



FINANCE COMMITTEE

23 April 2024

Present: Ms Caroline Johnstone (Chair), Mr David Buckley, Mr Guy Grainger, Ms Philippa Hird, Dr Reinmar Hager and Professor Dame Nancy Rothwell.

Present to Item 6: Ms Hannah Mortimer

In attendance for all items: Matt Atkin (Director of Planning), Patrick Hackett (Registrar, Secretary and Chief Operating Officer), Diana Hampson (Director of Estates and Facilities), Carol Prokopyszyn (Chief Financial Officer), George Whalley (Deputy CFO) and Kate Brown (Governance Manager) (minutes).

In attendance for item 3.1: PJ Hemmaway, Chief Information Officer

Apologies: Professor Luke Georghiou (Deputy President and Deputy Vice-Chancellor)

1 Welcome and Declarations of Interest

Noted:

- George Whalley, the new Deputy CFO, was welcomed to the Committee.
- No interests were declared in relation to the agenda.

2 Committee Business:

2.1 Minutes of the previous meeting: 5 February 2024

Received and Noted: the minutes of the 5 February 2024 meeting.

Approved: the minutes of the 5 February 2024 meeting.

2.2 Matters Arising

Received: the Matters Arising/Action Log.

Noted:

- a) Actions 2 and 5: Strategic Change Projects – these actions would be reviewed and combined into one action as appropriate.
- b) Action 1: UK Biobank – there would be an update provided in the autumn.
- c) Action 15: Estates Strategy – a pilot utilisation survey was being conducted and then would be rolled out across the campus. The data would then be used to inform the Estates and IT Infrastructure Strategy. Committee members encouraged acceleration of this exercise as a key prerequisite to any estate strategy.
- d) It was queried whether the ONS review of Public Sector negotiation would be presented to Finance Committee or Audit and Risk Committee.

Action: to check whether the ONS Public Service Productivity Review (PSPR) would be presented to Finance Committee or Audit and Risk Committee.
Governance Office.

3 Portfolio Overview

Received: an overview of the current status of the Strategic Change portfolio.

Noted:

- a) The portfolio had been streamlined both in terms of total number of projects and the number of major projects. There are now three major projects: Student Experience Programme (SEP), Flexible Learning, and Evolve, and the number of projects had reduced by circa 10 from the previous 36.
- b) Changes in the portfolio included:
 - i) The People and OD Programme had been closed with some of the remaining scope now being delivered via continuous improvement.
 - ii) Exploration of the potential benefits of an Enterprise Resource Planning (ERP) system had commenced (combining the long term roadmap for HR and Finance systems modernisation). The scale up of a full project is subject to future decision.
 - iii) The Security Improvement programme had been repurposed as an operational improvement function rather than a project.
- c) The new financial benefits emerging from the portfolio as part of the V2 budget process were marginal although some areas of further financial and non-financial benefit potential had been identified during budgeting (for example research recovery). Realising more significant financial benefits via projects continues to be dependent on strategic decisions that do not currently underpin the 5 year plan (for example in relation to the scaling up of digital learning, or rethinking the University's operating model)
- d) A paper to the Board meeting in May would outline more specifically the remaining projects for 2024/25, the allocated and unallocated spend in the 5YP, the overall context of these investments within the overall investment headroom in the plan, and the initial indications for future demand that could (subject to prioritisation) be a future draw on the unallocated funds. This latter section will be an initial view as a portfolio review will continue into the summer, in preparation for a broader review of university strategy next year. The goal is to have a very clearly financially defined and simplified portfolio in preparation for next year.
- e) Members comments included:
 - i) The simplification of the portfolio was welcomed.
 - ii) That investment decisions need to be balanced against priorities and there is an opportunity to potentially think more radically.
 - iii) That there should be consideration about the level of 'no regret' spending in current forecasts, given potential for different strategic decisions and priorities in the future. It was confirmed that the bulk of the 2023/24 spend was on the three major projects and associated "catch up" technology investments which were needed to underpin a wide range of future scenarios.
 - iv) A request to explain the SEP move from large programme into individual projects. It was reported that, with the major people change projects now completed, the outstanding projects including IT and process changes will be smaller scale projects.

