University of Cambridge

COUNCIL

Finance Committee

Minutes of the meeting held on Wednesday 8 November 2006.

Present: The Vice-Chancellor in the Chair, Ms Coutu, Mr Johnston, Ms Lowther, Professor Minson, Dr Reid and Mr Thompson, with the Administrative Secretary as Secretary, the Director of Finance, the Director of Estate Management and Mr Troupe.

Apologies were received from: Dr Clark, Dr Dissanaike, Professor Hunter and Mr Larkum. The Registrary was absent on University business.

PART A: INTRODUCTORY

9. Minutes

The minutes of the meeting held on 4 October 2006 were approved.

10. 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 any matters for decision contained in the confirmed list of straightforward or reported business, and received the other material.

11. Future business and work plan

An updated statement was received (Paper FC(06)150).

PART B: SUBSTANTIVE BUSINESS

12. Accounts

(a) Financial Statements 2005-06

The Deputy Director of Finance attended for this item. The following Papers were received

Paper FC(06)164 A paper introducing the Financial Statements 2005-06

Paper FC(06)165 Draft Financial Statements 2005-06 for ‘Little U’

Paper FC(06)166 Draft Primary Statements 2005-06 for ‘Big U’ (excluding CUP)
The Director of Finance gave a presentation on the draft statements and highlighted the following:

(i) the Cambridge University Press (CUP) would be consolidated this year, enabling publication of true and fair accounts for the first time;
(ii) the CUP accounts were now over two weeks late which might affect the planned timetable. The external auditors might not have finished their work in time for the 29 November meeting of the Committee;
(iii) a number of outstanding matters of detail were still to be dealt with;
(iv) in terms of “Little U” (University teaching and research) income had risen 7.2% to £563.1m, expenditure had risen 6.3% to £555.8m, capital expenditure had fallen by 25.7% to £71m and net assets had increased by 8.6% from £1,602m to £1,740m. There was a “Little U” surplus of £5.8 m. All items were close to budget, except income which was £20m higher than budgeted;
(v) “Little U” revenue had increased by 42% over the period 2001-2006;
(vi) the Cambridge University Endowment Fund had performed well;
(vii) “Big U” (“Little U” plus Cambridge Assessment and the Trusts) income had risen by 7.5% to £747m, expenditure had risen by 6.7% to £739m, capital expenditure had fallen by 10% to £93m and net assets had increased 8.3% from £1,924m to £2,083m. There was a “Big U” surplus of £4.5m;
(viii) the CPS FRS17 Pension liability had been built into the “Big U” accounts; and
(ix) “Grand U” (“Big U” plus CUP) accounts would be presented to the 29 November meeting of the Finance Committee before going to the Audit Committee on 7 December, the Council on 11 December for approval and publication in the Reporter in January 2007.

The Committee welcomed the good progress which had been made on the accounts, and the financial position of the University.

The allocation of the Cambridge Assessment capital transfer in 2004-05 to the Strategic Planning Reserve Fund was mentioned. It was suggested that allocations to the Fund should be Graced; allocations from the Fund were required to be published and this had not been happening. The latter would be in the Financial Management Information for 2005-06. The Committee agreed that the situation should be fully regularised.

Action: Director of Finance
Administrative Secretary (SPRF matters)

(b) Quarterly Management Accounts

The Management Accounts for the 12 months to 31 July 2006 were received as Paper FC(06)151.

13. Pensions

(a) USS Consultation
The following Papers were considered:-

Paper FC(06)162  Consultation document on the future funding of USS

Paper FC(06)163  Consultation questionnaire with draft responses prepared by the Pensions Working Group.

The Committee noted that:

(i) the USS were consulting on a range of possible options designed to meet the rising future costs of providing pensions;
(ii) Cambridge University was the largest single employer in the scheme;
(iii) the Pensions Working Group had formulated draft answers to a number of questions in the USS questionnaire which were considered in detail;
(iv) both the Pensions Working Group and the Finance Committee agreed responses to the questionnaire arguing that a new entrant retirement age of 65 should be adopted, that the cost of early retirement should be borne by the institution, that at the present time there should be no change to the final salary basis of the scheme, and that future options should be investigated in order to protect the final salary basis; an indefinite ‘no-change’ approach was not an option;
(v) in the meantime a 2% increase in the employer contribution rate was likely. This was being built into University plans and was likely to cost in the region of £3m per annum; and
(vi) the revised questionnaire responses would be circulated to the Pensions Working Group for comment.

The Committee authorised despatch of the questionnaire as then confirmed.

Action: Director of Finance

(b) Pensions Working Group

Draft Terms of Reference for the Pensions Working Group were received as Paper FC(06)154 and was approved. The Pro-Vice-Chancellor for Planning and Resources would serve on the Group. A member would be appointed by the Finance Committee.

Action: Director of Finance

(c) CPS – Statement of Investment Principles

The Statement of Investment Principles for the CPS was received as Paper FC(06)161 and had been submitted to the Committee as representing the employer.
The Committee for its part approved the Statement of Investment Principles, but asked the CPS Managing Committee to consider whether the strategic target for cash was low which might reduce flexibility. It was noted that asset allocations would be further reviewed and if necessary revised on an annual basis.

