

FINANCE COMMITTEE

16TH JUNE 2022

REDACTED MINUTES FOR PUBLICATION

A meeting of the Finance Committee was held remotely via Zoom videoconferencing on Thursday 16th June 2022 from 10.00-11.30am.

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

Apologies:

In Attendance: Stephen Bartle (Executive Director Business Development and Apprenticeships) [SB] for item 5.1 only
Jane Fawkes (University College Secretary) [JEF]
Lyndsay Hughes (note taker) [LH]
Tim Mills (Executive Director Finance) [TM]

1) GENERAL MEETING GOVERNANCE

4776 1.1/ DECLARATION OF ANY CONFLICTS OF INTEREST

4777 There were no conflicts of interest declared.

4778 1.2/ APOLOGIES FOR ABSENCE

4779 There were no apologies for absence.

4780 1.3/ MINUTES OF THE MEETING HELD ON 10TH FEBRUARY 2022

4781 The minutes of the Finance Committee meeting held 10th February 2022 (paper 1.3) were **APPROVED** as a true record and signed by the Honorary Treasurer.

4782 The proposed redacted sections of the minutes from the meeting held 10th February 2022 were **APPROVED** and will be signed and published accordingly on the UCEM website.

4783 **1.4/ MATTERS ARISING FROM THE MINUTES NOT INCLUDED ELSEWHERE ON THE AGENDA**

4784 An actions summary from the last meeting was circulated as paper 1.4. The Committee noted that all actions had been closed excepting that the discussion on UCEM's long-term financial sustainability has been deferred to Autumn 2022 following completion of the Principal's leave of absence.

4785 **1.5/ TERMS OF REFERENCE**

4786 The Terms of Reference for the Finance Committee and the Property Working Group were reviewed following changes to membership in the last four months – proposed amendments were presented in tracked changes in papers 1.5a and 1.5b. No other changes were proposed.

4787 The Committee **APPROVED** the Finance Committee Terms of Reference V10.01 for finalisation as V11.0 reflecting updated membership of the Committee since the retirement of Andrew Hynard from the Board. The Committee **NOTED** there remains an ongoing vacancy on the Committee and that Jat Brainch will be stepping down as UCEM Honorary Treasurer in March 2023.

4788 The Committee **APPROVED** the Property Working Group Terms of Reference V2.01 for finalisation as V3.0 reflecting updated membership and Chairmanship of the Group following the retirement of Andrew Hynard from the Board. The Committee **NOTED** that Andrew Hynard will remain on PWG as an External Adviser **REDACTED**.

2) 2021-22 FINANCIAL YEAR

4789 **2.1/ YEAR TO DATE PERFORMANCE 2021-22 FINANCIAL YEAR, BALANCE SHEET AND CASHFLOW FORECAST**

4790 TM presented paper 2.1 to the Committee, which summarised the April 2022 management accounts, balance sheet and cashflow forecast relative to the approved budget for 2021-22 (approved in June 2021, revised in November 2021) and the Year End forecast.

4791 TM reported that the income outturn for the year is expected to be £16.755M, ahead of budget by £500K. **REDACTED**. Overall, a surplus of £375K is forecast on the P&L for Business as usual at year end. After projects this becomes a deficit of £318K, still well ahead of budget. The forecast spend for the GLOBE project remains in the budget at £250K but this almost certainly will not be spent so will improve the position further.

4792 The Committee **NOTED** and welcomed the April year to date financial position of £394K better than budget and the expected outturn for the year excluding statutory adjustments of £375K surplus before projects and statutory adjustments (overall a deficit in the region of £318K). The positive position is as a result of strong income and good cost control measures. The Committee **NOTED** that the discussion on long term profitability and financial performance had been deferred to Autumn 2022.

4793 The Committee **NOTED** the April 2022 Balance Sheet at paper 2.1b and that UCEM retains a strong balance sheet and reserves. The Committee **NOTED** that the total charity fund has fallen from £20.3M to £19.6M mainly due to making a £776K deficit

in 2021 and the investment portfolio valuation falling by £367K. TM also advised the Committee that EPA income has been split out on the Balance Sheet as previously requested by the Committee.

