



**FINANCE COMMITTEE**

**28 JUNE 2011**

*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) | Dr Bob Barber           |
| Dr Ben Booth            | Mr Matthew Burgess      |
| Mr Mark Clarke          | Professor Malcolm Grant |
| Professor David Ingram  | Ms Susannah Lloyd       |
| Mr John Morgan          | Dr Andrea Townsend-     |
| Sir Stephen Wall        | Nicholson               |
- IN ATTENDANCE:**
- |                          |                           |
|--------------------------|---------------------------|
| Ms Nicola Arnold         | Professor Stephen Caddick |
| Mr Andrew Grainger       | Miss Valerie Hogg         |
| Mr Rex Knight            | Ms Liz Mooney             |
| Professor Sir John Tooke | Mrs Alison Woodhams       |
| Professor Michael Worton |                           |

***Additional attendees:***  
Mr Colin Plank (Minute 39)

Apologies for absence were received from Mr Ven Balakrishnan, Professor Jonathan Wolff, Professor David Price & Professor Dame Hazel Genn

*Key to abbreviations:*

EMC	Estates Management Committee
IfCH	Institute for Cultural Heritage
HEFCE	Higher Education Funding Council for England
JVA	Joint Venture Agreement
SOP	School of Pharmacy
SWC	Sainsbury Wellcome Centre
UCLB	UCL Business
UKCMRI	UK Centre for Medical Research & Innovation
US GAAP	US Generally Accepted Accounting Principles

36 **THE MINUTES**

*Approved*

36.1 The Minutes of the meeting, held on 23 March 2011 (previously circulated), were confirmed and signed by the Chair.

37 **MATTERS ARISING (EXCLUDING THOSE ALREADY ON AGENDA)**

37A **Acceptable Sources of Funding**

*Noted*

37A.1 At the last meeting, the Provost agreed to set up a new committee / working group to review the current guidelines and policy concerning the acceptance of gifts and donations. It was agreed that the Provost and Rex Knight, Vice-Provost (Operations) would constitute the working group, and work was currently in progress.

37B **Potential Student Accommodation Acquisition**

*Noted*

37B.1 Further discussions had been held with the developers, Urbanest, and UCL had been given exclusive rights to negotiate until 30 November 2011.

37B.2 The original 535 bed scheme was redesigned to maximise its flexibility in order that UCL could take a proportion of the development.

37B.3 The developers were expecting to make a planning application shortly which UCL would support. UCL Advances were offered valuable incubator space in the completed development at nil rent for 10 years plus, although those negotiations had not been finalised. The freehold was still held by LB Camden.

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

38 UCL STUDENT RESIDENCES STRATEGY

*Received*

38.1 Appendix FC 4/51 (10-11).

*Discussed*

38.2 The **Director of Estates** confirmed that the principal objectives of the strategy were to realise capital to support UCL's substantial capital investment requirements, to reduce risk, particularly that associated with lifecycle cost, to enable investment into the residences estate and to improve the quality and efficiency of the operation of the residences estate and bring in private sector expertise. The paper had been produced by a UCL Working Group, containing members of the Finance Committee, in consultation with financial advisers Quayle Munro (QM).

38.3 Mr Colin Plank provided the Committee with some background to the agenda paper, and explained that the Working Group's aim was to provide a succinct summary of the issues, highlighting the key objectives of any proposed scheme. UCL were currently forecasting a surplus of £3.2m this year from its residences operation, and modelling by QM showed that the actual annual surplus was likely to increase significantly with inflation. A scheme to partner with a private sector operator was likely to generate a large capital receipt for UCL of the order of £100m, dependent upon the term of the contractual arrangements and UCL's equity share in the operating company (the current model assumed a term of 35/50 years and UCL equity stake of 25%). At the end of the term the full ownership and operation of the properties would revert to UCL.

