At a Meeting of the Finance Committee held this day,

Present: Professor Minson (Pro-Vice-Chancellor and Acting Treasurer (in the Chair), Professor Chase, Professor Hunter, Mr Johnston, Mr Larkum, Ms Lowther, Dr Nicholls, Dr Reid, Mr Thompson, the Director of Finance, the Administrative Secretary, the Academic Secretary and Mr Troupe;

Apologies for absence were received from the Vice-Chancellor, the Registrary and the Director of Estate Management.

1,770 MEMBERSHIP

The Committee noted that Professor Anderson had resigned and that the Council would appoint a replacement member in due course. Although Professor Anderson had indicated that he also wished to resign from all Finance Committee sub-committees, the Finance Committee agreed he should be asked to remain on the Financial Services Management Committee.

1,771 MINUTES

The Minutes of the meeting held on 11 May 2005 were approved.

1,772 REPORT ON ACTIONS

The Director of Finance reported on action taken following decisions at the last meeting.

ROUTINE BUSINESS

1,773 Sealings. The Committee received Note FC(05)65 with Paper FC(05)78 a list of sealings authorised by the Acting Treasurer under delegated authority since the previous meeting.

1,774 Finance Committee Business. The Committee received Note FC(05)69 and noted that the major items planned for forthcoming meetings were:

July - Accounting policies
- Insurance renewal arrangements
- Full Economic costing (presentation)
  “Financial Story”

October
- CU Press accounts
- Investment Management
- Quarter 4 2004-05 Red Book

November 9th
- Reports and Financial Statements (draft)

November 30th
- Reports and Financial Statements (final)
  Quarter 1 2005-06 Red Book

ACCOUNTS

1,775 2004-05 Report and Financial Statements – Year-end Timetable. The Committee received Note FC(05)73 with Paper FC(05)84 the detailed programme for the preparation of the University’s 2004-05 reports and financial statements.

1,776 (a) College Accounts. The Committee received Note FC(05)66 with Paper FC(05)79 the Recommended Cambridge College Accounts (RCCA).

(b) The Committee noted the following:

(i) The Inter-Collegiate Committee on College Accounts (ICCA) made recommendations to the Finance Committee on the form of the RCCA as appropriate;

(ii) the ICCA met last September and recommended the amendments in the attached Paper FC(05)79;

(iii) adoption of the RCCA was at the discretion of each College and of the 31 Colleges 26 prepared their 2003-04 accounts following the RCCA, with the others following the old-style statutory accounts. It was anticipated that for 2004-05 29 Colleges would adopt the RCCA format;

(iv) the amendments were non-contentious and reflected general improvements and minor changes in accounting practice;

(v) the ICCA was scheduled to meet the day after this meeting to consider the RCCA for this year and were unlikely to recommend any further amendments at this stage;
(vi) HEFCE and the University’s Audit Committee had recommended that the University encouraged all Colleges to adopt the RCCA;

(vii) a member commented that it was close to year end and that the ICCA should bring its meeting forward in future in order to give the Colleges a clear view on the RCCA and the accounting format and principles being followed earlier in the year;

(viii) it was also noted that the amount and nature of commentary included with the financial figures varied widely from College to College but the text was at the discretion of each College.

(c) The Committee, having reviewed the paper, agreed that the amendments to the RCCA, as proposed by the ICCA, should be recommended to the Council and that the Schedule to Chapter XIV of the Ordinances should be amended to take account of this.

1,777 (a) Quarterly Management Accounts. The Committee received Note FC(05)63 with Paper FC(05)75 the Red Book for the period August 2004-April 2005 together with the Green Book which was a summary of the financial position of the Schools and similar groupings.

(b) The Director of Finance presented the accounts. Members commented as appropriate. The following points were noted:

(i) the accounts were for “Little U”, i.e. excluding UCLES;

(ii) the income and expenditure year to date was broadly in line with budget overall;

(iii) the latest forecast for the full year 2004-05 increased the deficit slightly by £0.6m from £11.8m to £12.4m. The main variations were due to academic fee income and research grants and contracts being slightly below budget. Certain academic fee income had been reclassified as Other Income;

(iv) staff costs had increased 8.5% on the equivalent period last year;

(v) the final quarter had uncertainties as faculties and departments had yet to complete year end adjustments;

(vi) A greater number of faculties and departments were now carrying out month end accounting routines giving a clearer picture.

