The Twenty-seventh Meeting of the Council was held in the Council Room, 170, Queen’s Gate at 10:30 a.m. on 19th December 2002, when there were present:

Lord Vincent (Chairman), Mr. G. Able, Professor J. N. B. Bell, Professor Sir Leszek Borysiewicz, Mr. P. Gershon, Mr. B. Gidoomal, Professor M. Green, Professor D. Griffiths, Professor M. P. Hassell, Mr. D. P. Hearn, Professor Dame Julia Higgins, Professor S. P. F. Hughes, Professor A. B. Kay, Dr. M. P. Knight, Professor F. Leppington, Mr. R. J. Margetts, Sir Alastair Morton, Professor G. C. New, Professor J. Perkins, Professor R. D. Rawlings, Eur. Ing. A. D. Roche, Dame Rosemary Spencer, Dr. C. L. Vaughan, Dr. D. J. Wilbraham, Sir Peter Williams, 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 Estates, the Director of Finance, the Director of Human Resources, the Director of Policy and Planning, the Director of ICT, the Pro Rector for Public and Corporate Affairs, the Director of Strategy Development and Communications, the Imperial College Union Observer and the Assistant Clerk to the Court and Council.

Apologies: Dr. E. Buttle, Mr. H. B. Lowe, Dame Judith Mayhew, Dr. B. G. Smith and the Deputy Rector.

WELCOME

On behalf of the Council, the Chairman welcomed the newly elected academic staff representatives, Professor Dorothy Griffiths, Professor A. Barry Kay and Professor Geoffrey New, to their first Meeting as members of the Council. The Chairman also welcomed Mr. Andrew Smith, the Union Deputy President (Education and Welfare) who was attending his first Meeting as the ICU Observer.
MINUTES

Council – 18 October 2002

1. The Minutes of the Twenty-sixth Meeting of the Council, held on 18 October 2002, were taken as read, confirmed and signed.

MATTERS ARISING

Independent Review of Student Complaints (Council Minutes, 18 October 2002, Minute 58)

2. The Clerk reported that he had written to Universities UK (UUK) expressing the Council’s view that it was satisfied with the College’s present arrangements for considering student complaints and that it was concerned that the system proposed by UUK would be overly bureaucratic and costly. However, the College had also received a further circular letter from UUK, which, although dated 18 October, had only been received within the last two weeks. This confirmed UUK’s intention to seek a statutory framework for their proposed system for the review of student complaints by an independent adjudicator. This letter also claimed that the Minister for Universities, Margaret Hodge MBE MP, had stated that it was her intention to legislate to provide the necessary statutory framework for the proposed review process, and furthermore, that, in principle, her Department would provide financial assistance to the Office of the Independent Adjudicator for the first two years of its existence. It was UUK’s intention to have the proposed organisation operational by the Summer of 2003. Copies of both the Clerk’s letter and the UUK circular were tabled for members’ information.

RECTOR’S BUSINESS

Staff Matters (Paper A)

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

Oral Reports

4. Referring to the proposed merger with University College London (UCL), the Rector reported that, by Monday 18 November, it had become clear that a significant proportion of the academic staff at UCL did not support the initiative and it had therefore been decided not to pursue it further.

5. The Rector then explained how discussions with UCL had been conducted. A joint Merger Board had been established in October to consider all aspects of the proposal. This had met weekly and had made real progress. In addition, a number of joint sub-groups had been set up with UCL to look at the various academic and administrative issues in detail and to consider whether there were any major impediments to a
merger. Information on the whole process had been communicated to staff and students in Imperial, both through a specific intranet site and through open meetings with the Rector, all of which, he felt, had worked well. Regrettably, he said, there had been a lot of resistance at UCL to the merger from the outset, which was in part due to their perception that Imperial would be the dominant partner if it proceeded. Although staff at Imperial had entered the discussions with their counterparts at UCL in a very positive manner, the degree of antipathy experienced in some quarters had eventually been quite disheartening.

6. Although the decision to stop the merger talks had clearly been correct, they had had some positive benefits. Some new areas of collaboration with UCL had been identified and these were being actively pursued. The Rector had also been impressed with the positive attitude displayed by Imperial staff in entering these discussions. The experience had shown, in his view, that it would be impossible for universities of the stature of Imperial and UCL to merge unless significant additional funds were made available. These would have to come from Government and it was clear that it would only commit to providing the level of funding required if a comprehensive business case had been prepared. This would, he said, be a lengthy and expensive process and, in the current financial climate, universities would be unlikely to devote the time and energy needed for it unless they were certain that the extra funding would be forthcoming. Concluding this section of his Report, the Rector thanked all the staff at Imperial who had been involved in the merger discussions for their efforts and paid tribute to the professionalism and enthusiasm they had shown.

