

FINANCE COMMITTEE

10TH FEBRUARY 2022

REDACTED MINUTES FOR PUBLICATION

A meeting of the Finance Committee was held remotely via Zoom videoconferencing on Thursday 10th February 2022 from 14.00-16.00pm.

Present: Jat Brainch [JB] Honorary Treasurer and Chair
Nick Braisby [NB]
Amanda Clack [AC]
Andrew Hynard [AH]
Alastair Martin [AM]
Dominic O'Rourke [DOR]
Ashley Wheaton [AW]

Apologies:

In Attendance: Jane Fawkes (University College Secretary) [JEF]
Lyndsay Hughes (note taker) [LH]
Tim Mills (Executive Director Finance) [TM]
Tom Lindsay (Sarasin & Partners) – item 5.3 only
Richard Maitland (Sarasin & Partners) – item 5.3 only

1) GENERAL MEETING GOVERNANCE

4701 1.1/ DECLARATION OF ANY CONFLICTS OF INTEREST

4702 There were no conflicts of interest declared.

4703 1.2/ TO RECEIVE APOLOGIES FOR ABSENCE

4704 There were no apologies for absence.

4705 1.3/ TO APPROVE THE MINUTES OF THE MEETING HELD ON 4TH NOVEMBER 2021

4706 The minutes of the Finance Committee meeting held 4th November 2021 (paper 1.3) were **APPROVED** as a true record and signed by the Honorary Treasurer.

4707 The proposed redacted sections of the minutes from the meeting held 4th November 2021 were **APPROVED** and will be published accordingly on the UCEM website.

4708 1.4/ TO APPROVE THE MINUTES OF THE JOINT AUDIT AND FINANCE COMMITTEE MEETING HELD ON 4TH NOVEMBER 2021

4709 The minutes of the Joint Audit and Finance Committee meeting held 4th November 2021 (paper 1.4) were **APPROVED** as a true record and signed by the Honorary Treasurer.

4710 The proposed redacted sections of the joint meeting minutes from 4th November 2021 were also **APPROVED** and will be published accordingly on the UCEM website once the approval of the Audit Committee has also been provided on 3rd March 2022.

4711 1.5/ TO APPROVE THE MINUTES OF THE MEETING HELD ON 20TH JANUARY 2022

4712 The minutes of the Finance Committee meeting held 20th January 2022 (paper 1.5) were **APPROVED** as a true record and signed by the Honorary Treasurer.

4713 The proposed redacted sections of the minutes from the meeting held 20th January 2022 were **APPROVED** and will be published accordingly on the UCEM website.

4714 1.6/ TO CONSIDER MATTERS ARISING FROM THE MINUTES NOT INCLUDED ELSEWHERE ON THE AGENDA

4715 An actions summary from the last meeting was circulated as paper 1.6. The Committee noted that all actions had been closed or were due for discussion within the meeting, excepting action 4633 (UCEM's approach to maximising income opportunities, and a better understanding of expenditure to inform decisions) which whilst it will be covered with regards to the financial planning tool at agenda item 3.1, still requires a full Committee discussion in the future.

4716 1.7/ TO REVIEW THE FINANCE COMMITTEE TERMS OF REFERENCE

4717 The Terms of Reference for the Committee were given annual review by the Nominations & Governance Committee in January 2022 and no changes were recommended other than an update to the membership as Dominic O'Rourke was appointed as a UCEM Trustee in November 2021 and invited to join the Finance Committee.

4718 The Committee **NOTED** the updated Finance Committee Terms of Reference V10 and that a further update would be required in April 2022 when Andrew Hynard's term of office as a Trustee is concluded. The Committee also **NOTED** that this would leave a further vacancy on the Committee to fill.

2) 2021-22 FINANCIAL YEAR

4719 2.1/ TO RECIEVE THE DECEMBER 2021 MANAGEMENT ACCOUNTS BALANCE SHEET AND CASHFLOW FORECAST

4720 TM presented paper 2.1 to the Committee, which summarised the December 2021 management accounts, balance sheet and cashflow forecast relative to the approved budget for 2021-22 (approved in June 2021, revised in November 2021).

