

Report of Director of City Development

Report to Executive Board

Date: 5th March 2014

Subject: Design & Cost Report: Aire Valley Enterprise Zone – Progress and Next Steps

Capital Scheme Number: 32020/ 000 / 000

Are specific electoral Wards affected? If relevant, name(s) of Ward(s): Burmantofts & Richmond Hill, Temple Newsam	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: 10.4 (3) Appendix number: A, C, D & E	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Summary of main issues

1. The Best Council Plan 2013-2017 sets a Council objective of promoting sustainable and inclusive economic growth, through improving the economic wellbeing of local people and businesses with a focus on boosting the local economy. The Commission on the Future for Local Government outlines a proposition for local government to stimulate jobs, homes and good growth, with local government creating conditions for enterprise to thrive. It is in this context that the importance of stimulating and accelerating growth within the Enterprise Zone should be viewed with the need to support the Leeds & Leeds City Region manufacturing sector and attract investment so as to stimulate growth, jobs and generate business rates for the LEP.
2. The Aire Valley Enterprise Zone also forms an integral part of the newly emerging Leeds Strategic Economic Plan, which will be the Leeds City Region's submission to secure investment from the Local Growth Fund. This document will identify the Zone as an area where investment priorities will be made so as to unlock the growth potential of businesses, creating the environment for growth and create a skilled and flexible workforce.
3. Fully developed, the Aire Valley Leeds Enterprise Zone has the potential to accommodate more than 9,500 private sector jobs and offers the largest opportunity

for employment growth within the Leeds City Region. The zone is already home to well established companies including Roberts Mart, one of the UK's largest packaging manufacturer, floor covering manufacturer Mercardo and branded foods manufacturer Symington's.

4. The zone is an integral part of the Aire Valley, where over 400 businesses are presently located including major manufacturing companies such as Arla Foods, Everbuild, Hesco Bastion, Siemens and Allied Glass all of which provide supply chain opportunities for businesses locating within the enterprise zone.
5. The recently announced boost for business and local economies by the Department for Communities and Local Government has shortlisted Aire Valley Leeds to receive up to £8.57million as one of the 12 enterprise zones awarded funds from the £100million pot allocated. This grant, which will attract advance manufacturing and supply chain companies, has the potential of creating 630 new jobs and delivering over 300,000 sq ft of new commercial floor space by 2016.
6. Working proactively and in partnership with the private sector and government is key to enable the building of momentum, accelerate development within the enterprise zone and drive economic growth. It is in this context that this report sets out the investment guarantees required by the Council to critically help build momentum within the enterprise zone.

Recommendations

7. Executive Board is asked to;-
 - i. Approve the strategy currently being adopted for the Enterprise Zone of securing investment in infrastructure to open up sites and supporting development of commercial floor space.
 - ii. Approve the principle for the acceptance of the grant from the Government's "Building Foundations for Growth" (BFG) fund and delegate approval of the terms to the Director of City Development and the Deputy Chief Executive.
 - iii. Note that the BFG grant of £8.57million has been injected into the capital programme.
 - iv. Approve the principle of entering into individual funding and investment packages, with the individual developers of Logic Leeds, Connex 45 and Temple Green; the detailed recommendations are set out in the confidential appendix A of the report.
 - v. Approve the principle of prudentially borrowing the money required to fund the investment packages for Logic Leeds & Connex 45 as set out in confidential appendix A of this report.
 - vi. Approve the principle of seeking funding from the Revolving Investment Fund for a contribution to the cost of the investment package for Connex 45.

- vii. Approve the injection of funds into the capital programme in respect to the individual investment packages for Logic Leeds & Connex 45 as set out in the confidential appendix A.
- viii. Authorise the Director of City Development, in consultation with the Leader, the Executive Member for Development & the Economy , the Deputy Chief Executive, and the City Solicitor, to use his delegated powers to spend the BFG grant sums identified in the confidential appendix A and provide authority to spend in respect to the individual investment packages as set out in the confidential Appendix A.
- ix. Authorise the Director of City Development, in consultation with the Leader, the Executive Member for Development & the Economy , the Deputy Chief Executive, and the City Solicitor to use his delegated authority to enter into any and all necessary documentation, contracts and agreements required to facilitate the delivery of the individual development packages.
- x. Declare that its decision is exempt from call in.

