Meeting of the Board of Governors

4.00 - 6.00 pm on Thursday, 25 November 2021
in Passmore Centre, main conference room

Agenda

No.	*Item*	*Pages*	*Presenter*
10.	Going concern statement	3 - 16	RF

Date of next meeting
4.00 pm on Thursday, 24 March 2022

Members: Jerry Cope (Chair), Michael Cutbill (Vice-Chair), Duncan Brown, John Cole, Peter Fidler, Ruchika Kumar, Mark Lemmon, Nicki Martin, Jeremy Parr, David Phoenix, Rashda Rana and Maxwell Smith

Observers: Ruth Farwell (SBC Chair), Shani Shamah and Kate Stanton-Davies

Apologies: Maureen Dalziel and Vinay Tanna

In attendance: Michael Broadway, Tara Dean, Richard Flatman, Deborah Johnston, James Stevenson and Fleur Nieboer

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	CONFIDENTIAL
Paper title:	Evidence of going concern
Board/Committee:	Board of Governors
Date of meeting:	25 November 2021
Author(s):	Ralph Sanders, Director of Financial Planning
Sponsor(s):	Richard Flatman, Group CFO
Purpose:	For Review
Recommendation:	The Board is requested to noted the assurance sources and approve the going concern basis for preparation of the accounts

Executive summary

At its meeting of 5 October 2021 the Group Audit and Risk Committee requested assurance from the Finance, Planning and Resources Committee (FPR) that it has considered LSBU Group cashflow forecasts and related matters and is able to form a judgement on going concern.

In order to support the required judgement of the Board of Governors that the accounts may be signed on a going concern basis the Chair of FPR confirms that the following work has been carried out by the committee during the reporting year.

FPR considers at each meeting:

- Management accounts: LSBU and Group
- Treasury management report
- Student recruitment and retention update

FPR also reviews, at specific times during the year, a range of financial information including forecasts, cashflows and covenants.

Conclusion

After careful review, and having taken account of all relevant information including:

- five year forecasts, as presented to the whole Board in November 2020 and circulated by email in final form in January 2021;
- budget and in-year management information for 2021/22;
- review of plausible downside scenarios as presented in the draft 2021/22 budget;
- current recruitment data for 2021/22; and
- current monthly cashflow projections for twelve months from the date of signing the accounts to November 2022

- forward testing of banking covenant cover and mitigations

the committee concludes that it is appropriate to prepare and sign the accounts on a going concern basis.

Recommendation

The Board is requested to noted the assurance sources and approve the going concern basis for preparation of the accounts.

Evidence of going concern

During 2020/21 FPR received an update on cashflow at its meetings of 22 September 2020, 6 July 2021 and 9 November 2021.

At its meeting of 9 November 2021, the committee discussed the implications of the monthly cash flow projections contained in the treasury management report.

At its meeting of 22 September 2020, the committee noted that the loan covenant requirements had been tested and would continue to be met based on current forecasts. The covenants have subsequently been updated in February 2021 as part of the AIB RCF process, and again as part of the 2021 year-end process.

FPR also discussed in detail the draft 2021/22 budget at its meeting of 6 July 2021.

In addition to the work done by FPR, the Board of Governors considered the draft 2019/20 OfS five-year forecast at its November 2020 meeting, and approved the forecast electronically in January 2021.

The 2020/21 five-year forecast is due to be submitted to the OfS on 31 January 2022, and will be considered by FPR and the Board during January 2022.

- Cashflow projections for 12 months to 30 November 2022 are included as Appendix 1.
- Latest forward covenant projections to 2023/24 are included as Appendix 2.
- Relevant minute extracts are included as Appendix 3.

Our conclusion on going concern takes account of all these matters. A more detailed analysis of cashflows and covenant forecast projections is provided below.

Cashflow

The detailed monthly cashflow profile for 21/22 and 22/23 is set out in Appendix 1.

Following the FPR meeting on 9 November 2021, the CFO subsequently confirmed that in the period to November 2022 the minimum cash availability was £21m, arising in August 2022. This assumed full draw down of the combined RCF facility of £45m (Barclays £30m, AIB £15m).

