UNIVERSITY OF EXETER SPRC/07/82

STRATEGY, PERFORMANCE AND RESOURCES COMMITTEE

A meeting of the Strategy, Performance and Resources Committee was held on Friday 12 October 2007 in Committee Room A, Northcote House.

PRESENT: Deputy Vice-Chancellor, Professor M Overton (in the Chair)
Pro-Chancellor, Mr K R Seal
Pro-Chancellor, Mr P Lacey
Treasurer, Mr G A Sturtridge
Senior Deputy Vice-Chancellor, Professor R J P Kain
Deputy Vice-Chancellor, Professor N Armstrong
Deputy Vice-Chancellor, Professor J M Kay

Mr D J Allen	Professor J A Littlechild
Mr C J Allwood	Professor R Rylance
Ms J J Dow	Professor R Van de Noort

Director of Finance and Corporate Services, Mr J C Lindley
Director of Planning Services, Mr P J Kennedy

IN ATTENDANCE: Dean of the Faculty of Undergraduate Studies, Professor M Macnair
Acting Permanent Secretary to the Students' Guild, Ms T M Costello
Director of Academic Services, Ms M I Shoebridge
Executive Officer to the Registrar and Secretary, Ms G L Weale

APOLOGIES: Vice-Chancellor - Professor S M Smith, Mr S N Fishwick, Ms V J Gregory, Professor H M Lappin-Scott, Dame Suzi Leather, Sir Robin Nicholson, Professor N J Talbot

The Deputy Vice-Chancellor welcomed members new to the Committee - Ms Dow, Mr Lacey, Professor Rylance and Professor Van de Noort.

07.62 Minutes

The minutes of the meeting held on 25 June 2007 were **CONFIRMED** (SPRC/07/63).

07.63 Matters Arising

There were no matters arising.

07.64 Terms of Reference and Membership

The Committee **APPROVED** the Terms of Reference of the Committee for 2007/08 (SPRC/07/64 attached for Senate and Council).

07.65 New Dual Assurance Arrangements

The Committee **RECEIVED** a report on the new Dual Assurance arrangements (SPRC/07/65).

07.66 **Vice-Chancellor's Report and Institutional Performance**

The Committee **RECEIVED** the following:

(a) The Vice-Chancellor's report (SPRC/07/66). The Registrar and Secretary **REPORTED** that the Vice-Chancellor was recuperating well and was expected to return to his office in November. The following points were also **REPORTED** by the Registrar:

- Sainsbury Review – Lord Sainsbury's 'Review of Government's Science and Innovation Policies' had been concluded in October – its report was available from the HEFCE website [the executive summary to be attached to the minutes for SPaRC members]. It signalled the direction of travel of research, business and the economic benefits of research becoming increasingly intertwined and important. The HEIF funding stream was to be increased, become permanent, and to be formulae-driven (40% based on academic staffing, 60% on business oriented metrics). The Technology Strategy Board would be given a new wider remit, and there would also be further resources directed by the RDAs to support, for example, Technology Strategy Board programmes, and KTPs. There would also be more support for STEM teaching in schools. The University would need to reflect on how well its structures and activities mapped on to this policy landscape and ensure it was well placed to maximise the opportunities available.

- Partnerships with schools – the Government had recently announced that all schools were to have partnerships with universities, although it was felt that this was more about links than formal partnerships, given the numbers of schools relative to universities.

- Comprehensive Spending Review – the early analysis of the CSR suggested a relatively benign settlement for Higher Education, with the commitments to maintaining the unit of funding for teaching and the increased funding of science and technology both apparently honoured. There would be some additional student numbers available, mostly for co-funded programmes with employers, but some also for strategic development purposes. It was expected that capital funding would continue, but probably at a lower level.

(b) The DVC External Affairs' oral report on progressing the External Affairs Strategy, which had been approved in June 2007. The actions arising from the Strategy would be discussed at Senior Management Group at its October meeting, and then action planning and implementation for Schools and Services would commence. Actions for the coming months included: engaging with local decision-makers and stakeholders as part of Corporate Social Responsibility, taking follow-up actions in light of the recent reputational audit, redesigning the University's website and supporting Schools in identifying their 'unique selling points' and their main national and international stakeholders. The External Affairs Strategy would be circulated with the minutes to SPaRC members.

(c) The DVC Research's oral report on the University's submission to the 2008 RAE. The submission was well advanced, and the planned submission rate and overall quality profile were on target.

