MUNICIPAL YEAR 2019/2020 REPORT NO. **177**

Agenda - Part: 1	Item: 6
Subject: Montagu Industrial Estate Redevelopment. **Wards: Edmonton Green** **Key Decision No: KD 4876**	
Cabinet Members Consulted: Cllr Caliskan and Cllr Maguire	

MEETING TITLE AND DATE:
Cabinet 28 January 2020

REPORT OF:
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1. Executive Summary

1.1 Industrial and Logistics businesses in Enfield play a significant part in both the local and the London wide economy. They provide a wide range of jobs and the wide range of businesses feeds, clothes, services and builds London. Creating new space for these sectors to grow whilst improving land use efficiency and broadening the range and quality of jobs for local residents is a core focus of our Corporate Plan.

1.2 In September 2016, Cabinet approved (KD 4357) the redevelopment of the Montagu Industrial Estate ('the Estate') to help maximise employment opportunities, to secure wider economic and social regeneration, to provide buildings that meet the demands of modern business, and to improve revenue for the Council.

1.3. Cabinet also approved the use of the Council's property at the Estate as an equity stake in a joint venture to be set up with a specialist developer. In July 2017, the Executive Director of Finance, Resources and Customer services approved the selection of Henry Boot Developments as the 50:50 Joint Venture (JV) development partner following a procurement exercise. The JV structure provides that the Council puts in its land and acquires the additional land ownerships and Henry Boot fund the redevelopment.

1.4. Since that time, further land on the Estate has been acquired, and planning permission has been granted for Phase 1, which will 55,000 sq ft of new modern industrial space with a start on site expected in Spring 2020.
In order to ensure that the business case was robust following the updated capital investment requirement, a number of options were considered for the development of this site. This analysis of the options demonstrated that the existing approach to developing the site resulted in the best overall financial returns.

1.5 This report requests authority to continue with the redevelopment of the Estate, with the Joint Venture investing £94M (Council contribution £47m) into Edmonton Green and Enfield's industrial heartland. The scheme will deliver a well-planned employment hub that encourages economic growth and significant additional local employment of c. 630 net increase in jobs in an area of high deprivation. It will also increase income to the Council, reversing the current decline in income associated with the outdated property.

1.6 This report requests an increase in capital expenditure over the previous decision KD4357 and demonstrates that the financial case for the overall scheme, as well as the Council's investment, remains strong.

1.7 A further Cabinet report will come forward in due course to seek specific authorisation for the making of a Compulsory Purchase Order (CPO) to enable the redevelopment.

Recommendations

That Cabinet:

2.1 Approves proceeding with the redevelopment of the Montagu Industrial Estate, in Joint Venture with Henry Boot Developments, as described in this report.

2.2 Delegates authority to the Director of Property & Economy to undertake any associated procurement (expected to be limited), and in consultation with the Director of Legal and Governance authority to agree any ancillary agreements and non-material amendments required to support the Joint Venture.

2.3 Notes that a subsequent cabinet report will follow to authorise the making of a Compulsory Purchase Order (CPO) to support the redevelopment.

2.4 Approves the Business Plan and Master Plan as detailed at Appendix 1.

2.5 Recommends to Council the approval for an additional £33.36 million added to the approved capital programme, to be used for land acquisition and enabling costs for all phases of development, including applicable compensation for affected interests.

2.6 Approve the funding of "off-site" purchases of commercial property to relocate businesses within the red line boundary where it is commercially viable to do so within the constraints of the budget;

2.8 Notes that following the further Cabinet report seeking authority to authorise the making of a CPO, delegated authority will be sought for the Executive Director – Place, in consultation with the Director of Law and Governance, the power to affect the making, confirming and implementation of the CPO and to take all necessary steps to give effect to the CPO in respect of the Order Land.

3. BACKGROUND

3.1 Industrial and Logistics businesses in Enfield play a significant part in both the local and the London wide economy. They provide a wide range of jobs and the wide range of businesses feeds, clothes, services and builds London. Creating new space for these sectors to grow whilst improving land use efficiency and broadening the range and quality of jobs for local residents will form key components in the emerging Enfield Local Plan and our Economic Development Strategy as well as the emerging London Plan.

3.2 The Montagu Industrial Estate (‘the Estate’) is located just north of the A406 in Edmonton Green Ward and is currently occupied by largely poor industrial buildings and open storage areas at low built and jobs density. The Estate is approximately 28 acres.

3.3 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 Local Planning Authority and GLA pointing out that its employment use needs to be safeguarded.

