The Thirty-ninth Meeting of the Council was held in the Council Room, 170, Queen's Gate at 10:30 a.m. on 10th December 2004, when there were present:

Dr. E. Buttle, (Chairman), Mr. G. Able, Professor J.N.B. Bell, Sir Peter Gershon, Mr. B. Gidoomal, Dr. G.G. Gray, Professor M. Green, Professor D. Griffiths, Mr. D.P. Hearn, Professor Dame Julia Higgins, Professor C. Kennard, Dr. J. King, Professor G.H.C. New, Mr. J. Newsum, Professor R.D. Rawlings, Mr. A.D. Roche, Professor S.K. Smith, Dr. B.G. Smith, Dr. C.L. Vaughan, Dr. D.J. Wilbraham, the Rector, the Deputy Rector and the President of the ICU, together with the Clerk to the Court and Council.

In attendance: The Academic Registrar, the Chief Finance Officer, the Director of Estates, the Director of Finance, the Director of Human Resources, the Director of ICT, the Director of Strategy and Planning, the Pro-Rector for Development and Corporate Affairs, the Imperial College Union Observer and the Assistant Clerk to the Court and Council.

Apologies: Professor S.P.F. Hughes, Sir Peter Williams, the Director of Operations and the Director of Project Management and Communications

WELCOME

The Chairman welcomed Mr. Jeremy Newsum and Dr. Julia King to their first Meeting as members of the Council.

The Chairman then advised the Council that Dr. Martin Knight had recently accepted appointment as the College’s Chief Finance Officer and that he had consequently resigned as a lay member of the Court and Council and as the Honorary Treasurer. The Chairman added that this change was in line with the Council’s decision not to have an Honorary Treasurer once the Privy Council approved the proposed smaller Council.

MINUTES

Council – 15th October 2004

1. The Minutes of the Thirty-eighth Meeting of the Council, held on 15th October 2004, were taken as read, confirmed and signed.
MATTERS ARISING

Privy Council Consideration of the Revisions to the Statutes (Minute 19)

2. The Clerk reported that the proposed amendments to the Statutes were being studied by the Privy Council’s advisers, the main one in this instance being the Department for Education and Skills (DfES). He understood that the DfES was pleased to see that staff and students were still to be represented on the smaller Council and that, on that basis, it was unlikely to raise any objections to the proposed changes. The University of London had expressed its concern at the College’s proposal to remove the member appointed by the University from the Council. However, as this possible objection had only recently been communicated, the Clerk did not as yet know what the Privy Council’s response to it would be.

3. The President of the ICU, Mr. Arif, suggested that, as the University asked the College to propose nominations for the person it appointed to the Council, the College should drop this particular proposal as to do otherwise might prolong the approval process unnecessarily. The Rector said that, while it was true that the College could make a nomination to fill this position, the choice of person was still restricted to members of the University. Furthermore, the University had recently attempted to increase its involvement in the business of its Colleges by requiring these appointees to report back to the University. For independent members of a governing body to be accountable to another organisation in this way was clearly unacceptable and the University was reconsidering its position on this issue. If the University formally objected to the College’s proposed changes to the Statutes, the Rector said that Imperial would have two options; it could either acquiesce and accept a University appointment in place of one of the lay Governors, or it could decide to leave the University.

4. The Clerk said that the University’s normal policy was to make an appointment to its Colleges’ governing bodies. However, there were at least two other college governing bodies on which there were no University appointees. Consequently, he did not believe that the University’s objection would prove to be a major obstacle.

5. Concluding the discussion, the Chairman stressed that, until the Privy Council approved the changes to the Statutes, the membership of the Council would remain the same. If and when approval was given, the Clerk would contact members to explain how the transition to the new Council would be effected. Until then, members should continue to attend Council meetings as normal.

Faculty of Life Sciences’ Restructuring (Minute 31)

6. The Deputy Rector, Professor Sir Leszek Borysiewicz, reported that the restructuring of the Faculty of Life Sciences was continuing and discussions with the Trades’ Unions were proceeding. To date the College had not had cause to make use of the compulsory measures which had been approved by the Council at its last meeting, although it was still possible that these might need to be invoked in the future.
Paddington Waterside Project (Minute 40)

7. Professor Green reported that Westminster City Council was now strongly in favour of the Paddington Waterside Project and had made some extra land available for the scheme. This had increased the size of the site, which would allow the buildings to be lower in height and more spread out. One of the consequences of this was that the future Royal Brompton Hospital would no longer be adjacent to the New Imperial Building (NIB), but a short distance away. Although this relocation of the Royal Brompton Hospital was less convenient, it did not alter the College’s commitment to the Project as the NIB was otherwise unaffected by these changes. Professor Green added that the Outline Business Case was still being finalised, and that it would be presented to the College’s Project Steering Board for final approval in the next week, as previously agreed by Council.

CHAIRMAN’S BUSINESS

Report of Chairman’s Action Taken Since the Last Meeting of the Council (Paper A)

8. Introducing Paper A, the Chief Finance Officer, Dr. Knight, reminded the Council that the College had invested £650K in one of its spin-out companies, Ceres Power. The Company had been floated on the AIM Market on 25 November and the College had taken the opportunity to sell 25% of its total holding in the Company (essentially the additional shares the College had purchased when making its investment of £650K). This had resulted in a net gain of £600K for the College, or about an 85% profit on its investment in just over a year. This was, he said, clearly a success for the College, for Imperial College Innovations Ltd. and for Ceres Power. As required by the College’s Financial Procedures, the sale of these shares had been approved on behalf of the Council by Chairman’s action.

Resolved: That the decision to sell part of the College’s holding in Ceres Power, taken on behalf of the Council by Chairman’s Action on 25 November 2004, be approved.

RECTOR’S BUSINESS

Staff Matters (Paper B)

9. The Rector formally presented Paper B, which was received for information.

Oral Reports

10. Expanding on Dr. Knight’s appointment as Chief Finance Officer, the Rector said that Dr. Knight would now take on responsibility for developing the College’s endowment fund. It was intended that, by making the best use of the College’s assets, both physical and intellectual, a fund could be established that would meet the College’s borrowing requirements and also start to provide it with additional income. Dr. Knight’s other priority was to complete the privatisation of the College’s subsidiary company, Imperial College Innovations Ltd. Although the College had managed to obtain a substantial return on its investment in Ceres Power, the Rector said that the College should not be making this sort of investment itself; it should instead come from an organisation or organisations able to make an independent assessment of each individual spin-out company’s investment potential. The proposed privatisation
of Imperial College Innovations Ltd. would allow it to act more independently of the College and would also provide it with the necessary funds to make the investments required to support these companies. In relation to this, the Rector noted that the College was also hoping to develop an incubator unit to encourage and support its spin-out companies.

11. Moving on, the Rector said that the new Development Advisory Board had recently held its first meeting. The Board had a number of distinguished and influential members and it was intended that not only would they contribute to the College’s fund raising efforts themselves, but that they would also encourage others to make generous donations. The Board had looked in particular at two projects that needed to raise significant external funds. These were the re-provision of laboratory facilities at the Charing Cross Campus – a £33M Project with a funding shortfall at present of £10M – and the new Mathematical Sciences Institute.

FELLOWSHIPS COMMITTEE’S ANNUAL REPORT (PAPER C)

12. The Rector presented Paper C and noted that all the people recommended for Honorary Fellowships had not only had a close association with the College, but had also made a considerable contribution outside the College.

Resolved: That the recommendations for the award of Fellowships and Honorary Degrees, as set out in Paper C, be approved.

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST JULY 2004 (PAPER D)

13. Before asking him to present the Financial Statements, the Chairman informed Governors that Mr. Tony Cannon, the Director of Finance, had decided to resign his post and that he would be leaving the College in February 2005. On behalf of the Council the Chairman thanked Mr. Cannon for the considerable contribution he had made to the College in the four years he had been in office. The Chairman then suggested that the Financial Statements (Paper D), the Management Letter (Paper E) and the Audit Committee’s Annual Report (Paper F) be taken together and that the Council’s discussion of the Financial Statements should be deferred until after the Chairman of the Audit Committee, Mr. Hearn, had presented its Report.

14. Introducing Paper D, Mr. Cannon, summarised the main results for the year. The College’s income had increased by 6% from £409M in 2002-03 to £434M. Although there was an operating deficit of £1.5M, this was due to some exceptional expenses but, thanks to certain asset disposals, the College had still recorded a net surplus of £12.3M for the year. Research income had increased by 2.8% to £172M. This was, he said, very close to the research income recorded by Oxford, Cambridge and UCL. Turning to the operating deficit, Mr. Cannon said that this was largely attributable to three large expenses, which could be considered as one-off items. These were:

a. The provision of £3M for restructuring costs in the Faculty of Life Sciences. Although the restructuring was mainly taking place in the current year, because the process had commenced in 2003-04, all the costs had to be accounted for in that year.

b. £3M of professional fees for the Southside Project, which had to be written off because planning permission for the development had not yet been obtained.
Unfortunately, because they fell in a separate financial year, it would not be possible to capitalise these costs when and if planning permission was received.

c. An increase of £3M in the provision for the decommissioning of the College’s specialist engineering facility, following the receipt of better cost estimates.

15. If it were not for these items, he said, the College would have achieved an operating surplus of £7M. Concluding his summary, Mr. Cannon noted that working capital had remained tightly controlled during the year.

16. The Chief Finance Officer, Dr. Knight, reminded Governors that Government provision of capital funding for Higher Education had been erratic in the past, with years of neglect being followed by special funding schemes such as the recent Strategic Research Investment Funds (SRIF). However, universities could not rely on future Governments continuing to offer such schemes and it was important that institutions were enabled to take control of their capital costs. The introduction of Full Economic Costing would therefore be crucial for the College as it moved forward and sought to achieve a stable financial future.

17. The Chairman agreed, saying that under the dual support system the HEFCE research grant was supposed to fund the maintenance of universities’ infrastructure, with the research councils funding the marginal costs of research. The most successful universities such as Imperial had, over many years, attracted a large number of research council grants with the result that infrastructure funding had failed to keep up with the volume of research being conducted. The change to full economic costing would mean that infrastructure costs should be covered by individual research grants, ending reliance on separate block grants from HEFCE.

18. The Rector agreed that research councils should in future pay the full costs of conducting their research; however, he said, in practice they would initially only pay 70% of these costs. Even so, the College expected to receive an additional £7M in the first full year of implementation and this would rise to £12M by 2007-08. He cautioned that this additional money would have to be invested in the College’s buildings and long-term maintenance and could not be used to fund additional research. The Chairman remarked that it would also be important that all universities abided by full economic costing. If one university tried to undercut the others in order to attract more grants, this would simply undermine the whole system.

**MANAGEMENT LETTER (PAPER E)**

19. Mr. Cannon then introduced Paper E and said that the annual audit of accounts had gone very well this year, with the external auditors making very few recommendations. The main points they had raised related to the provisions made for future decommissioning costs and for restructuring costs, and provisions being made against research projects. As regards the last, in preparing for the implementation of new software, project data was being ‘cleansed’ and he expected that this would result in write offs.

20. Moving on, Mr. Cannon noted that the auditors had been asked to look at the accounting issues involved in the agreements with Burlington Danes Construction Ltd. These were complex and he acknowledged that the auditors should have been involved at a much earlier stage. This would be the case in any future transactions of this nature. Another of the auditors’ recommendations concerned Imperial College
Press. This represented a relatively small investment for the College, but was complicated because the College owned just 49% of the Company and consequently it did not have a controlling interest. Finally, Mr. Cannon reported that the College had made significant progress in dealing with the control issues raised in last year's Management Letter, as was acknowledged by the auditors. Indeed, most of these issues had now been satisfactorily resolved.

AUDIT COMMITTEE’S ANNUAL REPORT (PAPER F)

21. Before introducing Paper F, the Chairman of the Audit Committee, Mr. Hearn, said that the Management Letter showed considerable improvements in the College’s financial control of research and working capital and it was significant that the auditors had made very few critical comments this year. This was, he said, a marked contrast to the position in early 2001 when Mr. Cannon had joined the College. The College’s financial position at that time had been somewhat precarious and the level of control in certain areas had been a significant cause for concern. The large improvements made since then were due to the excellent work of Mr. Cannon and his team in the Finance Division and Mr. Hearn paid tribute to Mr. Cannon’s considerable contribution to the College in the last four years.

22. Turning to Paper F, Mr. Hearn drew Governors’ attention to the Support Services Initiative (SSI), which had been reviewed by the Audit Committee. The Committee supported the Project’s objectives, which were to improve the standard and efficiency of the Support Services. The Committee’s main concern had been how the College could maintain business continuity during a period of such significant change. It had been reassured, he said, that the way the executive was approaching this would ensure that the College’s day-to-day operations should not be jeopardised.

23. Mr. Hearn then highlighted the Research Administration Management Project (RAMP), which would also result in a considerable change in the way an important area of the College’s business was managed. Research administration had been an issue of concern for the Committee for some time and it was pleased to see that this was now being tackled. As with the Support Services Initiative, the College was not rushing implementation, but was making sure that the new systems were properly tested and that back up measures were in place before the systems went live. Mr. Hearn said that the simultaneous introduction of the SSI and RAMP Project would be kept under review by the Committee. He then confirmed the Committee’s view that the Council’s responsibilities had been satisfactorily discharged.

24. The Rector agreed that the implementation of the SSI and RAMP Projects at the same time was a concern. For this reason, he said, they would now be managed together under a single Project Manager, Dr. John Green. This would ensure that the two Projects could be properly co-ordinated. Mr. Hearn welcomed this development.

25. Mr. Able noted that the number of research and teaching staff had declined during the year while professional service staff numbers had increased. The Rector said that this was in part related to the SSI and RAMP Projects. Additional administrative staff numbers were required during the implementation of these two Projects to ensure business continuity. However, once the new systems were in place and operational, he expected support service staff numbers to reduce.

Resolved: That the Financial Statements for the year ended 31st July 2004, as set out in Paper D, be approved.
The Pro-Rector for Development and Corporate Affairs, Dr. Maini, introduced Paper G. As the Rector had mentioned earlier, the provision of incubator space was very important if the College’s spin-out companies were to be properly nurtured. In this case, it was proposed to create an incubator space in the Bessemer Building, which would provide support in particular for bioscience inventions. The location was also important in this respect as the Incubator Unit would be very close to the proposed locations for the Institute of Biomedical Engineering and a Centre for Nano-Biotechnology. In addition to the space being provided, start-up-companies would also have access to additional support and advice from Imperial College Innovations Ltd. The Project would also free up teaching and research space in the rest of the College as some of these companies were still located in their home Departments. The total cost of the Project was £7.15M, £3M of which was being provided by a grant from the London Development Agency (LDA).

Sir Peter Gershon asked what conditions had been set for the grant by the LDA and under what circumstances it would have to be repaid; for example, he asked if the Incubator Unit would have to achieve rental of at least £40 per sq. ft. Dr. Maini said that, if the Project failed and the College decided to use the space for some other purpose, then the grant would have to be repaid. In relation to the rental costs, he said that the level set was not unreasonable and many spin-out companies were already paying similar rents. Consequently, he believed that the Unit would achieve the occupancy levels required. Dr. Maini then reiterated that companies would additionally benefit from the professional support of Imperial College Innovations Ltd.

Dr. Wilbraham said that there was a clear need for this sort of facility to support the College’s start-up companies and he strongly supported the proposal. Dr. Vaughan also expressed her support but asked whether the rents to be paid by companies should be related to their maturity. Having to meet the proposed rent at an early stage in their existence might prove difficult for some of the smaller ventures. The Rector said that he thought graduated rates might be difficult to administer. In any case, he said, even if a company was in debt to the College, this debt could be swapped for more equity in the company. He did not think, therefore, that the rents to be charged would deter companies from using the facility. Mr. Hearn said that the Paper appeared to suggest that the case for providing this facility was mainly concerned with the College acting as a landlord and receiving a market rate for its space. It would have been preferable if the Paper had emphasised that the real reason for proceeding was to provide professional support for the College’s spin-out initiatives.

Sir Peter Gershon supported the proposal, but suggested that, in future, project proposals such as this should include a summary of any contingent liabilities as the Council needed to be aware of these before it could properly reach a conclusion on whether or not to proceed with a given project.

Resolved: That the Imperial College Bio-Incubator Project, as set out in Paper G with a total Project cost of £7.15M, be approved.

Introducing Paper H, Mr. Cannon said that the College was now forecasting a deficit
for the year of £5.8M. However, student fees were expected to be higher than budgeted, so he thought that this deficit would reduce further. Turning to the issue of research income, he said that the Faculty of Engineering had recently revised its forecasts for the year and had reduced its predicted research income by 15%, albeit that this still represented a 6% increase on the previous year. Capital expenditure was also lower than expected for the time of year and it was possible that the College might not spend all of the £100M budgeted. Finally, although research debtors had reduced by nearly £10M, work in progress (that is, unbilled costs) had increased by a similar amount. It was thought that this was partly a reflection of the shift to a higher degree of charity income, but it was also possible that the College was behind in its billing. He was investigating this last point.

31. Dr. Knight agreed that an increase in unbilled research costs was a concern and should be reviewed. He also pointed out that the College would soon be making greater use of its borrowing facility and that there was now a greater need to pay close attention to the cash flow position. Finally, he added that, when Mr. Cannon had joined the College four years before, its working capital position had been very poor. Mr. Cannon could take much of the credit for leaving the College in a much better financial position than when he had arrived.

FINAL REPORT FROM THE HEALTH AND SAFETY AUDIT COMMITTEE (PAPER I)

32. The Chairman of the Health and Safety Audit Committee, Mr. Roche, said that, in line with the decision made at the last Council meeting, the meeting on 13th November had been the Health and Safety Audit Committee’s last. The main objective had therefore been to close down the Committee and to identify those issues which the Executive should now take forward. He felt that the Committee’s members had provided the College with valuable support and advice and, furthermore, were keen to continue to do so, given that the proposed Health and Safety Management Committee would include external membership.

33. Turning to the Committee’s meeting itself, Mr. Roche said that the annual departmental reports had again shown an improvement, although there were still some Departments that were falling below the expected standard and he hoped that the recent changes in reporting procedures would help these Departments to improve. The Committee also had remaining concerns about the respective responsibilities of the College and the NHS Trusts for safety in shared areas on the medical campuses. This issue should now be taken on by the executive level committee. Mr. Roche went on to say that the Committee recognised that there had been considerable improvements in health and safety and that this was in part attributable to the excellent training courses the College provided for its staff. However, there was now a need to extend these to include training in health and safety management for senior staff. Finally, he thanked the members of the College’s Health and Safety Council and the staff of the Safety Department and Occupational Health for the support they had given to the Committee over the last few years.

