

University of Cambridge

COUNCIL

Minutes of a meeting of the Council held in the Seminar Room, University of Cambridge Primary School, at 10.15 am on Monday 19 October 2015.

Present: Vice-Chancellor (Chair); the Master of Corpus Christi, the Mistress of Girton, the Master of Jesus, the Provost of King's; Professor Anderson, Professor Davis, Professor Karet, Dr Oosthuizen; Dr Anthony, Mr Caddick, Dr Charles, Dr Glendenning, Dr Holmes, Dr Hutchings, Dr Padman; Mr Lewisohn, Mr Shakeshaft, Ms Weller; 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 and International Relations) and the Pro-Vice-Chancellor (Research).

Apologies were received from Dr Good, Ms Mensah and Professor Dame Shirley Pearce.

The Senior and Junior Proctors were present.

The Vice-Chancellor welcomed the Provost of King's to his first meeting. He also noted that it was the first meeting for Professor Eilis Ferran as Pro-Vice-Chancellor (Institutional and International Relations) and Ms Emma Rampton as Academic Secretary.

UNRESERVED BUSINESS

PART A: PRELIMINARY, LEGISLATIVE AND STRAIGHTFORWARD BUSINESS

8. Declarations of Interest

Dr Anthony and the Heads of House, as senior officers of Colleges, declared an interest in the item recorded under minute 14 (b) (North West Cambridge: Graduate College). The Registry and the Master of Jesus, as members of the West and North West Cambridge Estates Syndicate, declared an interest in the item recorded under minute 14 (a) (North West Cambridge: Financial appraisal and audit report). No other personal or prejudicial interests were declared.

9. Minutes

The unconfirmed minutes of the meetings held on 13 July and 21 September 2015 were received and approved.

Action: Personal Assistant to the Head of the Registry's Office to web.

10. 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 except for B4. The Deputy Chair would take the chair for this item.

(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
22/15	18 September	28 September
23/15	2 October	12 October

11. Vice-Chancellor's Report

(a) The Vice-Chancellor congratulated the following members of the University elected as Fellows of the Royal Academy of Engineering:
Professor John Daugman (Professor of Computer Vision and Pattern Recognition);
Professor Florin Udrea *EM* (Professor of Semiconductor Engineering).

(b) The Vice-Chancellor had delivered the keynote address at a European Parliament research debate in Cambridge on 24 September 2015.

(c) The Alumni Weekend had taken place from 25-27 September 2015.

(d) The Vice-Chancellor had delivered his annual address to the University on the subject of 'Partnership' on 1 October 2015.

(e) The Vice-Chancellor had attended an event for the UN women HeforShe Campaign on 6 October 2015.

(f) The Vice-Chancellor had met Ben Gummer MP in Ipswich and visited the University Campus Suffolk on 8 October 2015.

(g) The Vice-Chancellor had attended a meeting of the EU Advisory Board on 9 October 2015.

(h) The Minister of State for Universities and Science had visited the University on 16 October 2015 and had discussed the plans for a Teaching Excellence Framework, a green paper on which was expected to be published soon. It was clear that there continued to be high level support for the widening participation agenda.

(i) The Campaign launch had taken place from 16-18 October 2015. It had been an outstanding series of events, for which the Executive Director of Development and Alumni Relations and, in particular, the Chief Operating Officer at CUDAR were congratulated.

(j) Subject to approval through the usual University routes, the Medical Research Council had agreed that the MRC Toxicology Unit should be transferred to the University. It was noted that the Planning and Resources Committee had established a Project Board to consider the transfer of MRC and equivalent units into the University. The Project Board would be considering strategic research and resourcing questions.

(k) A letter of intent had been signed on 16 October 2015, to extend collaboration between the University of Cambridge, the University of California, Berkeley (which for these purposes also represented the University of California, San Francisco, and the Lawrence Berkeley National Laboratory), and the National University of Singapore. A memorandum of understanding would now be negotiated to build on existing collaborations and develop new areas in which to work together.

