BOARD OF GOVERNORS

FINANCE COMMITTEE

Minutes of the meeting held on Monday 17 June 2013

PRESENT: Mr R Hill (Chaired this meeting)
Mr J Carson
Mr J Stopforth
Professor N Weatherill (Vice-Chancellor & Chief Executive)

IN ATTENDANCE: Ms J Bertolini (Finance Director & Deputy Chief Executive)
Mr C Davies (Director of Estate Management)
Ms B McGuiness (Deputy Finance Director)
Mr C Reid (President-Elect, LiverpoolSU) (Item 4 only)
Mrs D Tipping (Committee Secretary)
Ms J Whalen (Chief Executive, LiverpoolSU) (Item 4 only)
Ms A M Wild (University Secretary & Deputy Chief Executive)
Ms K Wilkinson (Vice-President, Academic Quality, (LiverpoolSU) (Item 4 only)

FC 13.11 **APOLOGIES**

Apologies were received from Mr G Morris, Mrs K Byrne and Mr P Hyland.

FC 13.12 **WELCOME**

The Chairman welcomed Mr Curtis Reid, the new President-Elect, LiverpoolSU and Ms Kate Wilkinson (Vice-President, LiverpoolSU) to the Finance Committee.

FC 13.13 **MINUTES**

The Minutes of the meeting held on 13th March 2013 were approved as a correct record. (FC 13/06).

FC 13.14 **MATTERS ARISING NOT SHOWN ELSEWHERE ON THE AGENDA**

There were no matters arising.

FC 13.15 **<u>LIVERPOOLSU FINANCIAL UPDATE</u>**

The Committee **received** the report of the LiverpoolSU Chief Executive, the President Elect and the Vice President, Academic Quality.

It was **reported** that:

- <u>Performance Year to Date 2012/13:</u> At December 2012 LiverpoolSU's reforecast was projecting a £50k surplus. In month 10 LiverpoolSU is reporting a £5k surplus (projecting £800 deficit at year end). This is due to the sudden decline in retail income reflected in a marked decline in footfall and subsequently lower turnover in all of its outlets.

- The Union had also identified a stock issue with its GPOS system which may further impact the profitability of its sales. A commitment had been made to the Union's Trustees that this would be resolved at year end.

- At the May Trustee Board it had been recognised by the Trustees that the Union may incur a deficit this year and that steps would need to be taken before September to address the negative commercial impact. More frequent reforecasting had benefited the Union, allowing issues to be identified earlier and rectified.

- <u>Budget 2013/14:</u> The LiverpoolSU Board had approved a £7k surplus budget for 2013/14 recognising the Union will be relocated this year and that income and expenditure may vary. The Board agreed to approve a 'status quo' budget, whilst understanding that it may need to consider a second budget at their July meeting if relocation had been agreed.

- The LiverpoolSU Board had agreed to invest in marketing consultancy and equipment to assist LiverpoolSU's interaction with students. This investment meant that LiverpoolSU would approve its first deficit budget in 5 years although the plan is to utilise remaining funds to repay the University loan and then rebuild its reserves in future years. The Union advocated that this is a planned, manageable deficit.

- <u>Students' Union Superannuation Scheme (SUSS):</u> Following the SUSS Annual Members' Meeting held in May it had come to light that the deficit on the scheme had moved up from £48m in 2010 to £72m in October 2012, despite good investment performance. The reason for this was due to increases in the liabilities of the scheme.

- Deficit contributions will increase for inflation by 3.2% in October 2013. However, it is expected that LiverpoolSU needed to be prepared for an increase in deficit payments in the region of 50% from October 2014. This will clearly have a serious impact on budgets for 2014/15 onwards and is now being planned for by the Union.

- If LiverpoolSU wished to buy out of the deficit at the previous valuation this had been estimated at £3.15m and now that the deficit had significantly grown the Union's annual deficit repayments may exceed £120k. Clearly, the Union advised that it is not in a position to buy out of the scheme and it would also be concerned about the impact that "buying out" of SUSS would have on those members left in the scheme.

- The SUSS had closed with effect from 30th September 2011. Future service contributions had ceased from this date and only deficit contributions will continue to be paid to the scheme. The risk to the Union is the continuing increase in deficit repayments. LiverpoolSU had set up a reserves pool to mitigate any further rises in the SUSS.

- LiverpoolSU also provided the Committee with a list of its affiliations and donations.

- Discussions continued and were near to completion regarding the relocation of the Union from the Haigh Building. All of the Union's Haigh commercial activity this year will make a loss.

- LiverpoolSU advised that a commitment in writing from the University for an agreement of the LiverpoolSU block grant for at least three years would assist LiverpoolSU in its strategic plan delivery for students.

- LiverpoolSU felt an increase in the block grant would support the work students expect from the Union and enable it to be the critical friend of the University.

- LiverpoolSU had paid back half of the loan from the University to date and the University has made a commitment to give at least 12 months' notice of any further repayment, although the Union may decide to repay earlier.

It was **commented** that:

- The Chairman was disappointed to hear of the budget deficit forecast and was surprised regarding the significant increase in the SUSS deficit. The LiverpoolSU Chief Executive advised that the increase in the SUSS deficit was despite very safe investments with no new members entering into the scheme.

- Committee members were interested to know how the additional staff appointments were working out and in particular the Director of Commercial Operations given the information reported today. The Chief Executive, LiverpoolSU explained that regrettably the Director of Commercial Operations had uncovered the issues around stock and the GPOS system which would impact the profitability of the Union's retail services, and the full picture would not be known until September.

