

**SOUTH EAST SCOTLAND CITY REGION DEAL**

**SCOTTISH GOVERNMENT STAND BY-FACILITY**

**WINCHBURGH BUSINESS CASE**

## **1. Background**

- 1.1 The Winchburgh / East Broxburn Core Development Area (CDA) was allocated for a mixed use development including 5,500 homes by West Lothian Council (WLC) in the 2009 West Lothian Local Plan. A masterplan for the development of the Winchburgh part of the CDA was granted planning permission in 2012. At the time, the site was expected to produce 3,450 homes. A condition was attached to that planning consent stating that no more than 550 homes could be occupied at Winchburgh until additional non-denominational secondary school provision had been funded. House completions at the site are now nearing this 550 unit cap.
- 1.2 Development will stall at this level unless a funding solution for the delivery of a new non-denominational secondary school ("the school") at Winchburgh is found. Development elsewhere in West Lothian is also impacted by this education constraint.
- 1.3 The school, together with a denominational secondary school that is also required at Winchburgh, will unlock the development of the remaining 5,000 houses within the CDA and approximately 15,000 additional houses across West Lothian. Wider economic, social and environmental benefits to West Lothian and the wider city region will also result from the delivery of Winchburgh and its supporting infrastructure.
- 1.4 Winchburgh Developments Ltd (WDL) controls the majority of the land in the area covered by the Winchburgh CDA and is responsible for master planning, negotiating planning consents and Section 75 agreements and investing in infrastructure including education provision, community facilities and open space. This infrastructure work is carried out on a phased basis with serviced land being sold to house builders and commercial developers.
- 1.5 WDL has committed to funding its share of the non-denominational secondary school costs. The school will be built in phases with the first phase having capacity for 660 pupils, which will create capacity to support pupils from 3,650 additional homes. However, WDL cannot pay for the school in advance of its delivery, i.e. it cannot forward fund the school. WDL does not have sufficient cash reserves to allow it to do this. In addition, it cannot access affordable finance to forward fund the secondary school infrastructure.
- 1.6 If WDL were to borrow on the terms available to it, the cost of the school, in addition to £145m to be spent on infrastructure and site servicing costs across the Winchburgh site, will render the development unviable. WDL has made an application to the Scottish Government's Housing Infrastructure Fund (HIF) for £26.5m of funding, which is critical to WDL's ability to forward fund the necessary infrastructure package required to support development of the CDA. The dependency between HIF and the proposal contained within this business case are set out in paragraph 6.20.
- 1.7 WLC has engaged in a programme of due diligence with WDL on this issue and is satisfied that WDL has evidenced their financial position sufficiently to rule out the option of their proportionate share of the school being forward funded by WDL.

- 1.8 Extensive tripartite discussions, within the framework of the proposed City Region Deal, have taken place between WLC, WDL and the Scottish Government (SG) to explore how a shared risk package could be developed to overcome the education constraint. A proposal has now emerged, fully explored in the next section, that mitigates and shares the risk of funding the denominational and non-denominational secondary schools at Winchburgh in a way that will allow the schools to be developed, the education constraint to be released and development at Winchburgh and elsewhere across West Lothian to continue.
- 1.9 The main principles of the proposal are the following.
- 1.10 **WLC** will borrow £around 37.5m from the Public Works Loan Board (PWLB) in order to deliver two secondary schools at Winchburgh, both denominational and non-denominational. The total cost of the infrastructure is expected to be £52m with the balance being funded from developer contributions already collected and council capital contributions. This will be the single largest investment in education infrastructure ever undertaken by WLC.
- 1.11 **WLC** has agreed in principle that this borrowing should include £15.18m which will be sufficient to close the funding gap for the non-denominational school to be delivered. Subject to agreements being in place the non-denominational secondary school with capacity for 660 pupils will be opened by August 2022. The interest attributable to this borrowing is projected to be £5.44m, and therefore the total cost of principal and interest associated with this borrowing is £20.6m.
- 1.12 **WDL** will repay WLC for its share of the school through developer contributions, paid over the course of the 20-year development as homes are completed and occupied. Developer contributions will be set by WLC at a level per unit that will cover the cost of financing the school, based on an assumed minimum level of housing sales per annum. If this minimum level of sales is met, there will be sufficient funds from developer contributions to cover the cost of servicing the PWLB loan on an annual basis. If there is a shortfall, WLC will first look to meet the shortfall from any surplus contributions gathered in previous years, secondly from WDL and finally from the SG to make up this shortfall.
- 1.13 **WDL** will provide a stand-by facility sufficient to cover at least one year's worth of PWLB loan servicing costs (currently estimated at £825,000). This will be a rolling facility that can be drawn down, repaid and redrawn. Only if this facility is fully drawn and there continues to be a shortfall between actual and anticipated developer contributions to meet loan repayments will WLC look to a SG Stand-by Facility to cover this further shortfall.
- 1.14 **SG** will provide a Stand-by Facility similar to WDL's in that it will be a rolling facility which once drawn on will be repaid and made available to be redrawn should the necessity arise. The maximum draw down in any year will be the principal and interest due in that year (currently estimated at £825,000). It will only be drawn upon if a shortfall arises that cannot be covered by accumulated surplus developer contributions already held by WLC or the WDL stand-by facility. Appendix B of this business case highlights that only a fraction of this would be required even in the eventuality of sharp and prolonged downturn in the market.

- 1.15 The £15.18m is the only element of the overall borrowing package of around £37.5m that is to be underwritten in this way. **WLC** is accepting a very substantial element of risk in forward funding the cost of delivering the denominational secondary school together with providing a contribution of £4m towards the cost of the non-denominational secondary school.
- 1.16 In providing this Stand-by Facility, the SG will need to make budgetary provision for an appropriate amount based on the risk weighted likely call on the facility. Additionally, the Scottish Government will need to report a contingent liability based on the maximum possible call. This would need to be the equivalent of the maximum drawn down in any one year, i.e. £825,000 in each year of the development.
- 1.17 The remainder of this document sets out the business case for the provision of this Stand-by facility by the SG. It will address the following:
- i. The detail of the proposal;
  - ii. The case for change;
  - iii. The proposal's alignment with national, regional and local policies and strategic fit with the objectives of both WLC and the SG in relation to meeting identified need for market and affordable housing, while unlocking housing land and delivering wider economic benefits for the city region;
  - iv. Why the provision of this facility by the SG presents good value for money for both the SG and WLC and is both deliverable and affordable for West Lothian Council; and
  - v. How it can be delivered by WLC with WDL and the SG.

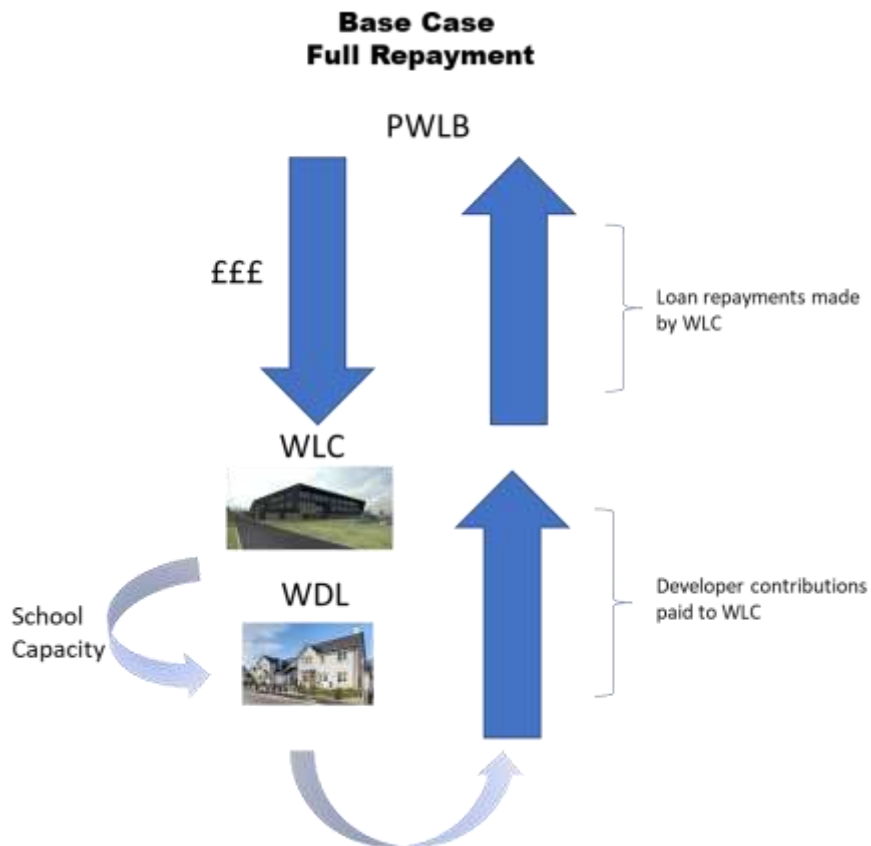
## 2. PROPOSAL FOR STAND-BY FACILITY AT WINCHBURGH

- 2.1 The proposal for the SG Stand-by Facility has been generated jointly by WLC, SG and WDL with additional input from Scottish Futures Trust (SFT). There are no other alternative options available to assess alongside this proposal within this business case. WDL have already demonstrated to WLC's satisfaction that they are unable to forward fund the school. SG has already stated that they are unable to fund the development of the school directly. WLC are unable to borrow to fill the £15.18m funding gap for the school without sharing the risk for this with other parties. Borrowing to close this funding gap would not be regarded as prudent borrowing by WLC without the full value of this borrowing being underwritten by SG and WDL. As a result, this proposal represents the most advantageous proposal for all parties and there is certainty that this proposal is both viable and deliverable.
- 2.2 The principles guiding the development of this facility between WLC, SG and WDL are:
- the SG Stand-by Facility is to form part of a wider risk mitigation package, allowing risk to be shared by WLC, WDL and SG;
  - the facility provided by SG will be capped and provided over a fixed term period, in this case the estimated build out period of the development;
  - the Stand-by Facility can only be called under certain agreed conditions;
  - any calls made on the SG facility, will be repayable;
  - a security over land should be granted by WDL to SG to a specified value.
  - a security over land should be granted by WDL to WLC to a specified value.