12. Council, legislative and comparable matters

(a) Council Work Plan 2015-16

The updated Work Plan was received.

(b) Business Committee

No meeting was held on 12 October 2015.

(c) Strategic Meeting 21-22 September 2015

The notes of the meeting were received. The Registry reported on some amendments which had been suggested since circulation of the draft notes with the papers. It was agreed that a revised version of the notes would be circulated for approval in the next Council circular.

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

A revised second draft was received. The final draft would be brought back for signature on 23 November 2015.

(e) Council Committee for the Supervision of the Student Unions (CCSSU)

The minute of a discussion about the Graduate Union (GU) at the CCSSU's meeting on 24 September 2015 was received. It was reported that, since circulation of the papers, there had been an emergency meeting of the GU Board of Trustees at which letters of representation had been signed and forwarded to the GU's auditors. Once the GU's audited accounts for 2012-13 and 2013-14 had been finalised, these would then be submitted to the Charity Commission, together with a letter indicating that the current Trustees had not been in office during the two financial years in question but had cooperated fully in providing information to the GU's auditors.

Dr Anthony, in his capacity as a member of the CCSSU appointed by the Bursars' Committee, reported. The Committee had been disappointed that no member of the GU Trustee Board had been able to attend the meeting, to respond to the Committee's serious concerns about the governance of the GU in person. The removal of the GU from the Charity Commission's register of charities earlier in 2015 was one of the more recent examples of a series of problems that had beset the GU in recent years, predating his membership of the CCSSU. This had distracted the GU from its primary function, to represent graduate students; feedback from Dr Anthony's own College suggested that the GU was not performing adequately in this function.

Those members of the CCSSU present at the meeting (Mr Caddick and Professor Karet) concurred with Dr Anthony's views as, it was reported, did the Chair of the

CCSSU. It was noted that the GU was registered as an independent charity, and that by Ordinance the University recognised the GU as an organisation representing members of the University who are graduate students.

The Council agreed that there should be a review on the representation of graduate students in the University, which would consider whether the GU was the most effective body for providing that representation. Draft terms of reference and membership of a working group to conduct that review would be submitted to the Council's next meeting.

13. General Board

The unconfirmed minutes of the General Board's meeting on 7 October 2015 were received. There were no matters for the Council's decision.

PART B: MAIN BUSINESS

14. North West Cambridge

(a) Financial appraisal and audit report

The following documentation was received.

- (i) The North West Cambridge Syndicate's recommendations on the financial options appraisal for Phase 1 of the North West Cambridge Project;
- (ii) The report of the North West Cambridge Audit Group;
- (iii) A paper from Professor Anderson.

The Vice-Chancellor reported that an interim Chief Financial Officer had been appointed and would take up post on 1 November 2015 on a 12 month contract. Work was ongoing with the specialist firm which had been engaged to assist and support the University in its assessment and risk management of the site-wide infrastructure contract and the disputes arising from that. He also reported that the processes for appointing a Chair of the Syndicate in succession to Mr Alexander Johnston from 1 January 2016 and for appointing a full-time Project Director were underway.

The Director of Finance reported on the financial options appraisal and the discussion at the Finance Committee's meeting on 7 October 2015, as recorded in the minutes of the meeting. The Committee had noted the challenges inherent in balancing the project's strategic objectives against the risk-managed financial parameters. These parameters were as follows: that the project should have a peak internal borrowing requirement of £320m; an internal rate of return in excess of 6%; and that the internal loan should be repaid by 2052 (to align with the repayment of the public bond). The Finance Committee had noted that the project remained financially attractive in the longer term and strategically necessary.

He reminded the Council that the primary causes of the potential cost overruns related to building cost inflation on those Lots for which tenders had not yet been agreed; the delivery and dispute with the site-wide infrastructure contractor; and the associated consequences for other aspects of the project. Over the course of the summer, the Syndicate and project executive had undertaken a rigorous review of the costs and

estimates for Phase 1 of the project. The Syndicate had then prepared a report outlining options to bring the project back closer to its agreed financial parameters. The recommendations and options for discussion had been prepared on the basis of a 'new base case' that had been adjusted to reflect known changes since July 2015 such as increased capital receipts.