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REDACTED

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The Committee queried some of the large changes between the April 2022 figures and the July 2021 figures on the Balance Sheet. This is purely due to timing in year, therefore the Committee requested that TM presents the year-on-year figures to allow for more accurate comparison in the future.

ACTION: Present 12-month comparator Balance Sheet at future Finance Committees. [TM]

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The Committee discussed bad debt and noted that UCEM's in-year provision is for £120K and that approximately £30K of this is considered international and therefore irrecoverable. UCEM is changing its approach debt collection through a new working group which will agree an approach at individual student level based on their circumstances. UCEM implements payment plans in many cases to support students with paying their fees.

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The Committee received an updated cash flow projection in paper 2.1c covering the immediate 12-months ahead. Operational costs include all revised budget approved matters. UCEM retains the additional liquidity of a £250K overdraft facility.

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The Committee **NOTED** that £130K of payback to Student Loans Company has been confirmed with a potential for a further £30K still to be confirmed for historic students. This impacts UCEM in October 2022 as it will be deducted from the next payment due to UCEM by the SLC. TM assured the Committee that controls are now in place to assure against any further legacy issues, particularly given the greater sophistication of the Agresso finance system compared to the system previously in operation.

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The Committee **NOTED** the cashflow projection and that UCEM does not anticipate being cash negative in the next twelve months.

3) 2022-23 FINANCIAL YEAR

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3.1/ P&L BUDGET FOR 2022-23

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Tim Mills presented a proposed budget for 2022-23 set against the current income forecast and known costs (papers 3.1, 3.1a and 3.1b).

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The proposed budget targets income of £18M against an expected operating cost of £18M, giving a surplus of just £2K. When investment income is added back in, this will result in a larger surplus of £242K on Business as Usual (BAU).

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TM reported that the income forecast represents a £1.2M increase on the current year. Forecast income is risk factored (95% for apprenticeships and 83% for non-apprenticeships). UCEM is increasingly dependent on employer funding which may be hit in the economic downturn, however there is less risk for apprenticeship income which is fully levy-funded, vs employer sponsored students which is medium risk and self-funded which is high risk. Approximately 80% of income is driven by retained students and 20% by new students. Investment income was included as per

the Sarasin's forecast provided three months ago. UCEM's limited scope to increase fees was discussed at paper 5.1.

- 4804 Expenses, however, are increasing significantly. The budget features allowances for a REDACTED, additional salary benchmarking, increased national insurance contributions, 12.5 FTE new staff, depreciation and Horizons fully reopening for five days week. The budget also provides for £250K capital expenditure on a refurbishment of Horizons and IT investments.
- 4805 The budget as presented is included in the cashflow provided at paper 3.1b. This shows UCEM impacted by £610K on End Point Assessment due to issues at RICS and employers delaying EPA beyond the 6-month practical period allowed in the apprenticeship. UCEM could claim £800 per student where this goes beyond 6 months.
- 4806 REDACTED
- 4807 The Committee discussed the capital projects and their necessity, especially the £250K for refurbishing Horizons when the building remains underused. The Committee requested that spend on this is delayed until key conversations have taken place in year.
- 4808 The Committee was conscious that UCEM continues to be unable to break the line between growth in income and growth in costs to grow margin. The Committee hopes that the investments being made this year into sustainability might be the lever to break this. The Committee was keen to ensure the financial performance discussion does take place this Autumn as it should be informing the budgeting process.
- 4809 Finally, the Committee considered the investment income forecast might be overly optimistic in the evolving economic downturn. They also suggested that labour costs are likely to rise quicker than capital costs in the next two years and therefore UCEM should consider automation of back of house functions where the payback is likely to be greater.
- 4810 The Committee **NOTED** the assumptions in the proposed budget and **PRE-APPROVED** it as presented in paper 3.1a for the 2022-23 year, noting that the Committee will have a discussion on long term financial performance in the Autumn. It will proceed to Board for full approval on 7th July 2022. When the budget is presented to the Board for final approval, the Committee requested that the last approved budget should also be presented in the table for comparison purposes. The Committee also suggested more information on income calculations be included – the split in student types and the associated risk factors with each. This will provide a clearer picture on risk and opportunity for the year ahead.
- ACTION: Make enhancements to budget paper as requested and present to Board for approval on 7th July 2022. [TM]**
- 4811 The Committee **NOTED** the potential cashflow deficit after June 2023 and that this may result in a request to sell some investment to cover the shortfall should it exceed the overdraft limit.

