NORWICH UNIVERSITY OF THE ARTS

Minutes of Finance and Resources Committee
Held on Friday 28 February 2020 in the Conference Room, FH201, Francis House

Present
Mr M Jeffries (Chair)
Prof. J. Last
Mr A McMenemy
Mr I Watson

In attendance
Mr S Belderbos, Director of Finance, NUA
Prof. N Powell, Pro Vice Chancellor (Academic), NUA
Mrs A Robson, Deputy Vice Chancellor, NUA
Mr D Williams, Clerk

Apologies

There were no apologies

1. MINUTES OF THE LAST MEETING

Subject to a minor correction, the Minutes of the meeting of the Finance and Resources Committee held on 28 October 2019 were agreed and signed by the Chair.

The Minutes of the joint Audit Committee and Finance and Resources Committee held on the 28 October 2019, previously agreed by the Audit Committee, were noted.

The Minute of the Finance and Resources Committee's decision to approve the submission of the University's TRAC and TRAC(T) returns to the Office for Students (OfS) was noted.

Members agreed that the process used to approve the TRAC and TRAC(T) had worked well, and, if required, the process should be used again.

2. MATTERS ARISING FROM THE MINUTES

There were no matters arising.

3. FINANCIAL MATTERS

3.1. Financial Report

The Committee considered the Financial Report.

The key assumptions underpinning the financial forecasts were highlighted.

The financial forecasts for 2020/21 and for subsequent years were based on the annual recruitment of 850 UK/EU new entrants to the University's undergraduate programmes.

In the year to date, the number of applications received for 2020/21 entry was +17% ahead of the number received in 2019/20. The level of applications indicated that the figure for new entrants might need to be revised upwards later in the year once more complete data on number of offers and acceptances became available.

There were a number of uncertainties going forward. These included the impact of BREXIT and the likelihood that EU applicants would no-longer be able to access UK student loans from 2021/22 onwards.

The current year represented the last year of the demographic dip, after which numbers in the 18/19 age cohort would rise by c.3% per annum. Future government policy with regard to student numbers was however unclear.

The government's response to the Augar Report was still awaited and this might decide to end funding for Level 0 courses delivered by universities. The government could decide that all Level 0 courses should be delivered by Further Education Colleges. This would have an adverse financial impact on the University. Level 0 also acted as an important feeder for 3-year undergraduate programmes. The earliest such change might be introduced was 2021/22.

For all years of the financial forecast, the University was modelling an undergraduate tuition fee rate for full-time UK/EU undergraduate students of £9,250 per annum.

The Committee noted that the Office for Students (OfS) had commenced a review of teaching funding.

In 2020/21 expenditure was expected to grow (+£2.9M) quicker than income (+£0.7M). Staff expenditure was forecast to growth by £1.3M, and non-staff costs by £1.6M. Operating profit was forecast to be £2.6M (net margin of 10%).

Significant components of the growth in staff expenditure were the actuarial adjustments associated with Local Government Pension scheme (+c.£270k) and higher employer contributions to the Teachers' Pension Scheme (+c.£200k).

Growth in non-staff costs included the purchase of previously leased student-facing information technology equipment (+c.£425k) and the non-recurring demolition and asbestos removal costs associated with the Duke Street Riverside (DSR) development (+c.£400k).

The forecast growth of income and absence of non-recurring items of expenditure in 2021/22, was expected to see a recovery of operating profits in the year to £3.9M (net margin of 15%).

The cash flow statement showed the difference between the accounting profit and cash surplus. As previously forecast, and largely reflecting capital expenditure associated with the DSR site, there would be decreases of cash in 2019/20 and 2020/21 of £0.9M and £2.1M respectively. Cash reserves would then increase in each of the three remaining years of the financial forecast.

The balance sheet showed year-end cash reserves falling to a low of £27.2M at year end July 2020, before rising in each of the following three-years to reach £35.7M at the end of 2023/24.

It was agreed that Council would receive the executive summary of the Financial Report accompanying the Draft Minutes of the meeting.

Director of Finance.

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 2018/19 financial year. All but two of the targets had been met. One target had been discontinued as it was no longer required by the regulator.

Benchmarking the University's staff costs as a percentage of expenditure (59%), showed they were higher than the average for the sector (54%). Arithmetically, a reason was the higher percentage of profit made by the University when compared to the average for the sector. This reduced the size of the denominator used to calculate the ratio and increased the ratio's value for the University.

The financial strategy targets would be reviewed alongside the development of the University's new strategic plan.

3.3. Financial Regulations – annual review

The Committee received an update of the Financial Regulations. Only minor changes were proposed. These included up-dating the terms used in the Regulations, and incorporating the recent changes to the terms of reference for the Remuneration Committee.

