



FINANCE COMMITTEE

Wednesday 9 September 2020

Present: Ms Caroline Johnstone (Chair), Mr Edward Astle, Professor Steve Jones, Mr Kwame Kwarteng, Dr Neil McArthur, Professor Dame Nancy Rothwell, and Mr Richard Solomons.

In attendance for all items: Louise Bissell (Head of Tax and Financing), Robert Fraser (Chief Financial Officer), Professor Luke Georghiou (Deputy President and Deputy Vice-Chancellor), Patrick Hackett (Registrar, Secretary and Chief Operating Officer), Chris Trask (Deputy Director of Finance), and John Marsh (Senior Governance Manager) (minutes).

In attendance for: Agendum 9: Update to V3 of the 2020-21 Budget and Development of Future 5 Year Plan: Matt Atkin (Director of Planning)

1 Welcome

Noted: that this was the first meeting chaired by Caroline Johnstone as the new Chair of Finance Committee.

2 Declaration of Interests

Noted: that no declarations were made in relation to agenda items.

3 Minutes of the Previous Meeting

Agreed: to approve the minutes of 17 July 2020 Finance Committee.

4 Matters Arising

Noted:

- a) the status of the Matters Arising/Action Log;
- b) that the status of Actions would be reviewed prior to the Committee's October 2020 meeting, and where appropriate, revised timescales would be allocated to actions, and in particular those regarding the Satellite Entities Review and Manchester Graphene Company. **Action: Deputy Director of Finance and Senior Governance Manager.**

5 Management Accounts

Received: the 2019/20 Year End Management Accounts.

Noted:

[Redacted]

Redacted – Restricted Information

- b) the impact of COVID-19 on the University's financial position had been significant. A recruitment freeze and cost control measures, introduced upon lock-down, had resulted in a favourable variance across pay and OOE within individual areas. Significant adverse impact had also been seen, however, with adverse income predominantly due to student accommodation refunds in the final semester and a loss of tuition fee income from Executive Education and global activity in AMBS;
- c) in discussion of depreciation charges, the following:
 - i. clarification regarding the higher than budgeted level of charge [Redacted]
[Redacted]
[Redacted] ***Redacted***
– Restricted Information
 - ii. the University was now confident that it had a full awareness of assets and depreciation costs across its estate; and

d) [Redacted] ***Redacted – Restricted Information***

6 Treasury Management

Received: a paper detailing University cash funds at year end and risk management, and as an appendix, the University's Short Term Treasury Management Policy.

Noted in response to observations and queries from members:

- a) the deteriorating economic landscape and the prospect of recession had led to the University adjusting its focus towards higher quality counterparties when placing funds. Deposits with Challenger Banks and Building Societies had been exited since early 2020 with the focus now on large, main stay Banks with a minimum Fitch long term rating of A and short term rating F1. Preservation of the capital value of the University's funds would remain a key priority. Any future proposals for investment in money market funds below AAA rating would be presented to Finance Committee; and
- b) a review of the Policy (last revised in 2016) would be undertaken. **Action: Deputy Director of Finance and Senior Governance Manager**

7 Going Concern Issues

Noted: the following in response to queries raised by members regarding the timetable for finalising the University accounts and their approval by the Joint Finance/Audit and Risk Committee meeting, and the Board of Governors:

- a) that it is important for the Committee and Board of Governors to have appropriate assurance regarding liquidity, in downside, severe but plausible scenarios;

- b) that external auditors were likely to expect assurances regarding liquidity due to the impact of the Pandemic; and
- c) such assurances would be provided via the University having in place additional financial facilities:
 - i. it was anticipated that the University would have a COVID Corporate Financing Facility (CCFF) in place prior to the sign off of its accounts;
 - ii. negotiations to update the University's covenants were ongoing, and once satisfactorily concluded would enable the University to secure a Revolving Credit Facility (RCF).

8 Loan Financing Strategy

Received: an update on each of the work-streams in relation to the proposed University Loan Financing Strategy, including a summary of the main proposed covenant changes which were currently under re-negotiation.