4) PROPERTY

4812 4.1/ THE SHINFIELD GRANGE PROJECT

4813 Alastair Martin provided an update on progress with the Shinfield Grange project and the activities of the Property Working Group since the February meeting of the Finance Committee (paper 4.1).

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5) FINANCIAL GOVERNANCE**4820 5.1/ ANNUAL FEE REVIEW**

4821 Stephen Bartle joined the meeting to present a paper outlining UCEM's current position with fees, what it has planned for in the coming four years in terms of module fees (as submitted to OfS in the Access and Participation Plan and the Financial Return) and an update on fee proposals for degree apprenticeship programmes (paper 5.1). The Committee was reminded that UCEM fees for the 2022-23 academic year are fixed a minimum of 12 months in advance to ensure compliance with OfS and CMA regulation.

4822 The UCEM Executive discuss pricing strategy annually, taking into account a range of factors including the external environment, the wider economic situation and market pressures. Fees for non-apprenticeship students at both PG and UG levels are based on a standard module fee for a standard 20-credit module (UCEM reserves the right to charge a higher fee for modules of higher credit-bearing). It was proposed UCEM proceeds with a module fee increase from £1,200 to £1,225 in 2023/24. In the context of competition/potential to lose market share and the difficult economic situation with inflation rising, the market will not bear a higher increase.

4823 The Committee was reminded of UCEM's uniform pricing model across all programmes, modules and markets. UCEM periodically reviews whether this model remains appropriate or whether it should consider again differentiated fees for various levels of studies and markets. UCEM can revisit this possibility, particularly given the lack of opportunity in the model to increase fees further across all products given competition and regulation. This should be considered in the financial sustainability discussions in autumn 2022.

ACTION: Considered differentiated pricing models as part of the financial sustainability discussion to be held in autumn 2022. [AW/SB]

4824 It was also proposed to increase apprenticeship fees on the MSc route (other apprenticeship programmes have no opportunity for increase at this time, with fee caps set by the ESFA and any increases carrying a high risk of UCEM losing market

share). UCEM has a strong pipeline of students for the MSc route and it was therefore proposed to increase the fee in 2023/24 to £25,000 from £23,000.

- 4825 The Executive also proposed including in the contract with each employer of UCEM apprentices the requirement to pay UCEM a sum equivalent to 20% of the funding if their students do not progress to End Point Assessment. This would provide UCEM with a form of indemnity to mitigate the risk of losing funding due to events outside its control. Inclusion of the clause may also ensure that employers take their responsibilities towards preparing their apprentices for EPA seriously and will make the scenario less likely to occur in the first place. Testing of this policy with some key UCEM accounts has indicated the policy will be acceptable, is reasonable/fair to employers and is therefore low risk to UCEM.
- 4826 The Committee **NOTED** the planned student module fees for the next four years, which have been modelled in the APP, the Financial Return and the income/cashflow forecasts.
- 4827 The Committee **APPROVED** the proposed increase in module fee from £1,200 to £1,225 for 2023/24.
- 4828 The Committee **APPROVED** the proposed increase in the fee for the MSc apprenticeship route from £23,000 to £25,000 and endorsed the proposal to ask employers to indemnify UCEM for EPA fees in the event of their apprentices withdrawing immediately after completing the degree without progressing to EPA.
- 4829 The Chair thanked SB for his contribution and invited him to leave the meeting.