There are two plausible downside risks and they both relate to tuition fees.

The first relates to Semester 2 income for 21/22. Applications are consistent with previous years and so we do have a degree of confidence in this outcome.

The second relates to fee levels. There could potentially be a reduction in fee levels. This would be unlikely to have any impact on 21/22 and hence would not affect our going concern opinion. Any reduction would however impact future forecasts. We have assumed £9,250 for regulated fees in our income forecasts and there have been suggestions that this could fall to £8,500, a reduction of 8%. Home / EU income is forecast at c£100m and hence a reduction in fee levels to this amount would reduce income by £8m in 22/23 and potentially take our minimum cash balance pre RCF drawdown from -£17m* to -£25m. This is still within the RCF envelope of £45m and so we would have cash reserves to mitigate this.

* the cash low point of £24m in August 22 would not be affected by the downside scenario as it is assumed that it would be too early for it to take effect.

Covenant compliance

Covenants are summarised in Appendix 2. Based on current forecasts we will not be in breach of our covenants.

Our financial covenants are regularly monitored and tested. Barclays covenants are subject to formal compliance reporting and certification by our external auditors. The most recent annual report was dated March 2021 and demonstrated compliance.

At that March covenant check for the current year (21/22) the covenant, particularly for Debt Service cover (i.e. how much free cashflow we have to pay our interest), was particularly challenging with just £1.1m of headroom for the forecast for 21/22 particularly as we were forecasting low surplus (0.6m), high depreciation £13.5m and because Lambeth College required over £16m of support.

The forecast covenant compliance position (both Barclays and AIB) has now been updated as part of the AIB negotiation and again for the year end position. It now reflects the current budgets for LSBU and South Bank College cashflow forecast and the position is much more positive.

In terms of the key changes to the Forecast March position which have positively impacted the cash position and so the debt service cover, Surplus is now budgeted at £2.0m, Depreciation is now budgeted at £9.0 and the key change is the Investment to support Lambeth College Forecast (which affects our creditors). This was forecast at £16.5m, but is now budgeted at £10.5m due to delays in the project and the GLA funding the first 50% of the project rather than 50% match funding it. Our other creditors are also due to fall from this year's artificial high (due to the high level of year end accruals). The net effect is to give us £11.1M of total headroom in the current year against the covenant that was causing us the most concern. The Debt Service cover has now risen from 148% to 414%. Future years are more positive as due to forecast asset sales in 2023/24 we should no longer have to support the capital requirements of Lambeth College.

In terms of 'Headroom', we currently have £5m against our tightest covenant, 'Operational leverage' in 21/22 which limits the amounts that we can borrow based on our EBITDA. To gain extra headroom we would have to reduce our capital expenditure or increase our surplus and so reduce the amount that we would have to borrow.

However, as noted in the cashflow section of this report, a plausible downside scenario is an 8% reduction in statutory fee levels from £9,250 to £8,500 from 22/23 onward. The resultant £8m shortfall in income would be manageable in terms of our covenants for both debt service cover and operational leverage as is evident from the headroom shown in Appendix 2. The minimum headroom in App 2 from 22/23 onward is £14.5m. This would equate to a fee reduction of 14.5% or a reduction in headline fee from £9,250 to £7,900 which is not considered to be a credible scenario.

It should be noted however that our banking covenants do require us not to report a deficit in two consecutive years. In the event of a fee reduction and potential short term deficit we would need to take appropriate mitigating action to return to surplus in the following year.

In terms of a potential breach of covenant, our bankers have generally been supportive as these covenants have been drawn up and, particularly, with Barclays a temporary breach would not automatically then lead to a withdrawal of facilities or a re-pricing of existing debt. Account management practices can change with personnel and so covenants compliance checks are integral part of the Financial Planning process.