(vii) Other income was £8.7m above forecast, in the main due to a £3m contribution from UCLES, £3m additional health activity and £1m specific donations. A member asked if it was clear when receiving a donation whether it was classified as income or capital. If a donation was for general purposes it should be classified as income on receipt, and if for a specific purpose as expenditure was made against it;
(viii) overall non-research staff numbers were down slightly on the equivalent point last year. A member asked why there was not a head count budget. The planning enquiry for 2005-06 and beyond was the first time that projection had been for all activities, and for 2005-06 it would be possible to include head count projections, although having given departments devolved responsibility they should be allowed flexibility in this area;

(ix) research grants and income was slightly below budget but higher than last year. Overhead recovery was also down on original budget primarily due to the timing of additional funding related to full economic costing. It was noted however that research income was still increasing satisfactorily whereas other institutions had seen a levelling-off;

(x) regarding staff numbers over the last decade or so, a member noted that the number of research staff had increased by around 50% and non-research staff by around 20% yet the cost in each case was very similar. Information on the staff profile which the CHRIS project provided would aid understanding in the future, in the meantime the Director of Finance would look into the matter;

(xi) by the end of the year increased effort would need to be put into unbilled expenditure and following up on unpaid invoices in relation to research grants and contracts; and

(xii) the report on treasury management was noted.

The Committee took note of the information provided.

1,778 (a) University of Cambridge Local Examinations Syndicate. The Committee received Private and Confidential Note FC(05)72 with the following Papers:-

   Paper FC(05)82 The Annual Report and Accounts of UCLES for the year to 30 September 2004.

   Paper FC(05)83 Minutes of the meeting of the Working Group set up to review the Accounts of the University of Cambridge Local Examinations Syndicate, held on 13 May 2005.

(b) Mr. Larkum presented the papers and made the following points:-

   (i) the UCLES auditors had a sound professional working relationship with the management and had raised no major issues on the accounts;

   (ii) UCLES was proposing a special capital transfer to the University of £10.5m. This followed the recent agreement to adopt a more formulaic approach to determining the availability
of excess funds for University use. The figure was towards the lower end of the range previously considered due to lower expectations on trading performance in a competitive market;

(iii) consolidation of office and warehouse buildings would lead to improved efficiencies;

(iv) UCLES were in the process of developing their next 5-year business plan. The Working Group would look at this in a separate meeting later in the year; and

(v) a member asked whether an analysis of the UCLES’ competitors was undertaken and to what extent was revenue growth dependent on investment. The Syndicate did look closely at its main competitors. There had been consolidation in the UK market and there were only three main players. UCLES’ market share was fairly stable in the UK but the international situation was more complex. The 5-year plan would have substantial narrative.

(c) The Committee took note of the information and requested that UCLES considers including data on the level of investment required going forward, an analysis of the market and of the competitive environment in its 5-year plan.

BUILDINGS

1,779 (a) *Buildings Committee*. The Committee received Note FC(05)68 with Paper FC(05)81 the Unconfirmed Minutes of the meeting of the Buildings Committee held on 18 May 2005.

(b) The Pro-Vice-Chancellor (Planning and Resources) informed the Committee that it was likely that the CR-UK Cancer Research Facilities project would be over budget. The PRC had agreed that the budget be increased from £42.1m to £45.9m. There was also a further risk that an additional £1.8m funding would be required. The Buildings Committee had agreed that a working group be convened to look into the circumstances leading to the overrun and into opportunities of clawing back as much of the £3.8m overrun as possible. The overrun would not come from the operating budget and departments would not be affected or be asked to make further savings in addition to those under the RAM.

1,780 *University Security Committee*. The Committee received *Private and Confidential* Note FC(05)67 with Paper FC(05)80 the Unconfirmed Minutes of a meeting of the University Security Committee held on 9 May 2005. The Committee agreed to take note of the information provided.

INSURANCE

1,781 (a) *Renewal 2005*. The Committee received *Private and Confidential* Note FC(05)70 and noted that the University’s insurance arrangements
were being fully reviewed, and a tender for renewal had been invited, on
the expiry of a five-year period with the current insurers Royal and
SunAlliance. Over this period there had been significant increases in
premium levels and in the information requirements of insurers.

(b) The Director of Finance made a presentation of the key issues and
decisions required as to the University’s appetite for risk, pending
development of the renewal terms which would be brought to the
Committee for decision. The following points were made:

(i) there had been a successful renewal in 2004 resulting in a
reduction in premium;

(ii) this year there had been a full review followed by an invitation
to tender. There had been 16 responses to the invitation
compared to two in 2000;

(iii) Currently the total premium paid was approximately £1.6m,
having risen sharply since 2001;

(iv) insurers consider the University a reasonable risk;

(v) Marsh had undertaken an insurable risk evaluation which
benchmarked the University against its peer group. The
University scored well in most areas;

(vi) the sum insured in terms of property and contents was £1.8bn
with a loss limit of £300m. The loss limit was the maximum
conceivable loss for a single event and was determined by the
University. If the limit were to be increased the premiums
would also increase. Employer’s liability had a limit of £25m
and there was a separate policy for terrorism;

