

NORWICH UNIVERSITY OF THE ARTS

Minutes of Finance and Resources Committee Held on Friday 26 February 2021 using Microsoft Teams

Present

Mr M Jeffries (Chair to Item 8)
Mr A McMenemy
Mrs A Robson
Mr I Watson (Chair Item 8)
Mr T Wilson

In attendance

Prof. L Anderson, Pro Vice Chancellor (Academic), NUA
Mr S Belderbos, Director of Finance, NUA
Mr D Williams, Clerk

Apologies

There were no apologies

DECLARATION OF INTEREST

As a Director of RG Carter Holdings Limited, Mr M Jeffries declared an interest in Item 4.1 of the agenda, Estates. It was agreed that this item would be taken as the final item on the agenda and that the Chair would withdraw from the meeting to allow uninhibited discussion of the matter. For this item, the meeting would be Chaired by the Deputy Chair of the Committee, Mr I Watson.

1. MINUTES OF THE LAST MEETING

The Minutes of the meeting of the Finance and Resources Committee held on 26 October 2020 and Minutes of the joint meeting of the Audit Committee and the Finance and Resources Committee on 26 October 2020 were agreed.

2. MATTERS ARISING FROM THE MINUTES

There were no matters arising.

3. FINANCIAL MATTERS

3.1. Financial Report

The Director of Finance introduced the Financial Report, February 2021 and drew the Committee's attention to a number of key areas.

The modelled impact of the Covid-19 pandemic for 2020/21 is estimated to be in the region of £1M. This figure included rent rebates for students with tenancies in residential accommodation managed by the University, the extra costs of delivering teaching during the pandemic and higher estate cleaning costs. The Committee noted that the total costs were relatively modest, at c.4% of income.

The University's income remained highly dependent on student numbers. For the forecast period 2021/22 to 2024/25, the annual intake of UK/EU undergraduate new entrants have been modelled at 840. This compared with the current year's recruitment of 903.

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Compared to the same point in the recruitment cycle last year, UK applications for 2021/22 entry are down by c.9%. Total applications (UK and International) were down c.5%.

The student number forecast would be reviewed, and if appropriate revised, for the June 2021 Financial Forecast. By this time, data on conversion rate of applications to acceptances for 2021/22 entry would be available.

The Committee discussed the use of sensitivity analysis. The University's overall approach to forecasting future income streams was to use prudent student numbers, and, if necessary, to update the assumptions when additional information became available.

Under the scenario of student numbers falling below the level forecast, leading to an accompanying fall in income, the University would seek to adjust its cost base to manage its financial sustainability.

Looking to future years there was uncertainty as to the government's policy on higher education, and, in particular, possible changes to the funding of Year 0 programmes and tuition fee rates for programmes in the creative arts.

Rather than using its financial strength to immediately attempt to increase its market share, the University's strategy was to progressively build its brand over time, thereby increasing its reputation and its attractiveness to students.

It was accepted that there were limitations to making a five year forecast. In practice it was only possible to look ahead one to two years with any degree of confidence. Over this timeline, it would be possible to estimate a range of possible outcomes around the central forecast. Future consideration would be given to how a range of possible outcomes might be shared with the Committee.

Director of Finance

The forecast surplus for 2020/21 is a projected rise to £3,746k (+£226k on the level achieved in 2019/20). An increase in undergraduate student numbers resulted in a rise in tuition fee income (+£2,314k). At the same time expenditure in the current year is modelled to rise by £2,088k. Staff costs (+£1,161k) account for the largest part of the increase in expenditure.

The original budget, set in June 2020, showed a surplus of £2,503k. Reflecting largely the strong recruitment for 2020/21 entry, modelling in October 2020 increased the surplus to £3,400k (+£897k). The February 2021 review, taking account of lower than anticipated student withdrawals suggests a further increase in the surplus to £3,746k. This represents an increase of £346k on the surplus forecast in October 2020.

The cash flow statement showed a planned outflow of c.£8M in 2020/21. The outflow resulted from the investment to complete the Duke Street Riverside (DSR) development. The DSR development was valued at cost in the accounts, and would be depreciated over a 40 year period.

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The University's cash flow would become positive again in 2021/22 (+£2.8M) and remain so for the forecast period.

The University's cash reserves remained healthy. Year-end cash balances were expected to fall to £26.8M in 2021/22, before increasing in each of the subsequent years to reach £34.2M at the end 2024/25.

The Chair thanked the Director of Finance for his presentation of the Financial Report.

3.2. Financial Strategy Annual Report

The Committee noted the annual report, which detailed progress against the financial strategy targets for the 2019/20.

The majority of the financial targets had been met. Two targets were "not achieved" and a further two no-longer formally required to be reported to the Office for Students (OfS).

The Committee noted the report.

