

## REPORTS

### Eighth Report of the Board of Scrutiny

The BOARD OF SCRUTINY begs leave to report as follows;

1. The Board of Scrutiny is the University's official 'watchdog body'. As such, it forms part of the official mechanism for ensuring that the University is run in a way that is transparent, and accountable to the governing body of the University, the Regent House. It comprises eight directly elected members who serve for a period of four years, and the Proctors and Pro-proctors (who are nominated by the Colleges and elected by the Regent House). Of the members who are

directly elected by the Regent House, four retire and four new members are elected every two years.<sup>1</sup>

2. In detail, the Board has a statutory obligation 'to scrutinize on behalf of the Regent House', the governing body of the University:

- (i) the Annual Report of the Council,
- (ii) the Abstract of the Accounts of the University, and

<sup>1</sup> The Board is pleased to note that in the election in May 2003 seven candidates stood for the four vacancies, and in the resulting poll 1,280 votes were cast.

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#### List of acronyms:

CAPSA – not an acronym, but the Latin word for a book storage box, adopted as a name for the project to introduce the University's computerized commitment accounting system.

CUFS – Cambridge University Financial Systems, the system that resulted from CAPSA.

CUP – Cambridge University Press

EMBS – Estate Management and Building Service

FRS – Financial Reporting Standards

FTSE – Financial Times – Stock Exchange

FWP – Finance Working Party

HE – higher education

HEFCE – Higher Education Funding Council

IT – information technology

KPMG – Klynveld Peat Marwick Goerdeler

QR – quality related

RAM – Resource Allocation Model

RAMDOG – Resource Allocation Model Development and Organization Group

RAE – Research Assessment Exercise

STV – Single Transferable Vote

UCLES – University of Cambridge Local Examination Syndicate

UL – University Lecturer

(iii) any Report of the Council proposing allocations from the Chest.

It also has 'the right of reporting to the University on any matters falling within the scope' of this scrutiny. It also has the power to inspect any documents that are relevant to an enquiry that it is empowered to make.

3. Eight years ago, in the first year of its operation, the Board decided that it would be more useful to the Regent House to publish at the end of the academical year one single document exploring the themes that emerge from these Reports and the Abstract of Accounts, rather than a series of separate Reports on Reports. This eighth annual Report takes what has now become the usual form.<sup>2</sup>

4. In carrying out these functions during the academical year 2002–03 the Board of Scrutiny met fortnightly during each Full Term, with three extra meetings during June and July to finalize its Annual Report. It held meetings with the Registrar, the Treasurer and the Director of Finance, the Director of EMBS<sup>3</sup>, the Director of Personnel, and the Chairman of the Board of Graduate Studies (to all of whom we are grateful for the time and help they gave us). In May 2003 it also held a meeting with Mrs Anne Campbell, MP. Other activities of the Board are described in the rest of this Report.

## FINANCIAL MATTERS

### *Introduction*

5. The bulk of the Board's Seventh Report last year concerned the University's finances, and it is to these that we return at the start of our Annual Report this year.

### *Financial matters – the deficit: background*

6. In our Seventh Report we pointed out that the annual Allocations Report, which is in essence the University's budget, showed for 2002–03 a projected deficit for the Chest for 2002–03 of £11.6m and further deficits of £15.7m, £18m, and £20.5m projected for the next three years. We also pointed out that this £11.6m had been calculated after taking into account the effects of a deficit containment exercise; which meant that the targeted deficit of £11.6m was not the real deficit, but the deficit after significant deferrals of expenditure, so that the position was worse than it at first appeared. The immediate consequences of the deficit were an urgent economy drive, the principal manifestation of which was a freeze on the filling of academic posts. The long-term implications were that, unless the matter was addressed, the University would have to start liquidating its endowments.

7. As to the immediate causes of the deficit we indicated

- an early retirement programme that eventually proved costly
- a significant growth in grant-funded research, without adequate provision by the Research Councils and other funding bodies to cover overhead expenses or the costs of the administrative infrastructure
- promotions to personal Professorships and Readerships, combined with supplementary payments, without regard to the cost

- new buildings, with insufficient analysis of the impact of maintenance and running costs on the University in the medium or longer term
- budgeting based on 'historic[al] expenditure patterns' when the funding councils have been pressing for economies
- growth rather than reallocation as a way of funding new initiatives
- CAPSA<sup>4</sup>

8. The underlying cause of all this, we suggested, was that, during the last decade, decisions had been taken or policies allowed to evolve that, with proper management accounts, forecasting, and analysis could have been predicted to have caused problems. One year on, we still believe that our analysis was essentially correct.

9. In response to the budget deficit, the Planning and Resources Committee eventually<sup>5</sup> set up a Finance Working Party in May 2002, chaired by Pro-Vice-Chancellor Grant. This produced a Report in March 2003, a summary of which was published on 12 March (*Reporter*, pp. 697–700), and the full text of which was made available on the University website.<sup>6</sup> The Report was based on a series of six detailed 'Special Studies', covering the following matters: the funding of teaching, research funding, staff costs, the University estate, student fees, and list of other matters (notably trust funds).<sup>7</sup> Our assessment of the FWP and its recommendations are set out below.<sup>8</sup>

### *The current financial position: the deficit today*

10. The new Allocations Report of June 2003<sup>9</sup> provides information about the current state of the University finances, proposes a budget for the forthcoming academical year, and proposes financial 'targets' for 2004–05, 2005–06, and 2006–07.

11. The Allocations Report is the nearest thing that exists in the University to an annual budget. However, it is not an annual budget in the proper sense, for a number of reasons. It does not budget income and expenditure in the same form and terms as the University's statutory accounts; it mixes revenue and capital items and does not budget for the effect of capital spend on annual statements (i.e. depreciation); and – perhaps most significantly – because the information it contains is incomplete. This is because it only deals with one part of the money, namely 'Chest income', which (as is explained in the Allocations Report itself)<sup>10</sup> 'consists of Funding Council grants, home and overseas fees, endowment income, a share of research grant overheads, transfers from CUP and UCLES, and certain other operating income.' It thus does not cover 'non-Chest' income', which is 'income from trust funds, special funds, the direct cost element of research grants and contracts and departmental

<sup>4</sup> See 'CAPSA and its implementation – Report to the Audit Committee and the Board of Scrutiny', by Professors Anthony Finkelstein and Michael Shattock, 25 October 2001; *Reporter*, 2 November 2001, pp. 154–205.

<sup>5</sup> This had been under discussion for a year, since the risk of a deficit had first emerged in June 2001; see the Eighth Report of the Board of Scrutiny, paragraph 15.

<sup>6</sup> <http://www.admin.cam.ac.uk/cam-only/committee/prcl/report/>

<sup>7</sup> Access to which the Board was initially denied: see paragraph 91 below.

<sup>8</sup> Paragraph 15–29.

<sup>9</sup> *Reporter*, 18 June 2003, p. 1074.

<sup>10</sup> *Ibid.* Footnote 1.

<sup>2</sup> The next stage is described in paragraph 88 below.

<sup>3</sup> See list of acronyms.

share of overheads, self-supporting accounts, services rendered, and residences and catering.' This incomplete form of budgeting reflects University tradition, rather than (of course) any official desire to hide things. However, as the Board has pointed out on previous occasions, it is not satisfactory and the University clearly needs to introduce 'joined-up budgeting' – without which the University is in the dark as to the deficit to be managed. The Board is therefore glad to learn that it is proposed to correct this unsatisfactory situation in next year's Allocations Report (paragraph 12).

