At a Meeting of the Finance Committee held this day,

Present: The Vice-Chancellor, Professor Anderson, Mr Brown, Professor Chase, Mr Larkum, Ms Lowther, Dr Nicholls, 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 and the Academic Secretary;

Apologies for absence were received from Professor Daunton.

1,651 MINUTES

The Minutes of the meeting held on 14 July 2004 were approved.

1,652 REPORT ON ACTIONS

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

Minute 1,650 Finance Committee Business

The Vice-Chancellor commented that the major central bodies needed to examine the flow of business between them and, where necessary, alter programmes of business to improve co-ordination between the bodies.

REPORTED AND STRAIGHTFORWARD BUSINESS

FINANCE COMMITTEE

1,653 Sealings. The Committee received Note FC(04)104 with Paper FC(04)114 a list of sealings authorised by the Acting Treasurer under delegated authority since the previous meeting.
BOARD OF SCRUTINY

1,654 (a) *Ninth Report of the Board of Scrutiny.* The Committee received Note FC(04)97 with the following Papers:-

Paper FC(04)104 Notice by the Council.

Paper FC(04)105 Ninth Report of the Board of Scrutiny.

(b) The Committee noted that the Report would be discussed at the Discussion on 26 October 2004 and that its comments may, in due course, be requested by the Council.

BUILDINGS

1,655 (a) *Buildings Sub-Committee.* The Committee received *Private and Confidential* Note FC(04)110 with Papers FC(04)121 and 122, Minutes of the Buildings Sub-Committee held on 7 July and 22 September respectively.

(b) The Committee agreed:

(i) to take note of the information provided;

(ii) to note the recommendations given in Minutes BSC 04.78 and 04.79; and

(iii) for its part, to approve the recommendations in Minute BSC 04.80 that

(a) in accordance with Grace 6 of 18 February 2004, the Acting Treasurer on advice from the Director of EMBS and the Director of Finance be authorised to commit the University to a long term lease with Addenbrooke’s NHS Trust for the construction and maintenance of the proposed CDC facility; and

(b) the scheme be progressed through financial close to practical completion

1,656 *Minor Works Review Group.* The Committee received Note FC(04)109 with Paper FC(04)120 the Unconfirmed Minutes of the meeting of the Minor Works Review Group held on 27 July 2004 and agreed to take note of the information provided.

ACCOUNTS

1,657 *Loan Fund II.* The Committee received *Private and Confidential* Note FC(04)98 and noted that one new loan had been granted during the period 1 August 2003 to 31 July 2004. There were at present 30 loans with outstanding balances amounting to £66,226 (compared with 37 loans amounting to £88,636 at 31 July 2003). Repayment of all but three of these was being recovered by payroll deductions.
PENSIONS

(a) First Supplemental Amending Deed of the current rules of USS. The Committee received Private and Confidential Note FC(04)99 with the following Papers:-

Paper FC(04)106 Draft Notice by the Council.

Paper FC(04)107 First Supplemental Amending Deed of the current rules of USS, executed on 17 September 2004, together with a letter dated 23 September 2004 from the Pensions Operations Manager of USS Ltd.


(b) The Committee noted that the Deed amended the rules of USS where a member retired early on the grounds of ill health. The amendment introduced a new category of ‘partial ill health’ which would allow members of USS who were suffering from ‘partial incapacity’ to receive an immediate pension from USS. The pension payable would not be enhanced, as would be the case where a member retired as a result of ‘total incapacity’ but would be paid without actuarial reduction to take account of the early payment. The Deed also removed the two-year qualifying period for eligibility for enhanced benefits in the case of an ‘enhanced incapacity retirement’ unless the condition was pre-existing at the date of joining USS when the qualifying period was five years. However, the rules had been amended such that a period of membership of a comparable pension scheme with the same employer would count towards the five-year qualifying period.

(c) The Committee agreed to take note of the above information and to recommend to Council that a Notice should be published in Reporter in the terms of the draft attached as Paper FC(04)106.

PURCHASING

(a) EU Public Procurement. The Committee received Note FC(04)100 with Paper FC(04)109 an analysis of public/private funding using audited information for the financial year 2003.

