

STRATEGY, PERFORMANCE AND RESOURCES COMMITTEE

A meeting of the Strategy, Performance and Resources Committee was held on Tuesday 22 November 2005 at 10.00am in Committee Room A, Northcote House.

PRESENT: Vice-Chancellor, Professor S M Smith (Chair)
Pro-Chancellor, Mr K R Seal
Pro-Chancellor, Professor R J Hawker
Treasurer, Mr G A Sturtridge
Senior Deputy Vice-Chancellor, Professor P Webley
Deputy Vice-Chancellor, Professor N Armstrong

Mr D J Allen	Dr R Lawson-Peebles
Dr J Barry	Dr S Leather
Mr A Desmier	Sir Robin Nicholson
Professor P R Draper	Professor W B Richardson

Academic Secretary, Mr D F Batty
Senior Assistant Registrar, Mr P J Kennedy

IN ATTENDANCE: Dean of the Faculty of Postgraduate Studies, Professor H M Lappin-Scott
Dean of the Faculty of Undergraduate Studies, Professor M Macnair
Mr S N Fishwick, Permanent Secretary to the Guild of Students
Miss S J Gabbott, Deputy Director of Finance
Dr Nicki Horseman, Assistant Registrar (for discussion under 05.74)

APOLOGIES: Professor R J P Kain, Professor J M Kay, Ms R King, Mr J C Lindley

05.70 Minutes

The minutes of the meeting held on 13 October 2005 were **CONFIRMED** (SPRC/05/69), subject to it being noted that Dr Lawson-Peebles was in fact present at the meeting.

05.71 Matters Arising

It was noted that:

- **Minute 05.64 CBR (Contribution Based Reward)** – the implementation of the scheme for performance during 2005/06 had been confirmed. Firstly, 1% (of the payroll) would be assigned by Schools and Services, using guidelines that were to be drawn up, to reward exceptional performance by colleagues. It was expected that these rewards would generally not be dependent on the University's financial performance overall, and thus would reward exceptional performance by individuals that might take place even where the overall financial position was below targets. Secondly, a further 1% would be paid on an equal cash basis to nearly all members of staff, so that lower-paid colleagues would in percentage terms receive the most, provided that the University's overall financial targets were met. These would be confirmed at the October meeting of SPaRC each year. The target agreed for the release of these payments for 2005/06 was for a University surplus of £1M plus the costs of CBR (i.e. a total surplus of approximately £1.4M).
- **Minute 05.68 UEC Phase 2** – it was noted that the current position had continued to show a projected over-spend of circa. £1M on capital expenditure, which required the University (and University College Falmouth) to reduce spend on the programme to bring it within budget. The way forward being taken was to seek refinements to the plans for the Learning Resources Centre and teaching space and in particular to innovate through IT provision, for example assuming some laptop "wi-fi" (wireless) usage as opposed to all PCs being fixed desktops, to generate the required savings.

Planning permissions were being sought, and it was expected that the tendering process would lead to the receipt of tenders in February/March 2006. A contingency sum of £1.2M remained available within the project budget.

- **Reports from Committees** – it was noted that as yet in the current year there had been no reports from either Research or Learning and Teaching Committees. It was explained that this was because the Chairs of the Committees had decided that there was not business that had needed to be referred or reported to SPaRC. It was **DECIDED** that the Governance Working Group should consider the issue of reporting from sub-committees to SPaRC in particular, and that lay-membership on these and other major committees should be considered. It was noted that there had been a wish more generally to avoid the Committee being over-burdened with papers, so that it could perform its strategy, performance and resources brief. It was also noted that a “nothing to report” procedure could be adopted where no business was in fact being reported from a sub-committee.