### Risk Mitigation Package

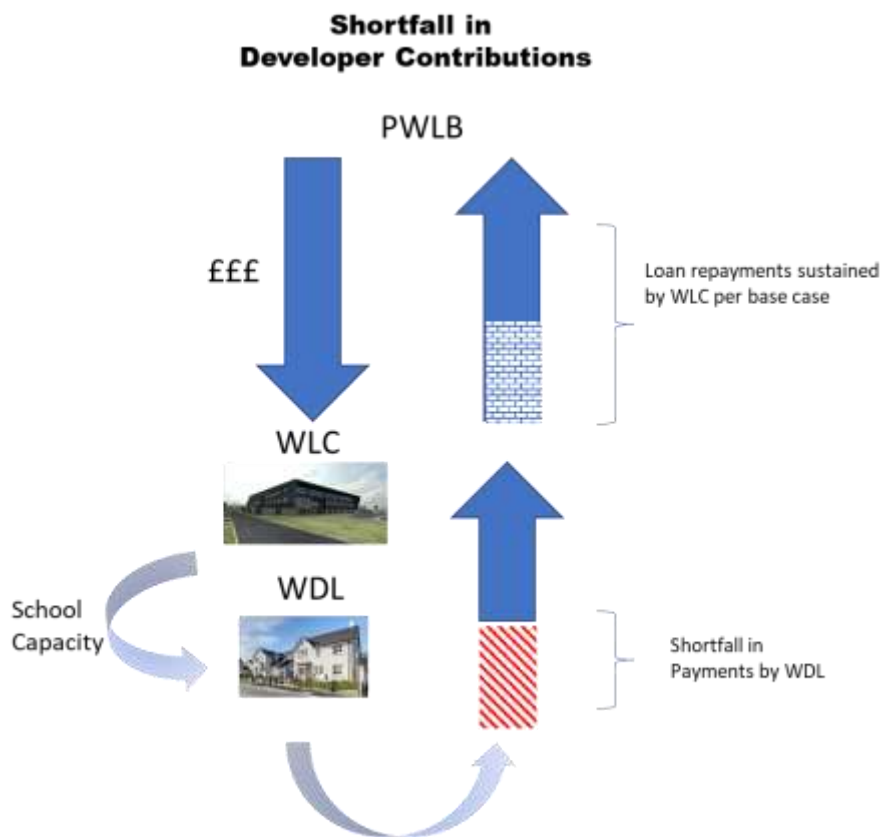
- 2.3 As highlighted in Section 1 of the business case, WLC, WDL and SG are all taking on different elements of risk to address the education constraint affecting development in West Lothian and specifically Winchburgh. The risks are distributed in the following way.
- 2.4 West Lothian Council is undertaking to borrow around £37.5m to address the need for denominational and non-denominational secondary education at Winchburgh. The provision of school places at Winchburgh will have a beneficial effect on education provision in north West Lothian and unlock 15,000 homes for development across the local authority area. WLC is using its balance sheet to raise finance and forward fund both schools.
- 2.5 WDL will repay WLC once it has sold land to housebuilders which will trigger **developer contributions** as each new home is occupied. These contributions will cover the capital cost of the school and WLC's borrowing costs based on an assumed minimum level of house sales per year. This is currently projected to be 150 units per year. See Figure 1 for an illustration of this base case. No allowance has been made for any facility fees, interest, State Aid costs or any costs in the calculation of the developer contributions set out in this Business Case.

**Figure 1: Winchburgh PWLB Repayment – Base Case**



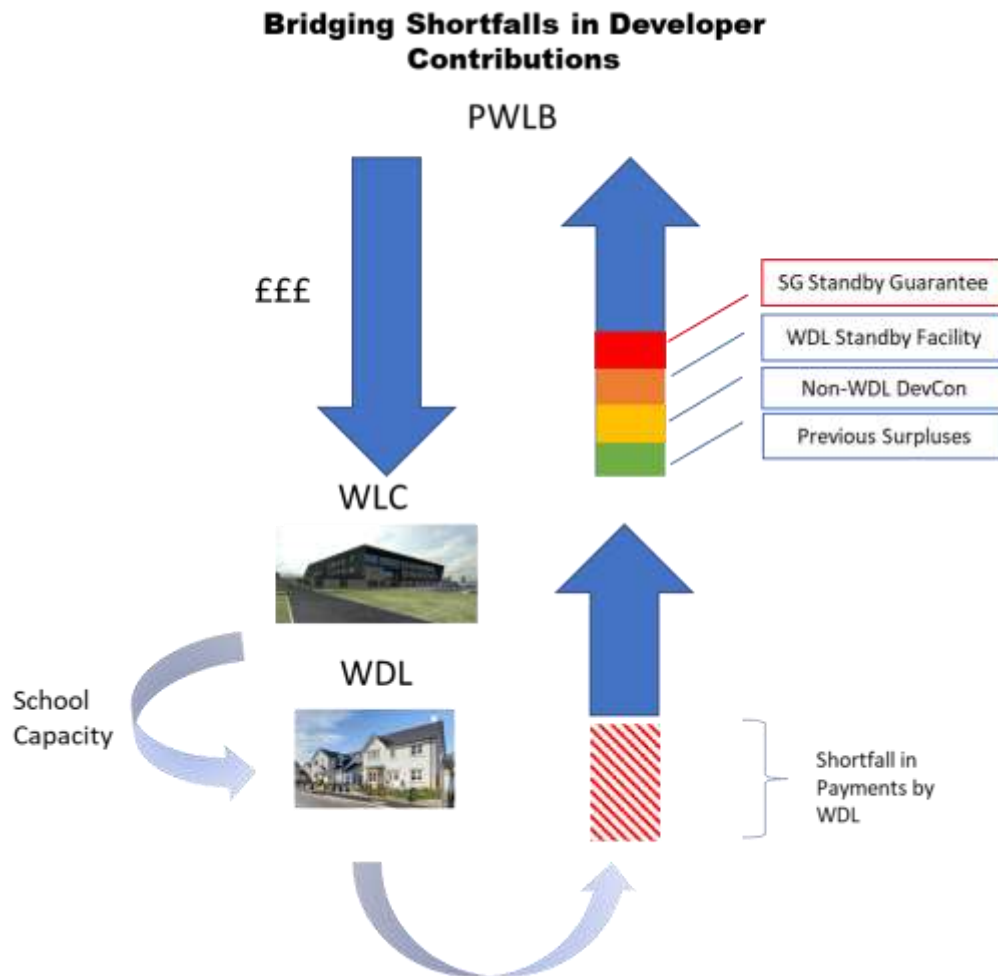
- 2.6 Were completion rates to fall below this level and a shortfall in developer contributions from WDL were to emerge, WLC would still be obliged to pay interest and principal payments to the PWLB, with resulting impact on the Council's revenue and capital budgets. The debt service costs to the PWLB would continue despite the lack of adequate developer contributions from WDL, and without mitigation would result in the Council being impacted (see Figure 2).

**Figure 2: Shortfall in Developer Contributions**



- 2.7 To address this shortfall, WLC will first seek to utilise any **surplus developer contributions** from years in which more than 150 units per annum were built at Winchburgh to make up any shortfall. West Lothian Council will also be collecting developer contributions from sites not controlled by WDL that will benefit from the provision of the school at Winchburgh within and outwith the CDA over the development period. These developer contributions can also be used to bridge any gaps in payments from WDL and ensure WLC's repayment of the PWLB loan is fully compensated for.
- 2.8 If there are insufficient developer contributions from WDL or elsewhere to cover WLC's in year capital and financing costs, **WDL is providing a revolving facility** to the value of £850,000 providing coverage for over one year's worth of PWLB borrowing. After developer contributions, WDL will be called on to assist in bridging any remaining shortfalls via this facility.
- 2.9 It is only in the eventuality that a shortfall in payments to West Lothian Council persist after both developer contributions and the WDL facility are drawn upon that there will be a call on the facility sought from the **Scottish Government**. The WDL facility would have to be exhausted before WLC can draw on the SG facility.
- 2.10 Figure 3 below shows how the SG facility works within the risk mitigation package assembled by WLC, WDL and the SG.

**Figure 3: Bridging Shortfalls in Developer Contributions**



#### **Conditions for Calling on the SG Facility**

2.11 As noted above, certain conditions must be in place before the SG facility can be called upon by WLC. To call on the facility, there must still be a developer contribution shortfall after the following are exhausted:

- i. in year developer contributions from WDL;
- ii. any amounts standing to the credit of the Winchburgh developer contribution account (generated where more than the baseline number of homes are occupied in a year at Winchburgh);
- iii. additional in year developer contributions from other developments within the CDA or from sites that benefit directly from education capacity being created at Winchburgh; and
- iv. drawdowns from the facility provided by WDL.

