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Benchmarking The Operating & Financial Review of Cambridge Colleges

June 2020

Foreword

This is our second survey of the Operating and Financial Reviews (OFR) of the Cambridge Colleges. The purpose of this report is to review the OFR of all 31 Cambridge Colleges for the year 2019/20 to provide insight as to where improvements to the reports can be made.

Our review this year has compared the findings from this year to last year, to enable any trends to be identified across the Colleges. As I write this foreword the press have just announced that Cambridge University will not hold any face to face lectures over the course of the next academic year due to coronavirus. Whilst we appreciate that the Cambridge Colleges offer so much more than this with small study groups and collegiate living, the delivery of this message by the UK press is a PR disaster. The impact of the total cancellation of conferences this summer will not be reported on until the 2020/21 financial statements and the full impact of the pandemic will not be known, I suspect for many years.

In a year of watching and waiting to see what will happen with Brexit, another general election and then COVID-19 causing a worldwide lock down, the likes of which hasn't been seen for a century, the challenges Colleges face has shifted during the current year. Getting students back to Cambridge, whilst maintaining the safety of both staff and students will be in the forefront of your minds.

The key message is that management and trustees will need to carefully consider the impact of coronavirus to ensure that your OFR continues to reflect the financial activities and position of the College.

Budgets and forecasts are playing an important role for all organisations at this current time and Colleges should be reviewing their reserves policy to ensure that it is appropriate given the current pandemic. The FRC has published best practice guidance on the going concern basis of accounting. The guidance provides further information in respect of charities and highlights best practice for trustees on making the going concern assessment. The guidance states that the assessment process "should be proportionate to the size, complexity and the particular circumstances of the company", and that it should be "documented in sufficient detail to explain the basis of the director's conclusions". The guidance also highlights the link between going concern and the reporting of risks and uncertainties.

Whilst there has been little change during the year to the RCCA, additional requirements and options have been introduced by the Charity Commission. A charity Governance code has been introduced and although not legally binding it sets out the principles and recommended practice for good governance and is deliberately aspirational.



Kelly Bretherick



Jayne Rowe



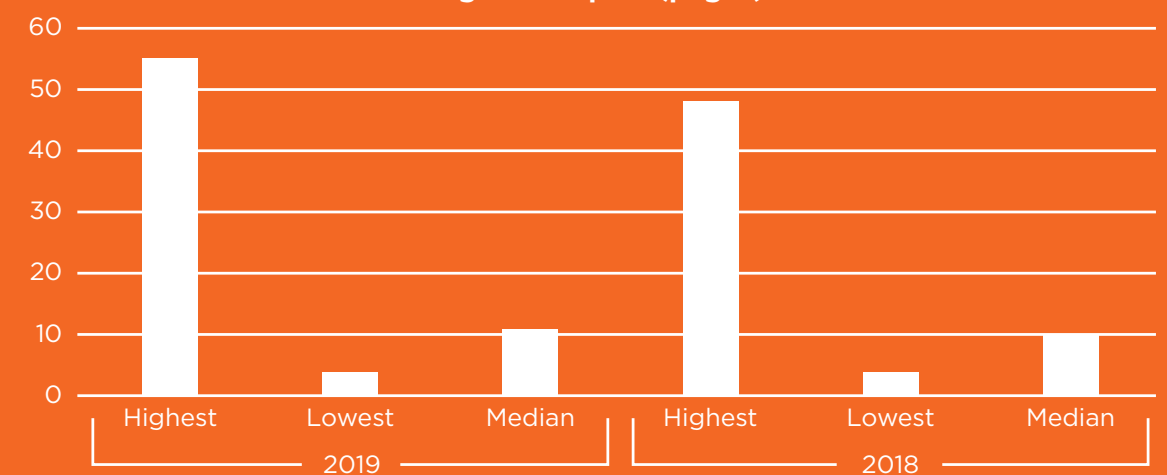
James Burrett

The Survey's objectives & basis

The main objective of this survey continues to consider how certain aspects of the requirements of the OFR are being applied by Cambridge Colleges. All 31 Colleges have been included within the survey, using the latest accounts that are published on the Charity Commission website.

The focus for trustees continues to be whether the OFR is fair, balanced and understandable.

Length of Report (pages)

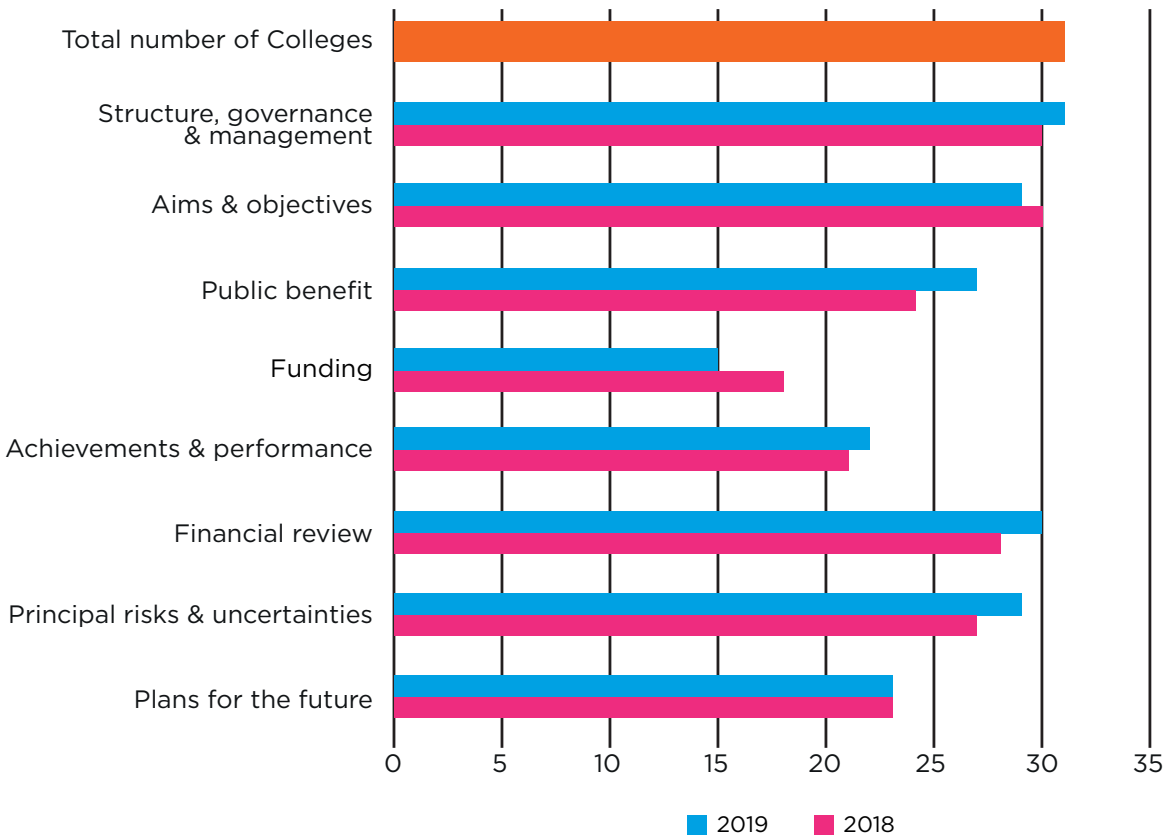


The length of the OFR ranged from 55 pages to 4 pages long, compared to 48 pages to 4 pages in the prior year. The median length of the OFR for the Colleges was 11 pages long compared to 10 pages last year. Whilst transparency is key, reports that are too long often lose the interest of the reader.

Although for the coming year there will be changes to the RCCA, in the reports that form part of this benchmarking review there were no changes. The following headings should still be used as a guide when preparing the OFR:

- Structure and Governance
- Aims and objectives
- Public benefit
- Funding
- Achievements and performance
- Financial review
- Principal risks and uncertainties
- Plans for the future

Specific sections of the report included



For the first time this year we have included two new headings when reviewing the OFR. 15 Colleges included a section on how they are funded and 27 Colleges included a section on public benefit.

