At a Meeting of the Finance Committee held this day,

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

Apologies for absence were received from the Registrary, the Academic Secretary and Mr Thompson.

1,758 MINUTES Action

The Minutes of the meeting held on 13 April 2005 were approved subject to one amendment.

Minute 1, 749 (b) the member concerned stated that they had not asked, “whether alternative quotes were sought from other printers”. They had asked “whether a firm quote had been obtained from the CUP”.

1,759 REPORT ON ACTIONS

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

ROUTINE BUSINESS

1,760 Finance Committee Business. The Committee received Note FC(05)57 and noted that the major items planned for the remaining meetings of the Easter Term were:

- June  - Insurance review
  - UCLES and Press accounts
  - Quarter 3 Red Book

- July  - Accounting policies
  - Insurance renewal arrangements
  - Full Economic costing (presentation)
  - “Financial Story”

1,761 Committees and Directorships. The Committee received Note FC(05)58 and agreed the following appointments:-

- Professor Minson as its representative on the Buildings
Committee;
- Dr. Ann Dobree as a Director of CUTS Limited;
- Professor Hunter to its working group to consider the accounts of UCLES, the Press and the Trusts, in place of Mr. Brown.

BUILDINGS

1,762 Buildings Committee. The Committee received Private and Confidential Note FC(05)56 with Paper FC(05)64 the Unconfirmed Minutes of the meeting of the Buildings Committee held on 6 April 2005.

1,763 Minor Works Review Group. The Committee received Note FC(05)59 with Paper FC(05)65 the Unconfirmed Minutes of the meeting of the Minor Works Review Group held on 7 April 2005.

INVESTMENTS

1,764 (a) Investment Management. The Committee received Private and Confidential Note FC(05)62 with the following Papers:-

Paper FC(05)70 A note prepared by the Registrary outlining the proposed governance relationships.

Paper FC(05)71 A preliminary “project plan”.

Paper FC(05)72 Draft particulars for the appointment of a Chief Investment Officer.

Paper FC(05)73 An indicative Statement of Investment Policies and Objectives, intended to show the scope of such statement.

Paper FC(05)74 A list of issues and questions to be addressed, prepared by Mr. Johnston and Dr. Nicholls, with responses drafted by the Director of Finance.

(b) The Committee recalled that at its meeting on 13 April 2005 it had approved in principle the report presented by its Working Group established to review the Investment Management arrangements of the University, with a view to detailed work being carried out. The further detail it had required included the governance relationships between the Investment Board, the Council and the Finance Committee; monitoring of performance; a conflicts of interest policy; a clear understanding of how investment objectives would be set by the University; where the office would be located; how the Chief Investment Officer would be recruited; and a range of other practical and routine matters.
(c) With regard to Paper FC(05)70 on governance arrangements, members made the following points:

(i) if the Director of Finance were to act as the Secretary of the Investment Board it may restrict the opportunity to fully contribute to the Board’s proceedings. However a member noted that it was not necessary that a secretary takes the minutes, as was the case with the Finance Committee;

(ii) the ‘contract of service’ for Board members was not an appropriate description and ‘terms of appointment’ might be a better expression. The terms should set out the duties of a Board member and be clear about the role of the individual on the Board, including conflicts of interest considerations. Balanced and acceptable terms would be required; if Board members were too constrained recruitment of the highest calibre candidates could be difficult. Similarly, the terms should not constrain any candidates in their main employment role, if any. The terms should be agreed in good time and any candidates should be approached with the terms clear. Proposed terms would be brought to the next meeting for approval;

(iii) the Board would be chaired by a person of high standing in the investment world; the Vice-Chancellor would attend as an internal member. It is important that the Chair is a person of known leadership qualities and depth of investment knowledge. He/she will chair discussions that require a good understanding of technical detail as well as judgement across a range of investment markets to ensure effective decision-making by the Board. The Chief Investment Officer (CIO) would be accountable to the Vice-Chancellor, although he/she would be responsible to, and would report to the Board. The terms and conditions of the post would be recommended by the Board, for consideration. The Board would also review the performance of the CIO and advise the Council and Vice-Chancellor;