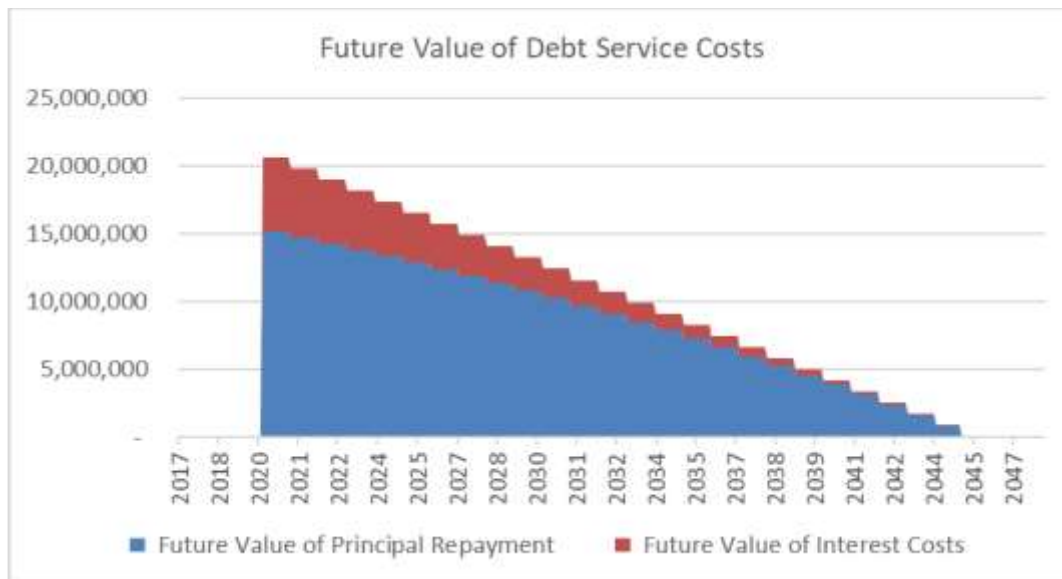


- 2.12 If a shortfall remains outstanding at the relevant financial year end, a call may be made by WLC on the SG facility. Any call on the SG facility will be repaid when surpluses are generated in future years. The critical assumption here is that, in the long run, 3,650 units will eventually be built out in the CDA, and hence the total amount of developer contributions will be captured in the long term. The presence of a brand new, 660 capacity school gives the council strong confidence that developers and housebuilders will continue to be attracted to the CDA, even in the worst case scenario where the current development by WDL was to fail.
- 2.13 These conditions demonstrate that WLC will only use the SG facility if all other avenues have been explored and exhausted.

#### **Limits Placed on SG Facility**

- 2.14 The facility will commence at the point at which WLC borrows monies to finance the construction of the school or enters into a binding contract for the construction of the schools whichever is later. From that point the facility will be available for drawdown.
- 2.15 The facility will last until the earlier of:
- i. the cancellation of the facility by WLC;
  - ii. the value of the Land Security package (discussed later) exceeds the remaining unfunded debt service costs by 125% and the security is transferred to the council;  
or
  - iii. expiry of the borrowing term (25 years).
- 2.16 The facility may be closed while there are outstanding repayments to be made to it from earlier drawdowns. The facility itself does not need to be in place while SG is being repaid, provided one of the conditions in paragraph 2.15 are met. Closure of the facility to future drawdowns would not trigger the repayment of the balance against the facility.
- 2.17 In discussions SG has indicated that there will be limit to the Scottish Government's cumulative exposure to Winchburgh of £15m. A land security package with a value of £8m will be secured to the SG and will, therefore, cover the SG's exposure rather than the council's. In other words the £8m security is part of the SG's package mitigation package rather than in addition to it. Within the £15m SG Facility the maximum draw down in any one year will be the value of the principal and interest that WLC will owe the PWLB. This is currently valued at £825,000 per annum. Any facility fees, interest on the facility and State Aid provisions are excluded from the value of the facility and will be dealt with through separate negotiation between SG and WDL.
- 2.18 In addition, it should be noted that the cumulative exposure will reduce each year as the principal and interest are paid off (see Figure 4).

**Figure 4: Future Value of Debt Service Costs**, showing the burden of total future payments of interest and principal payments, diminishing as the project progresses and payments are made, and demonstrating the initial burden of £20.6m including both interest and principal.



### Monitoring Shortfalls and Surpluses

- 2.19 The council has existing robust arrangements in place to track developer obligations, issue invoices and track payment of contributions. Monitoring of the obligations due at Winchburgh would be managed via these existing arrangements.
- 2.20 An invoice for the payment of the agreed developer contribution for the base case number of homes will be issued at a fixed time each year.
- 2.21 An annual audit of housing occupations at Winchburgh will be carried out at the end of each financial year. Where that audit demonstrates more than 150 occupations per annum, an invoice for the contributions beyond 150 homes will be raised. Upon payment of that invoice the funding will be either a) held in a specific developer contributions cost code where the developer contributions received for that year exceed the modelled income (described elsewhere as a sweep account) and used to meet any future deficit or b) used to repay any monies drawn down from the SG Stand-by Facility and/or the WDL Stand-by Facility to cover shortfalls in previous years. The exact mechanism for doing so will be set out in the tripartite legal agreement.
- 2.22 Where it becomes clear part way through the financial year that more than 150 units have been completed, WLC will retain the right to issue an interim invoice and a final invoice at the end of the year. The council will not issue interim invoices for less than 20 houses i.e. until 170 houses have been completed in any one year, but will invoice for all houses beyond the 150 assumed in the model at the end of each financial year.

### **Land Security: Scottish Government**

- 2.23 Prior to the commencement of the SG facility, it has been agreed through the tripartite discussions with SG and WDL that a WDL group entity will grant first ranking security rights over land to SG.
- 2.24 The initial Land Security will be the subject of an independent valuation and have a value of not less than £8m. The Scottish Government may, subject to the terms of the SG Stand-by Facility and the tripartite legal agreement, at its sole discretion exercise the security and/or liquidate the security in whole or in part to repay calls already made under the SG Stand-by Facility.
- 2.25 WDL has also been granted substitution rights in order that an alternative site to an agreed value be secured if the initial site is required for development further on in the development process. Any substituted land will have to be confirmed by SG. Any substituted land will require to benefit from planning consent for a residential use and be demonstrated through site investigations to be serviceable and capable of development for residential use without excessive remediation costs.
- 2.26 The land security further reduces the time that the SG facility needs to be available. At a point in the development process, the debt service costs arising from the PWLB loan will be less than the value of the land security. The financial model developed by SFT to support this business case indicated that this crossover will take place at approximately 2035, 15 years into the development. Beyond this point, and if there is no outstanding balance owed to the SG Facility, the SG Facility no longer needs to be provided.
- 2.27 At this point, by agreement, the security could be transferred to WLC to cover the remaining outstanding risk associated with the project.

### **Land Security: West Lothian Council**

- 2.28 In addition to the above, prior to the commencement of the SG facility, it has been agreed that a WDL group entity will also grant first ranking security rights over a separate piece of land to WLC. This Land Security will be the subject of an independent valuation and have a value of not less than £3.75m.
- 2.29 The purpose of this land security is to ensure full cover for WLC's borrowing at the date that borrowing is undertaken. It is envisaged that, as developer contributions are paid, and WLC's level of debt exposure reduces, the value of the security would reduce at a rate to be agreed with WDL. After the payment of developer contributions to the value of £3.75m have been made, this security would be released.
- 2.30 While this security is in place (either in whole or in part) WLC may as an alternative to calling upon the SG facility, West Lothian Council may, subject to the terms of the tripartite legal agreement, at its sole discretion exercise this security and/or liquidate the security in whole or in part to cover an element of the debt service charges. The security will be set up to allow partial liquidation to cover in-year costs to ensure that no deficit remains beyond the end of a given financial year.

- 2.31 WLC's security will only be in place in the initial years of the development. At the point that the security is released the remaining facilities will provide full coverage for the debt service costs. Giving WLC the opportunity to enforce its own land security reduces the risk, in the short term, of the Scottish Government having to use its security to repay the facility.

**Figure 5: Risk Profile vs Security Package**, Showing the risk to the Council at each point in the project (note diminution as developer income arises and repayments to the PWLB are made) against the land security offered by WDL to the Council and the Scottish Government.



### Repayment of SG Facility and WDL Facility

- 2.32 If a call has been made on the WDL Facility or the SG Facility, subsequent surplus in year developer contributions will be used to repay any drawn down facility. The SG Facility will be repaid in priority to the WDL Facility.
- 2.33 Only once these facilities have been repaid will WLC be able to accumulate developer contributions again. Until these are repaid and surplus developer conditions are generated over and above these repayments, WLC will continue to use the appropriate facility to meet any shortfalls in contributions to meet debt service costs.

### Conclusions

- 2.34 WLC is of the view that the proposal set out above delivers on the key principles that have guided the design of the SG facility.
- Critically, the proposal comprises a package of measures that ensures risk is shared proportionately between WLC, SG and WDL.

- The SG facility will only be used if the other mechanisms put in place do not address the shortfall. For this to happen, a shortfall equivalent to one years' worth of developer contribution payments would have to accrue.
- The maximum shortfall that the SG Stand-by Facility will be required to address in a given year is £825,000.
- Any monies paid to SG to address a shortfall will be repaid by WLC following receipt of developer contributions which would ordinarily have contributed to the repayment of the debt.
- SG will be granted a security over land to the value of £8m.
- WLC will be granted a security over land to the value of £3.75m.

### **3. THE CASE FOR CHANGE**

- 3.1 The education strategy set out in the West Lothian Local Plan, carried forward to the emerging West Lothian Local Development Plan, requires a new non-denominational secondary school and a new denominational secondary school at Winchburgh in the short term and, in the longer term, a new non-denominational secondary school at East Calder. While the secondary school at East Calder is not a short-term requirement, there is an urgent need to address the education constraint at Winchburgh.
- 3.2 CALA Land Investments Ltd was granted planning permission in principle for a 352ha development with an approved masterplan at Winchburgh in April 2012. Within the planning consent, there is a condition stating that no residential units beyond the 550<sup>th</sup> should be occupied until there is sufficient education provision to serve that phase of residential units (planning reference 1012/P/05).
- 3.3 To date around 400 house completions have been achieved at Winchburgh. Five developers, namely Barratt, Bellway, Miller Homes, Taylor Wimpey and Stewart Milne, have all bought land from WDL and delivered a range of house types on the site.
- 3.4 The site is now nearing the cap of 550 units before a non-denominational secondary school is required by the terms of its planning consent. As per the approved development plan, the site has capacity for 3,450 homes in total although the capacity will be increased by a further 189 units within land in WDL's control on adoption of the West Lothian Local Development Plan in May 2018.
- 3.5 The CDA at Winchburgh is located within the catchment areas for Linlithgow Academy (non-denominational secondary) and St Margaret's Academy (denominational secondary). The secondary school pupils generated by the first 550 homes generally attend these schools. However, both of these schools are projected to be at capacity in the near future. The lead developer has already funded improvements at Linlithgow Academy to increase the capacity to 1,320 pupils and it was through this investment that the first 550 houses could be supported by WLC.
- 3.6 An education review facility is built into the planning consent for the 3,450 houses at Winchburgh. This allows the limit of 550 occupations to be increased if additional capacity is available at Linlithgow Academy. However, current projections show that it won't be possible for the school to accommodate more than the initial 550 homes from Winchburgh in the absence of intermediate arrangements being implemented tied to full funding commitments for the school.
- 3.7 There are no other financially viable options for further increasing capacity at Linlithgow Academy. As a result, WDL is unable to progress further land sales at Winchburgh and WLC is unable to support further applications for residential use, until additional capacity has been provided within Winchburgh and the education constraint has been removed to the council's satisfaction.

