



EXECUTIVE BOARD

Meeting to be held in Civic Hall, Leeds on
Wednesday, 5th July, 2006 at 1.00 pm

MEMBERSHIP

Councillors

M Harris (Chair)
A Carter
R Harker
D Blackburn
R Brett
J L Carter
P Harrand
J Procter
S Smith

K Wakefield
J Blake

*non voting advisory member

AGENDA

Item No K=Key Decision	Ward	Item Not Open		Page No
11	Kirkstall		ABBEY MILLS AND ST ANN'S MILLS, KIRKSTALL To consider the report of the Director of Development on the latest position in relation to proposals to remodel/refurbish Abbey Mills and St Ann's Mills in Kirkstall.	1 - 10

The findings in this report stem from a review of the Development Department's original report submitted to the Executive Board on 15 December 2004 regarding the future usage of Abbey and St Ann's Mills in the Kirkstall ward of Leeds. The report to the Executive Board was to make proposals regarding the refurbishment/remodelling of Council property at Abbey and St Ann's Mills, to assist in the regeneration of the Kirkstall Valley. The two sites currently provide Small Industrial Units (SIUs) for new and small businesses.

The Executive Board report was drafted with the intention of seeking additional resource to more fully understand the financial and non financial implications of the options. It was not seeking to finalise plans for development of Abbey and St Ann's Mills but rather to explore the opportunities which these sites presented to the Authority. However, given that a conclusion and recommended course of action is included in the report, the information which supports this recommendation should be as accurate and clear as possible and presented at an appropriate level of detail.

From our review we have the following positive observations:

- The option appraisal methodology employed was thorough in assessing the potential usage for both sites for an Executive Board report. The four options were clearly stated and assessed against a number of objectives all of which were detailed clearly in the report. The format of the report followed the Authority's capital options appraisal methodology which is detailed in the capital strategy and asset management plan.
- Each option was assessed and the positive and negative aspects were stated in a clear format and summarised in a decision matrix incorporating financial and non financial implications of each option. This matrix can be seen in Appendix 1.

- The financial implications of the options were considered using a Discounted Cash Flow (DCF) to give a Net Present Value (NPV) for each option in turn. This is an appropriate tool for assessing a capital project's long term financial standing.
- Issues specific to these sites were also raised and commented upon in the report. Issues explored included tenant hold over at St Ann's Mill whereby a major tenant was legally responsible for repairs to the unit under the terms and conditions of the lease, vesting of land whereby Leeds North West Homes (ALMO) have an interest in the treatment of land at Abbey Mill and the treatment of 649 Kirkstall Road a small, Authority owned property which had been unoccupied for 13 years and has since been demolished.
- The alignment with corporate objectives is addressed in the report through reference to the Authority's Capital Programme and wider issues such as the impact of the Disability Discrimination Act (DDA) are also considered in the report.
- The report made it clear to the reader that an objection had been received from a Member of the Kirkstall Ward. The Executive Board report contained a description of the alternative proposal. The reasons why it was not considered in the same detail as the four short-listed options was also included in the Executive Board report.

However, we also draw to your attention the following matters arising in our review:

- The report is unclear regarding what is being recommended in regard to the redevelopment of the St Ann's Mills site. No explicit mention is made of managed work space accommodation but the DCF appears to assume that this would be the preferred usage given the future rental roll assumptions. On the contrary, the Executive Board report states as an advantage that the preferred option would maximise 'capital receipts for re-investment in SIUs in Kirkstall' contradicting the suggestion within the DCF detailed assumptions.



