

APPROVED Minutes



FINANCE COMMITTEE

3 July 2024

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

In attendance for all items: Matt Atkin (Director of Planning), Lexi Baynes (incoming SU Union Affairs Officer for 2024/25), Professor Luke Georghiou (Deputy President and Deputy Vice-Chancellor), Patrick Hackett (Registrar, Secretary and Chief Operating Officer), Professor Duncan Ivison (incoming President and Vice-Chancellor), Steve Jordan (Deputy Director of Estates and Facilities), Carol Prokopszyn (Chief Financial Officer), George Whalley (Deputy CFO) and Kate Brown (Governance Manager) (minutes).

In attendance for item 10: Diana Hampson (Director of Estates and Facilities)

In attendance for item 12: Professor Martin Schroder (Vice-President and Dean (Science and Engineering))

1 Welcome and Declarations of Interest

Noted:

- The incoming President and Vice-Chancellor, Professor Duncan Ivison, and the incoming SU Union Affairs Officer for 2024/25, Lexie Baynes, were welcomed as observers to the meeting.
- No interests were declared in relation to the agenda.

2 Committee Business:

2.1 Minutes of the previous meeting: 23 April 2024

Received: the minutes of the 23 April 2024 meeting.

Noted: Minute 12 Chemistry Business Case – It was suggested that additional wording be included to reflect the emphasis in the discussion on justifying the priority 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.

Action: to add the following wording to minute 12:

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.

Executive team/Chair/Governance Office

Approved: the minutes of the 23 April 2024 meeting, subject to the added wording for Minute 12.

2.2 Matters Arising

Received and Noted: the Matters Arising/Action Log.

2.3 Chair's Action:

Received and Noted: the Chair's approval of the revised Ordinance IX Subsidiary and Other Related Undertakings.

Agreed: to endorse the Chair's approval of the revised Ordinance IX Subsidiary and Other Related Undertakings.

3 Annual Budget and 5 Year Plan

Received: an overview of:

- 1) The proposed Revenue and Capital Budget for 2024/25 and the 5-Year Plan
- 2) Financial Risks and Scenario Planning in the Budget and 5-Year Plan

Noted:

- a) The proposed 5 Year Plan will be reviewed as part of the overall strategic review in the coming year.

[REDACTED]

- c) Financial contingency for the risk has not been built into the plan, therefore the plan assumes that all things being equal the plan will be achieved. Growth has been built into the plan in areas such as research income. However, this is, as ever, not enough to cover all wanted investments.
- d) The plan did not include fundraising, commercial or innovation income or any major cost saving targets.
- e) There were press reports of financial difficulties across the sector with a number of universities looking to make savings through restructures and redundancies. Whilst the University's current healthy financial position meant that there was less concern, the risk factors of the static level of home undergraduate fees, research income and a drop in international recruitment still needed to be carefully considered to ensure the University remained in a good position.
- f) Whilst the University was likely able to weather any downturn in international students in the short term, the plan did include an overall increase in income from international students [REDACTED] by the end of the plan.
- g) Increase of Long Term Maintenance spend (LTM) is included, split between capital and revenue, [REDACTED]. This will not cover the whole backlog but will help to address it. The revenue budget now back to above that during the pandemic.
- h) Sensitivity analyses and scenario planning was presented, which indicates that the University should be able to cope with some potential and combined downside scenarios, with a series of tactical measures, within the University control and implemented in the past. However, a "shock" scenario will be developed over the Summer months, to ensure good plans are in place for more severe, if currently not likely, scenarios occur.
- i) Members comments included:
 - i. The process and plan was both detailed and thoughtful and the Committee appreciated the papers produced.

- ii. The plan showed that, whilst the University would be able to manage within the current financial envelope, it was becoming more difficult. There needs to be both a strategic overview and a set of tactical actions to use as needed. There was the opportunity to do things differently and ensure consistency and simplify processes.
- iii. That the Plan relies on an increase in tuition fees and whether the University was sure of the assumption of price increases. It was noted that the rise in tuition fees is an overall sector assumption, and that the University was not currently in the top quartile on price allowing for some movement in that area.
- iv. Whether any increase in fees for international students might impact on recruitment. Whilst there was some concern, there was little evidence that an increase in fees impacted recruitment, particularly where discounts and scholarships were strategically applied. However, government action on Visa regulations and related costs appeared to have more of an impact.

