Minutes of the meeting held on Wednesday 11 April 2007.

Present: The Vice-Chancellor in the Chair, Ms Coutu, Mr Johnston, Ms Lowther, Professor Minson, Mr Pratt, Mr Reavley and Mr Summers, with the Administrative Secretary as Secretary, the Registrary, the Academic Secretary, the Director of Finance and Mr Troupe. The Head of Planning and Property attended on behalf of the Director of Estate Management.

Apologies were received from Professor Barker and Dr Reid.

PART A: INTRODUCTORY

47. Minutes

The minutes of the meeting held on 7 March 2007 were approved subject to one amendment:

Minute 42 (b), Financial Statements
“The Committee agreed to adopt the proposals and, in the light of the simpler arrangements for the Colleges’ returns, confirmed its view that the 20 November deadline could be achieved.” “20 November” to read “30 November”.

48. 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.

One item was discussed:

Item 1 – PRC Minutes (Minute 882, 21 February 2007)
The PRC had agreed that a Development Agreement be entered into to construct the East Forum Building on the West Cambridge site. A summary of decision making about this project would be supplied at the next meeting.

Action: Registrary

49. Future business and work plan

An updated statement was received (Paper FC(07)52).

PART B: SUBSTANTIVE BUSINESS

50. University Institutions

Cambridge Assessment

The Minutes of the meeting of the Finance Committee’s working group and representatives of Cambridge Assessment and their auditors held on 23 March 2007,
and the Annual Report of the Cambridge Assessment Group were received as Papers FC(07)54 and 55.

The Committee noted that:

(i) the meeting had been constructive, the general situation of Cambridge Assessment was good;
(ii) the institution had control over its expenditure, was making significant capital investments and was closely monitoring its competitors; and
(iii) in contrast to its competitors, Cambridge Assessment was investing in content, its greatest asset, rather than in technology.

51. Accounts

The Cambridge Trusts

The Minutes of the meeting between the Finance Committee’s working group and representatives of the Cambridge Trusts held on 22 March 2007, and the accounts of the Trusts for 2005-06, were received as Papers FC(07)59 and 60. The Pro-Vice-Chancellor for Planning and Resources presented the Papers.

The Committee noted that:

(i) the University transfers approximately £3m per year to the Cambridge Commonwealth Trust (CCT), Cambridge Overseas Trust (COT) and Cambridge European Trust (CET). Trinity College also transfers a similar amount, at present;
(ii) with the exception of the Gates Cambridge Trust, the current approach of the Trusts was to provide partial support to students in addition to their other sources of income rather than full scholarships;
(iii) the transfer of funds was conditional on satisfactory administrative arrangements and that the funds were spent in line with University policy;
(iv) University policy on support of graduate students was not fully developed and should emerge as part of the Review of Post Graduate Education. It would then be possible to develop a memorandum of understanding between the University and the Trusts on expenditure of University funds. The current objective of the working party was to ensure that transferred funds were used appropriately to support overseas students;
(v) the CCT and COT were raising substantial funds in addition to those provided by the University and Trinity College. University funds were being used appropriately and these Trusts were supporting increasing numbers of students; and
(vi) CET was funded almost exclusively by the University and Trinity College and had been spending substantially less than its income. Reserves of £3.4m had been accumulated.

The Committee agreed that funds transferred to the Trusts were intended for expenditure in support of students and not as a means of building Trust reserves. The committee also noted that CET now held sufficient reserves to cover risks associated with future commitments to existing students. The Committee recommended:

- that future allocations to CET should reflect expenditure on grants made; and
that the recommendation of PRC on the allocation to CET should be made after
the annual meeting of the working party with the Trusts

Action: Professor Minson, Professor McKendrick

52 Accounts: Accounting Policy – Heritage Assets

An exposure draft for accounting for Heritage Assets and the Finance Division’s proposed response was received as Paper FC(07)53.

The Committee noted that:

(i) the UK Accounting Standards Board (ASB) had issued an exposure draft ‘Accounting for Heritage Assets’ in December 2006;
(ii) the proposals included a requirement to value and capitalise all heritage assets if possible, and certain disclosure requirements;
(iii) the current University policy was to capitalise assets acquired from 1999-2000;
(iv) the proposals would require the University to report its collections of heritage assets at their current valuation in the balance sheet, where practical. If it were not practical such assets would not be capitalised on the balance sheet and would not form part of expenditure in the income and expenditure account for the year;
(v) ancient buildings that were operational were not covered as they were reported under FRS15;
(vi) some collections could be valued, but it was unlikely that the University would be able to obtain up to date valuations for all of its collections;
(vii) the Joint Museums Committee had stated that it would not be practical to obtain valuations. The cost of valuing even some collections would be disproportionate;
(viii) capitalisation of heritage assets on the proposed basis would give a misleading impression of the University’s financial position, which would impede fund raising;
(ix) were this to become a financial standard in the future the University would need to ensure full compliance in order to maintain the true and fair status of its accounts.

The Committee agreed that the response to the exposure draft should be more robust, in its view the costs would be disproportionate and would far outweigh the benefits.

