

**REPORT TO:** CABINET

**DATE:** 20 JUNE 2019

**TITLE:** DEVELOPMENT OF PLOT H SMALL UNIT SCHEME AT HARLOW SCIENCE PARK

**PORTFOLIO HOLDERS:** COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR REOURCES  
COUNCILLOR TONY DURCAN, PORTFOLIO HOLDER FOR ECONOMIC GROWTH

**LEAD OFFICERS:** ANDREW BRAMIDGE, PROJECT DIRECTOR – ENTERPRISE ZONE AND INTERIM HEAD OF PLANNING (01279) 446410  
SIMON FREEMAN, HEAD OF FINANCE AND DEPUTY TO THE MANAGING DIRECTOR (01279) 446228

**This is a Key Decision**  
**It is on the Forward Plan as Decision Number I010206**  
**Call-in Procedures may apply**  
**This decision will affect Old Harlow Ward.**

**RECOMMENDED that:**

- A** Cabinet approves the funding of approximately £7.2 million to develop Plot H of the Harlow Science Park into a range of 'mid-tech' units combining office, research and manufacturing/assembly space, to be known as Modus. The agreement of the final figure is to be delegated to Head of Finance and Deputy to the Managing Director in consultation with the Portfolio Holder for Resources and the Portfolio Holder for Economic Development following the appointment of a contractor and the agreement of a fixed price sum.
- B** The development will be retained by Harlow Council as an investment with the development likely to comprise a mix of long leasehold disposals providing a capital receipt and shorter leases providing an ongoing revenue stream.
- C** The development is funded through borrowing repaid by the Enterprise Zone business rate uplift retention as agreed with the South East Local Enterprise Partnership (SELEP).

## **REASON FOR DECISION**

**A** At its meeting on 20 July 2017, Cabinet approved the development of the Nexus building with construction now underway and practical completion scheduled for the end of August 2019. The development of Anglia Ruskin University's Innovation Centre is also underway and will also complete in August. Over the last year, the Council has received a significant number of enquiries for good quality space that combines office/research facilities with some production capability, which could not be accommodated within the Nexus building. There is a shortage of this type of space within the town and almost none at the level of quality that recent enquirers are looking for. The development team is strongly of the view that this will be a successful, complementary product for the Science Park and that there is high demand for it. There is a good opportunity for Harlow Council to develop this plot itself and retain the development profit and income streams that will result from it.

## **BACKGROUND**

1. The Harlow Science Park is the flagship development of the Harlow Enterprise Zone, providing space for science and technology companies and bringing many high value jobs to Harlow. It is specifically designed to provide high quality space that will complement the science parks in the Cambridge area and capitalise upon the growth of the science and technology sectors in the London Stansted Cambridge Corridor.
2. The two buildings currently under construction will provide high quality space for start-ups (the ARU building) and established office-based businesses (Nexus). However, the Science Park needs to provide a variety of space types and sizes and current market demand is for smaller units for technology driven businesses. The uncertainty over Brexit has certainly led to a reduction in enquiries for larger developments, with many businesses deferring decision making until there is greater clarity. However, this trend has been less apparent at the smaller end of the market (unit sizes between 5,000 and 10,000 square feet) and we now have a healthy pipeline of development potential.
3. Local property agents Derrick Wade Waters have provided a Market Assessment report (attached at Appendix A to the report) which provides support to the projected rental levels and the ability to secure occupiers for the development.
4. The Council and our development partners Vinci & Wrenbridge, are also currently in active discussions with the following (unnamed) companies for space in this particular development:
  - a) Company A – An internet service provider looking for 12,000 square feet for an office and network operations centre.

- b) Company B – An electronics company designing and manufacturing components for the aerospace and defence sectors with a requirement of approximately 10,000 square feet.
  - c) Company C – A Bioscience company specialising in the development of laboratory testing equipment and processes, also with a requirement for c10,000 square feet.
5. All three of these are now in discussions around the detailed design and costing of units within the Modus development.
6. It is now felt that there is a critical mass of interest that justifies moving forward with the development of the Modus plot. A marketing brochure (attached as Appendix B to the report) which sets out what this development is seeking to achieve and who it is targeted at. This was produced last year to test the market and has resulted in a good number of enquiries as detailed above. Since then, for reasons of building configuration, it has been decided to move the location of the development from Plot R to Plot H, immediately to the south of the Nexus building. This also has the benefit of ensuring a continuous flow of development on the western side of the Science Park. The brochure will now be updated to reflect the new plot location. An outline layout of the plot is shown at Appendix C.

## **DEVELOPMENT OPTIONS**

### **Option 1 – Individual Buildings – External Funder Occupier Funded**

7. This plot could be developed on a building by building basis as terms are agreed with individual occupiers. For leasehold deals these buildings could be funded via conventional bank finance, assuming the occupier has a strong enough covenant. For freehold deals they would be funded by the occupier themselves.
8. The advantage of this option is that the Council would not have to fund the development.
9. The disadvantages of this option are:
- a) This would lead to piecemeal development of the plot with potentially a range of different designs rather than a more coherent approach.
  - b) It would result in significantly higher construction costs since we could not secure the economies of scale of building out the plot in one programme. This may lead to potential tenants withdrawing since it would result in increased building costs and rental levels.
  - c) Our agent's advice is that tenants at this end of the market usually wish to see a unit before committing, rather than entering into a pre-let or pre-sale agreement off plan.