(b) The Committee noted that the Council, on its advice, had declared the University outside the scope of the EU Public Procurement Regulations, for 2003-04 as calculations showed that it was clearly less than 50% publicly funded. It had been agreed that the calculation would be carried out annually to ensure that it remained possible to make the declaration.

(c) The Committee confirmed that the University remained less than 50% publicly funded and could continue to declare itself outside the scope of the Regulations.
UNIVERSITY FINANCIAL SYSTEM

1,660 Financial System Management Committee. The Committee received Note FC(04)101 with Paper FC(04)110 the Unconfirmed Minutes of the meeting of the Financial System Management Committee held on 21 September 2004. The Committee agreed to take note of the information provided.

MATTERS FOR DISCUSSION AND DECISION

ACCOUNTS

1,661 (a) Accounting Policies. Accounting for pension costs in relation to the Assistant Staff Pension Scheme (CPS): implementation of Financial Reporting Standard 17 (FRS 17) “Retirement benefits”. The Committee received Note FC(04)105 with Paper FC(04)115, an illustrative comparison of adopting FRS 17 and SSAP 24 based on restating the 2002-03 accounts.

(b) The Committee noted that:

(i) since the inclusion of UCLES in the University’s group financial statements the University’s accounting for the CPS was no longer exempt from the detailed disclosure requirements of FRS 17 (Accounting for Retirement Benefits);

(ii) previously the CPS was a multi-employer scheme and was therefore required to be accounted for as a defined contribution scheme. With the inclusion of UCLES substantially all of the employers participating in CPS would be part of the new reporting entity and CPS would be accounted for as a defined benefit scheme;

(iii) the Accounting Standards Board had scheduled FRS 17 to become mandatory in financial statements from 2005-06 and also encouraged early adoption. In the meantime SSAP 24 (Accounting for Pensions Costs) could be used in the transitional period (2003-04 and 2004-05);

(iv) SSAP 24 used a different methodology to FRS 17, with the former being more subjective than the latter; and

(v) the Director of Finance and the University’s external auditors both recommended the early full adoption of FRS 17.

The Committee agreed that FRS 17 be adopted for the 2003-04 financial statements.

Director of Finance
The Committee received Private and Confidential Note FC(04)107 with the following Papers:-

Paper FC(04)117 Unconfirmed Notes of the meeting of the Working Party set up to review the accounts of the Cambridge University Press held on 21 July 2004.

Paper FC(04)118 Unconfirmed Minutes of meeting of the Working Party set up to review the accounts of the University of Cambridge Local Examinations Syndicate held on 19 August 2004.

(b) Professor Minson made the following points on the meeting with the Cambridge University Press:

(i) the quality of information this year was much better and the discussion helpful;

(ii) the Press made an operating loss in 2003 but was in surplus overall because of gains on its investments;

(iii) the Press had in effect three operations: secure printing, general printing and publishing. It was difficult to determine the condition of these individual operations from the accounts; and

(iv) the Press agreed to have an interim meeting with the Working Party at the six month point between annual reviews.

The Registrary commented that at the request of the Press Syndicate a joint committee of the Council and the Press Syndicate had been set up to review the way the Press was structured, and a series of meetings were being held.

(c) Professor Minson made the following points on the meeting with the University of Cambridge Local Examinations Syndicate:

(i) the meeting was very satisfactory;

(ii) the accounts went into great detail and the three arms of the business could be seen transparently;

(iii) UCLES was currently operating at good profit but would need to invest substantial sums in IT in the future; and

(iv) there was some discussion on the appropriate level for UCLES’ free financial assets. The meeting noted that the Director of Finance and the Group Chief Executive of UCLES were in discussion on this point, and that detailed proposals would be made in due course.
1,663 (a) *The Cambridge Trusts.* The Committee received *Private and Confidential* Note FC(04)108 with the following Papers:-

- **Paper FC(04)119** Unconfirmed Notes of the meeting with Representatives of the CCT, COT, CET and Gates Cambridge Trust held on 2 August 2004.

- **Paper FC(04)123** Report from the Finance Committee Working Group following its meeting with Representatives of the CCT, COT, CET and Gates Cambridge Trust.

