

Meeting of the Major Projects & Investment Committee

4pm – 5.30pm on Tuesday, 16 February 2016
in the Boardroom, Technopark, London Road, SE1

Agenda

<i>No</i>	<i>Item</i>	<i>Paper No.</i>	<i>Presenter</i>
1.	Welcome & Apologies		Chair
2.	Declarations of interest		Chair
3.	Maple partnership: (to approve) <ul style="list-style-type: none">• Outline business case• Governance model• Initial due diligence	MPI.01(16)	DVC
4.	Institute for Professional & Technical Education (IPTE) outline business case (to approve)	MPI.02(16)	DVC
5.	Date of next meeting: 4pm on Thursday, 3 March 2016		

Members: Douglas Denham St Pinnock (Chair), Jerry Cope (Chair of the Board), David Phoenix (Vice Chancellor), Carol Hui, Kevin McGrath, Hilary McCallion, Abdi Osman (SU President), Tony Roberts (Staff Governor), Andrea Smith (Chair of Student Council)

With: Chief Financial Officer, Chief Operating Officer, Deputy Vice Chancellor, University Secretary and Governance Assistant

In attendance: Katy Elstrup (PWC), Tom Phillips (PWC)

	CONFIDENTIAL
	PAPER NO: MPI.01(16)
Paper title:	Project Maple
Board/Committee	Major Projects & Investments Committee
Date of meeting:	16 February 2016
Author:	Pat Bailey, Deputy Vice Chancellor and Jennifer Hackett, Executive Assistant to the VC (summary) PWC (outline business case and preliminary due diligence) VWV (governance report)
Executive/Operations sponsor:	Pat Bailey, Deputy Vice Chancellor
Purpose:	Discussion and Decision
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	Income Growth (directly and through feeding into Higher Apprenticeships) Student Experience
Recommendation:	The meeting is requested to: <ul style="list-style-type: none"> • Approve proceeding to Full Business Case (FBC) and Due Diligence, based on LSBU as sole member • Not approve the development of a FBC if Morley College does not accept the Group Structure with LSBU as sole member.

Matter previously considered by:	MPIC	16 December 2015
Further approval required?	Full business case: MPIC Board	On: 26 April 2016 19 May 2016

Executive Summary

Project Maple Summary sheet

In December 2015 LSBU and Morley College jointly commissioned PWC to develop an outline business case for Morley College joining the London South Bank University Group. LSBU separately commissioned PWC to carry out early due diligence to identify any major issues that may affect the decision to progress to Full Business Case. This work was completed at the end of January.

Financial Business Case

Following detailed analysis by LSBU and Morley College to identify methods of growing income and reducing operating costs over a 5 year period, benefits were identified for Morley College entering into the LSBU group. Four scenarios were identified for LSBU:

- Scenario 0 – do nothing
- Scenario 1 – Transition Employer Sponsored Part-Time courses to Higher Apprenticeships
- Scenario 2a – Transition Employer Sponsored Part-Time courses to Higher Apprenticeships and have administered by Institute for Professional and Technical Education (IPTE).
- Scenario 2b – Transition Employer Sponsored Part-Time courses to Higher Apprenticeships and have administered by IPTE plus extend IPTE to administer foundation year courses.

Two scenarios were identified for Morley College:

- Scenario (i) – do nothing
- Scenario (ii) – implement income and cost saving initiatives

Scenario 2a was identified as the favourable option and further in-depth analysis was carried out, comparing 2a for LSBU as a standalone institution versus 2a for LSBU with Morley College as part of the LSBU Group, having implemented the initiatives in Scenario (ii).

A number of conclusions were drawn. The majority of financial upside that flows in the Scenario is generated from IPTE rather than growth generated from Morley College. From a Morley College perspective, income does grow by 50% to £15M, which would help in terms of our income growth aspirations, but this delivers nothing in terms of additional surplus because of assumed increase in the College's operating costs. In financial terms, therefore, the case is not persuasive. This is not

London South Bank University

at this stage considered to be a show stopper, although if we move to full business case we would need to look much more closely at future potential efficiencies. There is also potential uncertainty around some of the assumed grants and income forecast for Morley College, which would need much greater scrutiny if we move to full business case.

Financial Due Diligence

To support decision making, LSBU commissioned preliminary due diligence on Morley College; this was also completed at the end of January, and has not highlighted any showstoppers at this stage, although there are some areas for concern around pensions, TUPE and covenants on the estate which would warrant further consideration. The land value of the estate and buildings is roughly £25.5M, and around £2.5M of artefacts (mainly paintings).

Legal advice

Legal advice was also sought via University solicitors (see attached note 'Governance Model' prepared by VWV). In addition, Maple's legal advisors, BWB, identified a range of possible options:

1. LSBU as sole member in a group structure
2. An arrangement with 50:50 control
3. An arrangement with majority control by LSBU or MC (tiers or golden member)
4. A 'partnership' arrangement (just 'agreements' concerning educational provision)

The Executive's recommendation is that, given the financial weakness of the business case, the potential for deadlock in option 2, and the complexity of options 3 and 4, LSBU as sole member is the only feasible option (which is described in the VWV governance model).

Recommendation

There are substantial advantages with Morley College coming under an LSBU Group structure, most notably increased capacity for delivering high quality adult education and community engagement plus additional opportunities for Level 3 educational delivery (leading into higher level courses), new funding streams linked to FE level (e.g. with Southwark and Lambeth Borough Councils), and support for LSBU students in areas like maths, English, music and languages.

London South Bank University

Provided the single member Group Structure is accepted by Morley College, proceeding to Full Business Case and Due Diligence is recommended; if this is not acceptable to MC, then the Group Structure is not recommended.

MPIC might also wish to specify parameters, or approval mechanisms, for proceeding to Full Business Case if Morley College agree to a single member Group Structure, but where governance details differ from the VVV proposals.

Project Maple

Outline Business Case for Morley College joining the London South Bank University Group

*Strictly Private
and Confidential
Draft*

4 February 2016

*To inform the decision of LSBU and Morley College as to whether to
progress to Full Business Case*

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Introduction and context

London South Bank University and Morley College share a common heritage and both are seeking opportunities to grow

History of the institutions

From its origins in 1892 as the Borough Polytechnic Institute, London South Bank University (LSBU) has evolved into one of the capital's largest and most innovative universities. While much has changed, the institution's original mission – to promote '...the industrial skill, general knowledge, health and well-being of young men and women' and to provide employers with a highly skilled workforce – remains remarkably similar today, with its mission of being a civic university with a commitment to community engagement, real world impact, and education that meets the professional needs of employers.

Established in 1889 as Morley "Memorial College for Working Men and Women", with roots stretching back some years before that, Morley College London is one of the country's oldest and largest specialist providers of adult education. Its original philanthropic, charitable foundation is a distinguishing feature of the institution within the UK Further Education and Skills Sector. Morley's status as a Specialist Designated Institution (SDI) recognises its past, present and future responsibility in serving the public good through the provision of broad-ranging, accessible, community-focused educational courses and experiences designed to meet a diverse range of adult learning needs. Through the learning opportunities available Morley seeks to address social exclusion and promote community cohesion, supporting skills development, employability and digital inclusion.

Options for growth and diversification

LSBU is exploring a range of partnerships and other arrangements to strengthen its engagement with the community, and to increase access to Higher Education for all who have the potential to succeed. Whilst the University maintains a national and international reach it is also focused on the local and regional communities it serves, working collaboratively to see how best to provide pre-degree and extramural opportunities to its students.

The College is also exploring a range of partnerships, designed to enhance and extend Morley's reputation, educational impact and financial effectiveness. To date Morley has worked successfully in partnership with a wide range of organisations and networks, including London's SDIs. Partnership plays an increasingly crucial role in enabling the College to deliver an outstanding student experience, working within the challenging funding regime of Further Education.

Common goals

London South Bank University and Morley College London share a common commitment to social mobility through the widest possible access to learning opportunities. The close proximity of location between the two institutions, less than half a mile apart, is an important dimension that contributes significantly to the coherence and practical advantage to students of both institutions.

Ambitions & opportunities

It is proposed that Morley College join the LSBU Group with effect from 1 August 2016

Proposal

It is proposed that Morley College join the LSBU Group on 1 August 2016.

Rationale

The University and College working collaboratively to create high quality learning opportunities for adults, with pathways of study all the way from informal community learning through to doctoral study and beyond. The educational initiatives outlined in the OBC indicate a new era for adult learning for the primary boroughs served by the College, Lambeth and Southwark, which in recent years have not benefited from a high quality FE provision.

Collaboration between the University and College is strategically advantageous in enhancing positive influence with key stakeholders (including borough councils and major employers), reducing the number of learners lost to learning early on in their education and training, and motivating progression through to higher study (including higher apprenticeships).

Whilst a strategic alliance and progression agreements might benefit both institutions to some extent, a formal partnership has much more impact with external stakeholders, and would provide a much more compelling opportunity for responding jointly to the new opportunities, and to make the commitments required to increase community engagement and educational provision.

By joining forces, the College and University will have a combined student population of some 35,000 students, which offers a new scale and scope of community reach and engagement for the University and College.

Timing

The FE and skills sector in London is to embark from March in significant structural change through area review. The timing of the OBC offers strategic opportunity for Morley to position itself much more strongly within the Review as having capacity for growth, seeking to be a major player in adult education serving local boroughs, realising the ambition of its strategic vision and supporting curriculum strategy. In addition, to address the risk of an incrementally degrading financial position through to 2020, the proposal is brought forward at this time as a pre-emptive means to secure Morley's mission through the financial security of joining the LSBU Group.

At the same time, LSBU needs to respond quickly to the government's commitment to doubling the number of apprenticeships by 2020, by delivering higher and degree apprenticeships, and by developing pathways from FE into HE apprenticeships. For both of these (especially the latter), the proposed partnership with Morley College would significantly increase LSBU's capacity.

The proposal aligns with LSBU and MC strategic ambitions & objectives, and offers potential growth in income & EBITDA...

LSBU ambitions and objectives

Morley College's reputation for adult education in arts, culture and applied sciences provides a particular focus that aligns well with LSBU's corporate strategy and discipline areas.

If Morley College joins the University Group, it creates opportunities to strengthen links with the local community and diversify income streams and access routes. In particular, the more formal relationship fulfils the University's ambitions in supporting:

- joint activities that enhance profile and engagement with the local community;
- providing local progression pathways;
- providing support for skills development for current students;
- extramural opportunities for LSBU's students; and
- supporting transition into higher and degree apprenticeships.

LSBU key financial benefits

The key financial benefits identified at this stage include the potential to grow student numbers by 490, income by £3m and EBITDA* by £1.3m by FY20 compared to FY16. Additional initiatives have also been identified which could yield further growth, which will be assessed in more detail as part of any progression to full business case (FBC) (see Section 4, pages 20 – 21 and 47 – 49).

* Earnings before interest, tax, depreciation & amortisation

MC ambitions and objectives

In a time of considerable change for the Further Education Sector, driven by Government reform, the ambition and opportunities for the College include:

- remaining as the legally defined entity, Morley College Limited, with its own distinctive brand, trading from January 2016 as Morley College London;
- sustaining the core mission and purpose of the College, focused on adult education in the arts, culture and applied sciences;
- sustaining joint working with fellow SDIs to pursue the Mission of Morley in 'championing the cause' of adult learning, working collaboratively with SDIs to raise the profile of areas of mutual interest including, for example, adult apprenticeships and the sharing of best practice in learning, teaching and assessment;
- continuing to provide impartial information, advice and guidance to students on their next steps in learning, acknowledging the range of subject-specific HEI progression partnerships the College currently sustains to support level 3 access/diploma students to pursue their academic ambitions, especially in areas associated with the Visual Arts;
- increased effectiveness in enabling access to education for the most disadvantaged by simplified progression routes through adult education into Higher Education;

... through 5 key initiatives that are outlined and assessed in [Section 4: Finance & Resources] of this OBC

MC ambitions and objectives (continued)

- the opportunity to address expected Government reductions in Skills Funding Agency-allocated funding through the generation of additional income streams protected within the group structure;
- enhancing the student experience, through access to additional facilities including, for example, the University's library, student support, and enterprise centre;
- professional development of teachers in the design and delivery of level 3 Access to HE and Foundation programmes;
- greater professional support (e.g. ICT, HR, marketing, premises) with reduced overheads, and therefore cost benefits; and
- early identification, through development of the business case, of the potential financial benefit to be drawn through growth of provision and efficiency of operation.

MC key financial benefits

The key financial benefits for MC include the potential to grow student numbers by 3,459 and increase income by £5.3m. This would enable maintenance of EBITDA at £0.5m, which is in line with the level expected for FY16 and so prevent what would otherwise be a significant worsening financial forecast position to FY20. The additional initiatives identified at this stage may yield further growth (to be assessed as part of progression to FBC).

Details of the proposal

Details of the curriculum, and opportunities for joint working and growth, for LSBU and MC are set out in section 3 (p.10 – 13). The financial and resource implications of the key growth opportunities are set out in section 4 (p.15 – 49). These are summarised in 5 key initiatives:

- (1)** FY provision for HA and undergraduate students.
- (2)** GCSE Maths and English, for those entering HE with deficiencies in those core skills.
- (3)** Enhancing the student university experience through extramural activities – for example, courses in music.
- (4)** Providing optional modules (e.g. languages) that form part of the degree accreditation to broaden students' skills.
- (5)** Extending MC's current provision to include HNCs / HNDs.

The modelling used to calculate the potential income and EBITDA growth from these initiatives is based on a number of key assumptions which are subject to sensitivity analysis in this OBC. An important dimension of the FBC would be to analyse the inherent risks associated with change in more depth and to agree appropriate mitigating action.

As already stated, there are a number of other opportunities for growth and efficiencies which are briefly outlined in section 4 (p.47 – 49), but further information is required to establish the forecast student numbers, income and costs for LSBU and MC.

Curriculum portfolio

LSBU offers a diverse range of PT and FT, UG and PG* courses to its 17,511 students, across 7 Academic Schools

Profile of student body

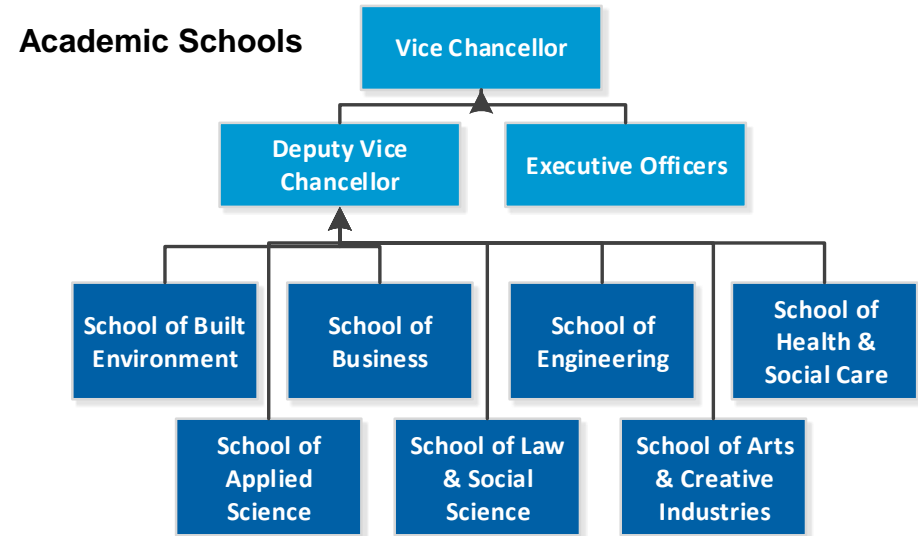
LSBU is a cosmopolitan institution with 17,511** students in FY16 from more than 130 countries. Key characteristics of the student body include:

- 77% of the students are studying at undergraduate level.
- 38% of students study part-time.
- 36% of students are aged 30 or over.
- 37% increase in the number of international students in 2014.

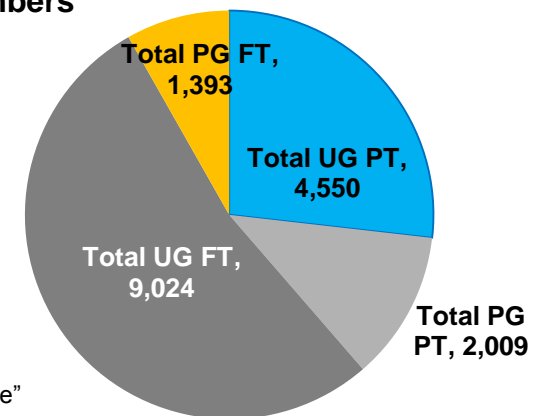
Key trends

The 7 Schools of LSBU cover the academic disciplines shown opposite. LSBU is currently considering growth options that include increasing provision for employer-sponsored part-time students (ESPT) who may be impacted by the changes in Government funding for new apprenticeship (HA) courses. This could include setting up an Institute for Professional and Technical Education (IPTE).

LSBU is also considering options to increase its provision for Foundation Year / Year 0 (FY) courses, including additional support for GCSE English, Maths and Science as well as the potential to include the administration of FY courses within the IPTE. Discussions are also underway with Southwark Council regarding potential partnerships e.g. the Thomas Calton Centre.



FY15 student numbers



* PT refers to "part-time" courses, FT refers to "full-time", PG refers to "postgraduate", and UG refers to "undergraduate"

** LSBU student numbers do not include semester 2 enrolments; data will be available w/c 2 February

Source: LSBU Annual Review 2014, discussions with senior management, 2015/16 student numbers from LSBU registry

Morley College specialises in arts, culture and applied sciences courses for 13,500 individual learners (1 of 2)

Profile of student body

Morley College has 13,500* individual learners registered per year. The income from different courses in FY16 is shown opposite: the two major sources of income are SFA and EFA grants and fees for non-accredited short courses. MC does not offer FTUG courses.

MC specialises in arts, culture and applied science and currently serves a specific audience: non-accredited adult learning, mostly relating to personal development, and often working with disadvantaged groups. The split is roughly 80% non-accredited courses and 20% accredited. The FY17 course offering is shown opposite – key areas are visual arts, essential skills and music. Note that “Essential skills” includes 32 classes at MC’s premises for Lambeth Adult Education (see p.11 for details).

Key trends

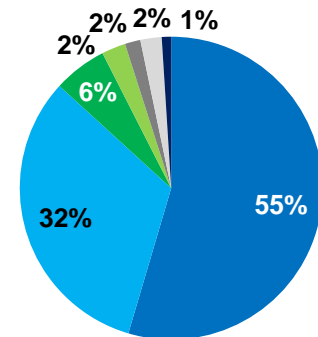
The Further Education (FE) landscape is undergoing significant change – arguably the largest since the early 1990s. Public sector funding will be at best flat in the short-term, and FE institutions are subject to ongoing reviews.

MC is therefore proposing to diversify its income streams to reduce risk to its business. MC is looking to (i) sustain its current provision of mainly unaccredited courses whilst (ii) securing accreditation of its advanced courses to enable student growth – across Level 3 (Access or FY courses) as well as Level 4 and 5 (HE).

* MC student numbers based on discussions with senior management

Source: MC 1516 programme plan; Finances and Curriculum Mix

MC income FY16



- Public funding
- Franchise contracts
- Accred. GCSE English & Maths
- L3 diplomas
- Unaccredited L1 - 3 short courses
- Access courses and Art Foundation
- Other

Note: these include some progression courses and so do not represent unique students

FY17 course offering

Department	No. of classes		Target students		Tutor hours	
		%		%		%
Visual arts	923	34%	11,550	35%	21,119	30%
Essential skills	270	10%	3,811	12%	16,211	23%
Music	542	20%	6,409	20%	10,711	15%
Languages	337	12%	4,182	13%	5,908	8%
Health	178	7%	1,928	6%	4,427	6%
Access	10	0%	146	0%	4,573	6%
Dance	229	8%	2,526	8%	3,138	4%
Humanities	145	5%	1,400	4%	2,663	4%
Drama	73	3%	737	2%	1,354	2%
Learning support	24	1%	120	0%	342	0%
Total	2,731	100%	32,809	100%	70,446	100%

Morley College specialises in arts, culture and applied sciences courses for 13,500 individual learners (2 of 2)

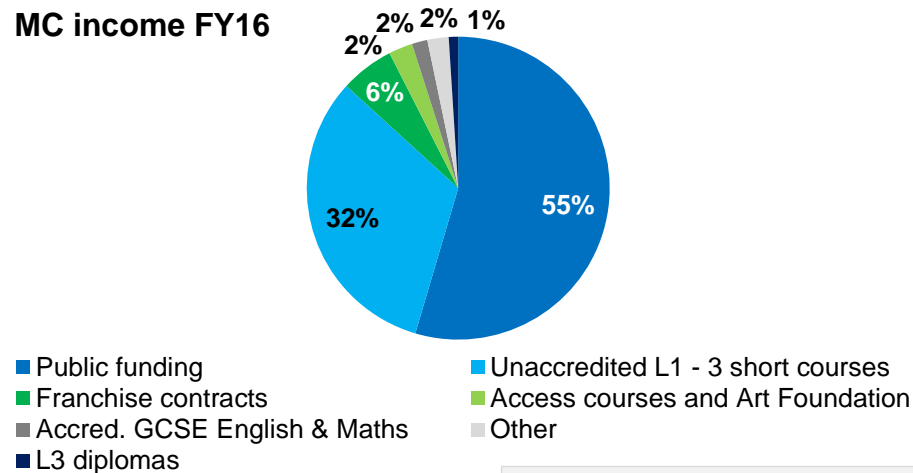
Overview of Lambeth funded provision

Over 320 courses took place in 2014-15, including a choir for people with visual impairments, a crafts workshop for amputees and two Family Learning events. A total of 2016 learners were enrolled on the Community Learning and Engagement programme, 195 of whom were on accredited programmes incorporating Functional Skills in Maths and ICT, City and Guilds English Units, a range of NCFE vocational courses such as Childcare, Reception Skills, Sports Coaching, Health and Social Care and Complementary Therapies as well as Level 2 Food Hygiene and Health and Safety.

A range of courses and workshops took place in hostels, sheltered schemes, day centres and voluntary sector support organisations and were created in response to the needs of vulnerable adults, such as homeless people, dementia sufferers, people affected by domestic violence, learners with disabilities and/or learning difficulties and adults with experience of mental health problems.

Depending on learners' circumstances and aspirations, the provision varied from drop-in sessions, short courses and courses lasting from six to twenty weeks.

MC income FY16



Note: these include some progression courses and so do not represent unique students

FY17 course offering

Department	No. of classes		Target students		Tutor hours	
		%		%		%
Visual arts	923	34%	11,550	35%	21,119	30%
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Total	2,731	100%	32,809	100%	70,446	100%

Source: discussions with senior management; MC 1516 programme plan; Finances and Curriculum Mix

Both institutions are looking to grow on a standalone basis; but additional opportunities exist through collaboration

As set out in the introduction and ambitions (pages 4 – 8), LSBU and MC complement one another in respect of their distinctive histories, expertise and shared current objectives.

Opportunities for growth as standalone institutions

Both institutions are seeking to grow income and reduce costs as standalone institutions. LSBU scenarios 0, 1, 2a and 2b are set out on pages 17 and 31 – 32. MC scenarios (i) and (ii) are set out on pages 18 and 34 – 35.

Further opportunities for growth with MC in the LSBU Group

However, in addition to this LSBU and MC have identified a number of initiatives where, through collaboration between the two institutions, each institution could grow further income and contribution as part of the LSBU Group.

The key initiatives relate to both accredited and unaccredited courses, facilitated by efficiencies from improved utilisation of both LSBU and MC resources (in particular staff and premises). These can be run concurrently and are not mutually exclusive. Direct benefits have been quantified but further benefits will be examined as part of progression to full business case:

- **Initiative 1** – increased Foundation Year and Level 3 provision for HE courses, including for planned new HA students.
- **Initiative 2** – increased provision of GCSE Maths and English (and potentially Science) to support students on FY and undergraduate courses.

This support will enable LSBU students to achieve higher grades and greater progression rates on to further study.

- **Initiative 3** – provision of languages, music, history and various other extra-curricular studies to LSBU students to enhance their Higher Education Achievement Record and increase the attractiveness of the overall offering of LSBU to potential applicants.
- **Initiative 4** – provision of accredited Languages courses, taught by MC, could be included as a module within degrees offered by LSBU (currently LSBU only offers Chinese via a partnership with the Confucius Institute).
- **Initiative 5** – with support from LSBU (to enable course accreditation), MC could design and offer HNC and HND qualifications to its students, by refining and extending the content of its current course curriculum.

Sharing premises to improve utilisation rates for both institutions will be a key facilitating factor in achieving these initiatives. Other income generating initiatives are also being considered, along with anticipated cost savings for bringing MC into the University Group, e.g. in support services. For details, see p. 47 – 49.

Key issues

3.1 Further investigation of the market and levels of demand is required, especially in areas that are a strategic priority, such as Arts and Applied Science Foundation Year and Access courses, HNCs and HNDs.

Finance and resources

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Summary of financial implications

The following financial analysis is based on financial forecasts from both institutions and a set of agreed synergies

LSBU data

LSBU data is based on the draft 5-year financial forecasts, from FY16 to FY20. Further analysis of forecasts, including understanding the depth of supporting analysis and further challenge of assumptions and sensitivities, is proposed to be included in the full business case.

MC data

MC data is based on summary financial forecasts from FY16 to FY20, and aligned to initial summary analysis prepared by Bain. Further analysis of forecasts, including understanding the depth of supporting analysis and further challenge of assumptions and sensitivities, is proposed to be included in the full business case.

Synergies from initiatives 1 to 5

Synergy data has been provided by LSBU and MC, following agreement between the two institutions, quantifying the costs and benefits of 5 key initiatives. There are a number of additional initiatives that are expected to generate financial benefits to both institutions, but these require additional data and analysis – and this is proposed to be included in the full business case.





Key comparisons

Key comparisons are drawn between FY16 forecast performance (referred to as “today” for simplicity) and the in-year performance forecast in FY20. No balance sheet analysis has been undertaken at this stage.

Note that the annual position, each year up to FY20, is not shown in each case in order to present a simple and clear picture at the outline business case – it is expected that this would be included in the full business case. For the same reason, the cumulative position to FY20 is not shown in each case.

RAG ratings

These are intended to reflect relative levels of change required by the businesses in the scenarios presented, not absolute levels. Hence:

-  - refers to “Low”, the lowest level of change i.e. today
-  - refers to “Moderate”, the second lowest level of change – used to describe LSBU Scenario 1 and MC Scenario (i)
-  - refers to “High”, the second highest level of change – used to describe MC Scenario (ii) and LSBU Scenario 2a
-  - refers to “Very High”, the highest level of change – used to describe MC joining the LSBU Group, and separately LSBU Scenario 2b

Investment costs

An initial distinction is drawn between “recurring opex” and “upfront investment costs”. A full assessment of operating versus capital costs is proposed for the full business case level.

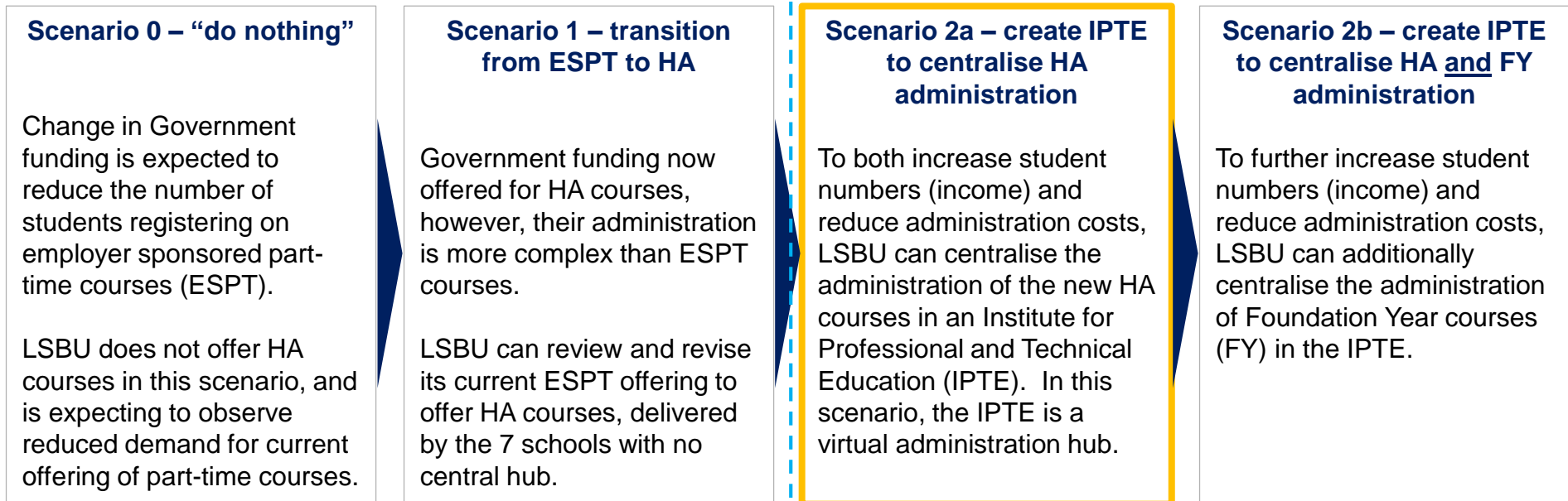
As a standalone institution, LSBU is considering a number of scenarios to increase income and EBITDA

LSBU has undertaken analysis across 4 scenarios to identify methods of growing income and reducing operating costs as a standalone institution. These 4 scenarios are summarised below, labelled from scenario 0 to scenario 2b. LSBU’s plans include potentially setting up an Institute for Professional and Technical Education (IPTE) in scenarios 2a and 2b.

Scenario 2a is currently considered the most likely option to be implemented in the short-term, and so is the focal point for this outline business case.

Status quo  **Greatest required change**

Creation of IPTE



Note: scenarios 1, 2a and 2b do not encompass the whole population of growth initiatives planned by LSBU to FY20. These scenarios only represent those initiatives that are deemed relevant and closely associated to the Project Maple business case.

Morley College as a standalone institution has also planned a number of initiatives to increase income and EBITDA

MC has undertaken analysis across two scenarios to identify methods of growing income and reducing operating costs as a standalone institution. These two scenarios are summarised below, labelled scenarios (i) and (ii). MC's plans in scenario (ii) include implementing its property strategy: refurbishing the main building (classrooms and reception) including improving access to it.

The preferred scenario is (ii), and this is the focal point for this outline business case.

Status quo

Greatest required change

Scenario (i) – excluding income and cost initiatives

Income:

The Government has announced that funding for FE institutions will be protected so MC has forecast flat income from Government grants to FY20 (with a small reduction in FY17 for prudence).

Costs:

MC forecasts an increase in operating costs of 5% per annum, which is in line with historical trends.

Profitability:

The overall effect of the flat income and increasing costs is a forecast reduction in earnings before interest, tax, depreciation and amortisation (EBITDA) to FY20.

Scenario (ii) – with income and cost initiatives

MC is proposing to grow income and reduce its operating costs, to increase EBITDA to FY20:

Income initiatives:

- Introducing HE diploma programmes in Arts, offering apprenticeships, Level 3 diplomas and professional accreditations.
- Extending provision of Access courses and community education services (using franchise contract).
- Growing other income streams including charitable giving, room rental and incidentals.

Cost initiatives:

- Reducing staff costs by £422k pa.

LSBU and MC can consider a number of scenarios for improving financial standing

The potential range of scenarios are summarised in the table below. The focus of the outline business case is highlighted in **Orange**:

		Morley College		
		Today – measured as FY16F	Scenario (i) – without cost savings & income growth	Scenario (ii) – with cost savings & income growth
LSBU	Today – measured as FY16F	Baseline		
	Scenario 0 – “do nothing”			
	Scenario 1 – transition ESPT to HA (no IPTE)			
	Scenario 2a – transition HA plus IPTE (HA only)			Scenario 2a(ii) Standalone vs MC in LSBU Group
	Scenario 2b – transition HA plus IPTE (HA & FY)			

For each institution, the following comparisons have been made:

LSBU comparison

	Today	Scenario 2a standalone	Scenario 2a(ii) MC in LSBU Group
Income	x	x	x
....	(x)	(x)	(x)

MC comparison

	Today	Scenario (ii) standalone	Scenario 2a(ii) MC in LSBU Group
Income	x	x	x
....	(x)	(x)	(x)

Summary results: LSBU on a standalone basis forecasts £2.8m income growth; a further £0.2m if MC joins the Group

LSBU standalone basis

As a standalone institution, LSBU is forecasting to enrol **459 additional students** by FY20, based on scenario 2a. For further details see p.31 – 32.

This is expected to generate **£2.8m additional income** and **£1.2m additional EBITDA** compared to today (forecast FY16).

This represents a “High” level of change for the business as ESPT courses are remodelled to cater for HA students, and an IPTE is set up as a central hub to administer HA courses.