The Committee approved the proposed changes to the Financial Regulations.

4. TREASURY MANAGEMENT

4.1. Treasury Management Annual Report & Treasury Management Policy

The Committee received the annual report on treasury management and the treasury management policy.

The University was proposing that consideration should be given to placing some of its cash reserves in a capital market investment fund. Using professional fund managers, the aim would be to secure a higher return than that currently available on deposit with the commercial banks. The level of the University's cash reserves now available for deposit, suggested that potential return from placing funds in capital market would more than cover the fees paid to a professional fund manager.

Members were in favour of the University making prudent investments in the capital markets to secure a better return on its cash reserves. They also encouraged the University to look at financial instruments; offering flexibility in being able to move and, if necessary, draw-down funds, if there was an unforeseen requirement at short notice for cash.

It was agreed that the Committee would receive an update at its June meeting.

Director of Finance

The Committee received the changes to the Treasury Management Policy.

The Committee noted that the University had comfortably met all its bank covenants in 2018/19 and was expected to continue to do so in 2019/20.

The Committee received the Treasury Management annual report.

5. ESTATES

5.1. Estates development

As a Director of RG Carter Holding Limited, the Chair declared an interest in the item, and offered to leave the room if the Committee deemed any aspect of the item to be commercial in confidence. As the item was for information, the Committee did not consider this necessary on this occasion.

The DVC updated the Committee on progress in relation to the DSR site. Following completion of the tender process, RG Carter had been given a letter of intent as to the award of the construction contract for the DSR development from the University. The University was currently working with RG Carter to finalise the construction contract.

The demolition of the previous buildings on the site had been completed and RG Carter were on-site. They had commenced piling on site, following completion of pile testing.

6. BUSINESS AND COMMUNITY ENGAGEMENT

6.1. Higher Education - Business Interaction Survey (HE-BCI) Survey 2018/19 and the proposed new Knowledge Exchange Framework (KEF)

The University did not receive monies from the Higher Education Innovation Fund (HEIF), and was unlikely to receive any in the near future.

The Committee reviewed a summary of the University's results for the HE-BCI survey, 2018/19.

Research England was in the process of introducing a newly developed Knowledge Exchange Framework (KEF). Using data from the HE-BCI survey, this would be largely metrics-led. For comparative purposes, individual institutions had been placed in one of a number of clusters, with institutions deemed to have similar characteristics. NUA had been placed in to the "Art Specialist" cluster, which includes 18 institutions.

The Committee noted the 2018/19 results for the HE-BCI survey and the forthcoming KEF.

Once HE-BCI data for all institutions was publicly available, the Committee would find it helpful to receive a report detailing the comparative performance of the University and its peers.

Director of Finance

7. PENSIONS

7.1. Norfolk Pension Fund – NUA triennial valuation 2019

The Committee received an update on the triennial valuation of the Norfolk Pension Fund, as at 31 March 2019. When compared to the previous valuation, the results showed an improvement in the University's funding position. A deficit of £2.6M had become a surplus of £0.3M.

The triennial valuation was significantly better than the actuarial valuation (£9.9M deficit) received by the University in 2019 and used in its 2018/19 financial statements. The explanation for the variance between the two valuations was the different methodologies used. As required by the accounting standard FRS102, the actuarial valuation employed more prudent assumptions.

The Committee's attention was also drawn to the fact that universities were no longer able to take advantage of the "stabilisation mechanism". This placed an annual limit of no more than ±1% on the change in the contribution that an organisation was required to pay into the fund in any one year should there be a change in the fund's valuation. As a result, future triennial valuations could lead to greater fluctuations in the contribution the University was required to make to the fund.

The Committee noted the report.

7.2. Update on pension scheme developments

The Committee received an update on possible developments concerning employee pension schemes. There were on-going discussions on the possible introduction of new pension schemes taking place across the sector, particularly in respect of post-92 institutions. These were focussed on how in future to offer employees access to pension schemes, which were affordable to both the employee and employer.

Currently, due to the cost of the employee's contribution, a number of staff had elected not to join one of the two pension schemes open to employees of the University. This raised concerns about the future well-being of staff.

Following quotes from two different professional advisers, the University had decided to engage KPMG to help scope the steps required for a new pension scheme, which might be introduced when circumstances allowed.

An update on progress in developing a new pension scheme would be provided to the Committee at its summer meeting.

Director of Finance

8. ANY OTHER BUSINESS

The were no matters of any other business

9. DATE AND TIME OF THE NEXT MEETING

It was confirmed that the next meeting of the Committee would take place on Friday 12 June 2020 commencing at 14.00 in Francis House.