

Report of Director of City Development

Report to Executive Board

Date: 14th February 2014

Subject: Holbeck Urban Village: Disposal of the Engine House

Are specific electoral Wards affected? If relevant, name(s) of Ward(s): City and Hunslet; Beeston and Holbeck	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: 10.4 (3) Appendix number: 1	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Summary of main issues

1. The Best Council Plan 2013-2017 sets a best Council objective of promoting sustainable and inclusive economic growth – improving the economic wellbeing of local people and businesses with a focus on boosting the local economy, providing housing as the city grows and helping people into jobs. The Commission on the Future for Local Government outlined a proposition for local government to stimulate jobs, homes and good growth, with local government creating conditions for enterprise to thrive
2. In support of achieving these objectives, the Council has been working with the Homes and Communities Agency (HCA) to identify how the public sector can collaborate and use its assets to stimulate economic and housing growth in the short to medium term and kick-start regeneration activity in Holbeck Urban Village (HUV).
3. HUV (see plan 1) is an area based regeneration initiative that forms part of the city's vision for regeneration and economic growth of the South Bank. Sites in HUV and the wider South Bank offer significant regeneration potential due to their proximity to the main city centre, railway station, waterfront and motorway network. Potential developments in the South Bank create a long term opportunity to deliver on one of Europe's largest regeneration projects centred around the HS2 station.
4. Although there have been successful developments completed in the HUV since 1999, economic conditions have meant that there has been no new build development starting on site since 2008 and c20 acres of land allocated for development before the recession has yet to be subject to viable development. However, with the construction

of Leeds Southern Station Entrance (Southern Entrance) and a number of positive trends showing continued potential for growth within HUV and the wider South Bank (such as the announcement of HS2 and the opening of the Tetley) it is considered that there are opportunities for viable development in the short to medium term.

5. The HCA and the Council both own assets in HUV. Both organisations own sites at the Tower Works development site – the HCA being the major landowner – with the Council owning the Grade II listed Engine House and Italianate Towers after ownership transferred from the HCA to the Council in 2013 (see plan 2). Phase 1A of the scheme is complete and adjacent to Phase 1A is land earmarked for development which currently has planning permission for c138 residential units, 12,000sqm of commercial office development, and 1,400sqm of retail and commercial space. The Tower Works phase 2 could incorporate a mixed use scheme including residential, employment and ancillary uses.
6. In close proximity to the Southern Entrance, the Tower Works site presents a major regeneration opportunity to stimulate growth. Securing new development at the site can be a catalyst for neighbouring derelict sites coming forward for development in that location in the market and can help regain the pre-recession momentum to regeneration efforts in HUV.
7. In light of growing market confidence associated with the Southern Entrance and high levels of developer interest in the Tower Works site, it is now considered that the Tower Works site can now be subject of a viable development proposition and it is now the right time to bring the site forward as a development opportunity. The HCA is therefore progressing a procurement exercise to dispose of their assets at the site, with view of securing a developer partner to develop at the site in the short to medium term.
8. There is the opportunity for the Council to bring the Engine House forward for disposal alongside the HCA and as a junior party in this exercise. In this context, this report seeks Executive Board agreement to the disposal, and the method of disposal, of the Engine House to help kick-start regeneration efforts in HUV.
9. The Engine House is currently in a poor state of condition and needs investment to refurbish it. When the ownership of the Engine House transferred to the Council from the HCA, the Council received a financial payment to assist in bringing about its refurbishment. The Engine House is a key strategic site that sits in the heart of the wider HCA owned site. Should the site remain vacant or be disposed of without consideration to the regeneration aspirations at the wider Tower Works site, it will have a detrimental impact on the viability and place making of a development scheme there.
10. Further to discussions with the HCA and the Council's legal, property and procurement officers it is recommended that the best option for disposing of the Engine House is for the Council to include the Engine House within the HCA's overarching procurement exercise to dispose of the Tower Works site. This is on the basis that the Engine House will be included as a lot, with its own evaluation criteria, that will be fully controlled by the Council. It is proposed that the Council will be prepared to make a financial grant available, if required, using money that is ring fenced to refurbish the Engine House, to help bring about the refurbishment of the building if it is demonstrated that financial assistance is required.

11. Section 3 of this report sets out the proposed disposal method in greater detail for Executive Board approval and confidential appendix 1 proposes the maximum amount of financial grant the Council may be willing to agree to make.