7. Dr. Vaughan recalled that, when the merger initiative had first been announced, Imperial had been approached by a number of other institutions. She asked if any of these other approaches would now be followed up. The Rector replied that, although discussions about possible collaborations were continuing, there were no plans for any other mergers. The College would, however, look at any opportunities seriously, as and when they arose.

8. Moving on, the Rector said that his Paper on student fees and the costs of higher education, which the Council had considered at its last meeting, had been produced in the expectation that the Government White Paper would be published in November. For a variety of reasons, the White Paper would not now be published until January 2003. The Rector then reminded the Council that, even before Governors had had a chance to discuss the Paper, it had been leaked to the Press. This, in turn, had started a national debate on the funding of higher education and student fees. Although the leaking of Council Papers could not be condoned, on this occasion the result had been positive because it had brought the poor state of higher education finances to the public’s attention.

9. The Rector then reported that he had recently attended a meeting at Downing Street with several other vice-chancellors and that it was clear that the Government were committed to ensuring that higher education would be properly funded in the future. His own view was that the general student fee would increase and that the best universities would be allowed to charge an additional top up fee, which would probably be capped at about £5,000. However, he cautioned that this level of fees would provide no extra money for investment in staff salaries or teaching facilities;
nor would it provide for bursaries to enable students from poorer backgrounds to come to Imperial.

10. It was also important, the Rector said, that any additional funding was provided by way of a loan scheme for students rather than solely through a graduate tax. If it were a tax, the money would go to the Treasury with no guarantee that higher education would benefit directly. Whichever system was chosen, it was vital that the additional money was provided as soon as possible. Concluding his report, the Rector noted that the new Minister for Education and Skills, the Rt. Hon. Charles Clarke MP, had published a discussion paper on higher education, inviting responses to 55 wide-ranging questions. The College’s response, which had been tabled for members’ information, was brief and to the point. In contrast, he said, UUK’s response was extremely lengthy and in no way represented the interests of high quality institutions like Imperial.

REPORT FROM THE FELLOWSHIPS COMMITTEE (PAPER B)

11. Introducing Paper B, the Rector noted that the College now had three graduation ceremonies – two undergraduate and one postgraduate – and there would be time to make three honorary awards at each ceremony. The Fellowships Committee had made its recommendations on this basis and was pleased to submit to Governors for their consideration and approval a distinguished set of nominees for the award of Fellowships, Honorary Degrees and Associateships of the College at the ceremonies in the coming year.

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

ANNUAL FINANCIAL STATEMENTS 2001-02 (PAPER C), MANAGEMENT LETTER (PAPER D), and ANNUAL REPORT OF THE AUDIT COMMITTEE (PAPER E)

12. The Director of Finance, Mr. Cannon, introduced Paper C, noting that the Annual Financial Statements had already been considered by both the Finance and Audit Committees. He was pleased to say that the College’s position had improved and that it had generated a small operating surplus in the year to 31 July 2002. This had been augmented by the sale of assets to create a surplus of £10M for the year.

13. Mr. Cannon went on to highlight particular issues in the Financial Statements. For the first time, the College was including a provision of £200K per annum for its specialist engineering facility. This was on the basis that a decision on whether or not to extend its useful life would not be taken for some time. Another potential liability related to the College’s main pension schemes, the Universities Superannuation Scheme (USS) and the Superannuation Arrangement of the University of London (SAUL), which were dealt with in some detail in Note 31 of the Statements. When the Statements had been prepared, the results of the valuations of the two schemes had not been
available to the College. However, he had subsequently been informed that both schemes had an actuarial surplus and that neither therefore represented a liability for the College for the time being. Drawing attention to his own Report, which was included with the Statements, the Honorary Treasurer, Dr. Knight, noted that he had adopted a different format for it and he hoped that this was clearer and more to the point than in previous years.

14. Sir Peter Williams asked how current the actuarial valuations of the pensions schemes were and what the implications were for the College. Mr. Cannon confirmed that both schemes had been in surplus in March 2002 when the valuations had been carried out. As the next valuations were not due for another three years, this meant that the College’s level of contributions to the two schemes would be unlikely to change in this period.

