Minutes of the meeting held on Wednesday 7 October 2009.

Present: The Vice-Chancellor in the Chair, Mr Chote, Dr Clark, Ms Coutu, Dr Dissanaike, Mr Downer, Professor Gamble, Mr Johnston, Ms Lowther, Mr Pratt, Mr Summers and Professor Young with the Administrative Secretary as Secretary, the Registrary, the Director of Finance, the Director of Estate Management and Dr Allen.

The Vice-Chancellor welcomed Professor Young to his first meeting of the Committee.

**PART A: INTRODUCTORY**

1. **Procedure of the Committee – Declaration of Interest**

   Mr Downer, Ms Lowther and Mr Summers, as College Bursars, declared an interest in respect of the matter recorded as Minute 8(iv) (Cambridge University Endowment Fund – Extension to Colleges and Trusts). Dr Clark, as a member of the Cambridge Cycling Campaign, declared an interest in respect of the matter recorded as Minute 12 (Cycle to Work).

2. **Minutes**

   The Minutes of the meeting held on 8 July 2009 were approved.

3. **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.

4. **Future business and work plan**

   An updated workplan for 2009-10 was received as Paper FC(09)91.
PART B: SUBSTANTIVE BUSINESS

5. Accounts

(i) Management Accounts 2008-09

The Management Accounts and Summary Financial Reports by School for 'Little U' for the 12 months to 31 July 2009 were received as Paper FC(09)92. 'Grand U' financial statements would be submitted to the Finance Committee Business Sub-Committee at its meeting on 4 November, with final draft Reports and Final Statements being considered by the Finance Committee at its meeting on 18 November and by the Audit Committee at its meeting on 19 November. The Council would be invited to consider and approve the final Report and Financial Statements at its meeting on 23 November.

Income at year-end was 12% ahead of budget. This was attributable primarily to a (budgeted) special transfer (£12K) from Cambridge Assessment and to increased Research Grants and Contracts activity. Budgeting in this latter area would be improved. There was an operating surplus, for 'Little U', of £9m; a sum which represented only about 1.2% of revenue. £18m was retained in reserves following expenditure funded from special endowments. The value of investment assets had, inevitably, fallen (-£85m). Capital expenditure was lower than in recent years. Income from sponsored research and from 'other' activities had grown disproportionately by comparison with other income streams. Overhead recovery on Research Grants and Contracts remained adverse to budget but was significantly (£6m) ahead of the 2007-8 figures. Staff costs were adverse to budget on account of the 5% (i.e. above budget) pay increase on 1 October 2008.

Response to questions were provided as follows:

- A formula (representing 30% of operating profit) determined the annual transfer of funds from Cambridge Assessment and CUP. 'Special' funds were transferred triennially when Cambridge Assessment's resources and requirements permitted and were subject to negotiation between Cambridge Assessment and the University.
- A significant proportion of research grant income was in place or in the pipeline a year in advance; more than half of the research income included in the 2010-11 planning round was already in place. Significant ongoing and indirect costs were met from research grant income and it would not be possible simply to turn off expenditure should there be a sharp reduction in research income.
- The ‘overspend’ on the UAS represented a planned spend-down on reserves to meet project costs. It did not represent a structural deficit.

**Action:** Director of Finance

(ii) **HEFCE**

HEFCE Circular letter 14/2009 (HEFCE’s Accounts Direction to higher education institutions for 2009-10 financial statements) was received as Paper FC(09)93.

**Action:** Director of Finance

6. **Board of Scrutiny**

The Annual Report of the Board of Scrutiny was received as Paper FC(09)94. The Committee noted that the Report would be the subject of a Discussion on 13 October 2009 and that the University’s response to the Report would be approved by the Council and subsequently published.

7. **Financial Strategy**

A presentation made at the Council’s recent Strategic Meeting, together with a summary statement of conclusions prepared by the Pro-Vice-Chancellor was received as Paper FC(09)95. Ms Coutu, as Chair of the Financial Strategy Task Force, reminded the Committee of the earlier phases of the Task Force’s work. Changes in the funding outlook had resulted in a redirection of work towards short-term planning considerations. Recent activities, undertaken in collaboration with Booz & Company, had involved running various scenarios and exploring a range of financial variables. The work had been done on a granular basis and had identified significant variations between Schools. Future work would involve further iterations of proposed models and the monitoring of assumptions.

