University of Cambridge

COUNCIL

Finance Committee

Minutes of the meeting held on Wednesday 7 March 2012.

Present: The Vice-Chancellor in the Chair, Mr Chote, Dr Clark, Mr Du Quesnay, Dr Foster, Professor Gilligan, Professor Hopper, Mr Johnston, Mr Summers and Professor Young with the Registrary, the Director of Finance, the Academic Secretary, the Director of Estate Management, the Head of the Registrary's Office and Dr Knapton.

Apologies: Ms Coutu, Mr Downer, Professor Lizieri

Professor Gilligan was welcomed to his first meeting of the Committee. Mr Francis Burkitt and Ms Lucy Symondson, representatives from Rothschild, attended for the matter recorded as Minute 37.

PART A: INTRODUCTORY

33. Procedure of the Committee – Declaration of Interest

No personal or prejudicial interests were declared.

34. Minutes

The Minutes of the meeting held on 11 January 2012 were approved.

35. 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.

36. Future business and work plan

An updated workplan for 2011-12 was received as Paper FC(12)34.
PART B: SUBSTANTIVE BUSINESS

37. External Finance

Mr Francis Burkitt and Ms Lucy Symondson, from Rothschild, attended for this item.

An updated paper prepared by Rothschild on financing considerations for the NW Cambridge development and Capital Plan was received as Paper FC(12)35. The Director of Finance reported. Rothschild’s Debt Advisory Department had been commissioned to advise on the financing of the University’s capital programme. The Committee, at its meeting on 14 September 2011, had received an introductory paper and had agreed that a more detailed financing plan should be brought back to this meeting. Rothschild’s conclusion, in September 2011, was that the University would be able to raise funds sufficient to finance the full capital programme. There were, however, important considerations relating to the structure, design and timing of any borrowing. In particular, it would be important for the University to determine the extent to which internal resources might be used in order to reduce the debt requirement. It had been recognised that borrowing on the scale required in order to complete both the North West Cambridge Project (NWCP) and the Capital Plan would result in significant indebtedness for the foreseeable future. The Finance Committee had, since the September meeting, agreed a liquidity policy for the base-level of short-term cash managed by the Central Treasury and had confirmed that the West and North West Cambridge Syndicate should be funded by means of a loan from the Chest. It was likely that planning consent and S.106 approval for Phase 1 of the project would be notified to the University in the summer. Thereafter, following further consideration by the Finance Committee and the Council, Regent House approval would be sought by means of a Grace.

Mr Burkitt reported. Debt market conditions had not altered significantly since September. The market for borrowing from banks continued to be difficult. However, the non-bank market remained strong. Rothschild remained of the view that a 5½% long-term interest rate was achievable although there was some risk that an economic recovery might exert an upward pressure on interest rates. Given the length of the proposed borrowing term, small changes in interest rate might have significant implications for the overall cost of the project. There were various matters which the Finance Committee (and, ultimately, the Council) would need to consider in determining a funding strategy. On the question of principle, it would be important to decide: whether borrowing should be on a recourse basis; whether it was appropriate to borrow in advance of approval by the Regent House; whether pre-hedging was appropriate; and the preferred maturity for the borrowing. At a strategic level, it would be necessary to decide if borrowing would initially be sought only for the capital plan and Phase 1 of the NWCP or would assume continuation into subsequent phases and, therefore, funding for the whole project. On the question of the use of internal resources, it was proposed that
the Finance Committee might first set a range of such resources which the University might be willing to commit and then determine a figure within that range. The maximum end of the range could reasonably easily be set at the full extent of the existing resource. There were various measures by which the minimum end of the range could be established including: using 1.25X the interest cover (at 2021) to determine the amount to be borrowed with the remainder coming from existing resource; using credit rating parameters; considering CUEF as an investment trust.

In the course of discussion, the following points were made:

- There was some argument, given uncertainties in the market and around interest rates, for borrowing as soon as possible to lock-in current rates. It was noted, in this context, that the proposal that the borrowing should be on a recourse basis (i.e. with the credit backing of the University rather than of the NWCP) distanced, to some extent, the decision to borrow (in respect of which Regent House approval had already been granted for a sum up to £350m) from the decision to proceed with Phase 1 of the NWCP (which still required Regent House approval). Further, there was a significant proportion (£100m) of the proposed borrowing which related to the capital plan and not to the NWCP. It was agreed, however, that it would be appropriate to wait until Phase 1 of the NWCP had been approved by Grace of the Regent House before raising any debt for the capital plan. However, steps should be taken to ensure that the University was in a position to borrow immediately that approval had been granted. This would include discussion at the relevant bodies (including the Council’s strategic meeting in September) with a view to the publication of a Report (setting out the strategic and financial case) as soon as possible after the grant of planning consent and S.106 approval.