34. The Chairman thanked Mr. Roche for his Report and for his hard work and that of the other members of the Committee in driving forward the considerable improvements in health and safety that had been achieved in the last four years. As with the Finance area, she said that the greater degree of control that had been achieved in this area had made possible the governance changes recently agreed by the Council, something which could not have been contemplated four years ago.
REPORT BY THE INVESTMENTS COMMITTEE (PAPER J)

35. Introducing Paper J, Dr. Knight reminded Governors that the Council had changed the investment criteria last year and had agreed to set a target of 4% total real return. In fact the funds had managed to achieve 5.5%, which was considered to be very good, given the general state of market. The return would have been even better were it not for the College's overseas holdings, which were mainly in US Dollars. Performance since the year-end had been good, although overseas investments were still suffering from the falling value of the US Dollar. Following the Council's governance changes, the Investments Committee would no longer report directly to the Council, but would instead advise him as the Chief Finance Officer and he would, in turn, be responsible to the Council for investment performance.

36. Mr. Gidoomal asked for clarification of the funds included in the College's portfolio. Dr. Knight said that the College held a plethora of funds with differing amounts and different conditions. This was one of the reasons that the Committee had decided to take a total return approach, rather than setting individual targets for each fund. Concluding his Report, Dr. Knight said that the Endowment Fund the Rector had referred to earlier would operate to the same benchmarks and targets as the Investment Fund.

TUITION FEES AND THE COLLEGE BURSARY SCHEME (PAPER K)

37. The Academic Registrar, Mr. McClure, introduced Paper K and apologised that he was unable at this stage to confirm the final details for either the College's Bursary Scheme or its Access Agreement with the newly established Office for Fair Access (OFFA). One of the problems with the Access Agreement was that it was very prescriptive. As an example, the Agreement would only fund new outreach activities, whereas the College would prefer to use it to extend its many existing outreach schemes. The finalised Bursary Scheme and Access Agreement would be presented to the Management Board for approval later in December and would be reported to the next Council meeting in February.

38. Dr. Smith asked why the College had decided to devote 32% of its additional fee income to the Bursary Scheme. The Rector said that Cambridge had announced that it would give £4,000 to those students who qualified for a full maintenance grant and it had been calculated that, given the number of such students at the College, 32% of the additional income would be required for Imperial to match the bursaries Cambridge was offering. However, the Government had since changed its definition of eligible students so that there would now be fewer students in this category.

39. Mr. Gidoomal recalled that the College’s block grant had been reduced in order that HEFCE could provide additional funds to widen participation within the sector and asked if there were any long-term financial implications in this. The Rector said that it had been a one-off reduction and that it was unlikely to be repeated.

40. Mr. Gidoomal then noted that theoretically Imperial could continue to increase its number of overseas students as they tended to be better qualified than home students and paid full fees. This might eventually reduce the number of Home students at Imperial. He asked if the OFFA would have any influence over such a move. The Rector confirmed that the OFFA’s sphere of influence was quite narrow as it was only concerned with the procedures for charging top-up fees to English students.
41. Sir Peter Gershon asked what would happen if the College failed to meet the conditions set by the OFFA. The Rector said that he did not believe this would be an issue, although he confirmed that the College would not make any commitments it could not keep and would not sign up to any conditions that it considered unreasonable. Mr Able said that in any case Sir Martin Harris had indicated that he did not believe that the OFFA would be a permanent fixture in the sector.

CLERK’S BUSINESS

Revisions to the College’s ‘Procedures for Dealing with Student Disciplinary Offences’ (Paper L)

42. The Academic Registrar, Mr. McClure, introduced Paper L and said that the College had instituted an annual review of the Student Disciplinary Procedures with the Imperial College Union so that any lessons that had arisen from individual cases during the year could be implemented as soon as possible. As a result of this year’s review, a small number of changes were proposed to the Procedures.

43. Dr. Gray asked how many disciplinary cases were dealt with each year. Mr. McClure said that cases usually fell into two types. The first were disciplinary cases concerning academic misconduct; there were relatively few such cases each year. The second type of cases were Residence Tribunals, which were more frequent and tended to be concerned with the misuse of recreational drugs.

Resolved: That the revisions to the Procedures for Dealing with Student Disciplinary Offences, as set out in Paper L, be approved.

CUC Guide for Members of Higher Education Governing Bodies in the UK (Paper M)

44. The Clerk introduced Paper M and said that most of the material contained in the Guide (copies of which had been circulated with the papers for this Meeting) was unchanged from the 2001 edition; however, it had been extensively reordered. It also incorporated material on risk management, governing body reviews of effectiveness and performance, etc. which was based on other reviews and guidance issued since the last edition of the Guide was published.

45. Dr. Gray noted that, under the proposed revisions to the Charities Act, universities would lose their status as exempt charities and therefore would have to comply with all aspects of charity legislation. He asked if there were any implications in this for universities’ other, more commercial activities, such as spin-out companies and their conference business. The Clerk acknowledged that this was a concern and said that Oxford University was leading a Higher Education group looking at this issue. The Chairman said that the Government needed to consider this issue as well. It would be contradictory if the Charity Commission tried to restrict universities’ commercial operations at the same time as the Treasury was actively encouraging the creation of spin-out companies to provide knowledge transfer. In any case, she said, even if universities’ exempt status was removed, it was proposed that they would report to HEFCE rather than to the Charity Commission.

46. The President of the ICU, Mr. Arif, noted that, under the same legislation, it was proposed that all students’ unions should be separately registered with the Charity Commission.
PRESENTATION ON THE SOUTHSIDE PROJECT

47. At the end of the Meeting, Governors received a presentation from the Director of Estates, Mr. Brooks Wilson, on the Southside Project. He reminded Governors that the Southside Hall of Residence in Prince’s Gardens was a 1960s Grade II listed building. It had a number of defects in that its rooms did not provide adequate facilities, large parts of it were inaccessible to disabled students, and 70% of its concrete mullions were cracked. Furthermore, it had annual energy running costs which were 3 times that of a modern building. Rather than try to refurbish a building that was no longer fit for purpose, the College had successfully applied for it to be de-listed and was now proposing to demolish it and replace it with a modern hall of residence. Planning permission was being sought for the replacement building. The planning application was due to be heard by Westminster Council on 20th January 2005. Although a number of objections had been sent to the Council by local residents, the College was hopeful that planning consent would be granted as the local planning officers were recommending approval. The College’s proposals for the development of Prince’s Gardens were also supported by English Heritage, the Commission for the Built Environment, the 20th Century Society, the Royal Borough of Kensington and Chelsea and the Mayor of London. Mr. Brooks Wilson said that a fuller presentation on the Project and its costs would be made at the next Council Meeting when formal approval to proceed would be sought.

48. Mr. Roche asked what impact the Project would have on the College’s long-term maintenance (LTM) liabilities. Mr. Brooks Wilson said the impact would be considerable. A large part of the LTM liabilities were directly attributable to the present Southside Hall.

49. Professor New said that one of the positive aspects of the current Hall was that its room sizes were larger than in some of the other halls. He asked if rooms in the new building would be smaller than at present. Mr. Brooks Wilson confirmed that the room sizes in the new building would be comparable. Professor New then asked how the College intended to house the large number of students who would be displaced from the Hall during the two year building period. The Clerk said that the College would still be able to meet its guarantee to house first year undergraduate students. However, in order to do so, it would have to reduce the number of spaces available for postgraduate students. Mr. Hearn asked if the design of the new building also took account of conference needs and Mr. Brooks Wilson confirmed that it did.

ANY OTHER BUSINESS

Engineering League Table

50. Dr. King advised Governors that the Times Higher Education Supplement had that day published a league table of world university rankings for engineering. She was pleased to report that Imperial had been ranked as the top UK and European university for engineering and as 5th in the World.
PAPER A

REPORT OF CHAIRMAN’S ACTION TAKEN SINCE
THE LAST MEETING OF THE COUNCIL

A Note by the Clerk

1. On 25 November the Chairman, in consultation with the Rector, Dr Martin Knight, Sir Peter Gershon, Mr George Gray and Sir Peter Williams, approved by Chairman’s Action, on behalf of the Council, the sale of 1.08 million shares in Ceres Power, one of the College’s spin-out companies, at £1.20 a share.

2. The College therefore achieved a return of £600k on its initial investment of £650K.

Proposed Resolution

That the decision to sell part of the College’s holding in Ceres Power, taken on behalf of the Council by Chairman’s Action on 25 November 2004, be approved.

K.A.M.
PAPER B

STAFF MATTERS

A Note by the Rector

COLLEGE TUTORS

Mrs Margaret R CUNNINGHAM, Senior Lecturer in the Department of Computing, has been appointed College Tutor with effect from 1 October 2004.

Dr Ian J LEAN, Senior Lecturer in the Department of Agricultural Sciences, has been appointed College Tutor with effect from 1 October 2004.

PROFESSORS

Professor Ferri Mohammad H ALIABADI, currently Professor of Computational Mechanics and Director of Research at Queen Mary & Westfield College, University of London, has been appointed to the Chair in Aerostructures in the Department of Aeronautics with effect from 1 January 2005.

Professor Jan Joris BROSENS, previously Clinical Research Fellow in the Department of Paediatrics, Obstetrics and Gynaecology at the Hammersmith Campus and Honorary Consultant Obstetrician and Gynaecologist at St Mary’s Hospital, has been appointed to the Chair in Reproductive Sciences in the Division of Paediatrics, Obstetrics and Gynaecology with effect from 5 September 2004.

Professor Nelson William PHILLIPS, currently Beckwith Chair in Management Studies and Strategy and Marketing Group Convenor at the University of Cambridge, has been appointed to the Chair in Strategy and Organisational Behaviour in the Tanaka Business School with effect from 25 April 2005.

Professor Roger Charles REED, currently Professor and Canada Research Chair in the Department of Materials Engineering at the University of British Columbia, Canada, has been appointed to the Chair in Materials Science and Engineering in the Department of Materials with effect from 1 April 2005.

READERS

Dr Tracy HUSSELL, previously Senior Lecturer in Biological Sciences in the Department of Biological Sciences at Imperial College London, has been appointed as Reader in Immunology, in the Kennedy Institute of Rheumatology with effect from 1 October 2004.
Dr Philip Heng Wai LEONG, currently Associate Professor and Director of the Custom Computing Laboratory at the Chinese University of Hong Kong, has been appointed as Reader in Computing in the Department of Computing with effect from 1 July 2005.

Dr Erich Albrecht MULLER, currently Professor of Thermodynamics, Universidad Simón Bolívar, Caracas, Venezuela, has been appointed as Reader in Thermodynamics in the Department of Chemical Engineering and Chemical Technology with effect from 1 February 2005.

Dr Mark Andrew SEPHTON, currently Lecturer at the Department of Earth Sciences, Planetary and Space Sciences Research Institute, at the Open University, has been appointed as Reader in Earth Science and Engineering in the Department of Earth Science and Engineering with effect from 1 March 2005.

Dr Paolo ZAFFARONI, currently Senior Economist at Banca d’Italia, in Rome and Research Associate in the Department of Applied Economics at Cambridge University, has been appointed as Reader in Financial Econometrics in the Tanaka Business School with effect from 15 May 2005.

VISITING PROFESSORS

Dr Timothy HENDER, Modelling Section Group Leader at the UK Atomic Energy Authority at the Culham Science Centre, Oxford, has accepted association with the College as Visiting Professor in the Department of Physics from 1 October 2004 for a period of three years.

Professor Steven KOONIN, Professor of Theoretical Physics at the California Institute of Technology, USA, has accepted association with the College as Visiting Professor in the Department of Physics from 1 November 2004 for a period of three years.

Mr John MATTHEWS, previously Consultant for the DTI, has accepted association with the College as Visiting Professor in the Department of Earth Science and Engineering from 1 October 2004 for a period of three years.

Professor David MILES, following resignation from his post as Chair in Finance in the Tanaka Business School, has accepted association with the College as Visiting Professor in the Tanaka Business School from 1 October 2004 for a period of three years.

Professor David SMITH, Associate Professor and Augustine Scholar in the Department of Electrical and Computer Engineering at the Duke University, USA, has accepted association as Visiting Professor in the Department of Physics from 1 November 2004 for a period of three years.

R.B.S.
A Note by the Rector

1. The Fellowships Committee met on 15 October 2004 to consider, in the light of Regulation A9 (attached at Annex A), nominations for the conferment of the Fellowship and Associateship of the College, and for the awarding of honorary degrees of the University of London.

FELLOWSHIPS

2. The Committee agreed to make the following four recommendations to the Council for the conferment of Fellowships during 2005:

1. Dr Melvyn Myers BSc, ARCS, PhD, FIPEM.

   Former Consultant Clinical Scientist (retired), Imaging Sciences Department, Clinical Sciences Division, Faculty of Medicine, Imperial College London.

   Educated

   Imperial College London, BSc, ARCS
   Aberdeen University, PhD.

   Citation:
   The Committee recommends the conferment of Fellowship on Dr Myers in recognition of his pioneering work on radioimmunotherapy and outstanding contribution to international nuclear physics.

2. Air Marshal Sir Colin Terry KBE, OBE, CB, CEng, FREng, FRAeS, FlLog, FCGI.

   Chairman, The Engineering Council, and member of the Engineering and Technology Board. President elect of the Royal Aeronautical Society.

   Educated

   Imperial College London, BSc(Eng)(Hons).

   Citation:
   The Committee recommends the conferment of Fellowship on Sir Colin Terry for his outstanding work in promoting the profession of Engineering, and for his exceptional contribution to Engineering in the Royal Air Force.
3. **Dr Amit Chatterjee DSc(Eng), PhD, BSc (Met Eng), CEng, FIM, FIIM, FNAE.**

Chief Technology Officer, Tata Steel Company, Jamshedpur, India.

**Educated**

Banaras Hindu University, BSc (Met Eng)
Imperial College London, PhD, DIC
University of London, DSc (Eng).

**Citation:**

The Committee recommends the conferment of Fellowship on Dr Chatterjee in recognition of his pioneering development of coal-based direct reduction technology for the production of sponge iron, and his international contribution to the science and technology of iron and steel making.

4. **Dr Susan Ion FREng, FIMMM, FInstP, FINucE.**

Director of Technology, British Nuclear Fuels Ltd.

**Educated**

Imperial College London, BSc., DIC, PhD.

**Citation:**

The Committee recommends the conferment of Fellowship on Dr Ion as a distinguished and active alumnus of the Department of Materials, and a senior figure in the nuclear energy industry, having made significant contributions to the scientific, commercial and educational sectors nationally.

**HONORARY DEGREES**

3. The University Council has previously approved the Ordinance, together with the associated procedural arrangements, under which Colleges are empowered to confer honorary degrees of the University of London. The University has determined that the College may confer up to five honorary degrees each year, and on this occasion the Fellowships Committee have two recommendations for the conferment of honorary degrees during 2005. College proposals are subject to prior approval by the University Honorary Degrees Committee, which has been granted for the nominations below.

4. The Committee makes the following two recommendations to the Council for the award of Honorary Degrees:
1. **Dr Hans Rausing.**

Hon. Chairman, Tetra Laval Group, and Principal Investor and Advisor, EcoLean AB Sweden.

**Educated**

University of Lund, Sweden.

**Citation:**

The Committee recommends the conferment of an Honorary Degree of Doctor of Science on Dr Rausing in recognition of his being an active philanthropist and making a significant contribution to a variety of projects and institutions, including UK and overseas universities, through his family’s Charitable Trusts.

2. **Professor Haile Debas BSc, MD, CM, FRCPC, FAAAS.**

Executive Director of UCSF Global Health Sciences, the Maurice Galante Distinguished Professor of Surgery, Dean Emeritus of the UCSF School of Medicine, Vice-Chancellor Emeritus for Medical Affairs, and Chancellor Emeritus at University of California, San Francisco (UCSF).

**Educated**

University College, Addis Ababa, BSc
McGill University, Montreal, MD, CM.

**Citation:**

The Committee recommends the conferment of an Honorary Degree of Doctor of Science (Medicine) on Professor Debas in recognition of his international reputation, distinguished and unique experience in academic surgery and population sciences.

**ASSOCIATESHIP**

5. The Committee makes no recommendations to Council for the conferment of Associateship during 2005.

**Proposed Resolution**

That the recommendations for the award of Fellowships and Honorary Degrees, as set out in Paper C, be approved.

R.B.S.
1. **Fellowships and Honorary Degrees**

   (1) Fellowships of the Imperial College or Honorary Degrees may be awarded:

   (a) to members or former members of the Governing Body, to former members of staff or to former students of the Imperial College of Science, Technology and Medicine, who may be deemed eligible by reason of their outstanding achievements or of exceptional services rendered to the College;

   (b) to other persons not members of the College who are of outstanding distinction in appropriate fields and whom the College wishes to honour.

   (2) In the criteria for Fellowship or an Honorary Degree:

   (a) “achievement” should mean truly outstanding and “services” to the College truly exceptional;

   (b) former staff (who are not former students) should be selected mainly from those who have retired as Professors of eminence in their fields and especially those who have rendered special service to the College as Deans, Heads of Departments, etc.

   (3) A person who on his retirement was a member of the staff of the College should not be considered for election to Fellowship or an Honorary Degree until one calendar year has elapsed since his retirement or since his appointment as Senior Research Fellow of the College.

2. **Associateships**

   Associateships of the Imperial College of Science, Technology and Medicine may be awarded:

   To such persons who have been members of the staff for a substantial period or who have retired from membership of the staff in any grade or category, to such former students or to such other persons not members of the College, as may be deemed eligible by reason of their having rendered exceptional service to the College or having otherwise done something outstanding to enhance the reputation of the College.
1. A copy of the Financial Statements of the College and its subsidiary companies for the year ended 31 July 2004 is enclosed with these Papers.\(^1\) The financial highlights are summarised in the Chief Finance Officer’s Report on pages 2 and 3.

2. The Financial Statements have been approved within the College and have been considered by the Audit Committee, which has recommended that they should be approved by the Council. The Audit Committee will make its own report to the Council in accordance with the Audit Code of Practice issued by the Higher Education Funding Council for England.

