PART A: INTRODUCTORY

45. Procedure of the Committee – Declaration of Interest

Dr Clark, as an inventor with IP managed by Cambridge Enterprise, declared an interest in respect of the matter recorded as Minute 51 (Cambridge Enterprise). Otherwise, no personal or prejudicial interests were declared.

46. Minutes

The Minutes of the meeting held on 7 March 2012 were approved.

47. Straightforward and reported business: agenda items starred as straightforward

A paper listing straightforward and reported business was received. The minutes of the Finance Committee Business Sub-Committee’s meeting on 18 April 2012 (Paper FC(12)43) were unstarred. It was noted that a paper setting out proposed changes to the distribution policy would be brought to the Finance Committee on 11 July 2012 prior to consideration by the Council on 16 July 2012 and subsequent publication to the Regent House.

The Committee approved the matters for decision contained in the confirmed list of straightforward or reported business, and received the other material.

48. Future business and work plan

An updated work plan for 2011-12 was received as Paper FC(12)48.
PART B: SUBSTANTIVE BUSINESS

49. External Finance

The following Papers were received:-

Paper FC(12)49 An updated paper prepared by Rothschild on financing considerations for the NW Cambridge development and Capital Plan.

Paper FC(12)50 A companion paper prepared by the Director of Finance on balance sheet and other considerations.

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. Rothschild’s conclusion, at that stage, 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 timing of the borrowing in order to optimise the financial terms on which the external funds could be raised. The Committee, at its meeting on 7 March 2012, had received a second paper based on a more detailed financial appraisal of the North West Cambridge Project. This third paper set out in greater detail the potential structure and nature of the financing and the options for pre-funding. A companion paper from the Director of Finance had been developed from a paper which had first been considered by the Business Sub-Committee at its meeting on 18 April 2012. It provided an analysis of the capital available to the University to mitigate risks in the form of new initiatives (such as North West Cambridge), borrowing capacity, pension and investment risks. It benchmarked the University’s borrowing capacity against that in competitor/peer institutions in the UK and the United States.

Mr Burkitt reported. There were two key principles which Rothschild’s had adopted in determining the parameters of prudent borrowing for the University to ensure that the financing of the North West Cambridge project would not prejudice the core academic activities of the University. A recommended parameter was that the amount of external borrowing taken on with respect to the North West Cambridge project should be limited so that net revenue from the project would cover interest by a margin of 1.25x by around 2022 when the project was expected to reach steady state. The paper set out in a schematic way the extent of the external borrowing which would be required if no internal resources were used and then if first £80m, £100m or £120m respectively of expenditure was financed from internal resource. Clearly, a greater use of internal resource would enable a quicker repayment of borrowing and a more rapid reduction in the extent of the University’s debt. Interest cover was sensitive to the extent to which the University committed its own resource. The analysis was, inevitably, also sensitive to interest rate levels. Both of these factors should be taken into account in determining the balance between...
internal resourcing and external borrowing and in considering funding and pre-funding options.

The paper also considered other possible parameters and borrowing metrics which might be used to determine the amount of debt which the University could prudently incur. Consideration had been given to covenant requirements that private placement investors may require. A typical covenant could be to the effect that the University’s total debt would be maintained, throughout the period of the borrowing, at a level less than say 35% of net assets. Borrowing of £250-£300m would fall well under this threshold. Debt capacity could also be assessed by means of the expectations of credit rating agencies.

The paper also addressed the issue of borrowing to support the capital plan. An increase in the projected spend on the capital plan meant that there was a case for factoring it into the overall analysis to a greater extent.

As had been requested by the Committee at its meeting on 7 March 2012, the paper put forward a financing strategy based on a pre-funding exercise during 2012 in order to take advantage of currently low interest rates but before the projects incurred significant cash outflows. Pre-funding had a cost-of-carry; if, however, the University was concerned that its cost of debt would rise by more than 0.3% over the next year, there was a strong case for pre-funding. Further, it currently appeared to be possible to lock the interest rate at a level below the rate used in the North West Cambridge analyses of 5.25%. The paper modelled the effect of £200m pre-financing on the overall borrowings and debt over a twenty year period. This assumed some deployment of the University’s own resources and some level of cash/bank debt. However, pre-financing meant that there would be no call on the University’s resources in the early years of the project. While, therefore, requiring in-principle commitment to the use of internal resources at this stage, a decision about the extent and the timing of that resource could be deferred.

The paper considered the case for borrowing by means of public bond issuance or by private placement. Private placement would typically require a covenant which might impact on the University’s capacity to determine its own activities at some point during the loan period. A public bond would typically require a credit rating process; however, this was neither unduly onerous nor expensive in the context of the borrowing. The University’s international standing and reputation was likely to be attractive to investors.

