At a Meeting of the Finance Committee held this day,

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

Apologies for absence were received from Dr Good and the Administrative Secretary.

### 1,567 MINUTES

The Minutes of the meeting held on 11 February 2004 were approved.

### 1,568 REPORT ON ACTIONS

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

### REPORTED AND STRAIGHTFORWARD BUSINESS

#### FINANCE COMMITTEE

1,569 **Sealings.** The Committee received Note FC(04)28 with Paper FC(04)33 a list of sealings authorised by the Acting Treasurer under delegated authority since the previous meeting.

1,570 **Uncompleted Business.** The Committee received Note FC(04)37 with Paper FC(04)35 a list of Uncompleted Business.

#### COLLEGE CONTRIBUTION

1,571 **Annual Report of the Assessment Sub-Committee 2003.** The Committee received Note FC(04)29 with Paper FC(04)31 the Annual Report of the Assessment Sub-Committee 2003 and approved the Report for circulation to College Bursars and College Auditors.
ACCOUNTS

1,572 (a) Value Added Tax. Major Building Projects. With reference to Minute 1,326 the Committee received Note FC(04)34 and recalled that at its meeting of 30 October 2002 it had considered a proposal in respect of claiming back VAT on building projects and had agreed that a case for reclaim should be put to Customs and Excise and that this could be pursued, if necessary, at a VAT Tribunal without further recourse to the Committee.

(b) Following a European Court decision in the case of Herr Seeling, Customs and Excise had accepted that their policy of refusing this reclaim mechanism for construction work was erroneous. In light of this and the earlier Finance Committee decision, the University Tax Department had submitted a claim for £1.1m of VAT incurred on construction costs. Customs had refused the claim on the basis that they were not content with the University’s overall method of calculating VAT and were attempting to link the claim with a revised calculation.

(c) Having sought advice from KPMG who believed that there were strong grounds for appeal, and from the Registrary, the Tax Department had lodged an appeal to the VAT and Duties Tribunal against the decision to withhold payment.

(d) The Committee agreed to take note of the information provided.

BUILDINGS

1,573 Buildings Sub-Committee. The Committee received Private and Confidential Note FC(04)38 with Paper FC(04)36 the Unconfirmed Minutes of a meeting of the Buildings Sub-Committee held on 18 February 2004.

1,574 Joint Telecommunications Management Committee. The Committee received Note FC(04)33 with Paper FC(04)33 the Unconfirmed Minutes of the meeting of the Joint Telecommunications Management Committee (JTMC) held on 18 February 2004 and agreed to take note of the information provided.

INVESTMENTS

1,575 (a) University of Cambridge Ventures Board. The Committee received Private and Confidential Note FC(04)30 with Paper FC(04)32 the draft Minutes of a meeting of the University of Cambridge Ventures Board held on 4 February 2004 and agreed to receive the Minutes and to take note of the information provided.

(b) Under Minute 4 the appointment of Mr Andrew Reid to the Ventures Board had been approved subject to clearance by the Finance Committee. A Finance Committee Member pointed out that this would create a conflict of interest as Mr Reid already attended Board meetings as the University’s nominated officer in his role as Director
of Finance. The Treasurer had previously occupied the position and
this appointment had been proposed as a short-term measure for
operational convenience. The Director of Finance agreed there would
be a conflict and undertook to make alternative arrangements.

MATTERS FOR DISCUSSION AND DECISION

ACCOUNTS

1,576 (a) Quarterly Management Accounts. The Committee received
Note FC(04)31 with Paper FC(04)30 the Management Accounts for
Quarter 2, 2003-04 (the “Red Book”) 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) the overall position was in line with expectations;

(ii) the accounts showed an accumulated deficit of £2.6m for the
second quarter to 31 January 2004, the increase from the first
quarter being £1.6m;

(iii) the figures did not include the exceptional item related to the
Cambridge University Assistant Staff Pension Scheme;

(iv) revenue increased by 6.6% and research grants and income by
9.7% over the equivalent period last year;

(v) capital expenditure was slightly lower than over the equivalent
period last year, mainly due to the phasing of expenditure;

(vi) staff costs continued to rise with a 6.5% increase on the same
period last year;

(vii) non-pay expenditure (non-research) was starting to trend
upwards after a long period of cost reduction; and

(viii) postgraduate fee income was £0.5m ahead of the forecast.

