Minutes of the meeting held on Wednesday, 13 November 2019.

Present: The Vice-Chancellor in the Chair, Mr Alexander, Dr Anthony, Professor Cardwell, Dr Cowley, Ms Flood, Dr Foster, and Professor Prager, with the Chief Financial Officer, the Director of Finance, the Registrary and Mrs Benton.

Apologies: Professor Greer, Mr Morris, Professor Sala and Mr Spence; the Interim Director of Estates.

Mr Stuart Newman, Engagement Partner (PwC), Mr David Wildey, Director (PwC), and Ms Helen Turner, Head of Group Financial Reporting and Mr Mike Sinclair, Head of Central and Research Accounting, attended for the item recorded as Minute 203 (Financial Statements).

A: Preliminary

200. Procedure of the Committee - Declarations of Interest

The Chief Financial Officer and Dr Foster noted interests in the matter recorded under Minute 206(iv). Professor Prager noted an interest in the matter recorded under Minute 208. It was noted that Dr Anthony, Professor Cardwell, Dr Cowley, Professor Prager, and Professor Sala were members of USS in connection with the matter recorded under Minute 207 (Pensions). Otherwise, no personal or prejudicial interests were declared.

201. Minutes

The Minutes of the meeting held on 2 October 2019 were approved (FC(19)153).

202. Matters Arising

There were none.

B: Principal Business

203. Financial Statements

The following papers were received:

(a) draft of the 2018-19 financial statements for the following as
FC(19)154:

(i) The consolidated accounts for the University Group for the year ended 31 July 2019;

(ii) The financial management information for the Academic University and the Academic Group (excluding Cambridge Assessment, Cambridge University Press and their associated subsidiaries and Trusts) for the year ended 31 July 2019;

(iii) The segmental analysis for the consolidated University Group for the year ended 31 July 2019.

(iv) External auditors’ report to the Council from PwC.

(b) Investment Property Valuation (FC(19)170).

It was noted that the Reports and Financial Statements had been reviewed in detail by the Committee’s Business Sub-Committee at its meeting on 30 October 2019. After the Committee’s review, an updated version of the circulated documentation would be considered by the Audit Committee at its meeting on 18 November 2019. The Council would receive reports of the Finance and Audit Committees’ comments and would be invited to approve the Financial Statements and the Representation Letter at its meeting on 25 November 2019.

The Director of Finance and the Head of Group Financial Reporting introduced the draft Reports and Financial Statements. The documents set out the consolidated accounts for the University Group (i.e. the academic University, Cambridge Assessment and Cambridge University Press, and the subsidiaries of all three). The financial statements were based on FRS 102 and on a going concern basis. Accounting policies were unchanged. Overall the audit process had gone well, with no significant adjustments, but the University Group’s finances were complicated and becoming more so. The narrative had been developed, and further breakdown had been provided in Note 41 to enable a parsing between the external and internal views of the financial health of the University. The key reason for providing this additional information was that there was more volatility, with a number of valuations and one-off items which had a significant impact on the overall picture. These included valuations of pensions, the CUEF, investment property and the CPI-linked bond, and the Harding donation. There was a new section providing highlights of activities as part of a revised presentation of information concerning public benefit. It had been agreed that the 2018 USS valuation was a post-balance-sheet event and therefore the 2017 valuation had been applied, but with an explanation of the impact in the commentary. It was the first year that new consolidation software had been used, which had improved the integrity of the numbers. The West and North West Cambridge Estates Board had discussed the investment property valuation as carried out by external property consultants and had signed off the key business assumptions underpinning the valuation, but in doing so had noted two issues requiring further work. The Chair noted that he had met separately with the auditors and was reassured that there had been effective collaboration on the audit process.
Mr Newman on behalf of PwC reported that the review process was improving year on year, with reporting by individual departments now earlier to enable the central finance team to have sufficient time to complete its work. The financial review was also improving, with better disclosures. The audit had focussed on a number of areas in which judgement had been applied such as the valuations of pensions, investment property, the CPI-linked bond and the CUEF. The audit of CUP and CA had centred on revenue activities. There was one piece of work remaining concerning the valuation of the North West Cambridge investment property. In response to a question about the auditors’ assessment of the CPI-linked bond valuation as ‘optimistic’, it was reported that the auditors were content that those briefing the external valuation consultants on behalf of the University had not influenced the review but that the valuation, in their opinion, was within but at the optimistic end of the range.

