

Agenda Item:  
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**Not for publication:** Appendix II is confidential/exempt under Rule 10.4(3) of the Council's Access to Information Procedure Rules. "Information relating to the financial or business affairs of any particular person (including the authority holding the information). It contains information which if disclosed to the public would, or would be likely to prejudice the commercial interest of the Council.

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**Report of The Director Of City Development**

**To Executive Board**

**Date: 11 September 2007**

**Subject: The Future Ownership and Management of the Council's Small Industrial Unit Portfolio**

**Electoral Wards Affected:**  
City Wide

**Specific Implications For:**

Equality and Diversity	<input type="checkbox"/>
Community Cohesion	<input type="checkbox"/>
Narrowing the Gap	<input checked="" type="checkbox"/>

Eligible for Call In

Not Eligible for Call In  
(Details contained in the report)

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**Executive Summary**

In September 2005 members of the Executive Board considered options for the future ownership and management of the Council's Small Industrial Unit (SIU) portfolio and recommended that officers should identify suitable industrial premises for inclusion in the portfolio and undertake a marketing exercise to establish the level of interest in the portfolio with a view to forming a partnership with the public, private or voluntary sectors.

This report informs members of Executive Board of the outcome of the marketing exercise and of progress to date.

## **1.0 Purpose of this Report**

- 1.1 The purpose of this report is to inform members of the Executive Board of the outcome of the marketing exercise that was undertaken to establish the level of interest in the Council's SIU portfolio with a view to forming a partnership with the public, private or voluntary sectors, for the future ownership and management of the portfolio. The report also provides members with an update on progress.

## **2.0 Background Information**

- 2.1 The Council's SIU portfolio comprises 14 estates with a total of 250 individual units and these typically range in size from 27.8 m<sup>2</sup> (300 sq ft) to 139.4 m<sup>2</sup> (1,500 sq ft). The industrial estates are predominately situated in inner city locations, within three miles of the City Centre. The portfolio was originally established to assist businesses displaced by development activity in the 1960's. Later in the 1970's / early 1980's, units were constructed in disadvantaged areas with high unemployment for the purpose of encouraging the unemployed to develop their own businesses. Much of the portfolio was constructed between 1978 and 1983 with financial assistance provided by the Government's Urban Programme and the European Union. Many of the estates are now becoming old and dated.
- 2.2 Following a review of the portfolio in 2002, it was recognised that the portfolio was performing adequately in financial terms, however, it was identified that the economic development return needed to be improved by updating and diversifying the stock to meet the changing needs of Leeds' economy. At the same time it was also recognised that the capital investment required to secure the long term future of the portfolio could not be funded from the Council's own resources and would therefore have to be provided from an external/alternative source.
- 2.3 In September 2005, the Council's Executive Board authorised officers to undertake a marketing exercise in order to determine the interest in the portfolio with a view to forming a partnership for the future ownership and management of the portfolio. In addition to 12 industrial estates, the Executive Board also instructed officers to consider the inclusion of five other industrial premises in the portfolio. (see Appendix I/Ia). The aims and objectives of any future partnership are summarised below:
- to make the best use of the portfolio by encouraging tenants to expand and relocate at an appropriate time for their development
  - attract new investment to modernise the existing stock
  - create a more flexible portfolio which meets modern business needs
  - create more small workspace units let on flexible terms
  - work in partnership with other agencies to integrate the provision of workspace, including industrial and incubation centres, with business support
  - maximise redevelopment opportunities within the portfolio and achieve a financial return on capital invested
  - maintain a rental income to the Council from the portfolio
  - maximise the financial return
- 2.4 A project board was established in early 2006 to oversee the marketing exercise and to investigate, evaluate and progress potential partnership options, prior to making a recommendation and seeking approval from the Executive Board.
- 2.5 Officers prepared a brief and pre qualification questionnaire (PQQ) for the marketing exercise. The PQQ set out the criteria that submissions would be evaluated against and these are set out in Table 1:

**Table 1**

<b>Weightings</b>	<b>Criteria</b>
Pass/fail	<ul style="list-style-type: none"> <li>○ Financial standing</li> </ul>
25%	<ul style="list-style-type: none"> <li>○ Experience and track record</li> </ul>
50%	<ul style="list-style-type: none"> <li>○ Proposals/innovative approach</li> <li>○ Proposed management structure</li> <li>○ Proposals for the delivery of the estate management service</li> <li>○ Economic development proposals(including tenant selection)</li> <li>○ Approach to commercial aspects of the proposal including investment and financial return</li> </ul>
25%	<ul style="list-style-type: none"> <li>○ Proposals for the partnership arrangement</li> </ul>

2.6 In August 2006, the Corporate Procurement Unit (CPU) placed adverts in the Official Journal of the European Union and appropriate national publications, inviting expressions of interest for the future ownership and management of the SIU portfolio. In addition interested parties were also invited to a breakfast briefing session which was held on 11 October 2006, this provided an opportunity to answer questions and provide attendees with more detailed information. Completed PQQ's had to be returned by 15 November 2006 and eight submissions were received. It must be noted that none of the expressions of interest submitted contained detailed financial information, as only outline proposals were requested. The submissions were evaluated in accordance with the agreed criteria (detailed in Table 1 above) and six organisations were invited for interview on 27 November 2006. Following the interviews three organisations were short-listed and these are listed in the confidential appendix II attached with this report. This appendix is confidential under 10.4(3) of the Council's Access to Information Procedure Rules, as it is considered that the public interest in making the information exempt outweighs the public interest in disclosing the identities of the three short-listed parties. Disclosure of the short-listed parties could be prejudicial to the competitive process resulting in a reduced income to the Council.