The Director of Finance also raised a number of points in greater detail
(See Annex 1), which were discussed by the Committee particularly
the point relating to increasing staff costs.

A Member expressed concern that the overall position of the Income
and Expenditure Account did not include the payment to the
Cambridge University Assistant Staff Pension Scheme and therefore
did not present an accurate position. The Registrary pointed out that
the Red Book was not an approved statement of the financial position
nor was it for circulation but was provided to the Finance Committee
for information. The contribution to the Scheme for 2003-04 had not yet been included as staff and department heads had not yet been advised formally.

(d) The Committee agreed to receive the Management Accounts and to take note of the information provided.

1,577 (a) **Consolidation.** The Registrary reported that he, the Director of Finance and representatives of Deloitte and Touche had examined in detail the submissions against consolidation from the Trusts and the Cambridge University Press (CUP). The full Deloitte and Touche analysis had yet to be received. The Audit Committee had not found any additional information that would alter the situation. Deloitte and Touche had been asked to provide clear advice at the highest technical level in order to assist the University to take appropriate action to ensure its financial statements are “true and fair” and consistent with sound modern accounting practice.

(b) The full report would be brought to the next Finance Committee meeting before consideration by the Council in April.

FINANCE COMMITTEE

1,578 (a) **CUACPS Managing Committee.** The Committee received Private and Confidential Note FC(04)32 with the following Papers:-

Paper FC(04)31 A letter, dated 12 February 2004, from Mr. Larkum to the Vice-Chancellor considering the role of the Managing Committee of the Assistants’ Contributory Pensions Scheme and its relationship with the Finance Committee in the management of the Scheme.


(b) Mr. Larkum introduced the paper and highlighted a number of anomalies and concerns. The Committee agreed these were indeed valid concerns that needed to be followed up, possibly with external advice.

The Registrary, Director of Finance and Mr Larkum agreed to take the matter forward and bring back a report to a future meeting.

INVESTMENTS

1,579 (a) **Deposit Account Authorised Investments Limits.** With reference to Minute 1,548 the Committee received Note FC(04)36 and recalled that at its January meeting it had considered a proposed revised Deposit Account Authorised Investments Limits policy, and had requested that additional material be provided before a decision was made.
(b) The Director of Finance introduced the paper which proposed:

(i) an increase in the Authorised Investment Limit for any one counterparty with credit rating F1/A from £10m to £15m (there was a better return from this category than the higher rated F1/AA category);

(ii) permitting investment up to £10m in Building Societies which were not rated but which must had assets over £3bn; and

(iii) setting a minimum proportion (40%) of deposits being held in the higher rated F1/AA category or above to ensure an even distribution of investments.

Some members felt that this would reduce the quality of the University’s investments for a higher return, but at greater risk. It was also pointed out that some Building Societies may not be attractive propositions and that more credit analysis rather than simply considering their assets levels would be required.

(b) The Committee approved the proposals except that relating to unrated Building Societies, which was withdrawn.

1,580

The University’s Investments

(a) The Director of Finance gave a presentation on the University’s investment assets, taken together with those of related entities; the recent performance of those investments; the Amalgamated Fund within those assets; asset allocation of across different investment classes. It was noted that the Amalgamated Fund, which made up the large part of investment assets and was overseen by the Investments Sub-Committee, had performed well against its benchmark and against long-term trends in University costs.

(b) One main point of discussion centred on the asset allocation over all the portfolio and the high proportion held as short-term cash deposits (30% in the case of the University and 25% when related entities were included), whilst the proportion of equity investments was relatively low (45% and 52% respectively). There was very little investment in non-traditional asset classes. The question of whether the short-term cash deposits could be used more effectively and how this could be achieved was raised.

(c) Although in many cases cash was kept and not used speculatively in order to ensure it was available for a particular purpose, the University overall needed to use its assets more effectively.

(d) Following a lengthy discussion a range of ideas were aired and included:

(i) the central University operating as a banker where it received deposits from departments, it would underwrite any ventures and give drawing rights. The central University would then be
able to use the assets more imaginatively seeking a greater long-term return, but recognising that this would be at a greater risk;

(ii) designing a short-term investment vehicle;

(iii) creating an index tracker fund; and

(iv) devolving investment decisions to the asset holders.

(e) The Committee agreed that a Working Group should be formed to investigate the issues raised by the Director of Finance. It should consist of Finance Committee members with a small number of appropriate additions.