3.4 The Estate is occupied by a variety of businesses in different economic sectors, which in some instances are not complementary, and their premises are no longer fit for the economic purposes they were originally intended for. The Energy Performance Certificates (EPC) of most of the buildings will not meet current minimum standards and therefore will not be lettable when current leases end or occupiers relocate without significant investment in energy efficiency measures. Since April 2018 it has been illegal to let buildings with an EPC rating below E. These requirements will also be applied to existing leases from April 2023 and the Government is currently consulting and as advised that It expects to increase the target to a minimum B rating by 2030. Investment in the existing dated buildings to achieve these levels is not considered viable.

3.5 The estate suffers from congestion as the businesses have outgrown the original infrastructure and many of the buildings are in a poor state of repair. There has also been significant anti-social behaviour and illegal and unauthorised activity and this together with a number of ‘bad neighbour’ type uses has a negative impact on surrounding residential areas.

3.6 The estate no longer provides the type and quality of buildings or services that meet modern business needs and maximise employment density or offer opportunities for a wider range of jobs and skills.

3.7 The Council currently owns 18.3 acres, almost 66%, of the estate and this is held for investment purposes. Rental income to the Council is currently just in excess of £1m per annum but this income is at significant risk without major investment for the reasons highlighted above.

3.8 The proposals to regenerate the Industrial Estate are fully in line with the Council’s Corporate Plan and approved Strategic Asset Management Plan (SAMP) and will align with the emerging Economic Development Strategy in terms of the Council’s commitment to building the local economy through the provision of modern energy efficient business space thereby providing inward investment, more quality jobs and thereby supporting the local economy.

3.9 The SAMP states in relation to the Council's industrial assets that:

- *"The intention will be for the Council to demolish these 1950's buildings when vacant to enable construction of replacement modern industrial buildings which will attract a higher rent and will comply with MEES.*
- *The strategy for both Claverings and Montagu industrial estate is to use negotiation, lease renewals and new lettings to obtain redevelopment break clauses by incentivising the tenants with rent reductions or not implemented increases to the market rent at review.*

- ***CPO & Purchase of adjoining ownership*** *The Council may require the use of Compulsory Purchase powers to obtain vacant possession by severing leases. It may also be commercially advantageous to purchase adjoining land to Montagu …. so that the design for the redevelopment of the sites can achieve a better design and density to make the new development more desirable and obtain a better rental return."*

4.0 The Redevelopment Proposal

4.1 The Council have already made the decision to enter into a Joint Venture with Henry Boot Developments to redevelop the site.

4.2 The proposed redevelopment delivers 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.

4.3 Evidence drawn from other areas in London shows that the types 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

4.4 Best Practice guidance indicates that the estimated number of new jobs on the estate once the development is completed will be in the order of 630 based upon existing best practice modelling.

4.5 Additional benefits will include a reduction in bad neighbour and non-conforming business operators on the estate, a reduction in crime related activities and an improvement in the public realm on the estate.

4.6 There are a number of businesses on the site which it would be prudent to try and retain on the redeveloped estate, subject to agreement with them on satisfactory terms. The Council will work with these businesses to identify suitable units on the new development into which they can relocate with minimum business interruption.

4.7 Pro-active steps are being taken to assist businesses on the estate who have entered into development leases and therefore have agreed to relocate elsewhere. The Council's property agents – Lambert Smith Hampton and Cushman and Wakefield are instructed to research the market and provide these businesses and others that have yet to agree with particulars of suitable alternative accommodation. The Council's Economic Development team will also pro-actively work with these businesses.

4.8 The type of new businesses the redevelopment will attract have differing needs and environmental requirements and in response the vision for the Estate 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.

4.9 As part of the viability assessment, a variety of development layouts were considered, and the option that maximises business space area and optimises income is shown in the detailed masterplan that will guide the redevelopment of the estate and the proposed partnership.

4.10 The preferred scheme has a (gross) footprint of 620,000 sq.ft, but there may be an opportunity to increase this footprint to c. 795,000 sq.ft by altering the unit types depending on demand as the scheme develops. The comprehensive redevelopment of the Estate in phases is proposed although it should be noted that changes or the withdrawal of certain phases in extreme circumstances may also occur in the event that viability is compromised in any one phase.

4.11 To facilitate the first phase of development, Unecol House has already been demolished and the site cleared. The key site at the entrance to the scheme with prominent street frontage facing a busy secondary road and as the northern access to the Estate is the ideal location for a first phase of development that sets the quality for the entire Estate. Planning consent has already been approved for this phase and a start on site is expected in Spring 2020.

4.12 Once the report is approved and the resolution for the CPO is confirmed, our Joint Venture partner can move forward at pace and with confidence that the Council are committed to the redevelopment scheme for all four phases.

Land Assembly Implications

4.13 The Council's current ownership is occupied by over 60 tenants and is currently generating £1.16m in annual rent with the majority of leases expiring around 2020 or shortly after. There are however some leases that expire between 2030 and 2040 and eleven interests are held by third parties.

4.14 Completing land assembly to secure vacant possession of the Estate will require 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 may end up being the only option.

