

Approved Minutes

FINANCE COMMITTEE

9 November 2020

Present for all items: Ms Caroline Johnstone (Chair), Mr Edward Astle, Professor Steve Jones, Professor Dame Nancy Rothwell and Mr Richard Solomons.

Present for items 1-13: Dr Neil McArthur.

Present for items 1-6: Mr Kwame Kwarteng.

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 item 8: Matt Atkin (Director of Planning).

In attendance for items 12-14: Diana Hampson (Director of Estates of Facilities).

1 Welcome and Thanks/Declarations of Interest

Noted:

- a) Finance Committee's recognition and thanks to the Finance Directorate for the development of items of committee business throughout 2020, and in particular proposals for the 2020-21 Budget, 5 Year Plan and Borrowing Strategy;
- b) that there were no declarations of interest in relation to the agenda.

2 Minutes of 7 October 2020 Finance Committee

Agreed: to approve the minutes of 7 October 2020.

3 Matters Arising/Action Log

Noted: the status of the Action Log, and the following updates regarding the minutes of 7 October 2020:

- a) **minute 9: USS Technical Provisions Consultation:** that the University response to the consultation would be shared with Finance Committee; **Action: Chief Financial Officer**

b)

Redacted – restricted information

- c) **minute 14: UMIP Premier Fund:** dialogue regarding the **Redacted – restricted information** was ongoing and was being led by the Deputy President and Deputy Vice-Chancellor.

Agreed: that further discussion would inform the development of research pipeline reporting to the committee. **Action: Chair of Finance Committee, Chair of the Board and Chief Financial Officer**

4 2019-20 Financial Statements

Received: in advance of their consideration at the 9 November 2020 joint meeting of Audit and Risk Committee and Finance Committee, the 2019-20 University Financial Statements.

Noted:

- a) that at the joint meeting with Audit and Risk Committee, Finance Committee would be asked, in line with its terms of reference, to consider, comment and forward the University's Financial Statements (and subsidiaries report) to the Board of Governors for approval, subject to the following:
 - i. potential adjustment to the [REDACTED] *Redacted – restricted information* fund valuation;
 - ii. post balance sheet events update;
 - iii. conclusion of the going concern work and related disclosures;
- b) the following were recognised by Finance Committee at its discrete meeting:
 - i. that the Financial Statements had been reconciled to the end of year 31 July 2020 Management Accounts, which had been reviewed by the Committee at its September 2020 meeting;
 - ii. that it was appropriate for the joint meeting with Audit and Risk Committee to receive the Going Concern Review paper prepared by the Finance Directorate.

5 Current Borrowings and Moody's Credit Rating

Received: a summary of the University's existing borrowing, and Moody's credit opinion of the University (issued October 2020).

Noted:

- a) the status of the University's two external loans: the listed bond issued in July 2013 (£300m), and the July 2006 private placement (£100m);
- b) that as a result of Moody's issuing a revised downward grading for the UK Government, the University's own credit rating had been down-rated from Aa3 (negative) to A1 (stable). Moody's assumption was that universities would have a high likelihood of the UK Government providing support in the event of acute liquidity stress;
- c) [REDACTED] *Redacted – restricted information*
- d) Moody's annual review of the University had been delayed to January 2021 pending the finalisation of the 5 Year Plan. Once completed this would lead to the publication of an updated rating;
- e) [REDACTED] *Redacted – restricted information*
- f) the University's position as a research-intensive university contributed to its credit quality because it supported the institution's global reputation and helped diversify its revenue base. The University's large size and diverse revenues provided it with some financial resilience;
- g) Moody's had highlighted the following factors that could lead to a further down-grade of the University's credit rating:
 - i. failure to achieve revenue growth targets due to lower student demand, especially for international students;
 - ii. a failure to successfully conclude its significant capital plan — indicators would include, but were not limited to, additional borrowing, a slowdown in construction activities and cost overruns;
 - iii. an erosion of liquidity and operating margin beyond the projected level;
 - iv. inability to achieve targets for research funding; or a further downgrade of the UK sovereign's rating, or a dilution of support for the higher education sector.

6 Budget v4 and 5 Year Plan

Received: the University Budget 2020/21 – reforecast V4 (for approval), and a 5 Year “do nothing” Scenario forecast (for information).