- The Chief Executive, LiverpoolSU, advised that the Trustees understood the issues regarding the deficit position and had agreed that the Union needed to invest in some marketing consultancy to understand better the requirements of students and to improve its commercial income.

- The Chief Executive, LiverpoolSU, advised the Committee that the Union is taking part in a pilot scheme for a students' unions' buying consortium for NUS Services Limited. The pilot scheme has been set up to look at developing a framework that facilitates trading with organisations other than students' unions, thus allowing unions to purchase products through a student unions' buying consortium. The framework will ensure due diligence is performed on partners and that they share the values of the student movement. LiverpoolSU anticipate making a small surplus on this in 2013/14 financial year; however, if the pilot scheme is successful then the growth in this area will ensure the sustainability of the Director of Commercial Operation's post.

- The Committee was advised that savings of £150k from maintenance and cleaning had been estimated in relation to the relocation. Discussions continued to take place and it was hopeful that space in the John Foster Building, Byrom Street and the Redmonds Building, could be utilised and would be beneficial to the Union.

- Committee members were concerned about the investment in marketing and equipment given the deficit position of the Union and were advised that this would be essential for the Union to enable it to find out what students wanted to focus more profitably on its commercial activities.

- The Chairman noted the changed forecast to a deficit position but understood the challenges the Union faced. He reiterated the Committee's support for the Union and wished them well in their future endeavours. The Chairman also wished The President Elect and the Vice-President well with their terms of office.

The Committee **noted** the report.

FC 13.16 **PROPERTY AND CAPITAL DEVELOPMENT PROGRESS REPORT**

The Committee **received** the report of the Finance Director & Deputy Chief Executive (FC 13/08)

It was **reported** that:

- An update was provided to Committee on the financing and progress of the University Capital Development Programme. The report also highlighted progress with regard to the financing, disposals and acquisitions arrangements.

- The Committee had previously been advised of the actions taken in controlling expenditure in relation to the Capital Development Programme. These actions are continuing until the University's 2013-2023 Master Plan has been finalised and agreed. In addition, the Estate Management Team is continuing to review building opening hours and timetabling to ensure that the estate is being utilised effectively.

- John Foster Building: As previously reported to Finance Committee the University will be terminating the lease on 68 Hope Street in June 2013. The School of Humanities and Social Science currently accommodated in 68 Hope Street will be relocating to the John Foster Building in summer 2013. To increase operating efficiency and to continue to cluster activities, the remaining programmes delivered in the Dean Walters Building will also transfer to the John Foster Building, allowing the University to close the Dean Walters Building and potentially realise a capital receipt for the property or secure a short term tenancy whilst the University's property specialists are marketing the property.

- As previously reported the John Foster Building will not be fully utilised by the School of Humanities and Social Science, and the University is presently reviewing a range of options for the remaining space. The options currently under review are the possible relocation of both Drama from the Joe H Makin Building and the Liverpool Students Union from the Haigh Building into the John Foster Building, creating further opportunities for space efficiency and capital receipts.

- 68 Hope Street: As previously reported to Committee, the lease on this building will end in June 2013. The ending of the lease will generate a lease saving of £263,000 per annum along with associated revenue savings of £300,000 arising from clustering activities in the John Foster Building.

- Dean Walters Building: Following the relocation of activities from the Dean Walters Building into the John Foster Building in August 2013, the Dean Walters Building will be closed. The closure of the building will generate annual revenue savings of in excess of £150,000 and will allow the University to dispose of the building and realise a potential capital receipt for the property. The University's agents CBRE are currently reviewing market conditions and preparing a disposal strategy.

- Art & Design Academy: The Committee had previously been advised of the potential litigation in relation to professional fees for the consultants acting on the Art and Design Academy project (Ramboll UK). Negotiations have now concluded and this matter has been resolved.

- Max Perutz Building: The redevelopment of the Max Perutz Building to provide accommodation for the Faculty of Science is progressing to programme and budget. The development is due to complete for the start of semester one in September 2013.

- Byrom Street Social Zone: As previously reported to the Committee the development of a new building to provide student social space and catering facilities has commenced in the grounds of the Byrom Street Campus. The development commenced in December 2012 and is progressing to programme and budget. The development was completed in April 2013. The Starbucks franchise continues to do well with a 30% income increase on this time last year and one of the highest performing outlets in Liverpool. However, this has only been running for one semester and will need to be closely monitored going forward.

- Tom Reilly Building: As previously reported to Committee, the lead designer, Austin Smith Lord (ASL), had informed the University that they believe they are entitled to an increase in fees due to the increase in construction value agreed in the final account with the Principal Contractor. This matter has now been resolved.

- Tithebarn Building: The ongoing refurbishment of the Tithebarn Street Building continues to make excellent progress. The final phase of the development is the refurbishment of the third floor to create enhanced teaching accommodation and a series of Clinical Practice Suites. Works will be completed for semester one in September 2013. Following completion of this project the Faculty of Education, Health & Community will consolidate all teaching activities in the Tithebarn Street Building, therefore improving the student experience.

- Henry Cotton Building: The University is in the process of transferring 25 staff from the Centre of Public Health, under the TUPE regulations (Transfer of Undertakings (Protection of Employment) Regulations 2006), to Public Health England. As part of the TUPE transfer, Public Health England has requested that the University grant them the lease to the current space occupied by those 25 staff. The University is currently negotiating the lease costs.