4.16 Since the original budget for the scheme was fixed, following advice from the Council's property consultants, a number of external factors have led officers to consider a prudential review of the overall budget for the project.

This includes the following :

1. There have been significant increases in industrial land values as a result of very strong demand for Industrial and logistics space in this borough, a trend which is continuing. This has meant that the original cost assumptions for acquisition of land and buildings will be exceeded.

2. The upside however, is that the these increases in rents and capital values increase the council's return on investment ensuring that the proposal remains viable. Under the Joint Venture partnership arrangements the Council's equity contribution is based upon land value, with the benefit of assumed planning consent which as described above has increased significantly. Full cost recovery is envisaged.

3. It is however, considered that the original costs underestimated the true cost and timescale of a possible CPO and the full cost of land remediation. A more robust appraisal has now been carried out and reflected in the new budget. As a prudent measure, an enhanced contingency allocation of £4M has also been included within the development appraisal to ensure that the appraisal is robust, with particular reference to land remediation costs.

4.17 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 delivery strategy are shown in Appendix 1 in support of the CPO case.

4.18 To minimise the risk that vacant possession will not be secured and provide certainty for the sites that are subject to existing leases and licences the responsibility for estate management of the Estate has transferred to the joint venture from the point of its set up. Net rents will continue to be received by the Council to maintain current income levels until overall rents rise as the development progresses.

4.19 All affected residents in the locality will be notified and a commitment made by the contractor, developer and the Council that all building operations will be carried out considerately. Full engagement with local residents and businesses will be maintained throughout the development period.

Delivery Mechanism – Joint Venture

4.20 A partnership with a development partner has already been stablished with Henry Boot Developments. To facilitate the partnership, a Joint Venture (JV) vehicle has been formed with a term of 20 years.

4.21 The JV is structured as an LLP (Limited Liability Partnership). The partners have 50/50 decision making powers with equal executive membership and a deadlock structure in case of fundamental disagreement. Revenue distribution is determined by equity participation. The value of the land transferred into the JV represents the Council's equity share in the JV. The JV partner's equity share is pre-development and delivery costs, which the partner will fund.

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

4.23 The JV adopts an over-arching set of objectives and operating structure (The Strategic Plan). 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 include:

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

4.24 The Council will 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).

4.25 The Council shares on an equal basis with the JV partner risks associated with building cost inflation, rental growth forecasts, voids, tenant insolvency, rent collection and other usual commercial risks during the 20 year life of the JV. The Council are taking all the risk associated with the CPO process, vacant possession and ground remediation.

4.21 Following the expiry of the joint venture after 20 years, either party are free to sell their interest to a third party; agree terms to acquire the other party's interest or agree to a joint sale of the whole at market value (subject to independent verification in the event of failure to agree a price between the joint venture parties). Equally the parties are free to continue with the joint venture (JV).

In addition, within the Joint Venture Partnership Members Agreement (governing the operation of the partnership within the 20 year period) there are also prescribed circumstances governing a sale (of their share) by either party during the JV period after a "lock-in period" of 5 years starting from agreement of the over-arching business/master plan.

5. The Compulsory Purchase Process

5.1 A Compulsory Purchase Order essentially splits into three parts – the formulation process, the resolution process and the statutory process. Negotiation by agreement takes place throughout and is a significant part of the Government's Guidance on Compulsory Purchase.

5.2 As referred to in 1.6 above, subject to these report recommendations being accepted, a further report will be forthcoming at the earliest opportunity seeking specific authorisation for the making of a Compulsory Purchase Order for the acquisition of land, interests and new rights within the CPO area upon completion of a Statement of Reasons and Equalities Impact Assessment. This report will contain full details of the CPO justification and Powers to be used

5.3 Preliminary work including a Property Cost Estimate and Land Referencing schedule have already been completed however, these will need to be updated throughout the process.

6. Financial Option Analysis

6.1 A further analysis of the options for the development of the site was undertaken to ensure that, taking into account the revised capital requirement, the business case for the JV continued to deliver positive overall financial returns. The various options are set out in the table overleaf.

6.2 These options demonstrate that the overall highest NPV is £62.8m, achieved under the recommended option of conducting a Joint Venture.

