London South Bank University
EST 1892

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Meeting of the Board of Governors

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

Agenda

No.	Item	Pages	Presenter
1.	Welcome and apologies		JC
2.	Declarations of Interest *Governors are required to declare any interest in any item of business at this meeting*		JC
3.	Minutes of previous meeting	To Follow	JC
4.	Matters arising		JC
	Project Larch		
5.	Transaction unit and "redlines" update	3 - 48	DP
6.	Project Larch full business case	49 - 124	DP
7.	Completion procedure	125 - 144	JC
8.	Any other business		JC

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

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

Apologies: Temi Ahmadu, Shachi Blakemore and Hilary McCallion

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

Con Alexander and Elizabeth Knight – Veale Wasbrough Vizards

Katy Elstrup - PwC

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Paper title:	Transaction unit and "redlines" update
Board/Committee	University Board
Date of meeting:	13 June 2017
Author:	Matthew Dunn, Programme Manager
Executive/Operations sponsor:	David Phoenix, Vice Chancellor
Purpose:	Provide a status update on activity moving towards integration of Lambeth College with LSBU.
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	1. *Student Success* - Externally recognised for providing a personalised, high calibre education which equips students for employment and society. 2. *Real World Impact* - Ensuring the provision of dynamic evidence-based education which is underpinned by highly applied research and enterprise activity. 3. *Access to Opportunity* - Building opportunity through partnerships and as a partner of choice for our communities. 4. *Strategic Enablers* - Addressing the barriers and challenges that could hinder the success of LSBU.
Recommendation:	The Board is requested to: 1. Note the update on the TU submission 2. Note how the "redlines" have been addressed 3. Note the legal due diligence report 4. Note the Ofsted inspection report of 2016

Matter previously considered by:	Executive MPIC	07/09/16 The Executive supported and recommended Approval to Proceed to development of FBC. 20/10/16 The Committee supported

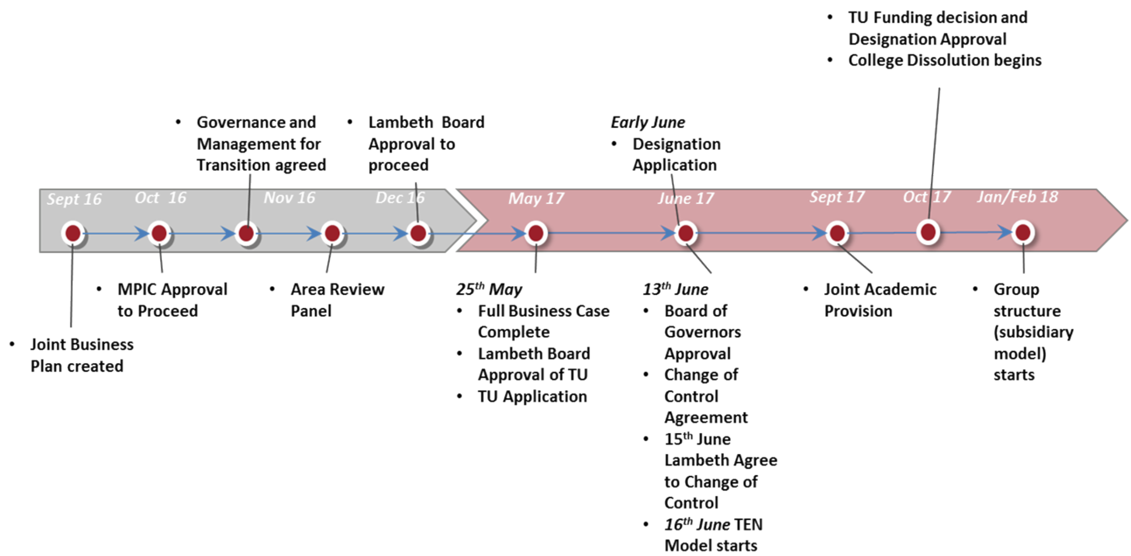
		and recommended Approval to Proceed to FBC.
	MPIC	06/12/16 Updated Committee on progress and confirmation of status of Sycamore. No decision required.
	MPIC	02/03/17 Updated Committee on progress and confirmation of status of Sycamore. No decision required.
	MPIC	04/05/17 Updated Committee on progress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

Background and status update

In 2016 the Government decided to review the current provision of Further Education in England and Wales in order to establish fewer, larger and more resilient FE Colleges. The London Area Review Board (ARB) considered the future of a number of Colleges in South London. LSBU had the opportunity to bring two Colleges (Larch and Sycamore) in to the LSBU Structure to further enhance LSBU's post-16 education offerings from Entry to Level 4.

In December 2016 the ARB made a decision that the Boards of two FE Colleges: Larch and Sycamore could decide which preferred partner to appoint. On December 14th 2016 the Larch Board appointed LSBU as its preferred partner. Sycamore decided to pursue another partner organisation.

Since LSBU's appointment as preferred partner, Larch and LSBU have undertaken the next phase of activities to complete due diligence; build a Full Business Case (FBC) which requires approval by LSBU Board on 13th June; complete and submit an application for Restructuring; and an application for creation of a new designated subsidiary. It should be noted that in terms of the latter point this would be the first time the Minister had used their powers in this way and hence approval to apply was granted to four universities only a part of a pilot. The current proposed key milestones are as follows:



Contained within this document is an update on the Transaction Unit Restructuring Facility Application referred to above covering:

1. Key documents submitted on 26th May including the Lambeth College Estate Strategy;
2. How ‘redlines’ have been addressed; and
3. Approach to Education delivery.

1. **<u>An update on the Transaction Unit Restructuring Facility Application referred to above covering:</u>**

   a. **Key documents submitted including the Lambeth College Estate Strategy**

The Restructuring Facility Application was submitted to the Transaction Unit (part of Skills Funding Agency (SFA)) by Lambeth College on 26th May 2017. The submission was approximately 1000 pages in length based on a structure and format prescribed by the SFA and TU. The submission comprised of:

An **Application Form** including:

- Section 1 – Initial Information;
- Section 2 – Funding Plan;
- Section 3 – Additional Documentation; and
- Section 4 – Compensatory payment of VAT – for change of building ownership.

An **Implementation Plan** including:

- Strategic Business Case for Change;
- Integrated Plan (including estates strategy); and
- Financial Plan.

The table below provides an overview of the Implementation Plan contents:

Implementation Plan Section	Document Description
Strategic Business Case for Change	
	What the changes are and their fit with the area review recommendation.
	Why the changes are proposed and what outcomes will be delivered, including the expected benefits and the timeframe for their achievement.
Integrated Plan including	
A documented and thorough market assessment	Including 16-19 demographics and competition, the local apprenticeship market, adult education, and other relevant markets.

A curriculum plan (the college's offer to the market)	Setting out at a high level the current offer and the planned changes in the curriculum offer to meet the educational and economic needs (reflecting the area review recommendations and needs as articulated by the LEP, as well as other changes, such as the effects of the apprenticeship levy, the Post 16 Skills Plan and Lord Sainsbury's work on technical education) of the market(s) following your market assessment. The curriculum plan should include details of your planned learner numbers by market segment (i.e. 16-18, adult, apprenticeships etc.).
A teaching plan	A teaching plan to deliver that curriculum, including a workforce and staff development plan. The plan should show how you will provide good quality teaching for the areas identified in the curriculum plan, for the current and expanded offer
An estates plan	Detailing the estate needed to deliver the curriculum plan.
A quality improvement plan	Including timescales and matters to be addressed prior to the next Ofsted inspection.
A marketing and recruitment plan	Including a business engagement team if relevant, to deliver the learner numbers set out in the curriculum plan.
Technology Plan	Outlining key the technology strategy and potential capital expenditure required.
A governance, management and transition plan.	Including any proposed changes to the Board, the roles of the executive team and detail of the processes available to the Corporation to hold management to account for financial performance, quality of provision and other purposes.
	How and when the change will be implemented.
	The proposed management and governance of the change, including an assessment of the requirement for specialist expertise and additional resource over and above the day to day management of the business.
	A full appraisal of risks and how these have been taken into account in the financial modelling.
	A clear plan for all existing learners and employers.
	An Equalities Impact Assessment where relevant.
A financial plan including	

Income Plan	An income plan, with all assumptions set out derived from the curriculum plan.
Cost Plan	A cost plan, including efficiencies and synergies.
Transitional Costs	Expected transitional costs associated with the change, including description, timing and evidence that all costs have been accurately costed and minimised.
Funding Sources	Detail of proposed and potential sources of funding being sought, including the proposed amount and terms of funding sought from the Restructuring Facility, asset sales, other key balance sheet events and the position of existing lenders, prior and proposed engagement with them relating to the restructuring and their likely position on provision of funding.
Assumptions	Detail of all assumptions underpinning the financial model, including evidence for their values and how they will be achieved. A proposed format to document your assumptions will be provided along with the financial model.

A set of **supporting documents** including: letters of support from Lambeth and Southwark Council and financial records from Lambeth College.

The application and supporting documents have been circulated to the LSBU Board prior to the meeting for background information. A summary of the key elements of some of these documents has been provided below (section B) to address some of the 'red line' risks of the programme. These risks have been cited in previous MPIC and Board papers and discussed at previous meetings of both of these Committees.

2. How 'redlines' have been addressed in the TU submission

Whilst there are risks spanning the transaction and across all aspects of the Full Business Case, the most prominent risks are financial and reputational.

Based on the analysis and information to date, the following financial conditions represent the 'red lines' which would potentially prevent the programme from proceeding. For each of the 'red lines' an updated status has been provided.

1. **The Restructuring Finance application from the SFA to the Transaction Unit must be acceptable to LSBU. It should provide**

adequate financial support so as not to put the Group's future financial position at risk.

Recent conversations with the SFA and TU have been positive. The position has moved from a loan only offer to discussion around a flexible conditional grant based proposal from LSBU (outlined in the letter of application to the TU).

The Restructuring Facility Application requested a total of £25m of grants (including £13m of conditional grants). It is expected that the conditionality may mean that better than expected performance could lead to some claw back of this aspect of the bid based on a risk sharing approach. Further detail is provided below.

Lambeth College currently holds c£70M of liabilities. A proposal has been developed jointly between the College and London South Bank University for Lambeth College Corporation (LCC) to join the LSBU Family of Institutions, ultimately as a wholly owned subsidiary.

The proposal is that when the College becomes a wholly owned subsidiary of LSBU, there will be a dissolution of LCC and a transfer of the College's assets free of any government charge and some of the College's liabilities as agreed (e.g. Pension liabilities) to South Bank Colleges NewCo (SBC NewCo). SBC NewCo (within LSBU Group) will also assume responsibility for the existing commercial debt with Barclays (but excluding the current money market/bridging loan). From the point that SBC NewCo receives the assets and liabilities its undertaking will be consolidated into the reported results of LSBU Group.

In consideration, LSBU is asking for:

- a grant to write off all other historic debt/liabilities in LCC up to the point of the LCC's dissolution; and

- future financial support during the business turnaround period whilst cashflow needs are greatest and underlying poor financial performance is addressed. It is proposed that there is a risk sharing approach with in year conditional grant that is flexed to cover cashflow need with the expectation that the College will be in financial balance by the end of Year 3. Thereafter, SBC NewCo within the University Group takes full responsibility for the future financial performance of the College's undertaking.

Based on analysis by PwC and on the cashflows detailed above and the need to maintain a modest level of headroom, the College has requested support from the ESFA and Transaction Unit as follows:

Item	TU	LSBU/College
Pension liabilities LPFA	£0m	£28m
Pension provisions TPS	£0m	£2.0m
Commercial debt (Barclays)	£0M	£18M
Contingent liability: LEP/ LEAP grant £6.7m	£0m*	£0m
Contingent liability: Potential clawback of DfE grant for Clapham £7.5m	£0m*	£0m
Contingent liability: Potential Carillion settlement £2m	£0m*	£0m
Other historic debt upto the point of dissolution (including repayment of bridging loan)	Est £12M grant/ write off	£0M
Cumulative cashflow need over transitional years 1-3	Est £13M in years 1-3 as conditional grant	£0M
Total (excluding contingent)	Est £25M	£48M
% (Total)	34%	66%
% (at point of dissolution i.e. excluding transitional support)	20%	80%

N.B. Contingent liabilities above still being discussed.

This level of restructuring facility support will reduce the College's total borrowing as a percentage of adjusted income to between 46-49% by 2019/20 (currently 99%) and by the following year the College is forecast to make a surplus of 4% (see 2 below for additional detail).

We will continue to work with the TU over the next 4-6 weeks to finalise the bid for review by the Scrutiny Committee. We will only get clarity on the end position towards Autumn and given the initial focus on loan, securing funding as a grant may still be a challenge. The position would need to be reviewed in Autumn as part of the decision as to whether to move to Stage 2, the creation of SBC NewCo (as discussed under the FBC item later on the agenda).

2. Confidence that LSBU Group can achieve a minimum break even position for Larch within 3-5 years.

In the Lambeth College Restructuring Facility Application there is a revised Integrated Plan supported by a full financial plan and commentary. This sets out a clear route to financial sustainability for the subsidiary as part of the LSBU Group with a c.4% surplus being generated by 20/21. The following table sets out the key performance metrics using the FE Area Review Criteria Guidance. It provides the current Lambeth baseline and targets for 20/21 (the first year the College will be in surplus). It also provides a RAG status for the 20/21 targets. Financial performance metrics against LSBU Group KPIs are provided in today's agenda item relating to Full Business Case.

Financial indicators and benchmarks	Current Lambeth College baseline forecast 16/17	20/21 Target for New FE Entity (SBC NewCo) (RAG against FE Guidance Target)	FE Guidance Target
Operating surplus/(deficit) as a % of income	(35%)	4%	3-5%
Adjusted current ratio	0.12	8.0	>1.0
Borrowings as a % of income	99%	46%	<40%
Staff costs as a % of income	67%	60%	<65%
EBITDA	-3%	>6%	>/=6%

It should be noted that as the basis for the grant the values for income generation have been set at a conservative level and this is reviewed in the Full Business Case later on today's agenda. Therefore, we believe based on this modelling and the FBC that a break even position is realistic.

3. **The final agreed estate option must meet the future needs of LSBU and must be self-funding (there must be no additional investment requirement from LSBU).**

The estates strategy included as part of the Application to TU concluded that a two site option at Vauxhall and Brixton was the best option for the future Lambeth College estate under the LSBU model. This results in a net cashflow surplus to the Group of **£3.88m**. Further detail is provided below. These figures are based on capital receipts from sale of assets at Clapham. The values used have been mid-point assessments based on independent review by Strutt and Parker hence it is anticipated that the asset value will enable development of the estates in line with the plan.

A wide range of options have been considered in the updated estates strategy, these include: three site; two site and single site options for the future configuration of the College's estate.

The independent strategy concludes, based on the information available, that a two-site strategy with a new, larger, development at the Vauxhall Nine Elms site, with a smaller satellite centre at Brixton, is the optimum solution for the future estate need of the College. It should be noted that there may in the future also be potential to further support expansion of group activity by use of some of the Brixton facilities to expand the UTC whilst still providing a base for the College to deliver adult education and the two facilities re co-located.

In this option it is assumed that the Brixton Hill site is retained as a local venue serving the Brixton community, that the Clapham Common site is disposed of (preserving some educational use as necessary for strategic and DfE funding purposes) and that the Nine Elms campus is redeveloped for a Further Education campus plus additional education facilities to meet the needs of the local population and/or mixed use of educational/residential site.

The extent of education development at the Nine Elms campus varies depending upon which Space Planning Scenario is adopted and ranges from a larger scheme of 20,400 square metres to a much larger scheme of some 30,400 square metres. Although the size of all of the Nine Elms schemes in this option are larger than that currently approved by the London LEAP, any increase in grant has not been assumed at this stage of modelling.

Based on the Space Planning Analysis set out above it is concluded that an overall area of 27,500m^2 would be sufficient to meet the College's current and future space needs. On that basis the key elements of the proposed option can be summarised as shown in the table below:

	Nine Elms	Brixton Hill	Total
Future Space Requirements m^2	25,400	2,100	**27,500**
Current Space on site m^2	-	-	**20,143**
Additonal Space Needs m^2	25,400	2,100	**7,357**
New Build m^2 Rate (inc VAT and FFE)	3,753	1,216	
Construction Cost of New Build Space	74,481,316	1,887,160	**76,368,476**
Equipment Allowance	4,963,889	241,414	**5,205,303**
VAT	15,889,041	425,715	**16,314,756**
Gross Cost of New Build	**95,334,246**	**2,554,289**	**97,888,535**
TOTAL CAPITAL COST	**95,334,246**	**2,554,289**	**97,888,535**
LEP GRANT ASSUMED	**(22,500,000)**		**(22,500,000)**
Site Value Realised Through Sale	**(12,265,909)**		**(12,265,909)**
m^2 of development released	13,450		13,450
Capital Cost	**60,568,337**	**2,554,289**	**63,122,626**
Less Clapham Site Sale Receipt			(67,000,000)
Net Cost of Option			**(3,877,374)**

The Councils remain in full support of both the acquisition and the proposed revised Vauxhall Scheme but is should be noted that loss of even part of the Clapham site will be politically challenging.

Since the email to the Board from the VC of 26th May 2017, the GLA has now confirmed in writing the status of the LEP funding for Vauxhall Nine Elms Skills Centre (NESC).

The GLA and London Economic Action Partnership (LEAP) (formerly LEP) are still very supportive of the proposed new NESC scheme (the GLA letter dated 30th May 2017 has been has been circulated to the Board). The £19m (£22m minus £3m already reclaimed) reserved for LCC is still available and is ring-fenced to support the future development and would bring the above in at net neutral.

However, the revision of the scheme (the use of the site is now remaining as wholly for educational purposes as opposed to the mixed educational, residential and hotel in the proposed original scheme), coupled with halting the existing planning permission and contractor discussions, has resulted in a delay to the completion of the scheme by approximately 12 months. As a result of these changes LC is now required to resubmit an application to secure the funding.

The risk of not receiving the LEP funding is considered low given the assurance from the deputy mayor that funding is ring fenced (see letter attached) and very positive conversations with SFA senior contacts. Overall, the current view is that this does not affect the programme milestones in a material manner nor does it jeopardise the move to the TEN model or Group Structure.

In summary the estates strategy can be funded but we will need to re-bid for the LEP funding and won't know the outcome until later in the year – the risk around the funding being withdrawn is low. There is a predicted cashflow surplus of funding based on midpoint valuation so it should also be noted that higher values could be realised. In addition, the current scheme is based on 35% social housing and so a lower level of social housing would further increase the value of any sales. Therefore, the estates developments are expected to be self-financing but we would need to maintain a presence at Clapham and the political challenges, even with local support, should not be underestimated.

4. LEP grants and previous DfE grant for Clapham must be written off or paid back by SFA before Jan 2018 and there must be agreement that there can be no future comeback to LSBU in terms of clawback.

The LEP grant above refers to a historic potential risk position which surfaced during PwC Due Diligence. The risk referred to circumstances in which it was thought LEP Grant monies intended for the Vauxhall NESC development were been utilised for the Brixton site. LSBU has undertaken a thorough investigation and audit and has satisfied itself that this was not the case. As a result, there is a very high level of confidence that LEP grant monies would not be recovered as a result of these circumstances. At this stage, the LEP has indicated that it would not seek to recover any claimed LEP money. The risk around this item is therefore now thought to be low.

With regard to the DfE grant for Clapham, £7.5m was granted for new buildings from DfE which have been completed. There is a potential risk that some of this grant will be recoverable upon the sale of Clapham if the educational provision on the site is not retained. The LSBU-LCC estates strategy includes the preservation of educational provision at Clapham. A submission is currently being drafted to submit to DfE to ascertain the final position with regard to the claw back and a response is expected in June.

5. The transaction must not impact on LSBU pensions categorisation (category B).

At present, and as reported at the last Board meeting on 4th May, there has been a continuing and positive dialogue with LPP (the pension provider) on the planned acquisition of Lambeth College and the impact on pensions. LPP has provided initial guidance on the pooling of pension assets and liabilities in the new Group structure (not the TEN style model) and the employee categorisation would be set for the Group as a whole. It would not be appropriate for SBC NewCo and LSBU to have different categorisations.

A copy of the Full Business Case has been submitted to LPP, and LSBU should be in receipt of an in principle statement before the 13th June. Discussions to date have been positive and we are hopeful of an "in principle" category B for the Group.

6. Larch pension liabilities do not crystallise (i.e. no cessation).

As per 1) above, pensions will transfer to LSBU and will not crystallise. In addition, past pension deficits and strain costs are catered for in the Transaction Unit Financial Model and flow through to the cash flow deficit position. It is the cash flow position which is the primary focus of the Transaction Unit and the basis for the funding request of £13m conditional grant for years 1-3.

7. Any liability for historic Lambeth College actions or decision (financial or otherwise) do not result in any liability or exposure to LSBU staff and governors.

Whilst there will always be a number of unknowns the Executive has ensured a thorough range of Due Diligence (DD) via independent bodies on both legal (by VWV) and financial issues (by PwC). The legal DD report executive summary of key issues is included at appendix 1. At its meeting of 4 May 2017 MPIC reviewed the PwC DD reports in detail (for optional background information the complete reports are available on modern.gov in a separate information pack here).

We have also seconded a staff member to act as the Larch Interim FD which has started to provide some additional assurance in relation to College financial control and management.

Letters of Appointment are being prepared for all newly appointed governors to the Lambeth Corporation Board which will confirm the extent of Directors' and Officers' Insurance cover upon the move to the TEN Model.

There has also been strong stakeholder engagement to enable triangulation with the SFA through the TU and designation process, the Deputy FE Commissioner, the local Councils and GLA. It is felt that as much as possible has therefore been done to minimise this risk. One of the largest remaining challenges will be based around politics as well as internal and external stakeholder engagement as we seek to proactively address past failures and take action to turn the College around. The main mitigation will be the communication strategy that has been developed to address this.

3. Education and due diligence

At the Board Meeting on 4th May 2017, a Board member raised a question regarding educational due diligence. The most recent Ofsted inspection is attached as appendix 2. This was conducted in November 2016 and highlights the fact that across all categories, whilst there has been some improvement under the interim leadership, the College still shows a need to improve.

As previously highlighted to the Board, it is anticipated that the key benefits that LSBU can bring to bear in terms of the College's turnaround as part of a Group structure would entail:

i. **Effective Governance and vision**
There is a need for a clear strategy for the college's future direction accompanied with appropriate strategic indicators. The Ofsted report, and indeed our own observations, indicates a number of weaknesses in the current approach to governance. Greater clarity in terms of direction and vision as laid out in the TU bid coupled to strong governance and oversight will help to ensure the College moves forward positively.

ii. **Management and Leadership**

As highlighted in the Ofsted report, there were weaknesses in management and indications of financial mismanagement. Development of stronger management and leadership to align staff with goals will have significant benefit in increasing the effectiveness of delivery and compliance. As noted in the report, this is already starting to see some improvement with an interim management team.

We already have a member of staff seconded to support finance and are advertising for an Executive Principal to provide FE expertise and leadership. The Ofsted reports notes that there has been improvement in key measures such as student attainment and completion rates but there is further scope for progress. The new structure will focus the Executive Principal on oversight of academic delivery, rather than wider management and leadership, to ensure increased management focus in key areas around academic environment and student attainment.

iii. **Curriculum Offer**

The FE sector as a whole has undergone significant shifts in recent years with a decline in the adult education budget for example. Current assessment of the curriculum would indicate that the College has failed to anticipate and adapt to this changing environment. For example, whilst currently the College has circa 1,000 apprentices on its books, this area involves activity being sub-contracted hence limited income is being retained. This is in contrast to work within LSBU where we have developed an apprenticeship offer which is now generating substantial additional revenue. The Transaction Unit bid outlines a reshaped curricula around four subject areas with clear aligned progression routes into the University coupled to apprenticeship development and lifelong learning development. These new Divisions coupled to apprenticeships would be expected to enable expansion of current activity and growth.

iv. **Collaboration Agreement**

The Collaboration Agreement (CA) sets out the operational arrangements by which improvements will be delivered within the college.

In the CA, LSBU senior executives will provide “support, advice and guidance” on “key professionals services”, covering:

- Finance;
- HR;

- ICT;
- Procurement;
- Marketing and Communications;
- Governance and legal;
- Estates and Academic Environment;
- Student support and welfare;
- Recruitment and admissions; and
- Enterprise and Innovation

In addition, if found to be business necessary, specific LSBU managers may be seconded to the College by formal agreement.

The Lambeth College Principal remains the Chief Executive of the College and reports, as agreed, to the Lambeth College board, which will include LSBU appointed governors.

In summary, the key changes that will help to drive the turnaround relate to enhanced governance (including clearer strategy and performance indicator frameworks); and stronger refreshed management and leadership coupled to a new curriculum offer.

It should be noted that whilst the Ofsted report indicates weakness in a minority of classes and lessons, this was not highlighted as the most significant failure hence supporting the view that the biggest challenges are around culture, leadership and governance.

Appendices

1) Legal DD executive summary

2) Lambeth College Ofsted Report

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Appendix 1

Legal due diligence report by Veale Wasbrough Vizards

Summary

The draft legal due diligence report executive summary is attached for information. The full report is available in a separate information pack available on modern.gov via this link for optional background reading.

The highest risk areas are, as follows:

- overall poor quality of information / incomplete and inconsistent
- poor funding position and board has taken advice on solvency
- potential dispute with Carillion
- serious failures to comply with health & safety and food laws / risk of enforcement action / criminal prosecution
- Lambeth College Nursery – the Lambeth governing body is the registered provider
- poor data protection compliance
- tier 2 and 4 sponsor licence – breaches of tier 4 could have implications for LSBU
- lack of title documents for Clapham and Vauxhall + charges in favour of Barclays bank
- unknown restrictive covenants affecting Vauxhall - need to consider indemnity insurance
- Brixton site long lease – draft lease not provided
- restrictions on title to the Brixton site relating to two separate transfers
- no information on planning permissions / implementation of works / discharge of planning conditions for the properties – risk of enforcement action

The key risks raised in both the finance and legal DD reports will be a discussion item at the first post-completion Lambeth College board meeting.

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Part One: Introduction & Background

1 Executive Summary

1.1 This report summarises the results of enquiries and investigations made to date by Veale Wasbrough Vizards LLP on behalf of London South Bank University ("**LSBU**") into the assets and liabilities of the statutory further education corporation Lambeth College (the "**Corporation**") and the further education college operated by the Corporation (the "**Business**").

1.2 It is proposed that the Corporation will become part of the LSBU "group of companies" via a change of control agreement pursuant to which:

1.2.1 LSBU will gain the right to appoint a majority of the members of the Corporation's governing body via the adoption of a revised instrument and articles of government; and

1.2.2 the Corporation and LSBU will enter into a Collaboration Agreement.

1.3 The proposed change of control is stage 1 of the project. It is envisaged that stage 2 of the project will involve the transfer of the Corporation's assets and liabilities to a new company to be established by LSBU as its wholly-owned subsidiary. The comments in this report relate to stage 1 of the process only, except where we specifically state otherwise.

1.4 We have limited our review to the "key issues" or major risks relating to the proposed change of control (i.e. those that may impact on the decision of LSBU's board of governors whether or not to proceed).

1.5 The key issues arising from the due diligence are set out in the table below. A more detailed review can be found in Part Two of the report. The terms of our review are set out in Part Three.

1.6 Schedules 1 to 6 contain a copy of the due diligence questionnaires we sent to the Corporation and the additional/supplemental enquiries we subsequently sent to clarify the answers and seek further information.

