Minimum financial sustainability criteria

Outcome requested:	Finance and Investment Committee is invited to **review and approve** a revision to the agreed level of minimum cash balances to be held. This was previously approved by Finance and Investment Committee as £50m and included in the minimum financial sustainability criteria reported to Audit and Risk Committee as part of QM's approach to risk management as 1.5 months of total expenditure (excluding depreciation, amortization and pension liability adjustments).
Executive Summary:	In September 2017 the Finance and Investment Committee reviewed the principles underpinning the minimum year end available cash balances and concluded that the minimum year end cash balances to be held (or available as a revolving credit facility) should be £50m. As part of QM's approach to risk management a set of minimum financial sustainability criteria were presented to ARC in November 2018. This was to have at least 1.5 months equivalent spend in cash held or cash equivalents or in negotiated bank facilities. It was noted at the time that this measure would be subject to further review by the Finance and Investment Committee in March 2019 due to: • the increasing uncertainty of the external environment, • the liquidity financial covenant associated with the private placement which became effective in January 2019 and • the latest financial forecasts The recommendations from this paper result in an increase in the year end available cash balance to c£70m by 2023/24. This assumption has been included in the budget and financial forecasts presented elsewhere on the agenda.
QMUL Strategy:	Financial sustainability
Internal/External regulatory / statutory reference points:	N/A
Strategic Risks:	Financial sustainability
Equality Impact Assessment:	There are no equality impacts arising from the issues discussed in this paper.

Subject to prior and onward consideration by:	
Confidential paper under FOIA/DPA:	No
Author & Sponsor	Joanne Jones, Finance Director, 21st March 2019

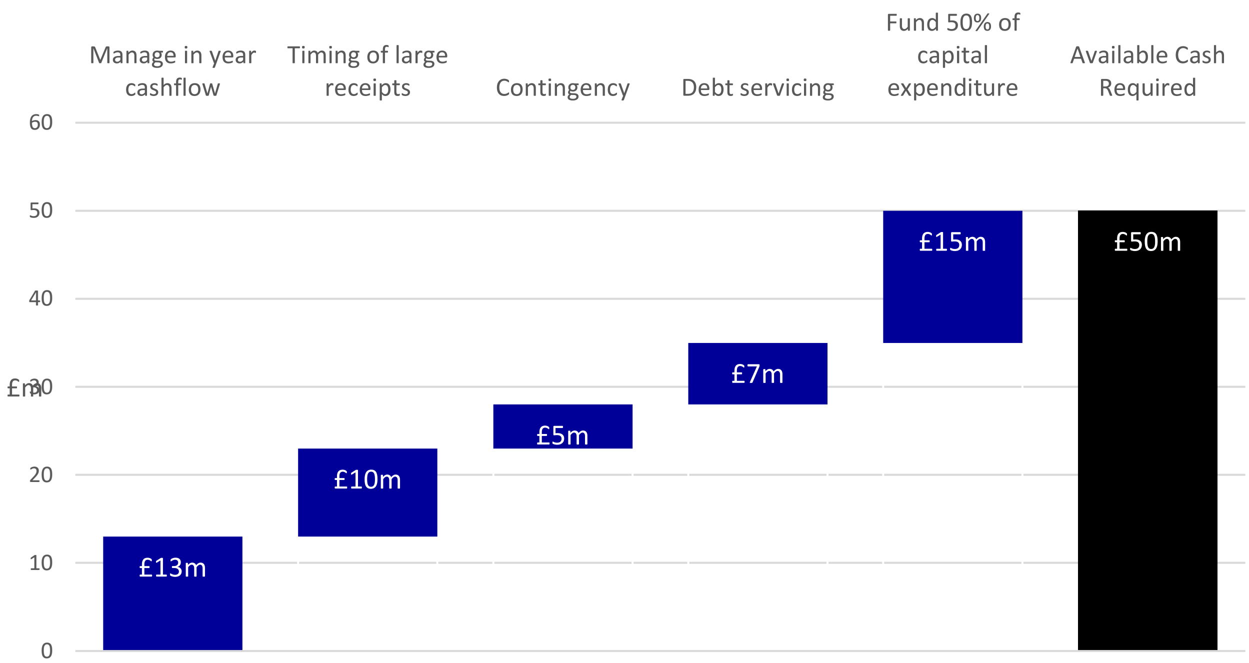
Minimum financial sustainability criteria

Following approval by Finance and Investment Committee and Council in the autumn 2017 it was agreed that the Group financial forecasts would assume a minimum of £50m available cash (either cash balance or revolving credit facility) at each year end. This was deemed to be the minimum year end cash requirement to ensure that QM does not run out of cash during the following year and currently equates to 1.5 months of revenue expenditure.