- 3.8 There is also no further capacity to be made available within denominational schools in the catchment area. There are two denominational secondary schools in West Lothian – St Margaret’s in Livingston and St Kentigern’s at Blackburn. Both schools have been extended in the last ten years to increase capacity, but both are again projected to be over capacity in the near future. This can be managed to some extent by restricting entry of non-baptised Roman Catholic pupils, but this has a consequential knock on impact on the catchment non-denominational schools.
- 3.9 Consequently, WLC is unable to support windfall housing developments anywhere in West Lothian because of the impact they would have on the denominational secondary schools.
- 3.10 There are also several constrained housing sites within the catchment areas of Linlithgow Academy and Broxburn Academy which cannot be brought forward until new non-denominational secondary capacity is available at Winchburgh.
- 3.11 The shortage of education capacity at Winchburgh is, therefore, a significant constraint on development across north West Lothian specifically but more generally across the whole of West Lothian.
- 3.12 Furthermore, the lack of an education solution at Winchburgh is having other negative impacts on the development strategy within West Lothian.
- 3.13 The council has always promoted appropriate growth and promotes West Lothian as being open for business. However, despite land for over 20,000 houses being identified in West Lothian and over 13,000 of those houses already benefiting from planning consent, WLC continues to be criticised through the planning appeals process for not maintaining an effective five-year land supply.
- 3.14 In some cases, this is resulting in sites which are not compliant with the development plan and which are not supported by local communities being granted planning permission on appeal to the Directorate of Environmental and Planning Appeals.
- 3.15 The most recent example of this is a site for 280 houses at Wellhead Farm in Livingston (appeal ref PPA-400-2071). In his findings, which WLC does not accept, the Reporter finds that there is a shortfall in the five-year land supply of over 2,000 houses. In reaching his conclusion the Reporter is critical of the inclusion of a significant housing supply at Winchburgh and states in relation to inclusion of these sites that “The evidence did not indicate any agreement has been reached as to the removal of constraints” and that as a consequence “I [the reporter] do not consider the increase in delivery at Winchburgh ... is credible.”
- 3.16 The consequence of this, and the Reporter’s other findings, is that planning consent for a site which is not supported in the development plan has now been granted. If this situation is to be avoided in the future it is essential that infrastructure constraints at Winchburgh are removed.
- 3.17 The following are WLC’s objectives in relation to the Winchburgh CDA:

- a) Deliver on the objectives of the South-East Scotland City Deal as they relate to Winchburgh.
  - b) Remove barriers to the development of homes at Winchburgh and allow it to be built out to the capacity as indicated within the adopted Local Plan and proposed Local Development Plan.
  - c) Provide a means to remove in phases those development constraints impacting on other areas across West Lothian due to lack of education capacity.
  - d) Facilitate the delivery of affordable housing, comprising 25% of the total number of units to be built at Winchburgh.
  - e) Allow the wider programme of infrastructure delivery to begin. This will only be possible if WDL is successful in its application to the Scottish Government's Housing Infrastructure Fund. This investment will deliver sustainable transport solutions for the Winchburgh development.
  - f) Realise the economic benefits of development at Winchburgh.
- 3.18 WLC is unable to realise these objectives unless a means of forward funding the school at Winchburgh is agreed. WLC is prepared to borrow in order to forward fund the school if the proposal for a package of risk sharing measures, including the SG facility as described in Section 2, is put in place.



#### 4. STRATEGIC CASE FOR A SCOTTISH GOVERNMENT STAND-BY FACILITY AT WINCHBURGH

- 4.1 There is a strong strategic case for the SG facility to be put in place to support ongoing development in the Winchburgh CDA. The provision of such a facility to enable the delivery of education infrastructure, which will in turn unlock significant levels of development in West Lothian, is in accordance with national and local strategic priorities.

##### Scotland's Economic Strategy & National Planning Framework

- 4.2 The planning system has a significant role to play in achieving the SG's economic aspirations, as set out within Scotland's Economic Strategy. The National Planning Framework (NPF3) is the spatial expression of that economic strategy. It highlights that the planning system in Scotland has a key role in achieving the following outcomes:

- A successful **sustainable place** – supporting **economic growth, regeneration** and the creation of **well-designed** places.
- **A low carbon place** – reducing carbon emissions and adapting to climate change
- **A natural resilient place** - helping to protect and enhance our natural cultural assets and facilitating their sustainable use
- **A connected place** – supporting better transport and digital connectivity

- 4.3 At paragraph 2.19, NPF3 addresses infrastructure constraints. It states that where infrastructure constraints are limiting the delivery of new housing, the SG expects:

*“to see more concerted efforts - involving planning authorities, developers, government agencies and infrastructure providers - to remove these constraints. Solutions could include new infrastructure provision in some cases, but more viable and sustainable options are likely to make best use of existing infrastructure and service capacity. Strategic thinking, partnership working and innovation will be required to unlock funding for capacity enhancement”*

- 4.4 The South East Scotland City Region (in which West Lothian is located) is covered by the SESPlan Strategic Development Planning Authority (SDPA). In considering the role of Edinburgh and the South East, the NPF notes that the SESPlan area is projected to have the second largest rate of growth of the four SDPAs - a 20% increase in population and 32% increase in households between 2010 and 2035. NPF3 calls for a planned approach to ensure development needs in this area are met, whilst taking into account existing and future infrastructure capacity.
- 4.5 Achieving completion of the whole CDA at Winchburgh will make a significant contribution to meeting the key outcomes from NPF3 as well as responding to its objectives in relation to unlocking infrastructure constraints and delivering housing in growth areas.

- 4.6 Winchburgh is a sustainable place close to main centres of population and with sustainable public transport links to these centres. The development will provide prime economic development land in a sustainable location that will have direct motorway access but also close to Edinburgh Airport and the seaports at Rosyth and Grangemouth. The development also comprises the remediation of a former landfill site and supports the removal of local bings, material from which is used in construction in the area and, more significantly will ultimately create a new development platform once all material is removed.
- 4.7 Specific benefits in terms of investment and job creation which can be gained through the removal of the Education constraint at Winchburgh is set in Section 6.

### **SESPlan & SESplan 2**

- 4.8 The approved Strategic Development Plan that encompasses West Lothian is SESPlan. The aims of SESplan, relevant to this business case, are:
- Enable growth in the economy by developing key economic sectors, acting as the national hub for development and supporting local and rural development.
  - Set out a strategy to enable delivery of housing requirements to support growth and meet housing need and demand in the most sustainable locations.

- 4.9 Its Spatial Strategy:

*“builds on existing committed development, focusing further development along preferred corridors, optimising connectivity and access to services and jobs...New development will complement and not undermine the delivery of existing committed development...It identifies priority strategic improvements to transport and other infrastructure which are required to support existing and future development.”*

- 4.10 For West Lothian, SESplan states that the emphasis is on the implementation of existing committed developments for which the completion of new transport and other infrastructure is required. Winchburgh, having been allocated in 2009 within the adopted local plan, is one such committed development prioritised for implementation through the delivery of necessary infrastructure. Figure 2 of SESplan highlights the need for secondary and primary education infrastructure in addition to the Winchburgh Rail Station and Winchburgh M9 Junction.

### **Adopted Local Plan (2009) / Proposed Local Development Plan (2015)**

- 4.11 The adopted West Lothian Local Plan (WLLP) and West Lothian Local Development Plan (WLLDP) which is currently being advertised for Adoption are two of West Lothian Council's main policy documents that aim to guide development in the local authority up to 2024 and beyond. They set out clear land use planning policies and proposals that provide a basis for planning decisions in West Lothian and a stable framework for investment in West Lothian. They aim to generate economic growth and improve quality of life for local residents and communities, improving sustainability in West Lothian and reducing social inequality. Both plans are relevant here as the WLLP allocated Winchburgh Core Development Area (CDA), while the proposed WLLDP updates policies and approaches relevant to Winchburgh.

- 4.12 The WLLP identifies land capable of delivering over 20,000 houses. A significant proportion of this land is allocated within three Core Development Areas (CDAs) at Winchburgh/Broxburn (5,500 houses), East and West Calder (5,000 houses) and Armadale (2,000). Development of many of the sites, including sites in all CDAs is underway but, in many cases, progressing the sites to their full capacity is constrained by the availability of infrastructure, particularly education infrastructure. All of the CDAs have limits on the number of occupations which can be achieved before additional secondary school infrastructure is committed. Similarly, a number of the sites outwith the CDAs are constrained by the availability of denominational secondary school places.
- 4.13 Therefore, the development strategy outlined within the WLLDP and carried forward in the LDP is unable to be fully realised due to the need for investment in education infrastructure. The delivery of a new non-denominational secondary school at Winchburgh is required within the next five years to allow development to continue. Other CDAs have a less urgent education constraints.