(d) A report on institutional performance (SPRC/07/67 attached for Senate and Council).

This report gave an overview of both internal and external perspectives on Exeter's performance, relative to the sector as a whole and in particular to our competitors. The report examined most recent performance in the National Student Survey, recent league tables, some new data from the HEFCE on research student completion trends and also at the summative 'end of year' internal review of performance – ie focusing on the current 15 metrics. Taken collectively, the data clearly showed the University to be performing at Top 20 level.

It was **REPORTED** by the Director of Planning that Exeter Enterprises (independently of the University) was anticipating continuing to work in association with the Times to generate institutional and subject tables for their next Good University Guide (Spring 2008). This news reflected very well on the work of Planning Services team.

07.67 **Financial Position 2006/07**

The Committee **RECEIVED** a report from the Director of Finance on the Financial Position for the year 2006/07 (SPRC/07/68 attached for Council).

At the Committee's May meeting, the forecast of a historic cost surplus of £3.5m was approved, although the Director of Finance had anticipated that with the possibility of asset sales and further savings in Schools, an improvement on that position was likely. In the event, asset sales were achieved as forecast and there had been favourable variances, both in operational areas and in other central adjustments. As a result, the draft consolidated accounts, prior to audit, showed a historic cost surplus of £5.5m. This result did not include the sale of the Elizabethan building, but if this sale was completed in the final accounts then a further improvement of £0.5m would occur.

The Committee was content that there was now sufficient assurance to reach a decision on the release of 2006/07 bonus and merit award payments to staff and, as the University would exceed its financial target of a £1.5m historic cost surplus, the Committee **RECOMMENDED TO COUNCIL** that these payments be released, noting that they were included in the projected £5.5m forecast surplus position.

The Committee also noted the improvements to budget monitoring and forecasting, and the commitment to continue improving these processes. A full analysis of the outturn would be reported to SPaRC in November following a review by the Audit Committee.

COMMERCIAL IN CONFIDENCE:

07.68 **Report from the Vice-Chancellor's Executive Group September Planning Meeting**

07.69 **Planning Parameters 2008/09-2011/12**

The Committee **CONSIDERED** the planning parameters for the period to 2012 (SPRC/07/71 attached for Council).

The generic planning parameters were generally rolled-forward from those deployed in the previous cycle. There were marginal softenings of the assumptions on HEFCE T grant and HEFCE QR, which aligned with recent information on the Comprehensive Spending Review. These changes would not expose the University to significant revenue risk, but would assist Schools in their planning. It was noted that the parameters continued to make no assumption of any revenue dividend from the RAE, although an increase in the University's QR following the RAE was thought to be probable. The University had also received some indicative modelling of the impact of the new ELQ policy (Equivalent and lower qualifications) announced by the Secretary of State. The impact on Exeter, before re-application of the £100m sector-wide savings, was roughly at the median point for the sector and, given the continued prudent assumptions on teaching grant, the Committee was content that the proposed parameters did not need to be altered.

At the level of individual Schools, the Committee welcomed the shift to School level targets, based on Schools own planning and VCEG approval. The targets overall were important to achieve as, in part, these underpinned the University's commitment to infrastructure over the period to 2011/12, and Schools and Services were expected to deliver on their plans. There were a small number of outlier Schools, either with very modest surplus projections or with surpluses that might risk investment in the student experience, and these would be reviewed in School Planning Groups in the current cycle. The Committee also welcomed the policy to release School and Service reserves, subject to these being used for non-recurrent purposes only and to their normally being approved as part of the budget setting and planning process.

The Committee **APPROVED** the generic planning parameters to guide School and Service planning, the targets for Schools that were implicit in their business plans subject to review in this year's planning cycle for Schools for Schools identified as outliers by VCEG, and the policy to release reserves, subject to the conditions noted in SPRC/07/71.

07.70 **Financial Plans 2008/09-2010/11**

The Committee **RECEIVED** a report from the Director of Finance on financial plans 2008/09-2010/11 (SPRC/07/72 attached for Council).

The full five-year forecast for the years 2006/07 to 2010/11 was due for submission to HEFCE on 3 December 2007. Council had already approved a University budget for 2007/08 of a £1.6m operating surplus and a £4.8m overall historic cost surplus. Schools and Services had been given further time to review and finalise the later years of their plans and these were incorporated in the final three years of the forecast now presented to SPaRC in this report for approval. The University was forecasting progressively larger operating surpluses in the three years 2008/09, 2009/10 and 2010/11 of £2m, £8.3m and £13.6m respectively. No fixed asset sales were included in these three years and the historic cost position was therefore the same as the operating position. The budget for each year included a central contingency of £1.8m.

