University of Cambridge

COUNCIL

Finance Committee

Minutes of the meeting held on Wednesday 6 January 2010.

Present: The Vice-Chancellor in the Chair, Mr Chote, Ms Coutu, Mr Downer, Mr Du Quesnay, Professor Gamble, Mr Johnston, Ms Lowther, Mr Summers and Professor Young with the Registrary, the Academic Secretary, the Director of Finance, the Director of Estate Management and Dr Allen (as Minute Secretary).

Apologies: Dr Clark and Dr Dissanaike.

Professor White, Pro-Vice-Chancellor (Institutional Affairs), was in attendance for the business recorded under Minute 30.

The Vice-Chancellor welcomed Mr Du Quesnay to his first meeting of the Committee.

PART A: INTRODUCTORY

24. Procedure of the Committee – Declaration of Interest

No personal or prejudicial interests were declared.

25. Minutes

The Minutes of the meeting held on 18 November 2009 were approved.

26. Straightforward and reported business: agenda items starred as straightforward

A paper listing straightforward and reported business was received.

The Committee approved matters for decision contained in the confirmed list of straightforward or reported business, and received the other material.

27. Future business and work plan

An updated workplan for 2009-10 was received as Paper FC(10)2.
28. Financial Internal Controls

Annual Audit Reports

The following documents were received:

Annual Report of the Audit Committee (Paper FC(10)3)
Annual Report of the Internal Auditors (Paper FC(10)4)
External Auditors’ Management Letter (Paper FC(09)122 Re-circulated)

The Registrary, as Secretary of the Audit Committee, commented on the Committee’s Annual Report, and drew particular attention to the ‘Opinion’ on page 3 of the Report in which the Committee confirmed its satisfaction. The Annual Report would, this year and in future years, be published.

The Registrary also introduced the Annual Report of the Internal Auditors and referred to their firm statement of assurance. The Audit Committee was satisfied with this statement. This was the last report which would be produced by Grant Thornton, although they would have input, in respect of any outstanding reviews, into the report which would be produced next year by Deloitte.

The Committee had received the External Auditors’ Management Letter at its November meeting as part of the consideration of the Financial Statements. Attention was now drawn to the Audit Recommendations in Appendix A; there were no ‘red traffic lights’ amongst the financial internal control recommendations.

29. Accounts

Management Accounts for the first quarter 2009-10 were received as Paper FC(10)1 together with a summary for November 2009. It was noted that the budget was based on the Budget Report of May 2009 adjusted for major known changes.

The Director of Finance noted that the summary statement to November was broadly in line with budget. Capital expenditure was marginally behind budget. There had been an increase in endowment fund values.

Work continued on improving budgeting for FEC recovery; more robust information about both Research Grant income and the recovery of indirect costs had been established for the current planning round. Significant progress had been made on the recovery of FEC (particularly on estates-based costs) but further work was necessary, particularly in respect of the discretionary elements of funding applications. In part, this required some degree of cultural shift together with an enhanced system of incentives.
Recovery rates continued to be impacted by time-lag considerations and by variable sponsor arrangements and FEC rates. Maximising FEC recovery was, therefore, a project which would continue over a number of years.

It was agreed that future quarterly Red Books would be improved by including summary accounts for Cambridge Assessment and CUP.

Action: Director of Finance

30. Pensions

The following documents were received:-

Paper FC(10)19 Cambridge Assistants’ Contributory Pension Scheme: Valuation as at 31 July 2009.

Paper FC(10)20 Options for future pensions provision.

Papers FC(10)21 and 22 Pensions Working Group. Minutes of meetings held on 9 and 17 December 2009.

The Director of Finance introduced the discussion about the triennial actuarial valuation. The Committee, at its last meeting, had referred the Trustees’ letter about valuation assumptions to the Pensions Working Group for consideration. The Pensions Working Group now recommended to the Finance Committee that it confirm to the Trustees that the revised assumptions in the valuation were acceptable to the University except that the assumed real rate of return assumption should be 3.2% rather than the 3.5% rate proposed by the Trustee. The Committee accepted the recommendation of the Pensions Working Group, and the change would be proposed to the Trustee.

The Committee also received and considered the Pensions Working Group’s recommendations concerning the University’s discussion with the Trustee about a deficit recovery plan. The Trustee had invited the University to consider whether a ten year deficit recovery plan would be acceptable; the Pensions Working Group recommended that the University discussed with the Trustee a recovery plan which was back-loaded and stepped over a fifteen year period. Further, the Group recommended that the first step should be deferred until 1 August 2011 to allow for budgetary planning, particularly in respect of the significant proportion funded from research income and other non-Chest sources. The Committee agreed that the discussion with the Trustee should be predicated on the basis of a fifteen year recovery plan with deferral until 2011 (for financial planning purposes) of the first step up. However, the Committee was not persuaded that there was any benefit (in real financial terms or for the purposes of negotiation) in backloading the recovery plan. The Committee therefore authorised negotiations on the basis of a deferral until 2011 and an evenly loaded payback over the remainder of the fifteen year recovery period.
The Registrary introduced the discussion about the future of the CPS. At its meeting in July 2009, the Committee had agreed that a defined benefit pension scheme was an attractive part of the total remuneration for support staff as long as any such pension scheme was affordable and sustainable. It had asked its Pensions Working Group to make proposals for the future of the scheme which would meet those twin objectives.