At end of Yr4 2019/20 (£'000)	Today (FY16F)	Scenario 2a standalone	Variance vs today	Scenario 2a(ii) in Group with MC	Variance vs today
No. of students	17,511*	17,970	459	18,001	490
Income	139,583	142,415	2,831	142,572	2,989
Operating costs	(123,172)	(124,800)	(1,628)	(124,894)	(1,723)
EBITDA	16,412	17,615	1,203	17,678	1,266
Upfront investment cost	0	(660)	(660)	(768)	(768)
Level of change		H		H+	

* LSBU student numbers do not include semester 2 enrolments; data will be available w/c 1 February

Source: discussions with senior management; LSBU summary financials; LSBU MC OBC - source of synergies

MC in LSBU Group – opportunities

The key financial benefits for LSBU from MC joining the LSBU Group include:

- Enrolling a further **32 students** in FY20, resulting in a **total of 491 additional students** compared with FY16;
- Generating a further **£0.2m of income**, resulting in a **total of £3m additional income**; and **£1.3m EBITDA** compared to the forecast for FY16.

MC in LSBU Group – risk

The investment costs for LSBU of MC joining the LSBU Group are estimated at £108k (totalling £768k when added to the investment costs of LSBU as a standalone institution).

MC joining the LSBU Group represents a “very high” level of change for LSBU. However, please refer to p.4 – 8 for details of the rationale for joining the LSBU Group and a summary of the key benefits.

Summary results: LSBU key sensitivities are HA students & displacement & delivering initiative 1 with MC in the LSBU Group

Key sensitivities – headlines

(for detail see p. 27 – 29)

As a standalone institution, the key sensitivities for LSBU are **HA student numbers** and the level of displacement from existing students. If only **75%** of HA student numbers are achieved, LSBU **income** decreases by **£0.7m** and **EBITDA** by **£0.4m**. If the level of displacement increases by only **10%** (to 80%), this results in a decrease of **income** for LSBU of **£1.1m** and **£0.6m EBITDA**.

Regarding the synergies from MC joining the LSBU Group, **c. 100%** of the **income** and **EBITDA** to LSBU is from **initiative 1**, so achieving both the planned increase in **student numbers** and average **£6k fees** is key. A reduction of **25%** in either directly reduces LSBU **income** by **25% (£47k)**.

At end of Yr4 2019/20 (£'000)	Today (FY16F)	Scenario 2a standalone	Variance vs today	Scenario 2a(ii) in Group with MC	Variance vs today
No. of students	17,511*	17,970	459	18,001	490
Income	139,583	142,415	2,831	142,572	2,989
Operating costs	(123,172)	(124,800)	(1,628)	(124,894)	(1,723)
EBITDA	16,412	17,615	1,203	17,678	1,266
Upfront investment cost	0	(660)	(660)	(768)	(768)
Level of change		H		H+	

* LSBU student numbers do not include semester 2 enrolments; data will be available w/c 1 February

Source: discussions with senior management; LSBU summary financials; LSBU MC OBC - source of synergies

Summary results: MC on a standalone basis forecasts £2.9m income growth; and a further £2.4m if MC joins LSBU Group

MC standalone basis

As a standalone institution, MC is forecasting to enrol **2,750** additional **students** by FY20, based on the income and cost initiatives described in scenario (ii) on p.34 – 35.

This is expected to generate **£2.9m** additional **income**, and a reduction of **(£1.0m) EBITDA** compared to today (FY16) as the initiatives outlines in scenario 2(ii) are offset by the growth in operating costs of **5% pa**.

This represents a “**High**” level of change for the business, with growth of 20% in the student base.

At end of Yr4 2019/20 (£'000)	Today (FY16F)	Scenario (ii) standalone	Variance vs today	Scenario 2a(ii) in LSBU Group	Variance vs today
No. of students	13,500*	16,250	2,750	16,959	3,459
Income	10,066	12,928	2,861	15,325	5,258
Operating costs	(9,567)	(13,420)	(3,852)	(14,858)	(5,290)
EBITDA	499	(492)	(991)	467	(32)
Upfront investment cost	0	(2,200)	(2,200)	(2,308)	(2,308)
Level of change		H		H+	

* FY16F students estimated by MC senior management based on performance in current year to date

Source: discussions with senior management; MC summary financials; LSBU MC OBC - source of synergies

MC in LSBU Group – opportunities

The key financial benefits from MC joining the LSBU Group include:

- Enrolling an additional **709 students** by FY20; resulting in a total increase of **3,459** compared with FY16
- Generating a further **£2.4m** of **income**; resulting in a total increase of **£5.3m income**; that would enable maintenance of **EBITDA** at **£0.5m** in line with the forecast FY16 position.

MC in LSBU Group – risk

The investment costs for MC of joining the LSBU Group are estimated at **£108k**. Total investment costs are **£2.3m** including the investments MC is planning as a standalone institution.

Joining the LSBU Group represents a “very high” level of change for MC. However, please refer to pages 4 – 8 for details of the educational rationale for joining the LSBU Group and a summary of the key benefits.

Summary results: MC key sensitivities are operating costs on a standalone basis & delivering initiatives 1 and 5 in LSBU Group

Key sensitivities – headlines

(for details see p. 27 – 29)

As a standalone institution, the key sensitivities for MC are implementation of the planned **income** and **cost initiatives**, and **opex growth**. If only **75%** of income & cost initiatives are implemented, this reduces MC **income** by **£668k** and **EBITDA** by **£272k**. If opex grows by an additional **2% pa** (i.e. 7% pa) this reduces **EBITDA** by **£912k**.

Regarding the synergies from MC joining the LSBU Group, the majority (92%) of **income** and **EBITDA** is from **initiatives 1** and **5**. Achieving both the planned increase in **student numbers** and average **£6k fees** is key. A reduction of **25%** in either would directly reduce both MC **income** and **EBITDA** by **25%**, representing **£553k** and **£221k** respectively.

At end of Yr4 2019/20 (£'000)	Today (FY16F)	Scenario (ii) standalone	Variance vs today	Scenario 2a(ii) in LSBU Group	Variance vs today
No. of students	13,500*	16,250	2,750	16,959	3,459
Income	10,066	12,928	2,861	15,325	5,258
Operating costs	(9,567)	(13,420)	(3,852)	(14,858)	(5,290)
EBITDA	499	(492)	(991)	467	(32)
Upfront investment cost	0	(2,200)	(2,200)	(2,308)	(2,308)
Level of change		H		H+	

* FY16F students estimated by MC senior management based on performance in current year to date

Source: discussions with senior management; MC summary financials; LSBU MC OBC - source of synergies

Summary results: below is the proposed consolidated position of the LSBU Group including MC

LSBU Group

The proposed consolidated income and EBITDA for the LSBU Group, including MC, is shown opposite.

Total students are forecast to be **34,960** in FY20, which includes in the main FTUG students of LSBU and adult learners from MC.

Total **income** in FY20 is forecast to be **£158m**, with **EBITDA** of **£18.1m** – representing a margin of **11%**.

Combined upfront **investment costs** are forecast to be **£3.1m**, which includes MC plans to refurbish its frontage, reception and classrooms (**£2.2m**), and LSBU plans to set up an IPTE (**£0.7m**), along with the additional **£0.2m** project management and implementation costs to be borne between the two institutions if MC joins the LSBU Group.

At end of Yr4 (2020) (£'000)	LSBU (Scenario 2a(ii) in Group)	MC (Scenario 2a(ii) in Group)	LSBU Group
No. of students	18,001**	16,959**	34,960
Income	142,572	15,325	157,897
Operating costs	(124,894)	(14,858)	(139,752)
EBITDA*	17,678	467	18,145
Upfront investment cost	(768)	(2,308)	(3,075)

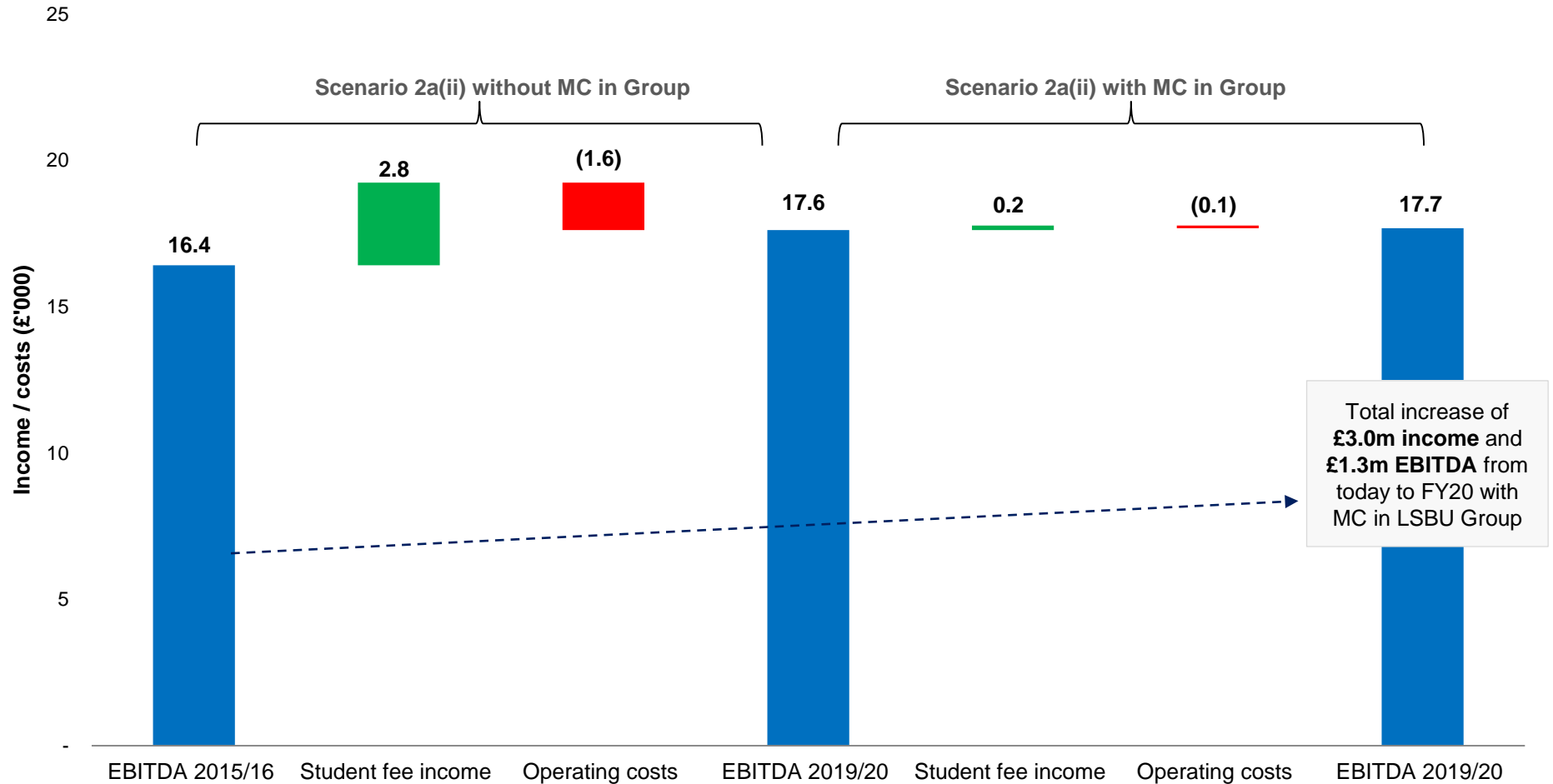
* EBITDA measure used to focus on performance of key operations of institution and to ensure consistency between LSBU & MC

** FY16F students estimated by MC senior management based on performance in current year to date; LSBU students do not include semester 2 enrolments

Source: discussions with senior management; LSU summary financials; MC summary financials; LSBU MC OBC - source of synergies

LSBU income growth of £3.0m translates to EBITDA growth of £1.3m FY16 to FY20, assuming flat operating margin of 40%

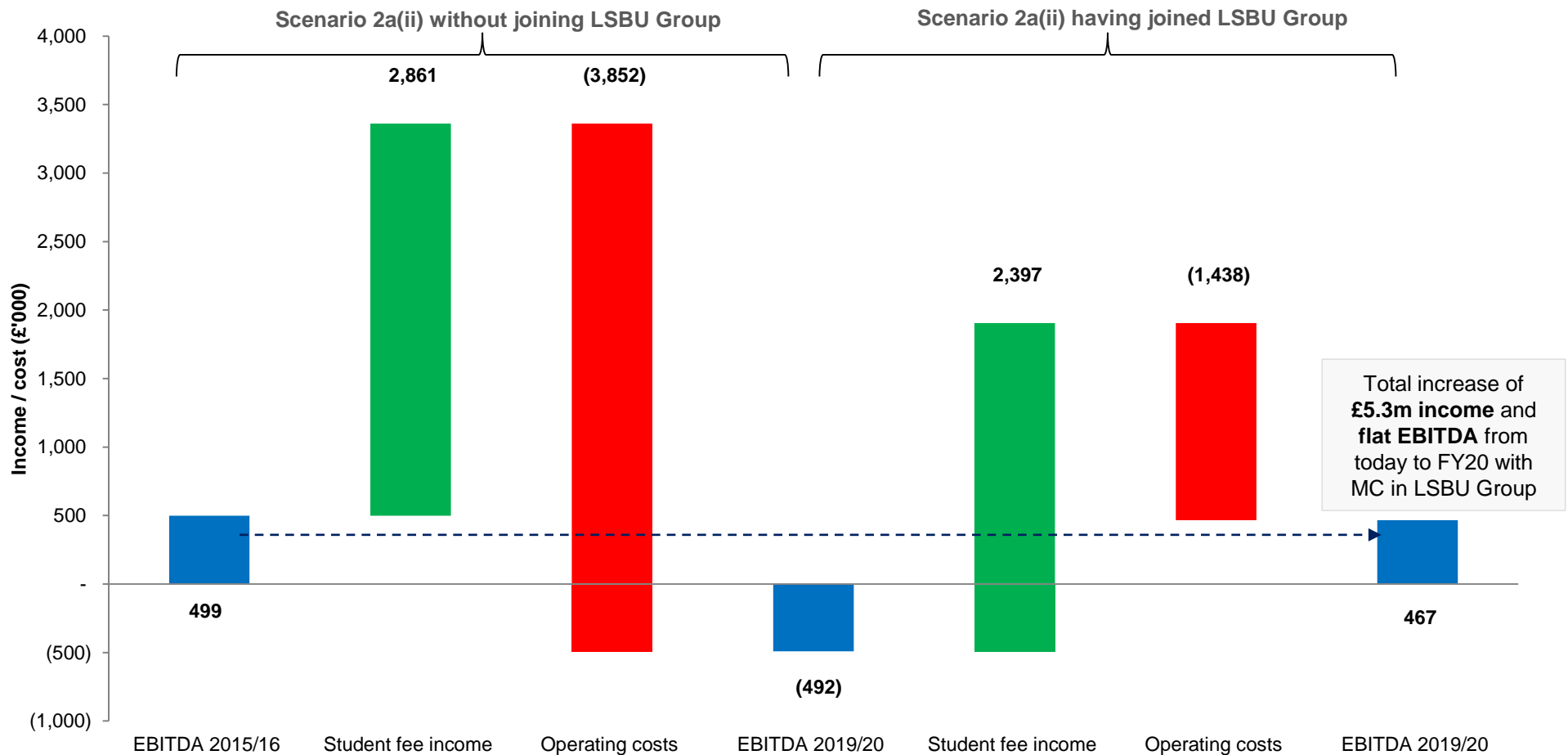
LSBU EBITDA - with or without MC in Group



Source: LSBU summary financials; LSBU MC OBC - source of synergies

MC income growth of £5.3m translates to maintaining EBITDA at £0.5m FY16 to FY20, with 5% pa growth in existing opex

MC EBITDA FY16 to FY20 - with or without joining the LSBU Group



Source: MC summary financials; LSBU MC OBC - source of synergies

From sensitivity analysis of LSBU standalone scenarios, achieving HA student numbers (& low displacement) is vital

Sensitivities – LSBU

The main drivers in the financial model for Scenario 2a have been reviewed, by flexing them to reflect potential increases or decreases based on management's experience of historical volatility.

The two key drivers – achieving HA student numbers and ensuring low displacement of ESPT (and FTUG) students – are shown opposite.

Additional sensitivities reviewed include **progression rates** of students each degree year, the **mix of students** that are displaced (FTUG versus ESPT), and the **contribution** of each course.

Displacement

The largest impact on income and EBITDA is shown opposite. In the current financial model, it is assumed that **70%** of HA students are **displaced** from ESPT or FTUG LSBU students. To check the sensitivity, it was increased to **80%** and then **90%**, which reduced income in FY20 by **£1.1m** and **£2.2m** respectively. EBITDA decreased by **£0.6m** and **£1.2m** in these scenarios.

LSBU key sensitivities

		2016/17	2017/18	2018/19	2019/20
		FY17	FY18	FY19	FY20
Impact on Income (£'000)					
<i>Baseline - Scenario 2a</i>		139,862	140,398	141,291	142,415
Increased displacement	80%	(95)	(308)	(650)	(1,089)
Increased displacement	90%	(182)	(614)	(1,301)	(2,194)
Reduced HA student no's	75%	(68)	(198)	(425)	(708)
Reduced HA student no's	50%	(135)	(412)	(851)	(1,416)
Impact on EBITDA (£'000)					
		FY17	FY18	FY19	FY20
<i>Baseline - Scenario 2a</i>		16,332	16,529	16,990	17,615
Increased displacement	80%	(53)	(171)	(361)	(605)
Increased displacement	90%	(101)	(341)	(723)	(1,219)
Reduced HA student no's	75%	(38)	(110)	(236)	(393)
Reduced HA student no's	50%	(75)	(229)	(473)	(787)

Source: Degree Apprenticeships Planning Model

HA student numbers

The current financial model also assumes that there are 459 new HA students in FY20, and the total across all years at LSBU is 1,531. If only **75%** of these planned students are enrolled, this reduces LSBU **income** in FY20 by **£0.7m** and **EBITDA** by **£0.4m**.

If only **50%** of these planned students are enrolled, this results in a decrease of **income** of **£1.4m** for LSBU, and a **£0.8m** reduction in **EBITDA**.

From sensitivity analysis of standalone scenarios for MC, the growth rate of operating costs is a key driver of EBITDA

Sensitivities – MC

The main drivers in the financial forecasts for Scenario (ii) have been reviewed, by flexing them to reflect potential increases or decreases based on management's experience of historical volatility.

The two key drivers – achieving the planned income growth and cost reductions from MC initiatives – are shown opposite.

Income and cost initiatives

These initiatives are forecast to generate £2.6m of additional income for MC by FY20 (£3.0m including incidental income), and separately reduce staff costs by £0.4m each year.

If **75%** of these planned initiatives are fully implemented, this reduces **income** for MC by **£668k** and **EBITDA** by **£272k**. If only 50% of these initiatives are implemented, this results in a **£1.3m reduction in income** for MC and **£0.5m reduction in EBITDA**.

MC key sensitivities

		2016/17 FY17	2017/18 FY18	2018/19 FY19	2019/20 FY20
Impact on Income					
<i>Baseline - Scenario 2a(ii)</i>		10,752	11,475	12,198	12,928
Achieve 75% income & cost initiatives	75%	(124)	(304)	(485)	(668)
Achieve 50% income & cost initiatives	50%	(247)	(609)	(970)	(1,335)
Impact on EBITDA					
<i>Baseline - Scenario 2a(ii)</i>		240	21	(223)	(492)
Achieve 75% income & cost initiatives	75%	(59)	(130)	(201)	(272)
Achieve 50% income & cost initiatives	50%	(119)	(260)	(402)	(545)
Increased opex growth	7%	(191)	(406)	(645)	(912)
Reduced opex growth	3%	191	398	621	861

Source: MC summary financials

Growth in operating costs

In the current financial forecasts it is assumed that operating costs grow at 5% per annum; which is in line with MC historical trends.

If this growth rate is 2% higher, representing **7%** additional operating costs per year, this would reduce **EBITDA** by **£0.9m** (i.e. almost double the impact of achieving 50% of income and cost initiatives).

If the growth rate of opex is 2% lower, at **3%** per annum, this results in a **£0.9m** increase in **EBITDA** for MC by FY20.

From sensitivity analysis of income from synergies, achieving student numbers & fees in initiative 1 is key to LSBU and MC

Sensitivities - synergies

The 5 key initiatives are summarised opposite with their respective share of total income to LSBU, MC and the LSBU Group through achieving the synergies.

The income and EBITDA generated by each initiative is **equally sensitive** to reductions in either **student numbers** or **fees per student**. A **25%** reduction in either would lead to a loss of **£599k** total **income** for MC overall, and a loss of **£47k** total **income** for LSBU.

From LSBU's perspective, it is key to achieve both the **student numbers** and **fee per student** for the Foundation Year and Level 3 provision for HE courses in **initiative 1**. This provides over 100% of the income from MC joining the Group (offset by a 3% reduction in income from initiative 2).

From MC's perspective, the key income is from **initiative 1** and **initiative 5**, which provide 67% and 25% of income respectively to MC in the LSBU Group. Along with delivery of the additional 300 students (at planned fees) required in initiative 1, it is highly important for MC that the new HNC and HND courses are delivered as planned.

	2016/17 FY17	2017/18 FY18	2018/19 FY19	2019/20 FY20	
1) Foundation year & Level 3 provision for HE courses					%
Additional income to Group	450,000	900,000	1,350,000	1,800,000	70%
Additional income to LSBU	(622,800)	(352,800)	(82,800)	187,200	119%
Additional income to MC	1,072,800	1,252,800	1,432,800	1,612,800	67%
2) GCSE Maths / English					
Additional income to Group	-	-	-	-	0%
Additional income to LSBU (transfer to MC)	(7,500)	(15,000)	(22,500)	(30,000)	-19%
Additional income to MC	7,500	15,000	22,500	30,000	1%
3) Languages (various), music, history, extramural					
Additional income to Group	7,000	14,000	21,000	28,000	1%
Additional income to LSBU	-	-	-	-	0%
Additional income to MC	7,000	14,000	21,000	28,000	1%
4) Languages (accredited module - potentially Level 4)					
Additional income to Group	31,500	63,000	94,500	126,000	5%
Additional income to LSBU	-	-	-	-	0%
Additional income to MC	31,500	63,000	94,500	126,000	5%
5) HNC / HND at MC (extension of current provision)					
Additional income to Group	-	300,000	450,000	600,000	23%
Additional income to LSBU	-	-	-	-	0%
Additional income to MC	-	300,000	450,000	600,000	25%
Totals					
Additional income to Group	488,500	1,277,000	1,915,500	2,554,000	100%
Additional income to LSBU	(630,300)	(367,800)	(105,300)	157,200	100%
Additional income to MC	1,118,800	1,644,800	2,020,800	2,396,800	100%

Source: LSBU MC OBC - source of synergies

LSBU standalone scenarios

LSBU forecasts a reduction in EBITDA from £16.4m in FY16 to £13.3m in FY20 due to lost ESPT students in Scenario 0

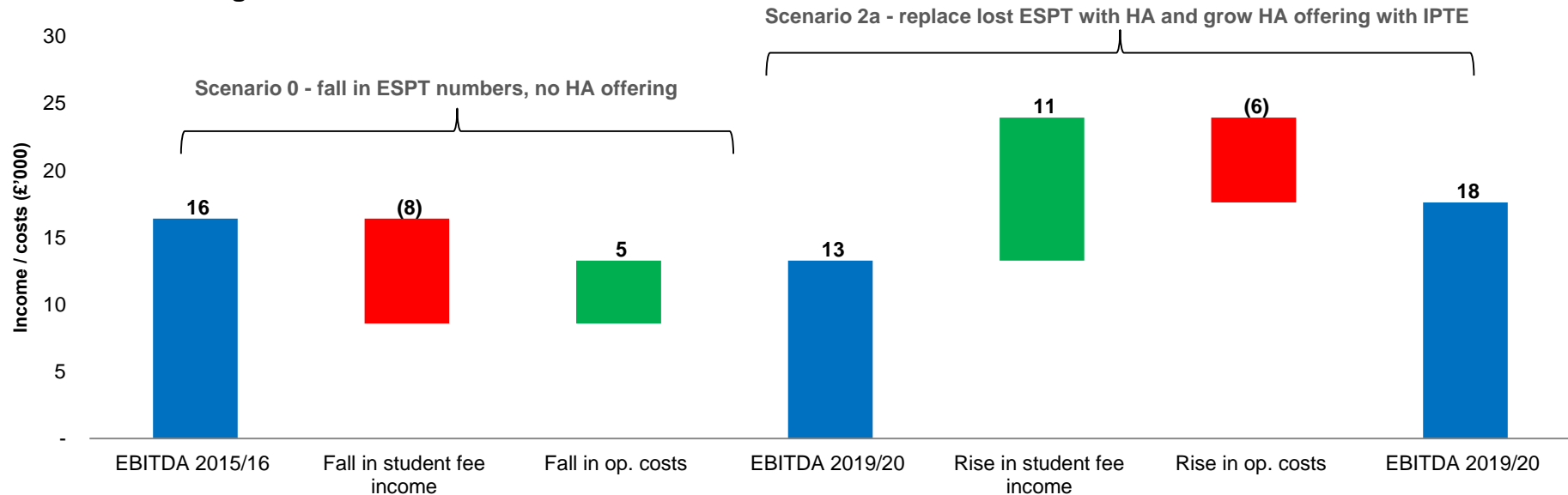
The Government has announced that it will fund two-thirds of apprenticeship scheme courses (HA). In addition, in April 2017 a new apprenticeship levy will be introduced applying to all employers with payroll above £3m. Employers will be able to use their contribution towards the levy to pay the remaining one-third fees for apprenticeship scheme courses.

In future, it is expected that employers will find the apprenticeship courses more attractive (as they will only need to pay one-third of student fees or, depending on levy contributions, nil).

LSBU currently has 4,640 students enrolled on employer-sponsored courses; of which 1,565 are non-NHS part-time courses. If LSBU does not offer apprenticeship courses, it expects to lose 1,072 students and £3.1m EBITDA – this is Scenario 0.

If LSBU does offer apprenticeship courses, and administers them centrally through an Institute for Professional & Technical Education (IPTE), then it expects to retain these students and grow them by 459, to generate £1.2m additional EBITDA compared to today (FY16F) – this is Scenario 2a.

LSBU EBITDA bridge FY16 - FY20



Source: LSBU summary financials; LSBU MC OBC - source of synergies

In Scenario 2a, LSBU expects to retain ESPT students on HA courses and grow HA income and EBITDA using the IPTE

HA market opportunities

If LSBU offers HA courses, there are a number of opportunities:

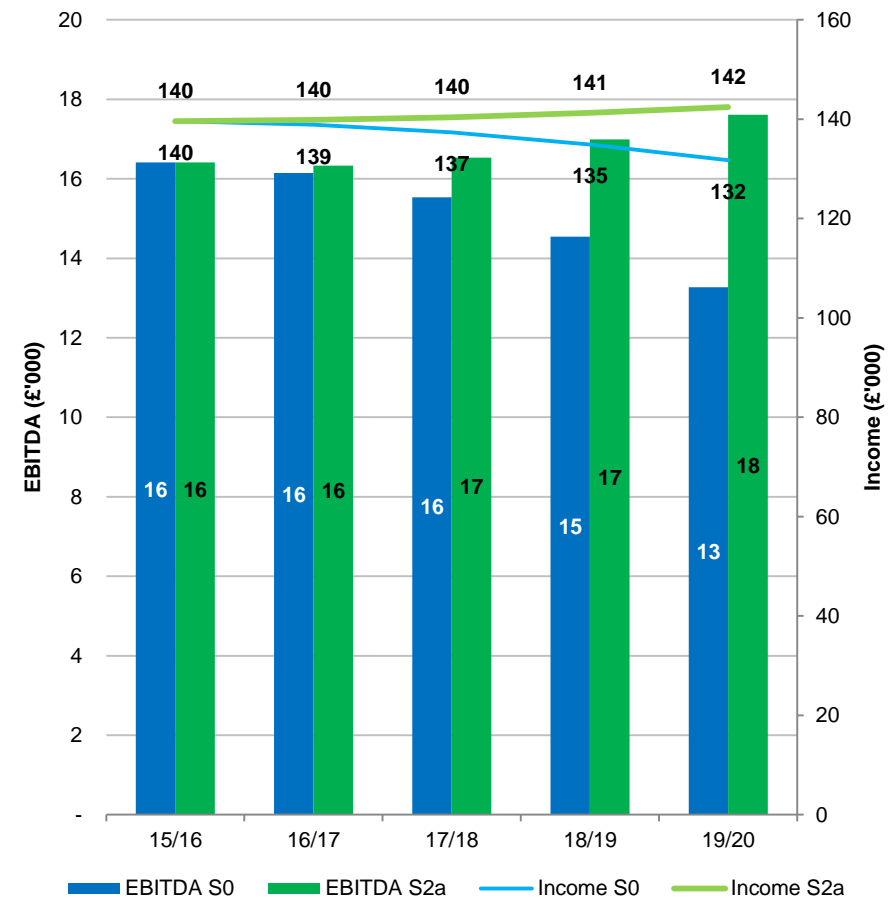
- LSBU could aim to maintain its previous market-share of ESPT students in the new HA course market by revising its ESPT course offering to meet HA requirements.
- There may be market growth following introduction of the levy:
 - (i) organisations currently hiring apprentices can now effectively train 3 apprentices for the previous cost of one; and
 - (ii) organisations that have not employed apprentices to date may look to do so to re-coup the levy costs. If LSBU maintains its market share, this should result in income growth.

IPTE

Additional costs are expected to be incurred if LSBU is deemed to be the “Lead Provider”. In order to address the likely additional costs from administering HA courses, LSBU has an option to create a central hub for apprenticeship administration – the Institute for Professional and Technical Education (IPTE). This could be a virtual hub and key activities include:

- Employing expert staff to fulfil key duties of a Lead Provider (which may be required role for LSBU) – e.g. invoicing, processing payments, liaising with SFA, registering students, reviewing funding eligibility, ensuring students receive appropriate formal education and work-based experience.
- Improving marketing of HA courses and customer experience for students / employers, improving LSBU’s reputation.

LSBU Income and EBITDA Scenario 0 and 2a to FY16 to FY20



Source: LSBU summary financials; LSBU MC OBC - source of synergies

MC standalone scenarios

MC forecasts a reduction in EBITDA from £0.5m in FY16 to (£1.7m) in FY20 mainly due to increased opex (Scenario (i))

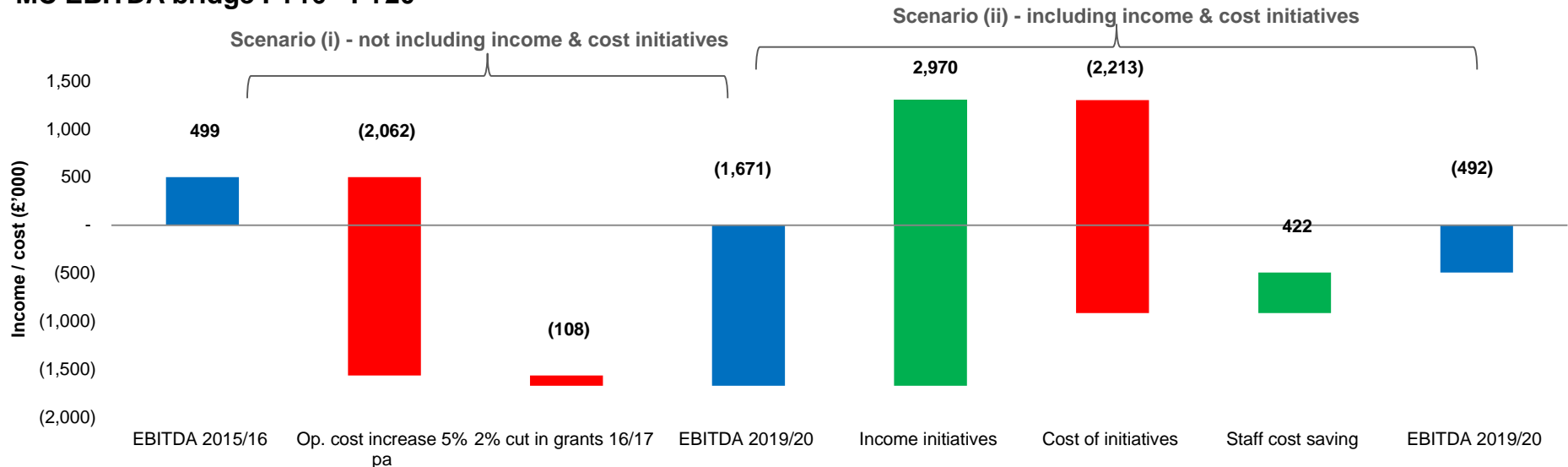
MC is forecasting to generate **EBITDA** of **£499k** in FY16 (per Nov. 15 management accounts). Operating costs are forecast to increase 5% pa based on historical trends whilst income is forecast to be flat (with a 2% reduction to grants in FY17). Without implementing income or cost savings initiatives, this would contribute to a reduction in **EBITDA** of **£2.2m** to **(£1.7m)** in FY20. This is referred to as “**Scenario (i)**”.

MC has planned a series of income and cost initiatives which are forecast to generate **£1,179k** additional **EBITDA**, leading to an FY20 **EBITDA** position of **(£492k)** – “**Scenario (ii)**”.

