

The Highland Council
Education, Children and Adult Services Committee
25 August 2016

Agenda Item	11.
Report No	ECAS 55/16

Statutory Consultation – Strontian Primary School

Report by Director of Care and Learning

Summary

Following conclusion of the Statutory Consultation process, this report and accompanying information sets out a recommendation to re-locate the existing Strontian Primary School, to a new build to be developed by the Community, on land close to Ardnamurchan High School.

1. Background

- 1.1 On 21 May 2014 this Committee agreed to commence a Statutory Consultation, per the requirements of the Schools (Consultation) (Scotland) Act 2010, in relation to options to improve accommodation at Strontian Primary School.
- 1.2 A final proposal (at that time) and recommendation was taken to this Committee on 12 November 2014, proposing that the Primary School be re-located to a new 2-classroom demountable unit, with additional accommodation, on land close to Ardnamurchan High School. Following additional representations from the community in advance of the Committee, which were provided for Members consideration, the Committee agreed to defer consideration of this item.
- 1.3 Since November 2014, Council Officers have continued engagement with the local community, leading to the final proposal set out as a recommendation within this report. The full proposal and associated appendices are circulated separately as **Booklet A**.

2. The Proposal

- 2.1 The proposal for consideration by members represents an innovative solution, whereby the local community will fund, develop and own a new community facility which will then be leased to the Council, for Strontian Primary School. The basic footprint and structure of the facility is based around that for 3 terraced houses, to provide flexibility in relation to future use, and to deliver an affordable solution.
- 2.2 The benefits to the community are that they will own an asset which can provide an income stream and long-term benefit to the community. They can have greater scope to influence the scope of the school facility, and its community uses. Medium to long-term, should the Council wish to consider a further re-location of the Primary School, e.g. to within the High School, the community could convert their asset to housing or other community use, maintaining an income stream and community benefit.
- 2.3 The benefits to the Council are that this proposal represents the option which best meets the needs of the community, and has strong community support, after a

lengthy consultation. The proposal also represents a more attractive financial proposition than the Council undertaking to deliver a school of similar size and scope in a traditional capital manner and provides flexibility should the Council wish to further review arrangements at some point in the future e.g. the potential for the Primary to co-locate within the Ardnamurchan High School campus. Any future re-location would be subject to a new Statutory Consultation and may be dependent on scope to make change to the High School campus within the confines of the PPP contract, or on the end of that contract in 2027.

2.4 In arriving at this proposal, the other options identified and considered through the Statutory Consultation process, have been assessed as follows:-

- Option 1. Status Quo – remain within existing Primary School and make improvements to the building. Assessment – no community support for this proposal.
- Option 2. Re-locate within Ardnamurchan High School. Assessment – no community support at this time. Some challenges within confines of existing PPP contract to make suitable alterations within the High School campus.
- Options 3 and 4a/b. Re-locate the Primary to a new build Council facility on land close to Ardnamurchan High School. Assessment – no community support for the Council's proposals, which though meeting the Council's educational requirements, were deemed by the community to be inadequate in relate to size, scope and design. Any option to meet community expectations would be at a significant increase in projected cost.

2.5 In arriving at the recommendation within this report, the community proposal, Council Officers have been closely involved in discussions with the community as the proposal has developed.

2.6 The community have developed a business plan (enclosed as **Appendix 1**), the headline financial assumptions contained therein are summarised as follows:

- Construction Cost (excl fit out) £688,000
Funded by:
 - Loan Finance £320,000
 - Grant Funding £100,000
 - Community shares £268,000
- Lease income from Highland Council £55,000 p.a.
- Fit out costs met by Highland Council £190,000
- Highland Council responsible for ongoing maintenance and running costs.

2.7 The business plan is subject to ongoing review, and formal Council commitment to financial aspects of the proposal would be subject to separate report to Committee once the Statutory Consultation is formally concluded.

