MUNICIPAL YEAR 2016/17 – REPORT NO. 69

MEETING TITLE AND DATE:
CABINET – 6 September 2016

Report of:

Director of Finance, Resources and Customer Services.

Agenda Part: 1	**Item 14**
Montagu Industrial Estate Redevelopment **WARD: Edmonton Green** **KD - 4357**	
Cabinet Members consulted: Cllrs Lemonides and Sitkin	

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1. EXECUTIVE SUMMARY

1.1 The Montagu Industrial Estate is located to the southeast of the borough just to the north of the A406 and is occupied by industrial buildings of varying ages and quality. The estate extends to 28 acres of which LBE owns about 66% for investment purposes.

1.2 The estate suffers from congestion, poor infrastructure, and buildings are in a state of decline. Generally, the estate does not provide the type and quality of buildings or services that maximise employment opportunity, value and income for the Council.

1.3 Consequently, the Council wishes to adopt a strategy that achieves a number of objectives viz.: maximise employment opportunities; maximise revenue; and provide the quality of environment and type of buildings that meet the demand characteristics of employment based occupiers.

1.4 This report sets out the preferred option for the Estate's redevelopment and the establishment of a vehicle that will deliver these objectives. In particular, the establishment of a joint venture vehicle is recommended which will assist with land consolidation, master-planning, the Estate's redevelopment and its future asset management.

2. RECOMMENDATION

It is recommended that Cabinet:

2.1 Notes the various options available for the use of the Montagu Industrial Estate and the economic and financial rationale for the establishment of a joint venture special purpose vehicle;

2.2 Approves the redevelopment of the Montagu Industrial Estate for employment uses with the objective of securing wider economic and social regeneration benefits, as well as generating revenue funds for the Council to reinvest in Council services, and approves the demolition of Unecol House to facilitate the phased redevelopment of the Montagu Industrial Estate;

2.3 Approves the establishment of a special purpose vehicle, joint venture LLP, to take forward the redevelopment of the estate and delegates authority to the Director of Finance, Resources and Customer Services in consultation with the Assistant Director (Legal and Governance Services) and the Cabinet Member for Finance and Efficiency to enter negotiations, finalise the terms and enter into agreements associated with establishing the special purpose vehicle;

2.4 Approves the use of the Council's real assets (property) located in the Montagu Estate to be used as an equity stake for the Council in the Joint Venture special purpose vehicle and delegates authority to the Director of Finance, Resources and Customer Services in consultation with the Cabinet Member for Finance and Efficiency, and the Cabinet Member for Economic Regeneration and Business Development to transfer these assets into the special purpose vehicle as and when required (subject to compliance with the Council's Property Procedure Rules (PPRs));

2.5 Approves the procurement of a joint venture partner with which to form the special purpose vehicle and delegates authority to the Director of Finance, Resources and Customer Services in consultation with the Cabinet Member for Finance and Efficiency and, the Cabinet Member for Economic Regeneration and Business Development to enter into negotiations, finalise the terms and enter into agreement with the procured recommended development partner;

2.6 Approves the addition to the Council's capital programme to fund the creation of the SPV that will manage the redevelopment of the Montagu Estate to be funded from Borrowing as detailed in the Part 2 report.

2.7 Recommends to Council the addition to the Council's capital programme to fund the acquisition of property on the Montagu Estate, which is to be funded from Borrowing in the 2017/18 financial year.

2.8 Approves:
(a) the acquisition of land in the Estate subject to the PPRs and delegates authority to the Director of Finance, Resources and Customer Services (FRCS) in consultation with the Cabinet Member for Finance and Efficiency and, the Cabinet Member for Economic Regeneration and Business Development to negotiate and agree the final terms of the acquisition and
(b) in principle the use of the Council's compulsory purchase powers (CPO) to acquire such land that may be needed to facilitate the area's redevelopment and agrees to the commencement of background work. Noting that negotiations will be conducted with landowners and a resolution to make the CPO will be brought back to Cabinet at an appropriate time.

2.9 Cabinet approves and delegates authority to the Director of Finance, Resources and Customer Services to submit a planning application for demolition work at

Unecol House and to obtain planning permission for the site's future development.

2.10 Cabinet delegates authority to the Director of Finance, Resources and Customer Services to demolish this building.

2.11 Cabinet recommends to Council an addition to the Capital Programme for the demolition of Unecol House as detailed in this report.

3. BACKGROUND

3.1 The Montagu Industrial Estate (MIE) is located just to the north of the A406 in Edmonton Green Ward, and is occupied by industrial buildings of varying ages and quality. The Estate is approximated 28 acres.

3.2 The Estate is part of an important employment use area within greater London (the Lee Valley employment use corridor). The bulk of the Estate is designated within the London Plan as Strategic Industrial Land; with both the LPA and GLA pointing out that its employment use needs to be safeguarded.

3.3 The Estate is occupied by a variety of businesses in different economic sectors, which in instances are not complementary, and their premises appear to be no longer fit for the intended economic purposes they were originally intended for. The estate suffers from congestion as the businesses have outgrown the original infrastructure and many of the buildings are in a poor state. The estate no longer provides the type and quality of buildings or services that maximise employment opportunity and value. Unecol House in particular, is structurally poor and in a state of disrepair, with the bulk of it in a seriously dilapidated state. The building also does not comply with Health and Safety legislative requirements and poses a threat to the Council; legally, financially and reputationally.

3.4 The Council currently owns 18.3 acres, almost 66% of the Montagu Industrial Estate and this is held for investment purposes. Rental income to the Council is just in excess of £1m per annum.

