At a Meeting of the Finance Committee held this day,

Present: The Vice-Chancellor, Dr Anderson, Professor Hunter, Mr Larkum, Ms Lowther, Dr Nicholls, Dr Reid, Mr Thompson, Professor Minson (Pro-Vice-Chancellor and Acting Treasurer), the Director of Finance, the Administrative Secretary, the Director of Estate Management, the Registrary and Mr Troupe.

Apologies for absence were received from Professor Chase, Mr Johnston and the Academic Secretary.

Action

1,729 MINUTES

The Minutes of the meeting held on 16 February 2005 were approved.

1,730 REPORT ON ACTIONS

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

ROUTINE BUSINESS

1,731 Sealings. The Committee received Note FC(05)33 with Paper FC(05)40 a list of sealings authorised by the Acting Treasurer under delegated authority since the previous meeting.

1,732 Uncompleted Business. The Committee received Note FC(05)39 with Paper FC(05)48 a list of Uncompleted Business.

A member commented that a list of uncompleted business should be reviewed formally at least once or twice a year, say in September and March. The Vice-Chancellor agreed and suggested that the paper be included in next month’s meeting in order to enable prior consideration. Any uncompleted business the Committee wanted to see undertaken would then be incorporated into the annual work plan with a recommended completion date. The Registrary noted that there were resource implications in terms of staff time and tasks had been prioritised, which was why some work remained outstanding.

BUILDINGS

1,733 Minor Works Review Group. The Committee received Note FC(05)34 with Paper FC(05)41 the Unconfirmed Minutes of the meeting of the Minor Works Review Group held on 22 February 2005 and agreed to
take note of the information provided.

PURCHASING

1,734 *Purchasing Working Group.* The Committee received Note FC(05)32 with Paper FC(05)39 the Unconfirmed Minutes of a meeting of the Purchasing Working Group held on 3 February 2005 and agreed to take note of the information provided.

ACCOUNTS

1,735 (a) *Quarterly Management Accounts.* The Committee received Note FC(05)29 with Paper FC(05)36 the Red Book for the period August 2004-January 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 gave a presentation on the Accounts and highlighted the following points:-

(i) overall the results for the half-year were in line with expectations;

(ii) revenue continued to grow with a 5% increase over the equivalent period last year;

(iii) research grants and contracts income had risen 8%;

(iv) the staff head count had fallen slightly since 31 July 2004;

(v) the University remained in accounting deficit at £5.9m for the six months, which was in line with budget;

(vi) staff costs were in line with expectations with an increase of 8% (excluding staff funded directly by research grants and contracts);

(vii) non-pay expenditure (non research) continued at roughly the same level as last year;

(viii) the Amalgamated Fund value had risen 8.5% in value so far this year.

(ix) expenditure had risen 5.9%;

(x) net assets had increased by 7.7%;

(xi) the variances in revenue against budget were due to reclassification of some of the funding council grant, lower than budgeted MBA fees, some phasing of research grants and contracts, and a reduced Amalgamated Fund distribution;
(xii) the 8.2% increase in staff costs comprised of the general increase (cost of living rise 3%), increased CPS contributions (3.9%), NHS contract changes (0.8%), headcount change (0.4%) and net other (promotions etc) 0.1%;

(xiii) overhead recovery on research grants and contracts was overall behind the level budgeted;

(xiv) debtors had risen slightly but were less than this time last year; and

(xv) the Director of Finance also included a liquidity profile of the University’s short-term investments.

(c) The Committee noted the following:

(i) the 8.2% increase in staff costs was unusual, having been increased by the additional CPS contributions;

(ii) the reduction in headcount was more likely the result of management actions in schools and departments to suppress vacancies rather than being unable to fill posts due to non-competitive salaries or a planned reduction. The University was aware of the posts that were suppressed in order to meet savings targets but the information was not collected centrally. It would be available following implementation of the CHRIS project;

(iii) there was some concern regarding overhead recovery on research grants and contracts. The Committee was reminded how important overhead recovery rates were but the situation did not seem to improve. Transitional funding for full economic costing in relation to research council grants will show an improvement in recovery rate. The Committee agreed that it would be beneficial to receive a presentation on full economic costing at a future meeting; and

(iv) the transfer of £0.9m to accumulated income within specific endowments was the accounting treatment by which unspent endowment income was credited to specific endowments and not to general reserves.

