At a Meeting of the Finance Committee held this day,

Present: The Vice-Chancellor, Professor Anderson, Mr Brown, Professor Chase, Professor Daunton, 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.

1,633 MINUTES

The Minutes of the meeting held on 16 June 2004 were approved.

1,634 REPORT ON ACTIONS

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

(a) The Registrary reported progress on consolidation of the Cambridge University Press and the Trusts (Minute 1,625 (c) and (d) refer).

In the case of the Press, reservations had been expressed but the Chairman of the Press Syndicate had indicated that the Syndicate would do all possible to achieve what the Council needs. A Working Party had also been convened to look at development of the business and its structure.

Discussion with the Trusts continued regarding the Deloitte and Touche letter on consolidation. Although the advice from the Trusts’ advisors was unlikely to change Deloitte and Touche’s view, discussions had been more positive.

In both cases, the Registrary felt that the Trusts and Press would feel more comfortable once possible presentation and disclosures in a draft Treasurer’s Report and in pro-forma financial statements had been seen, and was cautiously optimistic that the issue would be resolved in time for the publication of the 2004-05 financial statements.
(b) On another matter the Registrary reported that the Audit Committee had indicated that it would be useful to receive the Finance Committee Minutes on a regular basis. This would enable the Audit Committee to be aware of substantial issues coming to the Finance Committee. The Finance Committee had no objection to this arrangement.

REPORTED AND STRAIGHTFORWARD BUSINESS

FINANCE COMMITTEE

1,635 Sealings. The Committee received Note FC(04)82 with Paper FC(04)88 a list of sealings authorised by the Acting Treasurer/Director of Research Services under delegated authority since the previous meeting.

1,636 Uncompleted Business. The Committee received Note FC(04)93 with Paper FC(04)99 a list of Uncompleted Business.

1,637 Committees. The Committee received Note FC(04)94 and agreed the following appointments:

(a) Mr. Larkum as Chairman of the C.U. Assistants’ Contributory Pension Scheme Managing Committee to 31 December 2004 in place of Dr. Hanka; and

(b) Professor Chase as its representative on the Value for Money Committee.

On behalf of the Finance Committee, the Vice-Chancellor expressed gratitude to Dr. Hanka for his service, and to Mr. Larkum and Professor Chase for their willingness to serve.

TELECOMMUNICATIONS

1,638 Joint Telecommunications Management Committee. The Committee received Note FC(04)87 with Paper FC(04)93 the Unconfirmed Minutes of the meeting of the Joint Telecommunications Management Committee (JTMC) held on 18 June 2004 and agreed to take note of the information provided.

BUILDINGS

1,639 Minor Works Review Group. The Committee received Note FC(04)83 with Paper FC(04)89 the Unconfirmed Minutes of the meeting of the Minor Works Review Group held on 25 June 2004 and agreed to take note of the information provided.

1,640 (a) Buildings Sub-Committee. The Committee received Private and Confidential Note FC(04)96 with the following Papers:-
Paper FC(04)101 Details on Richard Saxon who had been nominated by the Buildings Sub-Committee as a lay member to fill the vacancy created by the resignation of Mr. Partridge.

Paper FC(04)102 Anatomy/Physiology Development.

Paper FC(04)103 Car Parking on University Sites.

The Committee noted that the Buildings Sub-Committee had met on 7 July 2004 and that the above items had been brought to it ahead of the Unconfirmed Minutes which would be received at its meeting in October.

(b) Membership (Paper FC(04)101)

The Committee:

(i) noted the nomination of Richard Saxon as an external member, and agreed his appointment; and

(ii) had agreed to invite the Council of the School of the Arts and Humanities to nominate a new member to replace Dr. Thompson. However, the Finance Committee commented that the Chairman of the Council of the School would usually be the representative. The Buildings Sub-Committee was in the process of being reconstituted and it was agreed that Dr. Thompson’s replacement should be the Chair of the Council of the School.

(c) Anatomy/Physiology Development (Paper FC(04)102)

The Committee approved the recommendations of the Buildings Sub-Committee that:-

(i) a budget be set of £3.7M, including VAT, professional and statutory fees, contingency, client reserve and inflation to mid-point of construction 2005;

(ii) the warrant be raised by an additional £3.48M to the full budget; and

(iii) the Pro-Vice-Chancellor (Planning & Resources) as Acting Treasurer be authorised to accept first and second stage tenders dependent upon a minimum of 85% cost certainty being achieved.

(d) Car Parking on University Sites (Paper FC(04)103)

The Committee confirmed that the existing car parking policy should be retained.
1,641  (a)  *Standard Indemnity Clause for collecting Direct Debits.*  The Committee received Note FC(04)90 with Paper FC(04)96 the Direct Debit Standard Indemnity.

