At a Meeting of the Finance Committee held this day,

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

Apologies for absence were received from Ms Lowther.

1,695 MINUTES Action
The Minutes of the meeting held on 8 December 2004 were approved.

1,696 REPORT ON ACTIONS
The Director of Finance reported on action taken following decisions at the last meeting.

FINANCE COMMITTEE

1,697 Membership. The Vice-Chancellor welcomed the new external members, Dr. Nicholls and Mr Johnston. The Committee received Note FC(05)9 and noted that Professor Hunter was now formally appointed as the General Board nominated member.

1,698 Sealsings. The Committee received Note FC(05)3 with Paper FC(05)4 a list of sealings authorised by the Acting Treasurer under delegated authority since the previous meeting.

1,699 List of Sub-Committees. The Committee received Note FC(05)10 with Paper FC(05)12 a list of Sub-Committees of the Finance Committee as from January 2005 and noted that those members whose names had been highlighted in bold were due to be reappointed or replaced. The Committee agreed provisionally to make the re-appointments indicated and to confirm the appointments at the next meeting in the light of further consultations.
ACCOUNTS

1,700 (a) *Financial Management Information.* The Committee received Note FC(05)11 with Paper FC(05)13 the draft Financial Management Information pack for 2003-04.

(b) A member made a suggestion on the presentation of financial data. The Committee noted that although it was not clear how widely this information was used, it was of significant value to a number of University members.

1,701 (a) *Audit Committee Annual Report 2003-04.* *Annual Internal Audit Report 2003-04.* The Committee received Note FC(05)1 with the following Papers:-

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<th>Paper FC(05)1</th>
<th>Audit Committee Annual Report 2003-04.</th>
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(b) A member commented that the internal auditors’ report was disappointing in terms of giving an informative view of the activities within the University. The report was a summary addressing certain points only. A significant number of internal audit reports had been commissioned by the Audit Committee but did they represent value for money? The Audit Committee’s Annual Report should consider whether real value was being derived from these reports. The report also had a reference to the Value for Money Committee and that it reported through the Finance Committee, which was not the case.

(c) The Officers who attend the Audit Committee responded that the internal audit activity, as well as providing assurance to the Audit Committee and to Council on the state of internal controls, did have operational value as recommendations and follow-up had led to improvements in internal controls, processes and procedures. The internal audit programme was steered and scrutinised by the Audit Committee, which had trimmed the recommended audit programme. The service had been market-tested during the 2004.

The member’s comments would be passed on to the Audit Committee. **Registrar**

PENSIONS

1,702 (a) *USS Statement of Investment Principles.* The Committee received *Private and Confidential* Note FC(05)6 with Paper FC(05)7 the revised Statement of Investment Principles.

(b) The Committee noted that the Pensions Act 1995 required the trustee of occupational pension schemes such as USS to prepare and from time to time revise a written statement of the principles governing decisions about investments for the purposes of the scheme. In preparing or revising the statement the trustee must take appropriate professional investment advice and consult the employers who participate in the scheme.
(c) The Committee agreed to take note of the information provided and confirmed that it wished to make no representations to USS Ltd with regard to the revised Statement of Investment Principles.

UNIVERSITY FINANCIAL SYSTEM

1,703 Financial System Management Committee. The Committee received Note FC(05)8 with Papers FC(05)10 and 11, Unconfirmed Minutes of the meetings of the Financial System Management Committee (FSMC) held on 15 and 17 December 2004.

1,704 (a) Financial Systems Upgrade to 11i. The Director of Finance reported that the upgrade of the financial system’s Oracle software from version 11.03 to version 11.5.9 (11i), as approved by the Finance Committee at its meeting on 11 February 2004, had taken place over the Christmas break and was available to users on 4 January 2005. There had been a small number of teething problems but the launch had gone marginally better than expected.

(b) Professor Anderson commented that there were still some improvements to be made on use and optimising the functionality of CUFS, but now the launch of 11i had taken place the financial system operations group would be asked to look at this issue.

UNIVERSITY INSTITUTIONS

1,705 (a) University of Cambridge Local Examinations Syndicate. The Committee received Private and Confidential Note FC(05)2 with Paper FC(05)3, proposed arrangements for financial transfers by UCLES to the University.

The Director of Finance declared an interest as a Syndic of UCLES.