15. Mr. Cannon then introduced Paper D, which was being presented in conjunction with the Financial Statements for the first time. He suggested that the Council concentrate on the summary of recommendations contained in Annex A to the Management Letter. There were, he said, seven main points that had been raised by the Auditors, which he then dealt with in turn:

a. **Specialist Engineering Facility.** He confirmed that the level of provision to be included in the Financial Statements would be reviewed annually.

b. **Research Grant Monitoring.** He acknowledged that this was not a new recommendation. It was, however, a very important issue for the College as a large proportion of the College’s income came from research grants. The College had established a Research Administration Management Programme (RAMP) to review this area and make recommendations for improvements.

c. **Endowment Fund Monitoring.** This recommendation was repeated from the previous year. Mr. Cannon noted that there had been staffing difficulties and that, consequently, progress had been limited. A new manager for this section had recently been appointed and he hoped that this would ensure that the necessary action was now taken to address the auditors’ recommendation.

d. **Donated Assets.** This was a technical recommendation, since the net book value of the donated assets was nil. However, he agreed that the College would comply with the SORP.

e. **Payroll Control Accounts.** Although significant progress had been made against this recommendation, there was still much to be done.

f. **FRS17.** FRS17 related to the pensions disclosures he had already discussed in relation to the Financial Statements.

g. **Parent Organisation Loan.** This recommendation related to a loan the College had made to its subsidiary company, IC Innovations. A loan had been in place for a number of years. Mr. Cannon agreed that an agreement for the loan should be finalised.
16. Before introducing Paper E, the Chairman of the Audit Committee, Mr. Hearn, remarked that the preparation of the Financial Statements had gone very smoothly this year and the External Auditors had confirmed that it had been accomplished much faster than at a number of other universities. The Audit Committee had also been pleased with the conduct of the audit process this year, which was much improved on the previous two years. This was, he said, a credit to staff within the Finance Division, especially as they had had to resolve a number of highly complex issues.

17. Introducing Paper E, Mr. Hearn said that it was clear that significant improvements had been made in the Finance Division. The processing of accounts and bank reconciliations was much better and the Finance IT system, ICIS, was now settling down. The Committee was also pleased to see that the College was now addressing research monitoring through the RAMP Project.

18. As the problems identified by the External Auditors either had been, or were being, addressed, the Committee was turning its attention to the internal audit function. The Committee believed that the current in-house team worked well when looking at financial controls. However, it had felt for some time that Internal Audit should also conduct higher-level strategic reviews with some specialist help from PricewaterhouseCoopers (PwC). This initiative had not, as yet, proved as successful as the Committee had hoped, but it intended to address this in the coming year. Concluding his Report, Mr. Hearn confirmed that the Committee now had much greater confidence in the robustness of the College’s controls.

19. Sir Alastair Morton noted that in the private sector the internal and external audit functions were invariably handled by different firms so as to avoid any possible conflicts of interest. This was not the case at the College where both internal and external audit were handled by PwC. Mr. Hearn acknowledged that separation of the kind described was recommended practice and to address it the internal and external audit functions were managed by different partners within PwC. However, he agreed that the Committee should review this position and report back to the Council.

20. Mr. Margetts recalled that the Management Letter from 2000-01 had included a long list of recommendations, very few of which had been repeated this year. He asked if all these actions had now been completed. Mr. Hearn confirmed that many of the actions, including the most critical ones, such as those concerning bank reconciliation, had been addressed. It was for this reason that the Committee had much greater confidence in the College’s control mechanisms.

21. The Honorary Treasurer, Dr. Knight said that he had attended the most recent meeting of the Audit Committee and had been impressed by the quality of discussion and the members’ grasp of the detail of the College’s accounts. The Committee deserved the Council’s thanks for the assiduous way in which it had reviewed the Annual Financial Statements and Management Letter.

22. Dr. Vaughan noted that the Committee’s Report included reference to a fraud that had been uncovered at the College. She asked what the scale of the fraud was and what action had been taken. Mr. Cannon responded that the fraud involved an estimated
£250K over an 8-year period. As a result of Internal Audit’s investigation and report, certain aspects of the College’s purchasing procedures had been changed. Mr. Hearn added that the case, which was still sub judice and could only therefore be discussed in general terms, had involved alleged collusion of an employee with an outside firm. Such cases were, he said, always difficult to prevent.

23. Mr Gidoomal remarked that the Management Letter included a reference to the Tanaka Business School, which had an estimated cost of £27M. However, only £1.7M had been received and he asked whether this represented a risk to the College. Mr. Cannon replied that it had been agreed with Dr. Tanaka that, rather than paying cash to the College over the period of the development, he would provide it with securities to support the commitment. Although there was a degree of risk involved, this had been minimised as far as was possible. Dr. Knight agreed, noting that, in the event that the portfolio of securities failed to meet the required value at the end of the period, Dr Tanaka had given the College a personal guarantee that he would meet any shortfall.

