

COUNCIL

Minutes of a meeting of the Council held in the Saloon, Madingley Hall, at 10.15 am on Monday 21 September 2015.

Present: Vice-Chancellor (Chair); the Master of Corpus Christi, the Mistress of Girton, the Master of Jesus; Professor Anderson, Professor Davis, Professor Karet, Dr Oosthuizen; Dr Anthony, Mr Caddick, Dr Charles, Dr Glendenning, Dr Holmes, Dr Hutchings, Dr Padman; Mr Lewisohn, Professor Dame Shirley Pearce, Mr Shakeshaft, Ms Weller; Ms Mensah (minute 7 only), Mr Roemer; with the Registry, the Head of the Registry's Office, the University Draftsman, the Academic Secretary and the Director of Finance; the Senior Pro-Vice-Chancellor, the Pro-Vice-Chancellor (Education), the Pro-Vice-Chancellor (Institutional Affairs) and the Pro-Vice-Chancellor (International Strategy).

Apologies were received from the Warden of Robinson and Dr Good.

The Junior Proctor was present.

The Vice-Chancellor welcomed Dr Glendenning and the Senior Pro-Vice-Chancellor to their first meeting. He also noted that it was the last meeting of Mr Graham Allen as Academic Secretary and Professor Jeremy Sanders as Pro-Vice-Chancellor (Institutional Affairs). The Council expressed their thanks for their contribution to the work of the Council and the University.

UNRESERVED BUSINESS

PART A: PRELIMINARY, LEGISLATIVE AND STRAIGHTFORWARD BUSINESS

1. Declarations of Interest

No personal or prejudicial interests were declared.

2. Minutes

The unconfirmed minutes of the meeting held on 13 July 2015 were received. After noting the comments of several members on minutes 130, 131 and 134, it was agreed that the minutes, as revised to take into account those comments, would be recirculated for approval.

Action: Head of the Registry's Office

3. Procedure of the Council

(a) Arrangements for the chairing of agenda items

It was agreed that the Vice-Chancellor should chair the meeting for all items.

(b) Business starred as straightforward

The Council approved matters for decision set out in the confirmed starred items.

***(c) Council Circulars**

The Council noted the issue and approval of the following:

Circular	Issue	Approval
18/15	17 July	27 July
19/15	24 July	3 August
20/15	14 August	24 August
21/15	4 September	14 September

4. Vice-Chancellor's Report

(a) The Vice-Chancellor congratulated the following members of the University elected as Fellows of the British Academy: Professor Cyprian Broodbank, *CAI* (Disney Professor of Archaeology and Director of the McDonald Institute for Archaeological Research); Professor Garth Fowden, *PET*, (Sultan Qaboos Professor of Abrahamic Faiths); Professor Robert Gordon, *CAI* (Professor of Italian), Professor Sanjeev Goyal, *CHR*, (Professor of Economics); Professor Peter Mandler, *CAI* (Professor of Modern Cultural History), Professor Joachim Whaley, *CAI* (Professor of German History and Thought).

(b) The Vice-Chancellor congratulated members of the University honoured by the Royal Society as follows: Professor George Efstathiou, *CHU* (Institute of Astronomy) was awarded the Hughes Medal; Professor Benjamin Simons, *JN* (Wellcome Trust/Cancer Research UK Gurdon Institute, Cavendish Laboratory) was awarded the Gabor Medal; Professor Russell Cowburn, *DAR* (Department of Physics) was awarded the Clifford Paterson Medal and Lecture; Dr Madan Babu Mohan (MRC Laboratory of Molecular Biology) was awarded the Francis Crick Medal and Lecture.

(c) The Vice-Chancellor had delivered a lecture and signed a Memorandum of Understanding with the Joint Research Centre of European Commission on 7 September 2015.

(d) The Vice-Chancellor and the Pro-Vice-Chancellor (International Strategy) had visited India on University business.

(e) The Vice-Chancellor noted the resignation of the Chief Executive and Finance Officer of Addenbrooke's Hospital. It was understood that there would be a formal announcement on 22 September 2015 concerning the Cambridge University Hospitals NHS Trust's financial position and a Care Quality Commission report. The Registry would be attending a meeting of Cambridge University Health Partners (CUHP) on 21 September 2015 (and would therefore be unable to attend for all of the Council's strategic meeting). Further information would be reported to the Council once this was available. It was recognised that the NHS Trust was a significant University partner but that the University had no direct control over its management and activities.

5. Council, legislative and comparable matters

(a) Council Work Plan 2015-16

The Work Plan for the forthcoming academical year was received.

