



## **COUNCIL EXECUTIVE**

### **CITY REGION DEAL - WINCHBURGH AND CALDERWOOD CORE DEVELOPMENT AREAS SCHOOL ESTATE INVESTMENT**

### **REPORT BY HEAD OF PLANNING ECONOMIC DEVELOPMENT & REGENERATION**

#### **A. PURPOSE OF REPORT**

The purpose of this report is to seek Council Executive approval for the submission of a formal request to the Scottish Government to enter into a risk sharing agreement with the Scottish Government and Winchburgh Developments Ltd in relation to the council's borrowing costs for the delivery of a non-denominational secondary school at Winchburgh. The report proposes the submission of a formal request to the Scottish Government for it to provide a standby facility to support the council's borrowing requirement. In addition, the report seeks approval to procure, subject to confirmation of the Scottish Government Guarantee, the new education facilities at Winchburgh and Calderwood through West Lothian Council's delivery partner, Hub South East Scotland Ltd (Hubco).

#### **B. RECOMMENDATION**

It is recommended that Council Executive:

1. notes the update on negotiations with the Scottish Government and Winchburgh Developments Ltd (WDL) with respect to funding agreements for the delivery of two secondary schools and a denominational primary school at Winchburgh;
2. notes the update on negotiations with the lead developer at Calderwood with respect to funding arrangements for a new, wholly developer funded, non-denominational primary school at Calderwood;
3. notes that it is proposed that the first phase of the non-denominational secondary school in the Winchburgh and East Broxburn Core Development Area will be funded by a 'per house contribution' (also known as a roof tax) with the council undertaking borrowing for the required capital investment and with that borrowing underwritten partly by the Scottish Government, through the City Region Deal, accelerated developer contributions and guarantees and security delivered by Winchburgh Developments Ltd;
4. notes that it is proposed that the first phase of the denominational secondary school in the Winchburgh and East Broxburn Core Development Area will be funded by a 'per house contribution' with the council undertaking borrowing for the required capital investment;
5. approves the Business Case, which is appended to this report, as the basis for a funding arrangement for the schools at Winchburgh and for submission of this to the Scottish Government as a formal request for support;

6. notes that the Business Case outlines that the cost of borrowing will be fully recoverable from developer contributions, with the exception of the council's £4m contribution towards the non-denominational secondary school;
7. delegates the Head of Planning, Economic Development and Regeneration, in consultation with the Leader of the Council, to make any non-material changes to the Business Case, prior to formal submission to the Scottish Government;
8. delegates the Head of Planning, Economic Development and Regeneration to present the case to the Scottish Government and to accept any offer of support from the Scottish Government, provided that the offer of support meets the terms of the submitted Business Case;
9. agrees that, subject to an acceptable offer being received from the Scottish Government, a further report setting out a programme for delivery of the schools at Winchburgh should be presented to Council Executive;
10. agrees that a further extension of St Margaret's Academy to increase denominational education capacity is not progressed given the proposal for a new denominational secondary at Winchburgh;
11. notes that a report will be presented to Education Executive to consider the statutory consultations required as a consequence of the new school proposals outlined in the report;
12. notes the council's participatory relationship as a partner in the Hub South East Territory Partnership;
13. instructs officers to commence engagement with Hubco and their supply chain to provide strategic support services to progress the design development and cost appraisals of the new schools required at Winchburgh and Calderwood; and
14. notes that officers will present a report to Council Executive prior to formally issuing a new project request (NPR) to Hubco which will confirm the affordability cap for each of the schools.

## C. SUMMARY OF IMPLICATIONS

<b>I Council Values</b>	Focusing on our customers' needs; being honest, open and accountable; making best use of our resources; working in partnership
<b>II Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)</b>	<p>The implementation of the West Lothian Local Plan (WLLP) and the emerging Local Development Plan (LDP) require substantial funding for education infrastructure which will be funded through developer contributions. Such contributions will be gathered through Section 75 of the Town &amp; Country Planning (Scotland) Act 1997 as amended by the Planning etc (Scotland) Act 2006.</p> <p>Strategic Environmental, Equality, Health and other risk assessments will be undertaken for the project as appropriate.</p>