- IM Marsh Campus: The University is committed to maintaining the IM Marsh Campus as fit for purpose and ensuring that the student experience is consistent across the University until the future Master Plan has been agreed. For summer 2013, a further investment of £400,000 will be carried out. This investment will be targeted at general teaching accommodation to enhance the student experience.

Secretary's Note: The Director of Estate Management reported that the presentation on the Carbon Management Programme would be deferred to the next Finance Committee on 28 October 2013.

Action: Director of Estate Management

- Carbon Management Programme: At the end of year three of the current carbon management programme (CMP), savings amounting to 40% (1505t CO^2) of the five year target (3743t CO^2) have been realised through the measures introduced over the first three years of the programme. Changes in the building portfolio and uses of buildings have impacted on the University's reduction measures. During the period gas consumption has reduced, while electricity usage has increased.

- LJMU is a participant in the CRC Efficiency Scheme (Carbon Reduction Commitment). The University's payment is forecast to rise from £141,000 to £152,000 as this will take into account consumption from the Redmonds Building which opened in September 2012.

- Potential Disposal Issues: As previously reported to Committee the University currently has a number of properties that have been vacated: 4-6 Rodney Street and 10 Rodney Street. The Director of Estate Management is monitoring market potential and will report back to Committee when an optimum outcome is anticipated.

- It is proposed to terminate the lease for Twelve Quays in July 2013. The current occupants, the Astrophysics Research Institute, have now been relocated into the Liverpool Science Park.

  - This minute has been removed under the terms of the Freedom of Information Act, Section 23, Commercial Sensitivity. Governors may request a full copy of the minute which will become publicly available when no longer commercially sensitive. You may request further information from the University's Secretariat at secretariat@ljmu.ac.uk.

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The Committee:

- **Noted** the progress with regard to capital development projects, acquisitions and disposals.
- **Noted** the successful conclusion of the position regarding outstanding fee claims by the professional teams relating to the Art and Design Academy and the Tom Reilly Building.
- **Noted** the progress with regard to the University's Carbon Management Programme, with a further presentation to go to the Finance Committee on 28th October 2013.
- **Noted** the progress with regard to land acquisitions and property disposals.
- **Noted** progress with regard to Master Planning.

FC 13.17 **SCENARIO PLANNING**

The Committee **received** the oral report of the Finance Director & Deputy Chief Executive.

It was **reported** that:

- The Finance Director & Deputy Chief Executive advised the Committee that ongoing scenario planning continued to take place on a regular basis with SMT. A number of key areas have been selected, for example, what has happened to student retention and withdrawals in 2012/13 (first year of the £9k fee regime) and how this extrapolates forwards to future years.

All SMT members had agreed to targets for all income streams for the years 2013/14, 2014/15 and 2015/16.

- Scenarios such as the increase in the number of students each Faculty could take in terms of capacity were re-visited which highlighted combined home student targets which were an estimated £5m below the maximum HEFCE permitted income.

- Benchmarking exercises were carried out which established that some faculties had more administrative staff than others and whether any savings could be targeted in this area. On-going scenario modelling is taking place around student numbers now recognising that a loss of 100 students is a loss of £1m to the University.

- The Vice-Chancellor & Chief Executive assured the Committee that this work would continue. It had been a very long exercise; however, the University had gleaned a lot of information about itself. Now that the University had built up a basis for different scenarios it was in a position to bring back the best analysis that has evolved over the last nine months.

- The Vice-Chancellor & Chief Executive advised the Committee that the University was able to support its decision-making and that a strategy for recruitment in 2014 would be proposed to the SMT meeting on 18th June 2013.

The Committee was pleased to **note** the benefits of scenario planning in the decision-making process and the continued scenario planning actions taking place.

FC 13.18 **<u>PERFORMANCE MONITORING</u>**

It was **reported** that:

- The Vice-Chancellor & Chief Executive led a discussion on performance monitoring, engaging the Committee on their thoughts around monthly KPIs and what the Committee felt would be relevant to the Finance Committee's areas of responsibility. He also asked if members felt that the Finance Committee should merge in the future as a Planning and Resource Committee.

- Some suggestions from the Vice-Chancellor & Chief Executive were: monthly expenditure; debtors; forecasts and covenant assurance; maintenance costs; reactive help desk issues and closed activity help desk issues; and security incidents. It was acknowledged that some of these areas were reported already but the Vice-Chancellor & Chief Executive would welcome the views of the Committee.

It was **commented** that:

- Committee members felt that student feedback, other than the annual National Student Survey (NSS) would be beneficial, providing a more dynamic and meaningful qualitative approach.

- The Vice-Chancellor & Chief Executive advised that the Student Sabbatical Officers would be bringing a report to the next Academic Board on their top 10 priorities for students. He also advised that the University was closely monitoring the 15-day turn around for assessments, which established changes to the timetable, and the number of students who do not receive an assessment within 15 days.

- Some Committee Members felt that the Finance Committee should remain as the Finance Committee maintaining its baseline terms of reference.

The Committee **noted** the Vice-Chancellor & Chief Executive's comments.

FC 13.19 **FORECAST OUTTURN 2012/13 and budget 2013/14**

The Committee **received for noting** the report and presentation of the Finance Director & Deputy Chief Executive (FC 13/09).

It was **reported** that in respect of the forecast out-turn for 2012/13:

- The report presented to the Finance Committee in March 2013 revised the budget to a surplus of £4.5m, being a £7.5m surplus on operating activities, with £3m for a FRS17 pension charge. The forecast position at the end of May is for a surplus of £3.9m, being a £6.9m surplus on operating activities, with a £3m FRS17 pension charge.