3.3. Financial Regulations – annual review

The Committee received an update of the Financial Regulations. Following review a number of minor changes were proposed.

The financial regulations were periodically benchmarked against guidance on best practice. An important source of best practice was the British Universities Finance Directors Group (BUFDG). The University's Director of Finance was currently Chair of the South East branch of BUFDG.

For future years on the cover sheet accompanying the paper, it would be helpful to draw to the Committee's attention that best practice guidance had informed the review of the Financial Regulations.

Director of Finance

The Committee approved the proposed changes to the Financial Regulations.

3.4. TRAC return

The Committee reviewed a summary of the TRAC return for 2019/20 and the information to be submitted to the OfS.

The Committee approved the submission of the TRAC return, and confirmed the University had complied with the Statement of Requirements.

Director of Finance

3.5. OfS Funding update

Arising from the policy directives set out in the recent letter of guidance from the Secretary of State for Education to the Chair of the OfS, the Committee received details of the potential implications for the University. The University anticipated a reduction of funding in a number of areas.

The Committee noted the proposed changes to funding.

Summary of OfS report on financial sustainability

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The OfS had issued a report on the financial sustainability of the higher education sector. The report was based on the provisional results for 2019/20 and forecasts for 2020/21 submitted by higher education providers.

While in aggregate the financial position of the sector was judged to be sound, there was significant variation in the financial strength of individual institutions.

The Committee noted the report.

4. TREASURY MANAGEMENT

4.1. Treasury Management Annual Report

The Committee received the annual report on treasury management.

The Committee considered a draft policy on placing some of the University's cash reserves in a capital market investment fund. It was expected that up to £10M would be placed with two investment firms, with the exact amount invested agreed nearer the time. The University was confident that the anticipated level of investment would not compromise its liquidity.

Mr M Jeffries offered to join the panel selecting the two investment firms.

The Treasury Management Policy had been updated to reflect the new investment policy.

The Committee received confirmation that the University's Bank covenants had been met.

The Committee received the Treasury Management annual report and approved the following:

- the new investment policy
- the proposed method for selecting investment managers, noting the offer made by Chair of the Committee to join the selection panel.
- the revised Treasury Management Policy.

5. PENSIONS

5.1. Update on pension scheme developments

The Committee received an update on developments in the past year for the University's two defined benefit schemes, namely the Local Government Pension Scheme (LGPS) and the Teachers' Pension Scheme (TPS). During the year consultations on proposed changes to LGPS and actions with regard to the TPS indicated the growing flexibility on behalf of employees to use alternative pension arrangements for new employees.

The Committee was updated on the work the University had undertaken in establishing a new and additional defined contribution pension scheme for employees. Working with the specialist pension advisers "isio", the University had explored different options for employer and employee contribution rates and the governance of a new scheme.

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The new scheme was expected to be based on a 10% employer contribution rate and 0% rate for the employees. Any member of staff would be able to choose to join the scheme. Lower paid staff in particular, who frequently opt-out of the existing pension schemes due to the cost, were expected to benefit from the scheme.

The introduction of the scheme would enable the University to establish an alternative to the rising costs of the current defined benefit pension schemes, which were becoming increasingly unaffordable for the employer and employee.

Following the preparatory work the executive team was now seeking the Committee's approval to, with the support of the specialist pension advisers, move to the tender stage of the process.

The Committee noted the developments with regard to the University defined contribution pension schemes, and approved progression to the tender stage for the establishment of an additional pension scheme for the employees of the University.

The Committee would receive an update on progress at its June 2021 meeting.

Director of Finance

6. ANY OTHER BUSINESS

There were no matters of any other business

7. DATE AND TIME OF THE NEXT MEETING

It was confirmed that the next meeting of the Committee would take place on Friday 4 June 2021 commencing at 14.00.

Mr M Jeffries left the meeting, and Mr I Watson took the Chair.

8. ESTATES

8.1. Estates development

The Acting Vice Chancellor updated the Committee on progress in relation to the DSR development.

Two applications from the contractor for an extension of time had been granted.

Since December 2020, 6 weeks and 4 days had been lost due to the Covid-19 pandemic. The pandemic had adversely impacted supplies through the supply chain and on site operations. The contractor was continuing to make efforts to "catch-up" with the original time-line for the project.

Completion of the main build was hoped still to be the end of August 2021, and that the space would become available for University use during the period September/October 2021.

The work of contractor was being undertaken on a Letter of Intent. Value engineering of the project was continuing.

The anticipated date for the commissioning of the teaching space was not expected to cause the University any difficulties, with the space becoming available at the start, or

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early into, the autumn term 2021. The date for the completion of the residential accommodation was more problematic, with a very short time period between the intended completion date for the residential space and students arriving for the start of the term.