

PART A

Report to: Cabinet
Date of meeting: 1st September 2014
Report of: Martin Jones – Regeneration and Property Section Head
Andrew Gibson – Economic Development Manager
Title: Watford Business Park – Strategic Masterplan & Regeneration Initiative

1.0 SUMMARY

- 1.1 A previous Cabinet Report on the 11th November 2013 approved the appointment of Greenhill Asset Management (GAM) by exception to carry out a strategic study of Watford Business Park with a view to looking at the regeneration and improvement of the park
- 1.2 In 2013 a joint funding bid to the Hertfordshire Local Enterprise Partnership (LEP), led by GAM on behalf of Watford Borough Council, secured £1.5m of loan funding to develop a strategy to bring forward the redevelopment of WBP. The funding consisted of £300k to develop a regeneration strategy by July 14 and a further £1.2m contribution for the implementation of identified projects from that strategy. Completion of the strategy did not commit WBC to draw down further funds or commit to projects. To date £150,000 has been spent in undertaking the first phase of the work with GAM to July 14 and additional work is required to develop the strategy further
- 1.3 An exception to the Contract Procedure Rules was reported to Cabinet in November 2013 outlining the case to allow a single tender action with GAM for them to lead on the proposed review – this was based on the synergies and potential opportunities that could be realised from their association with the adjacent estate and on the success of the joint funding application with them to the LEP.
- 1.4 The first part of the Strategic Master Plan and Regeneration Initiative is now complete and further work is needed to develop the work and address the outcomes and potential deliverable projects identified as well as outlining proposed next steps in taking forward the proposed phased redevelopment of WBP.

GAM's report was presented to Portfolio Holders on the 9th June where its findings to carry out further work were endorsed

2.0 RECOMMENDATIONS

- 2.1 That Cabinet NOTE the completion of the Stage 1 review of Watford Business Park by GAM on behalf of Watford Borough Council. A summary of this work is contained in Annex 1.
- 2.2 That Cabinet ENDORSE the production and subsequent implementation of an overall strategy to oversee the phased redevelopment of Watford Business Park with the aim of delivering: more fit for purpose commercial stock, better suited to meeting the needs of business; increasing the overall number of jobs delivered within the estate; and increased revenue generation for Watford Borough Council to support future service delivery.
- 2.3
- 1) To ENDORSE commissioning GAM by exception to undertake further development and masterplan strategy work over the next twelve months to September 2015 or sooner if possible, with the remaining LEP funding allocated for strategic development which totals £150,000. A detailed breakdown of the proposed new work by GAM is contained in Annex 2
 - 2) To NOTE and ENDORSE Greenhill's role going forward would additionally include, where appropriate, negotiating various property related activities that complement the emerging strategy and that the fees for these activities would be performance related and considered on their own merits before being committed t
 - 3) To APPROVE that once GAM further work is substantially complete to undertake go to the market and tender for the estate management of the site of WBP which would include the development of detailed zone by zone business plans/ cases.
 - 4) To NOTE that when satisfactory Business Cases are concluded to tender for a partner to undertake all zone redevelopment or alternatively a zone by zone redevelopment allowing for variant bids.

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Report approved by:

Jane Custance, Head of Regeneration and Development

3.0 DETAILED PROPOSAL

Background

- 3.1 Watford Business Park is a large industrial estate of 67 acres the freehold of which is owned by the Council. The estate was built in the 1960s and whilst a proportion has been rebuilt or refurbished many older buildings of poor quality and low economic value remain on the estate. Much of the estate is inefficient from a land use perspective and presents opportunities to enhance both the value of the asset and drive socio economic benefits such as increased job numbers, as they are not realising their full potential.

The Council granted 55 long ground leases of terms of between 99 and 125 years on many units in the 1960s. Many of the long leases are now at a length which discourages further investment by the leaseholders. It is intended that as part of this process we enter dialogue with these parties with the aim of renegotiating and regearing the leases or possibly relocating uses.