Key Issues	**Level of Risk**
General	
The quality of the information provided by the Corporation is poor and in a number of cases is incomplete or inconsistent. We are only able to report to LSBU on the basis of the information and documents supplied to us. As such, there may be risks that we have not been able to identify that may impact on LSBU's decision as to whether or not to proceed with the transaction. While the reasons for the poor quality of information may be understandable to a certain extent (namely that the current senior staff have been in post for a short time and historically there has been a lack of record keeping). The lack of record keeping and the inconsistency of the information provided with publicly available information is itself an indication of poor governance and management.	
Governance	
The mechanism by which the governors elected by students and staff will stand down has not yet been	

determined and an agreement should be reached on this as soon as possible to ensure that the new governance arrangements can be adopted.	
It is likely that the Corporation has failed in its responsibility to report serious incidents and any future serious incidents should be reported in the correct way.	
All governance documentation including manuals and codes of conduct will need updating in light of the amendments to the governance structure.	
Currently an SFA observer attends meeting of the Board. There is no indication that this will stop after completion.	
It is clear that the financial position of the Corporation is poor and that Governors have taken advice in relation to its solvency. It appears that the Governors have only been able to conclude that they can continue to trade on the basis of emergency support funding from the SFA and the lack of any clear guidance or route by which an FE Corporation can become insolvent. We recommend that the new governors continue to take advice on this as the change of control will not in itself result in further funding.	
A report from 16 September 2016 identified a number of serious governance failings which have led to the financial decline of the Corporation. This report was commended by the FE Commissioner who also indicated that there were governance failings and that the Corporation was no longer financially sustainable.	

It appears that the FE Commissioner continues to visit and assess the Corporation on a regular basis.	
It is unclear how much of the Corporation's £260,000 income from commercial activities in 2016/17 was from non-primary purpose trading. If the Corporation's non-primary purpose trading has a turnover in excess of £50,000 per annum then it may be liable to corporation tax and be in breach of charity law.	
The Corporation has a wholly owned subsidiary, SW4 Limited. The financial position of this company is poor. It currently has no directors (which should be rectified immediately on completion) and its relationship with the Corporation more generally should be reviewed.	
We have requested information in relation to the Corporation's relationship with the students union. Despite requests no information has been provided and we are unable to report on any risks arising.	
Assets and the Business	
Website The Corporation launched a new website at the end of April and the new provider is Qlue. The Corporation is unable to locate a copy of the contract. This indicates poor record keeping and management and means that we are unable to assess any risks arising from the contract.	

Capital grants The Corporation has received capital grants for buildings and assets from the SFA. While we are not advising on this matter to avoid duplication with PwC, the Corporation should be aware that, depending on the terms of the grants made, the grants may be repayable in certain circumstances.	
Local Enterprise Partnership ("LEP") funding The Corporation has received £2.6m of LEP funding for the Vauxhall development. There is a risk that the LEP requires repayment of this funding and also the possibility that compliance with the LEP's requirements may restrict LSBU and the Corporation's plans for the Vauxhall site.	
Brixton campus fit out The Corporation has recently agreed to let the contract for the internal fit out of the Brixton Campus to a contractor (Gilbert-Ash), with work to commence in June 2017. Under the draft Letter of Intent Gilbert-Ash is entitled to the reasonable and necessary costs of any authorised preliminary works up to a maximum sum of £50,000. While we consider that the Letter of Intent presents only a minor risk to the Corporation at this time, to avoid inadvertently entering into an uncertain contractual relationship, the Corporation should ensure that, before expiry of the Letter of Intent, the Main Contract (or if necessary a new letter of intent) is entered into. The Main Contract as presently drafted does not create any material or unusual risks.	

Contracts A contract with the City and Guilds of London Institute includes a provision whereby on a change of control or change of governance City and Guilds is entitled to propose a revised monthly subscription model and if the parties are unable to agree it then City and Guilds is entitled to terminate the contract. An agreement with Finance and Management Business School Ltd ("**FMBS"**) will automatically extend for 12 months unless notice is given 30 days in advance of 31 July 2017 and. As a result the Corporation would need to give notice of termination very soon after completion if it does not wish to extend this contract. An allegation has been made that this contract provides no value to the Corporation. We recommend that LSBU discusses this with the Corporation. Prior consent is likely to be required from the following parties for assignment on stage 2 of the project: • Compass Computer Consultants Ltd • City and Guilds of London Institute • Siemens Financial Services Ltd • FMBS	
Procurement The Corporation appears to have an insufficient procurement policies and procedures to ensure compliance with the Public Contracts Regulations 2015, Concession Contracts Regulations 2016 and wider	

European procurement laws.

Litigation

Claims

The Corporation has provided details of 4 claims where litigation is contemplated or ongoing and it considers that all of them fall below the £10,000 risk threshold. We have not considered the merit of these claims at present but the risk of actual litigation by Axcel Group Ltd and ICCA appears to be low and potentially time barred. The two student claims both appear to be fully insured and are at an advanced stage. Both are reputationally sensitive as they concern allegations of mistreatment by staff members of vulnerable individuals and the Shaw claim appears to pose some ongoing risk if only bearing in mind the Corporation's inability to be able to confirm the current status of this claim.

Complaint regarding internal auditors

The Corporation has received a complaint in respect of the previous internal auditors (ICCA) and the relationship of one of its directors to another supplier to the Corporation, FMBS. The complaint has been raised under the Corporation's Public Interest Disclosure Policy and relates to a conflict of interest (given the connection of ICCA and FMBS), as well as allegations that the FMBS contract is of no value to the Corporation and a poor use of public funds.

An investigation was undertaken by the Chair of the Audit Committee, but indications are that the complaining employee(s) are not satisfied with the outcome and may complain to the National Audit Office and the staff Governor has indicated (as shown in minutes of Governors' meetings) that this is likely to have an impact on the reputation of the Corporation. Despite requests for information, the Corporation has not informed us whether such a complaint has been made or whether the issue has now been settled.

Potential Construction Dispute with Carillion

Carillion has indicated legally valid claims in respect of the discontinuance of the Vauxhall Development. We have not been instructed to consider the merits of these claims on the facts as we understand that another firm has provided legal advice in this regard. However, if liability is established, it is likely to be for not less than the value of Carillion's work to date.

Compliance

Anti-bribery and corruption

We have seen no evidence of any bribes being given or received (and the Corporation has confirmed it has no knowledge of those). However, the Corporation appears to have insufficient anti-bribery and corruption policies and procedures in place should it need to seek to defend a prosecution of the additional offence of failing to prevent bribery. While in reality the risk is probably low, this could leave the Corporation liable to an unlimited fine if there was a successful prosecution. This should be rectified on completion.

Health and Safety

The documents disclosed indicate serious failures to comply with Health and Safety and Food Safety Laws. As a result the Corporation could face enforcement action (including criminal prosecution and substantial fines), significant remedial/repair costs and reputational damage.

Lambeth College Nursery

"Lambeth College Governing Body" is the registered provider of Lambeth College Nursery which is operated on the Corporation premises. Ofsted's website also lists the "Lambeth College Governing Body" as the registered provider of Brixton Centre - Lambeth College Nursery. The Corporation has provided no information about the latter. It may be that this nursery is no longer in operation. If this is the case, the Corporation should notify Ofsted of this so that it is removed from the register.

Safeguarding

The Corporation has provided brief details about two safeguarding incidents this year involving an 18 year old autistic student, one being that she was raped by a male learner in the toilets at college and the other that a staff member had physically assaulted her. The police are currently investigating the former and the latter is being investigated by the Corporation's HR department. We have requested further information about these incidents, including the action taken by the Corporation in respect of each but this has not been provided. Any risk to the Corporation (for example, reputational risk, risk of findings of non-compliance on inspection or risk of complaints or claims against the Corporation) will be increased if there has been any failure in following the Corporation's policies and procedures and/or a breach of its duty of care.

The Corporation has also provided some information about an incident in September 2016 that involved two youths (not college students) who were seen outside the Clapham Centre of the college on a moped with a gun. The Corporation identified this incident as being a risk to the reputation of the Corporation. The Corporation confirmed that it worked closely with the police who allocated significant resources to respond to the incident and proactively worked to reduce the likelihood of recurrence. Incidents of this nature are a risk to the reputation of the Corporation and continued cooperation with the police and relevant authorities will be required to safeguard students.

Data and information

The documents disclosed indicate serious, widespread and continuing failures in relation to 'business as usual' activities to comply with the Data Protection Act 1998 ("**DPA"**) and the laws relating to privacy and breach of confidence. As a result the Corporation could face enforcement action (including criminal prosecution and substantial fines), significant remedial/repair costs and reputational damage and civil claims for damages.

In addition the Corporation disclosed two specific known

DPA breaches: one in August 2015 and one ongoing breach. Civil claims for damages may be brought in relation to the 2015 breach until 2021. We have insufficient information to assess the risk (or level) of fines, regulatory action, reputational damage or claims for civil damages in relation to the ongoing breach.	
Employment	
The documents disclosed show that staff are employed on terms and conditions that are not unusual for the FE sector and there are policies and procedures covering the types of issues we would expect. However, there has been a high turnover of staff over the last 2 years and more ongoing grievances, disciplinaries and disputes than we would expect. The Corporation has not provided us with full details of all claims, internal disputes or where the consultation process launched in February 2017 has got to and therefore we do not have sufficient information to assess the level of risk in terms of existing and possible future claims.	
Immigration	
Preventing illegal working Information provided on checks conducted by the Corporation on its existing employees' right to work in the UK is inconclusive; there are a significant number of employees for whom appropriate checks would appear not to have been conducted	

Tier 2 and Tier 4 sponsor licence The Corporation was unaware that it held licences for sponsoring students under Tier 4 and employees under Tier 2 and the staff responsible for managing those licences are reported to have left; breaches of the Tier 4 sponsor guidance by the Corporation could have implications for LSBU's own licence	
Property	
The Corporation has been unable to provide any title documents for the Clapham Site and the Vauxhall Site. This lack of documentation means that it is likely that there are covenants and obligations that we remain unaware of but for which the Corporation will remain responsible. Without a comprehensive disclosure there is no way of knowing the true extent of these obligations or the implications on the use, development or sale of the Properties. This is a commercial risk in the absence of a comprehensive deduction of title information.	
The Clapham Site and the Vauxhall Site have charges in favour of Barclays Bank PLC. Clarity is needed as to whether these are to be redeemed in advance of the change of control to be replaced by new charges or if they will continue to subsist	
There are electricity transformer chambers located within the Clapham Site. Practically these could potentially inhibit future redevelopment of the Clapham Site, depending on	

the nature of such redevelopment	
There is a Tree Preservation Order affecting trees on the Clapham Site. Practically the location of the trees could inhibit future redevelopment of the Clapham Site	
There is a private road crossing the Vauxhall Site which would need to be considered if future redevelopment of the Vauxhall Site is planned in that part of the Vauxhall Site. This could have an important impact on the financial value and saleability of the Vauxhall Site. This is not insurmountable but in our experience would be a key factor to be taken into account were the Vauxhall Site to be subject to significant redevelopment. In practice it is likely that this accessway would need to be retained and maintained in a future development scheme	
There are unknown restrictive covenants affecting land within the Vauxhall Site. Title Indemnity Insurance should be considered especially if there are future plan to redevelop, charge or sell the Vauxhall Site. The cost of that is driven by a number of factors including risk, value and the type of development.	
There is an electricity substation and an electricity transformer chamber which practically could potentially affect redevelopment of the Vauxhall Site.	
A long lease of part of the Brixton Site is currently being negotiated however there is a long lease of the whole Brixton Site to Trinity Academy London Limited. The Corporation has been unable to provide a copy of the draft	

lease or comment on the current position with the draft lease.	
There are two restrictions on the title to the Brixton Site which require certificates from the Corporation prior to any disposition which confirm that certain provisions within two separate transfers dated 24 April 2014 have been complied with. Please see paragraphs 11.28 and 11.29 below for further information. The Corporation has not provided copies of these two transfers. It is important to note that these documents will need to be located so that the relevant certificates can be provided in order to allow completion of the long lease.	
From an operational perspective, and as reported in section 7.24 of our report on health and safety, the Corporation has identified a number of health and safety breaches across the properties. Breach of health and safety law is a criminal offence and carries with it serious consequences.	
The Corporation has been unable to provide any information in relation to planning permissions, implementation of works or the discharge of planning conditions for the properties. Therefore, there could be ongoing planning conditions that we are unaware of or the Properties could be being used contrary to existing planning permissions. It is unclear whether the Corporation may be subject to Local Planning Authority enforcement action in the future.	

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Lambeth College

General further education college

Inspection dates 8–11 November 2016

Overall effectiveness			**Requires improvement**
Effectiveness of leadership and management	**Requires improvement**	16 to 19 study programmes	**Requires improvement**
Quality of teaching, learning and assessment	**Requires improvement**	Adult learning programmes	**Requires improvement**
Personal development, behaviour and welfare	**Requires improvement**	Apprenticeships	**Requires improvement**
Outcomes for learners	**Requires improvement**	Provision for learners with high needs	**Requires improvement**
Overall effectiveness at previous inspection			Requires improvement

Summary of key findings

This is a provider that requires improvement

- Leaders and managers have not yet secured sufficient improvement in outcomes for learners and for teaching, learning and assessment.
- Teachers do not always have sufficiently high expectations of their learners in lessons, and do not teach lessons to enable learners to make the best possible progress.
- Teachers' promotion of independent learning for learners is underdeveloped; teachers do not make good enough use of the college's virtual learning environment.
- While learners' achievements are no longer inadequate, they require further improvement overall.
- The development of many learners' English and mathematics skills and knowledge is insufficient, and their achievements are too low, including high grade achievement for GCSE.
- The achievement of apprentices within agreed timescales is low.
- Learners' attendance is improving, but it is not yet consistently good enough, especially in lessons for English and mathematics.
- Not enough learners on study programmes attend external work experience.

The provider has the following strengths

- Governors, leaders and managers have a relentless focus on improvement, including financial recovery, to enable the college to best meet the needs of its local communities.
- Staff have created a college environment that is welcoming and inclusive and where diversity is valued and celebrated; learners' behaviour is good and they are respectful of their peers and teachers.
- Learners make good progress in the development of their professional and vocational skills and knowledge; the large majority progress to the next stage of their training or to employment.
- The reinforcement of learners' understanding of safeguarding is good.
- Learners benefit from good pastoral support and good information, advice and careers guidance.

Full report

Information about the provider

- Lambeth College is a general further education college situated in the borough of Lambeth in south London. The college has campuses in Clapham, Brixton and Vauxhall. Just over 40% of the college's learners are resident in Lambeth, with around 30% of other learners resident in surrounding London boroughs. Three quarters of the learners at the college are adults. Lambeth is an extremely diverse borough, both ethnically and socially. Over 150 different languages are spoken within the borough. A large proportion of them face significant personal and financial challenges in their everyday lives, although the borough has areas of marked prosperity. Employment in the borough is mainly in the public sector, education and health, although many residents travel to work in central London. The composition of the college's learners reflects the diversity of its local communities.

What does the provider need to do to improve further?

- Leaders and managers should build on their successful work to improve the achievements of learners, ensuring that achievements improve on all levels and on all courses, and that more learners achieve high grades.
- Managers must ensure that teachers fully use the information gathered from the initial and ongoing assessment of learners, to plan and teach lessons that set high expectations and meet individual learners' needs, and that their teaching and assessment strategies ensure good progress for learners.
- Building on the good practice in the management of apprenticeships by the college's subcontractors, managers must improve target-setting and progress reviews for college-based apprentices to ensure that more apprentices complete their programmes in the planned time.
- Senior leaders need to ensure that the new management arrangements for English and mathematics have maximum impact on the improvement of teaching and learning, outcomes for learners and learners' attendance, by:
  - placing an uncompromising emphasis on high-quality teaching and learning
  - requiring that all staff fully promote the benefits to learners of improving their skills in English and mathematics
  - continuing to prioritise the close monitoring of learners' attendance in English and mathematics, against clear attendance targets, and that learners fully understand the need to meet them.
- To further support learners' understanding of the world of work, managers need to ensure an increase in the pace of securing external work experience for learners on study programmes.
- Improve learners' independent learning and encourage their greater use of the college's virtual learning environment; ensure that all teachers are helped to make best use of distance learning resources and to develop resources in their subject areas.

Inspection judgements

Effectiveness of leadership and management	Requires improvement

- The interim principal, in post since August 2016, and her senior leadership team have a clear and realistic view of the college's position, including the recent challenges to its financial status, and are pursuing sensible actions to remedy weaknesses. Some of their actions are already improving outcomes and the quality of provision, but they know that there is much work still to do.
- Governors and senior leaders have maintained a clear ambition to grow provision and meet local labour market needs, aligned to local enterprise partnership priorities. For example, apprenticeship provision has expanded to meet local construction needs, and a new level 3 apprenticeship has been started with a subcontractor to train apprentices in servicing medical equipment. Communication between senior leaders, external partners, employers and learners is open and constructive.
- The interim principal and senior leaders have clearly identified the key weaknesses in teaching and learning and have prioritised actions to improve these. Performance management of staff has a good focus on ensuring that staff are held to account for learners' progress. Many members of staff are new to roles but have quickly got to grips with the college's higher expectations. Managers have closely aligned staff development and training to known weaknesses in teaching, learning and assessment.
- The self-assessment process and report give a good account of the college's strengths and weaknesses, now better supported by improved and accurate performance data. Managers are appropriately critical and their analysis accurately reflects the findings from this inspection. Quality improvement plans are increasingly thorough and leading to improved outcomes for learners.
- Managers' arrangements to ensure subcontractors meet the college's requirements are fit for purpose and appropriate. However, the arrangements to scrutinise the quality of content in, for example, apprentices' progress reviews, are new and managers have yet to apply these procedures to all subcontractors. The college's 'at risk panels' are a good approach to the monitoring of learners' progress and achievement. They aim to identify issues, and ways forward, for individual learners, by course, teacher and college school.
- The interim principal and senior leaders have maintained a good focus on the development of learners' skills and achievements in English and mathematics. They have prioritised improvement in these subjects, introducing new management structures and new managers, and funding new resources. Teaching and learning in English and mathematics are improving, as is attendance, but not yet enough, and learners' achievements remain too low.
- Managers now pay much closer attention to ensuring that learners are placed on the right course, at the right level. Greater effort has been given to following up learners' destinations, and the large majority successfully progress to further courses or employment. High needs learners go on to positive destinations, despite the provision experiencing significant changes in management. Information on apprentices' progression to positive destinations requires further development.
- Senior leaders, managers, teachers and support staff, including security staff, have

created a college environment that is welcoming and inclusive and where diversity is valued and celebrated. Learning support staff, and learners themselves, promote equality and diversity particularly well through events showcasing equality and diversity themes. Managers have a good understanding of gaps in learners' achievement and are slowly closing these.

The governance of the provider

- In the last academic year, governors were slow to recognise key indicators of financial mismanagement at the college. Clearer and firmer arrangements to ensure governors' oversight of the college's corporate functions are now in place. Governors have improved their skills and the capacity of the governing body to carry out its role effectively, including through the appointment of governors with expertise in financial management.
- Governors are in a strong position to hold the principal, senior leaders and managers to account. They have a good understanding of the strengths and weaknesses of the college and of the necessary actions for improvement.
- At the same time as playing a full part in the current review of further education provision in London, governors continue to focus on the needs of the college's local community. They have a clear position in relation to the college's preferred options, including a possible merger, but all with a view to enabling already well-developed plans and partnerships, such as the Vauxhall campus apprenticeship development, to thrive.

Safeguarding

- The arrangements for safeguarding are effective.
- Safeguarding procedures are comprehensive. Learner support staff have a pivotal role in promoting safeguarding with learners, as part of the tutorial system and in coordinating any safeguarding referrals. Staff are trained commensurate with their roles, with annual updating. Safer recruitment practices are established and disclosure and barring checks completed and recorded appropriately. Suitable risk assessments are in place where needed.
- A significant proportion of learners have home or other life circumstances that make completing their studies challenging. Effective support from learner development coaches enables learners to continue on their courses and progress. Records of safeguarding incidents and concerns are kept to ensure that learners are supported effectively.
- The vast majority of learners have good awareness of safeguarding, cyber bullying, British values and the dangers of radicalisation, although apprentices are less clear about safeguarding and arrangements to recognise, and tackle, terrorism and extremism.
- All staff promote the 'Prevent' duty effectively. Good use is made of partnerships with the police and referral agencies, and staff receive appropriate training. They also promote British values well. Teachers are trained to help them embed the values into lessons and ensure that learners understand principles such as the rule of law, democracy and fairness.
- Subcontractors have a clear understanding of the college's expectations regarding safeguarding and the 'Prevent' duty and how it applies to employees.

Quality of teaching, learning and assessment — Requires improvement

- Since the previous inspection, managers and teachers have had a strong focus on improving the quality of teaching, learning and assessment. Progress in achieving this is evident in the improvements made in learners' outcomes, but so far, on all provision types, the quality of provision is not yet good enough, as reflected in too few learners achieving their qualifications.
- Teachers insufficiently promote learners' good progress and high achievement, for example through target-setting and review. Generic attendance and effort targets, at the start of courses, are useful in promoting the college's 'career ready standards', but following the first review period too many learners do not have personal targets, particularly for English and mathematics. Electronic individual learning plans, used to collect learners' strengths and learning aims at the start of their studies, are too often incomplete, compromising the effective monitoring of learners' progress from their starting points.
- Many teachers use initial and ongoing assessment well to record learners' individual differences thoroughly on group profiles, and a few use these to plan lessons that meet individual needs, for example in hairdressing and beauty therapy. However, too many teachers do not use this information well enough, or regularly enough, to tailor lessons to the varied needs of the learners in the group. Although lesson activities for learners are varied, and many lessons use interactive learning technologies well to keep learners' interest, teachers' expectations of learners' progress in lessons are not always high enough.
- Teachers ensure that learners in a range of vocational lessons make good progress in the development of professional skills, for example by carrying out specific activities to exacting professional standards, such as making a sauce or baking bread, and culinary skills learners at level 1 work very well as individuals and as part of a team. Hairdressing learners explain to clients the benefits of a conditioning treatment for their hair, and in dentistry, learners use a well-resourced dental laboratory and good-quality technical equipment to make moulds for dentures.
- In a significant minority of lessons, teachers do not check learners' progress closely enough to ensure that they fully understand the topic, or have completed the task set, so that they make the progress of which they are able. For example, teachers' questions to check learners' understanding are often directed to the whole group and, as a result, some learners rely on their peers to answer questions for them. In other lessons, learners take too long to complete worksheets or provide only partial responses to tasks.
- Learners' development of vocational knowledge is developed well through teachers' use of a good range of teaching and learning methods and resources. These include some well-conceived tasks and case studies that use industry-relevant scenarios to develop learners' understanding of their chosen careers. For example, teachers make effective use of case studies in health and social care to create discussions that helps learners understand their responsibilities under the 'duty of care'.
- Teachers and all staff use their skills well to support learners in lessons. Teachers provide effective individual support to keep learners motivated in lessons, and specialist learning

support staff ensure that learners who need extra help make progress in line with their peers. The provision of a well-resourced and well-used learning support hub is highly valued by learners, who make better progress through their attendance.

- Teachers' feedback on learners' work, an area for improvement in the previous inspection, is now good. For example, in creative arts and media, precise written feedback points clearly to where learners' work is good, and to how it can be further improved. However, apprentices do not always receive feedback quickly enough, or in enough detail, to enable them to meet course or work deadlines.
- Learners' understanding of aspects of life in modern Britain is well developed. Learners of all ages and walks of life happily share the safe space provided by the college. Teachers create opportunities to explore learners' views by responding to topical events such as the American presidential election. Learners on drama courses write and perform a thoughtful piece on the experiences of lesbian, gay, bisexual and transgender people during the second world war.
- Although the setting and completion of homework is much improved for learners on study programmes, teachers' encouragement to learners to learn independently, through homework or via the use of a well-populated and effective virtual learning environment, is underdeveloped. There is a renewed focus on the development of the interactive learning platform, but it is not yet well used or fully available to all learners.
- The development of learners' English and mathematics skills requires improvement. Although specialist teachers of English and mathematics plan lessons that use a good range of interactive resources, and vocational teachers identify opportunities to develop these subjects in their lessons, learners do not always value these essential skills for work as much as their vocational subjects and many make limited progress.

Personal development, behaviour and welfare	**Requires improvement**

- Learners' attendance is improving, but it is not yet consistently high enough and remains low in English and mathematics and in apprentices' off-the-job training in the direct delivery programmes. This impacts adversely on some learners' progress and skills development.
- Securing sufficient external work experience placements for learners on study programmes has not had a sufficiently high priority from managers. Learners' opportunities for external work experience remain too small and their understanding of the world of work is not developed well enough. Learners do have opportunities to develop their employability skills through attending work-related enrichment activities, which provide breadth to their understanding of the world of work.
- Managers have not ensured that all learners have ready access to online learning and the college's virtual learning environment. Opportunities vary too much from course to course and teachers are not all sufficiently skilled in preparing, or using, learning materials for their learners to be used outside lessons.
- Learners behave well and demonstrate good levels of respect for staff and for their peers. Elected course representatives work cooperatively with managers to secure improvements for all learners, for example improving the quality, variety and pricing of the food in the food hall.

- Teachers ensure that learners' development of practical skills is good; for example, in creative media production learners develop good cinematography and audio skills. Learners attend a good range of enrichment activities in sport, but with currently significantly more male learners participating than female learners.
- Managers and teachers ensure that learners benefit from good pastoral support and from attending well-planned tutorial programmes. These develop and reinforce learners' understanding of British values and of how to keep themselves safe, including from the dangers of radicalisation. Learners feel safe and understand how to report any concerns. The quality of the taught tutorial sessions is currently not consistently good enough for all learners and they are not sufficiently helped to understand their targets.
- Learners are positive about the good information and advice they receive and with improvements in enrolment and induction procedures. Careers guidance is strong and supports learners' career plans and progression well. Support for learners applying for higher education is good.

Outcomes for learners — Requires improvement

- Since the previous inspection, when outcomes for learners were inadequate, the proportion of learners completing their courses successfully has improved markedly, although it still remains too low.
- Overall, the much larger number of adult learners perform significantly better than learners aged 16 to 18, especially at levels 1 and 2. Learners aged 16 to 18 perform best on level 3 courses, most of which are vocational study programmes. Outcomes for these learners show a three-year trend of improvement to around the national rate for similar colleges.
- In contrast to the previous inspection, when learners' progress in their subjects was too variable, the progress that they make now is often good. However, too few learners achieve high grades in their examinations. In the current academic year to date, more learners have remained on their courses, compared with the same period in 2015/16.
- The achievements of apprentices at the previous inspection were inadequate, but their overall achievement now is high, although not consistently so across all programme areas. More work needs to be done to improve apprentices' achievement within the timescales agreed for their programmes.
- Achievement rates for learners who were formerly looked after children continue to be high, as at the previous inspection.
- Learners' successful completion of their functional skills and GCSE English and mathematics requires improvement. In 2015/16, learners' overall success in these subjects fell and the proportion of high-grade passes for GCSE English and mathematics is particularly low.
- As at the previous inspection, learners' progression to further studies, both within the college and to other education and training, and employment is high. Around 80% of learners completing their courses in 2015/16 progressed within the college or moved to further and higher education courses. Progression to higher education has improved since the previous inspection, with many of the level 3 vocational learners applying successfully

to higher education, with an increasing number going to more prestigious universities.

- Learners with high needs often make good progress on their courses and are prepared well for, and are often successful in, their progression to higher-level courses.

Types of provision

16 to 19 study programmes	Requires improvement

- The college provides programmes of study for nearly 1,400 learners aged 16 to 18, from level 1 to level 3, in most subject areas. The largest areas are health and social care, business, arts and media, sport, public services and construction.
- The quality of provision on study programmes, while improving and resulting in learners making better progress year on year, is not yet good enough. This is reflected in the fact that the proportion of learners who achieve their qualifications requires improvement, and not enough learners achieve high grades. Too few learners who re-take GCSEs in English and mathematics achieve a grade C or above.
- Managers have not yet ensured sufficient arrangements for learners to undertake external work experience as part of their study programmes. Outside of the subject areas where work experience is mandatory for their courses, arrangements for external work experience opportunities require improvement.
- In the current year, the majority of learners studying vocational subjects make good progress and develop good practical skills and knowledge. For example, creative and media learners develop good skills in making sculptures and health and social care learners become skilled in how to identify and tackle institutional abuse. Learners achieve increasingly well in their vocational examinations, but not yet well enough in their English and mathematics.
- Most teachers plan, and execute, their lessons well, setting clear aims and objectives, and enabling learners to readily review their progress. This is particularly marked in lessons for health and social care and GCSE mathematics. For example, learners make good use of reflective logs to review their progress against their objectives. In a small minority of lessons, the most able learners are not challenged to extend their learning. Teachers do not always gain sufficient participation from all learners and are not sufficiently skilled at judging whether all learners understand and are making best progress.
- Managers' and teachers' actions to improve the teaching of English and mathematics are bringing about improvements in the current year. Teachers' good use of resources, and their planned range of activities in lessons, is resulting in the majority of current learners making the progress expected of them. Learners receive regular homework and benefit from learning outside the classroom. College data shows that learners' attendance at lessons for English and mathematics has improved this academic year. However, in most lessons observed by inspectors, attendance was not good enough, and well below learners' attendance in their vocational lessons, hindering the progress of non-attendees.
- Teachers provide effective verbal and written assessment feedback to learners, enabling them to improve the quality of their work. Teachers routinely correct spelling and grammatical errors and encourage learners to develop strategies to improve these. They also reinforce learners' development of English skills. For example, English for speakers of

other languages (ESOL) learners develop their pronunciation skills in mathematics classes and health and social care learners develop industry-specific technical terms.

