At a Meeting of the Finance Committee held this day,

Present: The Vice-Chancellor, Professor Anderson, Mr Brown, Professor Chase, Professor Daunton, Mr Larkum, Ms Lowther, 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 Dr Nicholls.

The Committee noted that Dr Good was no longer a member of the Finance Committee due to his appointment, by the Council, to the Audit Committee. The Council would appoint a replacement in due course.

1,582 MINUTES

(a) The Minutes of the meeting held on 10 March 2004 were approved.

MATTERS ARISING

(b) Cambridge University Assistants’ Contributory Pension Scheme (CUACPS) Managing Committee (Minute 1,578 refers)

The Registrary reported that preliminary legal advice had been sought and the outcome of more detailed advice would be reported to a future meeting.

(c) Contributions Report (Minute 1,554 refers)

The Committee had previously expressed concern at its February meeting that King’s College had not submitted its accounts by the annual 31 December deadline and had subsequently written to King’s enquiring as to when the accounts would be submitted. To date neither a response to the letter nor the accounts have been received.

The Committee felt that such a lengthy delay was a very serious matter that should be followed up. The Director of Finance agreed to draft a letter on behalf of the Committee to the Provost of Kings to be signed by the Vice-Chancellor.
REPORT ON ACTIONS

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

REPORTED AND STRAIGHTFORWARD BUSINESS

FINANCE COMMITTEE

Sealings. The Committee received Note FC(04)43 with Paper FC(04)39 a list of sealings authorised by the Acting Treasurer under delegated authority since the previous meeting.

BUILDINGS

Buildings Sub-Committee. The Committee received Private and Confidential Note FC(04)52 with Paper F(04)53 the Unconfirmed Minutes of a meeting of the Buildings Sub-Committee held on 31 March 2004.

HIGHER EDUCATION FUNDING COUNCIL FOR ENGLAND

Mid-Year Financial Return. The Committee received Note FC(04)40 with Paper FC(04)36 the Mid-Year Financial Return which had been submitted to HEFCE on 18 March 2004.

PENSIONS

(a) Cambridge University Assistants' Contributory Pension Scheme. The Committee received Private and Confidential Note FC(04)45 with Paper FC(04)41 the Annual Report and Accounts of the Contributory Pension Scheme for the year ended 31 July 2003.

(b) A member expressed concern at the timing, contents and presentation of the Report in view of events since 31 July 2003. The Report was a technically sound statement of accounts for the year-end to 31 July 2003. However, it contained no details of the recent actuarial valuation, lump sum payment and change in contribution rates other than a short post balance sheet note.

(c) The Committee noted that:

(i) the Report was within the requirements for reporting as at 31 July 2003;

(ii) the accounts had been approved by the Managing Committee on 12 December 2003, prior to completion of the actuarial valuation. The auditors had signed the accounts on 16 February 2004;

(iii) the Report had in some important respects been overtaken by events;
(iv) the Report would not be published as such, it would be available to members and a Notice would also be included in the Reporter informing members of its availability;

(v) the Finance Committee had discussed this situation on three previous occasions and the advice being sought under Minute 1,578 would be available this term;

(vi) a review of provision of pension benefits was under way.

(d) The Committee agreed that as the external auditors had signed the accounts the Report would go forward as presented. The Director of Finance would write to the Chair of the Finance Committee, summarising the Finance Committee’s discussion. The Registrary also undertook to endeavour to have the advice referred to under Minute 1,578 available for the next meeting of this Committee.

**PROCEDURES**

1,588 (a) *The Money Laundering Regulations 2003 and University Financial Regulations.* The Committee received Note FC(04)39 and noted that HM Customs and Excise had recently issued a new notice for registration of a scheme as part of the 2003 Money Laundering Regulations.

(b) The notice applied to organisations which sold goods (not services) and accepted large cash sums as payment. Such an organisation was considered a High Value Dealer (HVD) if it accepted, or was prepared to accept, the cash equivalent of €15,000 (£9,000) or more for a single sale transaction and must pay a fee and register with HM Customs and Excise by 31 March 2004. There were ongoing compliance costs.

