MEETING OF THE FINANCE COMMITTEE

MINUTES (UNRESERVED)

2.00pm on Monday, 8 March 2021
Latimer Room, Clare College

Present (Reserved): 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); and Dr Julia Wolf.
Present (Unreserved): Ms Rowan Stewart (UCS representative); and Mr Henri van Soest (MCR representative).
In Attendance: Miss Emma Easterbrook (Secretary); and Mrs Rebecca Willatt (Deputy Financial Bursar).

1. **Apologies**

None.

2. **Declarations of Interest**

None.

3. **UNRESERVED MATTERS**

(i) **Minutes of 4 February 2021**

Approved.

(ii) **Matters Arising**

a. ***Item 3(iii), Student rents***: The maintenance issues raised by the MCR had been discussed at the last meeting of the Estates Committee on 24 February 2021, and will be a standing item on the Agenda. The MCR will continue to liaise with the Estates Director to ensure all maintenance requests are submitted via the online system. At present there were three outstanding issues of which two required an external consultant.

(iii) **Management Accounts for the six months to 31 December 2020**

The Bursar circulated the Management Accounts for the six months to 31 December 2020 together with a report. The Management Accounts summarise the Profit and Loss, and income and expenditure for operating accounts across the College's departments. In addition, there was information on income and expenditure for the Choir.

The Management Accounts show that the College generated an operating deficit of £1,445,092 during the six months to 31 December 2020. The deficit compares to a surplus of £1,585,695 reported in the same six months in 2019. Income declined by 50%, £4.51 million less than in the same period to 31 December 2019. Catering and Conferencing accounted for £3.56 million of the £4.51 million shortfall due to the impact of COVID-19. Expenditure also declined by 17%, £1.48 million less than in the same period to 31 December 2019. This reduction was due to lower direct costs, which declined significantly due to reduced operational activities because of COVID-19.

Although the actual deficit in the six months to 31 December 2020 was less than the indicative six months budget, this was entirely due to the seasonality of income and expenditure. The College typically generates a significant surplus in the first six months of the year and a deficit in the second six months. The reported deficit for the six months to 31 December suggests that the College is now likely to generate a much larger deficit than the budgeted deficit of £3.047 million for the whole of the 2020-21 financial year.

The negative effect of COVID-19 on international student numbers had been offset by an increase in the number of home undergraduate students matriculating in Michaelmas 2020. Total 2020-21 Undergraduate College Fee income was forecast to be similar to that received in 2019-20 and slightly exceed the 2020-21 Undergraduate College fee budget. Actual 2020-21 Graduate College Fee income was forecast to be in line with income for 2019-20 as a slight reduction in student numbers has been offset by the 4% increase in the income received from the University.

Although undergraduate rental income exceeded budget, the third lockdown has meant that very little income had been received during the current term and rental income is forecast to decline significantly year on year. Graduate rent income in Michaelmas 2020 was £54k lower than in Michaelmas 2019. Although St Regis had now been completed and students are starting to move in, the third lockdown has meant many students are not in residence for the Lent term. If Easter rents are as per the budget including St Regis, graduate rental income was forecast to be more than £250k less than the 2020-21 budget.

The greatest impact of COVID-19 has been in Catering and Conferencing because the College generated income of only £447k in the six months to December 2020 compared to a total of more than £4.0 million in the previous year to December 2019.

The Restricted Endowment Management fee was not budgeted for in the 2020-21 Budget and therefore there appears to be a £186k increase in other income compared to budget. However, the endowment fee was included in other income in 2019-20 and this income line is in line with 2019-20 performance.

Tuition expenditure was £137k lower than in the same period last year primarily due to differences in salary costs. In Lent 2020 an exercise was undertaken to ensure Fellows' salaries were re-charged to Trust Funds where appropriate. Tuition Salaries for the year ended 2020-21 are actually in line with 2019-20 after these recharges to restricted funds were taken into account.

There has been a £150k saving over the six months to December 2020 within Housekeeping compared to last year due to lower staff costs (£90k), no linen (31k) and a variety of other direct costs (£29k) as a result of conferences being cancelled. Catering and Conference costs are also 60% lower than in the year to date period in December 2019. However, this is due to the reduction in direct costs associated with the absence of any conference activity. It is important to note that this reduction in expenditure is still not enough to offset the £3.56 million loss in income. There were some significant reductions in administration expenditure compared to expenditure in the six months to December 2019. The total reduction of £257k resulted from staffing decreases in Bursary and the Porters' Lodge (£107k) and fewer Development Office events. The Choir has not been active in 2020-21 due to COVID-19 restrictions and therefore expenditure in the six months to December 2020 was £79k less than in the same period in 2019-20.

The Finance Committee approved the Management Accounts for the six month period to 31 December 2020.