The steadily improving position reflected:

- additional student cohorts as Phase 2 in Cornwall builds to steady state;
- the final year of variable fees in 2008/09;
- increasing income from international students;
- growth in research earnings following investment for the RAE;
- a tapering of payroll cost increases following new appointments in Cornwall and PCMD and post RAE retirements;

Adverse corporate adjustments would fall from the peak in 2008/09 as a result of:

- increased investment income from higher cash balances;
- reductions in interest payable as long term liabilities reduce;
- the improved operating position of joint ventures;

It was noted that future uncertainties remained, and as yet no forecast provision had been made for the following due to the uncertainties surrounding them:

- RAE 2008
- Potential lifting of cap on tuition fees
- Comprehensive spending review – although it was noted that the early signals from the CSR showed a relatively benign impact on current assumptions

Table 1a of SPRC/07/72 showed a revised set of surplus projections, adjusted to reflect changes to the currently assumed position arising from investments, in particular into the Infrastructure, Education and Science strategies. With the funding of those investments the projected surplus in 2010/11 would be £8.2m, ie 3.7% of income. There was a discussion as to whether the projected surpluses should be further reduced in line with the strategic assumption that investments should be maximised in the current planning period, but it was decided to retain the proposed projections as they aligned directly with the School and Service planning undertaken and the current investment strategy costings.

The forecasts presented to SPaRC for approval and recommendation to Council were the culmination of a robust planning process and were based on relatively prudent assumptions, and it was considered that they provided a sound basis for decision making in respect of strategic investment. The Committee **DECIDED TO RECOMMEND** to Council the forecasts for 2008/09 - 2010/11 for approval.

07.71 **Student Numbers - Preliminary Report for 2007/08**

The Committee **RECEIVED** a report on the preliminary intake position for 2007/08 (SPRC/07/73). The data was based on a very early assessment of registrations to date (8 October) and was to be treated as a guide only, pending the further assessments later in October through to the 1 December census.

The early prognosis was that:

- The undergraduate targets would be met, and exceeded to an optimum marginal degree
- PGCE intake would be marginally below target
- Postgraduate taught intake looked like it would be higher than for 2006 by a reasonable margin, but with a strong likelihood of being below the budgeted position
- Postgraduate research intake would be below the planned position, and possibly below the 2006 intake

The Committee would receive a full analysis at its November meeting, including at School level and across all years of study. It was likely on the basis of the predictions given by the Director of Planning that the contingency set aside for tuition fee shortfalls would be needed, probably in full. It would be important once the 2007 position had been confirmed to review how scholarship strategies should be pursued in future years.

07.72 Funding of Strategies

The Committee **CONSIDERED** a report on the funding of strategies (SPRC/07/70 attached for Council).

This paper set out for SPaRC the key strategies proposed for funding, and the scale of their funding requirement. The paper also identified the proposed route for funding these strategies and the financially sustainable parameters beyond which the University should not go in funding its aspirations. The paper provided the Committee and Council with an opportunity to provide views prior to the proposed finalisation of the Finance and other strategies for decisions by Council in December 2007. This paper was an important milestone from the previous in-principle decisions by SPaRC and Council that the University should make major investments in its infrastructure in the period to 2020, and ahead of making decisions in December on the actual investments to be made in the period to 2011/12.

The work performed to date indicated that (dependent upon the mix between revenue and capital proposals) roughly £100m of University funded investment could be afforded in the period to 31 July 2012. This meant, to the extent the University's strategic objectives exceeded an investment cost of £100m, they would need to be prioritised to fit within this envelope. A programme of much more than the proposed £100m limit, for the period to 2011/12, would place the University at significant risk either in net liquidity or on current ratio (proportion of amount payable under liabilities to the amount of cash on account or due) terms. The Committee concurred with this assessment.

Building on previous discussion at SPaRC (May 2007), the investments were predominantly in infrastructure – mostly buildings but also IT infrastructure and systems. Investments also included support for the Science Strategy currently at circa £7.4m in the period to July 2009 (subject to the final consideration of that Strategy), and for the Education Strategy, with the latter at circa £300k per annum.