[REDACTED]

- vii. The importance of increasing research income in driving outputs, rankings and raising the appeal of the University to international students. There was evidence to suggest that ranking can have a large impact on international recruitment with institutions who had dropped from the Top 100 seeing significant decreases in their recruitment. This would be a focus of work for the Planning team. There needed to be a review of PGT activity to maximise opportunities for new programmes, flexible learning etc. It was noted that this was an area for focus across the faculties and the rise in numbers in the plan was predicated on interventions rather than market recovery.
- viii. The current international student bursary was scheduled to end in three years. This was currently focused on the diversification target and would be reviewed at the end of the period.

[REDACTED]

Agreed: to recommend approval by the Board of the proposed annual operating budget for 2024-25 and the 5 year plan, and recommend the Board consider the associated risks and scenario planning.

Action: to request the Board consider amending the current target for international student recruitment from China [REDACTED] reflecting the shifting global market landscape. This again will be reviewed in the coming year as part of the strategic review. **Executive team/Chair**

4 Management Accounts and Latest Forecast Position

Received and Noted: reports on:

- 1) April 2024 Management Accounts
- 2) Latest Forecast Position

5 Update on the Adoption of Total Return for Endowments

Received: an update on the adoption of total return and recommendations for the methodology for releasing funds.

Noted:

- a) The University should make best use of its endowment funds and total return would provide that opportunity.
- b) The proposed methodology to unlock the capital would provide a reasonable and consistent process.
- c) The proposed methodology would use the principle of applying inflation from receipt of the donation but use the Bank of England general inflation calculator which automatically applies RPI to 1988 and then CPI thereafter.
- d) Legal advice stated that Board approval was required for the adoption of total return. Finance Committee would approve the draft wording of the resolution to be applied by the Board.

Agreed: to recommend approval by the Board of the proposed methodology for releasing funds.

Action: to include a brief overview in each paper to provide a reminder for the Board on the context. **Director of Financial Services**

6 Manchester China Institute Request for Funds from Merged Endowment

Received: a request from the Manchester China Institute for release of £0.4m funds from the merged endowment.

Noted:

- a) The original endowment was a welcome gift, however it has been insufficient to provide the level of annual financial support for the MCI to continue in its current form.
- b) The request was therefore for additional funds from the merged endowment to support the running costs of the MCI and its ongoing strategic importance to the University of Manchester.
- c) The CFO confirmed that this was an allowed and appropriate use of the merged endowment funds.

Agreed: to approve the request for funds from the merged endowment to support the work of the MCI.

Action: to provide an update as 'matters arising' to explain why the original endowment was not sufficient and any lessons learned. **Vice-President and Dean, Faculty of Humanities**

7 CFO Update Report

Received and Noted: an update from the CFO providing an overview of the Moody's Credit Rating.

8 Proposed Private Placement Financial Covenant Amendments and Replacement Revolving Credit Facility

Received: an overview of the potential replacement for the RCF and proposed covenant amendments.

Noted:

- a) The proposals were intended to modernise the covenants and to also provide an exclusion for the residences project.
- b) It was planned to go out to market for an RCF replacement in September. It was hoped to conclude the search by the time the Financial Statements were submitted for approval.
- c) Members requested clarity on how changing the covenants would help the University and it was clarified that it would provide additional financial headroom for the University.
- d) There was also some concern that going to market in September would place the University's search alongside those of institutions currently with financial issues. However, the University's good position should alleviate this. The team were well progressed with information for the various institutions.

Agreed: to recommend approval to the Board of Governors of the proposed covenant amendments which will need to be negotiated with the Private Placement note holders.

9 Strategic Change Portfolio Overview

Received: an update on the Strategic Change portfolio.

Noted:

- a) The paper provided some information on the [REDACTED] strategic projects portfolio in the five-year plan paper. There is significant pipeline demand for the £65m unallocated element.
- b) It was clarified that remaining SEP projects had either been moved to the Teaching & Learning portfolio or were expected to close in the next 6-12 months.

Agreed: The Committee are keen to see an update on benefits and tracking for individual projects.

10 Residences Redevelopment Programme Briefing

Received: a briefing on the Residences Redevelopment Programme and an update on developments.