### **City Region Deal**

- 4.14 The Edinburgh and South East Scotland City Region comprises the six local authorities of City of Edinburgh, Fife, East Lothian, Midlothian, Scottish Borders and West Lothian. In July 2017, the Scottish and UK Governments signed the Heads of Terms for a city deal for the region. This deal aims to:
- Build on the region's strengths such as its high growth sectors, world class universities and Edinburgh's culture offer.
  - Address key economic barriers with significant new investment in housing and transport
  - Address issues that constrain the region's economic potential and which match the strategic priorities for growth as outlined in the SG's Economic Strategy and the UK Government's emerging Industrial Strategy.
- 4.15 Both Governments are committed to jointly investing up to £600m over the next 15 years in the city region, subject to approval of final business cases for all projects and programmes; development of a final city deal document and implementation plan; establishment of clear and robust governance arrangements; and the consent of all constituent local authorities and partners.
- 4.16 The city deal recognises the housing pressures across the region and the need to provide suitable housing to support sustainable economic growth. The city deal proposes a joint approach between local partners and the Scottish Government that will support the delivery of significant numbers of new homes across the region, including unlocking sever strategic sites, one of which is Winchburgh in West Lothian. One of the key commitments within the Heads of Terms is:

*"Guarantee on a risk sharing basis alongside West Lothian Council, up to £150m of infrastructure investment that will unlock up to 5,000 new homes in Winchburgh, West Lothian."*

- 4.17 As recognised within the Edinburgh and South-East Scotland City Region Deal, enabling development at Winchburgh through the provision of infrastructure investment will have significant and positive impact on the city region's economy. The delivery of this enabling infrastructure can be realised through the use of a guarantee on a risk sharing basis alongside West Lothian Council.
- 4.18 The details of how this risk sharing approach will operate is set out in greater detail within this Business Plan.

#### **Other Relevant Policies**

- 4.19 Ensuring continuing growth at Winchburgh will make a positive contribution towards increasing growth and tackling inequality within Scotland, which is at the heart of the Government Economic Strategy of 2015. This is supported by WLC's assessment of the economic impact of the development in Section 5.
- 4.20 WLC will also benefit from the skills and innovation aspects of the city deal. The council is focused on ensuring that the outcome is not just another school and another industrial estate, but rather a skills and innovation campus which links the school to the wider economic activities in the core development area.
- 4.21 The council is working on plans for a skills and innovation hub as part of the school campus focusing on developing the skills which will be necessary to ensure the economic benefits of the investment at Winchburgh are maximised over the build period of the development and beyond.
- 4.22 In unlocking at least 860 affordable homes in the CDA over the next 20 years, the development is also helping SG realise its target for new affordable housing development in Scotland. Under the More Homes Scotland approach, this target is currently 50,000 new affordable homes by March 2021.

## 6. ECONOMIC, FINANCIAL AND COMMERCIAL CASE FOR EDUCATION GUARANTEE AT WINCHBURGH

### Funding Gap

- 6.1 Using metrics from Scotland's Schools for the Future Programme, it is estimated that providing a new 660 capacity non-denominational secondary school at Winchburgh will cost £23.18m.
- 6.2 The table below sets out the total delivery cost of the school and illustrates the scale of the funding gap that exists by deducting from this total cost the developer contributions that have been or will be paid prior to expenditure on the school project. The table also shows the impact of deducting the cost of that element of the school to be funded by capital contributions from WLC as it will cater for existing pupils of Winchburgh Primary School.

**Table 1: Funding Gap – Non-denominational Secondary School at Winchburgh (Estimated Figures and Rounded)**

	First Phase 660 capacity (£)
Capital cost of project including inflation	23,180,000
Developer contributions banked	-4,000,000
Capital contributions from West Lothian Council	-4,000,000
<b>Funding Gap</b>	<b>15,180,000</b>
+ Borrowing costs over 25 years (@2.51%)	5,441,000
<b>Funding Gap + Debt Service Costs</b>	<b>20,621,000</b>

- 6.3 The total funding gap between the sums that have already been collected or committed and what is required if school is to be delivered is **£20.6m**.
- 6.4 WLC has appraised a series of options for meeting this funding gap in order to achieve the delivery of a non-Denominational Secondary School in Winchburgh. These options are set out below.

**Table 2: Option Appraisal**

<b>Option 1: Do nothing</b>	<p>WLC continues to rely on WDL to fund the delivery of their proportion of the School upfront and provide a serviced site for WLC to build the school. This is the strategy contained in the West Lothian Development Plan and the Section 75 Agreement signed by the WDL when granted planning consent for the development of Winchburgh.</p> <p><b>This option has been dismissed.</b></p> <p>WLC is satisfied following extended discussions with WDL that this this approach would fail to deliver a school.</p> <p>Development at Winchburgh would stall with just 550 homes delivered as WDL would not be able to continue to sell land and generate new homes.</p> <p>Development would continue to be constrained across north West Lothian, with the lack of non-denominational school capacity impacting Linlithgow and Broxburn and any windfall developments across West Lothian.</p> <p>Economic benefits to West Lothian and City Region of housing growth would fail to be realised in terms of capital investment and jobs growth.</p>
<b>Option 2: West Lothian Council to Forward Fund Non-Denominational and Denominational School with no Guarantee</b>	<p>WLC borrows from the Public Works Loan Board (PWLB) to deliver the non-denominational Secondary School at Winchburgh and fully forward fund it, relying on developer contributions for repayment with no guarantee in place from the SG. The total borrowing required to deliver the first phase of education infrastructure at Winchburgh (i.e. denominational and non-denominational secondary schools) is estimated at £37.5m. As above, the borrowing required to deliver the non-denominational Secondary School is £20.6m.</p> <p><b>This option has been dismissed.</b></p> <p>This investment will be the single biggest capital project ever undertaken by WLC it is highly significant in that respect. Exclusive reliance on developer contributions to repay this level of borrowing is also unprecedented and the risk to the council alone would be too great for the project to progress without guarantees on debt repayment.</p> <p>WLC has determined that it will not borrow to fund the non-denominational secondary school without a risk sharing approach being taken.</p> <p>This option would, therefore, fail to deliver a school.</p> <p>Development at Winchburgh would stall with just 550 homes delivered as WDL would not be able to continue to sell land and generate new homes.</p>

	<p>Development would continue to be constrained across north West Lothian, with the lack of non-denominational school capacity impacting Linlithgow and Broxburn and windfall developments across West Lothian.</p> <p>Economic benefits to West Lothian and City Region of housing growth would fail to be realised in terms of capital investment and jobs growth.</p>
<p><b>Option 3: Implement Risk Sharing Package based on City Deal HOT re Winchburgh to support financing of school.</b></p>	<p>The SG agreed within the Heads of Terms of the South East Scotland City Deal to offer WLC a:</p> <p><i>“Guarantee on a risk sharing basis alongside West Lothian Council, up to £150m of infrastructure investment that will unlock up to 5,000 new homes in Winchburgh, West Lothian.”</i></p> <p>This guarantee of infrastructure investment could be used to support WLC’s borrowing to deliver the School at Winchburgh.</p> <p>WLC will risk share in the project with both SG and WDL by forward funding a denominational school at Winchburgh in parallel with non-denominational school development.</p> <p><b>This option has been taken forward through tripartite discussions with SG and WDL.</b></p> <p>Borrowing to close the funding gap for the school that is supported by the SG will result in the delivery of a school at Winchburgh.</p>

- 6.5 Based on the above, Option 3 is the only option that will allow WLC to realise the delivery of a non-denominational secondary school at Winchburgh. Therefore, it is the preferred option.

#### **Benefits of Preferred Option - Risk Sharing Package Based on City Deal Heads of Terms**

- 6.6 It is WLC’s view that each of the parties that will be sharing risk in delivering education infrastructure at Winchburgh will benefit in different ways. The benefits to the Scottish Government to sharing risk in delivering a school at Winchburgh in this manner are:
- Removing barriers to the development of homes at Winchburgh and allowing it to be built out to the capacity as supported within the adopted Local Plan and proposed Local Development Plan for West Lothian. WDL has stated a desire to swiftly move into the next phase of development at Winchburgh, which will comprise 1,000 homes being built. This will contribute to realising the objectives of the South-East Scotland City Deal as well as strategic objectives within the National Planning Framework and Scottish Planning Policy in relation to enabling the delivery of housing in Scotland.

- b. The development of at least 860 affordable homes will be enabled at Winchburgh. Many of these will contribute to achieving the target of delivering 50,000 new affordable homes by March 2021.
- c. A new school at Winchburgh will provide a means to remove in phases those development constraints that are impacting on other areas across West Lothian due to lack of education capacity. The total number of homes that can be delivered with the release of this education constraint at Winchburgh is 15,000. This will result in further housing delivery.
- d. In supporting the delivery of education infrastructure at Winchburgh, the SG will realise economic benefits in relation to West Lothian and City Region in terms of capital investment and jobs growth. These have been quantified later in this section.
- e. The removal of the cap on development due to the lack of education provision will also allow the wider programme of infrastructure delivery to begin, which WDL aims to partly fund via SG's Housing Infrastructure Fund. This in turn would allow the delivery of sustainable transport solutions through a new railway station and the creation of 35 acres of prime economic development land with direct access to the M9 motorway and in close proximity to Edinburgh Airport and the Forth crossings. Further economic benefits will accrue from this for both West Lothian and the wider Scottish economy.
- f. This will be achieved without the SG being asked or required to directly fill the £15m funding gap. Rather, SG will be required make provision for a potential call on the facility. The maximum call that could be made on the facility in any one year is £825,000. Through discussions with WLC, WDL and SG, WLC is of the view that the risk of a call being made on the SG facility has been minimised effectively. Sensitivity testing carried out as part of the financial modelling for SG facility is appended to this business case (Appendix 2). This shows that in order for the SG Facility to be called on, a very sharp and prolonged slowdown in development output would be required.
- g. A full risk register is provided later in the Business Case. However, at this stage it should be noted that:
  - Demand to build on the site is reported to be strong with numerous housebuilders keen to resume or start on the site at scale.
  - At the point at which WLC will contract for the construction of the school (2020), WDL will have had 2 years to undertake land sales to housebuilders. There will be a clear look forward for several years from 2020 in terms of housing output and delivery. This provides a significant level of comfort to WLC that the council will not be contracting on a school before there is certainty regarding the demand for housing at Winchburgh. It will also provide comfort to SG that at the point at which WLC will commit to the school, developers will have committed to the site.



