

THE CORPORATION OF WALTHAM FOREST COLLEGE

15 JUNE 2015

PROPERTY UPDATE

Enquiries relating to this report	
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PURPOSE OF REPORT

1. This report seeks Corporation approval to proposals regarding four property related matters:
 - Sub-letting of Uplands House
 - Letting of Forest Road facilities at weekends
 - Summer 2015 capital works programme
 - Submitting a capital grant application to the London Enterprise Panel (LEP) for the Science, Technology, Engineering & Mathematics (STEM) Centre for a total capital cost of £3.9 million including a College contribution of 10% (£390k)
2. The report further updates the Corporation with regard to two other property matters:
 - Progress on Heart of the College Phase 4
 - Potential disposal of land adjacent to Spruce Hills Road

SUB-LETTING OF UPLANDS HOUSE

3. The College has now vacated Uplands House and has been in discussion with both the landlord regarding potential lease surrender and with one of our franchise partners, Traxsydes Ltd, to be a potential tenant for a sub-let. The College has an on-going commitment until April 2019 to lease costs of £120k per annum plus additional annual costs of £15k for business rates and insurance. Both approaches seek to minimise these on-going costs plus the costs and operational risks of otherwise occupying a vacant Uplands House site for four years.
4. The landlords have shown no interest in negotiating a lease surrender. It is therefore recommended that the College pursues a sub-let with Traxsydes Ltd. Traxsydes Ltd have delivered rail engineering provision for the College since 2011.
5. The College has negotiated with Traxsydes regarding an appropriate rental taking into account advice from our lawyers and Deloitte estates consultancy. The Corporation is asked to agree an annual rental of £72k. Although this does not cover the full amount of the cost the College is committed to paying, it does represent a substantial contribution to offset these costs and Traxsydes are keen to occupy the site as soon as possible. Deloitte have advised that the College is unlikely to be able to secure a higher rental through open marketing of the site given the nature, location and standard of the facilities, likely delay in securing a tenant and the costs which we would need to incur on the property to let it on the open market. Deloitte's advice is attached as an appendix to this report.
6. The Corporation are recommended to approve that the College, having taken into account appropriate legal and valuation advice, enter into a sub-lease with Traxsydes to occupy Uplands House for the period 1 July 2015 to 31 March 2019.

7. The College has also commissioned Deloitte to undertake a high level dilapidation survey of Uplands House so that the College can quantify the risk of the costs which may need to be expended at the site before the lease terminates in April 2019. Our external auditors have also advised that we should undertake such a survey now as a provision may need to be made in the accounts for this potential medium term liability. It should be noted that the College has spent over £500k at Uplands House since the lease started in 2004, and therefore our expectation is that dilapidation costs will not be excessive. Loose furniture and IT equipment has been removed from the site and re-used at Forest Road.

LETTING OF FOREST ROAD FACILITIES AT WEEKENDS

8. The Corporation have previously indicated that the College should investigate ways of making greater use of the Forest Road site. In order to progress this, we have started discussions with the swimming pool Community Interest Company (Tritons Swim School CIC) for them to act as the College's agent to let out College facilities during weekends and bank holidays.
9. These discussions arose after we had met the Swim School Company about reducing the College's opening hours. Currently the College provides staffed security on a 24/7 basis at Forest Road. This is not financially tenable and we have recently consulted with staff as part of the Stage 2 Restructure to cease night security cover. The only reason to continue to open the building every weekend, very early in the mornings and late in the evening is to accommodate the swimming pool opening hours.
10. The Swim School Company have said that if we reduced current opening hours then the future of the pool would be in jeopardy. They have suggested that weekend lettings income could defray the security costs and that they could operate these lettings on our behalf.
11. This appears to be a proposal worthy of serious consideration and the Corporation's approval in principle of this approach is now sought. The precise nature of the legal agreement with Tritons Swim School Community Interest Company needs to be agreed after taking legal advice. The College must also ensure that there are appropriate safeguards about the nature of activities and potential users, and the need of the College to make occasional use of the Forest Road site at weekends. However these are matters which can be resolved by discussion.
12. The College has received draft proposals from the Swim School Company which are currently being considered. Their proposal is that the College enters into a fixed fee licence agreement with Tritons CIC to allow them to sub-let Forest Road facilities at weekends and bank holidays, with an additional profit share should lettings exceed an agreed level. The draft 2015/16 budget assumes that the College will earn £25k net income from this proposal rising to £40k in 2017/18.

SUMMER 2015 CAPITAL WORKS

13. A programme of summer capital works is now proposed as set out in the table below; this will implement key College objectives. The College's own capital resources are limited and the draft 2015/16 budget indicates a plan to spend a maximum of £500k; £127k of this spend is being funded by an SFA capital allocation which we, like all colleges, received in March 2015. The implications of this capital programme are factored into the draft cash-flow forecast submitted with the draft 2015/16 budget elsewhere on this meeting's agenda.