05.72 Vice-Chancellor’s Report

The Vice-Chancellor **REPORTED** on the following matters:

- **HEFCE Additional Student Numbers (ASNs)** – the University had been successful in being allocated the first full tranche of UEC ASNs for Phase 2, i.e. the 2007 entry cohort - amounting to a total of 266 ftes. HEFCE could not make public commitments at present, pending the deferred Comprehensive Spending Review, for the funding of cohorts beyond 2007 entry, but had given a clear commitment that this was a top priority for them. The Vice-Chancellor would ensure that the University’s response made clear the need for HEFCE to follow-up on this commitment as soon as the CSR enabled them to do so. It was also noted that Exeter’s bid for other ASNs under managed growth for the Streatham and St Luke’s campuses was also successful - with 339 ftes being allocated over the 2006 and 2007 entry years. The DVC (Resources) confirmed that decisions on precise allocations of quota to Schools for 2006 entry would be made and communicated by 25 November.
- **HEFCE T Funding Methodology Review** – there was an important HEFCE consultation process being conducted, with responses due back by 13 January. HEFCE had circulated a very lengthy and technical document, HEFCE 20005/41. Although there was further analysis to be done to evaluate the issues and how they might affect Exeter’s interests and guide its future planning, it was clear already that there were important issues at stake in this consultation, more specifically:
 - a longer-term shifting of resources away from the lower-cost subjects (on the assumed basis of higher tuition fees being able to fund most of the lower-subject costs) and probably having full financial effect from 2008/09,
 - a shift of T resource away from the traditional interests of the research-intensives, with strategic funding flexibility (possibly to protect in the event of market failure) as a newly introduced principle of the method and with various funding streams (such as for part-time students) being given explicit funding lines separate from the mainstream teaching grant, and
 - the funding of a credit-based approach now visible on the horizon, although not in the near-term (i.e. probably not before 2009/10), and which could be expected to be in the interests of those institutions that had higher ‘drop-out’ rates.

Technical evaluations were being made through PRARG, and it was noted that a senior HEFCE officer was to provide further insights on the issues to VCEG on 28 November. VCEG would approve the final response to the consultation, and members of the Committee would receive a copy of the University’s response. Decisions to be made by SPaRC later in the cycle would need to take account of the likely funding landscape as HEFCE decisions were implemented.

- **Monitoring institutional sustainability** - All HEIs were being required by HEFCE to submit "an initial framework setting out how its long-term sustainability was being managed", by 3 January. A proposed response would be provided to Council for its 19 December meeting. The response would need to embrace financial, HR, equipment

and buildings/estate issues. It was thought that this process would help underpin a new form of resource allocation by HEFCE, such that a recurrent capital funding stream would be made alongside other recurrent funding, and thereby replace the current cyclical and separate SRIF-type allocations processes.

05.73 **Financial Statements 2004/2005**

The Committee **RECEIVED** reports from the Director of Finance and the Treasurer for the financial year to 31 July 2005 (SPRC/05/70, SPRC/05/71 attached for Council).

The final out-turn position for the year was a historic cost deficit of £6.6M, which included exceptional costs of £6.2M, largely arising from the restructuring costs approved by Council and required in order to provide a foundation for long-term success. This position was significantly better than previously forecast to the Committee, with improved positions in both Schools and Services on account of tight controls on expenditure by these budget units, and also with some improvements in corporate adjustments. These were offset by pension scheme adjustments and some adverse variances on exceptional items. Taking into account these one-off items, the underlying deficit for the year in budget units was £0.4M, although the Committee noted the overall deficit prior to historical adjustment was £12.7M.

It had been reported to SPaRC and to Council earlier in the financial reporting cycle (July 2005) that the deficit was likely to be greater than the out-turn showed. Whilst the improvements were welcomed, there was concern at the level of variance (some £3M) from forecasts made in 2004/05. The Committee noted the process improvements highlighted in SPRC/05/73, which as implemented would ensure that the forecasts provided to the Committee would be on a more regular and robust basis than previously.

The Balance Sheet showed a marginal improvement in net assets over the year, with an improvement also in cash balances, from £8.9M to £17.7M, largely as a result of realisation of investments £2m, a £1.1m increase in PMS balances, and positive working capital management £2.3m. However, the University was now in a highly geared position, with borrowings at some 49% of turnover. This would have implications for investment strategies in the coming years, so that for example the University might need to turn to third party developers to continue its programme of developing its student residences. Income and Expenditure Reserves showed a net surplus of £15.6M, but these were imbalanced across School/Services balances and general reserves, with the latter reduced through the costs of restructuring and other central adjustments – this position would need to be addressed to provide future planning headroom.

