JOINT MEETING OF THE FINANCE COMMITTEE AND COUNCIL

MINUTES (UNRESERVED)

2.00pm on Monday, 21 June 2021
By Zoom

Present (Reserved Finance): Anthony, Lord Grabiner QC (Chair); Professor Phil Allmendinger; Dr David Chambers; Professor Jonathan Goodman; Professor Neil Greenham; Dr Heike Laman; Dr Jacqueline Tasioulas (Senior Tutor); Mr Paul Warren (Bursar); and Dr Julia Wolf.
Present (Reserved Council): Anthony, Lord Grabiner QC (Chair); Professor Jason Carroll; Dr Andrew Carter; Professor John Gibson; Professor Jonathan Goodman; The Rev'd Dr Mark Smith; Dr Jacqueline Tasioulas (Senior Tutor); and Mr Paul Warren.
Present (Unreserved Finance): Mr Patrick Taylor (MCR representative).
Present (Unreserved Council): Ms Samantha Mason (MCR President).
In Attendance: Miss Emma Easterbrook (Secretary); and Mrs Rebecca Willatt (Deputy Financial Bursar).

1. **Apologies**

   Dr Tim Chesters; Dr Maciej Dunajski; Dr Oliver Shorttle; and Dr Hendrik van Veen.

2. **Declarations of Interest**

   None.

3. **UNRESERVED MATTERS**

(i) **Minutes of 10 May 2021**

Approved.

(ii) **Matters Arising**

None.

(iii) **Welcome to the MCR representative**

The Finance Committee formally thanked the incoming MCR representative, Mr Patrick Taylor, and thanked the outgoing MCR representative, Mr Henri van Soest, for their hard work.

(iv) **Budgets 2021-22 and Financial Forecasts for 2020-21**

The Bursar circulated two papers to the Finance Committee: Financial Forecasts for 2020-21, and Budgets 2021-22.

a. ***Budgets 2021-22***: The Bursar noted that the College had an operating deficit of £3,202,198 after endowment income is adjusted to exclude all unspent restricted endowment drawdown. Total income is budgeted at £11,356,279 for the 2021-22 financial year, a 9% increase compared to the current forecast for 2020-21 income and a 3.9% increase compared to the 2020-21 budget. The increase in total budgeted income compared to the forecast is attributable to significant increases in student accommodation and College catering income. The 2021-22 budget allows for a £197,853 (22.8%) decrease in general donations and a £53,183 (7.4%) decrease in other income compared to the current forecast of 2020-21 income. The decline in other income is attributable to the suspension of the Coronavirus Job Retention Scheme as College activity returns to normal. Although all conference activity has been cancelled for the summer of 2021, conference accommodation income is budgeted to increase by £65,399 compared to the forecast of 2020-21 as conference activity is expected to recover over the Easter 2022 period.

Expenditure is budgeted at £14,558,447 for the 2021-22 financial year, a £1,845,829 (14.5%) increase compared to the forecast of 2020-21 expenditure and a £585,744 (4.0%) increase compared to the 2020-21 budget. Allowance has been made within the 2021-22 budgets for a 1.5% cost of living increase for non-academic staff, an increase in the Real Living Wage from £9.50 to £9.80 in November 2021, and a 2% increase in stipends and pension costs for all Fellows. Although, this was more than the University it was anticipated that this would be less than CPI and needed in order to retain staff.

Total Tuition expenditure is budgeted to increase by £254,006 (13.1%) from the forecast of 2020-21 expenditure. Academic support is budgeted to increase by £28,695 (2.5%) compared to the forecast of expenditure in the 2020-21 financial year. Graduate student accommodation expenditure is budgeted to increase by £217,507 (40%) in 2021-22 as depreciation expenditure on graduate properties is forecast to rise by £247,711 following the completion of the new Clare St Regis development. Depreciation will also increase elsewhere in the budget owing to the completion of Phase 1a of the Old Court project and the total depreciation charge is budgted to increase by more than £404,000.