24. Drawing the discussion to a close, the Chairman expressed the thanks of the Council to all the staff in the Finance Division who had been involved in the preparation of the Financial Statements.

Resolved: That the Financial Statements for the year ended 31 July 2002, as set out in Paper C, be approved.

ANNUAL REPORT FROM THE INVESTMENTS COMMITTEE (PAPER F)

25. Introducing Paper F, the Chairman of the Investments Committee, Dr. Knight, said that the return achieved in the previous year had been poor, with the College’s investments reducing in value by some 14%. It was small consolation that the benchmark had fallen by 17% in the same period. This also served to confirm his view that the use of benchmarks to measure investment performance was flawed as fund managers tended to hug the benchmarks rather than using their initiative. It was, however, well known that the market had been very difficult in the previous 12 months and it remained one which was not conducive to long-term investments. The Committee had, he said, asked the Fund Managers if the benchmarks provided them with enough flexibility. They had confirmed that this was the case and the benchmarks had therefore been left unchanged.

26. Moving on, Dr. Knight reminded the Council that one of the College’s Fund Managers had been warned about their performance in the previous year. This year they had been much improved and so the Committee had decided to retain their services for the time being. Turning to present performance, Dr. Knight said that the market was just as tough and that he doubted if there would be any change from this for the rest of the year. He cautioned that there was unlikely to be any improvement in the College’s portfolio in that timeframe. However, he said, the College was taking a long-term view and the Council needed to see its performance in that light.
REPORT FROM THE FINANCE COMMITTEE (PAPER G)

27. Dr. Knight next introduced Paper G, noting that a number of issues considered by the Committee had already been discussed by the Council in relation to the Annual Financial Statements and the Management Letter. The Committee had hoped that a revised format for the Financial Reports to the Finance Committee and the Council would have been achieved by this stage. However, this had not been possible, although it remained a high priority for the Finance Division.

28. Moving on to consider the College’s borrowing requirement, Dr. Knight reminded the Council that, at its last Meeting, it had agreed a revised Funding Policy for the College and that the College should borrow up to £100M. The Council had also agreed to establish a committee to oversee a review of the College’s borrowing requirement and had delegated authority to this Committee to agree the details of any loans to meet this requirement. Dr. Knight then reported on the actions taken by the Borrowing Committee since the last Meeting of the Council. As set out in Annex A to Paper G, the Committee had agreed that £50M of senior debt would be raised through a private placement with financial institutions. This would be fixed rate borrowing for the longest term available, with a bullet repayment at maturity. A notice had been placed in the Official Journal of the European Commission (OJEC) inviting organisations to tender for engagement as the College’s advisors and three prominent banks had been short-listed.

29. Dr. Knight then went on to say that the Borrowing Committee had also agreed that the College should take a loan from the European Investment Bank (EIB) of approximately £22.5M for 15 years under a scheme brokered by the HEFCE for university funding for research and teaching infrastructure. Discussions with the EIB were currently at an advanced stage and he expected that they would be concluded shortly.

30. Ending his report, Dr. Knight said that the Committee was making good progress and that he expected that the arrangements to meet the College’s borrowing requirement would be concluded early in the New Year.

FINANCE MANAGEMENT REPORT (PAPER H)

31. The Director of Finance, Mr. Cannon, introduced Paper H, pointing out that the Report covered only the first three months of the academic year. Although the College had budgeted for an operating deficit of £3.2M, it now appeared that this would be closer to £4.5M. In addition the forecast for exceptional income had been reduced from £14.5M to £2.8M. The reason being that it seemed likely that a large property sale would not now happen this year and the value attached to stocks in TurboGenset had been reduced. For a number of reasons, he said, it would be desirable for the College to generate an overall surplus this year. To that end he would discuss possibilities with the Director of Estates and the Finance Division would work with Departments and Divisions to reduce the forecast deficit.

32. Moving on, Mr. Cannon said that the aged debt situation was continuing to improve.
The College had spent £12M on capital projects so far, although it was planned to spend a total of about £60M by the end of the year. The net cash position was also better than had been expected for December. Dr. Knight noted with regret that the College was over budget for the first time for some months. This was, he said, unfortunate, especially as the College was about to enter discussions to arrange significant borrowing.

