Present: The Vice-Chancellor, Professor Chase, Professor Hunter, Mr Johnston, Mr Larkum, Ms Lowther, Dr Nicholls, Dr Reid, Professor Minson (Pro-Vice-Chancellor and Acting Treasurer), with the Director of Finance, the Acting Director of Estate Management, the Registrary, the Academic Secretary and Mr Troupe;

Apologies for absence were received from Dr Clark, Dr Dissanaike and Mr Thompson.

1. MINUTES Action

The Minutes of the meeting held on 30 November 2005 were approved.

2. REPORT ON ACTIONS

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

3. VICE-CHANCELLOR’S REPORT

The Vice-Chancellor reported that:

(i) the Financial Times had reported the creation of the Investment Board;

(ii) she had written to over 200 of the University’s alumni informing them of developments with regard to the Investment Board, intellectual property rights (IPR) and pay and grading;

(iii) the Regent House ballots on IPR and pay and grading had overwhelmingly supported the Council’s proposals;

(iv) the Statute changes submitted to the Privy Council had been approved; and

(v) the Vice-Chancellor would be signing a Memorandum of Understanding in Singapore, with nine other international research universities including Oxford, Berkeley and Yale.

SUBSTANTIVE BUSINESS

4. ACCOUNTS

(a) Quarterly Management Accounts.

(i) The Committee received Note FC(06)1 with Paper FC(06)1 the Red Book for Quarter 1, 2005-06 with the Green book which was a summary of the financial position of the Schools and similar groupings.
(ii) The Director of Finance reported that:

- income and expenditure were both slightly higher than for the equivalent period last year, as expected;
- there had been useful growth in research income, which included the transitional funding in anticipation of full economic costing (fEC);
- other operating income was much below the amount budgeted, matching to some extent the favourable variance on other operating costs. However the first quarter of the year was a quiet period and the budget was not phased;
- capital expenditure was in line with expectations;
- the total staff head count was at the same level as that of 31 July 2005, staff costs overall were a little below expectations. There could be considerable adjustment in staff costs when the new pay and grading structure was implemented later in the year;
- the overhead recovery on EU and industry research contracts was well below the level budgeted and would be monitored closely. The Acting Head of the Research Services Division was working on alternative ways of presenting this information in order to provide a clearer picture, as new research grants were introduced on an fEC basis;
- debtors were considerably reduced since July 2005;
- there had been a modest increase in the unit value of the CU Endowment Fund (the amalgamated fund) over the quarter; and
- treasury activity had returned a surplus of £1.2m to the Chest for the year to date. The Committee noted that depositing funds received the equivalent of 7 day local authority rate, which was considered good for short-term deposits. The Chest retained any surplus made between this and the amounts earned through money market deposits.

Overall, there appeared to be an under spend in the 1st quarter and, at this stage and taking account the 2004-05 outcome and trends, favourable variances were expected over the course of the year. It was noted that income and expenditure does not accrue to the same extent as other quarters and it was difficult to identify any real trends until the end of the 2nd quarter. The Director of Finance would make a fuller presentation at that time.

(b) **Financial Internal Controls.**

(i) The Committee received Note FC(06)2 and

Paper FC(06)2 The Unconfirmed Minutes of the meeting of the Audit Committee (AC) held on 6 December 2005.

Paper FC(06)3 Annual Report of the Audit Committee 2004-05.


The Registrary reported that the Audit Committee at its meeting had considered the University’s financial statements and the annual reports of the Audit Committee and the internal auditors, RSM Robson Rhodes. Both reports had been passed to the Council. In the case of both reports it was felt that the University’s management arrangements were satisfactory, had improved in recent years but there was still progress to be made. In response to a question the Officers felt that the service provided by RSM Robson Rhodes represented value for money.

The Committee requested a summary of priority 1 recommendations made in the internal audit reports issued in the course of the year.

(ii) The external auditors, Deloitte & Touche, had provided a list of issues and recommendations they had identified in the course of their audit in the form of a management letter. There had been particular focus on IT controls.

The Director of Finance would report back on progress during the course of the year. The Committee requested that care be taken in copying papers to ensure legibility.

5. PENSIONS

Professor Cliff, Pro-Vice-Chancellor (Personnel) attended for this item.

(a) Universities Superannuation Scheme (USS). Valuation as at March 2005.

(i) The Committee received Note FC(06)11 with Paper FC(06)13 a letter to participating institutions and the news release giving the result of the actuarial valuation carried out by USS as at 31 March 2005.

(ii) The key points to note were that:

- the deficit of the valuation as at 31 March 2005 was £6.6bn (77% funded) on the funding assumptions;
- on the pensions protection fund basis and minimum funding rate basis the USS was 110% and 126% funded respectively;
- contribution rates were to remain the same (14% employer, 6.35% employee) for the time being whilst the impact of pay and grading and changing market conditions over the next three years becomes clearer. There was however a clear indication that contribution rates might change following the next triennial valuation due as at 31 March 2008 or before should it prove necessary;
- the valuation had been impacted by above expectation salary increases over the last 3 years and a reserve of £800m had been made by the USS actuary in the valuation to cover this;
- the assumptions used for the valuation were understood to be conservative and full details would be available when the full valuation was released in the Spring;
- Professor Cliff considered that it would be prudent to provide for say £5m pa additional employer contributions.