3.1 Evolve Programme Business Case

Received: the Evolve Business Case requesting further drawdown.

Noted:

- a) Since approval of the Business Case, IT had moved quickly with successful projects such as IT clusters and the IT Operations Centre. Improvements have ended daily outages, and the foundation was now in place for the implementation of new technology.
- b) The SU Union Affairs Officer confirmed that there were reduced complaints from students on IT issues.
- c) The priority for the next year would be on identity and access management. There were 2k applications across the estate and a lot of interrelating parts.
- d) This request was not an additional funding request, it was for a drawdown of the remaining [REDACTED] roadmap allocation which is within the 5 year financial plan [REDACTED]. The agreement of funding "up front" in this way to an approved business case is one of the recommendations of the 5 point plan previously discussed at Finance Committee.
- e) It also requested delegation of further spend approvals (i.e. the staged approvals [REDACTED] to the Evolve Programme Board as endorsed by the Programme Board, PS Portfolio Sub-Group and Strategic Change Sub-Committee. It was confirmed that there are controls in place to ensure that the Programme would be escalated back to SCSC and Finance Committee under specific circumstances, particularly those likely to have a negative impact on the agreed benefits.
- f) At its meeting on 16 April 2024, Planning & Resources Committee had approved the interim drawdown [REDACTED] to cover programme activities until July 2024 until the full amount has been approved by the Board of Governors.
- g) Members asked about the ability to spend the drawdown. It was noted that the current focus was on identity and access management, on upskilling the current staff and reducing the reliance on contractors.

Agreed: to recommend to the Board of Governors:

- i) approval of the drawdown of the remaining [REDACTED] roadmap allocation which is within the 5 year financial plan; and
- ii) approval of the delegation of further spend approvals to the Evolve Programme Board.

Action: In future papers, to include a summary of the spend of the funding.
Chief Information Officer/ Strategic Change Office.

4 University Benchmarking Analysis

Received: an overview of the University's financial performance against Russell Group peers.

Noted:

- a) The University was very similar to its peer group with no wide differences.
- b) Whilst the review of financial statements showed a reasonable performance, discussion with peers was showing a more pessimistic outlook for the sector.

The Teachers Pension Scheme in particular was a matter of concern for the non-Russell Group institutions.

- c) Whilst applications from international students appeared to be satisfactory currently, there was an increasing pattern of non-arrivals across the sector, therefore these numbers could not be relied on until students arrived on campus. The Government's decision on the future of the Graduate Route would be crucial for the sector.
- d) The five year plan will include scenario modelling.
- e) Members comments included:
 - i. The net debt against total income being an outlier for the University. It was questioned if the difference lay in the University's operating model. It was noted that when the University's bond was put in place for MECD funding, it had been a strategic decision for the University due to the financial position at that time.
 - ii. That it would be interesting to review the IT spend as a proportion of budget against the peer group to ascertain if the University's current level of spending was appropriate.
 - iii. The benefits of philanthropic giving was also an area of interest. The University was currently 5th in this area. However, whilst there was data available, it was difficult to know whether the definition of 'philanthropic giving' was common across the sector.
 - iv. There was to be a deep dive on student experience at the Board meeting and it was suggested that it would be helpful to have information on overseas income for that discussion.
 - v. It would also be helpful to look at comparative data against universities that are leaders in specific areas e.g. NSS scores or staff budget.

Action: to consider contingency and scenario planning as part of the Budget and Plan process and present to the next FC meeting. **CFO/Deputy CFO**

5 Funding Options for Zero Carbon Plan

Received: an overview of the options for funding the Zero Carbon (ZC) Plan, report provided by external consultants.