38.4 Any proposed scheme would be limited to UCL's existing properties and would specifically exclude those in the academic core (e.g. Campbell House East and West, Taviton Street) and perhaps those already subject to external leasing (e.g. Astor College).

38.5 As well as a major up-front receipt, one other important benefit from external operation of the residences would include transferring the responsibility for maintaining the properties to the new operator. A survey conducted by UCL a few years ago had identified the need for major capital improvements totalling in excess of £31m in the five years 2011-12 to 2015-16; actual expenditure for the three years 2008-9 to 2010-11 was c. £16m.

38.6 In discussing the paper, the following issues were raised by Committee members, and comments made in response:

(a) *Influence on setting rents*: what confidence was there that the contractual arrangements would ensure rental increases were limited to RPI increases, and might it be possible to introduce a cap on the level of such increases? It was noted that consideration might be given for the documentation to include various options for limiting the rental increases, but this clearly would have a direct impact on the capital sum received by UCL. The outcome would be dependent upon the responsiveness of bidders to any proposals from UCL, and the conditions imposed upon them by their lenders.

(b) *Controls over the quality of estate & facilities*: there was support for UCL minimising the risks relating to life cycle costs. However, would a third party operator manage the residences under a service level agreement to UCL's requirements? In response, it was noted that controls over the performance of the operator would be secured through documentation, ensuring that an adequate mechanism was in place for delivery to an agreed standard, in the absence of which the ultimate sanction might be termination of the agreement. It would be important for UCL to develop its thinking around the measures for ensuring satisfactory delivery by the operator with its lawyers.

(c) *Determination of UCL's equity stake*: What was the rationale for UCL retaining a substantial equity stake in the operating company (modelled as 25%) when this was unlikely to result in UCL being able to influence future rental increases? There was an expression of discomfort with UCL's proposed minority interest in the operating company. QM were of the view that if UCL's stake were more than 25% in the JV, then this could impact on identifying a suitable buyer, and indeed the capital receipt for UCL. It was noted that the more common approach with other deals was to sell the entire interest and take the capital receipt, rather than maintaining an equity interest in a joint venture. It was generally felt that further exploration of the options around the level of UCL's equity stake should be undertaken.

(d) *Value of the residential estate*: The paper presented to the Committee was not clear on the market value of the properties likely to be transferred into the joint venture arrangement, and whether UCL's current rents were an appropriate starting point compared with the external property market.

(e) *Basis of capital receipt to UCL*: Further information should be provided to help understand how the £100m had been

arrived at - £100m for a large proportion of UCL's 3,700 bed spaces appeared not to be a sufficient return. It was noted that the Working Group had met with QM and discussed various options, but had presented to FC the proposal which appeared to be the most attractive. However, when undertaking any property deal there was an element of risk, and careful choice of the terms, both for deliverables and income to UCL and the interest in properties passing to the operator, would be necessary in drafting the tender invitation and undertaking the negotiation process.

(f) *Impact upon UCL's I&E Account:* The impact of a capital receipt now would result in less income to UCL from operations in future years. There was also a reference to this being an 'off balance sheet' transaction. It was felt that the financial impact of the deal should be clearly communicated to the Committee, to compare with the 'do nothing' option, and to include alternative options.

- 38.7 The Director of Estates commented that Finance Committee were being asked for authority to go to the next stage in developing proposals for transferring a part of UCL's residences to an external operator. As a first stage, it would be necessary to engage financial and property advisers to further develop a proposal, which could then be brought back to the Committee for discussion and decision. The next stage would then be to approach the market, to enter into detailed negotiation around the proposed terms, and to identify a preferred bidder. Finance Committee would then be asked to approve the outline terms of the arrangement to enable UCL officers to conclude negotiations and finalisation of documentation. It was emphasised that this would be a major transaction for UCL, with sizeable fees, and with completion likely to be achieved within a timescale of two years.
- 38.8 The Chair summarised the discussion and felt that the Committee was not unsupportive of the current direction of travel but that a further opportunity to appraise a range of options was required, together with further financial information to provide a greater understanding of the benefits arising from leasing residential properties compared with capital funding derived from borrowing. It was agreed that a further paper should be prepared before the summer vacation period.

