

## STRATEGY, PERFORMANCE AND RESOURCES COMMITTEE

A meeting of the Strategy, Performance and Resources Committee was held on Wednesday 18 March 2009 in Conference Room 2, Xfi Building.

PRESENT: Vice-Chancellor, Professor S M Smith (Chair)  
Mr D J Allen  
Mr C J Allwood  
Deputy Vice-Chancellor, Professor N Armstrong  
Dr E Isayev  
Deputy Vice-Chancellor, Professor R J P Kain  
Senior Deputy Vice-Chancellor, Professor J M Kay  
Pro-Chancellor, Mr P Lacey  
Professor D A Myhill  
Deputy Vice-Chancellor, Professor M Overton  
Professor R Rylance  
Pro-Chancellor, Mr K R Seal

Director of Planning Services, Mr P J Kennedy (Secretary)

IN ATTENDANCE: Dean of Taught Programmes, Dr J Barry  
Planning Officer, Ms J Goodall  
Guild Chief Executive, Mr J Hutchinson  
Director of Finance and Corporate Services, Mr J C Lindley  
Director of Academic Services, Ms M Shoebridge  
Deputy Director of Finance Services, Mrs A Shrubshall  
Dean of Graduate Research, Professor R Van de Noort

APOLOGIES: Pro-Chancellor Mr R Hughes, Sir R Nicholson, Professor N J Talbot, Ms S Wilcox

09.10 **Minutes**

The minutes of the meeting held on 13 February 2009 were **CONFIRMED** (SPRC/09/09).

09.11 **Matters Arising**

There were no matters arising.

09.12 **Vice-Chancellor's Report**

The Committee **RECEIVED** a report from the Vice-Chancellor (SPRC/09/10). The Vice-Chancellor drew particular attention to the following points:

- **2009 UK/EU Undergraduate Recruitment** - Following the comprehensive briefing that the Committee received at its last meeting, it was reported that the University continued to manage the situation robustly and will be limiting the number of offers made in order to avoid over-recruiting. Schools were thanked by the DVC Education for their understanding and positive approach to this matter. With the need to control recruitment and in the context of growing volumes and quality of applications, there was a potential risk of adverse publicity as inevitably there would be candidates who despite not meeting the conditions of their offer would have a strong set of qualifications.
- **Environment and Sustainability Institute (ESI)** - Plans for the ESI, including the full risk register, would be discussed by Council at its meeting on 8 April. This would be a 'first bite of the cherry' discussion and to be followed by the development of an Investment Appraisal, aiming for final sign-off by Council on 17 July (and this Committee at its meeting on 1 July).

There have been delays at the South West of England Regional Development Agency (SWRDA) in establishing the commissioning team to scrutinise the ESI plans which has created greater flexibility in the timetable for approval. There was a risk relating to a growth in funded additional student numbers, which the Vice-Chancellor was doing his utmost to resolve. He noted that he may need to come back to the Committee at a later stage on this matter.

- **University and College Union (UCU) pay claim** – UCU had decided to not go ahead with its previously planned ballot, and so will be joining the national negotiations.

#### 09.13 Financial Forecast 2008/09

The Committee **RECEIVED** a report from the Director of Finance and Corporate Services (SPRC/09/11), showing the forecast historic cost deficit of the University for 2008/09 to now be £0.9m, compared to the forecast deficit approved by SPaRC on 13 February 2009 of £0.6m. The operating profit had deteriorated by £0.3m to a surplus of £0.6m. SPaRC had set a target of £1m operating surplus. As in the February forecast, the forecast operating position was at this point below target and it was again assumed that it would not rise to a level sufficient to trigger the bonus payment. The University bonus of 1.5% (£1.3m) of pay had therefore been released to the forecast income and expenditure account. The University was forecasting to meet all bank covenants at the year-end.

The forecast included, as previously reported, the potential loss of £2.5m in respect of the Icelandic deposits. Efforts continued to try to recover funds. The latest information indicates that the potential dividend the University might receive ranged from zero to 85 percent.

The central contingency had been reassessed and £0.8m retained in respect of research activity. The remaining £1m of the original contingency had been transferred to a new strategic fund to be utilised as required in support of the creating value agenda and in the event that short-term investment was required to achieve longer-term objectives.

The University continued to demonstrate commitment during a time of recession to the local community by reinstating £0.5m of the long-term maintenance expenditure previously removed from the forecast.

#### 09.14 Review of Financial Regulations

The Committee **RECEIVED** a report from the Deputy Director of Finance (SPRC/09/12). The University's Financial Regulations formed part of the overall system of accountability for Higher Education institutions. The last fundamental review of the Regulations was undertaken in 2005. A detailed review had now been carried out and a revised draft had been considered by Audit Committee on 26 February 2009. Whilst not responsible for approving these, both Audit Committee and the Internal Auditors were content with the proposals.

