

## STRATEGY, PERFORMANCE AND RESOURCES COMMITTEE

A meeting of the Strategy, Performance and Resources Committee was held on Wednesday 16 March 2005 at 10.00am in Committee Room A, Northcote House.

- PRESENT: Vice-Chancellor, Professor S M Smith (Chair)
- Pro-Chancellor, Professor R J Hawker  
Treasurer, Mr G A Sturtridge  
Senior Deputy Vice-Chancellor, Professor R J P Kain  
Deputy Vice-Chancellor, Professor J M Kay  
Deputy Vice-Chancellor, Professor P Webley  
Deputy Vice-Chancellor, Professor S R M Wilks
- Mr D J Allen  
Dr J Barry  
Professor P R Draper
- Mr T Edwards  
Prof W B Richardson  
Mr K R Seal
- Deputy Registrar & Academic Secretary, Dr P K Harvey  
Director of Finance, Mr K R Blanshard  
Senior Assistant Registrar, Mr P J Kennedy
- IN ATTENDANCE: Dean of the Faculty of Undergraduate Studies, Professor M Macnair  
Permanent Secretary to the Guild of Students, Mr S N Fishwick
- APOLOGIES: Ms R King, Dr S Leather

05.22 **Business, Community and Knowledge Enterprise**

The Committee **CONSIDERED** the annual report of the University's Business, Community and Knowledge Enterprise activity for 2003/04 (SPRC/05/25 attached for Senate and Council).

Taking business activity as a whole, the data showed only a very modest growth in income from the previous year, with income in 2003/04 at £10.695M, against £10.468M in 2002/03. At a more detailed level, some encouraging signs of activity growth were observed, notably through income earned through consultancy activities, student and graduate projects, knowledge enterprise partnerships (KTPs) and through the Business Fellowship scheme.

The overall level of performance was, however, of prime concern to the Committee. It was particularly disappointing for the Committee to note the fall in the level of research being undertaken with industry. At the present rate, it was apparent to the Committee that current medium-term planning targets were unlikely to be met – activity in 2003/04 was around 80% short of the target agreed with Schools for 2006/07. The University would continue to lag behind its competitors in reducing its reliance on block grant funding from HEFCE/TTA. A KPI for the University should be the ratio of grant to earned income and an institutional target for this area of activity to replace that originally formulated through FOOS was urgently needed.

The Committee also noted its concern over the timing and content of the report. A report on the out-turn for 2003/04 received in March 2005 was considered to be too late in the cycle and in future the Committee requested that the annual report be provided at the beginning of each new session. The Committee also requested that an interim report on 2004/05 activity be prepared for consideration by

SPaRC. The report should also offer a clearer picture of performance against budget shown at School level as well as in aggregate terms. Members noted that, although formally the BCKE Committee was a committee of Senate, its line of report was through SPaRC.

Steps being taken to address these issues were noted. Consideration was being given by the Vice-Chancellor to reviewing the place of the BCKE agenda within the DVCs portfolio for 2005. A replacement for the post of Head of Enterprise Development was underway following the appointment of the previous Director to the role of Head of Communication and Partnership.

#### 05.23 HEFCE and TTA Grant Settlements 2005/06

The Committee **CONSIDERED** a report laid on the table from the Director of Finance (SPRC/05/26, attached for Senate and Council).

The report focused in particular on the recently received and currently provisional grant settlement letter from HEFCE, which set out the key lines of funding to the University (and the HE Sector) for 2005/06. HEFCE would issue a further letter in July confirming any changes to funding, but these were normally marginal.