Noted:

- a) The report showed that there was not a specific source for funding in this area that the University was currently missing, there are varying different methods depending on the type and scale of projects. There were specific opportunities for large scale works, e.g. the heat network.
- b) The pace of change in technology in this area was acknowledged, which made it difficult to assess the benefits quickly.
- c) It was expected that the University would exceed its carbon budget this year. It was noted that a number of universities were resetting their ZC targets due to difficulties in meeting them.
- d) Key achievements in ZC for the University included:
 - i. The University's first ZC building had been completed recently with another two on the way.
 - ii. The Residences Programme would be ZC in operation.
 - iii. The cPPA was a great stride forward for the University.
- e) Members queried the use of off-balance sheet items and considered whether this was acceptable. It was suggested that there should be principles on the approach to funding.
- f) Members commented on the ability of ZC work to lead to reduced future operating costs. The data on savings needed to be collated to provide a stronger case on return on investments.

6 CFO Report

Received: a report from the CFO including the draft University response to the USS investment consultation.

Noted:

Revolving Credit Facility (RCF)

[REDACTED]

- b) The current RCF was in place to March 2026, generally auditors preferred that there was at least 18 months available on an RCF. This was being discussed with the external auditors. We would go to market for the RCF in July with the potential to have a new RCF in place for November.
- c) Whilst the RCF had never been utilised it provided important headroom for the University.

Budget 2024/25 and Five Year Plan

- d) The budget for 2024/25 was in development, discussions with faculties showed caution in their submissions so far and they would be pushed to take more risk as appropriate.
- e) The current draft of the Five Year Plan raises some concern for the outer years with increased pay costs and UG Home fees remaining flat. International student fees will be crucial in supporting the plan.
- f) Members comments focused on the importance of the International student intake. It was important to have capacity for growth in in-demand areas, new markets, e.g. in global health programmes, should be investigated.

Pension Consultation

- g) The proposals were generally non-controversial and did not affect benefits as they focused more on the investment principles.
- h) Members suggested that the response be amended to remove 'successful' from the first line and to include a stronger statement on derisk. Clarification had been asked about 'universal owner' and it was suggested that the response be stronger on that also.
- i) The financial position of many universities may adversely impact the USS covenant and therefore the scheme more expensive. It may also affect the view taken by Moody's.

Agreed: to approve the response to the USS investment consultation, subject to the removal of 'successful' from the first line, and stronger statements on derisk and universal owner. **CFO**

7 February 2024 Management Accounts and Q2 Forecast

Received: reports on:

1. February Management Accounts
2. Q2 Forecast

Noted:

[REDACTED]

- [REDACTED]
- d) Members asked whether any further cost of living or other payments were being considered. It was considered unlikely but other areas of remuneration were being considered.

8 Update on the Adoption of Total Return for Endowments

Received: the update on the current move towards the adoption of Total Return, including an advice note from Eversheds, our legal advisors on this matter and the draft form of the Resolution to adopt total return.

Noted:

- a) The huge amount of diligence work in this area was acknowledged.
- b) The legal advice suggested that the Board needed to be consulted more directly in the decisions than had previously been considered. A clear note to the Board would need to be prepared to ensure clarity on their responsibility as trustees.

9 Northern Gritstone Annual Update

Received: the annual report on Northern Gritstone.

Noted:

- a) The company was still at an early stage and therefore felt the need to show return to the investors. It would be pushed further on developing an early seed investment fund in the coming year.
- b) Members asked for clarification on the IP commercialisation as a significant income stream comment in the risk assessment section. It was clarified that this relates to IP commercialisation generally from the investments not NG itself. The significant income stream may include royalties or profits from the sale of a company.

10 Residences Redevelopment Programme: Project Update

Received: an update on the latest developments of the Residences Redevelopment Programme.

Noted:

- a) The procurement process had progressed with the competitive dialogue phase closed on 22 April 2024. There had been positive interactions with the three bidders.
- b) Some value engineering had been completed on the design with some small changes made to make a more positive impact. The services divided between the University and the partner had been confirmed.
- c) The number of beds currently proposed for the first phase was prudent following some concern about the impact of the new Building Safety Act which required HSE review for projects.
- d) An issue on the restricted covenant with one bidder had been resolved and they had dropped this requirement.
- e) There had been discussion about the risk sharing mechanism between the bidder and the University. This means that outer year's costs could not be completely fixed at this time.