(b) Mr Brown introduced the item and made the following points:

(i) the meeting had been helpful and open and was a useful mechanism for exchanging information;

(ii) it provided clarification on matters such as 5 Madingley Road;

(iii) undertaking a five-year forward review in the context of anticipated financial circumstances was discussed; and

(iv) the Trusts agreed to have an interim meeting with the Working Group at the six month point between annual reviews.

A member asked whether the Trusts had a reserves policy. The Committee noted that they did not have a formal policy and agreed it was in their own and the University’s interests that they should. The need for reserves, however, was connected with the funding arrangements agreed by the principal donors, including the University, and the Committee understood that discussions were in hand that could lead to longer-term commitments to the Trustees to enable them to match the Trusts’ own commitments to support students. This issue should be resolved before next year’s operating budget was agreed, and the Trustees should then be invited to commit to a declared reserves policy.

1,664 (a) *Financial Statements.* The Committee received Private and Confidential Note FC(04)106 with Paper FC(04)116 a paper prepared by the Director of Finance on the Role of the Audit Committee in Approval of the University’s Reports and Financial Statements.

(b) The Audit Committee would be considering the paper on 14 October and the Finance Committee were invited to comment.

The Committee noted the following points:

(i) the Finance Committee was responsible for recommending the financial statements to the Council. The Audit Committee provided assurance to the Council;
(ii) the HEFCE Audit Code (2004) recommended that the Audit Committee should review the draft audited annual financial statements prior to approval by the Council. The previous code recommended that the Audit Committee may review the draft internal financial statements, although care should be taken to avoid work that properly belonged to the Finance Committee; and

(iii) there were no members of the Finance Committee on the Audit Committee, although the Director of Finance and Registrary attend the Audit Committee as officers and pass on the Committee’s views.

The Committee felt that there should be a clear distinction between the two committees that did not blur the Finance Committee’s responsibilities and maintained the independence of the Audit Committee.

The Officers would pass these views on to the Audit Committee.

**INVESTMENTS**

1,665 (a) The University’s Investments. The Committee received Note FC(04)102 with the following Papers:-

Paper FC(04)111 Unconfirmed Minutes of the meeting of the Investments Sub-Committee held on 28 July 2004.

Paper FC(04)112 Report to the Investments Sub-Committee of the Finance Committee by the Working Group to review Amalgamated Fund distribution and ‘total return’ policy.

(b) The Committee recalled that it had invited its Investments Sub-Committee to report further for its consideration reviewing the distribution policy for the Amalgamated Fund, including consideration of whether or not to implement a total return policy. The Committee had received an oral report on progress at its meeting of July 2004.

(c) The Investments Sub-Committee (Minute 306) had confirmed the Working Group’s conclusions and passed the following recommendations to the Finance Committee:-

(i) that the Amalgamated Fund should change from an income-only to a total return distribution policy as soon as the necessary formal process can be completed;

(ii) that the decision on the distribution formula to be used under a total return policy should be left to a recommendation of the Investments Sub-Committee to the Finance Committee at the appropriate time.
(d) The Committee noted that:

(i) a total return distribution policy would provide for a smoothed dividend distribution over the long-term, without the sharper fluctuations experienced in the recent past, and would be more even-handed in the treatment of current and future beneficiaries;

(ii) a further paper would be brought forward detailing the formula for the total return distribution policy and cover issues such as whether and how the formula would change in relation to market conditions. The formula would closely reflect the real long-term historical return of the portfolio, with a small bias to conservatism in fixing the balance between present and future beneficiaries’ interests to allow for future uncertainties.

(e) The Committee voted unanimously to confirm the recommendations of the Investments Sub-Committee and to recommend to Council that the Statutes be amended to allow a total return distribution policy.

PROCEDURES

1,666 (a) Financial Regulations. The Committee received Note FC(04)103 with Paper FC(04)113 the Financial Regulations for the University.

(b) The Director of Finance introduced the paper and explained that the regulations were the cornerstone of the University’s internal control and had been reviewed and updated following the last major review in 2002.

The Committee made a number of detailed observations on the amendments and agreed that members should write with any comments to the Director of Finance. A further paper would be brought to the next meeting.