

Part A

Report to: Cabinet

Date of meeting: Monday, 4 March 2024

Report author: Associate Director of Property and Asset Management

Title: Croxley Park Business Plan 2024/25

1.0 Summary

- 1.1 At the point of entering into the long lease of Croxley Business Park in July 2019, the Council and its team of advisors inherited a business plan from the Park's then owners, Columbia Threadneedle. A new business plan is required on an annual basis in order for the council to meet its own objectives and to ensure the Park delivers on the rationale behind the council's acquisition.
- 1.2 The key financial objectives that were agreed by Council at its meeting of 23rd January 2019 was that there would be a net revenue of £1.5m (unindexed) per annum delivered over the first 10 years, and thereafter £1m per annum. The capital contribution secured by the council as part of the lease agreement was to serve two primary purposes; being to fund planned and preventative maintenance across the buildings on the Park and to ensure the primary financial objective was met by acting as a reserve fund to deliver the same revenue contributions.
- 1.3 Since the council acquired the Business Park in 2019, contracted rents have grown from £9,669,940 + VAT to £13,384,418 + VAT (as of December 2023). This figure does not take into account the value of rent free periods, empty rate liabilities and any service charge caps which reduce the income received by the Council. The original financial model assumed that, from March 2023, Building 1 is let and therefore the annual revenue is currently tracking below the purchase projections and the cost of voids is higher than expected. Whilst further letting success at Building 1 has been achieved in 2023, a further two floors remain available to let.
- 1.4 To assist in any business plan formulation, over the course of 2020 a financial model was developed by the council with the assistance of Lambert Smith Hampton Investment Management (LSHIM) and Grant Thornton (GT), to allow forecasts to be made on a letting-by-letting basis across the Park, based on certain assumptions. This allows decisions to be taken by the council on letting terms, refurbishment proposals and lease events (rent reviews, lease renewals/extensions, dilapidation claims etc) that are aligned with the key financial metrics as outlined in 1.2 above but reflect market conditions that are prevailing at the time. These letting assumptions are revised within the annual Business Plan and model.

- 1.5 With the benefit of this model, the Croxley Business Park team, comprising WBC officers, LSHIM and Workman LLP have developed the Business Plan for the 2024/2025 financial year following on from the approval of the 2023/24 plan in February 2023. The Plan is updated annually and brought back to Cabinet for approval on that basis. The Plan is attached in the Part B Appendix 1.
- 1.6 As previously adopted, to allow WBC officers to actively asset manage the Park during the course of the year, it is proposed that delegated authority be granted such that lease events (including rent review, lease regears, dilapidation claims, setting of service charge budget etc) can be approved by the responsible officer, provided such approvals are in line with the tolerances set out and described in the Business Plan. The delegated authority also covers targeted capital expenditure on refurbishments proposed under the business plan subject to the aggregate spend not exceeding the Council authorised total of £7.399m. Such delegated authority will be renewed annually and will be aligned in accordance with the prevailing Business Plan as approved by Cabinet

2.0 Risks

2.1

Nature of risk	Consequence	Suggested Control Measures	Response (treat, tolerate, terminate or transfer)	Risk Rating (combination of severity and likelihood)
No Business Plan is developed and approved	There will be no means by which Finance can accurately forecast the performance of the Park	Adopt a Business Plan for each financial year	Treat	4
No Business Plan is developed and approved	Individual decisions will be taken with no ability to ensure they will meet the performance expectations	Adopt a Business Plan for each financial year	Treat	4
No Business Plan is developed and approved	Authority for entering into leases, and other lease events will be brought back to	Adopt a Business Plan for each financial year	Treat	4

	Cabinet on a frequent basis, leading to possible abortive deals			
The market moves significantly within year and the Plan is no longer relevant	The forecasts in the model will no longer be relevant/realisable.	Monitor, through the quarterly PIB reports the performance of the Park against the adopted Plan	Treat	8

3.0 Recommendations

Cabinet is asked to:

- 3.1 Approve the Business Plan for 2024/2025 as produced by LSHIM, and more particularly as attached at Appendix 1.
- 3.2 Agree the delegations to the Associate Director of Property & Asset Management as outlined in paragraph 4.5 and also set out in Appendix 1.
- 3.3 Approves the reappointment of Workman LLP as property managers for Croxley Park, as outlined in this report and more particularly as detailed within the Business Plan.
- 3.4 Approves the lease variation with Regus as outlined in this report and more particularly as detailed within the Business Plan.

Further information:

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Report approved by: Tom Dobrashian

4.0 Detailed proposal

- 4.1 Whilst full details of the income performance is contained within the Part B Appendix, it is relevant to note the following achievements during the 2023/24 financial year.
- 4.2 The projected headline rental levels assumed at the time of purchase continue to be met where a lease event (new letting, lease renewal or rent review) has occurred.

The industrial headline rental levels are in fact outperforming the levels assumed at the time of purchase.

- 4.3 A further letting of a whole floor within Building 1 completed to De Lage Landen as part of a targeted marketing exercise and they are now in occupation of the second floor of c20,000 sq ft. However, the remaining 2 floors of c42,000sq ft remain available and are becoming a drag on the financial performance of the Park as a result of their continuing availability and the costs associated with such a void (principally empty rates and service charge).
- 4.4 It is anticipated that some occupiers will vacate the Park due to lease expiries or breaks and a further programme of targeted refurbishment works to vacated units will be required. The refurbishments proposed in the Business Plan will ensure that an appropriate level and variety of office suites/floors will be available to prospective tenants and industrial units refurbished when available to ensure product availability.