1.0 Purpose of this report

- 1.1 This report provides members with an up to date position on development within the Enterprise Zone and also seeks approval for a series of investment packages, which will trigger, if delivered alongside the development of a new Park & Ride facility within the Aire Valley, major development on up to 3 employment sites within the zone.
- 1.2 These packages, which are being delivered in conjunction with funding from the Government's "Building Foundations for Growth" fund will directly facilitate and support the delivery of over 300,000 sq ft of grade A manufacturing and logistics buildings; support more than 630 jobs; will contribute to the remediation and infrastructure of 3 sites and leverage in some £30 million of private sector finance within an accelerated delivery corridor within the Enterprise Zone. The Council has been shortlisted for a grant of £8.75m from the fund.
- 1.3 This overall package will help meet the city's shortage of good quality industrial, manufacturing and logistics space and critically help build further momentum within the Enterprise Zone.
- 1.4 This report should be read in conjunction with the Confidential Appendix A and the Park and Ride report also under consideration.

2.0 Background information

- 2.1 The Leeds City Region Local Enterprise Partnership selected the Aire Valley Leeds in 2012 as its Enterprise Zone to provide long term growth. The zone aims to provide a focus for key growth sectors to enable the whole city region to benefit from the direct and indirect jobs which will be delivered. The zone comprises 142 hectares of prime employment land directly adjacent to the motorway network and is ideal for advanced manufacturing, supply chain, low carbon manufacturing and waste uses (see Appendix B).
- 2.2 It was originally envisaged that the Aire Valley Leeds Enterprise Zone could provide sites which were ready straight away and could attract development opportunities for the growth of indigenous companies. It provides new employment sites known as Logic Leeds, Connex 45 and Temple Green which together have the potential to provide a game changing offer for the region and a timely boost to the supply of large well connected employment sites. These sites are critical to the long term success and inward investment leverage which the zone offers to the city region.
- 2.3 However in spite of good progress, specific infrastructure deficits, within the 2 major sites, Logic Leeds and Temple Green, need to be addressed to ensure momentum is maintained. It is in this context that the opportunity to work in partnership with the private sector to secure grant from the Building Foundations for Growth fund, needs to be considered.
- 2.4 In considering the matter of investment, it is important to look at the pace of delivery in 3 distinct phases:-

- The establishment of the zone, where we agreed to set up the zone with a distinct offer and a full range of support packages.
- Getting off the ground with a first wave of development and starting an early wave of momentum on the smaller, more easily developed sites within the control of Leeds City Council.
- Maintaining momentum of development; bringing forward the larger sites outside of the council's control working in partnership with the private sector.

2.5 *The establishment of the zone* has been achieved through a series of measures that have been put in place to facilitate development; a simplified planning regime, including Local Development Orders and the use of Planning Performance Agreements (PPA's) enabling planning approvals to be secured in half the normal time. Grants of up to £1million are also available through the LCR's LEP business growth fund and a dedicated recruitment and training service provided by Employment Leeds is available. This along with the business rates relief and access to superfast Broadband sets the benefits available to businesses moving to the zone.

2.6 *The first wave of development* has seen the start of construction on the Energy from Waste plant at the New Market Lane site; a £460million PFI scheme, set for completion in 2016. Also a new building, presently under construction, for Watershed Packaging will bring over 40 new jobs and a further 4 sites are either under option or in negotiation with the Council for the delivery of up to 200,000sq ft of manufacturing space on Thornes Farm. These developments in total have the potential of delivering up to 300 jobs and over £800,000 in business rates, 100% of which will be retained for use within the city region.

2.7 Alongside these developments, the Council has previously provided grant funding for enabling infrastructure to open up access on the Logic Leeds site through the provision of a £2.3 million spine road linking the site from the East Leeds Link road to the adjacent residential community; the first phase of the road is now in place, providing access to the first wave of development plots. When complete the Logic Leeds site has the potential to deliver over 1 million sq ft of manufacturing, distribution and office space in a modern business park environment.

2.8 *To build on the momentum* already achieved, this report promotes an ambitious approach in respect to financing infrastructure and development, providing funding support to businesses and entering into active communication to attract investment to the zone. A renewed focus has been established in respect to boosting manufacturing employment which will deliver against the principle of securing significant new investment into the zone.

2.9 An opportunity is being provided through DCLG's BRG funding offer of £8.57 million, which has to be spent by March 2015. The bid, now subject to due diligence by DCLG (detailed business case consideration and approval), sets out how the BFG will be used to invest in remediation and infrastructure works on 3 sites within an accelerated delivery corridor of the enterprise zone(see appendix B), to create the platform for an initial £30million of new private sector

development. The proposal is based on the principle of a three-way partnership between Leeds City Council, the Government and private developers whereby:

- DCLG will provide £8.57m of BFG grant (to be administered by the Council).
- Developers will commit to bringing forward the next wave of development.
- Leeds City Council will help the developers to manage the risk of bringing forward speculative development.