The Committee noted the sources of funding for the £100m envelope as being:

(a) Raising of a loan to cover the expected cost of the Business School investment, less any amounts secured through fundraising (which is targeted at £6m). Repayments and interest under this loan would be met by SoBE through its business plan with the exception of £6m which will be met by the Infrastructure Fund. This loan should be available from spring 2008. This loan would be for a period in excess of 30 years and could be up to £18m.

(b) To lease certain University student residences (probably Rowe, St Germans and Lafrowda) for between 30 and 50 years. It was expected to raise some £34m from this source. This leasing arrangement will also include the demolition and rebuild of Lafrowda and also include the building of a further circa 400 bed spaces on the Streatham campus.

(c) Fundraising was intended to contribute some £15m towards the delivery of the strategies. The Development and Alumni Relations Office had been resourced to facilitate this.

(d) The use of released working capital to fund £15m of the required capital investment. The Treasury Service team had been bolstered to allow them to develop the skills to deliver this.

There was one other substantive option for the leasing of residences, which was to take on additional debt through securitising the income streams, and this option was being assessed by the Director of Finance. The selection of that or the leasing option would be a matter of judgement for Council, ultimately based on its assessment of the prevalent risks.

The paper identified the key risks of the funding strategy and provided a commentary upon these. A key risk was that the funding of the strategies needed the University to enter into long term liabilities to fund loans and leasing arrangements. These arrangements were based upon the University's current five year plans. The delivery of the plan has been embedded within Schools and Services targets through the proposed planning parameters set out in the paper SPRC/07/71 as approved earlier in the meeting by the Committee. If these long term liabilities were to be managed at an acceptable level of risk then these plans needed to be delivered upon. The Committee noted that the provision of a revolving credit facility was being considered, which although it would entail some set-up cost, would provide a means for managing short-term pertubations. Additional flexibility might arise after the outcome of the RAE was known and if the variable fee cap were to rise. A limit might need to be placed on exposure to debt.

The Committee welcomed this report, and agreed with its overall conclusions. The Committee **RECOMMENDED TO COUNCIL** that work progress as outlined in the report, so that final proposals for projects and their funding be brought back to SPaRC and Council in November/December, for the period to 2011/12 and to a limit of approximately £100m.

07.73 **Investment Appraisal for the Business School**

The Committee **CONSIDERED** a report on the investment appraisal for the Business School (SPRC/07/74 attached for Council). The report had come from Professor Armstrong's working group, and the report was supported by the Head of School, Deputy Head and School Manager.

The Committee noted the key contextual points within the report, and in particular that the University's partnership with INTO University Partnerships would effect a step-change in the recruitment of international students to the School. The increase in international student recruitment would change the composition of the student body and generate income that will allow the School to transform itself into a Business School of international repute. The School's target was to become a top 50 international Business School, and to generate the outputs identified in para 3.3 of the report.

This investment appraisal evaluated the proposed capital investment required for new buildings for the School that will enable it to manage the increased and more diverse student intake associated with the INTO partnership. It also outlined the expansion in centres of research excellence, the development of a mixed economy staffing profile – ie post RAE when the drive to ensure all staff were research active would be reduced, the internationalisation of the student experience and the engagement with international business which was central to the School's strategy for growth. The appraisal took into consideration the totality of the School's income and expenditure, as well as the capital investment associated with the School's buildings.

Three options were evaluated: new build supplementing existing space on a mixed economy basis, complete new build on a mixed economy basis, and new build supplementing existing space on a research-only basis. Given the INTO developments, doing nothing was not considered to be a viable option. The financial appraisal of these three options led to a clearly favourable relative position for the 'new build supplementing existing space on a mixed economy basis' option. This option, which had an overall capital cost of £24.687m, generated a Net Present Value of £40.523m.

The Committee noted the key risks associated with the scheme generally, and the recommended option as follows:

- Failure of INTO to deliver the expected number of high quality students;
- Failure to recruit sufficient number of home and EU students to keep the international/home student mix balanced;
- Student and staff dissatisfaction throughout the construction period;
- Failure to achieve PGT growth.
- Failure to recruit sufficient teaching fellows to support a mixed staffing strategy;
- Planning approval, construction delays and budgetary overspend associated with the increases in space.

The Committee was content with the assessment of risk and the general approach to managing these, although it noted that total elimination of such risk was not possible. However, failure to approve the proposals in Option 1 would result in the School being unable to take the predicted number of INTO students. Without the INTO related growth, the School would remain a medium sized traditional academic School with an increasing high proportion of the School's income being generated by international PGT students, an inherently risky income stream. This would undoubtedly threaten any aspiration the University had to become a top 10 University within the next five years. The plan had very modest growth targets (apparently inflation only) for research and business-related income over the period of the plan, and it was an expectation of the Committee that the new Director, once appointed, would bring about a significant change in the plans for and delivery of these income streams.