Appendix 1: cashflow projections

Detailed Cash Flow Profile 21/22

Date	Closing Cash Forecast £m	Date	Closing Cash Forecast £m
August	£13.6	February	£8.5
September	£8.2	March	-£7.9
October	£11.5	April	-£19.8
November	£14.3	May	£22.7
December	£2.6	June	£5.2
January	-£12.5	July	-£9.9

Detailed Cash Flow Profile 22/23

Date	Closing Cash Forecast £m	Date	Closing Cash Forecast £m
August	-£24.0	February	£5.5
September	-£0.2	March	-£4.7
October	-£0.7	April	-£17.0
November	£5.3	May	£33.1
December	-£4.4	June	£23.4
January	-£16.7	July	£11.1

London South Bank University

Based on the 5 Year Forecasts updated as at 28 October, the University will meet the covenants in place for its loans with Barclays and AIB.

LSBU only

Debt Service Cover

Adjusted Cashflow for each Relevant Period shall be no less than 125% of its Debt Servicing Costs for such Relevant Period.

Entry	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Net cash inflow/(outflow) from operating activities	22,293	25,813	15,838	24,938	25,797
Investment income	300	110	110	110	110
Endowment cash received	0		0	0	
Exclude any cash pension costs, i.e. not to be added back		0	0	0	
Adjusted Cashflow	**22,593**	**25,923**	**15,948**	**25,048**	**25,907**
Interest paid	2,172	1,853	1,404	3,073	2,797
Interest element of finance lease and service concession payments	0	0	0	0	
Repayments of amounts borrowed	1,910	1,969	2,451	2,727	3,003
Capital element of finance lease and service concession payments	0	0	0	0	
Debt Servicing Costs	**4,082**	**3,822**	**3,855**	**5,800**	**5,800**
Debt Service Cover	**553%**	**678%**	**414%**	**432%**	**447%**
Covenant Level	125%	125%	125%	125%	125%
Forecast Compliance	**Compliance**	**Compliance**	**Complianc**	**Complianc**	**Compliance**
Headroom	**17,491**	**21,146**	**11,129**	**17,798**	**18,657**
Assumes £20M Barclays drawdown as at July 2022					

Operational Leverage

The ratio of Borrowings at the end of each Relevant Period to Adjusted Operating Surplus for such Relevant Period shall not exceed 5:1

Entry	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Bank overdrafts	0	0	0	0	0
Loans repayable to the funding council	0	0	0	0	
Bank loans and external borrowing	1,944	2,025	2,025	2,025	2,025
Obligations under finance leases and service concessions	0	0	0	0	0
Loans repayable to funding council	0	0	0	0	0
Bank loans and external borrowing	32,507	30,457	48,006	25,279	22,276
Obligations under finance leases and service concessions	0	0	0	0	0
Include any Transaction Unit Debt if defined as such by the Transaction U	0	0	0	0	0
Borrowings	**34,451**	**32,482**	**50,031**	**27,304**	**24,301**
Surplus/(deficit) before other gains/losses and share of surplus/(deficit) in joint ventures and associates	0	2,941	2,000	3,000	4,000
Depreciation	9,354	9,977	9,000	12,500	15,000
Interest and other finance costs	1,265	2,337	1,855	3,800	3,800
Amortisition	0	0	0	0	
Pension Items	2,791	2,000	2,000	2,000	2,000
Capital Grants recognised in the year	0	0	0	0	
Release of deferred capital grants	0	0	0	0	
Exclude any one-off grant funding from the Transaction Unit.			0	0	
Adjusted Operating Surplus	**13,410**	**17,255**	**14,855**	**21,300**	**24,800**
Operational Leverage	**257%**	**188%**	**337%**	**128%**	**98%**
Covenant Level	500%	500%	500%	400%	400%
Forecast Compliance	**Compliance**	**Compliance**	**Complianc**	**Complianc**	**Compliance**
Headroom	**6,520**	**10,759**	**4,848**	**14,474**	**18,725**

Security Cover

The Property Value shall at all times be no less than 140% of the Facilities.

Entry	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Property Value	61,510	61,510			
Property Value	**61,510**	**61,510**			
LSBU Facility	33,318				
LSBU Mark to Market					
LC Facility					
LC Mark to Market					
Facilities	**33,318**				
Operational Leverage	**185%**				
Covenant Level	140%	140%	140%	140%	140%
Forecast Compliance	**Compliance**				

Tuesday, 22 September 2020

5. LSBU management accounts to 31 July 2020

The committee discussed the management accounts to 31 July 2020.

