

FINANCE COMMITTEE

11TH OCTOBER 2019

REDACTED MINUTES FOR PUBLICATION

A meeting of the Finance Committee was held at Horizons, 60 Queen's Road, Reading, and remotely, and remotely via Zoom videoconferencing on Friday 11th October 2019 from 10.30-13.00pm.

Present: Jat Brainch [JB] Honorary Treasurer and Chair
Amanda Clack [AC]
John Gellatly [JG]
Andrew Hynard [AH]
Alastair Martin [AM]
Ashley Wheaton [AW]

Apologies:

In Attendance: Jane Fawkes (University College Secretary) [JEF]
Lyndsay Hughes (note taker) [LH]
Tim Mills (Director of Finance) [TM]

1) GENERAL MEETING GOVERNANCE

4073 1.1/ DECLARATION OF ANY CONFLICTS OF INTEREST

4074 There were no conflicts of interest declared.

4075 1.2/ TO RECEIVE APOLOGIES FOR ABSENCE

4076 There were no apologies for absence.

4077 1.3/ TO APPROVE THE MINUTES OF THE MEETINGS HELD ON 6TH JUNE 2019

4078 The minutes of the Finance Committee held 6th June 2019 (paper 1.3) were **APPROVED** as a true record.

4079 1.4/ TO APPROVE THE REDACTED MINUTES OF THE MEETING HELD 6TH JUNE 2019

4080 The redacted minutes of the Finance Committee held 6th June 2019 were agreed as a true record. They will be signed by the Honorary Treasurer at the next opportunity.

4081 1.5/ TO CONSIDER MATTERS ARISING FROM THE MINUTES NOT INCLUDED ELSEWHERE ON THE AGENDA

- 4082 An actions summary from the meeting on 6th June 2019 was circulated as paper 1.5. The Committee noted that all actions were either closed or due for discussion within the meeting agenda.

2) 2018-19 FINANCIAL YEAR

4083 **2.1/ PRELIMINARY RESULTS FOR 2018-19**

- 4084 Paper 2.1 and 2.1a summarised the preliminary year end results, pre audit. The audit team is expected to be at UCEM in the first weeks of November and there could still be some further improvement on the preliminary results reported today.

- 4085 The Committee was informed that overall income was £812K worse than predicted due to lower new student numbers, however expenses were better by £394K against revised budget. Investment income was as forecast. The preliminary statutory operating loss position is £1,530K against an expected revised budgeted loss of £1,622K, meaning the end of year performance was up by £91K. Savings have been derived largely through vacancies and technical mentoring. **REDACTED**.

- 4086 The Finance Committee **NOTED** the anticipated result pre-audit and in particular that the result is exceptional given the circumstances one year ago. The cost management to budget is to be particularly commended, especially in light of the continuing income challenges in the external market. The Committee also **NOTED** that income reforecasting is now in a regularly established rhythm. Finally, the Committee **NOTED** that the amount of deferred income on apprenticeships is a growing issue for UCEM in terms of both income recognition and cash flow and it will still be some time before UCEM can recognise the significant income this amounts to.

- 4087 The consolidated UCEM Group Balance Sheet as at 31st July 2019 was presented at paper 2.1b. The Committee **NOTED** that the total investments is reduced as £2.2M was sold during the year to fund projects. The Committee also **NOTED** that the cash position had improved due to incorporating the CSTT balance sheet and making it a full subsidiary.

4088 **2.2/ TO RECEIVE AN UPDATE ON THE RECURRENT GRANT SCHEME APPEAL PROCESS**

- 4089 The Finance Committee was reminded that UCEM is now entitled to recurrent grant funding following registration as an Approved (Fee Cap) Provider in 2018. The sum of funding awarded to UCEM had been £775K for the 2019-20 academic year. JEF had sent JB a copy of what is required to be submitted by finance on an on-going basis, JB agreed that additional resource will be need in the finance team to achieve this.

- 4090 UCEM submitted an appeal against the funding award and has learnt that this appeal has been upheld. The amount of additional funding UCEM will be granted will be disclosed by the OFS on 17th October 2019. AW will update the Committee once the sum is published.

