

Meeting of the Board of Governors

4.00 pm on Tuesday, 13 June 2017
in 1B27 - Technopark, SE1 6LN

Agenda

<i>No.</i>	<i>Item</i>	<i>Pages</i>	<i>Presenter</i>
6.	Project Larch full business case	147 - 152	DP

Date of next meeting
4.00 pm on Thursday, 13 July 2017

Members: Jerry Cope (Chair), Andrew Owen (Vice-Chair), David Phoenix, Steve Balmont, Michael Cutbill, Douglas Denham St Pinnock, Neil Gorman, Carol Hui, Kevin McGrath, Mee Ling Ng, Jenny Owen, Tony Roberts and Calvin Usuanlele

Apologies: Temi Ahmadu, Shachi Blakemore and Hilary McCallion

In attendance: Pat Bailey, Matthew Dunn, Mandy Eddolls, Richard Flatman, Nicole Louis, Ian Mehrtens, James Stevenson and Michael Broadway

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	CONFIDENTIAL
Paper title:	Larch Full Business Case
Board/Committee	Board of Governors
Date of meeting:	13 June 2017
Author:	PricewaterhouseCooper
Executive/Operations sponsor:	David Phoenix, Chief Executive
Purpose:	Provide a status update on activity moving towards integration of Larch with LSBU.
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	<ol style="list-style-type: none"> 1. <i>Student Success</i> - Externally recognised for providing a personalised, high calibre education which equips students for employment and society. 2. <i>Real World Impact</i> - Ensuring the provision of dynamic evidence-based education which is underpinned by highly applied research and enterprise activity. 3. <i>Access to Opportunity</i> - Building opportunity through partnerships and as a partner of choice for our communities. 4. <i>Strategic Enablers</i> - Addressing the barriers and challenges that could hinder the success of LSBU.
Recommendation:	<p>The Board is requested to agree to:</p> <ol style="list-style-type: none"> 1. Approve the FBC as the basis for progressing with the acquisition of Larch

Matter previously considered by:	Executive	<p>07/09/16</p> <p>The Executive supported and recommended Approval to Proceed based on the Outline Business case.</p>
	MPIC	<p>20/09/16</p> <p>The Committee supported and recommended Approval to Proceed.</p>

	MPIC	06/12/16 Updated Committee on progress and confirmation of status of Sycamore. No decision required.
	MPIC	02/03/17 Updated Committee on progress and confirmation of status of Sycamore. No decision required.
	MPIC	04/05/17 Updated Committee on progress and results of Due Diligence. Approval granted to continue.
	Board	13/06/17 Updated Board on progress, process and key risks of MPIC. Approval granted to continue.
Further approval required?	No	N/A

Full Business Case to approve accompanied key elements of the business case.

The Transaction Unit Restructuring Facility Application was submitted by Lambeth College on 26th May 2017. The Application makes a number of assumptions which are in line with the purpose of the bid (to secure funding) and the expectation of the SFA on income growth and cost reduction. The bid is also based on review of the curriculum offer and alignment with LSBU activity in terms of apprenticeship growth and subject coverage. This Application represents the core decision making documentation for Lambeth College and was approved by the College on 25th May 2017. It should be noted that this document is specifically designed to address aspirations around, and the requirements of, the TU bid.

In addition to the above, LSBU has its own internal governance and decision making documentation which culminate in the development of an iterative business case using the principles of the HM Treasury five case model business case.

The previous Outline Business Case, entitled Approval to Proceed, was approved by MPIC at its meeting of 20 September 2016. The strategic intent and benefits of bringing Lambeth College in the Group is well rehearsed and supported by both MPIC and by the full Board at meetings on 4th May 2017 and 18th May 2017 respectively. The proposal is aligned with the LSBU 2020 vision and objectives.

As a result, the FBC focuses on the financial case, risks and benefits to the Group and is underpinned by financial due diligence undertaken by PwC which was reviewed by MPIC on 4th May 2017 and reported to the Board on 13th May 2017. This models our expectation with respect to the Income and Expenditure and cashflow requirements based on what we believe to be realistic assumptions. This has been stress tested by PwC.

The key highlights from the Full Business Case are as follows:

- **Cost Reduction** in Lambeth remains consistent with the principles of the Transaction Unit Financial model with savings in Lambeth College of £1.32m (74% of current baseline salaries) over the next 3 years in Support Services (including HR, Finance and Procurement, Estates, IT, Legal and MarComms).