While conference catering expenditure is forecast to decline significantly, other College related catering costs are budgeted to increase with higher levels of student and Fellows catering activity. As a result, overall catering expenditure is budgeted to increase by £313,275 (19.4%) in the 2021-22 financial year. Total administration expenditure is budgeted to increase by 17.1% to £4,179,981 in 2021-22. Administration expenditure will represent 29% of total expenditure in the 2021-22 financial year. Within the administration budget, Bursary expenditure is budgeted to increase by £62,992 (6.6%) to £1,016,460, with half of this increase resulting from higher insurance costs. In addition, Development Office expenditure is budgeted to increase by £195,789 (38.5%) to £704,174 due to more travel and events. Finally, Fellowship expenditure is budgeted to increase by £243,827 (48.6%) to £745,078 as College dining normalises post COVID-19 and the Master's Lodge expenditure is budgeted to increase by £85,830 (43.8%) to £281,732 as stipend, travel and entertainment costs increase.

b. ***Financial Forecasts for 2020-21***: The Bursar noted that the Financial Framework assumes that annual inflation will increase to 3% per annum over the period 2021-2026 and as a result, staff costs are estimated to increase by 3.25% per annum. It is assumed that undergraduate fees and numbers will remain unchanged and that the graduate per capita fee increases in line with inflation. The endowment drawdown is expected to remain unchanged at 3% but owing to the very strong performance in recent years, the real total return is estimated to be only 1% per annum. The framework model also assumes that conference activity and income will show a gradual recovery and return to its peak pre-COVID-19 level in 2026. It is estimated that all other income and expenditure increases at the same rate as inflation throughout the five year period.

The Financial Framework anticipates an increase in the size of the operating deficit from a level of £2.294 million shown in the 2020-21 Forecast to a Budget deficit of £3.202 million in 2021-22 financial year. The estimate for the 2022-23 financial year indicates that the deficit will decline to £1.981 million, as Conference business recovers with the commencement of summer school activity in the summer of 2022. Student accommodation income is also expected to increase by £232k in the 2022-23 financial year as the new Clare St Regis site achieves full capacity. However, these increases in income will be partially offset by a further £440k increase in depreciation following the completion of Phase 1b of the Old Court works

Despite the projected growth in conference and catering income in 2023-24 the Financial Framework still shows an overall deficit of more than £1.7 million as a the growth in income will be partially offset by higher operating costs. The deficit is estimated to decline to £1.5 million in both 2024-25 and 2025-26 with further growth in conference income back to its peak level.

The Financial Framework indicates that the College will generate significant negative free cash flow over the forecast period. The ongoing capital investment programme and a requirement to transfer capital into the Old Court restoration fund will exacerbate the underlying operating deficit. The cash flow position will become particularly serious in 2024-25 when it will be necessary to repay the £5 million loan from 2020. It is estimated that the College will incur negative free cash flow of £2.2 million in 2023-24, £7.4 million in 2024-25 and £2.5 million in 2025-26. The College will have to sell assets from the endowment to fund this sizeable operating deficit and negative free cash flow position. There were limited alternatives to cost savings as the College was already operating efficiently, departmental budgets had been carefully managed.

The Finance Committee formally approved the Budgets for 2021 -22 and noted the Financial Framework for the five year period to 2025-26.

(v) **Management Account for the nine months to 31 March 2021**

The Bursar circulated two papers to the Finance Committee on the Management Accounts for the nine months to 31 March 2021. The Management Accounts have been prepared on the same basis as the statutory financial accounts and summarise the income and expenditure across the College’s departments. Total income declined by £3,642,696 (31.7%) in the nine months to 31 March 2021 when compared to the same nine months to 31 March 2020. However, almost half of this decline was attributable to a change in the way academic fee income was reported. Easter 2021 fees have been included in the Easter 2021 term rather than the Lent 2021 term, as was the case in the previous year. Academic Fee income in 2020-21 is relatively unchanged from that in 2019-20. Adjusting for changes in academic fee income, the reduction of total income excluding academic fees in the nine months to 31 March 2021 was actually £1,852,911, a decline of 27.5% compared to the same period in 2019/20.