ACTION Inform the Committee when the funding increase amount is known. [AW]

4091 The Committee was reminded that the funding comes with the expectation that UCEM maintains compliance and good governance conditions and on meeting all new conditions set by the Regulator.

3) 2019-20 FINANCIAL YEAR

4092 3.1/ TO RECEIVE THE SEPTEMBER YEAR TO DATE RESULTS AND FORECAST FOR 2019-20

4093 TM circulated Papers 3.1 and 3.1a in the meeting which summarise the September year to date management accounts. Of particular note to the Committee remains the lower than targeted new student numbers. The income re-forecasting process is now underway as the recruitment window has closed. The Committee also noted that income is up as the OfS made a payment to UCEM exceeding those anticipated by this point in the year. The cash flow forecast will need to be remodelled once this is explained and evens out over the year.

4094 The Committee **NOTED** that the staff pay expenses line is £47K overspent year-to-date but that this is driven by PILON, a settlement payment and bonus accrual, totalling £90K. Some other major costs to the business are also running better than plan at this point in time. The Committee **NOTED** that some costs will ultimately even out over the year. It is TM's intention that in budgeting for 2020-21 the peaks and troughs through the year will also be reflected in the relevant months so the monthly outturn reflects the true position better.

4095 TM also provided an overview of projects spend, where projects are largely on track or underspent to date.

4096 Overall UCEM is broadly on track to meet budget at this point in the year, even after an exceptional and one-off cost is factored in.

4097 TM informed the Committee that the Finance team is now operating in a cost management and business partnering mode. The business already anticipated an income deficit in 2019-20 and that cost savings will have to be made but this is already being well-managed. The team has put in place enhanced controls around budget changes to help manage this process through the year. In addition, the staff expenses policy is being re-drafted and will support cost control. The team is confident it can deliver a better than breakeven operational budget by year end.

4098 3.2/ TO RECEIVE THE CASH FLOW PROJECTION AND CASH CONSUMPTION MODEL

4099 The Committee was reminded that it had requested a more detailed overview of UCEM's cash flow forecast and cash consumption from reserves following significant investments into the business that were wholly cash consumptive. Paper 3.2 provides the requested overview and papers 3.2a and 3.2b provide the forecast and cash consumption history respectively.

4100 The Forecast is based on the approved budget and lower than anticipated income for the year. It indicates that the cash position will turn negative in late October 2019. This could rise to a £3.5M cash negative position by July 2020 as a worst-case scenario. Some investments will have to be sold to guarantee cash liquidity. The Committee **NOTED** that the cash is required for business investments and not to

fund business as usual operational activities. It is also required to fund the (still) increasing latent cash receipt from apprenticeships.

4101 The Committee **NOTED** the Finance team's focus on managing costs and cash. For example, the team intervened in the purchase of new laptops for technical refresh purposes (a three-yearly cash consumptive process) and approved the process on an alternative hire purchase basis to reduce the cash required in the short term. In addition, the team may have found a free alternative to an Agresso upgrade to deliver *Making Tax Digital*.

4102 The Committee requested that TM add to the cash flow forecast the operational expenditure on BAU vs the cash flow requirement to highlight the overall profitability of the underlying business clearly to the Committee. Ideally this will clearly show the point at which it starts to make margin.

ACTION **Add the operational expenditure on BAU vs the cash flow requirement to the cash flow forecast to indicate the overall profitability of the business to the Committee. [TM]**

4103 The Committee **APPROVED** the requirement to sell £1.5M of investments to fund the impending cash requirement, noting that this excludes any further investment approvals that could be made during the course of the meeting (e.g. further work at Shinfield Grange). The Committee **NOTED** the likely requirement for up to £1M further in summer 2020 and **AGREED** it would discuss this again at the February meeting before approving further drawdowns.

4104 The cash consumption model outlines UCEM use of investment cash to fund business planning investments, operational losses and the apprenticeships lag in funding (20% hold over for a Level 6 apprentice until the End Point Assessment is completed, £5400 per student, not payable until around year 6 of studies) over the last seven years. It identified a total cash spend on non-business as usual expenditure over eight years of £12M with a total investment drawdown of £9.5M. In addition, the balance sheet enhancement through the purchase of Horizons should be noted.