Delegations

- 4.5 Once approved by the Cabinet, this business plan will provide the Associate Director of Property & Asset Management with the authority to agree all matters within the parameters of this report, specifically items covering:

Items	Delegated Authority subject to:
New lettings	The headline rents and rent free being at, above (or not less than 90%) of the operational model assumptions in Section 1 of the business plan.
Lease renewals	The headline rents and rent free being at, above (or not less than 90%) of the operational model assumptions in Section 1 of the business plan.
Rent Reviews	The average rent over the review period being at or above (or not less than 95%) of the levels in Section 10 of the business plan.
Refurbishments	The refurbishments be committed up to the levels specified in Section 9 of the business plan, with a 15% tolerance if costs increase during the year, subject to the aggregate of all refurbishment costs not exceeding £7.399m.
Dilapidations	Dilapidations to be agreed at levels specified in Section 7, with a 15% tolerance if dilapidations assessments are marginally below these levels.
Service Charge	Approval given to authorise the budget for 1 st July 2024 – 30 th June 2025 at a tolerance of between 10% +/- from the anticipated budget of £5.0m for the 2024/25 service charge year as detailed in section 12.

Regular reports are taken to the Property Investment Board, chaired by the Portfolio Holder for Property, with proposals outlined and discussed prior to decisions being made, and with a record of delegated decisions made in the period between such meetings.

- 4.6 Items not covered by these approved delegations will be authorised on a business case basis in accordance with the council's Scheme of Delegation.

Property Management

- 4.7 At the point the council acquired the long lease interest in Croxley Park, the then property managers, Workman LLP, were reappointed. The contract for their property and asset management services is set to expire in July 2024. As a result of a direct award from a framework, it is proposed to re-appoint Workman for a further 5 year period with an option for a further two year extension. The details of the contract terms are contained within Section 16 of the Business Plan (page 26) and is supported by LSHIM.

Occupier Management - Regus

- 4.8 Watford Croxley Centre Limited (t/a Regus) have occupied a floor within Building 2 since completion in 2018. As a result initially of Covid and thereafter due to changing work patterns, Regus have suffered from continuing high levels of availability within their centre and have demonstrated that their operation on the Park is unsustainable without a rebase of the rent. Negotiations have been concluded and are detailed in section 11 of the Business Plan (page 19). This is supported by LSHIM.

5.0 Implications

5.1 Financial

- 5.1.1 The Chief Finance Officer comments that, as noted in paragraph 1.3, the current contracted rents generated from the park are below the level anticipated in the original financial model. The lease variation recommended at paragraph 3.4 will widen this gap further.
- 5.1.2 As set out in paragraph 1.2, the Council has a targeted net income of £1.500m from the investment which to date has been achieved through a contribution from the £24.000m sinking fund transferred to the Council upon acquisition of the park through the finance lease and held in earmarked reserves. The Medium Term Financial Strategy agreed by Council on 30 January 2024 included a planned reduction to the contribution from 2026/27 to £1.000m. This action was taken to

protect the reserve in order to enable the Council to manage the risks associated with the level of income derived from the business park and cost of the headlease throughout the duration of lease.

5.1.3 The £7.399m budget for capital expenditure on the park during 2024/25 is fully funded from the £68.000m capital contribution which was also received by the Council upon acquisition of the park.

5.1.4 The delegations recommended in this report will enable the proactive management of financial risks associated with the business park during 2024/25.

5.2 **Legal Issues** (Monitoring Officer)

5.2.1 The Group Head of Democracy and Governance comments that approval of the Business Plan can ensure that delegated decisions on lettings, rent reviews and refurbishments can be made promptly.

5.3 **Equalities, Human Rights and Data Protection**

5.3.1 Having had regard to the council's obligations under s149, it is considered that no Equality Impact Assessment is required.

Having had regard to the council's obligations under the General Data Protection Regulation (GDPR) 2018, it is considered that officers are not required to undertake a Data Processing Impact Assessment (DPIA) for this report.

5.4 **Staffing**

5.4.1 The modelling is being undertaken by existing team members within Finance and surveying support from within the Property & Asset Management service. No additional staffing is required as a result of adopting the Business Plan or the use of the model in order to assess the performance of the Plan.

5.5 **Accommodation**

5.5.1 There are no accommodation issues arising.

5.6 **Community Safety/Crime and Disorder**

5.6.1 There are no community safety/crime and disorder issues arising

5.7 **Sustainability**

5.7.1 A specialist Environmental Consultancy, Low Carbon Alliance (LCA) were appointed in mid-2022 to support the Council in meeting their energy reduction goals across

Croxley Park and, in due course, the wider property portfolio. LCA are leading on monitoring and measurement of energy data which will be used to set baseline energy consumption building levels. As a result, targets can be set to reduce energy levels having engaged with the tenants. In addition to these objectives LCA will make the Council aware of best practice, changing legislation and create an ESG statement / set of objectives which reflects the council's stated aims. The ongoing costs of LCA will be recovered through the annual service charge.

- 5.7.2 The Business Plan, by identifying refurbishment and other works necessary to prepare buildings for reletting, will take into account the requirements of building regulations and other statutory requirements (eg MEES legislation) prevailing at the time and any relevant works of repair will in particular consider appropriate energy efficiency measures to assist in delivering the Council's target of net carbon zero by 2030.

Appendices

Part B Appendix 1 – Croxley Park Business Plan 2024/25

Background papers

No papers were used in the preparation of this report.