12. The first major point that emerges from the Allocations Report is that, happily, the projected deficit on the 'Chest' for the academical year 2002–03 will probably be rather smaller than was foreseen a year ago. Although firm figures are not yet available, it looks as if the Chest deficit for 2002–03 will eventually be £8.4m – £3.2m smaller than the £11.6m foreseen a year ago.

13. The second point that prominently appears from the Allocations Report is that the budget for the forthcoming academical year is predicted to produce a further deficit – but this time a smaller one of £5m. The budget that is destined to produce this will allow 'the building maintenance budget to be restored to adequate levels' and also cover the anticipated capital costs of the new student records system. That it is possible to do this, and end up with a deficit less than half of the one foreseen a year ago for the current academical year, is due in part to various economy measures; but it is partly due to extra income, a large part of which is an increase of some £4.1m in grant from HEFCE in respect of research: the 'QR'<sup>11</sup> allocation' – which is paid out to Universities taking account of their performance in the 2001 RAE, in which Cambridge did exceptionally well.

14. In paragraph 51, the Allocations Report concludes that the deficit on the Chest can in principle be gradually reduced, so that after two further years of deficit, expenditure and income finally balance again in 2006–07. However, this projection is made on the basis of a series of assumptions including: that the recommendations of the Finance Working Party are carried out in full (see paragraphs 15 – 22 below), that the HEFCE grant is increased as proposed in the Government's White Paper, that pay increases stay broadly in line with inflation, and that national insurance and pension contributions remain at current rates. In the view of the Board, some of these assumptions look distinctly optimistic, particularly those concerning pay and pensions.<sup>12</sup> Furthermore – and most significantly – paragraph 51 of the Allocations Report must be read together with paragraph 52, which says that 'In addition to "business as usual" projections, further savings and/or increases in income will be necessary to achieve the target of break-even on the Chest by 2006–07'. The true implication of this emerges from the Supplementary Tables, which suggest that the further savings or increases necessary to break even in 2006–07 are substantial: in the order of

<sup>11</sup> See list of acronyms.

<sup>12</sup> Pay has been increasing at above the rate of inflation for many years and it seems likely to continue to do so, particularly in the light of the steep rise in the price of housing in Cambridge. Twenty-five years ago, in 1978, the bottom step on the UL pay-scale was £4,133 per annum, and the cheapest houses in the city cost from £18,000 upwards – so that a newly-appointed UL could aspire to buy one on a University stipend. Today the equivalent figures are £23,296 and £180,000, and purchasing a house on such a stipend is out of the question.

£9.5m.<sup>13</sup> With regret, the Board therefore agrees with the Council when it observes that achieving a break-even on the Chest by 2006–07 'will be difficult to achieve and will involve on-going challenges for all budget-holders'. In other words, the deficit remains a serious problem for the University.

#### *The recommendations of the Finance Working Party*

15. The Report of the Finance Working Party (see paragraph 9 above) underlines the seriousness of the problem. Among the causes of the deficit that it identifies are some matters mentioned last summer in the Board of Scrutiny's Seventh Report. Among these are the growth of the estate, in connection with which the Working Party mentions the need to 'focus decision making on the whole-life costs of new projects and how they will be met'. The Finance Working Party also mentions the 1998–99 early retirement scheme, in connection with which – surprisingly – it seems that 'there was no contemporary analysis' to evaluate retrospectively whether it saved the University any money, or whether on the contrary it produced (as the Board suspects) the opposite effect. The Working Party also stressed (as the Board of Scrutiny has often done) the inadequacy of a process of budgeting that takes account of Chest income only, and the need to move to an integrated system.

16. The Working Party examines the University's different income sources, and the possibilities of increasing them – and then looks at the University's different heads of expenditure, carrying out the same exercise in reverse. It concludes that in the short term there is some room for raising extra money, and some room for making economies – which if taken together 'will remove £17.5m from the baseline by 2006–07'. However 'that is still insufficient, on current financial projections, to meet the break-even target by that year'.<sup>14</sup> If all these measures were implemented the annual deficit on the Chest would cease to grow, but a series of annual deficits would still arise which, when added all together, would mean – alarmingly – that by 2006–07 it would have been necessary to find a total of £63.7m from other University resources to keep the Chest financially afloat.<sup>15</sup>

17. As a solution, the Finance Working Party proposes the Resource Allocation Model (RAM). This is not clearly stated, because the summary of the Report that was published in the *Reporter* stresses that 'A Resource Allocation Model (RAM) is not a solution to this or other problems ...'.<sup>16</sup> However, the full Report, as well as the Special Studies, make it clear beyond any doubt that the introduction of the RAM is indeed proposed to solve the problem.

18. The proposal for a RAM antedates the Finance Working Party's Report. A consultative document on the subject was published to Faculties and Departments in January 2002, on which the Board of Scrutiny commented in its Seventh Report last year. At the time this Eighth Report is written, the scheme is being further elaborated by a Committee, carnivoreously entitled RAMDOG.<sup>17</sup> The version of the RAM that RAMDOG eventually produces may differ importantly

<sup>13</sup> *Reporter*, 18 June 2003, p. 1084, lines 32 and 36.

<sup>14</sup> FWP Report, paragraph 104.

<sup>15</sup> *Ibid.* paragraph 111.

<sup>16</sup> *Ibid.* paragraph 7.

<sup>17</sup> Resource Allocation Model Development and Organization Group.

from the original proposal – on which the Board of Scrutiny's observations in this Report are necessarily based.

19. Put simply, the RAM will be a formula according to which the University's income, shorn of the HEFCE money that is passed on to Colleges, is divided up between Faculties and Departments in a way that more or less – or less or more – relates to the sources from which that income stems. For the recipients, this sum will be a firm cash-limit, which (at least in theory) cannot be exceeded. From this sum they must arrange to meet all their own expenses, plus a pre-determined share of various central costs, including those of the central administration. And if, because of declining finances, there is not enough money to do what the School, Faculty, or Department wants, these bodies will have to decide what new activities do not take place – or more radically, what existing ones are to be cut down, with the possible consequence that jobs will disappear. Under the version of the RAM that is currently proposed for Cambridge, the RAM formula will determine how the available money (and central costs) are to be distributed among the Schools (i.e. groups of Faculties and Departments), rather than among the individual Faculties and Departments themselves. Thus how the available money – and any resulting cuts – will eventually be shared out among the individual Faculties and Departments will be initially decided at the level of the Schools.

20. The Board of Scrutiny accepts that the Report of the Finance Working Party represents a serious attempt by the University to face up to its financial problems. However, the Board believes that the solution it proposes is flawed in a number of crucial respects.

21. In the first place, the RAM (at least in the form in which it was initially proposed) would operate by imposing economies on the Faculties and Departments – i.e. the parts of the University that carry out its basic functions of teaching and research – without imposing any equivalent financial discipline on the central administration and central services. Nowhere in the Finance Working Party Report, or in any other document that the Board is aware of, has any meaningful mechanism yet been proposed under which any equivalent form of cash-limiting is to be imposed upon what might be called 'the management'. In making this point, the Board of Scrutiny is aware that there is a case for saying that Cambridge has seriously underfunded its central administration in the past.<sup>18</sup> And it is also aware that, in its Seventh Report last year, the Board expressed the view that the conduct of business by the central bodies suffers from the fact that it has insufficient support from the higher levels of the University civil service – which on the face of it suggests that the central administration needs more people at a senior level, which once again probably implies spending extra money. But, if more money should be spent on the central administration, this should be done by working out in a principled and detailed manner what is needed, deciding how much of this can be afforded out of money that would otherwise support teaching and research, and allocating to that end a sum that cannot be exceeded. Particularly in times of

financial difficulty, the centre should not be left, like Topsy, just to grow.<sup>19</sup>

22. Related to this is the point that, under the original RAM proposal, it is only 60 per cent of the income of the University that would be distributed to Schools, Faculties, and Departments via the RAM, and it is out of this 60 per cent that – apparently – all the savings necessary to restore the budget to equilibrium are expected to be made. Among the possible inequities that flow from this is the fact that it is the Faculties and Departments that have 'earned' the extra income recently arriving in the form of increased QR funding from HEFCE paid in recognition of the University's excellence in research – but they will have to bear the brunt of any future cuts.