	£000
Relocation of electrical installation provision from Lockwood Way Unit 1 to Forest Road	175
Consolidation of motorcycle and motor vehicle provision at Priestley Way to allow College to vacate Lockwood Way Unit 10	30
Refurbished reception area	40
Access control system and barriers	155
Improved external security	60
Internal and external signage	40
	500

14. The main project is the relocation of electrical installation provision from Lockwood Unit 1 to space at Forest Road which is being vacated by art courses, which move into the new Arts building. This will start the process of moving out of the satellite sites and thus save lease and other running costs. We are also working to consolidate motorcycle provision with motor vehicle at Priestley Way, thus enabling us also to vacate Lockwood Unit 10 in autumn 2015. Savings arising from these moves are factored into the draft 2015/16 budget. To enable this to happen, students based at the Priestley Way site will have their English, maths and theory sessions on the main campus; this will ensure learners have access to the higher quality facilities and resources on the main campus.
15. Other summer works include a refurbished reception area at Forest Road including the introduction of an access control system, plus improved internal and external signage. The proposal to introduce access control has been widely welcomed by staff and students and will materially improve the safety and security of student, staff and visitors to the College. It will support the College in meeting the Prevent agenda. Improvements to external security will allow the College to cease night guarding and redirect some of this spend to fund additional security during core opening hours and still deliver net staff savings which are included in the draft 2015/16 budget.
16. The Corporation are asked to approve the summer 2015 capital works programme as set out in paragraph 13. The total projected cost of £500k will be included in the 2015/16 budget though it is possible that some costs may be incurred before 31 July 2015, i.e. during 2014/15 financial year as we need to make a prompt start in implementing these schemes for them to be live in early September.

APPLICATION TO LEP FOR CAPITAL GRANT FOR STEM CENTRE

17. The London Enterprise Panel (LEP) have confirmed that the submission date for the detailed capital grant funding application for the new STEM (Science, Technology, Engineering & Mathematics) Centre, including facilities for automotive engineering, is 15 June. This is the rebranded Centre of Engineering Excellence which had previously been part of HoC3 but was omitted when bank loan funding did not materialise in 2014. The bidding process is very detailed; we are working to submit a strong bid with a compelling education, property and financial case.
18. The College has already passed the Expression of Interest stage when we submitted a bid for £3.6 million 100% grant-funding from the LEP. Further consideration of LEP guidance has indicated that a bid will be more favourably considered if there is a College financial contribution. Updated costings plus the impact of construction inflation also mean that it would be more prudent to plan for a project of £3.9 million.
19. It is therefore proposed that we submit a bid for a £3.9 million project with 90% grant from the LEP of £3.510 million and a 10% College contribution of £390k. This contribution can be funded from the College's 2016/17 capital programme as the project build period is likely to be from January to September 2016. Even with a College financial contribution, our business case to the LEP will need to be particularly strong for this bid to be successful.

PROGRESS ON HEART OF THE COLLEGE PHASE 4

20. The HoC4 project continues to progress well. The College has now taken occupation of the refurbished first floor west corridor. It is still anticipated that the new Art & Media building, first floor east corridor and the new passenger lift will be handed over to us in mid-July, giving us the summer to ensure a smooth occupation. This hand-over date is two weeks later than previously anticipated due to delays arising from adverse weather conditions, labour shortages and procurement delays.
21. The College continues to project manage RG Carter robustly and every endeavour is being made to ensure that the hand-over date does not slip beyond 17 July. Strategies are in place to manage the risks should there be material slippage past this date to ensure that the facilities are available for student use in early September 2015.

SPRUCE HILLS ROAD LAND – POTENTIAL DISPOSAL

22. With regard to the potential disposal of the land by Spruce Hills Road the College has submitted a planning proposal to LBWF planners and a pre-application meeting was held with them on 11 May. This meeting was positive; the planners have accepted the principle of redeveloping the site for residential use and are aware of the financial drivers behind the College seeking to dispose of surplus land. They were concerned, though, about the scale of any potential development and the loss of protected trees.
23. We are now revising our proposals to try to meet the planners' concerns as far as possible while still retaining as much value in the potential disposal receipt as possible. It is anticipated that an update report will be brought to the July Corporation meeting.

EQUALITY CONSIDERATIONS

24. There are some specific equality considerations arising from this report. The proposal to move curriculum to the main site provides equality of opportunity for learners currently being taught at Lockwood. The signage upgrade will meet the needs of learners who may have specific needs, e.g. visual impairment
25. Generally, it will be appreciated that the careful management of the College's resources, including our property, enables many of the equality considerations set out in the Strategic Plan and elsewhere to be progressed.
26. The proposal regarding the utilisation of the Forest Road site at weekends should also increase the range of community users utilising College facilities, which is to be welcomed.