The Senior Pro-Vice-Chancellor reported on the Council’s discussion of the Financial Strategy. The discussion had, as a starting point, assumed a significant reduction in government funding from 2011-12, impacting on both HEFCE core funding and research grant income. It also assumed a reduction in trading income. These assumptions attempted to establish a worst case scenario. (It was, however, recognised that further negative variables - such as reductions in endowment income, pessimistic views of equity and interest rates and increased pension costs - might lead to a more adverse financial prognosis.) On the positive side, one scenario could be for approximate doubling in undergraduate fees from 2012 and an increase in postgraduate fees. It was likely that the University could face an annual deficit of £30million from 2011-12 from which recovery would be slow. Clearly, the cumulative effects of such a deficit were not acceptable.
On the basis of these projections, it was evident that urgent action was necessary. Immediate budget cuts would be the simplest action but would cut across existing planning activities. The planning assumptions for 2009-10 already assumed no budget increase and, therefore, a cut in real terms. The Schools and other spending units would be advised of the financial stringencies further ahead and would be asked to plan on that basis.

The Council had considered and approved various proposals for short and medium term strategy as follows:

- That the cumulative deficit over the next five years should not exceed £40m;
- That significant cuts would inform the planning round for 2011-12;
- That the following cost savings/revenue streams should be actively explored: improving research grant application success rates; increasing OS undergraduate fees; accelerating provision of post-experience education (e.g. MBA, Executive Education); increasing returns from CUP/CA; aggressive measures to reduce energy usage; limiting exposure to pension costs increases.

It was recognised that aspects of the longer-term strategy also required implementation at this stage. In particular, it was necessary to establish a clear programme of capital expenditure.

The Council’s productive initial discussion, as outlined above, would be referred to the PRC to be taken further forward. The proposals represented an overall strategy and addressed significant structural as well as financial issues. Inevitably, these would demand difficult and far-reaching strategic decisions with which the Council and the Finance Committee would need to be fully engaged.

The Finance Committee considered its role in the ongoing formulation of the financial strategy and the documentation and analysis which should inform its discussions. The detailed data inevitably contained significant variables and wide margins of error; it did, however, identify clear trends and it was on the basis of these trends that the strategy proposals had been established. It was agreed that the background information and underlying detailed analysis should be discussed with Mr Chote and Mr Johnston and other interested members of the Committee to ensure that their knowledge and views informed the analysis arrived at by the Financial Strategy Task Force and would also be available for the next phase of work as outlined by Professor Young.

Action: PVC (Planning and Resources)
8. **Investments**

Mr. N. Cavalla, Chief Investment Officer, attended for these items.

(i) **Cambridge University Endowment Fund 2008-09**

The Cambridge University Endowment Fund Investment Report for 2008-09 was received as Paper FC(09)96. Mr Cavalla spoke about administrative, staffing and funding arrangements in the Investment Office; the difficult market environment which had prevailed during the 2008-9 financial year; asset allocation policies, structures and practicalities; and the overall performance of the CUEF. The endowment had fallen by 11.1% in the year to 30 June 2009 which, given the market environment and in the context of comparator performance, was a good result. The Committee was reminded that £100m had been transferred from cash balances to the CUEF in the course of the 2008-9 financial year; there had been growth in these funds over the period.

(ii) **Investment Board**

The Minutes of the Investment Board meeting held on 14 September 2009 were received as Paper FC(09)97.

(iii) **Investment Board – Membership**

The Committee received Paper FC(09)100 and agreed to recommend to Council the appointment of Mr Peter Readman, TH, to the Investment Board.

(iv) **Cambridge University Endowment Fund – Extension to Colleges and Trusts**

A proposal to open up the CUEF to investors in wider Cambridge was received as Paper FC(09)101. The Committee was asked to decide: (i) whether the CUEF should be opened up to investors in wider Cambridge; and (ii) whether the ‘investment manager’ (and therefore the FSA authorised entity) should be the University and, if not, what alternative arrangements should apply.

On (i) the Committee agreed that increasing the scale of the endowment fund would benefit both the University and other investors. Steps should therefore be taken to open up the CUEF to the ‘eligible investors’ listed in Schedule 1 of the draft Trust Deed circulated as Annex 3 to Paper FC(09)101.