33. The Director of Estates, Mr. Brooks Wilson, said that it might be possible to bring the sale of Montpelier Hall forward in order to ensure additional, exceptional income in the current year. The Estates Division was controlling expenditure carefully on all its major projects and he believed that the College would meet its capital expenditure targets. Dame Rosemary Spencer asked whether the long-rumoured fall in local property values would be a risk. Mr. Brooks Wilson said that there was still a shortage of good properties in the London area. If this became a concern, it would be possible, he suggested, to undertake a forward sale so as to preserve the College’s position.

34. Sir Alastair Morton noted that over the last few years the College had been moving funds from its general reserves to specific reserves. He asked what would happen next year as the College’s general reserves would by then have been reduced to nil. Mr. Cannon said that he could not give an immediate answer, as this was a complicated issue. He undertook to provide a full response at the Council’s next Meeting.

BERNARD SUNLEY REFURBISHMENT (PAPER I)

35. Introducing Paper I, the Director of Estates, Mr. Brooks Wilson, apologised that, having previously confirmed the cost of the Bernard Sunley Refurbishment Project, he was now having to come back to the Council. The initial figures presented had not been fully robust and it had now been established that additional expenditure of £500K would be needed to see the Project through to completion. It was not uncommon for there to be insufficient information about the later elements of two-stage projects such as this. Consequently, he had instructed that project procedures were to be reviewed to ensure that the full costs of all projects were known and understood before approval was sought for them to commence. Mr. Cannon confirmed that the additional £500K costs had been included in the latest cash flow forecasts.

36. Dr. Vaughan asked if the College would have placed the tender with the same contractor had these additional costs been known at the outset. Mr. Brooks Wilson confirmed that the same contractor would have been appointed. Mr. Margetts asked if the control of expenditure on other projects was satisfactory. Dr. Knight said that the Finance Committee now received regular reports on progress with all projects, using a ‘traffic light’ system to highlight those projects for which there were no problems (green), those which were considered to be at risk (amber) and those with financial or other difficulties (red). This was providing a useful early warning system so that corrective action could be taken. As the Honorary Treasurer and Chairman of the Finance Committee he was reassured by the fact that these additional costs were now
being identified and dealt with earlier.

Resolved: That the additional expenditure of £0.5M for the Bernard Sunley Refurbishment Project, bringing the total authorised expenditure for the Project to £4.0M, as set out in Paper I, be approved.

CLERK’S BUSINESS

Suspension of Academic Regulations (Paper J)

37. The Clerk introduced Paper J, noting that Chairman’s action had been taken in this case because an urgent decision had been required if the student concerned was to be allowed to re-enter the relevant course in order to re-take the examination. The case had been considered by a properly constituted Fitness to Practice Medicine Panel and the Panel’s recommendation was supported by the Faculty of Medicine. In the circumstances, the Chairman had agreed to suspend the relevant Academic Regulations. The case had, however, raised an important point in that College Regulations did not currently provide a framework for the Chairman to take action on behalf of Governors in the rare cases such as this when a decision could not be delayed until the next Meeting of the Council. The Clerk undertook to resolve this.

38. The Principal of the Faculty of Medicine informed the Council that this had been the first case to be considered under the College’s Fitness to Practice Medicine procedures. It had, he said, been handled very effectively and he paid tribute to the Chair of the Panel for ensuring that such a sensitive matter had been dealt with so well.

ANY OTHER BUSINESS

Sale of Cobham Sports Ground (Paper K)

39. The Director of Estates introduced Paper K, which had been tabled. He apologised that the Paper had not been circulated to members prior to the Meeting but drew attention to the requirement by the potential purchaser that the sale negotiations remain confidential. For very good reasons, which he could not disclose, the purchaser would withdraw from the sale if this confidentiality was breached. Moving on to consider the sale itself, Mr. Brooks Wilson reminded the Council that Cobham had been identified in the Capital Plan as one of the sports grounds which could be sold. The College had received an offer for its purchase which, after some negotiation, now stood at £3.5M. This was considerably more than had been included in the initial financial forecasts. If the Council approved the sale, it was hoped that contracts could be exchanged before Christmas. Mr. Brooks Wilson confirmed that the College’s previous valuation had been based on the fact that there were a number of restrictive covenants governing the use of the land. He confirmed that a clawback clause had been incorporated in the terms of the sale to cover the possibility that the purchaser might achieve an uplift in the value of the land by securing the removal of these covenants.
40. Mr. Gershon asked whether there would be any risk to the College’s reputation once the deal was confirmed and the purchaser’s identity revealed. Mr. Brooks Wilson said that the potential purchaser was a high profile organisation with a good reputation. He confirmed that there was no risk to the College’s reputation.

Resolved: That the sale of the Cobham Sports Ground for £3.5M, as set out in Paper K, be approved.