PART A: INTRODUCTORY

20. Procedure of the Committee – Declaration of Interest

No personal or prejudicial interests were declared.

21. Minutes

The Minutes of the meeting held on 16 November 2011 were approved.

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

A paper listing straightforward and reported business was received. The following agenda items were unstarred for discussion at the meeting: Investments: Cambridge University Endowment Fund (recorded as minute 29(ii)); and the Annual Report of the Financial Systems Committee (recorded as minute 32).

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

23. Future business and work plan

An updated workplan for 2011-12 was received as Paper FC(12)10.
PART B: SUBSTANTIVE BUSINESS

24 Financial Internal Controls

Annual Audit Reports

The following documents were received:

Annual Report of the Audit Committee (Paper FC(12)11)
Annual Report of the Internal Auditors (Paper FC(12)12)
External Auditors’ Management Letter (Paper FC(11)110 Re-circulated)

The Senior Pro-Vice-Chancellor reported. The documentation had been received, scrutinised and signed off by the Audit Committee at its meeting on 17 November 2011. It had, thereafter, been approved by the Council and submitted to the HEFCE. The Finance Committee was now invited formally to consider the University’s financial and related internal controls.

The Committee’s particular attention was drawn to the ‘opinions’ in the executive summary on page 3 of the Audit Committee’s annual report. These confirmed the Audit Committee’s satisfaction on three key issues (risk management, control and governance; economy, efficiency and effectiveness; data integrity) as required by the HEFCE. The Audit Committee’s opinions were informed by the Internal Audit Annual Report produced by Deloitte LLP which had again confirmed ‘reasonable assurance’ in respect of the University’s internal controls for the year ended 31 July 2011.

The Director of Finance reminded the Committee that it had received and discussed the External Auditors’ Management Letter at its meeting on 16 November 2011. The Committee had, at that meeting, noted that the audit of CUP had been challenging and had identified a number of significant and systemic concerns around overall financial control of the CUP group. An improvement programme was now underway at CUP; it was likely, however, that full implementation would take a period of up to two years.

In the course of discussion, it was noted that the Audit Committee’s positive assurances and opinions around risk management, control and governance and value for money were less strongly worded than those around data management. It was agreed that this was appropriate given the different nature of the activities in question.

25. Accounts

The Committee received the Management Accounts for the first quarter of 2011-12 (Paper FC(12)1) and a summary for November 2011 (Paper FC(12)2).
The Director of Finance reported. Trends continued as observed at the end of the previous financial year; in particular, operating expenditure remained lower than budget. It was clear that institutions were continuing to defer or cancel discretionary expenditure. Income on research grants and contracts was in line with the budget; however, income from the Research Councils was worryingly adverse to budget and was down on the 2010-11 figures. Cambridge Assessment was significantly ahead of budget; CUP was, at its half year point, slightly behind budget.

In the course of discussion, it was suggested that the continuing underspend on operating expenditure might, in the longer term, impact on performance and sustainability, particularly in the context of the forthcoming Research Excellence Framework. It was recognised, however, that these were times of significant financial uncertainty and stringency, including in respect of research council funding; it was, therefore, reasonable for institutions to exercise prudence. The extent, nature and impact of the holdback would be scrutinised as part of the planning round. The balance between spend on staff costs and on other operating expenditure was consistent with that in competitor institutions.

The Committee received the Treasury Statement as at 31 October 2011 and was reminded that it had, at its last meeting, approved a proposal that the Authorised Investment Limits policy criteria requiring a minimum of 50% of total deposits to be with AA rated institutions be suspended for an interim period. 44.8% of the University’s cash balances were currently with AA rated institutions.

26. **Pensions**

   (i) **Universities Superannuation Scheme**

   The Committee received as Paper FC(12)13 two letters from UUK, dated 7 and 16 December 2011, on Consultation on the proposed USS recovery plan, and the response agreed by the Pensions Working Group (Paper FC(12)14).

   The Registrary reported. The triennial valuation as at 31 March 2011 had revealed a deficit of £2.9 billion. It was standard practice, following an evaluation, for the sector to be consulted on the proposed recovery plan. The plan was based on a combination of outperformance on assets and the continuation of an employer contribution rate of 16% until 2017. Thereafter, it was proposed that the employer contribution rate should be 2% above the then future service cost of accruals until 2021. It was, however, likely that the overall cost to the employer would not increase from the current 16%. The expected return on investments was considered to be prudent; it would, however, need to be kept under active review.
The Committee confirmed that it was content with the response agreed by the Pensions Working Group.