(b)  The Finance Division and EMBS had looked into the methods used for the collection of regular payments for items such as rent from tenants of non-operational buildings, using either standing orders or regular cheque payments, and the limitations imposed by those methods e.g. delayed payments to the University.  The use of Direct Debits was examined and the benefits noted.  It was noted that the University was required by its Bankers (Barclays Bank Plc.) to approve the Standard Indemnity issued by all banking institutions wishing to collect payments by Direct Debit.

(c)  The Committee approved the recommendation that the University accept the Direct Debit Standard Indemnity issued by its Banker.

1,642  (a)  *Internal Loans Policy and Procedure.*  The Committee received Note FC(04)88 and noted that a number of Internal Loans had been made and funded by the Chest.  Interest was charged by the Chest to mitigate the opportunity cost to the Chest in advancing the loans rather than investing the funds externally.  There had been little consistency in the terms and rates applied to internal loans and there was no approved policy on eligibility or application procedures.  The proposed policy and procedure would ensure consistency for any future loans.

The Committee welcomed the policy and procedure but recommended that:

(i)  the Finance Committee receive a list of internal loans on an annual basis;

(ii)  the Finance Committee receive notice of any department that defaults on its loan;

(iii)  the interest rate stated should refer to the outstanding balance; and

(iv)  a reference to the term of the loan should be included.  

**Director of Finance**

(b)  The Committee approved (subject to (i)-(iv) above):

(i)  the proposed Policy and Procedure as set out in Note FC(04)88; and that

(ii)  the Director of Finance be authorised to approve Internal Loans to a maximum value of £1m.
Purchasing Working Group. The Committee received Note FC(04)84 with Paper FCV(04)90 the Unconfirmed Minutes of a meeting of the Purchasing Working Group held on 27 May 2004.

Public Supply, Works and Services Contracts Awarded in 2003. The Committee received Note FC(04)85 with Paper FC(04)91 HEFCE Publication 2004, Public supply, works and services contracts awarded in 2003 together with survey forms duly completed on behalf of the University.

The Committee noted that there were two contracts above the threshold where OJEC advertisement had not been made, and that these were with good justification.

Matters for Discussion and Decision

Accounts

Financial Statements: Accounting Policy Review: Assets of Historic, Scientific or Artistic Importance (replaces Works of Art policy). The Committee received Note FC(04)86 with Paper FC(04)92 ‘Historic Assets’ – an analysis of the University’s assets of ‘acknowledged historic, scientific and artistic importance’.

The Committee noted the following:

(i) the current ‘works of art’ accounting policy excluded assets of this nature from the financial statements. They were expensed in the year of acquisition as it was difficult to assign a meaningful value to them;

(ii) current UK accounting practice and the HE SORP required adherence to the FRS15 accounting standard which required the inclusion of such assets in the balance sheet;

(iii) that Deloitte and Touche would be unable to give a ‘true and fair’ opinion of the University’s financial statements if FRS15 were not followed;

(iv) that the paper recommended a change in accounting policy so that all newly acquired or donated historic assets, starting from 1 August 2004, would be capitalised and included in the balance sheet;

(v) it was not proposed that these assets be depreciated; their book value at cost or valuation would be offset against the funding received;

(vi) only those assets over £10k would be capitalised in line with the threshold adopted by the University at which assets were capitalised, although the Finance Division may propose an
increase in this ‘de minimus’ limit in the future when the ongoing review and updating of the fixed asset register had been completed; and

(vii) the impact on the Income and Expenditure Account was not expected to be significant.

The Committee approved the change in accounting policy.

1,646 Deloitte and Touche Management Letter 2002-03. The Committee received Note FC(04)95 with Paper FC(04)100 a progress report, as at June 2004, on points arising from Deloitte and Touches’s Management Letter. The Audit Committee had indicated that it was content with the progress made.

The Committee recommended that more robust comments be inserted in the ‘Progress at 30 June 2004’ column under sections 9a and 9b on Information Technology.

1,647 (a) University of Cambridge Local Examinations Syndicate. The Committee received Private and Confidential Note FC(04)89 with the following Papers:

Paper FC(04)94 Annual Report and Accounts of UCLES for the year ended 30 September 2003.

Paper FC(04)95 Group Management Accounts for the year ended 30 September 2003.

For discussion see Minute 1,468(b)

1,648 (a) Cambridge University Press. The Committee received Private and Confidential Note FC(04)91 with Paper FC(04)97 the Annual Report and Accounts of the Cambridge University Press for the year ended 31 December 2003.