Comparison of the Options

	Option 1: Do Nothing	Option 2: Sell Site	Option 3: Develop Estate with a JV	Option 4: Develop Site without a JV	Option 5: Develop Site with A JV and then Sell
Details	Council does nothing and site continues to fall into disrepair.	Council sells site – benefits from capital receipts but loss of income stream. There is no guarantee of redevelopment or that is maintained in a good state.	Council shares risk by having industry experts develop and manage the site while Council makes use of its expert planning and CPO experience in taking control of the site. Cost is £47.8m. 50% share of benefits.	Council dissolves JV and does it all by in-house. It has no expertise in developing industrial estates but it also has no profit margin.	Council loses out on income stream and business rate growth but chooses to reduce its debt. An NPV of £62.8m at 3.5% or £42.3m at 5% would suggest a valuation of approx. £50m
Revenue Budget Impact	£0.9m net loss of income as the site will be not in operation due to Health & Safety reasons by 2023	£0.9m net loss of income	Guaranteed £1.1m income so no impact	£0.9m net loss of income for 2 years while site is being developed. Income would return in 2021/22 and increase to £3.2m by 2023/24	No revenue impact for at least 5 years but then a loss of £0.9m
Business Rates	Current Council share is £0.346m and if this is not in operation, this would be a loss to the budget.	No Change	Potential Benefit of £0.69m	Potential Benefit of £0.69m	Potential Benefit of £0.69m
Capital Financing Budgets	No Impact	Capital receipt available to reduce debt; generating Treasury savings of £0.3m at 2% interest on £15m	£0.3m cost rising to £2m per year by 2026/27	Cost is likely to be significantly higher than double that of the JV option due to our lack of expertise with industrial development so costs will likely exceed £5m per year at peak.	Treasury savings of £1m at 2% interest on £50m after sale.
Capital Programme Impact	No Impact	Release of existing £10.9m capital budgets .	£47.8m (or growth of £33.4m)	Impossible to estimate Capital Programme impact accurately as we are not an expert in developing industrial estates but it would be significantly over £100m	£47.8m (or growth of £33.4m)
Business Case	No debt undertaken A negative £22m NPV	No debt undertaken A negative £7.6m NPV	NPV of £62.8m Peak Debt of £47.1m in 2025/26 Paid back by 2074/75	NPV impossible to calculate without taking highly speculative guesses Peak Debt of significantly above £100m in 2025/26 Paid back by 2074/75	NPV of £20.3m Peak Debt of £47.1m in 2025/26 and paid off in-year Paid back by 2025/26

Risk Management	The Council could undertake health and safety instances but the Council w ould be better off selling the site as the site needs major improvements.	The Council could look to find a buyer that w ants to redevelop the site as there are significant business rate grow th potentially available.	The Council could develop the JV but it still has the exit option to sell if the level of debt is too great. There is the option to increase the guaranteed income for a short period of time to ensure there is no negative budgetary impact in any given year for a greater share of the profits.	The Council could seek to procure an experienced developer that has specialist expertise. Equally, it could look to outsource the management of the site to an experienced manager of such sites.	The Council could look to sell once it obtained full planning permissions and arranged all CPOs. How ever, this option is likely to be sub-optimal as buyers w ould be more interested in a turn-key purchase so the capital receipts w ould be low er.
Cost/Benefits	Overall, this option is not recommended as all other options are better.	This option is sub-optimal but possible if the Council's level of debt is simply too great. The main draw back is that selling a site before redevelopment w ould tie up capital of prospective buyers w hile a fully tenanted operational estate w ould attract interest from institutional investors for its steady stable returns, achieving far higher capital receipts for the Council.	This is the recommended options, as the Council is sharing the risk w ith the developer, can ensure there is no budgetary impact, can obtain a healthy income stream over the long-term and has a relatively easy exit strategy.	Overall, this option involves a level of debt that is likely to be outside the Council's level of risk appetite. The Council's ability to mitigate the risks is also likely to be low er.	Overall, this option is the exit strategy if the debt of the Council is too high as the asset can be sold in 2025/26 onw ards and pay off the entirety of the debt.

6.3 The Council's preferred option is a joint venture as it significantly reduces the level of risk while providing an increased revenue stream to meet the Council's Medium Term Financial Plan savings gap.

6.4 The Council's partner, Henry Boot is willing to guarantee the Council a level of income that would de-risk our financial position. They are also able to increase the guaranteed income to cover any budgetary impact in the short-term at the cost of reducing our share of the project's returns.

6.5 It is also important to understand the impact in relation to the proposed budget in the MTFP. As shown below, there is approximately a £1.4m gap over the first 5 years

Comparison to Budget	2020/21 £'000s	2021/22 £'000s	2022/23 £'000s	2023/24 £'000s	2024/25 £'000s	2025/26 £'000s	2026/27 £'000s	2027/28 £'000s	2028/29 £'000s	2029/30 £'000s
Montagu Redevelopment	(1,050)	(742)	(218)	152	173	(870)	(870)	(870)	(1,172)	(1,172)
Proposed Budget in line with MTFP	(885)	(885)	172	(728)	(728)	(728)	(728)	(728)	(728)	(728)
Net Impact	**(165)**	**143**	**(390)**	**880**	**901**	**(142)**	**(142)**	**(142)**	**(444)**	**(444)**

6.6 Moreover, while the Council invests assuming a 3.5% interest rate, in the short-term interest rates might be as low as 1.5%. At that rate, the net impact over the 5 years would be reduced to £0.1m.