The Committee welcomed this important piece of work, and the adoption of these Financial Regulations was **RECOMMENDED TO COUNCIL**. Some minor amendments were required, including treatment of materiality levels. Once formally adopted, ongoing revisions would be made through the Dual Assurance route, with major changes coming to SPaRC/Council. The document would be presented in a user-friendly way on the intranet.

The Head of Finance Services, Anne Shrubshall, was warmly congratulated for all the hard work which had gone into preparing the document.

#### 09.15 Interim Report on Research Applications, Awards and Income

The Committee **RECEIVED** an interim report on research applications, awards and income (SPRC/09/13 attached for Senate and Council) which presented to SPaRC the latest position in respect of research applications and awards, set alongside actual research income for 2007/08 and projections for 2008/09. The information in the report was based on data extracted from the research database for the period to 31 January 2009.

The aggregate underlying trend in both applications and awards by value continued to be strongly upward - at 44% and 40% up respectively over the comparative 12 month period. Whilst the aggregate awards data in particular were pleasing, the Committee was concerned at the high variability of awards, with some Schools showing very poor performance in relation to peers internally, and which external comparative data corroborated. It was clear that the research culture of some Schools was, at present, insufficiently strong to be sustainable in the more competitive REF environment, and this was deeply concerning, and required action. Part of this action would be the ongoing move towards fewer and bigger Schools, where a research culture could be better embedded across the under-performing areas, where they could jointly face research councils and where they could enjoy the better research services, efficiencies and lower internal overheads gained through economies of scale.

Whilst reasonable volumes of applications had to be made to embed the research culture and to give the best prospects of a strong pipeline of awards and hence income, there was a risk that internal quality controls in Schools were leading to relatively low success rates. Research councils had clearly flagged that they themselves could not manage this growing overhead, and we were now seeing steps for blocking applications from individuals (as done by EPSRC recently) and institutions who had high volumes of applications to awards. Schools were urged to ensure that strong internal quality control mechanisms were applied to manage this risk.

#### 09.16 Treasury Management

The Committee **CONSIDERED AND ENDORSED** a report (SPRC/09/14) which recorded the amendments (and their rationale) to the University's Investment Policy which had been discussed and agreed with Richard Hughes, Pro-Chancellor – Finance, as part of the dual assurance process. The changes included: adding Alliance & Leicester to the approved Counterparty List, increasing the maximum investment with an approved counterparty from £5m to £8m, increasing the period of restricted term deposits, and also increasing the limit of bank accounts and term deposits with our principal bankers, National Westminster, from £15m to £20m.

The Committee noted that all the current counterparties were now UK banks mentioned by Alistair Darling in his plans to save the UK banking system on 8 October 2008. The Committee was content with the changes detailed in the paper.

#### 09.17 Financial Scenario Planning

The Committee **RECEIVED** a report from the Director of Finance and Corporate Services (SPRC/09/15).

The University's five year forecast to HEFCE was approved by SPaRC and Council in November 2008 and sent in early December 2008, and it was recognised at the time that this had been prepared using pre Lehman Brothers Bank collapse assumptions. This paper sought to explore the consequences of four scenarios: pessimistic, below average, above average and optimistic, on the University. The purpose was to identify the key risk areas to the University and to identify actions to control them. Its preparation had been on a 'top-down'

basis, with the assumptions in appendix A agreed between the Director of Planning, Director of Finance and Corporate Services and the Deputy Director of Finance in December 2008.

The key assumption changes from the approved forecast were lower revenues from the Funding Council and higher payroll costs. Given the changes from December 2008 it was highly probable that the reductions in Funding Council revenues might in fact prove to be higher than indicated, but the increase in payroll costs arising from the pay claim were likely to be lower. Overall these changes were assumed to balance. The analysis indicated that the University had a financially robust business model. There were some breaches of the fundamental parameters (mainly at the early warning level) but these were mainly transient and caused temporarily by the delivery of tranche 1 of the Infrastructure Strategy. These short term breaches would be remedied by the University's proposal to reduce the expenditure by 5% in 2009/10 leading to committed revenue savings of circa £10m for the University each year.

The Committee welcomed this vitally important piece of analysis. It was clear that the public funding environment was moving into fundamentally more negative territory, and that would impinge upon funding for HE. At the same time the broader economic environment within the UK and globally presented challenges. Universities that did not face up to these new realities now would be highly likely to be find themselves in financial difficulties.

