

## **CABINET**

**21 January 2019**

Present: Mayor (Chair)

Councillors K Collett, S Bolton, S Johnson, M Watkin and  
T Williams

Also present: Councillor Nigel Bell, Labour (for minute no. 57-59)  
Councillor Asif Khan, Labour (for minute no. 57-59)  
Councillor Jagtar Singh Dhindsa, Labour (for minute no. 57-  
59)  
Councillor Sohail Bashir, Labour (for minute no. 57-59)  
Chris Hornung – Lambert Smith Hampton Investment  
Management (for minute no. 57-59)  
Robert Stokely – Lambert Smith Hampton Investment  
Management (for minute no. 57-59)  
Patrick Morris – Trowers and Hamlin LLP (for minute no. 57-  
59)  
Paul McDermott – Trowers and Hamlin LLP (for minute no.  
57-59)  
Ian Tasker – Grant Thornton (for minute no. 57-59)  
David Longbottom – Grant Thornton (for minute no. 57-59)

Officers: Managing Director  
Deputy Managing Director and Director of Place Shaping and  
Corporate Performance  
Shared Director of Finance  
Head of Democracy and Governance  
Head of Corporate Strategy and Communications  
Head of Community and Environmental Services  
Head of Finance  
Regeneration and Property Section Head  
Leisure and Community Contract Monitoring Officer  
Mayor's Political Assistant  
Democratic Services Manager

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### **Apologies for absence**

Apologies had been received from Councillor Sharpe.

50 **Disclosure of interests (if any)**

Councillor Collett and Councillor Williams declared that they had a pecuniary interest in the item on Voluntary Sector Commissioning Framework and would leave the room for that item.

51 **Minutes of previous meeting**

The minutes of the meeting held on 3 December 2018 were submitted and signed.

52 **Conduct of meeting**

Councillor Bell spoke on behalf of the Labour Group.

Some changes were made to the order of the agenda and the report on Acquisition of Leasehold Interest in Croxley Business Park was taken first.

53 **Watford Authority Monitoring Report 2018**

The Mayor introduced the report and described it as a very detailed piece of work.

The Deputy Managing Director explained that the report was received annually by Cabinet and contained a wealth of information which was collected for the local plan but also used by other services and organisations.

Following a question by the Mayor, the Deputy Managing Director explained that regarding a review of the level of Community Infrastructure Levy (CIL) there would be a report to the next Portfolio Holders meeting followed by a report to Cabinet. Some CIL funds had been allocated to the Metropolitan Line Extension but Cabinet and Council had now approved these for use on the cycle hire and on-demand transport schemes. The government had said it would review CIL but this had not yet happened. There was also a proposal to look at CIL across South West Hertfordshire to help with strategic infrastructure. As CIL was a finite fund, the council had to be careful about priorities for its use.

The Mayor raised a question on indicator H9 in appendix 2 which the Deputy Managing Director agreed to look at to ascertain whether the indicator results were correct.

RESOLVED

Cabinet agreed that the Watford Authority Monitoring Report 2018 be noted and delegates any minor amendments or corrections to the Planning Policy Section Head.

54 **Redevelopment of land, community centre and shop at 32 Raphael Drive and Centrepoint Community Centre**

Councillor Johnson introduced the report and commented that the project was about delivering 50 plus socially rented properties. The site was presently underused. However, it was important to ensure that the local community had a resource they could use which included a community area and a shop.

Councillor Johnson drew Cabinet's attention to paragraph 3.1.4 in the report which described a new community space to be provided and its various potential uses. Whilst residents were unhappy about the upheaval that was to come, they acknowledged that the council had accommodated their wishes for a community space and a shop. Therefore the council had demonstrated that it had listened to and acted upon their concerns.

The Mayor commented that he had met a number of the user groups and recognised that community space was important to them.

The Head of Democracy and Governance stated that recommendation 3.1.1 should be amended to include 32A Raphael Drive. Cabinet agreed to amend the recommendation.

**RESOLVED**

That Cabinet agrees:

1. That having had full regard to the content of this report, including comments and views expressed by members of the public and users of the current community centre and shop and having regard to the attached equality impact analysis in Appendix 2, and the implications for crime and disorder, that the land, community centre and shop at 32 Raphael Drive, 32A Raphael Drive and Centrepoint Community Centre be approved for disposal to Watford Community Housing (WCH) for redevelopment for social rented housing, appropriate community space and retail space on the terms previously approved by Cabinet on 10 September 2018, subject to the due planning process, and that the site be deemed to be surplus to requirements.
2. That the Council ceases any and all activities operating from the Community Centre on 31 March 2019.