**Recommendation I: the RAM should contain, or be implemented together with, measures that impose a similar financial discipline on the central administration**

23. Secondly, and much more fundamentally, a cost-cutting exercise that operates through the RAM means that vital decisions of principle about the future shape of the University are made, not by a transparent process of open discussion leading to principled decision, but in a less transparent manner in the course of the detailed construction of the RAM. A Resource Allocation Model is a human construct: it is not a natural law, like the rules of thermodynamics, that is immutable, and which scientists discover and describe. To change the metaphor, it is an animal that has been genetically engineered, by creators who have a result in mind that they hope it will achieve. What it will do therefore depends entirely on the desires of those who frame it, and their competence to turn their desires into a mathematical form. To put it in technical terms, everything depends on what algorithms are employed, what the parameters are, and on whether sensitivity analyses have been performed. And whether what the formula will do actually reflects the wishes of the University depends on who draws it up, and on whether the relevant University body that finally approves and implements their handiwork actually grasps what the effects of the formula will be.

24. The Board hopes that when the version of the RAM is published the algorithms and parameters on which it is based will be clearly explained, and that the Regent House will have an opportunity to examine and discuss them.

25. Here the Board of Scrutiny stresses once again a point it made last year: that before the University proceeds to implement a RAM, 'there should be an open discussion about all aspects of funding, especially the difficulties facing small Departments<sup>20</sup> and subjects with low HEFCE ratings. An open acceptance of the probable need to support such Departments and subjects disproportionately from discretionary income seems to be a necessary prerequisite before a transparent RAM with a proper understanding of costs can be decided'.<sup>21</sup>

<sup>18</sup> See in particular Professor Michael Shattock's Report on the CAPSA affair, *Reporter*, 2 November 2001, paragraph 2.1. The Board of Scrutiny also made this point in its Second Annual Report in 1997, and in its Fourth Annual Report in 1999.

<sup>19</sup> The Board understands that a working group has been created to examine how central budgets are to be tested and negotiated.

<sup>20</sup> A subject also specifically mentioned in the Board of Scrutiny's Sixth Report, *Reporter*, 20 June 2001, at p. 882.

<sup>21</sup> Seventh Report, Paragraph 46 [Recommendation IV].

**Recommendation II: that before the RAM is introduced, there should be an open debate within the University about the future of small Departments and subjects with low HEFCE ratings**

26. Related to this issue is another matter that the Board of Scrutiny has repeatedly mentioned in its Annual Reports:<sup>22</sup> at present, the University has no meaningful strategic plan. This much was recognized by the Finance Working Party itself, which in an introductory section of its Report said this:<sup>23</sup>

'The University is handicapped by the lack of an up-to-date strategic plan. During a period of financial stringency it would have been extremely helpful to have had a framework which indicated key priorities for scarce funding, and which would therefore guide decisions on what might be cancelled or deferred.'

With these remarks the Board wholeheartedly agrees.

27. However, the Board disagrees with the sentence that follows, where the Finance Working Party adds:

'When the University has decided its financial strategy, work on the plan must recommence [our italics]. It remains an urgent need to reach agreement on a plan and work must be taken forward as soon as possible ...'

28. The Board accepts that the Finance Working Party was obliged to start from where it was: but this is to put the cart before the horse. Developing policy and financial strategy is an iterative process, which should be carried out in the light of an overriding vision and strategy for the University. The University should formulate a strategic plan, with a clear order of priorities, indicating not only what must be done, but also which of its activities are the core ones, and what else can therefore be abandoned if the money does not run to it.

29. Thus the Board of Scrutiny believes that the University, despite notable efforts, has still not faced up adequately to its financial problems.

**Recommendation III: the Council should prepare a strategic plan for the University**

*Accounting matters: preparation of the external audit – the 'management letter'*

30. At each year's end, the University's accounts – like those of other bodies – are audited by external auditors.

31. A step in the audit process is for the auditors to draw up a list of broad issues that cause them disquiet, and to make recommendations on points which come to their attention during the audit, against which the responses of the body are recorded. This joint record is called a 'management letter'. At the end of the academical year 2001–02 the University's new external auditors, Deloitte and Touche, drew up two such management letters: an interim letter dated November 2002, and a final letter dated January 2003.

32. The Board of Scrutiny has seen the management letters and notes that they draw attention to a number of aspects of the University's traditional accounting practices, many of which the Board of Scrutiny has

<sup>22</sup> 'There is growing evidence that not all elements of the building programme form part of an explicit strategic plan and that the consequences of such growth have not been fully thought through. Last year the Board brought the matter to the attention of the Regent House and asked that "the Council should organise open debate within the University about what its policy should be about the rate of future growth" (*Reporter*, 20 June 2001, paragraph 5).'

<sup>23</sup> Paragraph 20.

criticized in the past. The letter was, however, prepared on the basis that it was not to be quoted without the auditors' consent, which they were not prepared to give.

*The annual end of year accounts and the cautious verdict of the auditors*

33. As usual, the external auditors' report was published, together with a report from the Treasurer and a summary of the year's accounts, in a document that appeared in the *Reporter* under the title 'Financial Statements (Abstract of Accounts)'.<sup>24</sup>

34. On a positive note, the Board would like to point out to the University that this year's Abstract of Accounts was produced in a form that was more intelligible and informative than in the past, not least because it includes details of the capital expenditure programme. On this it congratulates the Finance Committee and the Director of Finance. But if the style is good, in one respect the contents of these documents this year give cause for worry.

35. When any organization undergoes external audit, the hope and expectation is that the auditors will formally state that the accounts 'give a true and fair view of the state of affairs' of its financial position. If the auditors will not do so, this is in principle a serious matter. In previous years, the University's former accountants, KPMG – with whom the University parted company in the aftermath of the CAPSA affair, in which KPMG<sup>25</sup> were implicated<sup>26</sup> – were content to certify the University's accounts as 'true and fair'. This year, however, the University's new auditors (Deloitte and Touche) did not feel able to include these key words in their opinion.

36. Instead they tell us that:

'The Council has adopted accounting policies as required by the Statutes or which the Council has determined appropriate. These policies do not permit the financial statements to comply with applicable United Kingdom accounting standards, in that the entities set out in the basis of preparation note which forms part of the Statement of Principal Accounting Policies and works of art have not been included (p. 433).'

37. The 'accounting policies' to which the auditors refer are the practice of excluding from the Consolidated Accounts those of the Cambridge University Press (CUP), the University of Cambridge Local Examinations Syndicate (UCLES), the Cambridge Foundation, the Cambridge Commonwealth Trust, the Cambridge Overseas Trust, the Cambridge European Trust, the Gates Cambridge Trust, and others. These accounting policies (which are published as part of the annual Financial Statements described in paragraph 34) inform us that the consequence of not including the financial results of all the entities over which the University exerts control or for which it assumes liability is that 'the financial statements do not disclose all assets and liabilities of the corporation known as the University of Cambridge [and] do not include all income and expenditure of the corporation' (p. 438). Deloitte and Touche state that their 'opinion is not qualified in this respect' (p. 433). Nevertheless the Deloitte opinion does not state that the accounts give a

<sup>24</sup> *Reporter*, 18 December 2002, p. 429.