- While the housing market is likely to fluctuate over the proposed 20 year build out period of this strategic development, there is a baseline level of demand for housing that has been sustained in West Lothian, even at the bottom of the credit crunch related recession from 2009. Housebuilding slowed in West Lothian during that period, however homes were still built even at that lowest point. With the right enabling infrastructure and an agreement in place with WDL regarding appropriate developer contributions in place, WLC expects demand for Winchburgh to be sustained across those inevitable market fluctuations.
- 6.7 As outlined in Section 2, WDL are also sharing in the risk by providing an additional facility that must be called upon and exhausted prior to any call on the SG facility. The benefits to WDL are clear in that any agreement to fund the school in this way allows them to progress with the development in a way that does not jeopardise their cashflow and ensures continued development viability. This will allow WDL to resume land sales to developers and progress the realisation of the development.
- 6.8 WLC also benefit from this risk sharing package. In addition to borrowing to deliver a denominational secondary school at Winchburgh, WLC is borrowing to fill the funding gap and assure the delivery of the non-denominational school. It is also making its own capital contribution to the development to create capacity for the pupils that will attend the new school who are currently pupils at Winchburgh Primary School (£4m). The benefits that will accrue to WLC are similar to those that will benefit SG. As established earlier in this business case, there is a strong strategic case for the delivery of the school at Winchburgh as well as economic benefits as outlined below.

### **Direct and Indirect Economic Impact of Development**

- 6.9 Significant direct and indirect economic benefits will be generated should the risk sharing package supporting the funding of the school at Winchburgh go ahead.
- 6.10 The total capital investment required of WDL to provide infrastructure at Winchburgh and make the site development ready is £145m, according to the latest cashflows provided to WLC and to SG as part of the Housing Infrastructure Loan application. This sum will be invested across the 20 year build out period for Winchburgh as sites continue to be serviced for development.
- 6.11 A further capital investment of around £260m will be generated by housebuilder activity over the 20 year build out period in order to deliver the 3,450 homes allocated at Winchburgh. This equates to an annual investment of over £17m to deliver at least 150 homes per annum.
- 6.12 In addition, to achieve full build out of the masterplan two primary and two secondary schools are to be built at Winchburgh. These will both generate capital investment during the construction period and will sustain employment on an on-going basis as well.
- 6.13 WLC has calculated the average number of jobs that will be directly sustained every year by the build out of Winchburgh. To do so we have used the multipliers below.

**Table 3: Employment Effects: Construction Multipliers Deflated to 2013 prices (March 2017 Deflators) – Scottish Futures Trust**

Financial Year	Jobs supported per £1m construction spend.
2013-14	13.80
2014-15	13.60
2015-16	13.50
2016-17	13.31
<b>2017-18</b>	<b>13.30</b>

6.14 The employment impacts are as follows:

**Table 4: Employment Impacts, Capital Investment at Winchburgh**

Investment	Value (m)	Multiplier (2017-18)	Development Period	Annual Employment Impact (FTE)
Infrastructure Works	£145	13.30	2017-2037	96.4
Housebuilding	£257.4	13.30	2017-2037	171
Secondary Schools	£52	13.30	2020-2022	345
Primary School	£16	13.30	2020-2022	106
<b>Total CapInvest</b>	<b>£470m</b>			
<b>Peak Employment</b>				<b>718.4 jobs</b>

6.15 At its peak level of investment, when school and housing construction are happening concurrently, **718.4 FTE jobs will be supported at Winchburgh in a single year**. After this peak, **267 FTE jobs will be sustained** at Winchburgh by construction activity until 2037.

6.16 Beyond jobs created through capital investment, hundreds of jobs will be created by uses within the site. West Lothian Council has calculated that the secondary and primary schools that will be built on the site will provide **145 jobs once operational**.

6.17 In addition, Winchburgh will create a range of commercial and employment space, which will also sustain employment beyond the build out period of the development. A summary of employment supporting space to be provided at Winchburgh. These are derived from the latest drawings produced by WDL. **These drawings do not form part of the approved development. Therefore, these employment figures should be assumed to be provisional.**

**Table 5: Employment Space & Job Density**

Location	Type of Space	SQM (Gross Internal Area) (*75% occupancy)	SQM (Net Internal Area)	Job Density <sup>1</sup>	Gross Direct Jobs Impact
Employment Land Plots – U, V & W	Hotel		50 bedrooms	1 fte job per 2 bedrooms	25
	Office Pavilions	22,162 *	17,730	1 job/12sqm	1,475
	Industrial	36,000 *	36,000	1 job / 50sqm	720
	Office (multi occupancy)	22,162 *	17,730	1 job/10sqm	1,773
	Pub/restaurant		270	1 job / 18sqm	15
	Restaurant		500	1 job / 18sqm	27
	Non-food retail		1400	1 job / 19sqm	73
Village Centre	Food Retail	5,320	3,990	1 job / 17 sqm	235
	Non-Food Retail	4,704	3,763	1 job / 19sqm	198
	Office	6,600	5610	1 job/12sqm	467
	Leisure	500	500	1 job / 18sqm	28
	Nursery	500	500	5.8m per child / 8 children per care worker / + mgmt team	13
<b>Total Jobs Sustained</b>	<b>5049</b>				

6.18 Therefore, overlapping with and beyond the construction programme, the proposed WDL development has the potential to sustain 5,194 jobs onsite (145+5049) through the provision of education infrastructure, commercial and employment space within the development.

6.19 WLC believes that these projections illustrates the potential economic impact of this development is a significant benefit that is in addition to those described at paragraph 5.6.

<sup>1</sup> Derived where possible from Employment Densities Guide (2010), Housing & Communities Agency (<https://www.gov.uk/government/publications/employment-densities-guide>)

## Dependencies

- 6.20 The preferred option of WLC forward funding the School with SG supporting that borrowing in the form of an SG facility is subject to a number of dependencies. These are set out below.

**a. Housing Infrastructure Fund (HIF) Application**

WDL have made an application to the SG for a loan from the Housing Infrastructure Fund. This is for £26.5m over 15 years and will assist in funding a range of infrastructure works, that exclude education provision. The works do include a rail station, motorway junction, park & ride facility, landfill remediation, electricity and gas network upgrades and canal and rail crossings. This infrastructure will be delivered from 2018 onwards. This loan is critical to fund non-education related infrastructure.

Discussions with the SG in relation to this loan application are ongoing and have been positive. A decision on the application is due in mid 2018. Even with a guarantee in place, the development will not go ahead unless the HIF application is successful. Similarly, even if the HIF application is successful, without the SG facility in place the money will not be spent as the school will not be provided and the cap on development will not be lifted. Therefore, the SG facility and Housing Infrastructure Fund application are closely tied.

**b. WLC agreement to borrow through PWLB to fund school project**

WLC has agreed in principal to borrow the necessary funding and to put supplementary guidance and any associated legal agreements in place. Final confirmation is required and this will be sought upon confirmation that the necessary guarantees can and will be put in place.

**c. Agreement between WDL & WLC re developer contributions**

A developer contribution rate of £5,650 per eligible housing unit has been established. This contribution rate is acceptable to WDL and is just within their viability cap.

As set out in *section a* above the council is progressing supplementary guidance to set out the detail of the contributions and to establish a mechanism for collection of the contributions. These arrangements will also be confirmed in a tripartite legal agreement with WDL, the SG and WLC.

**d. WDL granting security rights over land to the Scottish Government**

Prior to the commencement of the SG Standby Guarantee, a WDL group entity will grant first ranking security rights over land to the Scottish Government. The initial Land Security will be the subject of an independent valuation of not less than £8m. The Scottish Government may, subject to the terms of the SG Stand-by Facility and the tripartite legal agreement, at its sole discretion exercise the security and/or to liquidate the security in whole or in part to repay calls already made under the SG Stand-by Facility.

Substitution rights will also be granted in order that an alternative site to an agreed value be secured if the initial site is required for development.

Once the value of the security exceeds the level of outstanding debt repayments, the provision of the facility can come to an end. By agreement, the security could be transferred to WLC to cover the remaining outstanding risk associated with the project.

**e. WDL granting security rights over land to West Lothian Council**

Prior to the commencement of the SG Standby Guarantee, a WDL group entity will grant first ranking security rights over land to West Lothian Council. The initial Land Security will be the subject of an independent valuation of not less than £3.75m. West Lothian Council may, subject to the terms of the tripartite legal agreement, at its sole discretion exercise the security and/or to liquidate the security in whole or in part to cover an element of the debt service charges.

It is envisaged that, as developer contributions are paid, and WLC's level of debt exposure reduces, the value of the security would reduce in line with this. After the payment of developer contributions to the value of £3.75m have been made, this security would be released.

**f. WLC to set up invoicing arrangements for monitoring / payment of S75 obligations**

The council has existing arrangements in place to track developer obligations, issue invoices and track payment of contributions. Monitoring of the obligations due at Winchburgh would be managed via these existing arrangements.

**g. Establishment annual occupation tracker and true up process with 'sweep' account or overpayments**

An audit of occupations will be carried out at the end of each financial year. Where that audit demonstrates greater than 150 occupations have been achieved an invoice for the roof tax contributions beyond 150 will be raised. Upon payment of that invoice the funding will be either a) held in a sweep account as surplus contributions and used to meet any future deficit or b) used to repay any guarantees drawn down to cover shortfalls in previous years. The exact mechanism for doing so will be set out in the Heads of Terms and the tripartite legal agreement.

Where it become clear part way through the financial year that greater than 150 units have been completed the council will retain the right to issue an interim invoice and a final invoice at the end of the year. The council will not issue interim invoices for less than 20 houses i.e. until 170 houses have been completed in any one year but will invoice for all houses beyond the 150 assumed in the model at the end of each financial year.

### **Commercial Case for Scottish Government Facility**

- 6.21 In this instance, there is not a requirement to provide evidence of a commercial case for the provision of a SG facility to support the delivery of the school at Winchburgh. The proposal for the SG facility has been drawn up through extensive discussions with SG and WDL. It has emerged from the market and the risk sharing package will be jointly delivered by the three parties. Legal advisors have been appointed to take this forward. Therefore there is no call to demonstrate market appetite for the proposal within this Business Case.