3. Risks and Issues

3.1 The community proposal, being an innovative solution, does carry some risks and issues which members should be aware of. The following section provides information, and the mitigating actions in place.

3.2 While a community development represents a new initiative, the Council leasing

buildings from other parties for schooling is not uncommon, ranging from historic leasing of buildings from the local estate or church, through to the long-term unitary charge arrangements for PPP schools.

3.2

Risk/Issue	Mitigating Action
The proposal does not deliver Educational Benefits or meet the Council's requirements.	Council officers have been closely involved in the development of the community proposal, and regularly attend community meetings. The business case, design brief, cost and funding assumptions have been scrutinised by Council Officers. The design brief has been assessed as meeting the Council's educational requirements, and providing improvements over the current Primary School Building.
The proposal is not affordable, or does not represent Best Value.	Council Officers have scrutinised the community business case and costings. The Council has identified those costs which would fall to the Council to meet. The proposal to lease represents a more attractive financial proposition, and more flexible arrangement, than the Council funding a new build through traditional capital.
There is insufficient funding to allow the community to develop the proposal.	Council Officers have scrutinised the Business Case and financial model. The community have in principle agreement for loan finance to 60% of the development cost. The community are progressing approaches to other funders for grant aid, and a community share offer. There has previously been strong community support for shareholdings in community schemes e.g. hydro scheme.
There is insufficient community support for the proposal.	The proposal has been worked up by the community themselves. The community have undertaken their own surveys and engagement to gain and evidence community support. It is anticipated there will be further positive representations received and tabled at Committee prior to consideration of this report.
There is insufficient expertise and capacity within the community to progress this project.	The community have significant experience in community projects, such as the community hydro scheme. The community are utilising the support of Highland

	Small Communities Housing Trust in developing their proposal and business case. The community have already formed a community benefit society (Strontian Community School Build Ltd) to progress their proposal, and successfully secured in principle loan finance.
Land cannot be acquired to allow the proposal to be delivered.	The community have already commenced discussions with land owners regarding land acquisition. It is expected that funding support from the Scottish Land Fund could be available to support the land acquisition.
For any reason, the community cannot fulfil and deliver the project.	The various risks and mitigating actions relating to this scenario are as set out above. The recommendation within this report is conditional upon the community delivering their proposal. Were the proposal not to be delivered for any reason, the Council would have to review options and determine the most appropriate course of action.

4. Next Steps

- 4.1 If the Committee agrees the report recommendation, then the recommendation of this Committee would go to full Council for approval. As the recommendation is a re-location, and not a formal school closure, the potential for Scottish Government call-in under the Schools (Consultation) (Scotland) Act 2010 would not apply.
- 4.2 Discussions and negotiations with the community (Strontian Community School Build Ltd) would continue to confirm full project funding is in place, finalise lease terms and sign off on the school brief and design. As stated above, a further report would come to this Committee, following conclusion of the statutory consultation, to formalise the terms of lease, etc.
- 4.3 A project programme would be agreed as part of those discussions, with the community's current ambitious programme being that formal agreements, lease terms and community awarding construction contract would be targeted for the end of 2016, and construction following thereafter.

5. Implications

- 5.1 **Resource** – as set out above, the proposal is predicated on the Council leasing the facility for the sum of £55,000 p.a. index linked, fit out costs estimated at £190,000, and ongoing maintenance and running costs. No formal decision on these aspects is sought at this time, with a further report to Committee, following conclusion of the Statutory Consultation process, to formalise arrangements.
- 5.2 **Legal** – this Statutory Consultation and final report has been prepared in line with

the requirements of the Schools (Consultation) (Scotland) Act 2010. Officers in Legal Services have been consulted on this report.