The following points were amongst those raised in the course of discussion:

- The paper provided a cogent analysis of the issues and clear evidence that borrowing on the scale proposed was of an acceptable level and would not impact about the University’s core academic activities.
- There was a strong case for pre-financing at this stage in order to secure current interest rates, which were at historically low levels. Should the Regent House choose not to Grace the North West Cambridge project, the funding could be applied to the capital plan and in settlement of pension
fund deficits. It was agreed that there should be reference to such options in notifying the Regent House of the decision to borrow.

- Future demand on the capital plan was such that once the £100m borrowing limit was reached, it was likely to remain at that level for the foreseeable future. Long term borrowing of £100m for the capital plan should therefore be taken into account in the analysis which Rothschild’s would bring back to the Committee in July.

- Initial external borrowings of £200m had been assumed in the Rothschild analysis because it was a neutral sum for the purposes of considering public versus private borrowing and because it secured the core element of the borrowing for the entire 20 year period. However, no decision had yet been made as to the extent of the debt which the University should raise. This would be a matter for the Committee to consider in July on the basis of a revised analysis taking account of the detailed financial appraisal of the North West Cambridge project and including spending on the capital plan.

- The Committee noted a general aversion to the covenants which were likely to be required by private placement investors. It was noted that there would be limited flexibility in prepayment options in respect of both public and private borrowing.

- It was noted that there would be limited flexibility in repayment options in respect of both public and private borrowing.

In conclusion, the Committee agreed that, subject to a review of the revised financial appraisal for the North West Cambridge Project and further analysis of the capital plan, the University would wish to borrow a sum of the scale proposed in the paper.

It was also agreed that:

- Further information about the options for both private placements and public bonds should be brought back to the July meeting.

- Pre-financing had clear benefits and, given the ability to offset the debt by reducing the University’s pension liability and fund the capital plan, it would not prejudice the forthcoming decision regarding the North West Cambridge project.

- The University should pursue a credit rating in advance of the Committee’s July meeting and take any other necessary steps in preparation for pre-financing. Doing so would not presuppose a decision to borrow; it would, however, ensure that the University was in a position to borrow promptly should it decide to do so.

**Action:** Director of Finance, Rothschild
50. **Finance and Resources**

**University Budget 2012-13**

The final draft Budget Report recommending allocations from the Chest was received as Paper FC(12)51.

The Pro-Vice-Chancellor (Planning and Resources) introduced the Report which had been considered, in a preliminary form, by the Finance Committee at its meeting on 7 March 2012 and, following further work on both the figures and the text, by the Business Sub-Committee at its meeting on 18 April. Drafts had also been considered by the PRC, the General Board and by the Council. A final version would be signed by Council at its meeting on 28 May 2012. It was noted, in the course of discussion, that volatility in government policy across a range of matters inevitably created uncertainty in the University’s financial planning.

The Committee agreed to commend the draft report to the Council for signature at the meeting on 28 May 2012.

*Action: Director of Finance*

51. **Cambridge Enterprise**

The Committee received as Paper FC(12)52 a proposal to establish Cambridge Enterprise Investment Funds.

Dr Raven reported. Cambridge Enterprise currently had access to investment funds through the Seed Funds. Pathfinder funding of up to £15K and seed funding of up to £125K were available from these sources. There was, however, an identified need for seed funding of over £500k and for follow-on investment. Cambridge Enterprise’s current inability to provide funding at this level and of this nature compromised its ability to capitalise on the University’s spin out activities and to provide appropriate financial support to individual inventors. Cambridge Enterprise therefore proposed the establishment of two funds: a Seed Enterprise Investment Scheme (SEIS)/Enterprise Investment Scheme (EIS) of approximately £1m; and a follow-on fund of approximately £30m over 3-5 years based on a small number of blue chip institutional investors. The Finance Committee was asked to approve the proposals and the implementation requirements. A proposal for a third fund to support investment in licensing opportunities would be brought back to the Committee in the autumn.

The following points were amongst those made in discussion:

- The venture capital market was not a straightforward one, particularly in areas of scientific activity in which regulatory issues meant that there was generally a significant time lag between investment and return.
Further, the model proposed here was different from the standard model in which a venture capitalist invested in a defined and narrow area of research. In this case, investors would contribute to a general fund and would have no involvement in determining which projects would be supported.

- There was the potential for a conflict of interest between the imperative to deliver a return to investors while still supporting the work of inventors and the University. In response, Dr Raven noted that Cambridge Enterprise already had experience in managing this conflict (albeit for smaller sums of money) in awarding monies from the Seed Funds. Further, investors in funds of this type were likely to have an understanding and appreciation of the wider research and commercialisation agenda.

- Applications for funding would be considered and awarded on a competitive basis and across a gathered field. There would be a limited number of investments each year. It was a model which would be familiar to those accustomed to bidding for research funding; not all applications would be successful. Cambridge Enterprise had experience of managing such processes.

