MINUTES OF THE PROCEEDINGS

at the

Twenty-third Meeting of the

COUNCIL

of the

IMPERIAL COLLEGE OF SCIENCE, TECHNOLOGY AND MEDICINE

The Twenty-third Meeting of the Council was held in the Council Room, 170, Queen’s Gate at 10:30 a.m. on 12th April 2002, when there were present:

Lord Vincent (Chairman), Professor J. N. B. Bell, Professor Sir Leszek Borysiewicz, Dr. E. Buttle, Professor M. Green, Professor M. P. Hassell, Mr. D. P. Hearn, Professor Dame Julia Higgins, Professor S. P. F. Hughes, Dr. D. P. Isherwood, Dr. M. P. Knight, Miss J. Mayhew, Sir Alastair Morton, Professor J. B. Pendry, Professor J. Perkins, Professor R. D. Rawlings, Dr. B. G. Smith, Dame Rosemary Spencer, Dr. C. L. Vaughan, Dr. D. J. Wilbraham, the Rector, and the President of the ICU, together with the Clerk to the Court and Council.

In attendance: the Academic Registrar, the Director of Finance, the Director of Human Resources, the Director of Planning and Information, the Director of Strategy Development, the Pro Rector for Public and Corporate Affairs and the Assistant Clerk to the Court and Council.

Apologies: Mr. G. Able, Mr. A. R. F. Buxton, Sir Stuart Lipton, Mr. H. B. Lowe, Mr. R. J. Margetts, Professor D. Phillips, Professor P. Poole-Wilson, Eur. Ing. A. D. Roche, the Deputy Rector, the Director of ICT and the Imperial College Union Observer.

WELCOME

On behalf of the Council the Chairman welcomed Professor John Pendry to his first Meeting as a member of the Council. The Chairman also welcomed Dr. Tidu Maini, the Pro Rector for Public and Corporate Affairs, who was in attendance at his first Meeting of the Council, and advised the Council that the Court had formally agreed the appointment of Dr Eileen Buttle as the Deputy Chairman of the Court and Council. He thanked her for agreeing to accept this role and wished her well in it.
MINUTES

Council – 15th February 2002

1. The Minutes of the Twenty-second Meeting of the Council, held on 15th February 2002, were taken as read, confirmed and signed.

RECTOR’S BUSINESS

Staff Matters (Paper A)

2. The Rector formally presented Paper A, which was received for information.

Oral Reports

3. The Rector informed Governors that the new Director of Estates, Mr. Brooks Wilson would be arriving on Monday, 15th April. This was, he said, a key appointment as the College was undertaking a large number of capital projects and there was much work to be done within the Estates Division to ensure that these were managed effectively. One of these projects, the creation of the new Faculty Building, was progressing well and a planning application for it had now been submitted. The Project, which was an integral part of the College’s Capital Investment Plan, was also important because it would free space within the Sherfield Building which could then be used for the expansion of academic departments. The Rector noted that formal approval of the Faculty Building Project and its associated costs would be sought from the Council shortly.

4. The development of Prince’s Gardens was also central to the Capital Investment Plan, the Rector said, as this encompassed such major projects as the refurbishment of the Southside Halls of Residence, the construction of the new Sports Centre and realising the value of the other buildings in Prince’s Garden owned by the College. A Prince’s Gardens strategy was now being developed with assistance from external consultants who were assessing property values. However, there was much still to be done and this, too, would have to be one of Mr. Brooks Wilson’s first priorities.

5. The Rector went on to congratulate the Imperial College University Challenge Team which had got as far as the competition’s final. For the College to have won the title twice and to have reached the final three times in seven years was, he said, a remarkable achievement. The Team would now be competing in a similar national competition in the USA and he wished them every success in this. Concluding his report, the Rector advised Governors, first, that the Minister for Lifelong Learning and Higher Education, Margaret Hodge MP, would be visiting the College on 9th May and, second, that the next lecture in the joint Imperial College/ LSE ‘Science and Society’ Public Lecture Series, on the subject “Is Our Food Safe?”, would be held on 29th April.
MEMBERSHIP OF THE COURT AND COUNCIL (PAPER B)

6. The Clerk introduced Paper B and reminded Governors that this was the first year in which the College had sought nominations for appointment to the Council from members of the Court and from within the College. This exercise had, he said, been very successful and had resulted in the Nominations Committee having eight high quality nominations to consider for the three impending vacancies on the Council. Although three candidates had been identified and approached, the timing was such that they had not, as yet, confirmed their willingness to be appointed. Approval of their appointments would therefore have to be deferred until the next meeting.