3. That the Council works with all existing user groups of the Community Centre to support them in finding appropriate alternative facilities whilst the community facility is unavailable.
4. That the new community space be large enough to accommodate a meeting of 50 people, and/or the playing of table tennis, and/or a community coffee morning, and/or the running of a fitness class. That this space be able to be readily sub-divided to create 2 separate community spaces and that it has an appropriate kitchen facility.
5. That the new retail space be of appropriate size for the retail needs it will service.
6. That the community space and retail space be constructed in such a manner and such a size and layout that should either or both no longer be required they can be converted into additional social rented accommodation.
7. That the Council enter into a nomination agreement with WCH to ensure it obtains 100% nomination rights for each of the residential units to be built on the site.
8. That the Council enters into appropriate agreements with WCH to ensure that in the event that any units or the site is subsequently disposed of by WCH any sums received are either used to provide further social housing with suitable nomination rights to the Council or the Council receives a share of the proceeds of sale equal to the share that it contributed to the development.
9. That the Transfer includes a restrictive covenant preventing the site being used for any purpose other than social rented housing, community space and a local shop.

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### **Voluntary Sector Commissioning Framework (VSCF) 2019 - 2023**

Councillors Collett and Williams left the room for this item.

The Head of Community and Environmental Services explained that the voluntary sector was important to the council and was an area where the council positively engaged and supported with a fund of over £3/4m each year. Even during difficult financial times, the council had maintained this commitment.

He continued that the key points were that a number of services would continue to receive funding: Watford and Three Rivers Trust, Citizens Advice Bureau, Shopmobility and the Mayor's Small Grants Fund. This year the council was also looking to include the Pump House Theatre and would continue to support four community centres. Officers had met with representatives from Watford Palace Theatre to explain that there would be a slight reduction in their funding over a four year period.

Following a question by the Mayor, the Head of Community and Environmental Services explained that in meetings with Watford Palace Theatre it was recognised by the theatre that they needed to move to being more commercial and were also aware that, despite a reduction in funding, the theatre still received the largest grant for a single organisation from the council.

Councillor Johnson welcomed the contribution to the Pump House Theatre. The Mayor thanked officers for their work.

#### RESOLVED

That Cabinet agrees:

1. the new Voluntary Sector Commissioning Framework 2019-2023 priorities and areas of focus as identified in Section 4.6 – 4.6.1 and Appendix 1 of the report;
2. to delegate responsibility to the Head of Community and Environmental Services in consultation with the Portfolio Holder to implement the next steps and key milestones as described in Sections 4.4 and 4.7 of the report to ensure services are in place from 1 April 2019, subject to council approval of the Budget 2019/2020.

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### **Financial Planning**

The report was introduced by Councillor Watkin who drew members' attention to a document circulated at the meeting which explained the revised budget gap if the council approved the Croxley Park item at its Extraordinary Council meeting on 23 January 2019.

Councillor Watkin continued that within the budget there would be funding for the Mayor's priorities for on-demand transport and cycle schemes. The council would borrow £50m to fund the transformational Hart Homes building projects which would then generate significant revenue for the council. It was proposed to increase council tax by 2.2%, which would mean a £5.76pa increase for a Band D council tax payer in 2019/20. Officers had worked on the principle that only

the increase in the upcoming financial year was included in the MTFS in order not to fetter the discretion of the council in future years. The council continued to review its fees and charges and these would have an overall increase in line with inflation. In 2019, the council would conduct an in-depth review on the basis of all fees and charges.

Councillor Watkin explained that in an era of political and financial uncertainty the council must be prudent and yet bold in addressing the needs of the community. If the Croxley Business Park report was approved by Extraordinary Council then the net overspend would be just under £2m and there was over £2m in the economic impact reserve which could be used to fund any overspend in that period. Should the council not agree the Croxley Business Park proposal then there would be plans to implement a different strategy. With regards to the capital budget over the next four years, there would be planned expenditure of around £154m on capital projects including £53m on housing, £33m on the Riverwell development project and other large schemes including improvements to Clarendon Road, the Town Hall and Watford Business Park. The council could afford these schemes through prudential borrowing and the use of capital reserves.