3. The Council is invited to consider and, if it sees fit, approve the Financial Statements for the year ended 31 July 2004.

**Proposed Resolution**

That the Financial Statements for the year ended 31 July 2003, as set out in Paper D, be adopted.

M.P.K.

---

\(^1\) The Financial Statements are not included with these Minutes
PAPER E

MANAGEMENT LETTER

A Note by the Chief Finance Officer

1. The Management Letter to the Members of the Council from the external auditors, PricewaterhouseCoopers, is attached.

M.P.K.
Audit of the 2003/04 financial statements
Imperial College, London
Management letter
Contents

Section                                    Page
1    Introduction                           1
2    Commentary on financial results       3
3    Accounting issues and observations    4
4    Regulatory issues                     7
5    Internal control and risk management  8
6    Subsidiary companies                 9

Annexes
A    Summary of recommendations contained in this report 12
B    Follow-up to 2003 management letter points 15
C    Accounting for Burlington Danes Construction 18
D    Scope of our audit                     20

Scope of our service
The principal objective of our audit procedures is to enable us to express our opinion, in line with the requirements of the Code, on the financial statements as a whole. Our audit opinion does not guarantee that the financial statements are free of misstatement. We explain our audit responsibilities, and their limitations, in our letter of engagement.

The scope of our service is set out in Annex D to this report. We also consider it an important part of our audit service to share our experiences of good management practice in those areas that we naturally need to consider for our audit. Our objective is to help the College and senior management, over and above our statutory duties.

In seeking to achieve a cost-effective audit we take account of management’s overall approach to controls in the business, and particularly the main information systems used by senior management for decision-making. In our experience these are key to effective control. Naturally, our emphasis is on financial information.
1. Introduction

We have pleasure in presenting our management letter. This letter sets out the results of our external audit of the College’s 2003/04 financial statements.

The College has reported a deficit from operating activities of £1,534k over the year. However, this is offset by £12,766k of exceptional income from the sale of fixed assets, leading to a surplus after tax and minority interests of £11,242k.

The retained surplus for the year is £12,312k, which includes a transfer of £1,070k accumulated income from within specific endowments; a new treatment under the SORP 2003.

Going forward, the College is facing challenges arising from a large internal review of support services within the College; the implementation of Oracle grants and the internal review of research projects; the continuation of the College’s extensive capital programme (which includes additional research buildings, via a collaboration with GSK and the MRC, and the Southside/Eastside Accommodation programme); in addition to the College’s response to the government’s White Paper on the Future of Higher Education and the resulting impact on tuition fees and research and teaching funding. The College has responded positively to these challenges and has established structures to project manage the reviews being conducted.

Purpose of this report

As auditors, we are required under the HEFCE Code of Practice: Accountability and Audit (“the Code”) to present a management letter to the Council, as the College’s governing body, setting out any significant accounting and control issues arising from the audit. It is the Council’s responsibility to consider the issues raised in this management letter before approving the financial statements. The Council is also required under the Code to submit this report to the HEFCE Assurance Service before 28 February 2005.

We presented this report to the Audit Committee on 25 November 2004.

Status of our work

We submit this report following our audit of the financial statements, which we found to show a true and fair representation of the College’s financial activities during the year.
1. Introduction

been granted.

After the inclusion of super exceptional income for
the year, the College reported a surplus of £11,232k.
This income is the result of the sale of fixed assets,
primarily properties deemed surplus to College
requirements.

The surplus retained within general reserves has
been improved further following a transfer of
£1,070k accumulated income from within specific
endowments; a new treatment under the SORP
2003.

Accounting issues and observations (section 3)

The financial statements were produced on a timely
basis. The principal accounting issues addressed in
2003/04 related to:

- The impairment of the specialist
  engineering facility in Ascot and the
  increase in the decommissioning provision
  for the facility;
- The restructuring of the Life Sciences
  faculty and resultant accounting provision;
- The treatment of research grant balances
  following the introduction of RAMP and the
data cleansing exercise that was performed
  in the year with a view to transferring the
  grants system to Oracle;
- The exceptional income received in the
  year following the sale of fixed assets; and
- The accounting for Burlington Danes
  Construction, a new College subsidiary.

These issues have each been resolved through the
audit process and we can confirm that the
treatments adopted in the financial statements are
appropriate.

Regulatory issues (section 4)

We plan to issue an unqualified opinion on the
College’s proper application of funds and
compliance with the HEFCE revised financial
memorandum. Further details are provided in
Section 4.

Internal control and risk management (section 5)

Risk management processes are well developed at
the College. A full compliance statement for risk
management has been included in the financial
statements.

In terms on internal controls, we were pleased to
note that the College has made significant progress
in implementing a number of recommendations from
previous management letters. Particular progress
has been made in Research, where the data
cleansing project has improved the quality of
research data in advance of the transfer of contract
records to the Oracle Grants system.

The collection of debt has also seen significant
improvements in the year. This has helped to
improve the College’s cash flow, and we see
information reporting in this area as being
significantly improved.

Individual control accounts (ensuring the integrity of
the Accounts Payable, Accounts Receivable and
banking systems for example) are now also
rigorously reconciled and cleared on at least a
monthly basis.

Subsidiary companies (section 6)

Section 6 includes our summary of
recommendations raised during our audit of the
College’s subsidiary and associated companies. The
principal issues arising are the accounting treatment
for Burlington Danes Construction Limited and going
concern issues facing Imperial College Innovations
Limited. A separate management letter has been
produced for Imperial College Innovations Limited.

Recommendations

Where appropriate, we have made
recommendations for improvement. These are
summarised in Annex A, along with management’s
responses.

We have prepared this report to assist the Council in
their consideration of the 2003/04 financial
statements and to share our recommendations for
areas of improvement. We understand that the
Council will make this report available to the HEFCE
Assurance Service, but emphasise that our duty of
care is solely to the governing body of the College.
PricewaterhouseCoopers LLP accepts no
responsibility for any reliance that any third party
might place on our report.

As you know, this report forms part of a continuing
dialogue between us and is not intended to include
every matter that came to our attention.

Please tell us if we can amplify the report in any
way.

Yours faithfully

PricewaterhouseCoopers LLP
2. Commentary on financial results

In order to put our work into context we have provided below a commentary on the College’s financial outturn for 2003/04.

Income and expenditure account

Overview of performance

In the year to 31 July 2004 an operating deficit has been made equating to 0.4% of income, compared with a surplus representing 0.7% of income in 2002/03. The final result was worse than initially budgeted due to the inclusion of significant non-recurring expenditure within operating activities; the largest of which were restructuring costs. The faculty most affected was Life Sciences, in which 60 redundancies are planned at an estimated cost of £2,995k.

Significant one-off expenditure was also incurred from the change in the decommissioning provision for the specialist engineering facility. The preferred method and related costs for decommissioning has been reviewed and updated, utilising specialist advice. This has increased the provision by approx £2,000k. In addition, in recognition that the facility was not anticipated to be able to generate a contribution to profit from its operation in the period prior to decommissioning, the asset was impaired to a nil value, which led to a further charge of £1,192k taken to the income and expenditure account. In addition to exceptional decommissioning costs, operating costs also include this year approximately £3,000k of capital programme works not capitalised, as planning permission for the Southside and Eastside projects has not yet been granted. This treatment is in line with accounting standards.

Not included within operating activities, but classed separately as super exceptional items within the income and expenditure account, is £12,766k of income from the sale of College property (Montpelier Hall; Ossingtons; and Cobham Sports Ground) and shares in Turbo Genset Inc.

The College has financed some of its capital building projects through a £50m loan facility. Interest is charged at 5.39% and costs for the year have therefore increased from £99k in 2002/03 to £2,721k in 2003/04.

Balance sheet

The net book value of College fixed assets has increased by approximately £54m in the year. This movement is largely due to the College’s major construction projects, with some of these transferring from assets under construction in the year as they have come on stream, for example, the faculty building and business school.

In addition to the loan facility mentioned above, these capital projects have been financed through improvements in working capital. Over the year net current assets fell by £27,327k to closing net current liabilities of £1,310k. This fall was primarily for the following reasons:

- Credit control has continued to improve in 2003/04, resulting in debtors falling by £11,967k. Much of the cash benefit from this collection has been utilised on the funding of the capital programme; and
- Investments in short term deposits have been reduced by £11,066k.

A significant movement is also seen in liabilities due to provisions for liabilities and charges, which have increased by £7,250k principally for the restructuring and decommissioning costs already discussed.

Financial outlook

The 2004/05 budget forecasted a deficit of £6,519k, although as at the end of September this forecast deficit has been revised to £5,680k.

The latest forecast cash flow, to July 2008, shows that the College is expecting to have a net borrowing position throughout the period. The continuing capital expenditure planned means that the College does not expect the net borrowings to reduce until 2007.

On top of capital project expenditure, the College also faces revenue pressures as new buildings come on stream and consequently start to be depreciated.

Borrowings are expected by the College, over the period to July 2008, to peak at approximately £100m; but this may be reduced by any additional funding received for the Tanaka building.

Income is expected to continue to increase through additional research projects, and from tuition fees as the new fee regime comes into place in the future. These areas have been a particular focus for the College, as HEFCE funding reduces in real terms each year as a result of funding pressures and as a result of the White Paper.
3. Accounting issues and observations

SORP 2003

The 2003 edition of the Statement of Recommended Practice: Accounting for Further and Higher Education was issued in November 2003. The SORP took effect for the first time this financial year. Through our audit work we have confirmed that the College financial statements are in line with the new SORP.

Accounting issues

We have set out below a summary of the principal accounting issues identified during the audit and their resolution.

Decommissioning of the facility

During the year, following recommendations made to the Facility steering committee, the College revised its plans and cost calculations for the decommissioning of the specialist engineering facility, based on the option not to refuel but to cool the reactor.

This change has led to a need to update the decommissioning provision in the accounts, resulting in an increase in the provision of approx £2,000k. In addition, because the business unit that operates the asset is now forecast to be loss making up to the date of decommissioning, the asset held in the financial statements was impaired to a nil value.

The total accounting affect was the recording of approximately £3,100k of additional expenditure in 2003/04.

The decommissioning model has been created by NNC Ltd and seeks to incorporate all costs involved in decommissioning, based on the agreed method. This model was revised by PURE management Ltd and peer reviewed by a BNFL expert who reviewed the model and outcome for reasonableness.

We have reviewed both the calculation of the provision and its treatment in the accounts and have no further issues to report.

We recommend that the College closely monitor the performance of the facility business unit for both profit-making and also strategic importance. Political, engineering, or business related events might change the expected return or direct cost of the asset or liability. In such events the value of the provision would need to be amended.

Restructuring

The College experienced further exceptional expenditure of £4,079k in the year from restructuring within the College. The faculty most affected was Life Sciences, which has had to provide for approximately 60 redundancies at a cost of £2,995k.

Negotiations are in progress with the staff identified, most of whom are expected to leave the College during 2004/05. However, because a constructive obligation was created by the College through the informing of the Trade Union before the year end, the costs have appropriately been included in the 2003/04 accounts.

Separate accounting technical papers have been produced for the College on the decommissioning of the facility and restructuring provisions. These have been agreed with management. The financial statements reflect the appropriate accounting treatment following accounting standards.

From an accounting perspective, the redundancy provision will be released once costs are incurred. Once all those identified for redundancy have left the service of the College, the remainder of the provision, if any, will be released.

Research projects

When a research project passes its end date and activity is complete there is often a debit (overspend) or credit (underspend) balance on the account. A data cleansing exercise, completed in advance of the transfer of research contract information to the new Oracle grants module, was undertaken by the College to review all research projects. This was done to identify any income still outstanding on projects and ensure that, where projects were dormant, any remaining balance could be written off on the system and the account closed.

At the time of our audit only a few research projects had been closed and written off. The Oracle system will not accept projects with an end date that is already past; therefore, in order to affect the transfer of data to the Oracle grants module, the end date of some research projects was artificially extended. This has the effect of giving the College sufficient time to review individual research grant projects and write off balances once appropriate investigations have been made.

The collection of additional income to fund debit balances on research grant accounts (i.e. overspent grants) from research councils is not assured. Therefore a provision has been made against the
3. Accounting issues and observations

The proportion of debit balances that the College believes will not be recoverable from funders. The estimated provision (approximately £1.1m on a total balance of £4.1m) is clearly judgemental, as there is no historical information on which to base this calculation.

Though we find the estimation reasonable, and have no evidence to suggest that the College’s treatment is inappropriate, we recommend that the College collects and analyses additional data in 2004/05 to ensure that a more accurate provision can be made in the 2005 financial statements.

In addition, the College should continue to analyse projects that have material debit and credit balances in order to address any funding issues arising. Particular attention should be paid to those projects that have had their end date extended, as the projects involved should now be completed.

In light of the recent legislation concerning proper conduct in relation to potentially fraudulent activities, the College should obtain confirmation from each individual sponsor before taking any credit balance as income.

Exceptional income

£12,766k of income from the sale of College property (Montpelier Hall; Ossingtons; and Cobham Sports Ground) and shares in Turbo Genset Inc. has been separately disclosed as an exceptional item on the face of the income and expenditure account.

We have agreed both the calculation and disclosure of these items as appropriate.

Burlington Danes Construction Limited

The College created this entity for the specific purpose of managing and recording the development of its real estate where this involves collaborative funding from and the granting of leases to third parties.

The specific details of the arrangement are discussed in Annex C.

The accounting for these transactions is by no means straightforward and we were not consulted at an early stage, however we have confirmed the treatment required.

We recommend that, where the College opts to enter into complex transactions that have a significant affect on the financial statements, such as this, we be consulted at an early stage in the process. We will then be in a position to confirm the accounting impact in advance, which will aid the College in the decision-making process and timeliness of accounts production.

It should be noted that the scheme has the potential for significant corporation tax liabilities. Due to differences in the calculation of accounting and taxable profit it is possible that a tax charge might arise on the granting by BDCL of a short lease out of a long leasehold. This charge cannot be readily established as it relies on the future valuation of construction costs.

We recommend that, given the potential for taxation, a detailed exercise is conducted to give greater certainty over BDCL’s taxable profit and therefore its capacity to make timely gift aid donations.

Due to the complexity of the scheme, the potential for exposure to a VAT liability depends on how HM Customs & Excise may choose to view certain elements of the arrangement.

We recommend that the College approaches Customs as soon as possible to seek agreement with them on the technical interpretation of these arrangements. This should provide more certainty on the initial VAT recovery position. Consideration needs to be given as to whether these property development arrangements fall to be disclosed to Customs under the recently introduced VAT avoidance disclosure rules. As structured these arrangements are not considered to be a designated scheme, but might fall under the hallmarks of avoidance; such schemes should be disclosed.

FRS 17 – Retirement Benefits

Financial Reporting Standard 17 (FRS17) – Retirement Benefits was issued in November 2000 and replaces SSAP24 which has been the UK standard on pension costs since 1988. The full requirements for FRS17 have been deferred pending discussions on International Accounting Standard 19, although there are transitional requirements for accounting periods ending on or after 22 June 2001. It is expected that full implementation will be in 2005/06. For HE institutions this means the disclosure requirements of FRS17 have still been applicable for the year ending 31 July 2004.

The principle behind FRS 17 is that assets and liabilities relating to an organisation’s share of a pension scheme should be accounted for within the
3. Accounting issues and observations

The College operates four pension schemes. Three of these schemes (Universities Superannuation Scheme (USS), Superannuation Arrangements of the University of London (SAUL) and the NHS Pension scheme) are defined benefit, multi-employer schemes where it is not possible to identify the College’s share of the underlying assets and liabilities. Disclosure of these schemes within the financial statements is in accordance with the Education SORP, BUFDG guidance and FRS17.

The NHS scheme, however, does not detail any of the assumptions and actuarial valuation assumptions as required by SSAP24, as the scheme actuaries have not passed to the College the relevant information required for disclosure.

The College also operates a defined benefit scheme (the Federated Pension Scheme) where it is possible for the College to identify its share of the underlying assets and liabilities and therefore disclose details in accordance with SSAP24 and FRS17. This disclosure has been included in the 2003/04 financial statements.

International Financial Reporting Standards

From January 2005 International Financial Reporting Standards will be applicable to all listed companies in the UK. While there are currently no plans to make International Financial Reporting Standards applicable to higher education institutions, UK accounting standards are currently being brought in line with their international equivalents.

A number of new standards are expected to become effective for University accounting periods starting in 2005/06, some of which will impact on the College in the future. These include:

- Retirement benefits: FRS 17 will replace SSAP 24 in 2005;
- Post balance sheet events: a standard based on IAS 10 'Events after the Balance Sheet Date', replacing SSAP 17 from 2005;
- Related party disclosures: a standard based on IAS 24 'Related Party Disclosures', replacing FRS 8 from 2006; and
- The financial instruments standard will be updated from 2005.

Tax planning – change in UK-to-UK tax transfer pricing legislation

Tax legislation in respect of UK-to-UK tax transfer pricing legislation, encapsulated within the Finance Act 2004, has been introduced with effect from 1 April 2004. Under this new legislation it is expected that all transactions between group companies be conducted at arms length. We recommend that the College review any such transactions in 2004/05 as part of the accounting, audit and tax planning process.

In making its tax returns to the Inland Revenue, companies are required to show the arms length prices for transactions between connected persons – you should take advice on this aspect if any transactions between subsidiary companies have not been conducted at arms length prices.

Update to the Companies Act 1985


At the time of writing, the regulations were not yet available; however the most significant impact of these changes on the College is expected to be in the area of subsidiary consolidation. The definition of a subsidiary will no longer require ‘participating interest’ for control; instead a parent company need only have the power to exercise, or actually exercise, dominant influence or control over it to require consolidation.
4. Regulatory issues

This section sets out any issues we have identified in respect of the College's compliance with the financial memorandum with HEFCE and the proper application of funds.

Compliance with the financial memorandum

As external auditors, we are required under the Code to report on whether, in all material respects, income has been applied in accordance with the financial memorandum between the College and HEFCE.

We plan to issue an unqualified report on this matter.

Use of funds

We are also required under the Code to report on whether, in all material respects, income has been applied for the purposes that it was intended.

We plan to issue an unqualified report on this matter. However, we draw your attention to issues raised in Annex C on the use and monitoring of Endowment funds.
5. Internal control and risk management

In this section we set out our comments on:

- Risk Management;
- Internal audit; and
- Internal control.