(iv) **Capital Expenditure Budgets 2021-22**

The Bursar circulated a paper on capital expenditure budgets 2021-22 to the Finance Committee. The Finance Committee approved a budget of £1.7 million for capital expenditure and building projects in the 2020-21 financial year, less than the budget of £2.8 million for depreciation as shown in the management accounts. It was agreed that

£1.0 million of this approved capital expenditure budget would be transferred into the Old Court Restoration fund and that the remaining balance of £0.7 million would be allocated for capital expenditure projects in the 2020-21 financial year.

The Budget established for special expenditures in 2020-21 has been fully allocated, with £600,000 budgeted for the eight projects listed above and a further £100,000 budgeted for emergency capital expenditure. Two items of expenditure have been approved as emergency capital expenditure items with a total value of £13,416 and the outstanding balance available for emergency expenditure amounts to £86,584.

The 2020-21 Financial Framework forecast that depreciation would increase to £2.9 million in the 2021-22 financial year. The operating deficit is forecast to decline to £1.6 million in the 2021-22 financial year and operating cash flow before capital expenditure will decline to £1.3 million. It is recommended that the total capital expenditure budget for 2021-22 be set at £2.2m to ensure that the cash flow deficit does not exceed £0.9 million.

At its meeting on 24 February 2021 the Estates Committee considered and approved 22 Capital Expenditure requests for the 2021-22 financial year. The total value of the 22 projects is budgeted to be £1,199,864. The Estates Committee also agreed to recommend that a further £100k, out of the total capital expenditure budget of £2.2 million, should be allocated for emergency expenditure requests. Total operating capital expenditure will therefore be set at £1.3 million.

The Finance Committee previously approved the transfer of £2 million from the College's operating accounts to the Old Court Restoration fund in each of the 2017-18 and 2018-19 financial years, a further £1.5 million in the 2019-20 financial year and £1,150,000 in the 2020-21 financial year. Owing to the substantial operating cash flow deficit the College is expected to report, it is recommended that the transfer from College reserves into the Old Court Restoration fund is reduced to £0.9 million in the 2021-22 financial year.

The Finance Committee noted the eight capital expenditure items and two additional emergency expenditure items approved for 2020-21. The Finance Committee approved an operating capital expenditure budget of £1.3 million for 2021-22 and the 22 capital expenditure requests that the Estates Committee recommended for approval during the year. In addition to this operating capital expenditure budget, the Finance Committee approved the transfer of £0.9 million from reserves into the Old Court restoration fund during the 2021-22 financial year.

In addition, the Finance Committee noted that any significant financial decisions including conference activity should be presented to the Finance Committee for prior approval. At present summer schools had been cancelled given the Health and Safety risks eg external visitors, discipline, number of possible attendees in a COVID-19 secure environment, and potential quarantine. There is also likely to be an overlap with the extension of the University's term to accommodate examinations, practicals and General Admissions, and the possibility that students may need to remain in College accommodation over the summer.

(v) **Review of Investment Asset Allocation and Investment Policy**

The Bursar circulated a paper on the Review of Asset Allocation to the Finance Committee. The College's endowment was valued at £128 million at 30 June 2020 and this value had increased by 9.5% to £140.2 million at 31 December 2020. The 2048 Fund was valued at £34.4 million at 30 June 2020 and had increased by 11% to £38.2 million at 31 December 2020.

In mid-November £34.7 million was redeemed from the SSGA regional equity funds and reinvested in the Amundi low carbon MSCI ACWI fund. The equity exposures below 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 asset allocation. The first investment into the Amundi zero carbon fund was made in mid-November 2020 when £34.7 million of equity assets was switched from the SSGA regional funds into the Amundi fund. Further switches will be made in March and June 2021 so that 80% of all equity investments are held in the Amundi fund by the end of June 20201. In addition, £1.2 million of PE capital calls were made by the HarbourVest funds in December 2020. The main endowment achieved a total return of 10% over the six months to 31 December 2021 and the 2048 Fund achieved a total return of 11% over the same period.

The Investment Committee considered four alternative approaches to the investment of the remaining public equity assets not invested in the Amundi Fund:

1. Retain the existing SSGA regional funds and actively manage these investments taking into consideration views on overall endowment asset allocation and regional equity valuations

2. Retain the SSGA regional funds but improve the carbon exposure by switching into SSGA ESG funds where possible – currently there are ESG funds for UK and USA but the fees are significantly higher.
3. Transfer the remaining 20% public equity exposure into ESG "impact" funds. This approach will inevitably incur higher fees and given the current state of College finances, it is important that the assets generate returns that are equal to or greater than MSCI World.
4. Transfer the remaining 20% into the Amundi ACWI fund. This would inevitably change the role of the Investment Committee: the Committee would no longer take decisions on asset allocation across regional equity markets but would instead focus on asset allocation across the major investment asset classes.

The Investment Committee agreed that the residual 20% of public equity assets should be invested in a manner consistent with its remit to de-carbonise all equity investments. The Investment Committee recommends that all public equity assets should be transferred into the Amundi Global zero carbon fund by 31 December 2021. The Investment Committee will continue to review ESG impact funds and alternative ESG zero carbon regional equity funds, and subject to attractive alternatives being identified, up to 20% of total public equity assets will be transferred into these funds. The Finance Committee approved of the recommendation that the residual 20% of public equity assets should be transferred into the Amundi Global zero carbon fund by 31 December 2021.

