

APPROVED minutes



## FINANCE COMMITTEE

23 June 2021

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

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

**In attendance for item 6: Capital Programme Report,** Diana Hampson (Director of Estates and Facilities).

### 1 Welcome

**Noted:**

- a) Emily Morris, Governance Manager, was welcomed to the committee. It was confirmed that Emily would take on the role of Committee Secretary from John Marsh from the next academic year, 2021-22.
- b) Louise Bissell was congratulated on her new post as Deputy Director of Finance.

### 2 Declaration of Interests

**Noted:** that there were no declarations of interest in relation to the agenda.

### 3 Minutes of the Previous Meeting

**Agreed:** to approve the minutes of the meetings of 21 April 2021 and 10 May 2021 of the Finance Committee and the minutes of the 10 May 2021 joint meeting of North Campus Working Group and Finance Committee.

### 4 Matters Arising

**Received:** The Finance Committee Action Log as of June 2021.

**Received:** Epidarex Capital III Fund

**Noted:**

- a) The executive will confirm the date on which the Estates Masterplan and Estates updated Strategy will be brought to the Committee.
- b) There had been a very positive response (which included responses from UK Government) to the announcement of the preferred partner for the establishment of ID Manchester, and also for the establishment of Northern Gritstone.
- c) Finance Committee would play a key role regarding the oversight of governance arrangements for ID Manchester, and would receive reports on a regular basis. Governance arrangements have to be updated and brought back to Finance Committee for approval. Due diligence work regarding the project's financial model was ongoing.
- d) MECD tour was confirmed for the 12<sup>th</sup> July, which all Board members are invited to attend. The Chair noted that she hopes to undertake a tour of the wider campus as COVID restrictions ease.
- e) Activity was ongoing to review and update the University's scheme of delegations. Work had been informed by best practice at peer institutions. The revised delegations would cover both governance and financial themes. It was suggested by lay members that engagement with members of the Board would be helpful in finalising proposals, and that it would be desirable for the October Board meeting to receive a proposal for its consideration.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

## 5 Finance Committee Forward Agenda

### Noted:

- a) The forward agenda for 2021-2022 will be shared following a meeting taking place in July with the Chair, Registrar, Secretary and Chief Operating Officer and relevant Executive Leads.

## 6 Capital Programme Report

**Received:** the June 2021 Capital Programme Report.

### Noted:

- a) Chemistry LTM and vent works: a separate paper will be submitted in October, there were issues with the framework as well as issues with the supply chain which could impact on time and costs. The paper will include the tenders for approval.
- b) First Light Pavilion construction work will complete in August and will open to business in Easter, there is currently a delay due to supply chain issues.
- c) Pankhurst: that there were no issues to report.
- d) The additional spend of MECD is relating to the fit out of additional space in the building to reflect changes in business and FTE since the original brief. Committee members requested that variances such as this are included within the narrative, and that it would be helpful for Finance Committee to monitor them on a regular basis.
- e) Paterson: the main concern is that potential delays to the supply chain could impact financially as the leases would need to be extended at Alderley. There are no major issues with the build or change control.
- f) A discussion took place around the insurance and cost liability and the risk sharing arrangement for Paterson. It was confirmed that the risk is built into the contract with caps agreed.
- g) Long Term Maintenance update was provided within the report. The current backlog of maintenance is [REDACTED] and a combined capital and revenue annual spend [REDACTED] might be required, which was not currently built into longer term financial plans. The committee were notified of specific buildings being in the potential critical failure territory and that some buildings are falling into Category C. The committee were advised that unless the direction of travel is adjusted there will be further deterioration of the estate. The report also highlighted the university's commitment to zero carbon. A road map is currently being produced to identify how the university will achieve zero carbon, this will take a fabric first approach. It was flagged that the more that building condition ratings decline this will impact on the carbon ambition.
- h) The academic estate is in better condition than the residential and there will be a paper submitted to the Committee on the residential estate [REDACTED]
- i) The Committee agreed that Long Term Maintenance is a key issue and risk for the University and it is important for them to better understand the estate's building condition status and will look at prioritising deep dives to consider this.
- j) One member noted the possible option of borrowing for residential maintenance as it is also a commercial activity and that the university will apply for grants where

possible, noting the implications of match funding requirements for certain grant applications.

