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Report of Director of City Development

Report to Executive Board

Date: 27th June 2018

Subject: Workspace for creative businesses in Leeds City Centre.

Are specific electoral wards affected?	⊠ Yes	□No
If yes, name(s) of ward(s): Holbeck and Beeston; Hunslet and Riverside; Little London and Woodhouse		
Are there implications for equality and diversity and cohesion and integration?	⊠ Yes	□No
Is the decision eligible for call-in?	⊠ Yes	☐ No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: Appendix number:	☐ Yes	⊠ No

Summary of main issues

- 1. The Leeds Inclusive Growth Strategy, considered at today's meeting, sets out our ambition for Leeds. It is a route map of how best to deliver growth that is inclusive, draws on the talents of, and benefits all of our citizens and communities. The strategy includes 12 'big ideas' of which two include 1) doubling the size of the city centre, and 2) backing innovators and entrepreneurs in business and social enterprises. The strategy sets a priority for the city to support firms of all sizes in all sectors to improve their products, processes and capabilities.
- 2. Leeds is experiencing strong economic growth. In Leeds, creative industries employ nearly 30,000 people across nearly 3,500 businesses and, according to Tech Nation, the digital economy is growing 50% faster than the wider economy. The sector also is a critical factor in the city retaining and attracting graduates within the city and the agglomeration of creative businesses is also driving innovate collaboration across networks and wider industries.
- 3. In particular this includes growth in small start-ups across the creative and digital sector in the city centre. Key to this growth has been having a supply of flexible and accessible workspaces that are well located and help small businesses to thrive.
- 4. In Leeds, this success is exemplified in a number of locations. This includes the Tech Hub at Platform, brought forward by Bruntwood on the back of financial support from the Council, through the grants tech hub funding initiative. Opened in 2017, this accommodation is nearing full occupation.

- 5. Likewise, Duke Studios at Sheaf Street in South Bank is also a key provider of workspace and has also secured Tech Hub funding. A thriving hub for creative businesses, Duke Studios is also a growing events destination. In addition, in the wider creative sector, East Street Arts, which has also secured Tech Hub funding, has acquired Convention House to develop a new enterprising test space for creativity to include studios, labs, co-production workspace, tech facilities and residency spaces.
- There are many other examples which can be highlighted in supporting the growth of this sector across the city centre. This includes a spaces at Mabgate, Dock Street, Tower Works, Marshall's Mill, Round Foundry, Leeds Dock, Aire Street, Calls Wharf and Calls Landing amongst others.
- 7. Building on this growth, this report sets out proposals to further expand the sector to ensure that the city centre continues to have a sustainable supply of space to facilitate inclusive economic growth.
- 8. Through the comprehensive discussions and consultations on South Bank and on city centre growth, an emerging theme of feedback was concern that start up and SME businesses many of which are within the creative and digital sector may be priced out of the city centre. In particular, there was concern that small creative businesses currently thriving at locations on short term agreements or temporary arrangements in the city centre may be displaced by uses with a higher commercial return potential for landowners as the city grows. Such feedback indicated a need to ensure the city centre supported a diversity of users, with accessible and affordable spaces for new and SME businesses.
- 9. The Inclusive Growth Strategy recognises this issue and sets out that 'we will also support spaces and initiatives that incubate small creative businesses, recognising that these firms are getting priced out of parts of the city centre, which may require the development of new spaces to be supported, and the Council to consider how best to use its assets and investments to support small business growth.'
- 10. This report makes recommendations in this context and proposes that, to deliver longer term solutions, the Council works with key stakeholders to develop an action plan that seeks to ensure that the growth of the city centre continues to have accessible and affordable space for small new creative businesses. This work will look at specific locations, such as South Bank and Mabgate, in understanding the key issues and potential solutions. It is proposed that the outcomes of the joint working with stakeholders is reported to Executive Board and for such work to consider the creation of a small grants programme as part of the consideration of next year's Capital Programme.
- 11.It is also proposed that, in the short term the Council uses its assets to increase workspace in the city centre. It is proposed that the Council does so at:
 - i) The Engine House: The Grade II listed and vacant, Engine House (see appendix 1) located at the Tower Works regeneration site at the South Bank. The Council recently terminated the procurement competition without award of contract to the previously selected preferred developer Carillion (Maple Oak) Ltd. The Council retains a £1.1m dowry received from Homes England to contribute to the redevelopment of the property. Investment here can stimulate further confidence in the South Bank proposals.
 - ii) Aire Street Workshops: (see appendix 1) Currently in use as managed workspace for a range of successful businesses, the property is in need of investment and refurbishment. Its potential is not being maximised: lettable areas are below market average, and some units and shared circulation

spaces need to be updated to reflect current standards and expectations of new businesses. There is a chance to build upon the positive elements of the current operation here whilst ensuring the long term sustainability of the property.

