

Tabled Paper – Update on the Elwick Place report

The proposal is to fund and require the construction of the Development on Elwick Place.

Introduction

Since the publication of the report the due diligence has continued and further detailed analysis has been carried out of the financial implications for the Council of the proposed arrangement with Stanhope. There is a need to update members accordingly.

The Proposal

1. The Council has already acquired the freehold land at Elwick Place (see para. 3 of the report), subject to and with the benefit of the existing development agreement between SEEDA and Stanhope dated 2010.
2. The references to “Purchase” and “Acquisition” of the Development, both in the report’s title and throughout the report and its appendices, thus need to be read in the light of the fact that no land will be transferred.
3. The proposal from Stanhope is that the Council, within the overall cost envelope, provides funding for historic and future professional and project costs, together with all costs of the building works and also costs incurred in respect of the lettings (tenants’ incentives etc.).
4. Stanhope will not in fact repay the development costs on practical completion, instead a profit share will be paid to Stanhope. The method of calculation of this profit share is set out in the attached Exempt Update Report.
5. Following practical completion, the Council as freehold owner of the asset will benefit from the rental income and any future capital growth.

Due diligence

6. As para. 41 of the report indicated, further and amended due diligence advice to that provided at Appendix C is attached to this Update Report and is likewise Exempt from Publication by virtue of paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972. Members are asked to note this alongside the original advice.
7. In particular, Members should note that a revised draft of the report from Arlingclose at Appendix C to the report is currently being prepared. This will reflect items referred to in this update report and will be considered under the procedure set out in recommendation III.

8. Where the report refers to the total value payable by the Council to Stanhope for the Development being based on a yield of 5.1%, whilst that remains relevant to a scenario where the development is fully let at practical completion (PC), more detailed modelling work and evaluation has been carried out, including assessing scenarios whereby some units are not let at practical completion. Members are referred to the exempt update report for full details of the scenarios modelled and for updated advice on the net surplus.

Amendments to the Report

9. Paragraph 39 of the Report should be amended to read as follows:

“The Council will fund the construction costs. The risk of cost overrun rests with the Developer in so far as any increase in development cost essentially erodes the profit payable to the developer at Practical Completion. It may also be the case that cost overruns result in the building contractor being liable to pay damages and/or meet those costs themselves. It should be noted that there is no cap on the amount the Council can be asked to contribute by way of development costs but the Council will be entitled to charge interest at 5.1% on these costs and deduct the costs and interest from the value that has been created by putting the leases in place, before calculating and paying the developer any difference as its profit payment.”

Paragraph 40 should include the following. “The Developer will carry some of the risk of the units being un-let at Practical Completion in that the Developer receives a lower payment for any un-let units. Details are given in the attached exempt update report.”

Amended Recommendations

Replace Recommendation IV with:

“IV. Agree to entering into an agreement to finance and require the construction of the Development with Stanhope PLC on the terms and at an outlay as set out in the exempt update report.”

Replace Recommendations V and VI with:

“V. Agree to fund the construction of the Development from borrowing (a mixture of internal and external borrowing) with discretion as to the mix and duration of borrowing delegated to the Chief Financial Officer in consultation with the relevant portfolio holder, with the need for a later report containing recommendations to amend the Council's Minimum Revenue Provision Policy as and when necessary as advised by Arlingclose.”