Risk management

It is a requirement of HEFCE, and reflects good management practice, that the principles of Turnbull be applied to the operational and strategic management of the College. The Accounts Direction for 2003/04 makes it clear that all HEFCE funded institutions should be in a position to make a full corporate governance statement for 2003/04.

We have reviewed the College’s Corporate Governance Statement, which sets out that the College achieved full compliance during 2003/04. We have monitored the development of risk management processes at the College over the past three years and there is nothing in the statement that contradicts our understanding of the College’s risk management processes. We understand that the College is continuing to enhance its processes, particularly in relation to the role of internal audit and further embedding within departments and faculties, alongside reviewing support services across the College. We support these developments and consider that, if effectively implemented, they will further enhance the College’s risk management processes.

Internal audit

The Code places emphasis on each institution having an effective internal audit function.

The role of internal auditing is determined by management and by the Code, and its objectives differ from ours. It is part of our approach to gain an understanding of the internal audit function to determine if it would be effective and efficient to use their work.

We have reviewed the work of the internal auditors. We consider their work of a good quality and the resources available to them satisfactory, and have sought, where appropriate, to place reliance on their work.

2003 Management letter control points

We were pleased to note that the College has made good progress in implementing our recommendations from the 2003 management letter.

Particular progress has been made in clearing recommendations raised in our prior year report on Research projects and monitoring; debt collection and monitoring systems; and clearance and monitoring of control accounts.

In Annex B we have provided commentary on progress with recommendations made in the 2003 management letter. Where actions are still outstanding we will follow up progress as part of our 2004/05 audit.

Internal control issues

As in previous years, internal control points have been presented to the College in a separate document, approved by the Audit Committee.
6. Subsidiary companies

The College has a number of subsidiary companies that fall within the scope of our audit, and in this section we comment on the results for those companies and any audit issues identified.

**Imperial College Innovations Limited**

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>4,029</td>
<td>4,192</td>
</tr>
<tr>
<td>Operating loss for the year</td>
<td>(1,009)</td>
<td>(1,544)</td>
</tr>
<tr>
<td>Net assets</td>
<td>174</td>
<td>1,304</td>
</tr>
</tbody>
</table>

The company is a wholly owned subsidiary of the College and works closely with the College’s scientists to identify and exploit commercial projects through licensing and spin-out companies.

The loss in the year reflects the fact that there have been no exceptional sales of investments during the year.

It should be noted that unlisted investments, such as those held in the LLP (see below), are carried at nil value. Consequently the financial statements understate the value of the company’s assets in this respect.

**Going concern**

We recognise that the company has an operating cycle of much longer than one year, with truly exceptional gains expected every few years. However, the company is likely to have a deficit on reserves within the coming year.

The company has agreed to alter the terms of its loan facility with the College to ensure that the College is required to give 12 months notice of any required repayment. This allows the directors of the company to meet their fiduciary duties in respect of ensuring that the company continues as a going concern.

The company and College will need to monitor this position each year. Investments within the LLP may be spun out, creating realised gains in the LLP and consequently the company, which restore it to positive net assets.

**Complexity of transactions**

The company entered into a number of complex share-based transactions during the year, where receipts could be treated as either turnover or a capital gain. The nature of the company’s operations is becoming more complex each year and it is recognised that the volume of these types of transaction will increase. It is important, particularly from a tax perspective, that these transactions are treated correctly in the accounts. We have agreed the treatment of all such transactions during the year.

*We recommend that the company continue to seek accounting advice where the correct accounting treatment is uncertain. In addition, we recommend that, where a valuation of unlisted shares is involved, the company keep detailed records of how this valuation was obtained.*

**Imperial Activities Limited**

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>2,749</td>
<td>2,348</td>
</tr>
<tr>
<td>Operating profit for the year</td>
<td>2,399</td>
<td>1,960</td>
</tr>
<tr>
<td>Net assets</td>
<td>34</td>
<td>32</td>
</tr>
</tbody>
</table>

The company is a wholly owned subsidiary and provides property administration and management services to the College.

The company has achieved an increase in turnover for the year due to new short-term tenancies in South Kensington and increased service charges billed. This benefit has been passed on to the College through an increase in the profit gift-aided to it: £2,414k (2003: £1,978k).

No significant issues were arising from our audit of this company.

**Imperial College Press Limited**

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>821</td>
<td>727</td>
</tr>
<tr>
<td>Operating profit for the year</td>
<td>28</td>
<td>40</td>
</tr>
<tr>
<td>Net assets</td>
<td>271</td>
<td>248</td>
</tr>
</tbody>
</table>

The company is an associate of the College, who hold 49% of the share capital. The company engages in scientific publishing, marketing and
6. Subsidiary companies

distribution through its parent company, World Scientific Publishing Co. Pte Ltd (“WSPC”), an entity based in Singapore.

Turnover has increased due to a number of new titles published in the year and a successful biology journal. However, cost of sales has also increased due to an increased number of editing staff.

No dividends were declared or paid during the year.

Control and monitoring

There is little monitoring of the operations of this company; this is recognised by the College. Significant reliance is placed on the internal control and reporting operated by the WSPC group.

We recommend that the College increases its involvement in the monitoring of this company, to ensure that it achieves an adequate return on its investment.

Imperial College (S) Pte Limited

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>S$000</td>
<td>S$000</td>
</tr>
<tr>
<td>Turnover</td>
<td>945</td>
<td>870</td>
</tr>
<tr>
<td>Operating profit for the year</td>
<td>212</td>
<td>116</td>
</tr>
<tr>
<td>Net assets</td>
<td>823</td>
<td>611</td>
</tr>
</tbody>
</table>

The company is incorporated in Singapore and is a fully owned subsidiary of the College. The company provides part-time business courses in Singapore. However, it is no longer taking on any new students and operations will wind down as existing students complete their courses.

No significant issues were arising from our audit of this company.

Extracalm Company Limited

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>Turnover</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Operating loss for the year</td>
<td>(3)</td>
<td>(6)</td>
</tr>
<tr>
<td>Net assets</td>
<td>3</td>
<td>6</td>
</tr>
</tbody>
</table>

The company is a wholly owned subsidiary of the College and during the year continued to operate as a vehicle for the lease of telephone equipment. This arrangement is shortly to come to an end. On 1 August 2004 the company entered into a 75% partnership arrangement in a limited liability partnership; ‘Extracalm Cleaning Services LLP’. This partnership will operate the College’s cleaning contract.

No significant issues arose from our audit of this company.

Burlington Danes Construction Limited

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Operating profit for the year</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Net assets</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

The company is a new (incorporated during the financial year) wholly owned subsidiary of the College created to manage and record the construction of buildings for research.

The specific details of the arrangement are discussed in Annex C. Refer to section 3 for issues arising.

IFF&P GH LLP

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating loss for the year</td>
<td>28</td>
<td>49</td>
</tr>
<tr>
<td>Net assets</td>
<td>11,852</td>
<td>10,726</td>
</tr>
</tbody>
</table>

The company is a 70% subsidiary of the group, holding a portfolio of spin-out companies.

No significant issues were arising from our audit of this company.

Other group companies

The College has a number of other subsidiary and associate companies that we do not audit. For the purposes of group reporting we have received returns from the auditors of the following group companies:

- IC Consultants Limited (100% subsidiary);
- Private Patient Healthcare Limited (100%
6. Subsidiary companies

- Natural Resources International Limited (50% associate, as no dominant influence); and
- Imperial College Students Union (quasi-subsidiary).

IC Consultants Limited

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>£12,588</td>
<td>£13,453</td>
</tr>
<tr>
<td>Operating profit for the year</td>
<td>£686</td>
<td>£768</td>
</tr>
<tr>
<td>Net assets</td>
<td>£94</td>
<td>£92</td>
</tr>
</tbody>
</table>

The company is a wholly owned subsidiary of the College that arranges scientific and technical consultancies. The return from the auditors indicated no significant issues arising.

Private Patient Healthcare Limited

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>£246</td>
<td>£312</td>
</tr>
<tr>
<td>Operating profit for the year</td>
<td>£235</td>
<td>£285</td>
</tr>
<tr>
<td>Net assets</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

The company is a wholly owned subsidiary providing private patient healthcare services to the College. The return from the auditors indicated no significant issues arising.

Natural Resources International Limited

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>£16,062</td>
<td>£17,923</td>
</tr>
<tr>
<td>Operating profit for the year</td>
<td>£30</td>
<td>£6</td>
</tr>
<tr>
<td>Net assets</td>
<td>£761</td>
<td>£712</td>
</tr>
</tbody>
</table>

The company is an associate company of the College. The return from the auditors indicated no significant issues arising, although the figures recorded are currently draft awaiting final audit clearance.

Imperial College Students Union

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>£3,176</td>
<td>£2,862</td>
</tr>
<tr>
<td>Surplus before tax for the year</td>
<td>£207</td>
<td>£52</td>
</tr>
<tr>
<td>Net assets</td>
<td>£1,884</td>
<td>£1,723</td>
</tr>
</tbody>
</table>

The students union is a quasi-subsidiary of the College.

At the stage of completing our audit only draft financial statements had been produced by management and the audit of the Union had not been fully completed. Therefore, there may be further adjustments to the Union financial statements that need to be incorporated into the consolidated group accounts; however these would be immaterial to the Group.
Annex A – Summary of recommendations contained in this report

<table>
<thead>
<tr>
<th>Ref</th>
<th>Issue and recommendation</th>
<th>Management response</th>
</tr>
</thead>
</table>
| Page 4 | **Decommissioning**  
We recommend that the College closely monitor the performance of the facility business unit for both profit-making and also strategic importance. Political, engineering, or business related events might change the expected return or direct cost of the asset and liability. In such events the value of the provision would need to be amended. | Agreed. |
| Page 4 | **Restructuring**  
From an accounting perspective, the redundancy provision will be released once costs are incurred. Once all those identified for redundancy have left the service of the College, the remainder of the provision, if any, will be released. | Noted. |
| Page 4-5 | **Research projects**  
We have agreed the provision against debit balances as reasonable, and have no evidence to suggest that the College’s treatment is inappropriate. We recommend that the College collects and analyses additional data in 2004/05 to ensure that a more accurate provision can be made in the 2005 financial statements. In addition, the College should continue to analyse projects that have material debit and credit balances in order to address any funding issues arising. Particular attention should be paid to those projects that have had their end date extended, as the projects involved should now be completed. In light of the recent legislation concerning proper conduct in relation to potentially fraudulent activities, the College should obtain confirmation from each individual sponsor before taking any credit balance as income. | Noted. |
| Page 23 | **Burlington Danes Construction Limited**  
It is essential that the College and BDCL formally agree a payment schedule for the use of the land. The payments agreed | This will be put in hand with our legal team at the earliest opportunity and a formal lease will be in place for the 2004/05 accounts. |
# Annex A – Summary of recommendations contained in this report

<table>
<thead>
<tr>
<th>Ref</th>
<th>Issue and recommendation</th>
<th>Management response</th>
</tr>
</thead>
</table>
| Page 5 | should represent the value of the land and should be spread over the term of the lease.  
We recommend that, where the College opts to enter into complex transactions that have a significant affect on the financial statements, such as this, we be consulted at an early stage in the process. We will then be in a position to confirm the accounting impact in advance, which will aid the College in the decision-making process and timeliness of accounts production.  
We recommend that, given the potential for taxation, a detailed exercise is conducted to give greater certainty over BDCL’s taxable profit and therefore its capacity to make timely gift aid donations.  
We recommend that the College approaches Customs as soon as possible to seek agreement with them on the technical interpretation of these arrangements. This should provide more certainty on the initial VAT recovery position. Consideration needs to be given as to whether these property development arrangements fall to be disclosed to Customs under the recently introduced VAT avoidance disclosure rules. As structured these arrangements are not considered to be a designated scheme, but might fall under the hallmarks of avoidance; such schemes should be disclosed. | Agreed. |

### Subsidiary companies

| Page 10 | Imperial College Innovations Limited  
We recommend that the company continue to seek accounting advice where the correct accounting treatment of complex transactions is uncertain. In addition, we recommend that, where a valuation of unlisted shares is involved, the company keep detailed records of how this valuation was obtained. | Agreed |

| Page 10 | Imperial College Press Limited  
We recommend that the College increases its monitoring of this company, to ensure that it achieves an adequate return on its investment. | The College has begun a dialogue with WSPC, the majority shareholder, to discuss control issues. Specifically, the College has requested |
Annex A – Summary of recommendations contained in this report

<table>
<thead>
<tr>
<th>Ref</th>
<th>Issue and recommendation</th>
<th>Management response</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>investment.</td>
<td>that Board Meetings are held on a more regular basis (at least quarterly), and that the Company appoint a Chief Executive Officer, to be based full time in London, who will have responsibility for managing the day to day activities of the Company, and reporting back to the Board on progress on regular basis. In addition the College is undertaking an internal review of the need for an academic branded press so that it can resource its own involvement in the venture appropriately. WSPC have accepted the fact that changes in structure and management are required, and will work with the College to improve the position over the forthcoming financial year.</td>
</tr>
</tbody>
</table>
### Annex B – Follow-up to 2003 management letter points

<table>
<thead>
<tr>
<th>Ref</th>
<th>Issue and recommendation</th>
<th>Progress made (as noted by PwC)</th>
</tr>
</thead>
</table>
| **Endowment Funds** | We recommend the following:  
The College should review individual funds’ terms of original donation and ensure that they are able to spend the capital endowment part of the fund. Where this has not been obtained the original donor should be contacted to confirm that the College is allowed to spend these funds. | A review of funds is still ongoing at October 2004. All funds that are paid through the vote have been reviewed. Procedures are in place for a member of the finance team to contact the fund administrator when it is known that capital cannot be eroded. |
| | All endowment fund administrators should be identified. | There are currently two funds without an administrator or documentation. The funds are both dormant. These are to be reviewed as part of the dormant fund review noted below. |
| | The College should continue to take action to resolve all dormant funds. When the original purpose of a fund is no longer appropriate, the original donor should be contacted to seek consent to alter the purpose of the fund. Where the donor cannot be located, the College should contact the Charities Commission to request that the funds be reclassified as general funds, so that activity can begin again with expenditure from the fund on general items. | A review of dormant funds commenced at the end of September 2004. This review is expected to take a minimum of 3 months. |
| | The College should improve the efficiency of the preparation and distribution of quarterly reports to administrators. Improving the timeliness of reports would enhance the decision making of fund administrators. Fund reports are not produced on a timely basis. For example, the quarter four report in 2003/04 was distributed to fund administrators in October 2004. | Further point re-raised in Annex C, point IV, page 20. |
| | All supporting documentation for endowments should be maintained centrally. A review of the objectives of each fund should be completed to ensure that all funds are operating within specified objects. | The documentation relating to some funds (mainly for prizes and scholarships) is held by Registry. Over the past twelve months, the details of these funds have been input onto the Finance controlled database. Therefore, the recommendations stand and have been re-raised in Annex C |
| **Fully depreciated equipment assets** | We recommend the following:  
Given that it has been determined, through the equipment asset circularisation to departments, that all fully depreciated equipment assets appearing on the fixed asset equipment register are still in use, a review of fully depreciated | Many assets on the fixed asset register (including over half of equipment assets) are in use but fully depreciated. Therefore, recommendation stands and has been re-raised in Annex C. |
## Annex B – Follow-up to 2003 management letter points

<table>
<thead>
<tr>
<th>Ref</th>
<th>Issue and recommendation</th>
<th>Progress made (as noted by PwC)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assets on the fixed asset register should be undertaken, to assess whether the asset lives should be reviewed to reflect the fact that assets are potentially being used for longer periods within the College than the accounting asset lives suggest.</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Estates accruals</strong>&lt;br&gt;We recommend the following:&lt;br&gt;A full review of capital accruals post year-end should be conducted to ensure that both the fixed asset and creditors balance are complete and properly presented.&lt;br&gt;A full review of ‘c’ code accruals post year end should be conducted to ensure that both creditors / accruals and the income and expenditure account are complete.</td>
<td>Completed during 2003/04 accounts preparation.</td>
</tr>
<tr>
<td></td>
<td><strong>Short course income</strong>&lt;br&gt;We recommend the following:&lt;br&gt;There should be a review of short courses run by the College. All short courses should be identified and the implementation of financial procedure guidelines circulated by Central Finance to departments should be monitored to ensure that they use the correct ledger codes;&lt;br&gt;Central monitoring of short course fee income and student numbers should be instigated; the Continuing Professional Development department appears to be well placed to perform this function. This will help to ensure that the year end balance can be substantiated and that HESA returns are accurate.</td>
<td>There is currently no central monitoring to ensure that departments follow the correct procedures with regards to running a short course. Therefore, the recommendation stands and has been re-raised in Annex C.</td>
</tr>
<tr>
<td></td>
<td><strong>Bad debt provision</strong>&lt;br&gt;We recommend the following:&lt;br&gt;The College should review its bad debt provision in light of the improved collection rates delivered by the accounts receivable team in the last two years, to ensure that they are not over-providing for debt. This could be achieved by conducting a review of the collection rate on specific debts and comparing this with the provision against those debts.</td>
<td>Collection rates have continued to improve. The bad debt provision in the accounts adequately reflects this. Collection rates are monitored regularly but not directly compared against the provision against specific debts. Good progress has been made against this recommendation. The provision for bad debts is monitored monthly by the Director of Finance.</td>
</tr>
</tbody>
</table>
## Annex B – Follow-up to 2003 management letter points

<table>
<thead>
<tr>
<th>Ref</th>
<th>Issue and recommendation</th>
<th>Progress made (as noted by PwC)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>FRS 17 – Retirement benefits</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>We recommend that the College review disclosure of the FPS and NHS scheme during 2003/04 to ensure that sufficient disclosure is obtained for the financial statements.</td>
<td>The College has reviewed the disclosure of its NHS and FPS schemes in 2003/04. Sufficient disclosure has been made.</td>
</tr>
<tr>
<td></td>
<td><strong>Extracalm PFI deal</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>We recommend the College consider how this transaction be disclosed in the financial statements, considering the fair value of the asset and how this should be built up to the point at which the asset is received (2007) and the legal issues for the College, for example, penalty payments under the deal to be incurred.</td>
<td>Considered by the College as part of the legal process in terminating the lease agreements.</td>
</tr>
</tbody>
</table>
Annex C – Accounting for Burlington Danes Construction

Included below is a summary of the background to, and accounting for, the Burlington Danes construction project. The commentary is not intended to give a detailed breakdown of the transactions involved but rather an explanation of the accounting treatments required in each of the Imperial group entities.

