

LOAN AGREEMENT PROPOSAL

Executive Summary

In 2019 the Council provided Greenfield School with loan finance to move to its new site on Old Woking Road. A further loan facility was agreed for the development of the site, in total a facility of £11m covering the site acquisition plus development costs.

The School has been operating from the new site since September 2019 and commenced the development which will provide permanent facilities for the increased pupil numbers in May 2021. Development works to date have been funded from the sale of the School's old premises and property at Claremont Avenue. Since works started there are a number of factors and events which have increased the forecasted costs to deliver a scheme which meets the needs of the School and future proofs the provision.

The School has requested access to the existing approved Council loan facility, however as the project costs are currently forecasted to exceed the funding available to the School, drawdown of these funds has not been approved and cannot be considered until the Council has confidence that finance facilities exist to deliver a complete scheme.

Options to reduce the forecasted increased development costs have been explored with the School and the Council's Strategic Asset Manager has completed a review of the project.

It is in the Council's interests for the School to be able to complete the development which will meet the original objectives of increased school places. It is therefore recommended that an additional short term loan facility be made available to enable the essential works to be completed. If agreed it is proposed that the Strategic Asset Manager would monitor progress on the project, to ensure works are completed in line with agreed scope and that the project is managed appropriately within the resources available.

Recommendations

The Executive is requested to:

RESOLVE That

- (i) a new 3 year loan facility to cover construction costs of £2.5m plus accrued interest to completion of the development (assumed to be £600k), be made available to Greenfield School at 3.5% interest;
- (ii) on 22 July 2022, or earlier, the amounts advanced from the existing £11m loan facility be converted into a 50 year annuity at 1% over the PWLB rate; and
- (iii) the Council secure a charge over the remaining investment property asset held by the School and the disposal proceeds from this asset are required to be applied to reduce the outstanding loan.

Reasons for Decision

Reason: To approve additional Loan Finance for Greenfield School.

The Executive has the authority to determine the recommendation(s) set out above.

Background Papers: None.

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1.0 Introduction

- 1.1 In October 2018 the Council agreed to support Greenfield School to relocate from its Brooklyn Road site, securing additional school places to meet current and future education need in the Borough through providing an additional form entry at a new site. The Council authorised the Executive to agree detailed terms of the loan support.
- 1.2 Proposals were considered by the Executive in March 2019 which provided a £6m loan facility for the acquisition of the former International School on Old Woking Road and initial works to enable the School to relocate. A further £5m, a combined total of £11m, was approved for the development of permanent facilities on the site for the increased pupil numbers.
- 1.3 Whilst the Council could take a charge over the property as security for the acquisition loan, it was recognised that there would be no further security available for the development costs. Further details on the valuation of the assets for sale, together with confirmed pupil numbers for September 2019 and detailed construction costs would be required in order for the Council to advance any funds in excess of £6m.
- 1.4 The School acquired the property in July 2019, completed works over that summer and opened for pupils at the new location in September 2019. Work also commenced on developing plans for the improvement of the location to provide the required facilities.
- 1.5 In November 2019 the School presented its proposals to the Council, requesting loan finance up to a total of £21m to cover both the acquisition and completion of works. This would be reduced by funds secured from the disposal of other owned assets expected to realise £6.5m. The Council did not agree the additional loan finance at that stage as there were alternative options available to manage the development within existing loan approvals and finance availability.
- 1.6 The School subsequently revisited its plans to complete the development within the previously agreed funding. An amount of £400k of the development facility was released in December 2019 to cover the School's planning costs and provide scope for further planning advice.

2.0 Development of Old Woking Road site

- 2.1 Revised plans were prepared by the School, and a construction contract let with Darwin Group Limited in May 2021. The project comprises 5 phases with completion to phase 4 due by February 2022 with the remaining landscaping works completed after this.
- 2.2 Development costs to date have been funded by the School's own funds, and the disposal proceeds from its Brooklyn Road and Claremont Avenue properties. However, these property sales have realised less income than was originally expected, further reducing the funding available to meet the project costs.
- 2.3 The project, like many construction projects of size, has experienced cost increases, in particular in relation to materials, reflecting current economic conditions and market forces. There have also been some significant unforeseen items of expenditure including the requirement for a new electrical substation, at a cost of £400,000. In addition, the scope of the project has developed in order to ensure it meets the needs of the School and pupils, adding further pressure to the budget. The detailed budget and costing position is shown in more detail in the Part 2 report due to commercial sensitivities.

