

Approved Minutes

Present

Prof Patricia Hind	Independent Governor, Deputy Chair of Committee	PH
Mr Graham Raikes, MBE	Independent Governor, Chair of the Board	GR
Prof Rob Warner	Vice-Chancellor	RW

In attendance

Mr John Searson (items 1-2.4)	Independent Governor, Chair of Estates Project Group (EPG)	JS
Miss Lauren Edwards	Student Governor, Marjon Student Union President	LE
Prof Gary Shum	Academic Staff Governor	GS
Prof Michelle Jones	Deputy Vice-Chancellor	MJ
Mr Simon Arthurs	Director of Finance & IT	SA
Mr John Bailey	Director of Estates	JB
Mr Stephen Plant	University Secretary & Registrar	SP
Mrs Jessamie Thomas	Governance Officer (note taker)	JT

1. Welcome, Apologies & Declaration of Conflicts of Interests

- 1.1 Deputy Committee Chair, Prof Patricia Hind, welcomed colleagues to the meeting.
- 1.2 Apologies were received from Alex Hawtin and Kate Doodson.
- 1.3 PH invited members to provide any updates to the Register of Interests noted in Part B. Chair of Board, Graham Raikes, reminded colleagues he was Non-Executive Director, University Hospitals NHS Trust, Plymouth.
- 1.4 PH invited governors to 'unstar' items from Part B for discussion. Item 11 was unstarred and the wording reviewed (see item 11).

2. Update on Estates

- **Update from Chair of EPG** – PH invited John Searson to present an overview.
- 2.1 JS summarised EPG's support for the University's rapid journey towards decarbonisation and commended JB on the successful Salix funding bids, noting that the permission slip had just been received from Western Power. The Committee noted the importance of the journey to zero carbon being widely celebrated. **ACTION: JB**
- 2.2 EPG's recommendation with regard to progressing residential development, was that a Passivhaus development, on campus, be the University's priority. If other complementary opportunities arose on other sites, they should be considered. Notes from EPG M3 25.05.2021 and the papers considered at that meeting, were included in Part B.
- 2.3 JS was thanked for his summary and left the meeting.
 - **Update from Director of Finance & IT and Director of Estates** – PH invited Director of Finance & IT, Simon Arthurs and Director of Estates, John Bailey, to present an overview.
- 2.4 SA confirmed that cashflow projections were being prepared, focusing on optimum sequencing of projects, an outline of which had been shared by JB in the preceding workshop. The Committee noted a delay to the sale of the Nuffield site freehold, the sale

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of which previously had been intended as the catalyst for proceeding with the North Quad project.

- 2.5 Following discussion, the Committee **AGREED** in principle, subject to affordability being demonstrated in the 2021/22 budget, to recommend to BoG:
1. Commence the North Quad Terrace project (without it being incumbent upon the sale of the Nuffield site freehold), so that it would open around Easter 2022.
 2. Commence RIBA Stages 1 & 2 for the New Halls of Residence project
- These two recommendations had been endorsed at the workshop between EPG and F&R which had preceded this meeting.
- 2.6 SA updated the Committee on progress towards the planned shop on campus.

3. Estates Management Returns

- 3.1 The report, and AUDE HE Estates Management Report 2020, were received. PH invited JB to present an overview.
- 3.2 JB noted that the University had submitted its Estates Management Returns (data from 2019-20) to the Higher Education Statistics Agency (HESA). Submission was no longer statutory but a valuable benchmarking exercise. JB summarised key findings, noting that while Gross Internal Area (GIA) had increased, energy costs were down slightly.
- 3.3 JB confirmed that a rapid decrease in carbon emissions would be showing over the next two years, reflecting the University's continued efforts in this regard and the impact of the recent decarbonisation funding bids via Salix.
- 3.4 The Committee discussed the targeted efficiency savings of the Sports Centre.
- 3.5 Deputy Vice-Chancellor, Prof Michelle Jones, flagged potential estates revenue opportunities.
- 3.6 JB was thanked for his report.

4. Strategic Risk Register (F&R Risks)

- 4.1 The report and Strategic Risk Register were received. PH invited SA to present an overview.
- 4.2 SA reminded the committee that the financial risks within the Strategic Risk Register were regularly reported to this committee. SA went through points of interest and notable changes.
- 4.3 At PH's invitation, Vice-Chancellor, Prof Rob Warner, summarised potential implications of the Augar Review, particularly with regard to student loans and potential minimum entry tariff.
- 4.4 SA was thanked for his report.