- Teachers ensure that learners develop personal, social and a large number of employability skills. For example, they develop skills such as problem-solving and team-working. Where relevant to their vocational programmes, they learn skills such as solving simultaneous equations, rounding numbers or understanding the language needs of young children. Learners speak confidently and present well. Learners have positive attitudes towards learning in their vocational subjects, although their punctuality requires improvement.
- Teachers and specialist staff help learners to gain a good understanding of career routes, linked to their studies. They benefit from good impartial careers guidance, enabling them to make informed choices about their next steps. They receive sound support in completing their applications for higher education, in preparing curriculum vitae, and in preparing for job interviews. Learners benefit from a range of enrichment activities. For example, learners take part in sports activities, 'career ready' programmes and trips, enabling them to develop relevant subject-specific skills.
- Most learners display good behaviours and respect for each other. For example, they work well in groups, take part in collaborative projects and discuss topics in a respectful manner. Learners feel safe and they know which staff to contact should there be any issues. They know how to keep themselves safe and have emergency hotlines to report any issues. Most learners have a good awareness of British values, the dangers of radicalisation and health and safety practices.

Adult learning programmes	**Requires improvement**

- Three quarters of learners at the college are on programmes for adults, and just over half of these are on vocational programmes, with most of these taking at least one English and mathematics qualification. Nearly 1,000 adults study ESOL and 50 are on Jobcentre Plus programmes.
- While there is some good provision on adult programmes, the quality of teaching, learning and assessment is not consistently good across the provision. Overall, adult achievement last academic year was at the national average, but was much lower in English and mathematics. Managers have identified areas for improvement which match inspection findings closely. The quality of provision is improving, but it is too soon to see the impact of all aspects of improvement plans.
- In many lessons, including plumbing, catering and cognitive behaviour therapy, teachers often use their sector expertise, and knowledge of the learners, to plan and deliver very good learning. These teachers have high expectations of their learners and ensure that they develop their skills and knowledge rapidly. Teachers' feedback on learners' performance and questioning to extend learners' understanding are very good. In an ESOL Jobcentre Plus lesson, learners developed vocabulary for work and language structures extremely well, through well-prepared materials which met the needs of the wide range of learners.
- However, in other lessons the impact of teaching on learning is less effective. Teachers' checking on learning is not always effective and teaching and learning are too often poor

in English and mathematics lessons. Teachers' strategies to maximise learning are not always effective. For example, teachers' poor use of questions to the whole group reinforces the reluctance of some learners to participate and to maximise their understanding and learning.

- Staff have recently created much-improved initial and diagnostic tasks to assess learners' vocational, English and mathematics skills. Learners' correct placement on courses has improved significantly as a result. However, teachers do not yet use the outcomes of assessments sufficiently well to ensure that learning activities meet whole group and individual learners' needs. Some activities are too difficult or too easy for learners. Managers have recognised this aspect as a priority for development.
- Teachers ensure that lesson resources and activities meet the career and personal interests of learners well. For example, in a catering lesson, learners used recipes independently to create dishes to a high standard. Their teacher checked not just the production and quality of the food, but also whether learners understood the principles and theory of cooking.
- Too many vocational learners struggle with written and spoken English in their lessons and when doing their assignments. The low standard of written English affects the quality of their work and their ability to achieve high grades. Teachers and managers recognise this barrier to achievement and have had some success in bringing about improvement, but continue to work to better promote language development.
- Behaviour in lessons is good. Learners work well together and participate in activities, and many enjoy their lessons. The focus on the development of work skills and the standard of work in many lessons are good. For example, learners who arrive without the correct safety equipment learn that they may not attend, in the same way that an employer would not allow this at work.
- The previous inspection identified the need to improve learners' attendance and punctuality. Managers and teachers have worked hard, and to good effect, to improve these aspects. They use data well to chase non-attenders promptly and the college's in-year data shows definite improvement. A small minority of teachers do not challenge lateness effectively.
- Learners feel safe at the college and their understanding of health and safety procedures, safeguarding and the concepts of the 'Prevent' duty is good. Staff and learners put into practice the British values of tolerance and working together harmoniously particularly well in ESOL lessons.

Apprenticeships — Requires improvement

- Nearly 1,000 apprentices are in training, around 40% of whom are advanced apprentices. The majority follow programmes in hospitality, construction, business administration and health and social care. Around three quarters of apprentices study through subcontracted providers, specialising in construction, health and social care, and hospitality.
- A significant majority of subcontractors' apprentices make good progress, as reflected in high success rates, but the college's direct delivery apprentices do not make good enough progress, with a significant proportion not completing within agreed timescales.

Attendance during the week of the inspection was low in a significant minority of college sessions.

- Leaders and managers have developed good links with specialist subcontractors to increase successfully the breadth of apprenticeship provision to meet the needs of learners and to address local skills shortages. Strong partnerships with local employers, Lambeth Borough Council and local enterprise bodies have resulted in innovative solutions to increase employment in the area.
- Teachers in too many of the direct delivery sessions fail to inspire and motivate learners to make good progress. They do not use their knowledge of individual apprentices well enough to plan activities which will stretch and challenge apprentices, particularly the most able, to encourage higher-level thinking skills. Teachers and assessors do not always have high enough expectations of what apprentices can achieve, focusing too much on the minimum expectations of awarding bodies, rather than fully extending apprentices' skills and understanding.
- Subcontractors plan and manage individualised programmes well, preparing apprentices for the world of work. In contrast, managers' tracking and monitoring of learners' progress in direct delivery provision are underdeveloped and do not enable effective interventions to help apprentices who are falling behind. Too many direct delivery apprentices do not have regular assessments and progress reviews and do not complete their framework on time.
- Apprentices develop good practical skills, both at work and during their practical lessons at the college and, as a result, employers value their contribution to the workplace. Most apprentices achieve their functional skills qualifications in English and mathematics, although too few teachers and assessors plan opportunities for apprentices to further develop their skills within vocational lessons and progress reviews.
- Trainers and assessors ensure that apprentices receive very good advice, guidance and support before starting their programmes. Initial assessments of English, mathematics, and prior skills and knowledge of their chosen subject area are used well to match learners with potential employers. Learners are supported well to develop their interview and presentation skills. In hospitality, for example, apprentices demonstrate their practical cookery skills to potential employers.
- In the better off-the-job training sessions, predominantly delivered by subcontractors, apprentices are motivated by well-qualified and experienced specialist teachers, skilfully linking theoretical learning to relevant workplace practices. In individual regular meetings with assessors, apprentices are supported effectively to develop necessary skills and knowledge.
- Apprentices behave well and demonstrate high standards of professional behaviour. Most demonstrate a mature approach to their learning and work well in small groups, sharing ideas and communicating effectively. Apprentices show high levels of mutual respect to their peers and to their teachers and assessors. The majority of teachers and assessors do not plan well enough to broaden apprentices' awareness of themes of equality and diversity in lessons or progress reviews.
- Apprentices have a sound awareness of how to stay safe and demonstrate good safe working practices in the workplace. A significant minority of apprentices are less clear about the dangers associated with internet safety and radical or extremist views.

Provision for learners with high needs	Requires improvement

- The college has 123 high needs learners from seven local authorities. Of these, 96 are on specific high needs courses at the college’s Clapham campus. The rest attend college vocational courses, from entry level to level 3.
- Managers ensure that funding is used appropriately to provide a good range of support to learners, both within and between sessions. Learners study programmes which provide a suitable introduction to a range of vocational skills, although too few have the opportunity to take qualifications in order to evidence the skills and knowledge learned.
- Learners with high needs who have progressed to study programmes, largely at level 2, are supported well by teachers and support staff and readily integrate with their fellow vocational learners. They are equally well provided with specialist resources to enable them to complete their studies successfully and they achieve as well as their peers.
- The large majority of learners progress to suitable further learning in order to extend their skills, for example in being able to live independently or having the opportunity to learn additional vocational subjects.
- Teachers and support staff often provide good teaching and learning, using the thorough and detailed assessment of learners’ skills and knowledge gathered at the start of their courses, to meet education, health and care plans.
- In too many lessons, teachers do not fully develop individual priorities for learners or take enough account of this information to ensure that learners of a higher ability make good progress.
- The recording of learners’ progress and achievement is under developed and does not sufficiently show learners the progress they have made by the end of their courses, compared to their starting points, which is often significant.
- Learners’ standards of work are appropriate to their level of study. Teachers help learners to make good progress in developing relevant knowledge and skills in their vocational subjects, effectively improving their independence and preparing them for their futures. For example, they develop good practical skills in cooking, construction, retailing and ICT. They also improve their English and mathematics skills by, for example, identifying English mistakes in job advertisements, calculating measurements in recipes, and determining how much stock is needed in the college shop.
- Teachers’ feedback to learners on their written work is not always sufficiently detailed to show learners how they can improve or what they have done well.
- Specialist resources to support learners are appropriate, including personal care facilities, and a study room within the library, for one-to-one support, which learners use to help improve their English and mathematics skills. Specialist equipment includes high visibility keyboards and accessible equipment for those with physical disabilities.
- Teachers ensure that learners develop effective personal and social skills. Learners who have high needs value the opportunity to meet learners from other courses in the college common room or in formal learning with, for example, sports learners. They speak confidently of what they are learning and can identify their strengths and what they need to improve to find and apply for jobs.

- Managers have arranged meaningful work experience for learners, together with preparatory sessions to help them apply the skills they have learned at college. For example, they work well, serving customers in the college shop and checking stock, or in the college café where they prepare food and serve customers. There are also opportunities for work experience outside of the college. For example, the college's effective partnership with a local charity successfully prepares learners for work experience with the local council, supermarkets and hotels. Learners greatly value these opportunities.
- Learners' attendance and punctuality are good. Their safeguarding is effective. They feel safe in the college, and know how to report any concerns they may have.

Provider details

Unique reference number	130413
Type of provider	General further education college
Age range of learners	16+
Approximate number of all learners over the previous full contract year	9,397
Principal/CEO	Monica Box
Telephone number	020 7501 5010
Website	www.lambeth.ac.uk

Provider information at the time of the inspection

Main course or learning programme level	Level 1 or below		Level 2		Level 3		Level 4 or above	
Total number of learners (excluding apprenticeships)	16–18	19+	16–18	19+	16–18	19+	16–18	19+
	479	1,795	504	1,397	411	685	0	59

Number of apprentices by apprenticeship level and age	Intermediate		Advanced		Higher	
	16–18	19+	16–18	19+	16–18	19+
	158	510	67	311	2	4

Number of traineeships	16–19	19+	Total
	-	-	-

Number of learners aged 14 to 16	-
Number of learners for which the provider receives high-needs funding	123
Funding received from:	Education Funding Agency and Skills Funding Agency
At the time of inspection, the provider contracts with the following main subcontractors:	Achieving Excellence All Inclusive Advice and Training Limited Astro Martin Limited Choice Training Limited Dhuney Corporation Elevate Training Solutions Limited Enterprise LDN Limited Essential Skills Consulting CIC

	Harriet Ellis Training Solutions Limited HI-Qual Limited Inn Training Limited Iprotech Training Limited King's College Hospital NHS Foundation Trust Let Me Play Limited London Vocational College Limited SIGMA Group Limited Smart Training Associates Limited Solvo Vir Limited Tendean Limited The Construction Skills People Limited The Development Fund Limited The Skills Network Limited White Rose Training Limited

Information about this inspection

The inspection team was assisted by the vice principal curriculum, as nominee. Inspectors took account of the provider's most recent self-assessment report and development plans, and the previous inspection report. Inspectors used group and individual interviews, telephone calls and online questionnaires to gather the views of learners and employers; these views are reflected within the report. They observed learning sessions, assessments and progress reviews. The inspection took into account all relevant provision at the provider.

Inspection team

David Martin, lead inspector	Her Majesty's Inspector
Rosy Belton	Her Majesty's Inspector
Philida Schellekens	Ofsted Inspector
Sherrilee Dougan	Ofsted Inspector
Lynda Pickering	Ofsted Inspector
Kathleen Tyler	Ofsted Inspector
Asfa Sohail	Ofsted Inspector
Philip Elliott	Ofsted Inspector

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	CONFIDENTIAL
Paper title:	Larch Full Business Case
Board/Committee	Board of Governors
Date of meeting:	13 June 2017
Author:	PricewaterhouseCooper
Executive/Operations sponsor:	David Phoenix, Chief Executive
Purpose:	Provide a status update on activity moving towards integration of Larch with LSBU.
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	1. *Student Success* - Externally recognised for providing a personalised, high calibre education which equips students for employment and society. 2. *Real World Impact* - Ensuring the provision of dynamic evidence-based education which is underpinned by highly applied research and enterprise activity. 3. *Access to Opportunity* - Building opportunity through partnerships and as a partner of choice for our communities. 4. *Strategic Enablers* - Addressing the barriers and challenges that could hinder the success of LSBU.
Recommendation:	The Board is requested to agree to: 1. Approve the FBC as the basis for progressing with the acquisition of Larch

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

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

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

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

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

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

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

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

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

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- **Income Growth** is accelerated when compared to the Transaction Unit Financial Model within the TU bid. PwC's view confirms that the Transaction Unit Application is necessarily conservative in its approach and that additional, supplementary income streams can be realised in four key areas:

    1. **New Access courses in focus areas for Larch and LSBU**
        a. Counselling (link: HSC)
        b. Diploma in Social Work (link: HSC)
        c. Diploma in Creative and Digital Media (link: ACI)
        d. Business Studies (link: BUS)
        e. Computing (link Eng)
    2. **Greater support for BTEC students**
    3. **Significant growth in Larch student numbers due to rebranding**
    4. **Extending our apprenticeship offering to Levels 2 and 3**

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

Income and Expenditure
Analysis by PwC has concluded that the forecast Group position including Lambeth is positive. The table below shows the key financial performance measures for the Group (including Lambeth) in 19/20 with achievement of 100% cost reduction and 100% income growth. This shows a 31.2% overachieve in Group turnover; no degradation of EBITDA compared with 16/17 LSBU at c.12%; and a Group surplus of 3% representing a 2% (£5m) increase on the LSBU stand-alone position as at 16/17. What it also shows is a neutral influence on EBITDA and percentage surplus if Lambeth is brought in to the Group.

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

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

However, it is advisable that the Group take a prudent approach to the projected financial measures from PwC and assume a 50% cost reduction and 50% income growth. The table below shows the key financial performance measures if the Group achieves this position. This analysis still shows a positive trend with significant 28.1% overachieve in Group turnover by 19/20; no degradation of EBITDA compared with 16/17 LSBU at c.12%; and a Group surplus of 2.6% representing a 1.6% (£3.7m) increase on LSBU stand-alone position as at 16/17. However, it also shows a slight (immaterial) degradation in EBITDA and percentage surplus when compared to LSBU 19/20 stand-alone figures.

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

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

Balance Sheet

The Balance Sheet analysis reveals a marked change in LSBU Group Balance sheet position with the addition of assets worth c£100m added to the LSBU Group position from property. Additional liabilities transferred from Lambeth College (in the form of pensions and loans) will be softened by the conditional grants requested from SFA but the overall balance sheet is strengthened. Additional analysis is being undertaken on this forecast position and will be circulated to the Board when completed.

Further detail is provided in the Full Business Case.

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1st June 2017
Final Draft v0.10f

Full Business Case (FBC)

includes Strategic, Management, Economic and Financial Business Cases for Lambeth College joining the London South Bank University Family

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Contents

Purpose of this document

This document is part of a suite of documents which are being used to make a decision on bringing Lambeth College in to the LSBU Group structure.

The Outline Business Case (OBC named Approval to Proceed v0.16a) was agreed by MPIC in September 2016. The strategic intent and benefits of bringing Lambeth College in to the Group is well rehearsed and supported by both MPIC and the Board and is aligned with the LSBU 2020 vision and objectives.

As a result, the main focus of this document is on the financial case, risks and benefits to the Group. This document also provides a summary of the Strategic, Management and Economic Cases.

The FBC is structured as follows:

Section		Description
0	**Strategic Case**	This Section outlines the concept of the South London Innovation District and also considers the market conditions, business synergy and strategic fit. For more information please refer to the Approval to Proceed document v0.16a and the TU Application.
1	**Management Case**	The Management Case demonstrates that the programme is achievable and capable of being delivered in a structured, methodical manner. In particular, it considers the governance models which will be used as the Group Structure is implemented.
2	**Economic Case**	The Economic Case demonstrates that the proposal optimises public value, in this case to the South London area.
3	**Financial Case**	The Financial Case provides evidence that the proposal is affordable and includes the income expenditure and cash flow projections.
Appendix		Provides supporting documentation for Sections 0-3 above.

0. Strategic Case

This Section outlines the concept of the South London Innovation District and also considers the market conditions, business synergy and strategic fit. For more information please refer to the Approval to Proceed document v0.16a and the Strategic Business Case section of the Integrated Plan in the TU Application.

0. 1 Strategic Case: Creating the South London Innovation District

1. Introduction

London South Bank University (LSBU) understands the benefits of bringing together high level education and training, translational research and enterprise to support learners, entrepreneurs and employers. It is seeking partners to realise these benefits through the creation of an "Innovation District" in south London, established around what LSBU terms a "Family of Learning Providers" – a Group structure composed of like-minded educational organisations operating within a common educational framework. In this context LSBU and Lambeth College are seeking to enter a formal Group structure to meet the needs of local learners and employers.

London South Bank University is therefore requesting the designation of a subsidiary body. This body, (South Bank Colleges Limited (SBC NewCo)), would be a company limited by guarantee with charitable objectives based around the delivery of Further Education. Once created it is expected that Lambeth College Corporation would dissolve and transfer its assets and undertakings into the new body so becoming part of the London South Bank University Group (LSBU Group).

The arrangement recognises the distinctive nature of Further Education (FE) and Higher Education (HE) and hence seeks to maintain clear differentiation by retaining two distinct vehicles – the University and the College. The vision of the University is to become London's top modern university by being recognised as an enterprising civic university that address real world challenges. The vision of the College is to be London's leading Further Education provider offering learners an entrepreneurial, technologically-focused learning environment which delivers education and skills aligned to employer needs.

This arrangement also recognises that the creation of an effective Innovation District requires close co-ordination between the participating organisations through the creation of a formal Group structure with aligned central resources and strategy. The Group will have a common mission and work within a common educational framework as described later at 2.1 below. The shared mission of the Group will be the creation of an Innovation District **<u>that transforms lives, business and communities</u>** though the provision of access to research, enterprise and skills development for the benefit of individuals, employers and the professions.

In summary, this proposal will provide:

- A solid financial foundation and sustainable future for the College which meets the objectives of the local area review;
- Increased uptake of L4+ learning and enhanced progression from FE to HE founded on improved achievements in Levels 1-3 and English and Maths and delivery of the new technical routes and pathways between them;
- An high quality and more attractive educational offer aligned to learner and employer needs providing a significant contribution to the local skills priorities of local stakeholders including the local Borough Councils, the GLA and local employers; and

Creating the South London Innovation District

- An attractive Further Education estate with associated operational efficiencies.

This proposal pilots a new FE-HE paradigm which can be assessed to evaluate its impact on meeting regional skills requirements. We will establish outcomes (based on the criteria set out in the guidance) against which this pilot can be judged, including evaluation by students, local stakeholders, LSBU and Lambeth College; and gather evidence from the pilot about the educational and financial benefits of this model.

2. Background

Universities and other research institutions can be central to fostering innovation and driving growth. Frequently, this takes place on isolated campuses and in research centres; however, current thinking (for example, that by The Brookings Institution, a public policy organisation based in Washington, DC) recommends an alternative model, proposing new "Innovation Districts" that:

"…….facilitate the creation and commercialization of new ideas and support metropolitan economies by growing jobs in ways that leverage their distinct economic attributes. These districts build on and revalue the intrinsic qualities of cities: proximity, density, authenticity, and vibrant places. Given the proximity of many districts to low-income neighbourhoods and the large number of sub-baccalaureate jobs many provide, their intentional development can be a tool to help connect disadvantaged populations to employment and educational opportunities". ("The Rise of Innovation Districts" by Bruce Katz and Julie Wagner)

In 2016 the Centre for London published a report entitled: "Spaces to think: Innovation Districts and the changing geography of London's Knowledge Economy" (author Kat Hanna). This report studies 16 sites in London covering universities, knowledge and enterprise clusters and nascent innovation districts, including London South Bank University (LSBU). It identified LSBU as uniquely offering a zone 1 opportunity in south London to match the major innovation initiatives in north, west and east London at the Crick Institute, UCL East and Imperial West. It also made a series of recommendations, amongst which is that:

"The London Plan should recognise the role played by innovation districts, especially in secondary areas, and incorporate the innovation district model into the London Plan, ensuring that universities and knowledge economy institutions are included in London's spatial strategy. The Mayor should encourage district-based inward investment strategies as well as sector-focused strategies."

The report goes on to state that:

"Rather than allowing the development of so-called 'tech-ghettoes', innovation districts offer an opportunity to democratise innovation and to energise local communities. As such, innovation districts are not just about maintaining London's knowledge economy, and ensuring the city has the space, skills, and capital required: ***there must be equal focus on expanding access to skills and employment***

Strategic Case: Creating the South London Innovation District

***opportunities across London's innovation districts,** as well as ensuring that the right mechanisms are in place to capture the spill-over benefits of innovation districts."*

London South Bank University is uniquely placed to be the hub of the South London Innovation District.

In order to respond to the needs of the local communities and provide the skills required by leaners and business, a more cohesive approach needs to be taken to address the skills pathways available – especially from Levels 3-5. There is a well-established route for those learners who perform well on the academic pathway, which carries them seamlessly from GCSEs to A-levels and into university. This route is often presented as the norm, but in practice it serves little over a third of the 18 year-old age cohort and much less in some areas and in some social groups.

Despite successive reforms to qualifications, funding and institutions, there has been little thought given to creating pathways which meet the needs of the 60%+ who do not follow what too many in government regard as the "traditional" route from school to university. On the academic pathway the step between Levels 3 and 4 (GCSE and A-Level) is clear and easily navigated. In contrast, the technical pathways are highly complex and often see learners falling out of education. This is even more so in the case of apprenticeships where those educated whilst they work show worryingly low progression form Level 3 to 4. Just 10.4% of Level 3 apprentices progressed to HE within 3 years according to BIS Research Paper 107 Progression of Apprentices to Higher Education February 2013.

2.1 Adopting an Educational Framework

Key to LSBU's approach is a belief that any Family of Learning Providers needs a shared and underpinning Educational Framework, with all members adopting an aligned pedagogic and curriculum approach. For the LSBU Family, this means providing learners with an individualised and applied learning experience which builds social capital and confidence.

LSBU's Educational Framework has *four* elements:

1. Providing knowledge;
2. Creating opportunities to apply that knowledge;
3. Generating the confidence to apply it; and
4. Ensuring the knowledge is current to the professional environment into which the learners progress.

Individualised Learning Pathways support learners through the Framework and enable them to learn what they need through the right learning approach for them, rather than imposing a route which is overly prescriptive.

The Framework and the accompanying Pathways go beyond delivering qualifications. Through programmes of extracurricular activities, exposure to the workplace and volunteering, they develop the professional qualities prized by employers – creativity,

Creating the South London Innovation District

team-working, leadership, self-motivation – attributes that LSBU summarises as “underlining entrepreneurial development”. This approach will be developed across the core curricula at Lambeth as it is being developed across LSBU.

A distinctive and highly linked curriculum offer will be developed as a result of the inclusion of Lambeth College into the LSBU Family. It will not only support entry into work. It will also provide a clear upward trajectory for learners who have the capacity to engage further with higher level skills but who require additional support to bridge the gap between Levels 3 and 4. The focus for education and skills will be:

- Entrepreneurial focused activity
- Technical progression routes in four areas (Health, Advanced Manufacturing, Creative Industries and Business);
- Work based learning and apprenticeships; and
- Support for access to HE and adult education.

The proposal creates something distinctive and special in UK education which can be a model for educational provision elsewhere. The proposition is special in part because of the strong synergies between LSBU, the College and the local area - bringing together the two institutions will create a very high level of added value as described below.

Lambeth College will benefit from a stronger financial base and sustainable future; the Family will benefit from being able to offer a wider and more concerted portfolio of education; employers will benefit from accessible and coordinated education and skills provision; and learners will benefit from a distinct FE provision and the opportunities created by learning within a wide ranging educational group which delivers high quality educational pathways aligned with local employer needs. The local economy will benefit from a stronger employment offer and enhanced productivity through raised levels of education and skills. The local community will benefit from enhanced social mobility through raised aspirations and access to opportunity.

0.2 Strategic Case: The rationale for bringing the College in to the Group

Background and context

FE Colleges provide an essential set of services for our national education. Post-16 Education is a critical part of the fabric of our society and economy. FE Colleges not only provide a credible and attractive alternative to more traditional education routes (for example, ‘A’ levels) but also provide courses to adults who may not have benefited from pre-18 education.

However, the FE College market is not without its challenges. There have been some financial failures within FE which means that FE Colleges must address financial instability and ensure strong governance of College finances.

Additionally, based on recent research, there are mixed views on the provision of Post-16 Education in the UK. Over half of the UK’s young people do not follow a GCSE/A-Level/University academic route, but those “between” NEET and A-Levels have been largely “overlooked” by policy makers. Recent government publications have highlighted the shortcomings of vocational and technical education provision in England and Wales.

Whilst there are simple and established pathways for academic progression at Level 3, the pathways in professional and technical education are more complex, less well known and very often less well regarded. Frequently, learners fail to make this transition as a result of complexity and impracticalities.

Many learners do not follow a route into Levels 3 and 4 education because the provision locally is unappealing and in STEM areas in particular there is a shortage of suitable courses and facilities.

Recent analysis reveals that the professional and technical courses offered locally do not meet learner expectations or employer needs. There is rising demand from local employers for a more highly educated and skilled workforce.

As a result, learners’ needs are not being served locally and inevitably too many of them are studying out of borough or, more concerning, not at all.

The findings of the Sainsbury’s review reemphasise these shortcomings and will result in a radical refresh of post-16 education. This includes the formation of 15 new and specific technical pathways and increased choice for post GCSE students from 2019.

This means that FE Colleges are facing unprecedented changes which are necessitating an alteration in the way services are provided. This is vital to ensuring FE organisations remain viable and continue to provide high quality, relevant services.

The rationale for bringing the College in to the Group

Background and context to (continued)

For Education provision as a whole this means striking a balance between the need to meet post-16 education requirements (at Levels 1 and 2) with the demand for business and technical qualifications (at Levels 3 and 4).

In July 2015 the Government identified a need to alter the configuration of FE Colleges leading to a model with fewer, larger, more resilient and efficient FE providers. The London Area Review Board (ARB) considered the future of a number of Colleges in South London.

LSBU had the opportunity to bring two Colleges (Lambeth and LeSoCo) in to the LSBU Structure to further enhance LSBU's post-16 education offerings from Entry to Level 4.

LSBU and Further Education

London South Bank University (LSBU) has been and continues to develop the concept of a Group to provide a family of like-minded educational institutions which complement each other in providing opportunity for local people, business and the professions. The Group works to a shared mission and each entity has a highly applied approach to learning through adoption of the learning pathway concept.

As part of the Group, the vision is to create this Family of educational institutions across the Tri-Borough (LLS) Area with an inclusive union between LSBU and a number of schools and Colleges in the local community.

