CANTERBURY CHRIST CHURCH UNIVERSITY

MINUTES OF THE MEETING OF THE GOVERNING BODY HELD AT 4.00PM ON WEDNESDAY 26 JANUARY 2022 VIA MICROSOFT TEAMS TELECONFERENCE

Present: Ms J Armitt (Chair), Ms S Appleby, Mr D Bichener, Mr S Brown, Professor G Dewhurst, Dr A Eyden, Dr K Fox, Mr R Higgins, Rt Revd Bishop R Hudson-Wilkin, Sir I Johnston (Deputy-Chair), Mrs P Jones, Mr C Stevens, Revd. R Stevenson, and Professor R Thirunamachandran (Vice-Chancellor)

In Attendance:
Professor A Honour (Deputy Vice-Chancellor)
Mr D Leah (Director of Finance and Chief Financial Officer)
Ms A Sear (University Solicitor & Clerk to the Governing Body)
Professor M Weed (Senior Pro Vice-Chancellor (Research, Enterprise & Business Development))
Mr N Theisen (Governance and Legal Services Assistant)

109. Opening Prayer

The opening prayer was delivered by Ms J Armitt.

110. Apologies for Absence

Apologies for absence had been received from Ms N Ahmed, S Carey and Ms J Harding.

111. Declarations of Interest

None

112. Chair's Communications

The Chair expressed the Governing Body's collective regret that Mr Philip Fletcher had stepped down as a Governor and Chair of the Audit Committee due to ill health. Flowers and messages of support had been sent to Philip on behalf of all Governors.

113. Matters arising not appearing elsewhere on the agenda

There were no matters arising.

114. OfS Financial Forecasts [Paper O074]

The Director of Finance and Chief Financial Officer (CFO) stressed that the figures presented were not the budget but a realistic scenario of what the next few years may look like. He reminded the committee that a new strategic plan will be developed during this year and the forecast would go into the next Strategic Framework period (2023-2030). The scenario makes provision for the University to build up funds to enable it to have choices to fulfil its longer-term strategies. There was a great deal of uncertainty surrounding the current political climate; the government's response to the Augar report was still awaited and there could be future restrictions on funding for student loans including the means of access for funding. Such political uncertainties had been considered in preparing the forecast.

Bishop Rose joined the meeting.

In February 2021 when the University was finalising its revised covenants with the banks there was a reasonable upward trajectory to the forecast. In June 2021 when the budget was set there were significant partnerships in development although the budget and forecasts did not fully anticipate them until there was greater assurance of the actual income generated pursuant to the agreements. The forecast incorporated the projected partnership student numbers whilst retaining significant provisions for not fully achieving the targets reflected in the agreements. Growth was predicted in non-collaborative student number targets, business developments, and growth enabled by the development of provision within new Daphne Oram and Verena Holmes buildings. The CFO caveated the increased revenue by referring to increased costs, excluding inflation, such as non-staff growth, and explained that a significant proportion of partnership revenue would be paid to partners in consideration of their delivery of teaching.

The CFO listed the inflationary assumptions as higher than in previous forecasts based upon both CPI and RPI projections. The costs had been significantly upweighted both in staff and non-staff costs and reflected the National Insurance increase of 1.25%, that was still planned for April, as well as expected National Pay uplifts and incremental progression. The maximum regulated tuition fee level had not been uplifted alongside inflation and remained at £9,250 which, if moved in line with inflation, would only improve the University's position. For fees not subject to regulation there was an assumption of an uplift in accordance with the RPI.

The three-month income level projection for the 2021/22 year was £176m which he remained confident would be revalidated in the mid-year review. Income was forecasted to progress up to £270m at the end of the 2025/26 period. The deficits realised in the previous two years were transformed into surpluses growing from a £5.5m operating surplus in 2021/22 to £8m, (or an increase of between 2.5 and 3%) at the end of the forecasted period. These surpluses were based on sizeable provisions which, if not needed, would positively impact the outturn position substantially.