- 12. Should Executive Board agree to proposals to redevelop/ refurbish the properties as workspace, there will be two workspaces within a five minute walk of the train station. It is proposed that the Council will seek expressions of interest for the redevelopment/ refurbishment of the Engine House and Aire Street Workshops as managed workspace. It is proposed that bidders will have the option to redevelop the properties as a package or separately. Proposals could either be developer led, whereby a single party develops and operates the facilities, or alternatively, the Council will also invite proposals whereby the Council develops the buildings to shell fit out and invites an operator to operate the facilities.
- 13. Once Expressions of Interest are received, it is proposed that a further report is brought back to Executive Board with recommendations on how to proceed, including funding and financing plans. Dialogue will also continue with existing tenants of Aire Street Workshops to consider potential impacts and mitigation in further detail.
- 14. The proposals in this paper will help to achieve Best Council Plan objectives of 'Investment, helping everyone benefit from the economy to their full potential' and 'Supporting businesses and residents to improve skills, helping people into work and into better jobs'.

Recommendations

Executive Board is asked to:

- Reaffirm the Council's commitment to a city centre that includes a diversity of uses and has affordable and accessible spaces for new, creative businesses.
- ii) Agree that the Director of City Development invites Expressions of Interest for the redevelopment/ refurbishment of Aire Street Workshops and the Engine House as per the principles contained at paragraph 3.21
- iii) Request that that the Director of City Development reports back with recommendations on the preferred way forward for the redevelopment of Aire Street Workshops and the Engine House upon the conclusion of the Expression of Interest stage.
- iv) Request that the Director of City Development works with stakeholders to develop longer term plans to support the delivery of workspaces for creative and start-up businesses in the city centre, which can inform the creation of a small grants programme as part of the consideration of next year's capital programme.
- v) Note that the Chief Asset Management and Regeneration Officer will be responsible for implementing these actions.

1. Purpose of this report

1.1 This report sets out recommendations on how the Council can support the provision of workspace for SME and creative businesses in Leeds City Centre to achieve ambitions set out in the Best Council Plan and Leeds Inclusive Growth Strategy.

2. Background information

2.1 This paper makes recommendations when considering the drivers of the Inclusive Growth Strategy and the strategic opportunities at two Council owned assets: the Engine House and Aire Street Workshops. Relevant background information on these three matters are considered in turn below.

2.2 Inclusive Growth Strategy

- 2.2.1 The Council is committed to ensuring a city centre that offers opportunities for businesses of all sizes. The Leeds Inclusive Growth Strategy 2018 2023 is also being considered by Executive Board in June, and is submitted for adoption. It provides a framework for how best to deliver growth that is inclusive and benefits all of our citizens and communities. It sets out a series of ideas and actions for growth, as well as broad themes of the Leeds economy and targeted sectors.
- 2.2.2 Leeds has a broad based economy that has enabled the city to recover strongly from the recession. Leeds has experienced strong private sector jobs growth since 2010, above the national average. It has the largest city concentration of financial and professional services and digital jobs in the UK outside London. It is a major hub for health innovation, data analytics, innovative manufacturing, and knowledge intensive jobs. The city also has the second highest productivity levels (GVA per hour worked) of the core cities. The Leeds economy performed particularly strongly in 2014-15 when it had the fastest rate of private sector jobs growth of any UK city and wages increased 6% over this period.
- 2.2.3 Building a strategy centred on inclusive growth means providing everyday jobs in everyday places. It will mean more money for public services, reduced unemployment and increased wages. Reducing inequality in our city will also boost our economic performance. The people of Leeds are at the heart of the Growth Strategy, from equipping our young people with the right skills and careers advice, to enabling in-work progression, retraining and lifelong learning in our ever changing labour market, and ensuring healthy and productive lives.
- 2.2.4 There is a need to do more on inclusive growth to ensure everyone in the city contributes to and benefits from the economy to their full potential. Some sectors may not experience high levels of growth but still provide jobs and incomes, and many have high job replacement requirements and support essential public services such as social care.
- 2.2.5 The Inclusive Growth Strategy contains an analysis of the Creative and Digital sector in Leeds. The sector employs nearly 30,000 people across nearly 3,500 businesses and according to Tech Nation the digital economy is growing 50% faster than the wider economy. Leeds is rapidly establishing itself as the digital centre of the North, with a thriving private sector, internationally important infrastructure, a significant public sector presence through NHS Digital, growing gaming and creative sub sectors, and an overall approach to growing the sector based on close

collaboration between the Council and the private sector. Leeds is a world leader in big data, home to the Open Data Institute and Data Mill North. We have a growing digital media sector, including Sky's national technology centre of expertise and our first tech unicorn (a company valued at over £1 billion) in the form of SkyBet. This is just one part of the story – and the sector has a high number of growing entry level businesses locating in the city at flexible workspaces, studios, co-working spaces and offices across the city.

