

PSP Warwick LLP

Leamington HQ Project

Members Board Resolution

1. Introduction

On 24 March 2016, the Members Board met to review the status of the HQ project. The Board reviewed the LLP's e2 and e3 Reports, together with supporting validation documents from Anthony Collins and CIPFA. Subject to clearance of a couple of outstanding points, which have now been addressed, the Board resolved to progress with the project. The purpose of this Members Board Resolution is to set out clearly the key points agreed.

2. The project

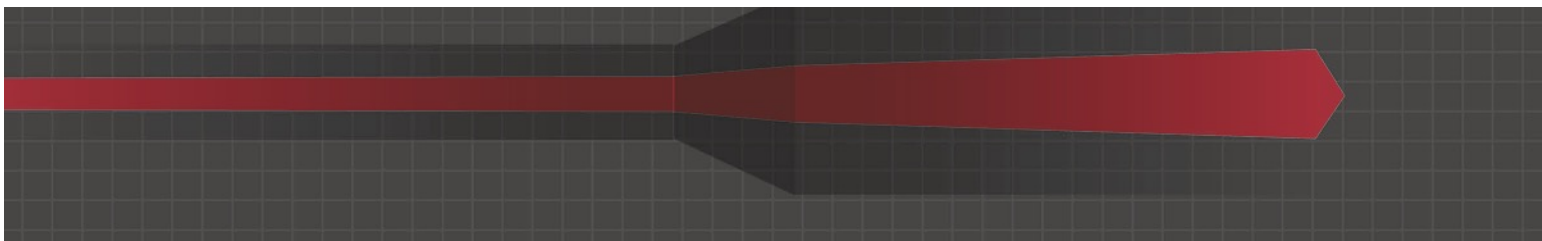
The project involves two sites; Riverside House, which will be released in two phases, and Covent Garden car park. It is intended to construct a new office building of 26,100 sq ft NIA for occupation by the Council at Covent Garden, together with a replacement multi-storey car park of 650 spaces and a residential block of circa 30,000 sq ft for sale to the market. The Council will retain the freehold of the whole of this site. Riverside House will be redeveloped for housing with the whole of the site being sold down by the end of the project. A first phase on the upper car park will be brought forward immediately, with the remainder of the site being developed once the new office building has been completed and occupied.

3. Delivery strategy

The LLP will lead on the delivery of the project and provide the majority of the funding. Delivery will take place in two stages. Stage 1, with a budget of up to £1,175,000 (funded at risk by the LLP) will work through design development, the planning process, tendering and partner selection for Riverside House to arrive at a point where the overall viability of the scheme has been confirmed. If the scheme is not considered viable then the partners will work together to resolve the issue. Assuming the project remains viable, then the works will proceed. A budget of £24,540,000 is forecast, of which the Council will provide up to £9,750,000 for the construction of the car park, and the LLP will fund the remainder.

Since the Council will retain the freehold of the Covent Garden block, it is proposed that the Council will enter into all necessary contracts related to the delivery of the works on the site. This will involve some form of procurement compliant process. The LLP will provide its share of funding for these works to the Council to meet its financial obligations.

At Riverside House, the Council will grant the LLP a conditional option over the land to allow for onward disposal. The LLP will secure a development partner on terms which maximise the capital upside that can be achieved from the site.



4. Commercial terms

The commercial terms are explored in detail in the e2 report and tested against other options in the e3 report. They have been further summarised in a Commercial Principles document which are attached to this document for reference.

5. Resolution

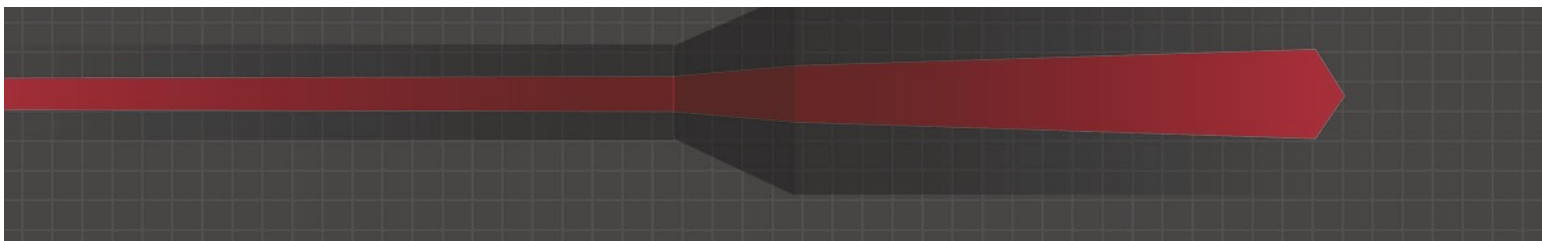
By signing below, it is confirmed that the Members of PSP Warwick LLP resolve to approve the following.