(c) The Committee noted that although the University may on occasions receive payment in cash for the sale of goods, payment would usually be in the form of cheque or electronic BACS credit. Therefore, it was considered sensible for the University to establish its own internal policy not to accept such large amounts of cash as payment and thus declare itself outside the scope of these Anti-Money Laundering Regulations. The Financial Regulations should be amended as follows:

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<th>Extract from Financial Regulations</th>
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<tr>
<td>3.2 Income – General</td>
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<td>Heads of Departments that receive income from the sale of goods or services are responsible for establishing procedures to ensure that all sales are authorised and are made only to acceptable credit risks….</td>
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*In consideration of the Money Laundering Regulations 2003, Heads of Department must ensure that where payment is received in cash, that the sum must not exceed the cash equivalent of €15,000 (£9,000) for any single transaction concerning the sale of goods.*
(d) The Committee agreed to:-

(i) approve the recommendation that the University adopted a policy to declare itself outside the scope of these regulations and thus not become a High Value Dealer; and

(ii) amend its Financial Regulations accordingly.

PURCHASING

1,589 Purchasing Working Group. The Committee received Note FC(04)42 with Paper FC(04)38 the Unconfirmed Minutes of a meeting of the Purchasing Working Group held on 19 February 2004.

UNIVERSITY INSTITUTIONS

1,590 (a) University Farm. The Committee received Private and Confidential Note FC(04)46 with the following Papers:-

Paper FC(04)42 Minutes of a meeting of the University Farm Committee of Management held on 11 March 2004.

Paper FC(04)43 University Farm Financial Statements for the period ended 31 July 2003.

(b) A member questioned the purpose of this item in writing and during the meeting. The Committee was invited to “receive” the Note and two Papers. A more explicit statement under Matter for Decision was required covering whether the documents had been published, why the Finance Committee was receiving them and where in the process the documents were (e.g. should this Committee amend or comment or just receive?). In particular, it should be made clear whether or not the item, once agreed by the Committee, will be regarded in the University as being formally approved by the Committee.

(c) The Registrary responded that the Farm was important to the University in terms of its location and in providing facilities to the Veterinary School, but that this was part of a wider issue that went beyond the format of papers to include the reporting lines and accountability of units such as the Farm. At this point he would not respond to the written comments in detail but would report on the wider issue to a future meeting.

Registrary
MATTERS FOR DISCUSSION AND DECISION

ACCOUNTS

1,591 (a) **Consolidation.** The Committee received Note FC(04)51 with Papers FC(04)51 and 52, final draft letters from the external auditors concerning:

(i) Inclusion of the C.U. Press in the University accounts (Paper FC(04)51); and

(ii) Consolidation of the Commonwealth, Overseas, European and Gates Trusts in the University’s consolidated accounts.

(b) The Registrary reported that the letters were in draft format. The issues for the C.U. Press and the Trusts were different. The Committee felt that the letter related to the Press was exactly right but believed that the merits could be put more strongly in the letter related to the Trusts. The prime issue was that of benefit and who or what was the beneficiary of the Trusts’ activities.

(c) After a short discussion the Committee reaffirmed the view that inclusion of the Press and UCLES and consideration of the Trusts was the correct accounting treatment and that the Finance Committee should confirm that view to the Council. The Registrary agreed to discuss further with the external auditors and to bring their final letters to the next meeting.

(d) In response to a question, the Director of Finance noted that although resolution of these consolidation issues were necessary for the auditors to be able to give a “true and fair” opinion, the University’s current accounting policy on works of art also stands in the way. The Director of Finance was asked to keep the Committee informed of progress in resolving all issues with the auditors.

FINANCE AND RESOURCES

1,592 (a) **Budget 2004-05.** The Committee received Note FC(04)47 with the following Papers:

- **Paper FC(04)44** A paper prepared by the Director of Finance.
- **Paper FC(04)45** Summary of the 2nd Draft Budget and projections.
- **Paper FC(04)46** Extracts of the Minutes of the joint meeting of the Planning and Resources Committee and the Resource Management Committee held on Tuesday 30 March 2004.
The Committee noted that the Planning and Resources Committee and Resource Management Committee had reviewed the First Draft Budget for 2004-05 and projections for three years. They had made changes to form the 2nd Draft Budget.