(b) The Committee noted that Working Parties had been appointed and would be meeting with representatives of UCLES and CUP and their auditors.

The Committee was asked to pass any comments on the Accounts of UCLES or the CUP to the Director of Finance, who would forward them to the relevant Working Party.

INVESTMENTS

1,649 The University’s Investments. Mr. Larkum made two oral reports.

1) The first related to the Amalgamated Fund dividend. Mr. Larkum made the following points:
the Investments Sub-Committee (ISC) of the Finance Committee had noted that the estimated dividend of the Amalgamated Fund may not be covered by income in 2003-04 and the members were concerned. The Finance Committee had responded by asking the ISC to investigate the issue, and on 25 March 2004 it convened a Working Group to consider the whole question of Amalgamated Fund distribution policy;

the Working Group would make its report to the ISC on 28 July and anticipated that the ISC would recommend to the Finance Committee that the University adopt a total return distribution policy for the Amalgamated Fund, as opposed to the current income-only dividend policy. A change in the University’s Statutes and Ordinances would be needed to enable this. The ISC would also make a recommendation to the Finance Committee on the level of the distribution using a formula based on capital values and a historically-based long term payout rate, likely to be around 4.25%;

a move to a total return policy would require the approval of the Regent House and changes to Statutes. The University would need to consider the implications of adopting the policy in advance of such changes. Under existing arrangements, however, the dividend for 2003-04 should use only available income (including the balance brought forward in the income reserve), and not fund capital.

in previous years any shortfall in current income had been paid from previous years’ accumulated income reserve. However the income reserve had been depleted by payments of special dividends in recent years and very little remained. Given the difficulty of predicting investment income at the start of the year, it was not possible in the absence of an income reserve to forecast the dividend with any assurance. With a total return policy it would be possible to determine the distribution with precision

The Committee made the following points:

it was difficult to take a view overall without the report, although the decision to limit the dividend for 2003-04 to available income was simply following the Statutes and charity law;

the effect in the final quarter of using only available income would be that approximately £4.5m as opposed to £7.1m would be paid for that quarter’s dividend. The
reduction in total 2003-04 dividend would not have a significant impact on Chest Income or the Income and Expenditure Account;

(vii) concern was expressed that some departments may have a shortfall at the end of the year if the dividend was less than had been anticipated. It was pointed out that a lower dividend would mean the value of the units would be correspondingly higher so there may not be a significant impact. The University’s trust funds as a whole have significant unspent but spendable income, but some departments’ trust funds are stretched to support their expenditure;

(viii) it was understood that the Board of Scrutiny had raised the issue of the Amalgamated Fund’s distribution policy and the Finance Committee and the Council would need to respond in due course. The Council could indicate to the Board of Scrutiny that this was work in progress, that a total return policy was under consideration, and a report would be published in the Michaelmas term;

(ix) that the point in the year the dividend was paid and the formula used for the total return policy would be crucial.

The Committee agreed to recommend to the Council that the final quarter dividend from the Amalgamated Fund should only use available income and not use any capital.

2) The second Working Party was convened by the Finance Committee to examine the present management arrangements for the Amalgamated Fund and other investments.

Mr. Larkum made the following points:

(i) there was no draft report from the Working Party available as yet;

(ii) evidence had been collected widely, including from a number of individuals who managed similar funds;

(iii) he thought that some of the Working Party’s recommendations would be considered radical;

(iv) if the University adopted a total return distribution policy this would substantially change the environment for the University’s overall investment policy;

(v) consideration needed to be given to the most effective structure to take advantage of the broader investments horizon resulting from the distribution policy change. The Working Party may recommend that a small investment secretariat be created to support increased and
more diverse investment activity. Currently there was one fund manager for the securities element of the Amalgamated Fund; and

(vi) in the future the ISC might itself need a new structure, with members who were able to monitor effectively the activities of fund managers.

The Committee noted that any changes should be in place before the 800th year campaign, that recent changes to the Oxford Colleges’ accounts had resulted in adverse publicity and that Cambridge should be prepared for a similar media response.

The Vice-Chancellor thanked Mr. Larkum and the Working Parties for the work carried out so far.

FINANCE COMMITTEE

1,650 (a) *Finance Committee Business.* The Committee received Note FC(04)92 with Paper FC(04)98 a review of the main categories and items of business to be brought to the Committee.

(b) The Director of Finance presented the paper and noted that it listed the main categories of work across the three terms. It would enable the Committee to define its agenda more clearly and look at particular items in greater depth, possibly with a presentation.

The Finance Committee welcomed the paper and found it very helpful. Any comments should be passed to the Director of Finance.

*Director of Finance*

*Vice-Chancellor*

*13 October 2004*