The income and cost initiatives are detailed on the following page. MC is also undertaking a capital programme to refurbish its existing premises, including a new lift in the Nancy Seear building and renovation of MC reception, classrooms and frontage. Total capital costs are forecast to be **£2.2m**, and will be funded by cash reserves in FY17, supplemented with a loan of c.£0.5m in FY18:

FY (£'000)	16/17	17/18	18/19	19/20	Total
NSB lift & 70% classroom renovations	(450)	0	0	0	(450)
65% frontage and reception costs	(1,100)	0	0	0	(1,100)
Remaining renovations	0	(650)	0	0	(650)
Total capital costs	(1,550)	(650)	-	-	(2,200)

MC EBITDA bridge FY16 - FY20



Source: MC summary financials; Finances and Curriculum Mix

MC income and cost saving initiatives in Scenario (ii) are forecast to generate £3m income and £1.2m EBITDA

Below are the key income growth and cost saving initiatives that MC is planning to pursue to generate the EBITDA in Scenario (ii). These contribute a total **£1.2m** additional EBITDA.

Note - staff cost savings represent a reduction in staff costs as a proportion of total income, from 73% to 70%, equating to £422k per annum.

Initiative	Income impact (£'000)	EBITDA impact (£'000)
HE 4 and 5 – Introduction of two-year Diploma of HE programmes in Art and Design, Media, Music, Arts Management and Liberal Arts(75 students in Year 1; 65 students year 2, £4,800 fees per year	672	134
Apprenticeships – Employer partnerships supporting apprenticeships in areas of the College’s specialism. SFA funded; delivered chiefly through subcontracting arrangements	500	100
Unaccredited course fees – Assume 2% population growth (due to regeneration), and implementation of phase 1 of property strategy, plus new website, generates 2 – 4% growth per annum	429	129
Access to HE – Introduction of Access to Music, Access to Business; Access to Liberal Arts; Access to Law (100 additional students with fees of £3k each)	300	90
Level 3 diplomas – Diplomas in, for example, Media, Journalism, Pop Music, Music Tech – assuming 60 students in total with fees of £3k each (180% increase)	180	54
Franchise contracts – Meeting demand from borough councils increasing tendering for community education services (30% increase)	168	34
Fees (professional) – Chartered institute accreditations achieved; employer partnerships established; effective marketing (driving increase from £33k to £200k)	167	50
Other – Additional income from charitable giving (£97k), room rental (£80k) & incidental income (3%)	554	166
Staff cost saving – reduction in annual staff costs so that they represent 70% of income each year	0	422
Total	2,970	1,179

Source: MC summary financials; Finances and Curriculum Mix

LSBU & MC initiatives

Initiative 1 – Foundation Year and Level 3 provision (1 of 2)

Current market

Foundation Year and Access courses are both designed as a precursor to undertaking a full undergraduate degree. Generally, FY courses at HE institutions have greater links to that institution’s undergraduate degrees and greater progression as a result. Access courses offered by FE college do not incur the same fees (£3k versus c.£9k), have more generalist content and reflect the school year timetable.

LSBU currently offers a limited range of FY courses, with 372 students enrolled in FY16 on:

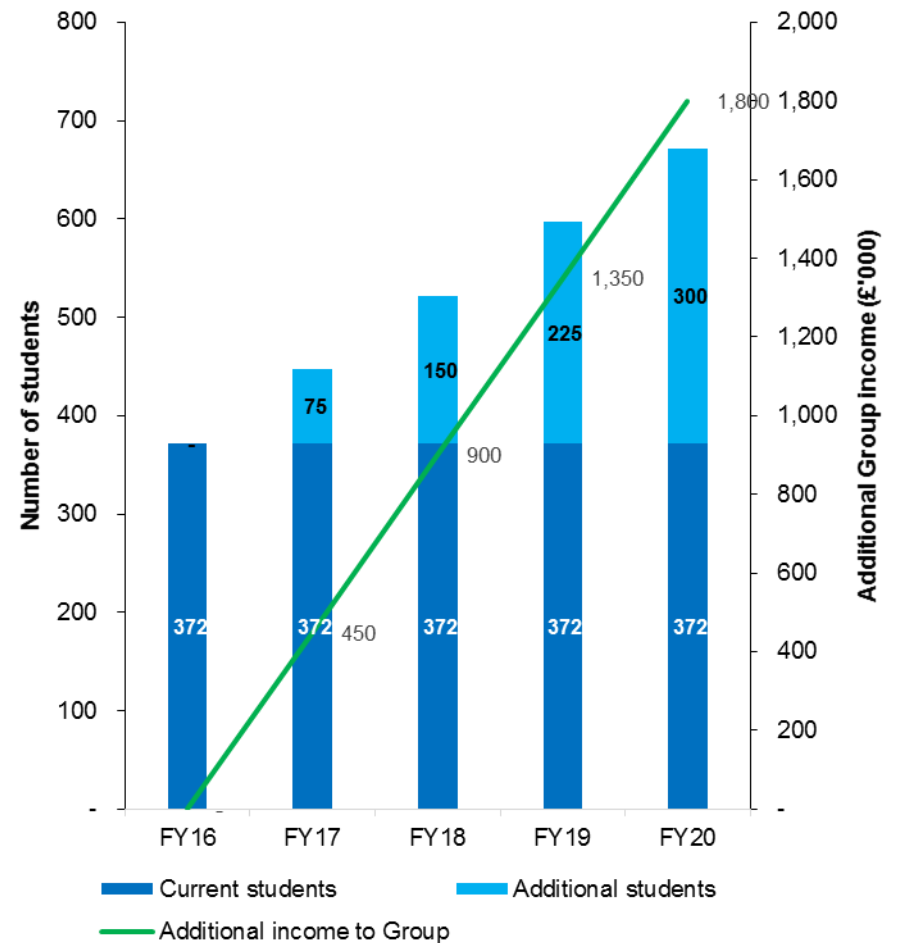
- Foundation Year courses in Computing, Maths, Business or a generalist “Foundation Year” courses
- Extended Degree courses in Engineering, Applied Sciences and Built Environment

MC currently offers a number of Access courses that prepare students for university, including:

- Social Science & Law
- Social Work
- Media & Film
- Health & Human Sciences
- Midwifery
- Science & Medical Sciences
- Humanities
- Education Studies
- Business Studies
- Fashion Design
- Nursing

In addition, MC offers one FY course in Art.

Initiative 1 - FY and L3 provision for HE courses



Source: LSBU MC OBC - source of synergies

Initiative 1 – Foundation Year and Level 3 provision (2 of 2)

Opportunities for growth

There are two key areas of expected growth, reflected in the financial analysis shown opposite:

- (i) LSBU has raised the entry requirements on its undergraduate degrees. As a result, a larger number of students, who might have previously entered directly onto these degrees, are expected to undertake an initial FY course to meet the entry requirements for the degree.

As a result, LSBU is expecting to enrol 150 additional FY students on its existing FY courses by FY20.

- (ii) Based on discussions between School senior management and employers to date, it is expected that the majority of new HA students will not hold traditional qualifications. Construction employers have proactively requested LSBU provide additional courses to enable these students to meet the entry requirements for an HA course; and this is likely to be true across other industries.

In Scenario 2a, LSBU is expecting to enrol 1,381 HA degree students by FY20. As a result, LSBU is expecting to enrol 150 additional HA students on its existing FY courses by FY20.

	2015/16 FY16	2016/17 FY17	2017/18 FY18	2018/19 FY19	2019/20 FY20
Foundation year & Level 3 provision for HE courses					
<i>Current students</i>	372	372	372	372	372
<i>Additional students</i>		75	150	225	300
Total students		447	522	597	672
<i>Fee per student</i>		6,000	6,000	6,000	6,000
Additional income to Group		450,000	900,000	1,350,000	1,800,000
<i>Delivery by LSBU</i>		60%	60%	60%	60%
Additional income to LSBU		(622,800)	(352,800)	(82,800)	187,200
<i>Delivery by MC</i>		40%	40%	40%	40%
Additional income to MC		1,072,800	1,252,800	1,432,800	1,612,800

Source: LSBU MC OBC - source of synergies

Student numbers

MC could offer a substantial contribution of the teaching for FY provision (a mix of Levels 3 and 4, focused on generalist modules), enabling a potential increase in LSBU's FY student numbers (from 300 to 672 - assuming growth is straight-line to 2019/20).

Income

It is assumed the student fee is discounted to £6,000 p.a. – reflecting the fact that HA students may not undertake a full FY course (where net fees can be £7,200). MC would provide teaching for 40% of the total 672 students, so would receive additional income from 40% of the total 672 students. LSBU would gain 60% income from additional 300 students, less 40% income from the 372 current students (hence initially a net transfer to MC). Additional income to the Group would relate only to the additional 300 students.

Initiative 2 – GCSE English and Maths (1 of 2)

Current market

LSBU has identified a material number of its students could benefit from greater provision of GCSE English, Maths and Science courses. This was noted as a particular requirement across FY, Extended Degree and also Undergraduate courses within increasing numbers of overseas students who may not have studied these subjects as part of their school curriculum.

Opportunities for growth

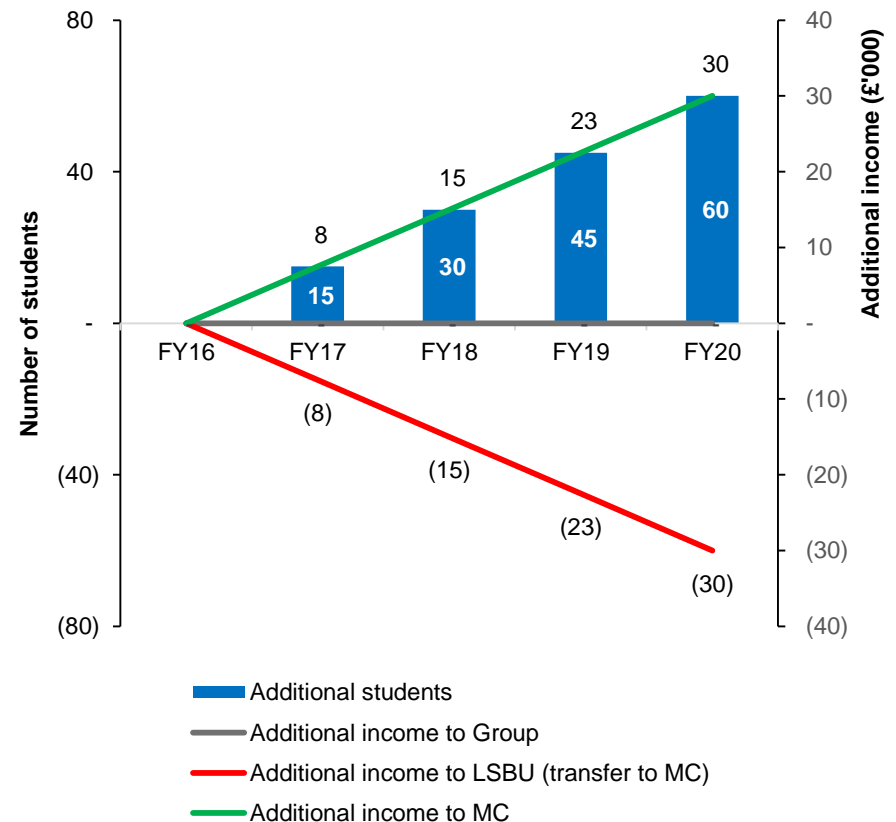
LSBU currently runs a Skills for Learning service that offers English and Maths assistance during working hours. Extending this service by offering teaching from MC could help:

- Improve the student experience, improving LSBU’s reputation and in the long-term the quality of its applicants.
- Improve progression rates for both FY and Undergraduate courses, which are a key driver of income for LSBU.

The demand for this is considered to be high, based on discussions with senior management and the latest Annual Review (2014) showing a 37% increase in international students at LSBU in 2014.

MC currently runs a number of courses in GCSE English & Maths, so could extend this provision by offering targeted courses for LSBU students.

Initiative 2 - GCSE Maths / English



Source: LSBU MC OBC - source of synergies

Initiative 2 – GCSE English and Maths (2 of 2)

Student numbers

MC would provide a route for LSBU students to achieve Level 2 English and Maths (GCSE A*-C). It is assumed that growth in student numbers is straight-line to FY20.

Income

The fee is assumed to be £500 per student. This would represent additional income for MC but not additional income for the University Group; it would be additional services to improve student progress and the institution's reputation, provided for the same fee (notionally £9k per annum), and represent a transfer of a proportion of fee income for LSBU to MC.

However, it may be possible to use part of LSBU's budget relating to widening participation (ring-fenced funds), so it would not represent a reduction in general fee income - to be confirmed via discussions with OFFA.

	2015/16 FY16	2016/17 FY17	2017/18 FY18	2018/19 FY19	2019/20 FY20
GCSE Maths / English					
<i>Current students</i>	-	-	-	-	-
Additional students		15	30	45	60
Total students		15	30	45	60
Fee per student		500	500	500	500
Additional income to Group					
Delivery by LSBU (transfer to MC)		0%	0%	0%	0%
Additional income to LSBU (transfer to MC)		(7,500)	(15,000)	(22,500)	(30,000)
Delivery by MC		100%	100%	100%	100%
Additional income to MC		7,500	15,000	22,500	30,000

Source: LSBU MC OBC - source of synergies

Key issues

4.1 In initiative 1, LSBU and MC must ensure the new Access offering from MC does not displace students from LSBU's existing FY courses, and vice versa.

4.2 In initiative 2, discussion with OFFA is required as to whether GCSE English & Maths provision could form part of agreed widening participation activities for LSBU.

Initiative 3 – Languages, history and other extra mural courses

Current market / opportunity for growth

MC would provide extramural modules in areas such as the visuals arts, media, music, languages, history and cultural studies that could contribute (at Levels 2 or 3) to the Higher Education Achievement Record, or could (at Level 4) be part of the student degree.

Resources

These courses would be delivered 100% by MC. MC tutor hours could be increased using existing flexible-hour contracts, and there is capacity that could be used at LSBU premises for general classrooms and studios (please see pages 38 – 39 for details). Currently MC specialises in Arts courses and provides high-quality tuition which would be of benefit to LSBU students.

Student numbers

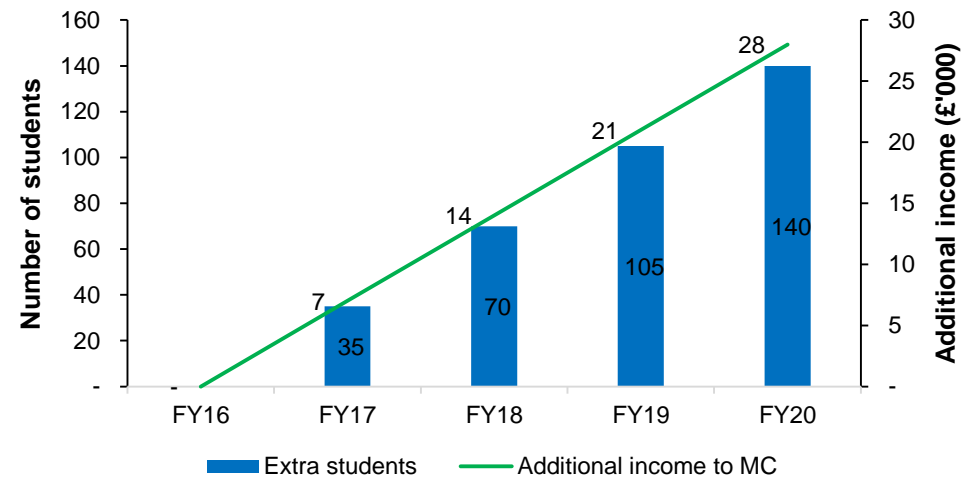
It is assumed there are 20 students per School per annum, with course delivery 100% by MC. The growth in student numbers is assumed to be straight-line to 2019/20.

Income

It is assumed each module attracts a fee of £200 (note – this would be paid for by each student independently).

It is assumed that these new modules attract additional students, and so represent additional income to the Group and to MC.

Initiative 3 - Languages, music, extramural



	2015/16 FY16	2016/17 FY17	2017/18 FY18	2018/19 FY19	2019/20 FY20
Languages (various), music, history, extramural					
Current students	-	-	-	-	-
Extra students		35	70	105	140
Total students		35	70	105	140
Fee per student		200	200	200	200
Additional income to Group		7,000	14,000	21,000	28,000
Delivery by LSBU		0%	0%	0%	0%
Additional income to LSBU	-	-	-	-	-
Delivery by MC		100%	100%	100%	100%
Additional income to MC	-	7,000	14,000	21,000	28,000

Source: LSBU MC OBC - source of synergies

Initiative 4 – Languages (accredited)

Current market / opportunity for growth

MC would provide an accredited language module which could contribute to a student degree offered by LSBU. For example, LSBU could offer a new variant of its BSc in Accounting & Finance degree with a module in French.

Resources

These additional modules would be delivered 100% by MC; whilst the remaining 7 modules on these new degrees taught by LSBU. MC tutor hours could be increased using existing flexible-hour contracts. MC tutors currently offer a range of language courses so have the required skillsets. Relevant LSBU degrees will need to be identified and modified to enable inclusion of these modules.

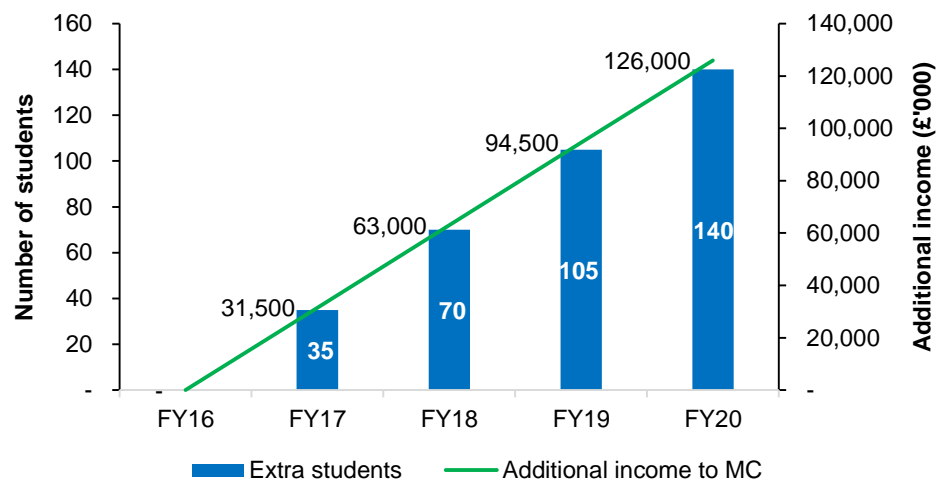
Student numbers

The growth in student numbers to 140 is assumed to be straight-line to 2019/20.

Income

It is assumed MC teaches one module in 8, so generates 1/8 of the fee income from the degree (£900 of c. £7,000). It is assumed c.120 of these 140 students is from the original BSc degree, and LSBU’s “lost” income from the 120 students is replaced with new income from teaching 7 of 8 modules for 140 students on the new degrees. The additional income to MC is therefore new income to the Group.

Initiative 4 – Languages (accredited)



	2015/16 FY16	2016/17 FY17	2017/18 FY18	2018/19 FY19	2019/20 FY20
Languages (accredited module - potentially Level 4)					
<i>Current students</i>	-	-	-	-	-
Extra students		35	70	105	140
Total students		35	70	105	140
Fee per student		900	900	900	900
Additional income to Group		31,500	63,000	94,500	126,000
Delivery by LSBU		0%	0%	0%	0%
Additional income to LSBU		-	-	-	-
Delivery by MC		100%	100%	100%	100%
Additional income to MC		31,500	63,000	94,500	126,000

Source: LSBU MC OBC - source of synergies

Initiative 5 – HNC / HND (1 of 2)

Current market / opportunity for growth

MC could extend its current provision of courses, by accrediting them to offer HNC and HND qualifications upon completion. This is in line with MC’s curriculum strategy, and would be significantly assisted by LSBU’s experience in the HE market and accreditation of qualifications.

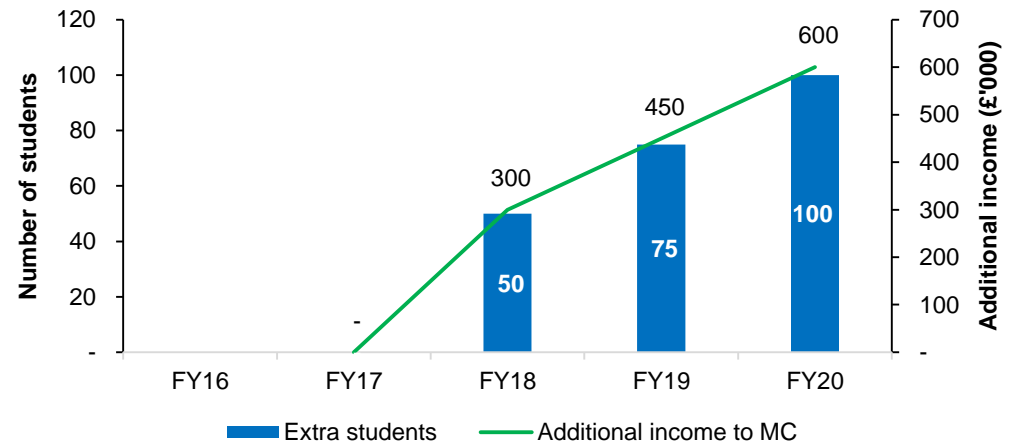
The planned growth in student numbers is based on the results of a feasibility study conducted by MC into the development of HNCs and HNDs in the Humanities and Arts sectors (and this included discussions with senior management at LSBU School of Arts).

MC is proposing to run two new courses in Humanities and Music: a BTEC HNC in writing in digital media and BTEC HNC in Music Technology respectively.

In Visual and digital arts, MC is proposing to offer the following courses – all as BTEC courses at HNC level:

- 3D design
- Fashion and textiles
- Art and design
- Fine art
- Photography
- Interactive media

Initiative 5 - HNC / HND courses



	2015/16 FY16	2016/17 FY17	2017/18 FY18	2018/19 FY19	2019/20 FY20
HNC / HND at MC (extension of current provision)					
<i>Current students</i>	-	-	-	-	-
Extra students	-	-	50	75	100
Total students	-	-	50	75	100
Fee per student	-	6,000	6,000	6,000	6,000
Additional income to Group	-	-	300,000	450,000	600,000
Delivery by LSBU	-	0%	0%	0%	0%
Additional income to LSBU	-	-	-	-	-
Delivery by MC	-	100%	100%	100%	100%
Additional income to MC	-	-	300,000	450,000	600,000

Source: LSBU MC OBC - source of synergies

Initiative 5 – HNC / HND (2 of 2)

Resources

These courses would be delivered 100% by MC, and tutor hours could be increased using existing flexible-hour contracts. MC senior management plan to seek initial accreditation for courses that are currently taught at Level 4 and 5 but have not previously been accredited.

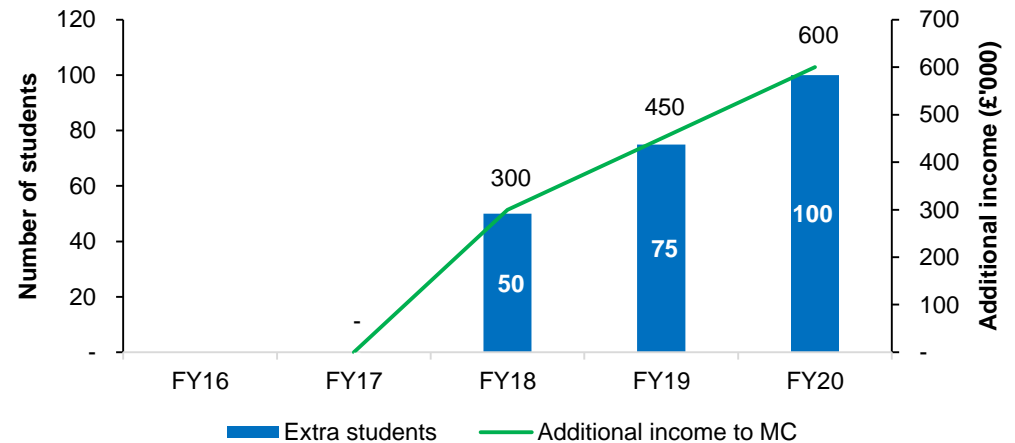
Student numbers

The growth in student numbers is assumed to be straight-line to 2019/20.

Income

It is assumed that the fee per HNC/HND course is £6k per annum, with courses delivered 100% by MC. It is assumed that these new modules attract additional students, so represent additional income to the Group and to MC.

Initiative 5 - HNC / HND courses



	2015/16 FY16	2016/17 FY17	2017/18 FY18	2018/19 FY19	2019/20 FY20
HNC / HND at MC (extension of current provision)					
Current students	-	-	-	-	-
Extra students	-	-	50	75	100
Total students	-	-	50	75	100
Fee per student	-	6,000	6,000	6,000	6,000
Additional income to Group	-	-	300,000	450,000	600,000
Delivery by LSBU	-	0%	0%	0%	0%
Additional income to LSBU	-	-	-	-	-
Delivery by MC	-	100%	100%	100%	100%
Additional income to MC	-	-	300,000	450,000	600,000

Source: LSBU MC OBC - source of synergies

Initiatives 1 to 5 – operating costs and up-front costs of investment (1 of 2)

Operating costs

Both LSBU and MC independently undertook analysis of their income growth plans and identified in most cases that the new income would generate a contribution of 40% (in certain scenarios, LSBU forecast a lower contribution of 30%, and MC has identified a minority of standalone income initiatives that may generate 20% or lower contribution).

It has therefore been assumed for the purpose of this business case that all new income for LSBU and MC attracts 60% operating costs and so generates contribution / EBITDA of 40%.

EBITDA

The EBITDA generated for the Group and each of LSBU and MC is shown opposite.

In total, LSBU is forecast to generate additional income of **£157k** and EBITDA of **£63k** as a result of these initiatives in FY20.

MC is forecast to generate additional income of **£2.4m** and EBITDA of **£0.9m** as a result of these initiatives in FY20.

New income to the LSBU Group is **£2.6m** and EBITDA is **£1m** in FY20.

	2015/16 FY16	2016/17 FY17	2017/18 FY18	2018/19 FY19	2019/20 FY20
Totals					
Extra students	-	160	370	555	740
- to LSBU	-	(104)	(59)	(14)	31
- to MC	-	264	429	569	709
Additional income to Group	-	488,500	1,277,000	1,915,500	2,554,000
Additional income to LSBU	-	(630,300)	(367,800)	(105,300)	157,200
Additional income to MC	-	1,118,800	1,644,800	2,020,800	2,396,800
LSBU - contribution	40%	40%	40%	40%	40%
MC - contribution	40%	40%	40%	40%	40%
Add'l EBITDA to LSBU	-	(252,120)	(147,120)	(42,120)	62,880
Add'l EBITDA to MC	-	447,520	657,920	808,320	958,720
<i>Add'l EBITDA to Group (est.)</i>		<i>195,400</i>	<i>510,800</i>	<i>766,200</i>	<i>1,021,600</i>
Cumul. add'l EBITDA to LSBU	-	(252,120)	(399,240)	(441,360)	(378,480)
Cumul. add'l EBITDA to MC	-	447,520	1,105,440	1,913,760	2,872,480
<i>Cumul. add'l EBITDA to Group (est.)</i>		<i>195,400</i>	<i>706,200</i>	<i>1,472,400</i>	<i>2,494,000</i>

Source: LSBU MC OBC - source of synergies

Initiatives 1 to 5 – operating costs and up-front costs of investment (2 of 2)

Up-front costs of investment

Standalone institutions

Both LSBU and

MC as part of the LSBU Group

The key cost item is one project team for one year: their scope will include:

- i. Implementation of the key initiatives; and
- ii. Leading a review of existing systems, premises and support services functions across LSBU and MC to identify further synergies and efficiencies.

Initial discussions indicate that there may be support services' efficiencies through MC joining the LSBU, in areas including premises (in addition to the space sharing initiatives identified above) and other support functions such as HR, Finance and Procurement.

Further work is required to investigate these opportunities as well as to ensure that initiatives 1 to 5 are delivered as planned, in line with the target date of September 2016 to coincide with the start of the new academic year.

Costs of investment		£
Project team (salary and on costs)		
One Senior Project Officer to oversee delivery of the project (Grade 7 - 8)		65,000
Total project team		65,000
Implementation costs		
System development and other transition costs relating to staff		75,000
System development and other transition costs relating to premises		75,000
Total implementation costs		150,000
Total up-front costs of investment		215,000
Investment costs LSBU		107,500
Investment costs MC		107,500

Source: LSBU summary financials; MC summary financials

Key issues

4.3 In initiative 4, levels of displacement will need to be managed to ensure the income lost by LSBU from existing students is replaced with new student income.

4.4 The provision for up-front costs of investment is a conservative estimate at this stage, which should remain under review as the business case develops.

Further efficiencies may be achieved through space sharing between LSBU and MC (1 of 2)

Overview of LSBU premises

A summary of LSBU premises is shown opposite. This covers the Southwark teaching spaces (281 rooms) and does not include the learning spaces (29) or spaces at the Havering site (17). The majority of the 281 teaching spaces comprise classrooms with capacity for 20 to 50 students (81) and labs (75).

Currently actual utilisation is 21% (calculated as frequency of use multiplied by actual occupation) and LSBU is looking to increase this to c.40%. This is higher for centrally timetabled rooms (general-use classrooms and lecture theatres), and lower for specialist-use rooms. The general profile of utilisation is:

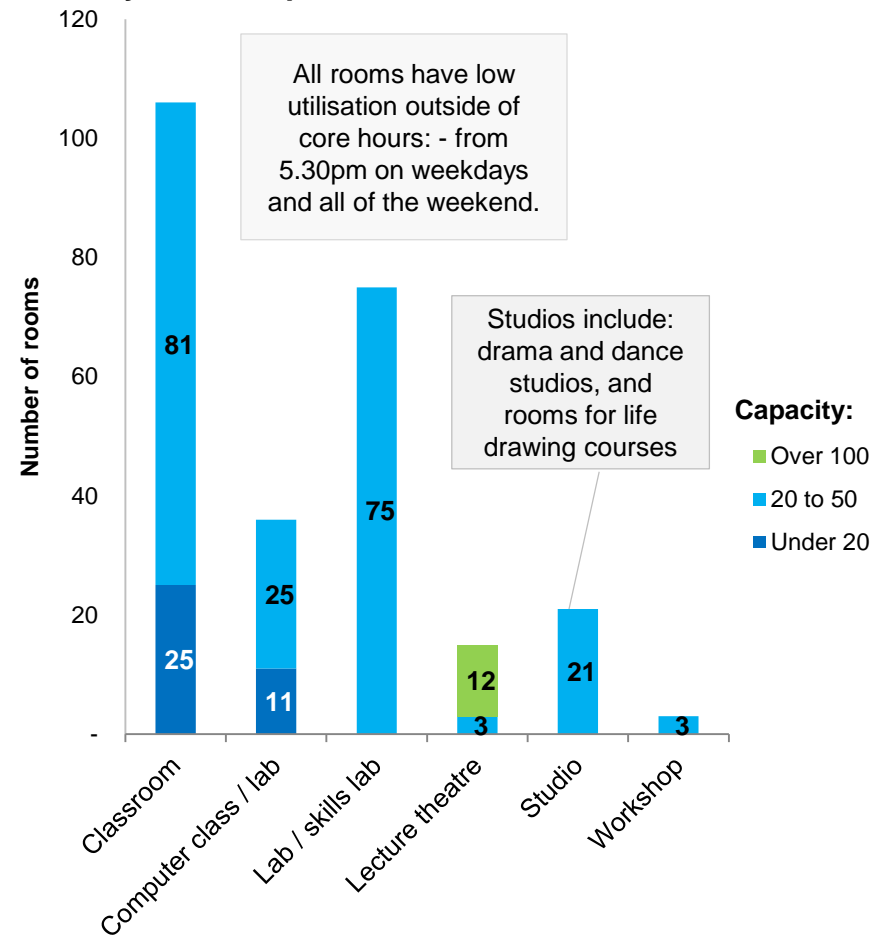
- 10 – 20% utilisation between 9am and 5pm.
- Peaks of 25% at 11am and 2pm.
- And below 10% utilisation from 5.30pm onwards.

Specialist rooms

Spaces that might be of particular use to MC include LSBU drama and dance studios and two production halls. LSBU has also used these studios to host life drawing classes.

In the 2014/15 LSBU audit report, it was stated that rooms controlled by the Faculty of Arts & Human Sciences (where key synergies with MC are expected) had amongst the lowest utilisation at an average of 5%. The new central timetabling system, introduced in FY16 to improve room utilisation, includes these rooms - utilisation figures will be available in the FY16 audit report.

Summary of LSBU premises



Source: LSBU (premises) Audit Report 2014/15

Further efficiencies may be achieved through space sharing between LSBU and MC (2 of 2)

Overview of MC premises

A summary of MC premises is shown opposite: the majority of the 60 rooms comprise classrooms or studios and cater for classes of 20 or fewer students.