<sup>25</sup> But not its audit service.

<sup>26</sup> See 'CAPSA and its implementation – Report to the Audit Committee and the Board of Scrutiny', by Professors Anthony Finkelstein and Michael Shattock, 25 October 2001; *Reporter*, 2 November 2001, pp.154–205.

'true and fair view' of the state of affairs, the main objective of accounts and a requirement of the HEFCE Financial Memorandum.

38. In a year in which the destabilizing effects of unsound accounting practices have been well publicized, this is not good news for the University.

39. The absence of a 'true and fair' opinion this year does not surprise the Board of Scrutiny. We have noted in previous reports that the University has failed fully to comply with accepted national accounting standards and the *Statement of Recommended Practice* for Higher Education Institutions and have pointed out that this failure may have resulted in a potentially misleading picture of the University's financial position being given to the Regent House and other stakeholders. In particular, we have pointed out that the University's accounting policies have not complied with FRS 2 (Consolidation)<sup>27</sup>. Indeed the need to consolidate the accounts of the Press and UCLES has been a consistent theme of the Board's work on which in the past it has frequently made representations, in vain, to the University's officers. The Board is therefore pleased to learn from the Treasurer that a change of policy on the matter is afoot,<sup>28</sup> and that plans are now indeed in place produce consolidated accounts.

**Recommendation IV: the University should press ahead with its plan to introduce consolidated accounts**

*Pension funds*

40. The effects of not consolidating the Press and UCLES, within the financial statement, are far reaching: the exclusion of these entities has not only made the calculations of the University's resources, liabilities, and performance difficult. It also has had the presumably unintended consequence that the University does not disclose the full cost of providing pensions to its Assistant Staff. Since the Press, UCLES, *et al* are not included in the consolidated statement, although its staff are members of its pension scheme, the University – paradoxically – is required by accounting standards neither to incorporate the full cost of providing Assistant Staff pensions, nor to disclose the extent of its pension liabilities in its accounts.

41. Financial Reporting Standard (FRS) 17 regulates accounting for retirement benefits. This requires employers to account for a final salary scheme as if it were a defined contribution scheme if it is not possible separately to identify the pension assets of the employer. The effect is to limit the charge recorded for pensions within the accounts broadly to the cash that the employer decides – on the basis of actuarial advice taken anything up to three years previously – to put into the Scheme. The University operates a final salary scheme for its assistant staff, called the University of Cambridge Contributory Pension Scheme (CPS). We read that the University is 'unable to identify its share of the underlying assets and liabilities'.<sup>29</sup> The Board has been told that it cannot do so because of the inclusion of employees of the Press and UCLES within the CPS. The result of this omission is that disclosure is limited and the only pension cost of the CPS that is included in

the Income and Expenditure Statement is a mere 1% of pensionable pay. This is the cash that the University contributes based on an actuarial valuation as at July 2000, when the FTSE Index stood at 6365 versus 4246 at the financial year end 31 July 2002.

42. This figure is (to state the obvious) a low one. (By contrast, the contribution paid to USS, some 14% of pensionable pay, totalled £17.2m.) We understand that the employer's contribution rate of 1% and employee's contribution of 1%, and total of £400,000, have been kept low for several years in order to reduce a surplus that had resulted from over-provision in previous years.<sup>30</sup> The Board also understands that the underlying cost of future service benefits earned by the members of the CPS is in fact around some 22% of pensionable pay.

43. At present, FRS 17 only requires the disclosure of these costs in the Notes to the Accounts. The standard itself has proved controversial, because its implementation has forced transparency in the costs of providing final salary pension schemes, which has led to some schemes being reviewed. But controversial or otherwise, FRS 17 still stands – and for financial years ending after 1 January 2005, i.e. for the University's Accounts for 2004-05, it will require the pension costs, assets, and liabilities to be fully disclosed and included in the financial statements.

44. As explained in paragraph 14 above, the University is already projecting for 2004-05 – on an Allocations basis – a target of £3.5m deficit and an estimated deficit of £6.9m. For planning purposes this figure should be revised to include a more realistic amount than the 1% of non-academic pensionable pay currently charged to the accounts. One figure would be the amount based on the value of benefits earned during the financial year properly calculated under FRS 17. Such amount, taken with employees' contributions, which may also need to be increased, could be in the region of 22%. The Board understands that an actuarial valuation of the CPS will be carried out as at 31 July 2003, which will help determine a more accurate figure.<sup>31</sup>

45. It should be stressed that all this does not mean that there is any kind of question mark over the University's ability to meet its current pension obligations to its assistant staff. However, what it does mean is that the current calculations on reducing the University's deficit could be thrown awry. Not only do the detailed projections of allocations assume a continuing 1% contribution, which is not likely to be sustainable, but so do the targets set out in paragraph 51 of the Allocations Report. It is unfortunate that this issue in relation to one of the University's key costs – assistant staff costs – or even an estimate of the possible magnitude of the problem, was not explicitly considered by the Financial Working Party.

*Financial matters: investments*

46. At present, the University uses only one single Fund Manager to manage its securities portfolio. The Board has, in its Reports and its interviews with Principal Officers, questioned the appropriateness of following this policy. Having all eggs in one basket

<sup>27</sup> In this context, FRS stands for Financial Reporting Standards, issued by the Accounting Standards Board.

<sup>28</sup> *Reporter*, 5 February 2003, p. 561.

<sup>29</sup> Notes to the Financial Statements, note 23; *Reporter*, 18 December 2002, p. 447.

<sup>30</sup> This was done, quite properly, because the surplus in the fund had to be reduced if the CPS was to continue to receive full tax relief. Benefits had already been improved on a number of occasions, and reducing the contribution was thought to be the only feasible way of doing this.

<sup>31</sup> See paragraph 51 of the Allocations Report.

cannot be desirable. In this context it is salutary to compare the performance of the Yale endowment for the year ending June 2002 with the performance of the Cambridge endowment. Although both institutions theoretically have access to the same financial markets, Yale returned a small positive result, as against the Cambridge decline in unit worth of 16.4%.

**Recommendation V: that the Council ask the Investment Committee to compare its use of a single fund manager for securities against best practice and review this in the light of its risk management strategy**

#### APPROVAL BY GRACE OF THE REGENT HOUSE FOR THE ERECTION OF NEW BUILDINGS

47. As we explained in our Seventh Report last year, an important element in the University's current financial difficulties has been the tendency to erect new buildings without properly calculating the costs of maintaining them, running them and, in years to come, restoring them. With that in mind, the Board wishes to draw the attention of the Regent House to the internal mechanism by which the Regent House is supposedly enabled to exercise a final measure of control over the decision to erect new buildings – which, the Board believes, there has been a tendency in recent years to neglect.

48. Statute F, I, 2 (*Statutes and Ordinances*, p. 57) provides that 'Approval by Grace of the Regent House shall be required for the erection of a new University building or for the demolition or substantial alteration of an existing University building.'<sup>32</sup> This provision should ensure that new buildings are acceptable to the governing body of the University, the Regent House. And the Regent House may reject the approval Grace if it is not satisfied that the new building has an appropriate purpose, is aesthetically unacceptable, is not properly funded, or for some other reason that appears to the Regent House to be sufficient.

