

## STRATEGY, PERFORMANCE AND RESOURCES COMMITTEE

A meeting of the Strategy, Performance and Resources Committee was held on Tuesday 23 November 2004 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 S Leather             |
| Dr J Barry           | Professor W B Richardson |
| Professor P R Draper | Mr K R Seal              |
| Mr T Edwards         |                          |
- 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

04.9 **Minutes**

The Minutes of the meeting held on 21 October 2004 were **CONFIRMED** (SPRC/04/9).

04.10 **Financial Performance 2003/04**

The Committee **CONSIDERED** the Year-End Report for 2003/04, a report that the Audit Committee had also received at its November meeting (SPRC/04/10).

The Director of Finance, in introducing the report, highlighted the following aspects. Income to the University had risen from the previous year by £9.6m (9.1%), largely resulting from funding council grant and tuition fees increases, the latter including an increase in international fee income of £1.8m. The research grants and contracts figures showed an increase overall of £1.3m, but with the Peninsula Medical School data excluded there was an actual fall in research grants awarded of 16% from the previous year.

However, the growth in income had been exceeded to a significant degree by an increase in expenditure of £13.5m (12.9%), largely on account of increases in staffing costs, which showed an increase of £10.9m over 2002/03. The increased staffing spend reflected an overall increase in staff numbers and salary costs (some externally funded or ear-marked). Other operating expenses had increased across a range of activity areas.

For the income and expenditure account for 2003/04 the following key points were identified:

- The deficit on continuing operations was £2.4m, including a non-recurrent charge of £0.6m in respect of the cost of staff restructuring at Camborne School of Mines (CSM) prior to its relocation to the new campus at Tremough.
- There was an exceptional charge in the year amounting to £2.654m arising on the refinancing

of the Accreting Preference Share (APS) loan arrangement.

- The final deficit for the year was £5.1m after depreciation and the exceptional items referred to above in respect of the APS schemes and CSM.
- The historical cost deficit for the year was £2.9m, representing -2.5% of turnover; well outside the target range of 3% to 5% that HEFCE regarded as good practice.
- Removal of the non-recurrent exceptional items relating to APS and CSM would have produced a small historical surplus of £0.364m with regard to ongoing activities.

The balance sheet at 31 July 2004 was less strong than for many years as a result of:

- deficits recorded in the core management accounts, the student residences accounts and catering accounts;
- the continued inability of the University to maintain General (Uncommitted) Reserves at the benchmark level of 10% of modified turnover;
- the full inclusion of the University's financial obligations to its pension scheme under Financial Reporting Standard 17; and
- the effects of the refinancing of the APS scheme during the year.

It was also noted that liquid assets had fallen markedly since 31 July 2004 and would continue to do so because of existing funding commitments in 2004/05 and because of the planned budget deficit of £1.5m, which was being managed for the current year.

A series of financial health indicators was also provided, with comparisons to 94 Group data where available. These data reinforced the conclusions drawn elsewhere in papers to SPRC that the University had to take urgent remedial action to control costs and grow income, and that the scale of the financial underperformance against internal targets as well as relative to competitor institutions warranted significant cost-reduction measures to be taken.

The audit of the accounts presented to Audit Committee had highlighted particular concerns with regard to the University's general cash position. The Auditors wished to see detailed cash flow projections for the current year, sensitivity analyses on the cash position, and corrective action taken so that a margin of some £1m was created over and above what bankers' covenants required. In addition, the University intended to obtain the agreement of loan-providers to the use of some of the loan facility previously approved for the capital programme to be diverted for one-off academic restructuring. While the Auditors intended to issue an unqualified opinion on the Accounts, they would not do so until after Council since they needed to be sure that Council would take the necessary steps to restructure.

Following discussion, the Committee **RECOMMENDED TO COUNCIL** approval of the Financial Statements for 2003/04 and the associated commentary (SPRC04/10) attached for Senate and Council.

The Committee also **DECIDED** that an additional report should be provided to Council for its meeting in December, to provide it with assurances that proper controls were now in place to manage expenditure and to set out in more detail the increases in staffing expenditure. The report should also detail the reasons for the variance between the last set of financial information provided to Council for the 2003/04 financial year and the current out-turn information as shown in the Financial Statements.