- During the budget process and throughout the 2012/13 year, the faculties and services have reviewed their outturn forecast for the year and these values have been incorporated into the forecast as at the end of May 2013. There is a small overall change to the forecast position compared to that reported at the half year.

- The tuition fee value has been reduced from the half year forecast by £0.5m being £0.3m for Home/EU students and £0.2m for International students. This is as a result of withdrawals/no shows not previously identified. This still represents an overall increase of £0.7m compared to the budget. Every effort is currently being made to ensure that the impact of any further student withdrawals are being made in a timely fashion. Training Development Agency (TDA) grant income and the NHS Contract are as per the half year forecast.

- There is no change to the budget and forecast value of £7.2m Bursaries and Scholarships paid to students for 2012/13.

- The University is anticipating that c£0.4m of provisions will be released as a result of the anticipated successful resolution to two on-going building cost disputes. The overall increase in provisions relates to potential redundancies and doubtful debt provision.

- A desktop valuation of buildings is being performed during the current year in line with the LJMU policy for revaluation. A full property valuation will take place during the 2014/15 year. As there are changes forecast to happen over the next several years it is expected that there may be some 'impairments' to be recognised in the 2012/13 year. These will have an impact of the forecast surplus compared to the half year. They will have no cash impact and are accounting entries only. It is anticipated that the changes due to the revaluation will result in c£2.4m charge to the Profit & Loss (P&L) statement.

- There is a small amount of flexibility in the Forecast for 2012/13, which may alter the final surplus. Opportunities to improve upon the forecast are as follows:

  - The final fee income value for the year may still be in excess of the forecasted value. However, in view of the level of late withdrawals in earlier years, a prudent view is currently being taken.

  - Additional faculty and service savings, and additional third income stream receipts.

- However, there are also a number of risks to the delivery of the forecast:

  - Dilapidations charge on leased building.

  - Delivery of third income streams. A number of these are delivered over the summer. If there is a shortfall, this will adversely affect the outturn forecast.

- <u>Cash Balances and Bank Covenants:</u> The current bank covenants require the University to generate sufficient cash to meet its loan and finance charge obligations, and also to have debt service levels below a specific percentage of income. The University forecast out turn for 2012/13 comfortably meets, and exceeds, all of Barclays Bank covenant requirements.

It was **reported that** in respect of the 2012/13 Budget:

- While the 2013/14 Budget delivers an equivalent surplus to that forecast for 2012/13, significant elements of the 2012/13 forecast surplus have been delivered on a one off basis. Thus, different means of delivering the surplus budgeted for 2013/14 have been incorporated into the plans that underpin that budget.

- There continues to be upward pressures on the cost base of the University. These are primarily due to payroll pressures (incremental growth, pay awards and a one-off step increase due to pension auto-enrolment). Also, to decisions taken to invest in staffing to ensure that an appropriate student experience is delivered in the context of the £9k fee regime.

- There is also a residual level of uncertainty regarding the level of Higher Education Funding Council for England (HEFCE) funding. This arises because HEFCE is funded from April to March but HEFCE fund institutions from August to July. HEFCE thus have to make assumptions about their level of funding as it is only known until March 2014. The University budget assumes that there will be no reductions in the HEFCE funding from April 2014, which covers the last 4 months of the financial year for which the base budget is being set, will be made. Whilst the financial impact of changes to the HEFCE funding is reducing it is still of significant value.

- The proposals in the budget are intended to underpin the LJMU Strategic Framework and will provide a strong strategic basis on which to build and move forward.

- The University has created a staffing 'establishment' in order to enable the effective management of the largest component of the University's cost base. This has also been used as the basis for directing changes in the staffing mix. There is a strong focus on investing in academic staff to enhance Staff to Student ratios (SSRs) and improve research capabilities. Also, on increasing the amounts spent on the student offer. This is accompanied by targeted cost savings in administrative and non-pay budgets. The budget will therefore enable the University to be equipped and prepared for the institution to continue to improve and deliver the strategic plan. This includes enhanced student support, SSRs, and the development of high class facilities as a result of the capital plans to date.

- The desired budget objective is to provide appropriate teaching and learning and research facilities for an improved student experience. The University needs to generate sufficient capacity in order to finance strategic objectives, to ensure the University is in a position to reliably attract students and deliver a learning experience which is consistent with a fee of £9k. In accordance with this requirement, the University has set a budget which allows for the continued reduction from HEFCE and delivers a surplus.

- The critical assumptions for the University were listed as: a further reduction of £13.8m in HEFCE recurrent funding; Home/EU student tuition fees of £9k for all new admissions; an increase of £20.5m in Home/EU/International student tuition fees; to further improve the academic staff FTEs by 19 leading to improved SSRs within each of the faculties; additional funds provided to enhance the student offer; savings targets of £1.4m placed on the Faculties and Divisions will need to be delivered; savings targets embedded in the 2012/13 budget will endure; £7.2m for student bursaries and scholarships, which includes the National Scholarship Programme for the second year, incorporating funding of £1.4m from HEFCE and £1.4m from the University; the 2012/13 pay settlement was 1.0% - the current offer from UCEA for the 2013/14 year is 1.0% and this is provided within the budget – in addition the provision includes the anticipated increase in pension contributions; and, the £3m value booked for FRS17 in 2012/13 has been used in the budget.