Background
The College have leased land from the Trustees of the Charitable Funds for the Charing Cross, Hammersmith and Queen Charlotte’s Hospitals (“the Trustees”) for the construction of buildings for research purposes. The College has paid £1.7m for this lease. A special purpose fully-owned subsidiary, Burlington Danes Construction Limited (“BDCL”), has been set up to manage and record the costs of construction. The land has been subleased to BDCL from the College.

BDCL incurs the costs of construction, which are then passed on to the eventual occupants of the buildings: Imperial College, GlaxoSmithKline (“GSK”) and the Medical Research Council (“MRC”) as incurred. On completion of the construction these three entities will lease the buildings from BDCL at a reduced rate, taking into account their up-front contributions to the costs of construction. The buildings are to be used for research activities.

Lease and sublease of land
The original lease of land by the Trustees to the College involves the payment of a large lease premium and has a 125-year duration. This is a finance lease.

Similarly, the sub lease to BDCL is also a finance lease.

Accounting treatment
The lease premium paid to the Trustees should be capitalised by the College, creating a finance lease asset. The land is then sub leased to BDCL and therefore the asset is removed from the College’s balance sheet and replaced by a finance lease debtor.

BDCL will therefore have the finance lease asset, representing the land, on its own balance sheet with an equal and opposite finance lease creditor.

At this stage, the College has effectively passed an asset on to BDCL for nil consideration; this conflicts with the fiduciary duties of the College as a charitable entity in its own right. Therefore an additional agreement needs to be reached to ensure that BDCL assumes an obligation to pay for the land.

It is essential, therefore, that the College and BDCL formally agree a payment schedule for the use of the land. The payments agreed should represent the value of the land and should be spread over the term of the lease.

Each of the finance lease balances should be amortised over the remaining lease term (now 122 years).

The lease payments made by BDCL to the College will result in a charge to the BDCL profit and loss account. The College have decided that BDCL should, in fact, have a break-even profit and loss account for these transactions and have therefore set up an equal and opposite ground rent payable by the College to BDCL. This ensures that the net charge to BDCL is nil.

Construction and lease of buildings
The up-front contributions to the costs of construction received by BDCL from the College, GSK and the MRC represent lease premium payments. BDCL holds the title to the buildings and so should account for the construction in progress on its own balance sheet.
Accounting treatment

Payment made by BDCL to third party contractors should be capitalised as construction in progress on the BDCL balance sheet. Payments received from the College, GSK and the MRC should be held on the balance sheet as lease premium payments, within creditors.

On completion of construction

The nature of the leases of the completed buildings by BDCL to the College, GSK and the MRC is likely to be that of a finance lease.

However, once the research in the buildings starts, the substance of the arrangement with the MRC appears to be that the research should be treated as a JANE (a Joint Activity with No Entity). In this situation all transactions relating to the buildings would be reversed on consolidation and the group accounts would show just the College and BDCL’s combined income, expenditure, assets and liabilities arising from the research activity undertaken.

This particular element of the arrangements will need to be revisited nearer to the completion of the buildings to establish the extent to which the College will be working with the MRC, and GSK, and thereby the correct treatment within the group accounts.
Annex D – Scope of our audit

The principal objective of our audit procedures is to enable us to express our opinion on the truth and fairness of the financial statements as a whole. An audit opinion is based on the concept of materiality. It is not a guarantee that the financial statements are free of misstatement. Our audit responsibilities, and their limitations, are explained in our letter of engagement.

Our audit procedures are tailored to our assessment of risk of material misstatement in the financial statements, taking into account the inherent risks of error or fraud, and our assessment of the extent to which management’s controls will reduce the risk of misstatement.

In practice, we cannot examine every operating activity or accounting procedure in the institution, nor can we substitute for management’s responsibility to maintain adequate controls at all levels of the business. Our work cannot therefore be expected to identify all weaknesses in the systems and controls which a special investigation directed at those systems and procedures might reveal.

We plan our audit to have a reasonable expectation of detecting fraud which would have a material effect on the financial statements. However, there are many kinds of fraudulent activity, particularly those involving forgery, collusion and management override of control systems which our normal audit procedures would not detect.

We therefore neither express nor imply any assurance on the effectiveness of internal controls within the company. We shall, however, be pleased to discuss with you our audit approach, in case we can either reasonably adopt a different audit strategy that seeks to place more reliance on controls, or provide separate business control assessment services, to examine more deeply any activities of the business which may potentially be of concern to management.
AUDIT COMMITTEE ANNUAL REPORT 2004

A Note by the Chairman of the Audit Committee

INTRODUCTION

1. This Report covers the Audit Committee’s work for the financial year 2003-04 and is set out in the format recommended by the Higher Education Funding Council for England (HEFCE) in its Audit Code of Practice.

TERMS OF REFERENCE AND MEMBERSHIP

2. The Committee’s terms of reference and membership for the year 2003-04 are attached at Annex A. The Committee had a full complement of members for the entire year.

3. During the year the Chairman of the Council conducted a review of the Council’s governance arrangements, covering the future size and modus operandi of the Council itself, as well as its relationship with its Committees and with College Management. One of the main recommendations was that the Council’s Committees should be reduced from the present number to just two – the Audit Committee and a combined Remunerations & Nominations Committee – and that the membership of these two Committees should be exclusively drawn from non-executive members of Council. It was also agreed that the Audit Committee should in future scrutinise the College’s annual report on health and safety within the context of its general responsibility for monitoring the College’s risk management policy and procedures. The Council approved revised Audit Committee Terms of Reference in line with these recommendations at its meeting on 15 October 2004. The revised Terms of Reference, which will come into effect from January 2005, are attached at Annex B.

MEETINGS OF THE AUDIT COMMITTEE IN 2004

4. Since its last Report to the Council, the Audit Committee has held meetings on 25 February, 16 June and 25 November 2004.

INTERNAL AUDIT

5. Internal Audit services are provided in-house by the College’s Management Audit and Review section within the context of the 2002/2006 Strategic Audit Plan. This is approved by the Committee, and prepared in accordance with the HEFCE Audit Code of Practice guidelines, additionally taking account of the College’s Risk Register. The objective of this Strategic Plan is to cover all identified auditable areas within a four-year cycle on the basis of the constituent Annual Operational Audit Plans, which are subject to change to take account of any significant variations in the College’s organisational structure or changing needs and priorities. Contract internal audit services are also provided to the Royal College of Art.

6. The staffing of the Unit consists of the Head, an Internal Audit Manager, an Assistant
Internal Audit Manager and two and a half FTE Auditor posts. PricewaterhouseCoopers (PwC) and a Computer Audit Consultant provided additional specialist internal audit resource during the year.

7. In all, 43 internal audit reports were issued during the year. A copy of each report is passed to the College Secretary for information and discussion as appropriate at monthly management meetings in respect of significant findings and recommendations arising from the reviews. A further copy is issued to the Director of Finance so that he may be aware of any control issues and/or recommendations impacting upon the central finance function. The Audit Committee also receives a regular update on completed internal audit reports, which includes a summary of specific issues arising from the audits.

8. Exceptional items reported to the Committee included:

   a. **Fraudulent purchases within the Plumbing Section of the Estates Division.** This matter was referred to in detail in last year’s Annual Report. Custodial sentences were imposed on the two defendants (a college employee and a company director) and a Confiscation of Assets Hearing resulted in the granting of a near 100% Recovery Order (£232,124), of which £162,462 has been received to date.

   b. **Physics Department Stores (Faculty of Physical Sciences).** This matter was also included in last year’s Report. Following the investigation by Internal Audit, and with the assistance of the Police, the former employee has now been charged with 12 counts of False Accounting.

9. Both the College’s Management Audit and Review’s Terms of Reference and the HEFCE Audit Code of Practice require the provision by the head of the internal audit service of “an opinion on the whole framework of internal control, including risk management and governance at the institution, and on the arrangements for securing economy, efficiency and effectiveness.” The four-year Strategic Plan cycle, and more specifically the Operational Plan for the period from August 2003 to July 2004, provides a basis on which such an annual audit opinion can be given. This does not, of course, imply that those systems reviewed are sufficiently secure to eliminate all possibility of error or fraud, but the opinion of the Head of Management Audit and Review is that the College’s corporate internal control arrangements (both financial and administrative) are such as to minimise such risks.

10. Subject to the scope and objectives of individual reviews, the fact that a number of programmed audit reviews were postponed and substitutions made as a result of the College’s Support Services Initiative, Research Administration Management Programme (RAMP), and Student Administration and Management System (SAMS) Project, coupled with the overriding fact that examinations are necessarily conducted on a sampling basis, the Head of Management Audit and Review has concluded that the College has in place satisfactory arrangements for internal control (including risk management and governance), together with appropriate arrangements for securing value for money.

**EXTERNAL AUDIT**

11. External audit services are provided by PwC, who have been re-appointed as the College’s External Auditors for a period of five years from 1 August 2004 following a tendering process conducted by the College (see Paragraphs 16 – 17 below). At its meeting in June 2004 the Committee considered the External Audit Strategy for the preparation of the Financial Statements for the year ended 31 July 2004. The Committee noted that, as there were no new major accounting standards, the Auditors would be concentrating on key risks including:
a. Corporate Governance disclosure requirements.

c. The revised HEFCE Financial Memorandum.

d. Research Grant Monitoring.

12. The formal opinion of the Auditors is given in the Financial Statements for the Year Ended 31 July 2004 and in the Management Letter to the Council from PwC.

VALUE FOR MONEY (VFM)

13. Responsibility for delivering initiatives to secure economy, efficiency and effectiveness rests with the College’s senior management. The Committee has previously agreed that the responsibility for considering VFM initiatives lies with the College’s Management Board and that an opinion, based on their review during the year, should be included in the Internal Audit annual report to the Audit Committee. A report on VFM initiatives was presented to the Management Board in July 2004. A copy of this comprehensive report was also circulated to Audit Committee members in September and, on that basis, the Committee can confirm that appropriate management systems are in place for the evaluation and monitoring of the College’s VFM strategy.

RISK MANAGEMENT

14. Since 2003 HEFCE has required higher education institutions to comply with the Turnbull and Combined Code Recommendations on Corporate Governance. This means that, when the governing body of a higher education institution approves that organisation’s annual accounts by 31 December each year, it should state whether or not it is satisfied that all material risks facing the institution have been identified. To meet this requirement the College’s Risk Management Policy stipulates that the Management Board will carry out an annual review of the College’s Risk Register and Action Plan in July. The Management Board’s recommendations are then to be passed to the Audit Committee for consideration so that the Committee can, in turn, make its report to the Council. The Management Board conducted its review of the College’s Risk Register in July when a revised Risk Register and Action Plan was approved.

15. In addition to the normal review of the Risk Register, PwC conducted a strategic review of the College’s risk management arrangements. While this found that these arrangements complied with HEFCE requirements, it was suggested that additional action could be taken to further embed risk management within the normal operations of the College’s departments and divisions. Accordingly, the annual Planning Round process was amended, with Departments and Divisions now being required to submit their complete risk registers. These risk registers were in turn scrutinised by the Management Board as part of its annual review of risk management.

16. In the light of the Reviews conducted by the Management Board and by PwC, the Audit Committee is satisfied that the Risk Management Policy and associated procedures put in place in 2002 have been implemented effectively, that the College is operating in accordance with the Turnbull and Combined Code Recommendations and that it is in full compliance with HEFCE’s current Accounts Direction.
APPOINTMENT OF EXTERNAL AUDITORS

17. During the year the Audit Committee conducted a tendering process for the appointment of external auditors and the provision of limited consultancy services to supplement the College’s internal audit service. The tender process was carried out by a Tender Evaluation Committee operating in accordance with the Audit Code of Practice and with the College’s own Financial Regulations. In February, the Committee received the Tender Evaluation Committee’s Report and agreed to make the following recommendations to the Council:

a. That PricewaterhouseCoopers (PWC) be re-appointed as the College’s external auditors for a period of five years from 1 August 2004.

b. That KPMG be appointed formally to provide additional internal audit services to supplement the College’s in-house service and in particular to provide IT audit services for a period of five years from 1 August 2004.

c. That the College retain the option of purchasing additional consultancy services from KPMG, PwC and/or other firms for strategic reviews.

18. These recommendations were approved by the Council in March 2004.

OTHER WORK UNDERTAKEN

19. Draft HEFCE Audit Code of Practice. At its meeting in February the Committee considered the HEFCE Audit Code of Practice consultation document and agreed the College’s response.


a. The Committee received a Report in February on the CEC’s new requirement that audit certificates be completed annually for each CEC funded research project. The College receives about 85 new contracts each year. This means that, by the end of 2009, the College could have to provide 350 audit certificates per annum. HEFCE has agreed that these audits can be conducted internally or externally. It was not, at that stage, clear how the significant extra burden imposed by these procedures could be funded.

b. The Committee has received regular reports on progress with this issue since then. To date, the leading accountancy firms and the EU have still not reached an agreement over financial guidelines relating to the production of the audit certificates required under the new procedures. However, some of the other outstanding issues have now been resolved with the EU. The College has therefore decided that the College’s internal audit service can produce these audit certificates and it will accordingly recruit an 0.5 FTE member of staff to carry out the necessary work.


a. In June the Committee received a Report on the College’s Support Services Initiative (SSI), which is intended to make the support services more responsive to Imperial’s strategic needs, to improve their quality of service, to ensure the efficient use of resources, and to release academic time for the academic mission. To meet these goals, the SSI has created a programme of inter-linked projects, reviewing
operations both from the top down and from the bottom up. Improvements have already been made; strategic and day-to-day decision-making has been separated, and the planning process has been revised to ensure that operational objectives relate to strategic priorities in a more transparent way. Other initiatives will improve the clarity of decision-making processes and accountability and increase the devolution of operational decision-making. Processes are also being streamlined to provide better value for money.

b. The Committee welcomed the broad thrust of the SSI and recognised that its primary aim was to improve the quality of the support offered to academics, rather than to cut costs. However, the Committee’s primary concern was how business continuity would be maintained during the period when the significant changes proposed were implemented. It has therefore been agreed that it will receive regular progress reports during the implementation phase.

22. **Research Administration Management Programme (RAMP).**

a. In June the Committee also received a report on the RAMP Project, which was established to increase capability in people, process and technology and to significantly enhance cross-College ways of working towards the common goal of supporting the administration of research at the College. There are three critical areas for the success of the Project - organisation and people, procedures and processes, and the new IT platform - and the Committee was informed how each of these risks were being ameliorated by the Project Manager.

b. The Committee welcomed the Report as research grants had been an area of significant concern for the Committee for a number of years and it was pleased to note the progress that was being made in this area.

**OPINION**

23. In its terms of reference included in this Report, the Council has delegated to the Audit Committee the responsibility for reviewing the effectiveness of the College's financial procedures, in order that it can assure the Council that funds from HEFCE have been used only for the purposes for which they have been given, that public funds and those received from other sources have been safeguarded, and that the management of the College's resources and expenditure has been such as to secure their use in an economic, efficient and effective way.

24. Given the assurances contained in the reports made to the Audit Committee during the year by the Internal and External Auditors, and in the summaries of their annual reports to the Audit Committee contained in this Report, together with those received from the College management, the Audit Committee is now able to give the Council the necessary assurances that the Council's responsibilities have been satisfactorily discharged.

D.P. Hearn  
Chairman, Audit Committee
AUDIT COMMITTEE

Terms of Reference:

(i) To keep under review the effectiveness of internal control systems, and in particular to review the external auditors’ management letter, the internal auditors' annual report, and management responses.

(ii) To consider the Annual Financial Statements in the presence of the external auditor, including the auditor’s formal opinion, the statement of members’ responsibilities and any corporate governance statement.

(iii) To monitor the implementation of agreed recommendations arising from internal and external audit reports.

(iv) To advise the Council on the appointment of the external auditors, the audit fee, the provision of any non-audit services by the external auditors and any questions of resignation or dismissal of the external auditors.

(v) To review the internal auditors’ audit needs assessment and the audit plan; to consider major findings of internal audit investigations and management's response; and promote co-ordination between the internal and external auditors. The Committee will ensure that the resources made available for internal audit are sufficient to meet the College’s needs.

(vi) To satisfy itself that satisfactory arrangements are in place to promote economy, efficiency and effectiveness.

(vii) To receive any relevant reports from the National Audit Office, the HEFCE and other organisations.

(viii) To monitor annually the performance and effectiveness of external and internal auditors.

(ix) To report to the Council at least annually on its activity for the year and to give its opinion on the extent to which the Council may rely on the internal control system and the arrangements for securing economy, efficiency and effectiveness.

(x) The Committee shall have the authority to call for any information from College officers, external and internal auditors and others which it considers necessary to discharge its responsibilities effectively.

Constitution:

A Chairman to be appointed by the Council from among the lay members of the Council
Three members with appropriate expertise to be appointed by the Council from among the lay members of the Court and/ or Council.

One member to be appointed by the Council from among the elected staff representatives on the Court.

No member of the Audit Committee may also serve on the College’s Finance Committee.

In attendance:
The Rector
The Deputy Rector
The College Secretary
The Director of Finance
The Head of Management Audit and Review
A representative of the external auditors

Secretary
Head of Central Secretariat and Assistant Clerk to the Court and Council

Present Membership:

Mr D P Hearn (Chairman)
Mr G Bickerton
Mr D R L Duncan
Professor D Griffiths
Dr D J Wilbraham

Meetings and Reporting:

The Committee shall meet not less than three times a year and shall report:

(a) to the Council in December.

(b) to the Court in March.

Quorum:

The quorum shall be the Chairman or Deputy Chairman and two other members.
AUDIT COMMITTEE

Terms Of Reference
(With Effect from 1 January 2005)

(i) To keep under review the effectiveness of internal control systems, and in particular to review the external auditors’ management letter, the internal auditors' annual report, and management responses.

(ii) To consider the Annual Financial Statements in the presence of the external auditor, including the auditor’s formal opinion, the statement of members’ responsibilities and any corporate governance statement.

(iii) To monitor the implementation of agreed recommendations arising from internal and external audit reports.

(iv) To advise the Council on the appointment of the external auditors, the audit fee, the provision of any non-audit services by the external auditors and any questions of resignation or dismissal of the external auditors.