The review of the key risks indicated that at present the University was managing these well and was not currently exposed. However, the key areas that will need to be subject to ongoing monitoring included:

- Failure of a joint venture partner
- Failure mid contract of a large tranche 1 contractor
- Payroll costs exceeding income growth
- International student recruitment
- An in year adjustment of the University's HEFCE or other substantial grant

In this context the Committee reiterated its strong support and commitment to the decision to find £10m (5% of gross turnover) of savings in 2009/10, which should be on the basis of the Creating Value agenda and hence come through efficiencies but ultimately had to be converted into definitive cash savings of the £10m. This first step would give the University a relatively strong and stable platform to manage the more difficult times ahead. An increasing focus on efficient and effective use of all our assets was required so that we would be able to do relatively more with less, and Schools/Services would be required to more clearly prioritise their use of resources from now. These steps taken early and effectively would enable the University to continue making investments in its path towards Top 10.

The budgeting assumption for 2009/10 to date was that there would be a 3% inflationary (cost of living) pay increase. VCEG's view was that, as a general proposition, the University should be doing everything it could to protect jobs and hence the well-being of staff and their families. With pay having increased so rapidly in recent years, and in a low interest rate and potentially zero to negative inflationary rate environment, it would be irresponsible to seek a pay deal that was at previous levels, and indeed Government had signalled that any significant pay rise would lead to an equivalent cut in public funding. The Committee endorsed this position, and it was thought by members that staff would be very strongly in favour of this approach also, given how many of their friends and family were seeing pay freezes (at best) as the norm and with job cuts now widespread.

The Committee **DECIDED** that it should receive a single revised five year scenario, drawing on the latest intelligence, at its May 2009 meeting. The objective of this was to provide a context for the Committee when considering whether to recommend the budgets to Council for approval.

#### 09.18 HEFCE Grant Settlement 2009/10

The University's provisional 2009/10 grant settlement from the Higher Education Funding Council for England (HEFCE) had been received recently, together with the overall settlement for the sector. The Committee **CONSIDERED** a report on the settlement (SPRC/09/16 attached for Council), and the following points were noted:

- The settlement was a very positive one for Exeter. The University would receive an additional £5M compared with 2008/09, growing to circa £6m once HEFCE included the now confirmed 287 ASNs for the final cohort of Cornwall Phase 2. With those ASNs included this equated to the 2<sup>nd</sup> highest growth in recurrent funding of the research intensive universities in England.
- Overall research funding was up £3.8m, from £14.6m to £18.4m – i.e. up 26% from 2008/09. This represented the 3<sup>rd</sup> biggest % increase, or 7<sup>th</sup> biggest cash increase in QR cash funding (amongst the top English universities). This was a tremendous result for the University. A preliminary analysis showed that the research activity at the Cornwall campus had contributed to this outcome in a very similar proportion to the research at the Exeter campuses. Further data at the level of UoAs was being released by HEFCE and this would be circulated to Schools once analysed.
- SMG would be discussing the investment strategy for the QR dividend at its 19 March meeting. The Committee noted that the preference was for a 60/40 treatment, with Schools retaining 60% of the QR dividend. Investments within Schools and centrally would be focused on driving up performance for the Research Excellence Framework (REF). Moderation would be provided to support transition for areas that had seen significant losses, but these would be time-limited.
- HEFCE flagged some important cautionary messages in their circular, including the overlap of the DIUS 2010/11 and HEFCE 2009/10 financial years, and a reiteration of the requirement to control intake in 2009 to avoid over-recruitment penalties in individual universities and/or the sector as a whole. University planning should take account of these signals.

#### **COMMERCIAL IN CONFIDENCE**

#### 09.19 Forum Project Update

The Committee **RECEIVED** a report on the Forum Project (SPRC/09/17).

#### 09.20 Strategic Development Fund Bids

The Committee **APPROVED** three proposals for investment from the Strategic Development Fund, as follows:

##### **Graduate Employability** (SPRC/09/18a)

Six 0.5fte Work Placement Coordinators to be allocated to support six Schools in generating and coordinating high quality undergraduate placements. These six post posts would be recruited and managed centrally but would work on a day to day basis in their respective Schools. When Schools financed the post independently from year 3, line management of the posts will transfer to the Schools. This will be done on the understanding that all Work Placement Coordinators will work collaboratively and share information via a Placement Coordinators Forum, managed by the Careers and Employment Services. The approval was for allocations of: £156k p/a for 2009/10 and 2010/11, and £53k in 2011/12 (total of £365k).

**Technology Enhanced Learning (SPRC/09/18b)**

Additional Learning Technologist support to be introduced in Schools. A hub and spoke model (Appendix 2) was considered to be the most appropriate strategy for delivering high quality support for the migration to a new VLE. The proposal was to use SDF funds to employ six students (either placement students or recent graduates) on annual contracts over two years starting from September 2009. After two years Schools may wish to continue to fund placement students from their own budgets. At least one School had indicated that it would match-fund students immediately. The approval was for allocations of: £100k p/a for 2009/10 and 2010/11 (total of £200k).