- The student recruitment targets ensure that LJMU remains within HEFCE's tolerance band for funding allowing for the ABB+ students. In cash terms, the income target for the year is increased in line with the increase in the tuition fee of £9k for both the returning 2012/13 students and new 2013/14 students.

- Funding for all staff costs including core, institutional, REF, collaborative, commercial and enterprise are now given to the faculties. The faculties in turn must ensure that the third income stream contributes to at least the same levels to enable the continuation of these posts. These income streams include enterprise activities, research overheads and collaborative activity.

- The key risks that impact upon the budget delivery are: failure to recruit to target and at assumed fees; there may be further reductions in HEFCE, TDA and NHS funds in 2013/14 as part of the spending review due in June 2013; the University's cost base may increase through inflationary pressures; potential reduction in overseas income due to league tables, border controls and exchange rates; failure to achieve third income streams, particularly Public Sector funding; failure to meet savings targets; inability to invest in strategic development; strategic plan targets not achieved; uncertainty of significant cost elements e.g. bursaries and pay award; and the impact of League tables on recruitment targets.

- The key opportunities that impact on the budget delivery are: Strategic investment fund available for development of strategic objectives; market and promote LJMU to desired level of student recruitment for 2013/14 and 2014/15; delivery of service, in both faculties and services, arising from the increase in staff numbers for SSRs and strategic research posts; further savings from review of specific expenditure lines and areas across the University; and better utilisation of IT.

- Under the assumptions contained in the 2013/14 budget, the University will not be in breach of its covenants but must review the situation continually and carefully.

- <u>Income:</u> Teaching Funding in 2012/13 of £41.4m has been reduced significantly by £13.8m (33%) down to £27.6m for the 2013/14 year. This is the second part of the change to the higher education funding regime which was a significant reduction of £16.8m (29%) from 2011/12 to 2012/13. This was in addition to the public sector funding cuts introduced in the 2011/12 funding year which saw an initial drop of £4.1m (6.6%) 2011/12.

- Research funding is based on the specific research carried out within faculties. This has reduced by £0.12m (3.0%). Funds will be allocated in 2013/14 based on the specific ongoing requirements within the faculties. The results of the Research Excellence Framework (REF) submissions will not be known or have an impact on the funding until 2015.

- ‘Earmarked’ revenue funding which HEFCE provided is now rolled into core funding. The only exception is HEIF (Higher Education Innovation Fund). As previously informed by HEFCE, the HEIF funding remains unchanged at £1.94m.

- In 2011/12, the University received ‘moderation funding’ of £1.8m for the second time. This was provided by HEFCE specifically as the University was considered an institution which had received significant reductions in funding and was a short term measure, intended to support actions that will enable an institution to secure change and manage the transition to lower funding levels. As expected this has been cut completely from the funding for the 2012/13 year and was not expected to be reinstated.

- The grant received from the TDA for 2013/14 will be reduced to £0.8m, a further decrease from 2012/13 of £1.0m with a corresponding reduction in student numbers. The future of the TDA and related earmarked funding continues to be uncertain for the following years with sector consultations and additional information ongoing. The TDA targets are quite specific against particular programmes, unlike the HEFCE targets. TDA also allocate specific earmarked funding in a number of areas.

- The NHS funding of £10m in 2012/13 is expected to be maintained, based on the contracts known to remain in place for 2013/14.

- Tuition fees for 2013/14 are based upon current applications, expected conversions and the target student numbers, incorporating the higher tuition fee of £9k. The income in the budget of £105.3m is comprised of Home/EU fees of £98.3m (an increase of £20.5m above 2012/13 budget) and overseas fees of £7.0m (a decrease of £0.7m below the 2012/13 budget).

- <u>Expenditure:</u> Significant detailed analysis of the staffing establishment, the need to continue to improve the SSRs, incremental drift and pay awards have resulted in an additional requirement of £3.2m in the 2013/14 budget. These are to be partly funded through known expected savings in some areas and the use of commercial surpluses within the faculties. Faculty administration and technical pay budgets have been targeted with savings of £0.6m.

- <u>Faculty Budgets:</u> As student demands change, so do the resourcing requirements for faculties. This is evidenced through an additional increase in the allocation for the new cohort of students under the changed fee structure. In addition to the £1.8m funds in 2012/13 a further £300k has been made available to enhance the student offer through student trips, equipment and materials. A specific central capital budget for equipment and technology purchases remains in use alongside the changes to the capitalisation limit introduced in 2012/13.

- PVC/Division Budgets: A number of savings across all Divisions have been identified which include estates changes due to relocation from buildings to enhance the creation of the University Village. This is in addition to some Divisional structural changes. The new PVCs will be in place during the year and some funding has been allocated for each area.

- Institutional Budgets: The Fuel, Light and Power budget requires careful management due to the increasing requirements of the University. However, savings targets of £0.4m have been identified for 2013/14. A contract has been in place from August 2012 being at higher fuel prices after the 2 year fixed price contract ended in July 2012. The University still needs to invest as part of its carbon management reduction plan and the proposed budget allows for this to happen.

- The LiverpoolSU contribution in 2012/13 was £1,128k and this will remain the same for the 2013/14 year. In addition to this print credits will continue to be issued to all new students cards.

- Funding for new initiatives such as apprenticeships, post graduate fellowships and underwriting the estate master planning has been established. These are in addition to the LJMU funded internships and the increased levels associated with the continuation of the Lifestyles agreement.