5. Management Accounts

- 5.1 The report was received. PH invited SA to present an overview.
- 5.2 SA reminded the Committee that a break-even revenue budget had been set, incorporating a revenue surplus to cover the annual debt liability. Provision had been built into the budget in November 2020 for known COVID scenarios. The ensuing impact of further restrictions had been managed as carefully as possible and had necessitated even tighter spending controls from January 2021. The net revenue position had

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- subsequently improved overall but, after the debt finance, remained in deficit for the year.
- 5.3 SA flagged the risk to the cash position for 2020-21 arising from late notification of the summer works programme, which was above the budget set aside.
- 5.4 The revised high level forecast monitoring was shared. Key variations were noted. SA confirmed that income assumptions would be reviewed and expenditure challenged.
- 5.5 SA explained to the Committee that Salix funding could be treated in one of two ways. Option one: reflect the grant in turnover, match the grant to revenue elements of the project and then for the capital elements hold it in suspense and release it from the balance sheet to the revenue account in line with the depreciation of the Salix funded assets. This would improve the revenue budget for the duration of the assets being depreciated, so for several years. The alternative was the same for the revenue element, match grant to costs. However, for the capital the second option allowed for recognising the cash on the balance sheet but NOT releasing it with the depreciation. This would simply mean the revenue budget would be worse off but the balance sheet would look stronger. SA would discuss the options with external auditors Bishop Fleming to ensure the correct accounting treatment. SA would discuss the strategic implications with the Vice-Chancellor, Prof Rob Warner and this Committee as part of the year-end production of the Financial Statements. Once the option was chosen it could not be changed. SA assured the Committee that this would not impact on the actual cash position just the presentation of it.
- 5.6 The Committee commended JB and SA on the successful management of the Salix 1 bid projects.
- 5.7 The capital budget for 2020-21 was noted and SA flagged emerging risks in this regard. Headroom was being managed for Wifi and summer works programme. The Committee requested greater clarity regarding capital planning and affordability of the fundamental infrastructure, noting for example the IT spend that would be required. SA noted that this was nearly complete and the remaining piece of work was the option of physical servers (capital) v cloud storage (revenue) cost benefit. The Planon system would provide lifecycle planning data, from autumn 2021. Further analysis of Sports Centre costs would be provided. The Committee would be updated on the capital plan. **ACTION: JB/SA**
- 5.8 The Committee noted the Capital (project value) appendix, as requested by Chair of BoG, showing the 2020/21 Capital Programme – total project lifecycle costs. SA and JB would work further on the capital lifecycle planning.
- 5.9 In line with the Committee's request, SA's Treasury Management summary incorporated a detailed overview of portfolio performance. SA confirmed he had held conversations with JM Finn Ltd, and there was now a need to benchmark their performance to create targets. SA confirmed the University's instruction to divest from fossil fuels by year-end and the notion to evolve the Ethical Investment Policy to be more positive and perhaps clearer in intent (where to invest) in addition to where not to invest.
- 5.10 SA presented key financial risks, dominated by COVID-related risks.
- 5.11 The Committee acknowledged the current forecast year-end position, which was likely to be a surplus on the revenue budget of approximately £0.170m (versus a budgeted surplus of £0.580m) resulting in a loss of approximately £0.400m. In order to fund the capital repayment principle, therefore, approximately £0.400m from cash reserves would be

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required. Notwithstanding the requirement to use cash reserves, the Committee noted the tremendous achievement of containing expenditure and further cutting costs at this challenging time given the challenges presented by COVID. SA reminded the Committee that after non-cash items were backed out of the accounts it was likely the University would still add cash to the balance sheet.

5.12 SA was thanked for his report.

A 5 minute comfort break was taken at this point.

6. Draft Budget Proposals (Capital and Revenue) for 2021/22

6.1 The report was received. PH invited SA to present an overview.

6.2 SA updated the Committee on progress towards setting the 2021/22 budget. SA provided national and local context and challenges around business planning and budgeting due to COVID.

6.3 SA's report highlighted principles underpinning the approach to budget setting and the review of turnover at three key levels. SA went on to review expenditure, key assumptions and changes. Further work would be done by SMT to agree the cost base and financial parameters. RW noted that, although BoG would be asked to approve the budget in principle, SMT would hold back part of the allocated budget at the start of the financial year until student numbers were confirmed in October, with BoG approving the final budget in November.