KPMG LLP

- Although the use of a DCF model was appropriate as a tool for assessing the project, there were a number of mathematical inaccuracies, inconsistencies between the narrative of the report and financial information contained in the detail of the DCF model and a lack of clarity in other areas. These combined mean that the financial information reported to the Executive Board was incorrect and potentially misleading. Although the assumptions within the DCF contain a number of estimates which is a function of the long term nature of the project, these assumptions where possible and appropriate should be consistent between the options appraised and explained through working papers supporting the DCF. Whilst consistency was found between the body of the Executive Board report, the DCF and where relevant third party evidence such as surveyors' reports for some of the assumptions, this was not the true for many areas of the DCF. Observations in relation to the DCF model are detailed in the body of this report in Section 7.
- The inconsistencies within the report and between the report narrative and the DCF model also make it difficult to determine the exact nature of what is being recommended in terms of the development under each option. This would not be obvious to the reader of the report as only the headline NPV of each scheme is reported. This in itself is not a criticism as an Executive Board report would not be expected to detail all assumptions in the DCF model. However, given that only the headline result of the DCF is reported this means that the accuracy of the information incorporated in this model is fundamental as the assumptions are not open to scrutiny by the reader.

In summary, the Development Department's report in respect of Abbey and St Ann's Mills demonstrates the use of a thorough option appraisal methodology. The four options assessed in the Executive Board report were stated with clarity and appropriate tools were used to assess the viability of each proposal against financial and non financial criteria for a prospective development of this size. The focus of this review was largely financial in nature and therefore scrutinised the DCF model and the assumptions adopted regarding significant cash flows such as capital expenditure, capital receipts, maintenance charges and rental roll amounts. Our review highlighted inconsistencies between amounts included within the narrative section of the Executive Board report and the DCF assumptions. Substantial arithmetical errors in the DCF model used assess the financial standing of each proposal were also apparent.

However, although no attempt has been made to remodel the DCF in full, if following correction for arithmetical errors, the two highest scoring options are further adjusted for the apparent anomaly in maintenance charges, **the option championed by the Executive Board report still results in the highest NPV**. The financial difference between option two and option four is becomes marginal, if amended, amounting to £46k over the lifetime of the project all other factors being equal. If the increased annual rental rates under option four were realised at only 98.5% of the anticipated level from period five onwards i.e. £267k as opposed to the predicted £271k, options two and four would be reversed in terms of their NPV result. No attempt has been made to model such risk factors and their potential impact in the Executive Board report. If the financial attractiveness of options two and four was marginal, non-financial aspects would be the deciding factors. The decision matrix in the Executive Board report (appendix one) suggests that option four would be favoured on this basis.

The purpose of the Executive Board report was to free resource to enable further investigation of the option being championed by the Development Department. Significant errors, predominantly in the DCF, should have been discovered through review and scrutiny. The magnitude of the errors found suggests a lack of internal review before presentation to the Executive Board. It is not our role to speculate whether the errors identified would have changed the decision arrived at by the Executive Board; however in the light of our findings we recommend that the Directors of Development and Corporate Services critically review the results of the DCF. Any revised report should incorporate any viable options that have come to light since the original report was issued on 15 December 2004.

Appendix E

Letter to Councillor Illingworth



Councillor John Illingworth
Leeds Civic Hall

Development Department
The Leonardo Building
2 Rossington Street
LEEDS
LS2 8HD

Contact: Paul Brook
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3 May 2006

Dear Councillor Illingworth

Following our meeting on Tuesday 2 May 2006 please find attached a copy of the draft ADS feasibility study for St Ann's Mills. For clarity, this document is being supplied to enable you to prepare your submission to Executive Board regarding alternative proposals for St Ann's and Abbey Mills, Kirkstall. It is not for use for any other purpose and must not be used in the public domain. The reason that I require this is that the costings are still very draft and my staff have not had the opportunity to view the detail supporting the headline figures, nor to check/challenge the accuracy thereof. In the same way, the artists impressions of the finished product at St Ann's reflect the thoughts of the architect used during the feasibility study, but as client we have had little input into these. They do not, therefore, necessarily reflect our aspirations nor, necessarily, the likely form of any planning application which might surface at some point in the future. For this reason I think it unwise to speak of sharing the document at this stage with the Civic Trust or the KVCA. We will, of course, be happy to share any thoughts which we have with these groups as and when these begin to emerge.