The tighter access to funding over the last number of years has also exasperated the issue of lack of investment.

- 3.2 Watford Business Park is seen as an underperforming estate both in terms of employment opportunities and financial returns and the purpose of this review is to encourage further investment as well as identifying individual projects to act as a catalyst for regeneration purposes. The estate generates an income of approximately £600,000pa from the ground leases which is a significant portion of the Council's income from investment property. However, the aim of the review work would be to increase long term revenue and capital gain and reverse the erosion of income that has occurred over recent years. Nevertheless, there may be some short term loss of income.
- 3.3 The Business Park is in a key regeneration area close to the newly opened Morrisons Supermarket at Ascot Road and with Croxley Rail Link and a new station opening close by in 2017 it is an opportune time to review the Business Park and investigate what opportunities present themselves.
- 3.4 A strategy needs to be put in place to deliver and take forward the Business Park for the next 20 years. This may include infrastructure improvements, a decant strategy within the estate and improved public realm, which could free up other development opportunities and add value to the Council's assets.

LEP Funding and GAM Work

- 3.5 Historic attempts by Watford Borough Council (WBC) to obtain Local Enterprise Partnership (LEP) funding to develop a strategy and to provide funding to initiate early phases of work to WBP had proved unsuccessful. In 2013 WBC approached the LEP again jointly with Greenhill Asset Management (GAM), who manage the adjacent Croxley Business Park, as there are a number of potential synergies for both parties in improving each other's assets as well as the wider area. This application was successful and the LEP agreed to provide £1.5m of loan funding for the project.

The LEP funding consists of £300k to develop a regeneration strategy and a further £1.2m contribution for the implementation of identified projects from that strategy. Completion of the strategy does not commit WBC to draw down further funds or commit to projects.

- 3.6 LEP funding conditions require the funds drawn to be paid back by 2019 with interest. The property department have identified a number of existing opportunities on the estate that could generate revenue and repay the £300k strategy work in that timescale in the event of no additional projects being identified. It is thought greater returns could be generated in the context of an overall strategy and consequently these short term opportunities will not be pursued individually at this stage until the strategy review is complete and approved.

It was provisionally agreed that £150k of the strategy development costs will be a fee for GAM and their sub consultants. Further work is now required to carry out more detailed work and it is the intention to use the remaining £150k of LEP funding to undertake this work which will also include technical studies. It is considered that GAM are best placed to complete this stage of the work, as it is simply a continuation of the work they have done to date. The work is required to procure a programme of future work to regenerate the Business Park.

An exemption to the Contract Procedure Rules can apply in exceptional circumstances or where prior approval for that exemption has been granted at a Cabinet meeting. An exception to the Contract Procedure Rules was reported to Cabinet in November 2013 outlining the case to allow a single tender action with GAM for them to lead on the proposed review – this was based on the synergies and potential opportunities that could be realised from their association with the adjacent estate and on the success of the joint funding application with them to the LEP. Cabinet is asked to agree to extend this exemption to enable GAM's work to be effectively completed.

- 3.7 The successful application for LEP funding with GAM has enabled a strategy to be developed and due diligence work to be completed providing a detailed understanding of the issues and factors to be addressed in terms of bringing forward the phased redevelopment of WBP.

The due diligence work undertaken includes:-

- Full review of freehold title
- Full review of head leases
- Full review of Occupational leases
- Land use survey and mapping
- End user research
- Planning
- Estate zones and land use block plans
- IT Infrastructure
- Building design concepts
- Transport Infrastructure
- Public realm
- Valuation appraisals

3.8 GAM's contribution to the work has been:

- leading the steering group
- leading the operational work groups
- co-ordinating the delivery of the due diligence work
- preparing a draft report for consideration by July 2014
- preparing final report by July 2014

3.9 Due to the commercially sensitive nature of the reviews, studies and information gathering undertaken as part of the first stage of the project, including its conclusions and recommendations, a private briefing was given to Portfolio Holders on the 9th of June 2014.