#### 04.11 **The Financial Position of the University – An Explanation**

The Committee **RECEIVED** a copy of a briefing report in the form of a Question & Answer paper prepared by the Director of Finance initially for the Senior Management Group meeting held in early November. The Q&A dated 1 November 2004 provided Heads of School and other senior managers in an easily accessible format the headlines on the University's current financial position and an explanation as to their origin, as requested by SPRC at its October meeting (SPRC/04/11) attached for Senate and Council.

The Committee noted that the contents of the Q&A formed the financial underpinnings of the papers on academic restructuring that followed.

For the years prior to 2004/05, the University had been operating within a management framework that

did not bring all elements of the University's finances together, and did not differentiate between direct and indirect costs. A number of Schools had deployed reserves over a period of years, but in the light of the resource allocation changes brought in through the work of PRARG and with the reserves largely spent, it was now clear that expenditure was running ahead of income resulting in a major deficit issue to be addressed. Budget pressures of some £4.460m in 2004/05 and £4.748m in 2005/06 were to be addressed. These were in excess of the agreed position largely on account of forecasts in 4 Schools that income would be substantially below target, delays in funding from the Xfi benefaction and other budget adjustments. It was hoped that these would be 'worst case scenario' figures, but there was the possibility of a further worsening if research grant performance and/or student fee income were down on budgeted figures. The student numbers position was under review, and whilst there was encouragement in international fee income over budget, there was an undershoot on research students which would also affect QR income.

The position on reserves was serious. The University's General Reserves at 31 July 2003 amounted to £4.864m giving rise to a shortfall against the benchmark of £2.391m. Final figures are awaited for the year ending 31 July 2004 but the shortfall against the benchmark was expected to be over £4m. This not only meant that the (uncommitted) General Reserves in the balance sheet would be much lower than planned and that less funds would be available to manage unforeseen financial difficulties, but it meant that the cash balances were £4m lower also. With reserves low and the University's cash position heavily constrained, and with the impact of structural changes unlikely to start yielding major benefits in the current year, only a limited range of options was available to achieve the necessary positions for 2004/05 and 2005/06. The way forward was to make savings as swiftly as possible on a non-recurrent basis to protect the University's cash position and attain the University-wide budgeted positions for 2004/05 and 2005/06.

To achieve the budgeted position of a £1.5m deficit for 2004/05, the Committee noted the measures adopted as set out in section 13 of the report, and in particular:

	<u>2004/05</u>	<u>2005/06</u>
	<u>Budget</u>	<u>Forecast</u>
	£m	£m
<u>Total budget pressures to be addressed</u>	(4.460)	(4.748)
Estimated value of further measures taken by the four schools to address in-year budget shortfalls	0.500	0.500
Restrictions on staff recruitment until 31 July 2005	0.500	-
Marginal Staff Cost Reductions	0.750	0.750
Cut back on maintenance and other non-pay costs	0.750	-
Sale of University Assets	0.460	-
Further Savings Required	<u>-</u>	<u>3.498</u>
<u>Required "bottom-line" surpluses/(deficits)</u>	<u>(1.500)</u>	<u>-</u>

For 2005/06, provided that Schools were able to make the planned £1.5m improvement from 2004/05 to reach break-even, the total budget shortfall would be £3.964m. Plans provisionally drawn up for the restructuring proposals, set out in Minute 04.12 (below), would deliver (net) some 80% of the savings required. Further work was required to deliver the balance of approximately £0.777m for a break-even 2005/06 budget.

The Committee noted that there remained the need to take account of the risk that not all the expectations for net savings would be realised, and that there would be a need for contingency. The Budget Monitoring Group would take this work forward and report on progress of implementation in January 2005.