(v) To review the internal auditors’ audit needs assessment and the audit plan; to consider major findings of internal audit investigations and management's response; and promote co-ordination between the internal and external auditors. The Committee will ensure that the resources made available for internal audit are sufficient to meet the College’s needs.

(vi) To satisfy itself that satisfactory arrangements are in place to promote economy, efficiency and effectiveness.

(vii) To monitor the effectiveness of the College's risk management policy and procedures, and in this regard, to receive annual reports from the Rector on Risk Management and the management of Health and Safety within the College.

(viii) To receive any relevant reports from the National Audit Office, the HEFCE and other organisations.

(ix) To monitor annually the performance and effectiveness of external and internal auditors.

(x) To report to the Council at least annually on its activity for the year and to give its opinion on the extent to which the Council may rely on the internal control system and the arrangements for securing economy, efficiency and effectiveness.

(xi) The Committee shall have the authority to call for any information from College officers, external and internal auditors and others which it considers necessary to discharge its responsibilities effectively.

Constitution:

The Committee and its Chairman shall be appointed by the Council from among its own members and must consist of members with no executive responsibility for the management
of the College. No member of the Audit Committee may also serve on the College’s Finance Committee or its equivalent.

A Chairman to be appointed by the Council from among the external members of the Council.

Three members, at least one of whom shall have recent and relevant expertise and experience in finance, accounting or auditing, to be appointed by the Council from among the external members of the Council.

_In attendance:_
The Rector
The Deputy Rector
The College Secretary
The Chief Finance Officer
The Head of Management Audit and Review.
A representative of the external auditors

_Secretary_
Head of Central Secretariat and Assistant Clerk to the Court and Council

_Present Membership:_
Mr D P Hearn (Chairman)
Dr J D Wilbraham
Two vacancies

**Meetings and Reporting:**
The Committee shall meet not less than three times a year. The external auditors or the Head of Management Audit and Review may request that additional meetings be held if they consider it necessary.

The minutes of meetings of the Committee will be circulated to all members of the Council.

The Committee will prepare an annual report covering the College’s financial year and any significant issues up to the date of preparing the Report. The Report will be addressed to the Rector and to the Council and will summarise the activity for the year. It will give the Committee’s opinion on the adequacy and effectiveness of the College’s arrangements for:

a. Risk Management, control and governance, including the accuracy of the statement of internal control included with the annual statement of accounts.

b. Economy, efficiency and effectiveness (value for money).

This Report will be presented to the Council at its meeting in December, before the members’ responsibility statement in the Annual Financial Statements is signed.

The Committee will also provide an annual statement on the College’s Accounts to the Court at its annual meeting.

**Quorum:**
The quorum shall be the Chairman and one other member.
INTRODUCTION

1. One of the key areas of strategic intent set out in the College’s Strategic Plan is the exploitation of intellectual assets and skills and, as is noted within the Plan, "Imperial's mission and culture engender a vibrant entrepreneurial approach to exploiting new knowledge and skills". In determining how this can best be delivered, the need to include a major incubation facility for start-up companies within the College was identified as a key strategic priority. This Paper sets out the proposal approved at the Management Board to achieve that objective with the assistance of a significant external grant of £3M from the London Development Agency (LDA).

BACKGROUND

2. Plans have been developed for the creation of an Imperial Incubator for early stage bio-science companies, spun-out from higher education institutes across London, with spin-outs from Imperial providing a core occupancy of the facility. The Incubator will be created from refurbished space in the basement floors of the Bessemer Building in the Royal School of Mines. Upgrading the basement space not only recognises the overall objective of improving College facilities but also addresses this need in the specific case of the Bessemer Building.

3. The LDA is working with College on the Incubator proposal and has commissioned a business plan through Arthur D Little (ADL) based on the requirements of the parties involved and the earlier feasibility work that has been carried out. The business case shown at Annex A has been approved by the Management Board, and outlines the underlying financial viability of the proposal.

PROPOSAL

4. The proposed Incubator will occupy 2,253 sqm (gross) and provide flexible accommodation for ten laboratories and fifteen offices over the ground and mezzanine floors of the refurbished building. The size and layout of the facility will provide 1,466 sqm of lettable space (65%), including meeting rooms, indicating a capacity for fifteen to seventeen companies. The facility will also include management offices, a reception area and laboratory units so that the total net space is 1,710 sqm (75%). The refurbishment is planned to begin in Spring 2005, with the facility opening in Spring 2006.

5. The primary driver behind this proposal is therefore the development of a suitable physical and organisational environment for the nurturing of promising bioscience inventions...
alongside or in close proximity to mainstream research activities undertaken on campus. The location of such facilities in the heart of London is not only a benefit to start-up companies but also raises College's profile and capabilities in this area. This proposal also enables the College to leverage its own investment in a key strategic priority through the LDA Grant referred to above.

6. The receipt of an LDA grant will provide additional external support for the ongoing refurbishment of the South Kensington estate. In addition, the housing of start-up companies from other London universities, a condition of the LDA Grant, will encourage the cross-fertilisation of ideas and know-how in this sector. College's own start-up companies, as well as external companies, will benefit from the economies of scale and administrative support which result from co-location in one centre. The proximity of the centre to the College will be a particular benefit to our own spin-outs. In the longer term, the benefits will flow from acceleration in the rate of development of College and other spin-out companies developed through the Bio-Incubator, which in turn will result in higher valuations and higher returns to College.

7. The plan to place the Bio-Incubator facility at the heart of the Bessemer building has been integrated into the new developments already planned in this space. Space in the building has already been identified for the Institute for Biomedical Engineering and a centre for Nano-Biotechnology – the strategic co-location of the Bio-Incubator with these major College initiatives presents a major opportunity for attracting additional industrial research funding for the College.

8. On a more practical level, the facility will also be expected to generate rental income from the space, which is required to avoid explicit subsidisation of the tenant start-up life science companies. A review of the space currently let by Impact to College spin-outs that would qualify for space in the Bio-Incubator facility indicates that 671 sqm of space is currently being leased. This would represent 46% of the space available in the facility. The Business Plan developed by ADL identified that a rental of £40 per sq. ft. for office space and £50 per sq. ft. for laboratory space would be achievable, and the business plan set out in the Annex to this proposal has been developed based on these figures and on the assumption that occupation of the facility will rise over a two to three year period to 85%. When achieved, this would generate rental income of approximately £600K p.a. from an area which currently receives a space charge of just under £200K p.a.

9. This Project is unusual in that it is operating at the interface between academic and commercial activities. Therefore, whilst there is a demonstrable commercial income stream coming in from the start-up tenants, the prime driver is the objective established in the Strategic Plan to develop a major incubation facility on the South Kensington site. The financial assessment of the Project has been developed with this in mind – thus the investment appraisal is based on the ability of the Project to deliver a Net Present Value (NPV) over a 40 year timescale.

10. Once operational, the Bio-Incubator facility will be administered under a management services agreement with the College’s technology transfer organisation – Imperial Innovations Limited. This will ensure that best practice in the sector is maintained throughout the initial ten-year term of the arrangements, and also ensure that the potential tax implications of operating a trading activity can be dealt with through the College group structure. The College will negotiate a specific agreement with Innovations for the services required.
SOURCES OF FUNDING

11. The Project has two core elements. The first is the enabling works required to make the space available for the construction of the Bio-Incubator, and the second is the construction of the facility itself. This has been costed at £6.15M. The Department of Earth Sciences and Engineering currently occupies the space required, and it is inevitable that there will be some costs involved in the relocation of this laboratory and work space. The Business Plan set out in the Annex to this Paper demonstrates that, excluding relocation costs, this proposal has a very positive financial profile. It should be noted that the assumptions regarding occupancy, income and costs would accommodate further expenditure of just over £1M on such relocation costs without producing a negative NPV. Plans can be developed to relocate the space within such a costs, and such an investment would further advance the refurbishment of the Bessemer Building.

12. Support from the LDA has been secured which has already covered much of the early stage feasibility and development costs and will, in addition, result in a £3M grant to cover some of the capital costs associated with the Project. This leaves a funding requirement of c. £3.15M to deal with the capital costs associated with developing the Bio-Incubator itself. In addition a budget needs to be established to fund the relocation of the existing facilities in the space – as noted a budget of £1M would still produce a positive NPV. The Management Board have considered the costs required to deliver the facility, and to fund the enabling works, and approved the inclusion of this Project in the College’s Capital Investment Plan on the basis of the Business Case.

SUMMARY

13. Council is therefore asked to consider and, if its sees fit, approve this Project based on a total project cost of £7.15M, with a commitment of up to a maximum of £4.15M to come from the Capital Investment Plan (CIP). The College has agreement from LDA that the £3M grant may be expended first, thus delaying the need for the CIP funds until the latter half of the Project – therefore in cash flow terms the majority of the CIP funds will need to be made available in the financial year 2005/06.

Proposed Resolution: That the Imperial College Bio-Incubator Project, as set out in Paper G with a total Project cost of £7.15M, be approved.

T.M.
BIO-INCUBATOR UNITS - BORROWINGS OVER TIME

Annex A

Base Case - Facility Only

Base Case plus £1m enabling costs

<table>
<thead>
<tr>
<th>£k</th>
<th>Office</th>
<th>Laboratory</th>
<th>Total - no.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project cost</td>
<td>6,150</td>
<td>525</td>
<td>941</td>
</tr>
<tr>
<td>Costs outside cost plan</td>
<td>0</td>
<td>0</td>
<td>1,466</td>
</tr>
<tr>
<td>Budgeted cost</td>
<td>6,150</td>
<td>525</td>
<td>941</td>
</tr>
<tr>
<td>Borrowing</td>
<td>6,150</td>
<td>525</td>
<td>941</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>£p.a. Occupancy %</th>
<th>£p.a. Occupancy %</th>
<th>£p.a. Occupancy %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office sqm</td>
<td>431</td>
<td>85%</td>
</tr>
<tr>
<td>Lab rent sqm</td>
<td>538</td>
<td></td>
</tr>
</tbody>
</table>

End surplus/(borrowing) 9,926 (after 40 yrs)
NPV (40 years) 973
% Yield at year 1 1.91%
% Yield at year 2 2.94%
% Yield at year 3 3.41%

Cost of funds 6.00%
Inflation rate (for Income & costs) 2.50%
Donation / Assoc. Sale 3,000
Running costs (initial) p.a. 423

Council
10th December 2004
FULL YEAR FORECAST

1. Operating activities are forecast to generate a deficit of £5.8M in the year, some £0.7M better than budget.

2. With only three months’ results being available, only a few changes to the full year forecast have been made. The main ones are:

   a. A £1.4M increase in HEFCE grants, of which £1.2M is for consultants’ pay. This has been fully offset by higher expenditure within the Faculties, principally Medicine.

   b. A £5.5M reduction in research income, fully offset by lower expenditure, wholly within the Faculty of Engineering. This is explained further in Paragraph 6 below.

   c. A £1.3M increase in Faculty of Medicine refurbishment expenditure which has been deferred from last year. As these costs are expected to be capitalised, this increase will not affect the College’s net result. A higher than budget credit to offset this expenditure is reported within College Corporate Costs.

   d. A £1.0M reduction in Long Term Maintenance within Estates to reflect costs which were budgeted for 2004/05 but were actually spent in 2003/04.

3. It seems likely that income from student fees will be higher than budget. It is not yet possible to update the forecast but an update will be available in the New Year when the results of the December count are known. (The budget for overseas student fees is £38.1M, which is 7.8% up on the previous year’s figure).

FACULTIES

4. Operating Results. A net surplus of £0.5M is reported for the first quarter:

   Engineering  £0.5M
   Life Sciences (£0.1M) deficit
   Medicine     (£0.1M) deficit
   Physical Sciences £0.1M
   Business School  £0.1M

---

1 The Finance Management Report Booklet is not included with these Minutes
5. **Research Income (Pages 4 & 5).** Year-to-date income totalled £39.1M, some £3.2M (8%) below budget. Direct costs were £33.8M, £1.4M (4%) lower than budget and the overhead income at £5.3M was £1.8M (25%) below budget.

6. Research forecasts for all Faculties have been reviewed, but only Engineering has revised its forecast – from £35.5M to £30.0M. Although this represents a 15% drop from budget, this forecast, if achieved, would still be 6% higher than its 2003/04 actual result.

7. A new page (Page 5) shows the full year forecast of research income by source within each Faculty.

**CENTRAL SUPPORT SERVICES**

8. Actual expenditure in the first quarter totalled £19.7M, some £0.4M below budget. The full year forecast of £75.8M is £0.8M below budget, principally due to the £1.0M underspend on long term maintenance within Estates.

**CAPITAL EXPENDITURE**

9. **Externally Funded Projects.** Actual expenditure, including projects under £1.0M, totalled £10.1M in the year to date. The main projects amongst these were:

<table>
<thead>
<tr>
<th>Spend in year</th>
<th>Spend to date</th>
<th>Forecast completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>£M</td>
<td>£M</td>
<td>£M</td>
</tr>
<tr>
<td>Biochemistry Rejuvenation</td>
<td>1.0</td>
<td>12.3</td>
</tr>
<tr>
<td>Burlington Danes</td>
<td>2.7</td>
<td>9.9</td>
</tr>
<tr>
<td>Magnetic Resonance Equipment</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Haematology Research Labs</td>
<td>1.8</td>
<td>2.1</td>
</tr>
<tr>
<td>Materials &amp; Earth Sciences Refurb</td>
<td>0.7</td>
<td>0.9</td>
</tr>
</tbody>
</table>

10. **College-funded Projects.** Actual expenditure, including projects under £1.0M, totalled £2.2M in the year to date. The main projects amongst these were:

<table>
<thead>
<tr>
<th>Spend in year</th>
<th>Spend to date</th>
<th>Forecast completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>£M</td>
<td>£M</td>
<td>£M</td>
</tr>
<tr>
<td>Geosciences &amp; Eng Refurb. in RSM</td>
<td>0.5</td>
<td>8.3</td>
</tr>
<tr>
<td>Sports Centre and Flats</td>
<td>1.6</td>
<td>4.4</td>
</tr>
</tbody>
</table>

11. Total spend for the year to date is thus £12.3M, an average of £3.1M per month. The spend rate will probably increase during the year but it now seems unlikely that it will reach the budgeted £100M in the year.

**WORKING CAPITAL (Page 6)**

12. Net borrowings (borrowings less cash on deposit) at 31 October 2004 were £32.9M (£50M borrowed less £17.1M on deposit), some £2.5M lower than the position at 31 July 2004.
13. Invoiced debtors totalled £59.8M at 31 October 2004, £6.6M higher than 31 July. The seasonal increase in student fee debt since 31 July has been partially offset by reductions in research and other debts. Compared with October last year the invoiced debts are £11.3M lower, of which £9.3M relates to Research and £2.7M to Student Fees.

14. It is interesting to compare Research balances with those a year ago: debtors are down by nearly £10M but work in progress (unbilled costs) is up by a similar amount:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£M</td>
<td>£M</td>
</tr>
<tr>
<td>Debtors</td>
<td>31.7</td>
<td>41.0</td>
</tr>
<tr>
<td>Work in progress (unbilled costs)</td>
<td>36.2</td>
<td>25.8</td>
</tr>
<tr>
<td>Total</td>
<td>67.9</td>
<td>66.8</td>
</tr>
</tbody>
</table>

15. It is likely that the rising level of WIP is at least partly due to a change in sponsor mix.

16. Capital work in progress, being costs incurred but yet to be billed to sponsors, totalled £13.8M, some £7.0M higher than July. Claims for some of the costs are being prepared.

**FUNDING**

17. The net borrowings chart has been updated to bring in the latest cost estimate for Southside and the net cost of the Incubator not previously included, together adding about £10M. As a result net borrowings now reach a peak of about £110M – in 2007 - but in practice the actual figure would be unlikely to exceed £100M (other things being equal) as capital spend tends to lag behind predictions. In the very short term net borrowings should continue to fall as student fees continue to roll in.

A.S.D.C.
HEALTH AND SAFETY COMMITTEE STRUCTURE

1. Following the Council’s decision to disband the majority of its Committees, including the Health and Safety Audit Committee, the Committee held its final Meeting on 13 November 2004.

2. The Committee was advised that the Council had recognised the importance of health and safety to the College and that the decision to disband it had not been taken lightly. However, members acknowledged that the Committee’s role in auditing departmental performance was one that properly lay with the College’s management, and that the decision to disband it was therefore correct. Members agreed, though, that this should not mean that the important work of reviewing and auditing health and safety performance across the College would cease and asked how the College proposed to ensure that this important area of work was maintained and developed.

3. The Committee was advised that the creation of a new Health and Safety Management Committee was being proposed. This would work in tandem with the existing Health and Safety Council, which had a continuing statutory consultative role to fulfil. The new Committee would report directly to the College’s Operations Committee and would include external members to ensure that the College could continue to benefit from the excellent advice it had previously received from the lay members of the Health and Safety Audit Committee. The College is keen to ensure a degree of continuity between these committees and the lay members were therefore asked to consider serving on the new management level Committee.

4. The Committee reviewed the draft terms of reference of the proposed Health and Safety Management Committee and stressed that it would be important for its Chairman to be a senior member of staff and preferably one of the Faculty Principals. It would also be important to ensure that the Faculty representatives on the Committee were also senior members of the Faculties. It was agreed that, if they are to contribute fully, individual lay members should have experience of health and safety management in the private sector and in engineering and medicine.

5. Although the creation of this new Committee would improve the College’s formal health and safety structure, its existence could not absolve the Council of its responsibilities in this area. The Committee was therefore pleased to learn that the Council would continue to receive regular reports on health and safety from the Rector and that the Audit Committee would now take on responsibility for monitoring health and safety in the context of its wider role in reviewing risk management at the College. The Committee agreed that there was a consequent need for the membership of the Audit Committee to include someone with the requisite experience in health and safety.

6. Although these changes represent a significant shift in the way health and safety is monitored by the College, the Committee agreed that the proposed structure better reflected...
the respective responsibilities of the Council and the executive. Provided a degree of continuity between the old and new structures could be provided, the Committee agreed that these proposals would enable the College to meet its legal obligations and would also promote continued improvements in health and safety management within Imperial.

HEALTH AND SAFETY COUNCIL MEETINGS

7. The Committee also reviewed the Minutes and Papers of the College’s Health and Safety Council Meetings held on 7 July 2004 (when all of the annual departmental safety reports had been reviewed) and 19 October 2004.