The Director of Finance presented the 2nd Draft Budget to the meeting and highlighted the following:

(i) the Draft Budget refers to Chest income only (45% of total income), and does not consider in detail non-Chest income. Work was in hand to produce total budgets for 2005-6 onwards;

(ii) the Resource Allocation Model was informing the 2004-5 budget;

(iii) Chest income would be more or less as predicted;

(iv) Chest expenditure was anticipated to be greater than previously expected due to a number of non-budgeted items (e.g. CUACPS lump sum payment, increase in utilities costs);

(v) the impact of the pensions lump sum payment would be to increase the predicted deficit for 2003-4 from £6.1m to £15.6m;

(vi) going forward, deficits had been projected at £12.4m (04-05), £15.4m (05-06), £15.8m (06-07), and £15.2m (07-08);

(vii) break-even for the Chest had previously been timetabled for 2006-07; and

(viii) the Council was anticipated to approve the Allocations Report and Budget at its meeting to be held on 17 May 2004.

The Chairman of the Planning and Resources Committee (PRC) continued and made the following points:

(ix) the PRC meeting of 12 March 2004 had faced a deficit of £22m in the first draft Budget, had the figure for maintenance of £19.25m recommended by the Finance Committee been included the predicted deficit would have been around £26m;

(x) PRC had reduced the £22m deficit to £12.4m through a number of actions including deferral of some investment in the proposed HR/Payroll system to the following year, RAM savings of £1.5m, a reduction in the maintenance budget from
£15m to £13.5m, a reduction in funding to the central administration for some new activity and by including a possible £4m additional contribution from an associated body, (which is under discussion);

(xii) the PRC had also considered further potential savings to reduce the 2004-5 deficit below £12.4m. Options included increasing the general savings target above the 1% cap, reducing funding for the restructuring fund, reducing funding for minor works, reducing contributions to the Overseas, European and Commonwealth Trusts, reducing the equipment fund, and a pay/promotion freeze. The PRC felt that all of the above should be funded as arranged or could not be changed without seriously impacting the work of the University, particularly in the light of the next RAE round;

(xiii) options for increasing income in the future included such opportunities as increasing the number of overseas undergraduate students at the expense of Home/EU students, the introduction of ‘high value’ M.Phil courses, allocating an internal University supervisor to 250 external research students in order to include them in the HESA return (could net up to £2m), an increase of 15 in the number of clinical students, fund-raising and substitutional funding and the more effective use of University space.

The Committee noted the following points:

(i) the budgeting was conservative in that there was no realistic estimate of increased tuition fee or fundraising income;

(ii) the cost of promotions was expected to reach steady state once the present bulge in staff meriting promotion had been addressed;

(iii) the condition of the University estate was not yet an area for concern but a reduced budget had been allocated for a number of years which would have an effect in time. Further analysis on the funding of the estate and to which account building maintenance work and related activity was coded would be required;

(iv) a more specific plan was required to address the deficit going forward;
concern was expressed that the benefit of any further savings may be outweighed by the damage done by making the savings;

(vi) publishing an ongoing deficit of this magnitude year on year sends the wrong signal to the outside world and further work to reduce it would be required;

(vii) UCLES make approximately a £4m recurrent contribution. If UCLES continued to trade well there may be opportunities for further contributions to the University;

(viii) the Press had not been contributing recently other than through printing in kind and in income from the ring-fenced special fund. No contribution over and above this was assumed from the Press in the forecast period; and

(ix) these ongoing deficits would be charged against the Chest Capital reducing the Capital and consequently future income.

The Committee agreed to recommend the following actions to be completed prior to the May 17 Council meeting:

(i) that the predicted deficit for the 2004-5 Allocations Report be reduced below £12m;

(ii) that for subsequent years the Finance Committee have a clear strategy to improve the University’s financial position;

(iii) that quantified assumptions relating to staff savings, fundraising, tuition fee income and other improvements be built into the projections for future years.

The Committee received the following Papers. However due to time constraints the items were not discussed and were deferred until the next meeting of the Finance Committee.

1,593 Investments Sub-Committee. Note FC(04)49 with Paper FC(04)50;

Investments Sub-Committee Terms of Reference. Note FC(04)48 with Paper FC(04)49;

Mileage and Subsistence. Note FC(04)50;

Interest Free Travel to Work Loans. Note FC(04)41 with Paper FC(04)37; and

Salary Sacrifice Scheme – Childcare Provision Note FC(04)44 with Paper FC(04)40.

The meeting closed at 13.15.

Vice-Chancellor
12 May 2004