### **Financial Case for Scottish Government Facility**

- 6.22 WLC faces further estimated budget reductions of over £65m over the coming five years (2018/19 to 2022/27). This is in addition to £90m of savings over the previous ten years. As a consequence, more than ever, any borrowing must be affordable, and the risks associated with that borrowing fully mitigated.
- 6.23 WLC will increase existing levels of borrowing in order to deliver the project. As a result, any borrowing it undertakes to close the funding gap and deliver the schools will not impact on the delivery of any other capital projects. However, if future capital repayments and revenue consequences are not fully mitigated through the proposed risk sharing package, there would be impacts in the future as capital and revenue resources would have to be diverted from other unimplemented projects to meet the debt service costs of the Winchburgh schools project. It is this which has given rise to the necessity of the risk sharing approach. Given the severe funding constraints currently affecting WLC, the council is unable to assume the risk of a shortfall in developer contributions to meet the cost of the school. Therefore, in line with the Heads of Terms for the Edinburgh and South-East Scotland City Region Deal, the council would require that the payment of developer contributions to deliver the school at Winchburgh is underwritten on a shared basis by WDL and SG.
- 6.24 It is the proposal for a risk sharing package with WDL and SG that has made the proposition to borrow and forward fund the school affordable and deliverable.

## **7. MANAGEMENT CASE**

- 7.1 WLC is in a position to ensure the funding and delivery of the school and the removal of the development constraint, thus allowing development to continue at Winchburgh. Thereafter, it will work with WDL to support the delivery of at least 150 homes per annum at Winchburgh. It will do so in the following ways.

### **Removal of the restriction on occupation of more than 550 houses at Winchburgh**

- 7.2 The basis of this Business Case is to secure the circumstances where development at Winchburgh can proceed beyond the 550<sup>th</sup> house towards its full site capacity. The principle constraint is Education capacity. When WLC is satisfied that a funding solution is in place the restriction on occupations can be removed.
- 7.3 Removal of the restriction is straightforward. It is imposed through a condition on the planning consent with that condition being a restriction to 550 occupations or whatever higher number is agreed in writing with the planning authority. Consequently, there is no specific need for a further planning application to be submitted or a variation to the Section 75 agreement to be undertaken in order to remove the restriction.
- 7.4 WLC has advised that the restriction on occupations will be removed when funding is in place rather than when the school opens as this could be up to four years after funding agreements are secured. This will mean that the restriction on occupations can be removed immediately with the council adopting the risk of managing pupil places within existing schools in the period between the restriction being relaxed and the opening of the school.

### **WLC Borrowing to Forward Fund the Project**

- 7.5 Finance is likely to be secured through borrowing by WLC although there will be other financial contribution as set out elsewhere in this business case. The principle of borrowing was agreed by WLC on 10 October 2017 and included in the council's ten year capital plan agreed on 13 February 2018. WLC has considered the Business Case in advance of formal submission to the SG and delegated authority to agree a funding package which meets the terms of the business case and associated legal agreements has been granted.
- 7.6 The council will borrow in advance of contracts being let for the school. The timing and scope of borrowing will be undertaken at the discretion of WLC in its best endeavours to secure a beneficial borrowing rate to minimise the debt service costs for the project. WLC intends to borrow from the PWLB on an annuity basis over a period of 25 years.

### **Putting legal agreements in place with WDL for delivery of homes/developer contributions**

- 7.7 As set out above, no process other than an exchange of letters will be required in order to remove the restriction on occupations. However, variations of existing agreements will be required in order to reflect the revised means of WDL contributing to the cost of the school. These agreements will be progressed by WLC as planning authority when they are submitted by the developer.
- 7.8 WLC will not, however, let any contracts or commence any statutory consultations relating to the schools until the requisite legal agreements are in place to the mutual satisfaction of WLC and WDL.

### **Appointing a project manager and delivery of education capacity**

- 7.9 WLC will progress the school investment programme in accordance with sound project management principles. A Project Manager has already been appointed and a Project Board established. WLC has also appointed external Legal Advisors to support the work of the Project Board.
- 7.10 The Board has an agreed project plan which demonstrates that delivery of the new non-denominational secondary school by August 2022 is achievable having regard to the main project phases as follows (please note that some of these will overlap):
1. Funding agreements concluded
  2. Statutory consultations concluded
  3. Statutory consents obtained
  4. Procurement undertaken
  5. Contractor appointed
  6. Construction complete
- 7.11 The council intends to procure construction through its strategic development partner HUB South East Ltd (Hubco). This will be through a standard Design Build and Development Agreement approach which both the council and Hubco are experienced in delivering. By combining both secondary schools and the related primary school economic of scale will be achieved in terms of design, construction and the management of the project.

### **Statutory Education Consultations**

- 7.12 Statutory consultations will be required covering both the location of the school and the catchment area for the school. Progressing these consultations will commence shortly after funding agreements have been put in place.



**Benefits Realisation – how these will be monitored / captured**

- 7.13 Benefits realisation will take these principle forms:
- i. Removal of the phasing restrictions on house occupations beyond the 550 unit at Winchburgh.
  - ii. Building out of all remaining houses at Winchburgh.
- 7.14 However, there will be a number of ancillary benefits which will be monitored. These include:
- i. Increased housebuilding rates in settlements where development is currently constrained including Linlithgow and Broxburn. These will be monitored through annual housing land audits.
  - ii. Improvements to the number and quality of learning spaces in West Lothian which will further enhance the opportunities for the areas young people. These benefits will be monitored through annual attainment results and positive destination assessments.
- 7.15 In summary, WLC has taken significant steps that will allow the swift removal of the development constraint at Winchburgh and the continued development of Winchburgh, ensuring that the benefits of the SG facility being extended to WLC can be fully and quickly realised.

## **8. RISK MANAGEMENT & MITIGATION STRATEGY**

- 8.1 A risk sharing package to fund the provision of education infrastructure, as set out within Section 2 of this business case, is unprecedented to date in Scotland. In developing the proposal, a rigorous approach has been taken to managing the risks this may present for both WLC and SG. The table below sets how the risks associated with the establishment and management of the facility can be mitigated from the point at which a tripartite agreement between WLC, SG and WDL have been signed.

### Winchburgh Standby Facility – Risk Management Strategy

<b>Risk</b>	<b>Description</b>	<b>Impact (H, M, L)</b>	<b>Likelihood (H, M, L)</b>	<b>Mitigation</b>
<b>WLC Risks</b>	Lack of resources to support development of required legal documents for guarantee and contracts associated with it	<b>M</b>	<b>L</b>	WLC, WDL and SG have all appointed legal advisors to take this work forward.
	WLC does not monitor housing occupancy and shortfalls develop	<b>M</b>	<b>L</b>	WLC has established processes in place that will be used to monitor housing occupancy on sites.
	Construction cost higher than cost estimated from metric being used	<b>H</b>	<b>M</b>	Rigorous benchmarking and monitoring of construction cost, market testing and finally value engineering required to achieve affordability cap
	WDL becomes insolvent over the course of the development period	<b>M</b>	<b>M</b>	The SG Facility has a cap of £15m. Therefore, up to £15m can also be drawn from this facility to ensure PWLB repayments can be maintained. SG will have first ranking security over land to the value of £8m. This is equivalent to nine years of developer contributions. This will reduce impact of potential insolvency and allow time to get alternative developer in place. In addition, WLC will have first ranking security over land to the value of £3.75m. If this security is still in place (it will fall away once £3.75m of developer contributions have been paid), this will assist in covering a shortfall in developer contributions.
	WDL withdraws from Winchburgh during development period	<b>H</b>	<b>M</b>	As consented site with education capacity, it is anticipated that developer interest in site will be maintained, regardless of the status of WDL.
	WDL sells to new owner who seeks to modify developer contributions	<b>M</b>	<b>M</b>	WLC will develop policy framework on education developer contributions to allow proposals to modify agreed contributions to be resisted.

<b>Risk</b>	<b>Description</b>	<b>Impact (H, M, L)</b>	<b>Likelihood (H, M, L)</b>	<b>Mitigation</b>
<b>WDL Risks</b>	Winchburgh becomes unviable due to other site related costs	<b>H</b>	<b>L</b>	There is a high degree of certainty around site costs as extensive site investigations have been carried out and site will have delivered 550 homes before the second phase of development begins.
	Developers do not deliver minimum of 150 homes per annum	<b>L</b>	<b>M</b>	WDL and WLC will work closely together to ensure delivery of 150 units per annum. WDL has scope to sell land to additional developers on site if required. Surplus developer contributions and WDL facility will be used before any call made on SG facility. Any calls on facility will be repaid (see Appendix 2).
	Housing Infrastructure Fund application is unsuccessful	<b>L</b>	<b>L</b>	Payment of HIF is dependency for parties to sign agreement on WDL and SG facilities. If HIF monies are not in place, development cannot go ahead and facility will not be activated.
<b>Risk</b>	<b>Description</b>	<b>Impact (H, M, L)</b>	<b>Likelihood (H, M, L)</b>	<b>Mitigation</b>
<b>SG Risks</b>	Decline in economy with impact on housing and property market results in development slowdown and shortfall in payments	<b>M</b>	<b>H</b>	WLC will work closely with WDL to enable delivery of 150 units per annum. WDL facility will be used before any call made on SG facility. Any calls on facility will be repaid (see Appendix 2).
	SG facility comprises State Aid to WDL	<b>L</b>	<b>H</b>	This proposal has been assessed by SG in relation to State Aid rules and provision has been made for this within the financial model.
	SG is not repaid for use of the standby facility	<b>M</b>	<b>L</b>	Heads of Terms for the Standby Facility cover repayments to the facility. SG will have the right to the future developer contributions due on the Winchburgh development land for

				as long as money is owed from covering the shortfall in favour of WLC.
	Value of land security drops below the required level due to a change in market conditions	<b>M</b>	<b>L</b>	A land security equivalent to the value of £8m is required to be maintained at all times. Therefore, there is scope to amend the boundary of the land security if that is required.