9 Colleges did not have an achievements and performance section compared to 10 last year, however of those 9 Colleges most of the relevant information could be found under the public benefit section.

All Colleges have included some form of Governance section.

23 Colleges had a clearly named plans for the future section. A number of others had a section called “outlook”, but this section was often more of a roundup of the report with a nod to plans for the future rather than addressing the requirements.

All but one College had a financial review section, however this one College included this within achievements and performance.

Structure, Governance & management

There has been an increased focus on reporting around governance. The charity code of governance was issued in 2017 as a practical tool to help charities and their trustees develop a high standard of governance. This is a voluntary code and is based on seven principles:

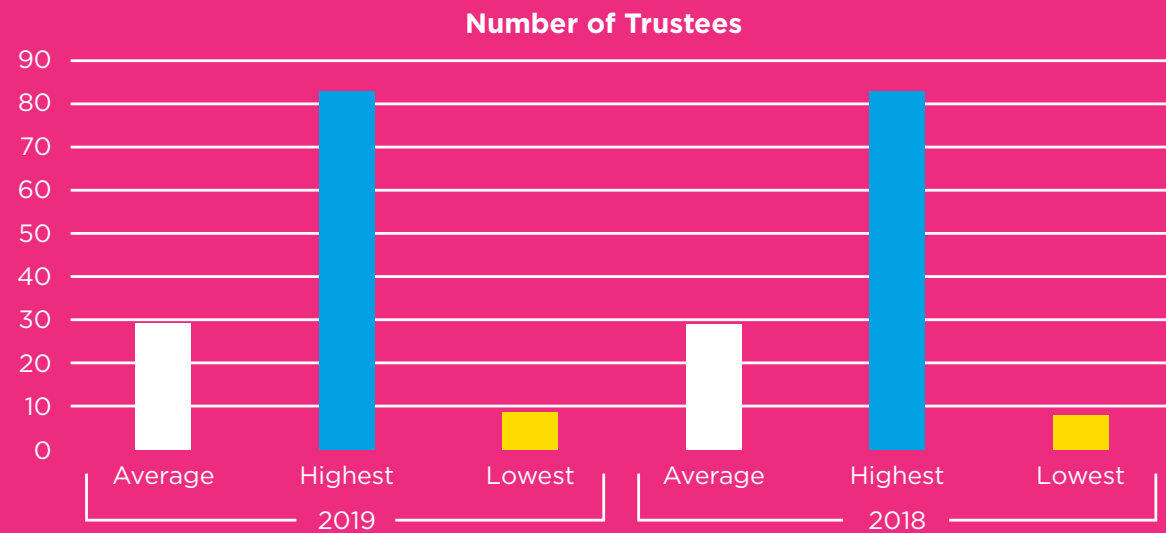


The code encourages Charities to “apply or explain” their governance principles in the OFR. If Colleges do choose to report on the code it is expected that they will either apply the code in its entirety or explain what they have done instead.

As the corporate and not for profit worlds become more accountable, we recommend that Colleges review the code of governance in line with their own practices and report on these in their OFR.

The charity code of governance says that good governance in charities is fundamental to their success. It enables and supports a charity's compliance with the law and relevant regulations. It also promotes a culture where everything works towards fulfilling the charity's vision.

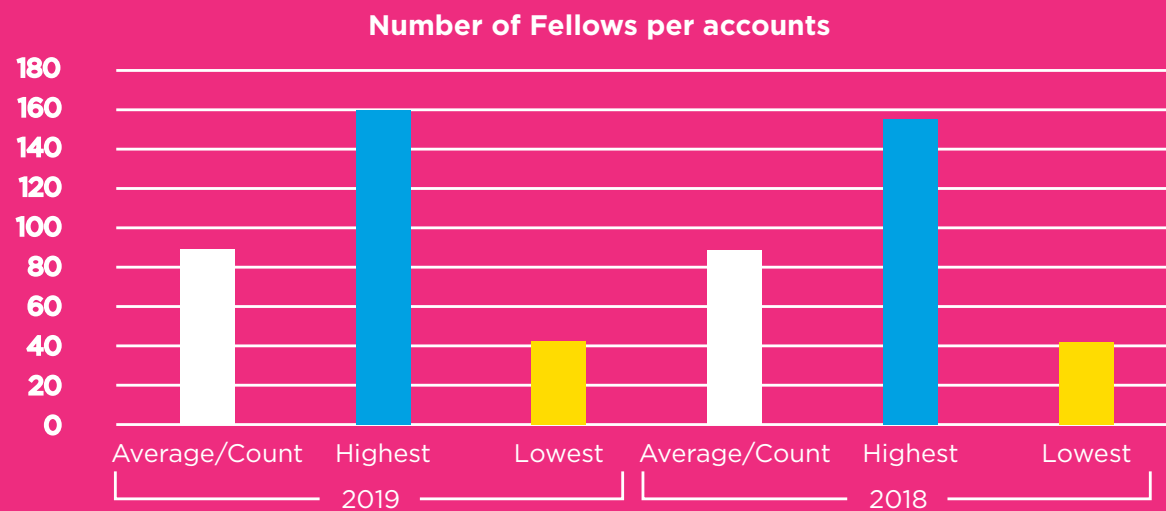
This code of governance recommends that the board should have at least 5 members but no larger than 12.



Whilst the composition of a College board is different from that of a charity, consideration should be given as to whether too many trustees make the decision-making process cumbersome.

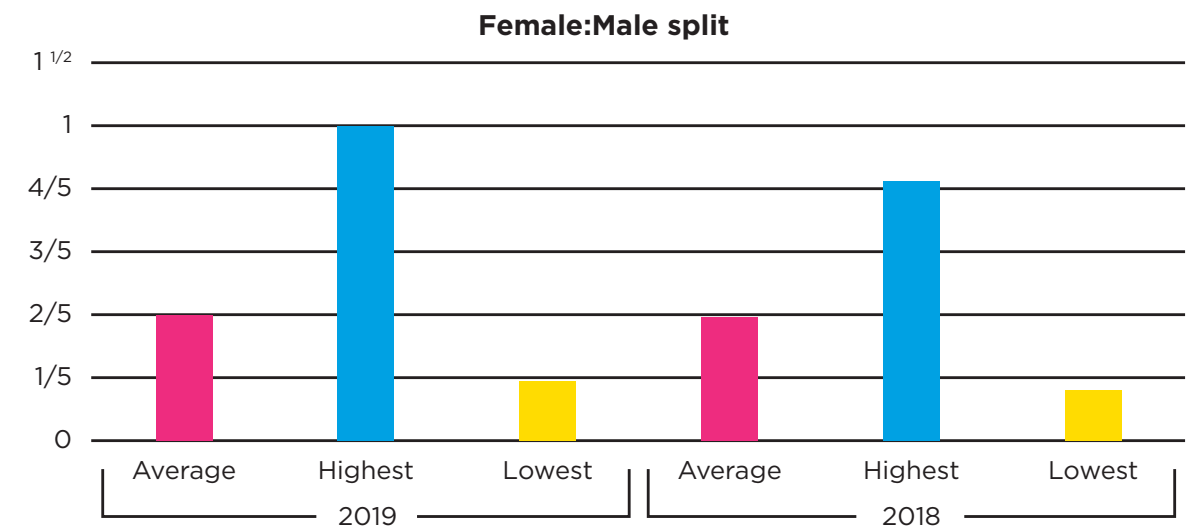
The average number of trustees remained 29 this year, with the maximum being 83 and the minimum 9, suggesting that there is very little change in the composition of the Board.

The 2020 planned update to the RCCA will require specific disclosure of remuneration paid to trustees in bandings of £10k, and this extended requirement may require those with large numbers of trustees to reconsider whether this is necessary.



The total number of fellows has remained constant from last year. 15 Colleges give details of all of their fellows.