Within Schools (excluding PMS), the overall result was a deficit of £2.5M, which showed an improvement of £1.5M from the previous forecasts. The Exeter element of the Peninsula Medical School had returned a surplus of £785k. The analysis at School level revealed a range of positions and risks for attention in 2005/06 and beyond, and through the new financial monitoring process DVCs would report to VCEG on progress being made in each School. Professional Services showed a surplus of £1.4M, a positive variance of £1.2M, and largely on account of holding vacant posts open, and also the savings made on CBR (£0.2M). Hospitality Services showed an improvement from forecast of £0.3M. Capital Expenditure for 2004/05 totalled £20.4M, the major investments being in provision of student residences, investments in the Tremough campus, improvements in teaching areas and investments also in sports facilities.

Overall, the statements reflected the difficult nature of the year, including as it did a major academic restructuring programme, but that strategic investments had been made during the year to create a sounder footing for the University's aspirations to become top-20. The year-end performance, reserves and cashflow were all better than previously anticipated, and helped the financial position going forward. The level of variances, although positive, revealed the need for more accurate, joined-up and generally robust financial monitoring procedures, and these were in the process now of being implemented. The strategy of balancing the development of a stronger reserves position whilst maintaining strategic investment would be a key theme for the Committee during this cycle.

The Committee **RECOMMENDED TO COUNCIL** that Council approve the financial statements for the year to 31 July 2005 at its next meeting.

05.74 **Student Numbers – Provisional Report for 2005/2006**

The Committee **CONSIDERED** a report from the Assistant Registrar (Planning) on the student intake position, based on provisional data (SPRC/05/72 attached for Senate and Council).

The paper presented an analysis of preliminary student numbers compared to planned numbers by School and followed the report to the Committee's 13th October meeting, which focussed on intake only. Although the data was drawn relatively early in the term, on 27 October, it had been examined through a process of consultation with Schools and was sufficiently robust to draw overall trends from. The student numbers covered the majority of the student population (both entrants and returning), and were compared with 2004/5 actuals and 2005/6 and 2006/07 planned numbers derived from the July 2005 business plans.

The initial impression of the student data presented in October was still valid – overall, the 2005/6 population was similar to last year but was significantly below planned positions. The shortfall against planned positions was of particular note in the areas of UK/EU postgraduate – both taught and research, and international postgraduate taught. UK/EU postgraduate research student registrations showed that the population this year was lower than the previous year, due to reduced recruitment overall but also on account of the effect of restructuring the Schools of Biosciences and Performance Arts.

The intelligence from the national HE community was that the trends being observed at Exeter were common to most – international recruitment had proven particularly challenging, and research student recruitment was also significantly down on plans and, in many cases, previous years' intakes. However, it was evident that there was much that the University could do to help itself, even though the environment was challenging and would remain so if not intensify, with the US and Australian competitors especially to the fore. For example, services to international students had to be as smooth and trouble-free as possible to spread the news of a good student experience back in home countries, more could be done to maximise conversion of UG to PGT and PGR, the Guild was able to play a more pro-active role with Services and Schools, and more time and potentially resources might be required by way of investment into the conclusions to come through the International Strategy review, which would be brought forward to the Committee in Spring 2006.

A final report for the year would be provided to the Committee's February meeting, following the formal 1 December census analysis. It was also noted that the current analysis was based on programme registrations as opposed to module data, and that process work would commence to review how best to provide this data in future iterations.

05.75 **Financial Forecast 2005/2006**

The Committee **RECEIVED** a report from the Director of Finance, which provided the Committee with a forecast of the budgeted performance for the year ending 31 July 2006 (SPRC/05/73 attached for Council).

The new approach identified in the report was welcomed by the Committee, with pan-University positions across income and expenditure, capital expenditure, financing arrangements, cash and reserves all shown, and consistent in format with the previous papers on 2004/05 (SPRC/05/70, 71). It was noted that the scope of coverage was as yet not complete, i.e. that the major focus to date had been on teaching income across all Schools and on Hospitality Services, and subsequent forecasts to the Committee would have a broader scope as the new financial monitoring procedures were implemented across other activity areas, and as new management accounting capacity was built up in Finance Services.