6.6 As noted above, the Council could also negotiate to have that covered in return for a lower return. It is recommended that this is examined during final negotiations.

7. The Business Case

7.1 The detailed Business Case, part of which is commercially sensitive, (and therefore confidential) and Masterplan in support of the additional funding required for the scheme is shown in the confidential Appendix 1 to the report.

7.2 The Business Case includes a detailed examination of the following areas:

- Project objectives, structure and roles
- Development Programme
- Approach to development
- Phasing programme and details
- Development Appraisal and Financial Model
- Communications Plan
- Vacant Possession Strategy
- Asset Management Strategy and Implications
- Land Assembly Strategy (Leasehold, Vacant and Third-Party property)
- CPO process and Strategy
- CPO Red Line Boundary
- Third Party Freehold CPO targets
- Procurement Strategy (Build contracts and Services)

- Town Planning Strategy

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 Sell Now

The Council could **sell Montagu Industrial Estate** for a one-off capital receipt. That value is difficult to assess without testing the market, but it is expected to be in the range of £15-20 million. This would however result in a loss of approximately £0.9m revenue per year, creating an equivalent gap in the Council's budget. This option would remove the Council's development risk, but it would be counter to its policy of retaining and developing its existing assets. The Council would need to obtain a receipt of significantly more than £20m for this to be the preferred option. This option would also mean that the economic benefits of redevelopment are less likely to come forward in the short term.

8.2 Do Nothing

Legislation in respect of minimum EPC standards will render non-compliant property like most of the estate economically obsolete as it will be unlawful to let property which fails to meet the minimum standard. The majority of let property on the estate is unlikely to meet these standards and investment will significantly limit future Council liabilities in terms of voids, reactive and planned maintenance, security, management costs and business rates.

The Council could **do nothing**, leaving us exposed to the costs of necessary compliance works. For 3 years, the Council is likely to see its income drop as buildings would be unlettable under the MEES legislation on Energy Efficiency and then potentially go into a deficit position, if it was required for legal or insurance reasons to pick up security or other costs. The Council would need to deliver additional savings to fill this £0.9m budget gap. This position is not recommended as financially it is the least attractive option.

8.3 Council Redevelops Estate without JV

All risk including CPO, Development costs and future rental income would rest with the Council. In the long-run, this might achieve the best financial return but there are real challenges attached to capacity and affordability and the budgetary impact in the near term would be significant (up to £5m impact on the revenue budget in some years). The Council's debt position is growing, and the Council is not a specialist developer of industrial developers, therefore this option appears to have too high a risk for the Council with so many other important projects being delivered for the benefit of the borough.

This option would require a very significant increase in capital budget (compared with the preferred option to enter into a JVLLP) together with a significant increase in risk profile. Henry Boot are acknowledged as a reliable and experienced operator in the industrial development sector and therefore the recommended option represents the correct balance between development risk and rate of return when taken over the medium to long term.

8.4 Redevelop the site with our partner and then sell

In the final option, the Council could choose to **redevelop the site with our partner and then sell** our share once the site is redeveloped. This would reduce our risk and generate capital receipts, reducing the Council debt. This option would ensure a sale once the capital value has been enhanced through development and ensure that the economic and social benefits of development are achieved before the council sells. This option is available for further consideration at a later date if the recommended option is pursued.

9. REASONS FOR RECOMMENDATIONS

9.1 This approval is the continuation of the previously approved scheme of redevelopment. This redevelopment scheme, when completed, will provide the Council with a valuable income stream over the medium to long term of £4.415m per annum by year 21 compared to the current income of £1.16 million which will decline without investment. It will also significantly limit future Council liabilities in terms of voids, reactive and planned maintenance, security, management costs and business rates.

9.2 The redevelopment will encourage business and employment growth and promote a wider range of jobs and skills. It is expected to create and/or safeguard up to 1200 jobs creating 630 net new jobs.

9.3 The redevelopment will provide 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.

9.4 Additional benefits include a reduction in bad neighbour and non-conforming business operators on the estate, a reduction in crime related activities and an improvement in the public realm on the estate.

9.5 Furthermore, the estate currently contributes significantly to carbon emissions in the borough with poor Energy Performance Certificate (EPC) Ratings of F and G. The redeveloped estate, by contrast, is estimated to produce significantly less carbon in full compliance with current Building Regulations. The new development has an aspirational target of a B EPC rating.

10. COMMENTS FROM OTHER DEPARTMENTS

10.1 Financial Implications

The financial implications of the preferred option for the council to contribute are set out below.

Capital and Debt Implications

10.2 The recommendation to pursue the JV would add £33.364m to the capital program to fund the land acquisition and land enabling costs for the development of the Montagu industrial estate. The original budget for this redevelopment was £14.5m, of which £3.5m has been spent as at the end of November 2019.