(b) The Committee noted that under the University Ordinances, UCLES made transfers to the University Chest when the audited UCLES accounts showed sufficient balance to enable such a payment. A regular payment of approximately £4m was made each year, and in 2004-05 there would be a special further transfer of £4m. On 13 October 2004 the Finance Committee had discussed the level of free financial reserves held by UCLES, and there had since been discussions between the Director of Finance and the Chief Executive of UCLES regarding the arrangements for such transfers and the levels of reserves held by the Syndicate. The proposed new framework was approved by the Syndicate at its meeting on 18 November 2004 and was as follows:

(i) that UCLES should transfer annually 30% of its operating surplus (which included investment income from its Amalgamated Fund Units (AFUs)) to the University, subject to a minimum annual transfer of the value of the investment income from the AFUs;
(ii) to enter into discussions with the University to permit a capital transfer of £10-14m based on the level of free reserves being in excess of present funding needs, as identified in the UCLES Business Plan; and

(iii) that there may be excess free reserves in 2008-9 if the business plan projection of available assets proved accurate, in which case similar discussions should take place with the University, subject to UCLES’s then funding needs.

If UCLES were to be regarded as an investment it had performed well. Since 1983 the return achieved from both transfers and the increase in net asset value had averaged 16.7% pa. This was greater than the return achieved by the Amalgamated Fund and surpassed the return achieved by many commercial businesses.

(c) The priorities for the new formula were:

(i) to ensure it did not entail financial commitments that would jeopardise UCLES’ ability to operate successfully;

(ii) that UCLES continued to retain the freedom to support a diverse range of suitable good causes in support of its desire to be a good corporate citizen and benefit education; and

(iii) that the University should have the assurance of regular income with some upside benefit in years when UCLES performed exceptionally well.

(d) Members welcomed the proposed new formula which was a great improvement on the existing arrangement but expressed concern regarding UCLES’ desire to support good causes, which should be consistent with the Syndicate’s work. UCLES proposed to allocate up to £250k per year for good causes and had provided support to such activities in previous years, including £648k to the Millennium Mathematics Project since 1998. The paper stated that UCLES retained large free financial assets in order to cover against disaster and also to finance future growth, thereby avoiding borrowing. Members saw no reason why borrowing should be excluded since a sound investment case would support internal or external finance.

These issues would be raised by the Finance Committee’s Working Group at its next meeting with UCLES senior management.

BUILDINGS

1,706

Minor Works Review Group. The Committee received Note FC(05)4 with Paper FC(05)5 the Unconfirmed Minutes of the meeting of the Minor Works Review Group held on 2 December 2004 and agreed to take note of the information provided.
1,707 (a) **Buildings Sub-Committee.** The Committee received *Private and Confidential* Note FC(05)7 with the following Papers:-

- **Paper FC(05)8** Unconfirmed Minutes of the meeting of the Buildings Sub-Committee held on 15 December 2004.

- **Paper FC(05)9** Long Term Maintenance Plan 2005-06 to 2009-10.

The Director of Estate Management introduced the Papers.

(b) **Relocation and Upgrading of Wellcome CR-UK Gurdon Institute.** (BSC Minute 04.112)

The Committee, for its part, approved the increased warrant for the Gurdon Institute noting that recompense would be sought from the designers due to deficiencies in some elements of their construction information. The project was over budget by around 5%.

(c) **Long Term Maintenance Plan 2005-06 to 2009-10.** (BSC Minute 04.113 and Paper FC(05)9).

The Committee noted the following:

(i) that the Buildings Sub-Committee, at its meeting held on 15 December 2004, had agreed to recommend:

- to the Finance Committee and the PRC that the maintenance budget be set at £18.432m including all relevant staff costs, but excluding a specific security allocation and one-off payment to Addenbrooke’s Hospital in respect of embedded accommodation which was funded from another budget; and

- that consideration should be given to increasing the budget by £1.4m, to £19.832m, to allow spending on backlog maintenance.

The bid represented 1.23% of the insured replacement cost (IRC) of the estate;

(ii) in terms of physical and operational suitability, and condition, Cambridge had one of the best estates when compared with other members of the Russell Group;

(iii) the backlog of maintenance currently stood at £15m. The backlog was quantified by external consultants, QMP, who assessed 20% of the estate each year. There was some correlation with previous unsuccessful budget bids; and
(iv) works to comply with the Disability Discrimination Act were projected to cost £33.5m and were not part of the above bid.

(d) A member commented that the Finance Committee should not approve the bid as the Buildings Committee, due to recent changes, was to stand-alone and would no longer report through the Finance Committee. However the required Statute changes had not yet been approved, therefore the bid had come to Finance Committee as in previous years. The member questioned whether an increased budget, on the previous year, should be recommended when the University had one of the best maintained estates in the sector, was in deficit and was facing an increase in costs resulting from the proposed new pay arrangements.

