Minutes of the meeting held on Wednesday 10 October 2007.

Present: The Vice-Chancellor in the Chair, Professor Barker, Dr Clark, Dr Dissanaike, Mr Johnston, Ms Lowther, Mr Pratt, Mr Reavley, Dr Reid and Mr Summers, with the Administrative Secretary as Secretary, the Director of Finance, the Registrary, the Academic Secretary, the Director of Estate Management, and Mr Troupe.

Apologies for absence were received from Ms Coutu.

PART A: INTRODUCTORY

1. Minutes

The minutes of the meeting held on 11 July 2007 were approved.

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

3. Finance Committee Circular

The Committee noted issue and approval of the reported business and matters for information which had been circulated to members as Circular 02/07.

4. Future business and work plan

A work plan for 2007-08 was received (Paper FC(07)142). The Committee also received the work plan of the Council (Paper FC(07)127).

PART B: SUBSTANTIVE BUSINESS

5. Finance Committee

Co-option of a member or members

A progress report by the Sub-Committee on Co-option was received as Paper FC(07)148. The Committee noted that there had been a significantly larger than expected response (57 UK and 9 overseas based expressions of interest received), a recommendation or recommendations would be brought to the November meeting.

Action: Administrative Secretary
6. **Financial Statements**

   A note on the Statement of Recommended Practice (SORP) was received as Paper FC(07)128.

   The Committee noted that:

   (i) the new SORP reflected changes in recent accounting standards and best accounting practice since the current SORP was introduced in 2003;
   (ii) early adoption of the new SORP was being encouraged by HEFCE;
   (iii) the paper made an assessment of the changes and their potential impact for the University’s financial statements;
   (iv) the major change was the classification and treatment of endowments and other restricted funds; and
   (v) some changes were straightforward and would be adopted early, others were not straightforward but would be implemented in the 2007-08 accounts following further work.

   **Action:** Director of Finance

7. **Accounts**

   **Quarterly Management Accounts**

   The Management Accounts for the 12 months to 31 July 2007 were received as Paper FC(07)125.

   The Committee noted that:

   (i) the draft results for the University (“Little U”) for 2006-07 were in line with budget expectations, other than the below forecast recovery rates on research contracts;
   (ii) in terms of the outturn the University, in accounting terms, was in balance. There was a surplus on the non-Chest side and a deficit on the Chest;
   (iii) there had been net asset growth of around £140m (8% increase);
   (iv) staffing costs were favourable against budget;
   (v) the University had approximately £280m in its deposit account, and the Investment Office would consider management of these resources; and
   (vi) the business case for borrowing and the strategic capital programme were still under consideration.

   The accounts for the University and the University group would be considered in much greater detail at the November meetings of the Committee.

   **Action:** Director of Finance

8. **University Finance**

   **Financial Framework and Strategic Direction**

   A paper by the Pro-Vice-Chancellor for Planning and Resources, one of a series of Council strategic directions papers, was received as Paper FC(07)149.

   The Committee noted that:
this paper and other strategic directions papers, including ‘Research’, ‘Education’ and ‘The University and the Colleges’ would be available soon;

(ii) the University would need to generate a modest operating surplus for investment and a sufficient diversity of income streams to reduce risk and exposure to short term changes;

(iii) the University should remain in balance over the next five years or generate a small surplus of £10m-£20m, but current assumptions were fragile;

(iv) nearly 50% of income was derived from government funding, either directly or indirectly. In 1972-73 the Government Block Grant alone had provided two thirds of the total university income compared to one third today. In contrast, research grants and contracts had provided 14% of income compared to 36% today;

(v) longer term the University needed to diversify income streams and reduce dependence on government. Two income streams were low in relation to the University’s mission and by comparison with our international competitors: endowment income and funds for undergraduate education;

(vi) to achieve a significant increase in the proportion of income generated from the endowment would require long term funding of the Development Office together with an enhanced Alumni Office. Sophisticated mechanisms to monitor performance against agreed targets, that included activities and not just income, should be put in place and complementarity with College development campaigns should be taken into account. Endowment and investment comprised 6% of income, the 800th Campaign would not alter the financial position radically within five years;

(vii) the immediate focus would be to maximise income and control expenditure within the current framework of the operating budget;