3.5 An asset review of the estate has established that its redevelopment with a well-planned "fit for purpose" estate, can maximise revenue for the Council, maximise employment opportunities and could catalyse economic regeneration.

3.6 Economic analysis of the commercial/industrial sector and commercial property sector reveal that the investment performance of UK commercial property has been steadily moving back to core fundamentals. Property yields are stabilising and the occupier markets are performing well benefiting from robust demand, tight supply and steady rates rental growth. The economic outlook and performance of the property market provides a positive background that supports the redevelopment of the Estate (see PART 2 Appendix A: Options Report and Market Commentary which provides further information about the economic outlook and the property market).

4. PROPOSAL

The Concept

4.1 The Council intends adopting an asset management strategy that provides a well-planned employment hub that encourages growth and maximises employment. This will be achieved by matching the needs of employers from both SME and corporate occupiers in terms of:

- The specification, size and versatility of space offered;
- The tenure structures that will be offered that support employment growth;
- Providing the opportunity to 'trade up' and 'trade down' as businesses respond to economic conditions;
- Encouraging the development of incubator accommodation and workspace that support start-ups and encourages cross fertilisation, agile and co-working.

4.2 Evidence drawn from other areas in London shows that the typologies of accommodation required to meet demand and maximise employment are as follows:

- Office type space – small, medium and large space users
- Managed workspace
- Incubator/accelerator/ co-working space
- Studio type space
- Creative studios
- Industrial/warehouse space – small, medium and large space users

4.3 These uses have differing needs and environmental requirements and in response the vision for Montagu is to create a mixed use environment that will offer a range of accommodation within a well-planned and accessible estate. Similar activities will be grouped to co-locate in buildings or zones that are designed to meet the specific needs of the occupiers and in this way support operational needs and business growth.

4.4 As part of the viability assessment, a variety of conceptual layouts were considered, and the option that maximises built floor area and optimises income is shown in Figure 1. This conceptual plan will need to be developed into a detailed masterplan that will guide the redevelopment of the estate and the proposed partnership.

4.5 The conceptual scheme noted has a gross footprint of 620,000 sq.ft, but there is opportunity to increase this footprint to c. 795,000 sq.ft by altering the unit typologies. The comprehensive, yet phased, redevelopment of the Estate is proposed.

4.6 To facilitate the phased redevelopment of the estate, it is proposed that Unecol House is demolished as soon as possible. This is because not only is the building in a perilous state and a financial liability to the Council, it cannot be reused economically. It should also be borne in mind that Unecol House is in a key position; with prominent street frontage facing a busy secondary road and as the northern access to Montagu Industrial Estate. Demolition therefore facilitates land consolidation and sets the scene for a gateway development that sets the new development tone for the entire Estate.

<u>Land Assembly Implications</u>

4.7 The Council's ownership is occupied by over 60 tenants generating £1.16m in annual rent with the majority of leases expiring around 2020, some leases go on to the period between 2030 – 2040. The remainder comprises eleven interests held by third parties.

4.8 Completing land assembly to secure vacant possession of the estate will be a combination of freehold and leasehold purchase and business disturbance on a temporary or permanent basis. With a phased approach to development it is envisaged that certain businesses could be relocated locally and thereby mitigate business disturbance to temporary disruption and not total extinguishment. However, total extinguishment of certain businesses is expected to take place.

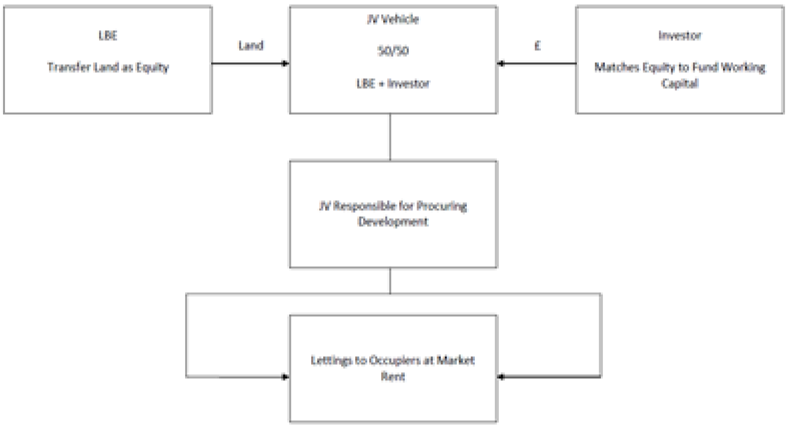
4.9 To help facilitate the acquisition of land, and ensure the comprehensive redevelopment of the Estate it is recommended that the Council uses its compulsory purchase order (CPO) powers. In this regard a detailed business case, town planning framework and a clearly defined delivery strategy will be needed which will support the CPO case.

4.10 To minimise the risk that vacant possession will not be secured for the sites that are subject to existing leases and licences it is proposed that responsibility for estate management of the estate transfers to the SPV from the point of set up. Net rents will continue to be received by the Council to maintain income levels.

Delivery Mechanism – Joint Venture

4.11 Appendix A of PART 2 of this report provides a detailed analysis of the various delivery options available to redevelop the Estate and these are briefly outlined in Section 5.

4.12 Based on this analysis, it is proposed that a partnership with a development partner is established. To facilitate the partnership, a Joint Venture (JV) vehicle would be formed with a likely term of c. 20 years. See diagram below.



4.13 The JV would be structured as an LLP. The partners will have 50/50 decision making powers with equal executive membership and a deadlock structure in case of fundamental disagreement. Revenue distribution will be determined by equity participation. The value of the land transferred into the JV would represent the Council's equity share in the JV. The JV partner's equity share is expected to be equivalent to the outstanding land assembly costs, pre-development and delivery costs, which the partner will fund.