The Committee queried the role of the Committee in receiving the documents alongside the Audit Committee. The PwC representatives noted that in the audit of university finances, it was common practice at other institutions for the Finance Committee to receive year-end documents. Given that there were often technical questions concerning the University Group’s finances, the Audit Committee was understood to value the Committee’s review. Also, the overview of the University’s finances ensured that the Committee remained disciplined about the setting of the financial envelope.

The Committee asked the Finance team to consider including in next year’s year-end documents a similar table to the one in Note 41 to set out the University’s cash flow position.

The Committee agreed to recommend (i) the Reports and Financial Statements to the Council; and (ii) that the Council authorise the signing of the Representation Letter.

The Vice-Chancellor thanked the auditors and Director of Finance and the Head of Group Financial Reporting and their colleagues for their work.

204 Financial Planning

10 Year Model Update

The Chief Financial Officer reported that the Committee would receive an updated version of the 10 year model for review at its meeting on 8 January 2020, which would take account of the 2018-19 year-end accounts.

205 Finance and Resources

Surplus Improvement Fund

The Committee received as FC(19)171 an updated paper describing the purpose and proposed operation of a new Surplus Improvement Fund (SIF), the principal aim of which was to provide investment for academically led surplus improvement (either revenue-generating or cost-saving) projects. This would provide a fourth way of funding investment, alongside the annual operating budget, the Capital Fund and the bond funding. The proposal for the
Fund had received strong endorsement from the Heads of the Schools. An initial Fund of £10m was proposed, which could be extended if successful.

If the Committee supported the creation of the Fund and the direction of travel, it was proposed that the Committee should delegate to its Business Sub-Committee (FCBC) the responsibility for establishing the Fund's parameters and working arrangements, which PRC (or RMC) would then apply in making grants from the Fund and monitoring returns. In that way, the Committee would retain oversight of the financial envelope, whilst PRC/RMC would provide scrutiny of business cases on application and also determine when a project which was not meeting milestones should be called to a halt. An example of an MPhil programme in the School of Clinical Medicine had been worked up, in which upfront costs and the resulting revenues would be shared between the department and the central University over a period.

The SIF was part of transitional arrangements; in the longer term, under revised budget arrangements, Schools and NSIs would benefit directly from any improvements they made to their financial position and would therefore be incentivised to operate in a financially sustainable way. In response to a question, it was reported that the Fund would replace the Strategic Planning Reserve Fund, which would be wound up.

The Committee approved in principle the proposal to establish a Surplus Improvement Fund, with FCBC to agree the arrangements to operate the Fund (including a hurdle rate), although there was some difference of opinion about the best governance arrangements. The Committee also suggested that the Fund’s temporary nature, as part of transitional arrangements, should be communicated clearly. Until the detailed arrangements to operate the Fund were approved by FCBC or Finance Committee, specific requests for SIF funding would be notified to the FCBC, after approval by PRC.

206 Investments

(i) Harrison Drive Nursery

The Committee received as FC(19)155 an update on funding for the nursery, following its discussion in July 2019 of alternatives for delivery of the project. The Planning and Resources Committee had agreed on 9 October 2019 that capital costs would be met in the first instance by the Capital Fund and reserves held by the University Childcare Office, pending further exploration of options to utilise bond funding and thus reduce the overall call on the Capital Fund. The Finance Committee noted the potential option to apply for bond funding in relation to the commercial aspects of the project (subject to meeting the eligibility criteria).