(vii) the issues to be considered were the level of deductibles (on
property and contents), the University Library, “Heritage assets”
(works of art and other collections) and clinical trials;

(viii) deductibles were primarily relevant for property and contents
only and the current deductible was £1k. The invitation to
tender asked for proposals on a £100k, £250k and £500k
deductible. The deductible would then be self-insured through
an internal insurance fund. Small claims handling would
outsourced and there would be a separate internal deductible for
departments. The Committee was unable to provide any steer
without a profile of previous claims, what the cost of those
claims would have been to the University with varying
deductible levels, the professional opinion of Marsh, pricing
information for each level of deductible for the renewal and
information on how the internal insurance would operate. This
information would be included in the renewal report at the July
in the case of the Library it was the University’s single largest property exposure (£100m building and £75m contents). Currently old books were not insured and modern books (post 1850) were at an average sum. If there were a disaster, currently the University would have to bear the cost of the repair and restoration to old books and manuscripts. The cost of insurance for repair and restoration should be investigated;

“Heritage Assets” and works of art were not currently insured (except when in transit or on loan). The cost of cover against loss and sabotage should be investigated, Marsh should advise;

clinical trials are insured on a trial by trial basis. This is an area with significant excess and risks can be high. Other institutions such as University College and Imperial should be asked what arrangements were in place there; and

the premium would be reviewed annually against market rates.

(c) The Committee took note of the information provided and asked that the additional information above under (x), (xi) and (xii) be brought to the July meeting of the Finance Committee as part of the renewal report for decision.

INVESTMENTS

Investment Management. The Committee received Private and Confidential Note FC(05)75 with Paper FC(05)86, Investment Management Proposals – Status Report.

(b) The Committee noted that many of the items in the report were works in progress and a further report would be received at the July meeting.

UNIVERSITY COMPANIES

University of Cambridge Challenge Fund Limited (UCCF Ltd). The Committee received Note FC(05)71 and Annex and noted that UCCF Ltd was the University wholly-owned subsidiary through which funds available in 1999 through the OST’s University Challenge Fund initiative (provided by the OST, Wellcome and Gatsby Trusts, as well as the University) totalling £4m were channelled for the purpose of providing seed funding for spin-out opportunities.

(b) Recently the Inland Revenue had questioned the charitable status of UCCF Ltd but would not seek to tax it provided the Challenge Fund was taken within the main body of the University as a ring-fenced fund, similar to other institutions. The funding organisations were happy with
this arrangement.

c) The Committee approved that the assets and liabilities of UCCF Ltd be transferred to the University, as at 31 July 2005, to be held in a special account as a ring-fenced fund.

VENTURE FUND

1,784 (a) Internal Loan. The Committee received Note FC(05)74 with Paper FC(05)85 a note prepared by the Pro-Vice-Chancellor (Research) on the Challenge and Venture funds.

(b) The Committee noted that a number of internal loans from the Chest to departments were made. The policy and procedure had been considered by the Finance Committee in July 2004.

c) Paper FC(05)85, prepared by the Pro Vice-Chancellor (Research), proposed that the Chest provided an internal loan facility to the Venture Fund (part of the Cambridge Enterprise “group”) of up to £1 million to underwrite the activity of the University Challenge Fund and the Venture Fund pending realisations of investments within the funds.

d) Both Funds were close to being entirely invested, however the Funds contained a number of assets which could be disposed of with realisations that would enable the Funds to carry on investing at the current rate. What was being requested was a line of credit rather than a loan to enable the staff managing these Funds to stay in post and modest seed funding and investment to continue. If the disposals were to occur as expected it would not be drawn upon. A member questioned whether providing seed funding was an appropriate activity for the University. It was noted that it was University current policy to provide seed funding and that the Cambridge Enterprise Advisory Board had responsibility for managing that policy and practice, and for recommending any changes. If the Finance Committee were to refuse the line of credit it may be making policy by default. However the Committee agreed that whilst it would underwrite funds to allow the ventures team to remain in place, before it would be able to confirm the full facility requested it would require further information. An analysis of the potential disposals and realisations was required, as was an analysis of the associated risks, information on cash flow and the Cambridge Enterprise business plan. This should be submitted to the Finance Committee in July.

In the meantime the Committee agreed to provide a line of credit to underwrite the staff costs of the office until more detailed information was received and a decision could be made on the full amount.

UNIVERSITY FINANCIAL SYSTEM

1,785 Financial System Management Committee. The Committee received Note FC(05)64 with the following Papers:-
Paper FC(05)76 The Unconfirmed Minutes of the meeting of the Financial System Management Committee held on 18 May 2005.

Paper FC(05)77 List of proposed future activities to develop and use CUFS.

The Committee took note of the information provided.

Vice-Chancellor
13 July 2005