UNIVERSITY INSTITUTIONS

1,581 (a) University Centre – Use by Undergraduates. The Committee received Note FC(04)35 with Paper FC(04)34 a Report to Council by the Chair of the University Centre User Group.

(b) The Committee noted that the Report to Council had made four proposals on the use of the University Centre. The Council had rejected two of the proposals but welcomed the remaining two, which proposed widening the membership of the centre and investigated the possibility of nursery facilities on the first floor. The nursery proposal was subject to the preparation and assessment of a business plan.

(c) The widening membership proposal recommended extending temporary membership of the centre to undergraduates for two terms from 1 April to 3 December 2004. Although the Centre was on track to balance its operating budget the anticipated extra revenue would be welcome. The impact on sales and views of existing members would be monitored.

(d) The Committee endorsed the proposal but expressed reservations about the effectiveness of the proposed monitoring arrangements.

Vice-Chancellor
14 April 2004
Annex 1 – Minute 1,576

(a) **Major Project Receivables**

New buildings were typically approximately 85% externally funded. Money was claimed back against expenditure. As at 31 January 2004 around £12.5m was outstanding. £8.5m had not yet been billed and the remainder had been billed but had not yet been paid. This was partly due to an increase in the ‘monthly spend rate’ on projects without a commensurate increase in the rate at which claims were despatched and a variety of payment mechanisms (phased, monthly, when the work is complete). All of these mechanisms had an effect on cash flow.

The Director of Finance agreed to look into the claims process with a view to reducing the time it took to issue a claim to the funding source.

(b) **Research Debtors**

Unallocated receipts were gradually being allocated and the overall level of debt had reduced. This indicated that collection and credit control had improved.

It was pointed out that these figures showed what had been claimed but not what remained in unclaimed work-in-progress. It would be useful if this information was also available.

It was also noted that the associated graph would be more useful if it covered a 15-month period to enable the identification of seasonal trends.

(c) **Deposit Account Comparative Rates**

One slide showed how the University’s excess cash was managed and the return rate over the past twelve months. It compared the performance of the funds managed by Barclays Global Investors with that of those managed directly by the Finance Division. It revealed that the yields achieved internally were more or less in line with those achieved by professional investment managers. The Finance Working Party recommendation that the rate of interest paid to internal depositors should in certain cases be reduced had been effective: there had been an increase of the surplus retained by the Chest to £1.2m for the six months to January 2004.

(d) **Staff Costs**

Staff costs (excluding those funded by external research sponsors) had increased by 6.5% over the equivalent period in 2002-03; this figure included the recent cost of living increase but did not include the increased contribution the Cambridge University Assistant Staff Pension Scheme.
The continued increase in staff costs was not a simple matter. There were a number of variables leading to the 6.5% rise such as the cost of living rise, incremental drift, promotions, supplementary payments, small increase in staff numbers, and replacement of staff at higher grades in order to recruit satisfactorily.

There was concern that the University did not yet have sufficient internal controls and appropriate budgeting to manage rising staff costs. The budget needed to take account of promotions, incremental drift and supplementary payments. Another issue that should be considered was the significant number of staff approaching retirement age in the next 15 years. The likelihood was that any subsequent appointments would be at a lower grade to younger individuals again impacting on staff costs, in this case favourable. Both these variables indicated that some modelling of the likely scenarios in the future was required.

The Registrary commented that the Committee had discussed this issue on a number of occasions without any greater clarity. The University does not have the personnel systems to provide adequate management information required to consider the issue accurately, although a new HR/payroll system was under development. In the meantime the Registrary, assisted by the Academic Secretary and the Director of Personnel, would investigate the matter further and report to a future meeting.

(e) Other Information

Other operating costs (non-research) had increased by 5.9% over the equivalent period last year. Excluding an exceptional write-off of £1m for abortive expenditure on 307 Huntingdon Road the underlying increase was around 3.9%.

Research Grants and Contracts revenues continue to rise with a 9.7% increase over the same period last year, this was accompanied by an increase in research staff from 3,098 to 3,191. The level of overhead recovery had disappointingly reduced from last year and required attention. Concern was expressed that the figures would not include ‘other research’ not channelled through the Research Services Division. It was felt that the volume of ‘other research’ was significant.

The capital value of a unit of the Amalgamated Fund value had increased by 4.7% from £24.91 to £26.14 since 31 July 2003.