Meeting of the Board of Governors

4.00 - 5.00 pm on Thursday, 24 June 2021
via MS Teams

Supplement

- SBC estate disposal and development: casfhlow briefing

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London Realty proposal

Cashflow briefing note for Board and MPIC

SBC estate - cashflow assumptions

We have recognised that we need to bridge fund the NESC development (Block A) and this has been incorporated into our cashflow forecast at the sum of £26m. This is in accordance with the note that Paul shared with the Board/MPIC yesterday. This remains in our forecast and was one of the 3 principal reasons for the new RCF requirement – alongside London Road and LEAP.

In cashflow terms, our understanding and financial planning assumption has been that:

- the whole programme would be self-funding, and
- the only bridge funding required would be for the block A.

The London Realty proposal requires the College to sell land in two phases. The first phase involves sale of 'Block C' at Vauxhall and the land required for development of the gateway college which will be gifted back. The second phase involves the sale of the remaining Clapham land.

Operationally therefore the development of the college buildings need to fit with a decant that enables space to be freed up to enable sale of the land in the above sequence as currently sale assumes vacant position by the developer.

Latest cashflow forecasts

The cashflow forecasts are reviewed and updated constantly.

Detailed 5 year cashflow forecasts were submitted to the OfS in March 2021 as reviewed and approved by the Board. Subsequent changes have been made to:

- reflect changes in timing of receipt of the GLA grant to part fund Block A, and
- to account for an assumed worst case cost overrun of £8m on London Road.

The cash position over the next 5 years is as follows

	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
OFS submission	35.9	21.4	31.2	37.3	40.1
Subsequent changes	8.6	7.3	-8.0	-8.0	-8.0
Latest	44.5	28.7	23.2	29.3	32.1

Note that low point is also at the critical time in terms of SBC estate development.

These figures assume that we:

- deliver surpluses in line with agreed forecasts. This also assumes effective turnaround of the SBC financial performance such that it is not a drain on overall group performance and hence cash generation
- drawdown the full £30m RCF from Barclays (we can drawdown and repay in tranches to manage cashflows but the forecasts assume full drawdown over the period)

They do not however take any account of:

- any proposed capital receipts from London Realty (or any other proposed scheme for development of the SBC estate
- the return by SBC of the £26m bridge fund for Block A
- the AIB RCF of £15m as this is not yet certain (although approved and close to completion).

Requirement

On the basis that we require a minimum cash balance for LSBU working capital purposes of £20m, and that ideally we would want to hold the AIB RCF in reserve for headroom given capex pressures elsewhere, the London Realty deal effectively needs to be cash neutral compared with latest cashflow forecasts (ie with the exception of the £26m bridge funding we are already committed to).

Proposal

As a priority, we will explore variation of payment with London Realty and will seek to revisit the timing of capital receipts in the Heads of Terms – particularly as this has slipped since earlier presentations to SBC/LSBU Boards.

However, we need an alternative fall back solution in the event that this is not successful that is not dependent on additional capital release.

Assuming no variation of payment terms, our proposal would be as follows:

Funding /timing

- Block A funded by GLA plus £26M from LSBU as already agreed– due date end 2022 (approved and building underway)
- 2022 we populate Block A and close/mothball sections of Clapham
- If agreement with LR progresses, sale of land for Gateway/Block C is September 2022 – this generates Gateway College for 2024 plus 17M which provides £15m unallocated (net of Gateway FF&E)
- We tender and begin build of Block D early in 2022 to enable build completion by 2024. Funding for Block D can be met from net tranche 1 London Realty capital receipt
- Summer 2024 we decant to Gateway and Block D – use block D temporarily for health and use support facilities in block A for the site

- Sept 2024 we sell remainder of Clapham for £60m – repay LSBU (£26m) and build block B as a permanent home for health and science plus expanded support services (£33.3m including FF&E).

The above may require some limited cash support for fit out of block D before the second tranche of funding is received but this would be manageable whilst maintaining reserves at £20M even without the AIB funding

Conclusion

This will delay completion of the overall project by 1-2 years but is shows delivery is possible without putting group cashflows at risk. Fiona has confirmed that the proposal is a workable solution.

We will continue to model to ensure the optimal solution as we progress and we will continue negotiation with LR to try and facilitate earlier payment

Hopefully this note demonstrates that the project is deliverable in cashflow terms even in the event that the current proposed timing of capital receipts remains unchanged. London Realty also remains the preferred option in terms of overall financial position and risk.

25 June 2021

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