6.4 SA went through key strategic financial risks and budget robustness.

6.5 SA went through the capital approach and priorities for 2021/22. During the workshop preceding this meeting, GR had requested that F&R Committee have sight of the methodology being used by JB to calculate decarbonisation savings which in turn would be monitored by SA. These would inform affordability calculations and funds to be set aside to replace the assets (solar panels etc). **ACTION: JB**

6.6 The Committee noted the milestones which would be incorporated into the process for governor oversight, scrutiny and approval:

- July 2021 – BoG approve interim budget.
- Oct/Nov 2021 – F&R/BoG approve final budget once student numbers were known.
- Jan 2022 – F&R approve strategic business plan, mid-year review and capital strategy and OfS Annual Financial Return.
- March 2022 – BoG approve final AFR submission.

6.7 SA presented Appendix 1, Student Tuition Fees 2022/23. These were **APPROVED**.

6.8 The Committee **APPROVED** the approach in principle to setting the budget 2021/22 (capital and revenue). The proposed interim budget would be circulated to this Committee for further scrutiny ahead of BoG 16 July 2021 and a 'virtual' briefing arranged to discuss. **ACTION: SA**

6.9 SA was thanked for his report.

7. Financial Regulations and Procedures 2021-22

7.1 The report was received. PH invited SA to present an overview.

7.2 SA reminded the Committee that the first part of the Financial Regulations was strategic in content, followed at Appendix 1 by the scheme of delegation and Appendix 2 financial

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procedures, which were being developed in time for the BoG in July. SA's intent was to shorten and simplify the main document (shifting operational detail to the appendix); empower budget managers; set the Financial Regulations up dynamically on Antler (staff intranet) so they could be searched using key words more easily. The approach was commended by the Committee.

7.3 Following discussion, it was agreed that SA should add greater prominence to the signposting of student debt write-off. Subject to this recommendation and a final edit, Financial Regulations 2021-22 were **APPROVED** and would be brought to Audit Committee for review and BoG for approval.

7.4 SA was thanked for his report.

8. Banking Arrangements

8.1 The report was received. PH invited SA to present an overview.

8.2 SA brought two matters to the Committee for approval: a proposed new Bank Covenant with Barclays Bank plc; the proposed switch from LIBOR rate to SONIA rate regarding the Sports Centre loan repayment.

8.3 **Bank Covenant:** SA provided background to the University's arrangements. He explained the rationale behind the recommendation to move to a new covenant, in line with the banking sector's direction, to focus on operational cashflow to service debt. This mirrored the University's intended financial model (which was being worked towards), in line with FRS102 accounting practice. He confirmed that the potential covenant had been tested through the year and no issues had arisen. Paying close attention to net operational cashflow would remain vital to ensure compliance. SA emphasised the importance of the new covenant being in place by 31 July 2021, for external audit testing.

8.4 SA drew attention to his report which clearly laid out the primary conditions of the new covenant. SA presented the two appendices which would be brought to BoG 16 July 2021:

- the proposed new covenant at Appendix 1
- the proposed amendment letter at Appendix 2, which would be signed on the University's behalf by Simon Arthurs, Director of Finance & IT.

8.5 The Committee noted that BoG would be required to confirm its understanding of, and agreement to, the following at its meeting on 16 July 2021, which would be detailed in the minutes, as per the wording at Appendix 3. It was important therefore that F&R Committee understood and accepted these points so as to recommend to BoG:

Background: BoG would be required to enter into an amendment letter with Barclays Bank plc in respect of a £11,500,000 facility letter originally dated 20 April 2009, as amended from time to time (the "**Facility Letter**").

Purpose of meeting: BoG would be required to consider the Amendment Letter and in particular note that, pursuant to the terms of the Amendment Letter, the financial covenants in the Facility Letter were to be amended.

The Chair of the Board, Mr Graham Raikes MBE, would remind BoG of their duty to promote the success of the University (both in relation to the Amendment Letter and generally).

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Consideration of Amendment Letter: BoG would consider in detail the form of the Amendment Letter and the risks to the University in entering into the Amendment Letter, namely that the University would have to meet the new financial covenants set out in the Amendment Letter, as failure to do so would constitute an Event of Default under the Facility Letter. Whilst these consequences were serious, the BoG would need to consider that the University would be able to meet its obligations when due.