49. During the course of the year the Board of Scrutiny became aware of two proposed new buildings (one of which is presently under construction) where there was cause for concern over the operation of this Statute. The first example is that of the English Faculty building presently under construction on the Sidgwick Avenue Site. The Report of the Council on the construction of a new building for the Faculty of English on the Sidgwick Avenue Site was published in the *Reporter* on 12 June 2002 (having been signed on 10 June). The approval of this Report (which was discussed at a Discussion on 9 July 2002) was sought in a Grace submitted to the Regent House of 17 July 2002. No ballot on this Report was called and it was deemed to have been approved on 26 July 2002.

50. The actual contract for the construction of the English Faculty building was not signed prior to the approval of the Grace – work in fact started on 12 August – but a letter of intent to contract had in fact been signed on 12 July, i.e. three days after the relevant

Discussion<sup>33</sup> and before the Grace was approved. While this may remain within the letter of the Statutes, it is surely contrary to their spirit since the Regent House was in effect presented with a *fait accompli*. Considerable sums had already been spent on the design of the building and other preparatory work and had the Grace been rejected further substantial sums would doubtless have had to be paid in order to resile from the letter of intent to contract. Moreover, since the original Faculty Building had already been demolished (under a different Grace), rejection of the Grace would have meant that there was no permanent home for the English Faculty. The Grace could only have been rejected by a Regent House determined to inflict substantial financial costs upon the University.

51. The Treasurer accepted (in a meeting with us on 11 February 2003) that approval of the Report by Grace had been sought at too late a stage and attributed this to 'pressure of work'. However, the Board of Scrutiny considers that other causes may also contribute to this delay in seeking the Regent House's approval.

52. There is a procedure set out in the General Regulations (University Property: Sites and Buildings) (*Statutes and Ordinances*, p. 915) for considering the erection of a new building. The relevant Department reports the need to the General Board (and thence to the Council) in the case of institutions under the supervision of the General Board and direct to the Council in other cases. The Council may forward these proposals to the Finance Committee, which gives advice on the site and funds (including the 'recurrent costs of maintenance and use'<sup>34</sup>). The Finance Committee is responsible for the planning of new buildings within priorities set by the Council – the detailed work being done by the Buildings Sub-Committee.

53. It became clear during the course of the Board's investigations and in particular at a meeting with the Registrar and the Treasurer on 11 February 2003 that the procedure set out in the General Regulations does not represent what actually happens. Indeed, it is plain that the Planning and Resources Committee – which is not mentioned in the General Regulations – plays a vital role in the process as does the Estate Management and Building Service. The new non-Regulation procedure for the planning etc. of new buildings may in theory be a great improvement on that in the regulations. However, instituting a new procedure without replacing the old procedure seems bound to create duplication (with different committees deciding the same thing) and confusion (when parallel committees take different views) and to create conditions where the actual locus of a decision is difficult to pin down as is the committee who is responsible and accountable (c.f. what happened three years ago with CAPSA). And much time and effort will be wasted. In any event, in this thicket of overlapping committees the role of the Regent House appears to have been lost sight of – in the case of the English Faculty at least. Instead of being a vital part of the

<sup>32</sup> The General Regulations (University Property: Sites and Buildings), Reg. 4 (p. 915 of *Statutes and Ordinances*) provides 'Approval by Grace of the Regent House shall be required for any proposal for the erection of a new University building or for the demolition or substantial alteration of an existing University building' (emphasis added to show the difference between the regulation and Statute F).

<sup>33</sup> The demolition of the building had been approved under an earlier Grace and so that demolition had started at the time of the Discussion.

<sup>34</sup> Overlooking the requirement to find funding for 'recurrent costs of maintenance and use' is in part the cause of the University's current deficit: see Seventh Report of the Board of Scrutiny (2002).

process it becomes an irritating formality.

54. The second case of which the Board of Scrutiny is aware is somewhat graver. In the *Reporter* of 17 May 2000<sup>35</sup> a very short Report from the Council was published proposing the construction of a new research facility for the Departments of Experimental Psychology and Anatomy. The building proposed was to be funded by £20 million from outside the University through the Joint Infrastructure Fund. The Report was duly graced after a Discussion<sup>36</sup> in a straightforward way without a ballot being called. However, this new building has thus far failed to obtain planning permission (the University's planning appeal is presently under consideration) and it is opposed by many local residents, one College, and various political groups. The reason for this is that this building, if constructed, will contain the very controversial Primate Research Centre. Yet this crucial fact is nowhere mentioned in the Report. Ethical questions about experiments on primates aside, this fact was important because it seriously affected the likely cost of the project. The nature of the research to be envisaged would obviously involve the University in costs far beyond those normally associated with a research centre: both legal costs in obtaining planning permission, and, if permission was granted and the project went ahead, labour costs in ensuring the physical security of the site.

55. It is plain that those involved were from the outset aware of the controversial nature of the proposed building. The Registry has informed the Board of Scrutiny<sup>37</sup> that a considered decision was taken on account of the security issues involved to limit the material published. It is thus clear that a decision was taken to keep a vital fact from the Regent House. As far as the Board of Scrutiny has been able to determine the Council was informed of the purpose of the building and so the truth was not kept from the Regent House's elected representatives.

56. Nonetheless, the truth was kept from the Regent House. There are two aspects of this policy of being 'economical with the truth'. The first is that it was almost bound to fail. The whole project would be scrutinized in detail and in public during the planning process. Plans for a £20m building were almost certain to be noticed. Since the whole matter would become public at some stage any security advantage achieved by the suppression of the building's purpose was chimerical. But this was just a failure of policy, of which there are many, and some at any rate are inevitable. The graver, second aspect of this is the failure to reveal the truth to the Regent House. The Regent House, as the governing body, must be told the truth or else the essential trust between the government of the University and the Regent House is broken down.

**Recommendation VI: if planning permission for the Primate Research Centre is granted, a further Grace should be put before the University so that the Regent House is able to express its view of the proposal**

57. The Board recognizes that it may be difficult for the Council to judge the appropriate time to present to the Regent House a Report recommending the

construction of a new building. If it is done early, important information may be unavailable; but if the Report is delayed until all the relevant information is available a lot of money will already have been spent on it and – as with the English Faculty building – the project may in reality have gone beyond the point of no return. The Board discussed this problem at its meeting with the Registry and the Treasurer in February, at which the idea emerged that proposals for at least some new buildings should be put before the Regent House not once, but twice – with an early consultation on the principle of the project well in advance of planning permission, and a further and detailed Report at a much later stage. The Board is pleased to note that this seems to have been put into practice with the recent updated Report on the proposals for the East Forum, on the West Cambridge site.<sup>38</sup>

**Recommendation VII: that the Council, when seeking the approval of the Regent House for the erection of a new building, should normally treat this as a two-stage process**

## GOVERNANCE AND THE RESPONSE TO CAPSA

### *CAPSA/CUFS and the HEFCE Audit Service Report*

58. In 2001–02 the Board devoted a significant part of its energies reviewing and commenting on the Finkelstein and Shattock CAPSA reports that it had commissioned jointly with the Audit Committee.<sup>39</sup>

59. HEFCE has also taken an active interest in the University's response to the Shattock and Finkelstein reports. Prompted by the problematic introduction of CAPSA/CUFS in 2000, and also by indications in the University's external auditors report for 2000–01 that the University's internal control system was at risk, in July 2002 the University received a special visitation from the HEFCE Audit Service. In the course of the visitation four aspects of the University's internal control system, namely governance, audit arrangements, financial management, and risk management, were reviewed with the objective of confirming that the audit and accountability requirements of HEFCE's Financial Memorandum and Audit Code of Practice were being met.