- 2.4 The latest forecasts for the project can be summarised as:

	Oct-21 £'000
<u>Acquisition and Project Costs</u>	
Cost of acquisition and initial works	6,000
Planning costs advanced	400
Cost of development including build contract	9,762
Plus estimated accrued interest	600
Total	16,762
Proceeds from sale of properties	- 2,724
Remaining property sale	TBC
WBC Approved Loan Facility	- 11,000
Loan Finance Required	3,038

- 2.5 The forecast costs to complete the project and deliver a complete scheme exceed the current loan funding approvals and finances available and therefore further funding needs to be identified for the School to meet its commitments to the contractor and complete the contracted works.
- 2.6 The School has requested access to the existing approved Council loan facility, however as the project costs are currently forecasted to exceed the funding available to the School, drawdown of these funds has not been approved and cannot be considered until the Council has confidence that finance facilities exist to deliver a complete scheme.

3.0 Funding Options

- 3.1 The School was requested in the first instance to consider alternative providers for financing the additional forecast costs to complete the scheme.
- 3.2 Options were explored but these would require the Council to release its first charge on the property to enable further finance to be raised to complete the development. This is not acceptable to the Council as it would reduce the extent of security it has over existing loans.
- 3.3 Funds in the medium term, 2-3 years, can be raised by sale of other school assets that are not required to deliver the education service. It is the intention to dispose of such assets, however this requires further work on the development of proposals in order to gain planning permission which would significantly enhance the value of the assets. This would provide the School with additional capital that could be applied to the loan facility, reduce the overall level of loan and enhance their overall loan to value ratio. The Council supports the approach the School is taking at looking to enhance the value of their surplus assets but recognises at this stage there is no certainty around the projected valuations.
- 3.4 Additional loan finance could be approved by the Executive to enable the School to complete the development. It is ultimately in the Council's interests to support the School to enable the development to complete as this would deliver on the additional school places for the Borough and maintain the security that the Council has in the loan finances already advanced and approved.

4.0 Financial Performance

- 4.1 Since moving to the new site, pupil numbers have exceeded expectations and the target numbers for 2025 will be met by the end of 2022. This puts the School in a stronger position to be able to meet the additional financing costs of the scheme.
- 4.2 The detailed business plan is set out in the Part 2 report. This shows that an indicative loan facility of £11m could be serviced at 3.5%, 50 year annuity. An additional loan facility of £3m on an interest only basis at 3.5% can also be covered. The Council margin on this loan is estimated to be £50,000 - 60,000 per annum.
- 4.3 There is little scope for increased expenditure or reductions in income within the Business Plan. It will be necessary to work with the School to understand where there is flexibility in the budgets to ensure that financing costs can be met if there are unexpected changes.
- 4.4 In the short term, the additional loan facility of £3m will be provided on an interest only basis at 3.50% interest for 3 years.
- 4.5 The School also has assets which it should seek to dispose, realising funds to reduce the loan. It will be a condition of the additional Council loan facility that the proceeds of the disposal be used to reduce the outstanding loan balance. In the meantime the Council will secure a charge over these assets.
- 4.6 On this basis it is recommended that any additional loan agreement is on a new short term agreement that is expected to be repaid with receipts from future asset disposals. This agreement would be reviewed within 3 years, or on asset disposal which-ever is earlier.

5.0 Corporate Plan

- 5.1 Supports the Corporate Plan priorities of A healthy, inclusive and engaged community and An enterprising, vibrant and sustainable borough.

6.0 Implications

Finance and Risk

- 6.1 The Council has advanced £6.4m to Greenfield School to facilitate the School expansion at a new site, providing additional school places for the Borough. The additional £4.6m previously approved facility can be drawn by the School if it can be demonstrated that finance is available to meet contractual commitments. Approving the provision of the short term loan facility, will enable access to be allowed to the £4.6m existing facility. Currently the total £11m facility is scheduled to be converted to a 50 year annuity, at 1% over the underlying PWLB rate, on 22 July 2022. If requested by the School, it is proposed to enable this restructuring at an earlier date, once the full facility has been accessed, to provide certainty of financing costs.
- 6.2 Allowing another lender to take the first security over the School site would put the Council's existing loans advanced at risk and is not recommended.
- 6.3 There remain risks within the project and it is proposed that the Council's Asset Management team oversee the completion of the project, at a cost of £10,000 to the School to ensure works are completed in line with agreed scope and that the project is managed appropriately within the resources available. Performance against the Business Plan and assessment of the underlying assumptions will continue to be monitored by the Council.

Equalities and Human Resources

- 6.4 No specific Human Resource or Training and Development implications.

6.5 There are no equalities implications.

Legal

6.6 The Council has the power to provide loan finance under section 1 of the Localism Act 2011; the Local Authority has the power to do anything that an individual may do (known as the general power of competency). Legal Services shall draft the various legal agreements to effect the resolution and ensure security over the asset.

7.0 Engagement and Consultation

7.1 The Finance Task Group was briefed at its meeting on 11 November 2021.

REPORT ENDS