Recommendations

12. Executive Board is asked to:

- i) Agree that the Director of City Development progresses the disposal of the Engine House for the selection of a preferred bidder through a procurement exercise, working in partnership with the Homes and Communities Agency, as per the principles set out in paragraph 3.15 of this report and the indicative timescales outlined in paragraph 3.17.
- ii) Note that the Engine House is held for planning purposes under the Town and Country Planning Act 1990 and the legal implications set out in section 4.5 of this report.
- iii) Provide delegation to the Director of City Development, with the concurrence of the Deputy Chief Executive and Executive Member for Development and the Economy, to enter into a development agreement and grant agreement with the preferred bidder, up to the maximum amount stated in exempt Appendix 1.
- iv) Note that the Chief Asset Management and Regeneration Officer will be responsible for implementation of these actions.

1 Purpose of this report

- 1.1 This purpose of this report is to agree to the disposal, and the method of disposal, of the Engine House to kick-start regeneration efforts in Holbeck Urban Village (HUV).

2 Background information

- 2.1 HUV is an area based regeneration initiative (extending 15.2 hectares) that forms part of the city's vision for regeneration and economic growth of the South Bank. Development sites in HUV and the wider South Bank offer significant regeneration potential due to their proximity to the main city centre, railway station, waterfront and motorway network.
- 2.2 These developments create long term opportunity to deliver on one of Europe's largest regeneration projects centred around the HS2 station, which will form part of the largest transport interchange in the North of England. Realising the potential for the area can help to drive growth of the Leeds City Region economy.
- 2.3 Until the economic downturn, successful developments in HUV included Phase 1A Tower Works; the Round Foundry development; the refurbishment of Marshall Mill; the Mint office development and the award winning development of the Granary Wharf scheme. The area has successfully established itself as a regional centre for the Creative and Digital Sector industry businesses – many of which are Small and Medium Enterprises. It is estimated that there are now over 150 businesses based in HUV, and over 3000 people are now living and working there.
- 2.4 Economic conditions, however, have seen many development schemes in HUV stall and there has been no new build development starting on site since 2008. Just over 20 acres of land intended for new development before the recession has yet to be capable of viable development due in part to market failures.
- 2.5 In the context of the Council's role in setting local planning and regeneration strategies and co-ordinating a range of interests across the public and private sectors towards common aims, there has been on-going dialogue over the last eighteen months between the Council and landowners. This has sought to identify opportunities to find solutions to the challenges stalling development within HUV, with view of encouraging investment that secures growth as economic conditions improve.
- 2.6 The new Southern Entrance to the railway station is very close to the HUV boundary and presents a major opportunity to stimulate further regeneration due to the major pedestrian footfall it will generate for sites in the South Bank.
- 2.7 Positive trends in HUV in the last twelve months include all residential units at the Granary Wharf complex now being fully sold, Tower Works Phase 1A is now 100% occupied whilst the Marshall Mill, the Mint and Round Foundry Media Centre are experiencing high levels of demand. Meanwhile, nearby schemes in

the South Bank such as the Tetley and proposals for HS2 are contributing to growing confidence in this area of the city.

- 2.8 In this context, the Council has been working with the HCA to identify how the public sector can best collaborate and use its assets to stimulate further economic growth in the short term and reinvigorate regeneration activity in HUV.

3 Main issues

Tower Works and the Engine House History

- 3.1 The HCA and Council both own assets at the 1.01 acre Tower Works development site – the HCA being the major landowner – with the Council owning the Grade II listed Engine House and three Italianate Towers (see plan 2) after ownership of these assets transferred from the HCA to the Council in 2013.
- 3.2 The Tower Works site is of major heritage importance and is in close proximity to the Southern Entrance. Securing new development at the site can be a catalyst for neighbouring derelict sites coming forward for development in that location in the market and can help regain the pre-recession momentum to regeneration efforts in HUV.
- 3.3 Phase 1A is completed and there is a planning permission for phase 2 of the development comprising of 12,000sqm of commercial office development, 7,800sqm of residential (c138 units) and 1,400sqm of retail and commercial space. Tower Works phase 2 could incorporate a mixed use scheme including residential, employment and ancillary uses.
- 3.4 Development of phase 2 has not moved forward at the site as intended and has been on hold for nearly five years due to economic conditions.
- 3.5 The Engine House is currently vacant and in need of investment to refurbish it. In acquiring the Engine House and Towers from the HCA in 2013, the Council received a financial payment to assist in bringing about the refurbishment of the Engine House and to maintain the Towers.
- 3.6 As was reported to Executive Board in March 2013, the Council will retain ownership of the Italianate Towers in perpetuity using money received to maintain the properties and the Towers have no potential for commercial use.
- 3.7 The Engine House is a key strategic site that sits in the heart of the wider HCA owned site. Securing the redevelopment of the Engine House can also secure the sustainable future of a Grade II listed building and any refurbishment will need to ensure that the character of this listed building is preserved. In principle, the building could be refurbished for a wide range of active uses including small scale convenience retail, food and drink sales, leisure, small scale offices or professional services. There is positive potential for a refurbishment of the Engine House to contribute to the regeneration of the South Bank.
- 3.8 However, should the site remain vacant or be disposed of without consideration to the regeneration aspirations at the wider Tower Works site, it will have a detrimental impact on the viability and placemaking of a development scheme