- **Income Growth** is accelerated when compared to the Transaction Unit Financial Model within the TU bid. PwC's view confirms that the Transaction Unit Application is necessarily conservative in its approach and that additional, supplementary income streams can be realised in four key areas:
 1. **New Access courses in focus areas for Larch and LSBU**
 - a. Counselling (link: HSC)
 - b. Diploma in Social Work (link: HSC)
 - c. Diploma in Creative and Digital Media (link: ACI)
 - d. Business Studies (link: BUS)
 - e. Computing (link Eng)
 2. **Greater support for BTEC students**
 3. **Significant growth in Larch student numbers due to rebranding**
 4. **Extending our apprenticeship offering to Levels 2 and 3**
- That a surplus position by end 2019/20 is a realistic proposition under both scenario 2A and 2B
- Short term cashflow requirements are significant (£12.9m - £13.9m) hence the principles underpinning our bid to the TU

There are two perspectives to consider: 1) Income and Expenditure; and 2) Balance Sheet.

Income and Expenditure

Analysis by PwC has concluded that the forecast Group position including Lambeth is positive. The table below shows the key financial performance measures for the Group (including Lambeth) in 19/20 with achievement of 100% cost reduction and 100% income growth. This shows a £31.2m overachieve in Group turnover; no degradation of EBITDA compared with 16/17 LSBU at c.12%; and a Group surplus of 3%. This represents a broadly neutral influence on EBITDA and percentage surplus if Lambeth is brought in to the Group.

£000s	Scenario 0 - 2016/17			Change	Scenario 2B - 2019/20			Target	Variance
	LSBU	Larch	Group		LSBU	Larch	Group	2020	
Income	144.6	25.0	169.7	31.5	171.2	30.0	201.2	170.0	31.2
Opex	(127.2)	(26.0)	(153.2)	(22.8)	(149.7)	(26.3)	(176.0)		
EBITDA	17.4	(1.0)	16.5	8.8	21.6	3.7	25.2		
EBITDA %	12.1%	(3.8%)	9.7%	28%	12.6%	12.2%	12.5%	15.0%	(2.5%)
Comp. income/(exp)	1.5	(9.6)	(8.1)	14.6	5.5	1.0	6.5		
Surplus / income %	1.0%	(38.3%)	(4.8%)	46%	3.2%	3.3%	3.2%	5%	(1.8%)
Cumulative cash	28.2	(0.7)	27.5	(16.9)	21.8	(11.1)	10.6		
P&L reserves	77.4	(16.5)	61.0	(32.6)	43.1	(14.7)	28.4		

Note 1 - Green = exceeds target, Amber = within 5 percentage points of target; Red = not within 5 percentage points of target

However, in order to take a prudent approach to the projected financial measures we have assumed a 50% cost reduction and 50% income growth. The table below shows the key financial performance measures if the Group achieves this position. This analysis still shows a positive trend with significant 28.1% overachieve in Group turnover by 19/20; no degradation of EBITDA compared with 16/17 LSBU at c.12%; and a Group surplus of 2.6%.

£000s	Scenario 0 - 2016/17			Change	Scenario 2A - 2019/20			Target	Variance
	LSBU	Larch	Group		LSBU	Larch	Group	2020	
Income	144.6	25.0	169.7	28.4	169.4	28.6	198.1	170.0	28.1
Opex	(127.2)	(26.0)	(153.2)	(20.9)	(148.6)	(25.5)	(174.1)		
EBITDA	17.4	(1.0)	16.5	7.5	20.9	3.1	24.0		
EBITDA %	12.1%	(3.8%)	9.7%	26%	12.3%	10.9%	12.1%	15.0%	(2.9%)
Comp. income/(exp)	1.5	(9.6)	(8.1)	13.3	4.7	0.5	5.2		
Surplus / income %	1.0%	(38.3%)	(4.8%)	47%	2.8%	1.6%	2.6%	5%	(2.4%)
Cumulative cash	28.2	(0.7)	27.5	(19.0)	20.7	(12.2)	8.5		
P&L reserves	77.4	(16.5)	61.0	(34.7)	42.0	(15.7)	26.2		

Note 1 - Green = exceeds target, Amber = within 5 percentage points of target; Red = not within 5 percentage points of target

Balance Sheet

The Balance Sheet analysis reveals a marked change in LSBU Group Balance sheet position with the addition of assets worth c£100m added to the LSBU Group position from property. This will be partially offset by the transference of Barclays loans and LPP pensions deficits but the impact on the group's balance sheet will be positive. Additional analysis is being undertaken on this forecast position and will be circulated to the Board when completed.

Further detail is provided in the Full Business Case.

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