Peak utilisation times are during the week from 6pm to 10pm. The most popular classrooms are specialist rooms (67% of courses) and the majority of these are for visual arts or music courses. General classrooms are required by 804 (29%) of courses, and these are used in the main by courses for essential skills or languages. Currently planned utilisation is circa 65%.

Key requirements that LSBU could meet

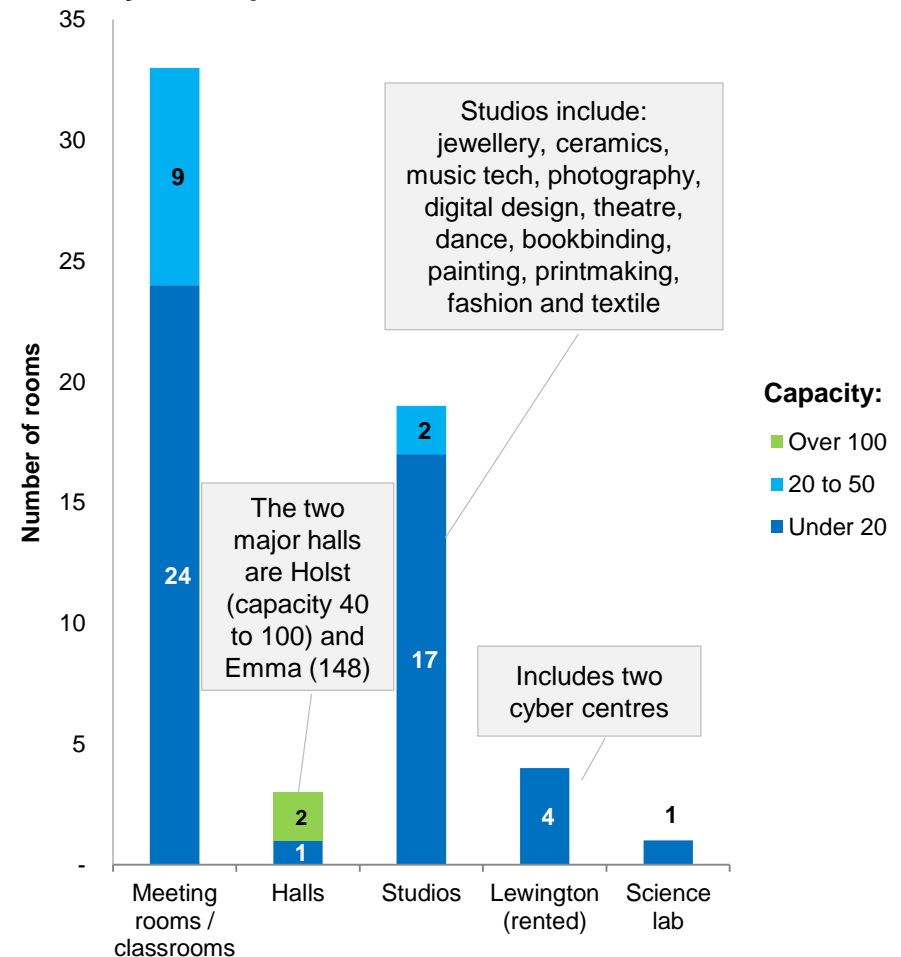
MC has a reasonably flexible staffing model, whereby hours for staff can be increased to provide additional courses. The key constraint is premises – MC is operating at capacity in relation to a number of classes, in particular Art classes.

As noted, LSBU has low utilisation of its specialist classrooms especially in the Schools of Art and Human Sciences. MC using these rooms outside of peak times, especially in evenings and weekends, could materially improve utilisation and so the efficiency of LSBU’s premises.

In addition, LSBU could offer a number of ancillary services to MC students whilst they are onsite, including: 24 hours security, self-service canteen (and cafe could be opened), access to the gym, learnings services and library.

Source: MC premises summary from senior management

Summary of MC premises



Other initiatives that may generate income growth or cost savings include partnerships and reviewing support services

Other initiatives

A range of further initiatives have been identified, however there is currently insufficient information to include these within the costed synergies.

These include:

- Community activities.
- Professional accreditation of some "night school" courses (CPD).
- Possible new degrees building on MC courses (e.g. fashion, music) - MC would provide practical-based activities that contribute to new creative degree courses.
- Investment in long-term property plans – both LSBU and MC have plans to invest in their estates and could look to share resources to improve the efficiency of this:
 - MC is looking to spend £500k to Summer 2017 to re-design the entrance to the main building, improving access to and the profile of the building; and
 - LSBU is in the final stages of briefing for construction of a new building (15,000 sqm) to host a library, learning resourcing and teaching primarily for Arts.
- Potential partnership relating to the Thomas Calton Centre – see details opposite.

Partnerships with Southwark Council

LSBU and MC are currently in coordinated discussions with Southwark Council regarding potential partnership opportunities. These relate to the provision of Adult Education, and could include providing services currently offered by the Thomas Calton Centre.

These could extend the geographical reach of the LSBU Group and could provide a base in Peckham from which a broader range of courses could be offered.



Operating cost savings

It is expected that further operating cost savings can be achieved by MC joining the LSBU Group in support service areas including IT, HR, Finance and Procurement. Details of this remain to be fully investigated as the business case develops.

Key issues

4.5 Further cost savings may be found through synergies in LSBU and MC support service functions. This requires further investigation as the business case develops.

Structure & governance arrangements

Proposal - that MC join the LSBU Group; form & implications of the governance model are subject to further discussion

Governance arrangements

Proposals are in development based on separate legal advice and documents that are under discussions between LSBU and MC. The key points that these will cover include:

- Ownership / membership.
- Operational governance – which may be encapsulated in a collaboration agreement.
- Financial accounting – including ownership of assets and liabilities and whether consolidated accounts are required.

Please refer to separate legal documents provided with this OBC for further details.

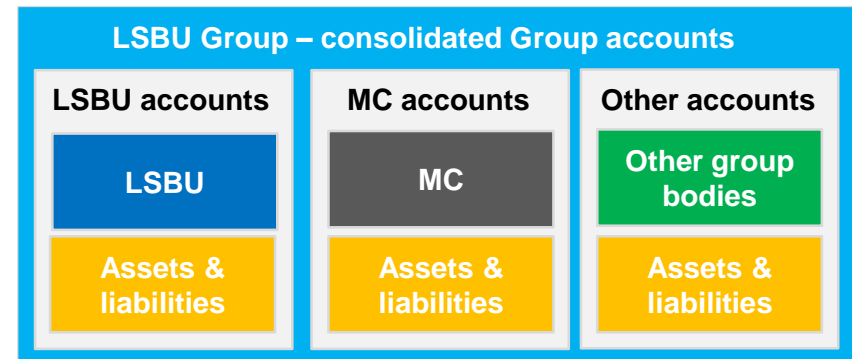
Collaboration agreement

The parties may wish to provide a collaboration agreement (as used in other business combinations) to set out the day-to-day practicalities of how the institutions will work together.

Key issues

- 5.1** Clarification is needed regarding the potential impact on SFA funding if MC joins the LSBU Group.
- 5.2** Clarification is needed as to whether TUPE rules apply if MC joins the LSBU Group (once governance model details are confirmed).
- 5.3** The ownership of assets and liabilities needs to be clarified if MC joins the LSBU Group and, as a result of this, whether consolidated accounts are required.

Structure for financial accounting – TO BE CONFIRMED



Key financial and operational risk management

Key issues and risks

Area	Key issues and risks (to be addressed & mitigated as part of full business case – see Next Steps)
<ul style="list-style-type: none"> • Curriculum 	<p>3.1 Further investigation of the market and levels of demand is required, especially in areas that are a strategic priority, such as Arts and Applied Science Foundation Year and Access courses, HNCs and HNDs.</p>
<ul style="list-style-type: none"> • Finance & resources 	<p>4.1 In initiative 1, LSBU and MC must ensure the new Access offering from MC does not displace students from LSBU’s existing FY courses, and vice versa.</p> <p>4.2 In initiative 2, discussion with OFFA is required as to whether GCSE English & Maths provision could form part of agreed widening participation activities for LSBU.</p> <p>4.3 In initiative 4, levels of displacement will need to be managed to ensure the income lost by LSBU from existing students is replaced with new student income.</p> <p>4.4 The provision for up-front costs of investment is reasonably conservative and should remain under review as the business case develops.</p> <p>4.5 Further cost savings may be found through synergies in LSBU and MC support services functions. This requires further investigation as the business case develops.</p>
<ul style="list-style-type: none"> • Governance 	<p>5.1 Clarification is needed regarding the potential impact on SFA funding if MC joins the LSBU Group.</p> <p>5.2 Clarification is needed as to whether TUPE rules apply if MC joins the LSBU Group (once details of the governance model have been confirmed).</p> <p>5.3 The ownership of assets and liabilities needs to be clarified if MC joins the LSBU Group and, as a result of this, whether consolidated accounts are required.</p>

Next steps

Next steps for consideration

Area	Proposed next steps
<ul style="list-style-type: none"> • Curriculum 	<ul style="list-style-type: none"> • Market investigation to be conducted as part of the Full Business Case.
<ul style="list-style-type: none"> • Finance & resources 	<ul style="list-style-type: none"> • Due diligence work along with development of the Full Business Case should establish: <ul style="list-style-type: none"> ○ The effect of the governance model on SFA funding is highly important ○ In initiative 1, the new Access offering from MC does not displace students from LSBU's existing FY courses, and vice versa ○ In initiative 2, discussion with OFFA as to whether GCSE English & Maths provision could form part of agreed widening participation activities for LSBU ○ In initiative 4, likely levels of displacement investigated to ensure the income lost by LSBU from existing students is replaced with new student income. ○ Required levels of up-front costs of investment ○ Further cost savings through synergies in LSBU and MC back office functions.
<ul style="list-style-type: none"> • Structure 	<ul style="list-style-type: none"> • Further investigation as part of the due diligence is required to establish any change in the eligibility of MC for SFA funding, the applicability of TUPE rules, and clarifying the level of "control" exercised by LSBU and whether consolidated accounts are required.
<ul style="list-style-type: none"> • Issues & risks 	<ul style="list-style-type: none"> • To develop and manage the key issues and risks as identified on page 53, as part of developing the full business case for the proposed option (MC joining the LSBU Group).

Glossary

Glossary

Acronym	Explanation	Acronym	Explanation
EBITDA	Earnings before interest, tax, depreciation and amortisation	HNC / HND	Higher National Certificate / Diploma
ED	Extended degree (a type of Foundation Year course)	HR	Human resources
EFA	Education funding agency	ICT	Information and communications technology
ES / ESPT	Employer sponsored / employer sponsored part time	IPTE	Institute for Professional & Technical Education
FBC	Full business case	L	Low (level)
FD	Foundation degree	LSBU	London South Bank University
FE	Further education	M	Moderate (level)
FT	Full time	MC	Morley College
FY	Foundation year (also refers to Year 0)	OBC	Outline business case
FY15, FY16...	Financial year 2014/15, Financial year 2015/16...	OFFA	Office for fair access
FY16F	Financial year 2015/16 forecast results	pa	Per annum
H	High (level)	PG	Postgraduate
H+	Very high (level)	PT	Part time
HA	Higher and degree apprenticeships	SDI	Specialist designated institution
HE	Higher education	SFA	Skills funding agency
HEI	Higher education institution	UG	Undergraduate

Project Maple: Governance Model

London South Bank University

22 January 2016

Strictly private and confidential

1 Background

- 1.1 London South Bank University ("**LSBU**") and Morley College Limited ("**Morley**") propose that Morley joins the LSBU group of companies ("**LSBU Group**") while retaining its separate legal identity and status as a Specialist Designated Institution (the "**Project**"). The basis on which discussions between LSBU and Morley are progressing is set out in a letter of intent dated 18 December 2015 (the "**Letter of Intent**").
- 1.2 This note describes the governance model and associated legal arrangements to be established on completion of the Project. It will also inform the outline business case for the Project which is being prepared by PwC and the legal agreements necessary in order to complete the Project (by which we mean completion of the legal arrangements between LSBU and Morley).
- 1.3 Morley is a company limited by guarantee (registered company number 02829836) and a charity registered with, and regulated by, the Charity Commission under charity number 1023523. The Charity Commission is the Morley's "principal regulator" for the purposes of charity law.
- 1.4 Morley is governed by its memorandum ("**Morley's Memorandum**") (the provisions of which are treated as provisions of the articles pursuant to section 28 of the Companies Act 2006) and articles of association ("**Morley's Articles**"), which were adopted on 14 May 2013. The Morley Memorandum and Articles are Morley's governing document.
- 1.5 LSBU is also a company limited by guarantee (registered company number 00986761) and is an exempt charity. This means that it is exempt from the requirement to be registered with, and be regulated by, the Charity Commission. LSBU's governing document is its articles of association adopted on 20 March 2014 ("**LSBU's Articles**"). LSBU's principal regulator is HEFCE.

2 Objectives of the Project

- 2.1 As noted in the principles document dated 18 December 2015 attached to the Letter of Intent, LSBU and Morley share a common commitment to social mobility through the widest possible access to learning opportunities. The close proximity of location between the two institutions, less than half a mile apart, is an important dimension that contributes significantly to the coherence and practical advantage to students of both institutions. Morley's reputation for adult education in arts, culture and applied sciences provide a particular focus that aligns well with LSBU's corporate strategy. If Morley joins the LSBU group, it creates opportunities to strengthen links with the local community and diversify income streams and access routes. In particular, the more formal relationship fulfils LSBU's ambitions in supporting:
 - 2.1.1 joint activities that enhance profile and engagement with local community;
 - 2.1.2 providing local progression pathways;
 - 2.1.3 providing support for skills development for current students; and
 - 2.1.4 extramural opportunities for LSBU's students.

3 Legal framework

Legal identity

- 3.1 The Letter of Intent envisages Morley becoming part of the LSBU group of companies, which is expected to take effect by LSBU becoming a corporate member of Morley, while retaining Morley's legal identity.
- 3.2 This means that, on completion of the Project, Morley would remain in existence as a separate limited company. It would therefore continue to have a board of trustees who are responsible (under both company and charity law) for the management and control of its assets, liabilities, staff, funding and operations generally. None of Morley's assets, liabilities etc would therefore transfer to LSBU on completion of the Project.

Charitable objects

- 3.3 Morley's charitable objects are set out in the Morley's Memorandum (they are to advance for the public benefit education by providing courses to any person and other educational and other facilities to those who become its students). Morley's Memorandum contains express powers for it to co-operate with any other charitable company with objects similar to those of Morley itself and to do all such other lawful things as are incidental or necessary to attain its objects.
- 3.4 LSBU's charitable objects are set out in LSBU's Articles (they are to conduct a university for the public benefit for the advancement of education, promotion of research and dissemination of knowledge, to provide full and part time courses of education at all levels and to provide facilities to promote these objects and provide associated support and welfare for students). LSBU's Articles contain an express power to co-operate with other institutions and to enter into other engagements and accept other obligations.
- 3.5 In our view, the degree of compatibility between the charitable objects of LSBU and Morley is sufficient to enable them to enter into the governance and other arrangements envisaged by this note. This would include e.g. LSBU making available courses and associated facilities, including the use of property and staff time, to Morley students (and vice versa) on non-arm's length terms i.e. at less than market value or cost.

Regulatory status

- 3.6 The Charities Act 2011 provides that any institution which is "administered by or on behalf of" an exempt charity and has been established for the "general or special purposes" of that exempt charity will itself be an exempt charity. Were Morley to fall into this category as a result of the completion of the Project, it would therefore become exempt from the obligation to register with the Charity Commission and the Commission would cease to be its "principal regulator".
- 3.7 In our view, the governance and other arrangements envisaged by this note will not result in Morley becoming an exempt charity, on the basis that Morley was not established for LSBU's general or special purposes and that it will remain under the management and control of its own board of trustees, rather than being administered by or on behalf of LSBU. Following completion of the Project, Morley will in our view therefore remain a registered charity and regulated by the Charity Commission.

4 Morley's current governance structure

- 4.1 As a company limited by guarantee, Morley has a "two tier" governance structure, made up of its members (the "**Members**") and its trustees. Morley's Articles refer to its trustees as "Governors" but we refer to them in this note as its "**Trustees**".
- 4.2 Morley's Articles provide that its Members are "such persons admitted to membership" by its Trustees, but provide that they must also be Trustees. On this basis, those individuals who act as Morley's Trustees from time to time will also be its Members from time to time

(and there are provisions in Morley's Articles which provide that a Trustee will cease to be a Member where they cease to be a Trustee (and vice versa)).

- 4.3 The Trustees therefore act in relation to Morley in two capacities; as Trustees and as Members. We refer to them in their separate capacities in this note in order to explain the different rights and obligations which attach to membership and trusteeship.

Members

- 4.4 The Members have rights under company law which enable them to resolve to:
- 4.4.1 Alter Morley's Memorandum and Articles (this requires a resolution passed by at least 75% of the Members present at a Members' meeting or a written resolution signed by at least 75% of all of the Members).
 - 4.4.2 Remove any Trustee (this requires a resolution proposed on special notice and passed by a majority of the Members present at a Members' meeting or a written resolution signed by a majority of all of the Members).
 - 4.4.3 Wind-up Morley (this requires a resolution of at least 75% of the Members on the basis described in 4.4.1 above).
- 4.5 These company law rights mean that control over Morley in respect of these issues ultimately rests with its Members. However, the Members have no direct responsibility for managing and controlling Morley's operations. Under both charity and company law, this is the responsibility of Morley's Trustees.

Trustees

- 4.6 Morley's Trustees form the other tier of its governance. They act as both directors under company law and as charity trustees under charity law. The Trustees are responsible for the control and management of Morley, including its assets, liabilities, staff and operations.
- 4.7 Under Morley's Articles, its board of Trustees is currently made up of a maximum of 24 Trustees made up of:
- 4.7.1 The Principal.
 - 4.7.2 Up to sixteen members who have the necessary skills to ensure that the board of Trustees carries out its functions of controlling and managing Morley.
 - 4.7.3 At least one, and not more than two, staff members of Morley.
 - 4.7.4 At least one, and not more than two, students of Morley.
 - 4.7.5 Up to three "co-opted" trustees appointed by the Trustees because they have specific experience required by Morley (and who serve for one year).
- 4.8 The Trustees exercise all of Morley's powers, except only for those powers which are reserved to them in their capacity as its Members in general meeting (which are in practice limited, namely the appointment of auditors in certain circumstances and the matters referred to in paragraph 4.4 above). In particular, the Trustees have the following powers and responsibilities under Morley's Articles:
- 4.8.1 The appointment of Trustees.
 - 4.8.2 The determination of Morley's corporate strategy and oversight of its operations.
 - 4.8.3 Responsibility for Morley's solvency and safeguarding its assets.

4.8.4 The appointment of senior Morley staff and setting of a pay framework for other Morley staff.

4.8.5 Overall responsibility for Morley's assets, property and estate.

5 **Morley as a LSBU Group company**

5.1 Under company law a "group" of companies is defined as a parent company and one or more subsidiary companies. A company is a parent company in relation to another company (a "**subsidiary company**") where it meets one of the following conditions:

5.1.1 It holds a majority of the voting rights in the company.

5.1.2 It is a member of the company and has the right to appoint or remove a majority of its board.

5.1.3 It has the right to exercise dominant influence over the company by virtue of provisions contained in its articles or a "control contract".

5.1.4 It is a member of the company and controls alone, under an agreement with other members, a majority of its voting rights.

5.1.5 It has the power to exercise, or actually exercises, dominant influence or control over the company, or both of them are managed on a unified basis.

5.2 Membership of a group of companies has implications under company law and in terms of accounting. In particular, parent companies must generally prepare full group accounts (also known as consolidated accounts) as well as individual company accounts, unless the company is exempt.

6 **Charity law considerations**

6.1 Charity law places duties on the Trustees in respect of the way in which they manage and control Morley. The most important duties are summarised below. The Charities Act 2011 also imposes more specific duties which are outside the scope of this note.

General duties

6.2 As charity trustees, Morley's Trustees have certain general duties:

6.2.1 To ensure that Morley's assets are applied only to advance its charitable objects.

6.2.2 To act within their powers.

6.2.3 To exercise their powers only in the best interests of Morley and for the purposes for which they were given.

6.2.4 To retain responsibility for the exercise of powers which they delegate to others (e.g. its senior management team).

Independence

6.3 In addition to these general duties, charity law also imposes a duty on the trustees of any charity to ensure that they act independently in the best interests of their charity.

6.4 This includes a duty on an individual trustee who is appointed by another institution to ensure that he or she acts only in what they consider to be the best interests of the charity and not the other institution. This duty may be infringed where, in practice, a trustee effectively acts on the direction, or in line with the wishes, of the other institution.

Conflicts of interest and duty

- 6.5 Charity and company law also impose a duty on the trustees of any charitable company to avoid conflicts of interest. A conflict of interest includes both a conflict between a trustee's personal (usually financial) interests and his or her duty to their charity and a conflict between a trustee's duty to their charity and their duty to some other institution. This would include e.g. a trustee of a subsidiary charity who is also either a trustee or employee of its parent charity.
- 6.6 Conflicts of this kind can be both "transactional" (i.e. where they relate to a specific transaction or matter a trustee is being asked to consider in the context of their charity) and "situational" (i.e. where there is some wider situation that does not relate to a specific transaction or matter but which impacts on the trustee's ability to make decisions impartially in their charity's best interests).
- 6.7 While the duty to avoid conflicts is clearly established by charity law, company law also imposes a statutory duty on all company directors to avoid situations in which they have or could have an interest which conflicts, or could conflict, with the interests of the company and also imposes specific requirements in relation to the way in which interests must be declared and conflicts addressed.
- 6.8 Where a parent charity appoints the trustees of its subsidiary charity and those trustees owe duties to the parent (as trustees or as employees), there is scope for conflicts of interest to arise, notwithstanding that there are benefits (in terms of collaboration) in such an arrangement. Conflicts of this kind must be managed carefully. This is generally achieved by ensuring that the subsidiary charity's articles of association contain a framework within which interests which may give rise to conflicts are identified and registered and any conflicts which do arise can be addressed.
- 6.9 In the context of a parent/subsidiary charity relationship, such a framework would typically provide for:
- 6.9.1 A trustee not to vote (or count in the quorum) in relation to issues which give rise to a conflict of interest in relation to the subsidiary where the conflict in question derives from any personal interest of the trustee.
 - 6.9.1 A trustee who has only a conflict of duty (as opposed to a conflict derived from a personal interest) to vote and count in the quorum on issues in relation to the subsidiary charity which give rise to a conflict of interest provided they are excluded from any decision-making about the same issues as a trustee or employee of the parent charity.
 - 6.9.2 Subject to the above, a trustee who has only a conflict of duty (as opposed to a conflict derived from a personal interest) to vote and count in the quorum on issues which give rise to a conflict of interest if they are authorised to do so by those trustees who are not conflicted.
- 6.10 Typically, therefore, a parent/subsidiary charity governance model will provide for the board of trustees of the subsidiary charity to include a minimum number of trustees who are not either trustees or employees of the parent charity and are therefore capable of making decisions about issues which raise conflicts of interest. Including "independent" trustees of this kind is often also important in terms of demonstrating that the subsidiary charity is being managed and controlled in line with the requirement for "independence" outlined above in paragraph 6.3.

7 Proposed future governance model

7.1 In the light of the considerations outlined above, the proposed future governance model for Morley is:

- 7.1.1 LSBU will become the sole Member of Morley, with the effect that Morley becomes a wholly-owned subsidiary of LSBU within the LSBU Group of companies. Morley's existing Members will cease to be its Members on completion of the Project.
- 7.1.2 As sole Member of Morley, LSBU will have the right to appoint and remove all of Morley's Trustees. This will be provided for expressly in a revised set of Morley's Articles.
- 7.1.3 Morley's board of Trustees will continue to manage and control Morley and its assets, liabilities, staff and operations.
- 7.1.4 As the sole Member of Morley, LSBU will also exercise the other rights reserved to Morley's Members (discussed above), in particular the right to amend Morley's Articles.
- 7.1.5 The composition of Morley's board of Trustees will change when it joins the LSBU group in order to facilitate the shared objective of collaborative working, to include both continuing Morley Trustees who are not connected with (and are "independent" of) LSBU and Trustees who are connected with LSBU. The composition of the board of Trustees will be expressly set out in a revised set of Morley's Articles (and see paragraph 7.2 below).
- 7.1.6 The revised set of Morley's Articles will also include provisions designed to enable Morley's Trustees to manage conflicts of interest for its Trustees, in particular for those Trustees who are connected to LSBU because they are either governors or employees of LSBU.
- 7.1.7 One Trustee of Morley should also act as a member of the LSBU board in order to facilitate the shared objective of collaborative working. LSBU's governors would initially make this appointment from amongst Morley's existing Trustees in accordance with the relevant procedures set out in LSBU's Articles.

Board composition

7.2 Taking into account the existing composition of the Morley board of Trustees under Morley's Articles, the proposed model in respect of the Morley board of Trustees on completion of the Project would be:

- 7.2.1 A board of between 4 and 14 Trustees in total.
- 7.2.2 The board of Trustees would be made up as follows:
 - (a) The Principal of Morley.
 - (b) The Vice-Chancellor of LSBU.
 - (c) Up to 4 Trustees who are "independent" of LSBU (i.e. are not also governors or employees of LSBU) (the "**Independent Trustees**"). These Trustees will be appointed from amongst the existing Trustees of Morley.
 - (d) Up to 6 Trustees who are connected with LSBU (i.e. are also governors or employees of LSBU) (the "**LSBU Trustees**").

- (e) 1 Trustee who is also an employee of Morley (the "**Staff Trustee**"). The Staff Trustee will be appointed by a process determined by LSBU.
 - (f) 1 Trustee who is also a Morley student (the "**Student Trustee**"). The Student Trustee will also be appointed by a process determined by LSBU.
- 7.2.3 Any Independent Trustee who is appointed to the board of LSBU (as outlined in paragraph 7.1.7 above) will not be treated as an LSBU Trustee in determining the number of LSBU Trustees LSBU may choose to appoint under paragraph 7.2.2(d).
- 7.2.4 The Principal and the Vice-Chancellor will hold office as Trustees on an ex-officio basis. All Independent and LSBU Trustees will hold office for a term of 4 years and a maximum number of 2 terms. The Staff Trustee will hold office for a single term of 3 years. The Student Trustee will hold office for a single term of 2 years.
- 7.2.5 The revised set of Morley's Articles will include provisions for the disqualification of Trustees generally (e.g. if they fail to attend a specified number of meeting and are removed by resolution of the Trustees or act in a way which damages Morley's reputation) and also some specific provisions (e.g. if a Staff or Student Trustee cease to be a member of Morley staff or a Morley student).
- 7.2.6 Trustees will make decisions by majority. The chair will be an LSBU Trustee and will exercise a casting vote where there is deadlock. The vice-chair will be an Independent Trustee.
- 7.2.7 LSBU will nominate an LSBU employee to act as clerk to Morley's board of Trustees in order to create an additional link at governance level.
- 7.3 This model is in line with the Letter of Intent and is intended to ensure that:
- 7.3.1 It meets LSBU's requirements in relation to Morley becoming a member of the LSBU group of companies, thereby enabling LSBU to support the Project.
 - 7.3.2 It retains Morley as a distinct legal entity under the management and control of its own board of Trustees, which facilitates the collaborative working between LSBU and Morley necessary to deliver the objectives of the Project and addresses both conflicts of interest and Morley's independence.
 - 7.3.3 Morley will continue to operate within the regulatory remit of the Charity Commission and in accordance with charity and company law generally.

8 Additional safeguards

- 8.1 Given that Morley and LSBU will remain as separate legal entities under the control of their respective boards of Trustees and Governors on completion of the Project, both parties may wish to consider whether they should also enter into an agreement (a "**Collaboration Agreement**") with effect from the completion of the Project.
- 8.2 A Collaboration Agreement of this kind could identify all of those areas in which, in line with the outline business case, LSBU and Morley have identified that they will need to collaborate in order to deliver the Project. These areas could include:
- 8.2.1 Curriculum offering.
 - 8.2.2 Provision to LSBU and Morley students.
 - 8.2.3 Estate utilisation.

- 8.2.4 Staffing capacity.
 - 8.2.5 Shared services.
 - 8.2.6 Joint governance arrangements which are intended to support collaborative working - in particular a joint committee made up of LSBU and Morley senior staff with delegated responsibility for day to day operational decisions in relation to delivering the Project.
 - 8.2.7 Provisions for certain decisions by the Morley Trustees to be made subject to LSBU's consent e.g. borrowing significant amounts, charging or disposing of its estate, incurring liabilities which are in excess of a specified amount or adopting or changing its strategic or business plans.
- 8.3 The advantage of a Collaboration Agreement of this kind for both parties would be to ensure that, at the date on which the other legal agreements in respect of the Project are completed, they have a clear understanding of their respective legal obligations in collaborating to deliver the objectives of the Project. From the point of view of Morley's Trustees in particular, this would be an additional safeguard in the sense that they will have a clear understanding of the obligations on both Morley and LSBU when they agree to change Morley's governance model.

9 Termination

- 9.1 The governance model envisaged by this note could be terminated by LSBU by it ceasing to act as Morley's sole Member. This would require at least one other person (whether an individual or institution) to agree act as Member in its place.
- 9.2 On a change of Member, we anticipate that those Trustees of Morley who are connected with LSBU would wish to resign, leaving Morley with a group of continuing Trustees who are not connected with LSBU and/or additional Trustees appointed by the new Member.
- 9.3 If a Collaboration Agreement of the kind discussed above has been entered into by Morley and LSBU, this may also need to be terminated. It would therefore need to be drafted to cater for the possibility of termination, which could be linked expressly to LSBU ceasing to be Morley's sole Member.

10 Key issues

- 10.1 The key issues which will need to be agreed by LSBU and Morley in respect of the governance model are:
 - 10.1.1 That LSBU will act as Morley's sole corporate Member.
 - 10.1.2 The composition of the board of Trustees of Morley, based on the model outlined in paragraph 7.2 above.
 - 10.1.3 The other provisions governing the board of Trustees of Morley (voting, terms of office, conflicts of interest etc), again based on the model outlined in paragraph 7.2 above.
 - 10.1.4 Whether LSBU and Morley should enter into a Collaboration Agreement and, if so, the areas it should address.

11 Process for implementing changes

- 11.1 In outline, the process for implementing changes to Morley's Articles in order to implement the governance model agreed by LSBU and Morley would be as follows:

- 11.1.1 A revised set of Morley's Articles in a form agreed by the parties would be appended to an agreement (a "**Transfer of Control Agreement**") between LSBU and Morley which would set out all of the steps required in order to complete the Project, including the adoption of the revised Articles.
- 11.1.2 The Transfer of Control Agreement would be conditional on Morley's existing Members passing a special resolution to adopt the revised set of Morley's Articles incorporating the governance model agreed by the parties (this would require a resolution passed by at least 75% of the Members present at a Members' meeting or a written resolution signed by at least 75% of all of the Members).
- 11.1.3 The Transfer of Control Agreement would also be conditional on the resignation of Morley's existing Members and Trustees, with a provision for Morley's board of Trustees to be re-constituted in line with the agreed governance model.
- 11.1.4 The Charity Commission's consent would only be required to any "regulated alteration" to Morley's Articles. These are changes to Morley's objects or to the provisions regulating the benefits to which Trustees are entitled or to the provisions which govern what should happen to Morley's surplus assets if it were to be wound-up. At this stage we do not anticipate that the Commission's consent would be required but, if it is, the Transfer of Control Agreement may be made conditional on obtaining that consent.
- 11.1.5 The Transfer of Control Agreement would also be conditional on the completion of any Collaboration Agreement which the parties have agreed to enter into.

Please note that we have prepared this note solely and exclusively for our client, London South Bank University, in order to support the Project. It cannot be relied upon by any other person, including Morley College.

Veale Wasbrough Vizards LLP

22 January 2016

London South Bank University

Draft – Initial Financial Due Diligence on Morley College Limited

Draft

January 2016



London South Bank University
90 London Road
London
E1 6LN

29 January 2016

Dear Pat,

Morley College Limited

Please find enclosed our initial financial due diligence report in respect of Morley College Limited (the College or Morley College). Our work has been carried out in accordance with the terms of reference as agreed on 14 January 2016. We will share our full due diligence report by 28 February 2016 subject to your agreement with us proceeding following the presentation of the Outline Business Case (OBC) on Project Maple.

This initial report covers the specific areas as agreed with Richard Flatman, focusing on:

- Historical financial summary
- Curriculum
- Estate management
- Pensions
- Commitments
- Human resources
- Governance

This is a draft report that has been prepared for discussion purposes. This report does not constitute our final views, which will only be expressed in our final written report. As a result any views in this report may be subject to change or amendment following discussion with you. Any oral comments made in discussions with you relating to this report are not intended to have any greater significance than explanations of matters contained in the report. Any oral comments that we make do not constitute oral advice unless we confirm any such advice formally in writing.

Our report is addressed to, and prepared for you, and we do not accept any duty or responsibility to any other party. On this basis, this report should not be disclosed to any third party or be quoted or referred to without our prior written consent. Such consent will be granted only on the basis that such reports are not prepared with the interests of anyone other than the addressees in mind and that we do not accept any duty or responsibility to any other party.