4.14 The partners would share the net revenues (net of JV operating costs) into the JV achieved through industrial lettings. Annual revenues would be shared by each partner equivalent to their equity share.

4.15 The JV would adopt an over-arching set of objectives and operating structure (The Strategic Plan). It is envisaged that the costs of fulfilling these objectives will be financed by the partner and the direct operating costs of the JV would be funded by each party as working capital. The Strategic Plan objectives would include:

- Master plan consent
- Phase detailed planning consent
- Phase delivery and financial plan
- Land assembly by agreement
- Infrastructure agreement
- Estate management

4.16 It is envisaged that the Council would only transfer a long-term property interest into the JV on a phase by phase basis subject to certain Conditions Precedents (CPs) being satisfied. CPs would include, amongst others: master plan consent and detailed planning consent (on a phase by phase basis).

4.17 The advantages and disadvantages of this delivery mechanism are highlighted in the following table.

Advantages	**Disadvantages**
LBE has control over design principles, quality and programme through The Strategic Plan and 50/50 decision making	Likely to be OJEU procured process as there is positive obligation to develop by the JV and this increases up front resourcing and procurement costs to LBE
Creates revenue and market value led growth through JV share	Exit options uncertain as freehold interest is held by the JV. LBE will own its equity % of the JV and on expiry of the JV will have to acquire the partners share to own 100% of the freehold.
In case of market failure the damage to LBE is reducing revenue and unlike the head lease cannot fall into negative returns	LBE executive resourcing during the life of the JV
Partnering with an established industrial developer enhances marketability as the scheme can benefit from the partners wider brand, experience and existing tenant bank.	
LBE do not directly carry construction costs risk	
LBE being seen to be participating in development in the Borough in a well managed way.	
LBE can maintain existing net revenue levels and implement high quality estate management and land stewardship strategy through the JV principles.	

4.18 If a partner wishes to exit the JV during its operating term, either party would be allowed to sell its share (usually after a minimum term) subject to agreement and subject to a pre-emption option. On winding-up the JV, the parties would have a pre-emption or default to sell the JV interest and distribution of receipts by equity stake proportions. The parties could also agree to extend the JV.

Procurement Approach

4.19 The procurement of an appropriate development partner is of critical importance to the Council achieving its objectives. The selection of a partner will therefore need to be vigorous, transparent and robust. To achieve this, a land transaction based procurement approach is envisaged. Details of the other procurement approaches considered are reported in Appendix A of PART 2 of this report.

4.20 This approach will:

- Encourage a wide group of interested parties to participate and this will maximise competition for the JV role;
- Be faster and more cost effective for the Council;
- Allow the Council to exercise a satisfactory level of design and delivery control using alternative methods such as through town planning powers and through the lease terms.

4.21 The procedure to be adopted to identify a JV partner under this basis would be as follows:

- High profile marketing to identify a partner which is willing to enter into a JV arrangement with LBE on a 50/50 deadlock basis within an LLP structure. Revenue share of the JV by reference to the equity participation of the partners.
- Marketing will describe the strategic and operating proposition which will become embedded in the JV agreement which is signed up to by the Partners. The proposition is that the parties enter into a JV agreement which incorporates the following rights & obligations:

    - JV takes responsibility for estate management of the existing estate;
    - The JV partner accepts development management (DM) responsibility to appoint appropriate professional consultants to secure master plan permission for the estate as agreed between the JV partners (Master Plan proposals received as part of the selection procedure);
    - LBE accepts an obligation to seek to secure CPO powers over third party owned sites (secured in the Conditional Land Transfer Agreement (see below);
    - JV partner DMs the obtaining of planning permission and funds land assembly and the pre-development costs of securing permission;
    - JV secures planning permission and the parties agree a Phasing Agreement based on the Master Plan;
    - Site wide viability assessment is undertaken based on the master plan consent and substantiated by detailed market commentary, cost advice and site investigation to generate an estate wide land valuation based on a Long lease value (999 years) with vacant possession and the benefit of planning permission;
    - Business Plan approved by JV partners based on the agreed land valuation, pre-development costs, expected delivery costs, JV DM costs partner finance rates and all other cost to show the expected revenues to the JV parties;

- Equity share of the JV agreed by reference to the Business Plan proportions of land value in comparison to the pre-development and delivery costs incurred by the JV partner;
- LBE receives ‘loan note’ finance return in lieu of land value payable from the date of transfer as priority return on revenue to JV (% rate secured at procurement);
- JV Partner receives finance return on pre-development costs (% rate secured at procurement) as 2nd priority;
- JV Partner receives finance return on development costs as 3rd priority;
- JV Partner funds the shortfall in LBE revenue from the existing estate during the pre-development period and guarantees a minimum revenue of £850,000 per annum to LBE;
- JV approves the Business Plan;
- JV partner DMs the securing of detailed planning permission for phase 1;
- LBE is obliged to grant an Agreement for Lease to the JV in accordance with the Conditional Land Transfer Agreement;
- JV partner procures construction subject to agreed procurement policy of the JV;
- JV appoints letting agents;
- JV appoints managing agents;
- JV partner manages the lettings & management teams;
- Agent costs funded out of JV revenue;
- JV net revenue distributed in accordance with the priority returns and the equity shares;
- JV reviews the Business Plan on an annual basis.

4.22 Setting-out the procedures, rights and obligations of the JV from the outset enhances transparency and signals to the market the Council’s intent and willingness to proceed with this development as speedily as possible. In addition, it also ensures the procurement process is clearly laid out, is unambiguous and allows the Council to clearly evaluate bids.