- As in previous years, a Contingency Fund has been created for: further strategic investments; pay award, inflation and pension contribution increases; staffing related costs – conversion of agency staff to establishment posts; and general contingency items and unforeseen circumstances.

- The Committee is aware that draw downs of £20m took place in August 2009, £10m in August 2010 and a further draw down of £10m in August 2011. The original terms of the £60m loan facility the University has with Barclays Bank was that the final £20m would be drawn down by 28 May 2013 or the opportunity to utilise the loan would be lost. The bank has previously agreed in principle for the facility to be extended by a period of up to 6 months to 28th November 2013. The offer by Barclays Bank has now been made to extend this facility for a full 4 year period to 28 May 2017. The extension would not impact upon the final maturity of the facility which would remain 28 May 2038. All other terms would remain unchanged and the University would continue to pay the non-utilisation fee on the undrawn facility at the same rate (0.75% p.a.) A separate paper for the Finance Committee members detailing the changes proposed through a letter of variation has been prepared and is submitted for approval as a separate item on today's agenda

(See Minute FC 13.22 below). Rates have been fixed on the current loans, but Interest Payable will remain approximately the same as the current £3.0m as per the outturn forecast for 2012/13 as there is no expected increase in the loan during 2013/14.

It was **reported that** in respect of the future, 2014/15 onwards:

- The Committee will be aware that HEFCE determined that the financial forecast submission was changed from December 2012 to 31st July 2013. This was partially based on the continued changes and uncertainty surrounding the government and HEFCE funding and it therefore decided that a better and sound basis for forecasts could be determined later in the first of the new fee regime year.

- The actions taken by the University through previous years and the current 2012/13 year provide a strong basis on which to move forward into later years, with the University ensuring that its staffing and associated costs deliver improved SSRs and the objectives for the strategic plans for 2012-17.

- <u>Income and Expenditure:</u> The income and expenditure forecast is based on a simple roll forward of the budget for 2013/14. This assumes a continuation of the £9k fee base for Home/EU students and achievement of the 2013/14 student control numbers in each of the successive years. This may be an overly positive assumption as the University may lose further students due to unexpected retention levels and ABB places, or simply due to lack of student uptake of available places. It is not possible to forecast this with any certainty at present as although nearing completion of the first new fee regime year and positive trends in applications this cannot be absolutely assured. Also, there is a large cohort of students flowing through the period 2011/12 to 2013/14 which will leave in 2014/15.
- Offsetting this, the decision to invest in over 50 additional academic roles to improve SSRs and consequent league table positions should make LJMU more attractive to students. The forecast also assumes no significant increase in research income arising as a result of appointments to over 40 strategic research roles. This is a conservative assumption.

- <u>Cash Flow:</u> The cash flow forecast demonstrates year on year improvements in cash balances during the period 2013/14 to 2015/16. The improved opening 2012/13 cash balance of £38m has enabled the University to meet its banking covenants but, while there are positive cash balances at each year end, changes in the timing of income receipts will put pressure on bank balances in the autumn and spring each year. There may be a need for an additional short term draw down on the loan facility in place with Barclays Bank. The Bank is aware of the possibility and a revolving credit facility is in place. Monitoring will continue throughout the years.

- The development of the next phase of the estate master plan continues. The forecast thus assumes at a high level that significant additional capital investment during the period 2014/15 to 2015/16.

- As part of the Estate Master Planning process the forecast will be revisited and monitored throughout the 2013/14 year. The improved cash balances, combined with the possible sales of further properties and draw down of the additional loan facility of £20m will be factored into a consideration of the affordability and delivery of a new Estate Master Plan.

It was **commented** that:

- The Chairman thanked the Finance Director & Deputy Chief Executive for her comprehensive report and presentation which assisted Governors in understanding the rationale behind the budget making process and which in turn would lead to good stewardship from the Governors. He also welcomed the tables provided to the Committee which identified the movements between the 2012/13 Forecast Out-turn and 2013/14 Budget, the movement in budgeted Income and the movement in Budgeted Expenses, which Committee members felt helped in their understanding of the budget.

- The Chairman once again thanked the Finance Director & Deputy Chief Executive for her detailed report and thanked SMT and other staff who had contributed to this significant document and the overall planning needed particularly during this challenging economic climate during this challenging economic climate.

The Committee was pleased to:

- **Note and recommend** for onward referral to the Board of Governors the University forecast outturn for 2012/13.

- **Recommend for approval by the Board of Governors** the University budget for 2013/14 as approved by the SMT.

- **Recommend for approval by the Board of Governors** the block grant contribution to LiverpoolSU of £1,128k in 2013/14, which remains the same as 2012/13.

- **Note and welcome** for onward referral to the Board, the actions taken thus far by the Vice-Chancellor & Chief Executive and the SMT in determining the shape and future direction of the University.

FC 13.20 **ANNUAL SUSTAINABILITY ASSURANCE REPORT (ASSUR)**

The Committee **received** the oral report of the Deputy Finance Director.

It was **reported** that:

- The Deputy Finance Director advised the Committee that all institutions' governing bodies are now asked to conduct an annual sustainability assessment of their institution beginning 2013, and to report on this to HEFCE using a reporting template which had been designed during a pilot project.

- To this effect, institutions will need to report on a small number of KPIs which (at any one time) are critical to the sustainability of the institution, and integrating the consideration of these with realistic financial forecasts. This will involve the governors and executive engaging together in strategic consideration of the future for the institution and reporting to HEFCE on how they have done this.