As discussed during the meeting, ADS is a fee earning unit and is not able to commit significant resource to answering questions about the draft feasibility study. The draft is supplied in good faith, therefore, on the basis that you accept the costings that are in it at face value, albeit that these are still fairly rough, and that you do not seek additional analysis from ADS.

As you know, I have received clearance from the Chief Executive and the Chair of Executive Board for you to include details of an alternative scheme for St Ann's/Abbey Mills in the update report due to go to Executive Board on 5 July 2006. The deadline for items is 30 May and I would therefore need your submission by this date. As I have mentioned to you before, your submission must focus upon the merits of your alternative proposal and not seek to undermine the current Executive Board approved option.



INVESTOR IN PEOPLE

With regard to content I would suggest the following:

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| Length | Given that your submission will form an appendix to the Executive Board report I would have thought that it should be limited to about half a dozen or so pages of A4. |
| Ward Members | You need to make it clear whether or not your proposals carry the support of the other two Kirkstall Ward Members. |
| Objectives | You need to state clearly the service outputs you seek before going into detail about property issues. |
| Option Appraisal | You need to examine what other options there are for delivering your objectives/desired outputs (eg new build) and explain why your preferred route is the best option. |
| Option Proposal | Having completed your option appraisal you need to clearly restate your proposal/preferred option. |
| Costings | Need to indicate the extent of works to the buildings and the resulting capital and revenue costs. |
| Funding | Need to identify potential funders. Clearly any letters you can append to your submission would help here – eg Home Office, West Yorkshire Police etc. To the extent that there is a 'less than best' element to your proposals you should make this clear. |
| Sponsors | Clearly you will need support in principle from the Home Office and the Police and again any letters which you can append would be helpful. You will also need a sponsoring department(s) to confirm that the proposals will assist the Council in delivering its corporate objectives. This might be Neighbourhoods and Housing for the rehabilitation element and Learning and Leisure for the natural history museum and canoeing element. |
| Consultation | You will need to indicate what level of consultation you have already undertaken with the public and the form of any future consultation.
You will also need to consider the impact of any of your proposals on Council tenants on the two sites and also on other (non-Council) tenants/freeholders. |

I look forward to receiving your proposals.

Yours sincerely

Paul Brook
Chief Asset Management Officer

Enc

cc Donna McDermott, Architectural Design Services



SUMMARY AND CONCLUSIONS

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- Our sample was spread across the range of ages, with only a slightly higher proportion in the older age group and slightly more interviews achieved with females than males (53% to 45% males)
- The largest proportion of respondents was from the retired population, representing almost a third of the sample, followed closely by full time workers
- Three quarters of the sample were aware of the Mill Buildings, with older respondents (35 years +) more likely to be familiar with them
- Media coverage did not significantly raise awareness of the Mill Buildings (awareness rose by 3% only)
- The majority of respondents agreed that the buildings should be fully restored (73%)
 - Postal respondents were more strongly in agreement than door to door respondents (element of self-selection in postal surveys)
- Support for small businesses was strong amongst residents with almost three quarters agreeing that the redevelopment should retain workspace for small businesses
 - This figure did not alter significantly following publicity (74% agreeing pre and 78% post coverage)

SUMMARY AND CONCLUSIONS

- There was relatively strong agreement that the Council should locate the workspace at St Ann's Mills; with slightly over half agreeing and a further third expressing no strong view
 - Agreement was significantly stronger for those aware of the Mills (55% for those familiar / 39% for those not familiar)
- Generally residents felt they were not affected by Council plans - 89% had a neutral opinion or said they were not affected by the plans
 - The 35-54 age group more likely to believe plans impact them considerably (9% compared to mean of 5%)
- Two thirds of the sample claimed to be unconcerned or neutral regarding Council Plans
 - The older age groups tended to be more concerned; with 19% of 35-54 and 18% of 55+ compared to only 8% of 16-35 group being very concerned
- The majority (89%) agreed with the importance of residents influencing improvements
- Less than of the sample had suggestions for the development of the Mill Buildings; these were wide ranging suggestions – no strong themes emerged

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