#### 04.12 Strategic Planning

The Committee **CONSIDERED** the following papers from the Vice-Chancellor's Executive Group:

- Imagining the Future (SPRC/04/12) attached for Senate and Council
- Academic Portfolio (SPRC/04/13 AMENDED) attached for Senate and Council
- Implications for University Finances (SPRC/04/14, AMENDED) attached for Senate and Council
- Change Management Issues - Q and A (SPRC/04/15) attached for Senate and Council)

In introducing the papers, the Vice-Chancellor identified the extensive work done on academic restructuring by the Deputy Vice-Chancellors with Heads of Schools and other senior staff since the meeting of SPRC in October. Meetings had been held with individual Heads of Schools and with key academic staff to discuss the proposals and the Vice-Chancellor had presented the contents of *Imagining the Future* at a special meeting of SMG held on Thursday 18 November and to all staff from the Schools identified for restructuring at a series of meetings on Monday 22 November. The Chair stated that it was with great regret and contrary to the communications strategy for the exercise, that a leak to the national Press had taken place just prior to these meetings with the result that some staff and students had not heard directly and in person from the Vice-Chancellor as had been the intention but instead via the media. Accordingly, the Vice-Chancellor had taken the decision to immediately circulate to all staff a copy of *Imagining the Future*. The Chair made clear to the Committee that every effort was being made to recover the position and to meet with staff and students in order that the detail of the proposals was conveyed accurately and with due regard to the ramifications of the changes proposed.

The Vice-Chancellor made clear that, although the headline changes in the academic profile set out in the papers had been announced, the detail on their implementation with regard to finances; staffing; teaching programmes; and shifts in intake quota between Schools had yet to be finalised. The Committee was invited to comment on both the general principles underpinning the restructuring and the detail contained in the papers and to note that the details would remain subject to minor change in the period up to Senate and between Senate and Council, as consultations on the proposals continued.

The Committee noted in discussion the following:

- (a) the action proposed was long overdue and elements of it should probably have been undertaken several years previously although it was recognised that the need for change and the associated evidence-base had been fully identified through the FOOS exercise held in 2001/02;
- (b) the forthcoming need to address the longer term income and cost position through development of a multi-year IDM (Income Distribution Mechanism) could reveal that the proposals were insufficiently radical although it was recognised that the extent of perturbation could not be unlimited;
- (c) the costs of restructuring estimated currently at £3m: additional contingency might be needed;
- (d) the momentum and will for significant change to end extensive cross-subsidy into academic areas of long-standing deficit or academic underperformance should not be lost;
- (e) that in the event of restructuring identifying other cognate areas of underperformance, steps should be taken to include those in the detailed proposals being brought forward so as to achieve as much change in a single unified and focussed exercise as possible;
- (f) effective channels of communication be established with all staff and students groups affected by the proposals to provide reassurance that contractual and other commitments would be fully honoured; and

- (g) fullest regard of the institutional reputation management issues be taken at every opportunity.

Following discussion, the Committee **RECOMMENDED TO SENATE AND COUNCIL** (*nem. con.*) that:

- (a) the key changes in the academic profile of the University as set out in *Imagining the Future* be approved and incorporated into a restatement of the University's Corporate Plan;
- (b) on a contingency basis, a Redundancy Committee of the University be duly established by Council at its meeting to be held on 20 December 2004 to operate in the event that insufficient salary savings were achieved through voluntary means;
- (c) the Senate be requested, as required by Statute, to appoint two of its academic members to serve on the Redundancy Committee in the event of it being established by Council;
- (d) the Deputy Vice-Chancellors be requested to finalise through discussion with the relevant Heads of Schools details for the restructuring of particular Schools in the light of the financial parameters set out in paper SPRC/04/14 and to include the following core components as set out in the DVCs' commentaries (SPRC/04/13 AMENDED, attached):

#### School of Biological & Chemical Sciences

The School to be reconstituted to form a School of Biosciences with a focus on strengths in biological sciences and chemical biology and refocusing out of under-performing areas or areas not aligned with the strategic direction of new School, as set out in the DVC's commentary. Recruitment to the single honours Chemistry and small numbers CH undergraduate programmes to cease such that the 2004 intake would be the last, with recruitment of postgraduate students in those areas not aligned with the portfolio of the new School to cease with immediate effect. No submission in the Unit of Assessment for Chemistry in the 2007/8 RAE. The Head of School to work with the DVC responsible to reduce staffing levels across staffing categories in order to address the current deficit in 2004/05 of £0.96m and to reduce significantly the need for cross-subsidy such that the School achieves a break-even position financially by the start of the 2006/07 financial year. The reduction in staffing levels would involve significant losses of technical staff as well as academic staff. A modest loss of undergraduate quota would be applied, for release to other Schools.