8. The Committee noted that the meeting on 7 July was the first time that all of the annual reports had been considered together and that many of the departments had been represented by their Heads or by another senior member of staff. The Committee agreed that this new format had been largely successful. One of the main benefits was that departments were not viewed in isolation, but in their faculty context. It was also easier to make meaningful comparisons between the individual reports. Although the majority of reports were now very good, the Committee felt that some were still disappointing. It was hoped that the introduction of the new reporting format would encourage those departments to improve in the coming year, and the Committee suggested that one of the tasks for the new Management Committee this year would be to identify the weaker departments and provide support and feedback to them to enable these to meet the standard attained by the other departments. The Committee also stressed the importance of ensuring that departmental Heads took responsibility for their annual reports and attended the review meeting.

CONCLUSIONS

9. As this was the Committee’s last meeting, it concluded with a discussion of the main issues that the new Health and Safety Management Committee would have to address. The Committee agreed that the last few years had seen considerable improvements in health and safety management at the College and that this was now informed by a clear commitment from senior management. However, there were still areas of concern. Members felt that the relationship with the NHS Trusts at the medical campuses, and in particular, clarification of the respective responsibilities for health and safety of the College and the local Trust in shared areas, still needed to be resolved. Similarly, although there had been considerable improvements, some Heads of Department still appeared not to fully understand their responsibility for the safety of their staff. The College already offered excellent specialist training in health and safety, but the Committee suggested that it should also consider offering training and support in safety management and leadership.

10. Finally, the Committee thanked the Safety Director, Mr Gillett, and the Director of Occupational Health, Dr Swann, for the support and guidance they had offered the Committee. The Committee agreed that the significant improvement in health and safety management at the College was, to a large extent, attributable to the hard work and commitment of the Safety Department and the Department of Occupational Health.

A.D. Roche
A Note by the Secretary of the Investments Committee

INTRODUCTION

1. The Investments Committee last reported to Council in December 2003, and has since met four times to monitor and review the performance of College’s investment portfolio for the financial year 2003/04. During that period, the following attended meetings of the Committee:

- Mr Simon Leathes (Chairman)
- Professor David Begg
- Mr Tony Cannon
- Mr John Heskett
- Dr Martin Knight
- Mr Paddy Linaker
- Sir Richard Sykes
- Mr John Anderson (Secretary)

2. The Committee operated against the performance target established by Council, that the portfolio should deliver at least a 4% total real return after accounting for fees. Over the year the actual total return achieved, net of fees, was 8.5%. The Retail Price Index figure for the same period was 3%, so the fund outperformed the target by 1.5%. The fund also continued to outperform this objective over a ten-year period, as demonstrated in Table 1.

<table>
<thead>
<tr>
<th>Table 1: College fund against target real return of 4% and comparative benchmark over the last ten years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep-94</td>
</tr>
<tr>
<td>College Fund</td>
</tr>
<tr>
<td>100</td>
</tr>
</tbody>
</table>

Diagram: Line graphs showing the performance of the College Fund, real return of 4% (RPI), and benchmark over the last ten years.
3. In addition to monitoring the performance of the portfolio, the Committee also oversaw a significant change to the management of the investments. As noted in the last report to Council, the Committee agreed to revise the allocation of assets across the portfolio, and also decided to bring Allianz Dresdner’s mandate to an end. This resulted in movement of funds from Allianz over to M&G Charifund, a specialist charity unit trust with concentration on dividend yield as a significant element of the total return, and into a portfolio of Legal and General tracker funds. The transfer was successfully completed at the end of March 2004 with minimal transactional costs, and simultaneously, underlying asset allocation was changed to move to the revised benchmark of:

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Target holding</th>
<th>Year end holding</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK equities</td>
<td>60%</td>
<td>57.5%</td>
<td>-2.5%</td>
</tr>
<tr>
<td>International equities</td>
<td>25%</td>
<td>29%</td>
<td>+4%</td>
</tr>
<tr>
<td>Bonds</td>
<td>15%</td>
<td>13.5%</td>
<td>-1.5%</td>
</tr>
</tbody>
</table>

4. Therefore, at the end of July 2004, the fund was slightly underweight bonds and UK equity and overweight international equity. The Committee continued to review the appropriateness of the target asset allocation at each meeting and is undertaking an ongoing review of the risk to reward characteristics of not only the existing asset classes, but also alternative assets. However, at the year-end, the Committee were content that the benchmark set out above was consistent with the performance target, but agreed that it should remain subject to regular review.

5. Further to the changes to the governance structure approved by Council, the Committee held its final formal meeting as a Committee of Council on 11 August 2004. However, it is hoped and expected that the members will have a continued involvement in the monitoring and review of performance against the College target under the revised arrangements.

J.R. Anderson
### General Portfolios

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£k</td>
<td>£k</td>
</tr>
<tr>
<td>M&amp;G</td>
<td>9,715</td>
<td>22,471</td>
</tr>
<tr>
<td>L&amp;G</td>
<td>9,392</td>
<td>886</td>
</tr>
<tr>
<td>Capital</td>
<td>22,471</td>
<td>41,578</td>
</tr>
<tr>
<td>Allianz Dres</td>
<td>0</td>
<td>1,156</td>
</tr>
<tr>
<td>Total</td>
<td>41,578</td>
<td>39,330</td>
</tr>
</tbody>
</table>

#### Year End market value

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£k</td>
<td>£k</td>
</tr>
<tr>
<td>M&amp;G</td>
<td>9,715</td>
<td>22,471</td>
</tr>
<tr>
<td>L&amp;G</td>
<td>9,392</td>
<td>886</td>
</tr>
<tr>
<td>Capital</td>
<td>22,471</td>
<td>41,578</td>
</tr>
<tr>
<td>Allianz Dres</td>
<td>0</td>
<td>1,156</td>
</tr>
<tr>
<td>Total</td>
<td>41,578</td>
<td>39,330</td>
</tr>
</tbody>
</table>

#### Net Income amount

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£k</td>
<td>£k</td>
</tr>
<tr>
<td>M&amp;G</td>
<td>126</td>
<td>205</td>
</tr>
<tr>
<td>L&amp;G</td>
<td>205</td>
<td>556</td>
</tr>
<tr>
<td>Capital</td>
<td>269</td>
<td>1,156</td>
</tr>
<tr>
<td>Allianz Dres</td>
<td>1,156</td>
<td>2,093</td>
</tr>
<tr>
<td>Total</td>
<td>2,093</td>
<td>2,137</td>
</tr>
<tr>
<td></td>
<td>748</td>
<td>748</td>
</tr>
</tbody>
</table>

#### Yield (annualised)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>M&amp;G</td>
<td>1.3%</td>
<td>2.0%</td>
</tr>
<tr>
<td>L&amp;G</td>
<td>2.2%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Capital</td>
<td>2.5%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Allianz Dres</td>
<td>2.8%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Total</td>
<td>5.7%</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

#### Capital return

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>M&amp;G</td>
<td>5.6%</td>
<td>3.8%</td>
</tr>
<tr>
<td>L&amp;G</td>
<td>5.6%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Capital</td>
<td>5.8%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Allianz Dres</td>
<td>6.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Total</td>
<td>5.8%</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

#### Total return

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>M&amp;G</td>
<td>6.9%</td>
<td>6.0%</td>
</tr>
<tr>
<td>L&amp;G</td>
<td>7.8%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Capital</td>
<td>8.4%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Allianz Dres</td>
<td>8.5%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Total</td>
<td>8.5%</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

#### Real return of 4%

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>M&amp;G</td>
<td>7.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>L&amp;G</td>
<td>7.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Capital</td>
<td>7.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Allianz Dres</td>
<td>6.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Total</td>
<td>6.0%</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

#### FTSE All-share Total return index

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>M&amp;G</td>
<td>10.7%</td>
<td>10.7%</td>
</tr>
<tr>
<td>L&amp;G</td>
<td>10.7%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Capital</td>
<td>10.7%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Allianz Dres</td>
<td>10.7%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Total</td>
<td>10.7%</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

### Group Pension Scheme

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£k</td>
<td>£k</td>
</tr>
<tr>
<td>M&amp;G</td>
<td>231</td>
<td>225</td>
</tr>
<tr>
<td>L&amp;G</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Capital</td>
<td>225</td>
<td>225</td>
</tr>
</tbody>
</table>

#### Year End market value

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£k</td>
<td>£k</td>
</tr>
<tr>
<td>M&amp;G</td>
<td>231</td>
<td>225</td>
</tr>
<tr>
<td>L&amp;G</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Capital</td>
<td>225</td>
<td>225</td>
</tr>
</tbody>
</table>

#### Income amount

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£k</td>
<td>£k</td>
</tr>
<tr>
<td>M&amp;G</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>L&amp;G</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Capital</td>
<td>2</td>
<td>0</td>
</tr>
</tbody>
</table>

#### Yield (annualised)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>M&amp;G</td>
<td>0.8%</td>
<td>0.0%</td>
</tr>
<tr>
<td>L&amp;G</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Capital</td>
<td>2.6%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

#### Capital return

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>M&amp;G</td>
<td>2.6%</td>
<td>2.7%</td>
</tr>
<tr>
<td>L&amp;G</td>
<td></td>
<td>0.0%</td>
</tr>
<tr>
<td>Capital</td>
<td>2.7%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

#### Total return

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>M&amp;G</td>
<td>3.4%</td>
<td>2.7%</td>
</tr>
<tr>
<td>L&amp;G</td>
<td></td>
<td>0.0%</td>
</tr>
<tr>
<td>Capital</td>
<td>2.7%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

### Other Investments

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£k</td>
<td>£k</td>
</tr>
<tr>
<td>COIF Property</td>
<td>71</td>
<td>461</td>
</tr>
<tr>
<td>COIF</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>71</td>
<td>461</td>
</tr>
</tbody>
</table>

#### Year End market value

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£k</td>
<td>£k</td>
</tr>
<tr>
<td>COIF Property</td>
<td>71</td>
<td>461</td>
</tr>
<tr>
<td>COIF</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>71</td>
<td>461</td>
</tr>
</tbody>
</table>

#### Income amount

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£k</td>
<td>£k</td>
</tr>
<tr>
<td>COIF Property</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>COIF</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>0</td>
</tr>
</tbody>
</table>

#### Yield (annualised)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>COIF Property</td>
<td>4.3%</td>
<td>0.0%</td>
</tr>
<tr>
<td>COIF</td>
<td></td>
<td>0.0%</td>
</tr>
<tr>
<td>Other</td>
<td>4.3%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

### Cash (College Managed)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£k</td>
<td>£k</td>
</tr>
<tr>
<td>Interest earned</td>
<td>1,580</td>
<td>2,609</td>
</tr>
<tr>
<td>Interest rate achieved %</td>
<td>4.1%</td>
<td>3.5%</td>
</tr>
<tr>
<td>NatWest Overnight rate %</td>
<td>2.8%</td>
<td></td>
</tr>
</tbody>
</table>

#### Notes:

1. As at 31 March 2004, the College investment agreement with Allianz Dresdner Asset Management (UK) Ltd ceased, and the College's funds were disinvested. As at 1st April 2004, these disinvested funds were placed with the M&G Charifund, and with various Legal and General Trusts, - the UK Index Trust, the All Stocks Gilt Index Trust and the Fixed Index Trust. For these new investments, the total return relates only to the period April 2004 to July 2004.

2. For the year the income calculated is based on the following assumptions. Income for M&G is assumed at 12.75p * 4 for each of 886,681.313 units for year. This is based on the rate actually achieved for May to July 04 of 12.75p for each unit.

3. The figure for a real return of 4% is based on the Retail Price Index for All Items based on January 1987 being 100. The index for July 2003 was 181.3, whilst the figure for July 2004 was 186.8.

4. The group pension scheme is an In-house pension scheme which is now closed; since the investment is no longer associated with pension provision. It is now treated as a general College Current Asset Investment.

5. The COIF Charities Investment Fund is managed by CCLA Investment Management Ltd. Only the Frank Merrick Associates Trust and the Hilary Bauerman Bequest have funds which are invested in COIF. The property was purchased in August 2003 as part of the Shared Equity Scheme. It is associated with the Hammersmith Hospital Endowment Fund.

1. At its meeting in October 2002, the Council approved the College's intention to charge the maximum fee allowable to Home/EU undergraduate students at the first opportunity. This maximum fee has been set by the Government at £3,000 and the College will charge this fee, subject to acceptance of its Access Agreement (see below), to all of its Home/EU Undergraduates who enter the College from 2006/07 onwards. Our fees will rise in line with any inflationary changes set by Government. Existing students, those who entered prior to 2006/07 and students who took a gap year and deferred entry from 2005/06 to 2006/07, will be not be liable for this fee increase.

2. The College has also committed to provide financial assistance to those students most in need so that the increased fees do not deter potential applicants from entering courses at the College. The broad outline of our Bursary Scheme was approved by the Management Board in January 2004 and the Council was notified of the Scheme at its meeting on 13 February 2004 (Item 3 under Matters Arising).

3. The Office for Fair Access (OFFA), led by Sir Martin Harris, has now been established and the College is developing its Access Agreement. This will be presented to the Management Board for approval at its meeting on 17 December 2004 and will then be submitted to OFFA by the 4 January deadline to ensure a response by 11 March 2005. The main thrust of our Access Agreement relates to our Bursary Scheme, to which we are devoting 32% of our additional fee income, along with a small sum of additional money to our outreach work in the form of the METRIC mathematics project. Our Access Agreement, as submitted to OFFA, will be available to members for information at the meeting of the Council in February 2005.

F.V.M.
PAPER L

REVISIONS TO THE COLLEGE’S ‘PROCEDURES FOR DEALING WITH STUDENT DISCIPLINARY OFFENCES’

A Note by the Academic Registrar

INTRODUCTION

1. A system for the regular review of the College’s ‘Procedures for Dealing with Student Disciplinary Offences’ has been instituted from 2004. The Procedures were last reviewed in July 2003 and since then some issues have arisen which indicate that greater clarity in the jurisdiction of Responsible Authorities \(^1\) is needed.

2. A review group was convened, including representatives from the Registry, College Tutors, academic staff and the President of the Students’ Union. In addition, legal advice was sought from the Central Secretariat. The Group has recommended the revisions to the Procedures detailed below for approval by the Council.

SUMMARY OF REVISIONS

3. **The Responsible Authority.**
   
   a. The Procedures have been amended to make clearer that Responsible Authorities may also impose summary punishment in the vicinity of their area of responsibility (Paragraph B.2.(iv)).
   
   b. The Procedures have also been amended to clarify that the Deputy Principal of the Faculty of Medicine is the Responsible Authority for computing offences carried out by medical students (Paragraph B.2.(vii)).

4. **Appeals Against Summary Punishment.**
   
   a. Where a student wishes to appeal against a summary punishment, the Procedures now clarify that this appeal should be heard by the Residence Tribunal or College Disciplinary Committee in accordance with the same procedures as those for hearing cases of misconduct (new Paragraph 29).
   
   b. The exception to the above Paragraph occurs where students wish to make an appeal on the grounds of procedural irregularity. In such situations, the Chairman of the Residence Tribunal or College Discipline Committee may determine that the appeal be considered by correspondence (new Paragraph 30).

---

\(^1\) The power and responsibility for curtailing or containing the immediate effects of misconduct and imposing summary punishment where appropriate rests with the responsible authority.
ACTION REQUIRED

5. The revised Procedures are attached at Annex A.

6. The Council is asked to consider and, if it sees fit, to approve the revisions to the ‘Procedures for Dealing with Student Disciplinary Offences’.

Proposed Resolution: That the revisions to the Procedures for Dealing with Student Disciplinary Offences, as set out in Paper L, be approved.

F.V.M.
IMPERIAL COLLEGE LONDON

PROCEDURES FOR DEALING WITH STUDENT DISCIPLINARY OFFENCES

December 2004

DISCIPLINE IN IMPERIAL COLLEGE

The Governing Body have approved the following procedures for dealing with student disciplinary offences of a non-academic nature:

NOTE:

(1) Students must note that conduct of a nature which would be inappropriate in a member of some professions could require additional disciplinary action. In particular students of the Faculty of Medicine must note that conduct which would be improper in the case of a member of the medical profession could constitute a disciplinary offence which will be considered under these procedures. Additionally, students whose course of study leads to provisional registration as doctors and whose conduct falls to be considered under these procedures may also fall to be considered under the College’s Procedure for the Assessment of Fitness to Practise Medicine.

(2) Any case of misconduct on the part of a member of the College staff who is also a registered student of the College will be dealt with in accordance with the appropriate disciplinary procedure for College staff and not in accordance with these procedures for student disciplinary offences.

A. JURISDICTION

1. For discipline purposes, there are six jurisdictional areas or activities:
   (i) Union premises and Union activities whether on or off College premises;
   (ii) the residences and residence activities whether on or off College premises;
   (iii) departmental buildings and departmental activities including field trips;
   (iv) other College areas;
   (v) misconduct of a nature which is likely to affect the good name and standing of the College;
   (vi) misuse of computer facilities or activities.
B. THE DISCIPLINARY STRUCTURE

Summary punishment

2. The power and responsibility for curtailing or containing the immediate effects of misconduct and imposing summary punishment where appropriate rests with the responsible authority. The Responsible Authority is as follows:

(i) for Union premises and Union activities, including the area used to control entry to union activities, the President of Imperial College Union or his or her nominee;
(ii) for the residences and residence activities, the Warden or Assistant Warden;
(iii) for departmental buildings and departmental activities, the Head of Department or his or her nominee;
(iv) in other College areas, a College Tutor, except that the responsible authority referred to in 2(i), to 2(ii) and 2(iii) may also impose summary punishment where misconduct occurs in the vicinity of the area for which he or she is responsible;
(v) in the case of misconduct arising outside the College, a College Tutor;
(vi) in the case of misconduct involving several of the above areas, a College Tutor;
(vii) in the case of computing offences, the Head of Department, Deputy Principal of the Faculty of Medicine or his/her nominee;
(viii) for medical school buildings and activities, the Deputy Principal of the Faculty of Medicine or his/her delegate.

In exceptional circumstances, the Rector may appoint another suitable person.