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

Pensions Working Group. Minutes of meeting held on 25 November 2011 were received as Paper FC(12)15.

The Registrary reported. The future of the CPS had been the subject of a long process of discussion and deliberation in various bodies. A period of negotiation with union representatives had followed the closure of the formal consultation period; there was broad agreement on the proposed changes. It was understood that Unite and UNISON would now wish to ballot their members. Thereafter, the proposals would be considered by the University and Assistants Joint Board; by the Council; and would be subject to a Grace of the Regent House. These various stages in the process would inevitably delay the planned April implementation date.

27. Cambridge University Press (CUP)

The Minutes of the meeting of the Finance Committee’s working group with Cambridge University Press, held on 16 November 2011 to consider the Press’s 2010-11 financial statements were received as Paper FC(12)16. The Annual Report and Accounts for the year ended 30 April 2011 had been circulated as Paper FC(11)106 for the Committee’s meeting on 16 November 2011.

The Senior Pro-Vice-Chancellor reported. CUP sales had risen by 11% in 2010-11 to £237m, representing a 60% gross margin; however, the net margin was only 3%. All three of the business streams had grown with academic and professional publishing business experiencing a particularly strong year. The recent growth in English Language Teaching had slowed. Overall, CUP continued to target a 10% return on sales by 2015.

It was the second occasion on which the audit had been conducted by PricewaterhouseCoopers LLP and, as set out in Minute 24 above and minute 14 of the Committee’s meeting on 16 November 2011, the process had not been straightforward. There remained general concerns about the effectiveness of the financial control systems and processes and the adequacy of the administrative infrastructure and communications across the group. Further, there had been disappointingly limited progress on various major control issues which had been raised in 2010. It was important to address these issues; to improve data integrity; and to generate a change in culture.

It was likely that the figures for 2011-12 would be below target as a result of a difficult international economic environment and because of the need to invest
in infrastructure. It was anticipated that the sales growth of the past three years would continue but at a slower pace. It would however, be important to reduce costs in order to improve margins and to develop a more focussed strategy. The growing partnership with Cambridge Assessment would be increasingly important.

In the course of discussion, the following points were made:

− It was a matter for concern that there had been so little progress on the significant control issues which had been raised during the 2010 audit. However, it was hoped that new senior appointees at CUP would work with the Syndicate’s Finance Committee to address both the specific matters which the audit process had raised and the underlying cultural concerns. It was agreed that two years was a realistic time period within which to achieve these changes; however, it was important to continue to monitor progress against targets. It was noted, in this context, that the working group which had been established by the Audit Committee to address the concerns raised during the audit (and which included representation from PricewaterhouseCoopers) had begun its work and would report to the Audit Committee in the course of the Lent Term. Further, the interaction between the University’s Senior Officers and the Chair of the Syndicate, the Chief Executive and the Chief Operating Officer at CUP was now much more regular and iterative.

− There was a need for a more defined business and financial strategy for CUP. Work was already underway and it was anticipated that a fully articulated strategy would be in place within two years.

− It was important that there were appropriate remuneration and reward structures in place to incentivise the management team.

− Academic publishers tended to develop a reputation for excellence in particular subject areas. CUP was seeking to strengthen its reputation in the STEM subjects.

28. The Cambridge Trusts

The Minutes of the two meetings between the Finance Committee’s working group and representatives of the Cambridge Trusts held on 19 December 2011, and the accounts of the Trusts for 2010-11 were received as Papers FC(12)17 and 18.

The Senior Pro-Vice-Chancellor reported. The primary purpose of the annual meeting was to provide assurance to the Finance Committee about management arrangements and financial controls in the Trusts but also to take account of HEFCE’s role as Principal Regulator of such linked charities.

The Gates Trust had an annual expenditure of £6m and net assets of £172m, most of which were in the CUEF. Operating costs had been reduced during 2010-11. The audit had been signed off without incident. The Trust’s target was to support 225 students in steady state and to maintain an intake of 90
students per annum. Planning was complicated because costs per student varied depending on course choice. Work was underway to improve visibility and international recognition. The working group had concluded that the financial and managerial arrangements were appropriate and well regulated.

