

Report to: Budget Panel
Date of meeting: 11 March 2013
Report of: Head of Legal and Property
Title: Update on Property

1.0 **SUMMARY**

1.1 This is a follow up to the presentation given to Budget Panel in November 2011

2.0 **RECOMMENDATIONS**

2.1 That Budget Panel notes the report

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Report approved by: Managing Director.

3.0 **DETAILED PROPOSAL**

3.1 Back in November 2011 the Section Head for Property gave a presentation to Budget Panel regarding the Council's property portfolio. This report gives the Panel an update of what has happened with the portfolio and also in the wider economic climate since then.

3.2 The property team have been very heavily involved in a number of large projects since the last presentation which has effectively tied up four senior members of the team on a full time basis. Much of the work is 'invisible' but crucial in managing and resolving numerous technical and challenging rights, tenancies, valuation and legal issues in conjunction with a wide range of stakeholders and multiple project timescales to enable these major regeneration projects to happen.

- 3.3 The projects are :
- Charter Place Redevelopment
 - Ascot Road Redevelopment
 - Watford Health Campus
 - Croxley Rail Link

3.4 **Charter Place Redevelopment.**

Since the Budget Panel Presentation and as members will recall from the report to Cabinet in July 2012 the Council was approached by CSC (now 'Intu') to take a leasehold interest in Charter Place to enable them to undertake a redevelopment in association with their adjoining interest in the Harlequin Centre. Cabinet agreed to end the procurement process with Henry Boot Developments, since when the council has embarked on and proceeded to negotiate the land transaction with Intu. This has been an extremely complex negotiation and the detailed work on the various leases and agreements has taken up most of the Section Head's time. Negotiations are expected to conclude shortly, and although they have taken longer than originally anticipated, will have been achieved within an extremely tight timescale compared to other schemes of this magnitude in other parts of the country.

Work is also progressing on developing an alternative location for a market in Watford as Intu's proposed market in a redeveloped Charter Place will not be of the same size as the current market. The team have been working with a sub group of the market working party and the car park of TJ Hughes has been identified as a suitable location.

3.5 **Ascot Road**

The Royal Mail's leasehold interest in their sorting depot at Ascot Road was acquired by Centros on behalf on Morrisson's the supermarket chain in autumn 2011 and obtained planning consent for a new store on the site in November 2012. WBC owns the freehold and Morrisons/Centros have been in complex negotiations with the council to 'regear' their leasehold interest in the site. Negotiations have also taken place involving Hertfordshire County Council who are seeking to have a primary school on the site. A report went to cabinet regarding the composite deal in December 2012 . Work on the detailed legal documentation has been ongoing since then and should be concluded by the end of March.

3.6 **Watford Health Campus:**

The property team have been actively involved in dealing with wide ranging 'site assembly', and making preparations for a potential CPO for the site. This has involved working with a range of occupiers, tenants and WHHT.

3.7 **Croxley Rail Link:**

A number of parcels of the Council's land will be required for use by the Croxley Rail Link (CRL) should it get approval. Land is required not just for the route itself but for such uses as sub-stations which power the tracks and site compounds to enable construction to take place. The property team have been negotiating and working with Hertfordshire County Council, who are CRL project sponsors, over the terms for land in WBC ownership and wider issues particularly around the new Ascot Road station.

3.8 Other corporate projects

The Property Team have also been extremely busy with many other Council departments across their major projects. These have also generated significant volumes of work, particularly:

- Waste, streetcare, parks and open spaces service redesign
- Community Centres

In the event that service redesign proposals for waste, streetcare, parks and open spaces lead to these services being outsourced, the successful contractor will take leases of a number of our operational properties used by these services. The property team have been working with the project team to ensure that property and wider contract issues are fully considered and integrated, and work on terms for potential leases is ongoing.

A number of the community centres have also been transferred to third sector organisations, where property leases have been carefully structured to significantly reflect changes in how services are delivered from them under Service Level Agreements (SLAs) with Parks and Community Services. None of the properties had been leased before, so considerable work needed to be undertaken with third sector organisations so they fully appreciated their occupation and repairing liabilities and our monitoring obligations and responsibilities as landlord.