This will create a clear set of learning pathways to help to alleviate skills shortages, increase social mobility and enhance education choices for Post-16 learners.   At the heart of LBSU's vision is a concept which will enable better outcomes for the learner; enrich student experience and choice; and elevate the aspirations of students across the three Boroughs. This will create a long-term, sustainable model which will address key local economy demand and shortfalls in student outcomes across the Boroughs.

The aims of the Group is to remove artificial divides between levels of learning and types of learning as well as providing the subject coverage and qualifications required to enhance individual's ambitions, business and the professions.

In so doing this contributes to the LSBU mission but also strengthens our links with lead stakeholders and helps to ensure future student pipeline.

In December 2016 the FE Area Review Board made a decision that the Boards of two FE Colleges: Lambeth and LeSoCo could decide which preferred partner to appoint. On December 14th 2016 the Lambeth Board appointed LSBU as its preferred partner. LeSoCo decided to pursue another partner organisation.

0.3 Strategic Case: Vision for the College as part of the LSBU Group

LSBU is uniquely placed to be the hub of a South London Innovation District.

As aforementioned, London South Bank University (LSBU) understands the benefits of co-locating high level education and training, translational research and enterprise. It is seeking partners to realise these benefits through the creation of an “Innovation District” in south London, supporting learners, employers, and job and wealth generation. In this context LSBU and Lambeth College is seeking to enter a formal group structure to meet the needs of local learners and employers.

The arrangement recognises the distinctive nature of Further Education and Higher Education and hence seeks to maintain clear differentiation through two distinct vehicles – the University and the College.

LSBU has established a ‘family’ of providers to increased social mobility and the economy through improved professional, technical and academic provision.

The combined provision will be better equipped to deliver a full range of academic, vocational, professional and technical learning pathways, with fully integrated progression routes providing degree level opportunities, with both College based and Work based delivery. Working together, LSBU and Lambeth College will reinforce best practice and the increased scale will make it easier to connect with SME employers who account for a very large part of the London employer base.

In addition, the Group Structure will support Lambeth College in achieving a solid financial footing at a time when public funding is under increasing pressure.

Lambeth College and LSBU have therefore come together to prepare a set of documents for DfE and TU which show:

- A clear strategic vision to meet the needs of learners and employers across the Lambeth and the London LEP area;
- An innovative and forward thinking curriculum plan which recognises the complementarity between the two providers that will enable the delivery of vocational, professional and technical education and training at all levels from Entry through to Higher Education levels, to meet the new and existing skill needs of London learner and employers;
- A forward looking estates strategy to determine where planned capital developments are required to ensure that training facilities are fit for purpose and the identification of the efficiencies that can be achieved through the reduction of running costs and the more effective utilisation of under-used buildings; and

Vision for the College as part of the LSBU Group

- A robust financial plan which recognises the pressures on public funding of post 16 education and training and reduces the reliance on funding by focusing on growth in priority areas, including:
  - Apprenticeships and Higher Level Apprenticeships (HLA), with a move to Levy funded provision
  - Full time Higher Education courses that complement the academic portfolio of the University
  - Loan Funded Provision
  - Full cost Commercial and International provision
  - Knowledge exchange and enterprise activities.

0.4 Strategic Case: Benefits

The overriding aim of bringing Lambeth College in to the LSBU Group is to remove artificial divides between levels of learning and types of learning, as well as providing the subject coverage and qualifications required to enhance individual's ambitions, business and the professions. The resultant benefits will also improve the offer to communities across the Boroughs, providing increased choice and clearer learning pathways for a wider, richer range of academic, technical and professional opportunities to 16–18 school leavers, adults, Higher Education students and the business community.

Group Benefits include:

1. Increased uptake of L4+ learning and enhanced progression from FE to HE founded on improved achievements in Levels 1-3 and English and Maths and delivery of the new technical routes and pathways between them;

2. A high quality and more attractive educational offer aligned to learner and employer needs providing a significant contribution to the local skills priorities of local stakeholders including the local Borough Councils, the GLA and local employers;

3. An attractive estate with associated operational efficiencies helping to determine where planned capital developments are required to ensure that training facilities;

4. Ability to offer a wider and more concerted portfolio of education;

5. A clear strategic vision to meet the needs of learners and employers across the Lambeth and the London LEP area;

6. An innovative and forward thinking curriculum plan which recognises the complementarity between HE and FE providers that will enable the delivery of vocational, professional and technical education and training at all levels from Entry through to Higher Education levels, to meet the new and existing skill needs of London learner and employers;

7. The ability to invest and develop new and higher level curriculum offers which respond to the needs of employers;

0.4 Strategic Case: Benefits

8. The ability to share physical estate and facilities, and staff, resulting in opportunities for sharing best practice and continued investment in high-quality professional services;

9. Exploiting a wider base of companies, UK partnership organisations and international education to drive real world impact and outstanding student success;

10. Creation of an organisation with an integrated curriculum offer including higher level skills and degree level apprenticeships that clearly meets the Higher Level Skills agenda for London; and

11. Development of an organisation with a greater capacity to engage regionally and nationally with partners, bringing greater benefits to students and local communities.

College benefits

1. The development and support of the FE curriculum through a dynamic and rigorous quality enhancement framework;

2. Increased focus on employer and learner need, better targeted by level and learner location;

3. Economies of scale and strategically planned marketing to increase reach and profile;

4. Financial sustainability and ability to invest in improving learner outcomes;

5. Joint development of new Apprenticeship and HE provision which is responsive to employer needs;

6. Better learning support facilities which would enhance student success;

7. Increased distribution to Lambeth students and the local community of the benefits from the LSBU approach to elective education, for example, enterprise and entrepreneurship coaching, establishing community interest companies and additional real world curriculum development and support;

0.4 Strategic Case: Benefits

8. Enhancement of the training, bespoke courses and Apprenticeships offered to employers, and building of a stronger partnership with employers;

9. The LSBU Educational Framework, which focuses on applied, relevant provision, informed by employers and professional bodies, delivered in specialist facilities, with structured support to build students' confidence, aspirations and adaptability;

10. A solid financial foundation and sustainable future for the College which meets the objectives of the local area review;

11. A distinct FE provision and the opportunities created by learning within a wide ranging educational group which delivers high quality educational pathways aligned with local employer needs;

12. Introduction of the lessons learned from LSBU as the 2016 Entrepreneurial University of the Year, this will include leading practical skills workshops, delivering talks, mentoring students and graduate entrepreneurs, supporting start-up and accelerator programmes, providing live consultancy projects and providing internships and placements; and

9. A robust financial plan which recognises the pressures on public funding of post 16 education and training and reduces the reliance on funding by focusing on growth in priority areas, including:

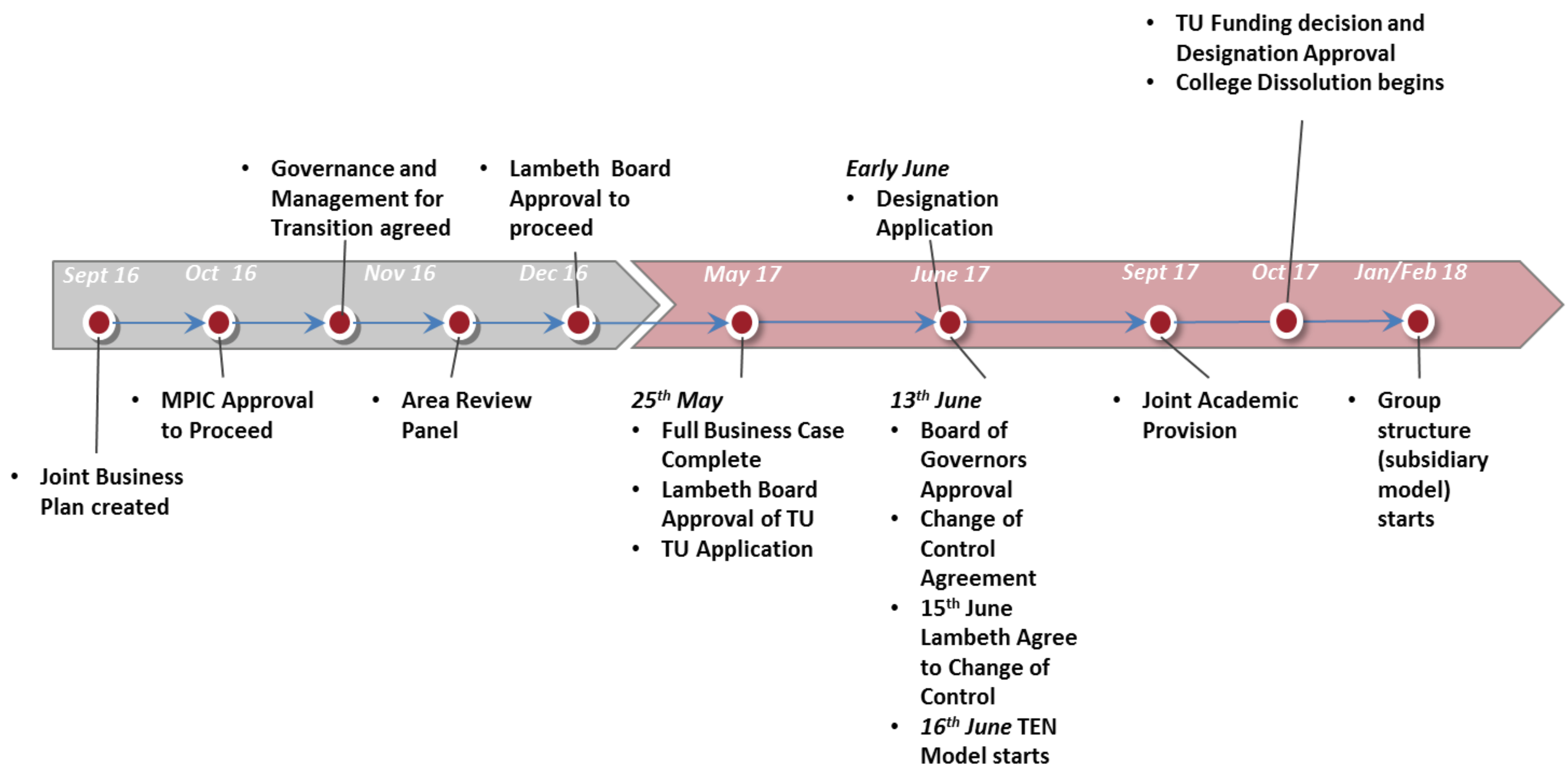
   - Apprenticeships and Higher Level Apprenticeships (HLA), with a move to Levy funded provision
   - Full time Higher Education courses that complement the academic portfolio of the University
   - Loan Funded Provision
   - Full cost Commercial and International provision
   - Knowledge exchange and enterprise activities.

Other Benefits

In addition, employers will benefit from accessible and coordinated education and skills. The local economy will benefit from a stronger employment offer and enhanced productivity through raised levels of education and skill; and the local community will benefit from enhanced social mobility through raised aspirations and access to opportunity provision.

0.5 Strategic Case: Key milestones

Since LSBU's appointment as preferred partner, Lambeth and LSBU have undertaken the next phase of activities to complete due diligence; build this Full Business Case (FBC) which requires approval by LSBU Board on 13th June; completed and submited an application for Restructuring Finance to the Transaction Unit; created an application for dissolution and designation of a new FE entitiy SBC NewCo. The current proposed key milestones are shown in the diagram below.

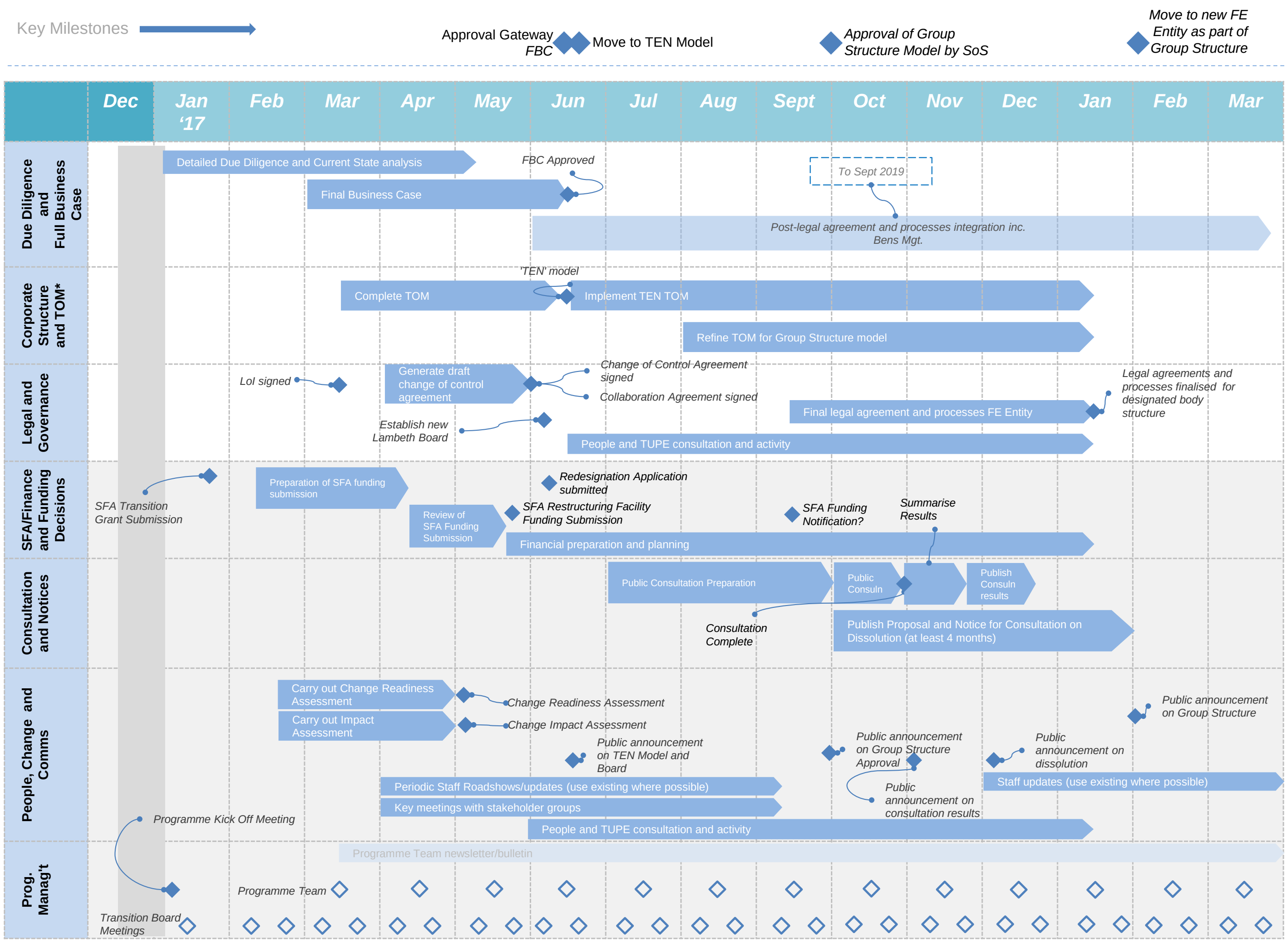


1. Management Case

This Section provides an overview of how the Programme will be delivered and in particular the governance and leadership models which will be used as the Group Structure is implemented.

Management Case

Bringing Lambeth College in to the Group Structure is a complex undertaking which requires careful planning and coordination. The critical elements over the next 6-12 months are dissolving Lambeth College, setting up a new FE entity (South Bank Colleges (SBC NewCo)) and moving the Lambeth College assets and undertakings in to SBC NewCo as part of the LSBU Group Structure. In addition, critical activities also need to be undertaken in leadership, management and control. The plan below shows the key milestones to move to the Group Structure in January 2018.



*TOM = Target Operating Model

Management Case

1.1 Moving to the Group Structure

Moving to a Group Structure means the formation of a new FE entity - South Bank Colleges NewCo (SBC NewCo). Lambeth College will dissolve and assets and liabilities will transfer to SBC NewCo.

SBC NewCo will be a wholly owned subsidiary of LSBU Group. The wholly owned subsidiary will:

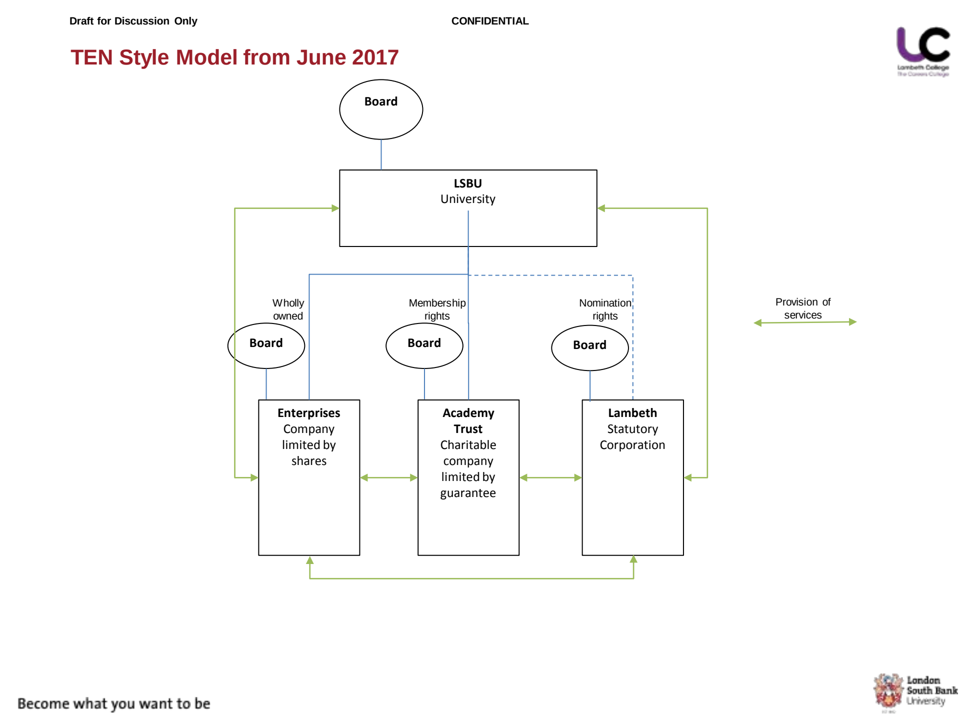
- be a charitable company limited by guarantee;
- be responsible for the Institution and its activities through the independent College Board;
- hold all funding contracts; and
- operate under the unified vision of the Group and values set but with local missions and delivery plans.

The formation of SBC NewCo requires designation by the Secretary of State of the FE institution conducted by the subsidiary under Section 28 of the Further and Higher Education Act 1992 (FHEA 1992).

This is the first time these powers will have been used. Support of the opportunity to progress indicates government interest in the proposal.

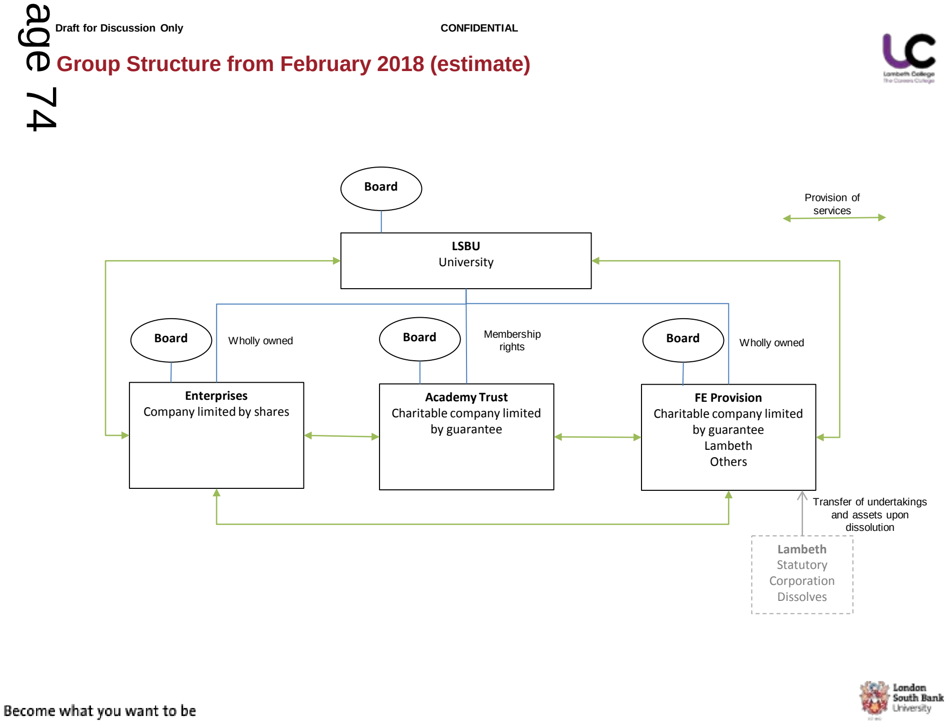
This process will take time to complete. As a result of detailed discussions with DfE and ESFA it is proposed that moving Lambeth College in to the LSBU Group will be a two stage approach. The diagram below shows this approach and key dates.

1) ***Stage One*** - Lambeth College will remain a Statutory Corporation (as it is at present) and LSBU will have nomination rights to Lambeth College Board. This will enable a swift change in Governance and control at Lambeth College to assist in stabilising the College and to begin to build the strategy for the future. This is planned to happen in June 2017. See the diagram below



Management Case

2) Stage Two - When the Secretary of State grants permission for designation of SBC NewCo, dissolution of Lambeth College will begin in line with the statutory process for dissolving FE Colleges as prescribed in the 1992 Act. This permission is likely to be granted by October 2017 which means that Lambeth College would then undertake a public consultation for four months prior to dissolution before its assets and undertakings move to SBC NewCo in February 2018.



The aims of these changes will be to ensure effective governance of Lambeth College through the stages of transition which will provide the highly effective strategic leadership that is key to the success of both Lambeth College and the wider LSBU Group.

The vision for governance is to shape the strategic direction, provide challenge and hold senior leaders to account for improving quality whilst being knowledgeable and understanding of the College's strengths and weaknesses. This will be coupled with a robust business-minded approach to ensure the organisation's growth and solvency.

The governance of Lambeth College, both in the transition and once embedded into the LSBU Group, will embody the expectations and behaviours of good governance as set out in the Code of Good Governance for English Colleges.

The following Sections provide more detail for each of these stages and changes to the Governance and Leadership of the College as it moves to become part of the LSBU Group.

Management Case

1.2 Stage One - Ten Model – A Step Towards the Group Structure

It is recognised that the preferred outcome for the future of Lambeth College is to become an integral part of the LSBU Group. However, to accelerate the potential benefits of working more closely with LSBU whilst the long term outcome is decided by the Secretary of State, Lambeth College and LSBU will work more closely together from June 2017.

This will be through a governance and leadership model which encompasses a change of control with the Corporation of Lambeth College. In addition, a Collaboration Agreement has been created to enable LSBU to provide management services and support key functional areas of Lambeth College including: Finance and Procurement, Estates, Technology, MarComms and HR.

More detail on this is provided in the Collaboration Agreement.

1.2.1 Proposed Governance changes in the TEN model

It is proposed that Lambeth will give LSBU the power to appoint and remove a majority of its Governing Body through a change to the Instrument and Articles of government.

The agreed Instrument and Articles have been discussed at length with ESFA and ESFA has approved the contents and approach of the Is and As and the configuration of the Board in this model.

These changes are being finalised through a consultation process on the Is and As. Full public consultation will follow later.

1.2.2 Key Governance Features

The Governing Body of Lambeth will remain responsible for the management and control of Lambeth as a separate legal entity and all members of the Governing Body will owe duties to act in the best interests of Lambeth. The Governing Body will ensure it meets the expected standards for the FE sector and will act within the guidance set out in the AOC's Governance Code and its guidance on good governance to ensure best practice is being followed.

The Governing Body will ensure it meets all the minimum requirements as set out in the Financial Memorandum, and the BIS publication on College Governance, published in August 2014 are being met to ensure the Governing Body is effective.

The Governing Body will also ensure that the recommendations of the FE Commissioner with regard to governance structures and procedures continue to be considered and implemented where appropriate.

Comprehensive detail can be found in the attached Instrument and Articles which have been agreed by Lambeth College and LSBU and endorsed by ESFA.

Management Case

1.2.3 Collaboration Agreement

In order to help to drive the proposed outcomes of the TEN model and business case, a Collaboration Agreement will be agreed which identifies the key areas of Lambeth College where LSBU will provide management services and support in order to deliver the best outcomes for their students and the wider community. The agreement includes (but is not limited to) the following functions:

- IT;
- Finance and Procurement;
- Estates;
- HR;
- Legal and Governance; and
- Quality.

The Collaboration Agreement will have benefits for both parties in that, from completion, they will have a clear understanding of their respective obligations in collaborating to deliver the benefits contained in this document and the TU Application.

It is intended that the Collaboration Agreement would also reflect the Integrated Plan which will be finalised with the ESFA on the agreement of any funding.

The Collaboration Agreement needs to be considered in the wider context of the proposed arrangements for the wider strategic and operational leadership and management during this TEN model.

1.2.4 Implementing the changes for the TEN Model

It is envisaged that a transfer of control agreement (known as the Governance Agreement) will be entered into to implement the governance model. This agreement would be conditional on:

- Approval by Lambeth College of Instrument and Articles;
- Resignation of Lambeth College Board;
- Nomination of new Board by LSBU;
- Execution of the Collaboration Agreement; and
- No material adverse change of LCC.

The transfer of control agreement will also document the resignation of members of the Governing Body who will resign on completion so that the Governing Body can be reconstituted in line with the governance structure outlined in the Instrument and Articles.

It has been confirmed by LSBU's external auditors, KPMG, the accounts of LSBU and Lambeth will not be consolidated whilst the TEN model is in existence. VAT will be applied to any service charges between LSBU and Lambeth College.

Management Case

1.3 Stage Two - Lambeth College Dissolution and becoming part of the LSBU Group

As outlined above the intention is to establish South Bank Colleges NewCo (SBC NewCo) as a wholly owned subsidiary of LSBU Group). It is expected that in October 2017, designation will be granted from the Secretary of State. At this point, Lambeth College will formerly announce dissolution and enter in to a four month period which includes public consultation. Once the four month period is complete (currently estimated to be in February 2018) Lambeth College undertakings and assets will transfer to SBC NewCo.

1.3.1 Governance changes for South Bank NewCo

SBC NewCo will be a wholly owned subsidiary of LSBU set up as company limited by guarantee and exempt charity.

It is important that the 'there is a single point of accountability' hence the Instruments and Articles clearly lay out the position for the subsidiary with the Group CEO being the accountable officer for HE and FE hence ensuring both are given equal consideration.

In this model, the responsibility for overseeing delivery of Higher Education is delegated to a Provost and an Executive Principal becomes representative for delivery of Further Education outcomes. Both roles are line managed by the Group CEO and part of the Group Executive team.

Responsibilities are clarified in job descriptions and will be embedded in annual appraisals. This model of group accountable officer with a local principal already exists and works well in a number of college systems (e.g. Newcastle College Group). The model already operates in the Multi-Academy Trust (MAT) that exists within the University Group.

The governance structure is embedded in the Instruments and Articles and has been reviewed by Veale Wasbrough Vizards. The model is already adopted in the MAT and has overseen a rating of good within the first three years of operation.

The basis of the structure is a small business focused board to ensure overall effectiveness and statutory compliance. This is teamed with a local academic Governing Body with delegated responsibility for overseeing the academic quality, student attainment and effectiveness of the learning environment. This enables specialist staff to focus on their primary objective of ensuring students meet their potential and is defined in the I&A.

In addition to the local Governing Body (which interrogates teaching and learning), the interrogation of the control environment is undertaken by a Group Audit Committee which reports to the Board and ensures compliance with controls. It has been agreed that the Chair of LBSU Board will create a Working Group and review the structure and detail of the operations.

Management Case

Financial metrics and resource metrics (e.g. estate efficacy) are monitored by a Group Finance, Policy and Resource Committee.

This latter Group will also interrogate HR related data such as diversity and training compliance. Any large scale material projects will report to a special projects committee so ensuring oversight of key material activity. All three committees include and are chaired by independent governors with relevant skills and are serviced by a Group Governance team.

Governance structures are regularly reviewed for effectiveness. LSBU recently had an independent review of its governance arrangements by Hefce which identified significant good practice and made no recommendations for change.

