

 <b>EXECUTIVE</b> <b>21<sup>st</sup> August 2019</b>		<b>Agenda Item No. 8</b>
<b>Title</b>	Relocation of Kenilworth School	
<b>For further information about this report please contact</b>	Andrew Jones (01926) 456830 <a href="mailto:Andrew.jones@warwickdc.gov.uk">Andrew.jones@warwickdc.gov.uk</a>	
<b>Wards of the District directly affected</b>	Kenilworth wards (including Arden)	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?</b>	No	
<b>Date and meeting when issue was last considered and relevant minute number</b>	31 <sup>st</sup> May 2018 31 <sup>st</sup> October 2018 28 <sup>th</sup> November 2018 6 <sup>th</sup> March 2019 6 <sup>th</sup> June 2019	
<b>Background Papers</b>	See above	

<b>Contrary to the policy framework:</b>	No
<b>Contrary to the budgetary framework:</b>	No
<b>Key Decision?</b>	Yes
<b>Included within the Forward Plan? (If yes include reference number)</b>	Yes Ref 1,034
<b>Equality &amp; Sustainability Impact Assessment Undertaken</b>	No
Not applicable.	

<b>Officer/Councillor Approval</b>	<b>Date</b>	<b>Name</b>
Chief Executive	29 <sup>th</sup> July 2019	Chris Elliott
CMT	29 <sup>th</sup> July 2019	Chris Elliott, Bill Hunt, Andrew Jones
Section 151 Officer	29 <sup>th</sup> July 2019	Mike Snow
Monitoring Officer	17 <sup>th</sup> July 2019	Author
Head of Service	19 <sup>th</sup> July 2019	Dave Barber, Lisa Barker
Portfolio Holder(s)	29 <sup>th</sup> July 2019	Councillor Cooke
<b>Consultation &amp; Community Engagement</b>		
<b>Final Decision?</b>	Yes	

## **1 SUMMARY**

- 1.1 The report seeks Executive approval to enter into commercial arrangements with Kenilworth School thereby facilitating their relocation.

## **2 RECOMMENDATIONS**

- 2.1 That Executive notes the confidential cashflow model at Appendix 1 to this report, detailing the scheme to relocate Kenilworth School (hereafter referred to as the School) from its current split sites to a single site at South Crest Farm.
- 2.2 That Executive notes that the School is prepared to enter into a contract with Warwick District Council (the Council) for the sale of its main school site at Leyes Lane and that officers have commissioned valuations and surveys to determine whether the School's valuation can be met.
- 2.3 That should the Education and Skills Funding Agency (ESFA) not make a loan facility available to the School and subject to the School agreeing to enter into a contract with this Council for the sale of Leyes Lane, Executive agrees to make a further Council loan facility agreement of up to £5m available to provide the certainty the School needs for its relocation and that the facility is made available on commercial terms to be determined by the Head of Finance in consultation with the Leader of the Council following receipt of commercial and legal advice.

## **3 REASONS FOR THE RECOMMENDATIONS**

### **3.1 Recommendation 2.1**

- 3.1.1 Members have previously received a total of five reports on the subject of Kenilworth School's relocation and consequently a complete history of the scheme is available in the background papers. However, mindful of the fact that a new Council with many new members had been elected in May 2019, the latest report of 6<sup>th</sup> June 2019 provided a summary of the latest position. That report specifically covered the Housing Infrastructure Fund (HIF) grant of c£9.6m that Homes England had made available to the School. Officers can now advise that contracts have been entered into between Homes England and the Council (the primary agreement), and the Council and the School (the back-to-back agreement) enabling that funding to be drawn down.
- 3.1.2 In confidential Appendix 1 to this report, Members will find the cashflow model that has been developed by Arup (built environment consultants supporting the School) detailing the financial deliverability of the School. This model is provided purely for information as it provides context for recommendations 2.2 and 2.3.
- 3.1.3 The negotiations for the purchase of the new school site at South Crest Farm are still continuing and there is therefore a likelihood that the cashflow model will need to be updated. Officers will examine the revised model when considering the issues inherent in recommendation 2.3.