7. The Clerk reminded the Council that, for appointments to the Court, it could only make recommendations; it was for the Court itself to approve such appointments. Finally, he reported that the identification of two new members for the Health and Safety Audit Committee, the vacancies for which had been noted at the last meeting of the Council, had now been completed.

8. Dr. Vaughan remarked that there were 11 impending vacancies for elected members of the academic staff on the Court, but that only three nominations for these vacancies had been received. It was, she said, disappointing that so few academic staff had put themselves forward for election. Professor Dame Julia Higgins suggested that, as academic staff were usually very busy, they might prefer not to stand if they were content with the way the College was operating. The Chairman agreed and said that staff could not be forced to stand for election. Professor Bell said that, despite the amount of information on the Court and Council which was made available to staff, he suspected that many staff simply did not understand the importance of the Court or the Council, or their respective roles in the governance of the College.

Resolved:

(i) That, with the exception of those appointments where the candidates had yet to confirm their willingness to be appointed, the appointments to the Council and to Council Committees, as set out in Paper B, be approved.

(ii) That the recommendations for appointment to the Court, as set out in Paper B, be approved.

EXTERNAL AUDITORS MANAGEMENT LETTER (PAPER C)

9. The Director of Finance, Mr. Cannon, introduced Paper C and apologised that the Management Letter was being provided at this late stage in the year. He reported that he had agreed with the external auditors that in future the Management Letter would be provided to the Council for consideration together with the Accounts at the December Meeting of the Council. Mr. Cannon then provided Governors with an oral report on progress in implementing the external auditors’ recommendations. Taking each of these in turn, Mr. Cannon noted the following:

a. “We would recommend that the College review these issues” [financial
information reporting, departmental budgetary control and research monitoring] to ensure that the clarity and quality of the financial information being presented is not impacting negatively upon the day to day aspects of financial and budgetary control.” A working group had been established to review the frequency and format of Financial Reports, including those to the Executive Committee and the Council. It was expected that this review would be complete before the end of the year. A separate working group had also been established to review the Research Contracts area. This had been the subject of a recent internal audit report by PricewaterhouseCoopers (PwC), which would now be considered by the working group.

b. “The College should continue to review the time and resources that are required to manually match balances within the bank reconciliation process. Whilst we acknowledge that this is due to the complexities of the accounts receivable system and the auto-reconciling package, this impacts upon the timely production of the month-end reconciliations. Once robust systems have been identified for the timely production of the bank reconciliation, procedure notes should be documented.” Although there were still problems in keeping bank reconciliations up to date, Mr. Cannon was confident that they would be fully up-to-date by the year-end.

c. “The College should ensure that the reconciliation [of Accounts Receivable and Payable] is completed. All reconciling balances identified as requiring clearance should be investigated as a matter of urgency and written off or adjusted as required.” Accounts Payable were reconciled automatically. Accounts Receivable were more problematic, but again Mr. Cannon stated that they would up-to-date by the end of the financial year.

d. “During 2001/02 the College will need to review its aged debt level and corresponding collection rates to ensure that the provision is being calculated using the most prudent basis. Once a past history of collection rates can be established the College should then ensure that targets are established for benchmarking and performance.” Mr. Cannon reported that the debt position was reviewed on a monthly basis. This showed that the bad debt provision made by the College in the Annual Accounts was proving to be accurate within reasonable limits.

e. “The College should ensure that effective procedures are in place to clear income control accounts on a regular basis (re-raised from 1999/2000).” Mr. Cannon reported that balances were now at their lowest levels for the last year.

f. “The College should ensure that register of interest forms are received from all senior members of staff and those associated with the College who influence it on a regular basis. This will ensure compliance with FRS 8 and the Companies Act with regards to disclosing all material and significant related parties.” The Clerk reported that in future the Central Secretariat would ensure that all Governors and senior members of staff completed their Register of Interest returns.
g. “The College should ensure that all payroll and pension reconciliations are completed on a timely basis. All identified reconciling items should be reviewed and cleared on a timely basis with adjustments being made to the payroll system where necessary.” Mr. Cannon said he believed that this would be completed by the end of the financial year.