Noted:

- a) the following regarding the budget reforecast V4:
 - i. the reforecast recognised the significantly improved position regarding student numbers in relation to previous forecasts earlier in 2020. [Redacted]
 - ii. [Redacted – restricted information]
 - iii. higher than normal student attrition remained a risk however;
 - iii. in terms of Research funding, UK Government funding had remained stable, but charity funding had been adversely affected by the Pandemic
 - iv. [Redacted]
 - v. [Redacted – restricted information]
 - vi. it would be important going forward to reflect on depreciation charges and capital revenue in future budgeting and reporting;
 - vii. other non-pay costs had significantly increased in the 2020-21 budget, and were mostly concentrated in the Faculties, having been artificially depressed in 2019-20 when expenditure was halted in response to the Pandemic [Redacted]
 - viii. [Redacted – restricted information]
 - viii. [Redacted – restricted information]
- b) the following regarding the University 5 Year “do nothing” Scenario forecast :
 - i. key external factors influencing the forecast included international student fee income [Redacted – restricted information] and UK Government policy regarding research sustainability;
[Redacted]
 - [Redacted – restricted information]


Agreed:

- a) to recommend Budget 2020/21 reforecast V4 to the Board of Governors for approval. The format of the presentation of the budget to the Board to include further explanatory narrative and sensitivity analysis, to be further discussed by the Chair of Finance Committee and the Chief Financial Officer; **Action: Chair of Finance Committee and Chief Financial Officer**
- b) further detail would be provided to the Committee on comparison of OOE spend between 2019/20 and budget 2020/21 – generally, future reporting to the Committee to show comparison and delta to prior year as well as to budget;
- c) noting that the Finance Directorate would continue to prioritise the development of proposals for the 5 Year Plan, to present a ‘do nothing’ scenario to the November 2020 Board of Governors’ meeting to illustrate the scale of activity required to move the University towards a more financially sustainable position;
- d) that finalised proposals for the 5 Year Plan should include the anticipated benefits from the University’s strategic projects and would be signed off by Finance Committee and the Board during January 2021.

7 Borrowing and Covenant Update

Received: an update regarding the University's borrowing plans and the renegotiation of its covenants.

Noted:

- a) a summary of the terms and pricing offered by the various banks that had been approached regarding the establishment of a Revolving Credit Facility (RCF) and the status of the approvals of these facilities and legal documentation;
- b) 
Redacted – restricted information
- c) that it was proving more difficult to conclude the new borrowing arrangements than expected, given various requests from banks;
- d) covenant negotiations have been concluded with the majority noteholder, subject to the finalising (anticipated to take place during November 2020) of the Amendment Agreement, a draft of which had been issued to all three noteholders.

8 Strategic Planning Update

Received: an update on the University's strategic planning which covered the overall shape of investment in the strategic change portfolio, and the implications of this in relation to the strategic plan. The update also presented the updated plan and examples of the detail that sat beneath the portfolio level.

Noted: the following in discussion of strategic planning:


- a) the importance of ensuring that the University had a robust and sufficiently resourced planning process. Members suggested that consideration should be given to the redeployment of resources to facilitate this objective;
- b) that it was important to include benefit schedules alongside cost schedules for priority activities in the strategic change portfolio;
- c) it would be useful to explain acronyms and provide a short one sentence summary of main projects;
- d) that further strategic planning updates would be scheduled into Finance Committee's forward agenda for the remainder of 2020-21. **Action: Senior Governance Manager and Director of Planning**

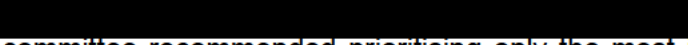
9 Satellite Entities Review

Received: an update on the satellite entities three lines of assurance review which would be considered by Audit and Risk Committee at its 9 November 2020 meeting.

Noted:

- a. prioritised by risk ratings, details of the University's current satellite entities;
- b. ongoing work to develop clear governance arrangements for various levels of satellite entity.

Agreed: to receive regular updates on high risk satellite entities (and in particular, 

 **Redacted – restricted information** The committee recommended prioritising only the most important satellites for further work, given the significant workload at present. **Action: Head of Tax and Financing**

10 Manchester Graphene Company

Received: a high level summary of the current status of the set-up of Manchester Graphene Company (MGC) and funding arrangements, and request for Finance Committee to approve, in principle, investment in MGC and the launch of the Manchester Graphene Fund, to approve the proposed internal governance requirements and confirm the minimum requirements with regards to the shareholders' agreement.

Noted: that the proposed internal governance arrangements for MGC would follow the same template as for the University's other associated satellite entities and include proposals with regards to the three lines of assurance;

Agreed:

- a) subject to Angel investors making the first investments into the company (under the Enterprise Investment Scheme), and the launch of the Manchester Graphene Fund, to approve in principle an investment [REDACTED]
[REDACTED] **Redacted – restricted information**
- b) to approve the proposed internal governance requirements and confirm the minimum requirements regarding the shareholders' agreement (subject to negotiation with the other investors), on the basis that the following will be reserved matters for shareholders:
 - i. the appointment of the Chair and CEO;
 - ii. the appointment of external auditors;

and that the prohibited persons provisions apply equally to both Manchester Graphene Company and Manchester Graphene Fund.