- 5.3 **Equalities** – no implications to highlight.
- 5.4 **Climate Change/Carbon Clever** – the proposal, being a new build facility, is anticipated to have improved energy efficiency, and therefore lower carbon emissions, than the current Primary School building.
- 5.5 **Risk** – risks, issues and mitigating actions are as set out in section 3 of this report.
- 5.6 **Gaelic** implications – nothing to highlight.
- 5.7 **Rural** implications – Strontian Primary school is a rural primary school as defined by Scottish Government, and consideration has been given to the requirements relating to rural schools within the Schools (Consultation) (Scotland) Act 2010. The proposal is a community proposal in nature, and one which the community feel best meets their needs, both in relation to schooling, but also in relation to community facilities, and providing legacy benefits in relation to income generation and a community asset.

6. **Recommendation**

- 6.1 Committee is asked to agree to recommend to the Council the re-location of Strontian Primary School, to a new build on land close to Ardnamurchan High School, with that re-location dependent on the community proposal to own, fund and develop the facility as outlined within this report.

Designation: Director of Care and Learning

Date: 15 August 2016

Author: Brian Porter, Head of Resources
Ian Jackson, Education Officer

Strontian Community School Building Ltd
Business Plan

July 2016

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1. Executive Summary

- This Business Plan covers the period 2016 -2031
- Strontian Community School Building Ltd was established in 2016 with the purpose of carrying out any business for the benefit of the community in Strontian by developing and managing community-owned assets.
- The initial activity of SCSB Ltd is to oversee the primary school construction project,
- The current Primary School was identified as being unsuitable for long-term use by the Highland Council in 2014. The Primary School may, potentially, be accommodated within Ardnamurchan High School (AHS) some time after 2027. AHS, which also houses the nursery and community facilities, was built under a PPP contract which ends in 2027.
- After looking at all the options, the community developed an innovative solution to address the local challenges by forming Strontian Community School Building Limited (SCSB Ltd), a Community Benefit Company Society (FCA Registration Number: 7334) to develop a community owned building.
- The community-owned building will initially be a community owned school building, built on the footprint of affordable housing units.
- The new primary school building will be leased to the Highland Council until a permanent solution has been agreed with the community.
- The building will then be converted into affordable housing units or other community use as identified at such time as dictated by the needs of the community.
- As well as providing a new community building, the project will also create apprenticeship/ training opportunities, as far as practicable, and provide a vehicle for significant community empowerment.
- It is estimated that 400 people will directly benefit from the project
- The project will deliver a legacy for the community. SCSB Ltd. will manage the development, construction, leasing and potential future conversion of the building.

2. Background

Our Mission: The Strontian Community School Building Ltd group was established in 2016 with the main purpose of carrying out any business for the benefit of the community in Strontian by developing and managing community-owned assets.

The initial activity is to oversee the primary school construction project, based on a community owned school building being built on the footprint of affordable housing units. This will deliver a legacy for the community. The community organisation will manage the development, construction, leasing and possible future conversion of the building.

This innovative project has evolved from a number of community consultations over the past 4 years:

- the Strontian Community Consultation & Action Plan by Cadispa;
- the Highland Council Strontian Primary School Consultation Report 2016 (statutory consultation);
- Community Housing needs survey and
- Strontian Masterplanning exercise which has just been completed.

Throughout this extended period of community consultation two elements of community provision essential to the community's sustainability and growth have been highlighted as areas of major concern.

- A primary school fit for the 21st century, and
- Affordable housing both for key workers, and to attract new and retain existing families, who struggle to find affordable secure tenancies.

The existing primary school was assessed as inadequate for both educational suitability and building condition by the Highland Council in 2014, and the statutory consultation which followed resulted in initial proposals being put forward to the community which failed to reassure the community that the replacement facility would provide their children with the educational environment they deserve.

The situation has been complicated by the future potential for the primary school to be accommodated within the existing High School sometime after 2027 (the existing High School, which also houses the nursery and community facilities was built under a PPP contract which ends in 2027, at which point the Council 'inherits' the building). However prior to this, as a result of the PPP arrangement the Highland Council is unable to vary the contract, for example to alter the building, without attracting heavy penalties.