1,736 (a) The Cambridge Trusts. The Committee received Private and Confidential Note FC(05)35 with the following Papers:-

Paper FC(05)42 Unconfirmed Minutes of the meeting of the Finance Committee’s Working Group with representatives of the Cambridge Trusts held on 7 February 2005.
(b) Mr. Larkum reported that:

(i) the meeting with the Trusts had been productive;

(ii) concern had been expressed at the meeting in 2004 regarding the size of the Trusts reserves that had built up over the last few years. This had been reiterated. The Trusts felt that the reserves provided a cushion against uncertainty;

(iii) the PRC had agreed that funding for the Trusts would be on a rolling five year basis necessary to maintain broadly the same levels of support currently given. That being the case a significant shift in Trust policies would be looked for over the next twelve months in order to ensure the money the University gave was used for its intended purpose and not to build up reserves;

(iv) over time the composition of the Trusts would need to change to meet changing circumstances and the Trustees need to look at ways of managing funds more actively;

(v) the PRC should seek to redirect funds to those Trusts that have growing demand but have lower total funds.

(vi) the University needed to operate much more closely with the Trusts and the Trusts should be able to respond to policy developments at the University. The Trusts had set up a group to consider the future management of the Trusts. The University, as prime funder, would wish to participate in those considerations.

(c) A member commented that there was a lack of balance in students targeted by the Trusts. The Commonwealth Trust helped students from Australia and New Zealand, where the need was less apparent, whilst the greatest recipients of the Overseas Trust funding were from China. More effort was needed with regard to India and the less developed Commonwealth countries.

(d) The Committee took note of the information provided.
Confidential Note FC(05)31 with Paper FC(05)38 Unconfirmed Notes of an informal meeting of the Working Party set up to review the accounts of Cambridge University Press, held on 24 February 2005.

(b) The Committee noted that the meeting had been held as an interim meeting in advance of the formal meeting which would be held in the Easter Term, and which would be to consider the final audited accounts for the year ended 31 December 2004 and to confer with the Press’s auditors.

(c) The Committee noted that:

(i) the meeting was encouraging, the Press had made improvements and were moving from deficit; and

(ii) the Press had pension funding challenges and apart from the Oxford’s Press there was no other really profitable academic press anywhere in the world, although the market was improving.

(d) The Committee took note of the information provided.

INVESTMENTS

1,738 Investment Management. The Committee received Private and Confidential Note FC(05)30 with Paper FC(05)37 the Report to the Finance Committee by the Working Group established to review the Investment Management arrangements of the University, dated March 2005.

(a) Mr Larkum introduced the report and made the following points:

(i) the Working Group recommendations were that the Investments Sub-committee be reconstituted as a small investment board, the majority of whose members should be leading figures from the investment world, and that a small investment office, run by an externally recruited Chief Investment Officer, should be established to support the Board;

(ii) greater integration of the University’s investments and those of related bodies needed to be achieved but the Working Party was not confident this could be delivered with the existing investment management arrangements at the University. The report recommended a future structure to manage the University’s investment funds for greater performance and to have the ability to integrate in the future;

(iii) the report compared the performance of the Amalgamated Fund against the endowment funds of Yale and Harvard, which had a record of exceptional investment performance. These funds had performed consistently well, achieving more than twice the Amalgamated Fund’s annual rate of total return over the last ten years;
(iv) the recommendations referred to in (i) took careful account of the structure changes made at Harvard and Yale which the working group believed facilitated this performance;

(v) Yale and Harvard had a wider range of investment asset classes and had successfully controlled risk by diversification. In both cases over 30% of the operating income of those institutions was derived from investments compared with 6% at Cambridge, and to that extent effective control of risk was highly important;

(vi) Cambridge had certain natural advantages that made it realistic to believe it could emulate the success of Yale and Harvard. The University of Cambridge name could elicit enormous good will enabling the University to attract leading figures in the investment world to join the Investment Board, attract a Chief Investment Officer of high quality, and bring attractive investment opportunities to it; and

(vii) the Working Party were confident that the University could achieve a step change in the performance of its investments.

(b) Members made the following points and responses to them:

(i) the report did not deal with the question of risk. If the University was aiming for higher returns risk may increase, diversification alone may not deal with it adequately. Clear objectives needed to be set by the University, in consultation with the Investment Board, in terms of risk and return. The Chief Investment Officer would monitor and manage the risk, reporting on a regular basis to the Investment Board and Finance Committee;

(ii) that the Investment Board should report to the Finance Committee and not the Council. The Board, being made up of very senior people, would expect to report to the Council, the Council could then delegate to the Finance Committee. It was important that the Board’s decisions were not second-guessed, however the Board should be prepared to justify its actions;

(iii) as members of the Board may be active investment practitioners very clear rules on conflict of interest would be required. This issue had not been dealt with yet. As well as setting guidelines, the selection of individuals for the Board would need to be made with care. It would be useful to look at policies on conflict of interest from other investment boards;