h. “The College should ensure that adequate central monitoring over research grants takes place in the areas identified to maintain financial stability.” This would form part of the review of Research Grants already noted by Mr. Cannon.

i. We recommend the following: (i) The College should review individual [endowment] funds and ensure that they are able to be spent in line with the terms of the original endowment. Where this is not possible, the College should consider whether these funds can be grouped under an ‘umbrella’ arrangement to be spent collectively for wider purposes; (ii) Appropriate officers should be nominated to authorise expenditure from funds in line with College policies; (iii) All endowment funds administrators should be identified and quarterly reporting established. 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. These recommendations had all been actioned and were nearly complete. Mr. Cannon noted that this was an area in which record keeping in previous years had not been as good as it should have been. There was therefore an element of ‘catching up’ involved.

j. “The College and Subsidiaries need to ensure that communication is held over the review of intercompany balances. Reconciliations performed should be discussed with all parties and a nominated individual should be responsible for clearing the reconciliation on a monthly basis. All correcting journals should be posted prior to the close down of the accounts to ensure that balances are fairly stated.” These main intercompany accounts were now being reconciled monthly.

k. “The College should continue to review the operational and business risks confronting the College and establish policies and procedures to mitigate the potential impact of those identified risks.” The Clerk reported that the College had conducted a Risk Management exercise with PwC and that a risk register was now being prepared. This process would be complete by the end of July in order for the College to comply with the HEFCE requirement to have a full risk management process in place for the 2002-03 financial year.

10. Concluding his report, Mr. Cannon confirmed that he would also be reporting in detail on each of these recommendations to the Audit Committee.

11. The Chairman of the Audit Committee, Mr. Hearn, noted that research grants and contracts was a complex area about which the Audit Committee had previously expressed its concern. Although the points it had raised before had been dealt with and improvements made, he was pleased that more attention was to be paid to this issue, particularly as this was very important for the College’s income. Having said
this, it was clear that improvements were being made and this was a more positive report than the previous year’s, including, as it did, fewer and less serious recommendations than before. Mr. Hearn went on to say that the upgrade to the Finance system, ICIS, which was due for implementation in a few weeks, should also improve matters.

12. Responding to this, the Director of Planning and Information, Dr. Eastwood, updated the Council on progress with the ICIS upgrade. He reminded members that it had been planned to complete this task over the Christmas Vacation, but that this had been postponed because the system tests had not all been completed satisfactorily at that stage. The ICIS Executive would, he said, be meeting on 18th April to review progress and decide whether or not to proceed with the upgrade in early May. The College wanted to implement the upgrade as soon as possible, first, because this would improve ICIS’s functionality, particularly for the Finance Division, and, second, because it was required for the implementation of the new Student Records System that was to be introduced in 2003. Dr. Eastwood anticipated that the upgrade would be able to proceed this time and that the new version of ICIS would go live on 7th May.

13. Referring back to the recommendation on risk management, Miss Mayhew queried whether reputational risk was included on the risk register that was being prepared. Following the Enron and Arthur Anderson failures in the USA, she said that City firms now considered reputation to be one of the highest organisational risks. The Clerk assured the Council that the College’s reputation had been identified as a key risk in the risk management exercise and featured prominently in the draft risk register.

14. Sir Alastair Morton noted that a large proportion of research grants received by the College were from Government sources. He also noted that the objective of Financial Reporting Standard (FRS) 17 on ‘Retirement Benefits’ was to ensure that the Financial Statements reflected a fair value for the assets and the liabilities arising from an employer’s retirement benefit obligations. Although FRS 17 would only be fully applicable to accounting periods ending on or after 22 June 2003, he queried whether this requirement, together with the delays in collecting research income could jeopardise the College’s expenditure in other areas. Expanding on this, he asked whether the Government would underwrite any failure to fund pensions fully or if the College would have to meet any such additional costs. Dr. Eastwood confirmed that the Government would be unlikely to underwrite the Universities Superannuation Scheme (USS) and that any under-funding would have to be met by increased contributions from universities participating in the Scheme. The Rector remarked that the External Auditors, PwC, had not raised FRS 17 as a risk for the College. He agreed, though, that the issue raised by Sir Alastair Morton should be reviewed in detail with the Auditors to determine whether, and to what extent, the College might be at risk.