During the statutory consultation an area of land adjacent to the High School, and affording easy access to it to allow for the use of community facilities, was identified as the perfect position on which to build the required replacement primary school. Further, it is in an area that is being developed to provide housing and amenity land for the community. However, the Council's preferred option of using the site to house modular units for the new school did not meet the community's aspirations for a high-quality, long-term solution.

As a result the community have come forward with their own proposal to address the need to upgrade the primary school.

This innovative proposal provides one solution to a number of immediate and long term community needs: design and build a primary school fit for the 21st century on the footprint of a terrace of houses which would allow for the efficient and economical conversion to community owned housing or other identified community use if and when the building is no longer required by the Highland Council as a primary school.

The community owned housing could then be provided to suit the needs of the community at this point e.g. as sheltered housing provision for an ageing population, keyworker housing, community resource, or whatever need has arisen at that time.

Importantly, Highland Council would continue to provide the education service under this proposal, as they are required to do: the community would provide only the basic building.

This proposal has been developed by the community and has the support of the Highland Council. It has also attracted an offer in principle of both development finance and long term loan from a major ethical bank and is recognised as having the potential to provide a template for community facility provision within rural communities by replacing the PPP's and PPF's with Community Public Partnerships where accountability is both local and clear.

3. Activities and Services

The activities of this project will provide the following:

In the short term:

A Community Benefit Society formed and will increase the level of community engagement and capacity through driving this project forward.

Lease to The Highland Council of primary school accommodation fit to provide an excellent educational environment to the current school roll of 34 with sufficient room for an expanded school roll and outside space to engage children in numerous additional activities.

The basis for future affordable homes, sheltered housing complex or other community asset on termination of lease to HC.

Creation of apprenticeship/training opportunities in the development of the building through negotiated social benefit with the appointed contractor.

A regular income which will reduce the loan outstanding on the property considerably when the lease is terminated thereby allowing for an economically feasible route to provide affordable housing for the community.

In the medium to long term

The ongoing development of the area will see an increase in the school roll and local primary school children will continue to benefit from the provision of an improved educational environment.

Conversion to housing and other options:

Provision of affordable housing which will result in:

- Reduction in the outward migration of young people due to lack of affordable housing (vital in this community). Creating this type of opportunity means young people interested in traditionally lower paid sectors such as farming, forestry and manual labour see a viable future in the area.
- Provision of dedicated housing for older people if required.
- Provision of key worker housing to attract essential workers to the community
- Attract new families to the community
- Allow control over the allocation of the houses to cater for the actual sustainability needs of the community
- Increase options for the company to explore to achieve the most beneficial outcome for the community.

General:

Reinforcing the already vibrant community demonstrates to people considering a move to the area that the future is bright and local people are willing to give their own time and effort in order to secure positive outcomes for the next generation.

It is estimated that 400 people will directly benefit from the projects activities - the community as a whole (350 adults, plus children) will benefit significantly as high quality primary school accommodation fitting with the local surroundings retains people in, and attracts them to, the area. The school building will also be available for community use outwith school time. Any surpluses generated by the project will be returned for community investment.

4. Market/Needs Assessment

The Primary School was identified as being unsuitable for long-term usage by the Highland Council in 2014. As the Council has a statutory obligation to provide schooling it has proposed a solution, but the community initially rejected the offer of demountable units beside the secondary school, in favour of a substantial refurbishment of the existing school.

HC has now indicated informally that only a limited refurbishment might be possible, with even the temporary units now in question. The community were not prepared to support an investment that firstly would not be a significant improvement on the current inadequate facilities, and secondly left no legacy for the community should the Council move the school in the future. This demonstrates the evidence for the replacement primary school element of the project.

As the community has proposed the idea, there is clear evidence that the decision to make the facility convertible in the event that the school were to be co-housed in Ardnamurchan High School in the future is what the community desires. This demonstrates community awareness of current and future requirements, and a willingness to tackle the local issues of poor education infrastructure provision and lack of affordable housing.

