

Report of Director of City Development

Report to Executive Board

Date: 18th March 2015

Subject: Forward funding investment opportunity in the Aire Valley Enterprise Zone

Capital Scheme Number: 32264/000/000

Are specific electoral Wards affected? If relevant, name(s) of Ward(s): 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)	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Appendix number: A		

Summary of main issues

1. The Leeds Enterprise Zone is a major expansion area for employment related development which is currently experiencing significant amounts of new build, with construction activity taking place across six sites delivering more than 500,000 square feet of new commercial and industrial facilities.
2. The Council's proactive stance and its work with developers and occupiers has been critical to the significant progress that has been made. To maintain the momentum underway, the Council has been working closely with a developer and provisional occupier identified in the confidential appendix to attract them to the Leeds Enterprise Zone, in which to locate their Distribution Centre.
3. In order to ensure that the developer can meet the tight timeframe required by the tenant and attract the particular occupier identified within the confidential appendix, it is proposed that if necessary, the Council will acquire the investment created by way of a full forward funding commitment. The key benefits that this opportunity will secure include:
 - A new flagship employer into the Enterprise Zone
 - At least 70 new jobs into Leeds

- £130,000+ of additional business rates per annum that will go to the LEP to fund further economic activity in the city region
 - Generate a financial surplus to the Council as a new addition to its investment portfolio
4. 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. 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.
5. In view of the significant development proposed and underway in the immediate vicinity, along with the Council's ambition for Leeds to become the best city in the UK, with an economy that is both prosperous and sustainable, that there is now a unique opportunity to acquire this investment. This would ensure that the occupier locates their facility within the Enterprise Zone which would underline the quality of the location, to attract other occupiers to the Enterprise Zone and also allow the Council to receive a substantial rental income. This would align with the recently approved Asset Management Plan which promotes using its assets to support regeneration and enhancing the value and quality of the Council's investment portfolio. This particular acquisition would produce an immediate and growing revenue surplus for the Council.

Recommendations

6. Executive Board is recommended to:
- i) approve the acquisition of the investment let to the occupier identified in the confidential appendix on the terms outlined within the confidential appendix;
 - ii) approve the principle of prudentially borrowing the money required to fund the investment set out in confidential appendix A of this report.
 - iii) approve the injection of, and give authority to spend, the sums detailed in the confidential appendix into the capital programme.
 - iv) note that the Director of City Development under his delegated powers will negotiate the detailed terms for the acquisition in line with the Heads of Terms outlined in the confidential appendix.

1.0 Purpose of this report

- 1.1 The purpose of this report is to obtain Executive Board's approval to the potential acquisition of a new proposed distribution centre investment to be built and let to an occupier, as identified on the attached plan in the confidential appendix, by way of a full forward funding commitment to the developer.
- 1.2 This acquisition in the Enterprise Zone would be in addition to the three 'Put Options' entered into by the Council as approved by Executive Board, in March 2014, to incentivise the construction of speculative manufacturing/distribution units in the Enterprise Zone, the three 'Put Option' units are now all under construction, occupiers expressing interest in all of them.
- 1.3 The funding of this investment will help meet the city's current shortage of good quality industrial, manufacturing and logistic space and critically help build further momentum within the Enterprise Zone.

2.0 Background information

- 2.1 This potential acquisition should be read in the context of its location within the Enterprise Zone and clearly sits within the Council's ambition for Leeds to become the best city in the UK. Members will be aware that the Aire Valley Enterprise Zone was established in April 2012. Providing up to 142 hectares of prime employment land, the Zone represents a significant opportunity to provide key growth opportunities and enhance the economy of the Leeds City Region. Since its launch in 2012, from a standing start, the Zone has seen a number of significant developments commence. These include amongst others:
 - the Energy from Waste Centre, due to open later this year;
 - new premises for Watershed Packaging;
 - the development of 80,000 sq ft, in two buildings of new employment space by Wilton Developments at Connex 45;
 - the development of 120,000 sq ft by Marshalls at the Thorne's Farm site;
 - the construction of a new spine road and 80,000 sq ft of new employment space at Logic Leeds and;
 - the remediation of 10 acres of land at Temple Green in preparation for a new 1000 space Park and Ride facility.
- 2.2 This level of activity has enabled the Enterprise Zone to achieve real momentum, with construction on 6 separate sites now currently underway.
- 2.3 At the same time, the Council is taking a proactive stance to deliver environmental improvements to the Enterprise Zone. This has included;
 - 147 standard & semi-mature trees
 - Over 50,000 bulbs
 - 2,850 m² to be sown with wild flower seed mix
 - 2,000 saplings to create new woodland will be planted during March 2015

- 2.4 In order to ensure that the Zone continues to grow with this level of activity and develop a critical mass to become a compelling location for business, the Council has continued to support land owners and developers in the Zone to ensure that it is attractive to inward investment opportunities to Leeds and the City Region. One of these opportunities is the development of a new 50,000 sq ft distribution centre which will further enhance the Zone's attractiveness for logistic and distribution activity given its proximity to the to the M1/M62 motorways.