- 4721 TM reported that income is currently on target and costs are lower than expected so overall UCEM is ahead of revised budget by £275K. Cost savings are driven by vacancies and leavers (staff retention), Associate Tutor savings, graduation ceremonies savings and premises costs. Bad debt is currently £13K higher than revised budget and this is expected to rise to nearer £60K by year end. REDACTED The staff retention and recruitment challenges are being felt sector wide.
- 4722 Spring enrolment targets remain as originally forecast for the year and are currently predicted to exceed target which may lead to further income improvement vs budget.
- 4723 REDACTED
- 4724 The Committee **NOTED** the December 2021 Balance Sheet at paper 2.1b and that UCEM retains a strong balance sheet. The Committee **NOTED** that the total charity fund has fallen from £20.2M to £19.9M mainly due to making a £776K deficit in 2021, thought this has been offset by the investment portfolio improvement of £322K.
- 4725 The Committee received an updated cash flow projection in paper 2.1c covering the immediate 12-months ahead and in paper 2.1d covering the high-level five-year forecast. UCEM does not anticipate being cash negative at any point in the next twelve months, despite accounting for the potential increase in bad debt for the year. Operational costs include all revised budget approved matters. UCEM retains the additional liquidity of a £250K overdraft facility.
- 4726 REDACTED
- 4727 The Committee **NOTED** the cashflow projection and that UCEM is does not anticipate being cash negative in the next twelve months.
- 4728 2.2/ TO NOTE THE BUDGET APPROVED FOR THE SUSTAINABILITY WORK PROGRAMME**
- 4729 The Finance Committee was reminded that it had approved a revised budget as its meeting on 4th November 2021 which noted the removal of Cognassist income from the approved budget (-£156K) and additional spend of £232K on specifically identified resource requirements.
- 4730 The Board of Trustees approved, at the meeting on 25th November 2021, a budget of up to £250K to spend on developing UCEM sustainability proposals to meet the Board's ambition to be the most sustainable university and to be a leader in offering education in this field.
- 4731 This money is phased into the budget from February 2022 and the Committee queried whether UCEM is going to spend any in month or whether this is too soon. AW confirmed that the best use of this budget allocation is still being discussed and the plan refined, which is taking time. The Executive intend to present a proposal to the Board on 31st March 2022 which will outline the headline plan/strategic ambition, a detailed and costed plan for year one activities of the sustainability programme, and then some expectations of what the following years of the programme up to 2030 will bring, though with less detail. The Executive anticipates that the currently approved £250K will take the programme up to July 2022 and thereafter a costed plan will be in place. There is work underway to determine what

the totality to ringfence from reserves for this work might need to be, albeit noting that some of this will be offset by the income forecast out of the activities being delivered through the programme.

- 4732 The Board will need a discussion about the scale of ambition versus the size of UCEM reserves and what proportion of reserves it would be content to contribute to the programme, knowing that the first priority has to be the long-term sustainability of the institution.
- 4733 The Finance Committee **NOTED** the Board approved spend of up to £250K on the sustainability work programme and that this budget allocation has been fully incorporated into the management accounts presented to the Committee at paper 2.1. The Committee will be seeking demonstration of value for money from the investment, evidence of impact and how the use of the reserves to fund this work aligns with UCEM's Reserves Policy and charitable objectives.
- 4734 The Committee also **NOTED** that Nominations and Governance Committee approved some staff attending relevant training courses which would be paid for from the £250K budget.

3) FINANCIAL SUSTAINABILITY

4735 3.1/ TO RECIEVE AN UPDATE ON UCEM'S APPROACH TO FINANCIAL PLANNING AS PART OF LONG TERM FINANCIAL SUSTAINABILITY GOALS