The Syndicate proposed that consideration be given to an alternative mechanism for delivering Lot 4. The Syndicate's proposal was that this should be developed by a commercial developer and not by the University as originally planned. The Lot is at the edge of the Phase 1 site and was adjacent to several market Lots. This would transfer the financial risks and uncertainties for this Lot to the commercial developer.

The Syndicate's second proposal was that the student accommodation intended for Lot 5 could be leased to a third-party provider for a period in return for an up-front capital sum, with the accommodation being reserved for students of the University.

Following detailed discussion, the Finance Committee had deferred a decision on pursuing alternative delivery options for Lot 4 at present and had asked to receive a further paper at its next meeting setting out the detailed case for this option. It rejected the option to lease Lot 5 for a period in return for a capital sum.

The Syndicate had also proposed that the costs associated with the problems arising from the site-wide infrastructure contract should be packaged, managed and reported separately (as the 'SWIC Reserve') from the rest of the project. The Finance Committee had supported this proposal and had agreed that the SWIC Reserve should be subject to separate management and financial provision.

The Director of Finance considered that there could now be significantly greater confidence in the financial projections and the new base case. However, the project was large and complex and he wished to stress that there was the potential for adverse financial impacts on the project from factors such as further delays and contractor/sub-contractor performance.

Dr Anthony, as a member of the Finance Committee, drew the Council's attention to the Committee's unanimous view as set out in the minutes as follows: 'short-term financial decisions, especially those fixated on not breaching the £320m peak borrowing requirement, should not be allowed to prejudice the retention of the land in perpetuity, the long term financial value or the strategic objectives of the development.'

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

- It was not clear when or how the dispute with the site-wide infrastructure provider – and other potential third parties affected by that dispute - would be resolved nor was it possible to determine definitively the likely costs. However, it was clear that there would be costs involved (although they might be different in type and in scale) regardless of the course of action which the University took or the outcome. It was for that reason that the University had engaged specialist consultants to advise on this complex matter.
- It was recognised that it would not be possible fully to separate the issues around the site-wide infrastructure from the rest of the project; the matters were clearly interrelated. In particular, the costs would remain part of the project's overall finances but their specialist management should help to mitigate the potential overrun and aid the project team in moving forward with the delivery of the rest of the project.

- It was important that the Council could have confidence in the assumptions and the estimates on which the new base case was based. Further detailed work would be undertaken and it was anticipated that a comprehensive re-baselining of costs and budgets would be completed by Christmas. There was growing certainty around a number of the assumptions, particularly on the capital receipts side. Two thirds of the contracts for Phase 1 had already been agreed. Steps were being taken or proposed to de-risk future finances. It was emphasised, however, that a number of uncertainties remained surrounding the project's finances, such as additional contractual claims or higher-than-anticipated tender returns for the contracts that had not yet been placed. That notwithstanding, the Director of Finance considered that the work that had been undertaken already and the further work which would be taken forward under the leadership of the new interim Chief Financial Officer would establish a robust and rigorous baseline. He cautioned, however, that the figures for the SWIC Reserve were, of necessity given the uncertainties, not robust.
- In terms of assurance, the Council relied on the Finance Committee and the Audit Committee (as its two statutory bodies) as well as on the Syndicate properly to interrogate and challenge financial and other assumptions. It was intended that financial reporting and the way in which the figures were presented to the Syndicate would be significantly improved. It was recognised that the second report of the Audit Review Group would consider the governance arrangements for the project to ensure that the assurance and reporting mechanisms were robust and transparent.
- It was important, while the ongoing work on re-baselining was underway, that progress on the ground continued as scheduled. It was, in that context, necessary to take risk-based decisions about the Syndicate's proposals for Lots 4 and 5. These decisions would not have any significant long-term impact on either the strategic delivery or the finances of the project.
- The Syndicate's proposal with regard to Lot 5 would have the short-term benefit of reducing the project's peak borrowing requirement. However, it would lessen the University's control over a key strategic aspect of the development.
- The provision of key worker housing was unaffected by any of the Syndicate's proposals.
- It was noted that there was no formal linkage between the University's external finance and the term of the internal loan. Consideration might, therefore, be given to extending the term of the internal loan.
- It was recognised that achieving BREEAM outstanding status for non-residential buildings added to the costs of construction. However, it had been a planning condition.