10.3 Should the recommendations within this report be approved, the total budget allocated to the redevelopment of the Montagu industrial estate will be £47.8m of which £3.5m has been spent already.

	£'000s
Current Budget	14,473
Addition to capital program	33,364
Montagu Capital Budget	**47,837**
Spend to date	3,550
Remaining budget available	**44,287**

10.4 The total Montagu budget of £47.8m will be funded through Council borrowing. The JV recommendation in this report would add £33.64m to the capital programme with total capital expenditure of £47.84m. Peak debt is 2025/26 and on a discounted cashflow basis, it pays off by 2074/75.

10.5 Based on current net present valuation calculations, the council would own 50% of an income generating asset which once in operations and fully tenanted is estimated to be worth between £85m and £126m. Our 50% share would be greater than the cost of the capital investment. The cashflow generated of £194m to the Council would be greater than the total capital financing charges of £102m. Once again, it is worth noting that these cashflows do not include the growth in our business rate base of £0.69m/annum or the prevention of the loss in our commercial income from the estate (£0.9m)

Revenue Implications

Impact to budget is detailed in the table below:

Comparison to Budget	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Actuals										
Expenditure	0	42	72	166	166	323	323	323	357	357
Income	(1,160)	(1,160)	(1,160)	(1,655)	(1,655)	(3,232)	(3,232)	(3,232)	(3,568)	(3,568)
Capital Financing	110	376	870	1,641	1,662	2,039	2,039	2,039	2,039	2,039
Net Cost	**(1,050)**	**(742)**	**(218)**	**152**	**173**	**(870)**	**(870)**	**(870)**	**(1,172)**	**(1,172)**

Budgets										
Revenue	(885)	(885)	(1,185)	(2,085)	(2,085)	(2,085)	(2,085)	(2,085)	(2,085)	(2,085)
Capital Financing	0	0	1,357	1,357	1,357	1,357	1,357	1,357	1,357	1,357
Total Budget	**(885)**	**(885)**	**172**	**(728)**	**(728)**	**(728)**	**(728)**	**(728)**	**(728)**	**(728)**
Difference to Budget	**(165)**	**143**	**(390)**	**880**	**901**	**(142)**	**(142)**	**(142)**	**(444)**	**(444)**

10.6 Due to a financial guarantee from our partners, there is no impact on revenue budgets till 2023/24, when it grows by £0.4m and then in 2025/26 it grows again by a further £1.4m.

10.7 However, the capital budgets require an increase of £1.36m from 2022/23 onwards, which is included within the MTFP.

10.8 There is a gap in the first 5 years of £1.4m based on a 3.5% interest rate. This is highly conservative for this period and a 2% reduction in the interest rate would reduce the impact to £0.1m gap.

10.9 For this reason the Council should consider negotiating the option of reducing this short-term gap to zero in return for giving up a small percentage share of the returns from the joint venture.

10.10 In the context of the council's future overall capital, borrowing and revenue budget position this development proposal provides flexibility to either retain the JV interest (as an income generating asset to support the wider council services) or sell when the development is completed and the capital value maximised (to reduce borrowing levels, reducing financing costs).

Legal Implications

11.1 The Council has a general power of competence under section 1(1) of the Localism Act 2011 to do anything that individuals may do, provided it is not prohibited by legislation and subject to public law principles. A local authority may exercise the general power of competence for its own purpose, for a commercial purpose and/or for the benefit of others.

11.2 Section 111 of the Local Government Act 1972 gives a local authority power to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive to or incidental to the discharge of any of its functions.

11.3 The making of a CPO is an executive function by virtue of section 9D of the Local Government Act 2000 and the Local Authorities (Functions and Responsibilities) (England) Regulations 2000. Pursuant to section 9E (2) of the Local Government Act 2000, the Cabinet may arrange for the discharge of an executive function by an officer of the authority.

11.4 Section 226(1) (a) of the Town and Country Planning Act 1990 (as amended), (the **1990 Act**) empowers local authorities, on being authorised by the Secretary of State, to acquire land compulsorily if they think that the acquisition will facilitate the carrying out of development, re-development or improvement of the land in their area. This power is subject to the restriction under Section 226 (1A) which provides that an acquiring authority must not exercise the power under Section 226(1)(a) unless they think that the proposed development, redevelopment or improvement is likely to contribute to achieving the promotion or improvement of the economic, social or environmental well-being of their area.

11.5 To make a CPO, the Council is required to demonstrate that there is a 'compelling case in the public interest' for acquiring the land compulsorily. The Council must also demonstrate that the scheme for which the CPO is made will not be prevented from proceeding due to some legal or other impediment and that it has, or will at least obtain, the resources to pay compensation for the CPO and to implement the Scheme. This will be set out in the Statement of Reasons when the CPO is made.

