BUFDG CHAIR'S QUARTERLY

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Welcome readers!

It seems a long time ago now, but this is the first Quarterly since our first ever online conference in the middle of March. We start this edition with a short round-up of the themes that emerged during the event. One of these themes – the speed of change and the need for adaptation – can be identified in each of our articles.

First, Exeter CFO Andrew Connolly explains the need for a different approach to USS, starting with seeing the 'full menu' of options. Then, BUFDG's Payroll and Employment Taxes Specialist, Julia Ascott. explains that as the special allowances put in place in different countries during the pandemic are withdrawn, the risk that you could fall foul of employment laws increases significantly.

Next, Margaret Monckton, CFO at the University of Nottingham explains the organisation's big IT investment push over the last few years, and how it has been impacted by, and helped the institution during the pandemic. She also shares some key lessons.

Finally, Karel, with the help of Erica Conway (CFO at Birmingham) walks us through the risks and implications for universities of the current BEIS consultation on Audit and Corporate Governance. An important read, especially if this is the first you've heard of it!

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Rounding-up our first ever online Annual Conference

The first ever online BUFDG Annual Conference saw over 1,000 delegates, supporters, and speakers attend on the Hopin platform over the course of the week. The event was generally a huge success – hundreds more university staff were able to benefit than would ever have been possible at a traditional face-to-face format. The expanded programme was only possible thanks to the huge contribution, in lots of different ways, of many of our members and supporters. It would be impossible to round-up the entire conference (over 65 sessions!) in such a short article, but here are some of our key 'takeaways':

It was fantastic to see so much engagement/interaction of delegates with the sessions – both in discussions with each other (which couldn't have happened in sessions at a live event) and with questions for the presenters. It was clear that attendees benefited greatly from the comments, resources and experiences shared by fellow delegates.

Firstly, while there were many interesting themes that emerged during the conference, perhaps the biggest one was just about taking a more empathic, holistic approach to a whole range of things – whether the environment, our communities, our teams, or ourselves. It is clear many of us now see our colleagues in a more rounded way now that we have all had to work differently over the last year. And it goes beyond just seeing each other's homes, families, pets or guitars! It includes helping (and being helped) to work around the obstacles experienced, whether illness, grief, home-schooling or anything else. Hopefully you now feel part of a more compassionate and understanding organisation.

Secondly, change has always been 'constant', but the extent and speed of change that organisations are undergoing is unprecedented. At conference we heard about different strategies, systems, risk planning, working patterns, investment approaches, and much more. Not everything will work, but the pandemic has shown how quickly universities – even the largest ones – can act and adapt.

Finally, a significant proportion of sessions focused on the long-term future - whether pensions, future generations, or the drive towards sustainability and the challenges posed by climate change. Universities are recognising their responsibility to lead on sustainability, and many colleagues now have a 'sustainability' angle or responsibility in their role. The final plenary gave us a lot to think about the needs and characteristics of different generations - especially how our youngest working generation thinks and works, and how we might need to adapt our workplaces accordingly.

So, a fascinating five days! The success of the event itself, and the extensive feedback from both members and supporters gave us much to think about, and we are in the process of finalising our ideas for future events. We look forward to sharing with the network our preliminary plans for 'Conference 2022' in the next few weeks.

Matt Sisson and Ashley Shelbrooke

USS – We need to see the full menu

Are you dazed about how on earth we have got to where we are? After the creation of the JEP and its two reports pouring soothing oil onto the inflammation of the 2017 strikes, we were supposed to have re-built stakeholder relationships, agreed an improved valuation methodology, dealt with governance issues, and emerged on to the road of financial sustainability. But it feels as if we are back to square one, with UUK and UCU challenging the data and a need for all sides to give, with the certain outcome of a temporary sticking plaster.

The 2020 valuation has run out of road. It won't meet its statutory deadline of 30 June (just like 2017) so the USS trustees will be on a mission to put this to bed pdq – or worse impose a financial solution on us. There's no time to significantly meddle with it. Hence UUK's pragmatic illustrative proposals with employers, USS and staff all having to give something up to balance the books. We either go along with this or accept big increases in contribution rates. I don't say that lightly - I have major reservations about the covenant support package, although I think we can manage this. But can we or our staff manage huge increases in costs? If costs increase, the seeds of destruction will be sown, and not just in terms of potentially imploding scheme finances, but the morality of pricing younger staff - the staff most in need - out of a pension scheme. Neither of these will lead the USS trustees to lose much sleep - the sector underwrites the deficit, that's how DB works, USS is alright Jack.

How do we solve this once and for all? Not another valuation or quasi-independent review. Employers have been too willing to acquiesce to UCU to *buy the peace*, while UCU have been, and still are, ideologically and irrationally addicted to DB pensions.

