PART A: INTRODUCTORY

37. Minutes

The minutes of the meeting held on 7 February 2007 were approved.

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

A paper listing straightforward and reported business was received and is attached to the minutes. The Committee approved matters for decision contained in the confirmed list of straightforward or reported business, and received the other material.

39. Future business and work plan

An updated statement was received (Paper FC(07)27).

PART B: SUBSTANTIVE BUSINESS

40. Pensions

(a) CPS Valuation

The Committee had accepted at its meeting on 10 January 2007 the CPS Managing Committee’s proposal for funding of the CPS. The CPS Managing Committee had met again on 23 February 2007 formally to confirm. Completing documents were received as Paper FC(07)35. The Committee agreed to authorise the Registrary to sign the following on behalf of the University:

(i) the Statement of Funding Principles;
(ii) the Schedule of Contributions; and
(iii) the Recovery Plan.

The Committee noted that the cost of the Pensions Protection Levy had been taken into account in the Recovery Plan.

Action: Registrary
(b) **CPS Benefits**

A paper summarising possible areas for alignment of benefits of future service in CPS with those of the USS was received as Paper FC(07)28.

The Committee noted that:

(i) the Pensions Working Group’s second report dated December 2005 had recommended that the CPS should not be closed to future service until the funding position of it and the USS were both more sound; that new joiners should, for the time being, be offered CPS; and that the benefits of the CPS for future service should steadily be aligned with those of the USS;

(ii) the CPS scheme actuaries had prepared estimates of the impact of changing benefits in respect of future service to align with those of the USS, consistent with the “direction of travel” of harmonisation of terms and conditions for all the University’s staff;

(iii) the Pensions Working Group had considered options and costings and, in the interests of harmonisation of terms and conditions and the long-term preservation of the scheme, and as part of a collective package of benefits, was of the view that the options had merit;

(iv) proposals for change would need to be well handled and the rationale communicated effectively so as not to appear as an erosion of benefits for the staff affected; and

(v) other options initially considered by the Working Group had included closing the CPS altogether or closing it to new joiners, and transferring membership to USS but the cost appeared to be prohibitive.

The Committee agreed that the implementation of the alignment options should be investigated in detail. Any subsequent paper should include comparison costings for the transfer of future service to the USS.

**Action:** Director of Finance; Professor Cliff

(c) **Pensions Working Group**

The minutes of the meeting of the Pensions Working Group held on 20 February 2007 were received as Paper FC(07)29.

The Committee noted that the USS was to offer salary sacrifice with respect to pension contributions from April 2007. This would result in National Insurance savings for the employee and the employer. In the case of the University this would be in the region of £1m. There would be some implementation issues, administrative costs, and rule changes would be required. The Committee agreed that the matter should be investigated further for both the USS and CPS.

**Action:** Director of Finance; Professor Cliff

41. **Cambridge University Press**

(a) **Working Group to review the accounts of Cambridge University Press**

The note of a meeting held on 8 February 2007 was received as Paper FC(07)37.
The Committee noted that the Press was reported as moving in the right direction, sales were up and an operating surplus of £2m had been achieved. However the Press had serious challenges going forward (e.g pensions, electronic publishing). There had been some governance improvements: the Press Syndicate had approved the formation of an Audit Committee, with a majority of external members, and the Syndicate’s Finance Committee now had business related Terms of Reference. The Press had considerable autonomy under Statute J and governance changes would be required if any major corporate initiative were to be proposed.

Action: Registrary

(b) Presentation

Points raised in the course of Mr. Bourne’s presentation to the Committee at its meeting on 7 February 2007 on the Press’ business were noted as Paper FC(07)36.

42. Accounts

(a) Quarterly Management Accounts

The Management Accounts for the second quarter of 2006-07 were received as Paper FC(07)34.

The Director of Finance pointed out that:

(i) overall the key figures were close to budget;
(ii) income was usefully ahead of budget, mainly due to better than expected investment returns and increased research and other income;
(iii) expenditure was slightly higher than budget, mainly due to investment in information technology and higher staff costs, although other operating expenditure was below budget;
(iv) a small deficit was predicted at year end;
(v) research grant overhead recovery was well behind that budgeted; the figures in the budget were over optimistic, however it was anticipated that recovery rates would increase in the fourth quarter; the slow build up of fEC-based research grants was a matter of concern;
(vi) balance sheet debtors were higher than expected, although this was primarily due to the timing of the payment of student fees and loans;
(vii) cash flow on major projects was positive;
(viii) unbilled expenditure for research grants and contracts had a downward trend; and
(ix) the return on cash deposits had increased in line with the rise in interest rates; whether such a large volume of cash should be held and alternative options would be examined in the future.