The Committee took note of the information provided.
(b) **USS – Finance Act 2004.**

(i) The Committee received *Private and Confidential* Note FC(06)12 with Paper FC(06)14 the response of USS to five key aspects of the changes which would be introduced with effect from 6 April 2006 together with a commentary on those changes produced by the Head of Pension Administration. The Finance Committee’s Pensions Working Group had considered the matter. There were certain points requiring decision by the University as employer.

(ii) The Committee agreed that:-

- employer contributions to USS should cease once a member had achieved 40 years pensionable service;
- the earnings cap should not continue to be applied for service after 5 April 2006; and
- no action should be taken to “uncap” USS benefits accrued prior to 6 April 2006.

(c) **Cambridge University Assistants’ Contributory Pension Scheme (CPS). Working Group on Pension Provision.**

The Committee received Note FC(06)13 with Paper FC(06)15 the Second Report of the Working Group on review of pension provision for Assistant Staff.

The Director of Finance reported that this report explored the recommendations of the first report in greater detail. There would be significant costs if past service benefits of the CPS were transferred to the USS.

The Working Group’s recommendations were:

(i) the CPS should not be closed to future service until the funding position of it and the USS were more sound;

(ii) new joiners should, for the time being, be offered the CPS; and

(iii) the benefits of the CPS for future service should steadily be aligned with those of the USS. The Working Group should prepare a costed plan of areas to be aligned.

The Committee approved the recommendations.

Some members felt that in the long run USS may be less costly as an option and therefore the option to offer new joiners the USS should be kept open. The Chair of the Working Group, Professor Cliff, agreed that the Group would continue to meet in view of the changing circumstances and legislative environment.
6. BUILDINGS

(a) Buildings Committee.

The Committee received Private and Confidential Note FC(06)7 with Paper FC(06)9 the Unconfirmed Minutes of the Building Committee held on 7 December 2006.

(b) The Committee’s attention was drawn in particular to the following Minute: 05.104 Faculty of English and Institute of Criminology – New Buildings, (covering also 05.102 CR-UK additional warrant and 05.105 Gurdon Institute buildings). Professor Minson reported that the University was facing claims from the contractors totalling £14.5m for these developments. It was anticipated that these figures would be reduced considerably following negotiation. In addition, further funds were required for the CR-UK – Cancer Research Facilities. The Buildings Committee had agreed to recommend to the Planning and Resources Committee that the budget be increased by a further £1.1m. This project was now approximately 10% over budget.

In all cases working groups were investigating the reasons for this outcome. A fuller report on the financial risks to these buildings would be presented to the February Finance Committee.

7. REPORTED AND STRAIGHTFORWARD BUSINESS

(a) Sealings.

The Committee received Note FC(06)8 with Paper FC(06)10 a list of sealings authorised by the Acting Treasurer under delegated authority since the previous meeting.

(b) Future Business.

The Committee received Note FC(06)6 and confirmed the flow of business.

(c) Purchasing Working Group.

The Committee received Note FC(06)5 with Paper FC(06)8 the Unconfirmed Minutes of the meeting of the Purchasing Working Group (PWG) held on 3 November 2005 and agreed to note the information provided.

In response to a question from a member if their was a socially and environmentally responsible purchasing policy, the Director of Finance responded that the University did have one but that it under review, and a revised version would be available within six months. A member of the Central Purchasing Office staff was responsible for the matter.

(d) Minor Works Review Group.

The Committee received Note FC(06)4 with Paper FC(06)7 the Unconfirmed Minutes of the meeting of the Minor Works Review Group held on 21 November 2005 and agreed to note the information provided.
(e) **North West Cambridge: Progress Report.**

The Committee received Note FC(06)9 with Paper FC(06)11 a progress report on North West Cambridge. The Committee agreed to note the information provided.

(f) **Financial Management Information.**

The Committee received Note FC(06)3 with Paper FC(06)6 the draft Financial Management Information pack for 2004-05 which would be published in *Reporter* and agreed to note the information provided.

(g) **Fourth Supplemental amending Deed of the current rules of USS.**

(i) The Committee received *Private and Confidential* Note FC(06)10 with Paper FC(06)12, the fourth supplemental amending deed of the current rules of USS, executed on 21 October 2005, together with a letter dated 10 November 2005 from the Pensions Policy Manager of USS Ltd.

(ii) The deed introduced an amendment to the definition of “funding council” in the scheme rules following the dissolution of the Scottish Higher Education Funding Council (SHEFC). These changes were not required to be disclosed to members and no Notice would therefore be required to be published in *Reporter.*

*Vice-Chancellor*

*8 February 2006*