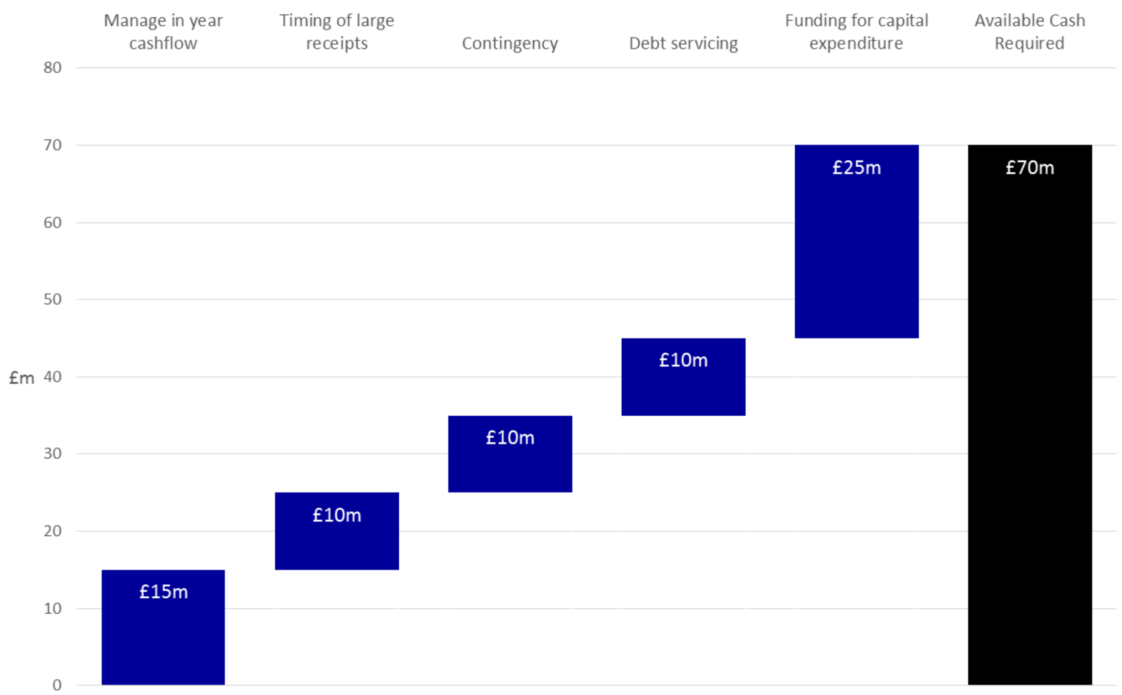
Before obtaining the £160m private placement in January 2019, this was achieved by holding minimum cash balances of £15m and ring fencing £35m of the revolving credit facility. Although our cash balances are now high due to replacing the revolving credit facility with the private placement, this element of our cashflow is committed to £112m of capital expenditure during the forecast period and we need to review the level of cash balances to be held once the private placement has been utilized in view of the uncertainty of the external environment and the new liquidity financial covenant.

Principles for the minimum available cash balance

The £50m minimum year end available cash balance was based upon the following principles:



We do not recommend changes to the above principles, however, given the latest financial forecasts, we recommend that the values are adjusted as follows:



We will work towards the £70m, from the current £50m, by 2023/24. If implemented, this change would equate to 1.75 months of forecast revenue expenditure in 2034/24 and we would therefore update the minimum financial sustainability criteria accordingly.