(b) Financial Statements

The Committee recalled that it had previously agreed that it would be highly desirable to meet the HEFCE 30 November target for submission of financial statements for 2006-07, but it had seemed that some Colleges might have had difficulty meeting the required timetable to submit the prescribed audited education information to the University in time. A proposal for a lighter form of audited certificate for the purpose had now been prepared and was acceptable to the Colleges.
and the University’s external auditors. The proposals were received as Paper FC(07)30.

The Committee agreed to adopt the proposals and, in light of the simpler arrangements for the colleges’ returns, confirmed its view that the 20 November deadline could be achieved.

**Action:** Director of Finance

43. **Investments**

(a) **Investment Board**

The Unconfirmed Minutes of a meeting of the Investment Board held on 1 March 2007 were received as Paper FC(07)46.

(b) **Cambridge University Endowment Fund**

A half year summary of CUEF performance to 31 January 2007 and analysis of performance on a calendar year basis were received as Paper FC(07)31.

The Committee noted that:

(i) the portfolio had out performed its benchmark (WM Charities) over the last one and two years; and

(ii) the Fund was valued at £926.2m as at 31 January 2007, an increase over £870.8m as at 31 July 2006.

44. **University Finances**

(a) **Possible bond issue**

A concept paper about the possibility of a bond issue, possibly in conjunction with Colleges, to take advantage of favourable market conditions, in anticipation of capital requirements and to create strategic options, was received as Paper FC(07)43.

Members of the Committee who were College Bursars declared interests.

The Committee noted that:

(i) capital requirements included the redevelopment of the Old Press Site, the New Museums site and the development of North West Cambridge, with initial estimates of project expenditure over the project period in excess of £600 million;

(ii) external capital finance would be required for such initiatives, on a project-by-project basis, or collectively;

(iii) current market conditions gave an opportunity to secure long-term funding (40-50 years) at attractive rates. The UK yield curve was at present “inverted” – i.e. it was cheaper to borrow long-term than short-term. Interest rates, generally, were close to historic lows;

(iv) the University could make a bond issue to raise say £200m for 40-50 years at interest cost currently of less than 5%. The bond issue would most likely be
funds generated could be used to leverage the endowment, as part of the CUEF investment strategy; the University was improving its capacity to manage significant sums through the new Investment Office and the Investment Board should assess the matter if the purpose was to enlarge the endowment;

(vi) some Colleges had also seen the current market opportunity to secure long-term funding for their own strategic and investment objectives. Individually they would like to raise between £35 million and £5 million, for an aggregate total of around £200 million, for purposes such as building projects, long-term investment or a mix;

(vii) scale would be important for access to particularly attractive rates. There would be a case for any bond issue by the University to cover also the requirements of the Colleges but questions of safeguarding University interests would arise;

(viii) a bond issue by Colleges acting together without the University would be attractive only if there was a joint and several guarantee of its performance by the participating Colleges. It was unlikely that this would be practicable as Colleges with smaller endowments would be underwriting the debts of other Colleges (and vice versa). Alternatively the University could front-up for collegiate Cambridge, and issue a bond for both its purposes (say £200m for the University and £200m for the Colleges). The University would therefore be guaranteeing the aggregate amount and on-lending on a bilateral basis to the participating Colleges. Each College would be responsible for its element. This might necessitate significant University involvement in College governance and management and would carry credit risks to the University; independent advice to the University would be essential; and

(ix) a number of matters would require further investigation, such as costs and timings of a bond issue, the University's credit rating, risk analysis, implications for the 800th Campaign, internal and external perceptions, legal and compliance aspects, future financing flexibility, legal (Charities Act and other), regulatory aspects, and credit risk to the University if Colleges were included.

The Committee agreed the matter should be explored further. A paper should be brought back next term with detailed suggestions, including specific purposes for the issue. A detailed capital programme should be proposed, but if leverage of the CUEF was the purpose the Investment Board should make the case. North-West Cambridge should probably be de-coupled from other projects. This work should be undertaken as quickly as possible.