there. As reported to Executive Board in March 2013, it is considered that the site is best placed to be marketed for disposal as and when the HCA owned land is advertised as a development opportunity to ensure coherence between development propositions at the site. It is, however, recognised that it is not likely to be feasible for a third party to refurbish the Engine House without financial assistance, due to the property's condition and the impact this has on its viability

Next Steps

- 3.9 Soft market testing has shown that the Tower Works site has significant interest from potential developers and is one of the most attractive development sites in the South Bank.
- 3.10 In the context of the construction of the Southern Entrance and high levels of interest in the Tower Works site, the HCA is progressing plans to hold a competition to dispose of their assets at Tower Works and is investing in preparatory works on site to de-risk the site as a development proposition. The intention is to dispose of the Tower Works site to a developer, with the developer expected to meet development milestones that results in new development starting on site in the short to medium term. The HCA intends to progress its disposal via an OJEU Procurement route, through an EU compliant procedure, and in compliance with Public Contracts Regulations 2006.
- 3.11 Due to its importance to development at the wider Tower Works site, it is therefore now proposed to seek to dispose of the Engine House site and offer the potential of a financial grant to a developer to refurbish the Engine House site in parallel to the HCA bringing their assets forward for disposal.
- 3.12 Further to discussions with the HCA and the Council's legal, property and procurement officers it is recommended that the best option, and one of least commercial and legal risk for the Council, is for the Council to include the Engine House within the overarching procurement exercise to dispose of the Tower Works site. This option facilitates the opportunity to promote the comprehensive redevelopment of the site.
- 3.13 Legal advice is that the Council does not need to use a procurement method to dispose of the Engine House and the Council does not generally use this method for disposal of its assets. Notwithstanding this, in this scenario, using this method has benefits as the timescales for the HCA and Council's disposal will align, and having a consistent process is more straightforward and less costly for organisations wishing to acquire the site(s).
- 3.14 It is proposed that the procurement exercise will package each site as a 'lot' available for acquisition. It is proposed bidders who choose to participate in the procurement exercise would have the opportunity to bid for one of both lots. Bidders could choose to bid for the HCA lot to acquire the Tower Works site, and/or the LCC lot to acquire the Engine House site. Each lot will have its own evaluation criteria, but the procurement process followed for each lot will be the same. This proposed method will ensure transparency as each site will be subject to its own award and decision making.

3.15 It is proposed that the Council will include the Engine House site in the procurement exercise, adhering to the following principles:

- § The Council has full and sole control over the lot for the disposal of the Engine House site.
- § The decision to select a developer for the Engine House site will be a separate decision to the HCA decision to select a developer for the HCA site. The Engine House site disposal will have its own evaluation criteria to select a preferred bidder.
- § If required, the Council will make a financial grant available to bring about the refurbishment of the Engine House site. In seeking bids, the amount of grant available will not be revealed, and prospective bidders will be asked to identify if they require any funding to refurbish the Engine House site and, if so, how much and demonstrate why financial assistance is required.
- § The Council retains absolute discretion to withdraw the Engine House site from the procurement exercise and seek to dispose of the site through other methods should it choose to do so.

3.16 It is proposed that the disposal process will have two stages. The first stage will be an expression of interest stage whereby bidders are invited to complete a Pre-Qualification Questionnaire, which will consider matters such as the financial standing, relevant experience and track record of the bidder. These submissions will be evaluated, and a shortlist of bids will determine who will progress to the second stage. Shortlisted bidders will then be invited to tender to acquire the Engine House site. This stage will consider matters such as the viability and quality of the scheme, the usages proposed, as well as the level of financial grant sought. Final bids will then be evaluated, and a preferred bidder will be selected.

