

<b>Mayor and Cabinet</b>			
<b>Report Title</b>	Wide Horizons Refinancing		
<b>Key Decision</b>	No	<b>Item No.</b>	
<b>Ward</b>	All Wards		
<b>Contributors</b>	Executive Director for Resources and Regeneration		
<b>Class</b>	Part 1	<b>Date:</b>	<b>10 January 2018</b>

## **1. EXECUTIVE SUMMARY**

- 1.1 Wide Horizons is an adventure learning charity formed in 2004 as a result of a joint initiative on the part of the London borough of Lewisham and the Royal Borough of Greenwich. It is now an independent charity which continues to serve Greenwich and Lewisham, but has also expanded to include many other London boroughs and Walsall.
- 1.2 It now manages eight outdoor centres and an outreach service providing adventure experiences for nearly 47,000 children and young people every year.
- 1.3 Wide Horizons took out a loan of £1.5m from Future Builders (now known as Social Investment Business Ltd) – a fund set up by the Cabinet Office which offered voluntary sector organisations repayable finance and drew down in increments since 2009. The outstanding balance on this loan as at 31st July 2016 was £1.3m.
- 1.4 Wide Horizons is seeking re-financing for this social investment business loan totalling approximately £1.3m, from both Lewisham and Greenwich Councils in equal proportion. The facility will be based on identical repayment terms with both Councils.
- 1.5 Providing this facility will allow the organisation to repay its current loan, which was taken out with a repayment date of 2020, ahead of time. The lender has confirmed they will accept early redemption of the loan without penalty. Wide Horizons will then have two annuity loans, payable over 25 years in equal instalments.

## **2. PURPOSE OF THE REPORT**

- 2.1 This report seeks approval from the Mayor and Cabinet to provide an interest bearing refinancing facility for Wide Horizons to refinance their Social Investment Business loan, in equal proportion with the Royal Borough of Greenwich, under the terms set out in section 6 of this report.

### 3. RECOMMENDATIONS

- 3.1 The Mayor is asked to:
- 3.2 Note the business case for offering a refinancing facility to Wide Horizons, the conditions and offer proposed, and the State Aid considerations that apply.
- 3.3 Agree to the Council offering of an interest bearing re-financing facility of up to £700,000 to Wide Horizons to be paid back over a period of no more than 25 years, subject to Wide Horizons obtaining an equal amount of re-financing from the Royal Borough of Greenwich.
- 3.4 Delegate authority to the Executive Director for Resources and Regeneration to finalise the terms of the re-financing agreement with Wide Horizons, working with the Royal Borough of Greenwich.

### 4. POLICY CONTEXT

- 4.1 The overarching policy and decision making framework for the discharge of the Council's many functions and duties is contained in Lewisham's Sustainable Community Strategy (SCS). The Strategy contains two overarching principles which are:
  - Reducing inequality – narrowing the gap in outcomes.
  - Delivering together efficiently, effectively and equitably – ensuring that all citizens have appropriate access to and choice of high quality services.
- 4.2 Also contained within the overarching policy framework are the Council's ten corporate priorities. These priorities describe the specific contribution that the Local Authority will make to the delivery of the SCS. The Council's priorities are as follows:
  - Community Leadership and Empowerment.
  - Young people achievement and involvement.
  - Clean, green and liveable.
  - Safety, security and visible presence.
  - Strengthening the local economy.
  - Decent Homes for all.
  - Protection of children.
  - Caring for adults and older people.
  - Active healthy citizens.
  - Inspiring efficiency, effectiveness and equity.
- 4.3 The contents of this report support the achievements of the following Corporate Priorities:
  - **Young people's achievement and involvement** – raising educational attainment and improving facilities for young people through partnership working.
  - **Active, healthy citizens** – leisure, sporting, learning and creative activities for everyone.