	<p>The council's General Services capital programme is managed following stringent requirements set out in the Prudential Code. Expenditure proposed will comply with the council's Best Value Framework, approved on 10 June 2014, aimed at ensuring compliance with the provisions contained within the Local Government in Scotland Act 2003.</p>
<b>III Implications for Scheme of Delegations to Officers</b>	<p>Recommendation 8 seeks approval to delegate authority to officers to progress negotiations and agree initial heads of terms with other parties for the delivery and funding agreements required to enable projects to progress noting that any proposals will be reported to Council Executive for final approval.</p>
<b>IV Impact on performance and performance Indicators</b>	<p>The proposed projects will support performance measures contained in the Corporate Asset Management Strategy and Property Asset Management Plan including those relating to Compliance, Condition, Suitability, Sufficiency, Sustainability and Accessibility.</p>
<b>V Relevance to Single Outcome Agreement</b>	<p>The proposed projects will support the delivery of Single Outcome Agreement objectives including: Our children have the best start in life and are ready to succeed; We are better educated and have access to increased and better quality learning and employment opportunities; Our economy is diverse and dynamic, and West Lothian is an attractive place for doing business; and We make the most efficient and effective use of resources by minimising our impact on the built and natural environment.</p>
<b>VI Resources - (Financial, Staffing and Property)</b>	<p>Council approved on 13 February 2018 a new 10-year General Services Capital Programme which makes provision for the funding and delivery of Winchburgh and Calderwood education projects as outlined in the report.</p> <p>Financial and resource implications are set out in the report. The proposed investment will form part of the City Region Deal delivery support agreed between the council, Scottish and UK governments.</p> <p>The council will be responsible for £4million of the capital construction costs relating to existing capacity re-provision as set out the report. All other project costs will be fully recovered from developers.</p>

The provision of additional pupils and accommodation will have revenue consequences for the council. These will be incorporated into future revenue budgets.

Projects will be managed through existing staff resources supported by funded internal posts and external technical consultants from within the projects financial resources.

**VII Consideration at PDSP**

This matter has not been reported to a PDSP.

**VIII Other consultations**

Education, Planning and Economic Development, Finance and Property Services

**D. TERMS OF REPORT**

**D1 Background**

On 10 October 2017, Council Executive approved an option for funding the delivery of new denominational and non denominational secondary schools at Winchburgh, together with a new denominational primary school.

That report set out that the obligation to fund this infrastructure sat principally with housebuilders and that developer contributions are being gathered for the school infrastructure. However, no more than 550 houses can be occupied at Winchburgh until the first phase of the new non-denominational secondary school. In practice this has become a significant constraint on development as there will be insufficient developer contribution gathered by the 550<sup>th</sup> occupation to fund the school and the lead developer, Winchburgh Developments Ltd (WDL), is unable to forward fund the cost of the school at this stage of the development. The cost for the first phase of the school is currently estimated at £23.18m

The October 2017 report to Council Executive set out that the Heads of Terms to the City Region Deal had identified that a risk sharing facility would be developed with the Scottish Government to deliver up to £150m of infrastructure investment in Winchburgh to support the delivery of up to 5,000 houses. Given the terms of the proposed City Region Deal, Council Executive agreed, in principle, to borrow to deliver the non-denominational school subject to the Scottish Government providing a risk sharing facility in relation to the debt service costs. That facility would protect the council's financial position if, for whatever reason, the council was unable to secure sufficient developer contributions on an annual basis to meet the debt service costs.

Since that time council officers have been working with the Scottish Government, Scottish Futures Trust and WDL to complete the Business Case for the overall approach.

To recap the schools required to be delivered at Winchburgh are as follow:

School	Projected Operational Date
New Holy Family Primary	August 2021
Non-Denominational Secondary	August 2022
Denomination Secondary	August 2023

It is proposed that given the scale of the projects that these will be delivered through the council's development partnership (Hubco) as this will provide greater certainty on delivery timescales and financial risk controls over traditional procurement routes. Through the joint procurement of these schools via Hubco economies of scale will be delivered.

To gain further economies of scale, council officers propose to also include the first phase of the new primary school provision at Calderwood, East Calder core development area as part of a Hubco procurement bundle. A single stream primary school is required to be delivered and operational by August 2021 to support the CDA delivery. This timescale runs concurrently with the replacement Holy Family Primary School which also requires to be operational by August 2021. Whilst both schools will have different layouts and designs due to locational factors synergy on design, construction and procurement can be achieved.

## **D2 The Business Case**

The draft Business Case is appended to this report and Council Executive is asked to approve this for submission to the Scottish Government.

