

HARPER ADAMS UNIVERSITY

Finance and General Purposes Committee

Minutes of the meeting of the Finance and General Purposes Committee held on 21 March 2019

Present: Mr P Nixon (Chairman)
Mr M Lewis
Dr D Llewellyn
Mr M Thomas
Mr S Vickers
Mr D Wong

In attendance: Dr C Baxter University Secretary
Mrs L Furey Director of Finance
Professor P Mills Deputy Vice-Chancellor

By invitation: Mr Tom Webster Chief Technical Officer, Grow Up for item 18/31 only

Part A

Members were reminded to update their entry in the register of interests as appropriate.

18/30 Minutes

Approved: minutes of the meeting of the Finance and General Purposes Committee held on 17 January 2019 (18/18-18/129).

18/31 Matters Arising

Noted: that all actions arising from the meeting held on 17 January 2019 have been addressed.

Mr Webster joined the meeting at this point

Received: i) an oral briefing from Mr Tom Webster on the proposal for Grow Up to develop its vertical hydroponic farming research and development facility at Harper Adams

ii) a report on the proposed lease to Grow Up from an independent surveyor in accordance with Charity Commission requirements, together with briefing documentation about the proposal;

Noted: i) that the surveyor's report expressed comfort with the proposed lease based on the draft Heads of Terms, and concluded in the assessment of the benefits of the proposal to the University that they are such that advertising the proposed disposal of rights is unnecessary;

ii) that Mr Webster had been invited to engage in a discussion about the proposed partnership with the University in which it would agree to provide an area of its land at a reasonable rent on which Grow-Up would locate their research and development facility focusing on growing fresh salads using vertical farming techniques;

iii) a briefing for Mr Webster on the financial plans for the Company and how the research facility would fit into the overall strategy. It was noted that a number of investors were engaging with the project and that shares were being discussed with a range of established investors for commercial sites that would be supported by the R&D facility and

which would, in turn, provide a revenue stream to support R&D work in addition to any grant funding that might be won in collaboration with the University's crop science staff. The Company was motivated to work with Harper Adams due to the opportunity to engage with its research in fresh produce and also to deliver on the Company's commitment to supporting the next generation of food producers and consumers by offering placements. The Company was seeking to finalise an investment fund of £750K (in return for an 18.7% shareholding in the Company), and would not start work on the development at Harper Adams until this funding was in place. A 10 year plan was in place with a commercial site due to be generating income by December 2019 that would cover costs for the R&D facility.

- iii) that Grow-Up were willing to ensure that the University's Estates Department was involved and kept abreast of all planning permission and development/final plans and was clear that the University's approval would be required in advance of any plans being submitted for planning permission. The Company wished to apply science to improve crop yield and nutritional values and to compress production cycle times where possible. The aim was to offer a sustainable alternative to imports of bagged salads as a first key step. The system being used (which had been developed from previous work completed as proof of concept), recycled fertiliser and water to help reduce inputs and also used specific seed types.

Mr Webster left the meeting at this point

- iv) that the draft Heads of Terms made it clear that the lease was non-assignable by Grow-Up, and no lease would be granted until the R&D facility was built to the specification and design approved by the University. Until that point a licence to build only would be offered in accordance with the Heads of Terms.
- v) that members wished to ask the University to explore the feasibility of a change to the draft Heads of Terms such that under the lease, compensation for the tenant's investment in the research and development building (i.e. a market rate for the building depreciated on a straight line basis and less rent for the remainder of the 20 year lease period) might only be payable by the University where Grow Up can provide evidence that Grow up have exercised their right to a break at 10 or 15 years solely due to insolvency of the Company. The draft HoT did not envisage compensation if the lease was terminated at other points during the 20 years (i.e. for reasons other than the tenant exercising his right to give 12 months' notice of a break at 10 or 15 years). It was also agreed that the University should ask to be offered first refusal to purchase the fixtures and fittings located inside the building in the event of a break at 10 or 15 years, but would not be obliged to purchase the fixtures and fittings.
- vi) that members assessed the principal financial risks to the University as either that a partially completed site might be left for the University to manage in the event that the initial construction work wasn't completed by the tenant, or that the business model did not work for the planned period with the tenant exercising a break at 10 or 15 years resulting in a potential maximum compensation cost of £300K (initial development cost) or market rate (whichever is lower), written down on a straight line depreciation basis over the 20 year term of the lease and less rent owed for the remaining period of the lease.