## 5. BACKGROUND

- 5.1 Wide Horizons is a charitable organisation that delivers a range of activities for all age groups of school children, from day centre nature experiences for primary school children, to adventurous activities for older children and young people. Many of these are linked to curriculum topics and can be adapted to suit learning objectives and goals.
- 5.2 Their prospectus states 'Our vision is that all children should have access to adventure as part of their education and development'. Wide Horizons also provides leadership and CPD training to teachers and youth leaders, inspiring them to use the outdoors creatively for teaching.
- 5.3 Wide Horizons believes that every child should have the opportunity to experience Adventure Learning as part of their education and development. The organisation states that over 35% of the of the child population in London, may never have been to the countryside; and with 4 in 10 children living in poverty in London there is a real need for a low cost, safe, outdoor space for children to go.
- 5.4 The organisation believes visiting the countryside and experiencing outdoor education is a crucial element of a child's development and adventure learning is a great catalyst for this. Their Adventure Learning courses and activities provide stimulating, challenging, fun experiences, helping children to feel good and learn better.
- 5.5 Wide Horizons delivers a range of activities for all age groups of school children, from day centre nature experiences for primary school children, to adventurous activities for older children and young people. Many of these are linked to curriculum topics and can be adapted to suit learning objectives and goals.
- 5.6 Wide Horizons is the appointed advisor to ensure that Lewisham complies with its legal responsibilities for all school trips. A number of Lewisham schools continue to use Wide Horizons facilities regularly.
- 5.7 Both Lewisham and Greenwich Councils each nominate one councillor and one school governor to be trustees for a period of four years. Subject to the limitation that no more than 20% of the Board is 'controlled members' (employees and councillors of Lewisham and Greenwich), additional company members can be elected to the Board from time to time.
- 5.8 Wide Horizons took out a social investment business loan of £1.5m, drawn down in increments since 2009. The outstanding balance on this loan as at 31st July 2016 was £1.3m. The latest published accounts states that the loan is guaranteed by the Royal Borough of Greenwich.
- 5.9 Wide Horizons is seeking re-financing for this social investment business loan totalling approximately £1.3m, from both Lewisham and Greenwich Councils in equal proportion. The facility will be based on identical repayment terms.

5.10 Providing this facility will allow the organisation to repay its current loan, which was taken out on a mainly interest only basis with a repayment date of 2020, ahead of time. The lender has confirmed they will accept early redemption of the loan without penalty. Wide Horizons will then have two annuity loans, payable over 25 years in equal instalments.

### ***Financial Review***

5.11 The organisation has been trading successfully for over twelve years and despite significant recent challenges to the voluntary sector generally, Wide Horizons continues to prove itself financially viable.

5.12 The organisation's five year budget projection shows a forecast surplus of approximately £380k over the period. The July 2016 audited accounts show an operational surplus of £170k and unrestricted reserves of £335k. The trustees regularly review the level of reserves held and are aware that excessive reserves can limit the amount of funding available for charitable activities, whilst insufficient reserves can jeopardise the ability to deliver services. In view of this, they are seeking to increase the level held over the next four years.

5.13 The senior leadership team has recognised two key financial risks and has implemented mitigating controls to minimise any potential effect these may have.

- Risk 1 - Insufficient Cash flow: mitigated by accurate cash flow projections and prudence of assumptions, robust internal expenditure controls and regular debt monitoring and credit control.
- Risk 2 - Insufficient income generation: mitigated by clear business plan for activities and fundraising income streams; established marketing strategy; monitoring of service delivery to ensure retention of current business and development of new business.

## **6. PROPOSAL**

6.1 The proposal is for Lewisham to offer an unsecured twenty five year term re-financing facility to Wide Horizons to be drawn down once and not exceeding £700,000. The facility shall only be used for the repayment of its social investment business loan. This is not a grant and the facility will be interest bearing.

6.2 Once drawn, the facility will be repayable over a period of not more than twenty five years on an annuity basis, and single schedule of agreed six monthly repayments. The end date of the facility will be co-terminus with the lease arrangements for Wide Horizons' offices and one of their sites in Kent. The full principal borrowed must be repaid no later than twenty five years from the start of the facility. No early redemption penalty will apply.

6.3 Interest will accrue on any part of the facility as soon as it is drawn until it is paid off. The interest shall be charged at a fixed rate. At the current time, with reference to the Public Works Loan Board annuity rates for borrowing over

twenty five years and the cost to the Council of administering this loan, the rate will be in the region of 3.5% per annum. The total interest chargeable over the period of the loan is approximately £357k (based on a £700k loan over the total 25 year period). Monthly repayments will be around £3,500 collected bi-annually.

- 6.4 The loan will be financed using the Council's own cash balances. Current interest rates for fixed term deposits available to the Council range from 0.5% for 3 months to 0.77% for up to a year. However, a 25 year Gilt would currently attract a yield of 4.25%, and a 40 year UK bond would currently attract a yield of 1.7%.
- 6.5 The facility will only be available for drawdown once approval has been given by the Royal Borough of Greenwich to provide the re-financing for the second half of the current loan.
- 6.6 Any further conditions will be determined by the Executive Director for Resources and Regeneration and will include:
- a similar decision from the Royal Borough of Greenwich;
  - termination provisions (in the event of a loan default) added to the relevant lease documentation, where the London Borough of Lewisham has leased property to Wide Horizons.
  - require Wide Horizons to notify both Councils if their financial viability changes such that they will exceed the State Aid thresholds; and
  - require Wide Horizons to accept, in such an eventuality, that both Councils will immediately revisit the loan rate and increase it if necessary to be compliant with the potentially higher risk profile.

