

## MEETING OF THE FINANCE COMMITTEE

### MINUTES (UNRESERVED)

2.00pm on Monday, 19 October 2020

By Zoom

**Present (Reserved): Anthony, Lord Grabiner QC (Chair);** Professor Phil Allmendinger; Dr David Chambers; Professor Jonathan Goodman; Professor Neil Greenham; Professor Heike Laman (between Item 3(viii) and Item 4(x) inclusive); Dr Jacqueline Tasioulas (Senior Tutor); Dr Hendrik van Veen (up to and including Item 4(vi)); Mr Paul Warren (Bursar); and Dr Julia Wolf.

**Present (Unreserved):** Ms Rowan Stewart (UCS representative); and Mr Henri van Soest (MCR representative).

**In Attendance:** Mr David Barton (UCS Vice President); and Mr Will Wood (MCR President).

1. **Apologies**

None.

2. **Declarations of Interest**

None.

3. **UNRESERVED MATTERS**

(i) **Minutes of 15 June 2020**

Approved.

(ii) **Matters Arising**

- a. *Item 3(vii), College Committees and Membership 2020-21:* The Chair of the Estates Committee, Professor Allmendinger, recommended to the Finance Committee that the overall membership of the Estates Committee increase from ten members to eleven members. The Finance Committee approved the recommendation.
- b. *Item 3(viii), Phase 1b Old Court project:* Finance Committee had approved by e-mail circulation the signing of the new contract for Phase 1b of the Old Court Project for £20.16 million. This commenced from 2 September 2020. Phase 1a had almost completed and was marginally under budget at £12.4

million. The Bursar noted that there was an issue regarding with the professional fees being over budget, which will continue to be managed carefully. It was anticipated that an additional £2 million will need to be raised for Phase 1b and for Phase 2 £25 million will need to be raised through donations and contributions from the College. It will be possible to divert some funding from St Regis to Old Court as a result of St Regis being completed under budget by £0.5 million.

(iii) **Welcome to new member**

The Finance Committee formally welcomed the new member, Dr Julia Wolf, and thanked the outgoing member, Dr Flavio Toxvaerd, for his hard work.

(iv) **Register of Interests 2020-21**

The Secretary will send out the annual email together with the Register of Interests 2020-21 form to be completed by the Trustees.

(v) **Risk Register 2020-21**

The Bursar presented the up-dated Risk Register 2020-21. The Audit Committee had approved it at its meeting on 16 October. The Finance Committee formally approved the Risk Register 2019-20.

(vi) **Management Accounts for the period to 30 June 2020**

The Bursar circulated the Management Accounts for the year ended 30 June 2020. The Management Accounts had been prepared on a consistent basis with the statutory financial accounts for the year to 30 June 2020 and records the income and expenditure across College departments.

The Management Accounts show that the College reported an operating surplus of £822,564 in the year to 30 June 2020. The surplus was £1,769,118 more than the budget for 2019-20 and compared to a deficit of £344,215 reported in the previous year. Total income increased by 1.3% to £15,360,597 and total expenditure decreased by 6.2% to £14,538,033. The deficit and levels of income and expenditure reported on the Management Accounts are consistent with those reported in the RCCA Financial Statements.

Academic fee income increased by 5% compared to the prior year: undergraduate fee income decreased by 0.3% and graduate fee income increased by 27.1% due to changes to the way in which the College's grant to the Vice Chancellor's Fund is accounted for: the graduate fee is now received gross and a separate donation is made

to the fund. Conference income was in line with the original budget but declined 7% compared to income in the previous year. Conference catering income declined by 9.1% to £2,046,236 and conference accommodation income declined by 4.2% to £1,623,460 owing to the cancellation of all conference activity during the Easter vacation and throughout Easter Term. Student accommodation income decreased by 30.1% compared to the previous year and was 26.4% less than budget. Graduate accommodation income declined by 4% and was only 2.9% less than budget because graduate accommodation income had been budgeted to decline owing to the start of the St Regis project. Undergraduate accommodation income declined by 38.5% compared to the previous year and was 34.1% less than budget. Similarly, College catering income declined by 32.1% compared to the previous year and was 29.5% less than budget.