(viii) undergraduate teaching represented about 15% of income and, after transfer of the college fee, only about 10%. On average, the costs of an undergraduate education in Cambridge were £5k - £6k higher than the total direct income received. Any removal of the fee cap for Home/EU students would be politically controversial and could not occur until 2011. A fee of £6k pa, for example, would help to close the gap between income and costs, and would add some £30m to the operating budget, assuming that HEFCE maintains the current levels of core T-funding. A substantial bursary scheme would be required and the full benefits would not be realised until 2015;

(ix) other actual and potential income streams included the Cambridge University Press, Cambridge Assessment and the North West Cambridge development. These should not simply be viewed as sources of income, in all three cases strategic objectives should be taken into account;

(x) the Balance Sheet had shown healthy growth over the last decade. About £150m in unrestricted funds was held centrally, but the bulk of financial assets were not available for high level strategic use. Consideration should be given to the purpose and level of central reserves, whether they were simply a buffer to cover financial risks, whether they should be built up to provide income or whether they should be used to invest and develop;

(xi) a limitation was the current lack of an explicit planned and budgeted capital programme. An implementation plan, with indicative costs, would be available in 2007-08. The policy of developing the Estate as appropriate funds become available had been successful in creating high quality teaching and research facilities, however, the Central sites could not be redeveloped on an opportunistic basis and the costs would be substantial;
research grants and contracts had continued to grow, increasing research from private funds and industry would diversify income further; and

the paper did not develop a variety of growth scenarios and alternative financial strategies due to the sensitivities involved, for example growth in student numbers would require more College places, and, in the case of postgraduate places they would need to be linked to the University’s research programme and not just taught M.Phil courses. Postgraduate education was not always fully supported financially, was difficult to model, but was educationally of high importance. The associated reputational risks also needed to be taken into account.

The Committee made a number of suggestions and comments on the paper which would be forwarded to the Pro-Vice Chancellor.

**Action:** Professor Minson

9. **Financial Systems**

The Minutes of the meeting of the Financial System Management Committee (FSMC) held on 19 September 2007 (Paper FC(07)140) and the FSMC Annual Report to the Finance Committee (Paper FC(07)141) were received.

The Committee noted that:

(i) the CUFS Grants management module had been implemented in 2006-07, the majority of sponsors were now billed automatically improving efficiency, credit control and cash flow;

(ii) the CUFS enhancement programme would improve functionality in procurement, transactions, fixed asset/inventory/general ledger and grants billing;

(iii) the Oracle financials software would be upgraded to version 12, with a possible go-live by Easter 2009;

(iv) future reports should include costings to enable the Committee to consider the benefit alongside the cost; and

(v) the accountability of the Computing Service and Management Information Services Division would be brought together under a single body, the Information Strategy and Services Syndicate. It would have two sub-syndicates one of which would deal with business systems. The sub-syndicate and the Senior Officers would decide priorities for future strategic investments in this area. The arrangements for oversight of the financial system could be transferred from the Finance Committee (through the FSMC) to the sub-syndicate once it had been created.

10. **Investments**

The following Papers were received:

Paper FC(07)143    The Minutes of the Investment Board held on 26 September 2007.

Paper FC(07)144    A paper summarising the decisions of the Board in respect of the transitional portfolio.
Mr. Nick Cavalla, Chief Investment Officer, attended for this item and updated the Committee on progress since the last meeting of the Finance Committee in July.

The Committee noted that:

(i) the Investment Board had agreed that new investment arrangements should be made and the investment management agreement with F&C should be terminated with the expectation to exit within three months;

(ii) once the arrangements with F&C had been terminated the CUEF would require a global custodian. The Investment Office had investigated a number of suitable candidates, assessing for service, capability and cost. The Board recommended that JP Morgan (JP Morgan Chase bank N.A.) be appointed. The advantages of a global custodian were independence from fund managers, consolidated reporting, validation and reconciliation processes, currency hedging and security lending facilities;

(iii) a transition manager would need to be appointed to safeguard the CUEF securities after handover from F&C and to manage the process of sales and purchases expected over the six month transitional period. The Investment Office had investigated a number of suitable candidates, assessing for service, capability and cost. The recommendation to appoint BlackRock (BlackRock Investment Management (UK) Limited) had been approved by the Board;