<u>Conditional land transfer agreement (CLT)</u>

4.23 For the JV to be successful, the parties will need to enter into a CLT in parallel with the JV agreement on the basis of the Council granting an agreement for Lease and 999 years lease which will need to impose the following rights and obligations:

- LBE undertakes to seek to secure CPO powers for third party interests;
- LBE undertakes to secure vacant possession of LBE owned areas in accordance with the Phasing Agreement;
- LBE grants an Agreement for Lease (AFL) in accordance with the Phasing Agreement when pre-conditions are met, such as:
    - CPO powers secured;
    - LBE secures vacant possession of the phase area;
    - Detailed Planning Permission is obtained by the partner;
    - AFL would have a long stop date for completion of the development in accordance with the planning permission. It is important to note that the AFL user clause would be to only implement the planning permission, and as such is not a positive development obligation;

- The AFL conditions state that on satisfactory completion of the development a 999 year lease is granted to the JV on a peppercorn basis and with User restrictions for continued employment uses.

4.24 The demolition of Unecol House and the consolidation of adjoining land by the Council will enhance the Council's commercial position in establishing the JV. This is because a significant liability would have been removed prior to the asset being transferred. In addition, consolidating the land also enhances its value as there is a greater percentage of developable land mass.

Financial Overview

4.25 The current gross income level the Council receives from the Estate is £1.16m from a variety of short and long term leases. Given the age of the buildings on the estate and legislative changes, it is highly likely that compliance with the legislation will require significant expenditure and extended void periods. While this has not been quantified, the exercise is regarded to be futile as the building stock can be considered to be redundant and will not attract stronger businesses that will support future economic and employment growth. Hence, additional expenditure will not be matched by increased rental value.

4.26 Notwithstanding the disadvantages of maintaining the status quo, the option was financially modelled and net revenue is expected to reduce to below £600k in 2020 and never exceed £1.28m even after 20 years.

4.27 Our property consultant (LSH) in consultation with our tax adviser (Grant Thornton) and legal adviser (Browne Jacobson) have carefully considered the legal and financial implications with the respective delivery mechanisms and the following table compares the returns for the respective options.

4.28 to 4.44 PART 2 ONLY

Envisaged Timetable

4.45 Work undertaken to date has provided a conceptual framework and feasibility analysis for the redevelopment of the Montagu Industrial Estate. Further work is now required to steer its implementation through procurement and set-up.

4.46 The following table provides an indicative timetable for the project's delivery.

Milestone	Date
Commence land assembly	Oct 2016
Prepare informal master plan	Oct 2016
Interested Party day	Oct 2016
Market Launch	Oct 2016
Registration of interest	Nov 2016
Short list of parties	Jan 2017

CPO process commences	Jan 2017
Submission of demolition PA	Jan 2017
Final offer	Mar 2017
Close and set up of JV	May 2017
Procure demolition contractor	Jun 2017
Unecol House demolition completed	Dec 2017
Commence Phase 1	Jan 2019

<u>Project Governance and Management</u>

4.47 A project Board consisting of Council officers (from Property Services, Legal Services, Finance, Economic Development and Regeneration) and external consultants will be established within Strategic Property Services (SPS). The Project Board is to be co-chaired by the Director (FRCS) and Director (Environment and Regeneration).

4.48 External consultants will be drawn from the Council's existing Co-sourcing arrangements for Legal, Property, Financial and Procurement support. In addition, consultants will also be called-off directly from the CCS Framework Agreement.

4.49 Overall day-to-day project management will be externalised but will be supported with a project manager from SPS.

4.50 The Project Board will report by exception to the Asset Performance Group, which in turn will escalate matters for consultation to the Corporate Asset Management Group or for decision to CMB/Cabinet.

5. ALTERNATIVE OPTIONS CONSIDERED

5.1 The Council could elect to retain the Estate in its current form. However, this is not considered viable as future rental growth will be prejudiced by buildings in its ownership becoming obsolete, and the retention of older buildings not attracting new occupiers. Net income levels are likely to reduce due to buildings no longer meeting the requirements of their occupiers, and attracting small businesses vulnerable to failure. Management costs are also expected to increase as buildings become obsolete and attract higher repair costs. In particular, it is important to note that the Energy Act 2011 places restrictions on the leasing of commercial premises that do not comply with minimum energy efficiency standards, and it is highly likely that compliance with these requirements will require significant expenditure and extend void periods.

5.2 Four alternative options were also considered for Unecol House, viz.: Dispose building; rent asset; retain as is; and develop for an alternative use. None of these options were considered viable for a variety of reasons ranging from health and safety issues, income generation, cost reduction, and planning viability.

5.3 A lack of intervention will also result in the local environment continuing to suffer from congestion and urban decay, which may place the area at risk of increased anti-social behaviour.

5.4 Alternative land use options were also considered, but given the area's planning designation and current planning policy, the probability of a shift away from employment uses is considered to be highly unlikely. Similarly, alternative layout options and unit typologies were also considered for the site, and whilst a conceptual plan was drawn-up aimed at maximising net lettable area, it will require further refinement.

5.5 A variety of options were also considered with respect to the delivery mechanisms that could be used to redevelop the Estate, viz.: head lease to an investor, joint venture, and LBE direct development. These options present very different risk/reward relationships, and the following tables summarise the various comparative assessments that were considered in recommending the preferred option.