Next Steps

3.17 Should Executive Board authorise the Council to dispose of the Engine House site in the way proposed, the indicative timescales are as follows:

Stage	Timescale
Issue of OJEU Notice inviting bids	Late February/ Early March 2014
Pre Qualification Questionnaire Evaluation Stage Bids Deadline	June 2014
Shortlisting of PQQ bids	July 2014
Shortlisted organisations Invited To Tender	August/ September 2014
Final Bids submitted	November 2014
Preferred bidder selected	November/ December 2014
Conditional Development Agreement Completed	By March 2015

3.18 Once a preferred developer is selected, it is the intention to enter into a development agreement for the disposal of the freehold and a grant agreement for

the refurbishment of the property. This means that the asset will only be fully disposed of, and grant payments made, once certain development milestones have been achieved. This minimises the risk of the site being 'land-banked' and not being brought forward for re-development.

- 3.19 The Council and the HCA also own other assets in HUV and there will be further discussions between the Council and the HCA on how these assets can be best used to support the timely regeneration of the area. It is proposed that the outcome of these discussions will be the basis of a future Executive Board report.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 The Executive Member for Development and Economy has been consulted on the recommendations and is supportive of proposals. The HCA, as major landowner at the Tower Works site, is supportive of the recommendations and is committed to working with the Council to secure regeneration at the site.

- 4.1.2 Once a developer has been selected and there are firm development proposals at both the Tower Works and the Engine House sites, the developer will be required to consult with communities and stakeholders as part of the planning process. This will allow residents the opportunity to be consulted on the emerging design and proposed usages at the Engine House and wider Tower Works sites.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 An equality screening has taken place on the recommendations set out in this report. The outcome of the screening exercise was that a full Equality and Diversity/ Cohesion and Integration assessment is not required; however, the exercise demonstrated that disposing of the asset will present positive socio-economic impacts, with the potential of new apprentices and jobs being created. HUV is within the City and Hunslet Ward and adjoins the Beeston and Holbeck ward – both of which have higher than average levels of unemployment and social and financial exclusion.

Once the development agreement is completed and developer(s) selected for the Tower Works scheme, there will be dialogue to establish the employment opportunities available for local residents in nearby wards and the Council will encourage and support the developer to participate in local employment initiatives and offer apprenticeships once a construction contract is let and commercial occupiers secured.

- 4.2.3 The screening also considered the potential impacts of the recommendations for disabled communities. The Engine House has been vacant for some time and securing a purchaser who will refurbish the building will allow investment that can help to make the building accessible for disabled communities. All interested parties will be able to provide feedback on the developer's emerging designs and accessibility features as consultation takes place as part of the planning process. The screening document is attached as Appendix 2.

4.3 Council policies and City Priorities

- 4.3.1 The Best Council Plan sets a best Council objective of promoting sustainable and inclusive economic growth – improving the economic wellbeing of local people and businesses with a focus on boosting the local economy, providing housing as the city grows and helping people into jobs. The Commission on the Future for Local Government outlined a proposition for local government to stimulate jobs, homes and good growth, with local government creating conditions for enterprise to thrive. Securing a developer who brings forward development and investment at the Engine House site will assist in delivering these ambitions and should encourage further economic growth in HUV

4.4 Resources and value for money

- 4.4.1 The Council received a grant from the HCA to refurbish the Engine House site and this grant is 'ringfenced' as an earmarked reserve. As such, it is not anticipated that further budgetary provisions are necessary in offering these moneys as a financial grant to a third party, as financial resources are already budgeted for this exercise.
- 4.4.2 In disposing of the Engine House site, the Council will invite bidders to identify and demonstrate the level of financial grant necessary through a competitive process. Inviting competing bids will demonstrate value for money as the competitive process should encourage bidders to minimise the amount of financial support sought. Confidential Appendix 1 sets out the proposed maximum level of grant that will be available to bidders.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 The Council holds the Engine House for planning purposes under the Town and Country Planning Act 1990. This means that the Council's obligation to obtain best consideration for the disposal of the Engine House site is subject to an overriding obligation that the Council has to dispose of the Engine House site in a manner that secures either the best use of the property or the erection, construction or carrying out of works that are needed for the proper planning of the area.
- 4.5.2 This means that, in selecting a developer for the Engine House site, the Council must take into consideration how the proposed development of the site will fit into the overall development of Holbeck Urban Village and would not be obliged to dispose of the property at the highest price (as it would otherwise be obliged to do) if the disposal in question would not secure the best use of the land or the proper planning of the area. As such, the evaluation criteria will consider how the Engine House site proposals support the proper planning in the area in addition to the level of financial grant bidders seek.
- 4.5.3 In going down the procurement route, it is considered that the disposal process must follow the spirit of the Public Contracts Regulations 2006 (Regulations). The proposed use of an EU compliant procurement procedure will ensure compliance with the Regulations and is sufficiently robust for the purposes of disposing of the Engine House site. Legal officers have also advised that the recommended

procurement process will ensure that the Council complies with the European Commission's State Aid Rules.