(iv) that the Amalgamated Fund should be renamed ‘The Cambridge University Endowment Fund’ and not ‘The Cambridge Endowment Fund’ as proposed in the report. ‘University’ had not been included in the name to recognise the opportunity for related bodies, including Colleges, to invest if they wished to do so. This may be attractive to related
bodies but the issue would need further examination particularly with regard to the relevant Statutes;

(v) the Investments Sub-committee was too large and was over-reliant on a small number of fund managers;

(vi) Schedule 4 gave benchmark figures using a large sample of US institutions, whereas schedule 5 made comparisons against just two US institutions (Yale and Harvard). Broader data was required, and in greater detail. Mr Larkum responded that Schedule 5 simply showed that Cambridge was performing well below the standard set by the top US endowments. The Director of Finance confirmed that data on other US institutions was available;

(vii) the aim of the report was to advocate the process and structure which would allow decisions to be best taken. The current arrangements were not suitable. There was some concern that this might lead to active trading or the purchase of individual shares. This was not the intention: the Investment Board would be concerned with asset allocation and not the choice of individual stocks or other assets. Most endowment funds dealt with fund managers and the Board, through its investment office, would select and monitor specialist fund managers from around the world. There would be normal custodial arrangements but customs, practice and authorities would need to be set out in due course. The Board would be given guidance in terms of how it might operate.

(c) The Vice-Chancellor said that the report needed to move forward and the Council’s input should be sought. It should be made clear that the Finance Committee had not endorsed the report at this stage but was seeking the Councils’ view prior to revisiting the report at the next meeting. The points raised above should be dealt with as an appendix before the Council saw it. A member felt that the report should be completed before submitting it to the Council. The Vice-Chancellor explained that the Council valued seeing works in progress where they were of sufficient importance and that it would also see the report twice as a result. Were Council to see it only once and then ask questions it may take an additional Committee cycle before the outcome was known. The Committee agreed to forward the report to the Council for their view and asked that the Working Party addresses the points raised above (risk, accountability, conflicts of interest, comparative data).

Mr Larkum
Director of Finance

STAFF

1,739 (a) Childcare Voucher Scheme. The Committee received Note FC(05)36 with Paper FC(05)47, a paper recommending the introduction of a childcare voucher scheme to coincide with new tax regulations effective from April 2005.

(b) This item was unstarred by a member who welcomed the proposal but
pointed out that there was no clear recommendation. Additionally the member pointed out that the administration costs were minimal and yet a 10% administration charge was to be applied. There was no mention of the administration charge in the Minutes of the Personnel Committee and the accompanying paper stated that the National Insurance Contribution savings (NICs) would cover the extra administration costs. The member proposed that the administration charge not be implemented and also that the administration charge for the existing Salary Sacrifice Scheme for children be dropped.

(c) The Director and Deputy Director of Finance responded that there were also pensions implications to be considered as the part of the salary used for the vouchers (and the Salary Sacrifice Scheme) would not be included for pensions contributions purposes, although the final pension was unlikely to be affected. Also, the purpose of the administration charge was to ensure a fairer distribution of savings between employee and employer. Without the charge the University would save £100k in NICs whilst staff would save £316k, whereas with the administration charge the University would save £190k and staff £226k. This model was followed by other institutions.

(d) The Committee felt that these issues needed to be reflected in the paper and it should be returned to the Personnel Committee for amendment before returning to the Finance Committee next month. An analysis of the £190k saving and an estimation of the pensions liability referred to above would be useful.

Mr Larkum took the Chair at 12.40.

POLICIES AND PROCEDURES

1,740 (a) Expenses and Benefits. The Committee received Note FC(05)40 with the following Papers:-


Paper FC(05)50 Policy sections of the draft Expenses and Benefits chapter .

(b) The Director of Finance reported that this was guidance and reflected good practice. The Financial System User Group had already considered an earlier version of the document.

A member felt that the guidance would increase expenditure and interfere with the work of staff. Although there was a need for such guidance did it need to be so long? The Registrary felt that budget holders would find the guidance helpful but would use their discretion in interpreting the guidance.

The Committee agreed that procedures were desirable but further consideration was required. The paper should be circulated via e-mail
to those members of the Committee not present and to Schools asking for comments.

Comments should be submitted to Mr Sykes.

1,741 Mileage and Subsistence. The Committee received Note FC(05)38 which contained proposals for revised rates of subsistence allowances to take effect from 1 August 2005. The Committee noted that no increase was suggested in mileage rates, which follow Inland Revenue allowances.

Vice-Chancellor
13 April 2005