Diversity, in the widest sense, is essential for boards to stay informed and responsive and to navigate the fast-paced and complex changes facing the voluntary sector. Boards whose trustees have different backgrounds and experience are more likely to encourage debate and to make better decisions.

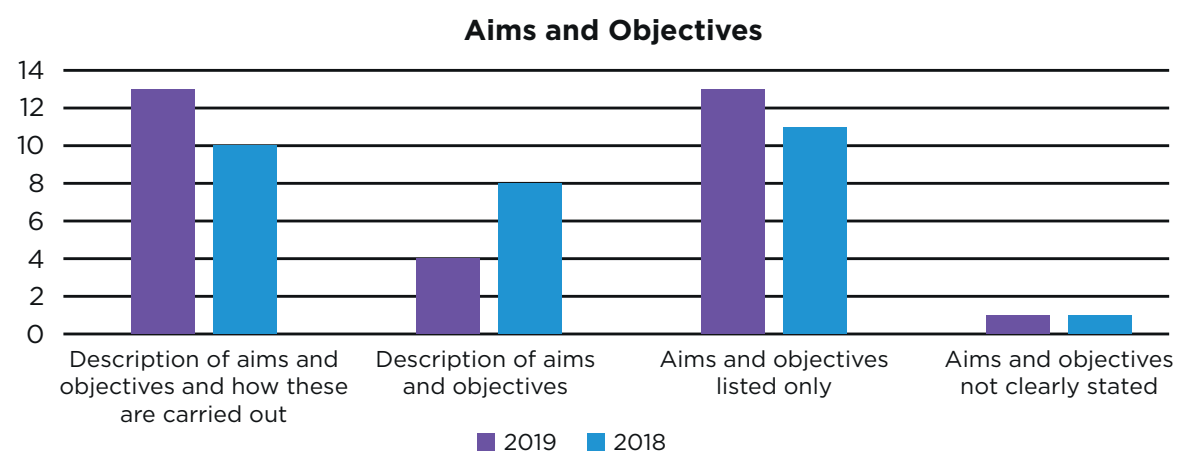


There has been an increase in the number of Colleges where more than half of the trustee Board are female. Currently 6 Colleges, including Lucy Cavendish, have more than 50% female trustees compared to 2 last year.

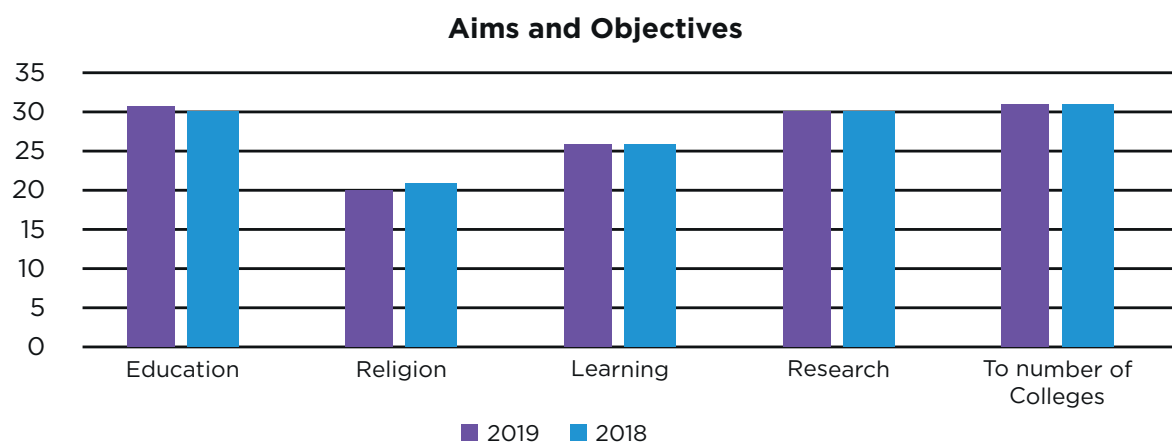
Aims & objectives

The aims and objectives section of the OFR should explain the purpose of the College as set out in its governing document and the main activities undertaken in relation to these purposes.

The OFR and the accounts, when read together, should help users of the information to understand what the College has been set up to do, the resources available to it and how these resources have been used.



Where Colleges only listed the aims and objectives without any commentary, these were often described under the public benefit section. There was still 1 College that did not state its aims and objectives.



Colleges should ensure that there is a clear linkage between activities described in the OFR and the financial reporting to enable any readers of the financial statements to assess where the College is using its resources. All Colleges stated their aims and activities included education and research and 64% (2018- 68%) of Colleges included religion as an objective.

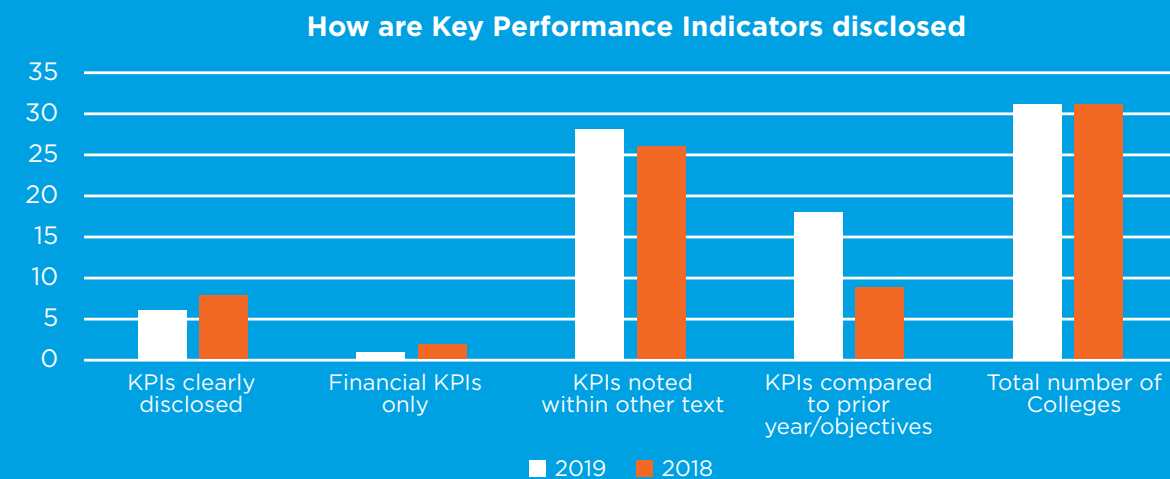
Achievements & performance

Good reporting provides a balanced view of successes and failures with supporting evidence and demonstrates the extent of performance and achievements against objectives set and lessons learnt.

The OFR should provide a balanced report and may use indicators, milestones and benchmarks as well as considering the impact of their activities and difference made.

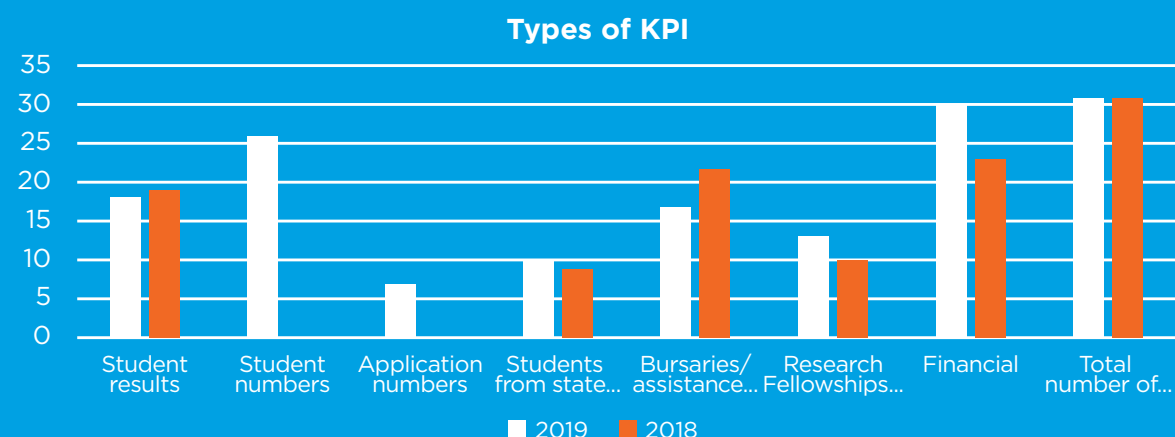
Key performance indicators are an essential part of understanding the development and performance of a College's activities.