Some twenty Colleges had so far expressed some interest. The implications of a collegiate bond underwritten by the University had to be fully thought through, for it could profoundly change the relationship between the University and the Colleges. Some of the wealthier Colleges may be in a position to issue bonds individually but the Colleges with smaller endowments probably could not do so readily. A University-College issue would enable them to use the University credit rating to borrow. An alternative approach would be to issue a University-only bond, which could be done relatively quickly, if desired followed by a bond for Colleges.

**Action:** Registrary, Director of Finance
HEFCE Funding

A summary of the HEFCE recurrent grant for 2007-08 was received as Paper FC(07)39. Professor Minson, Pro-Vice-Chancellor, reported that:

(i) the University’s block grant had risen by 5.5% over that for 2006-07 to £168.152m, ahead of inflation;
(ii) Oxford’s increase was 4.9%; and
(iii) unrestricted QR funding had decreased slightly compared to 2006-07.

Council

A draft Code of Practice for members of the Council was received as Paper FC(07)45. The Committee noted that:

(i) members of all the higher committees of the University should also be bound by the Code of Practice, subject to minor amendments to suit the function of each body;
(ii) the General Board had seen the Code and had made no comment; and
(iii) written comments on the Code should be sent to the Registrary or Administrative Secretary.

Action: Registrary, Administrative Secretary

College Contribution for University purposes
Reform of Statute G.II
Colleges Fund

A preliminary report from the Fees Sub-Committee of the Bursars’ Committee entitled “The Reform of the system of University contribution” was received as Paper FC(07)32. The Colleges’ Committee had approved the report for consultation by the Colleges and the University and had set the end of the Easter Term 2007 as the end date for the consultation. Dr. Reid introduced the report.

Dr Reid declared an interest as Acting Bursar of Sidney Sussex College.

The Committee noted that:

(i) the present system of University contribution had been set up in 1926;
(ii) the basis of assessment, although modified over the years, had not changed since then;
(iii) a more radical revision was needed to turn it into a fair and acceptable tax in the context of College finances and investment;
(iv) the Colleges had been consulted on reform of the system under which assessment would be based on the capital assets of Colleges and not on income assessed under the present system. The Colleges overwhelmingly favoured change;
(v) the Fees Sub-Committee of the Bursars’ Committee had been concerned to ensure an appropriate and steady flow of funds to the poorer Colleges, and for that purpose had adopted a system that would generate a specified total contribution each year (the
(vi) The main points of the structure of the proposed new system were as follows:

- the basis of assessment was the assets of a College, but operational assets (widely construed) were excluded;
- each year a defined total sum would be raised from contribution. The assessable amounts of the several Colleges thus provide the means of calculating the division of responsibility for the payment of that sum. The proposed amount to be raised for the Colleges Fund at 2006-07 values was £3M, and that sum would be indexed (by the Higher Education Pay and Prices Index) going forward;
- the assessable amount of each College was divided into three bands: no contribution payable on the lowest band; a standard rate of contribution payable on the middle band; and a higher rate of contribution payable on the top band; and
- to ensure that the contribution system works simply and effectively in practice, the Finance Committee of the University were given rule-making powers to achieve fair, reasonable and administratively simple outcomes;

(vii) It was for consideration whether a contribution of £3m would be sufficient to redress resource imbalance between Colleges.

The Committee agreed to draw the report to the attention of the Council.

Action: Administrative Secretary

Vice-Chancellor
11 April 2007
Finance Committee 7 March 2007: Straightforward and reported business submitted for decision or report

1. **Pensions**

   Annual accounts of the Cambridge Assistants’ Contributory Pensions Scheme 2005-06.

2. **Accounts**

   **Statement of Recommended Practice**

   The draft SORP and Finance Division’s draft response.

3. **Committees**

   **Assessment Sub-Committee**: the Committee agreed to appoint Mr Martin Reavley, K, to the vacancy on its Assessment Sub-Committee and to reappoint Dr Mike Turner, PET.

   Received the Minutes from the following Committees:

   - **North West Cambridge Strategy Committee** – 7 February 2007
   - **Buildings Committee** – 24 January 2007
   - **Purchasing Working Group** – 14 February 2007

4. **Sealings**