(vi) **Signatories for Development Office stock broker account**

Currently, the approved signatories are the Bursar; the former Development Director, Mr Bill O'Hearn; and the former Assistant Financial Bursar, Ms Lera Blackmore. It was recommended to the Finance Committee that the former Development Director and the former Assistant Financial Bursar be removed, and replaced with the Deputy Financial Bursar, Mrs Rebecca Willatt; and the Deputy Development Director and Head of Development Operations, Ms Danielle Melling. This will allow for the receipt of correspondence and placing of sale orders. The Finance Committee approved of the recommendation.

(vii) **Development Report**

The Deputy Development Director and Head of Development Operations, Ms Danielle Melling, circulated a report to the Finance Committee. At the end of Q2, donation income totalled £931,195. Year on year unrestricted income is up significantly and this has been the office's focus given that major gift fundraising for Old Court has slowed during the pandemic. New gifts and pledges for the quarter total £1,512,047, with funds raised for the year now stand at £1,936,096. The biggest boost this quarter comes from a significant unrestricted legacy notification totalling £700,000.

Meanwhile, the budget requires £426,000 from living donors and the College is on track to easily exceed this target. Total committed for the financial year now stands at £395,023 (with future forecast for Q3 and Q4), and it is expected that new donations will come through for the next two quarters. Unrestricted legacy donation funds will be high this year, with £704,500 already confirmed at the end of Q2 and more already confirmed for Q3. Gifts and pledges to Old Court remain at just over £19.3million, with the addition of several smaller donations this quarter but no major new commitments. As expected, COVID-19 has slowed this area of fundraising. However, existing pledges continue to be paid as expected, and cash in now exceeds £16.3million.

As a result of the former Development Director leaving the College a sub-group of the Development Committee has been formed to take forward the initial stages of the recruitment process for a new Development Director. Until a new Development Director is in post, the office is being overseen by the President of the Fellowship, Professor Simon Franklin, who has become the Fellow for Development and Alumni Relations. The day-to-day management of the office will be headed by the Deputy Development Director and Head of Development Operations. They will be supported by Dr William Foster, Dr Tamara Follini, and Dr Nigel Woodcock.

(viii) **Trust Fund Report**

The Deputy Financial Bursar circulated a report to the Finance Committee. In order to improve the communication and operational management of Trust Funds the Bursary will circulate quarterly statements to all trust fund managers. At present there are no overdrawn funds. The following recommendations were made:

a. ***Tower Hamlets Bursary***: This is an expendable fund and has £8.00 remaining. This is insufficient to assist a student and it was recommended that this fund is closed with the balance transferred to the Hepple Fund (for undergraduate bursaries in general).
b. ***McCann and Paine funds***: It was recommended that the McCann fund is merged into the Paine fund as they have a similar purpose and the McCann fund is currently too small to generate enough annual income to continue to award prizes in the long-term.

c. ***Dyer and Rankin funds***: In accordance with College Statute 42 it was recommended that the Finance Committee use its discretion to apply the surplus income for the general educational purposes of the College. The Senior Tutor noted that previously any surplus had been used to provide grants for 4th years, when it had not been possible to provide them with College accommodation.

d. ***The Lerner Court Fund***: The Lerner Court Fund is a spendable fund to assist with the construction of Lerner Court. This capital build was completed several years ago and the fund is no longer relevant. It was recommended the remaining £4,910 be re-purposed to the Old Court Fund.

The Finance Committee formally approved of the recommendations subject to those actions being in line with the original terms of each Trust. These will be reviewed by the Bursary.

(ix) **Open letter on divestment and UCS motion on divestment**

The Bursar circulated the Open letter on divestment from students and alumni, and the UCS motion on divestment dated 14 November 2020.

(x) **External House and Estates Strategy**

The Bursar circulated a paper from the Estates Director, Ms Deborah Hoy, reviewing the External House and Estates Strategy. The Finance Committee formally approved of the sale of 120 and 190 Chesterton Road in order to reduce the cash flow deficit as a result of COVID-19.

(x) **Minutes from other Committees**

a. ***Investment Committee (DRAFT): 2 March 2021***: See Item 3(vi), Review of Investment Asset Allocation and Investment Policy above.

b. ***Estates Committee (DRAFT): 24 February 2021***: See Item 3(x), External House and Estates Strategy.

c. ***Old Court Integration Group: 18 February 2021***: There had been M&E issues, which had resulted in significant costs. It is likely that the £181,000 contingency will need to be increased. There had also been asbestos and archaeology issues, which means that Phase 2 is 12 weeks behind schedule at present.

d. ***Catering Committee: 25 November 2020***: for note only.

(xi) **Any Other Business**

None.

4. **RESERVED MATTERS**

5. **Date of Next Meeting**:

2.00pm on Monday, 10 May 2020

By Zoom

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

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

17 March 2021

Emma Easterbrook