The use of core metrics and Key Performance Indicators (KPIs) will be reviewed by the Board to ensure that the College remains on track in delivery of its goals and these indicators will be reviewed against internal and external benchmarks. Governance structures are regularly reviewed for effectiveness.

1.3.2 Key Governance Features

The governance structure for the board of the SBC NewCo will be focussed on a highly effective strategic leadership model which provides:

- Strategic capacity and capability;
- Expert scrutiny;
- Skill and quality;
- Relevant perspectives and experiences;
- Accountability, both for the performance of the College but also to stakeholders;
- Effective succession planning; and
- Leadership of improvement and turnaround.

New board arrangements will be introduced which will have both a reinvigorated teaching and learning emphasis to drive a whole college quality improvement methodology leveraging LSBU's existing industry recognised quality processes and governance.

This will deliver strong support for improvement and a strong business emphasis to develop and maintain organisational strength.

The skills mix of governors will be such that the Board will both steer and supervise college performance through the systematic use of data, benchmarks, KPIs, the SAR process and careful attention to the views of students and staff. Governors will be very well informed about teaching and learning to support their work to take decisions in the best interests of the organisation.

Management Case

The engagement of the Board in the annual self-assessment process will be significant, with judgements about the quality of provision being scrutinised effectively.

These approaches will be central to any future model of governance for SBC NewCo.

1.3.3 Implementing the changes for SBC NewCo

When the Secretary of State grants permission for designation of SBC NewCo, dissolution of Lambeth College will begin in line with the statutory process for dissolving FE Colleges as prescribed in the 1992 Act. This permission is likely to be granted in October 2017 which means that Lambeth College would then undertake a public consultation for four months prior to dissolution before its assets and undertakings move to SBC NewCo in February 2018.

1.4 Strategic And Operational Leadership And Management

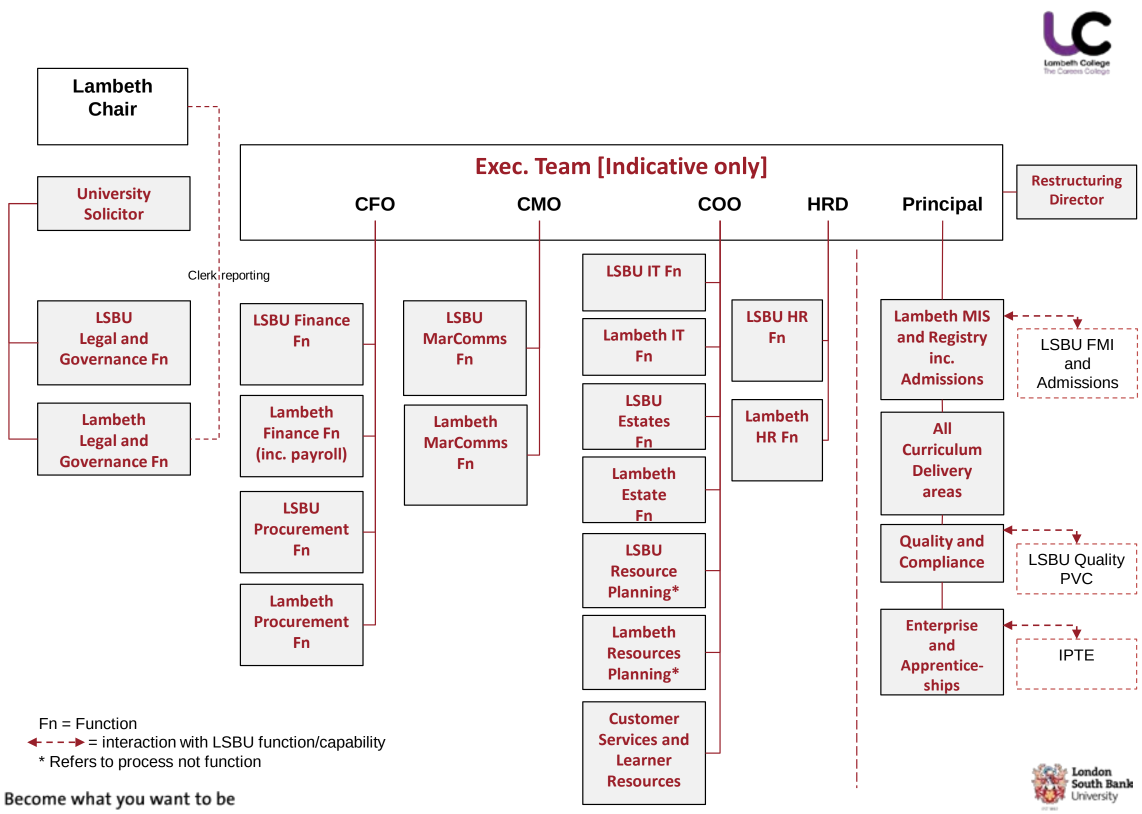
1.4.1 Executive leadership

In order to ensure the development and delivery of the most effective leadership and management in both the TEN Model and SBC NewCo, a new leadership and management structure will be implemented. The key objectives in implementing a new strategic and operational leadership and management structure are:

- To gain the confidence of stakeholders, regulators and funders;
- To ensure an appropriate skills mix to drive and develop a new organisation;
- To ensure leaders and managers of an appropriate calibre to deliver a particularly challenging agenda over a rapid period of time;
- To ensure the best possible outcomes for the students, employers and communities served by the College; and
- To ensure that LSBU Group expertise and resource is leveraged and deployed to help to stabilise and drive the future of the College.

The diagrams below provides indicative senior leadership structure charts.

Management Case

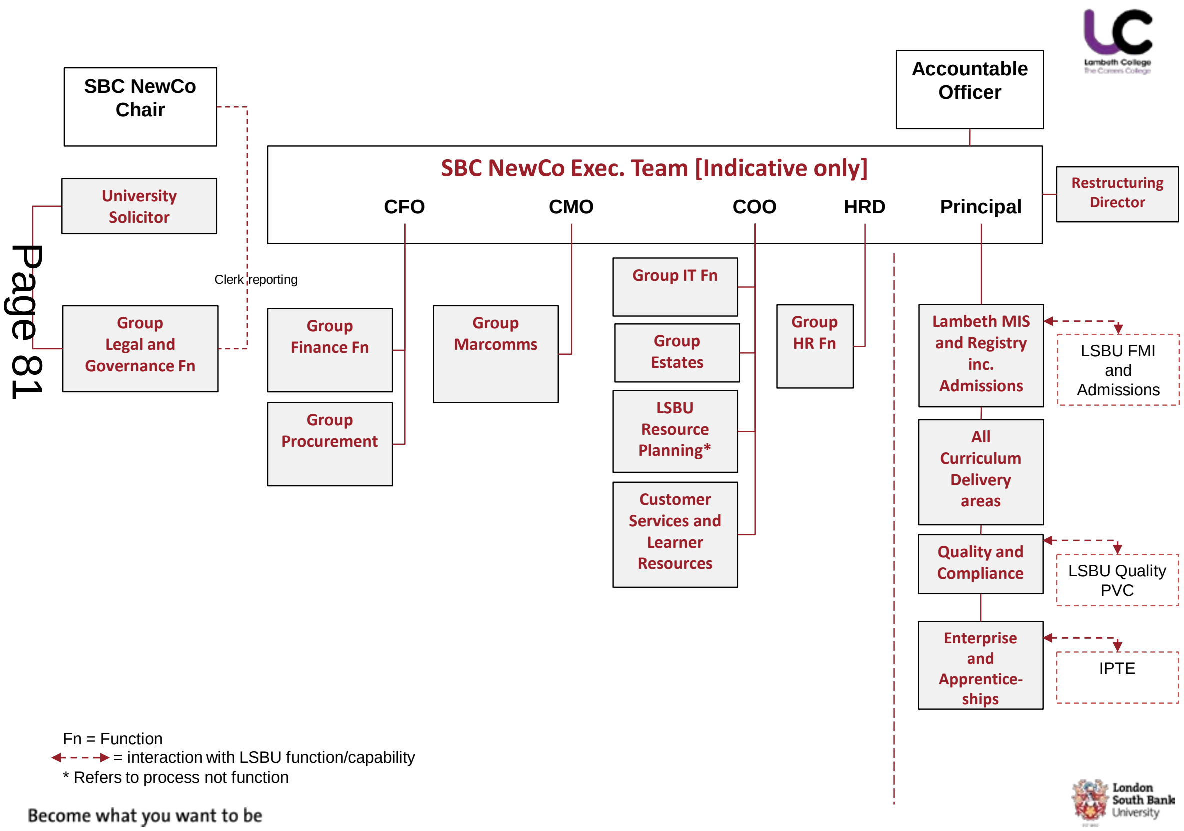


1.4.2 TEN Model

The key features of this structure are:

- A clear division between education and operations, enabling individuals with suitable experience to be appointed to key senior roles;
- A senior level role dedicated to the growth of commercial activities, employer engagement and apprenticeships;
- A focused role to rapidly drive forward quality improvement;
- The role of Restructuring Director;
- Enterprise activity will be led by PVC Research and External Engagement; and
- Quality and Educational attainment will be overseen with by PVC Education working closely with the Principal of the College.

Management Case



Page 81

1.4.3 SBC NewCo

The SBC NewCo structure develops this model further by moving towards a towards a more efficient, cost effective set of support services aligned to the strategic aims of the College and LSBU.

The primary way of achieving this is through a move to a Group Shared Services Model. This means that rather than separate functions (for example, Finance, IT, Estates, HR), there is a single set of functions providing services to the LSBU Group. In this case the Executive Functional model could look like this.

Within the subsidiary structure VAT charges between subsidiaries for services does not apply when part of VAT Grouping.

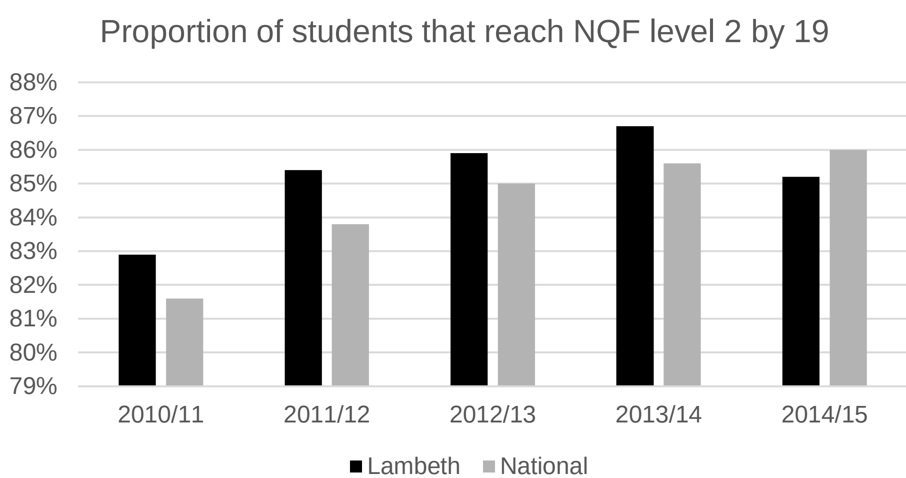
2. Economic Case

This Section demonstrates that the proposal optimises public value, in this case to the South London area.

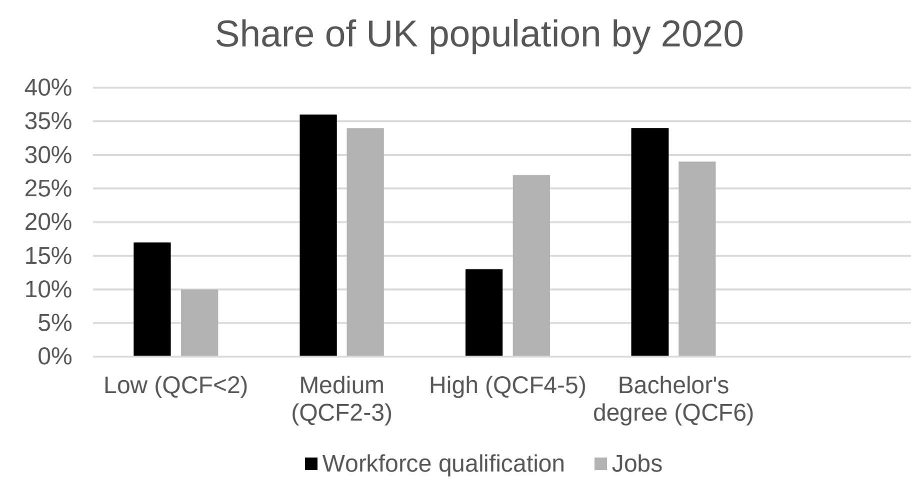
Economic Case

The UK and Lambeth working age population is growing, and there is demand for upskilling in London

The UK's working age population is projected to grow by 11.4% from 2014 to 2039. The growth in London, for a similar period of time, is 16%. London Borough of Lambeth, in particular, has a higher proportion of people aged between 16 and 64, than both London and the rest of UK. There is also a higher proportion of economically active people, indicating a strong supply to the local labour market. However, Lambeth's population is less educated at the medium to higher level, compared to the rest of the UK. For example, the graph below shows that Lambeth has a lower proportion of people reaching NQF level 2 threshold by the age of 19, than the national average.



There is a strong demand across the UK for upskilling its work force, in particular a gap in Higher Education below degree level. By 2020, it is estimated that the shortage can be as large as 14%-17%.



In London, this skill shortage in the labour market translates into demand for Further Education. The proposed model will help to remove the Level 3-6 divide and supports delivery across levels of joint College and University work. By 2036 the number of jobs associated with Higher Education in London is expected to increase by 53,000, representing an annual increase of 0.6%. An overwhelming majority of London's 16-year-olds continue in education after GCSEs. Among the 2013/14 cohort, 25% (outer London) and 27% (inner London) went on to FE colleges.

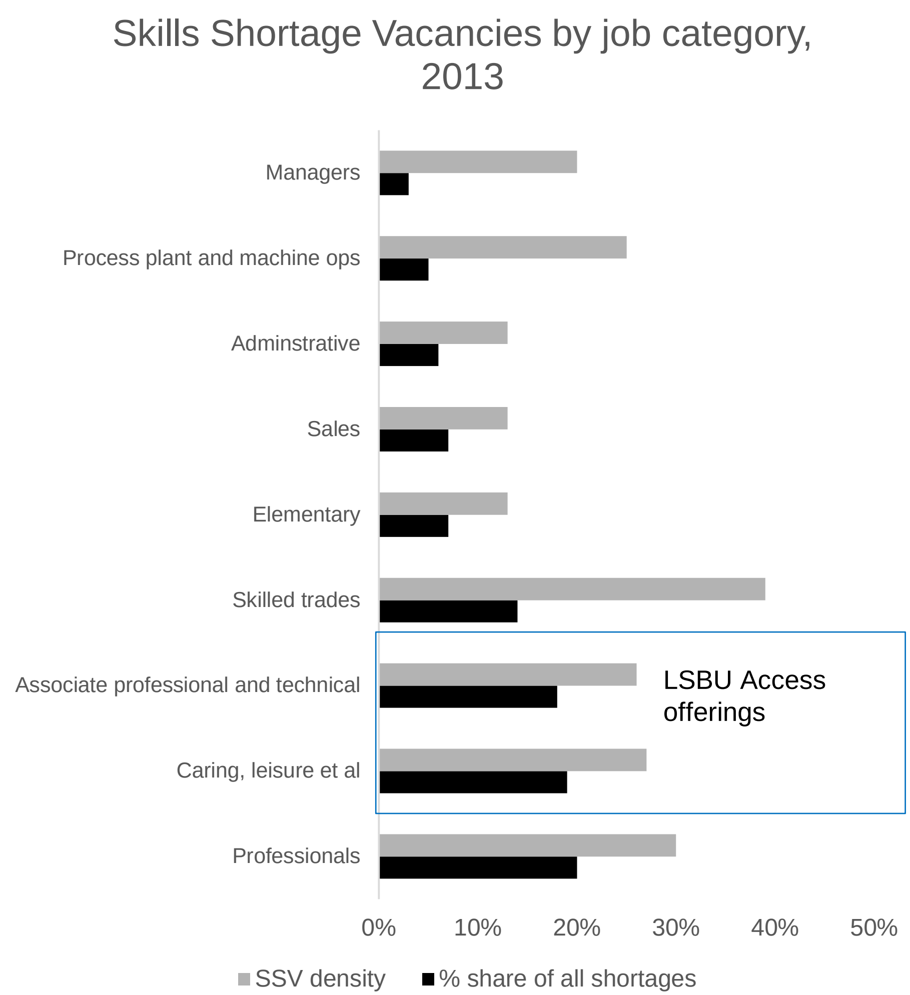
Economic Case

London's working age population is more educated than the rest of the country overall. There has been a steady increase in the share of London's working age population with higher level qualifications since 2004. In 2014, 58% of London's workforce had Higher Education qualifications, compared to 39% for the rest of the UK. There is therefore a need for working age individuals within London to obtain Further Education, if they want to stand out in the competitive job market and to provide progression points in to HE.

Skill shortages are evident in certain job categories, coinciding with proposed offerings of Access courses

LSBU, combined with Lambeth College, is proposing to offer Access courses in counselling, diplomas in social work, creative and digital media, business studies, and computing. This coincides with the demand in the job market for these areas, in both the UK and London.

Across the UK, the largest percentage of job growth from 2012 to 2020 lies within the category of 'caring, leisure and other service'. The next graph shows the density of job vacancies in 2013, due to skill shortages. Again, caring and leisure is among the highest density of shortages, along with associate professional and technical, both addressed by the proposed offering of Access courses.



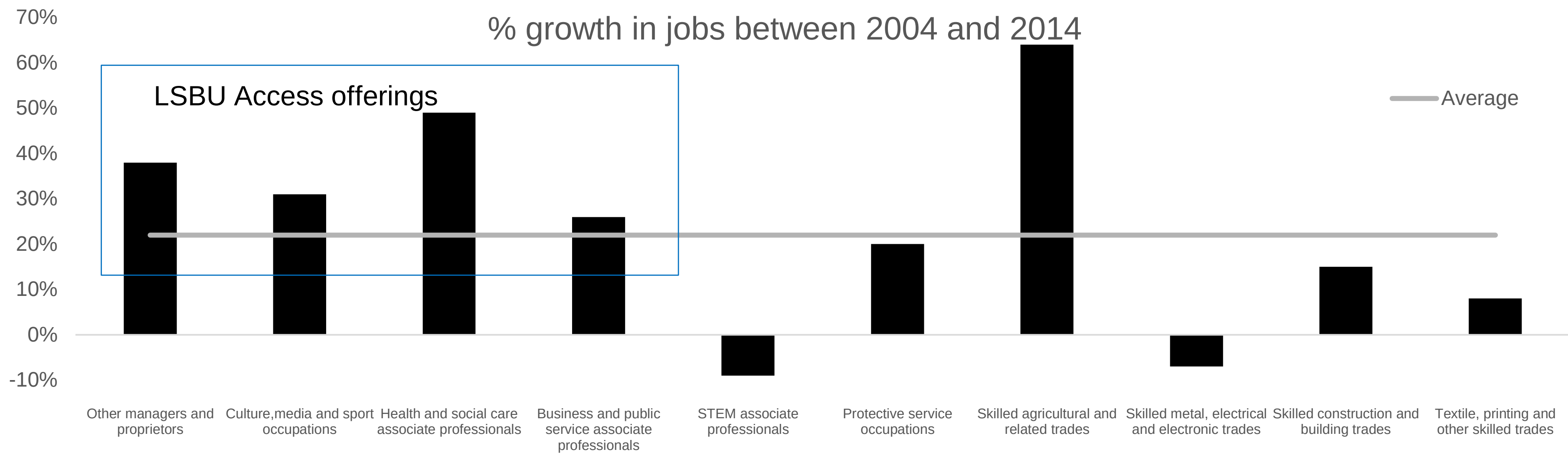
Economic Case

For London, there is a very strong job demand for the information and communications sector, with the number of jobs increasing by 177,000 to 423,000, from 1996 to 2004. This represents a 72% increase. The largest sub-sector in this industry is computer programming, and other large sub-sectors within this industry include motion picture, video and television programme activities. This maps very well to the Access offerings in creative and digital media.

The graph below shows the percentage changes in London jobs, in all categories that required an ‘upper-middle’ skill level ,which referred to competence acquired post-compulsory education but not to degree level. The proposed offering of Access courses cover 4 areas that are above average.

In particular, business and enterprise, is forecast to grow by 2.5 per cent in 2016 and 1.5 per cent in 2017, adding 78,000 workforce jobs. This includes information and communication, and administrative and support services.

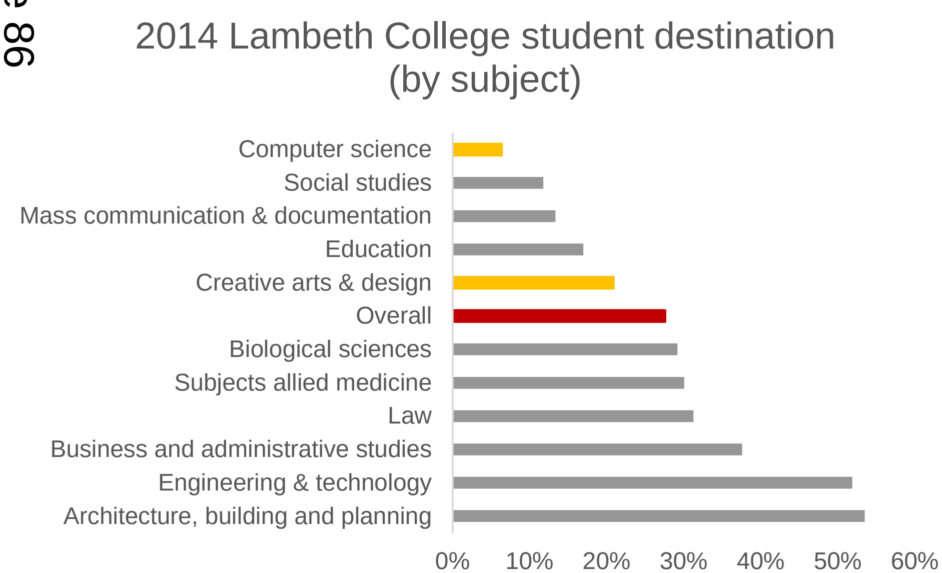
Lambeth has a higher proportion of employment in art, entertainment and the recreation sector than the London average. Other strongly represented and growing sectors include business administration and support services, and information and communications. This should, in turn, generate demand for Higher Education in business studies; and computing.



Economic Case

The graph below shows the subjects studied by Lambeth College students who progressed on to attend [LSBU] in 2014. Interestingly, the share of students studying computer science, and creative arts was less than the overall share of Lambeth College students attending LSBU. Proposed access offerings in these two areas, therefore, has room to generate strong future demand.

Page 86



An increasing number of BTEC students now apply for universities, however they seem to struggle once enrolled.

In the January 2017 university application cycle, the number of people with BTEC qualifications is second only to A-levels. Between 2012 and 2015, the application rate for this group increased proportionally by 60 per cent from 2.4 per cent to a high of 3.9 per cent. Nationally, the number of pupils who held BTEC qualifications as their only Level 3 qualifications almost doubled between 2005-06 and 2012-13, from 25,515 to 48,425.

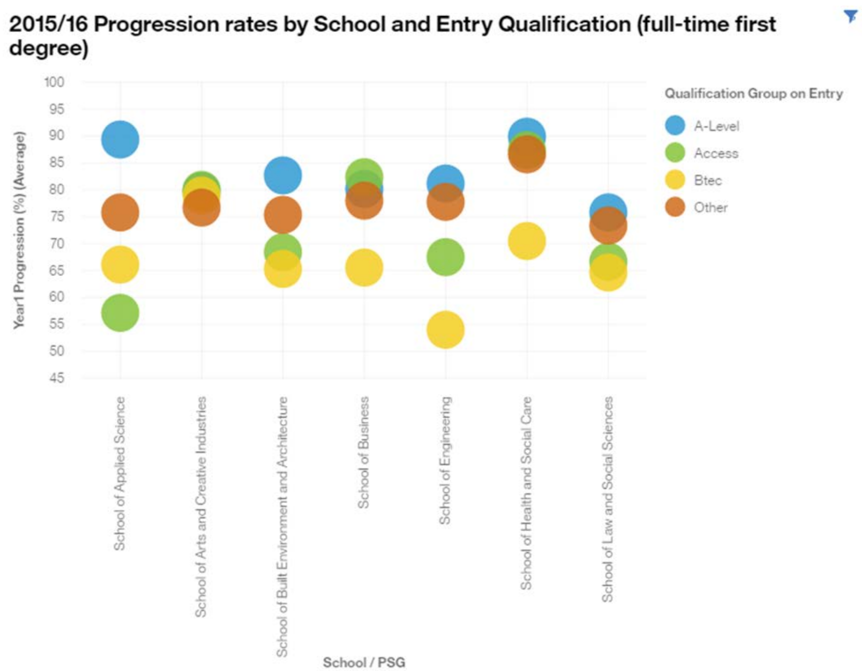
However, compared to A-level candidates, BTEC students seem to do less well. Research commissioned by HEA in 2015 showed that students who completed BTEC are less likely to gain a 2:1 or above when they graduate from universities.

BTEC students also struggle with course progression. As shown by the next graph, BTEC qualifications have the lowest progression rate among all schools within a university.

LSBU has focused alternatives in this area and there is an initiative to improve learner outcomes from BTEC students. LSBU and Lambeth College can work together both in course curriculum design and actual delivery to help enhance progression and success.

Economic Case

Page 87



Substantial government investment has been directed towards apprenticeships, as employees indicate apprentices are hard to recruit

The UK government is planning to create 3m apprenticeships by 2020. Currently, one third of FE colleges offer 25%-40% provision of apprenticeship, and one sixth of FE colleges offer up to 60%. More than two-thirds of colleges also expect this to increase even further in the next 18 months.

Employees are also more committed to hire apprentices. In 2017, apprenticeships will be the most recruited job during the period. In a recent report on UK employees, 59% of interview respondents said they would recruit apprentice, compared to 44% for graduates. Additionally, some of the most demanded roles can be filled by apprentices. For example, administrative and secretarial jobs has the 2nd greatest demand among the 9 job categories in 2017, and 2 in 5 UK employees think apprentices have the ability to perform these roles.

Joined with Lambeth College, LSBU can extend its Levels 2 - 7 offering to employers. In London, the largest number of apprenticeship starts in 2015/16 were in business administration and law, health public services and care, and retail commercial and enterprise. This maps well with LSBU's current apprenticeship offerings, in Health & Social Care, Business, and Law & Social Sciences.

Sources:

1. https://www.nomisweb.co.uk/reports/lmp/la/1946157253/printable.aspx
2. Supply and demand for higher-level skills (Universities UK,2015)
3. Annual London Education Report (GLA, 2017)
4. Trends in the demand for labour and skills across London as a whole (GLA, 2016)
5. Lambeth Council Community Plan, 2013-2016
6. Further education, new challenges, new opportunities (City and Guilds, 2016)
7. Skills shortage nation – the importance of employer commitment to apprenticeships (City and Guilds,2017)
8. UK application rates by January deadline (UCAS, 2017)
9. Young participation in Higher Education (HEFCE, 2015)

Financial Case

The Section provides evidence that the proposal is affordable and includes the income expenditure and cash flow projections.

NOTE: throughout this Section, 'FY xx' refers to the financial year ending in July xx. For example, FY17 is the financial year ending in July 2017.

3.1 Executive Summary

London South Bank University and Lambeth College can together improve learner outcomes & financial performance

Financial Case for bringing Lambeth College in to the Group

This is based on the belief that bringing Lambeth College into the LSBU Group will generate improvements in learner outcomes and improve financial performance, beyond the simple addition of the two institutions' income, costs, assets and liabilities.

Therefore, the Financial Case considers the individual institutions' performances, the combined position, and an additional set of potential "changes", as illustrated in the diagram opposite.

These changes are summarised on page 38, with details provided in the Appendix.

Scope and sources of the financial case

The financial case currently covers the period **FY16** to **FY20**, i.e. 1 August 2015 to 31 July 2020. The Transaction Unit application covers the period **FY15** to **FY20.**

The sources of data are summarised in the table opposite. The baseline data for the model is based on the latest Lambeth College and LSBU forecasts.