Colleges should include a summary of measures or indicators used to assess performance. Information on activities, outputs and outcomes should be put in the context of how they have contributed to the achievement of the College's aims and objectives.



The majority of Colleges include some or all of their KPIs within other text rather than being clearly disclosed in tables or graphs.

There has been a dramatic increase during the year of Colleges showing their KPIs in comparison with prior year objectives. 57% of Colleges showed their KPIs in comparison to either the prior year or their objectives compared to 29% for 2018/19. The comparison of KPIs between one year and the next or against objectives set is important in providing a balanced view of successes and failures.



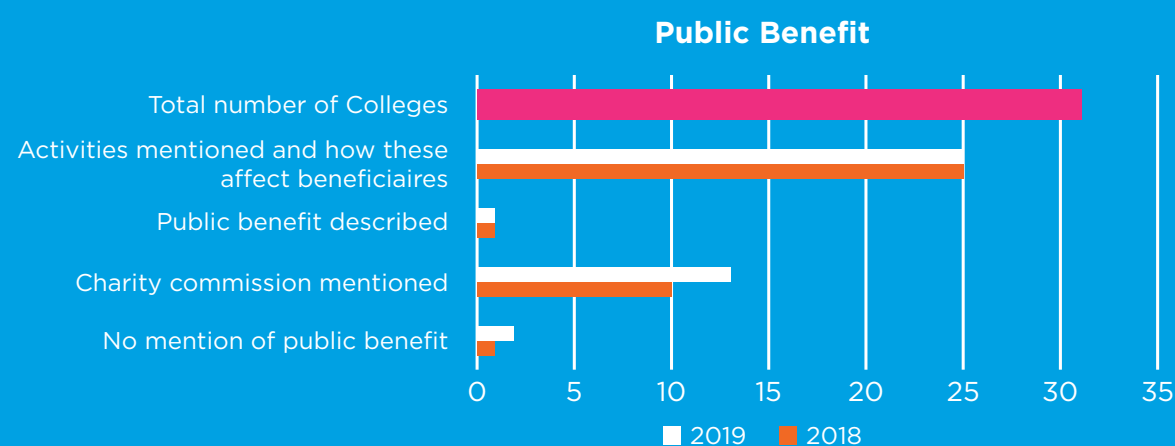
83% of Colleges reported on student numbers, however there was no real comparison as to how these compared to the prior year. 7 Colleges mention the number of College applications, however there was no comparison to the prior year.

The most common non-financial KPI relates to student results for the year, which is a slight shift from last year where bursaries and assistance was the most common non-financial KPI. 16 Colleges detailed the bursaries and assistance given to students and although other Colleges do mention this, the amount of assistance given is not quantified.

30% (2018-29%) of Colleges mention OFFA/ number of students from maintained schools whilst 41% (2018-39%) of Colleges do not mention student results at all.

All of the Colleges' OFR contain financial KPIs.

As registered charities, Colleges should include in their OFR a statement confirming whether the Trustees have had regard to the Charity Commissions guidance on public benefit.



Only 13 (2018- 10) Colleges mention that they have had regard to the Charity Commission guidance on public benefit.

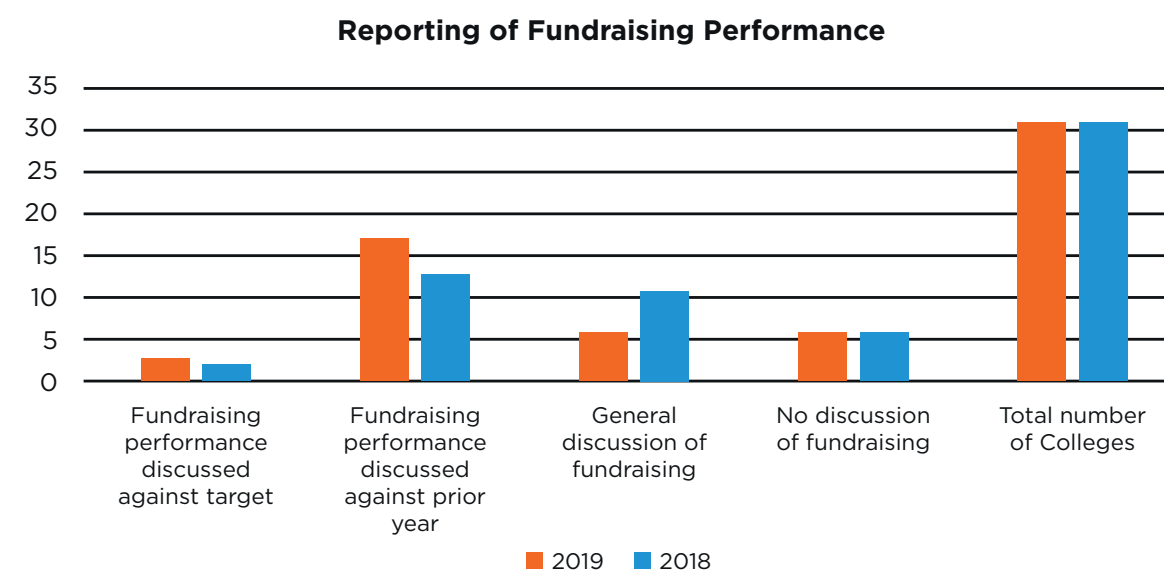
80% of Colleges do link their activities to how these affect their beneficiaries.

Fundraising performance

Whilst the OFR does not specifically mention reporting on fundraising, the Charity Commission in response to the introduction of the Charities (Social Investment and Protection) Act 2016 updated its guidance on fundraising and included specific guidance on the new disclosures required to be included within the OFR. The disclosures are required by those charities whose accounts must be audited.

Colleges are now required to include a statement in their OFR detailing:

- the fundraising approach taken by the College, or by anyone acting on its behalf, and whether a professional fundraiser or commercial participator carried out any fundraising activities;
- details of any fundraising standards or scheme for fundraising regulation that the College has voluntarily subscribed to;
- details of any fundraising standards or scheme for fundraising regulation that any person acting on behalf of the College has voluntarily subscribed to;
- details of any failure by the College, or by any person acting on its behalf, to comply with fundraising standards or scheme for fundraising regulation that the College or the person acting on its behalf has voluntarily subscribed to; and
- whether the College monitored the fundraising activities of any person acting on its behalf and, if so, how it did so.



19% (2018-19%) of Colleges did not include any commentary around fundraising at all, with a decrease in Colleges, 19% (2018-35%) including a general discussion around fundraising. This is slightly compensated by 17 Colleges (2018-13) discussing fundraising performance against prior years.

3 Colleges discussed both prior year and current targets for fundraising.

Financial review

The financial review should contain comments on the significant events that have affected the financial performance and financial position of the College during the reporting period.