***Recommended***

- 38.9 That following the provision of the detailed information requested, the Committee should be canvassed as to whether a meeting should be convened for the purposes of progressing

this matter further. It was agreed that a report to Council on progress to date would be appropriate at this stage.

39 **UCL BLOOMSBURY MASTERPLAN UPDATE**

***Received***

39.1 Appendix FC 4/52(10-11) with Annexes 1-3.

***Discussed***

- 39.2 The **Director of Estates** reminded the Committee that a short update was provided at the March meeting, although the item was not discussed due to lack of time. He explained that the Masterplan was a long term strategic framework for next 10-15 years; it did not commit UCL to any particular projects, but provided an outline about what needed to be done. The Plan was not about building new buildings but adapting existing assets and making the estate fit for purpose. Page 1 outlined the components of the brief feedback received from the consultation exercise (see Annexe 3).
- 39.3 Previously UCL had spent around £30-50m p.a. on estates capital projects, but these were ad hoc and opportunistic and not part of a strategic framework. While the Masterplan did not outline all the projects, a provisional programme for 2011-12 and 2013-14 was outlined at Annexe 2, and was thought that there could be over 100 projects in total.
- 39.4 One of the biggest commitments was the redevelopment of Beach Site (IfCH). UCL is committed to improve the student experience and this site could provide a student hub catering for specific needs. There would be a feasibility study on this and Estates would report back to the Finance Committee with a proposal.
- 39.5 The idea of a 'new campus' might move some facilities off the Bloomsbury campus into buildings / areas more suitable for their activity, however this plan is just for the Bloomsbury area. Further information was requested on the 'new campus' concept, this would be expanded upon at the next update.
- 39.6 The Provost confirmed that over the next 10-15 years UCL needed to pursue a strategy of growth. UCL was well positioned academically for growth, and with the building of the Olympic Park and public transport being improved, there were opportunities for development of additional student accommodation facilities.

***Recommended***

- 39.7 Finance Committee recommend to Council the UCL Bloomsbury Masterplan.

40 **FINANCIAL UPDATE 2010-11**

***Received***

- 40.1 Appendix FC 4/53 (10-11).

***Discussed***

- 40.2 The **Director of Finance** reported that overall the bottom line forecast surplus had increased from £12m, as stated at the last meeting, to just over £29m (similar to last year's actual outturn).
- 40.3 There were improvements both in academic areas & CSS areas. All faculties were now forecasting to hit budget, this was driven largely by tuition fees and also improvements in research contribution which was £1.1m ahead of budget. In CSS areas all areas were forecasting to hit budget except ISD and Libraries, although they should hit budget by the year end.
- 40.4 The big over budget items were an increased surplus on student residences and profit on disposal of Medical Student's Union building in Huntley Street.

41 **BUDGET 2011-12**

***Received***

- 41.1 Appendix FC 4/54 (10-11).

***To discuss***

- 42.2 The above report, which was the Budget Proposal for 2011-12. The draft Budget and Projected Outturn shows a Budget surplus of £18million. The **Director of Finance** gave an oral report.
- 42.3 The forecast for 2010-11 showed a surplus in excess of £29m, although £7m was profit made from a disposal so the real comparison was £22m against £18m in the 2011-12 budget. The academic costs were more or less flat, with an £8.5m increase in staff costs which was offset by equal and opposite fall on other costs. Budget targets were set at contribution level and all faculties came in on budget, SLMS over-delivered by £6m and MAPS had yet to fully agree certain aspects of their

budget. There was a relatively low level of risk as compared to last year. £37m was forecast for capital spending (which was included as part of the cash forecast), there had been a massive reduction on HEFCE CIF funding so UCL would only receive £8m. Research Councils have announced that they would no longer fund 100% of equipment needs, so an extra £1.5m was included in the budget for this.