(ii) CUEF Investment Management Reports

The Committee received the following papers:

FC(19)156 CUEF Investment Report to the Finance Committee.
FC(19)157 CUEF Summary Report for the year to 30 June 2019.
The Director of Finance reported. Cambridge University Endowment Fund (CUEF) was required to issue audited accounts. Revised governance arrangements for the CUEF had been agreed in principle by the Council but had not yet been finalised. The University was the trustee of the CUEF (which had been established by trust deed) and the Council was the appropriate body to approve the accounts.

During the interregnum before the new Chief Investment Officer came into office, the aim had been to maintain stability in the CUEF. The portfolio had remained largely the same. In the year to 30 June 2019, CUEF global equities portfolio underperformed (largely due to the underweight US position), while there was continued strong performance in private equity and favourable returns in direct property. Lower returns had been achieved in credit strategies, with negative returns in hedge funds. In aggregate the CUEF annual return of 4.7% in a challenging market was below benchmark and long-term objective. However, taken over the longer term, annualised returns over the last 3, 5 and 10 years remained well ahead of the benchmark and performance objectives. A narrative had been provided with the audited accounts; it was expected that further steps would be taken to improve transparency in next year’s report, including assets split by asset class against indices to provide greater insight.

The Committee agreed to recommend the CUEF audited accounts to the Council, subject to the finalisation of note 10 and the correction of some errors in the text.

A proposal for a new University Enterprise Fund was received as FC(19)159. The Chief Financial Officer reported that, as with the previous six UCEF Funds, funding would be raised from third parties and used to support University spin-out companies beyond the seed stage.

The Committee approved the establishment of ‘The University of Cambridge Enterprise Fund VII’ and the appointment of Parkwalk Advisors Limited to manage the Fund.

An amended and restated collaboration agreement was received as FC(19)168.

The Chief Financial Officer reported. CIC had been set up in 2013 to provide follow-on and seed-stage financing to University and other local spin-out companies. Following advice, CIC was looking to raise further capital using more traditional limited partnership funds, instead of via its balance sheet, and was set to launch a new fund, CIC Fund 2. As a result of the change in strategy, it had asked the University (acting through Cambridge Enterprise) to extend the benefits of the
current collaboration agreement to its new limited partnership funds as and when created. This required changes to the collaboration agreement. In return, CIC had agreed to provide two protections to the University: (a) any new limited partnership funds could only be treated as CIC Sponsored Funds and able to access those benefits if the University has agreed this with CIC in writing; and (b) CIC was obliged to consult with the University about the identity of all new investors in any CIC Sponsored Fund, thus giving the University a right of veto at the point of entry. The University was planning to agree that CIC Fund 2 could be treated as a CIC Sponsored Fund, but any subsequent agreement would be subject to agreeing equitable charging terms to compensate the University for the value of the extension, once there was more information to ascertain what that value might be. It was noted that one benefit of the new (fund-based) structure was that there would be no dilution of University ownership rights in CIC.

During discussion, it was noted that there was no expectation that the University would be an investor in CIC Fund 2, although the CUEF might consider investing. It was also noted that the agreement was expected to run for 15 years, but early termination was possible in certain circumstances, for example, if CIC had no funds to invest.

The Committee approved the amended and restated collaboration agreement.

207 Pensions

USS: Monitoring and actions framework for the 2018 Valuation

A summary of the USS Trustee's proposed post-valuation monitoring framework for the 2018 valuation, together with Aon's view (on behalf of UUK) and a proposed Cambridge University response to a consultation on the monitoring framework were received as FC(19)169.

The Chief Financial Officer reported. The monitoring framework would only apply for a short period until the next valuation as at March 2020, but it gave an indication of the direction of travel.

The Committee agreed that the response should stress that this framework should not establish a precedent for the framework to be agreed as part of the 2020 valuation. Subject to that amendment, the Committee agreed to recommend to the Council the terms of the proposed response on behalf of the University.