Noted:

- a) the current status of the University's CCFF application, RCF borrowing, private placement covenants, and updates on a potential UK Government Research Support Loan, and longer term debt options;
- b) the University's external auditors had been advised that the University was negotiating adjustments to its covenants. Such negotiations were taking place in parallel to those to establish a RCF;
- c) uncertainty regarding pension provision had been identified by some potential investors as a possible challenge;
- d) a summary of key aspects of proposals regarding the USS pension scheme would be presented to Finance Committee; **Action: Senior Governance Manager**
- e) the V3 budget proposals had been shared with banks during RCF negotiations. It was anticipated that repayment of the RCF would be supported through:
 - i. cost reduction measures;
 - ii. tuition fee income, especially from International students;
 - iii. ongoing dialogue with UK Government regarding the establishment of a more financially sustainable basis for research activity;
- f) the Pandemic had increased the urgency of the restructuring of Professional Services;
- g) nuanced communication and messaging was essential regarding the restructuring of Professional Services and the University's response to the Pandemic.

Agreed:

- a) that the University establishes a RCF [REDACTED] **Redacted – Restricted Information** and
- b) that the related commitment and non-utilisation fees are incurred as risk mitigation costs;
- c) the quantum of total RCF arranged by the University should take account of ongoing national and international uncertainty caused by the Pandemic, and be sufficient to ensure the University's liquidity; and
- d) early engagement with the external auditors to ensure the proposed funding and revised covenant arrangements would enable them to provide an appropriate audit opinion.

aligned to affordable strategic priorities, and including a sufficient level of granularity in terms of strategic targets and objectives. It would also be helpful if the size and shape of the University was also included in the 3/5 year plan; and

- g) a flexible approach should be taken regarding the timing of the 2021 Planning Conference to ensure that the Board of Governors were provided with sufficient opportunities for strategic discussion.

Agreed:

- a) that the presentation of the final budget proposals to November 2020 Finance Committee include the following: **Action: Chief Financial Officer**
 - i. a comparison to actual outturn of previous years;
 - ii. year by year performance;
 - iii. clarity regarding drivers and key assumptions;
 - iv. staff headcount; and
 - v. a clear summary of potential upsides and downside risks to the submitted budget.
- b) that October 2020 Finance Committee receives a paper outlining the University strategic plan position and project portfolio pre-pandemic, and the indicative timeline for updating both. The summary to include a timeframe identifying topics for presentation to future Finance Committee meetings. **Action: Chief Financial Officer and Director of Planning**

10 University Tax Strategy

Received: the updated University Tax Strategy.

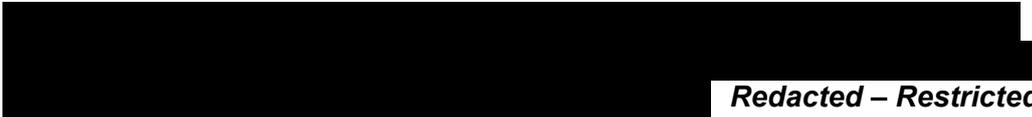
Noted:

- a) HMRC required the strategy to be published annually;
- b) the strategy had been informed by best practice guidance for the HE sector; and
- c) the Chair of Finance Committee had approved the strategy for publication via Chair's Action in advance of the meeting.

Agreed: to endorse the Chair's Action to approve the updated strategy.

11 Additional Business Raised in the Meeting

Noted:

- a)  **Redacted – Restricted Information**
- b) USS Pension Scheme:
 - i. the new valuation from the USS trustee had put forward scenarios which would be severely challenging for member institutions;
 - ii. the technical provisions consultation had been published on 7 September 2020, and was perceived to be narrow in scope;
 - iii. the University could not provide pension advice to its staff, and the terms of membership of the scheme precluded the University from offering alternatives

to its staff. Notwithstanding these circumstances, the current level of opt-out from the USS scheme by staff was concerning to members.

Agreed:

- a) [REDACTED] ***Redacted – Restricted Information*** to expedite any required shareholder approval decisions via Chair’s Action, on the proviso that there would be no material additional risk to the University to that discussed at July 2020 Finance Committee. **Action: Chair of Finance Committee and Head of Tax and Financing**
- b) USS Pension Scheme: that a proposed University response to the USS technical provisions consultation be presented to the October 2020 Finance Committee meeting. **Action: Chief Financial Officer**