

Dear .....

Thank you for your letter of 25 October 2006.

The HEFCE's policy on the governance of institutions is as follows. The Financial Memorandum (HEFCE 2003/54) requires as a condition of grant that institutions must have a sound system of risk management, control and *governance*. Our definition of a sound system of governance includes that the system meets the good practice standards as set out in the CUC Guide for Members of HE Governing Bodies (HEFCE 2004/40). The Guide stresses that the council of a pre-1992 university is the executive governing body and that it is an important principle that the governing body has a lay majority, i.e., a majority of members who are external and independent. The HEFCE supported and worked with the CUC on its guide and so we endorse this principle of an external majority on the executive governing body. Our institutional risk and assurance work, including our cyclical audits, uses the CUC Guide as the benchmark when assessing corporate governance arrangements: this can be confirmed by reference to our Assurance Service Annual Report published at [www.hefce.ac.uk](http://www.hefce.ac.uk).

The specifics of the CUC Guide are not mandatory (although the HEFCE could make particular requirements conditions of grant if we chose to do so) but the standards are. In our view it is difficult to see how the standards for good governance can be met by any HEI without that body having an external majority on its executive governing body. Thus while we cannot impose a governance model (and our 2006 cyclical audit report does not try to do so), we cannot see how the University of Oxford can report favourably against the CUC Governance Code (HEFCE 2004/40a) or explain convincingly why the executive governing body does not have a majority of independent members, 'defined as both external and independent of the institution'.

Our audit report would have made a strong recommendation (albeit that we cannot mandate) that the University should change its membership arrangements to accord with the latest CUC Guide and Code but refrained from doing so because at the time of the audit this measure was already emerging as a proposal within the University. We therefore elected to stand back, see how the governance changes at the University were enacted, and then make our final assessment in the light of the Vice-Chancellor, audit committee and Council's own assessments of governance in their various 2005-06 accountability returns to the HEFCE.

We are aware that Oxford would still have unique aspects to its governance arrangements and that some of these would not compare exactly with the structures implied by the CUC Guide. We are content with this as it reflects the uniqueness and excellence of the University. However we feel strongly that the feature that should change is the external representation on the executive governing body.

Yours sincerely

Professor David Eastwood

Chief Executive, HEFCE