In terms of delivering the Masterplan and Regeneration Initiative for WBP, a number of specific delivery and procurement options have been reviewed. A proposed regeneration scheme of this scale – whether a potential joint venture delivery vehicle with a 3rd party, or through a development management fee arrangement, WBC would need to ensure compliance with its contract procurement rules.. Options also need to be tested with the market to ensure an attractive proposition can be secured for both parties.

It has been concluded that five broad procurement routes should be tested:

1. A full procurement for a Joint Venture (JV) partner with the Official Journal of the European Union (OJEU);
2. The potential for a land transaction agreement with a neighbouring landowner or 3rd party;
3. The phased procurement of individual or smaller zones for redevelopment (potentially requiring a formal OJEU process for each zone);
4. Combined procurement processes for both phased redevelopment and longer term asset management of the wider estate; or
5. A further exemption to the Contract Procedure Rules on the grounds of exceptional circumstances, subject to approval by Cabinet.

As stated above, in each case, WBC would be required to demonstrate best value and the most efficient and economically advantageous route forward, taking account of commercial advice in terms of what would secure the best response from the private sector market.

Once the GAM work has been completed these options will be fully tested and recommendations made as to the best way to proceed. In line with the recommendations set out in Section 2, above, the current recommendation is to procure an asset management company for the ongoing management of the estate, and develop a business case for improving the asset's value and economic output via regeneration in the future.

4.0 IMPLICATIONS

4.1 Financial

4.1.1 The Shared Director of Finance comments that the LEP funding is a loan and subject to interest payments. The loan will be financed via re-gearing and obtaining premiums from existing leases on the business park and will therefore not impact on the revenue budget. The expenditure will be treated as capital, which will be funded from the revenue savings released from the re-gearing and renegotiations of the existing leases.

4.2 Legal Issues (Monitoring Officer)

4.2.1 The Head of Democracy and Governance comments that the LEP funding is a loan and is also subject to interest payments. The Council has also required GAM to sign a confidentiality agreement, to protect the Council's interests, in view of GAM's interest in the adjoining business park. The Council is under an obligation to obtain best consideration in any property disposals and will need to comply with the contract procedure rules if it intends to enter into either a management agreement of joint venture

4.3 Equalities

4.3.1 Regeneration of the Business Park is an opportunity that is identified in the adopted Local Plan – Core Strategy. The Local Plan was subject to a full Equality Impact Assessment. Any strategy arising from the work commissioned with GAM would be subject to a further EqIA.

4.4 Potential Risks

Potential Risk	Likelihood	Impact	Overall score
No projects identified to generate sufficient revenue to pay back funds to LEP in timescale.	1	4	4
Communication around implementation plans and possible relocating businesses badly received	3	2	6
Controlled Parking zone enforcement in December resulting in complaints linking this approved work stream with the strategy review.	3	2	6

4.5 Staffing

4.5.1 It is proposed that a steering group be set up with officers from WBC, LEP and senior representation from GAM. All of which have been identified.

4.6 Accommodation

4.6.1 GAM will make their offices at Croxley Business Park available as a base for the various consultants we appoint and for regular meetings.

4.7 **Community Safety**

4.7.1 As part of the review security, lighting and road safety issues will be addressed.

4.8 **Sustainability**

4.8.1 Many buildings in WBP date back to the 60s and are inefficient both in terms of configuration and do not meet basic energy standards and the risks of voids post 2018 when new energy standards becomes mandatory is increased significantly . This report will assist in addressing how to improve issues.

One of GAM's core skills is addressing sustainability issues as is demonstrated by their management of Croxley Business Park.

4.8.2 With the delivery of Croxley Rail Link in 2017 transport issues will be reviewed and if any Green Travel Plan initiatives can be made to work in this area.

Appendices

Annex 1.....GAM Report

Annex 2.....GAM Scope for Further work

Background Papers

None

File Reference

- *None.*