

Finance Oversight Subcommittee Report for General Partners' Meeting

30th July 2020

Members of the FOS:

Andrea Powell (STM - Chair)
Anton Bandy (National Academy of Sciences)
Mandy Hill (Cambridge University Press)
Jayne Marks (Wolters Kluwer Health)
Kimberly Parker (WHO)
Ian Russell (Bioscientifica)
Imma Subirats (FAO)
Neillsen Turner (Wiley)

Role of the Finance Oversight Subcommittee

The Research4Life Finance Oversight Subcommittee (FOS) has the following responsibilities:

- ensure that Group B fees are set at an appropriate level and are reviewed annually;
- ensure that fees received from Group B countries are properly charged, accounted for and allocated to the appropriate calendar year;
- approve annual expenditure budgets for defined budget categories [e.g. technology, communications, training, etc.];
- monitor the overall Research4Life financial situation on a yearly basis, including funds held on deposit for specific projects or investments;
- submit an annual budget to the General Partners' Meeting for approval;

1. Group B Fees for 2021

Group B fees are currently set at \$1,500 per eligible institution, irrespective of how much content is included or excluded by publishers. Some publishers agree to provide free access to Group B countries even when they have not paid the \$1,500 annual fee, while others permit access only to those which have paid. Others exclude all Group B countries from any kind of access. Our current forecast is that Group B fees will be substantially down on budget for 2020, due particularly to the current coronavirus pandemic and the difficulty many institutions are experiencing in securing the necessary funds (see below). As a result, we have reduced the forecast for 2020 from \$230,000 to \$140,500 and, with the agreement of our publisher partners, have reclassified "paying" Group B institutions as "non-paying" for the rest of the year, in order to ensure there are no barriers to access. (Publisher exclusions still apply).

Although we have added significant new content to Research4Life during 2019 and 2020, the FOS proposes that the fee for Group B institutions remains at \$1,500 for 2021 but that we aim to reinstate the “paying” status of all relevant Group B institutions from January 2021.

Given current global circumstances, this situation will be kept under review, and **the Finance Oversight Subcommittee will meet again towards the end of 2020 to receive an update on fees secured and the impact on the 2021 budget. A decision will also be made then on whether to request publisher permission to extend the “non-paying” status of Group B fee institutions.**

2. 2019 report on Income and Expenditure

<i>Income \$</i>	<i>2019 budget</i>	<i>2019 Actual</i>
<i>No of paying institutions</i>		191
Group B fees (net)	225,000	264,000
Fund raising income		
Other project income		50,000
Total	225,000	314,000
<i>Expenditure \$</i>		
Evaluations	40,000	22,805
Communications	48,000	25,953
Fund Raising		
Salaries (ITOCA)	50,000	41,900
Technology	50,000	71,046
Capacity Development	60,000	47,809
Other Expenses	12,000	5,503
Total	260,000	215,016
Net surplus/(deficit)	-35,000	98,984

Commentary on the 2019 accounts:

- Group B fee income, at **\$264,000**, was \$39k over budget and only marginally down on 2018, which implies that our collection process and renewal rates are robust in normal circumstances. In 2019 there were 191 paying institutions, paying an average of \$1382 each after multi-site discounts and currency fluctuations. This compares to 202 institutions paying an average of \$1322 in 2018.
- **\$50k** from the Springer Nature technology project fund was transferred to cover PortSys costs (authentication system) and therefore is shown in both income and expenditure sections (i.e. netting off to zero)
- The final payment for the Infrastructure Review fell into 2020, although the overall project cost was slightly under budget (\$38k versus \$40k across two calendar years)
- There was an underspend in other parts of the Technology budget as the project to redevelop the Content Portal has taken significantly longer than anticipated to procure, following the withdrawal of

funds from the UN Technology Bank for this project. Finally, this contract has now been awarded and the costs (\$150k capital investment) are shown in 2020 and 2021.

- There were other areas of underspend in Communications and Capacity Development, although the output from these two teams remained high, with more focus on digital communications and online learning. The CapDev team also secured some funding from 3rd party sources (not shown in the Research4Life accounts) which allowed it to implement activities beyond those possible with Group B fee income.
- In total, **\$98,984** surplus funds were added to the Research4Life cumulative reserve.

3. 2020 Latest Forecast

<i>Income \$</i>	2020 Budget	2020 Forecast
<i>No of paying institutions</i>		100
Group B fees (net)	230,000	140,500
Fund raising income		
Other project income		44,302
Total	230,000	184,802
<i>Expenditure \$</i>		
Evaluations	175,000	133,341
Communications	48,000	24,600
Fund Raising	0	10,000
Salaries (ITOCA)	43,300	39,157
Technology	156,100	202,237
Capacity Development	60,000	46,000
Other Expenses	10,000	2,000
Total	492,400	457,335
Net surplus/(deficit)	-262,400	-272,533

Commentary on the 2020 latest forecast:

- In addition to the reduced Group B fees of \$140,500 (explained above), the final tranche of \$44k from the Springer Nature fund will be transferred this year to spend on the content portal upgrade project, and hence is shown in the Other Project Income line, giving total net income of **\$184,802**.
- The User Review is now underway (contract awarded to INASP), and once again the final payment will fall into 2021 rather than 2020, so the budget for this year has been reduced from \$175k to \$133k. The original budget for this whole project was \$215k, and our current estimate is a maximum of \$218k.
- In line with the anticipated reduction in Group B fees, Subcommittee Chairs have been asked to look for savings in their 2020 budgets, but not to take anything out which would significantly harm their activities (at this stage). The reduction in the Comms line is consistent with actual expenditure, and given the current restrictions on travel and the conversion of this year's GPM to a virtual meeting, we

are comfortable that this revised forecast is sensible and will still result in an increase in activity compared to previous years. A summer Intern will also help to keep activity levels high.