- Subject to securing all necessary approvals from the Council
 - That the detailed proposal as set out in the accompanying e2 and e3 reports and associated other reports is agreed in its entirety.
 - That an initial budget of £1,175,000 is approved for the Stage 1 works.
 - That subject to satisfactory conclusion of Stage 1, a further budget of £24,540,000 will be made available. Of this sum, up to £9,750,000 will be provided by the Council, the remainder will be provided by the LLP.
 - That the necessary legal agreements will be entered into to allow the project to move forward.
 - That authority to conclude these legal documents is delegated to the officers of the Council and PSP.
 - That the attached Commercial Principles document is agreed.

6. Signatures of partners of PSP Warwick LLP

We accept the resolution as set out above.

For Warwick District Council		
Name	Sign	Date
Name	Sign	Date
For PSP Facilitating Ltd		
Name	Sign	Date
Name	Sign	Date



Riverside House HQ Offices Relocation Project

Commercial Principles

Subject to contract

Version 3 - 1.4.16

1. Project description

The project covers two sites; Riverside House and the Covent Garden car park site. It is intended to construct a new office building of circa 26,000 sq ft net on the Covent Garden site for occupation by the Council, together with a new and enlarged multi-storey car park to replace the existing facilities. It is intended to fund the cost of these works by maximising the receipt from the disposal of the Riverside House site and by developing part of the Covent Garden site for residential use. Riverside House will also be redeveloped for residential use.

2. Project structure

The project comprises two component parts; the redevelopment of the Covent Garden site and the redevelopment of the Riverside House site. Each will be approached differently.

For Covent Garden, the LLP will develop a scheme to include a new 650 space multi-storey car park, new office building for occupation by the Council and a residential block comprising up to 30,000 sq ft of flats. The Council will retain the freehold of the entire block since it wants to own its building outright together with the car park. It will own the freehold of the residential block with flats sold on a leasehold basis. Given this, it is proposed that all construction works are let in the name of the Council and that the LLP provides the funding for its parts of the project to the Council to cover the cost of the works.

For Riverside House, the LLP will be granted a conditional option over the site, this will allow it to develop a scheme for the site and bring in a residential development partner to maximise the land owners receipt. It is envisaged that the site will be developed in two phases, an initial phase on the upper car park site immediately and the remainder once the site has been vacated, on completion of the new office building.

3. Project criteria

The project is based upon a number of assumptions which rest upon a set of project criteria. These criteria are as follows;

1. **Office requirement** - The Council requires an office building of 26,100 sq ft net, specified to a reasonable quality specification (with a view to seeking BREEAM Very Good or Excellent, subject to costs), to be able to be completed by the end of 2018, and having regards to the available construction budget.
2. **Office construction budget** - The Council acknowledges that a budget of £8.65 million is estimated to be released from the project to spend on the construction of its new office building. This includes fitting-out, furnishing, IT and removal costs and all associated fees and contingency at 5%. These costs set out in more detail in the e2 report.
3. **Redevelopment of Riverside House** - Planning permission will be sought for a scheme of 110,000 sq ft net of residential space at Riverside House (or such other area as is considered optimal to secure the best commercial outcome in line with the Gross Land Receipt). This scheme to be developed in two phases as outlined above. A joint-venture partner will be sought to deliver the scheme.
4. **Redevelopment of Covent Garden site** - Planning permission will be sought for the office, car park and residential scheme. Delivery of this scheme will include demolition of the existing car park and associated enabling works. The Council will enter into all contracts for the scheme once the project has become unconditional. The Council will fund the cost of the replacement car park itself (estimated at £9,750,000) and the LLP will provide the funding for the enabling works, office building and residential block (estimated at £15,960,000).
5. **Affordable housing** – Given the extent of exceptional costs on the project it is considered that a robust case can be made on a viability appraisal basis to reduce the provision of affordable housing for the scheme. It is acknowledged that it would be difficult for this to be reduced to zero, so an assumption of 20% has been made within the analysis and it is expected that a figure at or below this level will be achieved.
6. **Gross receipt** - A gross land receipt (based upon 20% on-site affordable housing provision) of £13.2 million is forecast from the Riverside House site and gross sales of circa £9.7 million are forecast from the sale of flats at Covent Garden (also including 20% affordable housing provision).
7. **Viability** – Viability of the project is based upon a balance of cost and income as forecast for the project within the e2 document.
8. **Project costs** - The LLP has identified an initial project budget of £1.175 million for the Phase 1 works as set out below. The remaining budget is in two parts; LLP costs of £14,788,289 and WDC costs of £9,750,000.