Despite the closure of the College and the substantial decline in student accommodation and catering income, two areas of activity experienced significant increases in income and helped to ensure that overall income grew compared to the previous year and relative to the budget. General donation income (unrestricted donations) increased by 154% compared to the level of unrestricted donations in the previous year. The level of general donations was 223% higher than the budgeted level for the 2019-20 year. This strong result was due to the receipt of an unrestricted legacy that amounted to £1,163,033. Excluding this legacy, general donation income was marginally lower than budget. In addition, other income increased by 66% compared to the level reported in the previous year. Other income of £951,650 was 87% higher than the budget for 2019-20 and included £202,838 of administration fees from restricted endowment funds and Government furlough receipts of £426,935. Without the inclusion of furlough receipts other income would have declined compared to the level reported in 2018-19.

Total academic support and tuition expenditure was unchanged compared to the level recorded in the previous year. However, tuition expenditure declined by 5% to £1,945,073 and academic support expenditure increased by 8.2% to £1,479,073 compared to expenditure in the 2018-19 financial year. Every effort was taken during the year to fund academic expenditure from restricted funds and thereby reduce unrestricted expenditure. Despite the closure of the College during the Easter term, student accommodation expenditure increased by 2.3% during the year. There were

opportunities to reduce staff costs following the introduction of the furlough scheme but these benefits were received in the form of Government grants reported in the other income category. As depreciation and other fixed cost items represent a substantial proportion of non-staff accommodation expenditure, overall accommodation expenditure was only 1.7% less than the 2019-20 budget. There were many more opportunities to reduce non-staff catering costs and as a result total catering expenditure decreased by 9.8% in 2019-20 and was 10.7% less than budget for the year. Finally, with fewer events and less travel, Development Office expenditure decreased by 9.8% to £552,558 and was 16.8% less than budget for the year.

The Finance Committee formally approved the Management Accounts for the year to 30 June 2020.

(vii) **Financial Framework 2020-21**

The Bursar circulated the Financial Framework 2020-21 to the Finance Committee. The Financial Framework anticipates an increase in the size of the operating deficit from a surplus of £823,000 shown in the 2019-20 Management Accounts to a budgeted deficit of £2,844,000 in 2020-21. This increase in the 2020-21 estimated deficit is mainly attributable to COVID-19 and the resulting suspension of all conference activity in the 2020-21 financial year.

The closure of the College in March 2020 resulted in the cancellation of more than £300,000 of conference income in the 2019-20 year but owing to very high levels of activity during the summer of 2019, overall conference income was in line with budget and declined by only 7% year-on-year. However, with the cancellation of all conference activity during the summer of 2020, conference income is budgeted to decline from £3,669,000 in 2019-20 to less than £375,000 in 2020-21. Depending on the future progression of COVID-19 this budget forecast for conference income may prove optimistic. While conference activity is expected to recover gradually in 2021-22 and 2022-23, total conference income is not expected to recover to pre COVID-19 levels until 2024.

The completion of the construction works at St Regis, with the development of 14 one and two bedroom flats and a further 77 units for graduate students, will result in a substantial increase in student accommodation income in 2021 and 2022. However,

COVID-19 related delays may cause accommodation income to be less than budget in 2020-21.

In the 2021-22 and 2022-23 financial years it is anticipated that the deficit will gradually decrease as conference income and student accommodation income grows. It is estimated that the operating account will be close to break even in 2023-24 when the first phase of the Old Court project is complete and conference activity returns to pre COVID-19 levels. Despite the budgeted deficit of £2,844,000 in 2020-21, the College is projected to have positive cash flow in 2020-21 owing to the receipt of a £5 million COVID-19 loan, but then will turn negative again in 2021-22. The cash flow deficit will increase to £4,173,000 in 2023-24 when the COVID-19 loan must be repaid.

The assumptions upon which the Financial Framework has been developed are that the St Regis redevelopment will cost £12 million and the new accommodation will be made available from December 2020; and the Old Court project will cost £38.6 million and Phase 1 will complete in September 2022. The St Regis redevelopment has been ring-fenced as a project and all expenditure is being funded from the proceeds of the £15 million bond issued in January 2017. Similarly, the Old Court project is also being funded by £25 million of donations and annual grants from the College in to the Old Court Fund. It is therefore appropriate to exclude St Regis and Old Court expenditures when considering the cash flow position of the College. The Financial Framework does take into account the annual grants from the College to the Old Court Fund in its cash flow projections but other expenditure is funded directly from the Old Court fund and is therefore excluded from the cash flow analysis. However, it is important to note that the cash flow forecasts are very sensitive to the assumptions of donation income and over the five year time horizon of the Financial Framework the two greatest risks are that insufficient funds are raised to fund the Old Court project and that Conference income does not recover as fast as projected. The Finance Committee will be invited to consider a long-term strategic plan to eradicate any structural deficit. This may include the sale of assets.