60. The resulting special audit report was issued in December 2002. In connection with the introduction of CAPSA, it was observed that 'all major finance system implementation projects are difficult' and that there have been 'many instances in HEIs where the projects did not go completely well'. Even against that possibly reassuring background, it said 'the Cambridge project turned out to be particularly weak', although on a more positive note, it added that two 'features that distinguish Cambridge are, firstly, the robust way in which the University sought to investigate what went wrong and, secondly, the open way in which the consequent critical findings were made known'.

61. As part of its overall conclusion the HEFCE Audit Service rated aspects of the University's internal control system, like that of other institutions, on a four-point scale. In descending order of approval this is as

<sup>35</sup> P. 687.

<sup>36</sup> Significantly, perhaps, this proposed new building was not formally welcomed at the Discussion by the Departments concerned.

<sup>37</sup> At a meeting on 11 February 2003.

<sup>38</sup> *Reporter*, 11 June 2003, p. 1029.

<sup>39</sup> See 'CAPSA and its implementation – Report to the Audit Committee and the Board of Scrutiny', by Professors Anthony Finkelstein and Michael Shattock, 25 October 2001; *Reporter*, 2 November 2001, pp. 154–205.



follows: high level of assurance; satisfactory assurance; qualified assurance; low level of assurance. A high level of assurance means the arrangements meet HEFCE requirements 'for example as set out in the Financial Memorandum and Audit Code of Practice, and meet good practice standards ...'. Satisfactory assurance means that the arrangements fail to satisfy only in isolated areas. Qualified assurance means that arrangements fail to satisfy in a number of areas that need further improvement, and a low level of assurance is when arrangements largely or fully fail to meet the requirements of HEFCE and good practice. On all of the four points on which Cambridge was reviewed, the HEFCE Audit Service felt the University merited a 'qualified assurance' only.

62. In response to this judgement, the HEFCE Audit Service made eleven specific recommendations, of which four were graded 'fundamental' (and which should be resolved immediately) and seven were graded 'significant'. The University accepted in full the recommendations (with the exception of one concerned with an independent review of the operation of the University's complaints and public interest disclosure procedures).

63. The summary of the HEFCE Audit Service Report is as follows:

'The University of Cambridge does not have a system of corporate governance, internal control, and risk management that provides as much comfort to the HEFCE (as its major funder) as do the systems in the bulk of other HE institutions. We believe that overall the University's problems discussed in this Report follow from:

- Anachronistic governance and senior management arrangements that blur responsibility and obscure individual accountability. We expect governance and senior management changes in hand to begin to resolve this problem.
- The poor implementation of the finance system being a demonstration of how mis-governance and mis-management can manifest itself. We expect that the corrective action in hand to remedy the system problems allied to the measures taken to improve the project management in future should begin to resolve this problem.
- The continuing inability of senior management to focus on reform and improvement, which we believe they are committed to, owing to governance, management, and systems difficulties. Those difficulties are exacerbated by dissent from within the institution, which is often not constructive. If the University is to move on it will need to effectively channel and use the energy from this opposition.'

64. The Board of Scrutiny agrees with some of these conclusions, but not all of them. In particular, it has reservations about the comments on 'anachronistic governance' – comments which, furthermore, it believes do not follow logically from the body of the Report.

#### *Governance reform: the current position*

65. Like the HEFCE Audit Service and the University's Council, 'the Board firmly believes that governance of the University is in need of reform, and that the need is a pressing one'.<sup>40</sup> The HEFCE Audit

<sup>40</sup> Statement by the Board of Scrutiny in support of its call for a Discussion on governance reform (*Reporter*, 19 February 2003, p. 598).

Service's reference to the University's governance is to three particular dimensions that it believes have the potential to improve internal control. These are the inclusion of external members on Council, an independent chair of Council, and a change in membership of the Audit Committee together with the introduction of an independent chair. The Board has already publicly stated that it is in favour of external members.<sup>41</sup> It believes the University would benefit from the appointment, or election, to Council of a small number of informed and independent externals;<sup>42</sup> although it also believes that everything depends on who they are, and how they are selected. Like Wass and Shattock, the Board considers that much of Cambridge's success is related to its status as 'a self governing community of scholars'<sup>43</sup> and thus the retention of that status is vital – and it believes that external members of the Council should be persons who accept this. As Sir David Harrison has aptly remarked 'However unusual Cambridge's governance may seem, it has delivered the highest ratings for research and teaching in UK universities since league tables were invented'.<sup>44</sup> Furthermore, the Board also notes that the HEFCE Audit Report states 'The HEFCE has no right or desire to press the University to conform to the sector norms for governance structures and processes'.

66. Members of the Regent House will be well aware that reform of governance has occupied the University's attention over the past year. After a process of Consultation and Discussion,<sup>45</sup> the Council proposed Graces for governance reforms on 20 November 2002 in a complex series of six ballots. Three Graces were approved by the Regent House, while three failed to gain approval. The Board interprets these results as indicating that the Regent House will accept change, but was sceptical about crucial parts of the Council's proposals.

67. For instance, it rejected the proposal to give the Vice-Chancellor greater executive powers. In its Seventh Report the Board identified problems with the apparent overlap between the proposed executive powers of the Vice-Chancellor and the continuing executive functions of the Council under Statute A, IV, 1(a). Nevertheless the proposals eventually submitted contained no satisfactory resolution of this difficulty; nor did they provide a mechanism by which a Vice-Chancellor with increased powers might be held accountable by the Council or the Regent House once in office (other than the elaborate and cumbersome procedure under Statute U – requiring petition to the Chancellor).

68. The Board believes that if the views expressed in the consultation had been more carefully considered then the Council could have brought forward proposals that would have answered the concerns of the Board and others, and would have commanded far wider

<sup>41</sup> It publicly supported such proposals in its response to the governance consultation in March 2002.

<sup>42</sup> As advocated by the Higgs Review of the Role and Effectiveness of Non-executive Directors (January 2003).

<sup>43</sup> Shattock report, paragraph 1.3.

<sup>44</sup> Letter to *The THES*, 14 February 2003.

<sup>45</sup> A Notice (with Consultation Paper) was published in the *Reporter* on 6 February 2002 and a Report was published on 26 June 2002. This Report was discussed at the two Discussions of their Report on 19 July and 8 October 2002. The written comments sent in the period of consultation were also published.

support. *Inter alia*, this would have resulted in the reforms advocated by HEFCE and would have avoided much damaging publicity.

*Governance reform: a way forward?*

69. After the governance ballots were completed, the Board used its power under Statute A, VII, 6(d) to request a Discussion on the reform of governance. When this took place on 11 March 2003 the Board expressed the view that any further legislative proposals on governance reform should come from a body that is independent of the Council.<sup>46</sup> The appropriate mechanism in the Board's view is that of an Occasional Syndicate established under Statute A, VI, 1(c). Support for this position was expressed at the Discussion, and the Board remains firmly of the view that further proposals for legislative reform should emerge from such a process.

70. Some might deride a call for a heavyweight committee or syndicate as a plea for delay and procrastination. However, the Board notes the comprehensive remodeling of the Statutes and Regulations of the University of Oxford, undertaken by the North Commission, as an example of an apparently successful approach to this problem that Cambridge might be wise to follow.