The local authority looks favourably on this project and a lease figure has been intimated for financial planning purposes. As the project keeps open the option for the HC for the primary and secondary school to be co-housed in the future, the arrangement would be beneficial for both the Highland Council and the community.

5. Risk Analysis

Potential threats to the project have been identified as below but the mitigating factors are already in place:

- Lack of interest from local authority in engaging with the project --early engagement with local authority has established support
- Lack of engagement from local community -- mitigated by desire for community business to be established, alongside track record of successful community businesses nearby
- Failure to secure funding -- The business plan has been based on a minimum of grant funding. Additional grants will reduce the outstanding loan at the end of the lease term which will allow for greater flexibility in its future use.
- Lack of appetite and familiarity for community share issues -- Previous success in raising capital through community share issues (£750,000 previously raised for community hydro scheme)

- Inability to purchase the required land -- Discussions ongoing with the landowner and an agreement in principle to sell is under negotiation subject to acceptable conditions.
- Unfamiliarity with building and construction projects – the employment of suitably qualified professionals will be used to support the extensive skills of the management team as required.
- Building Design does not meet the statutory and other requirements of the education authority, leading to increased costs – engagement with Highland Council Education Department has been entered into early in the process to ensure compliance.
- The Project Costs exceed Forecasts – Robust assessment at the design stage and use of fixed price contract.
- HC requires break clause at end of year 10 – Secure appropriate agreement with HC to compensate for reduction in term.

6. Timeline

We are currently working to a timeline with the following key milestones:

2016

June	SCSB Ltd formed
Aug	Roll out Community Share Offer
Aug	HC revise Statutory Consultation
Sept 8	Highland Council final decision
Oct	Finalise land purchase
Nov	Award Tender
Dec	Construction Phase begins

2017

Aug-	HC Fitting Out
Oct	School Opening

7. Management Team

Strontian Community School Building Ltd

- Chair: Donald McCorkindale
- Secretary: Jamie Tait
- Publicity/ PR: Claire Campbell (& Parent Council Rep)
- Treasurer: Jamie McIntyre
- Community Council Representative: Catriona Hunter
- Strontian Primary School Head Teacher: Pamela Hill
- Gail Muir
- Stuart Carmichael
- Denise Anderson

Stakeholders (all with whom we collaborate)

- Strontian Primary School Parent Council & Staff
- The Local Community
- The Highland Council
- The Highlands Small Communities Housing Trust
- Highlands and Islands Enterprise
- Scottish Land Fund

8. Finance

- Development Finance of up to 60% of project costs has been agreed in principle with a leading ethical bank
- Long term finance for 15 years has also been agreed in principle
- A community share issue prospectus is in the process of being developed with support from Community Shares Scotland.

Projected Development Costs

Projected Costs	£'s
Land Acquisition	50,000
School Development Costs (excluding HC Fit out)	
Design & Build Contract	420,500
Servicing and other associated costs	160,000
Legal & Professional Fees	39,000
Development Finance Costs	<u>18,500</u>
Total Costs	<u>688,000</u>
Total Project Costs incl. development interest accrued	688,000
Less grants written off	<u>(100,000)</u>
Total Long Term Funding Required	<u>588,000</u>
Bank Loan @ 4.50% interest	320,000
Community Shares @3% interest	<u>268,000</u>
Total Long Term Loan Funding	<u>588,000</u>

Notes

1. Land acquisition Costs include legal and other direct costs
2. Development interest has been calculated at 4.5%
3. Development interest is drawn down after all other sources of development funding