The Liquidity covenant

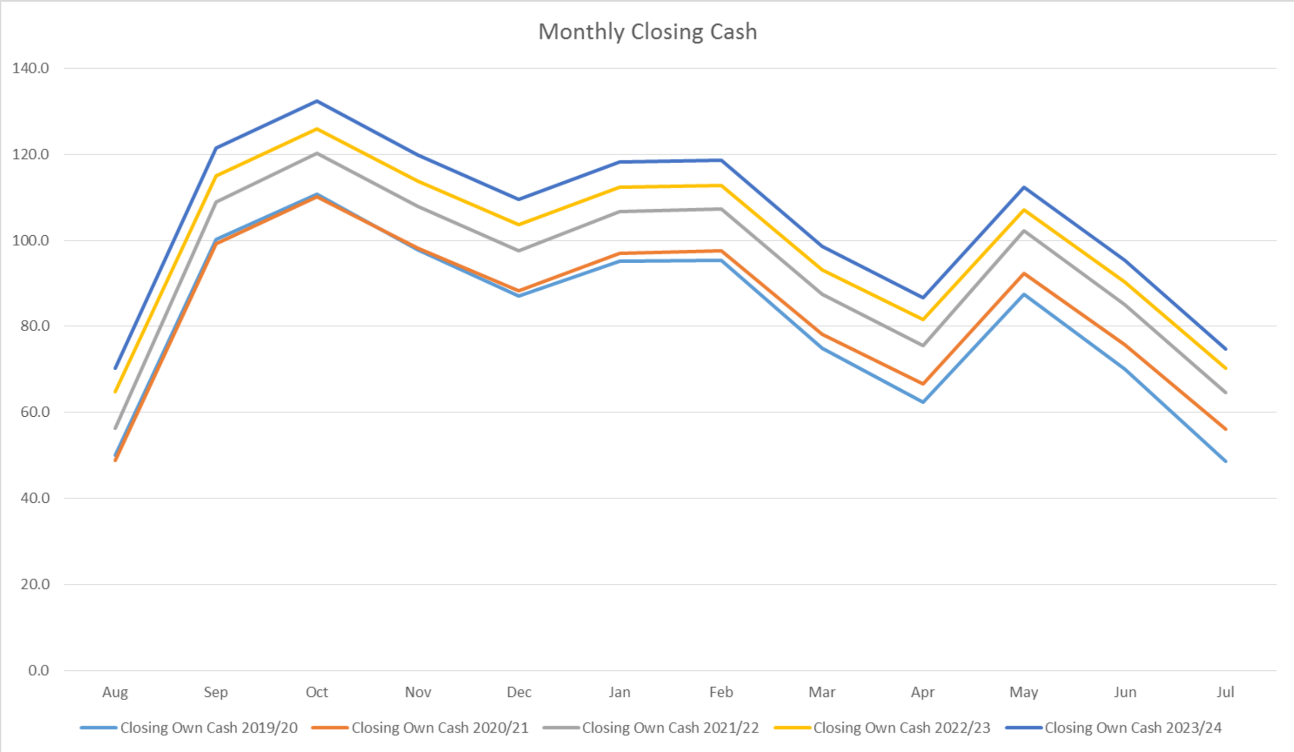
Prior to obtaining the private placement we had no financial covenants relating to the amount of available cash at the year end. The cash element of the covenants related to the operating cash generated over a period of time and the ratio of this to debt servicing costs.

The new liquidity covenant measures the available cash balance at the 31st July and 31st January annually and requires:

> The available cash (cash balance and revolving credit) is at least equal to total expenditure less depreciation and amortization incurred during the most recent financial year completed divided by 12.

With our latest budget and financial forecasts this equates to a minimum of £40m available cash in January and July annually in 2023/24.

The graph below shows the net forecast monthly cash balances for 2019-20 to 2023-24 based on the budget and financial forecasts presented at this meeting, this graph specifically excludes cash balances in respect of the unutilized borrowing and capital expenditure to be funded from borrowing.



The graph shows that based on current income/expenditure patterns, July and August are the months with the lowest cash balances. The January liquidity covenant point is not a concern in terms of available cash balance, however we do need to ensure that £40m (2023/24) is held in deposits less than 3 months.

The £70m minimum planned year end cash balance is 75% more than the requirement of the liquidity covenant and provides resilience / opportunity to current financial plans.

Cashflow Forecasting

Over the last 2 years we have been working to improve the quality of our cashflow forecasting, managing available cash balances has been straight forward as we draw down and repay revolving credit facilities as required. Now the revolving credit facility has been replaced by the private placement, in addition to presenting the overall cash balances, we intend to also separately report the private placement and associated capital expenditure from operating activity and own funded capital. In this way we can ensure that, in the early years of the private placement when funds are not being utilized, this is not masking spend in advance of being earnt for operating cash and own funded capital.

Recommendation

Finance and Investment Committee is requested to approve the recommendation to increase the value of minimum year end cash balance to £70m by 2023/24 to ensure the financial sustainability of our revenue and own funded activities, and compliance with our liquidity covenant.