Noted:

- a) The procurement process was continuing to progress well with three strong bids received. It was hoped that the approval of the Preferred Bidder could be progressed to the Board in July as planned.
- b) Key risks included:
 - i) Project Feasibility – the potential unaffordability of the required capital contribution.
 - ii) Construction Inflation – [REDACTED]
 - iii) Funding Availability and Terms – all bidders were optimistic on funding.
 - iv) Developer Contingency – [REDACTED]

- v) Impact on borrowing – the Finance team had reviewed and were content with this risk.
 - vi) Building Contingency Security Package – there was less concern on this currently.
 - vii) Building Safety Act – this was new legislation and, as it was currently unknown how it will work and the likely timescales for each stage, it remained a risk.
- c) The next stage of the process is selecting the preferred bidder. There will then be a year of further work up to financial close.
 - d) Future development sites had been identified and discussions were being held with the city council and Manchester Metropolitan University on consideration of student accommodation provision across the city.
 - e) All bids were considered deliverable with some variation on phasing of the project. There had been a positive approach to sustainability from all bidders and the targets for biodiversity been reached. They had also exceeded the expectations on social value.
 - f) Members comments included:
 - [REDACTED]
 - ii) This will be a 50 year relationship with the preferred bidder – therefore, it was essential that appropriate diligence was taken on the proposed partner including governance structure, financing, and references from their other university partners. The first five years of the partnership will be most important and therefore need confidence in the execution capability and governance of the bidders.
 - iii) The decision on the equity stake will be taken later in 2024 and will not impact on the bids. Members had differing views on whether the University should put in an equity stake or whether further careful consideration was needed before taking this decision. It should not be taken as read at this time.
 - [REDACTED]
 - v) The focus on the city level of student accommodation was seen as a positive step and similar to the approach taken in London. However, there was some concern that students had previously expressed a negative of view to such an approach preferring an institution level approach. It was considered that there has been a change in this view, particularly with the price rises driven by private providers and a focus more on student wellbeing provision.
 - vi) The Board briefing needed to provide an overview of the background, focus on the key decisions and summarise the work done to this point. It should also clarify the key decision for July 2024 – that of the preferred bidder and diligence undertaken.

Action: to consider the appropriate format of presenting the preferred bidder to the Board and ensuring the Board has clarity on the evaluation process. **Director of Estates and Facilities**

11 Capital Programme Report

Received and Noted: the June 2024 Capital Programme Update.

12 Computer Science Expansion Business Case

Received: a business case for the Computer Science Expansion programme.

Noted:

- a) Project will provide refurbishment to Kilburn Building to benefit both the Computer Science department and IT Services. It will also provide improvements in the face to face service for students.
- b) It provides additional staff to support 306 additional home and international undergraduate students. Additional staff included 15 lecturers and six professional services staff. Increases in PGT numbers would form part of separate project on online programmes.
- c) Members asked about the risk in not achieving this growth. Whilst it was always a risk, the demand for Computer Science was currently high and the department was exploring income generation through research in AI, digital and cyber security. Staff would not likely start at the same time and therefore posts could be held if needed.
- d) This was included in the five year plan. Refurbishment for IT Services was already needed and LTM work would be included in the works.

Agreed: to approve the draw down funds for the strategic investment of £10m over 3 years for this Computer Science and IT Services project.

13 Satellite Entities Annual Review – Manchester Science Partnerships

Received: the annual update on Manchester Science Partnerships.

Noted:

- a) The complicated process for this type of engagement with the community was noted and it was suggested that a deep dive be provided for the Board around the thinking about these arrangements and the financing of them.
- b) There needed to be consideration of the University's overall involvement with partners such as Bruntwood to understand the overall picture and ensure ongoing diligence.

Action:

- i) To consider a deep dive for the Board on Manchester Science Partnerships.
Executive Team/Governance Office
- ii) To consider a future topic for Finance Committee/ the Board on the overall relationship with Bruntwood. **Executive Team/Governance Office**

14 Update on Procurement outside the Public Procurement Regime

Received and Noted: an update on the operation outside of the public procurement regime and a recommendation that the University continue to do so for a further year.

Agreed: to recommend to the Board that the University continues to operate outside of the public procurement regime for a further year.

15 Any other Business: Thanks to outgoing members.

Noted:

- a) It was the last meeting for the current SU Union Affairs Officer, Hannah Mortimer. She was thanked for her work in bringing the student perspective to the work of the Committee.

- b) Whilst they would be in attendance for the additional meeting on 19 July, this was the last scheduled meeting for Nancy Rothwell and the Chair, Caroline Johnstone. Thanks were expressed to both for their work on the committee and to the Chair for their support for the Finance and Estates teams over their tenure.

16 Dates of Next Meetings

Provisional additional meeting dates to be held until specific date confirmed:

- Friday 19 July 2024, 8am (online)
- Wednesday 14 August 2024, 2pm (online)

2024/25 meeting dates

- Wednesday 25 September 2024
- Wednesday 6 November 2024 (followed by joint meeting with Audit & Risk Committee)
- Wednesday 5 February 2025
- Wednesday 30 April 2025
- Wednesday 2 July 2025