- **A new cost line is Fund Raising**, for which \$10k has been allocated in 2020 to cover set-up costs. A more detailed paper from the Fund-raising Task Force is part of the GPM pack.
- The content portal upgrade will finally start in July 2020, after several years of planning and procurement. This represents a major investment in platform technology and is more fully described in the report from the Technology Subcommittee.
- Capacity Development costs have reduced by \$14k compared with budget due to the postponement of face-to-face training workshops this year. Some funds have been transferred to cover the costs of developing, maintaining and hosting the MOOC.
- We have reduced the “other expenses” line to a \$2k contingency, as this was originally primarily intended to cover the costs of User representatives attending the GPM in Chicago, and will now not be needed for that event.

Our current forecast, therefore, is that we will have a deficit of **\$272,533** in 2020, compared to the approved budgeted deficit of **\$262k**. The variance is almost exactly the same as the investment being made in fund-raising, which seems to be highly appropriate and more timely than ever. This investment is funded from the Research4Life Reserve fund and represents a period of “catch up” expenditure on technology as well as the 5-yearly outlay on the Review project. The recommended requirements of the Reserves Policy will be met under these circumstances.

4. 2021 Budget

	2020 Forecast	For Approval at GPM 2021 Budget
Income \$		
No of paying institutions	100	
Group B fees (net)	140,500	100,000
Fund raising income		25,000
Other project income	44,302	
Total	184,802	125,000
Expenditure \$		
Evaluations	133,341	50,000
Communications	24,600	24,000
Fund Raising	10,000	15,000
Salaries (ITOCA)	39,157	43,300
Technology	202,237	166,300
Capacity Development	46,000	47,000
Other Expenses	2,000	8,000
Total	457,335	353,600
Net surplus/(deficit)	-272,533	-228,600

Given the substantial fall in Group B fees expected in 2020, the FOS believes it is prudent to anticipate a further significant shortfall in 2021; it is therefore assuming a drop to \$100k in Group B fee income and a modest target of \$25k of other income is also included from fund raising efforts.

The expenditure proposed for 2021 has been limited only to committed costs (e.g. for the Review, the Content Portal upgrade and the costs of technology support) and “bare minimum” activities in Comms and Capacity Development. Although the investment in platform technology is acknowledged as “catch up” after several years of underspend, the predicted fall in Group B fee income makes the outlook unsustainable without an injection of significant additional funds. All areas of expenditure will have to be reviewed more regularly in order to ensure that the Reserves are not depleted below the level required by the Reserves Policy.

Budget approval for 2021 is required at the General Partners’ Meeting in July. Members of the FOS felt uncomfortable with the figures presented, given the potential impact on the reserves. It is therefore proposed that the GPM considers the 2021 budget as an interim position, pending a further review by the FOS in Q4 2020, once the income and expenditure picture for 2021 is clearer.

5. Research4Life Reserve Fund – proposed policy and current projections

At its meeting in April 2020, the FOS agreed to recommend the following Research4Life Reserves Policy to the General Partners’ Meeting:

Research4Life’s financial practice is to maintain its activities with a sufficient reserve to enable the initiative to remain solvent and active on a year-to-year basis, as well as to carry out a five-yearly programme review.

To this end any annual surpluses are re-invested into the reserves to allow smooth financial functioning. In July 2020 the Research4Life Finance Oversight Subcommittee will recommend to the General Partners’ Meeting that the hitherto informal understanding of retaining reserves be formalized. The recommended policy is to retain financial reserves sufficient to allow one year of normal operation in the absence of any income from Group B fees, while also building up sufficient funds to carry out the five-yearly programme review. This sum will be calculated as the rolling three-year average expenditure on regular activities plus a cumulative 20% per annum of the cost of the most recent reviews and will be agreed annually at the GPM alongside the annual operating budget. As an illustration, if the average annual expenditure over a three year period is \$200k and the cost of the most recent programme review was \$150k, the minimum reserve should be \$200k plus \$30k in year one of a five-year cycle, \$200k plus \$60k in year two, \$200k plus \$90k in year three and so on. At the end of the fifth year, the reserve should therefore total at least \$350k.

This policy will be reviewed at least every five years and is believed to be prudent in the light of the financial challenges experienced by many of Research4Life’s Group B fee-paying institutions and the sometimes-irregular receipt of annual subscription fees. It also addresses the natural fluctuations in expenditure from year to year, depending on the timing of major technology investments or project evaluations.

The Finance Oversight Subcommittee further recommends that any exceptional expenditure which would cause the reserves to dip below the threshold set will require the formal approval of the Executive Council of Research4Life. Such approval may be given via virtual means if necessary.

The General Partners’ Meeting is asked to approve this proposed policy

If the new Reserves Policy is approved, the following calculation will apply:

Reserves Policy: equal to average of previous 3 years' expenditure plus 20% of cost of Programme Review

- 20% of cost of Review = \$43,637
- 2017-2019 average annual (cash) expenditure excluding earmarked project funds = \$170,744

Minimum reserves required to meet policy at end 2020 = \$214,381

At the end of 2020, the cash position of the Research4Life Reserve Fund, held by WHO, is forecast to be **\$373,213**. This is therefore in line with the new policy, being c. \$160k above the minimum required.

However, should 2021 deliver another substantial deficit, the Reserve Fund would fall below the level required by the policy, and the Executive Council would be required to approve the expenditure that would cause this to happen. Again, this underlines the need for a further round of discussion on the 2021 budget by FOS and ExCo in the final quarter of 2020.

Andrea Powell
Chair, Finance Oversight Subcommittee
1 July 2020