Other members commented that:

- the University needs balance between investing in its three resource areas – physical assets, human assets and financial assets;
- the Buildings Committee should negotiate on the bid with the Planning and Resources Committee, against other demands on the University’s resources;
- amendments to the bid asked for by the Buildings Sub-Committee, and involving additional information, had not yet been made; and
- the Finance Committee was responsible for the stewardship of the University’s assets and still had an important role to play in this respect.

(e) The Pro-Vice-Chancellor, Planning and Resources (and Chairman of PRC) observed that the maintenance budget was one of the most difficult aspects of the University’s budget but it was important to get the balance right and maintain the estate adequately. The Planning and Resources Committee would take the Finance Committee’s comments into account.

(f) The Committee agreed that the bid should go forward to the Planning and Resources Committee as the considered recommendation of the Buildings Sub-Committee. It supported the importance of maintenance but recognised the role of the PRC in deciding resource allocation across the University’s pressing needs. The Finance Committee’s comments would be forwarded to the PRC.
1,708 (a) *The East Forum.* Professor Ian Leslie, Pro-Vice-Chancellor Research, attended for this item. The Committee received Note FC(05)5 with Paper FC(05)6 the Second Report of the Council on a proposal for a new building at West Cambridge (the East Forum).

(b) The Committee noted that:

(i) the first Report had been discussed by this Committee on 30 April and 12 May 2004. The second Report addressed the concerns raised by the University following publication of the first Report;

(ii) the project had been revised to avoid the University bearing any letting risk and to comprise two adjacent buildings as opposed to a single building;

(iii) Alex Reid, acting as consultant for the project had met more than 30 department heads and other senior staff, and with very few exceptions they approved or strongly approved of the project.

(iv) Members of the Regent House had also expressed concern regarding the financial risk to the University of financing the lettable space; that concern had been met by transferring the risk of financing and letting the lettable space to a developer;

(v) it was proposed that a representative user from within the University be appointed to this project (standard practice was to appoint a senior academic) for the development phase;

(vi) two buildings were proposed. Building A would contain the catering facilities and social space, and Cambridge Enterprise whilst Building B would consist of lettable space. Both buildings would be built simultaneously. In view of the risk being transferred to the developer the amount of lettable space had been increased from 3000 to 5000 m$^2$;

(vii) Building A would be wholly owned and financed by the University whilst Building B would be owned and financed by a developer, with a 125-year lease from the University. The developer would have responsibility for the choice of tenants, subject to the current planning restrictions. These would be embedded in the head lease and require that all such tenants are research institutes, engaged in commercial research, or engaged in activities relevant to knowledge transfer and exploitation. The University would have no further input into the choice of tenants. Economies of scale could be achieved if a developer developed both buildings;
(viii) the nursery and residences had opened but the lack of social space at the West Cambridge site was a disincentive to potential tenants of the site. The University was committed to this project which was a planning requirement and part of the West Cambridge master plan;

(ix) the Committee, in general, welcomed the Report which had addressed the issues raised in previous discussions. The proposal to develop two buildings rather than one received support.

A number of comments were made by members, however:

- concern was expressed regarding the 125-year lease and the level of premium a developer was likely to pay for it. The Committee agreed that those negotiating on the University’s behalf must be left a free hand, but they should hold firm on the required infrastructure contribution and optimise the financial benefits to the University;

- there was no wet lab space proposed in the incubator space, which could prove to be the most valuable space;

- some members felt that Cambridge Enterprise may be better served in the centre of Cambridge, but noted parking, improved transport links and other advantages of the West Cambridge site;

- since the strategy for Cambridge Enterprise was currently unclear, and a permanent director had yet to be appointed, it may not be appropriate at this time to commit Cambridge Enterprise to this location and space. However it was clear that the University was committed to technology transfer;

- too many constraints on what the developer can do or contractual conditions may be counterproductive at this stage and should not be in the Report, however members were anxious that tenants be found who would provide valuable interaction with University departments.

The concerns related to the developer would be addressed when negotiations commenced. The Committee would be kept up to date.
(c) The Committee approved the Report by Vote (6 for, 1 against) subject to the removal or amendment of paragraph 12 relating to the development of the buildings in order to avoid reducing the University’s options, and that the Committee was kept up to date on the negotiations with the developer.

Vice-Chancellor
16 February 2005