

Meeting of the Finance, Planning and Resources Committee

4.00 pm on Tuesday, 28 April 2020
in MS Teams

Agenda

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Agenda Item 8

	INTERNAL
Paper title:	Revised cashflow forecast April 2020
Board/Committee:	Finance, Planning and Resources committee
Date of meeting:	28 April 2020
Author(s):	Ralph Sanders - Director of Financial Planning, Reporting & Registry
Sponsor(s):	Richard Flatman – CFO
Purpose:	To update the Finance, Planning and Resources committee on the forecast cash position of the University
Recommendation:	<p>FPR Committee is asked to:</p> <ul style="list-style-type: none"> - note the current cashflow forecast for the University - note the initial responses on the planned Revolving Credit facility (RCF) - note that the Executive will seek Board authority for the RCF before the next scheduled Board on 21 May 2020, only if earlier approval is a commercial necessity and if it deems the best terms received from the participating banks to be acceptable.
Executive summary:	<p>Financial Modelling in September 2019 identified a requirement for additional funds should the LSBU Group's capital investment plans be approved.</p> <p>Modelling at the time suggested that the Group would have a maximum cash deficit of £31M in the year ending July 2022. Having tested our covenants, the Group was in a position to borrow up to £45M, which would deliver a minimum cash buffer of £14M for working capital purposes. With the approval of the Board we went to the Market for a revolving Credit Facility.</p> <p>Since the previous forecast, there have been some delays and changes to the expected levels and timing of Capital Expenditure for the LSBU group, particularly in relation to timing and approval of SBC expenditure on the Nine Elms Skills Centre (NESC). We have also reviewed capex priorities given the current level of financial uncertainty and have downgraded the Chapel as a priority in the short to medium term and have reduced the planned expenditure to £2m to cover essential maintenance/stabilisation costs. We have included Croydon costs, as this is considered a priority in the current environment. Additional annualised expenditure, which increased significantly at the back end of the original forecast has been scaled back to normal levels.</p> <p>We have not yet made any assumptions for cashflow planning purposes about lengthening and thinning the LEAP cashflow profile. However, following the recent discussions at Executive and MPIC, this is something we are investigating to provide more headroom on cashflow given the current financial uncertainty.</p> <p>We are currently forecasting a maximum cash deficit of £14M in the year ending 31 July 22. The reduction of £17M in cashflow requirements compared to the original £31M is driven primarily by these changes to the capex expenditure profile. Changes to the I&E forecast have been made but these largely affect only 20/21 and we assume that we recover thereafter to the previous forecast position. This latest forecast would indicate a reduced additional borrowing requirement of £30m.</p> <p>We have now received 3 offers of a revolving Credit Facility including 2 at the level of £45M (AIB and Lloyds) and a reduced facility of £30M from Barclays (the reduced</p>

level presumably reflecting the current level of indebtedness we already have with Barclays).

The structure and terms of the initial offers from the Banks is set out in detail in the document. It should be noted that these are still subject to commercial negotiation and that the offers were pre Covid-19. Whilst we understand that there is still an appetite to lend to LSBU, any final offer will be subject to review by the banks of updated forecasts and the pricing will inevitably change to reflect the additional sector risk as a result of Covid-19.

We are also aware that the banks are inundated with requests for additional financing. Now that we are clearer on the updated capex expenditure profile we would like to move quickly to secure the facility.

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INTRODUCTION

As part of the governance of our Capital expenditure programme, financial modelling was presented to MPIC/Board in September 2019 that demonstrated that our investment programme would need an element of external funding. Approval was gained to approach the capital markets for funds of up to £45M.

We have now received offers from three banks, two at the requested level of £45M and one at a reduced level of £30M.

Since the position presented last September, our immediate funding requirement has changed. This is primarily as a result of downgrading the reconstruction of the chapel as a priority and the delay to the construction of the South Bank Colleges Nine Elms Skills Centre in Vauxhall. This has removed £18.5M from the cashflow requirements for 2019/20 as per Table 1 and we are now forecasting to end the year with cash and investments of £40.4M. This has removed the immediate pressure for funds as detailed in Table 2.