COVID-9 has had a significant impact on several departments in 2020-21 resulting in reduced income in the nine months to 31 March 2021 in the following areas: catering (£1,513,123), conference accommodation (£914,582), and student accommodation (£628,554) when compared to the same nine months to 31 March 2020. There have been increases in general donations (£316,784), Endowment (£615,249) and the Coronavirus Job Retention Scheme (£466,635) that have partially helped to offset these substantial COVID-19 related reductions.

The College has reduced expenditure by £1,955,663 (17.5%) in the nine months to 31 March 2021 when compared to the same period to 31 March 2020. This reduction in expenditure is largely due to reductions in variable costs arising from significantly reduced catering and conference accommodation (£1,082,858), Fellowship (£151,962) and Development Office events (£108,609) as a result of COVID-19. Catering and conference accommodation showed a deficit of £1,259,240 in the nine months to 31 March 2021 whereas in the nine month period to 31 March 2020 these areas reported a combined surplus of £85,609.

The overall financial position for the nine months to 31 March 2021 is a £2,391,061 deficit, which is more than double the deficit reported in the same nine month period to 31 March 2020. However, adjusting for the change in the way academic fees are being reported the deficit is largely unchanged from the previous year.

The Finance Committee formally approved the Management Accounts for the year to 31 March 2021.

(vi) **Endowment update**

The Bursar circulated two papers on the endowment to the Finance Committee. The College's endowment was valued at £128 million at 30 June 2020 and this value had increased by 14.2% to £144.3 million at 30 March 2021. The 2048 Fund was valued at £34.4 million at 30 June 2020 and had increased by 17% to £39.6 million at 30 March 2021. In mid-March a further £21 million was redeemed from the State Street Global Advisors (SSGA) regional equity funds and £20 million was reinvested in the Amundi low carbon MSCI ACWI fund. The equity exposures show the allocation to the SSGA regional funds and the Amundi fund separately, with each of the SSGA regional fund investments compared to the previously agreed strategic regional asset allocation. Consolidating the remaining State Street regional fund investments and the Amundi Global Fund shows that at 30 March 2021 the exposure to North American equities was 45.5% of total global equity investments, the UK was 12.1%, Europe ex UK was 16.3%, Japan was 9.2%, and Emerging Markets was 15.1%.

Preliminary data shows that the main endowment achieved a total return of 14.2% over the nine month period to 30 March 2021 and the 2048 Fund achieved a total return of 17% over the same period.

Regarding the remaining global equity assets not invested in Amundi ACWI fund, the Investment Committee further considered at its meeting on 15 June three alternative approaches to the investment of the remaining 20% of global equity investments that are still invested in the State Street Regional equity funds:

1. Invest the remaining balance of investments held in the SSGA regional funds into a Positive Impact fund managed by EQ Investors.
2. Invest the remaining balance of investments held in the SSGA regional funds into Amundi regional equity index funds that are SRI compliant with zero exposure to fossil fuels. Note that HSBC also offers a range of SRI funds.
3. Invest the remaining balance of investments held in the SSGA regional funds into the Amundi ACWI World zero carbon fund.

In addition to investing the main endowment equity investments in zero fossil fuel funds, the Investment Committee also considered how the 2048 Fund equity investments should be invested. It is important to note that the College is required to hold all 2048 Fund assets at HSBC Private Bank. The College currently receives preferential fees as the assets are invested in HSBC funds held in an 'execution only' account. The Investment Committee noted that if the assets are reinvested in the Amundi funds, the fee structure will change to the standard Private Bank execution only fees as the bank must approval all funds on its platform. The Bursar noted that the standard execution only fee is 0.4% of transaction value but he believes that he would be able to negotiate this fee down to 0.25%.