- 4736 The Finance Committee had previously requested that UCEM focuses on its financial planning and in particular undertakes enhanced profitability analysis. This work is in the pipeline and paper 3.1 sets out the approach UCEM is taking to the provision of such data and how it can be used to guide and inform strategic financial decision making in the future.
- 4737 AW reported that a core component to UCEM achieving financial planning is a mature approach to budgeting, planning and the preparation of the OfS Financial Return each year. UCEM has suffered from an inability to analyse profitability across all its activities. It needs data and the ability to act upon the information. To deliver this UCEM has been working to implement a Financial Planning System and is in the process of adopting Anaplan to facilitate this. UCEM continues its focus on student success and retention as another core feature of delivering financial sustainability and of meeting the regulators expectations which are increasingly focused on student outcomes.
- 4738 TM reported that UCEM had reviewed three potential providers of financial planning systems. Following benchmarking and analysis it opted to introduce Anaplan to UCEM and has signed up for a three-year contract at £50K per annum for licencing and Gigabyte space. The project for implementation will be phased as the team learns to use it and evolves it to UCEM's needs. Use of this system will bring about wholesale cultural change at UCEM. JB confirmed her own positive experience of using this system.
- 4739 The Committee welcomed the focus on securing increased granularity on financial and business planning but also expressed some scepticism. The entire higher education sector struggles to define the cost of module delivery and it may be Anaplan will not deliver for UCEM or may carry substantial costs to the institution before its functioning effectively and adding value. The Committee also queried how

UCEM will use the information and insight the system provides to guide its decision-making.

- 4740 The Committee was disappointed that the paper focused on financial insight and planning as an enabler rather than the discussion the Committee anticipated on the UCEM journey towards maximising income opportunities and the effectiveness of expenditure. In addition, the paper talks of each phase of the project but does not clearly articulate the timescale for each, the benefits of each stage or the resource cost upfront in each stage (both for the system and the human resource to get it functioning effectively). TM anticipates the project being developed in full by end July 2023 and is employing an Anaplan specialist to undertake the build. He had not included the budget for the system in the paper because it had already been approved through budgeting for 2021-22 (Paper 3.1 from Finance Committee of 17th June 2021 refers).
- 4741 The Committee did, however, concur that the Anaplan tool would be useful to UCEM, albeit noting that whilst it may indicate loss-making modules, the ability to influence the drivers of these costs are rarely driven by a single cause that UCEM can change easily. Disaggregation of central costs will also never be easy. There are also risks around implementation, complexity and accuracy – the system can only ever be as good as the inputs into it and the skills of the users operating it.
- 4742 The challenge for UCEM is operating a pay as you go model that is module based so forecasting the income associated with flexible lengths of study is particularly challenging. In addition, the income streams UCEM has are also complex. Inside the delivery model there are also further complexities through opening up modules to various different programmes to achieve economy of scale, giving us a module profile of between 8 and 800 students – UCEM has to understand where the margin to gain or lose is relative to variable and fixed costs in each. The anticipated output of the Anaplan system is identification of where UCEM is making money and where it is losing money even at the highest level. Once UCEM has this information reliably and on a regular basis, it can understand the core profitable business and consider what it does about it the remainder.
- 4743 The Committee **NOTED** the different phases to the financial planning project plan, the benefits that Anaplan will bring to UCEM and that phases 1-3 of the project will be implemented by the end of the next financial year (July 2023).
- 4744 The Committee **AGREED** that it would still like to schedule a discussion on financial sustainability at a future meeting.

ACTION: Schedule a discussion financial sustainability at a future Finance Committee. [LH]

4) PROPERTY

4745 4.1/ TO RECIEVE AN UPDATE ON SHINFIELD GRANGE

- 4746 Andrew Hynard provided an update on progress with the Shinfield Grange project and the activities of the Property Working Group since the November meeting of the Finance Committee (paper 4.1).
- 4747 **REDACTED**

4748 REDACTED

4749 REDACTED

4750 REDACTED

4751 REDACTED

5) FINANCIAL GOVERNANCE

4752 5.1/ TO DISCUSS THE PERFORMANCE OF MAZAR'S (UCEM AUDITORS)

4753 Following the Joint Audit and Finance Committee on 4th November 2021 UCEM wrote to Richard Bott at Mazars on 7th January 2022 outlining UCEM's disappointment with their performance through the 2021 audit (see paper 5.1a). Mazar's responded to this on 12th January (see paper 5.1b).

4754 REDACTED

4755 REDACTED

4756 REDACTED

4757 The Committee **AGREED** to change the meeting date to a day earlier, Wednesday 9th November 2022, REDACTED

ACTION: **Seek Audit Committee consent to the proposed approach with Mazars for the year ahead. [JEF]**

Change the joint Audit and Finance Committee meeting date from 10th November 2022 to 9th November 2022. [LH]

4758 5.2/ TO RECEIVE A REVIEW OF UCEM RESTRICTED FUNDS

4759 The Joint Audit and Finance Committee's noted on 4th November 2021 that UCEM has a large number of restricted use funds which it reports on each year in the Financial Statements. The Committee requested an overview of what these are and the ways in which each can be used with a view to rationalising the portfolio if at all possible. Paper 5.2 outlined the funds and how they are proposed to be used.