- Each governing body is free to choose some of its own KPIs (within some parameters required for reasonable consistency at sector level) and can also decide for itself how it will assess its performance using these.

- A detailed report will be presented at the next Finance Committee on 28 October before going to the Board of Governors meeting on 18 November. The whole sector will be reporting for the first time in December 2013.

Action: Deputy Finance Director

The Committee **noted** the oral report of the Deputy Finance Director.

FC 13.21 **<u>DEBTORS BALANCES AND DOUBTFUL DEBT PROVISION</u>**

The Committee **received** the report of the Deputy Finance Director (FC 13/10).
It was **reported** that:

- Continued significant work ensuring the correct fees have been charged is carried out throughout the year. Further review of the tuition fee processes are now ongoing as a result of changes arising from new fees and the associated funding and sponsorship regime. Some of these changes, the resulting difficulties within the student system and with the interaction with the Student Loans Company (SLC) system, have been problematic this year. This has caused delays in the raising of accurate tuition fee invoices leading to delays with the provision of information and debt management procedures. Whilst debt collection had been steadily improving, assisted by improvements in debt procedures, such as online payments (debit/credit cards, one off and instalment plans), there continues to be a significant value in debtors at the end of April 2013.

- Publicly funded student debt runs at a high level for the substance of the academic year. A significant element of the total outstanding value at the end of April relates to the SLC. This is in line with the new funding regime whereby the SLC pay the students' tuition fees to the HEIs in instalments of 25% in October, 25% in February and 50% in May of each year. In previous years the SLC paid in 2 instalments (February and May) combined with monthly funding received from HEFCE. In early May 2013, the SLC made a payment of £33m. This cleared the substance of the debt.

- The current year self sponsored tuition fee debt is slightly worse than last year with respect to the percentage of debt collected and Days Sales Outstanding (DSO). Further work on reporting links with the new student system will be developed which should improve the student debt collection reporting and debt management processes over the coming years.

- Doubtful Debt Provision: The total provision for doubtful debts as at 31 July 2012 for the University was £2,577k (£1,691k 2011). The total value of debts written off in 2012 was a net £20k (£109k 2011).

- The budget for 2012/13 included an anticipated provision of £350k. At the half year forecast this was increased by a further £350k. Given the continuing uncertainty and value of outstanding debt at the end of April the forecast remains unchanged.

- The provision for doubtful debts for JMU Services Ltd (JMUS) as at 31 July 2012 was £18k (£71k 2011). All debts written off in JMUS are written back to the specific contract from which they arose.

- The Doubtful Debt Policy is reviewed each year by Finance and by the External Auditors, a copy of which was provided as an Appendix to this report.

- Days Sales Outstanding (DSO): The DSO has been calculated based on the total net value of sales from 1st August 2012 up to 30th April 2013. The DSO does not take into account the payment by instalment for students and highlights the fact that 50% of the SLC payment is in May. £33m was received from the SLC in the first week of May 2013 as expected.

- The self-sponsored tuition fees outstanding at April 2013 are higher than in 2012 and elements of this will relate to higher fees charged and therefore a direct comparison cannot be made. At the end of the 2011/12 year it was highlighted that the self-sponsored DSO had deteriorated. The 2012/13 year is the first year of the £9k fees and also the first year of the SLC loan scheme for all students. It was anticipated but not known whether a higher percentage of students would utilise the tuition fee loan from the SLC and how well this new scheme would operate.

- The JMUS DSO for 2013 is significantly higher than 2012, but over £500k sales were raised in the last 2 months and so most of the debt is relatively current.

It was **commented** that:

- The Chairman discussed the reliability of the quality of information in the debtors' ledger and was informed by the Deputy Finance Director that the Finance Division is looking at the invoicing processes and improvements to the Student Information System (SIS), which had been problematic, to ensure that the most accurate information is available and reported in a timely manner.

- The Committee was assured that the University was doing all it could to pursue all debts and that debts would be vigorously pursued.

- The Chairman indicated that the University needed to take a strong line on pursuing debts and that the Committee would require regular reports on progress and in particular any deterioration. The Committee noted the concerns in relation to SIS and SLC.

The Committee **noted:**

- The University and JMU Services Ltd debtor balances

- The provision for doubtful debts

FC 13.22 **BARCLAYS BANK REVOLVING CREDIT FACILITY – LETTER OF VARIATION**

The Committee **received** the report of the Finance Director & Deputy Chief Executive (FC 13/11).

It was **reported** that:

- The Committee was updated on the discussions and the proposed extension for the Revolving Credit and Loan Facility with respect to the facility agreement with Barclays Bank.

- Sir Malcolm Thornton and Professor Michael Brown, the former Chairman of the Board of Governors and former Vice-Chancellor respectively, on behalf of Liverpool John Moores University, signed (on 28th May 2009) the £60m Loan Facility Agreement with Barclays Bank. Letters of Variation to the Agreement have been signed on behalf of Liverpool John Moores University, by Sir Malcolm Thornton and Professor Michael Brown on 5th July 2010 and by Sir Malcolm Thornton and the current Vice-Chancellor & Chief Executive, Professor Nigel Weatherill, on 19 November 2012.

- The Loan Facility Agreement and subsequent Letters of Variation included the drawdown of £40m and a revolving credit facility of £20m with an end date of 28 May 2013. The University has not needed to utilise the credit facility up to this point. However, it recognises that in order to develop and assist in the realisation of the University's estate strategy, additional resources may be required in future years.