- k) Committee members queried about the potential to use savings that have been generated throughout the current year on the catch up of long term maintenance, members were advised that this can be very difficult to do due to the time lag and the fact that LTM is usually linked to a capital or carbon programme.
- l) It was confirmed that the budget assigned to revenues and OOE includes all maintenance not just long term.

**Action:**

- a) An overview will be provided in October to highlight all supply chain issues. (Director of Estates and Facilities)
- b) Chemistry paper will be submitted in October. The paper will include the tenders for approval. (Director of Estates and Facilities)
- c) Variances to be included within the narrative of the Capital Programme Report, and Finance Committee to monitor them on a regular basis. (Director of Estates and Facilities)
- d) Deep dives to be scheduled around estates conditions. (Director of Estates and Facilities, Chair of Finance Committee, and Governance Manager)

## **7 UUK Consultation on USS**

**Received:** the UUK consultation report and the draft University of Manchester consultation response.

**Noted:**

- a) This was an updated consultation from UUK and had been received shortly before the Committee meeting.
- b) The Committee were asked to approve the University response to the UUK consultation, which has been developed further following consultation with the Senior Leadership Team.
- c) The significant impact of proposals on the University's balance sheet. The current proposal includes DRCs of 6.3% to be payable over 18 years which will increase the provision in our accounts [REDACTED]
- d) The UUK is not stipulating formal Board sign-off but the involvement of the governing body is encouraged.

**Agreed:** Committee members required further information before they respond to the consultation.

**Action:** A short paper will be circulated round the Finance Committee requesting comment by email. (Chief Financial Officer and Senior Governance Manager)

## **8 Management Accounts and Forecast**

**Received:** the May 2021 Management Accounts and Forecast, and as an appendix an update on aged debt.

**Noted:**

[REDACTED]

- c) Noted that the executive expected that the final underlying contribution could well be higher than the May 2021 forecast [REDACTED].
- d) Members noted again the need for more realistic forecasting going forward.
- e) Discussion of key factors influencing the University's forecasted surplus.
- f) There is a much stronger cash position than previously reported.
- g) Committee members discussed the external perception of the surplus and that there is a need to ensure there is a clear and correct message to explain the surplus. Committee members were informed that the budget and variance would not be published.

**9 Budget 2021-22**

**Received:** The 2021-22 budget proposal.

**Noted:**

- a) The paper presented the 21/22 University financial budget for approval by the Board of Governors. The paper has been via FCPSC and is now being submitted to the Finance Committee to recommend to the Board for approval.
- b) The budget setting for 21/22 has taken a 'tactical approach' so only one year is being presented within this paper. More in-depth strategic planning discussions have been ongoing for some months and will continue over the coming months and the financial 3-5 year outlook will be presented to the Committee in the Autumn as a result of the decisions made in the longer term strategic discussions.

[REDACTED]

- e) The most significant movements compared with the 20/21 outturn relate to the latest estimate of tuition fees income, staff costs and other operating expenses.

[REDACTED]

- g) The executive team confirmed that they were comfortable with the latest iteration of the budget and stated that the faculties were naturally very prudent with their figures so they had had challenging debate and discussions with each faculty to set budgets

as both challenging but achievable as possible. There are recognised upsides and downsides to the budget.