The Cambridge Commonwealth Trust (CCT) and the Cambridge Overseas Trust (COT) were managed together; it was anticipated that they might be merged. CCT had an annual expenditure of £5.8m and assets of £84m; COT had an annual spend of £7.8 and assets of £22m. There was additional ‘off-books’ support of £3.7m. The University provided support of £1.2m and £3.4m respectively. The audit had been signed off without incident. The working group had concluded that the financial and managerial arrangements were appropriate and well regulated.

The Malaysian Commonwealth Studies Centre in Cambridge (MCSC) had an annual expenditure of £664K and assets of £9m. It was established with the aim of furthering Commonwealth Studies in Cambridge and elsewhere in the world; in practice, its principal activity was to support a highly regarded Annual Conference on Electoral Democracy. There was, however, a plan to increase expenditure to £1.5m p.a. in collaboration with the Cambridge Malaysian Education Development Trust (CMEDT), a separate registered charity.

The working group, in the course of its 2010 review had expressed some concern that the last full meeting of the Trustees of the Malaysian Commonwealth Studies Centre had taken place in 2003; this concern had been raised with the Trustees who had since met. Various additional concerns had, however, emerged during the current review as follows:

− It was not clear the extent to which the activities of MCSC were aligned with the original objectives.
− Many of the MCSC’s activities were run by its Executive Committee. The terms of tenure of the members of MCSC’s Executive Committee had recently been extended by periods significantly in excess of the terms of tenure of the current Trustees.
− Members of the MCSC’s Executive Committee were also Trustees of CMEDT.
− There was no stated plan for the future of MCSC once the £9m of assets had been exhausted.

The University was clearly not responsible for running the MCSC; it was, however, responsible for appointing Trustees and for ensuring that they were exercising proper oversight and control. The Senior Pro-Vice-Chancellor therefore proposed to write to all of the current Trustees raising these concerns and reminding them of their legal responsibilities. There was no suggestion of improper or inadequate management or control by the existing Trustees. However, in the interests of refreshing the Board and reviewing the MCSC’s activities, it was suggested that the Council might consider replacing those MCSC Trustees whose tenure ended in April 2012.
The Finance Committee considered that the concerns which the working group had raised were significant. It was agreed:

(i) that the Senior Pro-Vice-Chancellor should write to the current MCSC Trustees in the terms set out above; and  
(ii) to suggest to the Council that it might consider replacing those MCSC Trustees whose tenure ended in April 2012.

Action: Senior Pro-Vice-Chancellor,  
Head of the Registry’s Office (for the Council)

29. Investments

(i) Investment Board

The Minutes of the meeting of the Investment Board held on 1 December 2011 were received as Paper FC(12)19.

(ii) Cambridge University Endowment Fund (CUEF)

Annual accounts for the Cambridge University Endowment Fund 2010-11 were received as Paper FC(12)20. It was noted that the Board of Scrutiny, in its 2010-11 annual report, had recommended that the performance results for the CUEF be made more widely available and, in particular, that the CUEF annual report be published to the University. It was recognised that the University was constrained by Financial Services Authority (FSA) regulations in the extent to which it could issue material which might be considered promotional although, in practice, investment eligibility restrictions significantly limited the pool of investors to whom the fund was available. It was agreed that advice should be sought as to whether publication of some or all of the report, beyond that already made in the published Financial Statements and Financial Management Information Reports, would represent a breach of the University’s obligations to the FSA.

Action: Registrary

30. North West Cambridge

Mr Kerry Sykes, Deputy Director of Finance (Finance Services and Taxation), attended for this item.

The following papers were received:

Paper FC(12)21 Tax strategy for the development of the North West Cambridge site.
Mr Sykes reported. The Finance Committee was responsible for the determination of the University’s tax strategy. The North West Cambridge Project was the biggest project undertaken to date by the University; the tax implications were, therefore, of a similar magnitude. It was important that the Committee was confident that there was a robust and defensible tax strategy for the project. The measures set out in the paper, if adopted, would significantly alter the University’s tax profile. In particular, it was important that there was sufficient evidence to support VAT reclaims.