The Committee welcomed the settlement, which overall was a very positive one for the University. The following key points were highlighted:

- The HEFCE settlement showed a 9% increase in cash-terms from 2004/05, with £44.5M in grant funding provisionally agreed for 2005/06, up from £40.8M in 04/05;
- The 2005/06 grant showed £31.7M of funds for teaching, with £12.8M for Research;
- Funds for Teaching – stripping out the effects such as from additional funded places for UEC (Phase 1) and for the Peninsula Medical School, and after adjusting for the methodological change on research student funding, the increase was 2.8% - 1% for inflation and 1.8% for the 2<sup>nd</sup> round of Rewarding & Developing Staff
- Widening Participation – adjusting for methodological changes, the allocation was essentially unchanged from 2004/05 i.e. at circa. £1.1M
- Funding for Teaching continued to see an efficiency gain applied, with the real inflationary factors, in particular on pay, being in excess of that allowed for by HEFCE in rolling forward core grant. The message remained clear that the more that could be done to increase “non-core” earned income the better the University’s long-term financial future;
- Research – the settlement showed an increase for Exeter of 19.5% compared to a national increase of 15.7% which amounted to additional income of £2.099M;
- The QR funding for 2005/06 was £10.2M, up by 4.6% on 2004/05
- A change in funding methodology related to the new Research Degree Programme had consolidated HEFCE’s research student funding within R – thus some of the headline increase in research funding (the 19.5%) was due to virement from T to R, with Exeter’s RDP funding being £2.6M for 2005/06;
- It was noted that the TTA grant settlement provided circa £3m of grant funding for 630 PGCE places, all within the School of Education and Lifelong Learning;
- Overall – Exeter’s increase in HEFCE funding was above the 94 Group average (6<sup>th</sup> highest increase).

The outcomes of the funding settlement would now be incorporated within the final round of School/Services financial planning to be brought back to the Committee’s consideration in the Summer Term.

#### 05.24 New Borrowing Facilities

The Committee **CONSIDERED** a report from the Director of Finance (SPRC/05/27 attached for Council). The report provided details of the short-term £5M overdraft facility with Barclays Bank plc, for which SPaRC at its 27 January 2005 meeting had recommended approval to Council. A revision to these arrangements was necessary to ensure that use of the facility was not included within “net cash” for the purpose of calculating cash related financial covenants associated with the loans from Barclays Bank plc and the Royal Bank of Scotland plc. The Committee **RECOMMENDED TO COUNCIL** formal acceptance of the proposed amendments to the loan facility with Barclays Bank in accordance

with Annex 1 to SPRC/05/27. The Committee also **APPROVED** the supplemental agreements detailed in SPRC/05/27 with the Royal Bank of Scotland plc and authorised the Director of Finance to sign them on behalf of the University.

#### 05.25 **Revised Financial Covenants with Lloyds TSB**

The Committee **CONSIDERED** a report from the Director of Finance (SPRC/05/28). The report summarised the need to arrange revised financial covenants with Lloyds TSB in respect of the loan facility of £18M made available to Tremough Campus Services Limited to fund Phase 1 of the student residences built at Tremough, the University being a joint guarantor to the loan facility with University College Falmouth. The Committee **DECIDED** to authorise the Director of Finance to sign the Lloyds TSB letter of variation to the loan agreement on behalf of the University.

#### 05.26 **Financial Planning 2004/05 to 2008/09**

The Committee **CONSIDERED**:

- (a) A report from the Deputy Vice-Chancellor, Resources regarding financial planning for the period 2004/05 to 2008/09 (SPRC/05/29).
- (b) Reports from Deputy Vice-Chancellors and associated financial summaries for School and Professional Services (SPRC/05/30).

Also laid on the table for the Committee's consideration was a spreadsheet summarising the development costs proposed by Schools for 2005/06 and identified by DVCs in their commentaries as 'high', 'medium' or 'low' priority. This table was the document to which paper SPRC/05/29 refers in its list of recommendations at section 8 (e).

In introducing the item, the Vice-Chancellor reported that the Committee was not expected to engage in substantive discussion on the reports from the DVCs and the associated financial summaries from Schools and the Professional Services. The principal debate would take place on whether the financial strategy set out in paper SPRC/05/29 could command the Committee's support and in particular whether the budget position of the University for the 2004/05 out-turn and for 2005/06 could be expected to sustain the release of around £1.5m 'high' priority development costs in order to engage a new cadre of between 30 and 40 outstanding academic appointments aimed at achieving the University's research and other goals. It was hoped that if action could commence as soon as possible after the meeting of the Committee, a recruitment campaign with some high profile advertising could get underway immediately after Easter.