(iv) the CIO would be expected to attend Board meetings except when his/her terms and conditions were being discussed. Some members thought that this was too narrow, the Board should be able to meet privately to discuss any matter in relation to the CIO;

(v) the University should inform the Board what its investment requirements are, the Board would then come back with proposals on how to achieve the aims. The University could change that framework at anytime. The Board would not need to agree the framework as implied
in the paper; it would be the Council’s decision. Further work would be done on this for the June meeting;

(vi) the role of the CIO would be full-time and would entail assessing fund managers and the other tasks summarised in the working group’s report, needing analytical and people skills. A balance would need to be found in order to make the role attractive enough to recruit the best people but with sufficient constraints on taking major decisions between Investment Board meetings, which were expected to be at three-month intervals once it was fully operational, but more frequently if required. The Statement of Investment Policies and Objectives would include a clear statement of the CIO’s freedom to act in respect of the funds under the management of the Investment Office;

(vii) the Board would probably meet in London and should also be able to meet electronically. The Vice-Chancellor felt that the recruitment of Board members should commence in June. No work had been done on recruitment yet although some possible members had been identified;

(viii) no statutory changes would be required as these changes were within the remit of the Finance Committee and the Council;

(ix) these changes should be publicised but not by Report. The new arrangements should be better known externally at the time the CIO role was advertised;

(x) the budget for the investment office would be determined by the University’s budgetary and control procedures. The working group’s report had indicated a figure of £500,000; and

(xi) the timetable of events was endorsed but a member noted that the completion of the new Statement of Investment Policies and Objectives was scheduled for January 2006, and wondered whether it could be earlier. In the meantime the Investment Board would be subject to the existing Statement of Investment Policies.

The Committee took note of the information provided and the Director of Finance agreed to take the matter forward.

FINANCE AND RESOURCES

1,765 (a) Allocations Report for 2005-06. The Committee received Note FC(05)60 with the following Papers:-

Paper FC(05)67  A note prepared by the Pro-Vice-Chancellor (P&R) on devolved budgets and planning.

Paper FC(05)68  The full Planning Enquiry 2004 instructions (excluding annexes).

(b)  Pro-Vice-Chancellor (P&R) presented the papers and made the following points:

(i)  the last meeting had considered the first draft budget, which had been developed further and was now with accompanying commentary and detail;

(ii)  the budgeted deficit of the Chest for 2005-06 was now £9.8m as opposed to £11.7m of the first draft;

(iii)  the figures were based, for the first time, on the plans of Schools and institutions; and the planning guidance issued in 2004 to Schools and institutions was attached for the information of the Committee;

(iv)  there had been significant changes in income (primarily resulting from full economic costing) and expenditure (utilities, IT investment, minor works, pensions, College Fee Transfer) since last year leading to an overall reduction in deficit. In 2006-07 the Chest was predicted to be almost balanced with surplus predicted after that;

(v)  there were major uncertainties going forward including pension costs, and the new pay and grading exercise where £5m would be required immediately with possible additions in the future. Changes to funding for teaching would also have an effect as would growing/maintaining research volumes as the proportion of the University’s funding from research increases;

(vi)  Table 1 detailed Chest and Non Chest income and expenditure. In previous years the Non Chest element had been budgeted to be balanced, in the absence of any detailed plans. This year the plans made by Schools and institutions had been included resulting in a deficit on Non-Chest activity for 2005-06 and 2006-07. However some of this expenditure was not imperative and there was certain flexibility in this expenditure; and

(vii)  Table 2: Capital Projects was not yet complete. The approximate totals of Capital Projects was £50m in 2005/06, £52m in 2006/07 and £25m in 2007/08. There was some equipment expenditure included in Table 1.

PVC (P & R)
which would be extracted and included in Table 2 in future years.