In conclusion, the Council approved the Finance Committee's recommendations as follows:

- a) that the SWIC Reserve should be subject to separate management and financial provision;
- b) that the decision on pursuing alternative delivery options for Lot 4 should be deferred subject to further information and a detailed case which would be provided to the Finance Committee at its next meeting;
- c) to reject the option to lease Lot 5 for a period in return for a capital sum;
- d) to note the potential for adverse financial impacts on the project from factors such as further delays and contractor/sub-contractor performance;
- e) that the Finance Committee should receive a financial update on the project at each of its future meetings. These reports would then be provided to the Council with the Finance Committee's minutes.

The Chairman of the Audit Committee reported on the first report of the North West Cambridge Audit Group (which he also chaired and which had been established by the Audit Committee). He noted his thanks to the members of the Audit Group and to Mr Parsons for their contributions to the preparation of the report; to PricewaterhouseCoopers; and to Professor Anderson for sharing an early draft of his paper.

As reported at the Council's meeting on 21 September 2015, on the basis of the financial criteria originally approved by the Regent House and all of the metrics, the project would be successful. It would produce a positive net present value; would be self-funding; and would enable the project's debt to be repaid by about the time the bond issued by the University matured in 2052. It would also deliver on the University's strategic objectives both in the short-term and into the future. It would provide a high quality environment in which people would want to live and work.

Nevertheless, there had clearly been deficiencies in the financial and risk management of the project and an insufficient focus on the objective of realising the target IRR. The Audit Group had identified four key areas of concern.

The first related to the project set up and planning. It had been apparent to the Audit Group that there had, from the outset, been an unresolved tension between the strategic objectives and the financial objectives of the project. The Audit Group had also been concerned to note that the initial budget had been developed and defined on the basis of insufficiently refined design specifications and costings. Design and quality changes had been approved by the Syndicate without a full understanding of the cost implications for the project as a whole. The Audit Group had therefore recommended that the objectives and success criteria for the project be reviewed; that the costs for the first phase of the projects be re-baselined to establish budgetary requirements based on the stated objectives; and that the financial assumptions should be clearly stated. The Audit Group was of the view that the target deadline for the completion of this work should be the end of December 2015. The Audit Group further recommended that formal control mechanisms should be established for assessing and approving changes to design and scope. Approval for such changes should be sought only on rare occasions.

The second related to project leadership and oversight. The Audit Group was of the view that the fact that members of the senior leadership team for the project were not all full time represented a serious risk to the project. It therefore recommended the appointment, as soon as possible, of a full time Project Director with significant experience and expertise in the construction industry. The Audit Group further recommended that the Council review the membership of the Syndicate to ensure that a majority of its number had extensive familiarity with property development and the delivery of large capital construction projects.

The third related to risk management. The Audit Group considered that, to date, risks had not been sufficiently quantified nor had their likelihood and impact been assessed. The Audit Group recommended that risk management processes be reviewed and, in particular, mechanisms be established to ensure that risks were escalated and reported in a timely and objective manner to the Syndicate.

The final concern related to cost reporting. The Audit Group had noted that the way in which numbers had been presented in the various financial reports had made them very difficult to understand and interrogate. The financial analysis provided to the

Syndicate was brief in financial content; did not provide information about trends and risks; and did not track performance against budget. The Audit Group recommended that cost reporting be enhanced to provide clarity on financial performance at each stage in the governance chain.