The Investment Committee agreed to recommend to the Finance Committee that the remaining balance of equity investments not invested in the Amundi low carbon fund, be transferred from State Street (HSBC ETFs in the case of the 2048 fund) into the Amundi regional equity SRI ETFs. This transfer will ensure that the College has zero exposure to fossil fuel investments but it is important to note that the management costs will be will be significantly higher. The total expense ratios of the Amundi regional SRI funds are 0.18-0.25% versus only 0.03-0.06% for the existing funds and transactions at HSBC will incur brokerage fees of £200,000 based on the lower fee structure that the Bursar hopes to negotiate.

The Finance Committee formally approved of the Investment Committee's recommendation to invest the remaining balance of investments held in the SSGA regional funds into Amundi regional equity index funds that are SRI compliant with zero exposure to fossil fuels. The Bursar will draft a suitable communication of this decision.

[*Professor Carroll arrived*.]

(vii) **Sale of Mowbrays Farm, 18 Church Street, Ickleton, Cambridgeshire**

The Bursar noted that the tenancy of Mowbrays Farm had ended with the death of the tenant, Mr Robin Driver. It was recommended that the College continue to retain the agricultural land attached to Mowbrays in Ickleton, and the surrounding areas of Hinxton and Duxford but that the Mowbrays farmhouse is sold. The College had obtained a valuation from Bidwells and will obtain a second valuation from Savills prior to marketing. The value of the farmhouse was approximately £1 million. A concern was raised regarding the historical connection to the foundress of the College, Lady Elizabeth de Clare.

The Finance Committee formally approved of the sale of Mowbrays farmhouse.

Post-meeting note: *Lady Elizabeth de Clare had donated the living of Duxford St John in the vicinity of Ickleton on founding the College. However, the College first purchased property in Ickleton in 1456 almost a century after the death of the foundress, which did not include Mowbrays. In addition, the original Mowbrays farmhouse was not contemporaneous with the foundress as it was originally built in the late 15th century. The College purchased Mowbrays and its estate in 1819.*

(viii) **Finance Committees and Membership 2021-22**

The Finance Committee formally appointed the membership of the Finance Committees for the academic year 2021-22 as set out in the paper circulated to Finance Committee.

(ix) **Minutes from other Committees**: for note only unless otherwise requested.

a. ***Investment Committee (DRAFT): 15 June 2021***: See item 3(vi), Endowment update, above.

b. ***Audit Committee (DRAFT): 21 May 2021***: See item 3(iv), Budgets 2021-22 and Financial Forecasts for 2020-21, above.

(x) **Any Other Business**

None.

4. **RESERVED**

5. **Date of Next Meeting**:

2.00pm on Monday, 18 October 2021

Distribution (Reserved Finance): Anthony, Lord Grabiner QC (Chair); Professor Phil Allmendinger; Dr David Chambers; Professor Jonathan Goodman; Professor Neil Greenham; Dr Heike Laman; Dr Jacqueline Tasioulas (Senior Tutor); Dr Hendrik van Veen; Mr Paul Warren (Bursar); Dr Julia Wolf; and the Governing Body.

Distribution (Reserved Council): Anthony, Lord Grabiner QC (Chair); Professor Jason Carroll; Dr Andrew Carter; Dr Tim Chesters; Dr Maciej Dunajski; Professor John Gibson; Professor Jonathan Goodman; Dr Sian Lazar (sabbatical leave); Dr Oliver Shorttle; The Rev'd Dr Mark Smith; Dr Jacqueline Tasioulas (Senior Tutor); Mr Paul Warren; and the Governing Body.

Distribution (Unreserved Finance): Mr Abdu Rawat (UCS representative); and Mr Patrick Taylor (MCR representative).

Distribution (Unreserved): Ms Samantha Mason (MCR President); and Ms Lily Rafalin (UCS President).

In Attendance: Miss Emma Easterbrook (Secretary); and Mrs Rebecca Willatt (Deputy Financial Bursar).

28 June 2021

Emma Easterbrook