Criteria	Head Lease	JV	Direct Development	Status Quo
Council control	High level of control over design and delivery	High level of control over design and delivery	High level of control over design and delivery	Only piecemeal infill development possible
Ease of procurement & risk	Land investment deal, non OJEU and minimal risk subject to DD being available	OJEU process, 12 month programme. Minimal risk of success	N/A	N/A
Market interest	Very strong for whole, strong for LBE interest	Extremely strong for whole, very strong for LBE interest	N/A	N/A
LBE construction risk	LBE carry risk through the annuity rent structure	Minimal, managed through JV procurement	LBE carry risk	N/A
LBE letting risk	LBE hold full letting risk	Minor, managed through JV delivery phasing	Full letting risk to LBE	Minimal but will grow with continued obsolescence
Maximise revenue to LBE	LBE standards of delivery drive the market rent which is discounted by the fixed head lease rent	JV standards of delivery drive the market rent and LBE receive share based on equity share	LBE standards of delivery drive the market rent received in full by LBE	Net revenue expected to reduce in real terms
Intensity of LBE resourcing	Medium – initially in marketing & close and following development LBE will have asset and management responsibilities	Limited to JV management and governance	Intense direct resourcing and managing DM and property management services	Minimal
Flexibility to expand scope	None	Flexible	Subject to financial exposure	None

Criteria	Head Lease	JV	Direct Development	Status Quo
Time to procure and set up	6 months	6 – 12 months	6 months	Ongoing
Indicative preference ranking, subject to detailed financial modelling	**2**	**1**	**4**	**3**

5.6 Whilst the financial modelling of the options suggested that the Head-lease option might provide higher returns, the risk analysis noted that a JV option presented lower risks and better certainty (see table below).

Risk	Head Lease	JV	Direct Development	Status Quo
Availability of LBE resources to scheme delivery & ongoing management	**Medium –** LBE will have to provide/procure DM services to secure delivery	**Low –** resources provided/procured by the JV partner	**Medium –** LBE will have to provide/procure DM services to secure delivery	**Low –** limited to property management & piecemeal development
Maintain credible marketing and management brand in the long term	**High** – not LBE core business	**Low** – adopt the established brand of the partner	**High** – not LBE core business	**High –** brand will not overcome the quality of the estate
LBE revenue vulnerable to market conditions	**High** – LBE will have to adjust terms to remain competitive	**Medium** – Development partner expertise, brand and tenant bank will mitigate deteriorating tenant demand	**High** – LBE will have to adjust terms to remain competitive	**High** – poorer specification/condition property suffer more in deteriorating market conditions.
LBE revenue could become negative through commitment to pay head rent	**Medium –** Market values would have to fall by around 60% but this could be envisages as the estate becomes older	**Low –** LBE returns can reduce but not become negative	**Medium –** revenues could, in extreme conditions fall below the finance costs of delivery	**Low –** because no head/ground rent
LBE exposed to construction cost risk	**Medium –** pre-development services provide some protection	**Low** – partner has direct delivery experience and LBE not directly exposed	**High –** pre-development services provide some protection	**N/A**
Scheme design fails to match market requirement and does not optimise returns	**Medium –** pre-development services provide some protection	**Low** – partner has direct delivery experience	**Medium –** pre-development services provide some protection	**N/A**
LBE exposed to unforeseen and extraordinary pre-development costs	**Medium –** pre-development services provide some protection	**Low** – partner has direct delivery experience	**High –** pre-development services provide some protection	**N/A**
Summary of risk	**Medium to High**	**Low to medium**	**High**	**N/A**

5.7 The various options were also tested in the market to determine market interest and appetite for such a development. The findings add weight to the course of action proposed in this report.

6. REASONS FOR RECOMMENDATIONS

6.1 The Montagu Industrial Estate is in a state of decay, and land on the Estate could be used more efficiently.

6.2 Comprehensive phased development of the whole Estate is considered to have advantages in terms of:

- Enabling estate wide master-planning that will maximise density by re-configuration of road access;
- Comprehensive phased development will maximise market appeal thereby optimise values, growth marketability and Investor interest;
- Increasing scale will enhance the opportunity for community infrastructure and estate wide facilities;
- A well planned estate will mitigate the adverse effects of employment uses on residential neighbours;
- A Larger estate creates service charge and management efficiencies.

6.3 The benefits of redevelopment can be summarised as follows:

- Asset management: As the market commentary in Appendix A suggests, a new well planned estate developed on a phased basis should enjoy steady demand and be a source of income that is secure in real terms through rent review structures. In this way rental income/growth is further enhanced by capital value growth. Redevelopment enables the adoption of an estate management strategy to assure fit for purpose infrastructure and energy efficiency and ensure that management expenditure costs are effective, minimised and recoverable.

- Economic: Enables the estate to provide accommodation that matches demand requirements and through this, support economic activity and sustainable growth in the Borough.

- Finance: Redevelopment will generate higher business rates and the retention of this revenue post 2020 diversifies and assists to stabilise the borough's finances.

- Socio-economic: New accommodation will enhance job creation and safeguarding close to an area of local labour. In turn this will lead to consumer spending and assist in promoting local well-being and pride, and address anti-social behaviour in the area.

- Environmental: The estate is close to key transport routes and a comprehensive scheme will enable an estate wide travel plan to be adopted leading to more efficient and reduced travel for employees. Redevelopment also facilitates an improved urban fabric and minimises the bad neighbour effects of industrial activities on local residents and businesses. This positive approach will also improve perception of the borough in its environmental responsibility. The proposed redevelopment of this site with an industrial scheme is considered to be financial viable and feasible in planning terms. The scheme will also generate much needed income for the Council.