The Lambeth College forecast within this FBC is consistent with the CFADS model which has been used for the TU application. The CFADS model has also been subject to independent Due Diligence. Consistency has been checked with the final version (CFADS v11) in order to provide confidence over the total cash requirement - see page 49. Key findings from that review, where relevant to the financials in this FBC, are highlighted in Key Risks and Dependencies section on page 61.

Components of the Financial Case

LSBU
income, costs, assets and liabilities

+

Lambeth
income, costs, assets and liabilities

+

Changes
(i) Income growth & cost savings initiatives
(ii) Governance changes
(iii) Estates strategy
(iv) Funding options

= LSBU Group financial performance & position

Key sources of data

	FY16	FY17	FY18	FY19	FY20
	2015/16	*2016/17*	*2017/18*	*2018/19*	*2019/20*
LSBU	Annual report 2016	Last 4 years of LSBU 5 year plan as at 10 May 2017			
Lambeth College	FRP v2.8 and Lambeth College CFADS model	Lambeth College CFADS model used for CFADS application.			

Note 1: the period of review within the case is FY16-FY20, which is based on ensuring alignment of the source data available from each organisation.
Note 2: CFADS v11 was the final version submitted to TU. Numbers in this FBC were aligned in detail to the previous version. We performed a reconciliation with v11 to confirm the Total Cash Requirement – see page 49. All other changes were considered not material for the purposes of this business case.

This business case focuses on four components: income & cost initiatives, governance, estates and funding

Achievement of income growth and cost saving initiatives

Five key initiatives have been identified and are quantified in this business case; others are listed in the appendix:

1. New Access courses in focus areas for Lambeth College and LSBU
2. Greater support for BTEC students
3. Significant growth in Lambeth College student numbers
4. Extending the apprenticeship offering to Levels 2 and 3
5. Significant cost savings in back office functions

Changing Lambeth College governance to TEN model and then to GROUP model

The current strategy is to move from the current governance arrangements (two wholly independent education institutions) to:

(i) The TEN model, based on a College federation, by 1 June 2017; and

(ii) The Group model, whereby Lambeth College is a wholly-owned subsidiary of LSBU, by early 2018

Both components, combined with Lambeth College underlying financial performance and position, generate the <u>total cash requirement</u>

Financial impact of estates strategy

Lambeth College estates strategy has a material impact upon the assets and liabilities, cash flow and funding available for this transaction. The two key items are:

- The existing College based in Clapham
- The second site, not yet redeveloped, in Vauxhall

Financial impact of transaction on key funding streams

A number of potential funding sources are identified, including:

1. The current Exceptional Financial Support, its continuation and whether and when it is required to be repaid; and
2. The Transaction Unit Restructuring Facility and what balance may be made available and when

Both these components represent <u>funding sources</u>, with which to meet the <u>total cash requirement</u>

These four components can be considered in a large number of scenarios; we have focused on scenarios 0, 1, 2A and 2B

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

		Governance model			Estates	Funding
		Today – measured as 2016/17 forecast	TEN model	GROUP model	Additional analysis	
Level of income growth & cost savings	Today – measured as 2016/17 forecast	**Scenario 0 - Baseline**			**Financial impact of estates strategy (to cover 5 years to 2022)**	**Financial impact of:** **(1) College TU restructuring facility application;** **(2) Transaction on EFS and other key funding streams**
	2017/18 – with cost savings & income growth initiatives to date		**Scenario 1 - TEN model with 100% income growth & cost savings**			
	2019/20 – with cost savings & income growth initiatives to date			**Scenario 2A – GROUP model with 50% of income growth & cost savings**		
				Scenario 2B – GROUP model with 100% of income growth & cost savings		

Scenarios 2A and 2B are the most likely scenarios and are explored further below.

Each scenario considers the P&L impact and total cash requirement; these are based on financial forecasts to FY20

Baseline data

LSBU data sources used:

- Annual Report – for **FY16**
- Five year financial plan – for **FY17-20**

Lambeth College data sources used:

- FRP v2.8 – for **FY16**
- Lambeth College College CFADS Model v.11- for **FY16-FY20**

Scenario analysis

Key comparisons are drawn between FY17 forecast performance (referred to as “today” for simplicity) and the in-year performance forecast in FY18 and FY20.

The scenario analysis focuses on:

1. The **P&L impact** of the transaction against LSBU’s three core financial KPIs to achieve by 2020:
   - 5% surplus per annum
   - 25% increase in income to £170m per annum
   - EBITDA of 15% per annum
2. The **total cash requirement,** and **total funding** available to meet this requirement

Income and cost savings initiatives

Only a high-level estimate of the potential benefits or costs of these initiatives has been provided, based on discussions with LSBU senior management. There are a number of additional initiatives that are expected to generate financial benefits to both institutions but have not been quantified because of the high-level of uncertainty; these are listed in the appendix, p49.

Investment costs

Costs of investment are categorised as follows;

1. Project team salary costs – these are annual costs during the period of implementation.

2. Professional advice costs – these reflect the total cost required over the period of implementation.

Cost of investment - project team annual costs	£000s
Project team salaries	
PMO (manager grade)	65
Team members (administrative grade)	70
Total annual cost	**135**
Cost of investment - professional advice total costs	**£000s**
e.g. financial and legal	
Interim - TEN Model (9 months)	300
Final - Group Model (24 months)	500
Total cost over 33 months	**800**

3.2 Scenario analysis and cash requirements

Scenario 2A – moving to Group model & achieving 50% income growth & cost savings in FY20

Scenario 2A details

Scenario 2A covers FY20, where it is assumed that LSBU and Lambeth College has entered full Group model from January 2018, and 50% of income and cost initiatives are achieved.

Key benefits and key risks

Under scenario 2A, the Group is projected to reach its income target, and both its EBITDA margin and comprehensive income margin are within 5 percent below target.

The majority of the EBITDA growth comes from the standalone performance from both institutions, rather than synergies generated as a merged entity. There is a key risk whether the cash requirement for the growth can be met (see page 47).

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

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

Scenario 2B – moving to Group model & achieving 100% income growth & cost savings in FY20

Scenario 2B details

Scenario 2B covers FY20, where it is assumed that LSBU and Lambeth College has entered full Group model from January 2018, and 100% of income and cost initiatives are achieved.

Key benefits and key risks

Under scenario 2B, the Group is projected to reach its income target, while its EBITDA margin and comprehensive income margin are within 5 percent below target.

Over half of the EBITDA growth comes from the standalone performance from both institutions. Therefore, additional risks exist around whether the projected increase in student numbers due to merger can be achieved, whether this translates into tuition fee income, and whether the cost savings post merger can be realised. There is a key risk whether the cash requirement for the growth can be met (see page 48).

Page 96

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

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

Scenario 0 – current year performance of individual institutions

LSBU

LSBU is on course to achieve its forecast performance for FY16/17, generating 79% of forecast year-end EBITDA 7 months into the trading year. In particular, comprehensive income margin is outperforming forecast.

Lambeth College

Lambeth College is making a positive EBITDA of £1.8m 7 months into the trading year, especially when compared to the forecast of negative £1m for the whole year. Comprehensive Income is currently negative £3.1m due to the write-off of £3m incurred on Vauxhall Nine Elms Skills Centre.

£m	Current Yr trading to Feb-17		
	LSBU	Larch	Group
Income	117.1	15.9	133.0
Opex	(103.4)	(14.1)	(117.5)
EBITDA	13.7	1.8	15.5
EBITDA %	11.7%	11.3%	11.7%
Comp. income/(exp)	5.5	(3.1)	2.4
Surplus / income %	4.7%	(19.5%)	1.8%
Cumulative cash	27.3	0.4	27.7
P&L reserves	77.0	(10.3)	66.7

£m	Forecast performance 2016/17		
	LSBU	Larch	Group
Income	144.6	25.0	169.7
Opex	(127.2)	(26.0)	(153.2)
EBITDA	17.4	(1.0)	16.5
EBITDA %	12.1%	(3.8%)	9.7%
Comp. income/(exp)	1.5	(9.6)	(8.1)
Surplus / income %	1.0%	(38.3%)	(4.8%)
Cumulative cash	28.2	(0.7)	27.5
P&L reserves	77.4	(16.5)	61.0

Scenario 1 – changing governance to TEN model and achieving 100% income growth & cost savings in FY18

Scenario 1 details

Scenario 1 covers FY18, where it is assumed that LSBU and Lambeth College enter the interim TEN model from June 2017 to February 2018. For simplicity, it is assumed that 100% income and cost initiatives are achieved during the year.

It is recognised that this might be unrealistic to achieve during the short time period, however, the scenario does highlight the maximum benefits, and is directly comparable to scenario 2B, which is at a later point in time.

Key benefits and key risks

Under scenario 1, the Group is projected to reach its income target. However both its EBITDA margin and comprehensive income margin are below target by more than 5 percentage points.

As a key driver for income growth, it is a risk whether student numbers can increase in time for courses with September 2017 start dates.

£000s	Scenario 0 - 2016/17			Change	Scenario 1 – 2017/18			Target	Variance
	LSBU	Larch	Group		LSBU	Larch	Group	2020	
Income	144.6	25.0	169.7	8.2	150.7	27.1	177.8	170.0	7.8
Opex	(127.2)	(26.0)	(153.2)	(10.7)	(134.2)	(29.8)	(163.9)		
EBITDA	17.4	(1.0)	16.5	(2.6)	16.6	(2.7)	13.9		
EBITDA %	12.1%	(3.8%)	9.7%	(32%)	11.0%	(9.8%)	7.8%	15.0%	(7.2%)
Comp. income/(exp)	1.5	(9.6)	(8.1)	3.9	1.0	(5.3)	(4.3)		
Surplus / income %	1.0%	(38.3%)	(4.8%)	47%	0.7%	(19.4%)	(2.4%)	5%	(7.4%)
Cumulative cash	28.2	(0.7)	27.5	(16.8)	20.1	(9.5)	10.6		
P&L reserves	77.4	(16.5)	61.0	(32.0)	47.1	(18.2)	29.0		

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

Scenario 2A – moving to Group model & achieving 50% income growth & cost savings in FY20

Scenario 2A details

Scenario 2A covers FY20, where it is assumed that LSBU and Lambeth College has entered full Group model from January 2018, and 50% of income and cost initiatives are achieved.

Key benefits and key risks

Under scenario 2A, the Group is projected to reach its income target, and both its EBITDA margin and comprehensive income margin are within 5 percent below target.

The majority of the EBITDA growth comes from the standalone performance from both institutions, rather than synergies generated as a merged entity. There is a key risk whether the cash requirement for the growth can be met (see page 47).

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

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

Scenario 2B – moving to Group model & achieving 100% income growth & cost savings in FY20

Scenario 2B details

Scenario 2B covers FY20, where it is assumed that LSBU and Lambeth College has entered full Group model from January 2018, and 100% of income and cost initiatives are achieved.

Key benefits and key risks

Under scenario 2B, the Group is projected to reach its income target, while its EBITDA margin and comprehensive income margin are within 5 percent below target.

Over half of the EBITDA growth comes from the standalone performance from both institutions. Therefore, additional risks exist around whether the projected increase in student numbers due to merger can be achieved, whether this translates into tuition fee income, and whether the cost savings post merger can be realised. There is a key risk whether the cash requirement for the growth can be met (see page 48).

Page 100

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

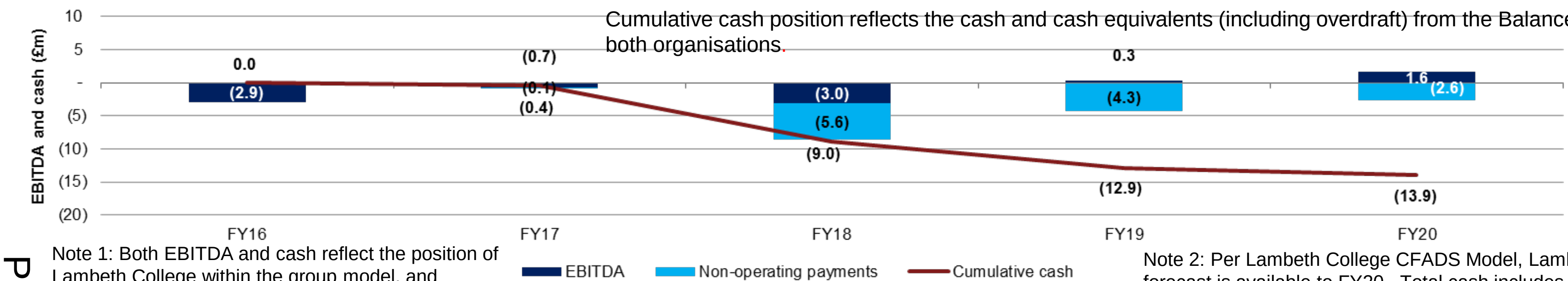
Note 1 - Green = exceeds target, Amber = within 5 percentage points of target; Red = not within 5 percentage points of target

In Scenario 2A, Lambeth College is forecast a total cash requirement of £13.9m by FY20

Larch total cash requirement FY16 (Actual)-FY20 (Forecast)

Notes: - FY17 reflects the last 2 months of the year, as per the TU Model.

Cumulative cash position reflects the cash and cash equivalents (including overdraft) from the Balance Sheets of both organisations.



Note 1: Both EBITDA and cash reflect the position of Lambeth College within the group model, and achieving 50% of income and cost initiatives through the period.

Note 2: Per Lambeth College CFADS Model, Lambeth I&E and CF forecast is available to FY20. Total cash includes operating and non-operating payments and projected EBITDA for each year.

Page 101

Funding options

Sources	Risk (access & sufficiency)	FY17	FY18	FY19	FY20
SFA Exceptional Financial Support	**R**	**£TBC** – EFS funding assumed available until dissolution of the College, planned to be January 2018.		**£0** – EFS funding is not expected to be available beyond implementation of Group model in January 2018.	
SFA / TU restructuring fund	**A**	**£0** – TU funding will not be available by Jul-17.	**£TBC** – TU funding may not be made available and the value of TU funding is not known; a decision may be made by the TU in circa August / September 2017.		
Further Barclays debt	**A**	**£TBC** – Lambeth College breached existing loan covenants in FY15 and FY16 and is forecast to do so again in FY17; Barclays has first charge over both Clapham and Vauxhall sites.			
Liquidising LSBU assets	**A**	Utilising LSBU existing and forecast cash balances and realising investments, currently £16m.			
LEP Round 2	**R**	**£TBC –** 2nd round of LEP funding expected in Spring / Summer 2017 & Lambeth College could receive further capital funding			
SC FE Capital fund	**R**	**£TBC –** Specific FE capital fund may exist in Southwark Council and LSBU or Lambeth College could apply for capital funding			

TBC: Amounts not yet clear as at May 2017

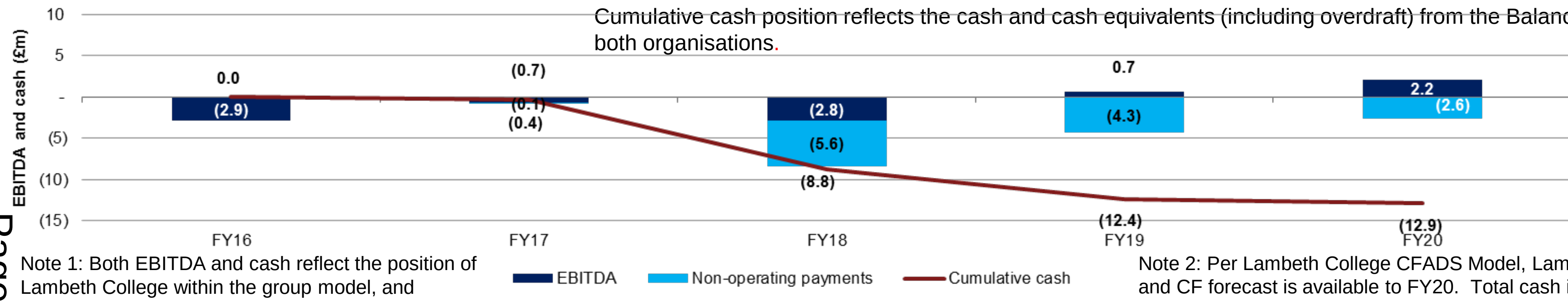
Although value from sale of Lambeth College land may be up to £122m, the current estates strategy does not generate cash for investment in Lambeth College operations.

In Scenario 2B, Lambeth College is forecast a total cash requirement of £12.9m by FY20

Larch total cash requirement FY16 (Actual)-FY20 (Forecast)

Notes: - FY17 reflects the last 2 months of the year, as per the TU Model.

Cumulative cash position reflects the cash and cash equivalents (including overdraft) from the Balance Sheets of both organisations.



Note 1: Both EBITDA and cash reflect the position of Lambeth College within the group model, and achieving 100% of income and cost initiatives through the period.

Note 2: Per Lambeth College CFADS Model, Lambeth College I&E and CF forecast is available to FY20. Total cash includes operating and non-operating payments and projected EBITDA for each year.

Funding options

Sources	Risk (access & sufficiency)	FY17	FY18	FY19	FY20
SFA Exceptional Financial Support	R	**£TBC** – EFS funding assumed available until dissolution of the College, planned to be January 2018.		**£0** – EFS funding is not expected to be available beyond implementation of Group model in January 2018.	
SFA / TU restructuring fund	A	**£0** – TU funding will not be available by Jul-17.	**£TBC** – TU funding may not be made available and the value of TU funding is not known; a decision may be made by the TU in circa August / September 2017.		
Further Barclays debt	A	**£TBC** – Lambeth College breached existing loan covenants in FY15 and FY16 and is forecast to do so again in FY17; Barclays has first charge over both Clapham and Vauxhall sites.			
Liquidising LSBU assets	A	Utilising LSBU existing and forecast cash balances and realising investments, currently £16m.			
LEP Round 2	R	**£TBC –** 2nd round of LEP funding expected in Spring / Summer 2017 & Lambeth College could receive further capital funding			
SC FE Capital fund	R	**£TBC –** Specific FE capital fund may exist in Southwark Council and LSBU or Lambeth College could apply for capital funding			

TBC: Amounts not yet clear as at May 2017

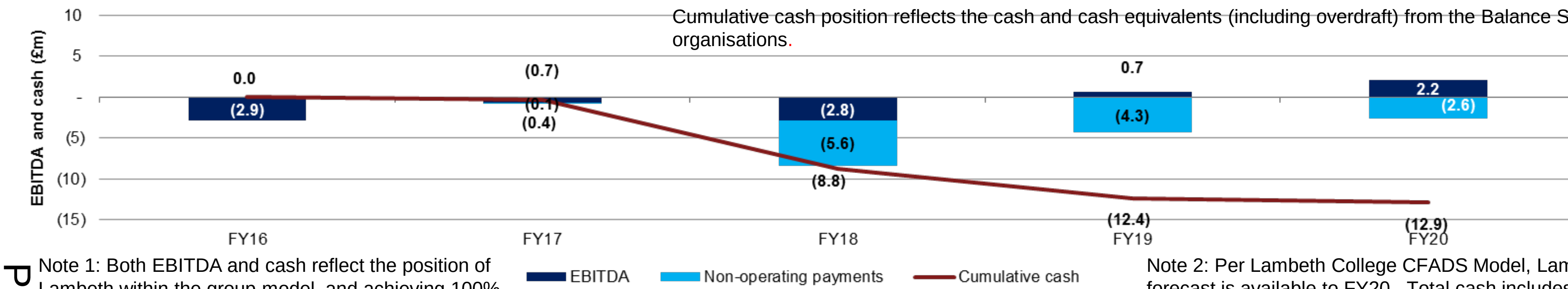
Although value from sale of Lambeth College land may be up to £122m, the current estates strategy does not generate cash for investment in Lambeth College operations.

Summarised total cash requirement – reconciliation between FBC (previous page) and CFADS v11

Larch total cash requirement FY16 (Actual)-FY20 (Forecast)

Notes: - FY17 reflects the last 2 months of the year, as per the TU Model.

Cumulative cash position reflects the cash and cash equivalents (including overdraft) from the Balance Sheets of both organisations.



Note 1: Both EBITDA and cash reflect the position of Lambeth within the group model, and achieving 100% of income and cost initiatives through the period.

Note 2: Per Lambeth College CFADS Model, Lambeth I&E and CF forecast is available to FY20. Total cash includes operating and non-operating payments and projected EBITDA for each year.

Reconciliation between FBC and CFADS v11

FBC Model	*2015/16*	*2016/17*	*2017/18*	*2018/19*	*2019/20*
£000s	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
EBITDA	(2,899)	(661)	(2,839)	668	2,157
Non-operating payments	-	(91)	(5,558)	(4,303)	(2,629)
Cumulative cash	7	(363)	(8,761)	(12,395)	(12,868)

CFADS Version 11 Model	*2015/16*	*2016/17*	*2017/18*	*2018/19*	*2019/20*
£000s	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
EBITDA	(2,918)	(661)	(3,238)	(9)	1,110
Non-operating payments	-	(91)	(5,558)	(4,303)	(2,629)
Cumulative cash	7	(363)	(9,159)	(13,471)	(14,991)

Variance	*2015/16*	*2016/17*	*2017/18*	*2018/19*	*2019/20*
£000s	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
EBITDA	19	-	399	677	1,047
Non-operating payments	-	-	-	-	-
Cumulative cash	-	0	399	1,076	2,123

Notes:

1. The EBITDA and Non-operating payments for FY17 reflect the last 2 months of the year, as per the TU Model, but the closing cumulative cash position is accurate.

2. Explanation of variances in EBITDA for year FY18-FY20: the FBC contains inherent growth from income initiatives over and above those outlined in the CFADS model v11, for example, the offering of new Access courses (these are not double counted in the FBC).

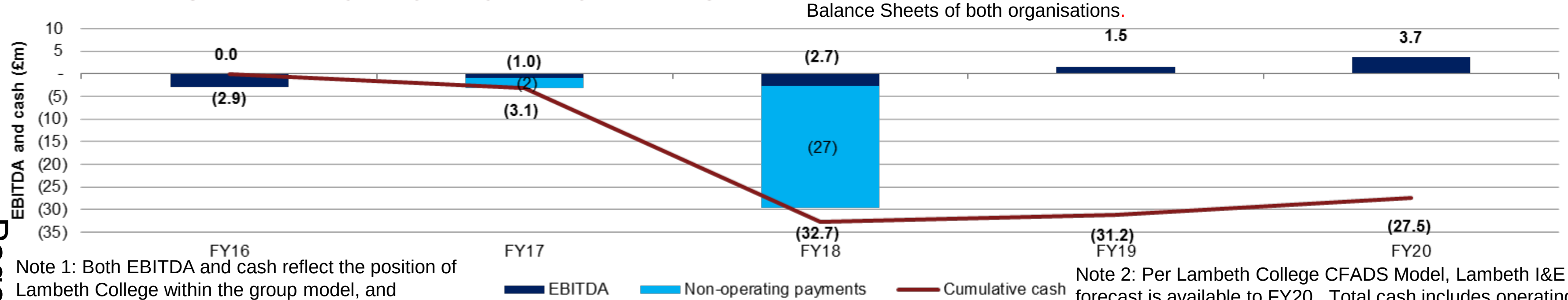
3. Non-operating payments are aligned in both models.

4. Cash figures are cumulative (i.e. = prior year cumulative cash + in-year EDITDA + non-operating payments). Variances in cumulative cash between FBC and CFADS v11, are as a result of EBITDA variances (note 2 above).

In addition to Scenario 2B, if Barclays recalls its bridging loan (FY17), main loan and break costs (FY18), cash is reduced by a further £23m

Larch total cash requirement FY16 (Actual)-FY20 (Forecast) - advanced position

Cumulative cash position reflects the cash and cash equivalents (including overdraft) from the Balance Sheets of both organisations.



Note 1: Both EBITDA and cash reflect the position of Lambeth College within the group model, and achieving 100% of income and cost initiatives through the period.

Note 2: Per Lambeth College CFADS Model, Lambeth I&E and CF forecast is available to FY20. Total cash includes operating and non-operating payments and projected EBITDA for each year. The Barclays loan break cost of £6.16m was also included, assuming repayment in FY18.

Funding options

Sources	Risk (access & sufficiency)	FY17	FY18	FY19	FY20
SFA Exceptional Financial Support	**R**	**£TBC** – EFS funding assumed available until dissolution of the College, planned to be January 2018.		**£0** – EFS funding is not expected to be available beyond implementation of Group model in January 2018.	
SFA / TU restructuring fund	**A**	**£0** – TU funding will not be available by Jul-17.	**£TBC** – TU funding may not be made available and the value of TU funding is not known; a decision may be made by the TU in circa August / September 2017.		
Further Barclays debt	**A**	**£TBC** – Lambeth College breached existing loan covenants in FY15 and FY16 and is forecast to do so again in FY17; Barclays has first charge over both Clapham and Vauxhall sites.			
Liquidising LSBU assets	**R**	Utilising LSBU existing and forecast cash balances and realising investments, currently £16m.			
LEP Round 2	**R**	**£TBC –** 2nd round of LEP funding expected in Spring / Summer 2017 & Lambeth College could receive further capital funding			
SC FE Capital fund	**R**	**£TBC –** Specific FE capital fund may exist in Southwark Council and LSBU or Lambeth College could apply for capital funding			

TBC: Amounts not yet clear as at May 2017

Although value from sale of Lambeth College land may be up to £122m, the current estates strategy does not generate cash for investment in Lambeth College operations.

3.3 Income growth and cost savings initiatives

4 key income growth & cost savings initiatives have been identified, generating net EBITDA of up to £2.5m p.a. by FY19-20

Key initiatives

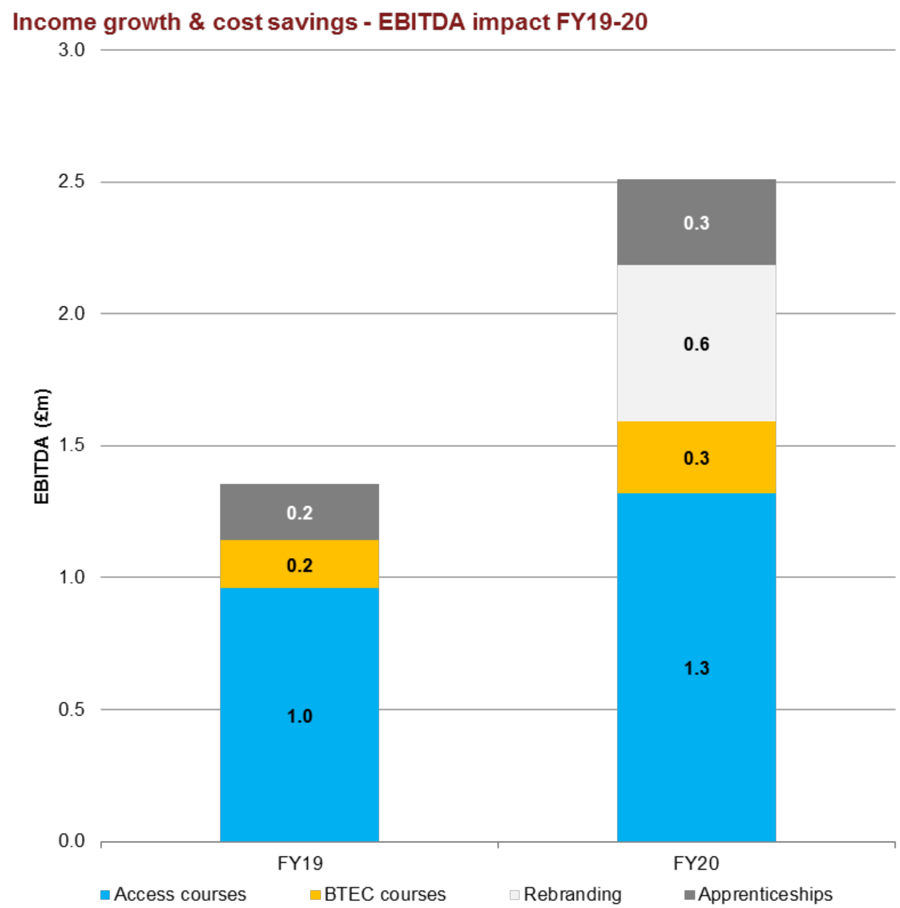
Five key initiatives have been identified and are quantified in this business case; potential further sources of income growth and cost savings are listed in the appendix:

1. **New Access courses in focus areas for Lambeth College and LSBU**
   - Counselling (link: HSC)
   - Diploma in Social Work (link: HSC)
   - Diploma in Creative and Digital Media (link: ACI)
   - Business Studies (link: BUS)
   - Computing (link APS)
2. **Greater support for BTEC students**
3. **Significant growth in Lambeth College student numbers due to rebranding**
4. **Extending the apprenticeship offering to Levels 2 and 3**

In addition to growth initiatives there are significant cost savings from rationalising support service functions. Anticipated cost savings are incorporated into the CFADS Model and are, therefore, also reflected in the FBC scenarios.