## **Option 2 – Externally Funded**

10. This option would see the sale of the land to a third party funder, such as a pension fund, who would fund the development and retain it as a long term investment.
11. The advantages of this option are:
  - a) The Council does not have to provide any funding and would receive a capital receipt from the sale of the land.
  - b) The development could proceed as a single block of development.
12. The disadvantages of this option are:
  - a) Sourcing an external funder and agreeing contractual terms will take some time and it is unlikely that development would commence before spring 2020.
  - b) The Council would lose the opportunity for achieving development profits and long term rental income.

## **Option 3 – Council Funding**

13. There is an opportunity for the Council to fund a development, for which there is a strong demand, and receive a long term income stream, utilising the existing Development Agreement that we have with our development partner for the Science Park, Vinci UK Developments. Under this option Vinci would enter into a contract with a construction company for the delivery along with contracts for the supporting professional team including architects, engineers, quantity surveyors, project managers. For this, Vinci will receive a 10 per cent fee to manage the programme and take the construction and design risk. This is the same model that we have employed for the delivery of the Nexus building.
14. The advantages of this option are:
  - a) The Council retains all rental income from the properties in perpetuity.
  - b) The Council retains full control of the next phase in the Science Park development and can build it out in a coherent manner.
  - c) Development could proceed quickly with an anticipated start in autumn this year.
15. The disadvantages of this option are:
  - a) The Council has to provide the loan finance which will be repaid from future business rate income. If there is a delay in occupancy then the Council will still be liable for loan repayments.

- b) The Council retains full risk and liability in relation to empty units and in particular the payment of business rates on those units.
16. Given the strength of current occupier interest, it is felt that the risks associated with Option 3 are low and that this present the best option for the Council for reasons of both progressing delivery in the short term and of securing an income stream for the Council.
17. Delivery of the construction of the Modus development will be undertaken through the Council's existing Development Agreement with Vinci UK Developments for the Science Park and so there are no procurement issues in relation to this.

### **Costs and Income**

18. Appendix D sets out a financial appraisal based on the scheme as outlined in Appendix C. This shows a total development of just over 50,000 square feet and with a total development cost of £7.2 million. It should be noted that this cost is based on the estimates of our professional team and would need to be tested through a procurement exercise to appoint a contractor. However, a similar exercise for the Nexus building provided a final outturn in line with the expected forecast.
19. It is difficult to provide a precise figure for expected rental income since it is likely that some units will be delivered on a virtual freehold basis (i.e. 999 year leases) for which the Council will receive a capital receipt rather than rental income. However, the appraisal at Appendix D details potential annual rental income based on the independent market assessment. Some of this is likely to be converted into freehold disposals, subject to individual negotiation, for which the Council, as funder, would earn a development profit on costs. The appraisal is showing a healthy profit on cost and the Council could expect to earn this level of profit on an individual building as a capital receipt. A typical profit on cost for a development of this nature would be in the region of 25 per cent, but given that the Council already owns the land (and it was purchased through central Government grant) this cost has been excluded from the appraisal.

### **IMPLICATIONS**

#### **Place (Includes Sustainability)**

The development will require a Certificate of Compliance with the Local Development Order for London Road North prior to the commencement of development. The contractors should also be encouraged to utilise Harlow Council's Building Control Service.

**Author: Andrew Bramidge, Project Director – Enterprise Zone and Interim Head of Planning**

#### **Finance (Includes ICT)**

The report sets out the Council's need to borrow to finance the development and construction of the proposed facility. Financing to service the borrowing will be in the

form of business rates uplift generated from the HEZ as previously agreed with the South East Local Enterprise Partnership (SELEP) Board. Final costs will not be known until construction tenders have been received but indications are that the project will be able to be contained within the £7.2 million reported or very close to it.  
**Author: Simon Freeman, Head of Finance and Deputy to the Managing Director**

### **Housing**

None specific.

**Author: Andrew Murray, Head of Housing**

### **Community Wellbeing (Includes Equalities and Social Inclusion)**

As contained within the report.

**Author: Jane Greer, Head of Community Wellbeing**

### **Governance (Includes HR)**

Appointment of a contractor by Vinci UK will be compliant with the Council's contracts standing orders and the current E.U. procurement regulations.

If recommendation B is approved, any leasehold disposals intended to be granted for a premium will require the prior consent of Newhall Projects Limited. The prior consent of that company will also be required if the leasehold disposals are to exceed a term of 50 years. In both cases, the Council is entitled to be granted consent as the use of the plots comprised in the leases will be restricted to the use permitted by the London Road North Local Development Order.

Members will be aware that all arrangements implemented will need to comply with statutory Best Value requirements and the common law fiduciary duty to taxpayers.

**Author: Simon Hill, Head of Governance**

### **Appendices**

Appendix A – Derrick Wade Waters Report (confidential appendix)

Appendix B – Marketing Brochure

Appendix C – Appraisal (confidential appendix)

Appendix D – Site Plan

### **Background Papers**

None.

### **Glossary of terms/abbreviations used**

SELEP – South East Local Enterprise Partnership