At a Meeting of the Finance Committee held this day,

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

Apologies for absence were received from Professor Chase and Dr Nicholls.

1,786 MINUTES Action

The Minutes of the meeting held on 8 June 2005 were approved.

FINANCE COMMITTEE

1,787 Membership. The Vice-Chancellor welcomed Dr. M. Clark.

1,788 Date of next meeting. The Committee noted that the meeting scheduled for 14 September 2005 will be held for the Committee to receive a presentation from Professor Minson on the “Financial Story” and for general discussion of the Committee’s workplan and functions. It was noted that Mr Thompson would not be present at the September meeting.

1,789 MATTERS ARISING AND REPORT ON ACTIONS

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

Minute 1,770 Membership

Professor Anderson had declined the request to remain on the Financial Management Systems Committee (FSMC) following his resignation from the Finance Committee. Dr. M. Clark was willing to be appointed. The Committee appointed Dr Clark to the FSMC.
Minute 1.784 Venture Fund

The Committee recalled that the Venture funds had requested a line of credit up to £1m to underwrite its activities. Since the last meeting a realisation had occurred providing £0.5m cash. It was anticipated that a further realisation would occur in October of this year. Therefore the Ventures team were content that the decision regarding the line of credit be held over to the Michaelmas Term. The Cambridge Enterprise plan would also be available at this point.

ROUTINE BUSINESS

1,790 Sealings. The Committee received Note FC(05)77 with Paper FC(05)87 a list of sealings authorised by the Acting Treasurer under delegated authority since the previous meeting.

BUILDINGS

1,791 Minor Works Review Group. The Committee received Note FC(05)78 with Paper FC(05)88 the Unconfirmed Minutes of the meeting of the Minor Works Review Group held on 12 May 2005. The Committee agreed to take note of the information provided.

UNIVERSITY INSTITUTIONS

1,792 (a) Cambridge University Press. The Committee received Private and Confidential Note FC(05)79 with the following Papers:-

Paper FC(05)89 Annual Report and Accounts of the Cambridge University Press(CUP) for the year to 31 December 2004.

Paper FC(05)90 Unconfirmed Notes of a meeting of the working group set up to review the accounts of CUP held on 21 June 2005.

(b) Mr. Larkum commented that:

(i) the meeting on 21 June 2005 was one of a series and had been a productive one providing a sense of continuity and progress;

(ii) the Press had been working over the last two years to be more commercial in a number of ways;

(iii) the Press was becoming more market led whilst ensuring it remained an academic publisher;

(iv) there were signs that the market was recovering particularly in the U.S.;

(v) progress was being made although it had yet to show up in the financial figures;
(vi) other aspects such as pensions contributions had an effect on the financial figures;

(vii) the outlook was much more optimistic than previously with a significant improvement in profitability anticipated;

(viii) a meeting with KPMG, the Press’s external auditors, followed the Working Group meeting. The auditors commented that there was a “momentum of culture change in CUP”;

(ix) a member asked if there were any financial projections as it was difficult to judge performance and whether the Press was making satisfactory progress. It was noted that the meeting had been one to review the statutory accounts retrospectively and that it was expected that certain business projections would be considered to the next meeting in the series;

(x) it was noted that the Press was governed by Statute J but that this was fairly broad and not a statement of its role/mission. It was noted that the Press was not simply a commercial enterprise but an activity that enhanced the University’s reputation and its mission.

The Director of Finance agreed to forward the Committee’s comments to the Press.

ACCOUNTS

1,793 (a) University of Oxford – Financial Statements 2003-04. The Committee received Note FC(05)86 with the following Papers:-

Paper FC(05)102 A comparison against Cambridge “Little U”, prepared by the Director of Finance.


(b) The Director of Finance made the following comments:

(i) the Oxford accounts for the year ended 31 July 2004 had been approved at the end of May 2005;

(ii) Oxford and Cambridge were in remarkably similar financial shape;

(iii) On an adjusted like-with-like basis Oxford’s underlying surplus/deficit could be seen to be some £7m worse than that of Cambridge;

(iv) Oxford’s auditors were Deloitte and Touche, the same as Cambridge. Oxford’s accounts did not yet include Oxford University Press, yet Deloitte and Touche had stated “except
for the non-inclusion of the Press and the treatment of the heritage assets as described above, the financial statements give a fair and true view of the state of affairs ...”. It was therefore a heavily qualified “true and fair opinion”;

(v) in the case of Cambridge the above option was not made available, Deloitte and Touche had been reluctant to give a “true and fair” opinion without full consolidation; and

(vi) a member commented that in Oxford’s “Statement of Corporate Governance”, it was clear that the University Council was responsible for investments and not its Finance Committee. This should be noted as the University’s investment arrangements were being reviewed.

