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## **UNIVERSITY OF EXETER**

### **AUDIT COMMITTEE**

A meeting of the Audit Committee was held on 12 May 2021 via Teams at 13:00-16:00hrs.

### **Agenda**

1 Welcome and Declarations of Interest

2 Minutes of the Meeting 9 March 2021 and Matters Arising (AUD/21/25)

3 Our Finances:

- Forces and Trends
- Management Finances: pre and post-pandemic
- University Strategy: developing a new supporting financial strategy

4 Financial Forecasts:

- OfS Five Year Forecasts (AUD/21/26)

5 Key Risks:

- Pensions: USS Update and UUK Consultation Response Sign Off (AUD/21/27 & 27A)

6 Chair's Closing Remarks

### **Part ii Papers**

- Council Finance Sub Committee minutes:
  - 17<sup>th</sup> February 2021
  - 25<sup>th</sup> March 2021

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**Attendees:**

**Members:**

Gerry Brown (Chair)	Independent Member
Nicholas Cheffings	Independent Member
Graham Cole	Independent Member
David Dupont	Co-Opted Member
Simon Enoch	Co-Opted Member
Alison Reed	Independent Member

**In attendance:**

Totty Brobyn	Committee Secretariat Administrator (Minutes)
Andrew Connolly	Chief Financial Officer
Christopher Lindsay	Director Compliance, Governance and Risk
Mike Shore-Nye	Registrar & Secretary
Kate Lindsell	Head of Compliance
Duncan Baird	KPMG External Auditor
Rees Batley	KPMG External Auditor
Duncan Laird	KPMG External Auditor
Mike Rowley	KPMG External Auditor
Heather Ancient	PWC, Internal Audit
Alison Breadon	PWC, Internal Audit
Charlie Martin	PWC, Internal Audit

**Apologies:**

Tracey Tuffin	Interim Internal Audit Manager
Donna Fitzgerald	Deputy Director Operations and Procurement

**Actions summary:**

<b>Item</b>	<b>Action Summary</b>	<b>Owner</b>	<b>Progress</b>
3	Key principles to be added into the strategy process and communicated to Council members within the Audit Committee update at Council on May 20 <sup>th</sup> .	Secretariat	Completed

## 1 **Welcome and Declarations of Interest**

The Chair welcomed members, officers and representatives from KPMG and PWC to the meeting, including Alison Breadon who will be replacing Heather Ancient as a representative of PWC.

No declarations of interest were made.

## 2 **Minutes of the Meeting 9<sup>th</sup> March 2021 (AUD/21/25)**

The minutes of the meeting of 9<sup>th</sup> March were approved.

It was reported that matters arising would be dealt with at the June meeting of Audit Committee.

## 3 **Our Finances**

The Chief Financial Officer provided a presentation on the current financial position and highlighted three main areas of interest.

### **Forces and Trends**

#### **Management Finances: pre and post-pandemic**

#### **University Strategy: developing a new supporting financial strategy**

- In setting a 21/22 budget (via May and July 2021 Council), it would be necessary to continue with some budget mitigations until January 2022, reflecting continued uncertainty over international student recruitment.
- Creating later year plans to support the develop of the new University strategy would require:
  - The development of new student number and research projections, which in turn would drive a new affordability envelope
  - The assessment of capital, digital and investment needs
  - Consideration of whether new borrowing was required
  - The creation of a new a new finance strategy targeting EBITDA and surplus, underpinned by new KPIs.

The Chair led discussions focused on spending, budgets, and financial management which highlighted a areas of concern for Audit Committee members:

- The focus on restraining budgets rather than growing to succeed
- College level understanding of bottom line profit
- Financial issues continually masked by an increase in international student numbers
- The need to fundamentally review the business model, particularly:
  - The ongoing challenge of research cost recovery;

- The need to examine the approach to education/teaching and determine a sustainable model that reflects the upcoming challenges in this area (e.g. potential reduction of the home UG tuition fee);
- Identifying other income sources: industry and commercial, philanthropy and private equity.

A member of Audit Committee asked if there were ways in which the University could retain the approach of “spending to need” used during the period of the pandemic, while also giving budget holders the authority to work within their budget.

The Chief Financial Officer (CFO) noted that in successive forecasts from budget managers, there had been increasing projections of higher spending which party anticipated return to normal working after the first lockdown. However, when the January lockdown was enforced, managers were unable to deliver on some elements of the budget, for example: field trips and travel, which led to systematic over-forecasting of costs. The development of a zero based budgeting methodology within Professional Services was an opportunity to do a fundamental review of all budgets that could be applied to Colleges if successful.