The report concluded the first part of the Audit Group's work. The second part of its work, which concerned important governance issues, would commence immediately. It would be particularly necessary to clarify the respective roles and responsibilities of the executive and the Syndicate.

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

- The inconsistent presentation of the financial figures made comparisons difficult, particularly with regard to establishing performance against budget. The information about cost increases was insufficiently detailed and often did not differentiate inflationary increases from increases arising from decisions about changes to design and scope. The recommendations concerning improvements to the financial and risk reporting processes were of great importance for the future management of the project.
- The recommendation concerning the need to strengthen the financial and risk management of the project and, in particular, the appointment of a full time Project Director with significant experience and expertise in the construction or development industry was welcomed. It was recognised that such an individual would need to be remunerated at a level which took account of the size, complexity and importance of the project.
- The recommendations concerning the membership and the efficacy of the Syndicate and the interaction between the Syndicate and the executive were noted. Recommendations for the governance of the project would arise from the second part of the Audit Group's work and would be implemented promptly thereafter. It was important that the Council and the Regent House could have confidence in the robustness of both the governance and the management arrangements for the project. It would be important to ensure that in future a majority of members of the Syndicate had expertise and experience of major construction and development projects.
- The Syndicate, the executive team, and, with regard to the appointments to be made, the Registry in consultation with the Vice-Chancellor, assuming the Council's approval, would establish a plan for their implementation. The Vice-Chancellor noted that action to take forward the recommendations was already underway in some cases.

In conclusion, the Council approved the recommendations in the report and expressed thanks to Mr Lewisohn and the Audit Group for producing such a clear, constructive and thorough report.

There would be a Discussion of Phase 1 of the North West Cambridge Project on 3 November 2015. A Notice would be published providing context and background and relevant links.

As agreed at the Council's meeting on 21 September 2015, the Council received a paper setting out Professor Anderson's analysis of the reasons for the budget overrun based on his review of the Syndicate and other materials. A legally privileged briefing note, providing legal advice as to whether there were any risks associated with the wider publication both of Professor Anderson's paper and the Audit Group's report, had been circulated 48 hours in advance of the meeting.

Professor Anderson reported. He had first provided a draft of his paper to University Officers in September, requesting corrections to matters of fact. He had received no such corrections. He noted that the legal advice had been sought at a late stage. He queried the advice and the choice of provider. He considered that the Regent House had a legitimate interest in the reasons for the budget overrun and associated governance considerations. He asked for greater specificity as to the aspects of his paper the publication of which represented a risk. He would, on the basis of that specificity, be willing to remove those elements of the paper.

The Registry noted that he had, when responding to Professor Anderson's email requesting corrections to matter of fact, indicated that he considered that the paper contained content which was subject to legal professional privilege or was commercial in confidence. He had asked that these be excised. Professor Anderson's final paper had removed some material of this kind to a confidential annex. It had been received on the day before the circulation of the Council papers; it had not, therefore, been possible to seek legal advice at an earlier stage. The provider had been selected both for its expertise and for its familiarity with the project. Line-by-line redaction would not address concerns with the paper which related to tone as well as content.

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

- The Council, as a body of charity trustees, needed to decide whether it wished either to take the collective risk associated with publishing the paper or to imperil the position of an individual Council member. It was noted that, when the projected budget overrun had come to light, immediate steps had been taken to investigate the cause and to address the situation.
- Professor Anderson's original paper had been provided to the Audit Group and had been valuable in informing that Group's deliberations (including clearly setting out the failings) and the recommendations which the Council had just discussed and approved. It was, therefore, suggested that it had been subsumed and consolidated into the Audit Group's work. Presenting it separately and additionally risked confusing the status of the Audit Group's report.
- On a point of detail, it was noted that the paper did not accurately reflect Girton College's position with regard to the project, nor the process by which the Mistress of Girton had been appointed to the Syndicate.
- It was noted that the recommendations in Professor Anderson's paper would either be taken forward through the recommendations in the Audit Group's first report or would be considered during the second part of its work.