**Points Based System (SPRC/09/18c)**

The Points-Based System (PBS) was the government's plan for the overhaul of the UK immigration system. We are required to make 3 major changes to procedures in order to be compliant and fulfil our responsibilities as a sponsor: Confirmation of Acceptance to Study (CAS), Record-keeping, Attendance and reporting. Whilst the activity would ultimately be mainstreamed within University systems, some pump-priming was necessary to enable that. The approval was for an allocation of £71.5k in 2009/10, with INTO making a contribution to make up the total investment of £99.5k.

Recruitment to posts within the above investments would be managed through an internal applicant basis initially, to help ensure that they did not lead to substantive growth in total payroll costs.

09.21 Tremough Innovation Centre – Provision of Working Capital

The Committee **RECEIVED** a report from the Director of Finance and Corporate Services (SPRC/09/19). University College Falmouth and the University of Exeter (the partners) were collaborating with SWRDA to develop the Tremough Innovation Centre (TIC) on a site adjacent to the Tremough Campus.

The partners were in the process of setting up a SPV (TIC Ltd) which will be constituted in a way which meets EU State Aid requirements. The full costs of the construction and the net operational deficit for the first five years (£13.8m) would be covered by grant funding from the Convergence Programme (75%) and the RDA (25%).

Significant cash flow support was needed during the first 14 months of the project during the construction phase, with a peak of £1.64m in December 2009. The cash flow support would be shared equally between University College Falmouth and University of Exeter. VCEG had considered this paper and the Committee **APPROVED** VCEG's recommendation that the University commits to provide 50% of the working capital requirement of TIC Ltd during the construction phase, up to a maximum of £1m.

09.22 Performance and Risk Steering Group – Top 10 Performance Review, Termly Briefing on Risk

The Committee **RECEIVED** a performance report (SPRC/09/20 attached for Council) and a termly report on Risk (SPRC/09/21 attached for Council).

The performance report looked firstly at the University's ten KPIs, secondly on reputational measures with national and international league tables used as a current proxy, and finally the financial KPIs. This gave the Committee a rounded view of performance. The KPIs showed a picture of both consolidation and improvement. The internal KPI data taken as a whole corroborated the evidence from external assessments that Exeter has joined the group of top universities, and was continuing to move upwards towards Top 10. The report contained some methodological changes that the Committee was content with. Once the RAE data were fully embedded (using an intensity informed approach) then the make-up of the Top 10 peer group would be reviewed to ensure it remained appropriate for the period to 2012.

The national league tables showed Exeter to have an average position of 15<sup>th</sup>, with the Times showing Exeter highest at 13<sup>th</sup>, and with what we know of 2007/08 data and the 2008 RAE Exeter should move closer to Top 10 in the 2009 league tables cycle. The Committee was familiar with the lagging effect in the international league tables, and despite the work in hand to improve our reputation internationally, this would probably take some time to be converted into substantive changes in international ranking.

The financial performance data remained strong, although with an ongoing concern (especially looking forward) on high payroll costs as a percentage of income.

A further overview report would be provided to SPaRC's early July meeting, at which point all the 2007/08 HESA data will be incorporated, and with a definitive view of RAE performance also available. At the same meeting a thematic review of performance in research would also be provided.

The risk briefing report was intended to update the Committee on the risk environment as currently seen by the Performance and Risk Steering Group. It covered three areas:

- an update on the risk management process at the institution and how it was being embedded in Schools and Services,
- the current 'fundamental' risks that the Performance and Risk Steering Group was keeping a particularly close watch on,
- risks that as yet may not feature on that register, but were emerging as potential concerns, and (in some cases these overlap) the risks, as well as opportunities, that are coming through the Creating Value agenda.

A version of this briefing document had been presented to Schools and Services to help their evaluating and managing the risks most fundamental to them. Council had recently reviewed the risk environment at its awayday. Most of the risks identified in that process were on the University's fundamental risk register, although it had also raised some issues for further research by the PRSG. Julie Goodall from Planning was thanked for the quality of her work in managing the risk agenda for the PRSG.

#### 09.23 Ethics Committee

The Committee **RECEIVED** a report from the meeting of the Ethics Committee held on 9 March 2009 (SPRC/09/22 attached for Senate and Council).

#### 09.24 Science Strategy Executive Board

The Committee **RECEIVED** a report from the meeting of the Science Strategy Executive Board held 11 February 2009 (SPRC/09/23). The terms of reference for the Board were noted and endorsed by the Committee.