11.6 Additionally, there is requirement to evidence that meaningful attempts at negotiation have been pursued or at least genuinely attempted, save for lands where land ownership is unknown or in question. In this respect, section 227 of the 1990 Act provides an equivalent power for the Council to acquire land by agreement where required for any purpose for which a local authority may be authorised to acquire land under section 226 of the 1990 Act. Furthermore, the Council has the power under section 120 of the Local Government Act 1972 to buy land by agreement for the purposes of any of its functions or for the benefit, improvement or development of its area.

11.7 Any acquisition of land must comply with the Council's Constitution, including but not limited to its Property Procedure Rules. Any ancillary procurement must comply with the Council's Constitution, including the Contracts Procedure Rules and the Public Contracts Regulations 2015, where the procurement of the goods, services or works are above the relevant thresholds.

11.8 All legal documents to be entered into or any amendments to be made to the Joint Venture agreements in connection with the subject matter of this report must be approved in advance by Legal Services on behalf of the Director of Law and Governance.

12.3 Property Implications

The Council's Property Procedure Rules (PPR's) set out mandatory procedures regarding the acquisition, leasing, management and disposal of property assets and form part of the Council's Constitution.

12.3.1 Section 5 of the PPR's govern Acquisitions by way of Compulsory Purchase and states:

- A resolution to make a Compulsory Purchase Order must be made by Cabinet, following a recommendation by the appropriate Director and the Responsible Senior Officer. Compulsory purchases or purchases by agreement prior to a Compulsory
- Purchase Order (CPO) being confirmed, are considered as acquisitions and subject to
- these Rules. In this instance the appropriate Director is the Director of Property and Economy

12.3.2 Section 4 governs Acquisition – General and states:

The acquisition, by any means, of a freehold interest or a leasehold interest over one year in duration requires the approval of the relevant Director and the Responsible Senior Officer, unless the acquisition is:

- Covered by the Property Scheme of Delegation
- Vested by statutory authority;
- Owing to the Council acting as trustee; and
- Made under planning and highways legislation as a condition of a planning permission or a planning obligation.
- It is expected that following the CPO the Council will be making a General Vested Declaration to acquire properties. Property related to the CPO that are acquired by private treaty will be authorised by the relevant Director and Responsible Senior Officer
- Any acquisition with a market value in excess of £250,000 and lower than £500,000 has to also be approved by the relevant service Cabinet Member and the Cabinet Member with the property portfolio, and any acquisition with a market value exceeding £500,000 has to be approved by Cabinet.

12.3.3 This cabinet report delegates authority from Cabinet to The Executive Director of Place to approve all acquisitions within the Order Land.

Every acquisition must be accompanied by the service Director's report that states:

- How the acquisition will help deliver the Council's strategy, goals, metrics and initiatives.
- The life-cycle costs whereby the Council is able to demonstrate its ability to fund all costs (including running costs), expenses, impacts and risks and any other costs associated with the acquisition (for example allowed/required by legislation).
- The report is approved by the Responsible Senior Officer and the Director of Finance Resources and Customer Services.
- The Responsible Senior Officer has approved the provisional terms for the acquisition.
- The Responsible Senior Officer has certified that the price and terms and conditions represent value and, in most circumstances, has obtained an independent valuation.

12.3.4 Each acquisition by private treaty in relation to the CPO will be accompanied by a report covering the requirements as set out above.

12.3.5 Acquiring land will bring Corporate Landlord implications including management costs such as security. However, it is expected that property acquired through the CPO will be passed over to the appointed infrastructure contractor swiftly for works to commence. This will reduce costs and risks associated with holding the property.

12.3.6 Property acquired leading up to and after the CPO will be managed in line with the Council's Strategic Asset Management Plan (2019-2024)

12.3.7 Section 24 governs Valuations and states:

- In preparing for the disposal or acquisition of a Council interest in property, the Responsible Senior Officer shall ensure that a formal, written valuation report is provided for the property in question.
- Where a disposal or acquisition has not reached completion within 6 months of the date of the corresponding disposal valuation report, an updated valuation report shall be prepared.

12.3.8 Each acquisition by private treaty in relation to the CPO will be accompanied by a valuation report.

12.3.9 Should Cabinet approve a resolution for a CPO future acquisitions will be subject to individual reports and these will contain transaction specific Property Implications**.**

13. KEY RISKS

13.1 **Cause**: The industrial market does not perform as predicted and rental and capital values to not achieve the forecast levels

Effect: Viability of the development is reduced or development becomes unviable.

Mitigation: As land acquisition and development will be carried out in phases the acquisition and development can be paused until conditions improve or halted.

