

Confirmed minutes

The University of Manchester

BOARD OF GOVERNORS

Formal Session: Wednesday, 20 March 2013

Present:

Mr Anil Ruia (in the Chair),

President and Vice-Chancellor, Mr Michael Crick, Mr Robert Hough, Dame Sue Ion, Mr Paul Lee, Mrs Christine Lee-Jones, Dr Keith Lloyd, Mr Neville Richardson, Dr Brenda Smith, Mr Andrew Spinoza, Dr John Stageman, Mr Gerry Yeung, Professor Colette Fagan, Professor Maggie Gale, Professor Andrew Gibson, Dr Reinmar Hager, Dr Caroline Jay, Professor Chris Taylor, Mr Mark Glass, Dr Andrew Walsh (21)

For unreserved business: Mr Nick Pringle, General Secretary, University of Manchester Students' Union.

In attendance: The Registrar, Secretary and Chief Operating Officer, the Deputy Secretary, the Director of Finance, the General Counsel, and the Director of Human Resources

Note: That due to the commercial sensitivity of the University's plans in respect of the funding of the Masterplan, any Board minutes relating to finance options would be redacted until a public announcement was made on its position.

1. Welcome

Noted: That a formal session of the Board was being held within the Planning and Accountability Conference in order to enable the Board to agree upon a number of important issues arising from the Conference agenda. Specifically, this included the proposals for the funding of the Estate Masterplan. At the same time, it was agreed that the Board would consider a number of additional items but that all other routine business of the Board, including reports and minutes from the Board Committees and other governance and management bodies, would be considered at the next formal meeting of the Board in May 2013.

2. Declarations of Interest

Noted: That the declaration of interest made by the Chair, Mr Anil Ruia, in relation to his role on the HEFCE Board and previously declared in the session, remained relevant to some items on the agenda. The Board also noted Professor Dame Nancy Rothwell's non-executive director role at AstraZeneca, and the associated measures that the University had in place to manage this interest within decision-making. These were particularly relevant following the announcements AstraZeneca plc had made recently in relation to the future of Alderley Park.

3. Minutes

Confirmed: The minutes of the meeting held on 13th February 2013.

4. Secretary's report

(1) Approval of charitable donations

Received: A paper requesting Board approval for charitable donations made by the University on behalf of staff completing the staff survey.

Reported:

(1) That the University is an exempt charity, whose status is derived from the Charities Act 1993. It is responsible to HEFCE, which is charged, as its principal regulator, with monitoring its compliance with charity law obligations.

(2) That as trustees, the Board is asked to endorse donations to be made on behalf of the University as part of the staff survey currently underway. The donations are being made in order to drive up participation in the survey, and by doing so, to ensure the University gathers meaningful feedback on its performance. This will facilitate improvements in the delivery of its strategic objectives, and through this, help deliver the objects defined in its charter, namely:

“to advance education, knowledge and wisdom by research, scholarship, learning and teaching, for the benefit of individuals and society at large.”

(3) That the benefiting charities have been selected by University staff, and have objects relevant to the University's own objects, most notably in the educational element contained within each.

(4) That on this basis, the University is seeking the Board's authorisation of these donations. The total value of the donations is likely to be in the region of £7,500, which will be distributed in line with the wishes of those completing the survey. When the donations are made on completion of the survey the University will seek, as far as is possible, to earmark the donations for the funding of educational projects within each of the respective charities:

Water Aid: RC 288701

The objects of Water Aid International are to relieve poverty and suffering in any part of the world through the improvement of water supplies, sanitation and advice on related health matters and to educate the public concerning the nature, causes and effects of such poverty and suffering.

Cancer Research UK: RC 1089464

The objects of Cancer Research UK are to protect and promote the health of the public in particular by research into the nature, causes, diagnosis, prevention, treatment and cure of all forms of cancer, including the development of findings of research into the practical applications for the prevention, treatment and cure of cancer and in furtherance of that primary object, to provide information and raise public understanding of such matters.

The Christie Charity: RC 1049751

In order to support the objectives of the Christie Hospital, the charity objectives of the Christie Charity are: (i) over the next five years to raise £50m to contribute to the

development of integrated service and clinical trial facilities across the network. The aim being to double the number of people who have access to clinical trials and to improve local access; (ii) to improve the quality and quantity of clinical research to support the step changes needed in research infrastructure required to establish an accredited clinical trials unit at the Christie Hospital; (iii) to double the current annual investment in research at £1m per annum; (iv) to improve the quality of the patients' experiences and to commit up to £1m per annum to the improvement of the hospital's environment; (v) to commit up to £1m per annum to provide patient services and care beyond that which would be affordable under NHS tariffs; and, (vi) to ensure Christie patients are cared for by the highest calibre of staff and to commit up to £500k per annum to enhancing the education and development of Christie staff and developing the Christie Hospital site as a place of learning.

Recommendation: That the Board, having assessed the University's objects and those of the relevant charities, is asked to endorse that donations be made to the registered charities Water Aid International, Cancer Research UK and The Christie Charity, in line with the wishes of those staff members participating in the staff survey.

(2) Schedule of Board meetings in 2013/2014

Received: The schedule of Board meetings proposed for 2013/14.