4105 The Committee **NOTED** the planned spend from strategic investments and the savings these will yield in the long term once projects come to fruition. It was also **NOTED** that the apprenticeship lag will peak at circa £4.3M in a few years' time and this must be funded until then. The Committee was keen to retain investment prudence, and control and agility in managing costs whilst balance this against the institutional ambition for the next five years.

4106 The Committee requested that AW/TM prepare a longer term forecast identifying the payback period for the investment spend to date on strategic projects from a cash perspective, not from an income perspective, to identify when the position will be cash neutral even if not cash positive and what will be left in UCEM reserves at that point.

ACTION **Prepare a longer-term forecast identifying the payback period for the investment spend to date on strategic projects. [TM]**

4107 The Committee **AGREED** it should look again at the investment portfolio to determine whether this is best held in cash reserves or not.

ACTION Review the UCEM investment portfolio. [TM/JB]

4108 **3.3/ TO RECEIVE AN UPDATE ON THE USS PENSION SCHEME LIABILITIES**

4109 REDACTED

4110 REDACTED

4111 REDACTED

4) REDACTED

4112 **4.1/ REDACTED**

4113 REDACTED

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4121 **4.2/ REDACTED**

4122 REDACTED

4123 REDACTED

4124 REDACTED

4125 REDACTED

4126 MG left the meeting at the close of this item.

5) FINANCIAL GOVERNANCE

4127 **5.1/ TO RECEIVE AN UPDATE ON THE PROCESS FOR THE APPOINTMENT OF NEW UCEM AUDITORS FOR 2019-20**

4128 TM updated the Finance Committee on the appointment of new auditors for UCEM. The Committee was reminded that due to increasing complexity in the higher education sector, Sayer Vincent were not considered appropriate UCEM auditors beyond 2018-19 audited accounts. TM had circulated documentation on the proposed process, criteria and timescales for appointment of new auditors at the last meeting which had been approved.

4129 The Finance Committee **NOTED** that two audit firms approached for the work had turned down the opportunity to tender. TM has since approached some other firms through new contacts. TM suspects the impact of Office for Students regulation on the Higher Education Institutions is impacting the ability to source auditors willing and interested in taking on the work.

4130 JB agreed to support TM in approaching further audit firms by suggesting contacts to him.

4130 5.2/ TO CONSIDER THE TIMESCALE AND STRATEGY FOR THE INVESTMENTS AND RESERVES REVIEW

4132 The Finance Committee noted that there had been interim staffing and changes of staffing in the Finance Team, alongside competing priorities and limited Finance Committee member time to input to a review. JB had agreed to review the paper from 2011 that triggered the issuing of invitations to tender from Investment Managers, with the aim of working with TM to run a new process as soon as capacity allows. The Committee **NOTED**, however, that these actions and the review of UCEM's Investments and Reserves had not progressed as anticipated.

4133 The Committee **AGREED** again that a beauty parade of potential investment management firms should be organised given the risk that still exists of UCEM being the biggest investor in the Barings scheme and the need to keep UCEM reserves liquid in the short term. Committee members **AGREED** to support TM with contacts who can help advise UCEM through the process. JB/TM will action the review and update at the next meeting.

ACTION Organise an investments review. [TM/JB]

4134 5.3/ TO NOTE THE PLANNED CLOSURE OF THE UCEM PUBLISHING LTD ENTITY

4135 TM provided a verbal update on UCEM's progress against the Post-Audit Report recommendation to close the UCEM Publishing Ltd entity. TM reminded the Committee that the company requires a clear three-month period with no activity and then the closure can be undertaken. UCEM had anticipated closing the company over the summer but further activity has taken place which has re-set the three-month period. The Committee **NOTED** the planned closure will take place as soon as the three-month dormancy has been completed. The Committee also **NOTED** that UCEM may need to engage legal advice to complete the closure and that this will not be undertaken until after the audit in November.