The forecast outturn was now £1.6m compared to the original forecast of £3.5m. This was mainly due to lower than planned student numbers (notably PGT and international) as reported previously to the Committee, and which led to an estimated £2.6m reduction in income. Other adjustments were on account of including PMS overheads within the budget and incorporating internal loans (previously treated as external expenditure). The downturn in projected teaching income was being managed within individual Schools through the application of contingencies

and the identification of further savings. It was also noted that the figures did as yet not include the application of 'clawback' for over-recruitment of UK/EU undergraduate students, which the DVC Resources would shortly be confirming with Schools, and also for the conversion of the student numbers from a programme-basis to the IDM module-taking or 'load' basis (for undergraduate students) which although neutral at University-level could lead to fluctuations in individual Schools.

The Vice-Chancellor's Executive Group had considered the revised forecast, and wished to see the targeted surplus adjusted upwards to £2M, which would require further savings and/or additional income, which DVCs would take forward with their Schools. The Committee supported this position, but was also concerned to ensure that a delicate balance was found here, it being vital to ensure that staff morale in Schools was maintained, but with financial targets being met – clear and consistent communications at all levels were important to maintain. Of particular importance was the process for releasing posts for the following academic year, i.e. so that staff recruitment could commence in January/February 2006, and the DVC Resources would be drawing up a process for this for approval by VCEG as a priority.

It was also noted that the University continued to see disproportionately high costs for its UEC activity. It was anticipated that the new Campus Services Director would be instrumental in assisting the University in improving services to UEC colleagues and indeed in helping to drive down costs, but this theme would be one for broader attention as plans for Phase 2 were advanced.

The Committee **RECOMMENDED TO COUNCIL** that Council approve the revised financial forecast for the year to 31 July 2006 at its next meeting. Revised forecasts would be provided to the Committee on a termly basis (March, June meetings).

05.76 **Policy on Balances and Reserves**

The Committee **CONSIDERED** a report from the DVC Resources and the Director of Finance that evaluated the issues regarding the use of balances and reserves, and looked at how in process terms a moratorium on their use might be lifted, and made specific proposals for an immediate release of a limited amount of reserves (SPRC/05/74).

By way of context, it was noted that the Committee had imposed a moratorium on the use of reserves by University budget centres, with specific authority from the DVC (Resources) and the Director of Finance required for any release of reserves. This policy had, in part, contributed to the University achieving a better than expected out-turn in 2004/05 and would continue to help achieve a sound financial position in 2005/06.

There was discussion as to the precise definition of what the terms "reserves" and "balances" actually meant – and it was apparent that meanings might vary between monies theoretically available to spend, to sums of money earmarked for potential/desirable expenditure, to clear and absolute commitments on expenditure. It was agreed that some further definition of terminology was important to avoid any lack of clarity or understanding across budgetary units and indeed to assist understanding for University committees. Although there was further precision to be gained from that exercise, a number of principles to guide the use of brought-forward monies were established, namely that:

- there should be a recurrent budget line for all recurrent expenditure,
- reserves should only be used for investment, and
- there should be a corporate view taken over the release of reserves, to protect the University's cash flow and financial position more generally.

It was noted from the preceding items on the Committee's agenda that reserves in Schools, in aggregate, were very low, and with most Schools having negative reserves at present, but that Professional Services reserves were currently standing at approximately £4.5M (from recurrent sources). Whilst there were commitments against some of these reserves, that was not the case universally, and the Registrar confirmed that he would be discussing with his colleagues how some use of these reserves, subject to the University's cash position enabling this, could

be spent to the benefit of Schools and to Services, which might be for (non-recurrent) IT investment, physical infrastructure etc. These proposals would come to the Committee via the planning process later in the cycle, with some indicative suggestions put to SPaRC at its February meeting.

The Committee welcomed the paper, and **DECIDED** that the DVC Resources and the Director of Finance should be requested to work up a revised set of proposals in the light of the discussion held. The revised paper should address the following:

- defining more clearly the terminology – namely what exactly do we mean by reserves and balances,
- the University's strategy for building general reserves (and further to the papers brought to the Committee in March and July 2005), and
- the process issues for releasing 'reserves' in the future.