- 2.10 The investment will provide funding for landscaping and environmental improvements to enhance the zone and improve the setting for investment. The Council funding and investments (details of which are set out in the confidential appendix) will underpin the commercial viability of the new development. They will unlock the private sector investment needed to develop new buildings critical if the zone is to capture the growing demand for high quality space across the Leeds City Region, converting pent up occupier demand into new investment and jobs.
- 2.11 It is envisaged that the new development will be focussed in an accelerated development corridor at key locations along the East Leeds Link road providing differing commercial products capable of meeting identified demand for SME expansion space, accommodation for advance manufacturing and large scale space for major logistics operators.
- 2.12 This targeted approach is about impact investment, targeting resources, building momentum, boosting confidence and kick starting the market in the short term so that it is able to deliver sustainable private sector investment and jobs that will underpin the success of the enterprise zone and delivery of its full economic potential.
- 2.13 The Council funding and investments will help deliver essential infrastructure by March 2015 which will facilitate the delivery of further new buildings, ready for occupation during 2015/16.
- 2.14 The Aire Valley Park & Ride proposal, under consideration by Executive Board in a separate report, is an integral factor in the delivery of this overall package as it provides the developer with an early end user opportunity for a significant area of their land within the zone. A commitment, subject to agreement from the West Yorkshire Plus Transport Fund, will, in conjunction with the investment guarantees, enable the unlocking of one of the key sites in the zone.
- 2.15 A commitment to the Park & Ride is of major importance to the overall package being considered here, as it enables and facilitates the stimulation of surrounding development at the Temple Green site. The details of which can be seen at appendix C. The Park & Ride will also play a significant role in the accessibility of new jobs, being created in the zone, to the surrounding communities and wider afield, through the supply of public transport facilities.

3 Main Issues

- 3.1 As can be seen in the background information it has been identified that whilst progress has been made to date, this has been on the smaller, Council owned sites which are already platformed, serviced and have an established road infrastructure, and require no significant ground remediation. It is now important that, to kick-start the market and enable delivery of the next wave of development, so building momentum in the zone to achieve significant job numbers, intervention is required by the public sector (local & central).
- 3.2 There is clear evidence of market failure in respect to the development of large format manufacturing space and a shortage of market-ready premises in the M1/M62 corridor; however developers are not building speculatively due to difficulties in raising finance and a need to keep debt off their balance sheet. This lack of high quality available space means that Leeds and the LCR are missing out on investments. Therefore there is a need, and a sound business case for the public sector to intervene through the underwriting of some risk to bring forward speculative building space in the enterprise zone.
- 3.3 The details and the nature of the level of grant and Council funding and investment being proposed are set out in the confidential appendix.
- 3.4 A further point to note is the current developer obligations, through existing legal agreements, to make contributions towards the East Leeds Link Road. These contributions are not insignificant and whilst they secured the building of the road to provide easy access to the city from the motorway and open up development they are now a further impediment to development within the area under consideration.

4.0 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 Through the Aire Valley Programme Board consultation has taken place with the Executive Member for Development and the Economy and a number of the local ward councillors; the Leeds City Region secretariat and the chair of the LEP have been apprised of the progress being made in the zone and the potential that this opportunity can realise. Once a decision is taken by Executive Board further consultation and engagement will take place with major interested parties and stakeholders.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 An Equality Impact Assessment (EIA) screening exercise has taken place to ensure due regard to Equality, Diversity, Cohesion and Integration was effectively considered. The outcome of the screening exercise was that a full EIA is not required at this point and there are no likely impacts on any of the protected equality characteristics. The screening form is attached as an appendix.

4.3 Council policies and City Priorities

- 4.3.1 Investment into the Aire Valley Leeds Enterprise Zone is central to the achieving of one of the Best Council Plan's objectives of promoting sustainable and inclusive economic growth by helping people into jobs and boosting the local economy. The enterprise zone, as a major driver for economic growth within the city region will sit firmly in the area-based investment priorities for the Leeds City Region Strategic Economic Plan which will see the potential of investment from the Local Growth Fund.
- 4.3.2 Working with both Central Government and the private sector in the next development phase of the enterprise zone will support the delivery of up to 630 jobs by 2015/16, which will be accessible to the local community and will also boost the local economy by providing high quality new-build facilities for the business community. This will deliver against a number of city priorities which have been identified.

