## Historic reserves

It is proposed that a line should be drawn under historic reserves and the following approach be adopted:

* Deficit departmental reserves were written-off.
* Surplus departmental reserves will be maintained.
* Access to surplus reserves will be regulated.
* Permitted uses for surplus reserves will be broadened.
* Access to ring-fenced PI accounts will be maintained.

The settlement of historic reserves will reflect the position as at 31st July 2021.

Regulating the use of historic reserves – capital building projects

The use of historic reserves for building projects will be regulated as now through the Minor Capital & Strategic Capital Plans, controlled by EISG, SCSG, Finance Committee, PRAC and Council.

The use of historic reserves will have weight in prioritising projects.

### Regulating the use of historic reserves – non-building projects

In order to qualify for funding from historic reserves, an investment must be in excess of £100k, be for strategic, non-recurrent purposes, be supported by a business plan and must contribute to the financial sustainability of the University. Non-building projects will be subject to approval by the relevant division, which will be responsible for assessing and understanding the revenue consequences.

It is expected that no more than 10% of the historic reserves of each division will be allocated over five years. The divisions will manage this process and provide an annual report to PRAC on the allocation of historic reserves. PRAC will monitor the use of historic reserves via the annual financial planning process and will review the affordability of the 10% cap after three years.

Any proposals for large, strategic, transformative non-building projects which cannot be accommodated within these arrangements should be taken through the Strategic Capital Steering Group.

### Ring-fenced funds for Principal Investigators and Small Research Facilities

#### Principal Investigator accounts

A number of research-intensive departments operate ring-fenced accounts for their Principal Investigators (PIs), which hold income associated with a PI from external sources. This income comes from a number of sources, including residual balances on industrial research grants, royalty income and prize money awarded to the PI which has been waived to the department. These funds have been set-aside with the explicit permission of the departmental head, are held within a specific account and used to support the cost of activities associated with the PI and their research groups, including small items of equipment, proof of concept work, travel and conferences. In a few cases a PI may hold a larger sum which might be used to provide short-term support for their research groups, should there be a hiatus between funding grants. Accounting for these funds separately, with a reserve balance showing the accumulated additions to and drawings from the funds, provides a means for PIs and departments to track their funds in a transparent and controlled manner.

There are around 1,300 active PI accounts, almost wholly within MSD and MPLS, with a total balance of almost £40m. In most cases individual PI accounts hold relatively small balances (between £5,000 and £30,000) with annual additions to or drawings on individual funds of a few thousand pounds per year. Access to PI funds is managed departmentally within the annual budgeting process, with additions to and drawings from funds tending to offset each other. In recent years the number of PI funds and their aggregate value has increased.

The importance of maintaining continuity of access to PI funds is recognised. Existing PI funds will continue to operate unchanged under the White Paper and new PI accounts will be established in the same manner. No individual PI fund will be allowed to be in deficit.

There are a number of departments whose overall historic reserves are negative but have positive PI funds. In this instance the PI funds will also be maintained under the White Paper and the deficit reserves written-off. The total value of positive PI funds in deficit departments is c. £12m.

In line with recent experience it is expected that the aggregate value of PI funds at divisional level will not decrease, with drawings on existing funds being offset by additions to other existing funds or the creation of new funds

#### Small Research Facilities

Full Economic Costing (FEC) guidance enables facilities in research-intensive departments to operate as stand-alone entities known as Small Research Facilities or SRFs. The costs associated with SRFs are excluded from general research overheads calculated under FEC and are instead recovered directly via charges to research grants. SRFs are charged with the full cost of their activities, including a reasonable share of departmental operating costs and receive the income charged to research grants, or other users if there is spare capacity. Their charges can also include a provision for future capital expenditure necessary to maintain the SRF, such as equipment replacement or upgrades. This enables the SRF to accumulate a surplus which is then used to fund investment.

Around 100 SRFs operate in the Medical Sciences Division, with an accumulated surplus balance of c. £19m. The importance of maintaining continuity of access to SRF funds is recognised. Subject to an audit process, to confirm that these are complying with FEC guidance, SRFs will continue to operate under the White Paper. Accumulated SRF funds can only be used to fund investment in the SRF and not for any other purpose. The charges levied by SRFs should be sufficient to cover its full costs, including any provision for future investment. Therefore it is expected that the aggregate value of SRF funds will not decrease, as income from charges will cover its costs.

If an individual SRF moves into deficit then it should have a recovery plan showing how it will move into surplus. Within a department any deficits on individual SRF funds must not cause the department to fall in to deficit. Surpluses from one SRF cannot be transferred to another SRF because they are ring-fenced.

#### The impact of PI funds and SRFs on historic reserves

A department’s PI funds and SRF funds will be taken into account when its historic reserves are calculated. In the example below, the department’s total reserves are £1.5m, of which £110k are held in designated PI and SRF funds. Under the White Paper the PI and SRF funds will be maintained and the balance of £1.39m will be held as a historic reserve, for the purposes described above.

## Use of reserves - budgetary control

The divisions’ medium-term financial plans and annual budgets will separately identify their planned movements on their cash-backed reserves and planned additions to and drawings on PI funds, reflecting the expectation that these will not diminish over time. This will enable Council, via PRAC, to have assurance that the divisions are operating in a financially-sustainable manner – for example that cash-backed reserves are not being depleted because an underlying financial issue had not been addressed.

The divisions will also provide details of their planned use of any historic reserves, for both building and non-building projects, to enable the University to manage the cash-flow implications and any impact on its Financial Statements. This may require deferral of some divisional plans in order to remain within acceptable institutional limits.