(b) Business Committee

No meeting had been held on 14 September 2015.

(c) The Council's Annual Report 2014-15

A first draft was received for comment and members were invited to send detailed comments to the Head of the Registry's Office. Revised drafts would be brought back to the Council for comment at the meeting on 19 October 2015 and then for signature on 23 November 2015.

In response to a question it was reported that HEFCE had formally been given responsibility for oversight of the application of the Counter Terrorism and Security Act 2015 to HEIs, and the new Prevent statutory duty had come into force on 21 September 2015. A committee would be established under the chairmanship of the Pro-Vice-Chancellor (Education), with the Head of the Registry's Office as secretary, to assess the steps to be taken in meeting the obligations under the duty and to respond to a consultation on its implementation, once guidance had been published. It was recognised that the Universities of Oxford and Cambridge as collegiate universities would need to work closely with their Colleges. The Prevent duty would be on the agenda of the next meeting of the Colleges' Committee.

It was agreed that a sentence should be added to the Annual Report to acknowledge the progress made in closing the gender pay gap.

(d) Strategic Meeting 21-22 September 2015

The programme was received for any necessary reference during the Ordinary meeting. A pack of papers had been distributed on 8 September 2015. A note of the meeting would be provided for discussion at the Council's meeting on 19 October 2015.

6. General Board

The unconfirmed minutes of the General Board's meeting on 8 July 2015 were received together with a revised consultation paper on the governance of Schools, Faculties and Departments.

PART B: MAIN BUSINESS

7. North West Cambridge Project

(a) Update report.

The Vice-Chancellor reported. He reminded the Council that it had, at its meeting on 13 July 2015, supported the Finance Committee's recommendation that the Audit Committee be asked to commission an investigation into the governance and management structures for the project.

The Audit Committee had subsequently approved terms of reference and membership of the Audit Group. The terms of reference were as follows:

'The work of the Audit Group will comprise two parts to be carried out successively.

Part 1 will seek to establish:

- (a) a detailed account of the substantial forecast costs overrun for Phase 1, including a narrative of the sequence of events, underlying causes and contributory factors leading to it;
- (b) an analysis of current budget-setting and cost-monitoring processes, including the procedures for alerting appropriate senior University bodies to material changes in the financial position;
- (c) recommendations as to such immediate remedial actions as are required to ensure adequate cost control and timely escalation in the future; and
- (d) recommendations in respect of any other actions which in the view of the Audit Group should be taken as a matter of urgency in relation to the management and implementation of Phase 1.

Part 2 will seek to establish:

- (a) a wider analysis of the adequacy of the governance and management environment for the delivery of the NWC project, including the identification of any material deficiencies in existing strategies, systems and/or skillsets; and
- (b) lessons to be learnt and recommendations for the future organisation of the NWC project and any other future large scale development projects within the University.'

The membership had been agreed as follows: Mr Mark Lewisohn (chair); Ms Ruth Cairnie (a member of the Finance Committee); Professor Duncan Maskell (incoming Senior Pro-Vice-Chancellor); Dr Ruth Charles (a member of the Audit Committee); David Grover, Chief Operating Officer for Investment for Mace. The Deputy Director of the Legal Services Office would act as Secretary to the Committee.

A timetable was now proposed for consideration of the Audit Group's Report and the Options Appraisal. It was intended that the Syndicate would finalise its recommendations on the options appraisal at its meeting on 28 September 2015. The Audit Group would meet on 2 October 2015 to agree a final report for submission to the Audit Committee at its meeting on 8 October 2015. The Syndicate would be invited to comment on the Audit Group's final report so that its observations could be considered by the Audit Committee alongside the Audit Group's report.

The Finance Committee would receive and consider the Syndicate's recommendations on the options appraisal at its meeting on 7 October 2015.

The Council, at its meeting on 19 October 2015, would receive and consider the options appraisal from the Syndicate together with the recommendations of the Finance Committee, and the Audit Group report with the comments of the Audit Committee.

It had already been agreed that the Audit Group's report, together with PricewaterhouseCoopers' (PwC) report to the Audit Group, would be published to the University.

The matter was clearly one of importance to the University as a whole and one which should be subject to discussion and scrutiny. It was therefore intended that a Discussion of Phase 1 of the North West Cambridge project be arranged at an early opportunity.

The Director of Finance reported. He had assumed direct supervisory oversight of the project's financial position and had been working closely with the executive team and the Syndicate throughout the course of the summer. With regard to the site wide infrastructure contract, a specialist firm had been engaged to assist and support the University in the management of the dispute with the contractor and to strengthen control of that aspect of the project into the future. There remained some uncertainty as to the financial implications and it was likely to take some time until this uncertainty was resolved.