The Mayor noted the extract of minutes which had been received from Budget Panel. The Mayor also queried the figures regarding charges for filming and asked that these be updated as necessary. (See appendix 1 for amended fees and charges extract).

In accordance with the Local Authorities (Standing Orders) (England) (Amendment) Regulations 2014 the votes were recorded as follows –

Those in favour

Mayor Taylor, Councillors Collett, Bolton, Johnson, Williams and Watkin

The resolutions as set out in the report were CARRIED by 6 votes to 0.

RESOLVED

That Cabinet:

1. Delegates to the Director of Finance and Portfolio Holder the ability to amend the budget figures in accordance with decisions taken at the Cabinet meeting, Council on 23 January 2019 and any minor variations that may occur before the Council meeting.

That Cabinet recommends

That Council:

2. Resolves in accordance with the Local Authorities (Calculation of Tax Base) Regulations 1992, the amount calculated by Watford Borough Council as its Council Tax Base for the year 2019/20 is 32,840.6 as outlined in the report.
3. Approves the continuation of the Local Council Tax Reduction Scheme for 2019/20.
4. Approves the budget (Attachment 1) as laid out in the report, including:
  - the base budget for 2019/20
  - the growth and savings
  - the Capital Investment Programme 2018-22.
5. Approves the schedule of fees and charges & income charging policy (Attachment 2).
6. Approves the Capital Strategy for 2019/20, amended as necessary for the decisions of Council on 23 January 2019, and delegates to the Director of Finance and Portfolio Holder Resources responsibility for agreeing and maintaining the Treasury Management policy. (Attachment 3)
7. Agrees to increase the annual Council Tax for a Band D property in 2019/20 by 2.2%. This will apply to all other bands.
8. Notes the key risks identified and approves their proposed mitigations.
9. Notes the advice provided by the Director of Finance on the robustness of estimates and the adequacy of reserves.
10. Notes the indicative budgets for 2020/21 and 2021/22 and the need for further work to close the budget gap.

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### **Acquisition of Leasehold Interest in Croxley Business Park - Part A**

The Mayor introduced the report and described to Cabinet that the proposal was important as it closely matched the aspirations of the council in diversifying the council's portfolio. Colombia Threadneedle Investments (CTi) had approached Watford due to the council's good reputation.

The Managing Director explained it was a major investment decision for the council. In order to ensure that Cabinet had a full briefing on the acquisition and risks, a number of the advisory team had been invited to attend the meeting.

Each set of advisors would introduce themselves and explain how they had been involved and their key findings.

Mr Hornung from Lambert Smith Hampton Investment Management (LSHIM) explained that they were the council's retained property advisers in respect of the council's existing portfolio and had been appointed in 2016. In their capacity as advisors they were asked to accompany officers on the first formal inspection of the property with CTi in July 2018. Following this the council had adopted a two stage approach to the project and LSHIM provided reports at the end of each stage in October and December.

Mr Hornung continued that the stage one report provided an overview of the opportunity based on the information provided by CTi. This was an initial sense check prior to the council expending greater time and costs in further due diligence. The second stage followed a due diligence exercise including LSHIM commentary on the opportunity and the engagement of a number of third party specialists to report on different aspects of the property and transaction proposed.

LSHIM provided commentary on an assessment of key property risks, tenant covenant analysis, occupational market review, future trends and forecasts for UK business parks and income strip transactions. Third party specialists included:

- JBS environmental – to provide a review and report on the stage 1 environmental assessment prepared by Ramboll on CTi's instructions
- Montagu Evans – estate services charge
- Lambert Smith Hampton – review and report on building surveys and Planned Preventative Maintenance (PPM) costings and programme prepared by Workman LLP on CTi's instructions
- Chapman Petrie – independent review of the asset as an investment
- CBRE – commentary on occupational market, though recognising that they were conflicted to the extent that they were currently engaged by CTi
- Synaptica – review of current EPC ratings for individual properties
- Real Estate Forecasting – independent forecast and estimate of rental growth for the next five and subsequent 35 years respectively.

LSHIM reviewed all of the above reports and summarised them into their own report. They also gave consideration as to how the council should best manage the investment post-completion. Croxley Business Park was one of the pre-eminent business parks in the South East and was becoming known as a medical campus. The site adjoined Watford Business Park the freehold of which was owned by the council. The buildings were well designed and the rental income was the highest it had ever been. There was a willingness from CTi to invest in

the estate since its acquisition which included construction of a new office building totally 64,000 sq ft in 2018 and a proposed 85,000 sq ft new office building. There were investment benefits from all the leases being excluded from the security of tenure and compensation provisions of the Landlord and Tenant Act 1954. This would put the council in a strong position if plans evolved for the site in the future.