The Business Case estimates the borrowing cost of the first phase of the non-denominational secondary school, with interest charges over 25 years, as £20.621m based on a borrowing cost of £15.18m plus interest over 25 years. This cost is net of developer contributions already received, or expected to be received prior to construction of the school. It is also net of a contribution of £4m from the council's approved capital plan to reflect that part of the school will be occupied by existing pupils. The school will have capacity to support 3,650 additional houses which means that, to fully fund the borrowing and interest from developer contributions, a 'roof tax rate' of £5,650 per house will need to be applied.

The annual debt service charge for this borrowing over 25 years will be, at current estimates, £825,000. The principle set out in the Business Case is that this level of income will be secured through developer contributions. However, if insufficient contributions are gathered in any one year the deficit will be funded through facilities provided by WDL and the Scottish Government.

For its part WDL, is committing to make an annual contribution equivalent to 150 house completions. Based on the roof tax rate set out above this will generate £850,000 (rounded) in contributions to the council. This should be sufficient to cover the annual debt service charge based on current estimates.

In addition WDL will provide a Stand-by Facility with the equivalent of one year's worth of developer contributions (£850,000) together with a first ranking security over land with a value of at least £8m, in favour of the Scottish Government and land with a value of £3.7m in favour of West Lothian Council.

The Scottish Government will also provide a Stand-by Facility which can be called upon to make good any shortfall in annual contributions to the council. If shortfalls continue over a number of years as a result of WDL's failure to facilitate the occupation of 150 houses per annum, the Scottish Government will have the right to call in the land security granted to them.

As development progresses the debt will be paid off. When the debt is reduced below £8m the outstanding debt may be less than the value of the land covered by the security. This is currently estimated to be 15 years from the commencement of the borrowing.

The Business Case recognises that other developers, including those with sites in Linlithgow and Broxburn will benefit from the new school at Winchburgh and, as such, they will also be expected to pay the roof tax rate.

A summary of the facilities which will be put in place is as follows:

<b>Facility</b>	<b>Value</b>
Scottish Government Standby Facility (underwritten by £8m of land security from WDL)	£15,000,000
WDL Standby Facility	£850,000
Land Security held by West Lothian Council	£3,750,000
<b>Total</b>	<b>£19,600,000</b>

The facilities which will be in place if the Business Case is approved will be just over £1m short of the total debt service cost of the school. The shortfall is equivalent to about 1.25 years worth of developer contributions. However, given that the majority of the borrowing will not occur until 2020 it is anticipated that this gap can be made good, at least in part, by additional developer contributions which can be collected in advance of borrowing taking place. However, in reality, even if this gap cannot be closed in advance, for £1 million of debt to be remaining at the end of the 25 year payment period there would have to be a complete and catastrophic failure of the house market in the short term and that failure would have to be sustained for a large part of the borrowing period.

### **D3 Operation of the Facilities**

Some scenarios of when the guarantee could be called up are set out in the Business Case. In practice if less than 150 houses are occupied in any one year money will be called on in the following sequence:

- Call 1 Any developer contributions from developers, other than WDL, held by the council from developers benefiting from the construction of the new school.
- Call 2 If insufficient funds are secured from Call 1 the WDL Stand-by Facility will be called upon to make good any deficit.
- Call 3 If there is insufficient funding in the WDL Stand-by Facility to cover the deficit the Scottish Government Stand-by facility will be called on to make good any deficit.

These calls can be repeated each year in which a deficit occurs. However, the Scottish Government Stand-by Facility is capped at £15 million. It will be for the Scottish Government and WDL to agree the total value of calls that can be made on the Stand-by Facility before the Scottish Government can call in the security on the land.

The provisions set out above are sufficient to provide assurances that the council will be able to facilitate its debt service obligations in relation to the borrowing for the non-denominational secondary school.

All calls set out above are repayable with that repayment occurring, in reverse, in years where more than 150 contributing houses are occupied. The model should ensure that the debt on the school can be fully repaid over 25 years, although it could be that the Scottish Government Stand-by Facility will be in deficit at that time. That would only occur if less than 3,650 houses had been constructed. That deficit would be made good by future developer contributions from developments benefiting from the existence of the school.

Some of the land security will be released as the debt on the project is reduced. WDLs expectation is that the first land to be released would be that covered by the security held in favour of the council. This will be acceptable to the council provided that developer contributions equivalent to the value of that security had been secured and the Government facility of £15million remained in place. The key consideration for the council is that at any point in the project the standby facilities and securities which are in place are of equal or greater value than the outstanding debt service costs.