### **3.2 Recommendation 2.2**

- 3.2.1 In the report of 31<sup>st</sup> May 2018, Executive gave its agreement to officers entering into negotiations for the purchase of the land allocated in the Local Plan for housing at Rouncil Lane (currently the School's Sixth Form site) and

possibly Leyes Lane (currently the School's main site). Members will be aware that the Council has agreed to purchase the Rouncil Lane site, Council having made the necessary funding available and that contracts will be exchanged when the School has exchanged contracts for its new site at South Crest Farm.

3.2.2 Officers have also progressed discussions with the School in respect of the Leyes Lane site and the School has concluded that if the Council can meet the site's market valuation (current estimate is contained within the confidential cashflow) then it will not "take the land to market" and will deal exclusively with the Council. This approach gives the School certainty about the covenant of the buyer and increased certainty around its cashflow model, and the Council a further opportunity to deliver Council housing as part of a mixed tenure development.

3.2.3 To determine whether the Council can meet the market valuation of the Leyes Lane site, its appointed consultants will be tasked with undertaking a masterplanning exercise which can be paid for from within current budgets. This masterplan will then be used by the Council's valuers, Bruton Knowles to arrive at a market valuation of the site. Should the valuation meet the School's requirements, a further report will be submitted to Executive with a recommendation that Council be asked to make the necessary funding available, subject to officers confirming that the enterprise is affordable.

### 3.3 Recommendation 2.3

3.3.1 To assist the School with its objectives, Executive has previously agreed to make two loans available. The first loan for £1m has been fully utilised and has enabled the School to submit a planning application which is currently expected to be submitted to the September Planning Committee meeting. Members should note that this loan can be fully recovered from the HIF agreement. A further loan of £2m has not yet been utilised, and indeed the terms of that loan have not yet been discussed due to other priorities with the scheme, but Members will note from the cashflow that the School will need to use it.

3.3.2 The cashflow also shows that a further loan of £5m is expected to be required in June 2020 as the profile of Section 106 payments is uncertain and the School needs to mitigate this uncertainty. It is currently envisaged that the loan facility will be made available by the ESFA, however, there is no certainty of this and it may be that the School has to go to "the market" to secure the funding.

3.3.3 Members will be aware of the significance of the School's relocation in the context of the delivery of the Local Plan. The scheme also gives the Council a once-in-a-generation opportunity with the potential to purchase two prime greenfield/brownfield sites and undertake a programme of Council house building. Therefore, if the Council can help to de-risk the relocation project by using its various powers these should be considered carefully.

3.3.4 Members are therefore asked to agree to make a further loan of up to £5m available to the School, however, this should only be made if the School gives a binding commitment to contract with the Council for the land at Leyes Lane should it meet the School's site valuation. Officers would need to ensure that the loan was on commercial terms to ensure that State Aid rules are complied with, and that the Council has an acceptable level of security: Officers would need to be satisfied that development was progressing as envisaged in the Local Plan and viability arguments were not being advanced by developers. If officers were comfortable on these points, the School will have a source of

income available to repay the loan through the Section 106 payments that will come forward from the various Kenilworth sites.

## 4 POLICY FRAMEWORK

### 4.1 Fit for the Future (FFF)

The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. Amongst other things, the FFF Strategy contains Key projects.

The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The Council's SAP's are the programme of work fundamental to the delivery of the strands described in the table below.