The Committee also **DECIDED** that the release of a limited amount of reserves should be permitted, to a total overall (across the University) of £200k. This decision meant that the release of reserves from Schools or Services would, therefore, continue to be subject to the existing policy which required express authorisation from the DVC Resources and the Director of Finance prior to any expenditure.

05.77 **Part-Time Undergraduate Provision from 2006**

The Committee **CONSIDERED** a report from the DVC Resources (SPRC/05/75 available on request).

The paper set the context for later proposals through an update on the current position with regard to part-time provision across the University and, particularly, in the Department of Lifelong Learning (DLL). It was noted that this was following Council's decision in December 2004 that there would need to be a significant refocusing of the activities of the Department of Lifelong Learning (DLL). This involved a phasing out of recruitment to some part-time undergraduate programmes in a number of humanities areas and in Tremough. It was noted that subsequent to that decision, and in line with long-standing policy that part-time programmes should be delivered by research-active staff based in 'home' departments, relevant staff and quota were transferred from DLL to the departments of Theology (in HuSS) and Archaeology (SoGAER) from August 2005. Theology was continuing with part-time provision, whereas Archaeology had decided to switch its quota into full-time provision (whilst continuing to provide for the teach-out of existing part-time Archaeology students).

In terms of strategic fit and opportunity costs, it was noted that current activities in DLL, whilst of the very highest quality and directed towards valuable social purposes, did not contribute to research excellence and were not taught by research-active staff. These programmes represented a significant opportunity cost in their use of HEFCE-T quota, which could otherwise be used to support growth in other areas of the University which were able to contribute to the University's strategic objectives. The regional interests were not fundamental either to delivery of services to students or to the University - there was already adequate provision from the Open University and specialist providers, and in particular distance learning was a popular option being taken up by students and of course available regardless of geography. In the University's Corporate Plan, the main concern as regards regional education activities was with 'providing support for knowledge entrepreneurs, high growth businesses and community and by attracting regional funding to build on areas of expertise which reflected the strengths and concerns of the South West'. These had not been the focus of DLL activities and would be best developed by entrepreneurial Schools with a clear, research-based focus.

Two options were considered by the Committee. Firstly, DLL could be left in its current form delivering a range of programmes not offered elsewhere and increasingly focused on genuinely widening participation and developing further its expertise in flexible and distance learning. It was noted that this carried the risk of leaving a large volume of activity without strategic direction or future and incurring significant opportunity costs for the University and for SELL in particular. The second option was to restrict the use of HEFCE-T quota to those areas of the University which were delivering the University's research-led objectives. This would mean a refocusing of DLL's activities to unregulated markets at undergraduate, postgraduate

unaccredited levels. There was evidence of demand in all of these areas and the ongoing commitment to current students would provide a useful foundation platform from which to explore the potential of these markets further. It was accepted that there were also risks with this second option, most notably that: the market for these diversified activities might be quite limited and that these viability issues required further strategic evaluation to be led by SELL, to ensure a fit with broader University planning.

The Committee **APPROVED** the recommendation in the paper, that the use of HEFCE-T quota should be restricted to those areas of the University that were delivering the University's research-led objectives. Over time, this would lead to a refocusing of DLL's activities to unregulated markets at undergraduate, postgraduate unaccredited levels, where there was evidence of demand. There would be an ongoing commitment of provision to current students, and at current price levels (subject to normal inflationary uplifts).

05.78 **Programme and Pricing Group**

The Committee **RECEIVED** a report from the meeting of the Programme and Pricing Group meeting held on 24 October 2005 (SPRC/05/76). The Committee **APPROVED** the proposal from the DVC Resources that it should receive a firm proposal for a merit-based University Scholarship scheme, as a key strand in attracting high-calibre students across the subject range; this report should come through to the Committee during the Spring Term. The Committee also **APPROVED** the proposal that part-time undergraduate fees pro-rata to the variable fee of £3,000 be adopted for new students from 2006, with Schools being able to charge lower rates for specific programmes where subsidised within their business plans.