The CFO stated the KPI of the University was an end-of-year cash-at-bank figure of circa £30m, but with the forecast significant improvement in performance the actual year end cash balance could increase to circa £70m at the end of the forecast period. This cash growth was based upon a current assumption that the University may wish to fully draw down its £47m revolving credit facility converting it into a 20-year amortising loan. He stressed the need for the Governing Body to make a decision in early 2022/23 as to the amount of revolving credit facility to be converted into an amortising loan, and for what purposes, in consideration of the Strategic Plan 2023-2030.

The CFO presented the University's expected financial performance to April 2024 compared to the two bank covenants: Minimum EBITDA and Maximum Net Debt. There was significant projected headroom within the covenants. EBITDA anticipated an excess of 21% at April 2022 whilst the Maximum Net Debt performance in the same period showed a 29% headroom. Both were well within the agreed revised covenant levels.

The CFO highlighted that for the year-end 2023/24 there is reversion to four slightly modified bank covenants monitoring ongoing performance: CFADS, Leverage (Net Debt to EBITDA), Gearing, and Interest Cover. These were all predicted to show a sizable level of headroom through to the end of the forecast period.

The CFO mentioned the £6m provision retained for not fully meeting full-time home student number targets had been increased by £6m each year from 2022/23 to 2024/25 and lastly in 2025/26 where it would be retained as a £24m total provision. The provision was included to enable the University to absorb a £24m reduction in income from directly delivered courses, partnerships and other income streams. This did not include a £2.5m contingency of expenditure on the University's income and expenditure account. A prudent and material sum had been built-in to mitigate the risks and uncertainty during the forecasted period.

The Chair commented on what a better position the University was in than had been expected at the same time last year.

A Governor noted the particulars of the partnership arrangements embedded in the detailed analysis presented to the OfS. He requested that further details be provided at a future Finance and Resources Committee (F&RC) meeting to provide better assurance around: the business model of partnerships; their costs versus revenue; their uncertainty and risks; and their sustainability and longevity.

The CFO stated that partnership agreements were normally for a term of 5 years, typically with termination provisions requiring one-year's notice be given after which there would be no new student intakes. However, teach out provisions would protect the existing students following any termination of such agreements so student levels in each year would be secured for the second and third years of the courses subject to a built-in attrition rate. It was reiterated that the main partnership models return a significant majority of tuition fee income back to the partner in return for their delivery of teaching although the University did incur additional costs in supporting said delivery through its margin The Chair agreed it would be beneficial to provide further information to an F&RC meeting to provide assurance that the risks of such arrangements were being properly mitigated.

ACTION: **Further details about the University's partnerships be presented at a future F&RC meeting.**

A Governor questioned whether the recent increases in energy costs were included in the forecast and how inflation was determined.

The CFO confirmed that additional money had been allocated to Estates given the rising energy and fuel costs along with additional maintenance costs which may be incurred due to ageing infrastructure and buildings. He stated that the interest rates had been determined using trends picked up from the ONS, anticipating the University's own factors, and that it historically had not deviated far from general economic models in predicting inflation.

A Governor asked about the OfS' rationale in requesting forecasts in February requiring universities to reforecast budgets four months later and whether it had to do with any general concerns by the OfS on the higher education sector.

The CFO responded that the reporting had been at different times of the year, with the most recent in June 2021, and was expected to inform national reporting around the sustainability of the sector.

The Vice-Chancellor said it was possible that strong financial performance by universities could influence decisions around tuition fees.

A Governor commented on the added strain to the finance departments in producing two similar reports in a tight timeframe and the likelihood of duplication of work.

A Governor asked about any likely increase in costs due to supply side controls or labour market shortages and whether these potential increases would have any potential impact on the forecast.

The CFO acknowledged the risk regarding scarcity in the labour market and said the University, like many other organisations, was struggling to recruit and is operating with a high level of staff vacancies. He reiterated the large headroom and said there was provision to increase University staff levels as necessary. There were increased costs of raw materials which had a large impact on, specifically, planned remedial building works, but contingencies would adequately cover these increases.

The Vice-Chancellor reiterated the improvement in the University's financial position when compared with 12 months ago. The increased partnership activity had been greatly beneficial to the University and he expressed sincere thanks to colleagues who had helped put the University in its current position.