The Finance Committee noted the Financial Framework for the five year period to 2024-25.

The Bursar circulated a paper on the annual report on the Endowment to the Finance Committee. The College's endowment was valued at £129 million at the end of June 2019. Having declined to as low as £114 million in March 2020, the value recovered to £129 million at 30 June 2020. Similarly, the 2048 Fund was valued at £34.4 million at 30 June 2019 and having declined to only £29.7 million at 30 March 2020, recovered to £34.4 million at 30 June 2020. It is important to note that the property investment valuations are subject to a degree of uncertainty as a result of COVID-19. The DPFC, CPF and Clipstone funds have provided indicative valuations that have not been audited and the funds are warning of the material uncertainties associated with the valuation of investment properties. However, having discussed these material uncertainties with each of the managers it is not expected that the valuations will change significantly from the levels provided at June 2020.

Compared to the strategic asset allocation target, the endowment and 2048 Fund continue to maintain a significant underweight exposure to US equities and a modest overweight exposure to Europe, Japan and Emerging markets. Following the sharp decline in global equity markets at the start of the COVID-19 pandemic, the Investment Committee agreed that £1 million per month should be invested into quoted equities. A £1 million investment was made into equity tracker funds in April but following a significant recovery in equity markets in April and May no further investments were made. A further £0.3 million investment was also made into the HarbourVest Private Equity fund in May and a further £0.1 million investment into the Amadeus Fund in June.

The main endowment achieved a total return of 0.9% over the 12 month period to 30 June 2020 and the 2048 Fund achieved a total return of 0.1% over the same period. Over the same 12 month period the FTSE All Share index had a total return of -13% and MSCI World had a return of 5.2%.

The Finance Committee formally thanked the Bursar for his work on the endowment and noted the annual review of the endowment.

(ix) **Financial Procedures 2020-21**

The Bursar circulated the updated Financial Procedures 2020-21. The significant changes were as follows:

- a. **Employment Status:** Added 2.2.1 Off-payroll working rules (IR35).
- b. **External Trading, Internal Trading & Credit Control:**
  - Changed the title of this to include Internal Trading (A policy for Staff and Fellows was previously absent from the Financial Procedures);
  - Added section 4.3.4 regarding Payment Terms for Fellows and Staff to be the same as for External Trading (ie 14 days) but without the late payment charges;
  - Credit Control policy: updated for External and Internal Trading so debts are chased at 7 days overdue, 14 days overdue and escalation at 21 days overdue (to me) and 28 days overdue (to the HR Manager and Catering Manager) in order for issues to be identified and escalated in an appropriate time frame.
  - Trust Funds: section 2.8. Added a brief explanation of the 0.25% Management Fee as per previous Finance Committee Minutes.

The Finance Committee formally noted the updated Financial Procedures 2020-21.

(x) **Business Continuity Plan**

The Assistant Bursar circulated the Business Continuity Plan as part of the annual review process. However, no updates had been made since it had last been circulated to the Finance Committee at its meeting on 5 May 2020. The Finance Committee formally noted the Business Continuity Plan.

(xi) **Minutes of other Committees:**

- a. **Clare Pension Scheme Trustees:** 1 July 2020: for note only.

(xii) **Any Other Business**

- a. **Membership of the Audit Committee:** The Finance Committee recommended to the Governing Body the appointment of Mr Martin Smith (1978) to the Audit Committee from 1 January 2021 when Mr Andrew Smith steps down.

4. **RESERVED MATTERS**

5. **Date of Next Meeting (joint with Council):**

2.00pm on Monday, 23 November 2020

By Zoom

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

**Distribution (Unreserved):** Ms Rowan Stewart (UCS representative); and Mr Henri van Soest (MCR representative).

**In attendance:** Miss Emma Easterbrook (Secretary); Ms Valeriya Blackmore (Assistant Financial Bursar); and the Rev'd Dr Mark Smith (Dean).

**For information:** Mr David Barton (UCS Vice President); and Mr Will Wood (MCR President).

**Emma Easterbrook**

**21 October 2020**