(iv) the provisional policy portfolio and transitional asset allocations discussed at the July meeting of the Finance Committee had been modelled against various alternatives by Cambridge Associates and were found to be robust. Based on their set of assumptions on future average annual total returns, they reported that the provisional Policy Portfolio was expected to show an average annual compound total return in excess of inflation of 5.7%. This was consistent with the University’s investment objective agreed in July 2007;

(v) it would take some time to build up the private equity elements of the policy portfolio, and the alternative classes would be built up steadily;

(vi) UK property was considered unattractive at the present time and the 15% allocation to property was significant. Recent proposals from the property manager LaSalle involve diversification outside the UK;

(vii) the proposals for the transitional portfolio included a significant move from the UK to the US and other markets with a significant reduction in UK equities; and

(viii) the net assets of the CUEF, as at 31 July 2007, had increased by 13.8% to £990.8m. The unit value had increased from £33.60 to £36.39 with a distribution of £1.21 per unit, giving a total return over the year of 12.1%. The securities portfolio and the total portfolio (including property) had outperformed the WM Charity Fund Unconstrained Universe benchmark over the last 12 months.

The Committee agreed to:

(i) recommend to Council the investment and transition strategy (Paper FC(07)144); and
(ii) approve the appointment of JP Morgan as global custodian, as required by Ordinances, and authorise the Registrary to complete the legal documentation.

*Action:* Administrative Secretary, Registry

11. **Pensions**

**CPS Managing Committee**

The Minutes of the CPS Managing Committee held on 25 September 2007 relating to the proposed move to a corporate trustee arrangements were received as Paper FC(07)129.

The Committee noted that:

(i) changes to the governance arrangements for pension schemes were required as a result of the Pensions Act 2004;

(ii) the Pensions Working Group had recommended that a trustee company should be set up to act as a corporate trustee for the CPS;

(iii) the Group had also recommended that the rules of the scheme be changed so that any rule change could be approved by a simple majority of the Managing Committee rather than two-thirds;

(iv) the Finance Committee had approved both these recommendations at its meeting in July 2007;

(v) the Managing Committee subsequently agreed to the first recommendation of Pensions Working Group that a trustee company should be established to act as a corporate trustee for the CPS, with the University as the sole member; that there should be nine directors of the trustee company, four of whom should be member-nominated directors; that the new trustee company should be named “Cambridge University Pension Trustee Limited” and be established in April 2008;

(vi) the CPS legal adviser had cautioned against the rule change to simple majority, as it could be argued that a power of amendment could not itself be amended without a special procedure. The Managing Committee had therefore not at this stage yet agreed to the second recommendation, such that the power of amendment should remain unchanged and that any amendment to the Scheme Rules would require the approval of two thirds of the directors of the new trustee company. The Finance Committee requested that the Managing Committee asks its legal adviser for a fuller explanation of the implications of its advisor’s statement and report back. Other legal advice was also being obtained; and

(vii) the Pensions Regulator had asked to speak to members of the Managing Committee regarding its last actuarial valuation as at 31 July 2006.

*Action:* Director of Finance, Mrs Curryer

Vice-Chancellor
7 November 2007
Finance Committee 10 October 2007: Straightforward and reported business submitted for decision or report

1. **Purchasing**
   
   **EU Public Procurement**
   
   The Committee confirmed that the University remained less than 50% publicly funded and could continue to declare itself outside the scope of the EU Regulations.

2. **Cambridge Enterprise: Appointment of Director**
   
   The Committee agreed to recommend to Council through the Nominations Committee the appointment of Mr Charles Cotton as an external non-executive director of Cambridge Enterprise Limited.

   **Action:** Mr Troup

3. **Committees**
   
   Received the Minutes from the following Committee:
   
   North West Cambridge Strategy Committee – 25 September 2007

4. **Pensions**
   
   **USS**
   
   (i) Annual Report and Accounts
   (ii) 12th and 13th Supplemental Amending Deeds of the current rules

   The draft Notices for publication in Reporter were approved.

   **CPS**
   
   Noted the results of the summary of the FRS17 valuation of the CPS as at 31 July 2007 for accounting purposes for inclusion in the University’s financial statements.

   **Action:** Draftsman

5. **Loan Fund II**
   
   Noted.

6. **Sealings**
   
   Received.