- 42.4 Cash marginally went down although remained healthy at £107m. As there would be significant cash inflow and outflows in the next 18 months, the Director of Finance agreed to put together a quarterly basis for cash flows in and out and to circulate to the Committee.
- 42.5 The assumption was that capital spend would be in the region of £37m, which is roughly what had been spent in previous years.
- 42.6 CSS divisions were set savings targets on their core budgets. ISD (whose budget was slightly lower than the benchmark for other institutions) had made savings as part of its Smart IT project. They intended to bid to retain their savings so that they could reinvest in web development and improving websites, and provide better access to computer clusters and printing facilities.
- 42.7 The budget included the merger of the School of Pharmacy (SOP); their turnover was £24m and there were no financial issues. The merger had been agreed in principal but due diligence work needed to be undertaken and it was estimated that the merger would not take place until 2012. The Finance Committee would receive a report on the due diligence and a summary paper to give background during the 2011-12 session.

***Recommended***

- 42.8 Finance Committee recommend to Council the UCL Budget 2011-12.



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

43 **UCL ENTERPRISE STRATEGY**

*Received*

43.1 Appendix FC 4/55 (10-11).

*Discussed*

- 43.2 The **Vice-Provost (Enterprise)** tabled a presentation at the meeting and took the Committee through the document (to be sent out with these Minutes (Appendix FC 4/67 (10-11))).
- 43.3 The presentation outlined the benefits and vision for Enterprise at UCL and how UCL's entrepreneurs could be supported, and explained the main activities of UCL Business (UCLB) and how they support enterprise at UCL. The main aim of UCLB was not only a financial one, but they hoped to provide significant financial opportunities and benefits. To date income from consultancy was £4m, it was hoped to increase this to £8m, and UCLB income, currently at £7m was hoped to increase to £12m.
- 43.4 In terms of comparisons with other UK universities, the closest UCL compared to was Imperial, whose income was £12m. It was also noted that there was a key opportunity in the development of CPD courses. Anecdotal evidence was that the national leader in this area was LSE, who were currently generating around £20m by running short courses. It was difficult to compare with US institutions as it was challenging to obtain accurate and comparable data.
- 43.5 With regards to the strategy document (at Appendix FC 4/55 (10-11)) its purpose was to outline the key objectives and vision, to create a structure to facilitate a two way exchange of ideas, identify areas where there were bottlenecks and try to remove barriers. It also aimed to create protocols on how to engage with industry and make UCL more visible to the outside world. This document would be presented to Council at their meeting in July 2011 and a document would be finalised for publication. This document would be available to Committee members once published.

44 **UK CENTRE FOR MEDICAL RESEARCH & INNOVATION (UKCMRI)  
UPDATE**

***Received***

44.1 Appendix FC 4/56 (10-11).

***Discussed***

- 44.2 The **Provost** and **Director of Finance** gave an oral report. The major construction work would soon be starting, UCL's contribution would reduce to £40 from £48m if Kings and Imperial joined the venture (the accession agreement to the Joint Venture Agreement (JVA) was still on-going). UCL would retain its founding partner status and have a stake in the land (unlike Kings and Imperial).
- 44.3 Now that the planning and funding had been agreed, the next stage of the project would be the construction, the mergers with other institutes and the capture of the scientific missions.
- 44.4 UCL was already planning for the recruitment stage for UCL staff to move into the institute and the plan was for staff to move over in 2013-14 into a virtual institute. Staff would spend one year on the scientific strategy and the recruitment, so that they were established before the Centre opens (and can also be captured in the Research Excellence Framework (REF)).