The committee noted that income for 2019/20 stood at £157.1m, an increase of £8.0m on the 2018/19 reported outturn and £5m more than budget. It was noted that the University was trending towards a surplus of £1.5m for 2019/20.

The committee noted that recurrent staff costs at year end were £88.2m (£1.4m less than budget), in line with previous forecasts. The committee noted that staff costs would continue to be a challenge for 2020/21. Further detail on LSBU workforce planning and target operating model would be provided at the next meeting on 3 November 2020. The committee noted the importance of balancing staff costs with ensuring there was enough capacity, especially in academic and IT support areas.

The committee noted that Opex for 2019/20 was £6.8m more than the June 2020 forecast, and that this included some coronavirus-related expenditure and the impairment of over £3m of previously capitalised costs associated with St George's Quarter.

The committee discussed the 2020/21 budget, noting that the University was still broadly in line with 'budget scenario 2b'. The committee noted the uncertainty surrounding projected pension costs for 2020/21. It was noted that the assumptions used by the actuaries would be reviewed in detail by the Group Audit and Risk Committee on 6 October 2020.

6. Revolving credit facility/cashflow update

The committee noted that the RCF sub-committee had met on 3 September 2020 and had authorised completion of the new facility with Barclays for a four year term (subject to extension options) for a £30m commitment. Following authorisation, the facility was completed on 9 September 2020. Financial covenants were on the same basis as the existing agreement with Barclays, with the exception that operational leverage would change from 5x to 4x from 2022/23 onwards. The committee noted that these covenant requirements had been tested and would continue to be met based on current forecasts.

The committee noted that the Executive was pursuing other opportunities including the potential borrowing of up to £15m from Lambeth Council to support future cashflow needs.

11. Treasury management report

The committee noted the treasury management report, showing total bank balances at 31 August of £51.3m and outstanding loans of £33.8m.

<u>Tuesday, 3 November 2020</u>

5. LSBU management accounts to 30 September

The committee discussed the management accounts to 30 September 2020, noting that this was the first set of accounts to cover both LSBU and Lambeth College. The full year forecast was trending to a surplus of £2m though 2020/21 was likely to continue to be challenging due to the current coronavirus pandemic.

The committee noted that income from student recruitment was on target and ahead of 2019/20, though there were risks around semester two enrolment and retention rates. Budget 'scenario 2b' had factored in a higher attrition rate than usual due to the pandemic.

The committee noted that staff costs were currently under-budget but it was not yet clear whether this would continue throughout the year. The CFO advised that there would be greater clarity following the mid-year budget review.

The committee noted that its remit was to maintain appropriate oversight of subsidiary finances, but subsidiary boards of directors retained statutory responsibility for the success of those entities.

10. Treasury management report

The committee noted the treasury management report, showing total bank balances at 30 September 2020 of £50.2m and outstanding loans of £33.6m.

<u>Tuesday, 2 March 2021</u>

6. Finance update

The committee noted the LSBU finance update. The CFO presented a high-level summary of the current financial position. The committee noted that the IT outage had temporarily affected the Executive's ability to produce management accounts, but that some Agresso system access had now been restored. Recovery continued to be a priority.

The committee noted that the university was broadly on-target to deliver a £2m surplus with a contingency of £3-3.5m.

The committee noted that staff costs were substantially higher than budgeted, at approximately 60.5%, due in part to a lower vacancy rate caused by the pandemic, and to a £4m increase in pension costs. The Vice Chancellor confirmed the importance of maintaining appropriate staff-student ratios in an environment where student numbers had increased by 14%.

The committee noted that tuition fee refunds remained a key risk but that there had been a very low level of claims up to this point. A process was in place to mitigate this risk by carefully reviewing student complaints and continued engagement with the student body.

11. Treasury management report

The committee noted the treasury management report, showing total bank balances at 31 January 2021 of £48.5m and outstanding loans of £33.7m.