- It was intended that the follow-on fund would be available to companies located within the Cambridge cluster with some link either to the University or to affiliated research centres.

- It would be important to identify and quantify the extent of the infrastructure and staffing which would be required to support the follow-on fund. This would be true both during the set-up phase and in seeking FSA registration and in the ongoing management of the fund. It was recognised that the fund management staff would need to be of exceptional quality and have a proven track record in delivering investment returns. It was suggested that this may be difficult to achieve on the basis of £30m fund size.

Dr Raven and Dr Dobrée left the meeting.

In the course of the subsequent discussion it was noted that the University was not being asked to commit any resources and that there was therefore no financial risk to the University. There were, potentially, reputational risks but it was likely that these could be managed. It was suggested that the follow-on fund had the potential to produce spin-out companies which would otherwise not develop and flourish. It was an opportunity to progress licensing on some of the existing patents in Cambridge Enterprise’s portfolio.

In conclusion, the Committee approved both proposals in principle.

i. In the case of the SEIS/EIS proposal, the Committee approved, under sections 9.5–9.7 of the Cambridge Enterprise Memorandum of Understanding, that Cambridge Enterprise should take the steps to set up the fund.

ii. In the case of the follow-on funding proposal, the Committee agreed that it would wish to see a more detailed paper setting out, inter alia:
the administrative and staffing costs and overheads; the viability of a £30m fund; FSA considerations. The Committee was keen to engage with Cambridge Enterprise in developing the proposal. The Registrary would therefore establish a group which would work with Dr Raven to produce a worked-up proposal for the further consideration of the Committee.

**Action:** Director of Finance, Registrary

52. **Pensions**

**Cambridge University Assistants’ Contributory Pension Scheme (CPS)**

The Committee received (as Paper FC(12)53) final proposals for changes to the CPS. The Senior Pro-Vice-Chancellor reported. The Committee had been actively reviewing CPS provisions since the summer of 2009. At its meeting on 6 January 2010, it had agreed that the University’s contribution in respect of future service to any revised scheme should be significantly lower than at present and that the risk should be reduced by 50%. The University’s original proposal was for a single hybrid benefit scheme for both new and existing members. During the first round of meetings with the Special Joint Negotiating Committee (SJNC), the Unions negotiated a modification to aspects of the proposal in respect of existing members. This modified proposal was the subject of formal employee consultation between August and November 2011 and further changes were agreed in response to feedback. The resulting proposal was put to a consultative ballot and was rejected by both Unite and UNISON members.

There had subsequently been productive negotiations with the Unions to address their concerns about the impact on some members of the implementation of the Single State Pension. Having considered a range of options, the University proposed that, for five years from the implementation date, the accrual rate for existing members at that date should be increased to 1/95th and revert to the agreed accrual rate of 1/100th thereafter. This would result in a total additional cost to the University of c. £2m over five years. The Unions had held a formal ballot, had suggested that members should accept the proposal, and the majority of union members voting had been in favour. The University and Assistants Joint Board, at its meeting on 8 May 2012, had agreed to put forward the revised proposal.

The Finance Committee agreed the final proposed changes to the CPS. The changes to the scheme would now be subject to approval at the General Board and the Council and by Grace of the Regent House.

**Action:** Directors of Human Resources and Finance
The Committee received (as Paper FC(12)54) a concept paper proposing rationalisation of the University Group’s three main UK pensions schemes: the CPS; CUP’s Contributory Pension Fund (CPF); and CUP’s Senior Staff Pension Scheme (SSPS). It was agreed that the Director of Finance should seek the views of the schemes' trustees. A further paper would be brought back to the Finance Committee, by way of the Pensions’ Working Group, in due course.

*Action:* Director of Finance

53. **Financial Internal Controls**

**Financial Regulations**

The Committee received as Paper FC(12)55 the final draft of the Financial Regulations and agreed to recommend them to the Council.

*Action:* Director of Finance,
Head of the Registrary’s Office

54. **University Companies**

The Committee received a tabled paper about the proposed establishment of a Cambridge Centre of Advanced Research in Energy Efficiency (CARES), a company limited by guarantee in Singapore (Paper FC(12)56). The Committee noted the governance arrangements for the company and approved the incorporation of CARES as a University company.

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

1. Finance Committee Business Sub-Committee
   Minutes – 18 April 2012. To be approved at the June Sub-Committee meeting. For information 43

2. The University’s Cash Balances and Authorised Investments Limits
   Status attached. Noted. 44

3. Committees
   Received the Minutes from the following Committee:
   Pensions Working Group – 20 April 2012 45
   Noted.

4. Finance Committee
   Appointments: recommended to Council to appoint as Directors of Judge Business School Executive Education Limited:
   Mr Neil Mackenzie
   Professor Sarah Worthington 46

5. Sealings
   List attached. Noted 47