C: Other Matters

208 University Companies

Cambridge University – Nanjing Centre of Technology and Innovation

The Director of Finance reported. The Committee was reminded that under the terms of the agreement to establish the Centre, the University had already committed to making a financial contribution of ¥5 million (at current exchange
The Committee was being asked to approve the arrangements for making payment. After taking advice, the most efficient approach was to provide extra shareholder funds to University subsidiaries so that they could make the transfer to the Centre and for one of them to purchase a forward contract to fix the sterling contribution required to deliver the contracted amount, as set out in FC(19)160.

The Committee approved:

(i) the increase in share capital of two wholly owned subsidiary companies by up to £600,000; and

(ii) the purchase of a financial instrument (forward currency contract) by one of them as set out in FC(19)160.

209 **Indemnity for senior officers and members of certain bodies**

The University had been asked to give an indemnity to a committee member. This had raised questions about whether an indemnity should be offered to senior officers and the members of the Council and certain other bodies, including the Finance Committee. The Committee received as FC(19)161 a late paper seeking views on whether an indemnity should be offered. If the Committee supported the offering of an indemnity in principle, a further iteration of the paper would be prepared.

It was noted that the provision of an indemnity was standard practice in the private sector. Those coming into the University from outside the HE sector might expect such an indemnity to be provided. The cover provided by the existing Directors and Officers policy had been reviewed and benchmarked against cost. Although the exposure was theoretical, it was not trivial.

The Committee requested further information on whether additional insurance cover could be purchased. It also queried the likelihood of the Regent House supporting a change to Ordinance to enable an indemnity to be offered to Council members.

210 **External members of Finance Committee**

The Committee received FC(19)163 and approved the process for the appointment of two external members to the Finance Committee as set out in the paper.

211 **Business Sub-Committee terms of reference**

The Committee approved a change to the terms of reference for its Business Sub-Committee to enable the Director of Estates to be a standing attendee at the Sub-Committee’s meetings.

212 **Moody’s sovereign rating action**

The Director of Finance reported that Moody’s had published a change to the UK sovereign rating on 8 November 2019; the outlook for the UK’s Aa2 sovereign bond had changed to negative from stable. It was therefore going to
announce a parallel change to the University’s status to affirm the Aaa rating but revise the outlook to negative from stable. The Committee noted the report which, until the press release was published, was strictly confidential.

213 Appointments

The Committee received FC(19)162 and FC(19)167 proposing the following appointments:

(i) Cambridge Enterprise Limited (FC(19)162)
    Ajay Chowdhury as Chair of the Board (Change: Sir Keith O’Nions)
    Annalisa Gigante as Director (Change: new appointment)

(ii) Investment Board (FC(19)167)
    Richard Foster – extension to 31 December 2021
    Rob Wallace – for four years from 1 January 2020

(iii) Finance Committee
    Ben Alexander – reappointment as a co-opted member for one year from 1 January 2020

Mr Alexander and Dr Foster left the room for the discussion of their reappointments.

The Committee approved the appointments of Ms Gigante and Mr Alexander and agreed to recommend to the Council the appointments of Mr Chowdhury, Dr Foster and Mr Wallace.

*D: Straightforward and reported business submitted for decision or report

214 Future business and work plan

An updated work plan for 2019-20 was received as FC(19)164.

215 Committees

(i) Finance Committee Business Sub-Committee

Unconfirmed Minutes of the meeting of the Finance Committee Business Sub-Committee held on 30 October 2019 were received as FC(19)165. The Committee noted the decisions and discussions as set out in the minutes.

(ii) Board for the West and North West Cambridge Estates

Unconfirmed Minutes of the meeting of the Board for the West and North West Cambridge Estates held on 15 October 2019 were received as FC(19)166. The Committee noted the decisions and discussions as set out in the minutes.
Vice-Chancellor
9 January 2019