First, we need to dispel some myths. Reducing the DB salary cap in the hybrid scheme is *not* a reduction in benefits, it is a change in benefit mix. DC is different from DB, and it may be better or worse. The one thing going for DB was the 'pensions guarantee', but staff have seen through this. Its value is 3 years until the next valuation comes along. There is no 'pensions promise' in DB.

DC can address multiple issues: affordability, with lower cost routes into the scheme; mobility with an international workforce and, probably most important of all, trust and transparency. You can view the value of your ring-fenced DC pot online - it's tangible and free of politicised triennial meddling. DC carries investment risk of course, but that's not more risk than DB. It's a different type of risk. Different benefits, different risk.

"...If costs increase, the seeds of destruction will be sown, and not just in terms of potentially imploding scheme finances, but the morality of pricing younger staff - the staff most in need - out of a pension scheme"

DB was designed for an age when Captain Mainwaring joined the Bank at 16, retired after 40 years at the end of the war, his entire career spent in the same Walmington-on-Sea branch. But the most insidious issue of DB schemes is its inherent intergenerational inequality. A new lecturer joining USS today is part-paying for the DB deficit of her professors. The single blended USS contribution rate contains within its black-box elements of DB/DC and past/future costs. It's bad enough that younger staff struggle to access the housing ladder and deal with childcare costs, let alone have to pay for the pension of home-owning, mortgage-free, higher-paid retiring finance directors (amongst others).

The UUK Consultation document contains the seeds of the future. Not as part of the 2020 valuation but beyond. Low-cost DC and standalone DC options, and reduced cost/reduced benefit DB options - all offer the possibility of devising a menu to suit flexible lifestyles. These won't be easy to un-pick from the workings of USS finances; they need careful design to avoid unintended consequences. There's also the possibility of the *new kid on the block* of Collective DC schemes. Yet these are worth exploring. Anything is surely better than full-fat DB. So once the 2020 valuation is put to bed there's a lot more work to be done!

Andrew Connolly, CFO, University of Exeter

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Where are your employees on any given Monday?

This was the gist of the title of a recent piece in the Financial Times, looking at potential litigation issues in the United States from employees working from home during Covid lockdowns. Whilst the article focused on the difficulties employers might have where employees live in a different state to the one they usually work in, it can easily be applied globally.

As lockdown in the UK closed workplaces to most employees, kitchen tables and bedroom spaces were utilised as the new office. Some employees travelled overseas, typically returning to their home country to be closer to family and friends. HEIs operated with kindness and flexibility, generally letting employees work wherever and whenever they could to remain safe.

This practice was supported by the OECD who suggested that their member countries offered administrative easements during the pandemic for employees stranded or displaced outside of the country they formally worked in. It meant that countries would not seek, for example, income taxes and social security contributions whilst the employee was 'stranded' in that country.

However, as the months passed, these easements became less tenable. The OECD and HMRC both confirmed by early 2021 that employees could no longer argue they were stranded overseas, particularly since the 23 March 2020 lockdown, because regardless of quarantine measures, there had been ample opportunity to return to the UK.

The result being, if these types of employees have not returned to the UK and continue to work overseas, it will create (and probably has already created) numerous overseas issues for the university. From a tax perspective, depending on the circumstances, a permanent establishment may be created which will require company registration and associated taxes. It is likely that the university will have to set up a local payroll in that country for employment taxes and social security.

Outside of tax, ineligible immigration status may eject the employee from the country with a black mark against their name; employees may accrue expensive local employment rights, insurances, health & safety, data protection, etc, that the university will be required to cover. In addition, employees may lose UK rights, benefits & pensions cover and want compensation for their loss. Most of all, employers will want to ensure that their employees have access to adequate healthcare which is not guaranteed outside of the UK.

It is a minefield, but where finance, HR, payroll or specialist global mobility teams are informed of overseas working from an early stage (preferably before the employee leaves the UK), they can better advise staff and departments of the likely requirements and potential liabilities. BUFDG have been supporting universities with quarterly forums, news articles, Time to Talk sessions and our discussion boards where members discuss rules, issues, and practical solutions. More recently, we have published a document signposting useful links for universities with employees working in European countries.

It is always important to know where your employees are working, whether that is on campus, at home in the UK or at home overseas, as there will be employer compliance requirements. The first step to ensuring, for example, proper health & safety aspects are managed, protecting university intellectual property, applying for suitable visas, or paying taxes/social security in the right place, is making sure the right teams know where your employees are.

Julia Ascott, Payroll and Employment Taxes Specialist, BUFDG

Lessons from IT investment at Nottingham

The University of Nottingham's vision is to be a university without borders, where we embrace the opportunities presented by a changing world, and where ambitious people and creative culture will enable us to change the world for the better.