More particularly, the Vice-Chancellor emphasised that the Committee was not being asked to approve detailed budgets for Schools and the Professional Services for 2005/06. Instead, the Committee was being requested to focus its attention on the underlying financial strategy for the planning period and the list of planning parameters set out in section 3 of paper SPRC/05/29. If these parameters and development costs could be agreed, DVCs and School/Services Planning Groups would incorporate them into budgets for 2005/06 which would be brought to SPaRC for approval in the Summer Term alongside financial forecasts to the end of the planning period. In this context, the figures contained in the papers were interim although figures for 2005/06 were firmer than for future years in the plan.

The Committee raised detailed questions about the contents of the plan focusing in particular on the following issues:

- The size of the expected deficit for 2004/05 and the steps proposed to produce a break-even position by the end of 2005/06;
- The financial position of Xfi within the plan;
- The need for clear communications internally on the financial health of the University and the explanation of variation between the management accounts and the financial statements presented to Council;
- The need in such communications to highlight the assumptions contained within the plan for inflation, pay awards, cost of incremental progression etc.;
- The inclusion of UEC Phase 1 in the plan and the exclusion of Phase 2;

- The costs of the ER/VS scheme came within the £5m envelope agreed subject to exclusion of the ERBS Pension Scheme Enhancement Payment;
- The revenue from the sale of some key assets such as the Crossmead Conference Centre had not been included in the plan;
- The need to make explicit the rationale for providing exceptional support from the SDF to two Schools – School of Biosciences, and SoGAER;
- The need to identify contingencies within the plan.

With regard to the planning parameters listed at section 3 of the paper, the Committee discussed a small number of key variations from the proposals in the paper. Firstly, SPaRC requested that the SDF should not be used to provide a subsidy to the Professional Services for 2005/06. The costs of Professional Services should be met from the PSC in order that the process for allocating these be made fully transparent. It was further noted that accompanying the final budget for the Professional Services should be a commentary from the Registrar & Secretary showing how dialogue between the Services and Schools had led to the alignment of services in accordance with School priorities such as international student recruitment. Secondly, the Committee noted its view that it wished to see a financial forecast in the Summer that inverted the relationship between growth of surpluses in Schools and the level of growth of the SDF currently proposed in the plan – accordingly, the annual bottom-line surplus for Schools should be increased to not less than 2% in 2006/07 and not less than 3% from 2007/08 as a planning parameter. Thirdly, that Schools projecting carry-forward deficits in 2004/05 plan and budget for their removal over the period of the plan in addition to producing the annual surpluses.

In general terms, although the Committee welcomed the substantive work undertaken during the interim planning process, it hoped that the papers accompanying budgets and forecasts for the relevant meeting in Summer Term would place greater emphasis on explicating the key business elements contained within the plans of Schools and the Professional Services and how these elements translated into improved performance on existing levels of activity.

Following discussion, the Committee **DECIDED** to:

- note the background, assumptions and general outcomes of the interim planning exercise (sections 1 and 2 of paper SPaRC/05/29) and the detail contained in the IDM summarised for Schools and the Professional Services;
- note the expected outturn position for 2004/05, the action taken to mitigate the budget pressures in 2004/05 and the expectation that the resulting financial position will not result in a breach of existing financial covenants (section 2.14);
- note the key issues revealed by the interim planning exercise (section 2.18);
- approve the list of planning parameters to be used in the forthcoming main planning round in order to finalise budgets for Schools and Professional Services 2005/06 and produce financial forecasts to 2008/09 as set out at section 3, subject to the three revisions to the parameters noted above;
- approve recommendations from DVCs for the release of high priority development costs within a total cash envelope not exceeding £1.5m in 2005/06;
- approve the financial controls proposed to control cost and mitigate risk and the contingencies to be incorporated (sections 4, 5 and 6); and
- note that the instructions to Schools and Professional services incorporating SPaRC's decisions at (d), (e) and (f) above will now be prepared (section 7) with a view to presenting SPaRC with the outcomes of the main planning round at a meeting to be held in the Summer Term.