- It was agreed that Rothschild should be invited to provide a ratings analysis and financial modelling (including income streams) for consideration at the Committee’s meeting on 9 May 2012. This would, in particular, inform that Committee’s decisions around the balance between the extent of external borrowing and the use of internal resources.

- It was agreed that interest cover seemed to be a reasonable basis on which to determine the extent of the borrowing.

- Deciding whether to borrow only for Phase 1 or to assume further phases and to borrow accordingly had implications for the type of borrowing which would be available to the University. It would also be important to consider how borrowed funds might be allocated in terms of the phasing for the project.

- Further consideration might be given to alumni engagement in the financing of the project.

**Action:** Director of Finance, Rothschild
38. **Accounts**

Management Accounts for the second quarter of 2011-12 were received as Paper FC(12)27. The Director of Finance reported on key issues.

The forecast had been amended to take account of the experience year to date of both income and expenditure. Trends continued as observed at the end of the first quarter and throughout the previous financial year; both pay costs and non-pay operating expenditure remained favourable to budget. It was clear that institutions were continuing to defer or cancel discretionary expenditure. Income on research grants and contracts was in line with the budget; however, income from the Research Councils remained worryingly adverse to budget and was down on the equivalent 2010-11 figures. Direct income recovery was in line with an unambitious budget. Cambridge Assessment was significantly ahead of budget; ESOL activities were particularly healthy. CUP’s performance had improved and the Press was slightly ahead of budget at the end of its third financial quarter. A schedule on major projects was included for the first time in the management accounts. This showed both actual expenditure and approved commitments together with information about University funding of capital grants.

It was noted, in the context of the underspend on non-pay costs, that the Research Councils increasingly expected universities to meet equipment costs. It had been necessary to set aside £5m per annum to cover costs which had previously been met by the Research Councils. The fall in Research Council income was consistent with the reduction in government funding to the Research Councils. The University’s relative positioning, in terms of market share, remained good; it was, however, important to continue to monitor trends and develop strategic initiatives. Diversification of research income was important in an increasingly challenging and volatile funding environment, particularly in medical and life sciences research.

39. **Finance and Resources**

**University Budget 2012-13**

The Committee received Paper FC(12)36 which set out the key assumptions and a first draft of the budget for 2012-13 and the plan to 2015-16. The Finance Committee’s comments on the budgetary envelope for 2012-13 would inform the Planning and Resource Committee’s preparation of a budget. The budget and the plan would be considered at the Committee’s meeting on 9 May 2012 and, before that, by a meeting of the Finance Committee Business Sub-Committee, prior to publication of the Budget report to Council.

The Senior Pro-Vice-Chancellor reported. Table 1 set out the draft budget for 2012-13 for Chest and non-Chest activities. The draft budget projected a
Chest deficit of c.£11m and a non-Chest surplus of £8m resulting in a total predicted deficit of c.£3m.

Table 2 set out the main movements from the 2011 budget report for the draft budget and forecast for 2012-3 for Chest and non-Chest activities. These figures took account of the fact that the estimate for the HEFCE grant had been unduly pessimistic. It had, however, been necessary to reduce the anticipated income from indirect recovery rates. A significant positive movement on the expenditure line related to a baseline reduction of £1m on the UAS as a result, primarily, of the Voluntary Severance Scheme.

Table 3 provided draft Chest budget/forecasts for 2012-13 to 2015-16 inclusive. The deficits were within the previous £36m cumulative deficit envelope for the five year planning period and showed a more rapid reduction in the deficit than had been predicted. Current School reserves of £40m would be spent down to £20m over the planning period.

Table 4 provided information about the key assumptions which had informed the 2011 planning round. It was possible that inflation on both pay and non-pay costs would be greater than currently estimated; a contingency fund had been established. The University was increasingly dependent on income transfer from Cambridge Assessment; the first call on this income was currently to the capital fund with any small excess going to recurrent general income. If, in future years, a significant excess developed, it would be necessary to consider the best strategic use of this income.

40. **Cambridge Assessment**

The following documents were received:-

**Paper FC(12)37** Minutes of the meeting between the Finance Committee’s working group and Cambridge Assessment and its auditors, held on 3 February 2012.