71. The Board believes that a Governance Reform Syndicate should consist of people with expertise in this specific area, who are independent, and who are able to devote substantial amounts of effort and time to the project. It should not be dominated by persons who, however public-spirited and energetic, are already fully engaged in the management of the University.

72. The Board finds it difficult to underestimate the importance of ensuring that the further proposals for governance reform should be properly and carefully prepared and are sensitive to the views of the Regent House. A second attempt at reform that failed would do the University great harm.

**Recommendation VIII: a Governance Reform Syndicate should be established to consider further legislative proposals on governance**

*The Lambert Report*

73. As the Board was in the final stages of drafting this Annual Report, the Lambert Review of Business–University Collaboration published its Summary of Consultation and Responses.<sup>47</sup> This appears to advocate an 'executive' and top-down model of university government as being most favourable to business and industry. Oxford and Cambridge are both criticized for not being 'more business-like in the way they run their affairs'. Cambridge is said to have 'strengthened its intellectual leadership of the UK university system in recent years', but is remiss because 'it has been much less successful in modernising its internal organisation, which remains closed and inward looking'.<sup>48</sup> The matters on which Mr Lambert informs us he will eventually advise the Government include 'the challenges for Oxford and Cambridge. Are these best left to the two Universities to resolve themselves?'

74. This document is the product of a consultation

<sup>46</sup> The Board views the Council's subsequent proposals (*Reporter*, 14 May 2003) for two external members of Council as a permissible exception.

<sup>47</sup> Available online at [www.lambertreview.org.uk](http://www.lambertreview.org.uk)

<sup>48</sup> Paragraph 5.17.

process in which universities had the opportunity to make official submissions which are publicly available. The Board notes with dismay that whereas Oxford took the opportunity to do this,<sup>49</sup> no such submission was made by Cambridge – although the Board has learnt that the views of certain people in Cambridge were communicated to Mr Lambert when he visited the University on three occasions. The Board deplores this for two reasons. First, if the University makes no official statement its members do not know what was said on its behalf. Secondly, an opportunity was lost to tell the world – as Oxford did – about the important collaborative work that it has been doing. With this second point in mind, the Board invites the Council to publish a statement giving, for Cambridge, the equivalent of the information contained in the document prepared by Oxford.

75. The Board also notes that, whereas the Vice-Chancellor of Oxford in his official statement in response expressed his disappointment with certain aspects of the Lambert Review and stressed the importance of universities being able to remain 'free and autonomous institutions, with the power to determine their academic and operational future', the Vice-Chancellor of Cambridge, speaking on behalf of the University, said 'We welcome this important and balanced report, and the contribution it makes to the debate on business-university collaboration.' The Board is relieved to note that, at the end of his official statement, the Vice-Chancellor added 'we have to strike a balance when modernizing to ensure that we do not threaten the very culture that has contributed to our exceptional success.'

**THE CONDUCT OF BALLOTS AND THE MECHANICS OF AMENDING STATUTES AND ORDINANCES**

76. The conduct of ballots in recent years has not been ideal. For instance, the Council had initially timetabled the governance ballots to take place over the Christmas vacation and had also appeared to discourage amendments from being moved in disregard of Statute A, VIII, 7. After protests by the Board (and others) the Council eventually rescheduled the ballots to early in the New Year, and amendments were included in the ballot; this was, we note, the fourth time in only two years that a ballot has been cancelled or the timetable changed.

77. The Board further notes with concern that some of the governance legislation voted on by the Regent House proved defective due to a drafting error. In particular, legislative problems created by Grace 6 of 20 November 2002 resulted in a further Grace 6 of 26 February 2003, which then had to be withdrawn. Only on 24 April 2003 was a satisfactory Grace submitted to the Regent House implementing the decision to increase the number of signatures required to call a ballot or move an amendment from ten to twenty-five.

78. When the Council put its governance proposals before the University it did so in the expressed hope that this would produce clarity of decision on the various aspects of the proposals.<sup>50</sup> Events demonstrated that

<sup>49</sup> Available online at [www.lambertreview.org.uk/pdffiles/uni\\_uoxfordunivamacdonald230403.pdf](http://www.lambertreview.org.uk/pdffiles/uni_uoxfordunivamacdonald230403.pdf)

<sup>50</sup> See the Notice dated 18 November 2002 (*Reporter*, 2002–03, p. 306).

even after a ballot, clarity of decision had not resulted. Part of the problem appears to have been that the conflation of several different issues within a single Grace made it impossible for the Regent House to express its views separately on separate issues. The intention to introduce external members to the Council was combined with a proposal to reduce the proportion of the Council's membership elected by the Regent House and a proposal to introduce members elected by the University's Assistant Staff. Each issue was of sufficient consequence to merit a separate Grace.

79. The Board is pleased to note that the Council is already reviewing these matters.<sup>51</sup> However, it suggests that the Council should at the same time reconsider the voting system currently used by the University for ballots on Graces of the Regent House. Although Single Transferable Voting (STV) has long been used for elections to the Council, the Board is not aware that there has been any review of the STV Regulations after the Wass Report and the consequent introduction of provisions for the amendment of Graces of the Regent House. At the Discussion on 11 March, a speaker argued in detail that the single-winner version of STV<sup>52</sup> may, in certain circumstances, lead to anomalies where a voter ranking an option higher (whilst keeping the order of the other options unchanged) can cause that option to lose. If correct this is a disturbing possibility, particularly given that the Single Transferable Vote Regulations (*Statutes and Ordinances*, p. 121) currently state that a later preference cannot count against an earlier one.

**Recommendation IX: consideration should be given to the question whether the present Single Transferable Vote Regulations are the most appropriate voting system for ballots on Graces and amendments to Graces**

*Reforms that require no change of Statutes*

80. The Shattock and Finkelstein reports on the CAPSA fiasco<sup>53</sup> contained a long list of concrete proposals for improving the governance and administration of the University, which the Council in principle accepted. However, the Council then spent a year unsuccessfully attempting to implement a number of governance reforms *not* specifically advocated in the reports – and a number of the specific recommendations from Shattock and Finkelstein have yet to be implemented eighteen months after their reports appeared. This is despite the fact that a key response of HEFCE to the CAPSA fiasco had been to ask for the recommendations contained in the reports to be converted into an action plan. In its December 2002 report, the HEFCE Audit Service called for an internal audit evaluation of progress in carrying this out.

81. The University's Audit Committee has recently considered this evaluation. Apparently there is good progress on some fronts, but less on others. We note that it is only in late July 2003 that the Council will consider specific proposals to clarify the relationship between the

Planning and Resources Committee and the Finance Committee and to ensure that overlaps in the business of the two bodies are as far as possible eliminated, as recommended by Professor Shattock.<sup>54</sup> Even less progress has been made on the preparation of a statement on accountability processes within the University (Shattock recommendation 16).

82. The Board is pleased to note, however, that during the course of the year the Council commissioned and received a report from the Office of Public Management (OPM) on the Governance Development Needs of the University – which recommends much that is clearly beneficial, including improved training for key staff and committees.

**Recommendation X: greater urgency should be placed on the implementation of the Shattock and Finkelstein recommendations; an 'action list' should be maintained and published, in which progress in their implementation is recorded**

83. In this connection, the Board has already proposed two fast-track reforms.<sup>55</sup> One, based on Shattock 16, was that a statement of accountability processes be drawn up that covered the committee structure as well as the administrative structure. This recommendation was made on the basis that a clear statement of hierarchies of accountability would ensure that there was no confusion as to what body, or who, has made a decision, and when and where responsibility lies for the execution of a policy decision. The Board was also of the view that a clear 'wiring diagram' would help to reduce the churn of issues between committees. It is ironic that 'churn' between committees seems to be one of the reasons that this much-needed statement on accountability processes has yet to materialize.