The main taxes relevant to the North West Cambridge Project at this stage were: VAT, PAYE, Stamp Duty Land Tax and Corporation Tax. Mr Sykes set out the significant issues in respect of each of these taxes. The Committee was asked to consider and approve various measures to mitigate tax costs and aid delivery of structural and other benefits.

The Committee agreed:

(i) to transfer the key worker housing and student accommodation to a separate entity on completion;
(ii) to opt to tax rental, lease or sales of buildings occupied for commercial purposes and any disposals of land to developers;
(iii) that the estate management company would act as principal when levying estate charges.

Action: Deputy Director of Finance
(Finance Services and Taxation)

Paper FC(12)22 West & North West Cambridge Estates Syndicate: financing the Syndicate’s expenditure

The Director of Finance reported. The West and North West Cambridge Estates Syndicate was responsible for oversight and management of the North West Cambridge site development. The development would require significant cash investment and the Syndicate required certainty that cash for planned and approved expenditure would be available, and information about the cost to the project of that cash. The Syndicate, as a department of the University, would not itself secure finance separate from the University. It was therefore proposed that it should be funded by means of a Chest loan. It was further proposed that the Syndicate should draw down funds from this chest loan on a monthly basis, at least one month in advance and consistent with expenditure profiles in the approved financial plan. The Committee was also invited to determine the level of the internal interest rate charged on the Chest loan and whether the rate should be fixed for the life of the project. In the course of discussion it was agreed that a decision on the last matter should be deferred until the Committee’s meeting on 7 March 2012 at which it would receive a detailed financing plan for the North West Cambridge development and the Capital Plan from Rothschild.
The Committee agreed:

(i) that the West and North West Cambridge Estates Syndicate net cash outflows should be funded as a loan from the Chest;
(ii) the proposed terms for the drawing down of cash from the Chest loan.

Papers FC(12)23 Minutes of the meetings of the West & North West Cambridge Project Board and Syndicate held on 24 October and 28 November 2011

The Committee received the minutes.

31. Staff

Shared Equity Scheme

At its meeting on 9 July 2008 the Committee had received a paper proposing improvements and enhancements to the housing equity share scheme and other assistance with relocation. The Committee received Paper FC(12)25, prepared by the Director of HR, reporting on the scheme and proposing an increase of the fund to £10m. The Committee approved the proposal.

32. Financial Systems

The Annual Report 2011 of the Financial Systems Committee was received as Paper FC(12)26. Mr Du Quesnay, as a member of the Committee, noted that there had been some concern about the usability of the Cognos reporting system and the consequent low take-up. It was noted that significant work was underway to improve reporting. The Committee had not met during the previous academical year; it would do so in future.

Vice-Chancellor
7 March 2012
Finance Committee 11 January 2012: Straightforward and reported business submitted for decision or report

1. Finance Committee

(i) Noted that Mr. Downer had been elected a member of the Finance Committee by the representatives of the Colleges, to serve for three years from 1 January 2012.

(ii) Noted that it had been proposed that Professor Lizieri be reappointed by Grace of the Regent House as a member of the Finance Committee, to serve for three years from 1 January 2012.

(iii) Membership List received.

2. Finance Committee: Dates of Meetings 2012-2014

For decision: Noted

3. Finance Committee

(i) List of Sub-Committees

List of Sub-Committees of the Finance Committee as from January 2012. Noted/confirmed.

(ii) Appointments: recommended to Council to appoint:

- Dr Jan Stiles (CEO, JBSEEL) as Director of Judge Business School Executive Education Limited;
- Mr Ross Reason (member of Investment Board and Finance Bursar, Robinson College), as Director of Cambridge Investment Management Limited (change: Mr Michael Dobson) subject to Financial Services Authority approval.
- Dr Jeremy Fairbrother as a member of the Colleges Fund Committee (re-appointment).
- Mr Paul Gilding (Australian resident) as a Director of Cambridge Programme for Sustainability Leadership (Australia).
4. **Committees**

Received the Minutes and Annual Report from the following Committees:

- **Planning and Resources Committee** – 23 November 2011
- **Audit Committee** – 17 November 2011

Noted.

5. **Cambridge Assessment**

Annual Report and Accounts for the year ended 31 July 2011 attached. The Finance Committee Working Group will meet with representatives from Cambridge Assessment on 3 February 2012.

Noted

6. **Sealings**

List attached.

Noted