The Senior Pro-Vice-Chancellor reported. Cambridge Assessment had continued to achieve solid growth during 2010-11. The international business had been particularly successful; the UK market had been more challenging and OCR had seen a fall in revenue. The business plan showed a year-on-year overall revenue growth for the next five years which the Syndicate considered to be ambitious but achievable. Major threats included the planned replacement of the IT system and an increasingly competitive market environment. The working group had concluded that CA’s business plan, management arrangements and financial controls were robust.
41. **Financial Internal Controls**

**Financial Regulations**

A first draft of the Financial Regulations, revised as part of the triennial review, were received as Paper FC(12)39. A further iteration would be provided to the Business Sub-Committee at its meeting on 18 April 2012 before submission to the Council for adoption and approval. The regulations were an important element in the University’s system of internal financial controls. There had been important amendments to take account of the provisions in the Bribery Act 2010 and in respect of the arrangements for overseas operations. Procurement thresholds had been increased and were now set out in a separate schedule.

Subject to a review of the wording in paragraph 30.2 concerning periods of appointment, the Committee agreed that the draft should be developed to a final version.

42. **Deposit Account**

The Committee, at its meeting on 16 November 2011, had considered a proposal that £50m of general cash reserves should be invested in the CUEF. It had agreed to invest £25m as at 31 December 2011 but wished to revisit the question of a further £25m investment at the current meeting. It was noted that such an investment would be consistent with the recently agreed liquidity policy. The Committee agreed to invest £25m of general cash reserves in the CUEF.

**Action:** Director of Finance

43. **Financial Systems**

The summary of the recommendations of a Strategic Review of Finance and HR systems was received as Paper FC(12)40. The recommendations had been considered and broadly agreed by the Finance System Committee at its meeting on 21 February 2012.

The Senior Pro-Vice-Chancellor reported. The University operated two separate commercial Enterprise and Resource Planning (ERP) Systems which were supplied and supported respectively by Oracle (CUFS) and MidlandHR (CHRIS). With the exception of research grants management and management information functionality within CUFS, both of these systems were considered to be reasonably effective in meeting the University’s needs. However, the CHRIS system duplicated functionality which already existed in CUFS and the complexity of interfacing between the two systems compromised the University’s capacity to make best use of them. The steering group therefore recommended that there should be a review of the University’s system requirements as a preliminary to a formal project to
implement a new Finance System (with, perhaps, a more modular approach) in 2016-17. The steering group therefore further recommended that an extension should be negotiated to the current contract with MidlandHR in order to ensure support for CHRIS until 2015 and that CUFS should be upgraded to release 12.2 by Easter 2013. Consideration would also be given to alternative means of providing research grant management information.

In the course of discussion, it was noted that funds had already been earmarked for the minimal upgrade to CUFS and that the costs involved in the preliminary planning for the implementation of a new system could be accommodated within the existing budget. The procurement and purchase of a new system would be treated as a major project and funded accordingly.

44. The Cambridge Trusts

The Malaysian Commonwealth Studies Centre in Cambridge (MCSC)

The Committee, at its meeting on 11 January, had received the minutes of the meeting between the Finance Committee’s working group and representatives of the MCSC and the accounts of the Trust for 2010-11. It had been noted that the University was not responsible for running the Malaysian Commonwealth Studies Centre in Cambridge (MCSC) but that it was responsible for appointing Trustees and for ensuring that they were exercising proper oversight and control. The Council, at its subsequent meeting, had agreed that the Senior Pro-Vice-Chancellor should write to the current Trustees on the MCSC raising various concerns and reminding them of their legal responsibilities. A response from the Trustees of the MCSC was received as Paper FC(12)41 together with a letter concerning the appointment and reappointment of Trustees (Paper FC(12)42).

It was agreed that it was now for the Council to consider the membership of the Board of Trustees.

Vice-Chancellor
9 May 2012
Finance Committee 7 March 2012: Straightforward and reported business submitted for decision or report

1. **Finance Committee Business Sub-Committee**

   Minutes – 8 February 2012. To be approved at the April Sub-Committee meeting. For information

2. **Committees**

   Received the Minutes from the following Committees:

   - Audit Committee – 19 January 2012
   - Pensions Working Group – 17 February 2012

   Noted.

3. **Accounts**

   **Fitzwilliam Museum**

   A summary statement of Accounts for the year to 31 July 2011 was received.

   Received under Ordinances, Regulation 4(d) of Chapter X, Institutions under the supervision of the Council, and noted.

4. **Annual Report of the University Theatre Syndicate 2010-11 and of The Executive Committee for the Theatre for the year 2010-11.**

   Received under Statutes and Ordinances page 139 Regulation 4(f), and noted.

5. **Committees – Membership**

   ADC Executive Committee – recommended to Council to appoint Dr. Mark Billinge M as Chair vice M. Reavley.

6. **Sealings**

   Noted.