Investment policy

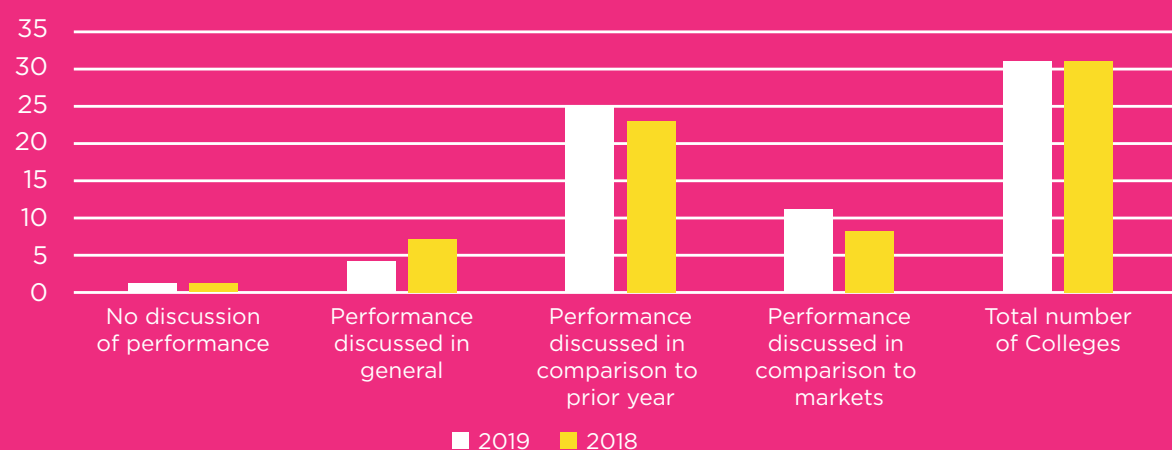
The College should state what its investment policy is, and the investment objectives set. The College should also be identifying any social, environmental or ethical considerations that should be considered when setting their investment policy.

Colleges, as registered charities, have a duty to maximise the financial returns generated from the way in which they invest their charity's assets. In a blog issued by the Charity Commission in January 2020, they discuss how trustees should consider whether their investments are consistent with their charity's aims and as public expectations and attitudes evolve, how do trustees reconcile achieving good returns with responsible investments?

The extinction rebellion protestors that dug up the lawn at Trinity College as part of a weeklong series of demonstrations and a group of students that set up camp in front of St John's Oxford for five days highlights the passion that students have in respect of investment in fossil fuel companies.

Clear reporting of investment performance is essential to ensure that the users of the financial statements, including students, have a clear understanding of the College's investment policy.

Reporting of Investment Performance



There was 1 (2018-1) College that did not discuss investment performance at all. 13% (2018-23%) of Colleges only included a general discussion on the performance of their investments, whilst 80% (2018-74%) commented on investment performance compared to prior years. There was an increase in the number of Colleges discussing their performance against markets.

Reserves policy

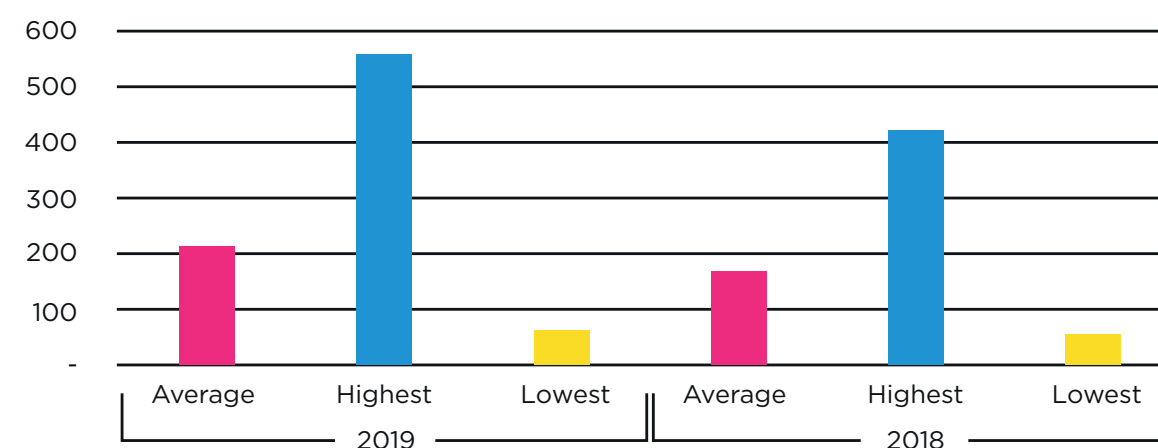
The OFR should include a statement of the policy on reserves stating the level of reserves held and why they are held. If the College does not have a reserves policy, then they should explain why it has no policy.

In November 2018, the Charity Commission published a review of 106 accounts submissions with income of more than £500,000 with a focus on whether the charity has explained its reserves policy, and whether the charity's level of reserves was correct. Whilst at least 97% of charities sampled included at least a reference to their reserves policy only 64% of charities stated their policy on reserves, the level of reserves held and why the reserves were held.

The College reserves policy should:

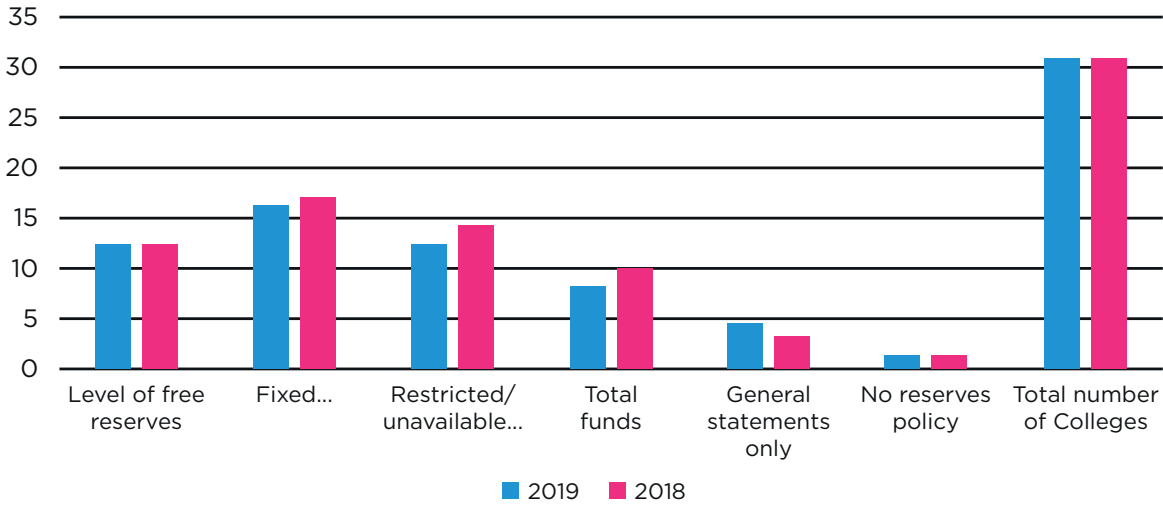
- State the amount of funds the College holds at the end of the reporting period;
- Identify the amount of any funds which are restricted and not available for the general purposes of the College at the end of the reporting period;
- Identify and explain any material amounts which have been committed as at the end of the reporting period;
- Indicate the likely timing of the expenditure of any material amounts designated or otherwise committed at the end of the reporting period;
- Identify the amount of any fund that can only be realised by disposing of tangible fixed assets;
- State the amount of reserves that the College holds at the end of the reporting period after making allowance for any restricted funds, and the amount of commitments or the carrying amount of functional assets which the College considers to represent a commitment of the reserves they hold; and
- Compare the amount of reserves with the College reserves policy and explain, where relevant, what steps it is taking to bring the amount of reserves it holds in line with the level of reserves identified by the governing body as appropriate given their plans for the future activities of the College.

Length of reserves (words)



Generally, reserves policies were longer than last year, with an average of 216 words compared to 172 words in the prior year and the highest with 559 words (2018-422) words.