- f) As part of the income strip fund, the University needed to make provision for developer contingency. This would then be returned to the University at practical completion but was a risk in the case of contractor default during construction. Members commented on the need to be clear about the plan in this case and to ensure that there was careful due diligence on partners.
- g) Members commented on the increase in the rent proposal of £5 a week and the extended tenancies to 43 weeks. The potential impact on the student perception was questioned and it was noted that the SU Union Affairs Officer was on the project board and the SU had been positive about the developments. The commitment was to keep rent below market levels and this was still within that commitment.
- h) The time required for thorough evaluation of the tenders may require additional Finance Committee and Board meetings to approve the preferred bidder in the Summer period. Leaving this approval to the usual autumn cycle of meetings may lead to an academic year's delay in use of the new residences.
- i) Members agreed that it was important to ensure that appropriate evaluation was made of the tenders including comparisons, details of previous projects and detail on the individual proposals. It was important to ensure the right decision was made even if this took longer than currently expected.

Action: to hold a briefing session for Finance Committee members before the next meeting. including a decision tree. **Director of Estates and Facilities**

11 Capital Programme Report

Received: the update on the Capital Programme Report from the Estates Team.

Noted:

- a) Booth Street East is the University's first zero carbon building.
- b) George Kenyon Hall work was progressing but requirements in the new Building Safety Act were a concern for further progress.
- c) Planning issues for the Humanities Size and Shape project in the Rutherford Building were being resolved.
- d) The demolition of Owens Park had begun in earnest.

12 Chemistry LTM Phase 4&5 Business Case

Received: the Business Case for the LTM work on the remaining Chemistry floors (phases 4 & 5).

Noted:

- a) Henry Brothers have been the contractors throughout the project and procurement were happy for them to be awarded the contract for phases 4 & 5.
- b) The additional budget requested for this phase [REDACTED] to accommodate additional fume cupboards and for the final phase if works in the Dover Street wing.
- c) The improvements to fume cupboards were needed for research and it was noted that funders for research would not fund infrastructure.
- d) Members commented on the number of buildings on campus and whether disposal of buildings may become a discussion in the future. It was noted that the utilisation study would provide data to support the review of the estate but that there would be costs to shrinking the estate. This would need to be considered carefully.
- e) There was a strong suggestion that the University need to consider proposals in the round and prioritise as appropriate.

- f) There was discussion about the prioritisation of business cases/amendments to business cases against other competing University priorities (of which there are many currently without funding), particularly in the case of cost escalation – it should not be taken for granted that project cost escalations would get approved/priority.

Agreed: to recommend to the Board the Business Case for the LTM work on the remaining Chemistry floors (previous phases already approved).

13 Investment Sub-Committee: Report on 4 December 2023 meeting

Received and Noted: a report on the Investment Sub-Committee meeting on 5 February 2024. Having previously focused more of the performance of the portfolio as a whole, the Sub-Committee would be reviewing the performance of individual investment managers more closely.

14 Finance Committee Forward Agenda

Received and Noted: The updated Forward Agenda for 2023/24.

Action: To note on the Forward Agenda that briefing on procurement would be added to the schedule for 2024/25. **Governance Office.**

15 Any Other Business: Treasury Management Policy

Received: a request for an exemption to the Treasury Management Policy to allow the University to take advantage of an opportunity for investment in a sustainability deposit.

Noted:

- a) The current policy allows sustainability linked cash deposits to the maximum of £60m total with £10m split by counter party.
- b) There was an opportunity with Lloyds for a sustainability deposit which claims to offer same returns as a standard account. Lloyds was the only bank offering this type of account.

Agreed: to approve the exemption to the Treasury Management Policy for this investment opportunity, pending the policy review in the autumn.

16 Dates of Meetings in 2023/24

Noted:

- The next meeting was scheduled to be held on Wednesday 3 July 2024, 10.30am.
- Members were alerted to potential additional meetings in August (approximate dates were noted in the Residences Redevelopment Programme paper) to consider the preferred bidder. The Governance Office would be in contact shortly to confirm availability.