If you have any queries please do not hesitate to contact myself.

Yours sincerely,

Katy Elstrup

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Section 1 – Scope and executive summary

Background

London South Bank University (LSBU or the University) is exploring a range of partnerships and other arrangements to strengthen its engagement with the community, and to increase access to Higher Education for all who have the potential to succeed. Whilst LSBU maintains a national and international reach it is also focused on the local and regional communities it serves, working collaboratively to see how best to provide pre-degree and extramural opportunities to its students.

A partnership with Morley College is one of the arrangements being currently explored by the University, and there is a common agreement on the principles of this between the two organisations. This potential partnership arrangement between the University and Morley College is referred to as 'Project Maple'.

The status of Morley College as a Specialist Designated Institution (SDI) denotes its past, present and future responsibility in serving the public good through the provision of broad-ranging, accessible, community-focused educational courses and experiences designed to meet a diverse range of adult learning needs. Through the learning opportunities available Morley College seeks to address social exclusion and promote community cohesion, supporting skills development, employability and digital inclusion. Morley College has a strong reputation in adult education, but needs to explore how best to ensure financial sustainability in an extremely challenging funding regime for Further Education.

LSBU and Morley College share a common commitment to social mobility through the widest possible access to learning opportunities. The close proximity of location between the two institutions is an important dimension that contributes significantly to the coherence and practical advantage to students of both institutions.

Overview of Morley College

Morley College is an adult education college, founded in 1889. It offers part time, day and evening courses to over 13,500 individual students. The College specialises in providing learning opportunities in the arts, culture and applied sciences. It is based on Westminster Bridge Road, straddling the London Boroughs of Lambeth and Southwark. Its total income for 2014/15 was just over £10m.

The College was established by Emma Cons. The College's name recognises the generous support received from textile manufacturer and MP Samuel Morley. The College's original name included the phrase "for Working Men and Women" representing its commitment to gender and class equality.

The College's courses are taught by tutors who are active practitioners in their fields as the College seeks to bring expertise and innovations to the classroom. Many tutors also lecture at universities. Supporting Morley's teaching staff are student support staff, professional services staff, management group and governing body in order to provide an outstanding service to its learners at all levels.

Scope

This report is our initial due diligence report on Morley College. As agreed with Richard Flatman, this report covers the pre-agreed key areas of the College and aims to introduce LSBU to the make-up and structure of the College. Full financial due diligence has not yet been performed. This will be performed for the report at the end of February 2016.

This initial report covers several pre-agreed areas. For this report, we have been provided with input from LSBU's appointed legal advisors, Veale Wasbrough Vizards LLP (VwV). Where this is the case, we have made this clear. The pre-agreed areas and their allocation between PwC and VwV is:

- Historical financial summary – PwC
- Curriculum – PwC
- Estate management – PwC / VwV
- Pensions – PwC / VwV

- Commitments – PwC / VwV
- Human resources – VwV
- Governance – VwV

Subject to Project Maple proceeding post the submission of the OBC at the end of January, we will provide to you our full due diligence report at the end of February 2016, which will give a full review and report on the key financial and risk matters of the College including:

- Current financial position – balance sheet, I&E and cash-flow forecasts
- Accounting practices
- Asset ownership & current values
- Pension liabilities
- Significant legal/tax issues
- Other potential or contingent liabilities
- Financial commitments
- Staff/HR matters
- Collective agreements
- Known environmental issues
- Student numbers
- Future growth prospects/forecasts
- Sustainability of financial model (to the extent that this has been prepared)
- Commercial & operating procedures
- Risk management

Section 2 – Summary of initial findings

Summary

In the following table, we have outlined the initial findings from the initial financial due diligence.

Area	Initial findings
Historical financial summary	<p>As part of the scope for the initial due diligence, we have performed a historical results review of the College's financial statements and commentary by exception on Morley College's current (FY16) and recent (FY14 and FY15) income and expenditure and balance sheet performance.</p> <p>In summary, the College reported a surplus of £13k in 2014/15 and a deficit of £444k in 2013/14.</p> <p>For 2015/16, the College has budgeted a deficit of £65k. As at the end of November 2015, the College was £160k ahead of budget. As in previous years, the College is currently re-forecasting its 2015/16 budget in light of actual results to date. A revised forecast for the year will be presented as part of the monitoring report for the period to the end of December 2015 taking into account performance to date and new information to the College's next Governing Body meeting.</p> <p>The majority of the College's funding comes from two major sources - the Skills Funding Agency (SFA) and the Education Funding Agency (EFA).</p>
Curriculum	<p>The College offers over 2,500 courses during the day, evening and at weekends. These range from beginner level right through to advanced, specialising particularly in adult learning. The College has c. 13,500 individual learners registered per year.</p> <p>The College offers seven access courses to several universities based in the London region.</p>
Asset management	<p>The College has four properties as detailed below:</p> <ul style="list-style-type: none">• Main Building• Visual Art Building• Nancy Seear Building• Pelham Hall <p>The Main Building and Pelham Hall are located within the London Borough of Lambeth, whilst the Visual Arts Building and Nancy Seear Building are located within the London Borough of Southwark. None of the buildings are listed. However, all four properties have covenants on them.</p> <p>As part of the College's transition to adopting FRS102, as a first time adopter it intends to measure its tangible fixed assets at their fair value on the date of transition, and use that fair value as its deemed cost.</p> <p>The net book value of freehold land and buildings as at 31 March 2015 was £2,459,000. The draft total valuation assigned to the properties of the College is £25,480,000. The reason for the significant difference is that the former figure is the cost of the buildings while the latter figure is their fair value, to be used as their deemed cost.</p> <p>In addition, the College holds several heritage assets, with a most recent insurance valuation of £2,237,100.</p> <p>The College has several IT systems. Access Dimensions is its general ledger system and also uses a bespoke further education system called Unit-E used as its management information system.</p>

Area	Initial findings
Pensions	<p>The College's employees belong to two principal pension schemes, the Teachers' Pension Scheme in England and Wales (TPS) for academic and related staff and the Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by the London Pensions Fund Authority (LPFA). Both schemes are defined benefit schemes.</p> <p>The College had a net pension liability of £4,341k as at 31 March 2015.</p> <p>We understand that the cessation value if the College were to leave the LPFA would be £6.2m, which is based upon the latest available information as at 31 March 2013. The College is currently looking at this cessation value in connection with a deal the College is trying to reach to reduce its contribution rate. However, the College has indicated that this might rise given market changes and investment returns up to a more recent date.</p>
Commitments	<p>Management at the College have confirmed that there are no outstanding disputes, complaints, litigation or claims. In addition, management at the College have confirmed that there have been no disciplinary or grievance issues in the last two years.</p> <p>In the future, the College has plans to improve and extend its buildings; to improve the environment and facilities available for students; and to support specific College initiatives in line with its strategic objectives. It has adopted a Property Strategy which includes the first stage of a masterplan for the development of its campus and to undertake major improvements to the condition of its existing buildings and plant. The level of likely capital and maintenance spend is not known at the time of writing this report.</p> <p>As at 31 March 2015 per the 2014/15 financial statements, the College had £24k of annual commitments under non-cancellable operating leases, with the majority expiring in the next two to five years.</p> <p>The College uses outsourced contracts for the provision of its services, which typically have a three month notice period. These include cleaning, security, catering, mechanical and electrical maintenance and legal support.</p> <p>The College use a broker to source its utility contracts and on occasion uses consortium frameworks if preferred. Such an example of using a consortium framework would be the College's waste collection services which was obtained through the 'WeAreWaterloo' consortium.</p>
Human resources	<p>We are aware that VwV has provided the University with legal advice on the employment law position for LSBU, and the applications of TUPE.</p> <p>At the time of writing this report, we are yet to see this advice. Therefore, we are not able to quantify the potential impact to LSBU of the implications from the proposed partnership.</p> <p>As at January 2016, the College had approximately 500 individuals retained on its payroll. However, not all are paid every month because some staff members are in specialist areas and may come in just once a year. The total staff costs for the College during 2014/15 was £7,192k. For 2015/16, the budgeted total staff costs is £7,393k.</p> <p>The College has two holiday years depending upon the grade of staff. Neither align to the College's financial year.</p>
Governance	<p>VwV has provided to LSBU the proposed governance model for Project Maple.</p> <p>We have reviewed this in order to give an indication as to the potential accounting implications and LSBU has "control" over the College and therefore would consolidate the College as a wholly owned subsidiary into the LSBU Group financial statements.</p> <p>At the time of writing this report, we have asked several questions regarding the governance model and are awaiting feedback on these.</p> <p>Subject to the clarification of these questions, we will be able to give an indicative view.</p>

Section 3 – Historical financial summary

INCOME AND EXPENDITURE ACCOUNT

INCOME

	2014/15 £000's	2013/14 £000's	Variance £000's	Variance %
Funding Body Grants	6,157	5,435	722	13
Tuition Fees and Educational Contracts	3,814	3,624	190	5
Investment and Other Income	344	406	(62)	(15)
Investment Income	14	16	(2)	(13)
Total Income	10,329	9,481	848	9

EXPENDITURE

Staff Costs	7,192	6,924	268	4
Exceptional Restructuring Costs	364	37	327	884
Other Operating Expenses	2,074	2,215	(141)	(6)
Depreciation	624	577	47	8
Interest and Other Finance Costs	62	75	(13)	(17)
Total Expenditure	10,316	9,828	488	5

Surplus/(deficit) on continuing operations after depreciation of tangible fixed assets at valuation and before exceptional items and tax	13	(347)	360	(104)
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Loss on disposal of assets	-	(97)	97	(100)
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Surplus/(deficit) on continuing operations after depreciation of tangible fixed assets at valuation, disposal of assets and exceptional items but before tax	13	(444)	457	(103)
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Taxation	-	-	-	-
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Surplus/(deficit) on continuing operations after depreciation of tangible fixed assets at valuation and disposal of assets and tax	13	(444)	457	(103)
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Income and expenditure account

Total income in 2014/15 increased by 9% to £10,329k in 2014/15.

Total expenditure increased by 5% to £10,316k in 2014/15.

However, individual income and expense lines fluctuated.

Overall, the College reported a surplus of £13k in 2014/15 as compared to a deficit of £444k in 2013/14.

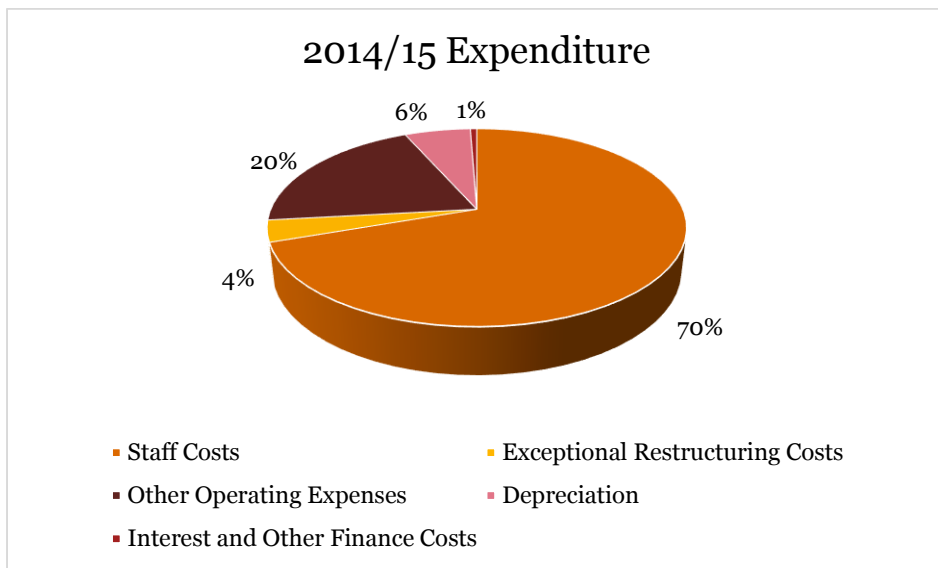
The main reasons for the change in performance were:

- A 13% increase in Funding Body Grants to £6,157k in 2014/15. This is driven by the recurrent grant from the Skills Funding Agency increasing by 16% to £6,104k, which is based upon the College's student guided learning hours.
- A 5% increase in Tuition Fees and Educational Contracts to £3,814k, which was driven by a £107k or 23% increase in Education Contracts.

This is despite Exceptional Restructuring Costs recognised. The College underwent a restructure at the end of the 2014/15 financial year. If Exceptional Restructuring Costs are removed, the normalised position for the College's total expenditure is £9,952k in 2014/15 and £9,791k in 2013/14, which is a £161k or 2% increase. This is driven primarily by how the College's Premises Costs reduced by £110k.

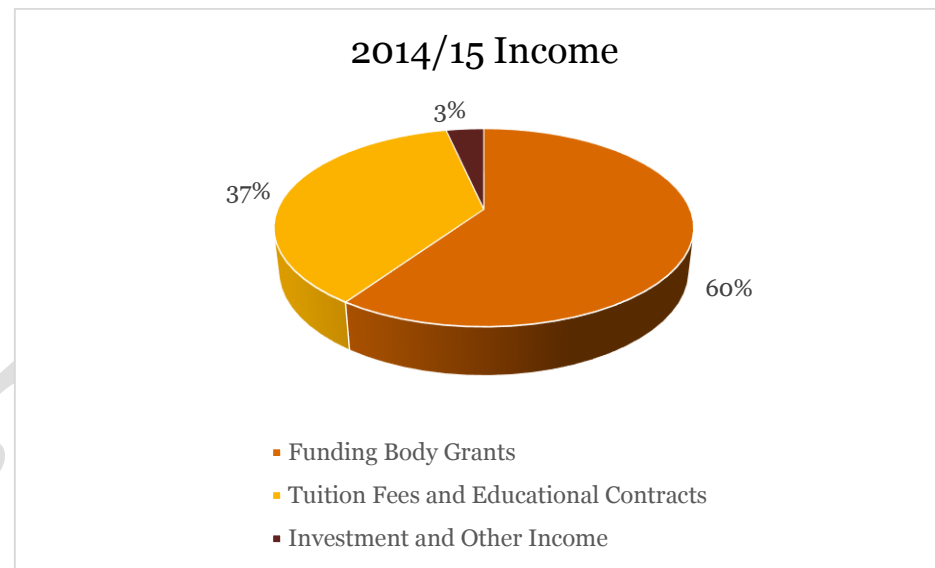
Source: 2014/15 audited financial statements

Detailed below is an analysis of the College's expenditure in 2014/15:



70% of the College's expenditure was made of Staff Costs. This would rise to 72% of the College's expenditure with the removal of Exceptional Restructuring Costs.

Detailed below is an analysis of the College's income in 2014/15:



60% of the College's income comes from funding body grants, with the majority from the Skills Funding Agency as a recurrent grant due to the College being designated a SDI.

BALANCE SHEET

	2014/15 £000's	2013/14 £000's	Variance £000's	Variance %
Fixed Assets				
Tangible assets	3,105	3,305	(200)	(6)
Investments	215	212	3	1
Total Fixed Assets	3,320	3,517	(197)	(6)
Current Assets				
Debtors	414	195	219	112
Cash at bank, in hand and short-term deposits	2,215	1,752	463	26
	2,629	1,947	682	35
Less Creditors: amounts falling due within one year	(1,438)	(1,008)	(430)	43
Net Current Assets	1,191	939	252	27
Less Creditors: amounts falling due after one year	(3)	(12)	9	(75)
Net Assets excluding pension liability	4,508	4,444	64	1
Net pension liability	(4,341)	(3,898)	(443)	11
Net Assets including pension liability	167	546	(379)	(69)
Deferred Capital Grants	286	256	30	12
Funds and Reserves				
General Reserve excluding FRS17 Pensions Reserve	3,231	3,082	149	5
Pensions Reserve	(4,341)	(3,898)	(443)	11
General Reserve including FRS17 Pensions Reserve	(1,110)	(816)	(294)	36
Development Fund	639	755	(116)	(15)
Other Designated Funds	37	81	(44)	(54)
	(434)	20	(454)	(2,270)
Revaluation Reserve	94	91	3	3
Restricted Funds	221	179	42	23
Total Funds	(119)	290	(409)	(141)
Total	167	546	(379)	(69)

Source: 2014/15 audited financial statements

Balance sheet

Total net assets of the College decreased by 69% to £167k in 2014/15. This is largely due to an increase in the net pension liability of the College increasing by 11% to £4,341k. The main reason is how the Current Service Cost (net of employee contributions) increased by £1,692k, with this offset by other fluctuations within the present value of defined benefit obligations.

Fixed assets decreased by 6% to £3,320k in 2014/15. This is mostly attributable to depreciation of £624k during 2014/15, which was off-set by additions purchased of £424k.

There was a movement in current assets of £682k from the prior year. This is due to:

- Cash at bank, in hand and short-term deposits increasing by £463k, and
- Other debtors increasing by £193k

The reason for the relatively large Cash at bank, in hand and short-term deposits is that the College is intending to use this to part fund the redevelopment of its properties.

Total current liabilities have increased by 43% to £1,438k, partly offsetting the increase in assets. This is mostly driven by amounts owed to the Skills Funding Agency of £272k. These amounts are funding body support grants available solely for the benefit of learners. In the majority of instances, the College only acts as a paying agent with these amounts disbursed to its learners.

The net pension liability increased by £443k to £4,341k. This was due to the latest FRS 17 treatment of the pension liability in the London Pensions Fund Authority (LPFA).

CASHFLOW STATEMENT

	2014/15 £000's	2013/14 £000's	Variance £000's	Variance %
Cashflow from Operating Activities	790	99	691	698
Returns on investments and servicing of finance	14	16	(2)	(13)
Capital expenditure	(341)	(292)	(49)	17
Increase/(decrease) in cash in period	463	(177)	640	(362)
Reconciliation of Net Cashflow to Movement in Net Funds				
Increase/(decrease) in cash in the year	463	(177)	640	(362)
Movement in net funds in period	463	(177)	640	(362)
Net funds at 1 August	1,752	1,929	(177)	(9)
Net funds at 31 July	2,215	1,752	463	26

Source: 2014/15 audited financial statements

Cash-flow statement

Cash inflow from operating activities increased by £691k to £790k in 2014/15. The increase is driven by an operating surplus of £13k being achieved in 2014/15 as compared to an operating deficit of £444k in 2013/14. In addition, there were key movements in debtors and creditors as well as depreciation which are explained below:

- Depreciation: movement of £47k is due to the follow on impact of several additions being capitalised
- Debtors: there was an increase in debtors of £139k
- Creditors: there was an increase in creditors of £368k

As a result, there was an increase of cash during the period of £640k.

INCOME AND EXPENDITURE ACCOUNT
November 2015

2015/16
Annual Budget
£000's

INCOME

Funding Body Income	5,402
Fee Income	3,756
Contract Income	559
Other Grant & Miscellaneous Income	349

Total Income 10,066

EXPENDITURE

Staff Costs	7,393
Teaching Consumables	303
Teaching & Other Support Services	346
Marketing	270
Development & Contingency Fund	145
Admin & Central Services	420
Premises Costs	692
Depreciation Charges	564

Total Expenditure 10,131

Underlying Operating Surplus / (Deficit) (65)

Restructuring Costs -

Operating Surplus / (Deficit) (65)

Source: November 2015 management accounts

Budget 2015/16 income and expenditure account

The College has budgeted to make a deficit of £65k for the financial year ending 31 March 2016, with total income of £10,066k and total expenditure of £10,131k.

As in previous years, the College is currently re-forecasting its 2015/16 budget in light of actual results to date. A revised forecast for the year will be presented as part of the monitoring report for the period to end December 2015 taking into account performance to date and new information to the College's next Governing Body meeting.

<u>INCOME AND EXPENDITURE ACCOUNT</u> <u>November 2015</u>	2015/16 Actual to Date £000's	2015/16 Budget £000's	2015/16 Variance £000's	%
<u>INCOME</u>				
Funding Body Income	1,801	1,801	-	-
Fee Income	1,671	1,763	(93)	(5)
Contract Income	149	148	1	-
Other Grant & Miscellaneous Income	117	112	5	5
Total Income	3,737	3,824	(87)	(2)
<u>EXPENDITURE</u>				
Staff Costs	2,055	2,207	(152)	(7)
Teaching Consumables	97	103	(7)	(6)
Teaching & Other Support Services	74	71	3	5
Marketing	62	90	(28)	(31)
Development & Contingency Fund	7	7	-	-
Admin & Central Services	101	118	(17)	(15)
Premises Costs	190	239	(49)	(21)
Depreciation Charges	185	188	(3)	(2)
Total Expenditure	2,771	3,024	(253)	(8)
Underlying Operating Surplus / (Deficit)	966	800	166	21
Restructuring Costs	-	-	-	-
Operating Surplus / (Deficit)	966	800	166	21

Source: November 2015 management accounts

Budget 2015/16 income and expenditure account – results as 30 November 2015

After month 4, the College is £166k ahead of budget for the financial year at £966k.

This is driven by underspends on expenditure of £253k lower than budget. This has more than offset underperformance on income of £87k.

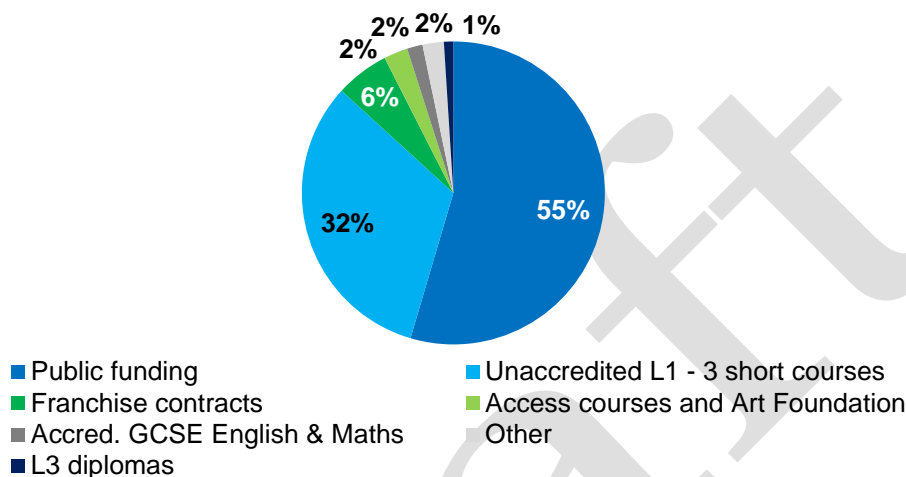
The main driver for the reduced expenditure is Staff Costs, with are tracking at £152k lower than budget. Staff Costs are below budget as contingencies have not been needed to be drawn upon by the College and some posts have been left vacant between appointments rather than filled with temporary staff.

Section 4 – Curriculum

Curriculum

The College offers over 2,500 courses during the day, evening and at weekends. This is from beginner level right through to advanced, specialising particularly in adult learning.

The College has c. 13,500 individual learners registered per year. The income from different courses for 2015/16 is shown below: the two major sources of income are Skills Funding Agency (SFA) and Education Funding Agency (EFA) grants and fees for non-accredited short courses.



The College specialises in arts, culture and applied science and currently serves a specific audience: non-accredited adult learning, mostly relating to personal development, and often working with disadvantaged groups. The split is roughly 80% non-accredited courses and 20% accredited. The 2016/17 course offering is shown below – key areas are visual arts, languages, essential skills and music.

Department	No. of classes	%	Target students	%	Tutor hours	%
Visual arts	923	34%	11,550	35%	21,119	30%
Essential skills	270	10%	3,811	12%	16,211	23%
Music	542	20%	6,409	20%	10,711	15%
Languages	337	12%	4,182	13%	5,908	8%
Health	178	7%	1,928	6%	4,427	6%
Access	10	0%	146	0%	4,573	6%
Dance	229	8%	2,526	8%	3,138	4%
Humanities	145	5%	1,400	4%	2,663	4%
Drama	73	3%	737	2%	1,354	2%
Learning support	24	1%	120	0%	342	0%
Total	2,731	100%	32,809	100%	70,446	100%

Access courses

Specifically, the College offers the following access courses to Higher Education:

- Access to Fashion
- Access to Health & Human Sciences
- Access to Humanities
- Access to Midwifery
- Access to Nursing
- Access to Science

- Access to Social Sciences

The College has partnerships to provide access courses with LSBU and the other following universities:

- University of East London
- University of the Arts London
- Birkbeck, University of London
- Middlesex University London
- Goldsmiths, University of London

Classroom utilisation

The College's room utilisation in 2014/15 was 55.7%. The College monitors this based on room availability between 9am and 10pm and uses the metric for comparative rather than absolute purposes. This is because of the following factors:

- Most classes do not start until 10am, and
- There are breaks at lunch and other times within courses and gaps between classes. For instance, 4.30pm to 6pm is generally a quiet period in the timetable.

On this basis, utilisation is never going to be nearing 100%. The College has indicated that it is currently looking at changing how it monitors room optimisation, with a view to combining a measure of how often a room is occupied with how full it is when it is occupied.

Facilities

The College's classroom facilities include:

- A printmaking studio
- A painting studio
- Two digital design studios
- Ceramics and jewellery studios
- Two fashion design and clothes making studios
- The *Henry Moore* sculpture studio
- Music recording studio
- Music practice rooms
- Three dance studios
- A black box drama studio
- Health and beauty therapy rooms
- Library
- Learning centre

Section 5 – Estate management

Overview

The College has four properties as detailed below:

- Main Building
- Visual Art Building
- Nancy Seear Building
- Pelham Hall

The gross and internal net area as well as the site area of the respective buildings is detailed below:

Description	Gross Internal Floor Area		Net Internal Floor Area		Site Area	
	Square Metres	Square Feet	Square Metres	Square Feet	Acre	Hectare
Main Building	6,024	64,845	4,732	50,934	0.72	0.29
Visual Art Building	548	5,898	433	4,665	0.05	0.02
Nancy Seear Building	1,085	11,674	1,012	10,888	0.37	0.15
Pelham Hall	189	2,038	172	1,857	0.04	0.02
Total	7,846	84,455	6,349	68,344	1.18	0.46

This is based upon a draft Gerald Eve report dated December 2015. The purpose of the valuation report is for inclusion within the College's restated financial statements in accordance with the transition to FRS 102, and the Higher Education Statement of Recommended Practice (SORP). Management have confirmed that nothing significant has changed since the draft Gerald Eve report was received.

The draft total valuation assigned to the properties of the College is £25,480,000. This is broken down as follows:

Property	Fair Value	Land	Buildings	Estimated Economic Useful Life
Main Building	19,600,000	10,760,000	8,840,000	25 years
Visual Art Building	1,400,000	620,000	780,000	25 years
Nancy Seear Building	3,940,000	2,770,000	1,170,000	25 years
Pelham Hall	540,000	330,000	210,000	20 years

As per paragraph 27.2 of the Statement of Recommended Practice for Further and Higher Education (SORP) to be applied to financial years ending 31 July 2016, FRS 102 allows a first time adopter to measure tangible fixed assets at their fair value on the date of transition to FRS 102, and use that fair value as its deemed cost.

This compares to a net book value as at 31 March 2015 of £2,459,000 with regards to the College's freehold land and buildings.

Tenure

The Main Building and Pelham Hall are located within the London Borough of Lambeth, whilst the Visual Arts Building and Nancy Seear Building are located within the London Borough of Southwark. None of the buildings are listed.

The tenure of each of the College's four properties are detailed below. These have been obtained from Gerald Eve's draft valuation report dated December 2015. This provides information regarding the covenants in place on the College's properties. It will help the University understand how it can use the College's assets, in terms of purpose and whether there are restrictions on this.

Property	Detail
<p>Main Building</p> <p><i>61 Westminster Bridge Rd, London, SE1 7HT</i></p>	<p>The property is held freehold under four different Title Numbers as below.</p> <ul style="list-style-type: none"> • TGL271297 <ul style="list-style-type: none"> ○ The subsoil at the corner of this title is excluded from this title. By transfer dated 3 March 2006 the presumption as to ownership of roads adjoining the land was rebutted. ○ The land is also subject to a lease of 99 years from 5 December 1932 of which we have no details. • SGL422259 <ul style="list-style-type: none"> ○ The subsoil across part of this title is excluded from this title. • 410692 <ul style="list-style-type: none"> ○ The subsoil across part of this title is subject to a right to use as granted by a Deed dated 3 February 1927. By a conveyance dated 9 July 1931, the land was subject to easements in connection with the twelve inch pipe sewer which runs under the land. Other covenants in this Conveyance include <ul style="list-style-type: none"> - The premises shall not be used for a hotel, tavern or for the sale of alcohol - Purchasers will not do anything to cause nuisance, damage or disturbance to neighbouring properties - No consent is required to erect any buildings which may affect the right to light or air - Within three months from date of purchase of the leasehold interest and obtain vacant possession, the purchasers will: <ul style="list-style-type: none"> • Erect a dividing 9 inch brick wall on western side of premises to the height of the roof of the existing building. • Erect a dwarf wall or close boarded fence of 6 feet on western side of the premises. • These walls will belong to and be maintained by the commissioners. • 275787 <ul style="list-style-type: none"> ○ No restrictive covenants.
<p>Visual Art Building</p> <p><i>147 St George's Road, London, SE1 6HY</i></p>	<p>The property is held freehold under Title Number SGL4978.</p> <p>A transfer dated 24 January 1965 contains a provision that the transferee shall not acquire any rights of light or air which would interfere with other buildings. The land is subject to the rights and reservations of a Deed of Grant dated 22 June 1966.</p>

	The land is also subject to a rights of way granted by a Deed dated 24 February 1983.
Nancy Seear Building <i>1-5 King Edward Walk, London, SE1 7PR</i>	The property is held freehold under Title Number 287789. This includes 15 and 17 King Edward Walk, which are currently let out on long-term leases. Further details on these two properties are provided further below. A transfer of the land dated 31 October 1963 declares that the transferee shall not enforce nor become entitled to any right of light or air which would interfere with other buildings. The land is subject to the rights and reservations of a Deed of Grant dated 22 June 1966. The transfer to Morley College contains a purchaser's personal covenant of which we have not seen details.
Pelham Hall <i>Pelham Hall, Lambeth Walk, London, SE11 6DU</i>	The property is held freehold under Title Number TGL2770448. A transfer dated 26 May 1998 contains the following exceptions and reservations: <ul style="list-style-type: none"> • The right to the Retained Land to use for all proper purposes connected with the Retained Land any Service Conduits now or within the Perpetuity Period serving the Retained Land and laid or to be laid within the Perpetuity Period in under or over the Property with the right to run and pass soil water gas telephone electricity or other services through or along the same with power at any time on giving to the owner or occupier for the time being of the Property not less than 48 hours' notice to enter the Property for the purpose of cleansing repairing renewing replacing or inspecting. • The right of support from the Property and every part of it for the Retained Land. • All other rights over the Property which the Transferor would have if it were a separate transferee to whom the Transferor had made a transfer of the Retained Land simultaneously with this Transfer. <p>The land is also subject to the rights granted by a Deed of Grant dated 29 June 2006.</p>

15 & 17 King Edward Walk

As noted above, these are two terraced houses owned by the College, each of which is let under a Rent Act tenancy.

The draft market value valuation dated 17 September 2015 by Kennington Chartered Surveyors is £1,360,000. It is based on the RICS Valuation – Professional Standards (2014).

To be clear, this value is not included within the draft valuation provided by Gerald Eve.

IT systems

The College using the following IT systems:

London South Bank University

Area	System	Comments
Management Information System (MIS)	Capita's Unit-E	<p>The MIS system is a further education bespoke system.</p> <p>It handles all aspects of the student database and curriculum including the enrolment function, the data needed for the Individualised Learner Record (ILR) and returns to the Skills Funding Agency.</p> <p>This includes registers, timetabling and rooming, the data that underpins the course information on the College's external website and in its prospectus, data which feeds into the hourly paid tutor payroll as well as the majority of the College's management information.</p>
General ledger	Access Dimensions	The College uses the system as a standalone financial management software system.
Payroll	Pyramid	The College has begun a project to migrate from its current HR package (Bond) to Pyramid's integrated payroll and HR system.
Intranet	Sharepoint	This is the College's web application framework and platform. It seeks to integrate intranet, content management, and document management.

Heritage assets

The College has a collection of paintings, drawings and sculptures which are held to enhance the fabric of its buildings or to celebrate its distinguished history in the liberal arts.

As per the 2014/15 financial statements, the College considers that, owing to the incomparable nature of these paintings, drawings and sculptures, conventional valuation approaches lack sufficient reliability and that, even if the valuations could be obtained, the costs would be onerous compared with the additional benefits derived by the College and users of the accounts. As a result, no value is reported for these assets in the College's Balance Sheet.

However, the College's most recent insurance valuation from Sotherby's, values the assets at £2,237,100, dated as at 29 November 2013. There are 21 items in total. The largest valued item is an acrylic and pencil canvas by Bridge Riley from c. 1970, valued at £2,000,000.

Section 6 – Pensions

Pension schemes

The College's employees belong to two principal pension schemes, the Teachers' Pension Scheme in England and Wales (TPS) for academic and related staff; and the Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by the London Pensions Fund Authority (LPFA). Both schemes are defined benefit schemes.