## 9. SUMMARY & CONCLUSIONS

- 9.1 The education strategy set out in the West Lothian Local Plan and carried forward to the emerging West Lothian Local Development Plan requires a new non-denominational secondary school and a new denominational secondary school at Winchburgh in the short term and, in the longer term, a new non-denominational secondary school at East Calder. While the secondary school at East Calder is not a short-term requirement, there is an urgent need to address the education constraint at Winchburgh. Development at Winchburgh is nearing the cap of 550 homes, beyond which no further homes can be occupied unless the required educational provision is put in place.
- 9.2 The capital cost of the two secondary schools to be built at Winchburgh is £54m. WLC has accumulated developer contributions to partly fund this investment. The unfunded element of the non-denominational secondary school comprises £15.18m of this overall package.
- 9.3 Extensive tripartite discussions, within the framework of the City Region Deal, have taken place between WLC, WDL and the SG to explore how a shared risk package could be developed to close the £15.18m funding gap, overcome the education constraint and unlock development at Winchburgh.
- 9.4 A proposal has been developed that mitigates and shares the risk among the three parties. Under this risk sharing package:
- i. **WLC** will borrow around £37.5m from the Public Works Loan Board (PWLB) in order to deliver two secondary schools at Winchburgh, both denominational and non-denominational.
  - ii. **WLC** has agreed in principle that this borrowing should include £15.18m, which will be sufficient to close the funding gap for the non-denominational school to be delivered. Subject to agreements being in place the non-denominational secondary school with capacity for 660 pupils will be opened by August 2022.
  - iii. **WDL** will repay WLC for its share of the school through developer contributions, paid over the course of the 20-year development as homes are completed and occupied. If this minimum level of sales is met, there will be sufficient funds from developer contributions to cover the cost of servicing the PWLB loan on an annual basis. If there is a shortfall, WLC will first look to WDL and secondly to the Scottish Government to make up this shortfall.
  - iv. **WDL** will provide a stand-by facility to the value of £850,000. This will be a rolling facility that can be paid out from, repaid and redrawn over the course of the development.
  - v. **SG** will provide a facility similar to WDL's in that it will be a rolling facility, which once drawn on will be repaid and made available to be redrawn should the necessity arise. The maximum draw down in any year will be the principal and interest due in that year, currently estimated at £825,000. It will only be drawn upon if a shortfall arises

that cannot be covered by accumulated surplus developer contributions already held by WLC and the WDL stand-by facility.

- 9.5 The £15.18m is the only element of the overall borrowing package of around £37.5m that is to be underwritten in this way. **WLC** is accepting a very substantial element of risk in forward funding the cost of delivering the denominational secondary school and it is also providing a capital contribution of £4m towards the cost of the non-denominational secondary school.
- 9.6 In providing this facility, the SG will need to make budgetary provision for a suitable level of contingent liability in the event that this facility is called on. This would need to be the equivalent of the maximum drawn down in any one year, i.e. £825,000 in each year of the development. As highlighted in Appendix 2, it is only in the most extreme scenarios that this could be required.
- 9.7 This business case has:
- i. outlined and demonstrated why action is needed;
  - ii. set out how the proposal aligns with national, regional and local policies and helps to deliver the objectives of both West Lothian Council and the SG in relation to unlocking housing land, building more market and affordable housing and delivering wider economic benefits for the South East Scotland city region;
  - iii. set out how the cost to the SG has been minimised through the sharing of risk among parties, while the benefits of unlocking the site are extensive. In addition to the delivery of 3650 homes including 860 affordable homes, these benefits include £470.4m of capital investment into West Lothian; 267 jobs per annum sustained over the 20 year construction period of the housing development at Winchburgh with a peak of 714 jobs being sustained on site during the parallel construction of housing and schools; and up to 5,194 jobs created and sustained in perpetuity through the delivery of associated education, business and commercial uses at Winchburgh; and
  - iv. illustrated why this proposal is affordable to both SG and WLC and how it can be delivered in such a way that the benefits of the SG facility being extended to WLC can be quickly and fully realised.
- 9.8 The proposal for a risk sharing package has emerged from tripartite discussions between WLC, WDL and SG. This proposal presents SG with an opportunity to support the unlocking of a strategic housing site, see education infrastructure and new homes built in West Lothian at pace and deliver on the undertakings contained within the South East Scotland City Region Deal.

## **SCOTTISH GOVERNMENT STANDBY FACILITY: WINCHBURGH**

### **APPENDICES**

#### **APPENDIX 1 – AGREED BASELINE INFORMATION**



**EDINBURGH & SOUTH EAST SCOTLAND CITY REGION DEAL**

**SCOTTISH GOVERNMENT STAND BY FACILITY – WINCHBURGH BUSINESS  
CASE**

**APPENDIX 1 – AGREED BASELINE INFORMATION**

<b>SUMMARY OF AGREED BASELINE – WINCHBURGH ND SECONDARY SCHOOL</b>	
<b>Total capital cost of proposed 660 pupil ND Secondary School</b>	£23.18m
<b>Amount raised by developer contributions towards ND Secondary School to date</b>	£4m secured/secured imminently
<b>Amount to be contributed by WLC to address existing catchment needs</b>	£4m
<b>Unfunded cost of ND Secondary School to be borne by developer contributions</b>	£15.18m + £5.5m debt service costs (£20.621m total)
<b>What repayment method is to be used to repay PWLB borrowing</b>	100% annuity repayment.
<b>PWLB Spot Rate or Pool Rate</b>	Spot rate
<b>Borrowing period</b>	Borrowing period of 25 years.
<b>Number of homes that can be accommodated by 660 pupil school</b>	3,650
<b>Housing within the CDA contributing to 660 pupil school</b>	3,400 WDL homes <sup>2</sup> All other homes built within the catchment will contribute towards future expansion of school.
<b>Housing outwith CDA contributing to 660 pupil school</b>	250 <sup>3</sup>
<b>Planning instrument to set out developer contribution framework for school</b>	Existing Local Plan policy to be expanded within Supplementary Planning Guidance (non-statutory).
<b>Timescale to deliver SPG</b>	3 months from agreement on developer contributions
<b>When is the school to be delivered?</b>	Delivery likely - August 2022. Construction (and the main draw down on finance) likely - January 2020.

<sup>2</sup> Land is allocated in West Lothian Local Plan and planning consent granted for 3,450 homes . 2,900 have yet to be built due to education constraint. 3,400 WDL homes cited above comprises that 2,900 plus 500 additional homes expected to come from additional sites allocated in the emerging West Lothian Local Development Plan (189 are to be added once the LDP is adopted in May 2018) and future cycles of the LDP over the 20 year development. The balance between WDL and non-WDL homes may vary as capacity cannot be reserved for any specific development. Any additional contributions above 3,650 homes will contribute towards phase 2 of the school.

<sup>3</sup> Developers outwith the CDA will pay developer contributions towards Winchburgh ND Secondary School where they benefit from the capacity it creates in their relevant catchment. See also note 2 above

## AGREEMENT OF BASELINE INFORMATION

### COST / FINANCE

1. *Total capital cost of the proposed ND Secondary School at Winchburgh*

**£23.18m**

**WLC** contributing **£4m** to cover school places arising from existing population of Winchburgh. In addition, **£4m** will be available from developer contributions already collected or likely to come from other sites prior to the procurement of the school.

**WDL to cover remaining approx. cost of £15.18m.**

Anticipated that the need for the next phase of the school (either 1100 or 1210 pupils) will be required by 2900<sup>th</sup> house, i.e. the end of the consented WDL build out. Cost of 1210 school estimated to be £36m i.e. £12m in addition to the first phase.

The need for larger school may be accelerated if other sites within CDA, such as East Broxburn, come forward alongside the WDL build out. Contributions from other sites within the CDA and from sites outwith the CDA will be put towards the expansion of the ND Secondary School, not the initial 660 phase.

2. *School Delivery*

**Delivery likely to be required by August 2022. On that basis, construction (and the main draw down on finance) likely to start in January 2020.**

**School catchment consultation likely to take place in 2018.**

3. *Repayment method to Public Works Loan Board (PWLb)*

**100% annuity repayment.**

4. *Interest Rate to be applied*

**Spot rate** applicable at point of financial close to be applied.

5. *Borrowing period*

**Borrowing period to be used is 25 years. This has been slightly extended beyond WDL build out period of 20 years.**

6. *Amount raised via developer contributions towards the ND Secondary School at Winchburgh to date from developments both within and outwith the CDA.*

**£2.5m** has been raised via contributions to the ND Secondary School within the CDA

Further **£1.5m** is in the process of being secured via Section 75 agreements

In addition, WLC to contribute £4m to cost of school to create space for pupils from existing population (i.e. not linked to impact of development).

Outwith the CDA, contributions are expected in the longer term. Any of those contributions will be put towards the extension of the 660 pupil school to one that can accommodate 1,210 pupils. Payments from outwith the CDA will be treated as a means to future proof the school.

7. *Sites **in the likely Winchburgh ND Secondary School catchment area** to make contributions at the agreed level towards Winchburgh ND Secondary School (i.e. where there is not a signed S75 agreement already in place)*

The school catchment area has yet to be defined. As above, WDL development of 3,400 units will pay towards the ND Secondary School. All other sites will also make contributions. If non Winchburgh sites are developed earlier in the development programme than currently modelled they will contribute to the cost of the first phase with the balance of the child product from the Winchburgh development being accommodated in an expanded school.

8. *Sites **in the likely Winchburgh ND Secondary School catchment area** where signed S75 agreements are in place and will make developer contributions to the school.*

**Consents for 550 units have been issued to WDL or their development partners to date.**

WDL have already paid towards the expansion of Linlithgow Academy to accommodate pupils from these homes. No further contribution towards Winchburgh ND Secondary School will be required in respect of these units.

9. *Sites **outwith the Winchburgh ND Secondary School catchment area to make contributions** towards Winchburgh ND Secondary School (i.e. where there is not a signed S75 agreement already in place)*

A number of sites outwith Winchburgh are subject to education constraints that will be resolved once the ND Secondary School at Winchburgh is delivered.

They will be expected to make **the same level of contribution** as that levied on WDL and the rest of developers in the CDA. However, their contributions, as highlighted previously, will assist in funding the school beyond the current 660 pupil proposal.