15. Dr. Vaughan said that Paragraph 38 of the Management Letter appeared to imply that some research-sponsoring bodies were no longer considered to be low risk. Mr. Cannon explained that research debts were generally classified as low risk if they were less than two years old. Older debts were given a higher classification because
the College’s ability to collect these debts was considered to be lower. The
classification was therefore related to an assessment of the College’s ability to collect
rather than to the research-sponsoring body’s assessed ability to pay.

16. Dr. Vaughan then asked if the members of staff who had failed to complete their
Register of Interest returns were known and whether any of these staff were involved
in procurement. The Clerk confirmed that the names of the individuals concerned
were known.

17. Bringing the discussion to a close, the Chairman said that it was important that the
External Auditors’ recommendations were taken forward by the College’s
management. Progress against the action plan would be reviewed by the Audit
Committee. However, there were also recommendations on governance and he
suggested that these would need to be progressed by the Clerk and the Deputy
Chairman, Dr. Buttle, who was also the Chairman of the Governance Committee.

FINANCE MANAGEMENT REPORT (Paper D)

18. Introducing Paper D, Mr. Cannon advised the Council that the financial forecasts had
been revised to take account of the results of the Administrative Planning Round and
other recent changes. The net effect of these was that the operating deficit before
disposals had been increased to £1.7M, while the forecast surplus after disposals had
also increased to £6.4M. The additional costs of £2.9M were due primarily to the
receipt of prior-year invoices and increases in staffing costs in the Finance Division.
The forecasts for exceptional income had also been revised to take account of the
continuing decline in share values for Turbo Genset Inc. and the likelihood that the
property disposals originally included in the forecasts would not now take place
before the end of the year. Countering this, it was expected that the sale of a 30% share
of the College’s equity in some of its spin-out companies would be concluded
shortly.

19. Before concluding his report, Mr. Cannon drew the Council’s attention to the
proposal to replace the £13M Barclays Bank loan with a £13M Committed Money
Market Facility. This would be at the same cost to the College, but would provide
greater flexibility as it could be drawn upon as and when required.

Resolved: That the proposal to replace the Barclays Bank loan of £13M with
a £13M Committed Money Market Facility, as set out in Paper D,
be approved.

20. Finally, Mr. Cannon noted that the latest balance sheet figures showed a continued
improvement while the analysis of total debtors was better than at the same time in
either of the two previous years. The College’s cash balance was also positive in
February and March, despite these being the months in which the College received no
funds from HEFCE.
BRITISH HEART FOUNDATION ENDOWMENTS (Paper E)

21. The Principal of the Faculty of Medicine, Professor Sir Leszek Borysiewicz, introduced Paper E and said that the original endowments provided by the British Heart Foundation (BHF) to fund chairs in universities were no longer sufficient to do so. As the BHF were keen to provide adequate funding for these chairs, it was proposed to return the original endowments to the BHF in return for their agreement to fund the full costs of the chairs as well as additional administrative support. Professor Sir Leszek Borysiewicz said that the main risk to the College was that it might be unable to attract such chairs in the future. However, as the NHLI Division had performed very well in the recent Research Assessment Exercise and was recognised as one of the premier locations for research into heart disease, he felt this was a relatively minor risk.

Resolved: That the proposal to return the BHF endowments to the BHF in return for its continuing to cover the costs of the Chairs and support staff, as set out in Paper E, be approved.

SPIN-OUT COMPANIES (Paper F)

22. The Pro Rector for Public and Corporate Affairs, Dr. Maini, introduced Paper F and noted that IC Innovations was doing very well compared to the previous year. A new Managing Director, Ms. S. Searle, had been appointed and the IC Innovations Board was also playing an important role in the development of spin-out companies. The University Challenge Seed Fund, which provided pathfinder investment and seed funding for new spin-outs, had recently been extended from £2M to £4M with an investment of £2M from Nikko. Furthermore, Nikko had agreed to provide an additional £20M for investment in Imperial spin-outs on a co-investment basis. As Mr. Cannon had already stated, the College was also negotiating a sale of 30% of its equity in 37 of its spin-out companies and it was expected that contracts for this would be signed shortly. In addition, there were a further 32 companies and 35 licence deals, which could form the basis of a similar sale in the future.