Mr Hornung continued that the council would pay an RPI linked head rent. The key variables were the rate of future rental growth, unrecoverable PPM/Lifecycle capital expenditure, length of voids and the level of unrecoverable service charge. The vacancy rate would fluctuate over time. Upon expiry of the 40 year head lease, the council would have the option to acquire the property for £10. LSHIM were satisfied that overall the property fundamentals of the asset were strong, subject to the detailed findings in their report.

The Managing Director thanked Mr Hornung and LSH Investment Management for their very thorough work in the timescales involved.

Mr Tasker from Grant Thornton explained that he was the Head of the Real Estate and Assets Team and worked with Mr Longbottom. Grant Thornton had developed a bespoke financial model for the business park opportunity to appraise opportunities in negotiations. They had appraised the final business case and run sensitivity testing to reflect operational risks in various scenarios. Grant Thornton had provided advice on VAT and accounting. Their role was to appraise the proposed transaction in line with the council's proposed investment criteria and decide whether it met that criteria. They did not give a view on whether the council should proceed with the transaction.

Grant Thornton provided quantitative analysis for the council and created case studies to represent stages of the transaction. The key inputs were the rent, the payment by CTi of £88m to the council for use at its discretion and the option to purchase the lease at the end of the 40 year period. They had looked at the impact of RPI increases on the viability of the transaction, voids and had carried out sensitivity testing around interest rate assumptions.

The Managing Director thanked Mr Tasker and Mr Longbottom for the substantial amount of modelling which had been involved.

Mr McDermott from Trowers and Hamlin LLP explained that their firm had specialisms in working with the public sector advising on local authority powers and commercial activity. They worked closely with officers and advisers to make sure the council had the necessary powers for its proposals and could not be challenged. Also to structure the transaction to ensure it was within procurement rules and to advise on state aid.

Mr Morris, also from Trowers and Hamlin LLP, explained they had carried out due diligence and looked at documentation. Due diligence included the certificate of title provided by CTi lawyers which was reviewed and any issues highlighted. Trowers and Hamlin looked at whether the tenancy schedule was correct, service charges caps, breaks and service charge exclusions. With regards to property matters, they considered the rights and reservations of the site, covenants and carried out land searches. For documents, they reviewed the main agreements including, the lease for 40 years with a £10 payment at the end of the term and the asset management agreement.

The Managing Director thanked Mr Morris and Mr McDermott for their clear advice in a very complicated transaction and praised the speed of their response to any issues which have arisen.

The Managing Director then gave a presentation to Cabinet setting out the reasons the council was considering the transaction. It had been forecast in the Watford Authority Monitoring Report, also in the Cabinet agenda, a growth pattern of 22,000 jobs would be required by 2031 to sustain the economy. There was a high demand for offices in the town, but a lack of supply and an increase of erosion in employment floor space and industrial space. The proposal would not be a new growth area for the council as it was set out in the council's core strategy that the western gateway was a key area of growth. There was a benefit to the council to potentially align Watford and Croxley Business Parks. The Park investment allowed the council to safeguard employment and to drive density in order to attract the best businesses to the area, all of which supported the council's economic objectives.

The Managing Director continued that the income strip proposal was a forward funding arrangement to acquire an asset at the end of 40 years for a nominal value. The council would become responsible for the rental risk and the maintenance and would receive £88m for this. The £88m would be transferred to the council upon completion of the lease and would have no constraints on how it was used. The council would look to invest the funds to generate a return and fund the costs of the Park. The new offices being built had the potential to attract more businesses and new levels of income. CTi would be completing the building and would also be paying the stamp duty for the Park.

Overall the deal would allow the council to take out £1.5m pa in years 1-10 to support the budget. This would reduce to £1m pa inflated up to year 35. There were substantial risks and in the last 10 years of the model as presented the PPM would require council funding. However, the risks could be mitigated by a number of strategies including treasury management and borrowing where appropriate. The council's requirements on repair obligations would reduce and

if the council needed to borrow against an asset the Park would be a significant asset. At the end of the 40 year period the council would no longer be paying CTi and would take the full revenue from the Park.