The Board would consider whether it was in the best interests of the University to enter into the Amendment Letter and to execute and deliver the Amendment Letter. A unanimous conclusion would be required that (a) the University should enter into the Amendment Letter and perform its obligations and exercise its rights in relation to the Amendment Letter and the amended Facility Letter and (b) to do so would be of benefit to the University.

Authority to Execute the Amendment Letter:

The Board would be asked to unanimously resolve that the University in good faith and for the purpose of carrying on its business, enter into the Amendment Letter and perform its obligations and exercise its rights in relation to the Amendment Letter and the Facility Letter; Simon Arthurs (Director of Finance & IT) and Professor Rob Warner, Vice-Chancellor, would be authorised to sign on behalf of the University the Amendment Letter and return the signed counterpart to the Bank.

It was noted that the terms of the Amendment Letter would be approved (subject, in each case, to such amendments as the Authorised Signatories (acting together or alone) may approve and so that the signature of the Authorised Signatory shall be conclusive evidence of the agreement to such amendments or modifications); and the Authorised Signatories (acting together or alone) would be authorised to agree and sign on behalf of the University all such other documents, agreements, certificates, notices, communications or confirmations, and to do all such other things, as may be required, or as any Authorised Signatory may approve, in connection with the Amendment Letter.

- 8.6 Following discussion, the Committee **AGREED** to recommend that BoG approve the new Bank Covenant, delegating the Director of Finance & IT to sign the Amendment Letter with Barclays Bank plc as presented at Appendix 2 in respect of the £11,500,000 facility letter originally dated 20 April 2009. It was noted that the legally prescribed form of minute would be required, as presented at Appendix 3 which would be countersigned by RW, SA and GR.
- 8.7 The Committee requested that confirmation of the University not being in breach of its banking covenant should come to every scheduled meeting of F&R Committee, for assurance. **ACTION: SA.** SA confirmed that compliance with the covenant would also constitute a finance KPI which was already reported to the bank quarterly.
- 8.8 The switch from LIBOR rate to SONIA rate: SA provided background to the Sports Centre loan and outstanding debt principle of £8.653m. The loan had been set up using the LIBOR (London InterBank Offered Rate) for calculating interest. SA explained that there was now a requirement to switch the loan to a risk-free rate such as the SONIA rate

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(Sterling Overnight Index Average) which was a more robust alternative to LIBOR, to avoid risks related to LIBOR discontinuation.

- 8.9 SA provided information on the SONIA rate. He confirmed that the switch was risk-free.
- 8.10 SA presented the proposed responses to the bank's standard questions at 3.6 of his report. Following discussion, the Committee confirmed it was satisfied with the responses. The Committee **AGREED** with the proposal to switch from LIBOR to SONIA. The Committee **AGREED** to delegate approval of the transition to SA in consultation with RW. SA would report back to F&R and BoG before December 2021 to update on progress.
ACTION: SA/RW
- 8.11 Banking Arrangements: SA noted that he was working with the bank to review financial transactions. Upon completion, it would be possible to consider optimising the cost of financial charges paid by the University.
- 8.12 SA was thanked for his report.

9. Committee Effectiveness

- 9.1 The report was received. PH invited feedback. Following a brief discussion of survey responses, the Committee noted key outcomes: the Committee was working well; virtual meetings were effective; meetings had become overly frequent partly in response to Covid-19 and to changing OfS deadlines - a return to the standard schedule would be planned; a co-optee with financial expertise would be beneficial. This feedback would be brought to Governance & Nominations Committee. **ACTION: JT**

In closing the main part of the meeting, PH thanked Gary Shum and Lauren Edwards for their attendance and contributions.

10. Reserved Business – See RB minutes Close

In closing the meeting, PH invited colleagues to reflect upon whether discussions impacted on the current risk register or if changes were proposed. None were highlighted.

Part B – for information and decision by way of note

The following item was approved:

11. Minutes of the Previous Meeting

- 11.1 The minutes of the meeting held on 14 April 2021 (M4) were received and, subject to the following amendment **APPROVED** as an accurate record: at 7.3: replace 'revenue savings would be used to finance capital projects' with '...savings generated through decarbonisation would go towards financing capital projects.'
The following were received for information with no queries:
12. Matters Arising from Previous Meeting
13. Notes from Estates Project Group (EPG) M3 25 May 2021 (unapproved)
14. Agenda/Part A Papers EPG M3 (Decarbonisation & Salix Update; Residential Block funding options)
15. Register of Interests
16. Reserved Business Minutes of the Previous Meeting (14 April 2021) – See RB minutes