3. Project stages

The project comprises two stages.

1. **Stage 1** - The following Objectives are delivered in accordance with the Project Criteria;
 - a. Designs are prepared for the two sites and a planning application(s) is/are submitted.
 - b. Planning permission is secured
 - c. Tenders are sought for the construction of the new office building, car park and residential block, and a suitable Design and Build contract is put in place and ready to proceed.
 - d. A developer partner is procured by the LLP, and put in place (to the agreement of the LLP and the Council), for the development of the Riverside House.
 - e. The overall scheme remains commercially viable.
2. **Stage 2** - Construction of the new office building, car park and residential block commences. Phase one of a two-phased delivery of residential development commences on the eastern part of the Riverside House site. The new office is completed and occupied and the remainder of the Riverside House site is released for ongoing development.

4. Project Gateways

In order to move from Stage 1 to Stage 2, the agreed Objectives shall have all been satisfactorily completed.

At this point, the conditional Option for the Riverside House site will become unconditional and exercisable by the LLP in phases.

5. Default events

It is agreed that both parties will use their reasonable endeavours to see that the project is delivered in accordance with the project criteria and that the agreed Objectives shall be achieved. If at any stage it becomes apparent that there is a risk of any of these criteria not being met then all reasonable steps will be taken to put in place corrective measures to remedy the situation.

In the event that the conditions to pass from Stage 1 to Stage 2 are not met, the costs incurred during Stage 1 will be treated as follows.

1. In the event that either party unilaterally withdraws, that party will be responsible for meeting the agreed project costs

2. If the Council seeks changes to the project that have a material impact upon the project criteria and the project becomes unviable as a consequence, then it will be liable for all costs incurred.
3. If, despite the reasonable endeavours of the parties, it becomes apparent that Viability of the project will not be achieved, then all expenditure will cease. In this event, any expenditure incurred will be considered as a loss to the LLP and treated in accordance with the terms of the Members and Procedures Agreements.
4. In all instances, the partners will have the right to agree between them any alternative arrangement which it is considered will reasonably allow the project to proceed.
5. In the event of the LLP incurring a loss, the partners will use all reasonable endeavours to mitigate that loss.

6. Proposed profit sharing arrangements

A sequential approach to the release of funds is proposed.

1. All LLP borrowings (the project costs) and interest are repaid. This will deliver the new office building to the Council.
2. PSP's Facilitation return at 18% on project expenditure is taken.
3. WDC and PSP share the remaining proceeds 51/49.

This arrangement is illustrated on the attached spreadsheet.

Part A - Appendix 3

Leamington HQ Project – Financial summary

1.4.16

Project costs

Phase 1 works attributable to Riverside House and Covent Garden enabling plot

Apportioned budget	£500,000
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Phase 2 works on Covent Garden attributable to the enabling plot

Site-wide clearance and enabling works	£150,000
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Construction of residential block	£5,236,364
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Apportioned interest	£383,630
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Gross costs	£6,269,994
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Income

Land receipts – Riverside House	£13,213,036
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Gross receipts – Covent Garden residential	£9,765,000
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Gross Income	£22,978,036
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Project profit	£16,708,042
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Stage 1 distribution of receipts

WDC office building and associated works

Share of Phase 1 costs	£725,000
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Site-wide clearance and enabling	£750,000
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Construction and fit out office	£8,651,925
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Apportioned interest	£712,457
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Total WDC benefit income)	£10,839,382	(Equates to 64.9% of gross income)
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PSP Facilitation Return at 18% of cost	£2,882,392	(Equates to 17.2% of gross income)
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Remaining balance	£2,986,268
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Stage 2 distribution of receipts 51/49

WDC share at 51%	£1,522,997
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PSP share at 49%	£1,463,271
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