In the course of a long and detailed discussion of (ii), the Committee considered various options. Identifying the University as the ‘investment manager’ would embed investment activity and might
achieve better long-term outcomes. It would establish the Council as the supervisor of the investment function with Council members being required to disclose personal data to the FSA in order for the University to be authorised. It would involve the University, as such, in a very complex registration process. There would also be ongoing compliance and reporting issues which were likely to be more demanding and expensive if the University (rather than a separate wholly-owned subsidiary company) were the investment manager. It was suggested that the potential for cultural ‘drift’ in the case of a separate company could possibly be managed by means of appropriate controls and governance measures and did not require the establishment of complicated legal arrangements. It was agreed that a middle ground in the form of a service company model should be considered and a further paper brought to the Committee.

**Action:** Director of Finance

9. **North West Cambridge**

The Minutes of the meeting of the NW Cambridge Strategy Committee held on 8 July 2009 were received as Paper FC(09)102. Mr Johnston, as Chair of the Strategy Committee, reported on a satisfactory outcome in respect of the area action plan. Detailed design and planning work was now underway. A full report would be brought to the Finance Committee’s November meeting.

**Action:** Registrary

10. **Pensions**

(i) **USS**

A letter from USS confirming an increase in the employer’s contribution rate to 16% with effect from 1 October 2009 was received as Paper FC(09)104.

(ii) **Pensions Working Group**

The Minutes of the meetings of the Pensions Working Group held on 17 July, 4 August and 17 September 2009 were received as Papers FC(09)105, 106 and 107.

(iii) **CPS: Increase to pensions in payment**

A letter from the Chairman of the CPS Trustee proposing above-RPI increase in pensions of 0.5% was received as Paper FC(09)108. The proposal raised some complicated issues. It was agreed that more
detailed background information was required and that a decision about the matter should be deferred until the Finance Committee’s meeting on 18 November.

Action: Registrary

11. Cambridge University Health Partners Limited

The Committee received as Paper FC(09)109, a proposal (together with a draft Memorandum of Association, Articles of Association and Members Agreement) to establish a company limited by guarantee to be called Cambridge University Health Partners. The Committee was reminded that a collaboration between the University, Cambridge University Hospitals NHS Foundation Trust, Papworth NHS Foundation Trust and the Cambridgeshire and Peterborough NHS Foundation Trust had, following a national competition, won recognition as an Academic Health Science Centre by the Department of Health. Council, at its meeting on 16 February 2009, had agreed that the collaboration should be called Cambridge University Health Partners and had noted that formal proposals for the establishment of a legal entity would be brought forward in due course. It was now proposed that the collaboration should be formalised as a company limited by guarantee. Arguments for this arrangement included:
- Safeguarding the University’s name and its assets while also protecting the interests of the other partners in the collaboration;
- Creating a single legal entity to prosecute the tripartite mission of the AHSC separately from potentially inconsistent and conflicting internal arrangements in the four partner bodies;
- Articulating a formal commitment to the collaboration, thereby strengthening any future application for renewal.

It was agreed that the proposal, when considered by Council, should be accompanied by reassurances about whether the IPR arrangements for the company conflicted with the University’s regulations in the matter. Consideration should be given to the alignment of the company’s arrangements for audit and year-end with those of the University. The Finance Committee, for its part, commended the proposal.

12. STAFF

Cycle to Work Scheme

The Committee received and approved a proposal for a Cycle to Work Scheme (Paper FC(09)110), which had been approved by the HR Committee at its meeting on 11 June 2009.

Vice-Chancellor
18 November 2009
1. **Committees**
   Received the Minutes and Annual Report from the following Committees:

   - **Buildings Committee** – 1 July 2009
   - **Audit Committee** – 9 July 2009
   - **Financial System Committee** – 21 September 2009 and Annual Report 2009

   **Noted.**

2. **Committees - Membership**
   The Committee approved the following nominations and appointments:-
   
   (i) **Assessment Sub-Committee** – nominated
       Mr N. Allen *SID*
       Mr. N. Downer *SEL*
   
   (ii) **Kettle’s Yard Committee** – nominated Mr S Hutson *vice*
       Mr Morris.
   
   (iii) **North-West Cambridge Strategy Committee** – recommended to Council to appoint Professor Steve Young.
   
   (iv) **Appointment of Mrs Ann Jarvis as a Director of the Agency for Legal Deposit Libraries.**

3. **Cambridge Enterprise**
   (i) **To recommend to Council to appoint Professor Tony Minson** as an additional Director of Cambridge Enterprise Limited and agree variation of the Memorandum of Understanding accordingly.
       **Agreed**
   
   (ii) **Minutes of the Board of Cambridge Enterprise Limited** – 22 June 2009.
       **Noted**

4. **Sealings**
   Received