<u>Tuesday, 27 April 2021</u>

5. LSBU management accounts to 31 March 2021

The committee discussed the management accounts to 31 March 2021, noting that this was the first set of management accounts to be produced following the extended IT outage. The committee noted that the Finance team were working through the process of recovering accounting records, which was expected to be complete by May 2021.

The committee noted that the full year forecast was trending towards a surplus of £2m, with an additional £2.2m headroom.

The committee noted the high staff costs, due in part to a low vacancy level during the pandemic, and a £4m in-year pension cost increase. The committee noted that opex was forecast to be £0.6m better than budget.

The priority was now to match invoices and purchase orders and reconcile to Agresso. It was noted that some costs may increase further as the backlog is cleared.

The committee noted the deficit of £2.7m at Lambeth College.

10. Treasury management report

The committee noted the treasury management report, showing total bank balances at 31 March 2021 of £34.2m and outstanding loans of £33.0m.

<u>Tuesday, 6 July 2021</u>

5. Management accounts to 31 May 2021

The committee discussed the management accounts to 31 May 2021, noting that the full year forecast continued to trend towards a surplus of £2m with a contingency of

£2.7m. The committee noted that operating costs were down year-on-year, largely due to the pandemic.

The committee noted that income was forecast at £162m, which was £9m ahead of budget. The committee queried increasing staff costs, running at approximately 60% of budget. The CFO reported that this was due to the uncertainty of the pandemic in the current year, with a much lower vacancy factor and higher pension costs. The vacancy factor was expected to return to more normal levels in the next financial year.

The committee noted that work was underway, as part of the LEAP programme and LSBU 2025, to create efficiencies across the organisation over the next three financial years.

The committee discussed the position at SBC, noting that the College forecast an operating deficit of £4.4m compared with the £2.7m originally budgeted. The committee noted that this included £1.5m of additional pension contributions as a result of the LPFA actuaries' report and some one-off costs due to the pandemic (such as student laptops).

8. LSBU 2021/22 draft budget

The committee discussed in detail the proposed draft university budget for 2021/22, which delivered a surplus of £2m and funded a £2.7m deficit at the Croydon Campus. The proposed budget included £2m of contingency.

The committee welcomed the forecasted income of £169m, which had increased from the estimated £162.5m initially presented to the Board at the April 2021 Strategy Day.

The committee noted that operating expense and staff cost budgets would be rolled forward at the levels set in 2020/21 as the Group started to recover from the pandemic and major IT outage. In the medium term, LSBU 2025 and LEAP would then deliver efficiencies and a reshaped workforce able to meet the demands of the digital environment.

The committee noted that increased staffing would be required in some schools in order to maintain the required staff-to-student ratios.

Following the discussion, the committee recommended the proposed 2020/21 budget to the Board for approval.

11. Treasury management report

The committee noted the treasury management report, showing cash balances at 31 May 2021 of £55.0m and outstanding loans of £32.9m.

14. Cashflow update

The committee noted the briefing on cashflow, as circulated to the Board of Governors and MPIC as part of the discussion on the proposed London Realty transaction.

Tuesday, 21 September 2021

5. Management accounts to 31 July 2021

The committee discussed the management accounts to 31 July 2021, noting that the University was on track to deliver an operating surplus, before exceptional items, of £9m. The surplus was after allowing for a staff recognition payment of up to £1.3m, as approved by the Board. The payment would be made to staff during October 2021.

The committee noted the exceptional costs of £4.7m associated with the decision to write off a portion of the cost of Project LEAP, and £1.3m relating to the cost of the cyber attack.

The committee noted that, for the first time, the 2020/21 Group income was above £200m.

The committee noted that Lambeth College remained at a deficit position (anticipated by the turnaround plan), but that the year-end position represented a £0.7m improvement on 2019/20.

10. Treasury management update

The committee noted the treasury management report, showing cash balances at 25 August 2021 of £24.3m and outstanding loans of £32.4m. The committee noted that there were now two revolving credit facilities in place to assist with cashflow management.

The committee recommended the proposed changes to the University bank mandate (to remove Pat Bailey and add Tara Dean as a signatory) to the Board for approval.

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