Past service deficits were for the University to resolve; it was, therefore, important that the University reduced its exposure to a build-up of further deficits. The Pensions Working Group, with actuarial advice, had investigated various options for future service benefit which altered the costs and risks borne, respectively, by the employer, the employee and the State. The Finance Committee was now invited to establish principles upon, and parameters within, which the Pensions Working Group was authorised to negotiate an amended scheme (for implementation in October 2010) in respect of future service. The Pensions Working Group would report regularly to the Finance Committee on progress, providing detailed costings, case studies and impact analyses. Any revised scheme would need to be consistent with the University’s HR recruitment and retention strategies as well as being affordable and sustainable.

Following a long and detailed discussion, the Committee agreed that the University’s contribution in respect of future service to any revised scheme must be significantly lower than at present. It also supported a 50:50 balance of risk between employer and employee. The Committee instructed the Pensions Working Group to progress discussions on that basis.

**Action:** Director of Finance, Registry

31. Financial Strategy

(i) **Terms of reference for the Financial Strategy Steering Committee**

Proposed terms of reference for the Financial Strategy Steering Committee (FSSC) were received as Paper FC(10)17. The background information and topics were familiar to the Committee, having been developed by the Financial Strategy Task Force and discussed at a number of previous meetings. The Senior Pro-Vice-Chancellor noted that he planned to report quarterly to the Finance Committee on progress of the various streams of work and that these reports would be informed, as appropriate, by the work and the deliberations of the FSSC. Other reporting mechanisms had been factored into the Committee’s workplan (Paper FC(10)2 refers).

In the course of discussion, it was noted that the PRC (to which the FSSC would also report) was currently engaged in drawing up an institutional strategic plan. The exact form and format of this plan was yet undecided but it would cover the University’s entire mission. The financial strategy should be aligned with that overarching plan and
clearly evidenced to be so. It should provide what was necessary in order to meet overall strategic objectives. Longer term financial planning issues were particularly complex and would require input at every stage from the key players in the various strategic strands. ‘Owners’ had been identified for each of the planning activities and would report regularly on progress. The FSSC would act as a co-ordinating, steering and monitoring body reporting to the Finance Committee and to the PRC.

In terms of the detailed drafting, the following points were made and agreed for inclusion:

- Points (i) and (ii) from the preamble should be incorporated into the terms of reference.
- Reference should be made to the provision of regular reports about long term financial strategy, with the opportunity to discuss and inform choices under each of the main workstreams, to the Finance Committee, the PRC and the Council.
- The terms of reference should explicitly state the relationship between overall University strategy and financial strategy.

The proposals for initial membership were approved.

(ii) Independent Review of Higher Education Funding and Student Finance (‘The Browne Review’)

The Committee received the following paper:


Professor Young reported that there would be two calls for evidence to this Independent Review of Higher Education Funding and Student Finance, to be chaired by Lord Browne of Madingley. The first call, for which responses were required by the end of the month, invited comments on the current situation based around a series of set questions. A succinct response had been drafted by the Pro-Vice-Chancellor (Education) and the Senior Officers and would be provided to the Council and the General Board for information.

The second call, which would focus on the desirable characteristics of future arrangements, and which was expected to end in late March/early April, would require a substantive response and, therefore, entail more consideration and analysis of possible models for the future funding of HE. Two separate working groups (including
student representation) of the PRC had been established: one would consider the bursary issues and the other the fee and loan system. Initial meetings would take place within the month. Council would receive a verbal report at its meeting of 18 January 2010 and would be asked to approve the publication of a Notice to the University, asking for comments from members of the Regent House. A progress report would be provided to the Finance Committee at its meeting of 3 March 2010 and there would be an opportunity for a full discussion at an appropriate meeting of the Council.

In the course of discussion, it was reported that the Russell Group would make a submission and that the University was represented on the group formulating that response. Material produced by the Russell Group would be detailed and should not be inconsistent with any additional factors or options that the University might wish to promote. It was important, bearing in mind the distinctive position of the University that Cambridge made a direct and independent response. The work of the Finance Committee and the Financial Strategy Task Force would help inform that response.

It was agreed that the response to the second call should clearly take into account the cash flow implications for the government of the options that might be promoted. It should emphasise that the fee issue could not be seen in isolation but must be viewed in the context of all government funding streams. It would also identify those parts of the current arrangements which the University considered to be fundamental.

**Action:** Pro-Vice-Chancellor (Planning and Resources)

Vice-Chancellor
3 March 2010
1. **Finance Committee**

The Committee noted and approved the following appointments:

(i) Mr. Du Quesnay has been elected a member of the Finance Committee by the representatives of the Colleges, to serve for three years from 1 January 2010.

(ii) Business Sub-Committee: appointed Mr N. Downer (vice Mr Pratt).

2. **Finance Committee: Dates of Meetings 2010-2012**

Noted.

3. **Finance Committee**

*List of Sub-Committees*

List of Sub-Committees of the Finance Committee as from January 2010.

Noted/confirmed.

4. **Committees**

Received the Minutes and Annual Report from the following Committees:

- **Planning and Resources Committee** – 25 November 2009
- **Audit Committee** – 19 November 2009
- **Investment Board** – 25 November 2009
- **Assessment Committee** – 30 October 2009
- **North West Cambridge Strategy Committee** – 18 November 2009
- **Value for Money Committee Annual Report 2009**

Noted.

5. **Financial Management Information**

Received the draft FMI, to be published in Reporter in January 2010.
6. **Investments**

**Cambridge University Endowment Fund - Extension to Colleges and Trusts.**

Update received for information.

**Noted.**

7. **Cambridge Assessment**


**Noted.**

8. **University of Oxford – Financial Statements 2008-09**


**Noted.**

9. **Sealings**

**Noted.**