3.9 Investment portfolio income and capital receipts

The Council's property portfolio makes a significant and critical contribution (over £6m p.a.) to the council's budget, and the Property Team continue both the ongoing management of the investment portfolio and to seek opportunities to add value or generate capital receipts across the portfolio. Two examples of this ongoing pro-active asset management are described below:

- 3.10 The Portfolio Holder for Property has agreed to the Council disposing of its 'Rent to Mortgage' portfolio of residential properties which produce no income. The property team have approached the private individuals who are joint freeholders of the properties to establish if they wish to acquire the Council's interests and in some cases have agreed valuations and disposals to them. For others, the Council's interests will be sold on the open market at auction.
- 3.11 The team are working closely with colleagues in Revenues and Benefits Income to manage commercial rent and arrears. A number of national chains with leases from the Council have gone into administration, including Peacocks who occupied part of the former Woolworths building acquired by the Council in 2010. There is often a careful judgement to be made regarding allowing the lease to continue, whilst knowing that it is unlikely that rent will be recovered, and taking back the premises with uncertainty of immediate re-letting but being responsible for empty property rates in addition to still having no rent. The Council has taken back premises where it has had prospective tenants interested. In the case of the former Peacocks unit, and despite very challenging retail conditions, the team have achieved a new letting to Choice (part of Next) on good terms which also link with the redevelopment of Charter Place.

3.12 For the last year or so, much of the team resource has been, and will continue to be, involved with the major projects (para 3.3-3.7 above) above. However, particularly as the commercial negotiations for Charter Place are completed, strategic capacity in the team will be available to take forward major new projects at Ascot Road and Watford Business Park. The Head of Property is already liaising closely with colleagues in Economic Development and Planning supporting applications to the Hertfordshire LEP for funding to support further regeneration work at both of these strategic assets.

4.0 **IMPLICATIONS**

4.1 **Financial**

4.1.1 The Head of Strategic Finance endorses the comments of the Head of Legal and Property that the redevelopment and investment initiatives have been extremely time consuming and complex. The issues that need to be addressed include:

- the need to follow statutory procurement processes which have included detailed financial evaluations
- an assessment of the up front capital and revenue implications of a number of these projects.
- An assessment of the likely financial return and when such returns might be anticipated.
- detailed discussions with the External Auditor, Grant Thornton in order to establish that all rental income returns can continue to be classified as revenue income rather than capital receipts (this is to comply with International Financial Reporting Standards).

There are still some issues to be resolved and continue to occupy a disproportionate time of key officers.

4.1.2 In addition to these development opportunities, the Head of Property and his team need to manage the current property portfolio in an economic climate that is extremely difficult. Vacancy levels have increased and rental returns are being squeezed. As a consequence the Finance Digest elsewhere on the Budget Panel's Agenda has highlighted two different issues:

- firstly the anticipated reduction in commercial rent income in the current financial year (particularly relating to the Harlequin Centre and Charter Place).
- secondly the need to write off irrecoverable rent where companies have gone into administration and the chances of recouping current arrears are very slim.

4.1.3 With regard to the write off of irrecoverable debts (particularly commercial rent), the final accounts for 2011/2012 indicated arrears of £838k and a general provision for bad debts of £188k. I did not consider this to be sufficient and, at the 'last knockings', a further £250k provision was included in the accounts (making a total charge against the revenue accounts of £438k).

4.1.4 During 2012/2013 the status of some of the companies in arrear has been clarified and, as a consequence, in the region of circa £401K has been written off as irrecoverable: this will have virtually used up the provision for bad debts. As a consequence the Finance Digest elsewhere on the Budget Panel Agenda has reported that a provision of £200k has been included within the 2012/2013 revenue accounts in

order to maintain the general provision for bad debts at circa £237k. This is considered prudent as it is probable there will be more retail failures before the wider economy begins to recover.

4.2 **Legal Issues** (Monitoring Officer)

4.2.1 The Head of Legal and Property Services comments that the last 14 months has been an extremely busy time for the property section. It is the nature of large projects that the devil is in the detail and it takes up a huge amount of officer time in negotiation and ensuring documents are drafted to protect the council's position in the short and longer term whilst the busy 'day to day' case work also continues.

4.3 **Equalities**

There are no equalities implications in this report

Background Papers

"No papers were used in the preparation of this report".

File Reference

None