4136 5.4/ TO NOTE PROGRESS WITH THE TRANSFER OF THE DAVID ALEXANDER MEMORIAL SCHOLARSHIP FUND TO UCEM

4137 JEF informed the Committee that the transfer of the David Alexander Memorial Scholarship Fund to UCEM remains outstanding despite Finance Committee approval to proceed some months ago. JEF updated that further paperwork requires signature to conclude the process and that JB and JG would be asked to sign this today. Once signed the transfer can proceed and the project closed.

4138 5.5/ TO REVIEW AND APPROVE THE GRANT FROM UCEM TO UCEM ASIA LTD FOR 2018-19

4139 TM presented papers 5.5 and 5.5a which detail the proposed amount of grant funding UCEM should provide to UCEM Asia Ltd for the 2018-19 year. This is the third year in which UCEM has funded the Hong Kong entity in this way. The amount of grant proposed for 2018-19 is £540,000.

4140 The Committee **APPROVED** the grant of £540,000 from UCEM to UCEM Asia Ltd for the 2018-19 financial and academic year. The Chairman signed the letter authorising this sum.

4141 5.6/ TO APPROVE THE BANK AUTHORISED SIGNATORIES

4142 The list of UCEM bank authorised signatories and approval levels is now reviewed annually. Paper 5.6 and 5.6a outline the proposed updates required to the approved signatories list as at October 2019. The primary update in the last year is the addition of Tim Mills, and the removal of historic staff Linda Bale and Paul Basham for the David Alexander Memorial Trust.

4143 The Committee **APPROVED** the proposed signatories and approval levels for UCEM bank accounts as outlined in paper 5.6a.

4144 5.7/ TO NOTE THE OFS FINANCIAL MONITORING REQUIREMENTS

4145 The Finance Committee **NOTED** (as per paper 5.7) that the anticipated changes to financial monitoring as a result of UCEM registration with the Office for Students had been issued and therefore UCEM will be required to report on its audited accounts, financial forecasts and financial commentary within five months of the year-end (31st December 2019). This is some three months earlier than UCEM currently files its accounts with the Charities Commission.

4146 The Committee **NOTED** the additional workload pressures the increased reporting requirements will place on the Finance Team and the new auditors.

4147 The Committee also **NOTED** that two joint meetings of the Finance and Audit Committees had been scheduled in 2020 to accommodate this anticipated change. The February 2020 meeting will be held to review and sign off the 2018-19 financial statements (ahead of Board sign-off in March 2020) and the October 2020 meeting will be held to review and sign off the statements for 2019-20 (ahead of Board sign-off in late November).

6) ANY OTHER BUSINESS

4148 6/ ANY OTHER BUSINESS

4149 Further to the discussion at Board about additional resourcing needed across the business, AW informed the Committee that the area of regulatory compliance is woefully under-resourced at present and presents a significant risk to the institution. AW needs to spend in order of £100K to recruit staff who can ensure UCEM compliance with Office for Students Conditions of Registration. The Committee **NOTED** that this work cannot continue to be delivered out of

discretionary effort of existing staff and that the situation had become untenable. This additional spend will be factored into the next forecast and budget.

4150 TM reported that he is discussing with the auditors whether UCEM is required to pay VAT for Google Ad Words. He informed the Committee that he has made a provision of £30K for this in the accounts. The decision relies on whether UCEM is using the tool to target specific people (marketing) or to attract anyone/everyone to the UCEM website. The Auditors are comfortable that UCEM is not using it for targeted marketing and if the Board approves this position, TM will present this rationale to HMRC. The Board **APPROVED** the rationale that UCEM uses Google Ad Words for general awareness raising to anyone/everyone and that it should therefore not pay VAT on this purchase.

4151 No other matters of business were raised.

4152 The date and time of the next Finance Committee meeting will be Thursday 27th February 2020 as a joint meeting day with the Audit Committee at UCEM, Horizons, Reading with Zoom remote video link available. An exceptional meeting of the Committee will be scheduled via Zoom for November as agreed.

Signed:



Name:

JAT BRAINCH

Date

27/2/20