- In order to accommodate the possible future resource needs the University has negotiated with Barclays Bank an extension to the Revolving Credit and Loan Facility which incorporates the same terms and conditions that existed in the original agreement. This is an excellent outcome for the University, as banks now offer considerably shorter loan terms on all new agreements. Should the University draw down the additional £20m it may do so on a revolving credit basis for a minimum period of 3 months or to the maximum period to 2038.

- Barclays Bank has offered an extension of the Revolving Credit Facility from 28 May 2013 to 28 May 2017. The Bank has signed the proposed Letter of Variation, which was attached as an appendix to this report.

- Formal Minute of the Board of Governors: In order to accept and confirm the Letter of Variation, Barclays Bank requires that they receive a signed copy of the formal minute from the Board of Governors meeting within 120 days of the offer.

Action: Committee Secretary

- It is a requirement of the Facility Agreement with Barclays Bank that both the formal minute and the Letter of Variation be signed by the Chairman of the Board and the Vice-Chancellor & Chief Executive.

The Committee:

- **Noted and accepted** the extension to the revolving credit and loan facility through a Letter of Variation.

- **Noted and accepted** the change to the minimum length of the drawdown of the credit from one to three months in length.

- **Authorised** the Chairman of the Board and the Vice-Chancellor & Chief Executive to sign the Letter of Variation on behalf of the University.

- **Noted** that a formal minute of acceptance and approval from the Board of Governors meeting on 1 July 2013 will be required.

FC 13.23 **LIVERPOOL SCIENCE PARK**

The Committee **received** the oral report of the Finance Director & Deputy Chief Executive.

It was **reported** that:

- This minute has been removed under the terms of the Freedom of Information Act, Section 23, Commercial Sensitivity. Governors may request a full copy of the minute which will become publicly available when no longer commercially sensitive. You may request further information from the University's Secretariat at secretariat@ljmu.ac.uk.

- The University has now re-located its Astro-Physics and Open Labs into the Science Park thus assisting the Science Park meet a 92% occupancy rate. The Astro-Physics re-location has realised a saving of £30k in relation to its previous rental costs in Birkenhead. Open Labs has also benefited from a better location and has had a positive footfall influence for the Science Park.

- This minute has been removed under the terms of the Freedom of Information Act, Section 23, Commercial Sensitivity. Governors may request a full copy of the minute which will become publicly available when no longer commercially sensitive. You may request further information from the University's Secretariat at secretariat@ljmu.ac.uk.

- As part owners of the Science Park, the University will continue to raise the profile of LJMU's connection with the Science Park and report back to Finance Committee.

The Committee **noted** the oral report of the Finance Director & Deputy Chief Executive.

FC 13.24 **PROGRAMME OF BUSINESS 2013/14**

The Committee **received for information** the programme of business for Finance Committee for the Academic Year 2013/14 (FC 13/12).

The Committee **approved** the programme of business.

FC 13.25 **ANY OTHER BUSINESS**

The Chairman advised the Committee that this was John Carson's last Finance Committee. John had been a member of Finance Committee for 11 years and his commitment, interest and advice had been much appreciated by the Chairman, the Vice Chancellor and the Committee during that time. The Chairman was expecting to say more at the next Board of Governors meeting but wished the Committee's sincere thanks to be noted within the minutes.

John expressed his pleasure at having been a member of Finance Committee and would also like to say more at the next Board of Governors Meeting.

FC 13.26 **DATE OF NEXT MEETING**

Monday 28 October 2013 at 4.30 pm.

LIVERPOOL JOHN MOORES UNIVERSITY

BOARD OF GOVERNORS - FINANCE COMMITTEE

Action Point Control Register – Status of Open Action Points as at 28 October 2013

Minute	Action	By Whom	By When	Status
FC 12.30	**LiverpoolSU Financial Update:** The Committee noted the report and awaited the outcome of further discussions with the Director of Finance and Deputy Chief Executive regarding the Union's loan repayment plan.	LiverpoolSU and the Director of Finance and Deputy Chief Executive.	28 October 2013	**Active**
FC 12.31	**Property & Capital Development Progress Report:** The Vice-Chancellor advised Committee that the SMT were currently reviewing the catering provision and ways in which the University could further raise profitability. SMT had requested an update report in this regard and the Vice-Chancellor advised that this could be brought back to Finance Committee for further information.	Vice-Chancellor/Director of Finance and Deputy Chief Executive.	17 March 2014	**Active**
FC 13.05	**Property & Capital Development Progress Report:** The Committee wished to have a better understanding around the issues in relation to the Carbon Management Programme, and particularly on the increase in relation to the CRC efficiency scheme. The Director of Estate Management advised that the full report is available on the website but it would be useful to summarise and provide further explanation for the Committee.	Director of Estate Management	28 October 2013	**Active**

Minute	Action	By Whom	By When	Status
FC 13.06	**<u>TRAC Return 2011/12:</u>** That from the next financial year the TRAC Return will be submitted to Finance Committee for information and comment before submission. It was understood that this would have to be done electronically and that the turn-round time would be tight.	Finance Director and Deputy Chief Executive	January 2014	**Active**
FC 13.22	**<u>Barclays Bank Revolving Credit Facility – Letter Of Variation:</u>** <u>Formal Minute of the Board of Governors:</u> In order to accept and confirm the Letter of Variation, Barclays Bank requires that they receive a signed copy of the formal minute from the Board of Governors meeting within 120 days of the offer.	Committee Secretary	1 July 2013	**Discharged**