It was noted that the approval implied the injection of additional UK/EU undergraduate student numbers into the School, to ensure that a reasonable diversity of student backgrounds was maintained in the School. It was confirmed that there was sufficient head-room in the University's contract with HEFCE to enable this. Discussions with other Schools on their growth ambitions would be held during the Autumn term 2007, so that an overall view was taken and plan could be carried out.

The Committee **DECIDED TO RECOMMEND** to Council Option 1 in SPRC/07/74 as the preferred option and that the required capital investment of £24.687m (including projected inflation) be provided to the project from the Infrastructure Strategy funds. The approach to project management would be in accordance with the new capital planning framework.

07.74 **Investment Appraisal for Sports Facilities**

The **CONSIDERED** a report from the Director of Sport on the investment appraisal for sports facilities (SPRC/07/75 attached for Council).

It was proposed to build an indoor cricket centre, adjacent to the new tennis centre on the Streatham campus, and to include four nets, storage and spectator space, and also offices to accommodate the regional officers of a number of National Governing Bodies of sport. The centre would be used by the various student teams, by University staff, and extensively by the various Devon cricket squads. The facility would host corporate indoor cricket leagues along with other sporting activities (martial arts, exercise classes, fencing, archery) and University examinations. Incorporating these activities would release capacity in other facilities on the Sports Park, most notably the main hall. The development would align with a number of the University's strategic goals, and directly support the sport and wellness metric.

The facility was expected to cost £2.078m (including VAT, fees and allowing for inflation), with sources of funding as follows:

Grant Aid (Sport England/England and Wales Cricket Board/CCDP)	£1.558m
Sir Christopher Ondaatje	£0.250m
Other funding sources (Sports Office, MCC, Lords Taverners, Devon Cricket Board, Devon County Cricket Club)	£0.066m
Total external contributions (all secured)	**£1.874m**
University's capital contribution	£0.250m

The Committee noted that the University's capital contribution added a margin of contingency to the project, with total contingency being circa £120k. The Committee was content with the assessment of revenue, and that the project was being established on a sustainable basis. There had been a great deal of effort over recent years to generate and align the sources of funding, including the generous donation from Sir Ondaatje. The Committee congratulated Phil Atwell, the Director of Sport, for his tenacious efforts in securing the funding for this important project.

SPaRC **RECOMMENDED TO COUNCIL** that it approve this project for the development of an indoor cricket centre.

COMMERCIAL IN CONFIDENCE:

07.75 **Science Strategy Board**

07.76 **Education Committee**

The Committee **RECEIVED** a report from the Education Committee meeting held on 20 June 2007 (SPRC/07/77).

07.77 **QAA Institutional Audit**

The Committee **RECEIVED** a report from the DVC (Education) on the QAA Institutional Audit (SPRC/07/78 attached for Council). The Audit would take place on 12-16 November, and the preliminary briefing visit had taken place 9-11 October. The main focus of the audit was on the effectiveness of the University's institutional framework (including policies, structures, mechanisms and processes) for managing the security of its academic standards and the quality of the learning opportunities to enable students to achieve those standards. The two 'sampling trails' would be conducted by the QAA audit team on Geography and Earth Resources, and on the BA Business Management (Exeter College).

Professor Kay reported on preparations to date, and was content with the University's readiness for this important audit. She wished to record particular thanks to David Gibson and the Student and Academic Services team as a whole for their excellent preparatory work. A letter outlining the audit findings would be received by the University in early December.

07.78 **Performance and Risk Steering Group**

The Committee **RECEIVED** a termly report from the Performance and Risk Steering Group (SPRC/07/79 attached for Council).

07.79 **PMS Joint Board of Management**

The Committee **RECEIVED** a report from the PMS Joint Board of Management meeting held on 9 July 2007 (SPRC/07/80 attached for Senate and Council).

It was noted that HEFCE regarded the NHS funding uncertainties as being the biggest single risk facing this part of the HE sector. It was also noted that the Board had decided that it should receive more detail on the underlying financial position of the College in its regular reports. The consideration of whether Pharmacy could be developed into part of the College's portfolio was also noted.

COMMERCIAL IN CONFIDENCE:

07.80 **Cornwall Campus Management Group**