6.4 The demolition of Unecol House will remove a significant liability for the Council as the structure and installations within are in a very poor to dangerous condition, with asbestos containing materials, and periodical repair and maintenance is not recommended. Its future use as Open Storage on the site is considered viable and revenue from this activity is estimated at over £50k per annum (based on 2015 assessments). This use will not compromise any emerging plans for the Montagu Industrial Estate in the future by integration of the master plan and may make the site more appealing to investors at a later date.

6.5 The use of Unecol House as Open Storage is proposed as a short-medium term solution for the Council as it will: result in a secure site that will generate an income; transfer liabilities to an occupier; reduce ongoing management costs once demolished; and will stop illegal encampments on the site and reduce rough sleeping in the immediate area.

7. KEY RISKS

7.1 A project of this scale has numerous risks and as such will need to be closely monitored and managed. This will be the primary responsibility of the project team and in particular the project manager. Significant risks and issues will be escalated to the Asset Performance Group and CMB/Cabinet by exception.

7.2 The Council’s existing risk management protocols will be used and this will be tempered using Prince2 methods and techniques.

7.3 Key lower level risks are outlined in section 5.5, whereas the table below identifies the key strategic risks associated with the project.

Economic Risk	This is a long-term project and therefore difficult to predict the future’s economic outlook. Hence, there is inherent risk associated with the UK’s and London’s economic outlook particularly in light of the recent Brexit decision. Current analysis suggests that the market’s fundamentals and those of the London property market in this sector are strong and will remain robust. However, the proposed scheme builds in flexibility by adopting a phased approach, thereby allowing the development to be altered over time if needed.
Market Risk	Scheme fails to match market requirements and does not optimise returns. Much of this risk can be mitigated by selecting an appropriate, skilled and experienced development partner as the partner will be directly involved in delivering a viable scheme.
Planning Risk	Scheme fails to obtain planning permission. This risk is considered low as the area’s use as employment land is

	established and the scheme does not depart from planning policy. Indeed it will improve the area. However, the emerging North London Waste Management Plan does have the potential to restrict the future employment use potential of the area and it is imperative that an appropriate agreement is reached regarding the provision of waste facilities in north London that does not prejudice the Council's economic regeneration aspirations for the area and borough as a whole.
Financial Risk	Cost pressures could render the project unviable or depress the share to the Council and its JV partner. The project will need to closely monitor various cost elements associated with the project, such as land assembly and disturbance payment costs, finance costs, construction costs, and operational costs. Mitigation will include preparing detailed budgets, particularly for land assembly.
Duration Risk	The project takes longer than envisaged. This will primarily have the effect of deferring future income streams to the JV, while increasing operating costs over the shorter term. Mitigation will include lightly resourcing the JV thereby ensuring operating costs are minimised.
Procurement Risk	The procurement approach is challenged and/or the market does not respond favourably to the opportunity affecting our ability to select a suitable partner. Legal advice has been obtained and the approach to be adopted is considered to be sound. Soft market testing was undertaken to determine market appetite and to temper the proposition. Responses have been very favourable and the approach will facilitate/improve our ability to obtain a suitable partner.
Resource Risks	Availability of resources to deliver the project. The Council has limited capacity and capability to deliver this project in-house. The JV rote allows the Council to draw upon the partners resources for delivery. In addition, the Council will bring in the necessary resources through its co-source partners.
Environmental and Public Health Risks	Unecol House's building fabric has asbestos containing materials (ACMs). Risk associated with demolition therefore appropriate surveys need to be undertaken and appropriately qualified contractors will need to be used to demolish the structure.
Public Health Risks	While Unecol House has been secured to prevent trespass, the longer the building stands empty, the greater the risk of trespass and vandalism. The Council has a statutory duty to ensure the building is appropriately safeguarded.

8. COMMENTS OF THE DIRECTOR OF FINANCE, RESOURCES AND CUSTOMER SERVICES AND OTHER DEPARTMENTS

8.1 Financial Implications

8.1.1 SEE PART 2

8.2 Legal Implications

8.2.1 Section 1 of the Localism Act 2011 provides the Council with a general power of competence to do anything which an individual generally may do so long as it is not restricted under s.2 of that Act. The establishment of a Joint venture with a private sector partner for this development is within the powers of the Council under its general power of competence (GPOC).

8.2.2 However, it is sometimes argued that local authorities do not have the power to establish or be a partner in limited liability partnerships (LLP). This is as result of the wording of section 4 of the Localism Act 2011 which states that if a Council does something under its GPOC for a commercial purpose then it must do so either through a company or cooperative and benefit society and not an LLP. LLPs must however be established by two or more (legal) persons with a view to profit, if the Council is not establishing the partnership with a view to a profit then the courts have historically considered that no partnership exists. Nonetheless many Councils have taken the view that provided they are establishing an LLP not for a commercial purpose then they are permitted to establish an LLP. This view has not been challenged and has led to a number of LLP joint ventures being established by local authorities around the country. To this end the Cabinet should be minded when reaching its decision, that the Council would be primarily pursing the joint venture by way of an LLP not for a commercial purpose but for the wider social regenerative benefits that this scheme should bring.

8.2.3 The report confirms that the Council intends to market the opportunity to become the joint venture partner by way of an open and transparent competition but not in accordance with the full requirements of the Public Contracts Regulations 2015 (PCRs). Provided that the underlying contractual relationship is not procurable under the PCRs then an open and transparent competition should meet the requirements of the Commission Interpretive Communication on Public Procurement and Concessions to Institutionalised Public Private Partnerships. In order to achieve this it is necessary for the underlying transaction to be structured as a land sale (which is not covered by the PCRs) and not as a development agreement (which would be covered by the PCRs). A land transaction means that the competition does not have to comply with the PCRs and thus is less encumbered by those rules however, in order to achieve this the Council must accept that the level of contractual control and influence over the delivery of the scheme will be limited largely to its statutory planning and other controls rather than through a contractual route. We understand that for this scheme (which is employment rather than residential based) this level of control is acceptable to the Council.