<b>FFF Strands</b>		
<b>People</b>	<b>Services</b>	<b>Money</b>
<b>External</b>		
<b>Health, Homes, Communities</b>	<b>Green, Clean, Safe</b>	<b>Infrastructure, Enterprise, Employment</b>
<u>Intended outcomes:</u> Improved health for all Housing needs for all met Impressive cultural and sports activities Cohesive and active communities	<u>Intended outcomes:</u> Area has well looked after public spaces All communities have access to decent open space Improved air quality Low levels of crime and ASB	<u>Intended outcomes:</u> Dynamic and diverse local economy Vibrant town centres Improved performance/productivity of local economy Increased employment and income levels
Opportunity for Council to provide social housing. Facilitates the relocation of Kenilworth School.	Opportunity to develop public spaces in line with Council's various strategies.	Relocation of an "outstanding" school. Employment opportunities through construction phase.
<b>Internal</b>		
<b>Effective Staff</b>	<b>Maintain or Improve Services</b>	<b>Firm Financial Footing over the Longer Term</b>
<u>Intended outcomes:</u> All staff are properly trained All staff have the appropriate tools All staff are engaged, empowered and supported The right people are in the right job with the right skills and right behaviours	<u>Intended outcomes:</u> Focusing on our customers' needs Continuously improve our processes Increase the digital provision of services	<u>Intended outcomes:</u> Better return/use of our assets Full Cost accounting Continued cost management Maximise income earning opportunities Seek best value for money
Opportunity for staff development in place-shaping.	Opportunity to provide high quality homes and services.	Effective use of Council's resources.

## **5 BUDGETARY FRAMEWORK**

- 5.1 The Council has many competing demands upon its resources. Through the period of austerity, it has managed its budgets in a prudent fashion ensuring that quality services continue to be delivered and investment made available for a myriad of community projects.
- 5.2 Over the next four years it is envisaged that big projects such as the Community Stadium, Kenilworth Leisure Development and the relocation of the athletics track will come forward requiring funding. Therefore, the recommendation in this report needs to be cognisant of future demands. These other demands also include Housing Revenue Accounts schemes, of which Rouncil Lane is one of a number.
- 5.3 The acquisition of the Leyes Lane site will be subject to the additional work referred to in paragraph 3.2.3 which will help to determine viability. This project will need to be considered alongside other potential projects.
- 5.4 At its meeting of 30<sup>th</sup> August 2018, Executive approved the allocation of an annual budget of up to £60,000 for consultancy services to provide support for the Council's housing programme. This was funded from the Capital Investment Reserve. It is officers' view that there remains enough in the budget to cover the masterplanning work.
- 5.5 The proposed loan to the school may require external advice to assess suitable commercial terms, including the interest rate. Such advice has been sought previously in respect of other loans. The estimated cost of this advice would be up to £10,000 which could be funded from the Contingency Budget. The balance on the Budget is discussed in more detail within the Budget Review to 30th June 2019 Report on this Executive agenda. If the loan progresses, the cost of this advice would be recovered within the interest repayments from the school. The loan itself would be funded by PWLB borrowing, or potentially the use of internal balances, the precise funding being determined by the Head of Finance as part of the Capital Programme funding.

## **6 RISKS**

- 6.1 Members will note from the cashflow that if the Council purchases both the Rouncil Lane and Leyes Lane sites this will significantly de-risk the scheme as all the funding will be assured except for the S106 contributions. There is no reason to believe that at some point these contributions will not be paid as the greenfield/brownfield sites are unlikely to have significant abnormal costs that could give rise to viability arguments; however, it is recognised that non-receipt of these contributions is a risk to the scheme. There is also the risk to the scheme that although the contributions are paid, there is a long delay before the School receives them because for example, the housing market stalls.
- 6.2 Mitigation of these risks for the School is taking out a loan to ensure the cashflow model is met. This does mean though that the loaner takes on the risk that the contributions are either not paid at all or are slow in coming through. This would mean that in order to meet the loan repayment schedule, the School would have to find the funding from its day-to-day budget which may have an impact on the delivery of education. It is considered that the risk can be mitigated via the drafting of a loan facility that ensures the Council is not left "out-of-pocket" even though payments may not be received in line with the

agreed schedule. Members will almost certainly agree that the likelihood of the School becoming insolvent is very small indeed.

## **7 ALTERNATIVE OPTIONS CONSIDERED**

- 7.1 The alternative option is for Members not to be asked to consider making a loan. For the reasons laid out above this option was rejected.