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

**45 BANKING MATTERS**

***Received***

45.1 Appendix FC 4/57 (10-11).

***Noted***

45.2 The above paper was a detailed list of account signatories, subject to the approval of Finance Committee. Two signatories are required for transactions exceeding £50,000 (one from List 'A' and one from List 'B').

***Approved***

45.3 Finance Committee approved the following amendments to List B:

- To add Amy Spittles, Senior Management Accountant, Financial Analysis & Reporting, Finance Division
- To add Helen Newport, Financial Reporting Analyst, Financial Analysis & Reporting, Finance Division
- To remove Richard Tittle with effect from 16 July 2011
- To remove Ian MacPherson with effect from 1 August 2011.

**46 WINDEYER BUILDING VACATION / SAINSBURY WELLCOME CENTRE (SWC)**

***Received***

46.1 Appendix FC 4/58 (10-11).

***Noted***

46.2 The above report outlined the background to the programme, referred to previous reports received by the Estates Management Committee (EMC) and Finance Committee, and explained the costs.

***Approved***

46.3 Finance Committee retrospectively approved the costs, currently reported at £13.5m, expended in providing vacant possession of the Windeyer Building, in order that the Sainsbury Wellcome Centre (SWC) could be developed in the timescale demanded by the Funders.

47 **UCL UNION BUDGET 2011-12**

***Received***

47.1 Appendix FC 4/59 (10-11).

***Noted***

47.2 The above report was the UCL Union Budget for 2011-12, which showed a small surplus of £65k. The budget included the new Lewis building and year 1 trading was assumed at breakeven.

47.3 Dr Bob Barber (a UCL Union Trustee) mentioned that there would be a significant financial impact of if the Union implemented the London Living Wage (LLW) for cleaning staff. The contract was out to tender and Dr Barber reported that the Union would look to UCL for financial support to make up shortfall. The Provost responded to say that the Union should meet the costs but that UCL should be consulted if this caused difficulty.

***Approved***

47.4 Finance Committee approved the UCL Union First Estimates for 2011-12, incorporating a grant from UCL of £2,237,916.

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

**48 CAPITAL PROJECTS REPORT**

***Received***

48.1 Appendix FC 4/60 (10-11).

***Noted***

48.2 The above paper, which comprised the Estates Director's Report and the Estates & Facilities Division's Capital Projects Dashboard, presented at the EMC meeting on 18 May 2011.

**49 INVESTMENT FUND MANAGERS UPDATE**

***Received***

49.1 Appendix FC 4/61 (10-11).

***Noted***

49.2 The above report outlined the recent change in Investment Fund Managers.

**50 FINANCIAL SYSTEMS UPDATE**

***Received***

50.1 Appendix FC 4/62 (10-11).

***Noted***

50.2 The above report discussed recent and future issues regarding Financial Systems at UCL.

**51 US GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)**

***Received***

51.1 Appendix FC 4/63 (10-11).

***Noted***

51.2 The above report updated Finance Committee on the new requirements to restate our annual financial statements into US GAAP.

**52 USS PENSION UPDATE**

***Received***

52.1 Appendix FC 4/64 (10-11).

***Noted***

52.2 Following previous discussions at Finance Committee, the above paper confirmed the recent decisions made by the USS Trustee Board regarding changes to the fund rules.

**53 FINANCE COMMITTEE MEETING DATES**

***Noted***

53.1 The confirmed dates and times for 2011-12 would be as follows:

- Wednesday 23 November 2011, 12noon – 2pm
- Thursday 26 January 2012, 10am – 12noon
- Thursday 29 March 2012, 12noon – 2pm
- Thursday 28 June 2012, 10am – 12noon.

53.2 The Finance Committee were asked to note there would be an additional meeting at the end of September / early October 2011. This has now been confirmed for 31 October 2011, 4pm in the Council Room. This will be followed by drinks and dinner in the Terrace Restaurant.

ALISON WOODHAMS  
Director of Finance and Secretary to Finance Committee  
3 October 2011