The Chair commented the increased partnerships had greatly benefitted the University but only moderate growth was forecast for postgraduate and overseas student intakes. She encouraged increased performance in these two areas beyond the modest growth currently forecast.

The CFO confirmed there was a month remaining before the OfS forecasts were due to be signed off but that there would be only, if any, minimal changes to subsidiary tables before submission. He expressed his intent to share the forecasts with the banks in the following week pending the Governing Body's approval.

A Governor asked how the University benchmarked itself against similar universities to determine its performance within the sector.

The Vice-Chancellor confirmed the benchmarking group of universities, largely post-92 with the exception of the University of Kent, of a similar size, with a similar subject mix. The benchmarking group was formed over 10 years ago when the University did not sit at the top of the group but would strive to achieve within. He added that other benchmarking groups existed that were used to measure performance metrics such as teacher training or health programmes.

The CFO commented that the ability of Russell Group and other higher tariff universities to recruit students had impacted the University's, and others like it, ability to attract the same direct student numbers as in previous years. The University had experienced a stronger recovery trajectory than most.

A Governor asked what some of the risks to this recovery may be.

The CFO stated there may be difficulty in students gaining funding over the short term and in the next three to four years the potential for market saturation with the introduction of other providers. He said he was confident in the University's position, based upon partnerships for the next three to four years, but beyond that there would be a different set of uncertainties.

A Governor asked about institutional KPIs around staff costs versus income and the effect it has had. He recalled historic staff costs set at 50% whereas current levels were 35% in the context of the increased numbers of collaborative students and he asked whether this would be taken into account.

The Vice-Chancellor acknowledged the change in student numbers and increased revenue and said it would be preferable to share data showing both: i) staff costs against revenue exclusive of partnerships and ii) staff costs against revenue inclusive of partnerships.

A Governor asked whether the University undertook a review of subjects delivered and how they are measured against student and market expectations.

The Vice-Chancellor confirmed there is a continuing process whereby the University reviews recruitment and application numbers in each subject area. He confirmed that a periodic course review ensured that courses remain cutting edge, meeting both student and employer needs.

RESOLVED:

That the OfS Financial Forecasts be approved

115. Membership of the Governing Body [Paper O075]

The Clerk to the Governing Body reflected on Philip Fletcher's recent decision to step down from the Governing Body. She said the University had benefitted from his great experience and wisdom.

She said that in terms of succession arrangements, there had been consultation between the Vice-Chancellor and all Governors and Co-opted Governors from the Audit committee. Given his considerable skills and experience there had been unanimous support for Clive Stevens to undertake the role of Chair of the Audit Committee subject to the approval of the Governing Body. Likewise, there had been very strong support for Bishop Rose Hudson-Wilkin to undertake the role of Senior

Independent Governor. Both appointments were subject to Governing Body approval.

The Chair confirmed her support for these recommendations in line with the support already expressed following the Vice-Chancellor's consultations with all Governors, via phone or email. The Chair thanked both Clive Stevens and Bishop Rose for expressing their willingness to undertake the roles and encouraged them to benefit from their fellow Governors and the Executive's support as necessary.

The Clerk reported that Professor John Wood had indicated his willingness to commence his four-year term as Governor four months early on 1 April 2022, subject to Board approval.

RESOLVED:

That the following be approved:

- Professor John Wood's term of office as Governor commence four months early on 1 April 2022;
- Clive Stevens' appointment as a member and Chair of the Audit Committee with effect from 1 February 2022 until 31 July 2025; and
- Bishop Rose's appointment to undertake the Senior Independent Governor role with effect from 1 February 2022 until 31 July 2025.

The Chair expressed her thanks to Bishop Rose for Mr Stevens for accepting their new roles.

116. Any Other Unreserved Business

The Vice-Chancellor informed the Governing Body of the launch event to mark the commencement of the University's Diamond Jubilee celebration taking place on Tuesday 1 February. The celebratory service was scheduled to take place on 30 September in the Cathedral with the Archbishop of Canterbury.

117. Items to be kept confidential

There were no items to be kept confidential.

The meeting closed at 5.05pm.