4.4 Resources and value for money

- 4.4.1 The Deputy Chief Executive has been consulted and supports the proposals as set out in the confidential appendix.
- 4.4.2 Independent valuations have been obtained to inform negotiations that have been conducted with the developers. Details of these are contained in the confidential appendix.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 Under the City Council's Constitution, a decision may be declared as being exempt from Call In if it is considered that any delay would seriously prejudice the Council's or the public interest. A delay in completing all the necessary legal documentation as soon as practically possible may have an adverse impact on the securing of the BFG grant and achieving the programme of works to enable delivery within the specified time frame. It is therefore recommended that this decision should be exempt from call-in.
- 4.5.2 The contents of the confidential appendices, A, C, D & E relate to the financial or business affairs of the Council. It is therefore considered that this element of the report should be treated as exempt under Rule 10.4(3) of the Access to Information Procedure Rules.
- 4.5.3 There are a number of legal implications that have to be considered; these relate mainly to state aid and the entering into the appropriate legal documentation with the DCLG and the individual private sector parties. The details of this are set out in the confidential appendix.
- 4.5.4 In respect to the borrowing requirements highlighted in the confidential appendix A, Section 1 of the Local Government Act 2003 enables the Council to borrow money for any purpose relevant to its functions. Section 3 of the Local Government Act 2003 provides that the Council shall determine and keep under review how much it can afford to borrow. The Deputy Chief Executive is satisfied that the Council can

afford to borrow the money necessary to provide the assistance referred to in this report.

- 4.5.5 The Council has a common law duty of care to the taxpayers of Leeds to act in a business-like manner, with reasonable care, skill and caution, and with a due and alert regard to their interests. This means that the Council must act prudently and in good faith and comply with its statutory duties and exercise its statutory powers for the benefit of the community; have regard to the possible financial consequences of its actions; and strike a fair balance between the interests of the taxpayers on the one hand and the community's interest in adequate and efficient services on the other hand. As set out in this report, the Council will need to undertake borrowing to fund the investments as set out in the confidential appendix A. Those works will have a benefit to the community as a whole on the basis that the borrowing will facilitate and create new employment locations within the Enterprise Zone and it is considered that it would be reasonable for Members to conclude that the proposals as a whole are compliant with the Council's fiduciary duty to council tax payers.

4.6 Risk Management

- 4.6.1 There are a number of risks which are identified as part of the confidential appendix A which is attached to this report.

5.0 Conclusion

- 5.1 It can be concluded that to facilitate the development potential of the enterprise zone and enable delivery that:
- i) The BFG grant of up to £8.57m, awarded to the Council will provide essential financial support to accelerate development in the Aire Valley Enterprise Zone and should be awarded to the private sector parties as detailed in confidential appendix A.
 - ii) The Aire Valley provides an ideal location for the strategic positioning of a Park and Ride facility in East Leeds which will in turn enable development to commence in that part of the zone.
 - iii) The Council should further support the delivery of major new investment and development opportunities in the Enterprise Zone by entering into individual investment packages as detailed in the confidential appendix.

6.0 Recommendations

- 6.1 Executive Board is asked to:-
- i. Approve the strategy currently being adopted for the Enterprise Zone of securing investment in infrastructure to open up sites and supporting development of commercial floor space.
 - ii. Approve the principle for the acceptance of the grant from the Government's "Building Foundations for Growth" (BFG) fund and delegate approval of the terms to the Director of City Development and the Deputy Chief Executive.

- iii. Note that the BFG grant of £8.57million has been injected into the capital programme.
- iv. Approve the principle of entering into individual funding and investment packages, with the individual developers of Logic Leeds, Connex 45 and Temple Green; the detailed recommendations are set out in the confidential appendix A of the report.
- v. Approve the principle of prudentially borrowing the money required to fund the investment packages for Logic Leeds & Connex 45 as set out in confidential appendix A of this report.
- vi. Approve the principle of seeking funding from the Revolving Investment Fund for a contribution to the cost of the investment package for Connex 45.
- vii. Approve the injection of funds into the capital programme in respect to the individual investment packages for Logic Leeds & Connex 45 as set out in the confidential appendix A.
- viii. Authorise the Director of City Development, in consultation with the Leader, the Executive Member for Development & the Economy, the Deputy Chief Executive, and the City Solicitor, to use his delegated powers to spend the BFG grant sums identified in the confidential appendix A and provide authority to spend in respect to the individual investment packages as set out in the confidential Appendix A.
- ix. Authorise the Director of City Development, in consultation with the Leader, the Executive Member for Development & the Economy, the Deputy Chief Executive, and the City Solicitor to use his delegated authority to enter into any and all necessary documentation, contracts and agreements required to facilitate the delivery of the individual development packages.
- x. Declare that its decision is exempt from call in.

7.0 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.