While the TPS scheme is a multi-employer pension scheme, the College is unable to identify its share of the underlying assets and liabilities of the scheme. Therefore, the College has taken advantage of the exemption in FRS17 and has accounted for its contributions to the scheme as if it were a defined-contribution scheme.

Net pension liability

The College had a net pension liability of £4,341k as at 31 March 2015.

Once deferred capital grants of £286k are excluded from the College's balance sheet, it shows a negative reserves position of £119k. Within the College's audited financial statements, the College asserts that it does not believe this raises any going concern issues as the 2014/15 financial year resulted in an operating surplus and produced positive cash flow. In addition, its external auditors raised no issues regarding going concern in their audit report for 2014/15.

The College recognises the risk, presented by the net pension liability arising from its membership of the Local Government Pension Scheme. This does not however affect its Skills Funding Agency financial health grading. The need to maintain a significant pension reserve seriously reduces its available funds. Through its Finance, Resources and Fundraising Committee it will continue to monitor the position and seek ways of mitigating the risk which do not impact on operational capabilities.

The result is that currently the College does not have a strong reserves position. This is in part why the College has sought to take advantage of measuring its tangible fixed assets at its fair value, and use that fair value as its deemed cost going forwards. Further information on this is detailed within Section 5.

Cessation value

An employment-cessation event occurs at the time an employer ceases to employ at least one person who is an active member while at least one other employer continues to employ active members.

At the time of writing this report, we are aware that the cessation value is currently being looked at by the LPFA in connection with the deal the College is trying to reach to reduce its contribution rate.

The figure the College has been using is the figure as at 31 March 2013 of £6.2m. However, the College has indicated that this might rise given market changes and investment returns up to a more recent date.

Section 7 – Commitments

Legal claims

Management at the College have confirmed that there are no outstanding disputes, complaints, litigation or claims.

Management at the College have also confirmed that there have been no disciplinary and grievance issues in the last two years.

Capital commitments

As at 31 March 2015, the College had made outstanding commitments of £90,000 in connection with further projects within Phase 1 of its Capital Development Plan. This is the refurbishment of its painting and drawing studios and renewal of part of its roofing. At 31 July 2015 all of this commitment had already been contracted.

The College has plans to improve and extend the College's buildings; to improve the environment and facilities available for students; and to support specific College initiatives in line with its strategic objectives. It has adopted a Property Strategy which includes the first stage of a masterplan for the development of its campus and major improvements to the condition of existing buildings and plant. The College's current reserves policy is to continue building up reserves out of any annual operating surpluses, as identified in its Development Fund, to enable it to pursue its Property Strategy.

The College wishes to pursue a phased extension, remodelling and refurbishment of its base building at 61 Westminster Bridge Road.

Financial commitments (operating leases)

As at 31 March 2015 per the 2014/15 financial statements, the College had £24k of annual commitments under non-cancellable operating leases, with the majority expiring the next two to five years.

Contracts

The College does not maintain a formal contracts register. Instead, most of the College's maintenance contracts are on a rolling annual basis, which are up for renewal prior to 31 March 2016.

The College's main outsourced contracts, which typically have a three month notice period, are as follows:

Service provision	Contractor	Length of contract
Cleaning	Churchill	Rolling annual basis
Security	Show	Rolling annual basis
Catering	Brookwood	Rolling annual basis
Mechanical and Electrical Maintenance	Birdsall	Five year contract due for renewal end of current financial year by 31 March 2016
HR Legal Support	Judicium	Rolling annual basis

Utilities

The College uses a broker to source its utility contracts and on occasion uses consortium frameworks if preferred such as for waste collection. The College's current commitments are as follows:

Service provision	Contractor	Length of contract
Electricity – Half Hourly	EON	Renewal date is 01/10/2018
Electricity – Non Half Hourly	Scottish & Southern Electricity	Renewal date is 01/11/2017
Gas	EON	Renewal date is 01/04/2020
Waste collection*	First Mile	Rolling annual basis
Water	Thames Water	Not applicable

*Obtained through 'WeAreWaterloo' consortium

Section 8 – Human resources

Headcount

As at January 2016, the College had approximately 500 individuals retained on its payroll. However, not all are paid every month because some staff members are in very specialist areas and may come in just once a year. In January 2016, 314 individuals were paid on the hourly paid payroll as follows:

- Art – 77
- Community – 11
- Dance – 32
- Drama – 5
- Essential skills – 46
- Health – 23
- Humanities – 15
- Languages – 31
- Music – 74

TUPE

We are aware that VwV has provided the University with advice on the employment law position for LSBU, and the applications of TUPE.

At the time of writing this report, we are yet to see this advice. Therefore, we are not able to quantify the potential impact to LSBU of the implications from the proposed partnership.

Holiday pay year

The College has two holiday years, neither of which correlate with the financial or academic year. They are as follows:

- April to March for support staff
- October to September for academic and senior management staff

Academic staff get 37 days holiday per annum. All other staff (including senior management staff) get 30 days. In addition, all staff receive public holidays and three discretionary days between Christmas and New Year, when the College normally shuts the premises.

The sessionally paid tutoring staff get holiday pay rolled up into their hourly rate. This approach is taken in view of administration with the College considering the risk to negligible.

Section 9 – Governance

Overview

We are aware that VwV provided to LSBU the proposed governance model for Project Maple.

We have reviewed this in order to give an indication of the potential accounting implications as to whether LSBU has “control” over the College and would consolidate the College as a wholly owned subsidiary into the LSBU Group financial statements.

At the time of writing this report, we have asked the following questions:

- What decisions are expected to be taken by the Board of Trustees of the College?
- What type of majority is needed for a vote to pass?
- Do all the trustees carry the same weight in voting?
- If all the trustees carry the same weight in voting, and if only a simple majority is required, what happens in case there is a tie in the vote? How would this be resolved?
- Is it proposed that the new role of the trustees be written into the College’s articles?
- Who has the authority to amend the College’s articles and which type of “majority” is required to do so?

It was agreed with LSBU that these questions would be considered once the OBC was presented and also after the College’s own legal advisers had commented upon the proposed governance model.

Subject to the clarification of the questions above, we will be able to give an indicative view.

Draft



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	CONFIDENTIAL
	PAPER NO: MPI.02(16)
Paper title:	Institute for Professional & Technical Education
Board/Committee	Major Projects & Investments Committee
Date of meeting:	16 February 2016
Author:	PWC (outline business case)
Executive/Operations sponsor:	Pat Bailey, Deputy Vice Chancellor
Purpose:	Discussion and Decision
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	Income Growth (directly and through feeding into Higher Apprenticeships) Student Experience
Recommendation:	The meeting is requested to approve the proposal to develop the Institute for Professional and Technical Education (IPTE). Unless major investments are required, in which case a full business case will be developed, it is proposed that the IPTE would evolve from current sponsored work.

Matter previously considered by:	MPIC	16 December 2015
Further approval required?	MPIC if major investments	On: tbd

Executive Summary

The Government has made a major commitment to increasing its investment and funding of apprenticeships by 2020, including a significant % of Higher Apprenticeships (HAs) which are degree level equivalent (Level 4 and above). The development of the IPTE is intended to help mitigate the threat that we could lose the 1100 undergraduate employer-sponsored students who currently study with us (who might transfer to HAs), whilst also opening up the possibility of us expanding into apprenticeship market. This fully aligns with our corporate strategy and the desire to link teaching and enterprise with employer engagement. This Outline Business Case (OBC) summarises the financial considerations, including the possibility of expansion to around 2000 HA students, and outlines two models for much of the administration. Once a preliminary decision concerning Project Maple has been made (end February), the most appropriate structure for delivering HAs will be established. Investment in a central hub will require a full business case for review by MPIC but curriculum development itself will evolve from current activity.

IPTE OBC

Outline business case for the Institute for Professional and Technical Education

*Strictly Private
and Confidential*

8 February 2016

***To determine and agree whether there is a viable option to pursue to Full
Business Case***

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Introduction and context

LSBU earns £10.6m pa (8% of total income) from employer-sponsored part-time students, 100% funded by employers

Position today

Currently LSBU has 4,640 students enrolled on employer-sponsored courses, representing 26% of total students. These students comprise:

- 2,389 full-time NHS sponsored students – 51%
- 419 full-time (other) employer sponsored students – 9%
- 267 part-time NHS sponsored students – 6%
- 1,565 part-time (other) employer sponsored students – 34%

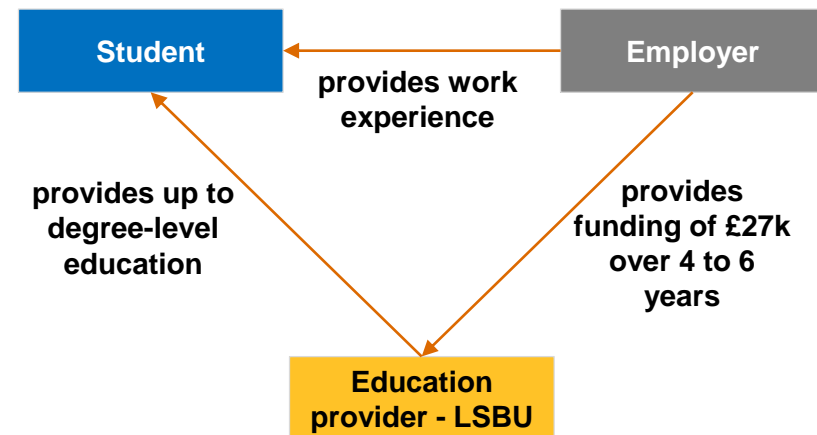
The 1,565 non-NHS employer sponsored part-time (ESPT) students generate c.£10.6m of income for the University, with fees of c.£6,750 per student per year. Assessing the impact on this community of the proposed Government changes to apprenticeship funding - and creation of an IPTE to address these changes - is the focus of this business case.

These courses are currently administered by LSBU through a devolved model, with each of the 7 Schools undertaking the administration individually.

The current funding model is shown opposite, whereby each employer pays the total fees of £27,000 to LSBU, comprising in most cases £6,750 per year over a period of 4 years.

There are 2,656 (57%) employer-sponsored courses funded by the NHS, which are run by the School of Health and Social Sciences (HSC). These are excluded from the financial analysis in section 4 as they are managed separately and have unique regulatory requirements. However, as noted on page 51, the HSC courses could be considered for inclusion within the IPTE in the future.

Position today – funding of part-time students



The Government has introduced new funding for Apprenticeships, and will introduce a new levy in April 2017

Key details regarding apprenticeships

Apprenticeships represent a combination of work-based learning and formal education, and courses can be Intermediate (level 2), Advanced (level 3), Higher Apprenticeships (levels 4-7) or Degree Apprenticeships (levels 6-7). We refer to the latter two as Higher Apprenticeships (HA) for simplicity.

Apprenticeship levy

A new levy will be introduced in April 2017, requiring all companies with paybills over £3m to pay 0.5% to the Government. It is expected to raise £3bn by 2020. This money is ring-fenced to be used for apprenticeships.

Apprenticeship funding

As a general rule of the new arrangement, it is expected that employers will pay one-third and the Government two-thirds of course fees of up to £27k. This is consistent with the Trailblazer pilots (see page 11). A "Lead Provider" will administer the scheme and allocate funds to the Education provider.

There are caps on the Government funding depending on the type of apprenticeship and additional incentive payments for small businesses. Interim arrangements are in place for 2015/16 and 2016/17 as used in the Trailblazer pilots. Final arrangements relating to funding from 2017/18 onwards (using Apprenticeship Vouchers) are in development.

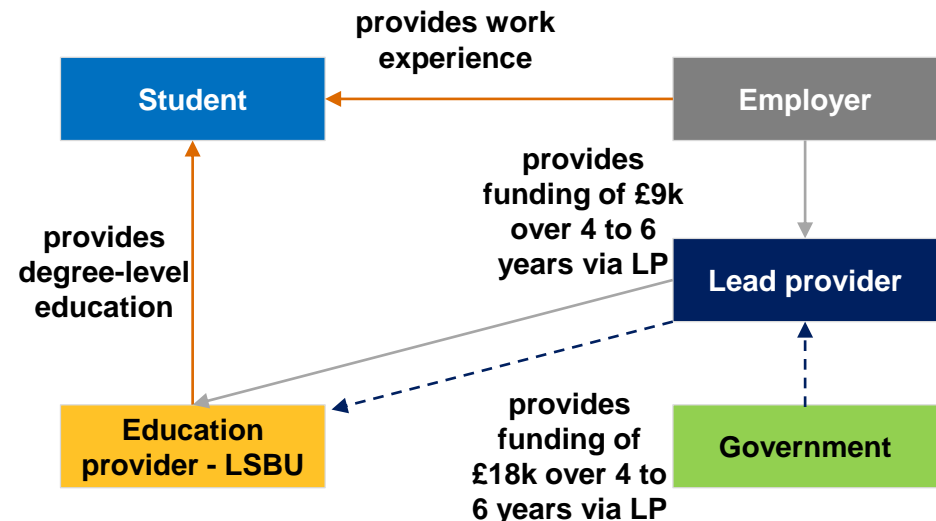
Source: Apprenticeships Policy, England 2015 and discussions with LSBU staff

Apprenticeship levy



Note: the levy applies whether or not the Company / other body is the employer of an apprentice

Apprenticeship funding (interim arrangements)



The interim HA funding and planned new levy are expected to increase demand for HA at the expense of ESPT courses

Apprenticeships – potential impact on income

The new apprenticeship scheme (HA) courses will compete directly with LSBU's existing ESPT course offering. The HA courses represent a risk to LSBU because employers that previously funded ESPT courses (costing £27k per student) will find HA courses more attractive - as they could sponsor one student for £9k, or three students for £27k.

This is expected to result in a material reduction in ESPT students and related income in future.

However, if LSBU offers the apprenticeship courses, there are a number of opportunities:

- LSBU could aim to maintain its previous market share of ESPT students in the new HA course market by revising its ESPT course offering to meet HA requirements
- There may be market growth, as introduction of the levy will mean organisations that previously have not employed apprentices may look to do so in order to re-coup the costs they have incurred through the levy. If LSBU maintains its market share, this should result in income growth
- Additionally, organisations that currently sponsor apprentices can effectively sponsor “3 for the price of 1” under these new funding arrangements, which could further increase demand for HA courses.

However, there is a risk of displacement, as the new students gained by LSBU may be at the expense of other full-time or part-time courses offered by LSBU, aside from ESPT courses.

Apprenticeships – potential impact on costs and profitability

The new apprenticeship scheme courses are different to LSBU's existing part-time courses due to the greater complexity in administration (see funding diagram on previous page).

This means that additional costs are expected to be incurred if LSBU is deemed to be the “Lead Provider”. This would reduce the operating profits of LSBU if no change is made to the current devolved structure of administration by the 7 Schools.

From information received by LSBU to date from Department for Business, Innovation & Skills (BIS) and Skills Funding Agency (SFA), it appears likely that LSBU is expected to undertake the role of “Lead Provider”, but this requires clarification from BIS and SFA.

Key issues

1.1 Until the levy is introduced, it is not clear how the funding for one-third of the new HA courses will be organised. Clarification is required from BIS and SFA.

Ambitions & opportunities

LSBU may be able to retain (or grow) income and margin by offering HA courses and administering them through an IPTE

Vision for Institute for Professional & Technical Education

In order to address the likely additional costs from administering HA courses, LSBU has an option to create a central hub for apprenticeship administration – the Institute for Professional and Technical Education (IPTE). This could be a virtual hub (there is a separate plan to potentially use Passmore Library as a physical hub that is not in the scope of this report). The IPTE key activities include:

- Employing expert staff to fulfil key duties of a Lead Provider – e.g. invoicing, processing payments, liaising with SFA, registering students, reviewing funding eligibility, ensuring students receive appropriate education and work experience.
- Improving marketing of HA courses and customer experience for students / employers, enhancing LSBU's reputation in the market.

LSBU Schools could still retain:

- Teaching responsibilities for students.
- Ownership of the relationships with employers, trade bodies and professional consortia.

The scope of an IPTE remains subject to debate within LSBU. The IPTE could be extended further to also act as a central hub for the administration of Foundation Year (FY) courses, due to their links to HA courses (HA students may require an initial FY course).

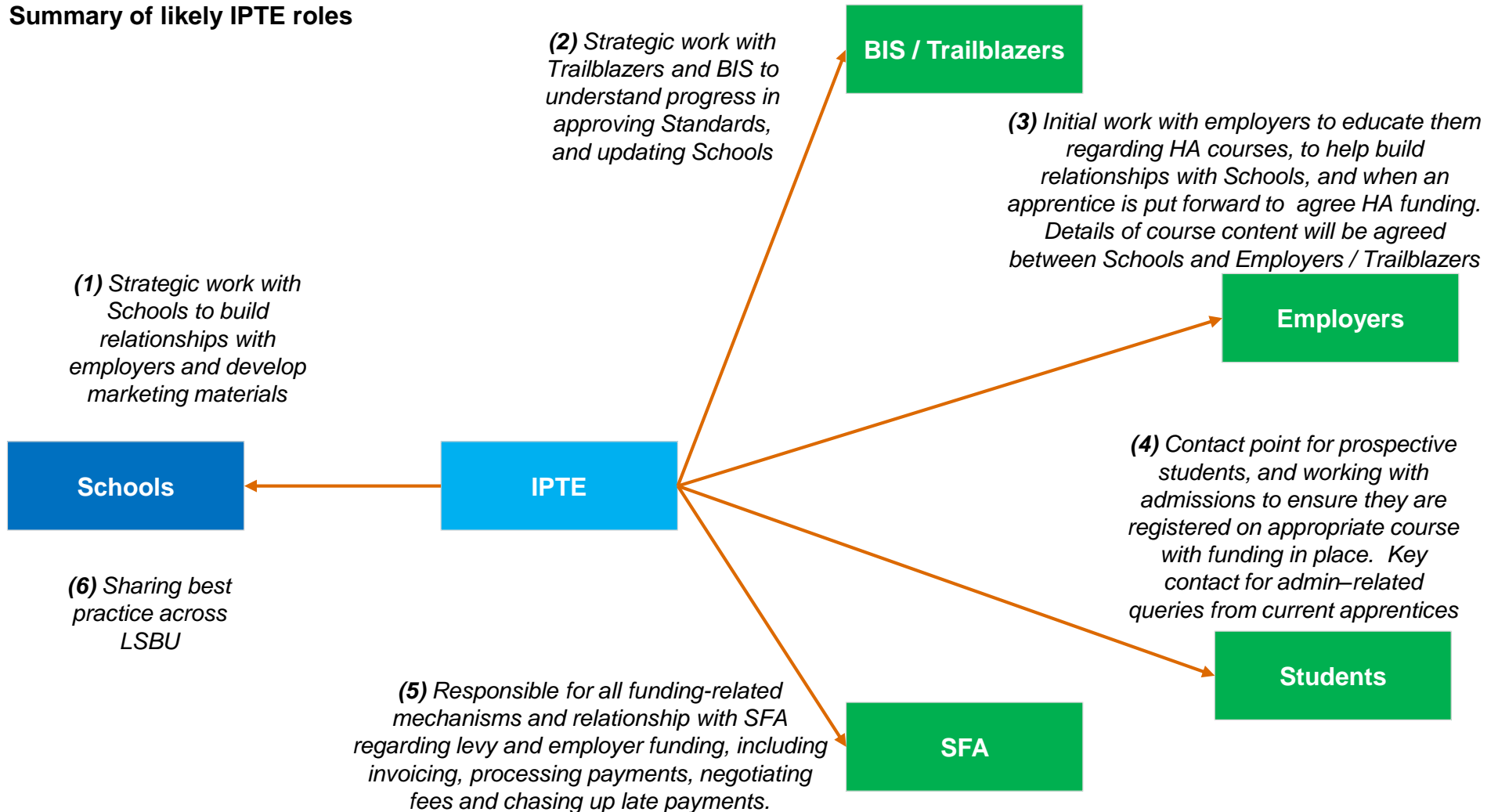
Options

Four scenarios have been identified and are considered in more detail in this report, measured against baseline FY16F:

- **Scenario 0** - Changes to Government funding mean ESPT courses are less attractive to employers. Over time, ESPT student registrations are forecast to decline materially. By doing nothing LSBU can expect to lose income.
- **Scenario 1** – LSBU could look to replace the majority of ESPT courses with HA courses to generate more income. Given the greater complexity of these courses, it is anticipated that the ongoing administration costs of doing this will increase; reducing profitability if no change is made to the way these courses are administered within LSBU. There will also be a necessary up-front investment cost to establish the required administrative infrastructure.
- **Scenario 2a** - LSBU can potentially increase income and reduce administration costs by centralising the administration of the HA courses in a proposed IPTE virtual team. This will require further up-front investment to establish robust processes, procurement and management arrangements to run a virtual team.
- **Scenario 2b** - LSBU can seek to further grow income and reduce administration costs by extending the IPTE virtual team to include the administration of the closely related FY courses. This is likely to need additional up-front investment to cover the FY commitments.

Based on discussions with LSBU senior management, there are a number of key roles that need to be fulfilled by an IPTE

Summary of likely IPTE roles



Curriculum portfolio

Current Trailblazer activities have identified that clarification around HA funding and the lead provider role are key

Trailblazer / HA schemes in Built Environment

Currently LSBU is running a Trailblazer scheme in the School of the Built Environment. The term “Trailblazer” refers to the group of employers and industry bodies who agree the Standard, which must then be approved by BIS.

Currently the Chartered Surveyors Training Trust (CSTT) is undertaking the role of Lead Provider and LSBU is solely the Education Provider. However, communications from the SFA suggest that for HA courses in future LSBU will be acting as the Lead Provider – this requires confirmation from SFA.

The pilot course was designed for student numbers of circa 40 but the current course has 12 students, indicating recruitment may be more difficult than envisaged. In addition, the latest proposed Standard in the industry was rejected by BIS and is currently back with the Trailblazer Group for rework. This indicates there is likely to be a significant amount of time and effort required to develop and administer appropriate HA courses under the new arrangements.

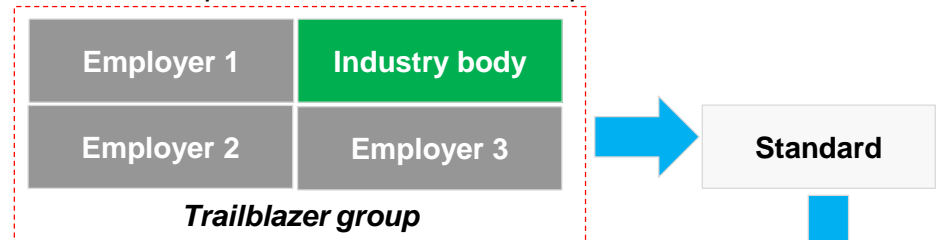
Key issues

2.1 Clarification is needed as to whether LSBU will perform the Lead Provider role for HA courses and, if so, the specific responsibilities it entails, the costs incurred and the income that LSBU can earn from performing this role.

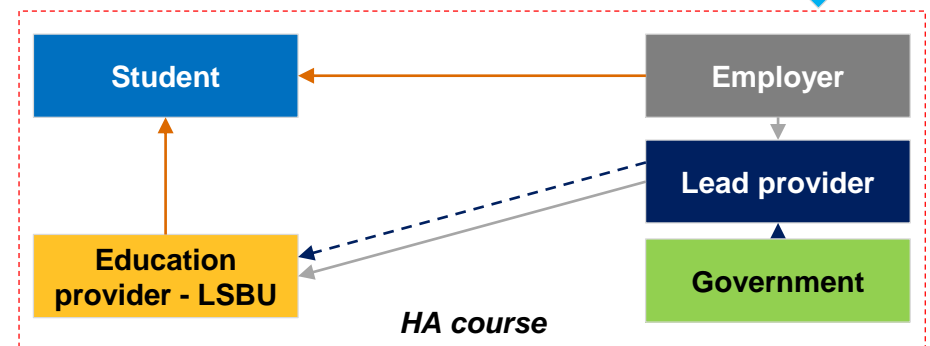
Source: discussions with LSBU senior management

Process to set up an HA course

Trailblazer group sets the Standard, i.e. a statement of the requirements of the HA course, including academic requirements, skills and competencies...



...the Standard must be approved by BIS before it is then mapped into a course through collaboration of academics, employers and industry bodies



The proposed market for HA students varies significantly by School and the strategy may need to differ for each School

Overview of HA market

Understanding the HA market and potential demand for HA courses is key to understanding the income opportunities from these courses. As noted previously, of the 17,511 students at LSBU, 4,640 are sponsored by their employer – and this represents c.1,000 employers. LSBU therefore has a broad network of employer relationships to draw upon. The Government has announced a target of 3m apprentices in the next 5 years, including c.1m in the Health sector, which also indicates that the market for apprenticeships should be sizeable.

HA market by School

An initial view of the HA market has been gathered by holding discussions with senior management across the 7 schools in LSBU. As shown opposite, views as to the impact of the new HA funding on existing students, and the potential opportunities for growth, vary considerably by sector and so by school.

Summary results – impact of funding

The impact of new HA funding is expected to be highest for the School of Built Environment & Architecture as they have 63% of all ESPT students. Senior management are heavily engaged with employers discussing the transition from ESPT to HA courses and an initial Trailblazer pilot course is running (see p.11), indicating demand for HA courses.

Summary of HA impact by LSBU school

School	ES students* FY16	Impact of new HA funding	Opportunities from new HA funding
Applied Sciences	FT – 49 PT – 20	Low	Low / Moderate
Arts & Creative Industries	FT – 50 PT – 0	Low	Low / Moderate
Built Environment & Architecture**	FT – 82 PT – 1,159	High	High
Business	FT – 49 PT – 68	Low	Moderate
Engineering	FT – 94 PT – 134	Low / Moderate	Low / Moderate
Health & Social Care (HSC)	FT – 2,458 PT – 349	Moderate	High
Law & Social Sciences	FT – 26 PT – 92	Low / Moderate	Low / Moderate

* ES refers to “employer sponsored” students, including NHS and other employers

** Also referred to using the acronym “BEA”

Source: discussions with LSBU senior management

The proposed market for HA students varies significantly by School and the strategy may need to differ for each School

Summary results – impact of funding (continued)

The impact of HA courses is also likely to be moderate in HSC, which has a material number of employer sponsored FT and PT students. However, based on discussions with employers and at industry conferences, HSC senior management are reasonably confident that current students can be retained whilst growing HA student numbers. This may be influenced by the introduction of student loans in nursing, which could result in HA courses appearing more attractive than the (more expensive) FT equivalent degree.

Summary results – opportunities for growth

As noted above, initial indications from employers in Built Environment & Architecture (BEA) and HSC are that student numbers can at least be maintained, or potentially increased, through offering HA courses. The School of Business may also have opportunities to grow student numbers in light of the fact BPP University appears to be offering HA courses in Accountancy and Business Management.

Potential next steps – investigating opportunities

To achieve growth in HA courses, senior management have suggested that a target could be set for new HA students per year for each of the schools, excluding BEA and HSC. HSC and BEA additionally suggested piloting new HA courses with LSBU taking on the role of Lead Provider.

Summary of HA impact by LSBU school

School	ES students* FY16	Impact of new HA funding	Opportunities from new HA funding
Applied Sciences	FT – 49 PT – 20	Low	Low / Moderate
Arts & Creative Industries	FT – 50 PT – 0	Low	Low / Moderate
Built Environment & Architecture**	FT – 82 PT – 1,159	High	High
Business	FT – 49 PT – 68	Low	Moderate
Engineering	FT – 94 PT – 134	Low / Moderate	Low / Moderate
Health & Social Care (HSC)	FT – 2,458 PT – 349	Moderate	High
Law & Social Sciences	FT – 26 PT – 92	Low / Moderate	Low / Moderate

* ES refers to “employer sponsored” students, including NHS and other employers

** Also referred to using the acronym “BEA”

Source: discussions with LSBU senior management

Both Applied Sciences and Arts currently have low ESPT student numbers, but there may be opportunities for growth

School	ES students FY16	Impact of new HA funding	Opportunities from new HA funding
Applied Sciences	FT – 49 PT – 20	Low – currently most students on Extended Degree courses which are very specialised and are marketed as an initial year to prepare for a FTUG degree	Low / Moderate – based on the trailblazer group for the food & drink industry, there may be some demand for HA courses in Bakery and Food technology. In Bakery a Standard for Level 4 is being developed and LSBU has market-leading provision currently. Food technology HA courses may be more easily launched as the Standard is already defined. The School has strong relationships with bakery industry contacts and will be looking to input into new Standards. The only likely competition is from Sheffield University. And both Bakery and Food technology modules are currently under review so can be flexed to meet requirements of new Standards. There may be some demand in Biosciences, however competition is expected to be very high.
Arts and Creative Industries	FT – 50 PT – 0	Low – few students currently in this School undertake employer-sponsored courses as it is a micro-industry.	Low / Moderate – 96% of employers have 9 or fewer employees and represent 33% of employment in the industry. There are potentially some opportunities with larger employers – e.g. the BBC – but no indication they are currently looking to support HA students (News UK has a very small number of apprentices). There may be opportunities in Digital Marketing and Informatics, potentially in combination with the Business School. Helping to educate employers regarding the opportunities relating to this new funding may help, however the dynamism of the sector may cause complications in running these courses. Advertising, Marketing and PR companies provide a more traditional base, and therefore courses in creative marketing etc. might find a more ready home for the apprenticeship model.

Employers are actively seeking apprentices in the Construction sector and ESPT displacement risk is high

School	ES students FY16	Impact of new HA funding	Opportunities from new HA funding
Built Environment and Architecture	FT – 82 PT – 1,159	<p>High – a significant number of students are on employer-sponsored courses and employers are interested. Expect one-for-one replacement of current ESPT students with new HA.</p>	<p>High – overall number of employer-sponsored students is expected to rise, with large companies continuing to put forward apprentices and in future smaller companies (due to the levy) putting them forward for the first time.</p> <p>Currently LSBU’s School is leading the market by participating in the Trailblazer, and this should offer first-mover advantages. Only two other institutions in the UK have indicated they might get involved in HA courses.</p> <p>Over 20 employers have indicated they are keen to participate in HA courses. However many employees do not hold traditional qualifications so may need support, especially regarding Maths – and employers may be willing to pay for this support (and have stated that they would prefer University provision as some FE colleges are not providing the required quality of support).</p>

Business and Engineering have low ESPT students, but Business competitors have started to offer HA courses

School	ES students FY16	Impact of new HA funding	Opportunities from new HA funding
Business	FT – 49 PT – 68	Low – currently limited students on employer-sponsored degrees	Moderate: There may be demand for school leavers who wish to gain an accounting qualification – however it will be important to avoid displacing existing FTUG students. It is expected that the majority of new HA students would be in accounting, plus potentially business management or HR. BPP has started to offer these courses, however this does not necessarily indicate that there is a strong market.
Engineering	FT – 94 PT – 134	Low / Moderate – currently employer sponsored students are on Extended Degree programmes in Engineering, which are very specialist and offered by very few institutions. The main employer is TfL and there may be some impact when HA courses are offered – but it is not clear what this may be.	Low / Moderate: The School has not been approached by employers. It is looking to gather data on employers within trailblazer groups to perform a strategic review in February. Cambridge University has set up an office relating to apprentices.

Law & Social Sciences has low ESPT students and no definite growth indicators, but SRA* review may offer opportunities

School	ES students FY16	Impact of new HA funding	Opportunities from new HA funding
Law and Social Sciences	FT – 26 PT – 92	Low / Moderate - In the ULS area (Urban Environment and Leisure) LSBU does offer ESPT courses and these could morph into HA courses.	<p>Low / Moderate</p> <p>Law: There are some HA Law courses offered at University of Law and BPP, however this looks like a “low key” offering. The Solicitors Regulatory Authority is also currently reforming the qualifying Law degrees, so an HA course may become one potential route, or even a preferred route to qualification. HA courses would align well with LSBU’s unique selling point in Law – a strong legal practice element to the degree and one of the country’s leading legal advice units. Level 7 / Masters courses may be of particular interest for PG students in Law (LSBU currently offers a high Level 6 CPE course).</p> <p>Other areas: There may also be interest in HA courses from Planning, Housing and Tourism employers.</p>

*SRA – Solicitors Regulatory Authority

H&SC have high numbers of employer-sponsored FTUG students & expect moderate retention alongside growth in HA

School	ES students FY16	Impact of new HA funding	Opportunities from new HA funding
Health and Social Care	FT – 2,458 PT – 349	<p>Moderate - the risk is not to ESPT students but to FTUG students. Currently Health Education England pays their fees, but this is likely to be replaced with a student loan. There may be a shift from FTUG to HA courses as a result.</p> <p>Some will still be attracted to LSBU's FTUG because of the links with Great Ormond Street Hospital and its work in relation to Adult nursing & disabilities.</p>	<p>High – 1m of the Government's 3m planned apprentices are to be in Health; London NHS Trusts have already indicated they are looking to put forward thousands of HA students. There are 9 key HSC HA courses for LSBU:</p> <ul style="list-style-type: none"> • The first four relate to Adult Social Care, and have BIS approval, but require a QCF diploma which LSBU does not offer (it offers the equivalent but not a QCF). • Level 2 Intermediate Health Care support workers do not require an occupational qualification so LSBU is looking to offer this in September 2016, though waiting on BIS to confirm who is performing the Assessment Plan • Level 3 Senior Health Care Assistant – the Standard is still in sector consultation (LSBU has inputted). It requires a QCF diploma but LSBU has requested the wording be amended to include "or equivalent". • Level 4/5 Assistant Practitioner and the course below are both fundamental to Health – there is a shortage of thousands of nurses in London. LSBU wants to be able to offer these in September 2016 and has written the course already. There is a validation on 25 May, and the Standard must be finalised. • Level 4/5 Nursing Associate – the aim is to offer these in September 2016 but it is not clear that the Standard has been written. • Level 6 Degree Apprenticeship – as above.