We have not yet made any assumptions for cashflow planning purposes about lengthening and thinning the LEAP cashflow profile. However, following the recent discussions at Executive and MPIC, this is something we are investigating to provide more headroom on cashflow given the current financial uncertainty.

Revised Cash flow requirements

Table 1 – Capital Cashflow requirements

Capital Expenditure Reprofiting						
	2018/19	2019/20	2020/21	2021/22	2022/23	Total
Original Forecast						
Phase 1 LSBU	5,845	30,872	27,098	2,852	0	66,667
Chapel	0	5,000	5,000	0	0	10,000
Leap I	2,418	5,765	9,164	9,266	2,147	28,759
Additional Annualised Expenditure	1,500	2,000	4,000	8,000	10,000	25,500
Total LSBU Capital	9,762	43,637	45,262	20,118	12,147	130,926
Lambeth College Cash requirements						
Capital Expenditure (NESC +)	1,781	6,167	14,087	0	0	22,035
Total Original Forecast	11,543	49,804	59,348	20,118	12,147	152,961
Current Forecast						
	2018/19	2019/20	2020/21	2021/22	2022/23	
Phase 1 LSBU	7,593	16,496	34,091	2,954	4	61,139
Chapel	0	1,000	1,000			2,000
Leap I	1,837	7,037	6,631	13,525	1,506	30,536
LSBU Croydon			1,800	1,800	400	4,000
Additional Annualised Expenditure	5,218	2,000	2,200	3,000	4,600	17,018
Total LSBU Capital	14,648	26,534	45,723	21,279	6,510	114,693
Lambeth College Cash requirements						
Capital Expenditure (NESC +)	2,758	4,698	10,000	12,294	0	29,750
Total Revised Forecast	17,406	31,232	55,723	33,573	6,510	144,444
Change to original forecast	5,863	-18,572	-3,626	13,455	-5,636	-8,517

The cashflow forecast has been adjusted to reflect the current forecast position for 2019/20 as per the March Management Accounts and the 2B Workable budget as presented to FPR in conjunction with this paper. There is considerable uncertainty with regard to future forecasts and we are currently assuming that we will 'bounce back' to planned level of profitability in 21/22. If income were reduced over this period, we would have to match that reduction in expenditure to deliver to these forecasts.

Table 2 – Revised Forecast cashflow

LSBU Group Cashflow forecast					
Financial year ending:	31/07/2020	31/07/2021	31/07/2022	31/07/2023	31/07/2024
Cash flow from operating activities	£000s	£000s	£000s	£000s	£000s
Surplus for the year	1,500	2,000	4,600	5,600	6,600
Adjustment for non-cash items	£000s	£000s	£000s	£000s	£000s
Group Depreciation	12,400	12,400	16,100	18,100	20,100
Increase/(decrease) in pension provisions	1,214	1,126	1,125	1,125	1,125
Other adjustment for non-cash items	0	0	0	0	0
Total Non cash items	13,614	13,526	17,225	19,225	21,225
Adjustment for investing or financing activities	£000s	£000s	£000s	£000s	£000s
Investment income	-110	-110	-110	-110	-110
Interest payable	4,633	5,800	5,800	5,800	5,800
Release of TU Grant to support Lambeth College	-2,784	-2,399	-999	0	0
Total Adjustment for investing or financing activities	1,739	3,291	4,691	5,690	5,690
Net cash inflow/(outflow) from operating activities	16,853	18,817	26,516	30,515	33,515
Cash flows from investing activities	£000s	£000s	£000s	£000s	£000s
Payments made to acquire fixed assets	-31,232	-55,723	-33,573	-6,510	-20,000
Total cash flows from investing activities	-31,231	-55,722	-33,572	-6,509	-19,999
Cash flows from financing activities	£000s	£000s	£000s	£000s	£000s
Interest paid	-2,121	-2,210	-3,510	-3,510	-3,510
Repayments of amounts borrowed	-1,899	-2,175	-2,451	-2,727	-3,003
Total cash flows from financing activities	-4,020	-4,385	-5,961	-6,237	-6,513
(Decrease)/Increase in cash and cash equivalents in the year	-18,398	-41,290	-13,017	17,769	7,003
Investments, Cash and cash equivalents at beginning of the year	58,801	40,403	-887	-13,904	3,865
Investments, Cash and cash equivalents at the end of the year	40,403	-887	-13,904	3,865	10,868
Funds required to deliver minimum balance of £15M	0	15,887	28,904	11,135	4,132