The Managing Director highlighted that Cabinet should consider alternative options to that being proposed in order to address the council's financial situation. This could include reviewing the cost of services or investing in other assets.

The Managing Director advised that overall the risks had been identified and considered and the revenue set out for the proposal had been prudent and sensitivity testing had been realistic. It would be important to have the right governance in place and the council had already established the Property Investment Board and would also take reports to Budget Panel and Cabinet on the performance of the asset.

Councillor Bell asked representatives from Trowers and Hamlin LLP what other councils they had advised on a transaction similar to the one being considered by Cabinet and what they thought was the biggest risk to councils. In response Mr McDermott explained that they had worked with Gravesham, Stevenage and Gloucester City Councils around economic growth and regeneration. The risks were contained in the reports, the council had done a great deal of work on the property and financial investment to find out whether it was a good investment, this could be the biggest downfall of other local authorities if transactions were carried out without this work.

In response to a further question from Councillor Bell regarding timescales to bring the report to Cabinet the Managing Director explained that as demonstrated in the Part B agenda, this was a hugely complex deal and a challenging transaction. In most cases many authorities would have taken longer to get through an agreement like the one before Cabinet. There had been two stages of due diligence and the report had been delayed coming to Cabinet and Council to ensure it was as complete as possible.

The Mayor thanked the Labour group for respecting the commercial confidentiality of the briefings they had received.

The Mayor then moved the resolution to exclude press and public to continue discussions on the Part B aspects of the item.

Following this Cabinet returned to Part A, the Mayor thanked officers and advisers for their work and due diligence.

RESOLVED

That Cabinet agrees:

1. To recommend to Council entering into a 40 year lease on the Park with CTi including the option of acquiring the freehold of the Park at the end of the lease term for £10 on the terms set out in this report, and in particular as specified within the various legal agreements (Part B) including:
  - 1.1 the summary of the Agreement for Lease
  - 1.2 the summary of the Head Lease Agreement
  - 1.3 the summary of the Asset Management Agreement.
2. To recommend to Council that the starting assumption should be to withdraw £1.5m pa to support the Council's budget in Years 1-10, reducing to £1m inflated thereafter until year 35, noting that the financial model would enable the Council to withdraw up to £2m pa over the first ten years if required.
3. To recommend to Council that the Managing Director be given delegated authority in consultation with the Mayor to give final approval to the terms of the transaction.
4. To APPROVE the appointment of Threadneedle Portfolio Services Limited (TPSL) as Asset Managers and Workman LLP as Facility Managers as set out in the Park Management Agreements subject to 5.3 above to provide asset management continuity for a maximum period of 5 years during which period a full procurement process would then take place.
5. To APPROVE the appointment of Grant Thornton as the Council's financial advisers.
6. To Recommend to Council a budget of £300,000 for the procurement of professional advice relating to this transaction.
7. To recommend to Council that the existing advisory board to the Mayor, the Property Investment Board chaired by the Portfolio Holder for Housing & Property, provides oversight of the governance, business plan and performance of the Park, with an annual report to Cabinet and Budget Panel and also has oversight over the use of the £88m top up fund and that the terms of reference of the Property Investment Board be amended accordingly.

8. To recommend to Council, noting that the reserve fund is earmarked specifically to mitigate risk within the proposal, that the Director of Finance be authorised to make appropriate investment of the top up fund of £88m in accordance with the financial model, providing the right balance between security, liquidity and yield, based on advice from the Council's investment manager and amend the Treasury Management Policy accordingly.
9. To recommend to Council the Council's Capital Strategy be amended for the impact of this transaction on the operational boundary and authorised limit. That the:
  - Council's operational boundary be £194M
  - Council's authorised limit be £209M.
10. To NOTE the risks and mitigation strategies that will be put in place

58 **Exclusion of press & public**

RESOLVED:

That under Section 100A (4) of the Local Government Act 1972, the public and press be excluded from the meeting for the following items of business as it is likely, in view of the nature of the business to be transacted or the nature of proceedings, that if members of the public were present during consideration of the item there would be disclosure to them of exempt information as defined in Section 100(1) Schedule 12A of the Act for the reasons stated in the reports.

59 **Acquisition of leasehold interest in Croxley Business Park - Part B**

Cabinet received a report and officers responded to questions. Resolutions were contained in Part A.

Mayor

The Meeting started at 7.00 pm  
and finished at 8.20 pm