Further detailed checks would be undertaken to ensure that the financial projections and appraisal were robust. An interim Chief Financial Officer, with relevant industry experience, would be appointed to ensure tight future financial control.

Significant work had been undertaken in exploring options to improve the forecast outturns for Phase 1 against the financial parameters originally set for the project. The financial position had improved since July, particularly with regard to capital receipts. The majority of the lot contracts had been procured at the prices originally predicted in the financial appraisal. The budget forecast was now closer to the parameters with regards to the peak borrowing constraint agreed by the Regent House. An internal rate of return (IRR) of 6% was challenging but not unachievable. The overall financial outcome and the net benefits of the project would be positive.

The Chairman of the Audit Committee and the Audit Group reported. The Audit Group had been constituted in July 2015 and had met on two occasions. PwC had been engaged to undertake a detailed investigation into the increase in the potential forecast costs overruns and their causes. They had reviewed financial and other materials and had conducted interviews with members of the Executive Management Team and the Syndicate. As noted above, the full, detailed report and recommendations would be brought back to the Council for discussion at its meeting on 19 October 2015. At this stage, the PwC report was still in draft form and, since the members of the Executive and Syndicate interviewed had not yet had an opportunity to comment on it, he would provide only a summary of emerging findings.

It was important to understand that, on the criteria approved by the Regent House, the NWCP would be successful. Phase 1 would produce strategically necessary accommodation for post graduate students and postdoctoral researchers and key worker housing. It would be built to a high standard and was likely to win architectural awards. From a financial perspective, it would meet the University's overriding objective of being self-funding and producing a positive net present value. Nevertheless, the extent of the forecast budget overrun was a serious concern and

would have an impact on the Project's IRR which was expected to fall from an initially targeted 6.5% to below 6%. Inflation and an increase in construction costs accounted for some of the projected cost overrun but not all. His Group's initial observations were that there appeared to have been a lack of financial discipline and insufficient focus on the objective of realising the target IRR. There had been changes to scope and design after the budget had been set which had financial implications. Nevertheless, it was important to understand that, on the basis that the project needed only to be self-funding in order to meet the University's financial objectives, the IRR could fall even further towards the cost of debt and the project would still be successful on this measure. The project would not lose money for the University but would now generate a lower net present value.

Responsibility for the forecast budget overrun did not rest with any individual but, rather, with the governance and administrative structures and systems. The financial reporting structures had been inadequate and the risks were not properly quantified. Design proposals had been approved without reference to the financial consequences. There had been a clear tension in the origins of the project and subsequent decision-making between the University's strategic objectives for the project (including the quality of its design), and a focus on the financial returns. The project executive was under-resourced and lacked sufficient experience in the financial management of a major construction project.

He noted that the Audit Group would be considering the governance and management arrangements for the project, establishing lessons to be learnt in respect of further phases of the NWCP and other large scale projects in the second phase of its work.

The Vice-Chancellor noted that Professor Anderson had circulated a paper to members of the Council setting out his analysis of the reasons for the budget overrun based on his review of Syndicate and other materials. It was agreed that Professor Anderson's paper should be provided to the Council for discussion at its meeting on 19 October 2015.

He asked Professor Anderson to comment.

Professor Anderson reported that there had been failures in terms of project management. Individual elements had been managed but not the overall, overarching project. This had caused a cumulative lack of budgetary control. The executive team had focussed on the design elements of the project and had devoted insufficient attention to the important infrastructure elements, impacting negatively on both the project programme and costs. There was in his view a need to appoint an experienced full-time project director who could be on site and keep tight control of both the finances and contractor performance.

The Vice-Chancellor agreed that it would be vital to appoint a project director with experience of managing projects of this scale and complexity.

The Pro-Vice-Chancellor (Institutional Affairs) reported. He confirmed that there had been a tension and a lack of clarity between the charitable and the financial objectives of the project.

It was inevitable that the delivery of a project of such novelty, size and complexity would include risks that were difficult to quantify; that there would be errors and omissions; and that some decisions might, in retrospect and on the basis of later information, have been different. It would be necessary, following consideration of the Audit Group's report, to acknowledge mistakes and to learn lessons to inform future

such projects. Indeed, the Syndicate had commissioned a lessons-learned study as part of its consideration of options for Phase 2.