**Recommendation XI: the Council should draw up a clearer hierarchy of committees**

84. The other fast track reform that the Board recommends is more effective administrative support for the Council and its committees. As we said last year, '... if the academics who serve on University bodies are to exercise proper supervision and control, they need better support from the higher levels of the University civil service. Ms D. Lowther, who is a member of the Finance Committee, observed in last December's Discussion of the Shattock and Finkelstein reports that this body "has an important job to do, but its papers largely consist of an unmanageable quantity of the undigested minutes of other committees' meetings. The Finance Committee would be considerably more effective, and certainly more efficient, if the Finance Division had enough staff in place to produce a clear analysis of the matters about which decisions need to be taken, and reduce the number of papers which need to be read before the meeting to a realistic level".

[The speaker] went on to observe that a more efficient allocation of resources could be achieved by paying for the professional staff necessary to service the Committee properly. A similar view has been expressed at the Governance Committee, namely that there should be "greater use of well prepared policy papers and less reliance on commentary on

<sup>51</sup> Report of the Council on governance (chairmanship of the Audit Committee and external membership of the Council), *Reporter*, 14 May 2003, p. 920, paragraph 3.

<sup>52</sup> Which the speaker also called 'Instant Runoff Voting (IRV)': see Dr Galletly's speech, *Reporter*, 19 March 2003, p. 756.

<sup>53</sup> See 'CAPSA and its implementation – Report to the Audit Committee and the Board of Scrutiny', by Professors Anthony Finkelstein and Michael Shattock, 25 October 2001; *Reporter*, 2 November 2001, pp. 154–205.

<sup>54</sup> *Ibid.*, recommendation No. 11.

<sup>55</sup> In its response to the initial proposals on governance in March 2002.

committee minutes". The Board supports this suggestion.'

85. A year later, the Board understands that the Council is still confronted with a pile of undigested minutes inches thick on a Friday afternoon for a Monday morning Council meeting. It is surely time for everyone to accept that academic self-government can only work effectively provided University administrators are able to produce summaries and position papers, and provided those who serve on the relevant bodies are able to have confidence in them and are willing in principle to rely on them.

86. The Board is of the opinion that the implementation of the above proposals would have as much, and possibly more, impact on the effectiveness of the University's governance than many of the proposals brought forward by Council last November. The Board believes that this would be particularly so if combined with greater use of Statute K, 9 to delegate the exercise of powers.

#### REVISION OF THE STATUTES AND ORDINANCES

87. The Board has several times noted that there are now serious disparities between the University as it exists in the Statutes and Ordinances and the University as it actually functions. This was apparent in the unsuccessful attempt to adapt the statutory functions of two of the principal officers to the operative reality of the new Unified Administrative Service. We have noted above the difficulty and complexity caused by the co-existence of the statutory committees and the non-statutory committees in the way in which new buildings are designed, approved, and built. For some time that situation has demanded a considered revision of our legislation, and not the piecemeal change that has been followed and has led to further inconsistency.

#### **Recommendation XII: the University should embark on a complete revision of the Statutes and Ordinances**

#### THE WORK OF THE BOARD OF SCRUTINY, AND ITS OFFICIAL RECEPTION

88. The annual business of the Board culminates in the preparation of its Annual Report. This Report is delivered to the Council. After this, the normal sequence of events is for the Report to be published in the *Reporter*, and for it then to be the subject of a Discussion in the Senate-House. After the formal Discussion, the Council publishes a response to the Report and the formal Discussion.

89. In 2002, the Board's Seventh Report was delivered to the Council in July. It was published in the *Reporter* of 7 August, and was the subject of a Discussion on 29 October. However, the Report was not considered by the Finance Committee until 15 January and it was not until 14 May 2003 – ten months after it was delivered, and some seven months after the Discussion – that the Council eventually published its official response. Whilst the Board was pleased to find

in the response that most of its specific recommendations had been accepted and were being acted on, it is disappointed that it took the Council nearly a year to respond.

90. The Board also notes that there has never been any official response to its comments on the budgetary deficit, and its analysis of the causes for this, which occupied a large part of its Seventh Report. It believes that, given the gravity of the topic, the Regent House could reasonably have expected an official response to be forthcoming.

91. As previously mentioned, the Report of the Finance Working Party was based on six 'Special Studies' that it carried out. When the Board asked to see these studies, its request was initially refused, and the refusal was, we understand, supported by the Council. It was only after the Board had protested strongly and with reference to its right to examine documents under the University Statutes and Ordinances that, on 19 June – three months after we had asked for them – the Special Studies were finally produced. The three-month delay in receiving these documents seriously inconvenienced and delayed the Board in preparing this Report. The Board found nothing in the disputed documents that, even if published, could have caused the University any embarrassment. From correspondence with the Vice-Chancellor, the Board understands the refusal was motivated by a desire to assert a principle that the Board should never see documents which might 'be written differently and may thereby be less useful' if those who wrote them realized they might eventually be seen by external eyes. No such limitation is to be found in the Board's statutory power to inspect documents,<sup>56</sup> and if there were, the Board would be seriously hampered in carrying out its duties.

92. The Board has already described (see paragraph 39 above) the negative reaction that until recently greeted its repeated recommendations about the University's accounting practices. If our comments had been heeded earlier and acted on, the University would not now be compromised by the absence of a 'true and fair' opinion from its auditors. Furthermore, users of the accounts – including those charged with eliminating the deficit, such as the Finance Working Party – would better understand the University's financial position.

#### **Recommendation XIII: the Council should be prepared to engage more positively with the Board of Scrutiny and its recommendations**

93. The Board would like to conclude this Report on a positive note by expressing its warm approval of the way in which the Council organized the process of appointing a new Vice-Chancellor, which it thought showed care, sensitivity, and tact. It joins with the rest of the University in wishing Professor Richard every success in her new office.

<sup>56</sup> Under Statute A, VII, Paragraph 6, 'No documents or accounts requested by the Board... shall be withheld except on the ground of their irrelevance. Such withholding shall require the written sanction of the Vice-Chancellor.'

#### *Summary of recommendations*

The Board recommends:

I. That the RAM should contain, or be implemented together with, measures that impose a similar financial discipline on the central administration.

II. That, before the RAM is introduced, there should be an open debate within the University about the future of small Departments and subjects with low HEFCE ratings.

III. That the Council should prepare a strategic plan for the University.

IV. That the University should introduce consolidated accounts.

V. That the Council ask the Investment Committee to compare its use of a single fund manager for securities against best practice and review this in the light of its risk management strategy.

VI. That, if planning permission for the Primate Research Centre is granted, a further Grace should be put before the University so that the Regent House is able to express its view of the proposal.

VII. That the Council, when seeking the approval of the Regent House for the erection of a new building, should normally treat this as a two-stage process.

VIII. That a Governance Reform Syndicate should be established to consider further legislative proposals of governance.

IX. That consideration should be given to the question whether the present Single Transferable Vote Regulations are the most appropriate voting system for ballots on Graces and amendments to Graces.

X. That greater urgency should be placed on the implementation of the Shattock and Finkelstein recommendations; an 'action list' should be maintained and published, in which progress in their implementation is recorded.

XI. That the Council should draw up a clearer hierarchy of committees.

XII. That the University should embark on a complete revision of the Statutes and Ordinances.

XIII. That the Council should be prepared to engage more positively with the Board of Scrutiny and its recommendations.

*17 June 2003*

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