- h) There will be additional costs not budgeted for, for example the university has decided to pay for the quarantine costs for students coming from red listed countries as this will gain more in income than it will cost.
- i) Tuition Fee income has been budgeted at [REDACTED]. A consistent attrition rate of 1% has been used across all Faculties. The overall number of students is expected to remain relatively unchanged, with the majority of the increase in income being driven by an increase in the average fee for overseas students.
- j) There was a significant increase in student numbers which has required additional staff and there was also provision for staff to enable catch-up for students. There is still a risk of over recruitment this year due to teacher assessed grades.
- k) The report detailed the headline cash position, and noted that cash generation has been well above original budget and forecast in the current year.
- l) Committee members highlighted that the underlying surplus in the current year could be much higher given the earlier discussion of management accounts. The committee discussed timings in preparing the budgets and whether the budget would be revisited once the end of year is complete. It was reported that it would be difficult to relate the budget to the outcome of this year due to the exceptional circumstances.
- m) Committee members also highlighted that due to how it was presented the proposal did not appear to be a challenging budget, and that the Finance Directorate might want to consider how this is presented to the Board of Governors.
- n) Finance Directorate to consider if the sensitivity scenarios were sufficient or could be more stretching, both in terms of upside and downside.

**Agreed:**

- a) A summary of the various strategic investments i.e. SEP, Finance system, Research Life Cycle Programme are to be included in the budget paper as well as additional narrative around the variances.
- b) Approved for recommendation to the Board (subject to further development of paper for Board).

**10 Five Year Plan – targets and operating cash surplus measure**

**Received:** A paper outlining the proposed financial operating targets.

**Noted:**

- a) The paper proposed that the University Financial Target for its five year plan should be Operating Cash Generated of 10% of revenue where cash generated is BEFORE any investment in strategic projects that have been written off in the I&E. [REDACTED]
- b) In recent planning discussions, it has become clear that there is a need for a better definition of the University's financial target. Historically this has been set as operating surplus as a percentage of revenue, however since the implementation of FRS102 this has become very volatile and less useful as a measure of operating outcomes.

- c) The University needs to generate sufficient free cash from its operating activities to allow investment in replacing and maintaining the campus infrastructure, be that buildings, systems or teaching and research facilities.
- d) The Chair noted that the University also needs to consider debt repayment

**Agreed:** The Finance Committee approved the approach to setting the financial target, in principle, subject to seeing the five year plan. Finance Committee will continue to review the appropriate target level.

## **11 University Benchmarking**

**Received:** A report providing competitor benchmarking analysis.

**Noted:**

- a) Benchmarking analysis is based on results to 31 July 2020, as derived from competitor financial statement, and also sets out the preferred headline metric and other metrics for this benchmarking.
- b) The Committee was advised that the benchmarking exercise can be quite misleading due to how universities are reporting their figures and also depending on faculty sizes and research funding.
- c) Although the comparison is not always helpful there has been some valuable learning from the exercise (e.g. analysis of the pricing model used by Imperial).
- d) Following a query from one of the committee members it was reported that data will be available at the Strategy Board and Board of Governors that details the percentage of overseas students/ income and the extent of the University's reliance on the Chinese market.
- e) It was highlighted that Manchester has relatively high depreciation compared to its peer group. It was also agreed to show the results after depreciation and circulate this update to the Committee.

**Action:** To circulate the benchmarking results after depreciation (Chief Financial Officer and Senior Governance Manager)

## **12 Finance Systems Upgrade**

**Received:** a paper detailing progress to date on the Oracle Transformation Project.

**Noted:**

- a) The Chair reported that the paper would not be discussed at this Committee meeting as it was scheduled for the additional July Finance Committee.



## **13 Student Experience Programme**

**Received:** A paper outlining the status of the Student Experience Programme.

**Noted:**

- a) The Chair reported that the paper would not be discussed at this Committee meeting as it was scheduled for the additional July Finance Committee where the Committee will receive the Student Experience Programme business case.

#### **14 Sale of shares in AIM listed spinout and spinout overview**

**Received:** a summary of the University spin outs and a proposal for the sale of shares.

**Noted:**

- a) The Committee welcomed the update on all spinouts, which lay members found helpful in terms of providing assurances regarding the appropriate oversight of University spinouts.