Income & Expenditure and Balance Sheet Loan Projections												Year 10							
	Notes	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32			
Lease Income	2.0%	1	55,000	56,100	57,222	58,366	59,534	60,724	61,939	63,178	64,441	65,730	67,045	68,386	69,753	71,148	72,571		
Community Share Interest	3.0%	2	8,040	8,040	7,815	7,515	7,215	6,915	6,615	6,315	6,015	5,715	5,415	5,115	4,815	4,515	4,215		
Loan Interest	4.5%	3	13,790	13,070	12,317	11,531	10,709	9,850	8,952	8,014	7,034	6,010	4,940	3,821	2,652	1,431	249		
Operating Costs	2%	4	5,000	5,100	5,202	5,306	5,412	5,520	5,631	5,743	5,858	5,975	6,095	6,217	6,341	6,468	6,597		
Total Expenses			26,830	26,210	25,334	24,352	23,336	22,285	21,198	20,073	18,908	17,700	16,450	15,153	13,808	12,414	11,061		
Net Profit			28,170	29,890	31,888	34,015	36,198	38,439	40,741	43,105	45,534	48,030	50,595	53,233	55,945	58,735	61,510		
Tax Payable		5	5,352	5,679	5,740	6,123	6,516	6,919	7,333	7,759	8,196	8,645	9,107	9,582	10,070	10,572	11,072		
Profit/Loss after tax			22,817	24,211	26,148	27,892	29,682	31,520	33,407	35,346	37,338	39,384	41,488	43,651	45,875	48,162	50,438		
Opening Bank Loan Balance			320,000	303,994	287,268	269,790	251,524	232,437	212,491	191,647	169,866	147,104	123,318	98,461	72,486	45,343	16,977		
Annual Loan Repayment		6	16,006	16,726	17,479	18,265	19,087	19,946	20,844	21,782	22,762	23,786	24,856	25,975	27,144	28,365	16,977		
Closing Bank Loan Balance			303,994	287,268	269,790	251,524	232,437	212,491	191,647	169,866	147,104	123,318	98,461	72,486	45,343	16,977	-		
Opening Balance Community Shares			268,000	268,000	268,000	260,500	250,500	240,500	230,500	220,500	210,500	200,500	190,500	180,500	170,500	160,500	150,500		
Shares Bought Back		7			7,500	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000		
Closing Community Share Balance			268,000	268,000	260,500	250,500	240,500	230,500	220,500	210,500	200,500	190,500	180,500	170,500	160,500	150,500	140,500		
Opening Balance Bank			-	6,812	14,296	15,466	15,092	15,687	17,261	19,825	23,389	27,965	33,563	40,195	47,870	56,601	66,398		
Bank deposits/withdrawals			6,812	7,485	1,169	(373)	595	1,574	2,564	3,564	4,576	5,598	6,632	7,676	8,731	9,797	23,461		
Closing Bank Balance			6,812	14,296	15,466	15,092	15,687	17,261	19,825	23,389	27,965	33,563	40,195	47,870	56,601	66,398	89,859		
TOTAL DEBT OUTSTANDING AT END OF YEAR												280,255	Note 8					Note 9	50,641

Notes to Income & Expenditure and Balance Sheet Loan Projections

1. It is assumed that the Lease payment will increase by 2% annually
2. Community Share interest has been set at 3% for the purpose of these projections
3. Loan interest is based on 4.5% per annum fixed. If the lease term is agreed for 15 years then there may be a small reduction on this rate.
4. Operating costs assume an inflation rise of 2% annually. Insurance costs are to be covered by HC.
5. Corporation tax payable is calculated on the current rates of 19% reducing to 18% in 2020
6. The loan repayments are structured for a 15 year repayment loan
7. Community Share can be bought back in tranches as shown in the projections
8. Total Debt outstanding at end of year 10 will be £280,255 which is equivalent to £93,420 per unit if converted to 3 houses or £70,060 if converted to 4 houses prior to additional conversion costs.

This would require the houses to be sold on an equity share basis unless further grant funding could be secured.

9. Total debt standing at end of 15 year lease period is projected to be £50,641 which is equivalent to £16,880 per unit if converted to 3 houses or £12,660 if converted to 4 houses prior to additional conversion costs.

This would allow the houses to be provided at affordable rent levels for the community.