The Committee took note of the information provided.

1,794 (a) 2005 Financial Statements: Review of Accounting Policies and Illustrative 2004 Financial Statements, with the inclusion of CUP and Associated Trusts. The Committee received Note FC(05)81 with the following Papers:-


Paper FC(05)95  A set of papers which included a summary page, impact of inclusion and consolidation of CUP and the Trusts on University financial statements, Statement of principal accounting policies and illustrative figures including UCLES, CUP (to December 2004) and the Cambridge Trusts.

(b) The Director of Finance commented that:

(i) good progress on accounting policies had been made in recent years; and

(ii) one modest change had been proposed, to increase the depreciation rate on some equipment from 4 years to 10, given the reality of useful economic life. This would have a marginal favourable effect. All other policies were to remain unchanged.

(c) The Finance Committee confirmed that the 2005 financial statements should be prepared following these accounting policies.

Director of Finance

1,795 (a) 2005 Financial Statements. The Committee received Note FC(05)87 with Paper FC(05)104 a letter from the Chief Executive of the Press, dated 6 July 2005, to the Registrary.
The Press had indicated in its letter that it would like to delay consolidation of its accounts with those of the University by one year due to the significant amount of extra work and cost in preparing interim accounts to match those of the University’s financial year-end. It proposed to change the Press’s accounting year end from 31 December to 1 April in order to make the exercise simpler. The Press was also in the midst of a restructuring exercise including a change in its financial system. The Registrary commented that a change in accounting year end would require University approval as the date was in the Statute which governed the Press, and that it should be in the context of the option of a “true and fair except for …” audit opinion that the one year deferral should be considered. The auditors should be asked if they were prepared to give such an opinion. It was also noted that the Funding Council required an unqualified “true and fair” opinion rather than a qualified one. The Audit Committee would be discussing the matter, consulting with Deloitte, and would also comment.

The Finance Committee endorsed the one year deferral on the understanding that Deloitte and Touche would, if requested, be able to give an opinion that the University’s accounts were “true and fair except for the non-inclusion of the Press”. The accounts should include a statement that full consolidation would be from next year 2005-6.

HEIGHER EDUCATION FUNDING COUNCIL FOR ENGLAND

1,796 (a) HEFCE Financial Forecasts. The Committee received Note FC(05)84 with the following Papers:-

Paper FC(05)97 Proposed Financial Forecasts (Consolidated – Big U) to be included in the submission to HEFCE.

Paper FC(05)98 The underlying Little U forecasts.

The Committee noted that:

(i) the Funding Council required Financial Forecasts annually at the end of July as part of a broader submission of the University’s plan. To be consistent with the published financial statements Big U (Little U plus other activities) forecasts would be provided;

(ii) the forecasts were put together using the Allocations Report. They were of better quality this year due to the effect of the Planning Enquiry;

(iii) a notional consolidation had been carried out using the Allocations Report and the 5 year financial projections of UCLES, which were as yet not approved by the UCLES Syndicate.
(c) The Finance Committee received the forecasts and asked that they be re-circulated at the September meeting for discussion in a strategic context.

FINANCE AND RESOURCES

1,797 (a) **Full Economic Costing.** The Vice-Chancellor welcomed Professor Leslie.

Professor Leslie gave a presentation and made the following points:

(i) Full Economic Costing (FEC) is defined as: “A price which, if recovered across an institute’s full programme, would recover the total cost (direct, indirect and total overhead) of the institute, including an adequate recurring investment in the institute’s infrastructure”;

(ii) the Science and Innovation investment framework 2004-2014 was published in July 2004 (as part of the Spending Review) with the aim of moving to a sustainable, world class research base over the next few years. Research quality was high but the finances were unsustainable;

(iii) the Government expects HEIs to recover the full economic costing for research. In order to do this institutions need to know the full economic cost of research and should price for sustainability and adequate reinvestment;

(iv) there were a number of worrying financial trends. QR funding was stagnant alongside increased grant and contract funding. There was an increased proportion of research active staff in top rated departments along with a poor understanding of cost base, neglect of long-run costs and a low price culture;

(v) currently there was under-investment in university infrastructure as highlighted in the Dearing Report in 1997 with a backlog in infrastructure investment and a recurrent funding gap. The Investing in Innovation Report (2002) stated that there was “persistent failure to invest in research infrastructure”. Research must be sustainable;

(vi) the Government had responded with significant amounts of money for sustainability. SRIF was to repair the funding backlog (semipermanent stream of £500M per year), coupled with approximately 6% year on year budget increase for research, extra QR (£368M in England over 2 years), extra money for Research Councils (£200M) plus a step increase to fund 80% of FEC and better cost recovery from others, e.g. Government Departments;