The Committee noted that the investment principles would be reviewed further in due course, especially after the University Investment Office was fully functioning.

**Action**: Director of Finance

(d) CPS: FRS 17 Valuation

A copy of the FRS17 disclosures for the CPS as at 31 July 2006 was received as Paper FC(06)160.

The Committee noted that:

(i) the FRS17 disclosure, as at 31 July 2006, showed a deficit of £97,810,000m, an increase of just over £12m from £82,767,000m as at 31 July 2005;

(ii) the main reasons were more conservative financial assumptions and an update in the demographic assumptions;

(iii) to interpret this latest disclosure the Trustees’ valuation, due in December, would be needed; and

(iv) these figures had been built into the financial statements.

The Committee agreed to discuss the position further at the January 2007 meeting.

**Action**: Director of Finance

(e) USS Report and Accounts for the year ended 31 March 2006

A paper summarising the USS Report and Accounts for the year ended 31 March 2006 was received as Paper FC(06)152 together with a draft Notice (Paper FC(06)153). The Committee agreed that the Notice be published in the Reporter.

**Action**: Mr Troupe, for University Draftsman

14. Investments

(a) Chief Investment Officer

The Vice-Chancellor reported on the progress towards the appointment by the Council of the Chief Investment Officer.

The Committee noted that:

(i) there was a recommended candidate, information about whom was received;

(ii) 145 people had been considered; and
(iii) the Investment Board had unanimously endorsed the candidate as had an appointment committee, on which Dr Reid and Ms Lowther had served, had agreed to recommend the candidate to the Council for appointment.

Action: Director of Finance, Administrative Secretary (for Council Agenda)

(b) Investment Office Costs

A paper about Investment Office costs was received as Paper FC(06)155.

The Committee agreed that:

(i) the costs of the Investment Office should be a direct charge against the Endowment Fund; and
(ii) the upper limit budget for the Investment Office be set at 0.25% of asset value in line with experience in established endowment offices. This would cover all costs (except fund management fees). This figure had been arrived at using information from Cambridge Associates. The Director of Finance would circulate this. The Committee also noted that in formal terms the Investment Board would recommend the office budget to the Vice-Chancellor, who would seek the advice of the Finance Committee.

Action: Director of Finance

15. College Contribution

Dr. Reid reported on the response from the Colleges on the review of the College Contribution and the Colleges Fund in relation to a number of building related sinking funds (Paper FC(06)157). A note by Dr Reid and a reply from a further College had been circulated.

The Committee noted that:

(i) a draft Report of the Council had been circulated to Colleges for comment; the principal proposal of the Report was to remedy an avoidance opportunity in relation to building related sinking funds;
(ii) if the changes were not applied in 2005-06 the sum that would be lost to the Colleges Fund was estimated at around £500k;
(iii) some Colleges had questioned the proposed retrospectivity;
(iv) new statutory provisions with regard to University contributions were in the course of preparation, but would not be implemented for some time; and
(v) it would be inappropriate for the avoidance opportunity to be left open for several years.

The Committee agreed to recommend to the Council that the amendment to Statute G, II be proposed to apply for 2006-07 and that it not be applied retrospectively for 2005-06.

Action: Administrative Secretary (for the Council)
16. Finance Committee

Membership

At its meeting on 4 October 2006 the Committee had considered a possible co-option and had agreed to set up a sub-committee to consider whether to fill one or both of the vacant places available for co-option. The Committee agreed to set up a sub-committee to report when the composition of the Committee from 1 January 2007 was known.

Action: Administrative Secretary

The Committee noted that Mr Larkum had attended his last meeting and thanked him for his contribution to the work of the Finance Committee. The Vice-Chancellor would write to him in those terms.

Action: Vice-Chancellor

Vice-Chancellor
29 November 2006
Finance Committee 8 November 2006: Straightforward and reported business submitted for decision or report.

**Paper No.**

1. **NW Cambridge**

   Strategic Group Membership. Finance Committee appointments approved.

   **Action:** Registratory

2. **Judge Business School Executive Education Limited**

   Proposal for Board Membership. Finance Committee appointments approved.

   **Action:** Mr Troupe

3. **Deposit Account**

   Switch from BGI Select Cash Fund to BGI LIBOR Plus fund approved.

   **Action:** Director of Finance

4. **Granta Backbone Management Committee Report for 2005-06**

   Report recommended to the Council for publication.

   **Action:** University Draftsman

5. **Committees**

   Minutes/Reports from the following Committees:

   - Planning and Resources Committee Minutes* – 18 October 2006
   - Audit Committee Minutes* – 12 October 2006
   - Buildings Committee Minutes – 3 October 2006
   - Value for Money Committee – Annual Report 2006

6. **Sealings**

7. **Loan Fund II**

8. **Pensions – Ninth Supplemental Amending Deed of the current rules of USS**

   Noted that it was not necessary to publish a Notice in Reporter.

* Private and confidential