

Guidance for completing a Surplus Improvement Fund proposal

February 2025

Introduction

This document provides an overview of the Surplus Improvement Fund mechanism including details on each stage of the process and comprehensive appendices on business case content (Appendix 1) and post-approval management of cases (Appendix 2).

Background

Financial sustainability is a key priority for the University as a leading global institution. It is therefore, essential that new investments are undertaken with an understanding of their financial sustainability.

The Surplus Improvement Fund (SIF) is a Planning and Resources Committee (PRC) and Finance Committee (FC) sponsored funding mechanism to support early investment in activities which are strategically important and able to return a net financial gain to the University. Approval will be via the submission of a business case to PRC outlining the strategic, economic and implementation case. The strategic case should make reference to University-accepted strategies and the appropriate approval channels. The economic case should demonstrate a material increase in the University's surplus either through increased revenue or reductions in costs (or both).

Business cases should clearly articulate the academic and economic objectives, as well as a detailed implementation case for the proposed project (the required elements of the business case are set out in Appendix 1). The SIF is expected to be suitable for projects which would generate significant additional benefits but require an upfront investment to do so (typically between a minimum of £100k and maximum of £5m). If Schools wish to undertake a number of cognate initiatives to achieve the overall aim of surplus improvement, it might be possible to aggregate the proposals into a single investment, as long as the necessary criteria are met. The SIF framework and process is also used for surplus sharing where there is no upfront funding sought, typically for new courses or course expansions.

Projects should be able to generate an internal rate of return on the investment (IRR) of at least 7% within 5 years and pay back the original investment within 3 years. However business cases must demonstrate that the surplus has been optimised subject to adequate resourcing to meet the academic objective, and in many cases this will lead to much higher IRRs. In particular, if the upfront investment required is relatively small, IRR may not be the appropriate metric and other measures of the level of surplus will be evaluated.

Seed funds to develop a potentially viable project might also be requested, but should seek to address the same informational requirements as more developed proposals while recognising that some categories may not yet be applicable and that the level of evidence for key assumptions may be limited.

Process

1. Prior to business case preparation

Prior to the development of business cases, proposers should contact the SIF team in Academic and Financial Planning (AFPA) via SurplusImprovementFund@admin.cam.ac.uk to notify them of their plans, discuss any queries and agree a forward plan for the project. Early notification and agreement of a timetable for business case development, pre-PRC scrutiny and PRC submission are important elements to achieving timely approval of robust proposals. The SIF team will be able to provide the latest template that should be used for the financial analysis and advice in relation to this guidance.

2. Business case preparation

Proposals for a SIF investment could come from Schools, Non-School Institutions (NSIs) or central senior leadership (the Sponsoring Entity). All activity will need to have been approved or be in the process of approval with existing relevant University procedures. The business case should be submitted for review to the Head of Investment Appraisal having secured the support of the relevant Head of School/Senior Officer, School (or NSI equivalent) Finance Manager, Degree Committee, and following engagement with the SIF team. In the case of a new course it is expected that courses will have been discussed with the relevant Education Quality and Policy Office Liaison officer and relevant course application forms completed and presented to the SIF team alongside the business case. Where the business case involves utilisation of resources from outside the applying Department, and/or School, the business case must clearly articulate this and the agreement of these other departments/Schools must have been secured in writing and at an appropriate level of seniority.

PRC will only consider business cases that have complete and clearly articulated strategic and economic objectives, and a detailed implementation case. The economic case for a proposal should be based on all incremental revenues and costs to the University (net of any payments to third parties e.g. Colleges), and should not include existing revenues and costs of the sponsoring entity (to the extent these remain unchanged). Base and downside cases should be presented, together with sensitivities to demonstrate the impact of the major risks to the proposal. For the base case, incremental cashflows should be projected on the basis of a set of balanced and realistic assumptions. The downside case should test the project economics under a plausible, if unlikely, downside outcome.