8.2.4 Notwithstanding the above, the opportunity must be fully, widely and fairly advertised to ensure that the financial contribution of the Council is opened up to the market, properly valued and that there can be no question of any undervalue being received by the Council for its land and any other support financial or otherwise provided by it.

8.2.5 Land based transactions (i.e contracting authorities' transactions purely concerning an 'interest in land') fall outside of the regulatory framework of EU procurement law (and domestic procurement law derived from it and thus are not regulated under the Public Contracts Regulations 2015 (“ the Regulations”). Any land based transaction, such as that described in the report, must however, ensure that the transaction’s purpose can be said, at all times, to be based on the transfer of an ‘interest in land’, in order to escape the risk of the transaction being challenged as a public contract, or works concession contract masquerading as an ‘interest in land’ transaction.

8.2.6 By virtue of s.120 of Local Government Act the Council has the power to acquire land by agreement for the purposes of the benefit, improvement or development of their area. The contract for the acquisition of land must be in a form approved by the Assistant Director (Legal and Governance)

8.2.7 Under section 226 (1) (a) of the Town and Country Planning Act 1990 a local authority has a general power to make a compulsory purchase order for the acquisition of any land in their area in order to facilitate the carrying out of development, redevelopment or improvement in relation to the land. In exercising these powers the Council must demonstrate that the proposed development/improvement is likely to contribute towards the promotion or improvement of the economic or social or environmental well-being of their area. When pursuing a CPO the Council is expected to negotiate with landowners and demonstrate that there are no financial or planning impediments to development. Further Legal Implications of utilising CPO powers will be included in future reports.

8.2.8 The report notes that land in the Council’s ownership will be transferred on a phased basis to the special purpose vehicle. By virtue of s.123 the Council may dispose of land held by them in any manner it wishes subject to obtaining the best consideration reasonably obtainable, and in accordance with the Council’s PPR’s. Therefore at the time of disposal the Council must ensure that the value attributed to the land meets the Council’s s.123 obligations.

8.2.9 The Council has a responsibility to all visitors and trespassers under the Occupiers Liability Act 1957 & 1984. In addition, the Health and Safety at Work Act 1974 creates as duty of care to all employees, members of the public and contractors who are present on Council property. For vacant properties the Council will be the duty holder with responsibility for ensuring the health and safety of persons on sites.

8.2.10 A coherent policy that is reviewed regularly in light of obligations and is well executed with sufficient funding will go some way to evidencing that the Council takes seriously its responsibilities to individuals on its property howsoever they come to be on site.

8.2.11 All goods/works/services associated with the demolition of Unecol House must be procured in accordance with the Council’s Constitution, in particular Contract Procedure Rules and contracts will need to be in a form approved by the Assistant Director of Legal and Governance Services.

8.2.12 The Council’s intentions for Unecol House constitute ‘development’ within the meaning contained in the Town and Country Planning Act 1990 and as such an appropriate application will need to be submitted to the Local Planning Authority seeking planning permission.

8.3 Property Implications

8.3.1 The project is considered to be financially viable and feasible in planning terms. Economic and property market conditions over the foreseeable future suggest that the fundamentals are in place to support the redevelopment of the Montagu Industrial Estate.

8.3.2 The Estate is in a poor condition and future R and M liabilities are expected to increase. These increases will not be matched by rising rents as the stock on offer is of poor quality and no longer fit-for-purpose. If the status quo is maintained, future income from this asset is expected to remain capped at £1.28m per annum with difficult trading conditions. Redeveloping the estate is expected to secure wider economic and social benefits and will also generate much needed income just short of £4m per annum for the Council.

8.3.3 A tenancy schedule for the Estate has been prepared and passed on to our property consultants. There are a variety of short and long term leases with the majority of leases expiring around 2020. The JV will therefore need to carefully consider how it will terminate these leases and appropriate notices will need to be issued.

8.3.4 It is envisaged that the Joint Venture partner will take over responsibility for the asset and property management of the Council's current property portfolio at the Montagu Estate. This will require all leases/licences to be transferred to the JV partner and for all tenants to be notified of this arrangement. Transferring the asset and property management function will ensure the JV has control over achieving VP in line with its development plans. In addition, it will ensure the Council will continue to receive a guaranteed stream of income during the decommissioning and development of phase 1.

8.3.5 A decision to proceed with the project will have a negative, albeit short-term, impact on this Estates rent roll. This is because any tenancies due for renewal prior to December 2018 or potential vacancies that may arise during the intervening period before vacant possession is required to facilitate development will be for a short period in poor quality stock and will not attract strong covenants. However, this impact is mitigated by the JV partner providing a minimum net rent guarantee (set at the Council's current rent roll) to the Council.

8.3.6 By transferring the property portfolio to the JV, the JV will be responsible for ensuring revenue is optimised during the intervening period, costs are minimised, and the Council continues to fulfil its Corporate Landlord responsibilities within the context of a larger development programme.

8.3.7 To facilitate the project, land assembly will need to be undertaken under the shadow of the Council exercising its compulsory purchasing powers.