#### School of Engineering, Computer Science and Mathematics

The School to work with the DVC responsible to reduce staffing levels across staffing categories (academic, technical, experimental officer and computer development officer) and across subject areas sufficient to address the in-year deficit of £888K (estimated to be in the order of 17 academic staff and 15 technical and related support staff). To transfer 25 undergraduate intake quota (at Band C) out of the School, allowing it to redistribute remaining quota and/or develop new programmes. To withdraw from recruitment to the undergraduate programme in Cognitive Science such that the current 2004 intake would be the last.

#### School of Education and Lifelong Learning

The School to work with the DVC responsible to reduce staffing in 'Education' by approximately 22 and to restructure its academic activities according to the recent strategic assessment from the SELL Executive Management Group and, in particular, that the School should:

- retain the full quota of each of the PGCE programmes on condition that concrete and detailed plans are in place by the end of February 2005 to bring the aggregate budget of all three into balance for the academic year 2005/06
- undertake a fundamental review of the p/t Med programmes with a view to withdrawing from most of this activity

- identify and actively develop M-level premium fee programmes
- restructure significantly the existing EdD programme
- reduce bought-in teaching to a minimum and at a level considerably lower than the present.

The School to reshape its Lifelong Learning provision in accordance with the DVC's Commentary for DLL, in particular to withdraw from p/t undergraduate programmes in Literature and Creative Writing, Historical Studies, Humanities and Film Studies, and to withdraw its provision in Cornwall. Some DLL activity may be retained through distance-learning but there would be no physical presence on site at Tremough.

#### School of Geography, Archaeology and Earth Resources

The School to work with the DVC responsible to reduce staffing levels in both academic and technical staff categories to address the overarching deficit (pre-moderation) of £940K and in particular those elements of the deficit not associated with the setting up of Phase 1 of UEC and the run-out costs associated with the 2003/04 downsizing of CSM – the combined total of the latter comprising around 60% of the total School deficit. It is anticipated that this scrutiny of staff levels will incur losses of around 7 members of staff in Geography at Streatam and be linked to areas of underperformance. The DVC to work with the Head of School on the School's income projections to the School including research and postgraduate student activity.

#### School of Modern Languages

The School to work with the DVC responsible with a view to ceasing academic activity in Italian, including the cessation of recruitment to the undergraduate and postgraduate programmes such that the 2004 intake would be the last, and with no submission for Italian in the 2007/8 RAE with the resultant gross staff savings estimated at around £275K. The DVC would discuss with the Head of School whether or not some combined honours programmes involving Italian could be maintained via teaching offered through the Foreign Language Centre. The DVC/Head would also be taking forward proposals to address academic underperformance in French, the single largest component in the School and the longer term prospects of Russian within the School. A reduction of undergraduate intake quota of 23 FTE Band C students would be available for reallocation to other Schools.

#### School of Performance Arts

The School to work with the DVC responsible with a view to ceasing academic activity in Music, including the cessation of recruitment to undergraduate and postgraduate programmes such that the 2004 intake would be the last, and with no submission for Music in the 2007/08 RAE with resultant gross staff savings estimated at £311K, it being noted that it was expected that some staff would be redeployed within the School of Performance Arts or possible elsewhere and that a post of Director of Music would be established to lead music-making activities across the University. Approximately 30 FTE undergraduate quota places (Band C) would be available for reallocation within and outside the School.

#### 04.13 Report from UEC Management Group

The Committee **RECEIVED** an oral report from the Chair of the Group. Further confirmation that Phase 1 was being delivered within budget was provided. There would be a review of the delivery of combined services at Tremough, with a view to reducing the burden of cost that was currently being met by the University's UEC Schools and to improve accountability.

#### 04.14 **Budget Monitoring Group**

The Committee **RECEIVED** a note from the Budget Monitoring Group meeting held on 25 October 2004 (SPRC/04/16). A detailed report to the Committee was not being provided on this occasion, as the key issues were being addressed within the strategy papers elsewhere on the Committee's agenda. The Group would continue to meet on a monthly basis to maintain a close controlling brief over in-year performance against budget within Schools and Services, focusing in particular on those Schools with major deficit projections.