The Council's Report, in Michaelmas Term 2012, seeking authority to commence development of University land at North West Cambridge set out both the strategic need for the development and the associated risks. That need had since become more urgent and acute: market rents in the City now represented almost 60% of net income for postdoctoral researchers and the situation was worse for staff in this assistant staff grades.

The School had opened as scheduled on 7 September 2015 with sixty year 1 and 2 pupils. 60 reception class students had started on 14 September 2015. There had been positive feedback from parents and teachers.

It was anticipated that a contract would be soon be signed for a hotel which would enhance the physical, social and financial dimensions of the Development. Residential developers were submitting proposals for the next tranches of land which were expected further to improve the financial yield. There was interest from potential developers of an extensive senior care development.

He had provided update reports to the Council at every meeting since February 2012. Delays relative to the original programme had been reported to the Council for more than a year. In September 2013, the Council had been advised that recovery from recession was more rapid than had been anticipated and that this presented a risk with regard to construction prices. It had been reported to Council in October 2013, that rental yields on key worker housing were tied to family income and that they would not, therefore, keep pace with inflation in the short term. He had, at that stage, also alerted the Council to the tension between design quality and financial risk as set out above. The Council, at its meeting in January 2015, had been advised of concerns about the programme for the delivery of the main site-wide infrastructure works and uncertainty about the impact on the overall timetable for delivery. In February 2015, it had been reported that it now seemed likely that the difficulties with regard to the infrastructure works lead either to delays or to increased costs. Council had been provided with such information as was available, subject to caution about providing detailed material that was deemed to be commercially confidential. There remained uncertainty over cost; this was inevitable, given that there were two further years of the construction phase of the project yet to run. However, as reported above, the revised financial projections had improved materially since July.

The following is a summary of the points made in discussion:

- The process of adjudication with the site-wide infrastructure contractor was already underway; the University was being supported in this process by the specialist firm referenced above. This expert input was essential in ensuring the management of consequential delay to the projects on Lots which relied on the delivery of the infrastructure.
- There had, from the earliest inception of the project, been a tacit tension between the financial objectives of the project and the design objectives. It had always been intended that there would be a financial return from the project. It was equally (if not more) important to produce a high quality environment in which people would want to live and work. It was difficult to quantify the intangible, non-financial benefits to the University of the project. It was, however, recognised to be a strategic imperative for the University's future development and success. This tension had, inevitably, presented challenges for the project executive and the Syndicate in terms of balancing

- risks and determining priorities.
- Further consideration might be given to the metrics by which the success of the project could be measured. These might vary with regard to different aspects of the project.
 - The detailed work which had been undertaken with regard to the budget costings was welcomed. It was important that these figures were entirely robust and that the financial reporting was rigorous and reliable.
 - It would be important to ensure that the executive team was resourced and qualified at the right level and that it included high-level experience of financial and project management of major and complex construction projects.
 - As reported above, the Audit Group would be considering the governance and management arrangements in the second phase of its work. It was suggested that this might include the arrangements by which the Syndicate reported to the Council and the relationship between the two bodies.
 - It would be important to be transparent in reporting the forecast budget overrun and its causes to the Regent House. However, careful consideration would need to be given to the form which this reporting would take in order not to breach considerations around legal professional privilege or commercial confidentiality, or to damage the University's capacity to deliver the project both in the immediate term and in the long term.

In conclusion, the Council endorsed the timetable for consideration of the Audit Group's report and the options appraisal and agreed for the early calling of a Discussion on the matter. It was also agreed that Professor Anderson's paper should be received with the other materials at the Council's meeting on 19 October 2015.

(b) Membership of the West and North West Cambridge Syndicate

The Council had been invited, in Council Circular 20/15 issued on 14 August 2015, to approve the recommendations of the Advisory Committee on Committee Membership and External Nomination (ACCMEN) with regard to various appointments. Professor Anderson had asked that the recommendations with regard to the West and North West Cambridge Syndicate be referred for discussion. A paper setting out the background for the recommendations was received.

The Registry reported. The individuals had been nominated taking account of their professional expertise and their significant interests with regard to the development of the sites under the stewardship of the Syndicate. There was some urgency with regard to filling the vacancies in order to ensure the ongoing operation of the Syndicate and, in particular, its quoracy. Filling the four current or pending vacancies would leave two positions unfilled; nominations for these positions could, therefore, be informed by the findings from the Audit Group's report.

It was suggested by Professor Anderson that consideration be given to appointing financially qualified members to the Syndicate. It was agreed that this proposal be taken forward in discussion with the individuals he had proposed and through ACCMEN. The Council approved ACCMEN's recommendations with regard to the other appointments.