At the heart of the SIF mechanism is the intention that incremental revenues generated by a project should be shared between the Sponsoring Entity and the central University to incentivise the development of ideas with strong academic and economic merit for the University. In this regard the proposal should be set out such that for each year, all incremental revenues resulting from the project (net of any college share) shall be allocated in the following amounts:

- i. To the Sponsoring Entity in an amount equal to the Sponsoring Entity's incremental direct costs resulting from the project, as set out in the financial model at the time the SIF project is approved¹;
- ii. To the Centre in an amount equal to the incremental indirect costs of the University resulting from the project, as set out in the financial model at the time the SIF project is approved¹;
- iii. To the Centre to repay the SIF investment within 3 years.

Any residual revenue (or shortfall in revenue) will be shared 50/50 between the School and the Centre².

Where more than one School or NSI makes a large contribution to the resources employed by the SIF

¹Subject to adjustments described in Appendix 2, para 4.

²The sharing of residual revenue may not be appropriate for certain SIF proposals where the sponsoring entity is itself a part of the central University

proposal then those parties should pre-agree how the non-central share of revenues (or shortfall in revenue) will be divided amongst those institutions.

If additional sources of incremental revenue resulting from the SIF investment are identified post scheme approval, then these will be included in the annual net revenues to be shared between the Sponsor and the Central University (in accordance with the above).

For SIF proposals relating to new courses or expansion of existing course, Schools should confirm that the proposal is within the prevailing University arrangements in place for student number planning purposes. Where the investment relates to the expansion of an existing course, a 'baseline' number of students should be set out in the business case as the reference for determining the number of incremental students admitted annually. In determining the proportion of actual incremental students admitted that pay home or international fees, the average fee status mix for the course as a whole will be used.

Where bursaries or similar mechanisms are planned, these should be paid for out of the distributed share of the surplus or other School funds rather than be recorded as a cost in the SIF proposal.

Business cases should be concise and avoid repetition, such that they can be readily reviewed by Planning and Resource Committee members. Supporting information may be included as annexes.

3. Pre-PRC review

In advance of formal submission to PRC, business cases must be internally reviewed and challenged under the leadership of the Head of Investment Appraisal (david.long@admin.cam.ac.uk). **Proposals should not be forwarded with the expectation that there will be an immediate onward submission to PRC and proposers should build adequate time for this step into their plans.** Experience to date has indicated that time is required for robust scrutiny and iteration prior to finalising the assumptions and details underpinning the case. The Head of Investment Appraisal may advise iteration, and depending on the nature of the proposal, may suggest an additional pre-PRC approval stage to be followed. For example, for cases that require more specialist knowledge (e.g. a new systems project) an additional review group with relevant knowledge / expertise might be established.

4. PRC Approval

Following satisfactory completion and review of a business case by the Head of Investment Appraisal, the case will be presented to PRC for consideration.

The project sponsor and other individuals, key to the delivery of the proposal, will present the case to PRC and respond to questions as required.

5. Post approval

Following approval, the pre-agreed implementation plan should be executed, aligned with the agreed milestones and indicators for assessing the progress of the project and reporting. The proposer will be responsible for preparing, and providing periodic updates for reporting to PRC (as agreed with the PRC Secretariat) and/or any other named committee/group responsible for delivery of the project. The Head of Investment Appraisal/AFPA will provide periodic updates to PRC and FC at the portfolio level and feedback from proposers will be requested from time to time to support that.

6. Post project review

PRC will be asked to identify a future time after commencement (e.g. 3-5 years, to be defined in the project proposal) to define when the success of the project should be formally and finally reviewed to consider whether any revenue sharing arrangement should be 'baselined', whether amendments to the operation of the project are required or whether plans should be implemented to close down the

activity. The default for the formal review period, if not requested otherwise, will be 3 years. The SIF model will continue until such time as Enhanced Financial Transparency (EFT) is fully implemented, and more details on the transition will be communicated and discussed with institutions as the EFT framework develops. It is the intention that:

- surplus sharing mechanisms will continue to be reflected in a way to be determined by PRC during the transition to EFT.
- A mechanism for incentivising innovative projects that enhance University surplus will continue to be part of the budgetary planning process governed by PRC once EFT has been implemented.