- [REDACTED]
- c) It was noted that it was not usually policy to hold long term shares in spin-outs and to sell now would be of great benefit to the university and would mean that the innovation activities are on a sustainable basis.
  - d) Members could see the logic of disposal but also felt there was limited information for members to make an informed decision on whether this was indeed the best moment to exit.
  - e) There is an informal trigger on when to sell shares - however, and noting lay members' comments re: clarifying the governance of such matters, there is a need to look at a more formal policy for sales of shares and a clear basis for approval that needs to be timely given the pace at which the market can change. The Committee also discussed the potential of having a broker.

**Agreed:** [REDACTED]

**Action:** Sales of shares policy regarding approval to be agreed. (Deputy President and Deputy Vice-Chancellor and Deputy Director of Finance)

#### **15 Policy Update**

**Received:** A summary of key financial policies which are owned by the Finance Directorate, when last reviewed and their current status.

**Received:** Treasury Management Policy for approval.

**Noted:**

- a) Committee members noted the policy update.
- b) The Treasury Management policy is based on a CIPFA template and it has been simplified to ensure clarity and alignment with the process for updating the financial regulations as well as the Socially Responsible Investment policy.
- c) Committee members advised that further work is required on the Treasury Policy and that it would be good to benchmark against other policies and best practice, particularly from the corporate sector.



**Agreed:** It was agreed that the Treasury Policy would be reviewed on an annual basis by the Finance Committee. (Deputy Director of Finance)

**Action:**

- a) Progress on the Treasury Management Policy would be reported in Autumn 2021. (Deputy Director of Finance)
- b) The Chair asked for dates by which all policies which had not been reviewed would be updated. (Deputy Director of Finance)

**16 Insurance Update**

**Received:** An update regarding insurance renewals and the insurance programme tender.

**Noted:** Committee members discussed whether cyber is covered, it was noted that work is taking place with insurance brokers regarding cyber cover but is currently under review – costs are very high and difficult to get pay-outs and it could be more practical to spend the money on improving defence and protection.

**Action:** A further update would be provided to the Committee regarding this. (Registrar, Secretary and Chief Operating Officer)

**17 Subsidiaries and Satellites (Manchester Science Partnerships Update)**

**Received:** A paper providing the annual update on the financial performance of Manchester Science Partnerships and key shareholder decisions over the past year.

**Action:** Key share holder decisions and governance process needs further clarity and is something that the Finance Committee needs to look at in relation to satellites. (Deputy President and Deputy Vice-Chancellor and Deputy Director of Finance)

**18 North West E Health (NWEH)**

**Received:** An update on the proposed investment into NWEH [REDACTED].

**Noted:**

- a) The Chair thanked the Deputy Director of Finance and the Director of Legal Affairs and Board Secretariat for their work with this investment.
- b) Following completion, discussions are taking place around the founder Shareholder Director Representative. It was hoped that a shortlist of individuals would be received from NWEH but only one individual had been proposed by NWEH. Committee members were informed that a short paper will be produced on the individual, their background and relevance to the role along with a recommendation for appointment to the Chair.

**Agreed:**

- a) The Committee agreed Chair's action outside of the meeting for the approval of the Shareholder Director Representative.

**Action:** a paper to be circulated to the Chair for the appointment of the Shareholder Director Representative. (Deputy Director of Finance).

## **19 Power of Attorney Update**

**Received:** details of recent requests for the University to give a Power of Attorney to a third party.

**Noted:**

- a) The granting of the Power of Attorney to the Seoul Branch of the Hong Kong and Shanghai Banking Corporation Limited which was taking over as the new sub-custodian of State Street. This was approved by Chair's Action by the Chairs of Finance Committee and the Board of Governors.
- b) The inclusion of a Power of Attorney in the legal documentation for NWEH which was resolved by a side letter.

## **20 Additional Business Raised in the Meeting**

**Noted:**

- a) Committee members were reminded that there was an additional Finance Committee taking place on 15 July to discuss the Finance Systems Upgrade and Student Experience Programme.