(vii) there had been modernisation with the Transparent Approach to Costing (TRAC) methodology for institutions to assist them in understanding costs;
(viii) with regard to Research Councils it had been announced that they pay a fixed percentage of full economic cost 80% initially, but rising to close to 100% by 2010-11 (including capital);

(ix) as was the case now, Charities would pay direct costs of research only. But institutions were required by Government to understand the total costs using the same costing tool. Partnership Funding (formerly the charity element of QR) coming into the University would increase;

(x) in terms of research paid for by industry the University was expected to recover at least 100% of full economic costs. However, the University had chosen to pursue a gradual approach, which would allow it to understand the sensitivity of demands to price increases. The University had set a target rate of 80% recovery of FEC for industrial contracts for the next year (current was calculated as 70%). The reaction from most big UK industry was that the level of funding would remain the same, i.e. less research volume;

(xi) other UK Government Departments had been told by the Treasury that they were expected to pay 100% of FEC. EU framework research would not be paying FEC but active lobbying continued.

(b) The Committee noted that:

(i) maintaining research volume was extremely important, however with 80% recovery a significant increase in research volume would cause further damage, as it would not be fully funded and QR funding would be used to make up the difference. It would not be until 2011-12 when 100% recovery was in place that research would be sustainable;

(ii) different types of research (industry, charities etc) could affect Schools and Departments depending on the funding source, although this has been modelled and information provided to School Finance Managers; and

(iii) SRIF funding had been put in place to help cover previous losses.

The Committee thanked Professor Leslie for his presentation and asked that he join the discussion at the 14 September meeting of the Committee.
INSURANCE

1,798  Insurance Renewal. The Committee received Note FC(05)89.

Mrs Bernadette McLellan, Insurance Manager in the Finance Division, attended for this item.

(a) The Director of Finance highlighted the following and made a number of recommendations:

(i) there had been a bottom up review of insurance cover;

(ii) a variety of tenders had been received with only the University’s current insurers Royal and SunAlliance (RSA) responding on all insurance classes; and

(iii) significantly cheaper premium prices had been offered.

(b) The proposal to increase the insurance deductible from £1k to £100k would result in a material premium saving (RSA). However taking into account the recent claims record and the extra administration and costs of self-insuring, the reduction in premium was not sufficient to justify a move to a higher deductible. As the University’s property risk management improved the loss record/premium saving calculation may move in favour of a greater deductible.

The Committee approved the recommendation that the current deductible of £1,000 on Material Damage be retained, with a review to increase to £100,000 or other sum for renewal in 2006 being undertaken, on the basis of indicative premium savings.

(c) The current maximum loss limit was £300m. The Finance Committee had, at its last meeting, asked whether this was sufficient. As the University was arranged on various dispersed sites exposure was limited and the £300m limit was deemed acceptable against the valuations of the main sites. However, RSA had agreed to increase the maximum loss limit to £600m.

The Committee approved the recommendation that the increase in the maximum loss limit to £600m be accepted.

The net impact of this being a premium of around £600,000 for material damage (property and contents) as opposed to £778,000 for the 2004 renewal.

(d) RSA had been the only insurer to respond to the tender on Employer’s, Public and Products Liability insurance. The main issue was the limit of indemnity, currently £25m, which the Finance Committee had felt was too low. Marsh had subsequently advised a limit of £50m, following further review of the University’s activities and risks.
This would be achieved with a £10m primary layer with RSA and a further £40m excess layer with DA Constable. The total premium would be approximately £312,000 as opposed to £350,000 for the 2004 renewal.

The Committee approved the recommendation that the limit of liability be increased to £50m.

The limit of liability for professional risks remained unchanged at £10m but now covered the U.S. and Canada.

(e) No detailed proposals had been received on works of art and old books. The Committee approved the recommendation that the University’s insurance cover be renewed without general insurance of works of art, old books etc. but to work further with a specialist insurer to determine an appropriate approach by December 2005.

(f) Clinical trials would be insured on the current basis with RSA, with a £10m liability and excluding large-scale trials. Further work was required to compare with similar organisations.

The Committee approved the recommendation that insurance for clinical trials be renewed with RSA on the current basis, and that the University should work with Marsh, other institutions and the Clinical School to review the current approach by July 2006.

(g) Other classes of insurance were relatively straightforward and would be renewed with negotiation primarily on price.

The net effect of the above would be around a £250k reduction in premiums.

The Committee thanked the Director of Finance and charged him with actioning the above recommendations.