Agreed:

that, having carefully weighed up the positive benefits and the possible risks, members concluded that they were supportive and wished to **RECOMMEND** to the Board that the project proceed, subject to the above stipulations being checked with legal advisers and the Heads of Terms and the lease updated if required. **PN**

18/32 Vice-Chancellor's Report

Received: an oral report from the Vice-Chancellor on recent developments of note;

- Noted:
- i) that there continued to be uncertainty about the timing of the publication of the Augar Review and likely government response. It was understood that decisions relating to any recommendations might be considered at a later stage as part of the next Comprehensive Spending Review;
 - ii) that likely OfS fee levels appeared to have increased since the consultation, and suggestions that fees for smaller/milled sized HEIs when considered per student were much higher than larger HEIs did not appear to have been taken into account so far. The likely fees for Harper Adams appeared to be c £97K compared to an anticipated £79K based on the consultation. Government support for Universities that would need to meet much higher TPS employer contribution levels had also not emerged to date, although representations continued. AdvanceHE and QAA fees were also under review;
 - iii) that the University planned to bid to Research England for funding to support the Newport Innovation Park (NI Park), to help support the local authority's investment;
 - iv) that Hands Free Farm work planned at Harper Adams had secured c £500K funding as part of an overall package. £5 hectares of the farm would be needed for the project;
 - v) that the Vice-Chancellor hoped to be able to submit a bid to the Marches LEP which was seeking new pipeline projects;
 - vi) that the University was continuing its BREXIT risk planning and had reviewed the situation for students from the Republic of Ireland in particular. While the latter students would enjoy free movement after BREXIT, other EU nationals would have to apply for EU leave to remain after 3 months and such leave would only last three years. Representations were being made by a number of Universities with longer degrees such as Architecture etc. as well as by Harper Adams;
 - vii) that the Secretary of State continued to be interested in "conditional unconditional offers" made in 2017/18 where it is believed that students were asked to make a choice to accept an unconditional offer early in the cycle without waiting for other offers. This was being seen by some parties as pressure selling. Harper Adams had not engaged in this approach, but was making some unconditional offers this year, but not expecting students to make an early decision before they had all their offers to hand. The Minister intended to write to all Universities asking them to explain their approach during 2017/18;
 - viii) that as at 14 March 2019, Undergraduate applications were at 106% of 2018 levels at the same time of year. While this was encouraging, the University was clear that there was a lot of work to do in the coming

months to ensure student targets were met, or if possible exceeded. Student retention work was also positive and remained a key focus;

18/31 Annual Review of Financial Strategy and Financial Indicators

Noted: that this would be an item at the next meeting, when it was understood that the OfS grant letter would be available. **LF**

18/32 Financial Planning/Budget

Received: i) the Management Accounts for the University for the period to 31 January 2019;
ii) the updated five year plan;

Noted: i) that planned savings for the current year were progressing to target and a second MARS round was due to commence on 1 April 2019. While overall performance remained reasonable, Cedar Energy had not performed as well as expected due to breakdowns of key equipment and this and a reduction in farm income with some increased costs remained risks that were being carefully monitored. Local Government Pension Scheme (LGPS) costs had also increased. The budget surplus had been reduced from £738K to £693K to reflect these movements;

ii) that since the forecast in July 2018, the large and unknown increase in Teachers Pension Scheme (TPS) employer costs from September 2019 was a key factor. The review of the forecast had also brought Vet School grant forward as it would need support until it gets into a surplus position. Other adjustments included the 40 week let for students and changes to conference lettings and catering income at Easter as a result. Farm income had been reduced to £100K as a prudent measure, and Cedar Energy heat generation had also been factored in to reflect known changes. The OfS fee and TPS charges were also factored in, together with a prudent estimate of a 5% reduction on OfS grant. More information on grant levels would be known in May 2019.

iii) that UG student numbers included were 630 as previously estimated, but it was hoped this could be improved upon if possible. The cash generation of £5M on average was being maintained, but was challenging in the first year due to JVS costs. Vacancy savings and other measures would be needed to address the increase costs of TPS especially. All posts in the budget were being checked, and it was recognised there may be some modest saving opportunities related to not continuing fixed term posts. If the grant reduction was not seen, this would add a further £188K to the income level, this would be known in May in time for the full five year forecast to be presented to F&GP in June 2019 and to the Board in July.;

iv) that strategic investments remained key to ensure the University was planning for the future and being competitive. New course ideas were also under active discussion which could realise new income streams. It was agreed that a range of measures to manage costs were needed and that these would be worked through for the full five year forecast once there was more certainty about 2019/20 grant levels and other key factors;

18/33 Report from Cedar Energy Limited

Received: a report from the Director of Finance and the Estates Consultant

Noted:

- i) that the report proposed a scheme for investing in changes to the current system to make it operate more effectively were set out. The costs were £75K capital to address this and other defects as the contractors were now in administration. A review by external energy consultants had shown that in steady state, with the works completed, the system would work, generate income and ensure Cedar Energy was a viable company and able to meet its loans. The work done by Henry Gun-Why was much appreciated and had greatly assisted in identifying the risks and opportunities with the current system and its configuration. It was noted that a claim for defects had been agreed by the Project managers and submitted to the administrators, and subject to the later confirming that the contractor could not pay the sums requested it was intended to revert to the insurance bond for the development;
- ii) that should the claim be successful, the funds received would cover the costs of additional capital funding being requested.

Agreed: i) after careful consideration to extend the working capital to Cedar Energy by a further £225K, with a re-payment schedule agreed from 2023. The short-term capital investment loan of £75K to address system adjustments would be re-paid by July 2019; **LF**

ii) that the Director of Finance would continue to explore whether it might be sensible to permit Cedar Energy to surrender its lease for the former AD site. VAT advice on this proposal was required and thereafter stamp duty/corporate tax if VAT looked to be manageable **LF**

18/34 Annual Review of Financial Regulations

Received: a summary of the proposed changes including recommendations made by internal auditors

Noted:

- i) that the full copy of the revised regulations had been shared with members through the Governor's Document Library
- ii) that the changes were minor in nature and mainly related to tidying up/clarification. No fundamental changes were suggested. A few further minor corrections had also been suggested and members were content that these changes be made;

Agreed: to recommend to the Board for its approval the proposed changes to the financial regulations; **PN/LF**

18/35 Annual Review of Treasury Management

Received: a summary paper from the Director of Finance together with an electronic copy of the proposal from Brewin Dolphin

Noted:

- i) that it was proposed to place the endowment from the Oldacre Foundation with Brewin Dolphin at risk appetite 6 on their scale. Had the funds been placed with M&G (which was a permissible option under the agreement with the donor) a loss would have occurred to date given recent stock market performance. The University was committed to awarding scholarships based on growth in the funds

achieved by February 2020 and May 2020 and these were to be match funded from industry funds and/or other sources such as the Development Trust. If growth was not achieved, no scholarships would be paid;

- ii) that the maximum investment of £3M should be placed with Santander given its current rates and that used foreign currency (often received from EU grants) can be retained at a maximum of £500K with any of the approved institutions. It was also agreed that Lloyds and RBS continue to be deemed appropriate institutions on the basis of UK government ownership of RBS and the outlook for Lloyds.

Agreed: that the placement with Brewin Dolphin should be progressed together with the placement with Santander.

18/36 Strategic Project Monitoring

Received: a report from the Deputy Vice-Chancellor on progress with the Joint Vet School;

- Noted:
- i) that the role of Director of Operations for the JVS was to be offered to a preferred candidate and that arrangements for Head of School interviews were in hand for early April. The Chair of the Board would be a member of the interview panel;
 - ii) that the validation had now been completed for the programme and RCVS had not raised any issues about the curriculum. Feedback from external panel members had also been positive;
 - iii) that Nottingham Vet School had announced a second, in-year, intake of students and it was understood RVC may be considering similar action.
 - iv) that interest in the Harper Keele Joint Vet School at UCAS Fairs and in the forthcoming Animals Open day was encouraging;
 - v) that plans to secure loan funding for the JVS were progressing with a range of options considered to date as set out in the agenda paper;

Agreed: that the Director of Finance should continue to explore options to secure loan finance for the JVS capital development at Harper Adams at a fixed rate for 7 years. LF

18/37 Committees

- Received:
- i) the minutes of Farm Strategy Committee held on 6 February 2019
 - ii) the minutes of Health and safety Committee held on 7 March 2019

Noted: that members had no issues to raise with respect to the above minutes

18/38 F&GP Meeting dates

Agreed: to recommend to the Board revised dates for 2019/20 which would enable the in year review of the five year forecast to be prepared for a meeting at the end of February 2020. This would replace the previously planned January and March 2020 meetings. PN/CEB

18/39 Date of Next Meeting

13 June 2019

Part B

18/39 Risk Management

Received: a report by the University Secretary on risks monitored by the Committee.

Agreed: that the management of these risks remained appropriate.

18/40 Estate Developments and annual report on progress with the Carbon Management Plan and Environmental Sustainability Strategy

Received: a report by the Head of Estates and Facilities

Agreed: that members were content with the report and had no issues to raise