FINANCIAL CONSIDERATIONS

27. The proposals to sub-let Uplands and increase use of the College at weekends will provide income to the College which has been built into the draft 2015/16 budget.
28. Managing the Heart of the College Phase 4 and summer 2015 capital works within budget is an important element of the College's financial risk management strategy. The successful completion of these projects will generate opportunities for the College to generate additional income through increased student recruitment and save costs through further estates rationalisation and efficiency improvements.
29. The sale of land adjacent to Spruce Hills Road will generate cash which will increase the College's short-term business resilience and create funds for further capital investment.
30. It is estimated that the successful and timely delivery of the actions and projects set out in this report will contribute a net £200k to the College's recurrent 2015/16 budget from additional income and savings from satellite site closures.

RISK CONSIDERATIONS

31. The report sets out a number of approaches to mitigate key financial and property-related risks through increasing income, reducing estate running costs and ensuring more effective utilisation of College's assets including disposing of surplus property.

RECOMMENDATIONS

32. CORPORATION MEMBERS ARE RECOMMENDED TO:

1. APPROVE THE PROPOSAL TO SUB-LET UPLANDS HOUSE TO TRAXSYDES LTD FOR A FIXED TERM PERIOD TO 31 MARCH 2019 FOR AN ANNUAL RENTAL OF £72k
2. APPROVE THE PROPOSAL TO ENTER INTO A LICENCE, OR OTHER APPROPRIATE AGREEMENT AS ADVISED BY THE COLLEGE'S LAWYERS WITH TRITON SWIM SCHOOL COMMUNITY INTEREST COMPANY FOR LETTING OUT FOREST ROAD FACILITIES AT WEEKENDS AND BANK HOLIDAYS

3. APPROVE THE PROPOSED SUMMER 2015 CAPITAL WORKS PROGRAMME OF £500k
4. CONFIRM THE SUBMISSION OF A CAPITAL BID FOR £3.510 MILLION TO THE LONDON ENTERPRISE PANEL (LEP) FOR THE STEM CENTRE, AT A TOTAL PROJECT COST OF £3.9 MILLION OF WHICH THE COLLEGE WILL CONTRIBUTE £390k
5. NOTE THE CURRENT POSITION WITH REGARD TO HEART OF THE COLLEGE PHASE 4 AND THE POTENTIAL DISPOSAL OF LAND ADJACENT TO SPRUCE HILLS ROAD.

Peter Doble
Director of Finance
Waltham Forest College
707 Forest Road
London
E17 4JB

05 June 2015

Dear Peter,

Uplands House, Blackhorse Lane, E17 5QN

I write to set out our comments on the proposed underletting at this property. I understand Waltham Forest College have agreed terms with an educational body who you work in partnership with to take a sublease of the entire premises for the remaining lease term at a rent of £72,000 per annum.

We do not know the exact identity of the proposed subtenant so we are making the assumption they are of sufficient financial standing to meet the proposed rental obligation.

There are some restrictions in your lease on subletting at below passing rent which you are aware of and have taken solicitor's advice on so I do not comment further on this here. You have asked for our opinion on whether or not this proposal represents value for money.

Below I have established the two most likely forward scenarios and the respective associated cost.

Scenario 1 – Sublet to prospective sub-tenant immediately @ £72,000 pa

Assuming the property was to be sublet immediately at a discounted rent to the prospective sub-tenant, in its current condition with the absence of any void period. This would result in an approximate cost of:

$$\begin{aligned} & \text{(Annual Passing Rent – Discounted Rent)} \times \text{Time remaining on Lease} \\ & (\pounds 120,000 - \pounds 72,000) \times 3.75 \text{ Years} \\ & \text{Total Cost: } \pounds 180,000 \end{aligned}$$

Scenario 2 – Sublet via standard marketing process @ market rent

Workspace are currently marketing 2 properties in Uplands Business Park at circa £9.50 per sq ft. This would suggest that local market rents have not shifted significantly from the current passing rent you are paying equating to circa £9.20 per sq ft, and that any possible rent uplift would be unlikely. As a result it is highly unlikely you would be in a position to do anything other than mitigate your outgoings.

Although the property is in a reasonable state, if it were to be sublet given its current condition, some cost and delay would be incurred in achieving an open market letting. We estimate this could include:

<u>Item</u>	<u>Cost</u>
Redecoration and Repair @ £7.00 per sq ft	£90,888
6 Months' letting void @ £120,000 passing rent	£60,000
3 Months' rent free @ £120,000 passing rent	£30,000
Agent Fees @ 10% of £120,000 passing rent	£12,000
Total Cost:	£192,888

Deloitte Opinion

Comparing the two scenarios above:

Scenario 2 Cost - Scenario 1 Cost
£192,888 - £180,000
Total Savings: £12,888

The above analysis would suggest that Scenario 1 would be a logical decision. It is possible the premises could be let more quickly in Scenario 2 but we consider this unlikely.

As a result our opinion is that the proposed transaction represents a sensible value for money solution for Waltham Forest College

Yours sincerely



Shelson Lim
for Deloitte LLP