Appendix 1 Required Business Case content

1. Strategic Case

- A description of the project including the wider strategic context.
- Strategic benefits to be delivered by the investment including as applicable:
 - Direct academic benefits (e.g. impact in developing area of study, diversity / quality of student intake, improved quality / resilience of a course)
 - Indirect academic benefits (e.g. initiatives that save academic time, cost savings which result in improved surplus for reinvestment); and/or
 - non-monetary benefits (e.g. environmental).
- If the benefits are not academic, then the case should confirm that the project will not have a material detrimental impact on academic objectives.
- Details of project options considered and justification for the selected project (i.e. why was the project selected?).
- Confirmation that the proposal has considered the impact on all University related bodies including Colleges (e.g. for proposals seeking additional students, how does the proposal align with the student number agreements with Colleges?). Please note that AFPA will follow up with the Office of Intercollegiate Services to discuss any proposed increases to student numbers.
- Where the SIF proposal relates to a new or expanded taught post-graduate course, a summary table showing the applications, enrolments and fee-status mix for all other taught post-graduate courses at the school, indicating clearly where the SIF scheme has been applied to individual courses.

2. Economic Case

- Templates for the SIF business case and financials spreadsheet can be provided through the SIF team and should be used for this purpose unless otherwise agreed.
- The business case should include a spreadsheet detailing the relevant incremental cashflows (investment, net income and expenditure) on an annual basis for a 'base case' setting out
 - incremental revenues for the University as a whole, taking into account the impact of the project on any existing revenues³
 - incremental local⁴ and/or central costs for the University as a whole, taking into account the impact of the project on existing costs⁵. Incremental staff should be costed at the mid-point of the salary spine for the relevant grade, unless there is an evidenced reason to do otherwise. The 'standardised' wage inflation rate in the SIF template is based on the University's forecast for wage inflation together with an allowance for wage 'drift' (salary spine increments).
 - incremental savings in local and/or central costs for the University as a whole, taking into account the impact of the project on existing costs
 - the aggregate investment required to initiate the project and the timing of that investment;
 - standard financial metrics such as the internal rate of return (IRR) and net present value (NPV) for the investment over appropriate period⁶;

³ Note that only additional revenues will count – e.g. closing one course and starting another only leads to additional revenues to the extent that the new course generates higher revenues than the old.

⁴ Wage rates for new staff should normally be costed at the midpoint of the relevant salary band, unless a there is a reason this is not appropriate (which should be set out in the business case)

⁵ Central costs to be approximated using appropriate RAM rates (or equivalent) as advised by AFPA during the project's initial review stage.

⁶ IRR and NPV are standard financial metrics which are used to measure the effective profitability of a project based on the value of the cash flows in relation to the investment required; appropriate methodologies will be advised by AFPA during the project's initial review stage

- Payback period (which should demonstrate that, in the base case, the project can repay the upfront investment within 3 years).
- Proposed distribution of the revenue and any surplus proceeds as detailed in *Process: section 2* above.
- Evidenced explanation that the assumptions that form the basis of the base case cashflow projections are balanced and realistic and an assessment of potential variance in those assumptions
- Risk and mitigation analysis for the project including a sensitivity analysis of the cashflow, including IRR, NPV and payback period to plausible best and worst variances in the key assumptions (e.g. showing what the numbers would be if only 50% of the expected number of new students were achieved or if the costs were twice what was expected).
- The downside risks should be combined in presentation of a 'downside case' to test the economic output of the proposal under a plausible downside outcome
- Details of abortive costs if the project does not succeed and an exit strategy if the benefits are not realised as anticipated.
- Clear identification of which entities will receive benefits or incur costs resulting from the project and in what proportion.

3. Implementation Case

- Details of how the business case has previously been evaluated and the assumptions assured, including:
 - Individuals or entities (whether inside or outside the University) that have been engaged in the development of the business case;
 - The approvals that have been obtained in accordance with University practice, indicating whether there are any required approvals that are not yet in place;
 - Comparisons or benchmarks with other Institutions if applicable.
- Identification of the project leader (i.e. whose day job it is to make the project happen (Senior Responsible Officer)).
- Project governance including relevant management reporting lines and board/committee oversight.
- Timetable for the project through its lifecycle.
- Articulation of how the project's implementation and operation will be undertaken, to achieve objectives (i.e. steps to be taken by project leader and team members over its lifecycle).
- Details of how the project's implementation and operation and the realisation of identified academic and economic benefits will be measured and monitored against the approved business case. This should include identification of key milestones and metrics to review and document the project's success. Individual SIF project reporting will be the responsibility of the sponsoring entity.
- The impact on existing University resource models should be reviewed and agreed in advance of project commencement, to avoid duplicatory funding.
- If relevant, details of any arrangements with third parties which are required or impacted by the project (e.g. contractual arrangements, payment model and termination rights).