4830 5.2/ UCEM GRANT TO UCEM ASIA LIMITED FOR 2021-22

- 4831 TM advised the Committee that every year UCEM proposes an amount of grant funding to cover UCEM Asia Ltd.'s operating expenses for the previous year in order to finalise the audit process and the group accounts. The sum approved in 2020-21 was £385K.
- 4832 The Finance Team plans to propose a sum of grant in August 2022 ahead of the Hong Kong audit as the audit will not be quoted for nor work commenced without this. This provisional figure will amount to the sum of total expenditure for the year plus £5K. The Chair of the Board and Honorary Treasurer will be informed of this sum and the Chair asked to sign the proposed provisional letter of grant included in paper 5.2a at this time. The final sum may change following completion of the audit work and the final letter/sum will be signed off in November with the group accounts.
- 4833 The Committee **PRE-APPROVED** the letter of grant from UCEM to UCEM Asia Ltd for signature in August 2022 via Finance Committee Chair's Action noting that the Chair and Honorary Treasurer will be informed of the grant sum to complete the letter ahead of its finalisation. The Committee further **NOTED** that the sum will change following audit work and so will only be fully finalised in November 2022.

4834 5.3/ BUILDING PEOPLE FUNDING

- 4835 AW reminded the Committee that UCEM is a Founding Partner in Building People and committed to providing the entity base funding over three years, alongside CSTT and WCCS, as approved by the Board in 2021. The funding was approved as a maximum of £50K per annum for three years (2021-22, 2022-23, and 2023-24). The

UCEM auditors had previously agreed that the £150K total commitment could be accounted for in the 2020-21 accounts and therefore from the surplus generated that year.

- 4836 Under the agreement, UCEM is committed to pay the second instalment of £50K to Building People on 1st August 2022 but Building People require this funding one month early to support their cashflow position. The matter relates to timing only and not a fundamental sustainability issue. UCEM's financial support will not extend beyond the £150K committed.
- 4837 The Committee **PRE-APPROVED** the early payment of £50K for the 2022-23 financial year to Building People from UCEM for 1st July 2022 (one month earlier than originally committed to). This recommendation will be put to the Board as a Chair's Action in the coming days and will then be noted in the July 2022 Board minutes.

6) ANY OTHER BUSINESS

4838 **6/ ANY OTHER BUSINESS**

- 4839 UCEM's Data Protection Officer is following up with Sarasin's following the recent data breach. UCEM has concerns that it was not informed in a timely manner and that some Trustees have heard follow-up and others have not. As an when UCEM receives a response it will be forwarded on to Trustees.

ACTION: Provide clarity to Trustees on what specific data may have been compromised in the Sarasin's data breach. [LH]

- 4840 AW reminded Trustees that UCEM had received confirmation of its eligibility for Indefinite Degree Awarding Powers from the OfS yesterday and thanked JEF for her leadership to this significant achievement on behalf of the institution.
- 4841 No other matters of business were raised.


7) MEETING CLOSE

- 4842 The Chair closed the meeting at 11.22am.
- 4843 The date and time of the next Finance Committee meeting will be Wednesday 9th November 2022 from 14.00-16.00pm. There will also be a joint meeting held with the Audit Committee this date from 12.30pm.

8) MATTERS FOR NOTING

- 4844 The Committee **NOTED** paper 8.1 on OfS Distribution of capital funding for the financial year 2022-23 and the allocation of £50,000 made to UCEM. The Committee also **NOTED** that UCEM is still awaiting confirmation of its recurrent funding allocation and has budgeted for the year ahead based on the same sum as received in 2021-22.
- 4845 The Committee **NOTED** paper 8.2 on OfS Annual Financial Return deadlines in 2022 and the shorter timescale now permitted by OfS for the submission of the return

(initial submission on 1st December 2022) which has necessitated a short additional meeting of the Board on 21st November 2022 to approve the submission.

Signed 
Name Jat Brainch
Position Honorary Treasurer and Chair of Finance Committee
Date 9th November 2022