#### 04.15 **Performance and Risk Steering Group**

The Committee **RECEIVED** a report from the Performance and Risk Steering Group meeting held on 9 November 2004 (SPRC/04/17).

The proposed framework for Key Performance Indicators reporting of Risk, as set out in SRPC/04/17, was **APPROVED**. The Committee would receive termly key performance indicators reports, supported by commentaries from managers. An annual report would also be produced for the consideration of SPaRC. The Committee noted that the Value for Money agenda was now within the remit of this group, and welcomed the redoubling of efforts that would be made through the Group to yield substantial cost efficiencies in the near future. The Committee also noted the requirements of the 2004/05 HEFCE Accounts Direction, with Audit Committee taking the lead responsibility in governance terms for scrutinising the University's compliance with these sector-wide requirements.

#### 04.16 **Learning and Teaching Committee**

The Committee **RECEIVED** a report from the Learning and Teaching Committee meeting held on 2 November 2004 (SPRC/04/18). The Chair, Deputy Vice-Chancellor Professor Kay, set out the principal issues that should underpin the business of the Committee over the current year, and which would be drawn together into an Education Strategy within the current planning cycle. It was noted that HEFCE had confirmed approval of additional funding supporting the University's current learning and teaching strategy under the Teaching Quality Enhancement Fund initiative. It was also noted that HEFCE had made a £150k award to Dr Kaplan and Dr Balkenborg (School of Business and Economics) under phase 5 of the FDTL initiative.

#### 04.17 **Human Resources Committee**

The Committee **RECEIVED** a report from the Human Resources Committee meeting held on 16 November 2004 (SPRC/04/19). The Committee **APPROVED** the following recommendations:

- (a) That the University implement the Framework Agreement with effect from 1 August 2006. It was noted that under the terms of the nationally-negotiated Framework Agreement, institutions may implement new pay and grading arrangements, including the adoption of a single pay spine, on a date between 1 August 2004 and 1 August 2006. The majority of 1994 Group Universities intended to implement in 2006 and in view of the anticipated financial consequences of implementation the target date for implementation would be 1 August 2006;
- (b) That future Contribution Based Rewards payments would be conditional upon the University's ability to pay and that payments would be deferred until after the financial year outturn was known. It was noted that following a review of the first year of operation of the Contribution Based Rewards Scheme a number of changes would be discussed with the Trades Unions before being brought back to the next meeting of the Human Resources Committee;
- (c) That the future employment and use of Teaching Fellows be reviewed by a working group. HRC had expressed its concern over the steep rise in both the numbers (77 fte in 2003 up to 113 fte in 2004) and the costs (£1.8 million in 2003 up to £2.9 million in 2004) of Teaching Fellow Appointments and the associated opportunity cost. SPRC invited Human Resources Committee

to establish the composition and terms of reference of the review group but requested that the group should be chaired by Professor Webley, DVC (Resources), and should include in its membership at least one Head of School, the Dean of Postgraduate Studies and a School Manager. The Committee noted that it would be important from the outset to understand why Heads of School were deciding to employ Teaching Fellows in considerable numbers, with a view to arriving at proposals that gave the right balance between control of expenditure and management flexibility. The review should take into account the development of new policy on Graduate Teaching Assistantships, and to issues of teaching quality and standards more generally. The Committee requested that the findings from the review be presented initially to HRC and thereafter to SPRC for consideration.

04.18 **Investment Sub-Committee**

The Committee **RECEIVED** a report from the Investment Sub-Committee meeting held on 2 November 2004 (SPRC/04/20). The Committee was informed that cash funds managed by external liquidity managers and in-house by Finance Services had earned satisfactory returns for the six months period to 30 June 2004, with performance of 3.72% (net of fees) and 3.75% respectively, compared to the LIBID rate of 3.71% and with the average bank base rate at 3.82% over the period.

04.19 **Physical Resources Committee**

The Committee **RECEIVED** an oral report from the Registrar & Secretary on the meeting of the Physical Resources Committee held on 16 November 2004. The Committee noted that in addition to the deferral of the Northcote House Extension project it had become necessary to delay for a period of probably at least two years the construction of the new Family Centre on the Streatham campus. The Committee would be presented with a full report on progress regarding the full capital programme at a forthcoming meeting.

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