Source: pages 14 to 18 based on discussions with LSBU senior management

LSBU offers limited FY courses representing opportunities for growth, but these may compete with FE Access courses

Overview of FY courses

Currently LSBU offers a limited number of FY courses, with currently 372 students enrolled on them. This total includes:

- University Foundation Programme (85)
- International Foundation Course for Business (16)
- Extended Degree Engineering FT or PT (142)
- Extended Degree in Built Environment FT or PT (51)
- Extended Degree in Science FT (47)
- BSc Computing – Foundation Year (31)

These courses are designed as a precursor to a FTUG degree for students who may not have made the required grades for their place at University.

Areas of growth

LSBU has increased its tariff on FTUG courses so expects to see increased demand across existing FY provision. LSBU could also extend its FY offering to more comprehensively cover all sectors, including the Arts, Law and Social Sciences. This could increase the number of students progressing on to FTUG degrees at LSBU, and could improve their progression rates whilst at LSBU (currently can be as low as 60% for certain courses; on average are c.80%).

Potential risks

From discussion with LSBU senior management, there are a number of risks associated with extending provision of FY courses.

Key risks include:

(i) Attracting students from competitor universities

It was noted that Durham University has expanded its “Year 0” provision and Sussex University also offers a wide range of Foundation Year courses, but these are considered “red brick” universities. LSBU may have difficulties in competing with these high-profile Universities for the same students.

(ii) Competition from FE College Access courses

Foundation Year / Year 0 / Extended Degree courses (FY) and Access courses are all at Level 3 and they can contain modules that are broadly similar; key differences include:

- FY courses offered by a University have strong links to the institution – they are marketed as the start of a longer, undergraduate degree; Access students at an FE college may progress to a large range of Universities; and
- FY courses are structured around University terms; whilst Access courses usually involve 1.5 days of teaching per week, structured around the school calendar.

As an alternative to expanding FY courses, LSBU could look to enter a partnership with an FE College providing Access courses. This partnership could ensure clear progression from Access courses to FTUG courses at LSBU so increasing student numbers, and improved progression rates for these students at LSBU.

Source: LSBU registry data; discussions with LSBU senior management

Finance and resources

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Summary of financial implications

The following financial analysis is based on the LSBU 5-year financial forecasts & scenario modelling for HA and FY courses

LSBU data

LSBU data is based on the draft 5-year financial forecasts, from FY16 to FY20. Further analysis of forecasts, including understanding the depth of supporting analysis and further challenge of assumptions and sensitivities, is proposed to be included in the full business case.





Key comparisons

Key comparisons are drawn between FY16 forecast performance (referred to as “today” for simplicity) and the in-year performance forecast in FY20. No balance sheet analysis has been undertaken at this stage.

Note that the annual position, each year up to FY20, is not shown in each case in order to present a simple and clear picture at the outline business case – it is expected that this would be included in the full business case. For the same reason, the cumulative position to FY20 is not shown in each case.

RAG ratings

These are intended to reflect relative levels of change required by the businesses in the scenarios presented, not absolute levels.

- 
 - refers to “Low”, the lowest level of change i.e. Today
- 
 - refers to “Moderate”, the second lowest level of change – used to describe LSBU Scenario 1
- 
 - refers to “High”, the second highest level of change – used to describe LSBU Scenario 2a
- 
 - refers to “Very High”, the highest level of change – used to describe LSBU Scenario 2b

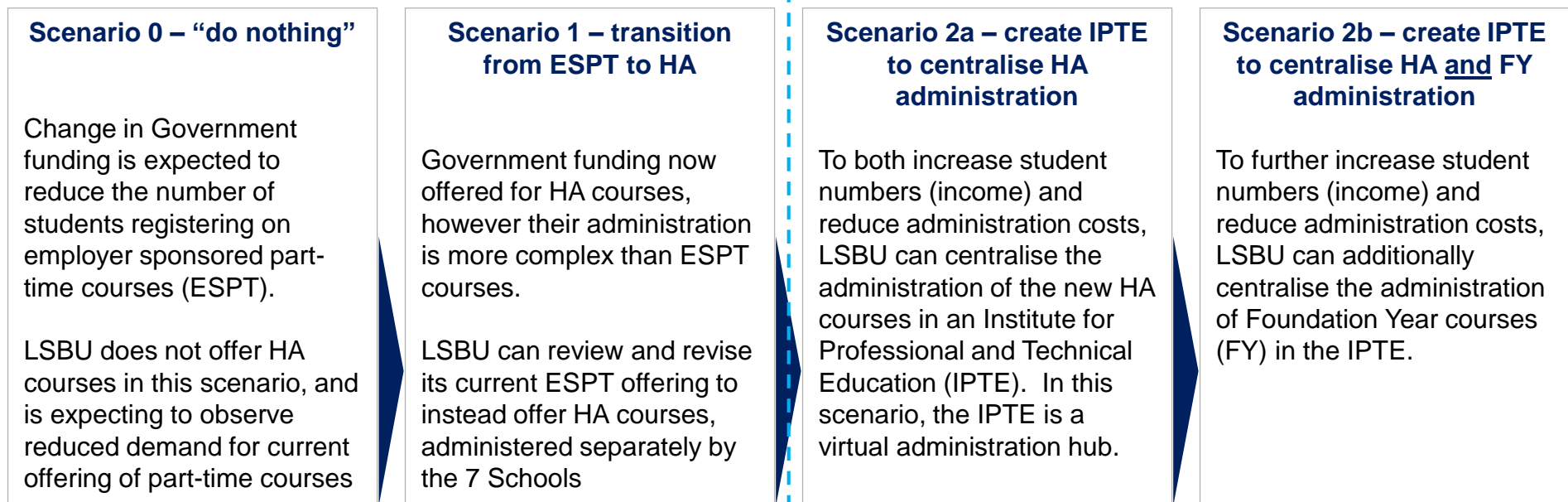
Investment costs

An initial distinction is drawn between “recurring opex” and “upfront investment costs”. A full assessment of operating versus capital costs is proposed for the full business case.

There are 4 scenarios representing increasing levels of change and increasing income and profit opportunities

Status quo  *Greatest required change*

Creation of IPTE



Analysis has been performed across 5 key categories; all are measured against the baseline “today” (the FY16F performance):



Summary results indicate LSBU “doing nothing” will result in a £3.1m reduction in EBITDA compared with today (FY16F)





Summary results

If LSBU does not offer HA courses, in **Scenario 0** it is forecast to lose 1,072 students by FY20, **£7.8m income** and **£3.1m EBITDA**.

By introducing HA courses, in **Scenario 1**, LSBU is forecast to instead lose 498 students by FY20. This is driven by 306 HA students, offset by 804 students displaced. **Income** is forecast to decrease by **£3.7m** and **EBITDA** by **£1.4m**.

Setting up an IPTE to administer HA courses, in Scenario 2a, results in net student growth – an additional 459 by FY20. This generates new **income** of **£2.8m** in FY20 and **£1.2m EBITDA** compared to FY16.

Extending the scope of the IPTE to include FY courses in Scenario 2b further grows student numbers to 18,020.

Year 4 (2020) (£'000)	Today	Scenario 0 “do nothing”	Scenario 1 transition to HA	Scenario 2a IPTE for HA	Scenario 2b IPTE for HA & FY
Income	139,583	131,744	135,838	142,415	142,865
Operating costs	(123,172)	(118,468)	(120,802)	(124,800)	(125,015)
EBITDA	16,412	13,276	15,036	17,615	17,850
Upfront investment cost	0	0	(500)	(660)	(660)
No. of students	17,511*	16,439	17,013	17,970	18,020
Level of change / uncertainty					

* Student numbers do not include semester 2 enrolments; data will be available w/c 1 February
Source: LSBU registry data; LSBU financial summary

This (Scenario 2b) generates new **income** of **£3.3m** and **£1.4m EBITDA** in FY20 compared to FY16.

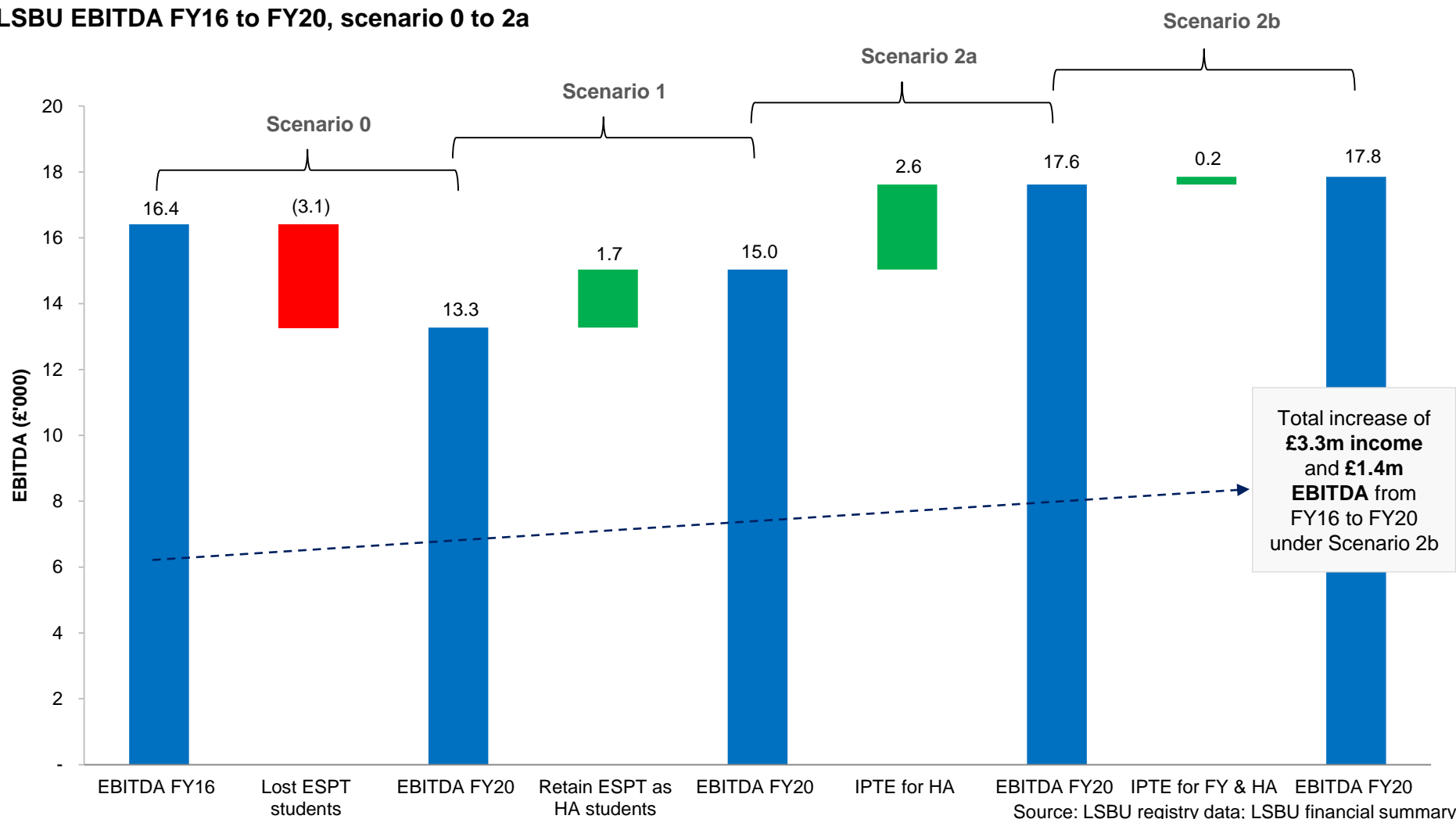
Key sensitivities – summary headlines (for detail see p. 46 – 48)

The key sensitivity is any increase in the level of **displacement** of existing ESPT or FTUG students when LSBU grows HA and FY students. An increase of **10%** (to 80%) displacement, results in a decrease of **£1.1m income** and **£0.6m EBITDA** for LSBU in FY20.

The next greatest sensitivity is achieving growth in HA student numbers: - if only **75%** of forecast numbers are achieved, this results in a decrease of **£0.8m income** and **£0.5m EBITDA** for LSBU in FY20.

Each progressive scenario has a positive impact on EBITDA (marginal growth of £5m compared to “do nothing” scenario)

LSBU EBITDA FY16 to FY20, scenario 0 to 2a



Total increase of **£3.3m income** and **£1.4m EBITDA** from FY16 to FY20 under Scenario 2b

Scenario 0 - "do nothing"

In Scenario 0, LSBU is forecast to lose 1,072 students by FY20, the majority of which are ESPT (1 of 2)

Overview

There are currently 4,640 students on employer sponsored courses. Of this, 2,656 are sponsored by the NHS and are excluded from this analysis as they will be managed as a separate body (however – note comments on page 52 regarding their exclusion).

The number of students on ESPT courses is expected to fall in future due to the attractiveness of HA courses as an alternative to employers. Also, HSC Full-Time Undergraduate (FTUG) students' grants may be replaced with student loans so they may also be attracted to HA courses, reducing FTUG numbers:

Financial year	15/16	16/17	17/18	18/19	19/20
ESPT students	0	(68)	(226)	(479)	(804)
FTUG students	0	(23)	(75)	(160)	(268)
Total students	0	(91)	(301)	(639)	(1,072)

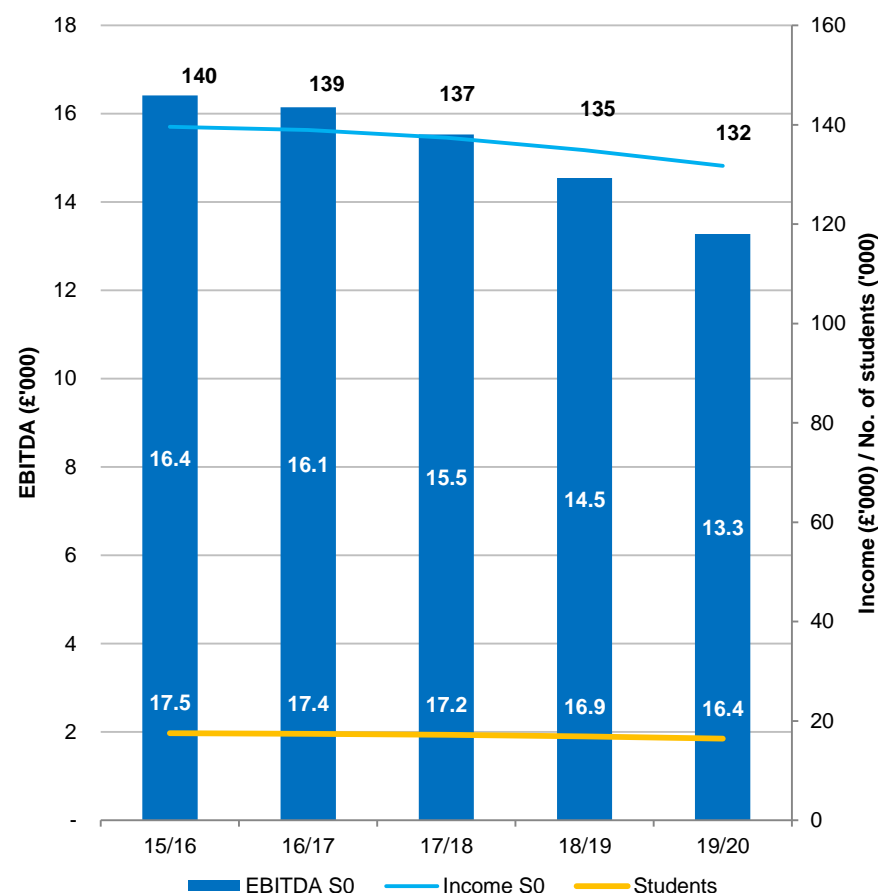
Assumptions

The calculation of the reduction in ESPT and FTUG students is based on the following key assumptions:

(i) Gross student numbers: HA student numbers grow at the following rate in Scenario 2a, which forms part of the calculation for Scenario 0:

Financial year	15/16	16/17	17/18	18/19	19/20
HA students	0	130	430	912	1,531
<i>Annual increase</i>		130	300	482	619

LSBU Income, EBITDA and students
Scenario 0 FY16 to FY20



Source: LSBU financial summary

In Scenario 0, LSBU is forecast to lose 1,072 students by FY20, the majority of which are ESPT (2 of 2)

Assumptions (continued)

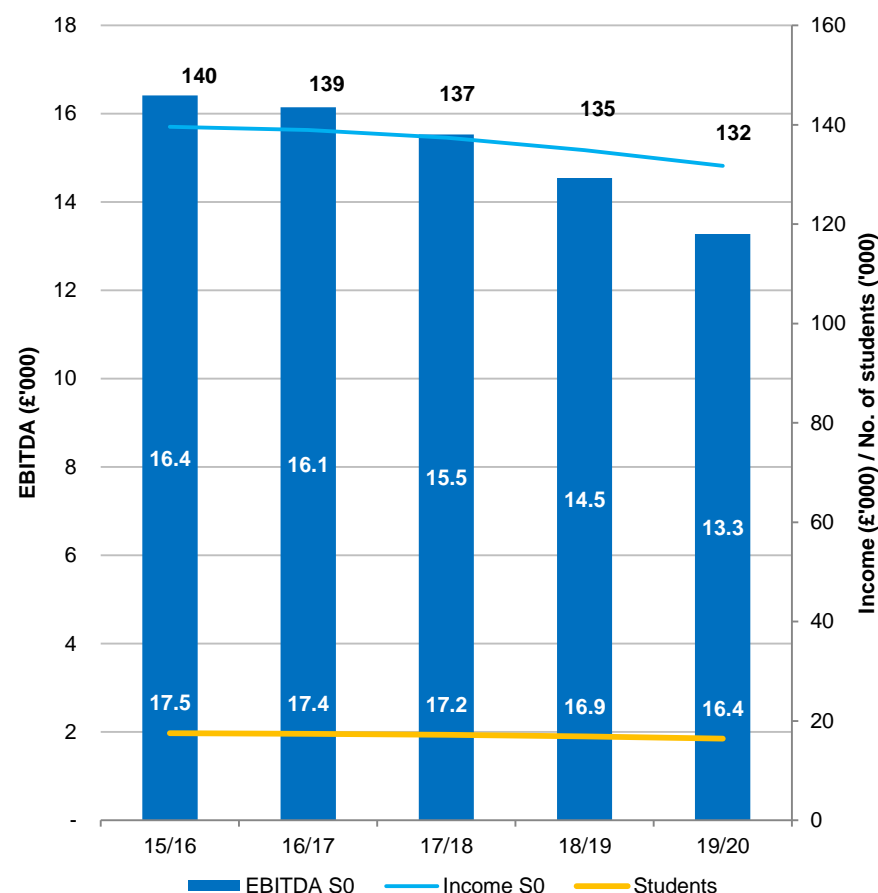
(ii) **Displacement:** of these HA students, 70% are "displaced" from existing students:

- 75% from existing ESPT students
- 25% from existing FTUG students

FY (£'000)	15/16	16/17	17/18	18/19	19/20
HA students (gross)	0	130	430	912	1,531
Displaced from LSBU	0	(91)	(301)	(639)	(1,072)
HA students (net)	0	39	129	273	459

(iii) **Scenario 0 calculation:** it is assumed in Scenario 0 that LSBU does not offer any HA courses. As a result, the 1,072 students that would be displaced by LSBU in Scenario 2a are instead displaced by another institution in Scenario 0.

LSBU Income, EBITDA and students
Scenario 0 FY16 to FY20



Source: LSBU financial summary

Loss of 1,072 students represents a decrease of £7.8m income (6% LSBU total income) and £3.1m EBITDA by FY20

Income

It is assumed that on average each ESPT student represents £6,750 of income to LSBU per annum, and each FTUG student represents £9,000 of income per annum. It is assumed that each ESPT course lasts 4 years, and each FTUG course lasts 3 years.

Income is expected to decrease in line with student numbers:

FY (£'000)	15/16	16/17	17/18	18/19	19/20
ESPT income	0	(459)	(1,526)	(3,233)	(5,427)
FTUG income	0	(207)	(675)	(1,440)	(2,412)
Total income	0	(666)	(2,201)	(4,673)	(7,839)

Operating costs and EBITDA

Operating costs are expected to decrease in line with student numbers (the loss of ESPT & FTUG students to other institutions) – these are shown as “modelled costs” and based on individual course profitability analyses. A further contingency of “other costs” is currently forecast to account for additional administration costs and similar items:

FY (£'000)	15/16	16/17	17/18	18/19	19/20
Modelled costs	0	(296)	(978)	(2,077)	(3,484)
Other costs	0	(104)	(342)	(727)	(1,219)
Total op. costs	0	(400)	(1,320)	(2,804)	(4,703)

And EBITDA is expected to decrease at the same rate:

FY (£'000)	15/16	16/17	17/18	18/19	19/20
Income	0	(666)	(2,201)	(4,673)	(7,839)
Op. costs	0	400	1,320	2,804	4,703
EBITDA	0	(266)	(880)	(1,869)	(3,136)

(i) Modelled costs

This analysis assumes modelled costs are £4,000 per full-time equivalent (FTE) student. The annual cost for a FTUG student is therefore £4,000, and the cost for an ESPT course is £3,000. This is based on LSBU 2013/14 course profitability analysis.

(ii) Other costs

Other operating costs are a balancing figure, included by the Finance team to reduce profitability to what is viewed to be an appropriate level of 40%, in line with historical trends.

Key risks

4.1 Taking no action could result in a reduction of £7.8m income and £3.1m of EBITDA for LSBU risk, due to student numbers decreasing as LSBU loses ESPT market share to competitors offering HA courses.

Source: LSBU financial summary

Scenario 1 – transition ESPT to HA

In Scenario 1, LSBU is forecast to grow HA student numbers to 306 by FY20; 215 displaced by LSBU, 589 by competitors

Overview

In Scenario 1, LSBU offers sufficient HA courses to grow HA student numbers to 306 by FY20. However, it is insufficient to offset student numbers lost by displacement:

- 215 LSBU students displaced by new LSBU HA courses.
- 589 LSBU students displaced by competitors' HA courses.

Overall LSBU forecasts a net reduction of 498 students. LSBU is also planning to review its existing ESPT courses and close those that, as a result of this transition, are no longer profitable.

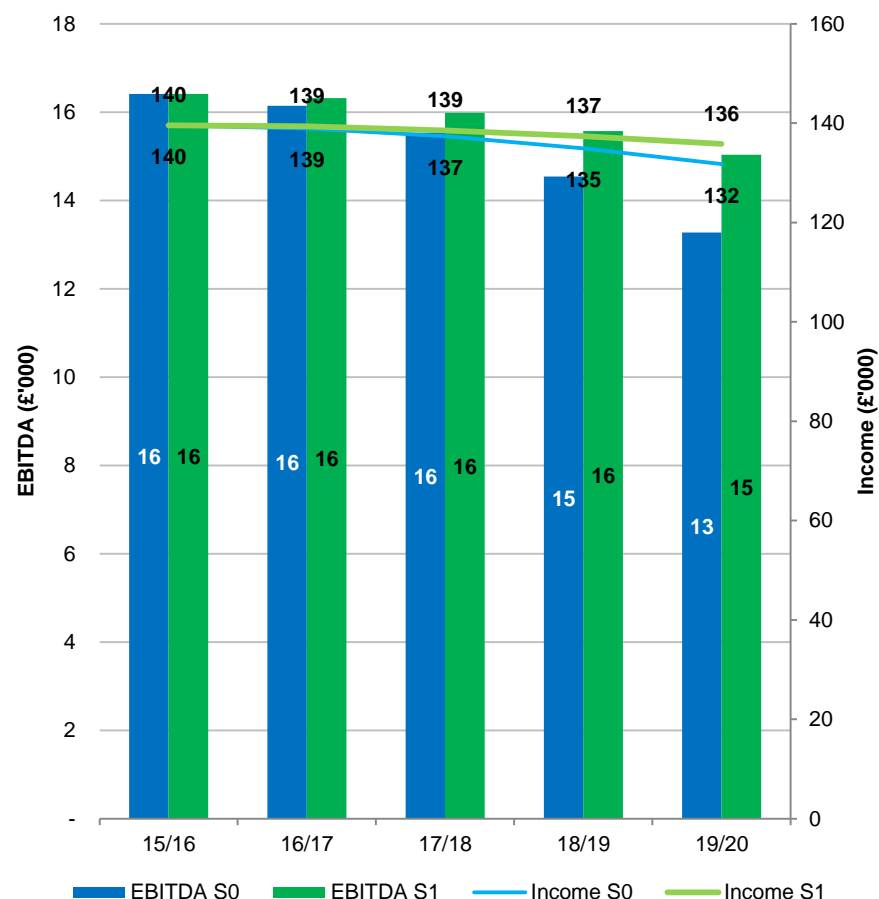
Growth in HA student numbers is mainly anticipated following the planned employer levy in April 2017, as employers seek to generate a return from their contribution towards the levy. Assuming market growth, if LSBU retains current market share it should experience growth in student numbers and income.

Initially, it is expected that LSBU could benefit from “first mover advantage” as it appears to be ahead of competitors in relation to Built Environment trailblazer activities and Health & Social Care preparations based on discussions with senior management.

Assumptions

It is assumed that by FY20 there are 91 net new HA students, comprising 306 total HA students of which 70% are displaced from existing FTUG and ESPT courses. The 91 new students represent 20% of the total target in scenarios 2 and b, based on experience on the Construction Trailblazer scheme (see p.11).

LSBU Income and EBITDA Scenario 0 and 1, FY16 to FY20



Source: LSBU financial summary

In Scenario 1, LSBU forecasts losing £3.7m income and £1.4m EBITDA as students move to competitors' HA courses (1 of 2)

Assumptions (continued)

Financial year	15/16	16/17	17/18	18/19	19/20
FTUG students	0	(5)	(15)	(32)	(54)
ESPT students	0	(14)	(45)	(96)	(161)
HA students (gross)	0	26	86	182	306
New students (net)	0	7	26	54	91

It is further assumed that without central co-ordination, LSBU is not able to fully utilise its potential “first-mover” advantage. As a result, there is a delay in identifying new HA courses based on agreed Standards, setting up the new courses, engaging with employers and potential new students.

As a result of this delay, it is assumed that LSBU loses market share, and 75% of employer-sponsored students on its existing ESPT / FTUG courses are displaced by competitors offering HA courses:

Financial year	15/16	16/17	17/18	18/19	19/20
FTUG students	0	(12)	(41)	(88)	(147)
ESPT students	0	(37)	(125)	(263)	(442)
Displaced by competitors	0	(49)	(166)	(351)	(589)

Income

It is assumed that on average each ESPT student represents £6,750 of income to LSBU per annum, and each FTUG student represents £9,000 of income per annum. It is assumed that each ESPT course lasts 4 years, and each FTUG course lasts 3 years.

Income from HA courses is expected to grow in line with the increase in HA numbers, i.e. circa £6,750 income per student pa. It is forecast to be offset by the reduction in income from students lost to competitors offering HA courses:

FY (£'000)	15/16	16/17	17/18	18/19	19/20
<i>HA students (gross)</i>	<i>0</i>	<i>26</i>	<i>86</i>	<i>182</i>	<i>306</i>
<i>Displaced by LSBU HA</i>	<i>0</i>	<i>(19)</i>	<i>(60)</i>	<i>(128)</i>	<i>(215)</i>
<i>Displaced by competitors</i>	<i>0</i>	<i>(49)</i>	<i>(166)</i>	<i>(351)</i>	<i>(589)</i>
HA income (gross)	0	189	603	1,276	2,134
Income lost	0	(500)	(1,650)	(3,505)	(5,879)
Income (net)	0	(230)	(1,047)	(2,229)	(3,745)

Note: there will be a cash flow impact from income is expected to be received at later stages over the life of an HA course as compared to an ESPT course.

Operating costs and EBITDA

Operating costs are expected to rise from c.60% of income to c.65% reflecting the mix of (i) new HA students at 30% contribution due to the complexity of these courses, increasing costs, and (ii) loss of ESPT and FTUG students at 40% contribution, reducing costs.:

FY (£'000)	15/16	16/17	17/18	18/19	19/20
Modelled costs	0	(138)	(466)	(991)	(1,665)
Other costs	0	1	(150)	(393)	(705)
Total op. costs	0	(137)	(616)	(1,384)	(2,369)
<i>Added back deprec.</i>		<i>0</i>	<i>125</i>	<i>125</i>	<i>125</i>

In Scenario 1, LSBU forecasts losing £3.7m income and £1.4m EBITDA as students move to competitors' HA courses (2 of 2)

And EBITDA is expected to increase at the same rate:

FY (£'000)	15/16	16/17	17/18	18/19	19/20
Income (net)	0	(230)	(1,047)	(2,229)	(3,745)
Op. costs	0	137	616	1,384	2,369
EBITDA (net)	0	(93)	(432)	(845)	(1,376)

(i) Modelled costs

This analysis assumes modelled costs are £4,000 per full-time equivalent (FTE) student. The annual cost for a FTUG student is therefore £4,000, and the cost for an ESPT course is £3,000. This is based on LSBU 2013/14 course profitability analysis.

(ii) Other costs

Other operating costs are a balancing figure, included by the Finance team to reduce profitability to what is viewed to be an appropriate level of circa 30%, incorporating additional administrative duties to be performed as lead provider (which it appears LSBU may need to do – this remains to be confirmed).

Lead provider role

A key assumption of the business case is that LSBU will undertake a lead provider role. If LSBU is not a lead provider, the operating costs for HA courses should be largely unchanged from ESPT courses, so operating profit margin would be flat (at c. 40%).

If LSBU intends or is required to undertake the Lead Provider role, there will be additional costs including registration of students, understanding and managing funding to key parties, overseeing the final validation (academic and work-based), and ensuring Individual Learner Records (ILRs) are updated and submitted as required.

However, LSBU could charge employers for undertaking this role and / or receive government funding. There may be additional benefits to undertaking the lead provider role, such as prestige and credibility, that are more difficult to quantify, especially at this stage.

Note – experience to date from trailblazer activity in the Built Environment indicate that the funding mechanisms are still subject to debate between SFA and the acting-lead provider which has materially delayed funding receipts for LSBU.

Key risks

4.2 If LSBU is a lead provider, operating costs are likely to increase due to the extra duties involved. Understanding LSBU's required role, and the costs (and potential income) associated with this, is key to forecasting HA course profitability more accurately.

Source: LSBU financial summary

Scenario 1 requires upfront investment of potentially £0.5m to develop systems. However this requires further investigation

Upfront investment costs

These have been estimated as shown below:

Costs of investment (£'000)	2016/17	2017/18	2018/19	2019/20
Recurring opex				
Salary and on costs for 1 x Managers	(65)	(65)	(65)	(65)
£100k p.a. to remap existing modules and gain accreditation, within School budgets	-	-	-	-
Depreciation over 4 year UEL	-	(125)	(125)	(125)
Total opex*	(65)	(190)	(190)	(190)
Upfront investment (capex)				
New / development of systems	(500)	-	-	-
Total upfront investment	(500)	-	-	-

*All items are included within operating costs, except depreciation that is removed from the EBITDA calculation

Source: LSBU financial summary

Cost of preparing HA courses

Feedback from the Health & Social Care School is that there may need to be material investment in course development as (i) the Standards are highly prescriptive; and (ii) it is an iterative process to develop courses with input from industry groups and employers. For a Level 2 or 3 course, or a Level 4/5 that very closely mimics an existing Foundation Degree, then it may require c.£30k of work. However for the large Level 4 to 6 courses, it may cost in the region of £50k – 100k to develop each course.

Development of systems

Employers, academics and students will need access to information on each student's ILR. It is not clear how this will be achieved as it is not intended to be a paper file. As a result, systems development at LSBU may be required, including consideration of how to ensure compatibility with the NHS firewall.

Total development costs are currently estimated at £500k. However some suggestions are that costs could be as high as £1m. Note – LSBU has invested c.£250k in a placement management system that may provide some of this capability.

Potential additional investment costs

Other items that may need to be borne by the LSBU schools include:

- The costs of reviewing the profitability of ESPT courses that do not have equivalent HA courses with a view to potentially closing these.
- Where HA courses are identified, and suitable modules of formal education are not currently offered at LSBU, working to develop these new modules and ensure they meet the required Standard(s).

Scenario 1 key risks include growth of the HA market, levy funding longevity, and meeting employers' needs (1 of 2)

HA market

Predicting demand in the HA market is very difficult given uncertainties around long-term funding and employers' reactions to the planned new levy. And the planned voucher scheme for 2016/17 onwards requires clarification.