Members made the following points:

(viii) the cap on tuition fees was not likely to be lifted in the next Parliament and it was not clear what HEFCE would accept with regard to the level of the College fee arrangements after 2008, when the current agreement expires;

(ix) Para. 4 of the Report needed amending with regard to salaries as it gave the impression that the projected surplus would be achieved at the cost of uncompetitive salaries. The Pro-Vice-Chancellor felt that it was important to manage towards a small surplus and a separate exercise on the investment required in staff would be more appropriate. A full analysis of the profile of the University’s staff and the relative proportions of each staff grade compared with previous periods should be undertaken. The total proportion of academic staff had fallen, as had the proportion of lecturers when compared to the total number of academic staff. The effects of the promotions exercise had been an upward movement in the academic profile. Profiling with regard to age and competitiveness should also be included. Cambridge salaries were not necessarily uncompetitive across all grades, and the increase in the total pay bill had been above inflation for several years;

PVC (P & R)

(x) Other Income had fallen, an explanation should be included as should a commentary as to why the Chest share from Research Grants and Contracts income had increased by 74%. In the latter case it was transitional funding from the Research Councils, which would be explained more explicitly under Para. 37;

(xi) progress was being made on institutions utilising reserves and other available balances. A paragraph explaining the level of unspent but available balances should be included;

(xii) the University balances expenditure against income and aims for a sustainable budget. The ‘Non recurrent grant’ line in the accounts was technically a contingency;

(xiii) the language of Para. 20 needed revising slightly: and

(xiv) the record in recent years of outturn compared to budget for a current year has been satisfactory – within £2-3 million.
The Committee agreed to recommend the Report to the Council for consideration, subject to the amendments suggested above.

PENSIONS

Loan Fund I & Davies-Jones Memorial Fund Committee. The Committee received Private and Confidential Note FC(05)54 with Paper FC(05)61 the Unconfirmed Minutes of a meeting of the Loan Fund I & Davies-Jones Memorial Fund Committee held on 21 April 2005.

Supplementation of Pensions. The Committee received Note FC(05)55 with the following Papers:-

Paper FC(05)62 A letter, dated 11 April 2005, from Universities UK notifying a further increase in pensions in payment with effect from 11 April 2005.

Paper FC(05)63 A Draft Notice by the Council on Supplements to Pensions (F.S.S.U.)

The Committee agreed to take note of the information provided and to recommend to the Council that a Notice, as set out in Paper FC(05)63, should be published.

POLICIES AND PROCEDURES

(a) Expenses and Benefits. The Committee received Note FC(05)61 with Paper FC(05)69 the draft Expenses and Benefits chapter of the Financial Procedures Manual, which was being issued in stages by the Finance Division.

(b) The Committee had received an earlier draft at its March meeting and had asked for further comment and consultation. This revised draft was presented for the approval of certain policy elements.

Members made the following points:

(i) it should be made clear where the subject is policy or guidance. The Director of Finance felt that Section 1.2 of the chapter dealt with this and allowed flexibility. The document was to assist the efficient and smooth running of the University;

(ii) some flexibility and interpretation at a local level was required but all requirements resulting from legislation should be followed;

(iii) one member felt that these procedures impinged on academic freedom, subsidiarity and may affect recruitment; and

(iv) as it was a living document it could be amended in the light of
The Committee agreed that the policy elements should be approved subject to the substitution of “should” for “must” in a number of places and Section 1.2 being more prominent. Any further points should be forwarded to the Director of Finance.

UNIVERSITY COMPANIES

1,769 (a) Cambridge Manufacturing Industry Links Limited (CMIL). The Committee received Note FC(05)53 and Annex and noted that the University had a small number of wholly-owned subsidiary companies set up for tax or commercial reasons. The shares of CMIL were owned by CUTS. This structure had been developed with a view that CUTS could act as an umbrella for a group of technology transfer/consultancy/knowledge dissemination activities, including those organised through separate “in-house” companies. CMIL was, in effect, a trading company of the manufacturing engineering division of the Department of Engineering, but in practice did not fit tidily into the CUTS structure. It was proposed that all the issued shares of CMIL were transferred to the University by CUTS, so that the University held its shares in CMIL directly and not via CUTS. The transfer would be at nominal value (£2).

(b) The Committee agreed that the shares in CMIL be held directly by the University and not through CUTS.

Vice-Chancellor
8 June 2005