The Registrar and Secretary noted two key projects in the pipeline: the Zero Based Budgeting project, which would test all aspects of Professional Services spend and included a Carbon Management Policy which would encourage modifications to reduce the use of carbon through changes in procurement, travel and ways of working; and the Future of Work Project, which would increase the use of blended learning, reutilising existing spaces to deliver research and education and help move away from capital spend on new buildings.

A representative from KPMG noted that across a number of institutions, the teaching operating model required reassessment

A representative from PWC noted that coming out of the pandemic was a perfect time to make strategic changes. Articulating a strong vision of the future was key to success.

The Registrar and Secretary stated that previously the overarching strategy of the institution was one of growth in research power.

The Registrar and Secretary added that many of the key strategic decisions which had led to the current financial performance were focused on improving competitiveness through growth. This informed larger strategic actions, for example, investment into GSI and LSI, climate capacity and capability, all of which reflect strategic priorities of the Government. This had put the University in a strong place with regard to the future and to a strong performance in the 2021 REF which would lead to enhanced reputation and potentially increased QR funding.

The Chair requested that the points made by Audit Committee members were used to inform the new strategy. The Registrar and Secretary agreed and added that input from Audit Committee into the strategy process would be valuable.

**ACTION: Key principles to be added into the strategy process and communicated to Council members within the Audit Committee update at Council on May 20<sup>th</sup>.**

#### **4 Financial Forecasts**

The Chief Financial Officer provided a presentation on the OfS financial forecasts for the University, approved by Council in February, highlighting the following key points:

- New Strategy: under development will re-set and re-define capital and digital need and where new academic investment should be focused, which will in turn quantify overall investment need.
- Business Environment: disruption of Covid, new ways of working, digital disruption and opportunities which will give uncertainty about future finances.
- Likely to be a gap between what is needed to deliver the strategy and what we think we can afford.
- All of this meant that the forecasts will need to undergo several iterations, incorporating the financial implications of the strategy as and when it is developed.

See item 3 - **University Strategy: developing a new supporting financial strategy**

i. **OfS Five Year Forecasts (AUD/21/26)**

The CFO noted that the forecasts for OfS represented the first time this year that looked beyond the immediate issues at hand with its relatively short-term focus on the management of cash, maintaining income streams, etc. However, he added that the OfS plans were currently being updated and will be presented as a draft for Council in May.

The Chair led questions and comments and resulting discussions from Audit Committee members.

A member of Audit Committee suggested that it would be good to show a range of outcomes rather than a point number in order to get a better idea of the degree of probability and confidence around the numbers as they stood.

The Chair stated that confidence was high in the sector around increasing demand for international students.

A member added that the work being undertaken by Professor Neil Gow on the industrial strategy could be an opportunity for additional business and income.

5 **Key Risks**

The Chief Financial Officer provided a verbal update supported by the accompanying papers on the key risk for the University, particularly focusing on pensions.

i. **Pensions: USS Update and UUK Consultation Response Sign Off (AUD/21/27 & 27A)**

The sector saw strikes in 2017 in response to proposed benefit changes and as a result of that strike, a Joint Expert Panel was established to review the valuation methodology and to re-broker relationships between stakeholders. Its first report led to the current 2018 valuation that is in force. It produced its second report but much of this had since been undone by macroeconomic forces, in particular declines in market interest rates. The 2020 valuation now needs to be completed, however it would not meet the statutory deadline of June 30<sup>th</sup>.

The consultation response included a lot of tactical content, some of which would be able to be included in the 2020 valuation given the timeline was so tight. The University has improved its staff communications and Microsoft Teams and remote working had helped improve the reach of communications.

The Chair welcomed questions and comments from the committee members.

The CFO noted that the University is a hybrid scheme, so a mix of DB and DC, but that no employer member of USS was permitted to offer staff an alternative scheme under the USS scheme rules. And that support staff were not in the USS, but in a good Defined Contribution scheme called the 'Exeter Retirement Savings Scheme'. He added that the UUK consultation document discussed the idea of developing a DC pension option.

The Chair stated that Tony Broccardo, a pension expert and a member of the University's fundraising advisory board would be a good advisor on the University's options. The CFO responded by saying that the University had relied upon advice undertaken on a pooled basis through UUK.

The Chair asked the Registrar to give his outlook on the coming year. The Registrar stated the current UUK position was holding, the employers had largely aligned to say that they would like to keep the contribution at the current level and there was sense that as a result of frustration about ongoing uncertainty scheme members would accept an increase in Defined Contribution and reduction in Defined Benefits if it brings their contribution down.

## **12 Chair's Closing Remarks**

The Chair noted that the next meeting was due to take place on Thursday 3<sup>rd</sup> June and asked members to use the opportunity of this meeting to think further on risks assurances and agendas for forthcoming meetings. Deep Dives into risks could also be incorporated into the Audit Committee timeline.

The Chair thanked the representatives of PWC and KPMG, everyone from the University and the Audit Committee members for their contributions.