC 2/24 (12-13) – a proposal to enter into a lease for 69 Wilson Street.

Reported

- 26.2 The Chair reported that the total cost for the project was £3,736,408, as stated on page 3 of the paper, and not £3,385,023 as stated in the summary.

RESOLVED

- 26.3 **That Finance Committee approve the proposal to enter into a lease for 69 Wilson Street on the terms outlined in the paper, subject to completion of due diligence and signing of financial support agreements.**

27 **QUEEN SQUARE HOUSE**

Received

- 27.1 APPENDIX FC 2/25 (12-13) – a proposal to carry out infrastructure renewal works and surveys of Queen Square House up to a value of £7m.

RECOMMENDED – to Council

- 27.2 **That the proposed infrastructure renewal works and surveys of Queen Square House, as set out at APPENDIX FC 2/25 (12-13), to a value of up to £7m, be approved.**

28 RISK MANAGEMENT UPDATE

Received

- 28.1 APPENDIX FC 2/26 (12-13) – the risk management update, with
- Annexe 1 – the 2012-13 strategic risk register;
 - Annexe 2 – risk analysis forms for risks rated ‘intolerable’ or ‘severe’;
 - Annexe 3 – risk analysis forms for risks rated ‘manageable’.

Discussion

- 28.2 An FC member suggested that greater detail on financial risks could usefully be included in the document, specifically in respect of the adequacy of surplus level, commercial and philanthropic income, access to external funding, the Stratford project and proposed changes to accounting standards.

29 HEFCE FINANCIAL FORECASTS

Received

- 29.1 APPENDIX FC 2/27 (12-13) – financial results and forecasts for submission to HEFCE in December 2012.

RESOLVED

- 29.2 **That the financial results and forecasts at APPENDIX FC 2/27 (12-13) be approved.**

30 UCLU FINANCIAL STATEMENTS

Received

- 30.1 APPENDIX FC 2/28 (12-13) – annual audited financial statements of UCLU for the year ended 31 July 2012.

Discussion

- 30.2 An FC member suggested that it would be useful if the paper could incorporate comparable figures from previous years. The Director of Finance and Business Affairs would be meeting with UCLU colleagues to discuss a number of suggestions he had for future years.

- 30.3 FC members noted that UCLU continued to maintain a fund balance of over £4m.

31 UCL SUBSIDIARIES AND ASSOCIATED COMPANIES

Received

- 31.1 APPENDIX FC 2/29 (12-13) – a summary of the draft profit and loss accounts and balance sheets of UCL’s subsidiary companies forming part of UCL Business Management for the year ending 31 July 2012.