3 Main Issues

- 3.1 The proposal is seen as a further opportunity to increase and improve the quality and diversity of the council's property investment portfolio. This principle is one of the 10 key proposed actions in the Asset Management Plan, adopted by Executive Board October 2014, to support the council's revenues. If acquired, it would sit well alongside other major key investments such as the Arena, the re-developed Merrion House and the other potential warehouse investments in the Aire Valley.
- 3.2 The occupier is seeking to open a new 50,000 sq ft distribution centre, in the Leeds Enterprise Zone, by no later than April 2016. This occupier will be creating 70-90 new jobs in this building.
- 3.3 The proposed transaction is currently at an extremely sensitive stage and therefore the detailed heads of terms and potential Council involvement are contained within the confidential appendix.

4.0 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 The Executive Member for Transport and the Economy was briefed on 06/02/2015 and is supportive of this acquisition proposal.

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 in the Aire Valley Leeds Enterprise Zone is central to achieving 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.
- 4.3.3 The proposed acquisition supports the Best Council Plan objective of 'Becoming a more efficient and enterprising Council', and underpins a number of priorities including: 'improve how we're organised and making the best use of our assets' by seeking to optimise the Council's investment portfolio; and 'generating income for the Council' providing an annually increasing income to support the Council's revenue budget.
- 4.3.4 The recently approved Asset Management Plan 2013-17 has, as one of its ten areas of focus, 'making the Council's portfolio work better', undertaking to improve the scale and quality of the investment portfolio to assist and support the Council's revenue budget, including strategic acquisition where there is a strong financial case to do so.

4.4 Resources and value for money

- 4.4.1 An independent valuation will be obtained to confirm the agreed price is 'Open Market Value' and this is contained in the confidential appendix.
- 4.4.3 The proposed acquisition would provide the Council with a net surplus annual income as outlined in the confidential appendix after allowing for borrowing costs.
- 4.4.4 The capital funding and cash flow are outlined in the confidential appendix.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 There are a number of legal implications that have to be considered in this acquisition; these relate mainly to State Aid and Procurement issues and as the acquisition is at 'Open Market Value', there is no 'State Aid' provided. In respect of procurement, this will be addressed by the issue of a Voluntary Transparency Notice (VTN).
- 4.5.2 In respect of 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.
- 4.5.3 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.

- 4.5.4 Under Part 3 Section 3E Paragraph 2(a) of the Council's Constitution (Officer Delegation Scheme (Executive Functions)) the Director of City Development has authority to discharge any function of Executive Board in relation to the management of land (including valuation, acquisition, appropriation, disposal and any other dealings with land or any interest in land) and Asset Management.
- 4.5.5 The proposal constitutes a Key decision however this decision is not subject to 'call in'. A key decision may be Exempt from Call In if the decision taker considers that the decision is urgent (i.e. that any delay would seriously damage the Council's or the public's interests). This decision is exempt from call-in due to the occupier requiring to be under contract to occupy the building with the funding of the investment secured by April 2015.
- 4.5.6 The information contained in the Appendix to this report relates to the financial or business affairs of a particular person, and of the Council. This information is not publicly available from the statutory registers of information kept in relation to certain companies and charities. It is considered that since this information was obtained through one to one negotiations for the purchase of the land/property referred to then it is not in the public interest to disclose this information at this point in time. Also the release of such information would or would be likely to prejudice the Council's commercial interests in relation to and undermine its attempts to acquire by agreement similar properties in the locality in that owners of other similar properties would be aware about the nature and level of consideration which may prove acceptable to the Council. It is considered that whilst there may be a public interest in disclosure, much of this information will be available from the Land Registry following completion of the purchase and consequently the public interest in maintaining the exemption outweighs the public interest in disclosing this information at this point in time. 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.

4.6 Risk Management

- 4.6.1 The risks are contained within the confidential appendix.

5.0 Conclusion

- 5.1 In conclusion, this is an attractive investment proposition for the Council to acquire as not only of minimal financial risk, but also places the Council in control of an important asset in an improving area of the city.

6.0 Recommendations

6.1 Executive Board is recommended to:

- i) approve the acquisition of the investment let to the occupier identified in the confidential appendix on the terms outlined within the confidential appendix;
- ii) approve the principle of prudentially borrowing the money required to fund the investment package as set out in confidential appendix A of this report.
- iii) approve the injection of, and give authority to spend, the sums detailed in the confidential appendix into the capital programme.
- iv) note that the Director of City Development under his delegated powers will negotiate the detailed terms for the acquisition in line with the Heads of Terms outlined in the confidential appendix.

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.