Appendix 2 – Post Approval Guide for Sponsoring Entities

1. Following approval of a SIF proposal by PRC, the Sponsoring Entity should set up a new local cost centre (e.g. in the relevant Department) linked to the SIF source of funds (FADQ). Departments should incur actual incremental expenditure (expected to be in line with the scope set out in the proposal) against this cost centre on SIF source of funds (FADQ). Departmental expenditure should continue to be charged to the cost centre throughout the SIF review period as indicated in the proposal. A separate cost centre is required for surplus shares; this can be set up at the outset or in following years once the case begins to generate surplus.
2. During investment years, investment funds will be transferred to the cost centre at financial year end (July). Investment transfers will be based on actual investment expenditure (on source of funds FADQ) up to the approved investment total. Local School finance teams will be contacted with a financial; year-end deadline for investment expenditure, ahead of transfers being made. The updated actual investment transferred will be updated in central records, and repayments are recalculated on this basis. Please note that if, post approval, aspects of the up-front investment are not incurred (e.g. space refurbishment, recruitment delays), those funds will not be transferred and the investment case updated on that basis.
3. AFPA will use the approved base case spreadsheet as the basis for monitoring once the case is implemented, with the original base case figures maintained alongside an actuals case where incremental student numbers (for relevant cases), and any agreed changes to investment levels, repayment schedules or operating costs are input. Student number data is taken from CamSis as of 1 December each year.
4. For student cases, the annual calculation of revenue share will be based on:
 - the actual revenue that is earned as a result of the SIF (for example reflecting actual incremental student numbers, actual course fees and the actual mix of students (for the relevant course as a whole);
 - the incremental School/Department and Central costs that were forecast in the original business case, with any adjustments (e.g. anticipated variability of costs with student numbers) agreed at the point of business case submission. Any differences (positive or negative) between the forecast (as adjusted) and actual local operating costs will be for the Sponsoring Entity's account unless the Sponsor's actual delivery arrangements differ materially from those represented in the SIF proposal resulting in lower costs, in which case the revenue share shall be recalculated based on the revised arrangements.
5. If the incremental revenues do not cover all of the incremental costs that have been identified, then the shortfall in revenue will be shared 50:50 between the Sponsoring Entity and the Centre (the liability between School and Department is a matter for the School to agree with the Department).
6. For student cases, transfers of funds to for School/Department operating costs and any surplus share will be made at half year end. AFPA will contact Schools with details of the calculations and to confirm which cost centre(s) to credit (see section 1). Please note that operating costs are fixed and transferred, as per the PRC approved base case.
7. For non-student cases, actual expenditure is monitored and reimbursed to the relevant office at year end. AFPA will contact the relevant office with details of the transfer value and to confirm which cost centre(s) to credit.
8. The Head of Investment Appraisal and AFPA will provide an annual report to PRC in Lent or Easter term, providing an overview of the performance of the entire SIF portfolio. Input from Schools, Departments or NSIs may be required to provide insight on specific cases for the report.

9. Departments should expect to report on the implementation and benefits realised to PRC, typically after three years (although alternative frequencies may be agreed where appropriate). This is particularly important where the proposal has not progressed in line with the original assumptions.
10. Reports should concisely update PRC on progress of the project against expectations at the time of approval, including:
 - any potential deviation from the implementation case as approved;
 - the actual incremental revenues and costs resulting from the scheme compared to those set out at the time of approval, with explanation for differences. (The report in December will be based on revenues *expected* to be received during that academic year and the report in June will be based on *actual revenues earned* during that academic year);
 - performance against key milestones and metrics identified in the business case;
 - emerging risks;
 - an update of the revenue forecasts for the SIF scheme for later years.
11. Based on the actual investment, revenue and Departmental costs, AFPA will monitor the effective SIF repayment as per the agreement of the proposal.