Action: Director of Finance

53. Finance and Resources

(a) Financial Framework

Paper FC(07)56 was received. This formed the background to one of a series of working papers on strategic direction commissioned by the Council. The Pro-Vice-Chancellor for Planning and Resources presented the Paper and background information on the University’s income and its sources, expenditure trends, costs, staffing and a number of financial model scenarios.

The Committee noted that:
the paper, in its current form, was a financial framework and statement of current financial policy but needed to state what the University wanted to achieve, how it was to get there and the financial costs associated; 

(ii) the base case assumptions should be stated; 

(iii) no fundraising or improved investment performance assumptions were built into the scenarios; 

(iv) the major assumptions in the scenarios were a 2% volume growth in research grants and contracts, 35% indirect cost recovery, stable undergraduate numbers, and salary increases at 1% above inflation; 

(v) depreciation was built into the scenarios; 

(vi) further financial modelling was required; 

(vii) for example, the following could be modelled to show the effect on the baseline and level of reserves: 

- significant increase in student fees in 2012; 
- increase in overseas students; 
- varying levels of surplus for re-investment; 
- increases in staff salaries; 
- changes (increases/decreases) in staff numbers 
- capital programme to redevelop central sites for academic growth; 
- loss of external funding for the capital building programme; and 

(viii) the financial model needed some revision. 

The Committee agreed that the way forward was to take the base case assumptions, using the major strands from the University’s strategies (e.g. Education Strategy, Research Strategy) and do further modelling with a range of scenarios. 

Action: Professor Minson, Director of Finance 

(b) University Budget 2007-08 (preliminary) 

A paper setting out the first Draft Budget for 2007-08 was received as Paper FC(07)58. The Pro-Vice-Chancellor for Planning and Resources introduced it. 

The Committee noted that: 

(i) Chest 

Last year’s Allocations Report envisaged a Chest surplus of £2.0M for 2007-08. The latest projections of income were down by around £6 million, principally due to delayed phasing in of fEC. Initial projections of expenditure had been higher than predicted last year and RMC had conducted a review of planned expenditure in order to make reductions. As a consequence, the current draft projection for the Chest for 2007-08 was a deficit of £1.5M. Control on expenditure would absorb about half of the temporary shortfall on income. 

(ii) Non-Chest 

The projected non-Chest outcome for 2007-08 showed a deficit of £8.4 M compared to the £9.2 M surplus projected for 2007-08 last year. There had been considerable detailed change from the estimate made last year, reflecting more up-to-date information, reclassification of expenditure and reconsidered plans. These
included more conservative assumptions about donations and their phasing, income from trading activity, research grant income and non-Chest fee income. Most importantly, previous estimates had included SRIF income and expenditure on capital building projects. These were no longer included. The deficit would be met by expenditure from reserves but it was emphasised that this did not represent expenditure to ‘plug a gap’ resulting from reduced Chest Allocations. There was significant planned expenditure from reserves (e.g. telecommunications system), and the adoption of a general policy of expenditure of reserves accumulated in the previous year, a policy encouraged by PRC and the Finance Committee.

(iii)With regard to the above a draft budget for 2007-08 was set out compared to the indicative figures included in last year’s Allocations Report. Further work was needed to review the expenditure projections beyond 2007-08. It was anticipated that there would be a return to the previously envisaged trajectory of Chest surpluses by 2009-10. The Chest income projections towards the end of the period could be affected by anticipated changes to the systems for the calculation of HEFCE grants for both teaching and research.

A second draft of the budget and projections, and the draft Allocations Report, would be considered by the Committee in May.

Action: Professor Minson, Director of Finance

54. University Finances

Possible bond issue

The Committee had received at its March meeting a concept paper about the possibility of a bond issue, possibly in conjunction with Colleges, to take advantage of favourable market conditions, in anticipation of capital requirements and to create strategic options, and had agreed that the matter should be explored further. Papers prepared by Barclays Capital and RBS, with which fact-finding discussions had taken place, were received as Paper FC(07)57.

The Committee noted that:

(i) a detailed assessment of strategic needs (capital projects; CUEF enhancement) would be necessary;
(ii) the Chief Investment Officer would advise on any CUEF case;
(iii) a small University working group to look at this issue would be useful. It would examine what the money would be spent on, whether the University is in a position to borrow and lend money, and what external advice to seek. If there were not good strategic imperatives for borrowing the bond issue would not go ahead; and
(iv) a group of Bursars were looking at possible College participation.

Suggested names for the working group would be put forward.

Action: Registrary, Director of Finance

Vice-Chancellor
9 May 2007
Finance Committee 11 April 2007: Straightforward and reported business submitted for decision or report

1. Committees

Received the Minutes from the following Committees:

- Planning and Resources Committee – 21 February and 21 March 2007. See also minute 48.
- Buildings Committee - 16 February and 14 March 2007
- Audit Committee – 8 March 2007

2. (i) University Companies – Financial Statements

Noted and received the Financial Statements of each company

(ii) Cambridge Assessment – New subsidiary company

The Committee approved incorporation of a wholly-owned subsidiary company for the purpose of establishing branches overseas for Cambridge Assessment.

3. Sealings

Paper No.