## **7. STATE AID**

- 7.1 In creating a re-financing facility, the Council has to be mindful of the viability of the organisation and the EU State Aid guidance.
- 7.2 Issues of State Aid arise under EU law and prevents member states from granting aid to an organisation which would result in it being anti-competitive in the market. This may arise where a loan is not on market terms.
- 7.3 The State Aid guidance requires consideration of a combination of the one year Inter Bank Operating Rate (IBOR), currently 0.65%, and a proxy rating for the borrower assessed with reference to their viability and collateral.
- 7.4 Using the European Commission's methodology for setting reference and discount rates, it is proposed to rate Wide Horizons as normal and weak with a B rating. This would give a suggested comparator rate for the loan of 4.65% (IBOR 0.65% + Rating 4%). This is a subjective process but a prudent rating assessment made by the authority.
- 7.5 In comparison, a 25 year loan of £700,000 from Charity Bank would attract an interest rate of 3.5% subject to the borrower satisfying their collateral conditions.

7.6 The loan rate proposed is based on the Council's borrowing rate from the Public Works Loan Board (PWLB), including the certainty rate (a 20 basis points reduction for local authorities on the published PWLB loan rates), available, for a fixed interest annuity loan for 25 years. (It is important to note that the PWLB rates fluctuate regularly, so the rate used in this report is 2.5% as at 10 November 2017). An additional administration and risk charge, of approximately 1%, will be added to cover the administration costs of the loan.

### ***Loan rate recommendation***

7.7 The requirements of the State Aid guidance have been assessed above. In this context the comparable rates for this scheme range are:

- 3.5% 25 year loan (Charity Bank)
- 4.65% EU calculation using one year IBOR (0.65%) plus risk rating of 4% based on Wide Horizons rated as B.

7.8 A rate that is below the EU reference rate but within the State Aid limits available for assistance and not less than the current commercial benchmark is considered appropriate.

7.9 Taking the above into account a loan rate of 3.5% (based on paragraph 7.6 above) is recommended.

7.10 Wide Horizons are required to notify both Councils if their financial viability changes such that the B rating applied in 7.4 above is affected and therefore the State Aid thresholds are exceeded. Wide Horizons is to accept that in such an eventuality, both Councils will immediately revisit the loan rate and increase it to be compliant with State Aid requirements.

## **8. FINANCIAL IMPLICATIONS**

8.1 The Council would use its cash balances to provide this facility initially and factor it into its wider borrowing needs as necessary over the period of the loan.

8.2 The risk to the Council is that the agreed rate of interest for the loan (expected to be agreed at around 3.5%) may be less than could be achieved by investing the money. However, this is not the case now and, in the current low interest rate environment, is unlikely to be. In compensation were this risk to materialise, the communities of Lewisham will continue to benefit from the positive indirect contributions this project will contribute to the youth in the borough.

8.3 Another risk to the Council will be Wide Horizons inability to meet the interest and capital repayments over the life of the loan. These risks are somewhat mitigated by ensuring the end of facility is co-terminus with the lease arrangements for Wide Horizons' offices and one of their sites in Kent.

8.4 The loan arrangements stated above fall within State Aid limits.

## **9. LEGAL IMPLICATIONS**

9.1 The Council has a wide general power of competence under Section 1 of the Localism Act 2011 to do anything that individuals generally may do. The existence of the general power is not limited by the existence of any other power of the Council which (to any extent) overlaps the general power. The Council can therefore rely on this power to provide the loan to Wide Horizons.

9.2 State Aid law is the means by which the European Union regulates State funded measures to ensure they do not adversely affect trade between the Member States and thereby undermine the functioning of the European common market. It covers, amongst other things, loans not at commercial rates or other financial assistance.

9.3 Where the European Commission finds unlawful State Aid they may order the immediate termination of the project and the clawback of the full value of the aid (with compound interest backdated to the point of the award).

9.4 The proposed loan facility is upon terms that reflect a comparable commercial rate so the State Aid rules are not considered to apply, there being no distortion of competition. This will be kept under review to ensure the loan continues to be compliant with State Aid requirements

## **10. CONCLUSION**

10.1 This report presents a proposal to the Mayor and Cabinet to agree to provide Wide Horizons with an interest bearing re-financing facility to allow it to re-finance its social investment business loan over a period of 25 years.

## **11. BACKGROUND DOCUMENTS AND FURTHER INFORMATION**

For further information on this report, please contact:

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