13.4 **Cause**: Significant ground contamination found to exist following extensive borehole testing

Effect: This could affect the viability of any given phase of development

Mitigation: Joint Venture Partner to consider alternative designs and changes to phasing plan to minimise the impact on overall scheme and/or consideration of alternative methods of ground remediation and pursuing claims against known or likely polluters with offset of costs against CPO claims wherever possible.

13.5 **Cause**: Acquisition, CPO and construction/remediation costs are higher than expected and revenues and income growth rates prove lower than expected.

Effect: This could affect the viability of any given phase of development

Mitigation: SPS has assembled a team of experts to advise and negotiate on behalf of the Council throughout the process in-order to minimise costs (within the context and spirit of the CPO code) and maximise revenues. The Council's JV partner are also highly experienced in the delivery of industrial schemes of this type.

14. IMPACT ON COUNCIL PRIORITIES – CREATING A LIFETIME OF OPPORTUNITIES IN ENFIELD

15.1 Good homes in well-connected neighbourhoods

N/A

15.2 Sustain strong and healthy communities

This redevelopment scheme will generate employment, encourage economic growth and provide improved industrial accommodation thereby sustaining strong local communities and with improved working conditions in new accommodation, a more-healthy workforce.

15.3 Build our local economy to create a thriving place

This redevelopment scheme will encourage inward investment through the provision of new modern industrial accommodation. This in turn will have a positive impact on the local economy through increased local spend in the community on goods and services.

16. EQUALITIES IMPACT IMPLICATIONS

16.1 Section 149 of the Equalities Act 2010 created the public-sector equality duty and requires that the Council have regard to the need to:

(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

16.2 Officers have taken this into account in the assessment of the CPO and the Cabinet must be mindful of this duty when considering the recommendations in the Report.

17. PERFORMANCE AND DATA IMPLICATIONS

The Council should monitor the impact and relative success of this venture (as compared with other methods of delivery and income production) in terms of speed of delivery, quality and income growth of the new development.

18. HEALTH AND SAFETY IMPLICATIONS

None.

19. HR IMPLICATIONS

None.

20. PUBLIC HEALTH IMPLICATIONS

None.

Background Papers

None.

Appendices:

Appendix 1 – Business Plan and Master Plan
(CONFIDENTIAL)

Appendix 2

Budgetary Impact	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	2038/39	2039/40
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Expenditure	0	42	72	166	166	323	323	323	357	357	357	357	357	394	394	394	394	394	435	435
Income	(1,160)	(1,160)	(1,160)	(1,655)	(1,655)	(3,232)	(3,232)	(3,232)	(3,568)	(3,568)	(3,568)	(3,568)	(3,568)	(3,939)	(3,939)	(3,939)	(3,939)	(3,939)	(4,349)	(4,349)
Capital Financing	0	306	721	1,586	1,586	2,039	2,039	2,039	2,039	2,039	2,039	2,039	2,039	2,039	2,039	2,039	2,039	2,039	2,039	2,039
	(1,160)	(812)	(367)	97	97	(870)	(870)	(870)	(1,172)	(1,172)	(1,172)	(1,172)	(1,172)	(1,506)	(1,506)	(1,506)	(1,506)	(1,506)	(1,875)	(1,875)
Current Budget	(885)	(885)	(885)	(885)	(885)	(885)	(885)	(885)	(885)	(885)	(885)	(885)	(885)	(885)	(885)	(885)	(885)	(885)	(885)	(885)
MTFP Changes																				
- Capital Financing			869	869	869	869	869	869	869	869	869	869	869	869	869	869	869	869	869	869
- Income			(300)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)
Revised Budget	(885)	(885)	(316)	(1,216)	(1,216)	(1,216)	(1,216)	(1,216)	(1,216)	(1,216)	(1,216)	(1,216)	(1,216)	(1,216)	(1,216)	(1,216)	(1,216)	(1,216)	(1,216)	(1,216)
Budgetary Impact compared with																				
Current Budget	(275)	73	518	982	982	15	15	15	(287)	(287)	(287)	(287)	(287)	(621)	(621)	(621)	(621)	(621)	(990)	(990)
MTFP Proposals	(275)	73	(51)	1,313	1,313	346	346	346	44	44	44	44	44	(290)	(290)	(290)	(290)	(290)	(659)	(659)

Comparison to Do Nothing Option	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	2038/39	2039/40
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Montague Redevelopment	(1,160)	(812)	(367)	97	97	(870)	(870)	(870)	(1,172)	(1,172)	(1,172)	(1,172)	(1,172)	(1,506)	(1,506)	(1,506)	(1,506)	(1,506)	(1,875)	(1,875)
Current Net Income stopping in 2023/24	(885)	(885)	(885)	(885)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	(275)	73	518	982	97	(870)	(870)	(870)	(1,172)	(1,172)	(1,172)	(1,172)	(1,172)	(1,506)	(1,506)	(1,506)	(1,506)	(1,506)	(1,875)	(1,875)