From a digital perspective that means we need a solid infrastructure and stable core systems. This has been our initial priority and there has been and continues to be a significant amount of 'fixing' to be done – a symptom of the fact that the University grew very quickly and the infrastructure did not grow with it.

So, we have replaced our student administration system, upped our security capability and are now implementing a new HR & Finance system as well as a student engagement system. Our focus needs to be on improving the student and staff experience and we plan to do that by reducing the number of systems we use and by integrating them for easier and more efficient processes. Over time we will shift as much as we can into the cloud as well as looking at the best way to set up the Digital & Technology Services Team to have the most up-to-date capability to assist the university with its ambition.

"... it is relatively easy to change the technology, but it is changing the people and the culture which is more difficult!"

The last 12 months has also taught us much – that if we want to operate without borders with the best students and academics, and to deliver world-class research - we need to improve our technology. So, we have Microsoft Teams, Moodle and Echo 360 embedded consistently across the university to deliver a blended teaching experience. We have developed learning analytics dashboards which take data from these systems to provide insights on how our students are engaging and participating in their learning. We are exploring how to modernise our on-campus technology so that our students and staff can work within a hybrid environment that provides the 'best of both worlds', blending digital and analogue solutions, providing our staff and students with options about where, when and how they work and study.

Overall, it has meant a shift from an investment in buildings to an investment in technology. Yes, we had to reallocate the capital budget from Estates to do this – we also made sure that whenever we have a building project, how we plan to use the building and how technology will enable this are considered before the building is designed. Previously, the technology was something that was planned at the end once the building was complete.

Throughout all this we have learned three important lessons:

Organisations should not have a separate Digital Vision. Instead, digital should be an embedded part of the broader vision. Digital is not something that happens in a parallel universe – it is an integral part of what we are and how we operate.

There is no such thing as a Technology Project. The technology needs to be embedded in leaders' thinking. Technology projects are really organisational change projects - it is relatively easy to change the technology, but it is changing the people and the culture which is far more difficult! Similarly, the IS team needs to act as, have the capability to be and be seen as, a strategic partner to the rest of the University.

And finally – **Never underestimate the resource** that is needed to deliver a technology enabled programme of change. You can skimp on the business case, but you will inevitably end up regretting it later!

Margaret Monckton, Chief Financial Officer, University of Nottingham

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Restoring trust in Audit and Corporate Governance

We were delighted to welcome over 200 colleagues to this FRG workshop in April. The workshop came hard on the heels of the most recent FRG meeting where we discussed the BEIS Consultation on [Restoring trust in audit and corporate governance: proposals on reforms](), launched in March. As we had wind of universities getting a mention, we had been tracking the progress of this consultation for some time. If you haven't read it yet, go to page 36 for mention of universities, but reading the whole document will provide the fullest context.

One of the key proposals relates to the definition of a Public Interest Entity (PIE) included under the 'Regulatory Framework' theme. At present only those HEIs with listed debt (fewer than 10) meet the definition of PIE. The proposals offer options of:

Option 1 – more than 2000 employees OR turnover of more than £200m and a balance sheet of more than £2bn

Option 2 – over 500 employees AND turnover of more than £500m

Plus - a further suggestion that all AIM listed entities and third sector organisations with over £100m incoming resources are also included.

These options would draw into scope a large proportion of universities, which would then cause many of the other proposals to apply. These include increased accountability/extended requirements of directors (exec and non-exec) – along the lines of Sarbanes-Oxley. The aims of the consultation, to restore trust in companies and their auditors is well founded and to expand the audit choice is something we all seek. Yet if this is implemented as set out, it will change the governance, audit and reporting of a very large number of Universities.

Good governance and integrity are vital but it is clear from conversations with members that there are concerns from across the sector. These include the reporting requirements of multiple existing funders and regulators and how even more reporting would sit alongside them; the availability of sufficient audit firms qualified and authorised to undertake audits of PIES and on audit fees; the risk of the unintended consequences of being a 'supplementary' addition to regulation which is primarily targeted at a very different sector (in terms of profit-motive and risk profile, in particular); as well as further complications from different existing arrangements across the four nations of the UK.

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The FRC recently held a webinar on the proposals, and a recording of the session can be found on the [FRC website](). In addition, many of the sector's audit firms have produced their own related materials. BUFDG is working with UUK, the OfS, and others to ensure that the sector's voice is heard. Your institution may want to submit its own response, but if you have thoughts that you'd like to share, come along to discussions at regional meetings or [drop Karel an email]().

Karel Thomas, Executive Director, BUFDG

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