INVESTMENTS

1,799 (a)  \textit{Investment Management}. The Committee received Private and Confidential Note FC(05)85 with the following Papers:-

\begin{itemize}
  \item Paper FC(05)99 A status report on progress
  \item Paper FC(05)100 Draft “letter of appointment” of Investment Board members.
  \item Paper FC(05)101 Draft terms of reference for the Investment Board
\end{itemize}
(b) The Director of Finance gave a progress report and highlighted the following:

(i) the search for Investment Board members and a Chief Investment Officer continued. Useful progress was being made; and

(ii) two important documents were attached, a draft letter of engagement for Investment Board members setting out their role and responsibilities and draft terms of reference for the Board. A Statement of Investment Objectives and Policies would also be determined for each fund or set of investments.

(c) Members made a number of points:

(i) a conflict of interest policy was included in the appointment letter but there was an argument that a general University policy should be sufficient;

(ii) the term ‘affiliates’ was not clear and should be clarified;

(iii) termination of appointment was with one month’s notice on either side. This should be possible immediately on both sides;

(iv) withdrawal from meetings was not presumed, it was by request. It should be the other way round. Withdrawal should be presumed unless the Board states that it was not necessary;

(v) regarding confidentiality, information would not be released unless permission from the chair of the Board had been granted. This would not cover the chair, and it was suggested that the Registrary would be more appropriate;

(vi) the conflicts of interest statement may not adequately deal with a member who has a confidentiality agreement with another party. Although they would not need to go into detail about the interest the current form of words may not cover this eventuality. Mr Johnston agreed to discuss the matter with the Registrary outside the meeting.

(vii) the Board had, in its draft terms of reference, considerable supervision of the Chief Investment Officer. The balance between the Board and the Investment Office needed to be considered further. The Board should set the asset allocation, investment strategy and agree the appointment of the individual fund managers. Certain responsibility should perhaps be delegated to the Chief Investment Officer; and
the quorum proposed in the draft terms of reference was less than 50%. It was noted that a quorum can be restrictive when the membership are people with heavy commitments. The members do not, however, have to be physically together to make decisions.

The Registrar and Director of Finance agreed to take these points on board and bring the paper back for further review in September.

1,800 (a) Investments Sub-Committee. The Committee received Private and Confidential Note FC(05)82 with Paper FC(05)96 the draft unconfirmed Minutes of the Unreserved and Reserved business at the meeting of the Investments Sub-Committee held on 30 June 2005.

(b) The Committee noted that the asset allocation ranges had been tightened to be more directive in the shape of the portfolio.

PENSIONS

1,801 (a) Pensions Act 2004 – Notifiable Events. The Committee received Private and Confidential Note FC(05)80 with the following Papers:-

Paper FC(05)91 Notifiable Events – Regulatory Code of Practice.

Paper FC(05)92 Directions from the Pensions Regulator.


(b) Mr Larkum reported that:

(i) the notifiable events framework, which came into force from 6 April 2005, was one of many changes being introduced under the Pensions Act 2004. In this case it was to provide early warning to the new Pensions Regulator of any likely calls on the Pensions Protection Fund;

(ii) it was fairly straightforward framework as the events were clearly defined that related to the financial position of the pension scheme and was linked to the employer;

(iii) the Head of Pensions Administration had been asked to draw up a checklist to include these events;

(iv) the associated Code of Practice recommended that reports should be made as soon as practicable. If the Trustees or the employer become aware of something it should be reported the next day;

(v) in the case of the CPS Managing Committee responsibility for notification lies with the Trustees, however this would be delegated to the Head of Pensions Administration; and
(vi) in the case of the employer, the University, an individual would need to be nominated by the Finance Committee who would inform the Pensions Regulator of any notifiable events.

The Committee agreed that the Registrary, as Secretary to the Finance Committee, would be responsible for notifying the Pensions Regulator of any ‘notifiable events’. Due to the requirement of reporting as soon as practicable the Registrary should report any such occurrence to the next Finance Committee meeting following the event.

PROCESSES AND PROCEDURES

1,802 Internal Loans – Annual Report. The Committee received Note FC(05)83 a list of current internal loans.

PURCHASING

1,803 Purchasing Working Group. The Committee received Note FC(05)88 with Paper FC(05)105 the Unconfirmed Minutes of a meeting of the Purchasing Working Group held on 26 May 2005 and agreed to take note of the information provided.

1,804 EU Public Procurement. The Committee received Note FC(05)76 with Paper FC(05)86 an updated analysis of public/private funding, using audited information for 2004. The Committee agreed to confirm that the University remained less than 50% publicly funded and could continue to declare itself outside the scope of the Regulations.

Vice-Chancellor
14 September 2005