

Part A

Report to: Cabinet

Date of meeting: Monday, 13 March 2023

Report author: Associate Director of Property & Asset Management

Title: Approval of Croxley Business Park Business Plan 2023/24

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 £ 13,661,534 + VAT. To March 2022 the income, when compared to the original projections prior to purchase, has been ahead of expectations, however the financial model now assumes, from March 2023, that Building 1 is let and therefore the income is currently underneath the purchase projections. It is worth noting that Building 1 aside the remainder of the Park is performing ahead of the income projections at purchase.
- 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 the asset management team at 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. 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.

1.5 With the benefit of this model, the Croxley Business Park team, comprising WBC officers, LSHIM and Workman LLP have developed a Business Plan for the 2023/2024 financial year following on from the approval of the 2022/23 plan in February 2022. The Plan is to be updated annually and brought back to Cabinet for approval on that basis. The Plan is attached at 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. Such delegated authority will not require renewal annually but 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 Cabinet on a frequent basis, leading to possible abortive deals	Adopt a Business Plan for each financial year	Treat	4

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
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3.0 Recommendations

Cabinet is asked to:

- 3.1 Approve the Business Plan for 2023/2024 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.

Further information:

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Report approved by: Tom Dobrashian

4.0 Detailed proposal

Performance

- 4.1 Whilst full details of the income performance is contained within the Part B Appendix, it is relevant to note the following achievements.
- 4.2 The projected headline rental levels assumed at the time of purchase have been 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 The completion of Building 1 comprising 85,000 sq ft was met in March 2021, a month ahead of schedule, despite Covid and the national lockdowns. A letting of the top floor of c20,000 sq ft to Signet has now completed. However, the remaining 3 floors of c60,000sq ft remain available and are becoming a drag on the financial performance of the Park.
- 4.4 It is anticipated that some occupiers will vacate due to lease expiries or breaks and a further programme of refurbishment works to vacant 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. Taking account of the proposed refurbishments in the 2023/24 business plan the 5 year spend on planned preventative maintenance works from purchase in 2019 – 2024 (which includes refurbishments) is in line with the assumptions made on acquisition.

Delegations

- 4.5 Once endorsed by the Council, 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 8 of the business plan.
Refurbishments	The refurbishments be committed up to the levels specified in Section 7 of the business plan, with a 15% tolerance if costs increase during the year.
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 2023 – 30 th June 2024 at a tolerance of between 10% +/- from the anticipated budget of £5.7m for 2023/24 as detailed in section 11.

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.

- 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.

5.0 Implications

5.1 Financial

- 5.1.1 The Shared Director of Finance comments that the financial performance of the Croxley Park investment should be measured over the duration of the investment. The Council holds the Croxley Park reserve to manage the impact of fluctuations in financial performance on the Council’s general fund.

5.2 **Legal Issues** (Monitoring Officer)

- 5.2.1 The Group Head of Democracy and Governance comments that providing delegated authority to the Associate Director of Property & Asset Management will enable transactions to be completed 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 with support and training from external advisors 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 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.
- 5.7.2 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. From which 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. Following the initial set up costs, the ongoing costs of LCA will be recovered through the annual service charge.

Appendices

- Part B Appendix 1 – Croxley Park Business Plan – 2023/24.

Background papers

- Acquisition of Leasehold Interest in Croxley Business Park – Extraordinary Council, January 23 2019 Council Report.