Detail Included in Reserves Policy

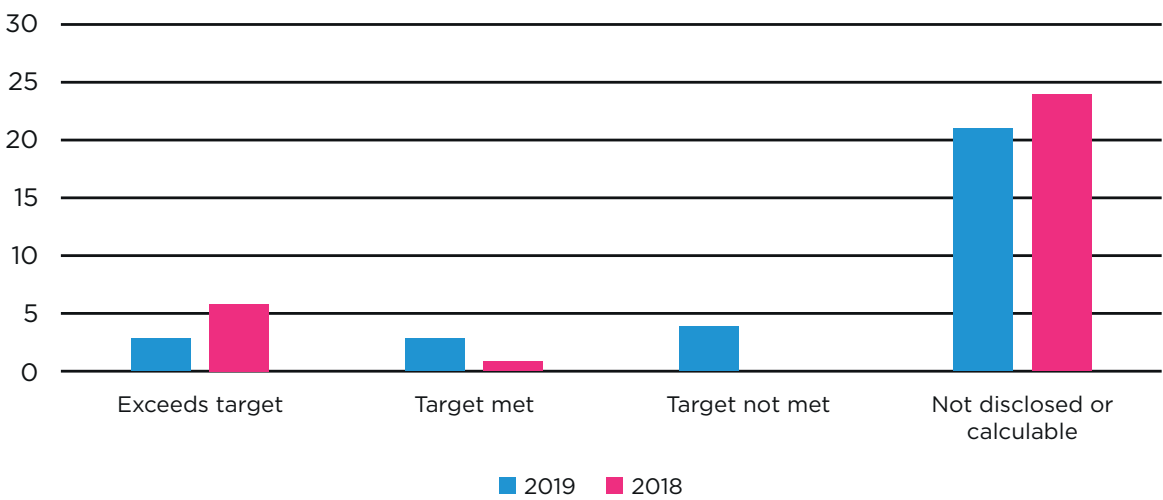


Only 1 College did not include a policy on reserves, with an additional 4 Colleges (2018-3) only including a general statement on reserves.

12 Colleges clearly stated the level of free reserves that they hold, which remains constant with the prior year.

Colleges should be including within the OFR a statement detailing in monetary terms the level of reserves identified by the trustees as appropriate given their plans for the future activity.

Levels of Reserves against target



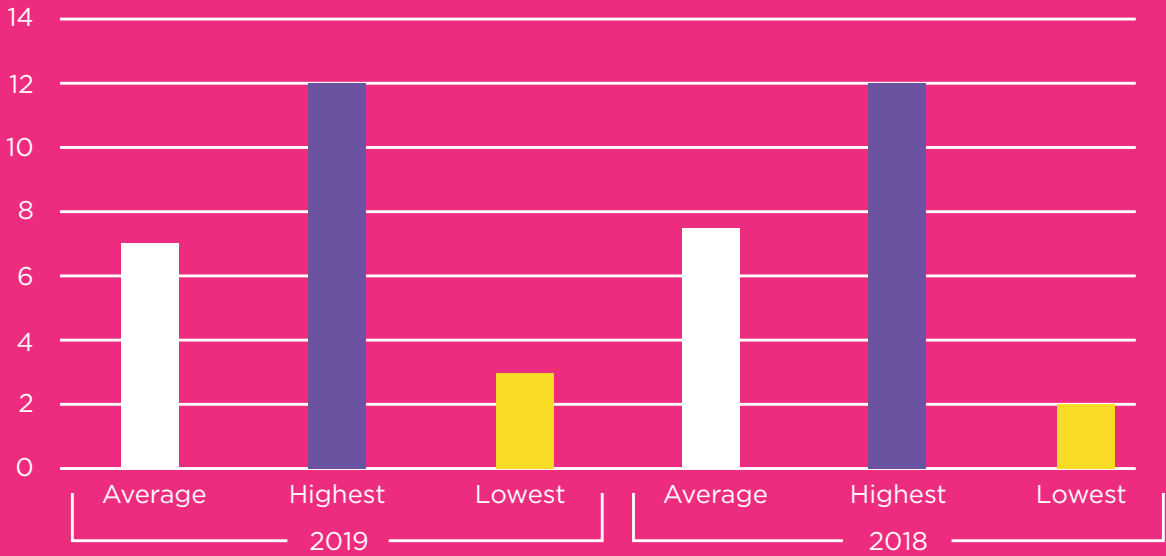
The majority of Cambridge Colleges have not disclosed sufficient detail in their reserves policy to comply with best practice.

During the current pandemic reserves have never been so important and identifying the level of reserves that are freely available to spend on the activities of the College is of paramount importance.

10 Colleges disclosed their target level of reserves with only 4 Colleges disclosing that their target level of reserves had not been met, compared with 3 who stated that they had met their target and 4 who had exceeded their target.



Target for reserves (months of expenditure)



During the current year the average level of target reserves was 7 months of expenditure, with the lowest being 3 months and the highest 12 months.

2 Colleges did not show their target level of reserves in terms of expenditure, but some based their calculations on percentage of fixed assets and percentage of turnover.

Comparing the optimum level of reserves against the level of reserves held facilitates a clear understanding of the true position of the College's reserves and a clear explanation of why the actual level of reserves held are less or greater than the optimal position will assist stakeholders' understanding of the College.

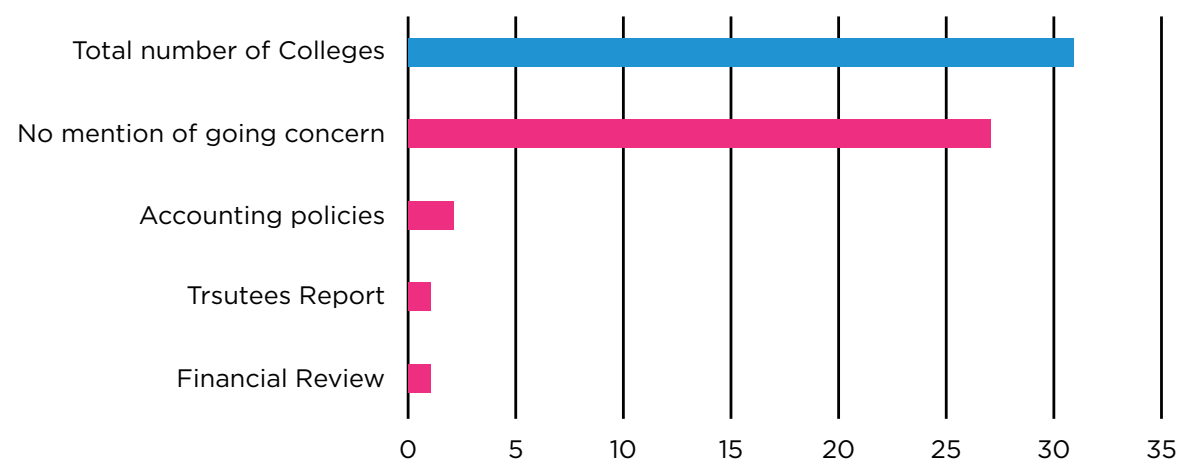
Going concern

Given these times of uncertainty and the high-profile failure of a number of corporate entities, the Financial Reporting Council (FRC) have issued guidance "Going Concern and Liquidity Risk". Although this guidance is only applicable to incorporated entities, it states that "it may also be useful to management of other entities that produce financial statements that are intended to give a true and fair view".

The Trustees should make their own assessment of the College's ability to continue as a going concern to assure themselves of the validity of this assumption when preparing the financial statements. A period of at least 12 months from the date of signing the financial statements should be considered.

The OFR should disclose the Trustees assessment of going concern along with the period considered as part of that going concern review.