11 Northern Gritstone

Received: an overview of the proposed structure of the Northern Gritstone investment vehicle and the proposal for the University to take a non-dilutable [REDACTED] **Redacted – restricted information** shareholding in the company in return for permitting [REDACTED] **Redacted – restricted information** of its equity stake in University spin outs to be held by the company.

Noted:

- a) that Finance committee was requested to provide provisional approval to the proposal on the basis of the overview provided in the paper, and subject to the receipt of full documentation from the University's external legal advisers, and appropriate internal due diligence conducted by DLABS and the Finance Directorate;
- b) that the investment vehicle was based on the same model as Oxford Sciences Innovation (OSI);
- c) that there was no commitment for any spin-out to take up any offer of support from Northern Gritstone;
- d) that while very supportive, in principal, of the proposed investment, several lay members of Finance Committee expressed a strong request for receiving greater assurance regarding key underpinning detail regarding the proposal's strategic rationale, practice and outcomes at similar ventures (other than OSI), and the recommendation that the University's non-dilutable shareholding should be set [REDACTED] **Redacted – restricted information** There was robust discussion of the level of [REDACTED] **Redacted – restricted information** shareholding, which was strongly supported by management and the provision of further information on these themes would better facilitate the Committee's deliberation of the project's proposals.

Agreed: to give provisional approval for investment, subject to:

- a) full legal documentation being received, and appropriate due diligence by DLABS and the Finance Directorate;
- b) further assurance provided regarding the rationale and options analysis (including additional examples of practice at comparable vehicles elsewhere) for setting the University's non-dilutable shareholding in the company [REDACTED] **Redacted – restricted information**
- c) reserved matters and prohibited persons provisions for the Northern Gritstone Investment Vehicle being sufficiently robust (e.g. by ensuring that shareholders retained the right of appointment of the Chair and CEO, and appointment of external auditors), to mitigate potential reputational risks to the University.

12 Paterson Building Update

Received: an update setting out capital commitment [REDACTED] **Redacted – restricted information** key risks and mitigation measures regarding the Paterson Building, and requesting Finance Committee approval of the required documentation to facilitate the Building Contract, and commitment of necessary capital spend for the project.

Noted:

- a) [REDACTED]
- b) [REDACTED]
- c) [REDACTED]; [REDACTED]
- d) [REDACTED] **Redacted – restricted information**
- e) the project's Guaranteed Maximum Price (GMP) was likely to be low risk in view of assurances from the contractor that GMP would be on budget;
- f) [REDACTED] **Redacted – restricted information**
- g) in discussion, the following mitigations for potential funding risks:
 - i. [REDACTED]; [REDACTED]
 - ii. [REDACTED] **Redacted – restricted information**
- h) Finance Committee requested that the University retain as strong a level of governance oversight as possible for the project in view of its complexity – the arrangements had been enhanced, with the President and Vice-Chancellor and Director of Estates and Facilities involved in project oversight.

Agreed: subject to the costs being within the budget outlined in the report:

- a) to approve and recommend that the Board approve that the University can agree and sign off the Procurement and Funding conditions in order to allow the Development Agreement with the Christie NHS Foundation Trust to go unconditional and to enable the Christie to enter into the Building Contract;
- b) to [REDACTED] **Redacted – restricted information**
- c) Finance Committee to continue to receive regular updates on the project. **Action: Director of Estates and Facilities**

13 Long Term Maintenance

Received: the findings of a review of the current Long Term Maintenance (LTM) and Reactive Maintenance Strategy.

Noted:

- a) the following key findings:
 - i. that the LTM backlog was currently [REDACTED] **Redacted – restricted information**
 - ii. combined capital and revenue estate maintenance has been around [REDACTED] **Redacted – restricted information** – this was minimised as part of COVID actions and spend was around [REDACTED] **Redacted – restricted information** in the year ended 31 July 2020;
 - iii. [REDACTED]
 - iv. [REDACTED]

v.

[Redacted]

vi.

[Redacted]

vii.

[Redacted]

Redacted – restricted information

viii. it was recommended that the University continues to prioritise development of its Residential & Sport estate strategy.

14 MECD Early Usage

Received and noted: an overview of opportunities for the early usage of MECD, together with details of associated costs and cash flow forecasts.