#### **D4 Denominational Secondary School, Winchburgh**

Council Executive in October 2017 confirmed the proposal to build the first phase of the new denominational secondary school at Winchburgh in parallel with the non-denominational secondary school. Council approved the General Services Capital Programme 2017/18 to 2027/28 in February 2018 and this included provision for the delivery of the denominational secondary school at Winchburgh. The Scottish Government guarantee will not apply to the funding of this school. The represents the largest portion of the council's financial risks relating to the projects but is considered to be manageable as developer contributions to the cost of the school will be gathered from across West Lothian rather than in a specific area as in the case of the non denominational school.

The roof tax rate for contributions towards the denominational secondary school is already well established and over £6.5million towards the cost of the school has already been gathered. The financial risk related to the denominational secondary school is considered to be manageable as part of a three school package where the costs of the two other schools (the non-denominational secondary and the denominational primary) are substantially supported by the Scottish Government and WDL.

It is important to emphasise that all three schools in Winchburgh will continue to be wholly developer funded, with the exception of the council's £4m contribution towards the non-denominational secondary school.

The council's approved Supplementary Planning Guidance for Denominational Secondary School Contributions identifies an option to further extend St Margaret's Academy in Livingston in advance of providing a new denominational secondary school at Winchburgh. Given the proposal set out in this paper to move ahead with the new schools at Winchburgh it is proposed that any option to further extend St Margaret's Academy is no longer progressed.

## **D5 Denominational Primary School, Winchburgh**

Progressing beyond the 550 occupation will also require completion of a new denominational primary school. This school will be wholly developer funded with no forward funding by the council. The school will be procured by the council as part of Hubco bundle, covering all three schools at Winchburgh and the denominational primary school at Calderwood. This will enable economies of scale to be achieved and provide greater cost and deliverability risk management to be achieved over the individual traditional procurement of each individual project.

## **D6 The Non Denominational Primary School, Calderwood**

The lead developer at Calderwood, Stirling Developments Ltd has agreed to fully fund the construction of the first phase of a non-denominational primary school at Calderwood. Forecasts suggest that the school is required to be operational by August 2021. As set out above it will help deliver greater economies of scale to contract for the delivery of this school as part of a package with the Winchburgh schools through Hubco.

## **D7 Other Infrastructure at Winchburgh**

The Business Case identifies a dependency between the council forward funding the secondary schools at Winchburgh and the delivery of other infrastructure and improvements at Winchburgh. These include remediation of the former landfill site at Auldcathie, building of the new motorway junction and building of the railway station. There are restrictions under the Section 75 agreement on the number of house completions which can be achieved in advance of these elements of the masterplan being delivered. Consequently the Business Case requires assurances that Housing Infrastructure Loan Funding of up to £26m will be approved by the Scottish Government to WDL as part of the broader City Region Deal arrangements to ensure that these items of infrastructure will be funded in parallel with any council borrowing for the schools.

## **D8 Next Stages and Governance**

It is proposed that officers will submit the proposed Business Case and funding submission to the Scottish Government to seek their approval and obtain assurances over the deliverability of the other infrastructure.

Following receipt of the council's submission the Scottish Government will progress the request for support through their own governance and approval processes.

Officers have recommended engagement with Hubco to progress the bundle of projects through the appropriate initial design development, procurement and cost appraisal stages. Upon approval commissioning of Hubco will take place to progress the project to the New Project Request stage. Officers will report to Council Executive prior to the formal issue of a New Project Request which will establish the affordability cap for the projects and provide the outline delivery programme.



The establishment of an affordability cap for the individual projects will enable officers to progress to the next stages of procuring the schools. The affordability cap (the maximum cost that is projected) and, the delivery timescales are the primary factors in the submission and acceptance by Hubco of a New Project Request. The establishment of these will allow further negotiations with developers on any changes required to funding requirements and enable project risks relating to cost, timescales and quality to be established and managed.

## **E. CONCLUSION**

The Winchburgh and East Broxburn CDA is recognised as forming a significant role in the delivery of the councils strategic priorities including delivery of our socio-economic, regeneration and housing supply strategies. The proposals set out and the approvals sought in the report will enable the development to progress more effectively and will seek to ensure the successful delivery of education capacity to support wider development in the east of the county while minimising the financial risk to the council in the delivery of the school infrastructure.

## **F. BACKGROUND REFERENCES**

Council Report - Asset Management Strategy and General Services Ten Year Capital Investment Programme 2018/19 - 2027/28 – 13 Feb 2018

Council Executive Report - City Region Deal - Winchburgh Core Development Area School Estate Investment – 10 Oct 2017

Appendices/Attachments:

Appendix 1 - Business Case

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