23. Dr. Maini went on to say that IC Innovations and the College ensured that any contracts for research that flowed back to the College from the spin-outs were tightly controlled. He also recognized that it was important that these companies stayed close to the College, particularly in the early stages of their development. To this end, he said, it would be important for incubator space to be identified in the College and he would be working with the new Director of Estates to achieve this.

24. Miss Mayhew noted that the Financial Times had recently featured an article on spin-out companies at Cambridge and had highlighted a number of problems, particularly in relation to conflicts of interest. She suggested that the College’s experiences and controls could provide a useful counter to that article, particularly as investors in the City would have gained the erroneous impression that university spin-out companies were badly managed. She also agreed with Dr. Maini that it was important for incubator space to be found at the College. The Chairman suggested that he and the
Rector should consider whether Imperial should submit a response to the Financial Times’ article. Dr. Maini remarked that the issues raised in the Financial Times were peculiar to Cambridge University. IC Innovations was, he said, trying to involve Imperial alumni as Directors of spin-out companies, rather than just having the lead academics as Directors.

25. Dr. Vaughan suggested that lead academics needed to be committed to the success of their spin-out companies if they were to be attractive to outside investors. Dr. Maini agreed but said that academics needed to be involved in and committed to the development of the science underlying the spin-out; they should not be left to make business decisions and undertake fiduciary duties on their own and it was in this area that the College and IC Innovations sought to give help and guidance. The Director of Strategy Development, Dr. Towler, underlined the need for transparency in the College’s relationships with its spin-outs and reported that the College was producing a guidance manual for spin-outs, which included advice on corporate governance.

26. The Honorary Treasurer, Dr. Knight, noted that spin-out companies placed contracts with the College to the value of £4M annually. This was, he said, 1% of the College’s total turnover. The Rector agreed, saying that this was the fastest growing area of the College’s income.

27. Returning to the sale of the College’s equity, Sir Alastair Morton said he was pleased that, as well as providing a capital sum now, the proposed deal included the possibility of further funding in the future. It was important that the College maintained its financial ties with these companies to ensure that they stayed with the College. Dr. Maini agreed and suggested that the College would also have to consider whether the use of ‘golden shares’ might be an appropriate way forward.

28. The Chairman concluded the discussion by reminding Governors that the work of the spin-out companies fulfilled a central part of the College’s charter, that of the application of science, technology and medicine to industry. As the Honorary Treasurer had pointed out, the spin-out companies were also becoming an increasingly important source of income for the College.

**CLERK’S BUSINESS**

**Proposed Revision of the College’s Statutes (Paper G)**

29. Introducing Paper G, the Clerk reminded the Council that, in March 2000, it and the Court had approved a number of changes to the Charter and Statutes, which had been submitted to the Privy Council Office in June 2000. No reply had yet been received confirming whether or not the changes had been accepted. The Privy Council Office was not noted for its speed of response, but in this instance the delay might be because the College’s submission had included an application for degree-awarding powers. The Privy Council Office was unlikely to respond on this issue until it had received the Report of the visit by the Quality Assurance Agency conducted in March of this year.
30. Turning to the substance of the changes now proposed, the Clerk explained that the first would allow the University of London to comply with its own Ordinances when making appointments to the Council. The other changes were to the membership of the Senate and were required to take account of the introduction of the new Faculty structure and the creation of Graduate Schools. Finally, the Clerk confirmed that changes to the Statutes had to be approved by ‘Special Resolution’ and that a ‘Special Resolution’ meant a resolution passed at a meeting, of which at least 21 days' notice had been given, of not less than two-thirds of the members of the Council by a majority of not less than three-quarters of those present and voting at the meeting. He confirmed, when the Resolution was put to Governors, that all these conditions had been met.

Resolved: That the proposed amendments to the Statutes of the College, as set out in the document headed ‘Revisions to the Statutes (April 2002)’ be approved by Special Resolution.