- 4.5.4 The information contained in Appendix 1 is exempt under Access to Information Rule 10.4 (3) as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information). It is considered that the public interest in maintaining the content of appendices as exempt outweighs the public interest in disclosing the information. Appendix 1 is confidential as disclosing the amount of grant available may affect the Council's ability to secure the best financial outcome through the competition.

4.6 Risk Management

- 4.6.1 In disposing of the Engine House and offering a grant to refurbish it, the Council will be transferring the commercial and construction risk of redeveloping a vacant Grade II listed building to another party. If recommendations are approved and a purchaser found, the Council's overall risk exposure for its property portfolio will therefore be reduced.

- 4.6.2 In progressing the disposal exercise, consideration has been given to the following risks and the mitigation of them:

- **Economic conditions deem the Engine House scheme unviable or there is insufficient interest in the property.** The Tower Works scheme has been subject to soft market testing and this has shown very strong levels of interest. Appraisals have shown that it is possible to deliver a viable development scheme at the Engine House site.
- **Bidders seek more grant to refurbish the Engine House than is available.** Detailed appraisals undertaken by officers in Property Services indicate that there is sufficient grant available to assist a developer in refurbishing the Engine House. This risk is reduced due to bidders being scored on the amount of grant they require and the competitive process will encourage bidders to minimise use of the grant.
- **Legal challenge during or after the process** – The project team includes legal officers to provide both property and procurement legal advice. All documents and decisions will be legally assured to ensure compliance with the Public Contracts Regulations 2006; the Council's Contract Procedure Rules; the Town and Country Planning Act 1990 and the European Commission's State Aid rules.
- **The HCA withdraw their sites from the process.** The HCA is committed to disposing of the sites in the manner set out as the majority landowner, and there will continue to be close partnership working between HCA and the Council throughout to ensure that the process is effectively managed, meets timescales and the objectives of both organisations.

5 Conclusions

- 5.1 Development sites in HUV and the wider South Bank offer significant regeneration potential due to their proximity to the main city centre, railway station, waterfront and motorway network. Potential developments create long term opportunity to deliver on one of Europe's largest regeneration projects centred around the HS2 station. Realising this potential for the area can help to drive growth of the Leeds City Region economy and create just over 10,000 direct jobs.
- 5.2 HUV had seen a number of successful developments but, with no new development starting on site in this area for over 5 years, action is required to kick-start regeneration activity that secures economic growth in the short to medium term.
- 5.3 There is emerging confidence in the South Bank of the city linked to the construction of the Southern Entrance, the announcement of HS2, strong occupancy levels at completed developments in HUV and the opening of the Tetley. This confidence, supported by encouraging signs in the development market, means that there are opportunities to secure viable development propositions in HUV in the short to medium term.
- 5.4 The Tower Works scheme has high levels of market interest. The growing confidence in this area mean that this site is now one of the most attractive development sites in the South Bank and it is now considered that viable development propositions can be delivered there in the short term. It is therefore considered that it is now the right time to bring the site forward to the market as a development opportunity.
- 5.5 Securing new development at the site can provide the catalyst that kick-starts regeneration in HUV and secure new investment and jobs. In particular, development at Tower Works can encourage landowners at neighbouring derelict sites to bring their sites forward for development and can support wider aspirations for growth in the South Bank.
- 5.6 If the Council determines to dispose of the Engine House as the HCA disposes of its assets at Tower Works as a development opportunity, the Council has the opportunity to use its assets to help to to kick-start regeneration in HUV. Doing so will also help to secure the long term future of a listed building, help conserve the heritage of the site and help achieve Business Plan objectives to promote sustainable and inclusive economic growth.

6 Recommendations

- 6.1 Executive Board is asked to:
 - i) Agree that the Director of City Development progresses the disposal of the Engine House site for the selection of a preferred bidder through a procurement exercise, working in partnership with the HCA, as per the principles set out in paragraph 3.15 of this report and the indicative timescales outlined in paragraph 3.17.

- ii) Note that the Engine House is held for planning purposes under the Town and Country Planning Act 1990 and the legal implications set out in section 4.5 of this report.
- iii) Provide delegation to the Director of City Development, with the concurrence of the Deputy Chief Executive and Executive Member for Development and the Economy, to enter into a development agreement and grant agreement with the preferred bidder, up to the maximum sum stated in exempt Appendix 1.
- iv) Note that the Chief Asset Management and Regeneration Officer will be responsible for the implementation of these actions.

7 Background documents¹

7.1 None

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.