Location of going concern statement



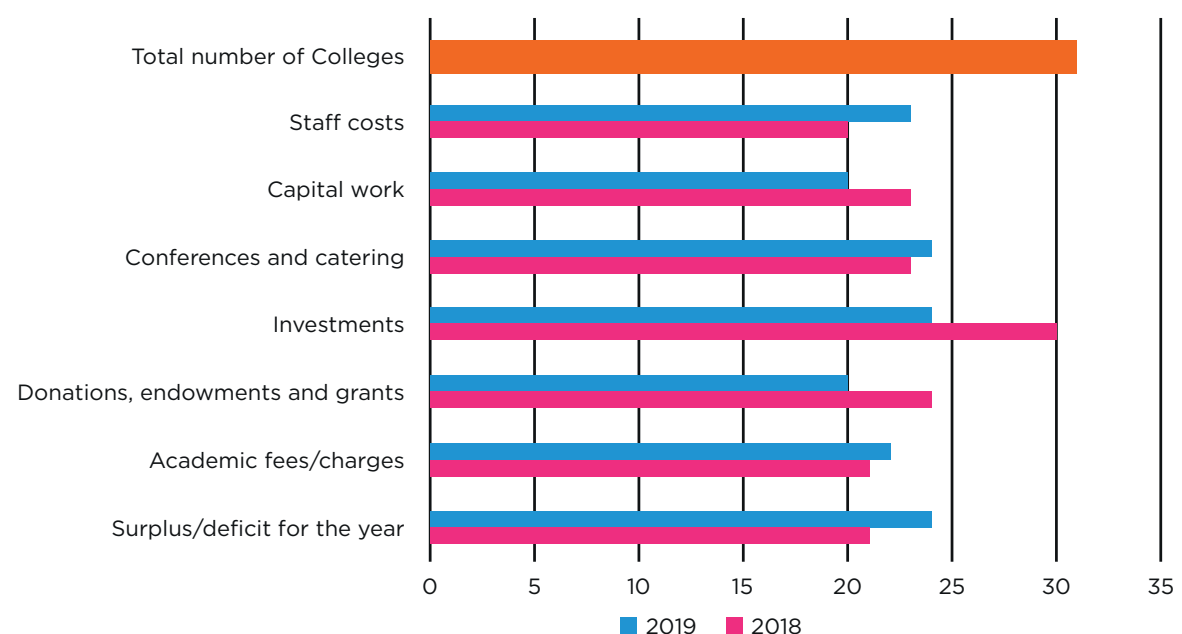
Only 1 College included an assessment of going concern in the OFR, with the majority of Colleges not mentioning going concern in their financial statements at all.

For the 2019/20 financial statements we would expect that all Colleges include a detailed going concern assessment in their OFR.

Financial review-areas discussed

Within the financial review Colleges should detail the financial effect of significant events. The areas that are discussed within this section are as follows:

Financial Review - Areas discussed



77% of Colleges mention investments, residences catering and conferences and the surplus/ deficit for the year, which is an increase on the prior year.

22 (2018-21) Colleges discuss academic fees, however there is not always much explanation to substantiate the increase/ decrease in figures during the year.

Staff costs

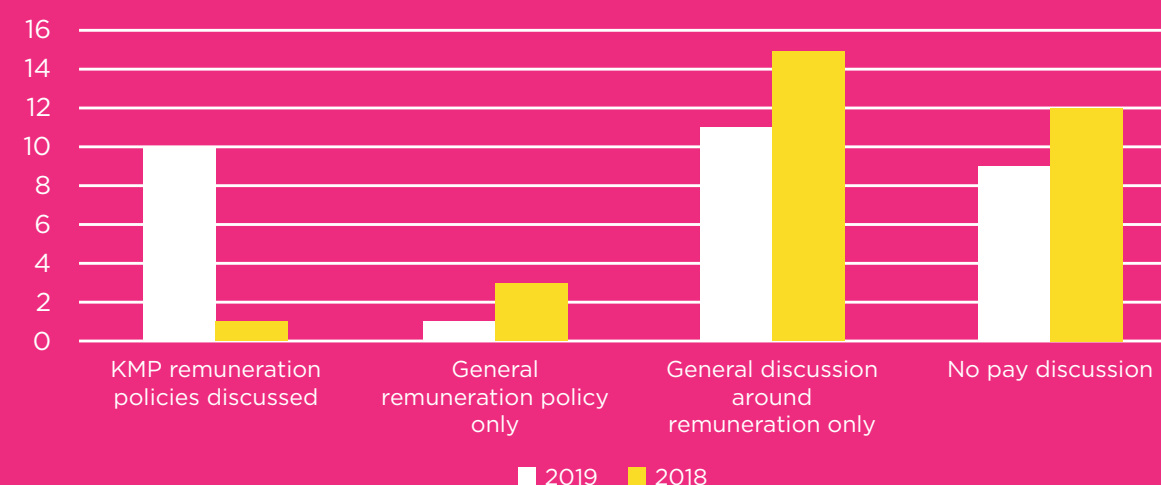
Key management personnel is a term used by FRS102 for those persons having authority and responsibility for planning, directly and controlling the activities of the College, directly or indirectly, including any fellow of the College.

The definition includes trustees and those members of staff who are considered to be key management personnel.

For the 2020/21 financial statements the requirement to disclose information on remuneration has changed.

For the 2019/20 financial statements there has been a marked increase in the number of Colleges that have discussed their policy for remunerating key management personnel in their OFR.

Discussions on Staff Remuneration



Discussion around key management personal primarily explain how fellows are paid in line with University scales and who is responsible for setting their pay.

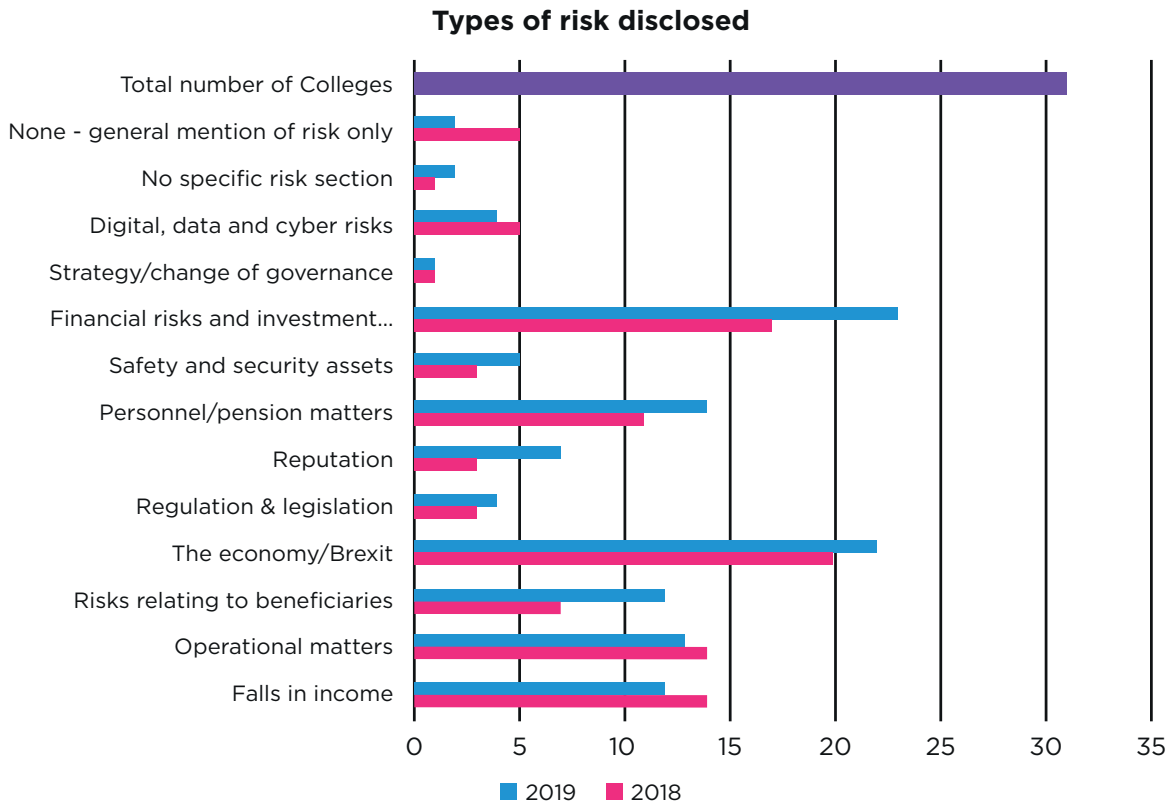
9 Colleges (2018-12) did not mention key management personnel remuneration at all, with 11 (2018-15) only discussing remuneration in general.

There was a large increase during the year of Colleges including a policy on key management personnel remuneration.

Principal risks and uncertainties

Colleges should include details of the principal risks and uncertainties facing them, as identified by the trustees, together with a summary of their plans and strategies for managing those risks.