3. Where summary punishment is appropriate, it shall be imposed on the spot (or with the least possible delay) and shall be limited to one, two or three of the following:

(i) a reprimand;
(ii) expulsion, not exceeding seven days, from the use of the area where the misconduct occurred; *
(iii) suspension, not exceeding seven days, from the use of a particular facility;
(iv) a charge, up to a maximum to be determined, from time to time, by the College Tutors and the President of the Imperial College Union, to meet the cost in whole or part of replacing the damaged property or equipment;
(v) a fine, up to a maximum to be determined, from time to time, by the College Tutors and the President of the Imperial College Union;
(vi) ‘College Service’, i.e. work on College campuses of benefit to the College community.

4. The authority imposing summary punishment must inform the person being disciplined of his or her right of appeal.

Cases where Summary Punishment is Inappropriate

5. Misconduct which in the opinion of the responsible authority cannot be dealt with adequately by means of summary punishment shall be dealt with as follows:

* Students may be summarily expelled from their halls of residence only if there is a perceived danger to other residents.
(i) where the responsible authority is a Warden or Assistant Warden then the matter shall be referred to the Residence Tribunal;
(ii) where the responsible authority is the President of Imperial College Union, the matter shall be referred to the Union Disciplinary Committee, membership of which is defined in the ICU Disciplinary Policy. A Deputy President, Imperial College Union or his or her nominee shall act as Clerk to the Committee, and shall be a non-voting member when disciplinary cases are under consideration;
(iii) in all other cases, the responsible authority shall refer the matter to the College Discipline Committee.

6. In cases involving misuse of College equipment or facilities, breaches of College safety regulations or instances of potential danger to students, staff or other persons and where the responsible authority refers the matter to the College Discipline Committee or the Residence Tribunal, suspension or expulsion * from the area or from the use of the facilities may be imposed, by the Responsible Authority, until such time as the Committee or Tribunal has reached a decision.

7. In cases of serious misconduct by medical students, the Responsible Authority may consider that the issue is so serious that restrictions should be placed on the student’s activities. In such circumstances, the Responsible Authority should report the allegations against the student to the Principal of the Medical Faculty who shall consider the information supplied and invite the student to make representations. Taking the protection of the public as the paramount consideration, the Principal of the Medical Faculty shall decide whether and if so what restrictions should be placed on the student’s activities. Any restrictions imposed shall remain in place until either the student is acquitted by a disciplinary authority or the Fitness to Practise Medicine Panel or the Principal of the Medical Faculty direct otherwise.

8. The Residence Tribunal shall have a Chairman and two Deputy Chairmen appointed by the Rector. The Chairman, or in his/her absence a College Tutor, may appoint one of the Deputy Chairmen to act as Chairman of the Tribunal for a particular meeting; but otherwise Deputy Chairmen shall not attend meetings of the Tribunal. The other members shall be: a Warden or a former Warden and an academic staff member to be appointed by the Chairman of the Tribunal in consultation with the President of the Imperial College Union; and the President of the Union or his/her nominee. A Clerk to the Tribunal will be appointed by the Academic Registrar.

9. The Chairman of the Residence Tribunal may decide, after examining documentary evidence, that a case should be referred to the College Discipline Committee, instead of being heard by the Residence Tribunal.

10. The College Discipline Committee shall consist of four members of whom two shall be students and two members of the academic staff plus a Chairman who shall normally be the Dean of a Faculty. The student members will be chosen from among the Union Council. The academic staff members shall be chosen from a Panel appointed by the Rector. Selection of the Chairman and the staff members by the Academic Registrar (or his/her nominee), and student members by the President of the Union shall in each instance be random, after exclusion of members concerned with the case to be heard (see 16 below). The Academic Registrar (or his/her nominee) will appoint a Clerk to the Committee.
C. PROCEDURES

11. Students whose cases are referred to the Residence Tribunal, to the Imperial College Union Disciplinary Committee or to the College Discipline Committee shall be informed in writing of the charges against them, and of their right to be represented at the hearing by a person of their choice who is a member of the College, and to bring witnesses. If they wish to be represented, to call witnesses or present documents either bearing on the charge or in mitigation of any penalty which may be imposed, they shall notify the Clerk to the Tribunal or Committee accordingly with reasonable notice, in advance of the hearing, which will normally be held within ten College working days of the referral.

12. The responsible authority shall, through the Clerk to the Committee or Tribunal, notify the student, with reasonable notice in advance of the hearing, of any documents to be submitted or any witnesses to be called.

13. The Tribunal or Committee shall base its decision on evidence presented and examined in the presence of the person bringing the charge and the student charged. The proceedings of the Tribunal or Committee shall not be invalidated by the failure to appear of the student charged following notification of the proceedings in accordance with paragraphs 11 and 12. Evidence of earlier misconduct by the student charged which has already been the subject of previous disciplinary procedures shall not be presented until after a decision has been reached on the facts of the case, but may then be admitted and considered in deciding on any punishment.

14. All Committees shall reach their decision by simple majority voting, save that on questions of guilt no person shall be found guilty if more than one member of the Committee dissents. The Chairman may exercise a casting vote. The Clerk in each case shall not be entitled to vote.

15. Hearings shall normally be in private and confidentiality observed but a written account of the proceedings may be released at the Chairman’s discretion. Students may request that the hearing is held in public. A full record shall be made and retained for possible use in connection with an appeal (see paragraph 32 below). The Clerk to the College Disciplinary Committee/Residence Tribunal/Imperial College Union Disciplinary Committee will write to the appellant within five working days of the hearing taking place, informing him/her of the Committee’s decision, and providing reasons for the judgement reached in relation to submissions made at the hearing.

16. In keeping with the Human Rights Act (1998), should the student wish, the decision of the Committee/Tribunal will be posted on the relevant Departmental/Residential notice board.

17. No person shall sit as a member of the Residence Tribunal, the Imperial College Union Disciplinary Committee or the College Discipline Committee if he/she is:
   (i) the subject of a charge,
   (ii) the complainant,
   (iii) a witness or a potential witness (i.e. has personal knowledge of the facts surrounding the case),
   (iv) successfully challenged for any good cause. The Chairman of the Committee or Tribunal concerned shall decide whether to uphold the challenge or not, prior to the hearing.
(v) connected with the student being charged or any other person involved with the case.

18. Students should be aware of the implications of misconduct which is also a criminal offence. This could invite criminal investigation in addition to College disciplinary procedures. If considered necessary, College disciplinary procedures may be suspended pending the outcome of criminal procedures.

D. PENALTIES

19. The Residence Tribunal may impose one or more of the following penalties or, if it so decides, refer any disciplinary matter to the College Discipline Committee:

(i) a reprimand;
(ii) a fine;
(iii) a charge to meet the cost in whole or in part of replacing damaged property or equipment;
(iv) expulsion or suspension from any part of the residences other than his or her own room for such period as the Tribunal may determine;
(v) that a resident shall not be entitled to remain in his or her room after a certain date;
(vi) ‘College service’, i.e. work on College campuses of benefit to the College community.

The Residence Tribunal may extend the penalty imposed under paragraph 19 (iv) until such time as the College Discipline Committee reaches a decision.

20. The Imperial College Union Disciplinary Committee may impose any of the penalties described in the ICU Disciplinary Policy or, if it so decides, refer any disciplinary matter to the College Discipline Committee.

21. The College Discipline Committee may impose one or more of the following penalties:

(i) a reprimand,
(ii) a fine,
(iii) a charge to meet the cost in whole or in part of replacing damaged property or equipment,
(iv) expulsion or suspension from any part of the College for such period as the Committee may determine,
(v) expulsion from the College for such period as the Committee may determine, which may include permanent expulsion,
(vi) ‘College service’, i.e. work on College campuses of benefit to the College community.

22. Following a decision of any of the above, failure to pay, excepting extenuating circumstances such as financial hardship, within ten College working days, any fine or to pay compensation for damage or to abide by any other penalty shall itself constitute a disciplinary offence for which the Discipline Committee may without any further hearing impose a further penalty including expulsion from the College.

23. Except in the case of summary punishment no student shall be suspended or excluded from the College or any of its facilities nor shall his or her status as a student be prejudiced pending determination of the proceedings against him or her.
save that this provision shall not apply where suspension or exclusion is imposed in accordance with paragraph 6.

24. Where misconduct leads to prosecution in an outside court, the Residence Tribunal, the Imperial College Union Discipline Committee and the College Discipline Committee shall take note of the fact and the outcome in imposing any College punishment.

25. All monies collected from fines shall be donated to the Student Hardship Fund.

E. APPEALS

26. Appeals may be on the grounds of procedural irregularity, unreasonable conclusions or an excessive or inappropriate penalty. All appeals must be made within five College working days in accordance with the guidance given below.

Appeals against summary punishment

27. Any student wishing to appeal against summary punishment must submit a written notice of appeal within five College working days, stating the full grounds of appeal, as follows:

(i) in the case of appeals to the Imperial College Union Disciplinary Committee, the notice should be delivered to a Deputy President, Imperial College Union;

(ii) in all other cases the notice should be delivered to the Academic Registrar.

28. The appeal will be considered by the following bodies:

(i) if the punishment was imposed by a Warden or Assistant Warden, the Residence Tribunal,

(ii) if the punishment was imposed by the President of the Imperial College Union or his/her nominee, a Deputy President,

(iii) in all other cases, the College Discipline Committee.

29. **The Residence Tribunal or College Disciplinary Committee will hear the appeal in accordance with the procedures detailed in paragraphs 11 – 17, unless the provisions in paragraph 30 apply.**

30. Where the appeal is made on the grounds of procedural irregularity, the Chairman of the Residence Tribunal or College Discipline Committee may determine on the basis of the evidence presented that the appeal may be considered by correspondence. The student will be informed of the Tribunal or Committee’s decision in accordance with the procedure detailed in paragraph 15. If a unanimous decision cannot be reached by correspondence, the appeal will be heard by the Residence Tribunal or College Discipline Committee in accordance with the procedures detailed in paragraphs 11 - 17

Appeals against the IC Union Disciplinary Committee

31. In cases where a student wishes to appeal against a decision of the IC Union Disciplinary Committee, the appeal should be made within five college working days
to the Imperial College Union Appeals Committee. The notice should be delivered to a Deputy President, Imperial College Union (the IC Union Disciplinary Policy refers).

**Appeals against the Residence Tribunal or the College Discipline Committee**

32. In cases where a student wishes to appeal against penalties imposed by the Residence Tribunal or the College Discipline Committee:

(i) a student may appeal within five College working days to the Rector in writing stating the grounds for appeal. The factual basis of the decision shall not be open to appeal unless evidence is produced which the Rector regards as both new and significant

(ii) the Rector shall be supplied with a full report of the proceedings prepared by the Clerk of the Tribunal or Committee. The report shall contain a statement of the matters investigated, a summary of the evidence given by each witness and the reasons for the decisions reached. The appellant will be supplied with a copy of the report in advance and may submit comments;

(iii) the Rector may seek the advice of a Discipline Review Panel before reaching a decision. The Discipline Review Panel shall consist of two members of the academic staff and two students and a Chairman all appointed by the Rector.

33. After an appeal hearing, the original decision may be confirmed, reversed or modified, or in the case of appeals to the Rector, the Rector may in addition direct that the case be re-heard.

34. If, having exhausted the College’s internal appeals structure, the student is still dissatisfied, the student may petition the College’s Visitor. Under the 1998 Charter of Imperial College, Article 22, a student may appeal to the College’s Visitor who is Her Majesty the Queen acting through the President of the Privy Council. Information on how to petition is available at www.privycouncil.gov.uk/output/Page48.asp or by contacting the Privy Council Office.

**Approved by the Governing Body**  
**Revised and approved by the Council**

<table>
<thead>
<tr>
<th>Approved By</th>
<th>June 1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revised and approved by the Council</td>
<td>February 1999</td>
</tr>
<tr>
<td></td>
<td>June 2001</td>
</tr>
<tr>
<td></td>
<td>July 2002</td>
</tr>
<tr>
<td></td>
<td>March 2003</td>
</tr>
<tr>
<td></td>
<td>July 2003</td>
</tr>
<tr>
<td></td>
<td>December 2004</td>
</tr>
</tbody>
</table>
1. On 17 November the Council of University Chairman (CUC) launched a new edition of its Guide for Members of Higher Education Governing Bodies in the UK at a conference in the QEII Conference Centre in Westminster. The new document replaces the CUC’s previous guidance issued in 2001 and copies of both it and a summary are enclosed with the Council papers.

2. Most of the text of the Guide is unchanged from the 2001 edition. However, it has been extensively reordered, with much of the explanatory and background material (for instance, on the legal status of universities) transferred to a reference section of ‘Information for Governors’ (Part III). It also includes much material (for instance, on risk management, governing body reviews of effectiveness and performance, the Audit Code of Practice, equal opportunities legislation, the quality assurance of teaching and learning, and so on) which is not new in itself, but has appeared since the last edition of the Guide was published in 2001. Finally, an entirely new section setting out examples of good governance practice in UK universities has been provided (Part IV).

3. The main points which members will wish to note are that the Guide:

   a. Incorporates key recommendations from the Lambert Review relevant to the governance of Higher Education. In particular, it sets out a Governance Code of Practice (Part I) which is a development of the code recommended by Lambert. Compliance with this is voluntary but the expectation is that all institutions will conform with it and will confirm in their annual Financial Statements that they are doing so. Where an institution does not comply with parts of the Code, they will be expected to give their reasons for this.

   b. Recommends (Part II, Paragraph 1.2) that the main responsibilities of the governing body should be set out in a formal ‘Statement of Primary Responsibilities’ and it provides a model for this at Annex A1.

4. For ease of reference these and the other more significant changes from the previous edition are listed at Annex A to this Paper.
GUIDE FOR MEMBERS OF HIGHER EDUCATION GOVERNING BODIES IN THE UK - CHANGES FROM THE 2001 EDITION

<table>
<thead>
<tr>
<th>Part/Annex</th>
<th>Para</th>
<th>Subject (1)</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>(b)</td>
<td>(c)</td>
<td>(d)</td>
</tr>
<tr>
<td>1 1 – 17</td>
<td>Governance Code of Practice</td>
<td>13 - 15</td>
<td></td>
</tr>
<tr>
<td>2 1.2</td>
<td>Statement of the primary responsibilities of a</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td></td>
<td>governing body</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.3</td>
<td>Behaviour of independent, lay or co-opted governors</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>1.11</td>
<td>Responsibility for equality and diversity</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>2.5</td>
<td>Frequency of governing body meetings and regular attendance by members</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>2.6</td>
<td>Expanded guidance on Reserved Business</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>2.21</td>
<td>Governing body’s Register of Interests to include the Secretary and other senior officers</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>2.22</td>
<td>Terms of appointment of governing body members</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>2.23</td>
<td>Removal of governing body members</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>2.27 - 2.28</td>
<td>Governors’ induction and development</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>2.29</td>
<td>Remuneration of lay members</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>2.32</td>
<td>Risk based approach to strategic planning</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>2.33 – 2.34</td>
<td>Risk management</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>2.48</td>
<td>Content of Remuneration Committee’s reports</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>2.50 – 2.52</td>
<td>Nominations Committee – filling of vacancies on governing body committees</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>2.60 – 2.63</td>
<td>Review of the effectiveness of the governing body and of the performance of the institution</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>3.1</td>
<td>Risk management, control and governance systems</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>3.3</td>
<td>Risk management statements in annual Financial Statements</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>3.14 – 3.20</td>
<td>Procurement</td>
<td>32 – 33</td>
<td></td>
</tr>
<tr>
<td>3 1.14</td>
<td>Charitable status</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td>1.18</td>
<td>Other legal compliance</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>1.21</td>
<td>Written undertaking by governors that they understand and accept their responsibilities</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>2.4</td>
<td>Size of the governing body</td>
<td>41</td>
<td></td>
</tr>
</tbody>
</table>

1. The more substantive changes are indicated in bold type. Straightforward editorial changes to the wording of the Guide and updates to financial and other figures are not listed.
<table>
<thead>
<tr>
<th>Part/Annex</th>
<th>Para</th>
<th>Subject (1)</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>(b)</td>
<td>2.20 Role of the Head of Institution in keeping the governing body informed</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>(c)</td>
<td>2.25 Removal of the jurisdiction of the Visitor in determining complaints by students</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>(d)</td>
<td>4.8 Minimisation by HEFCE of the accountability burden</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4.14 – 4.15 Funding for widening participation</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4.17 – 4.21 Funding for research</td>
<td>51</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4.22 Special funding</td>
<td>52</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4.24 Capital funding</td>
<td>52</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4.27- 4.28 Research grants and contracts</td>
<td>52-53</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4.31 TRAC methodology</td>
<td>53</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4.40 – 4.42 Risk management</td>
<td>55</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4.43 Internal control</td>
<td>55</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4.44 – 4.45 Revised Audit Code of Practice</td>
<td>56</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5.1 -5.5 Quality assessment of Learning and Teaching</td>
<td>56-7</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6.1 – 6.6 Research</td>
<td>57-58</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7.1 – 7.4 Estate Management</td>
<td>59</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8.3 (1st bullet) Responsibility of the governing body for HR strategy</td>
<td>60</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8.10 - 8.13 The New Model Statute</td>
<td>61</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8.22 – 8.23 Management of HR functions</td>
<td>63</td>
</tr>
<tr>
<td></td>
<td></td>
<td>9.11 The Office of the Independent Adjudicator</td>
<td>64</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10.1 – 10.3 Equality and diversity</td>
<td>64-5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10.4 – 10.5 Disability Discrimination Act</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10.6 – 10.8 Race Relations (Amendment) Act</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10.9 – 10.10 Religion or belief and sexual orientation</td>
<td>65-6</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10.11 Age discrimination legislation</td>
<td>66</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>4 Case Studies of Current Governance Practice</td>
<td>107 -116</td>
</tr>
<tr>
<td>A1</td>
<td></td>
<td>A1 Model Statement of Primary Responsibilities</td>
<td>117 -118</td>
</tr>
<tr>
<td>A2</td>
<td></td>
<td>A2 Conflicts of Interest – Model Code of Practice</td>
<td>119 -122</td>
</tr>
<tr>
<td>D</td>
<td></td>
<td>D Representative Bodies in Higher Education (updated and expanded entries)</td>
<td>134 -140</td>
</tr>
<tr>
<td>E</td>
<td></td>
<td>E Higher Education Institutions Funded by the Funding Councils (updated and now including income and FTE student numbers)</td>
<td>141 -146</td>
</tr>
<tr>
<td>F</td>
<td></td>
<td>F Bibliography (updated and now including key web sites)</td>
<td>147 -150</td>
</tr>
</tbody>
</table>