5. Funding the Estate Masterplan

Received:

Reported: That the Board debated and considered in detail the recommendations proposed for funding the Estate Masterplan and the following are among the key points noted from the ensuing discussion:

- (1) That the Board was presented with a profile of capital expenditure over the life of the bond. Throughout the tenor the University's finances provided cash balances through to the end of the period, and no breach of covenants was likely to materialise. Conservative income growth levels had been applied and adverse assumptions about pension commitments had been incorporated.
- (2) That the analysis undertaken is based on the issue of a £250m or £300m bond, with the following assumptions:
 - Refinance of all existing debt including bank, EIB and HEFCE facilities
 - Maintain the £100m private placement, which is due to be repaid in 2046
 - Bond issue around financial year ended 2013
- (3) That the paper presented information on free cash balances over the lifetime of the bond, the impact on existing covenants and the headroom available within this. The following sensitivities were also built in to the analysis:
 1. Contributions to the pension deficit at £10m p.a. (compared to the £5m p.a. currently forecast)

2. Total income to grow at 1% p.a. from FY14 – FY22 (compared to the c.3% CAGR forecast)
3. Costs to grow at 3.5% p.a. from FY15 – FY22 (compared to the c.3% CAGR forecast)
- (4) That in addition, the Board also examined an appropriate level of interest cover over the lifetime of the Bond and any associated HEFCE permissions.
- (5) That in determining the tenor of the Bond, the analysis had also examined price issues (as affected by gilt prices), and the refinancing of risk (avoiding the repayment date of the University's private placement).
- (6) That the University's private placement would be due in 2046. There were a number of associated covenants with this; including requirements that consolidated net assets should be maintained above £350m, that debt servicing must remain lower than 7%, and that total indebtedness could never be more than fifty percent of net assets. As a consequence the University would be closest to the covenant provision in year 1. The logic was that a £300m issue was more sensible as it allows the opportunity to repay all other borrowings. In respect of some of these, the break costs might be significant and therefore the University would only repay were it was sensible to do so. A forty year tenor seemed attractive. This implied a seven-year gap between repaying the placement and the bond. At no point in the projections would borrowing costs exceed 4% and associated Hefce provisions.

Noted:

- (1) That there was full support for the use of a bond to fund the Masterplan, though it was recognised by all members that the University was making a significant commitment. Beyond the programme, the University's ability to use expenditure to boost revenue could be restricted and the University would need to monitor this closely throughout. It was also noted that investor relations was an important factor and that this might require additional investment in the Finance team to support. Throughout the lifetime of the bond, the ability to leave room for flexibility would be vital.
- (2) That it was also noted that there was a significant cost in not developing the estate in this way. Regardless of the project, the University would be committed to spending £250m on sustaining the north campus. The condition of the estate here was a significant challenge for the University, and in order to simply maintain it at current levels the spend commitment was enormous therefore the strategy was to move all activity at once. The risks arising from curtailing stopping capital spend were severe and it was recognised that a balance between revenue spend and capital should be maintained. The capital expenditure programme could not be allowed to restrict continued investment in staff.
- (3) That in selecting this course of action, the University would need to put in place an appropriate governance structure around the capital expenditure programme. This should provide opportunities to pause or defer activity, if necessary, in relation to the University's financial position or market conditions. Overseas student income is a significant dependency and within this, the University should anticipate routine disturbances. In such circumstances the University would need to be agile. The governance plan adopted should address this.
- (4) That the current financial climate was very favourable in terms of this funding option. Low interest rates coupled with long-term investor demand provided a unique

opportunity. The cash position on issue would enable consolidation and reduce costs. However some members expressed concerns about funds for other opportunities, e.g. the recruitment of 'research stars'. In responding, the President and Vice-Chancellor highlighted that the University's projections demonstrated that business as usual would continue and that investments in staff will be maintained.

- (5) That some members identified that leaving room for flexibility would be important. Within the projections long term maintenance costs had been included as vacant buildings would be held but not yet sold. The University was in dialogue with the city and the new economy group on future plans for the site, and indeed might wish to retain some elements.
- (6) That it was noted that a sound communications plan would need to be developed. The successful bond financing would represent a good news story, but the University would need to place the plans in the context of future funding challenges so that it could continue to rely on support. An appropriate balance should be maintained between this investment and the funding the University will require from others. In addition, it was noted that the previous capital plan had a positive effect on core business, and the investment was likely to communicate positive messages about the University's momentum. The messages to students would also be important, and the investment should not be seen as at the expense of other forms of support. The residences provided for students would also be important and were likely to affect future recruitment.
- (7) That benchmarking should inform our investment decisions. It would be important to consider the strategic plans of competitors, particularly in terms of their investment plans and expansion into on-line provision.
- (8) That some members expressed concerns about the built environment and the quality of the projects, arguing that distinctiveness should also inform design considerations. The University might wish to consider a formal Design Review process. In responding, the Director of Estates and Facilities noted that the balance between iconic buildings and functionality was important though it was recognised that an elevated focus on design would be desirable.

Resolved: The Board approved that the University proceeds to finance the Estate Masterplan by issuing a £300m public bond with a 40 year tenor, which should be put in place by the end of the current academic year (July 2013).

6. Ethics and research partnerships

Received: An update from the President and Vice-Chancellor in relation to the development of the University's research partnerships and, alongside this, the consideration of any ethical issues associated with potential partners.

Noted: That the issue raised interesting questions for the University. The University had introduced a Gift Oversight Group within the year, and Board members were aware of the recent issues at the LSE. This had led the School to introduce a wide ranging ethical policy, and work was underway within the University to map existing policies to a similar statement. On maturity, this would allow the Board to consider coverage and identify any obvious gaps. The current position in respect of partnerships was that the principle of academic freedom was strongly defended within the University and that collaborations were supported when founded through the pursuit of academic enquiry. The discussion raised a number of issues in respect of

collaborations with certain countries, and/or partners, and the Board noted that the item should receive further consideration in due course.

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