Assuming we deliver to the 2b Workable budget scenario in 2020/21

The intial offers from 3 banks are presented in table 3

At this stage we are not making any recommendation to FPR as to which offer subject to further commercial negotiation) would be most appropriate for the University. The offer from Barclays and the 4-year facility would enable us to fund our proposed capital expenditure programme but would not deliver any headroom in terms of additional capital expenditure or slippage in terms of meeting our budget forecasts (for 21/22 only). In other years there would be headroom. However, it does enable us to meet our requirements and comes at a reduced cost. A clear recommendation will be made with an appropriate balance of price and risk post negotiation.

Table 3 Summary of Initial Offers

Lender	AIB	Barclays	Lloyds
Credit/Pricing approval status	Indicative Terms Further due diligence required	Indicative Terms Further due diligence required	Indicative Terms Further due diligence required
Amount/Nature	£45,000,000	£30,000,000	£45,000,000
Term (Years)	5 years	Option 1: 3 years Option 2: 4 years	Option 1: 3 years Option 2: 5 years
Extension Options	N/A	Option 1 & 2: Option to extend by a further 12 months at the end of year 1 and 2.	N/A
Interest Margin / Fee	1.70%	Option 1: 0.75% Option 2: 0.85%	Option 1: 0.65% Option 2: 0.90%
Pricing Review	N/A	N/A	N/A
Ref Rate	LIBOR	LIBOR/SONIA	LIBOR/SONIA
Interest Period(s)	1, 3 or 6 months	3 or 6 months	3 months
Non-Utilisation Fee	0.68%	Option 1: 0.30% Option 2: 0.37%	Option 1: 0.30% Option 2: 0.50%
Arrangement Fee	0.50% (£225,000)	Option 1: 0.30% (£90,000) Option 2: 0.40% (£120,000)	Option 1: 0.50% (£225,000) Option 2: 0.75% (£337,500)
Legal Documentation Fees	Not advised	£14,000	£22,000-£27,000
Prepayment Fee	Not applicable	Not Advised	Not Advised
Capital Repayment	Interest only during the revolving period with a Bullet Repayment at the end of Year 5	Option 1: Interest Only during the Revolving Period with a Bullet repayment at the end of Year 3 Option 2: Interest Only during the Revolving Period with a Bullet repayment at the end of Year 5.	Option 1: Interest Only during the Revolving Period with a Bullet repayment at the end of Year 3 Option 2: Interest Only during the Revolving Period with a Bullet repayment at the end of Year 5.
Security	Use existing security	Existing security - subject to McClaren House meeting 140%	Secured - First legal charge over David Bomberg House and New Kent Road Halls.
Security Minimum Level	Not Advised	Not Advised	Not Advised
Validity of offer	Not Advised	3rd May 2020	Not Advised

Covenant Check

The amount that the LSBU Group can borrow is limited by the Covenants on our existing debt. These covenants include LSBU not making a loss for two consecutive years and restricting any borrowing to 5 times EBITDA.

The current EBITDA Forecast for the University in 2020/21, assuming that we deliver to the Workable 2b Budget, is £2M surplus + £10.5M depreciation + £5.8M Interest = £18.3M which would suggest that we could borrow up to £91.5M. The University's borrowings as at 31 July 2019 totalled £36.4M and so we could reasonably accept all three offers above.

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