8.3.8 Unecol House is no longer fit for purpose. Refurbishing the asset is not an option, as this would not be a good return on the investment required. Bringing the building back into limited use would require the following works:

- Replacement of the profiled asbestos cement roof covering and wall panelling with composite insulated profiled metal sheet roof covering
- Replacement of un-insulated bituminous felt flat roof covering with insulated pvc roofing membrane roof covering
- Replacement of single glazed steel framed windows with thermally broken aluminium double glazed windows
- Disabled facilities, installation of lift and disabled WC to first floor
- Contingency/Asbestos Management
- Unforeseen works

8.3.9 Retaining and refurbishing Unecol House is therefore not considered to be a viable option and the cost of holding Unecol House in its current and perilous state can no longer be sustained.

8.3.10 Additional “Risk Assessments” to identify works necessary to de-commission this asset prior to demolition will be required.

8.3.11 A Thames Water pumping station is located within the property. Further discussions and additional due diligence work will be required prior to demolition at a cost to the Council.

8.3.12 Once the asset has been demolished open storage presents the best short to medium term opportunity for the site with a rental income.

8.3.13 SPS shall conduct a soft marketing exercise to identify potential occupiers for the site once demolished. It is proposed that this marketing exercise will be done in tandem with the demolition programme.

9. PERFORMANCE MANAGEMENT IMPLICATIONS

9.1 The project will be managed by Strategic Property Services and a project team will consist of both Council officers and external consultants. The project team will report directly to the Head of Property. The Council’s Asset Performance Group will act as the projects governance board and will provide strategic guidance and assist with the co-ordination of resources within the Council. Issues will be escalated to CMB/Cabinet by exception.

9.2 The Council’s project management protocols will be used and these will be tempered with other Prince2 techniques.

9.3 The procurement process for a development partner will be clearly outlined from the outset and key conditions and obligations are outlined in sections 4.19 to 4.24. This will ensure that the JV partnership will have key performance indicators outlined from the start of the partnership. These will be monitored by SPS, but additionally the Council will be represented on the JV Partnership board with officers acting as non-remunerated Directors on the board.

10. EQUALITIES IMPACT ASSESSMENT

10.1 An equalities impact assessment will be undertaken as part of the masterplanning exercise, which will be the responsibility of the JV and will be managed by the JV partner. At this point in time, a strategic assessment has revealed that the redevelopment of the Montagu Estate may result in the temporary or permanent extinguishment of businesses currently located on the Estate. These extinguishments will therefore need to be sensitively treated and will need to be dealt with in accordance with the appropriate legislation.

10.2 However, equality issues will be included in the procurement process of a development partner. The tender documents will therefore ensure that the potential future partner will adhere with the Council's policies.

10.3 In the event of an illegal occupation of vacant properties, such as Unecol House, the Council may need to undertake welfare checks and ensure no human rights issues are engaged. The Council must also ensure that its sites are safe and secure and or prohibit access to unauthorised individuals.

11. HR IMPLICATIONS

11.1 Delivering this project together with various other projects in the pipeline will require additional resources. In-house support will be augmented from our co-sourcing partnering arrangements.

11.2 The establishment of a JV delivery vehicle will require officers to be appointed as Directors on the newly established company's management board. It is envisaged that these positions will not be remunerated, but that appropriate costs, such as insurance liabilities and travel expenses will be covered by the Council.

12. PUBLIC HEALTH IMPLICATIONS

12.1 The Montagu Industrial Estate suffers from high levels of pollution and ground contamination due to the activities undertaken by certain businesses currently located on the Estate. The redevelopment of the Estate will consequently have a positive impact on the environment, surrounding residents and the estate's new workforce.

12.2 Many of the current structures on the estate have asbestos containing materials. As a result, appropriate investigations will need to be undertaken prior to any demolition. In particular, an R and D Asbestos Survey will need to be undertaken for Unecol House.

12.3 The Management of Health & Safety at Work Regulations (HWSA) 1999 requires employers to manage health and safety by assessing risk. The main reason for conducting risk assessments is to ensure that adequate consideration is given to things that can go wrong. Adequate risk assessments are therefore fundamental for ensuring the effective management of Health & Safety Risks. Under the Managements of Safety Work Regulations 1999 (MWHSR) regulation 7, the Council as an employer will need to appoint one or more competent persons to assist in undertaking the measures required for compliance, factoring in at all times the prohibitions imposed by legislation.

12.4 The Joint Venture will become the principal client for the purposes of the CDM regulations. This will however be managed by the development partner.

13. IMPACT ON COUNCIL PRIORITIES

13.1 Fairness for All

The proposed redevelopment of this site will significantly enhance the working environment of the estate's workforce. It will also have a positive impact on the surrounding neighbouring residents, particularly those residing on the estates boundary, as the built environment will significantly improve and relate better to adjacent residential units.

The uses will significantly improve can provide additional accommodation to a much higher standard. There will also be an increase in the supply of much needed new housing for different tenures and income levels.

13.2 Growth and Sustainability

The proposed redevelopment will provide a greater range of commercial employment use space. This will allow SMEs to be provided with suitable accommodation within the borough and also permit business to expand or shrink as required.

The provision of new commercial space will also allow the borough to attract new businesses and given the range of unit typologies to be provided, will support businesses in their growth trajectories. The retention of employment use space within the borough will also benefit the borough's workforce by providing employment opportunities in close proximity to where they live. Additionally, the creation of new jobs will also improve spending power within the borough.

13.3 Strong Communities

Local residents, businesses and key stakeholders within and in close proximity to the Estate will be consulted about the scheme.

A significant economic multiplier effect is envisaged, and it is estimated that c. 2520 jobs could be created and safeguarded by the development, and it would generate c. £4m of business rates annually.

Background Papers
None