4760 The Committee **APPROVED** the recommendations to use up each type of restricted funds as outlined in paper 5.2 through a combination of awards made at graduation ceremonies, through research into the terms of restrictions on the various funds and where permissible folding these into the general bursary awards process, and through active relationship development and marketing of the scholarship with RICS Wales in the case of the David Alexander Memorial Scholarship.

4761 AC commented that the Worshipful Company of Chartered Surveyors are developing a bursary fund which will seek to widen participation into surveying related courses. This could be a useful partnership for UCEM given the common goals of each.

- 4762** **5.3/ TO RECEIVE AN INVESTMENTS VALUATION UPDATE FROM SARASIN & PARTNERS**
- 4763 The Chair welcomed Jim Kerr (UCEM Director of Finance Operations), and Tom Lindsay and Richard Maitland from Sarasin & Partners to the meeting for this item.
- 4764 TL/RM presented the first Quarterly Report and Valuation of UCEM's investments in the Sarasin & Partners Climate Active Fund to the Committee (paper 5.3a and slide deck). Sarasin & Partners advised that a new portal is being launched to its customers in Q1 2022 and all Trustees will receive an email with login credentials for this. In addition, quarterly reports can be further tailored to UCEM needs and made more digestible if required.
- 4765 The presentation highlighted that the global stock market finished 2021 on a high, whereas bond markets were dogged by the twin threats of inflation and rising interest rates and alternative investments produced mixed results. Overall performance was most robust in the final quarter of 2021 and the portfolio produced a total return, net of fees, of +6.1% against the composite benchmark return of +4.6%. UCEM's investment is split between general investment, designated bursary funds and restricted prize funds and in total amounts to £9,268,880 as of 31st December 2022 (from a starting investment of £8,975,441 in summer 2021). The portfolio benefits largely from holding less in bonds and more in equities and alternatives.
- 4766 Sarasin & Partners also provided their perspective on the outlook for investments in the coming year. Inflation continues to run well ahead of longer-term central bank targets, which suggests interest rates and bond yields will need to rise in due course. Whilst many commentators believe there are insurmountable obstacles for the equity market, Sarasin and Partners are more optimistic. Markets expect inflation to fall back to less than 3% by end 2022, a level that bond yields can cope with, and rising interest rates are already factored into expectations. There is also, however, geopolitical concerns to consider. Overall, while higher volatility is likely over the next six months, Sarasin's has every confidence in their core investment themes and continues to favour companies with strong environmental, social and governance credentials, generating sufficient free cash flow to support dividend growth in excess of inflation over the longer term.
- 4767 The Committee posed various questions to Sarasin & Partners at the close of the presentation. This included the extent of current geopolitical concerns and the degree of exposure in light of the UK political landscape (internationally invested fund so exposure is not significant).
- 4768 The Committee **NOTED** the 31st December 2021 investment fund valuation report from Sarasin & Partners which was comprehensive. The Committee was assured that UCEM's investments are in safe hands and being managed as the Committee would wish. The Committee also thanked Sarasin & Partners for the smooth transition of the funds in summer 2021.
- 4769 The Chair thanked JK, TL & RM for their contributions and invited them to leave the meeting.

6) ANY OTHER BUSINESS

4770 **6/ ANY OTHER BUSINESS**

4771 UCEM secured an error rate of 0 on its ESFA audit which avoids any need for clawback of funding.

4772 The Honorary Treasurer thanked Andrew Hynard for his service to the Committee over the last six year given his term of office as a UCEM Trustee would conclude in March 2022 and this was therefore his final Committee meeting. His insight, challenge and input has been of huge value to UCEM.

4773 No other matters of business were raised.

7) MEETING CLOSE

4774 The Chair closed the meeting at 15.47pm.

4775 The date and time of the next Finance Committee meeting will be Thursday 16th June 2022 from 14.00-16.00pm.

Signed



Name Jat Brainch

Position Honorary Treasurer and Chair of Finance Committee

Date 16th June 2022