05.79 **Business, Community and Knowledge Enterprise Committee**

The Committee **RECEIVED** a report from the Business, Community and Knowledge Enterprise meeting held on 13 October 2005 (SPRC/05/77). It was noted that the BCKE Committee would be replaced by a new External Affairs Committee, with a revised brief and terms of reference. Those revised terms of reference would address three major themes – strategy development and monitoring, developing outreach and business engagement, and encouraging entrepreneurship. It was also noted that stakeholder issues would be more explicitly incorporated within the new Committee's terms of reference.

05.80 **Capital Planning Group**

The Committee **RECEIVED** a report from the Capital Planning Group meeting held on 26 October 2005 (SPRC/05/78 attached for Council).

There were three important strands identified in the report from the DVC Resources:

- **10 year capital planning** – work was progressing to consider the likely shape and size of the University taking into account the research/learning & teaching balance, mix of subjects and UG/PG balance. Projections of student and staff numbers were currently being finalised with Schools, and these would be key drivers to informing plans. The plans would encompass IT infrastructure and capital-intensive scientific equipment, and would cover residential as well as other forms of building. It was noted that decisions would need to be taken on borrowings, in particular for student residential development, and with the University currently heavily geared there was a likely role for the involvement of third parties to avoid additional borrowings coming on to the University's balance sheet. Another important feature to be considered would be how best to establish a capital infrastructure fund, in order that funds would be built up over time for refurbishment and any new build of academic and support facilities.
- **Estate Strategy** – the Estate Strategy would identify potential sites for development on the three campuses, and would examine how best through existing buildings and potentially new build also the planned growth brought through the 10 year capital planning work might be accommodated. Trends that should be taken account of

included: an increase in home working; the move towards more open plan working areas; and the proposal to accommodate some expansion in Schools, by converting existing teaching rooms in School buildings and ultimately building a new teaching and learning resource centre. Capacity issues at St Luke's would be a vital matter to address through the Strategy, as it would not be possible to accommodate much further expansion in numbers at the St Luke's campus, and further dialogue should take place with the Royal Devon and Exeter Foundation Trust regarding the Heavitree Hospital site. Siting of residential accommodation was also a matter for attention within the new Strategy. Of the other issues that would be addressed within the Estate Strategy in due course, the most significant issue was the need to maintain and upgrade existing property to an appropriate standard and the level of finance needed to achieve that.

- **Capital Programme 2003-2008** – a financial summary was provided for all projects within the approved capital programme for the period 2003-08. All the project programmes were reported as on schedule and within budget.

It was noted that this Group was performing a very significant task, and in the Governance Working Group the issue of lay-membership for the Group would be considered.

05.81 **Performance and Risk Steering Group**

The Committee **RECEIVED** a report of the Performance and Risk Steering Group meeting held on 9 November 2005 (SPRC/05/79). It was noted that a much more detailed report would be provided to the Committee at a later stage in the planning cycle, and also that the work of the Group continued to support the institutional emphasis on directing resources into income-generating activities.

05.82 **Human Resources Committee**

The Committee **RECEIVED** a report of the Human Resources Committee meeting held on 15 November 2005 (SPRC/05/80).

The Committee noted the following important issues from the report:

- **Staff Opinion Survey** – this had been launched on 14 November and the outcomes would be known in January; these would be compared with other 94 Group institutions that had also used the survey. It was anticipated that SPaRC would consider these outcomes ahead of communications to the University staff. Plans for Schools and Services would be required to address how they would respond to the issues identified specific to each 'unit'.
- **Teaching Fellow Appointments** – there continued to be a significant opportunity cost incurred, given the levels of teaching fellow appointments, with some £3M annually being spent on teaching fellows by Schools. Whilst it was recognised that some flexibility in managing School business was an important tool for Heads, the Committee was concerned that this level of teaching fellows would lead to direct losses of QR income, and might have negative implications for RAE metrics. The DVC Resources was requested to take these issues forward with his fellow DVCs and through to Schools, for report back to the Committee (via Human Resources Committee).

The Committee also considered a report on proposed new arrangements for Schools to approve additional payments to academic staff for work undertaken beyond the norm, and where it was not possible to absorb the additional teaching within the School workload model. The Committee **APPROVED** the arrangements, as detailed in the appendix to the report (HRC/05/23), with immediate effect.