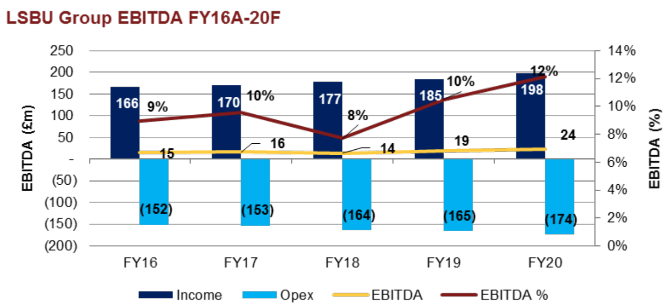
Scenarios 2A and 2B

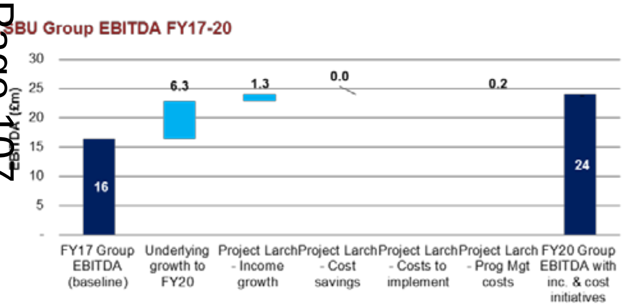
In Scenario 2A, it is assumed that 50% of these initiatives are achieved by FY19. In Scenario 2B, it is assumed that 100% of these initiatives are achieved in that time frame. The relative contribution of each initiative to EBITDA is shown opposite, based on the maximum achievement, i.e. Scenario 2B.



Page 106

In Scenario 2A, EBITDA is forecast to grow from £16m to £24m FY17-20, of which £1.3m is income growth initiatives





	£m	£m
FY17 Group EBITDA (baseline)	-	16.4
Underlying growth to FY20 - Lambeth College	3.6	-
Underlying growth to FY20 - LSBU	2.7	-
Sub total	-	6.3
Additionality from growth initiatives - combined	-	1.3
FY20 Group EBITDA with inc. & cost initiatives	-	24.0

As explained in detail below, the majority of the EBITDA growth from FY17-20 comes from the standalone performance from both institutions, rather than synergies generated as a merged entity.

Underlying EBITDA growth (£6.3m)

Both institutions are forecasting to grow EBITDA significantly as standalone institutions. LSBU is forecasting growth of £2.7m from £17.4m in FY17 to £20.1m in FY20. Lambeth College is forecasting growth of £3.6m over the same period, from a negative EBITDA of £0.96m in FY17 to a positive EBITDA of £2.6m in FY20.

Income growth initiatives (£1.3m)

In Scenario 2A, only 50% of income growth and cost savings are realised, i.e. **income growth** of **£1.3m**. Income growth is generated from:

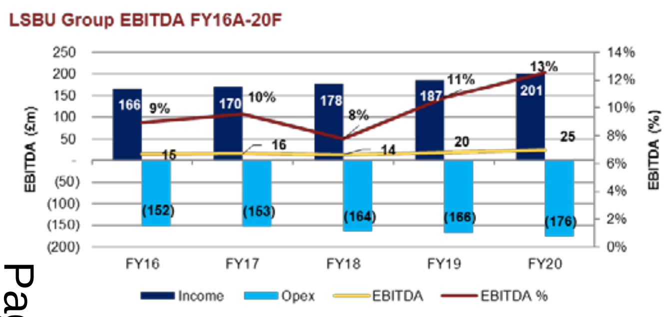
- 5 new Access courses at Lambeth College
- Greater support for BTEC students to improve progression
- Overall growth in student numbers from Lambeth College joining the Group
- Lambeth College offering L2 and L3 apprenticeships, creating a comprehensive offering with Higher Apprenticeships at LSBU

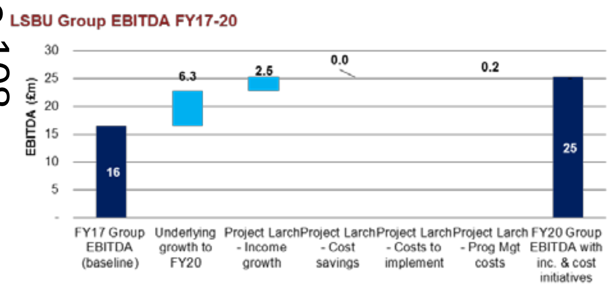
It is assumed that the costs to implement have phased out by FY20. This represented mainly staff-related restructuring costs.

It is assumed however that the overall programme implementation costs remain constant between Scenario's 2A and 2B, at **£0.2m.**

For further details, refer to the appendix section, p45-48.

In Scenario 2B, EBITDA is forecast to grow from £16m to £25m FY17-20, of which £2.5m is income growth initiatives





	£m	£m
FY17 Group EBITDA (baseline)	-	16.4
Underlying growth to FY20 - Lambeth College	3.6	-
Underlying growth to FY20 - LSBU	2.7	-
Sub total	-	6.3
Additionality from growth initiatives - combined	-	2.5
FY20 Group EBITDA with inc. & cost initiatives	-	25.2

When achieving 100% of income and cost initiatives, the projected standalone EBITDA growth delivers more than half of the increase in the overall EBITDA performance.

Underlying EBITDA growth (£6.3m)

As set out on the previous page, together LSBU and Lambeth College is forecasting underlying growth in EBITDA of £6.3m FY17-20.

Income growth & cost saving initiatives (£2.5m)

Forecast **income growth** of **£2.5m** is generated from the initiatives described on the previous page.

This growth is offset by overall programme implementation costs of **£0.2m.** It is assumed that costs of implement have phased out by FY20.

For further details, refer to p45-48.

3.4 Governance, estates impact on funding

Governance strategy – has limited financial implications for each of the institutions

Governance model changes

The aim is to move from the current governance arrangements (LSBU and Lambeth College as two separate educational institutions), to:

- TEN model in June 2017, whereby the majority of the governors of Lambeth Corporation are replaced by LSBU senior management; and then
- GROUP model by circa February 2018, whereby Lambeth is dissolved and business transferred to SBC NewCo, a wholly-owned subsidiary of LSBU Group.

This is explored further in Section 0 and 1 above.

Financial implications

The key cost components from the above changes in governance are shown opposite. In summary:

- In FY17, as a result of moving to the TEN model, each institution is forecast to incur costs of £200k. Lambeth College is also forecast to incur additional interim costs of £134k; and
- In FY18, as a result of moving to the Group model, each institution is forecast to incur costs of £250k, so £500k for LSBU Group; and
- Whilst part of the TEN model Lambeth College will also incur VAT charges as a result of services provided from LSBU. The amount of VAT is currently estimated to be in the order of between £20k to £50k from June 2017 to Dec 2017.

Professional fees are envisaged to be mainly legal and financial advice, including engagement with Barclays, drafting of collaboration agreement and amendment to Lambeth College's articles of association.

TUPE and auto-enrolment costs remain to be confirmed and LSBU is taking advice from Eversheds on this matter.

Governance model changes – key costs

£000s	LSBU	Larch	Group
TEN model			
Professional fees	100	100	200
Reporting line changes	100	100	200
Interim costs	-	134	134
TEN model total	**200**	**334**	**534**
GROUP model			
Professional fees	250	250	500
TUPE costs	TBC	TBC	TBC
Auto-enrolment costs	TBC	TBC	TBC
GROUP model total	**250**	**250**	**500**
Governance total	**450**	**584**	**1,034**

TBC: amount not yet known as at May 2017. Management to update when data becomes available.

Consolidation of accounts

Lambeth College has key assets and liabilities on its balance sheet, including land & buildings with book value over £50m and pension accounting deficit of c.£30m. Upon consolidation, it will be necessary to recalculate LSBU's leverage to ensure any existing covenants are not breached.

Management have taken the decision, based on advice of KPMG, not to consolidate statutory accounts of the two organisations upon entry to the TEN model but will consolidate under the full group model (see option 2B in the financial section).

Estates strategy – current intention is cash neutral redevelopment of Clapham, sale of Vauxhall (1 of 3)

(1) Estates strategy

The estates strategy included as part of the Application to TU concluded that a two site option at Vauxhall and Brixton was the best option for the future Lambeth College estate under the LSBU model. This results in a net cashflow surplus to the Group of **£3.88m**. Further detail is provided below.

A wide range of options have been considered in the updated estates strategy, these include: three site; two site and single site options for the future configuration of the College's estate.

The independent strategy concludes, based on the information available, that a two-site strategy with a new, larger, development at the Vauxhall Nine Elms site, with a smaller satellite centre at Brixton, is the optimum solution for the future estate need of the College. It should be noted that there may in the future also be potential to further support expansion of group activity by use of some of the Brixton facilities to expand the UTC whilst still providing a base for the College to deliver adult education and the two facilities re co-located.

In this option it is assumed that the Brixton Hill site is retained as a local venue serving the Brixton community, that the Clapham Common site is disposed of (preserving some educational use as necessary for strategic and DfE funding purposes) and that the Nine Elms campus is redeveloped for a Further Education campus plus additional education facilities to meet the needs of the local population and/or mixed use of educational/residential site.

Based on the Space Planning Analysis it is concluded that an overall area of 27,500m2 would be sufficient to meet the College's current and future space needs. On that basis the key elements of the proposed option can be summarised as shown in the table overleaf.

Estates strategy – current intention is cash neutral redevelopment of Clapham, sale of Vauxhall (2 of 3)

	Nine Elms	Brixton Hill	Total
Future Space Requirements m²	25,400	2,100	**27,500**
Current Space on site m²	-	-	**20,143**
Additonal Space Needs m²	25,400	2,100	**7,357**
New Build m² Rate (inc VAT and FFE)	3,753	1,216	
Construction Cost of New Build Space	74,481,316	1,887,160	**76,368,476**
Equipment Allowance	4,963,889	241,414	**5,205,303**
VAT	15,889,041	425,715	**16,314,756**
Gross Cost of New Build	**95,334,246**	**2,554,289**	**97,888,535**
TOTAL CAPITAL COST	**95,334,246**	**2,554,289**	**97,888,535**
LEP GRANT ASSUMED	**(22,500,000)**		**(22,500,000)**
Site Value Realised Through Sale	**(12,265,909)**		**(12,265,909)**
m² of development released	13,450		13,450
Capital Cost	**60,568,337**	**2,554,289**	**63,122,626**
Less Clapham Site Sale Receipt			(67,000,000)
Net Cost of Option			**(3,877,374)**

Estates strategy – current intention is cash neutral redevelopment of Clapham, sale of Vauxhall (3 of 3)

(2) Estates strategy - new development plan (cont'd)

Cash flow impact
Lambeth College is considering two methods of structuring this deal:

1. Going to market now to sell Clapham, with delayed completion, and using the capital receipts to fund the Vauxhall development - this could result in Lambeth College incurring a level of leasing costs for continued use of Clapham for up to 5 years post-sale; or

2. Employing the same developer for both the development of Vauxhall and the sale of Clapham, on the understanding that all the costs of the Vauxhall development will be met by the receipt of the Clapham site at the end of the development period.

Using either method is likely to result in the deal being cash neutral for Lambeth College with no new debt being required. According to the latest Estates Strategy the scheme will develop a cashflow surplus of £3.88m. Using the second method, it will be essential to ensure that Lambeth College obtains best value for Clapham, and this will need to be established before entering the OJEU process.

(3) Estates strategy - new development plan

Process and timetable

As set out in the Estate Strategy, the new development plan is to build a new College and Skills Centre at Vauxhall. Lambeth College will need to follow the OJEU procurement process to select a new developer as partner, then design and construction work will follow. LSBU is supporting this process.

The development is estimated to take 5 years to complete, at the end of which period all Lambeth College students will move from the existing Clapham site to the newly developed Vauxhall site. It is not envisaged that Vauxhall would be usable by Lambeth College students during this period, however phased construction could allow students to use part of the premises as it is completed.

Overall, the plan is to have all the facilities at Clapham available at this new development at Vauxhall, plus the addition of a new Skills Centre. In addition, there could be an Academy at Vauxhall, and there could be a second Academy at Clapham.

Funding options include Exceptional Financial Support and Transactions Unit restructuring funds

Potential funding sources are listed below

Sources	Potential value	Availability	Current status
SFA Exceptional Financial Support	**c.£10.8m in FY17; further sums in FY18 TBC**	It appears this funding is only available up until a "transaction" takes place, following on from the Local Area Review. SFA discussions to date suggest EFS funding will be provided up until dissolution of the College. This is planned to take place in January 2018, as part of the move from the TEN to the Group model.	Lambeth College forecasts assume it receives £10.8m EFS funding in FY17 per the Jan-17 management accounts. Lambeth College forecasts to receive further amounts in FY18 (£2.6m) and FY19 (£1.0m) per the Jan-17 management accounts. In this analysis, in accordance with the assumptions, the FY18 forecast has been reduced to £1m, and FY19 to £0.
SFA / TU restructuring fund	**TBC**	The Transactions Unit (TU) Restructuring Facility application deadline is 28 May 2017, and the review process may take c.6 – 10 weeks, depending on quality of the applications.	Transaction Unit application ongoing.
Further Barclays debt	**TBC**	Barclays provides banking facilities to both LSBU and Lambeth College and appear broadly supportive.	Discussions are ongoing.
Liquidising LSBU current assets	**Cash balances plus investment balances of c.£16m**	Utilising LSBU existing and forecast cash balances and realising investments, currently £16m.	TBC
LEP Round 2	**TBC**	2nd round of LEP funding expected in Spring / Summer 2017 & Lambeth College could receive further capital funding.	Discussions are ongoing.
Southwark Council FE Capital fund	**TBC**	Specific FE capital fund may exist in Southwark Council and LSBU or Lambeth College could apply for capital funding.	Discussions are ongoing.

TBC: Amounts not yet clear as at May 2017

Although value from sale of Lambeth College land may be up to £122m, the current estates strategy does not generate cash for investment in Lambeth College operations.

3.5 Key risks & dependencies

Key risks and dependencies

Key risks & dependencies	Details
Reliance on TU funding	Currently there appears to be a total funding requirement of c£25m. The LSBU and Lambeth College Boards will be asked to decide upon this transaction in June 2017, when the outcome of TU funding application is not known. If TU funding is not available, other options for meeting the cash requirement will need to be considered, e.g. materially revising the estates strategy or selling LSBU investments to fund a loan to the College.
Quality of current forecasts from Lambeth College	Numbers have been cross referenced for consistency with the inputs into the model developed to support the TU Application. However, there are some key risks highlighted in the financial Due Diligence report on the TU model, which are relevant to this FBC: • Forecasts in this FBC are based on high level assumptions agreed in conversations with course directors and senior staff to determine future student numbers. These assumptions are in accordance with the growth initiatives (outlined in this FBC) from Lambeth College joining the LSBU Group. • There are some cost items where there is a lack of clear information to support the forecast in the TU Model. For example depreciation and administrative staff costs.
Estates strategy	Current estates strategy is cash neutral under best case scenario, and is not designed to fund the total cash requirements in order to generate the projected EBITDA growth. In addition, there is a downside risk of potential funding gap of £48.4m.

4. Appendix

Summary of overall financial impact (1 of 2)

LSBU standalone basis

As a standalone institution, LSBU is forecasting to grow enrolment by an additional c.1,140 students by 2019/20.

This is expected to generate **£23m** additional **income** and **£2.7m** additional **EBITDA** compared to today (forecast 2016/17).

Lambeth College in LSBU Group – opportunities

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

- Enrolling a further **c.400 students** by FY20 compared with FY17;
- Generating a further **£3.6m** of **income,** resulting in **a total of £26.6m additional income**; and **a total of additional £4.1m EBITDA** compared to the forecast for FY17.

LSBU	Today 2016/17	LSBU 2019/20	Variance vs today	Scenario 2B in Group with Lambeth 2019/20	Variance vs today
£000s					
Income	144,624	167,583	22,959	171,239	26,615
Operating costs[1]	(127,190)	(147,159)	(20,269)	(149,653)	(22,463)
EBITDA	17,434	20,124	2,690	21,586	4,153
£000s					
Cumulative cash from operations	28,153	20,000	(8,153)	21,755	(6,398)
Level of operational change		H		H+	

Note 1: Operating costs include the net impact of cost reduction initiatives as well as additional costs from growth.

Note 2: Cumulative cash position reflects the cash and cash equivalents (including overdraft) from the Balance Sheets of both organisations.

Lambeth College in LSBU Group – risk

Based on cumulative cash levels, the investment costs for LSBU to achieve growth as a standalone institution is **£8.2m**. This reduces to **£6.4m** when Lambeth College joins the Group.

However, Lambeth College joining the LSBU Group does represent a "very high" level of operational change for LSBU. This will need to be considered against the level of financial performance from bringing Lambeth College into the LSBU Group over and above the standalone improvement.

Summary of overall financial impact (2 of 2)

Lambeth College – based on the CFADS Model

There is an expectation to generate **£2.3m** additional **income** and **£3.6m** additional **EBITDA** compared to today (forecast 2016/17).

The latest source data for this FBC (CFADS model) assumes post merger income growth and cost reductions, rather than a standalone baseline.

Lambeth College in LSBU Group – opportunities

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

Generating a further **£2.6m** of **income,** resulting in **a total of £4.9m additional income**; and a **total of additional £4.6m EBITDA** compared to the forecast for FY17.

Lambeth College	Today 2016/17	Lambeth 2019/20	Variance vs today	Scenario 2B in Group with LSBU 2019/20	Variance vs today
£000s					
Income	25,031	27,334	2,303	29,952	4,921
Operating costs	(25,993)	(24,729)	1,264	(26,300)	(307)
EBITDA	(962)	2,605	3,567	3,652	4,614
£000s					
Cumulative cash from operations	(677)	(13,261)	(12,584)	(11,138)	(10,461)
Level of operational change		H		H+	

Note 1: Operating costs include the net impact of cost reduction initiatives as well as additional costs from growth.

Note 2: Cumulative cash position reflects the cash and cash equivalents (including overdraft) from the Balance Sheets of both organisations.

Lambeth College in LSBU Group – risk

The net cash increase, based on Lambeth College joining the LSBU Group is **£2.1m** by FY20.

Lambeth College joining the LSBU Group represents a “very high” level of operational change for Lambeth College. This will need to be considered against the level of financial performance from bringing Lambeth College into the LSBU Group over and above the standalone improvement.

Initiative 1 – 5 new Access courses at Lambeth College (income growth based on the FBC Model)

Background

LSBU and Lambeth College can work together with the validating agencies (LSBU has links with OCN London for Access to HE and Pearson for BTEC) to create new courses which will prepare students for LSBU courses. LSBU and Lambeth College have identified 5 new Access Courses for potential development:

1) Counselling (link: HSC)
2) Diploma in Social Work (link: HSC)
3) Diploma in Creative and Digital Media (link: ACI)
4) Business Studies (link: BUS)
5) Computing (link: APS)

These link with specific areas where LSBU aims to increase recruitment, in addition to the four Access Courses currently offered in Civil Engineering, Electrical & Electronic Engineering, Health & Human Science, Medicine & Medical Biosciences.

Key assumptions

- 5 new Access courses, as listed above. Assume 3 courses start in August 2017 and a further 2 courses start in August 2018.
- Assume 100 students on each course at LSBU, and 20% progress onto 3-year full-time undergraduate courses at LSBU.
- Assume fee per course: Access - £3,000; FTUG - £9,000. And assume operating costs are 60% of income.

LC (£000s)	*2017/18*	*2018/19*	*2019/20*	*2020/21*	*2021/22*
GL line	FY18	FY19	FY20	FY21	FY22
Student numbers	300	500	500	500	500
Fee per student	3,000	3,000	3,000	3,000	3,000
Income	(900)	(1,500)	(1,500)	(1,500)	(1,500)
Other operating costs	540	900	900	900	900
Cash	360	960	1,560	2,160	2,760

LSBU (£000s)	*2017/18*	*2018/19*	*2019/20*	*2020/21*	*2021/22*
GL line	FY18	FY19	FY20	FY21	FY22
Student numbers	-	100	200	300	300
Fee per student	9,000	9,000	9,000	9,000	9,000
Income	-	(900)	(1,800)	(2,700)	(2,700)
Other operating costs	-	540	1,080	1,620	1,620
Cash	-	360	1,080	2,160	3,240

Group (£000s)	*2017/18*	*2018/19*	*2019/20*	*2020/21*	*2021/22*
GL line	FY18	FY19	FY20	FY21	FY22
Student numbers	300	600	700	800	800
Fee per student					
Income	(900)	(2,400)	(3,300)	(4,200)	(4,200)
Other operating costs	540	1,440	1,980	2,520	2,520
Cash	360	1,320	2,640	4,320	6,000

Initiative 2 – increased support to BTEC students (growth in CFADS Model plus additional synergies in the FBC Model)

Background

Staff at LSBU have been very involved in the design of the curriculum for certain BTEC qualifications, e.g. the BTEC in Law.

These qualifications are undergoing changes so there may be benefits to LSBU and Lambeth College working together, e.g. LSBU could support the students' final projects.

In addition, whilst courses are provided by Lambeth College, LSBU could help ensure the success rates improve for students when they do progress onto courses at LSBU (there are currently progression issues in Year 1 for students with BTEC qualifications, compared to those with A-levels).

Key assumptions

- Assume 100 additional BTEC students due to LSBU support with final projects
- Assume 100 BTEC students leave LSBU FTUG courses each year, reduced to 50 students per year.
- Assume fee per course: BTEC - £3,000; FTUG - £9,000
- Assume operating costs are 60% of income.

LC(£000s)	*2017/18*	*2018/19*	*2019/20*	*2020/21*	*2021/22*
GL line	FY18	FY19	FY20	FY21	FY22
Student numbers	-	100	100	100	100
Fee per student	3,000	3,000	3,000	3,000	3,000
Income	-	(300)	(300)	(300)	(300)
Other operating costs	-	180	180	180	180
Cash	-	120	240	360	480

LSBU(£000s)	*2017/18*	*2018/19*	*2019/20*	*2020/21*	*2021/22*
GL line	FY18	FY19	FY20	FY21	FY22
Student numbers	-	50	50	50	50
Fee per student	9,000	9,000	9,000	9,000	9,000
Income	-	(450)	(450)	(450)	(450)
Other operating costs	-	270	270	270	270
Cash	-	180	360	540	720

Group(£000s)	*2017/18*	*2018/19*	*2019/20*	*2020/21*	*2021/22*
GL line	FY18	FY19	FY20	FY21	FY22
Student numbers	-	150	150	150	150
Fee per student					
Income	-	(750)	(750)	(750)	(750)
Other operating costs	-	450	450	450	450
Cash	-	300	600	900	1,200

Initiative 3 – increased overall student numbers at Lambeth College after joining LSBU Group (growth in CFADS Model plus additional synergies in the FBC Model)

Background

By investing in the curriculum at Lambeth College it may be possible to significantly increase the total number of students enrolled at Lambeth College.

Assuming LSBU retains its current share of Lambeth College students progressing onto HE courses, then LSBU should also benefit from an increase in student numbers.

This benefit will be net of the teaching and other costs required to deliver the courses.

Key assumptions

- Assume students grow by 500 per year up to FY22 at Lambeth College.
- Assume 20% progress onto 3-year full-time undergraduate courses at LSBU.
- Assume fee per course: average Lambeth College - £3,000; FTUG - £9,000
- Assume operating costs are 60% of income and that additional courses are provided in-house.

LC(£000s)	2017/18	2018/19	2019/20	2020/21	2021/22
GL line	FY18	FY19	FY20	FY21	FY22
Student numbers	-	500	1,000	1,500	2,000
Fee per student	3,000	3,000	3,000	3,000	3,000
Income	-	(1,500)	(3,000)	(4,500)	(6,000)
Other operating costs	-	900	1,800	2,700	3,600
Cash	-	600	1,800	3,600	6,000

LSBU(£000s)	2017/18	2018/19	2019/20	2020/21	2021/22
GL line	FY18	FY19	FY20	FY21	FY22
Student numbers	-	-	100	300	600
Fee per student	9,000	9,000	9,000	9,000	9,000
Income	-	-	(900)	(2,700)	(5,400)
Other operating costs	-	-	540	1,620	3,240
Cash	-	-	360	1,440	3,600

Group(£000s)	2017/18	2018/19	2019/20	2020/21	2021/22
GL line	FY18	FY19	FY20	FY21	FY22
Student numbers	-	500	1,100	1,800	2,600
Fee per student					
Income	-	(1,500)	(3,900)	(7,200)	(11,400)
Other operating costs	-	900	2,340	4,320	6,840
Cash	-	600	2,160	5,040	9,600

Initiative 4 – Lambeth College offers apprenticeships at Levels 2 & 3, enhancing Group apprenticeship offering (growth in CFADS Model plus additional synergies in the FBC Model)

Background

One potential benefit is Lambeth College could focus on apprenticeships at Levels 2 and 3, while LSBU focuses on Higher Apprenticeships (Levels 4 to potentially 7).

There is potentially significant demand for Level 2 apprenticeships, however these courses also have relatively low progression rates.

Page 123

Key assumptions

- Assume apprentices (at each of Levels 2 and 3) grow by 50 each year at Lambeth College. Assume overall Higher Apprentices numbers grow by 25 each year at LSBU.
- Assume fee per course: Levels 2 and 3 fees of £2,500 p.a. over 1 year course; Higher Apprenticeships average £6,750 p.a. over 4 year course.
- Assume operating costs are 60% of income.

LC(£000s)	2017/18	2018/19	2019/20	2020/21	2021/22
GL line	FY18	FY19	FY20	FY21	FY22
Student numbers	50	100	150	200	250
Fee per student	2,500	2,500	2,500	2,500	2,500
Income	(125)	(250)	(375)	(500)	(625)
Other operating costs	75	150	225	300	375
Cash	50	150	300	500	750

LSBU(£000s)	2017/18	2018/19	2019/20	2020/21	2021/22
GL line	FY18	FY19	FY20	FY21	FY22
Student numbers	25	50	75	100	125
Fee per student	6,750	6,750	6,750	6,750	6,750
Income	(169)	(338)	(506)	(675)	(844)
Other operating costs	101	203	304	405	506
Cash	68	203	405	675	1,013

Group(£000s)	2017/18	2018/19	2019/20	2020/21	2021/22
GL line	FY18	FY19	FY20	FY21	FY22
Student numbers	75	150	225	300	375
Fee per student					
Income	(294)	(588)	(881)	(1,175)	(1,469)
Other operating costs	176	353	529	705	881
Cash	118	353	705	1,175	1,763

Further initiatives – there may be further opportunities for income growth & cost savings

Estate efficiencies

It may be possible for Lambeth College to teach evening classes in under-utilised rooms at LSBU or at school locations, e.g. courses in English for students with English as a second language.

English and Maths support

In the future, it may also be possible for Lambeth College staff to enhance the basic Maths and English tuition support that LSBU offers and that's required for Higher Apprenticeship students only very targeted support is required, and it is too high-risk (given employers contractual requirements) to fully outsource.

Foundation Year courses

Foundation Year courses could potentially be delivered by Lambeth College, or components could be delivered by Lambeth College. However, there is a challenge in offering potentially competing courses at very different prices within the same institution i.e. Access courses and BTEC courses and Foundation Year courses.

All these courses are designed to offer a route to HE courses, but Access and BTEC are stand-alone qualifications and transferable to many HE institutions, whilst Foundation Year courses are internal courses at LSBU, so not easily transferred to any other institution.

In addition, part of the attraction of the Foundation Year qualification is studying at the HE institution itself.