In conclusion, the Council agreed that any publication of Professor Anderson's paper did present legal and financial risks to the University and that it should not therefore be published. It was noted that the Audit Group's report did not represent such a risk; publication was, therefore, acceptable.

(b) Graduate College

A paper setting out a vision for a new graduate college at North West Cambridge was received. It was intended that the proposals would also be considered by the Colleges' Committee.

Dr Anthony noted that, as a Bursar of a graduate college, he had declared an interest with regard to this matter. He and the Bursars of other graduate colleges had

concerns about both the financial analysis and the strategy set out in the paper. The costings were considered to be unrealistic and the estimated endowment was, therefore, likely to be insufficient. The planned growth in graduate numbers had not, to date, materialised; meanwhile, Colleges had been increasing their provision for graduate students. It would be important to consider the existing and planned developments across the Collegiate University and determine whether this would be sufficient to accommodate growth in the short to medium term without establishing a new graduate college. It was not clear, on the basis of the documentation, why the development was considered to be a fundraising priority in the new campaign. There were other aspects of graduate provision and support (including studentships) on which the campaign would focus.

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

- There had been various discussions through a number of working groups over a period of years about the form which a collegiate presence on North West Cambridge might take. The current paper was the outcome of work undertaken by a Working Group established under authority of the Council to develop the ideas set out in the paper ‘Bricks and Mortar: a Vision for the Academic Community of North West Cambridge’, received and endorsed by the Council in May 2014. It was agreed that this earlier paper should be recirculated to the Council for information.
- It was noted, as discussed under the previous item, that there would be student accommodation in North West Cambridge, probably under the auspices of one or more existing Colleges. This would ensure a collegiate presence and add to the vibrancy of the site.
- It was suggested that the time was possibly not right for fundraising for such a development in North West Cambridge.
- The Council, at its meeting on 13 July 2015, had received a paper setting out a vision for a postdoctoral foundation. That paper proposed, *inter alia*, that the administrative centre and first hub for the foundation would be in North West Cambridge and would be delivered in 2017.

In conclusion, it was agreed that the proposals in the paper should not be progressed further at this stage.

15. Finance

Finance Committee

The minutes of the meeting held on 7 October 2015 were received. It was noted, with regard to minute 9 (‘Cambridge Assessment’) that the development of the land which had been transferred from Cambridge University Press to Cambridge Assessment had been reported to the Local Examinations Syndicate and to various University committees. However, it had not been formally approved by the Finance Committee as was required by the University’s Sites and Buildings Regulations. The Finance Committee had granted that formal approval at its meeting on 7 October 2015.

16. Audit

Audit Committee

The minutes of the meeting held on 8 October 2015 were received. It was noted, with regard to minute AUD.15.118 (‘North West Cambridge Audit Group report’) that the

internal auditors would be asked to consider whether audits of aspects of the North West Cambridge project in recent years could reasonably have been expected to identify any anomaly leading to the issues addressed in the Audit Group report.

17. Advisory Committee of the Council for the Appointment to the Office of Vice-Chancellor

At the request of Professor White, the Chair of the Advisory Committee of the Council for the Appointment to the Office of Vice-Chancellor, the Registry circulated a paper, which had been informed by the consultations undertaken by Professor White, to the members of the Council present. The paper previously discussed at the informal meeting of members of the Council before the July meeting of the Council was also re-circulated. The new paper proposed a membership structure for the Advisory Committee, an invitation for members to propose names, and a timetable for approving the membership at the Council's December meeting, following further discussion of names at the November meeting. Professor White's paper also included the attributes that he and those he had consulted believed the next Vice-Chancellor should have. The Council approved the structure of the Committee as proposed and the process and timetable for making appointments to it. It also agreed with the proposed attributes with a change to one of those attributes that the individual appointed would need to be a successful fundraiser noting that these were indicative at present to guide the Council on those who might be invited to serve on the Advisory Committee.