LSBU has run trailblazer schemes this year but has not undertaken the role of Lead Provider (we understand LSBU has requested registration with SFA and is awaiting results), and this may entail significant investment of time and resource.

Government funding

It is not clear what will happen after 2020. For example, the Government may not continue to support HA courses in the long-term. And the industry may not be willing to pick up the full cost of funding.

Using the current trailblazer schemes as an indication of risks to the HA schemes, there is a key risk around cash flow as the funding mechanisms with SFA, trade consortia and employers remain unclear.

Employers needs

Some employers operate in a cyclical industry (e.g. construction), where a downturn may mean there is a reduction in the numbers of employed staff to be put forward as apprentices.

Members of LSBU senior management have suggested that employers will want flexible start dates which currently are not on offer, and may want multiple exit points as well. This may require multiple dates for awards ceremonies. It will also be necessary to have flexible and available support services, e.g. for dyslexia.

These factors could increase the complexity and costs of administering HA courses.

Premises

Senior management in the School of Health and Social Care stated that there are insufficient Skills Labs, and this issue will be exacerbated by increased student numbers.

Reputational status

If LSBU becomes known for successfully running HA courses, it might have a negative impact on the branding for UG courses – for example indicating that LSBU courses offer a lower level of academic achievement. It must be clear that HA courses do not undermine the academic rigour of degree-level courses.

(summary of key risks provided overleaf)

Scenario 1 key risks include growth of the HA market, levy funding longevity, and meeting employers' needs (2 of 2)

Key risks

4.3 To reduce the risks around Scenario 1, further investigation is required of:

- Demand in the HA market, which remains uncertain at this stage
- Longevity of Government funding, as this will have a key impact on demand
- Employers' needs around flexibility, which may be challenging to meet with LSBU's existing structures and could increase the cost of running the HA courses.
- Capacity constraints, for example in Health & Social Care, may restrict the potential growth in HA numbers.

Scenario 2a – IPTE for HA only

In Scenario 2a, LSBU is forecast to grow HA student numbers to 1,531 by FY20, of which 459 are net new students to LSBU

Overview

By creating an IPTE, LSBU expects to attract additional students through enhancing its reputation in the HA market, as well as materially reducing administration costs. HA student numbers are expected to grow at the following rate:

Financial year	15/16	16/17	17/18	18/19	19/20
1yr FT HA	0	30	50	100	150
Degree PT HA	0	100	380	812	1,381
Total HA students	0	130	430	912	1,531

However, the majority of these are expected to be ESPT or FTUG students switching to HA courses; net new student numbers are:

Financial year	15/16	16/17	17/18	18/19	19/20
Total HA students	0	39	129	273	459

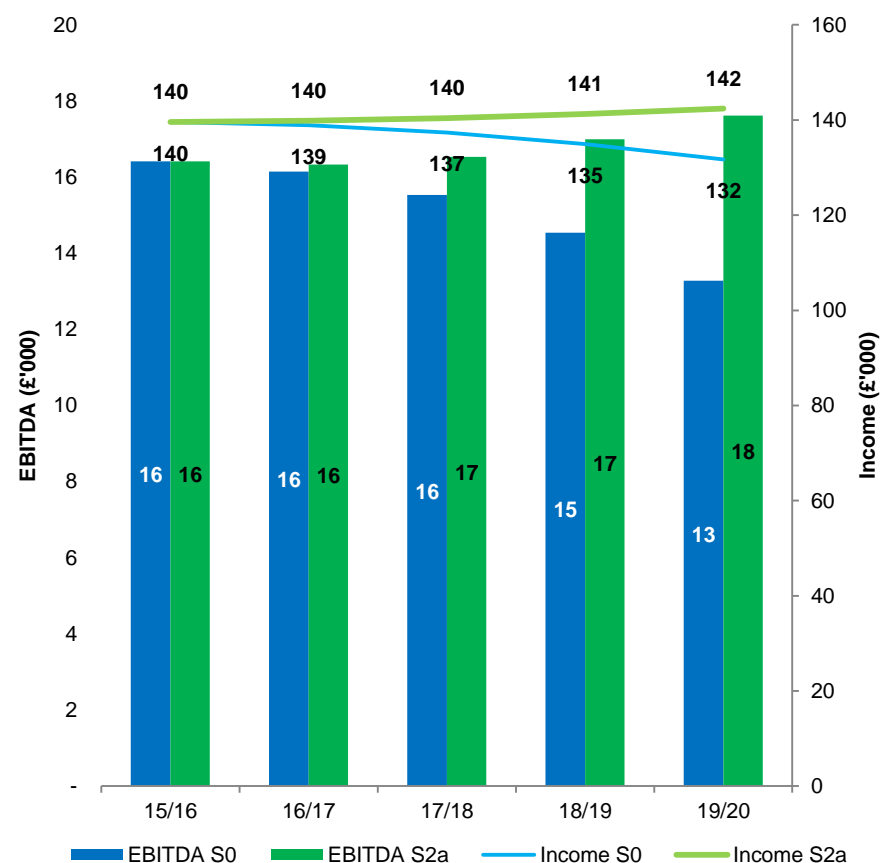
These figures are based on the following assumptions:

(i) **Gross students:** gross HA student numbers are expected to grow as above. As noted, there are 1,565 ESPT students currently (excluding HSC students), so the net number of 459 HA students represents a 33% increase over the next 4 years.

(ii) **Displacement:** of these HA students, 70% are “displaced” from existing students: 75% from existing ESPT students and 25% from existing FTUG students.

(iii) **Progression:** the total 1,531 HA students in FY20 comprise 150 FT HA and 1,381 PT HA students. It is assumed that 80% progress Year 1 to Year 2, and 90% each year thereafter.

LSBU Income and EBITDA Scenario 0 and 2a, FY16 to FY20



Source: LSBU financial summary

In Scenario 2a, LSBU generates £2.8m additional income and £1.2m EBITDA in FY20, as compared to FY16

Income

Income is expected to increase in line with student numbers:

FY (£'000)	15/16	16/17	17/18	18/19	19/20
HA students (net, #)	0	39	129	273	459
Income (net)	0	279	815	1,708	2,831

It is assumed that on average each Degree PT HA student represents £6,750 of income to LSBU per annum, and each 1yr FT HA student represents £9,000 of income per annum. It is assumed that each Degree PT HA course lasts 4 years, and each FT HA course lasts 1 year.

Operating costs and EBITDA

Operating costs are expected to increase in line with HA student numbers, referred to as “modelled costs” and based on individual course profitability analyses. A further contingency of “other costs” is included in total operating costs, representing administration costs and related items:

FY (£'000)	15/16	16/17	17/18	18/19	19/20
Modelled costs	0	124	362	759	1,258
Other costs	0	235	335	370	370
Total op. costs	0	359	697	1,129	1,628
Add back deprec.		0	125	125	125

And operating profit (net profit excluding estate costs) is expected to increase at the same rate:

FY (£'000)	15/16	16/17	17/18	18/19	19/20
Income	0	279	815	1,708	2,831
Op. costs	0	(359)	(697)	(1,129)	(1,628)
EBITDA	0	(80)	118	579	1,203

Note – figures above are net new students, excluding those displaced

(i) Modelled costs

This analysis assumes modelled costs are £4,000 per full-time equivalent (FTE) student. The annual cost for a FTUG student is therefore £4,000, and the cost for an ESPT course is £3,000.

This cost assumption is based on a LSBU-wide course profitability analysis undertaken by the Finance team.

(ii) Other costs

Other operating costs are a balancing figure, included by the Finance team to reduce profitability to what is viewed to be an appropriate level of 40%. This represents an increase of 10% margin compared to Scenario 1, and reflects the forecasts benefits (reduced operating costs) of using the new IPTE.

Source: LSBU financial summary

Scenario 2a requires upfront investment of £660k in FY17 including system development and project management

Investment costs

The estimated costs of creating an IPTE are shown opposite.

The system costs are estimated at £500k (as in Scenario 1), however, some suggestions are that costs could be as high as £1m. However, LSBU has invested c.£250k in a placement management system that may provide some of this capability.

Potential additional investment costs

One potential constraint on growth is recruiting staff with the appropriate level of skills. It was noted in the School of Health & Social Care that there have been some difficulties recruiting staff based on current remuneration levels. Restructuring the remuneration may require further investment.

Key risks

4.4 Failure to successfully implement the IPTE could disrupt LSBU's operations (in the short-term) and its reputation.

Costs of investment (£'000)	2016/17	2017/18	2018/19	2019/20
Recurring opex - IPTE team				
Salary and on costs for 1 x Director	(120)	(120)	(120)	(120)
Salary and on costs for 2 x Managers	(65)	(130)	(130)	(130)
Salary and on costs for 3 x Assistants	(35)	(70)	(105)	(105)
Recurring opex - other				
3 training sessions pa (£15k) recurring opex if IPTE	(15)	(15)	(15)	(15)
£100k p.a. to remap existing modules and gain accreditation, in School budgets	-	-	-	-
Depreciation over 4 year UEL	-	(125)	(125)	(125)
Total opex*	(235)	(460)	(495)	(495)
Upfront investment (capex)				
New / development of systems	(500)	-	-	-
Project mgt team	(160)			
Total upfront investment	(660)	-	-	-

*All items are included within operating costs, except depreciation that is removed from the EBITDA calculation

Source: LSBU financial summary

Scenario 2b – IPTE for FY and HA

In Scenario 2b, LSBU forecasts additional income of £3.3m in FY20 compared to FY16, driven by 509 new students (1 of 2)

Overview

The IPTE model could be extended to incorporate FY students. Note that significant concerns have been raised regarding this proposal in relation to Extended Degrees (which comprise the majority of current FY students), as very strong collaborative working is required between admissions, the course tutor and administrative staff to support these students and ensure progression onto the full undergraduate degree.

Financial year	15/16	16/17	17/18	18/19	19/20
FY students	0	425	450	450	450

Student numbers

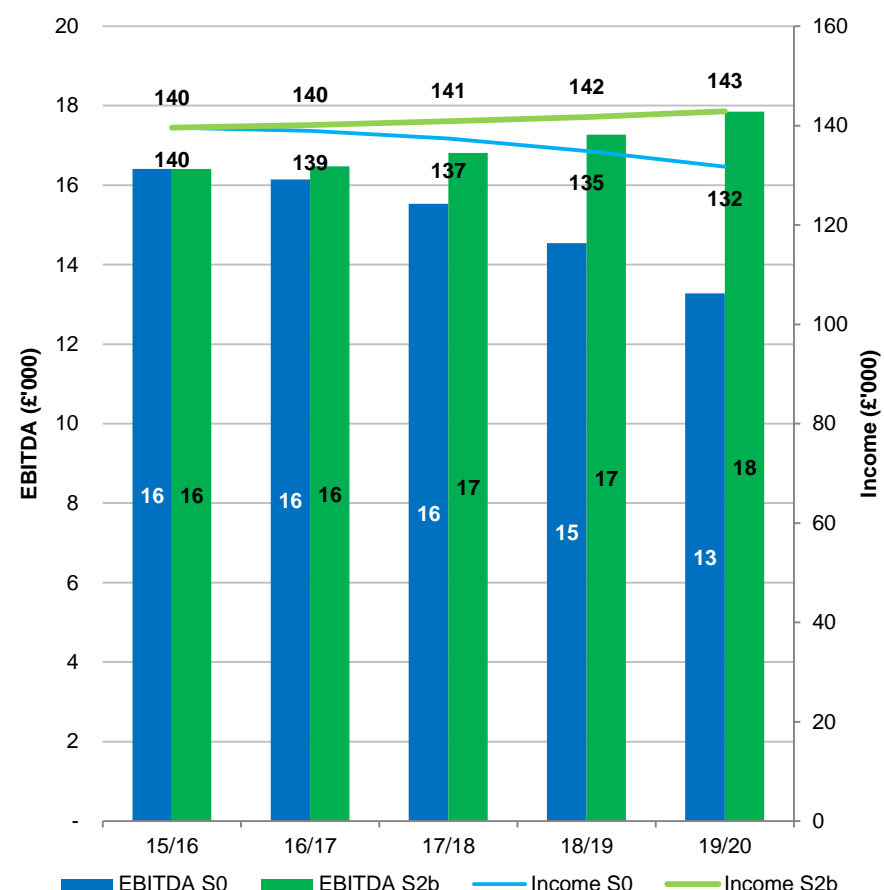
By creating an IPTE that covers Foundation Year (FY) as well as HA courses, FY student numbers are expected to grow at the following rate:

Financial year	15/16	16/17	17/18	18/19	19/20
FY students	0	25	50	50	50
HA students	0	39	129	273	459
New students	0	64	179	323	509

It has been assumed that the additional impact on HA numbers from increased FY students is immaterial at this stage of the OBC; it is proposed that this is investigated in the FBC.

The figures above are based on the following assumptions (see overleaf):

LSBU Income and EBITDA Scenario 0 and 2b, FY16 to FY20



Source: LSBU financial summary

In Scenario 2b, LSBU forecasts additional income of £3.3m in FY20 compared to FY16, driven by 509 new students (2 of 2)

Student numbers (continued)

(i) **Gross students:** gross FY students are based on Finance’s view of the benefits of IPTE, in particular the improved student and employer experience if there is a dedicated IPTE.

(ii) **Displacement:** LSBU is expected to have 400 Foundation Year students as at 1 September 2016. This number is expected to grow to 450; with 50 new students and 400 continuing. The level of displacement remains at 70% for HA students (numbers consistent with 2a), so net new students are expected to be:

Financial year	15/16	16/17	17/18	18/19	19/20
FY students	0	25	50	50	50
HA students	0	39	129	273	459
New students	0	64	179	323	509

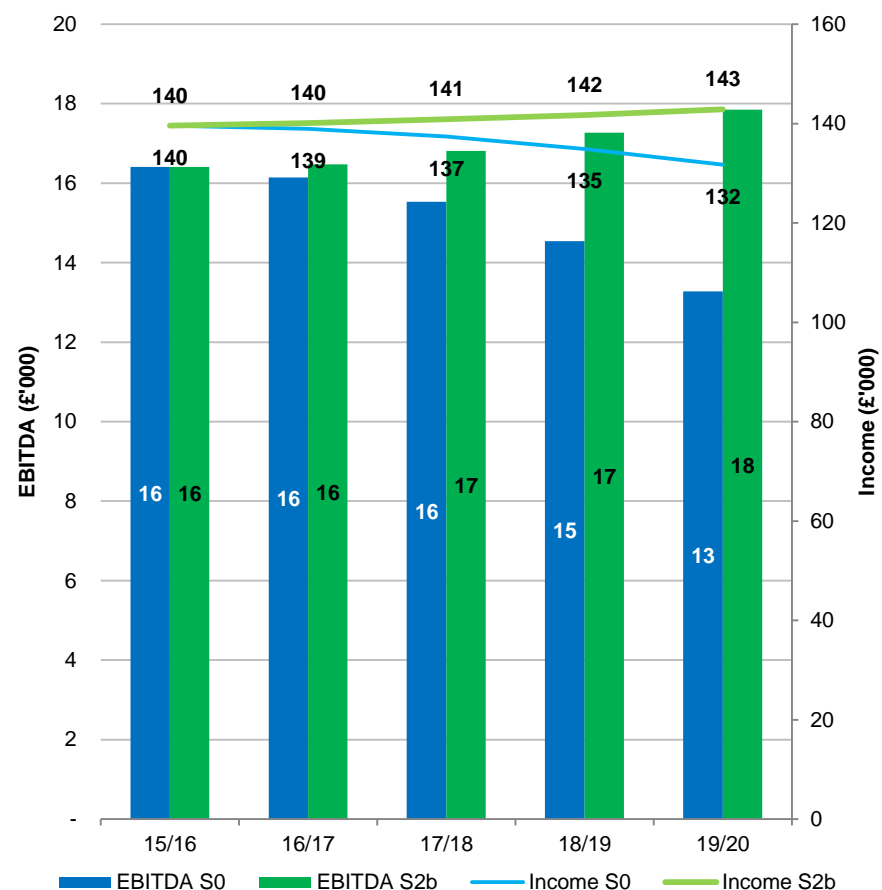
Income

Income is expected to increase in line with student numbers:

FY (£'000)	5 15/16	16/17	17/18	18/19	19/20
Income (FY)	0	225	450	450	450
Income (HA)	0	279	815	1,708	2,831
Total income	0	504	1,265	2,158	3,281

It is assumed that each FY student represents £9,000 of income per annum. As noted before, it is also assumed each Degree PT HA student represents £6,750 of income to LSBU per annum, and each 1yr FT HA student represents £9,000 of income per annum. It is assumed that each Degree PT HA course lasts 4 years, and each FT HA and FY course lasts 1 year.

LSBU Income and EBITDA Scenario 0 and 2b, FY16 to FY20



Source: LSBU financial summary

Additional income of £3.3m in Scenario 2b translates into £1.4m of additional EBITDA in FY20, as compared to FY16

Operating costs and EBITDA

Operating costs are expected to increase in line with HA student numbers, referred to as “modelled costs” and based on individual course profitability analyses. A further contingency of “other costs” is included in total operating costs, representing administration costs and related items:

Combined FY and HA operating costs are forecast to be:

FY (£'000)	15/16	16/17	17/18	18/19	19/20
Modelled costs	0	209	532	929	1,428
Other costs	0	235	335	370	415
Total op. costs	0	444	867	1,299	1,844
<i>Add back deprec.</i>		<i>0</i>	<i>125</i>	<i>125</i>	<i>125</i>

These operating costs include:

(i) Modelled costs

This assumes FY student modelled costs are £3,400 per annum, and each course lasts one year. HA student modelled costs are as per Scenario 2a. This cost assumption is based on a LSBU-wide course profitability analysis undertaken by the Finance team.

(ii) Other costs

Other operating costs are a balancing figure, included by the Finance team to reduce profitability to what is viewed to be an appropriate level of 40%.

And operating profit (net profit excluding estate costs) is expected to increase at the same rate:

FY (£'000)	15/16	16/17	17/18	18/19	19/20
Income	0	504	1,265	2,158	3,281
Op. costs	0	(444)	(867)	(1,299)	(1,844)
EBITDA	0	60	398	859	1,438

Note – figures above represent new students, excluding those displaced

Source: LSBU financial summary

Scenario 2b requires upfront investment of £0.7m for systems and PM, assuming no additional investment for FY courses

Investment costs

These costs are assumed to be identical to those on Scenario 2a – i.e. the material component of costs is believed to be setting up an IPTE initially. The additional cost of transferring the administration of FY courses into the scope of the IPTE has not been calculated and is assumed to be immaterial to the OBC.

Key risks

4.5 Failure to successfully implement the IPTE could disrupt LSBU's operations both relating to HA and FY courses (in the short-term) and its reputation.

Costs of investment (£'000)	2016/17	2017/18	2018/19	2019/20
Recurring opex - IPTE team				
Salary and on costs for 1 x Director	(120)	(120)	(120)	(120)
Salary and on costs for 2 x Managers	(65)	(130)	(130)	(130)
Salary and on costs for 3 x Assistants	(35)	(70)	(105)	(105)
Recurring opex - other				
3 training sessions pa (£15k) recurring opex if IPTE	(15)	(15)	(15)	(15)
£100k p.a. to remap existing modules and gain accreditation, in School budgets	-	-	-	-
Depreciation over 4 year UEL	-	(125)	(125)	(125)
Total opex*	(235)	(460)	(495)	(495)
Upfront investment (capex)				
New / development of systems	(500)	-	-	-
Project mgt team	(160)	-	-	-
Total upfront investment	(660)	-	-	-

*All items are included within operating costs, except depreciation that is removed from the EBITDA calculation

Source: LSBU financial summary

Sensitivities

Key income sensitivities are displacement & student growth - 10% increase in displacement reduces income by £1.1m

Income sensitivities

The main drivers in the financial model for Scenario 2b (the most comprehensive level of change) have been reviewed by flexing them to reflect potential increases or decreases based on management's experience of historical volatility. The key income drivers are shown opposite.

Displacement

The largest impact on income is any increase in the level of displacement of existing ESPT or FTUG students when LSBU grows HA and FY students. An increase of **10%** (to 80%) displacement, results in a decrease of **£1.1m income** for LSBU in FY20. An increase of **20%** (to 90%) results in a decrease of **£2.2m income** in FY20.

		2016/17 FY17	2017/18 FY18	2018/19 FY19	2019/20 FY20
Impact on Income (downside risk)					
<i>Baseline - Scenario 2b versus FY16</i>					
Increased displacement	80%	(95)	(308)	(650)	(1,089)
Reduced student no's	75%	(124)	(311)	(538)	(820)
Increased conversion from FT students	40/60	(29)	(101)	(207)	(362)
Reduced progression rate from Year 1 to Year 2	70%	0	(25)	(59)	(136)
Impact on Income (extended downside risk)					
<i>Baseline - Scenario 2b versus FY16</i>					
Increased displacement	90%	(182)	(614)	(1,301)	(2,194)
Reduced student no's	50%	(248)	(637)	(1,076)	(1,641)
Impact on Income (upside risk)					
<i>Baseline - Scenario 2b versus FY16</i>					
Increased conversion from PT students	10/90	32	101	216	369
Increased progression rate from Year 1 and Year 2	90%	0	16	74	142

Student numbers

The next most significant sensitivity is student numbers. If LSBU achieved **75%** of planned growth in student numbers, it would reduce **income** by **£0.8m** (and **50%** would reduce income by **£1.6m**).

Other sensitivities

If a greater proportion of **FTUG** students are displaced versus ESPT, this reduces income as FTUG fees are equal to ESPT but paid over a shorter timeframe. If FTUG share increases by **15%** (to 40% of displaced students) this reduces income by **£0.4m**. Finally, if the **progression** rate reduces for Year 1 students from 80% to **70%**, this reduces income by **£0.1m**.

Source: LSBU financial summary

Key EBITDA sensitivities are displacement & student growth; progression rates & opex have relatively low impact

EBITDA sensitivities

The key EBITDA drivers are shown opposite.

Displacement

Similarly to income, the largest impact on EBITDA is any increase in the level of displacement of existing ESPT or FTUG students when LSBU grows HA and FY students. An increase of **10%** (to 80%) displacement, results in a decrease of **£0.6m EBITDA** for LSBU in FY20. An increase of **20%** (to 90%) results in a decrease of **£1.2m EBITDA** in FY20.

Student numbers

The next most significant sensitivity is student numbers. If LSBU achieved **75%** of planned growth in student numbers, it would reduce **EBITDA** by **£0.5m** (50% would reduce **EBITDA** by **£0.9m**).

Impact on EBITDA (downside risk)		FY17	FY18	FY19	FY20
<i>Baseline - Scenario 2b</i>		60	398	859	1,438
Increased Cannibalisation	80%	(53)	(171)	(361)	(605)
Reduced Student No.s	75%	(73)	(430)	(556)	(463)
Increased Conversion from FT Students	40/60	(16)	(56)	(115)	(201)
Reduced Progression Rate from Year 1 to Year 2	70%	0	(14)	(33)	(75)
Increase in Cost Assumptions	102%	(5)	(9)	(10)	(11)

Impact on EBITDA (extended downside risk)		FY17	FY18	FY19	FY20
<i>Baseline - Scenario 2b</i>		60	398	859	1,438
Increased Cannibalisation	90%	(101)	(341)	(723)	(1,219)
Reduced Student No.s	0.5	(145)	(369)	(613)	(927)

Impact on EBITDA (upside risk)		FY17	FY18	FY19	FY20
<i>Baseline - Scenario 2b</i>		60	398	859	1,438
Increased Conversion from PT Students	10/90	18	56	120	205
Increased Progression Rate from Year 1 and Year	90%	0	9	41	79
Decrease in Cost Assumption	0.98	5	9	10	11

Other sensitivities

As for income, if **FTUG** share of displacement increases by **15%** (to 40% of displaced students) this reduces **EBITDA** by **£0.2m**, and the reverse scenario (10% of displaced students) represents additional **EBITDA** of **£0.2m**. If the **progression** rate reduces for Year 1 students from 80% to **70%**, this reduces **EBITDA** by **£0.1m** (and the reverse is true – **90%** progression generates **£0.1m EBITDA**). Finally, if **operating costs** increase by **2%**, this reduces **EBITDA** by **£11k**; and similarly if they decrease by **2%** it generates additional **EBITDA** of **£11k**.

Source: LSBU financial summary

Structure, remit and governance arrangements for IPTE

Senior management views indicate that the IPTE's role should not include writing or quality assuring courses...

Key items in IPTE

There is wide-ranging support from the senior management across Schools for introduction of an IPTE. The proposed key roles it should perform include:

- Overseeing completion and submission of the Individual Learner Records.
- Helping Schools prepare for HA students strategically.
- Helping deal with administration to reduce costs, including preparing and issuing materials for employers to explain how the funding works and what they need to do.
- Helping share best practice across Schools.
- Centralising the approach to marketing of HA courses.
- Acting as the key contact when employers contact LSBU to discuss apprentices, and similarly when prospective and current apprentices contact LSBU.
- Assessing students to ensure they are started on the right level of HA course (and the course manager agrees).
- Ensuring funding is in place as each student starts and invoicing and transferring funds as needed as lead provider.
- Transferability: e.g. if an employee moves employer, or existing employer is bought over, there is continuity in key areas such as learner, information management and funding.

Key items not to be included in IPTE

There are also key items that senior management would generally support being excluded from the scope of the IPTE:

- Writing learning material for HA courses – it is generally agreed that the academic Schools should write the courses to match the Standards.
- And similarly, the IPTE should not perform a quality assurance role for courses.

Further points for consideration

If LSBU, through HA courses and an IPTE, is intending to offer a 7-day service for teaching, then support services must also be available, e.g. security and canteen facilities, which will involve additional cost.

Timetabling may be complicated, as students are likely to be on day release so require consistency in the time and location of their classes.

Key risks

5.1 The roles to be performed by the IPTE, and the key items to include within and exclude from an IPTE remain subject of discussion within LSBU, and greater clarification is required to improve the accuracy of estimating the costs and benefits of an IPTE.

... and whilst HSC HA courses would benefit from central administration, Ext. Degrees should be excluded from IPTE

School of Health & Social Care

Currently the students in this School are not included within the financial model in this business case. However, senior management in the School have stated they would be keen to participate in pilots of HA courses and to participate in the IPTE.

Current indications from employers are that demand for HA courses in HSC sector will be high or very high, and LSBU may only be constrained by staff capacity to deliver the courses. It is therefore likely that in future HSC students will make up a large proportion of the total HA students across LSBU.

In addition, HSC HA courses will face many of the same administrative challenges as the other Schools in LSBU – in particular funding complexities and administration of the ILR – so managing these items and reducing the associated costs in an IPTE would have material benefits.

Finally, HSC suggests that the IPTE should remain a separate entity to the Institute of Vocational Learning in the HSC School (no suggestion has been made that the two should combine, but it is considered key to highlight at this stage).

Extended degrees

FY courses in Engineering have very specialised content and are marketed as the initial year preceding a full undergraduate Engineering degree at LSBU. FY courses in this context are referred to as “extended degrees”.

Progression rates from the extended degrees can be low, and (as noted in the sensitivity analysis p.47 - 48), these rates have a material impact on income and EBITDA for LSBU. To ensure progression rates are as high as possible, the School of Engineering offers comprehensive support to its Extended Degree students, with close collaboration between the course tutor, administrative staff and admissions staff.

For these particular courses, the benefits of the IPTE are therefore likely to be outweighed due to the likely negative impact on students from weakening the link between the administrative function from the course tutor and admissions staff.

Key risks

5.2 There are a number of reasons for considering the inclusion of HSC courses within the scope of an IPTE, in particular they will feature the same level of complexity as non-HSC HA courses, and will need to administer HA-specific items such as the ILR and navigating SFA funding mechanisms.

5.3 There are a number of reasons for excluding Extended Degrees from within the scope of an IPTE. In relation to Engineering Extended Degrees, there is a comprehensive network of support for students that requires close collaboration between admissions, administration and course staff, which could be disrupted or weakened by an IPTE. This could negatively impact student performance and progression.

Key financial and operational risk management

Key issues and risks (1 of 2)

Area	Key issues and risks (to be addressed & mitigated as part of full business case – see Next Steps)
<ul style="list-style-type: none"> • Introduction 	<p>1.1 Until the levy is introduced, it is not clear how the funding for one-third of the new HA courses will be organised. Clarification is required from BIS and SFA.</p>
<ul style="list-style-type: none"> • Ambitions & opportunities 	<p>2.1 Clarification is needed as to whether LSBU will perform the Lead Provider role for HA courses and, if so, the specific responsibilities it entails, the costs incurred and the income that LSBU can earn from performing this role.</p>
<ul style="list-style-type: none"> • Finance & resources 	<p>4.1 Taking no action could result in a reduction of £7.8m income and £3.1m of EBITDA for LSBU risk, due to student numbers decreasing as LSBU loses ESPT market share to competitors offering HA courses.</p> <p>4.2 If LSBU is a lead provider, operating costs are likely to increase due to the extra duties involved. Understanding LSBU's required role, and the costs (and potential income) associated with this, is key to forecasting HA course profitability more accurately.</p> <p>4.3 To reduce the risks around Scenario 1, further investigation is required of:</p> <ul style="list-style-type: none"> • Demand in the HA market, which remains uncertain at this stage • Longevity of Government funding, as this will have a key impact on demand • Employers' needs around flexibility, which may be challenging to meet with LSBU's existing structures and could increase the cost of running the HA courses. • Capacity constraints, for example in Health & Social Care, may restrict the potential growth in HA numbers.

Key issues and risks (2 of 2)

Area	Key issues and risks (to be addressed & mitigated as part of full business case – see Next Steps)
<ul style="list-style-type: none"> • Finance & resources 	<p>4.4 Failure to successfully implement the IPTE could disrupt LSBU’s operations relating to ESPT courses (in the short-term) and its reputation (Scenario 2a)</p> <p>4.5 Failure to successfully implement the IPTE could disrupt LSBU’s operations both relating to ESPT and FY courses (in the short-term) and its reputation (Scenario 2b).</p>
<ul style="list-style-type: none"> • Governance 	<p>5.1 The roles to be performed by the IPTE, and the key items to include within and exclude from an IPTE remain subject of discussion within LSBU, and greater clarification is required to improve the accuracy of estimating the costs and benefits of an IPTE.</p> <p>5.2 There are a number of reasons for considering the inclusion of HSC courses within the scope of an IPTE, in particular they will feature the same level of complexity as non-HSC HA courses, and will need to administer HA-specific items such as the ILR and navigating SFA funding mechanisms.</p> <p>5.3 There are a number of reasons for excluding Extended Degrees from within the scope of an IPTE. In relation to Engineering Extended Degrees, there is a comprehensive network of support for students that requires close collaboration between admissions, administration and course staff, which could be disrupted or weakened by an IPTE. This could negatively impact student performance and progression.</p>

Next steps

Next steps

Area	Key issues and risks
<ul style="list-style-type: none"> • Curriculum 	<ul style="list-style-type: none"> • Next steps to develop in detail for LSBU to enter HA market: <ul style="list-style-type: none"> ○ Identify schools that must manage displacement, and schools where growth via new students is sought. ○ Identify Standards that are relevant to each School, and applicability to existing courses. ○ Then identify employers to build relationships and start to educate them regarding opportunities, whilst also identifying the market of likely students and how to attract them to LSBU.
<ul style="list-style-type: none"> • Finance & resources 	<ul style="list-style-type: none"> • Development of full business case should consider operating and investment costs in more detail, in particular the timing of investment for pilots to reflect a gradual entry into the HA market.
<ul style="list-style-type: none"> • Structure of IPTE 	<ul style="list-style-type: none"> • Considering including HSC HA course within scope of IPTE and excluding Extended Degree courses in Engineering or more broadly; further investigation as to benefits of including remainder of FY courses
<ul style="list-style-type: none"> • Issues & risks 	<ul style="list-style-type: none"> • To develop and manage the key issues and risks as identified on pages 53 – 54, as part of developing the full business case for the proposed option to establish an IPTE.

Glossary

Glossary

Acronym	Explanation	Acronym	Explanation
EBITDA	Earnings before interest, tax, depreciation and amortisation	HNC / HND	Higher National Certificate / Diploma
ED	Extended degree (a type of Foundation Year course)	HR	Human resources
ES / ESPT	Employer sponsored / employer sponsored part time	ICT	Information and communications technology
FBC	Full business case	IPTE	Institute for Professional & Technical Education
FD	Foundation degree	L	Low (level)
FE	Further education	LSBU	London South Bank University
FT	Full time	M	Moderate (level)
FY	Foundation year (also refers to Year 0)	OBC	Outline business case
FY15, FY16...	Financial year 2014/15, Financial year 2015/16...	OFFA	Office for fair access
FY16F	Financial year 2015/16 forecast results	pa	Per annum
H	High (level)	PG	Postgraduate
H+	Very high (level)	PT	Part time
HA	Higher and degree apprenticeships	SDI	Specialist designated institution
HE	Higher education	SFA	Skills funding agency
HEI	Higher education institution	UG	Undergraduate