The graph below shows the types of risks disclosed by Colleges:



The total number of reported risks were assessed to identify those which were most commonly reported as detailed in the above chart.

The general trend across the Colleges was as follows:

Mention of the economy and/or Brexit as a principal risk increased by 5% on last year with the mention of financial and investment risk up 20%.

47% of Colleges mention personnel or pension risks, these risks were mainly focussed around USS costs or attracting and retaining staff.

40% of Colleges mentioned falls in income, which were mainly due to student fee policies, and 40% of Colleges mentioned operational matters as a principal risk largely around operating the buildings.



For the 2019/20 year trustees will need to consider the impact on the accounts as a result of the changing activities of the College and any trading subsidiaries due to the COVID-19 pandemic. Trustees should consider which of the following questions apply to their College and make the appropriate disclosures in their OFR.

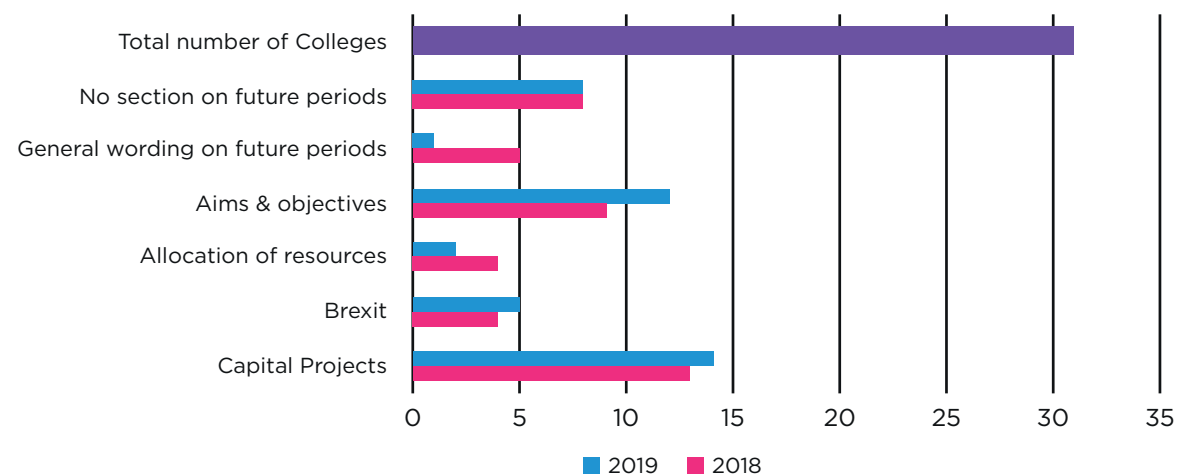
- How have the financial and operational effects of the virus and the control measures relating to the virus affected the principal risks and uncertainties?
- What is the impact on the College's reserves policy?
- The College's investment and total return policies to ensure that they are still appropriate and do not require temporary or even permanent revision.
- How has the outbreak of the virus affected staff, students and the implications for the College's operations and activities for the coming year?
- What is the impact on the College's ability to receive donations and endowments and how are trustees managing this situation?
- How have virus control measures affected the College's activities?
- Are there any implications for any existing or potential defined benefit liability and investments the College holds?
- What are the financial uncertainties regarding the College's financial sustainability and the steps being undertaken to address those uncertainties?

Plans for future

Planning for the future involves knowing your current strengths and capabilities and what you might need to work on to achieve your long-term goal.

The importance of this section of the OFR is to demonstrate that the College is evolving in this everchanging financial and political landscape, and provide assurance that lessons learnt are being put into practice.

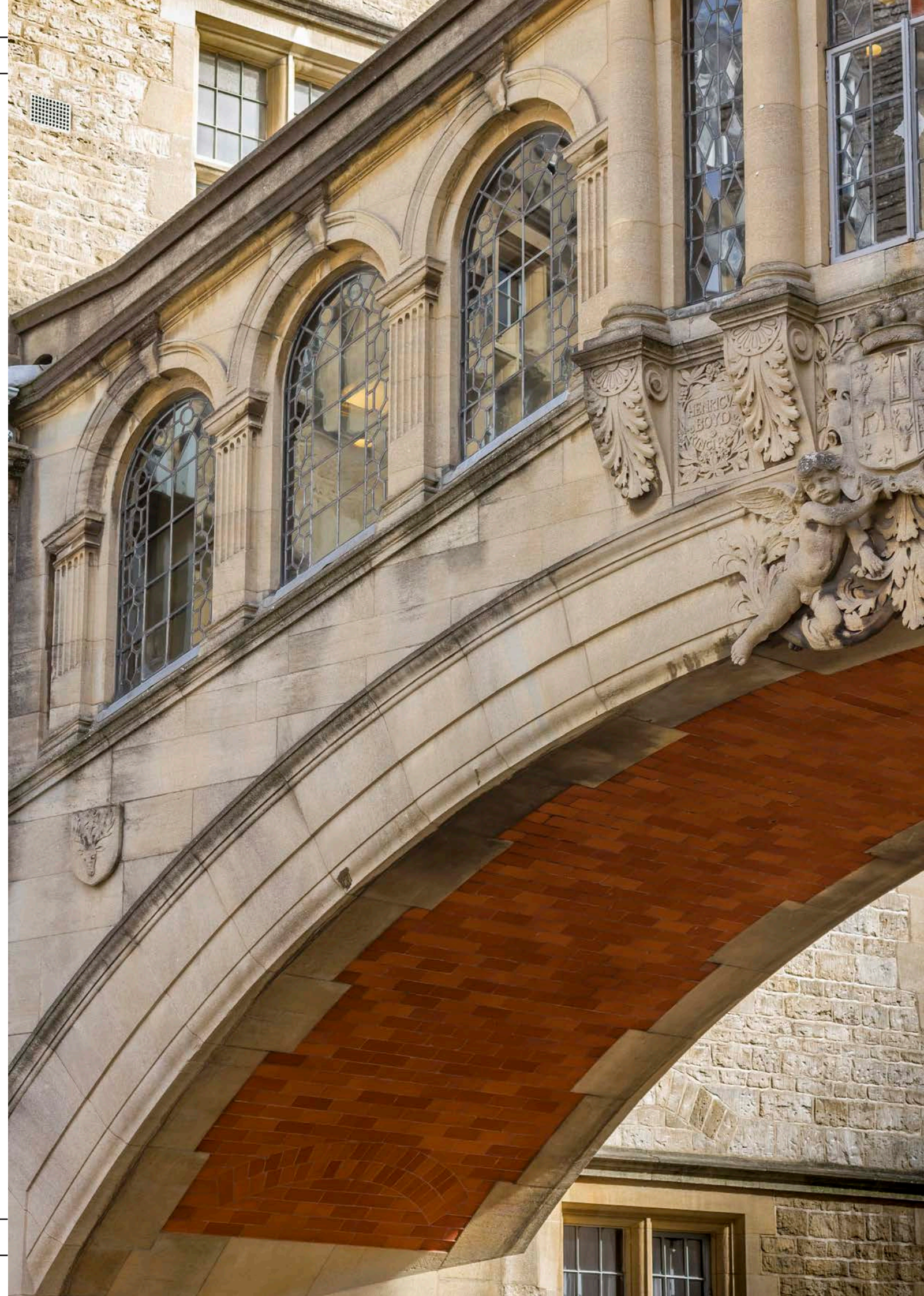
Plans for future periods



The general trend in 2019 was to provide more information in the plans for the future section. Although the same number of Colleges included a section within their financial statements, 47% (2018: 42%) mentioned capital projects and 37% (2018:13%) referred to their aims and objectives.

A number of Colleges had a section entitled “outlook” in their OFR; however, this was often more of a roundup of the report, rather than a plan for the future section.

In the 2019/2020 OFR plans for the future will need to consider the likely ongoing impact of COVID-19 and the control measures that have been implemented. Trustees will also need to form a judgement on the potential duration of the control measures and how these might impact on the future aims and activities of the College.



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