London South Bank University
EST 1892

	CONFIDENTIAL
Paper title:	Project Larch – completion procedure
Board/Committee	Board of Governors
Date of meeting:	13 June 2017
Author:	James Stevenson, University Secretary and Clerk to the Board of Governors
Board sponsor:	Jerry Cope, Chair of the Board of Governors
Purpose:	Decision
Recommendation:	Subject to approval of the full business case, the Board is requested to: • Approve entry into the Collaboration Agreement and the Governance Agreement with Lambeth College; • Approve the composition and members of the Lambeth College Board – specific recommendations set out in appendix 1 • Authorise any two governors to execute and complete the Governance Agreement, Collaboration Agreement and any other documents necessary in order to give effect to the transaction; and • Authorise a sub-committee of Jerry Cope, Andrew Owen, Douglas Denham St Pinnock and David Phoenix (quorum of three) to take any other action that may be required to complete the transaction for and on behalf of LSBU

Introduction

If it thinks fit to approve the FBC in item 6 on the agenda, the Board is requested to authorise the steps to achieve legal completion of LSBU's becoming the appointing authority for a majority of members of the Board of Lambeth College.

In summary, legal completion is achieved through the execution of a governance agreement by LSBU and Lambeth College. This agreement sets out the terms of completion:

- By Lambeth College:
    - To approve revised Instrument and Articles (I&A) which give LSBU certain powers (following the consultation exercise);
    - To accept the resignations of all current Lambeth College governors (except one student and one staff governor);
    - To enter into the agreed Collaboration Agreement – summary set out in item 5 on the agenda; and
    - To enter into the agreed Governance Agreement

  Draft resolutions to be passed by Lambeth approving the transaction and final versions of the I&A, governance agreement and collaboration agreement will be available for inspection at the meeting.

- By LSBU:
    - To approve the composition and members of the Lambeth College Board – details set out in appendix 1;
    - To enter into the agreed Collaboration Agreement; and
    - To enter into the agreed Governance Agreement

Draft pro forma Board minutes setting out the required approvals are included in appendix 2 for approval – to follow.

Timeline of approvals

The planned approvals journey is set out in appendix 3.

Composition and members of the Lambeth College Board

From the date of completion of the transaction LSBU will have the following powers under the revised Instrument and Articles (I&A) of Lambeth College (the Board noted the agreed revised I&A at its meeting of 26 May 2017):

- Right to determine the size and composition of the Lambeth College Board (subject to parameters set out in the I&A);

- Right to appoint the Lambeth College governors except for Independent Governors;

- Nomination rights of the independent governors, who are then appointed by the Lambeth College Board; and

- Right to appoint the Chair and the Vice Chair of the Board

The Board of Governors is requested to nominate the independent governors and appoint the other governors of Lambeth College – the recommendations are set out in appendix 1.

Legal advice and communication plan summary on "unwinding"

LSBU has received legal advice on its ability to "unwind" the transaction if the Board decided that it was no longer in the best interests of LSBU. The advice is that it is legally possible to unwind the model but that the major risk is reputational.

The mechanism to do so is set out in the advice. In summary, the advice states that in order to "unwind the TEN Model once it is in place, it would be necessary:

- to amend the instrument and articles;
- for the Vice-Chancellor and the LSBU Governors to cease to be governors of Lambeth; and
- for all other arrangements, including the Collaboration Agreement, entered into between LSBU and Lambeth to be terminated".

In addition, there is an obligation for LSBU corporately and all the Lambeth College governors to act in the best interests of the College. Full legal advice is enclosed at appendix 4.

Due to the reputational risks of "unwinding" the transaction a communication plan is being developed.

Appendices

1) Composition and members of Lambeth College Board
2) Draft pro forma Board minutes – to follow
3) Planned approvals journey
4) Legal advice on "unwinding"

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Appendix 1

Composition and members of Lambeth College Board

From the date of completion of the transaction LSBU will have the following powers under the revised Instrument and Articles (I&A) of Lambeth College:

- Right to determine the size and composition of the Lambeth College Board (subject to the I&A);
- Right to appoint the Lambeth College governors except for Independent Governors;
- Nomination rights of the independent governors, who are then appointed by the Lambeth College Board; and
- Rights to appoint the Chair and the Vice Chair of the Board

All the current governors of Lambeth College (except one student and one staff governor) will resign and be replaced as set out below, effective from the date of completion.

Composition of the Lambeth College Board

As set out in the revised I&A, the governing body of Lambeth College on completion shall comprise:

a) between two and three independent governors;
b) the Vice Chancellor of the University;
c) up to five individuals who are either governors of the University or members of the senior management team of the University;
d) one staff governor; and
e) one student governor

The LSBU Board of governors has the right to determine the number of independent governors (category (a) above) and “LSBU governors” (category (c) above).

The proposed composition of the Lambeth College Board, post completion is:

a) three independent governors
b) the Vice Chancellor of the University
c) five “LSBU governors”
d) one staff governor; and
e) one student governor

This gives LSBU a majority on the Lambeth College Board.

Members

a) Independent governors

Three current Lambeth governors have expressed interest in re-joining the Lambeth College board:

- Michael Smith
- Mohammed Seedat
- Kirsty Wadsley

Based on their understanding of local stakeholder requirements and knowledge of further education it is recommended that they are re-appointed as independent governors of the Lambeth College Board.

Following completion these three governors will resign and be nominated by LSBU and re-appointed by the Lambeth College Board.

b) The Vice Chancellor of the University

As required under article 2.1(b), the Vice Chancellor of LSBU has confirmed that he is willing to act as a governor of Lambeth College

c) Governors of the University or members of the senior management team of the University (proposed)

tbc – LSBU independent governor

tbc – LSBU independent governor

Richard Flatman - finance

Ian Mehrtens - estates

Mandy Eddolls – HR

The three executive members are also willing to act.

d) Student governor

Student governors are appointed to the Board through elections by the whole student body. They serve one year terms from 1 August to 31 July each year. There is currently one student governor, Ruth Begusa.

e) Staff governor

There are currently two staff governors on the Lambeth College Board. One (Teum Teklehainot) has agreed to be continue as a staff governor until the end of his current term.

The other current staff governor has agreed to resign at completion.

Future staff governors will be appointed by election.

Chair and Vice Chair

It is proposed that the LSBU independent governors on the Lambeth College Board are Chair and Vice Chair of the Board.

Recommendations

It is recommended that the Board of Governors:

1) approves the composition of the Lambeth College Board as set out above;

2) nominates the three individuals listed in a) to the Lambeth College Board to appoint them as independent governors at its meeting of 15 June 2017, effective from completion for a four year term;

3) Appoints the five individuals listed in b) to the Lambeth College Board under I&A article 5.1, effective from completion until they leave their current position with LSBU [N.B LSBU independent governor members – tbc];

4) Agrees that Ruth Begusa, continues as a student governor until the end of her current term (31 July 2017);

5) Agrees that Teum Teklehainot, continues as a staff governor, until the end of his current term (tbc) or until he ceases to be a member of staff at Lambeth College;

6) Appoints one of the LSBU governors [tbc] to be Chair of the Board of Lambeth College, effective from completion for a term of four years or until he ceases to be a governor of Lambeth College; and

7) Appoints one of the LSBU governors [tbc] to be Vice Chair of the Board of Lambeth College, effective from completion for a term of four years or until he ceases to be a governor of Lambeth College

LSBU governance team

May 2017

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Appendix 2

Planned approvals journey

Date	Meeting	Purpose
w/c 12 June		Designation application deadline
13 June	“extraordinary” Board meeting	To approve: • FBC; • Appointment of members of Lambeth Board and Chair; and • Pro forma completion Board minutes To note: • Update on transaction unit submission, including Larch estates strategy summary • DD reports
15 June	Lambeth College Board meeting	To approve: • Revised Instrument and Articles; • The resignations of all current Lambeth College governors; • To approve the agreed Collaboration Agreement; and • To approve the agreed Governance Agreement
16 June (tbc)		Transaction completion date (tbc) Sub-committee of Board including Chair, Vice Chair, Chair of MPIC and VC (quorum of three) to authorise completion.
22 June (tbc)	Larch Board meeting	New composition to cover post-completion matters and to agree delegations
Oct (tbc)		Transaction unit decision and designation bid decision.

		Board decision to: • continue LSBU's association with Lambeth College and to dissolve the College and move to a group structure; • or unwind the transaction in the best interests of the College
Jan/Feb 2018		Move to Group Structure

Unwinding the "TEN" Model

Advice Note

London South Bank University

6 June 2017

Emma-Jane Dalley
Email: edalley@vwv.co.uk
DDI: 0117 314 5465
Reference: ekk/ejd/2LL07/0013

Veale Wasbrough Vizards

1 Background

1.1 London South Bank University ("**LSBU**") and Lambeth College ("**Lambeth**") propose that Lambeth joins the LSBU group of entities (the "**LSBU Group**") while remaining a separate legal entity.

1.2 The parties propose that the integration takes place in two distinct stages. During the first stage (known as the "**TEN model**"), Lambeth will remain a statutory further education corporation and LSBU will gain the right to appoint the majority of Lambeth's governing body.

1.3 During the second stage (known by LSBU and in this note as the "**Group Structure**") the parties propose that the assets and undertaking of Lambeth will be transferred to a new charitable company limited by guarantee of which LSBU will be the sole member. LSBU is actively working with the ESFA on the designation of a new company limited by guarantee which it is intended will hold the transferred undertaking. LSBU intends to apply under the 'Designation of FE Institutions' guidance issued in March 2017.

1.4 The parties intend that the TEN Model should be in place by mid-June 2017, but the ultimate timetable for this is likely to depend on the draft Collaboration Agreement and Governance Agreement being agreed quickly and the new instrument and articles being adopted by Lambeth following the consultation exercise which is currently underway. It will also depend on LSBU being satisfied with the full business case and due diligence.

1.5 The proposed time scale for the realisation of the Group Structure is January 2018. As we have discussed, LSBU should approach the TEN Model with the knowledge that there is no guarantee of the Group Structure being achieved in the future (though achieving it is the current intention of both parties). It is also possible that, once the TEN Model is in place, circumstances may arise which lead LSBU to decide that it wishes to withdraw entirely from the TEN Model and end its relationship with Lambeth.

1.6 The purpose of this note is to consider how LSBU may "unwind" the TEN Model once it is in place, should LSBU decide that it no longer wishes to proceed to the Group Structure and no longer wishes to continue with the TEN Model.

1.7 At the date of producing this note, the instrument and articles of government to be adopted on completion of the TEN Model are agreed between the parties and are in final form subject to the outcome of the consultation. We have based this note on the final form agreed between the parties, in particular, assuming that:

1.7.1 LSBU has the right to remove governors who are senior executives or governors of LSBU ("**LSBU Governors**") from office;

1.7.2 LSBU has the right to nominate the independent governors ("**Independent Governors**") to office, who would then be formally appointed by the Lambeth governing body;

1.7.3 the conflict of interest provisions which, in brief, allow for LSBU Governors to vote where they have not also voted for LSBU are retained;

1.7.4 any amendment to the instrument and articles of government requires the consent of LSBU;

1.7.5 wording is included to the effect that LSBU must exercise all of its rights under the instrument and articles in the best interests of Lambeth; and

1.7.6 LSBU is under no obligation to appoint any LSBU Governors.

1.8 This note does not cover any issues related to the consolidation of accounts, accounting issues or tax. We have recommended that LSBU take further advice on these aspects, which we understand has been provided by other advisers.

2 The "TEN" Model

2.1 The proposed model for stage one has become known by the parties as the TEN model, because it mirrors to some extent the arrangements in place for City College Norwich.

2.2 Under the TEN Model Lambeth will remain a statutory further education corporation under the management and control of its governing body. The TEN Model will be achieved via a change of control of Lambeth, whereby:

2.2.1 Lambeth and LSBU enter into a Governance Agreement;

2.2.2 Lambeth adopts an amended instrument and articles of government following a mutually acceptable consultation process;

2.2.3 the parties adopt a Collaboration Agreement setting out how they will work together in practice; and

2.2.4 certain members of the current Lambeth board will resign and others will be appointed in accordance with the amended instrument and articles of government, under which LSBU will have the power to appoint a majority of Lambeth's governing body.

2.3 Once the TEN Model is in place, under the amended instrument and articles:

2.3.1 as the "appointing authority" LSBU will have the right to appoint the LSBU Governors;

2.3.2 LSBU will have the right to nominate the Independent Governors and the governing body will have the right to appoint new governors from those nominated by LSBU;

2.3.3 LSBU will have the right to remove the LSBU Governors (and in certain circumstances the Independent Governors where they are unfit or unable to discharge the functions of a governor or have been absent without permission for a particular period);

2.3.4 where the office of an Independent Governor becomes vacant, the governing body of Lambeth, as appointing authority, is obliged as soon as practicable to take all necessary steps to appoint a new governor to fill the vacancy. While there is no corresponding duty on LSBU to nominate individuals, LSBU would be expected to nominate individuals in order to enable the governing body to comply with its obligation.

2.3.5 if the number of governors falls below the number needed for a quorum (i.e. three governors, including at least one Independent Governor) the Secretary of State will be the appointing authority in relation to the appointment of the governors needed for a quorum;

2.3.6 the governing body will have the power to amend the instrument and articles of government by majority resolution with the prior written consent of LSBU;

2.3.7 while the instrument and articles will no longer contain an obligation to consult on amending the instrument and articles, Lambeth would remain subject to a public law duty to consult owing to its status as a public body; and

2.3.8 LSBU is subject to an obligation to act in the best interests of Lambeth when exercising its rights under the instrument and articles, including the right to appoint and remove governors.

3 Mechanism

3.1 If LSBU were to decide to unwind the TEN Model once it is in place, it would be necessary:

3.1.1 to amend the instrument and articles;

3.1.2 for the Vice-Chancellor and the LSBU Governors to cease to be governors of Lambeth; and

3.1.3 for all other arrangements, including the Collaboration Agreement, entered into between LSBU and Lambeth to be terminated.

3.2 The mechanism for each of these aspects is set out below. However, we envisage that this would be undertaken in consultation with the ESFA and is likely to be in the context of wider sector or financial issues impacting on Lambeth at this point, which may impact on the mechanism at the appropriate time and which LSBU may be not aware at the current time (and it is not possible for us to predict) .

Amendment of instrument and articles

3.3 We envisage that, should it be necessary to unwind the TEN Model, LSBU would instigate the process of amending the instrument and articles by proposing an amended draft of the instrument and articles to the Lambeth board.

3.4 It would be necessary to amend the instrument and articles so that:

3.4.1 the composition of the governing body no longer includes the Vice-Chancellor or LSBU Governors;

3.4.2 the corporation (i.e. the governing body of Lambeth) would replace LSBU as the appointing authority for the LSBU Governors and nominating authority for the Independent Governors;

3.4.3 the conflicts of interest provisions are simplified as there would no longer be "Relevant Matters"; and

3.4.4 all other rights of LSBU (for example the right to appoint the Chair), the requirements for prior LSBU consent (for example to amend the articles and dissolve the corporation) and all other references to LSBU are removed.

3.5 LSBU would give written notice to Lambeth that it consents to the proposed amendments in that form.

3.6 The Vice-Chancellor or one of the LSBU Governors (probably the Chair, who is likely to be a LSBU Governor as LSBU has the right to appoint him or her) could propose the amended draft at a scheduled meeting. A copy of the proposed agenda would need to be circulated with the notice of the meeting at least seven calendar days before the meeting. Alternatively, if no meeting is scheduled, either the Chair or five governors (comprising LSBU Governors and/or the Vice-Chancellor) would call a "special" meeting. There is a provision allowing for shorter notice where the Chair considers there are matters requiring urgent consideration (but see below regarding the consultation requirement). A copy of the proposed agenda would need to be circulated with the notice.

3.7 At the meeting, the proposed amendments to the instrument and articles would be decided by a majority of the votes cast by governors present and entitled to vote on the question i.e. only a simple majority would be required.

3.8 The LSBU Governors and the Vice-Chancellor would need to be mindful of their potential conflicts of interest arising from their duty to LSBU. The conflicts of interest provisions currently included in the new articles will permit the LSBU Governors and Vice-Chancellor to vote on the matter (which will be a "Relevant Matter" for the purposes of the articles) provided he or she has not also voted (and will not vote) in respect of the Relevant Matter as a governor of LSBU. Each governor would remain subject to the duty to act in the best interests of Lambeth and not of LSBU. LSBU will note in this respect that the conflict of interest provisions as drafted are, therefore, important in the context of it being able to unwind the TEN model in the future.

3.9 As a result it will be important to ensure that the LSBU Governors and the Vice-Chancellor do not vote on any LSBU board decision in respect of the same matter so as to allow them to vote in respect of this matter on the Lambeth board. It is also important that they attend the relevant Lambeth meeting. The fact that they are not voting at LSBU level should be minuted in both LSBU's board minutes and Lambeth's governing body minutes to demonstrate that the conflict has been dealt with in accordance with the instrument and articles of government.

3.10 As LSBU Governors and Vice-Chancellor will make up a majority of Lambeth's governors it is likely that the resolution would be passed. In particular, it is difficult to see how governors could conclude that it is not in the best interests of Lambeth to amend the instrument and articles of government where LSBU has given a clear indication that it does not wish to continue its association with Lambeth and has, presumably, also taken steps to terminate the Collaboration Agreement and any other agreements under which services are provided to Lambeth (e.g. secondment agreements).

Resignation of LSBU Governors and Vice Chancellor

3.11 The Vice Chancellor and LSBU Governors would either:

3.11.1 cease to be governors by virtue of the amendments to the instrument and articles of government adopted on the unwinding of the TEN Model depending on precisely how it is drafted (in particular we expect this to the be the case for the Vice Chancellor as he or she holds that post on an ex-officio basis which would be removed); or

3.11.2 would need to resign as governors immediately on adoption of the new instrument and articles.

3.12 If LSBU felt there was a risk that any LSBU Governor would refuse to resign, LSBU could exercise its power under the existing instrument and articles of government to remove them as at the adoption of the new instrument and articles of government. It would need to do this before the instrument and articles are amended as they would not have the power to do so after the amendments are passed (unless specific transitional arrangements allowing for this remained and this may be a consideration in producing the draft instrument and articles of government).

3.13 The resignation of the LSBU Governors would leave in post the Independent Governors and the Staff Governor and Student Governor. This would be sufficient to form a quorum, which is three governors including at least one Independent Governor. In our view this is helpful as it would mean that the ESFA would not need to step in unless some of the Independent Governors and the Staff Governor and Student Governor also resigned. The Independent

Governors would likely have the power to appoint additional governors at this stage because they will become the appointing authority under the revised instrument and articles of government. We envisage, however, that the likely prospects of Lambeth at the point at which LSBU withdraws its association may be such that it would be difficult to attract new governors to the Board.

Failure to amend the Instrument and Articles

3.14 In the event that LSBU were to fail to get the support it needs from the governors to amend the instrument and articles of government, LSBU could look to distance itself from the relationship by:

3.14.1 procuring that the Vice Chancellor steps down as a governor (the Vice Chancellor is only required to hold this position ex-officio where he or she is willing to do so);

3.14.2 procuring that the remaining LSBU Governors resign or otherwise exercising their power to remove them; and

3.14.3 terminating other contractual arrangements that are in place between Lambeth and LSBU.

3.15 LSBU has no obligation to replace the LSBU Governors because the requirement in the instrument and articles of government is to have "up to 5" and there is a power for the University to determine the number of governors in any variable category.

3.16 Notwithstanding the above, LSBU's other rights under the instrument and articles, including the power to nominate the Independent Governors, the appointment of the Chair and Vice Chair etc would remain. However, it is difficult to see how a group of Independent Governors would wish to see this continue in the long term and in particular a situation in which there can only ever be three Independent Governors in addition to the Student Governor and Staff Governor, which will likely result in an unmanageable workload for them.

3.17 From a reputational perspective however, such an arrangement could be considered undesirable as Lambeth would retain a constitutional link to LSBU and would need to continue to exercise these rights to ensure that Lambeth continued to act in compliance with the instrument and articles of government.

Acting in the best interests of Lambeth

3.18 As discussed above, LSBU is subject to an obligation to act in the best interests of Lambeth when exercising its rights under the instrument and articles due to an express statement in the instrument and articles and on the basis that they hold their rights on a fiduciary basis. The amendment of the articles will be effected by the governing body of Lambeth and the resignation of the LSBU Governors will be an act of the LSBU Governors themselves. Therefore the rights that LSBU itself would exercise would be limited to proposing the changes (which is not strictly a right under the instrument and articles), removing LSBU Governors from office (if that is necessary) and giving prior written consent for the changes.

3.19 Please note that LSBU has no duty to act in the interests of Lambeth in relation to any termination of the Collaboration Agreement (or any other agreements that it may have in place with Lambeth from time to time).

3.20 While the rights that LSBU itself would exercise would be limited, it would need to ensure it is exercising these in Lambeth's best interests and not in its own interests. The LSBU Governors of Lambeth would be the main agents of the change. As referenced above, each governor would remain subject to the duty to act in the best interests of Lambeth. It would be necessary for LSBU and the board of Lambeth to be satisfied that the changes to the instrument and articles of government necessary to unwind the TEN Model is in the best interests of both institutions.

3.21 As above, it is difficult on the face of it to see how Lambeth Governors could conclude that it is not in the best interests of Lambeth to amend the instrument and articles of government where LSBU has given a clear indication that it does not wish to continue its association with Lambeth and has, presumably, also taken steps to terminate the Collaboration Agreement and any other agreements under which services are provided to Lambeth (e.g. secondment agreements).

3.22 It is also likely, however, that any decision in relation to unwinding the TEN Model will be taken in a much wider context which may also point to the model no longer being in Lambeth's best interest, but is not possible for LSBU or us to predict at this stage. Equally it is not possible for us to predict whether there will be any other factors that would point to this not being in Lambeth's interests and therefore making it difficult for any of the governors to vote in favour of it or LSBU to exercise its rights.

4 Consultation requirement and risk of public law challenge

4.1 As discussed above, Lambeth's status as a public body means it would remain subject to a public law duty to consult, should a change to the instrument and articles of government be proposed to effect a separation from LSBU. However, this may take a different form to the initial consultation which Lambeth is undertaking as part of the move to the TEN Model. We would expect this to take the form of a limited yet meaningful consultation which in practice would involve stating the reasons why LSBU and Lambeth no longer wish to proceed. Lambeth would need to take into consideration the responses but (as you would expect) would not be bound to follow them.

4.2 This may increase the time-frame for any unwinding of the TEN model as in general it is expected that a consultation period would last for a minimum of four weeks. However, it is likely that there would be a lengthy transition period during which discussions and then practical arrangements regarding the separation would take place. This is likely to last longer than four weeks in any event, so in practice the consultation requirement may not slow down the process.

4.3 LSBU should also be aware of the risk of a public law challenge to its own decision making processes. As the circumstances in which LSBU would seek to unwind the TEN Model are unclear at this stage it is difficult to assess the degree of risk of such a challenge. Any challenge to its decision making processes is likely to be on the grounds of unreasonableness, particularly if it relates to a factor that should have or could have been known about at the time the decision to proceed with the TEN Model was approved, or was a factor that was reasonably foreseeable. As stated above, it is therefore unlikely that LSBU can look to unwind the TEN Model without having in place not only a clear plan for the future of Lambeth without its involvement but also a clear and defensible rationale for taking the decision to withdraw.

5 Dissolution

5.1 Another mechanism by which LSBU could terminate the TEN Model would be if Lambeth were dissolved, following which it would cease to exist.

5.2 A decision to dissolve Lambeth is in the gift of the Lambeth governors from time to time, but is subject to the consent of LSBU. As such, LSBU could not direct the dissolution of Lambeth, but could rely on its appointees to do so. The governors would, however, need to be satisfied that such a decision was in the best interests of Lambeth and a consultation and publication exercise would be required in accordance with the statutory process.

5.3 We consider it unlikely that this could be used as a mechanism to simply unwind the TEN Model in the absence of either:

5.3.1 significant evidence that Lambeth was insolvent and/or no longer viable and the best interests of its students and the local community would be for it to cease to operate; or

5.3.2 its assets were being transferred to another further education corporation or other suitable merger partner.

6 Practical and reputational matters

6.1 As well as understanding the legal mechanism for unwinding the TEN model, LSBU would need to address several practical and reputational issues. One such issue is the risk of a public law challenge, which is discussed in paragraph 4.3 above. Other issues are discussed below.

Reputation

6.2 One of LSBU's primary concerns will be reputational risk. It would clearly be potentially very damaging for LSBU to be viewed as pulling out of its relationship with Lambeth in the absence of the existence of an alternative and viable plan for Lambeth's future. It would therefore be advisable for LSBU to work with the ESFA to ensure that there is an alternative plan in place before commencing any unwinding. That may be one or more of the following:

6.2.1 the transfer of LSBU's rights under the instrument and articles of government to another body; or

6.2.2 the transfer of the assets and undertaking of Lambeth to another further education corporation or other suitable merger partner.

6.3 We envisage that it would be reputationally very difficult for LSBU to unwind the TEN Model in the absence of such a plan.

Collaboration Agreement

6.4 As discussed above, the details of how the parties will cooperate in practice will be set out in the Collaboration Agreement between the parties. Therefore the latest draft of the Collaboration Agreement takes into account the possibility of a future unwinding of the TEN Model.

6.5 In particular, to permit any future unwinding, LSBU will need to have the right to terminate the Collaboration Agreement on notice and without any requirement for breach on behalf of Lambeth. We have included in the draft Collaboration Agreement a right for LSBU to terminate on three months' notice.

6.6 Further, any other operational aspects that are to be integrated pursuant to the Collaboration Agreement must be capable of being terminated. For example, the proposed joint education plan would need to be unravelled and replaced, the arrangements for employment of the Principal would need to change and reporting lines for Lambeth staff may need to change (depending on the terms of the agreement, which are currently being developed).

Group Model transition issues

6.7 There are other practical points which are more significant in the context of the Group Model, but which are worth mentioning here as during the TEN Model phase the parties will be transitioning to the Group Model and thus may start implementing elements of it. LSBU should be aware that there are some steps which, once taken, it may be difficult to undo.

6.8 The first is LSBU's own FE provision. We understand that LSBU currently receives some funding from the ESFA. The ESFA's designation guidance states that the Applicants must confirm that the university must withdraw from any existing funding agreements with the SFA or EFA from the date of designation of the new FE institution and that existing grants would be transferred with a transition period where necessary. As a result, LSBU's ESFA funded provision will need to be moved. If LSBU were to begin this before unwinding, it may put the existing FE funding and LSBU's ability to carry out that provision at risk.

6.9 The second point is pensions. We understand that PwC are advising LSBU on consolidating the LSBU and Lambeth pensions together. Again, we do not expect this to happen until the Group Model is implemented, but it is possible that consolidation could happen before then. LSBU should be aware that should this consolidation be achieved, it may be not be possible to reverse.

6.10 The final point is the relationship with Barclays bank. Even within the TEN Model the bank may begin looking at the covenant of the group as a whole. We have not been involved in any of the banking arrangements and it does not form part of the our due diligence as we understand that PwC are covering this aspect. If LSBU is effectively guaranteeing Lambeth debt during the TEN Model, this would also increase the difficulty of unwinding the model.

7 Conclusion

7.1 While we consider that unwinding the TEN Model is legally possible, in practice it may be more difficult to achieve, particularly without potential reputational damage to LSBU and the risk of a public law challenge to its decision making process.

7.2 LSBU will need a clear and defensible reason to withdraw from the TEN Model and unwinding the model will also depend on both LSBU being satisfied that it is exercising its rights under the instrument and articles of association in the best interests of Lambeth and the governors of Lambeth being satisfied that by adopting the new instrument and articles of association they are also acting in the best interests of Lambeth. It is not possible to be definitive at this stage on whether or not such a case will exist, but it is likely to require a future viable plan for the operation of Lambeth.

7.3 We recommend that LSBU gives very careful consideration to the full business case, financial and legal due diligence as well as other circumstances (such as the availability of funding) before entering into the TEN model and only does so if it can be confident that it is very unlikely to need to unwind the TEN Model.

7.4 In addition, we recommend that LSBU takes a cautious approach when considering any further steps towards integration until it is satisfied that the TEN Model and/or Group Structure is a long term solution.

Veale Wasbrough Vizards
June 2017

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