### **3.0 Current Position**

3.1 The next stage of the project will be to issue a second stage brief to the short-listed organisations. The brief will contain in more detail the Council's aims and objectives, as previously agreed by Executive Board in September 2005 and summarised in paragraph 2.3 above. In addition the brief will also set out the key stages of the bidding process and these are listed below:

- Submission of clarification questions
- Submission of proposals
- Initial evaluation
- Interviews
- Final evaluation

The criteria on which the bids will be evaluated is set out in Table 2.

**Table 2**

<b>Criteria</b>	<b>Weightings</b>
<ul style="list-style-type: none"> <li>○ Demonstrate the ability to pay a minimum net annual income to the Council of at least £250,000 which will increase annually in line with inflation</li> </ul>	Pass/fail
<ul style="list-style-type: none"> <li>○ Revenue offer</li> </ul>	35%
<ul style="list-style-type: none"> <li>○ Capital for investment purposes</li> </ul>	25%
<ul style="list-style-type: none"> <li>○ Future Capital Value</li> </ul>	10%
<ul style="list-style-type: none"> <li>○ Economic development proposals</li> </ul>	30%

Following the final evaluation, officers will report back to Executive Board with a recommendation for a preferred and reserve bidder.

- 3.2 Officers have now identified those properties considered suitable for inclusion in the SIU portfolio and the revised schedule is detailed in Appendix III. This schedule contains existing small industrial units managed by the Council together with other industrial sites that will provide the opportunity for additional new build small workspace units or provide the opportunity to dispose of certain sites to enhance the provision of others. The Council will reserve the right to remove or add properties to this list should this be felt to enhance the quality of the partnership to be sought.

### 3.3 Timetable

<b>Task</b>	<b>Start Date</b>	<b>Completion Date</b>
Release Stage 2 Brief	<i>24 September 2007</i>	-
Pre Clarification Questions submitted	<i>w/c 22 October 2007</i>	<i>5 November 2007</i>
Workshop for prospective partners	<i>w/c 12 November 2007</i>	
Submission of proposals	<i>3 December 2007</i>	
Initial Evaluation	<i>w/c 3 December 2007</i>	<i>10 December</i>
Interviews	<i>12 December</i>	
Final Evaluation - recommendation of a preferred & reserve bidder	<i>13 December 2007</i>	<i>W/C 21 January 2008</i>
Report to the Council's Executive Board for approval of the preferred and reserve bidder	<i>12 March 2008</i>	
Progress to completion of the partnership agreement	<i>August 2008</i>	

## 4.0 Implications for Council Policy and Governance

### Compliance with Council Policies

- 4.1 The retention of the SIU portfolio and the formation of a partnership to secure its long term future is relevant to the Council's objectives of "Competing in a Global Economy" and "Narrowing the Gap" by seeking to improve access to employment, reducing unemployment and supporting and encouraging new businesses to develop.
- 4.2 The Core Value of the Council's commitment to working in partnership with other public, private and voluntary organisations to tackle major issues to improve Leeds is also relevant.

## **Council Constitution**

4.3 This report is not exempt from the Call-In of Key and / or Major Decisions.

## **5.0 Legal and Resource Implications**

5.1 As the project progresses towards the finalisation of a partnership it is recognised that more specialised legal and financial advice is likely to be required and this will have resource implications. However, it is considered that funding does not need to be provided at this stage.

## **Risk Assessments**

5.2 The key risks that have been identified at this stage of the project are:

- Failure to obtain any proposals or to obtain proposals that do not meet the Council's aims and objectives for the future ownership and management of the Council's SIU portfolio. This risk is reduced by ensuring that the second stage brief clearly sets out the Council's aims, objectives and requirements from any partnership and that sufficient information is made available to bidders. It must be appreciated that the Council is not yet legally committed to accept any particular proposal and should none of the short-listed bidders put forward acceptable proposals then officers will report back to Executive Board with appropriate recommendation.
- The condition of the SIU portfolio continues to deteriorate. Officers will seek a timely conclusion of the procurement exercise so as to enable the new partner to bring forward the necessary capital resources for investment.

## **6.0 Recommendations**

6.1 The Executive Board is requested to:

- a) Note that officers will report back to Executive Board with a recommendation for a preferred and reserve bidder.
- b) Note the outcome of the marketing exercise and approve the three short-listed organisations detailed in confidential Appendix II.
- c) Agree the list of properties for inclusion in the portfolio as detailed in Appendix III and also that the Council will reserve the right to remove or add further properties to the list where appropriate