- 2.2.6 Through the comprehensive discussions and consultations on South Bank and on city centre growth, an emerging theme of feedback was concern that start up and SME businesses many of which are within the creative and digital sector will be priced out of the city centre as their short term leases/ temporary arrangements come to an end. In particular, there was concern that small creative businesses currently thriving at locations in the city centre, such as at Mabgate and parts of South Bank, may be displaced by uses with a higher commercial return potential for landowners as the city grows. Such feedback indicated a need to ensure the city centre supported a diversity of users, with accessible and affordable spaces for new and SME businesses.
- 2.2.7 Indeed, across the city centre there are a number of SME creative businesses which are located at what some term 'city centre fringe' locations: locations which may have medium to longer term development and regeneration planned but where there is less 'mainstream' market interest, thus facilitating opportunities for lower rents at properties not as attractive for some larger businesses who can commit to long term leases. The concern here is that, as development and regeneration commences at such locations, it may be more viable for some landowners to secure institutional leases where there are longer term commitments on less flexible terms, in order to secure funding and financing for development.
- 2.2.8 Likewise, creative businesses often agglomerate together, and it can be challenging to find accessible, affordable buildings and spaces alongside like-minded businesses within the city centre with long term security in place.
- 2.2.9 The Inclusive Growth Strategy recognises this issue and sets out that 'we will also support spaces and initiatives that incubate small creative businesses, recognising that these firms are getting priced out of parts of the city centre, which may require the development of new spaces to be supported, and the Council to consider how best to use its assets and investments to support small business growth.'

2.3 Engine House

- 2.3.1 In 2013, Leeds City Council acquired, from Homes England (then named Homes and Communities Agency), the Grade II listed Engine House and three listed Italianate Towers. The assets are located within the Tower Works development site in the South Bank regeneration area. The Council acquired the assets for a nominal sum and Homes England made a dowry payment to the Council at the time of transfer— a grant to assist in the refurbishment and maintenance of these assets. Homes England are the ultimate freeholder of the adjoining land to these assets.
- 2.3.2 The property is within a five minute walk of Leeds Station and the Leeds Station Southern Entrance. The Engine House is a two storey property, comprising three joined sections. In total, it has potential space of 8,000 sq.ft. It has been vacant for some time and requires investment to restore and refurbish it.
- 2.3.3 On 25th February 2014, Executive Board agreed actions with regards to the future redevelopment of the Engine House. This was on the basis of a competition to

- select a developer partner to redevelop the Engine House in a procurement process, in parallel with Homes England procuring a developer partner for the wider Tower Works site.
- 2.3.4 Within the parameters approved by Executive Board, the Director of City Development approved that Carillion (Maple Oak) Ltd be selected as preferred developer in August 2015, with a number of conditions met before the Council would contract with Carillion (Maple Oak) Ltd.
- 2.3.5 Carillion (Maple Oak) Ltd secured Listed Building consent to redevelop the building. However, following the liquidation of their parent company and sole shareholder, Carillion PLC, in January 2018, the Director of City Development after consulting with the Executive Member for Regeneration, Transport and Planning terminated the procurement competition without award of a contract given, amongst other matters, the major uncertainty associated with progressing with this option. At this time, it was set out that the Director of City Development would make recommendations to Executive Board as to the future proposals for the property.
- 2.3.6 The Council retains £1.1m received by Homes England to redevelop the Engine House.

2.4 Aire Street Workshops

- 2.4.1 Also within a five minute walk of Leeds Station at the 'North Bank' of the City Centre is another Council owned property: Aire Street Workshops at 32-24 Aire Street.
- 2.4.2 Over the last 30 years the property has been used to offer workspace to SME businesses. The Council currently leases the building to LCVS an independent, not-for-profit company set up by the Council and then Department for Environment to provide small low cost office and manufacturing units. LCVS then offer licences to a number of tenants. There are currently around 30 businesses, employing approximately 150 people at Aire Street Workshops. The type of creative SME at the property is diverse, with multiple industries located within the space, including designers and makers of products.
- 2.4.3 The rents charged are amongst the cheapest of any city centre space of this type and are substantially below rates charged to other entry level city centre spaces. The lease with LCVS is due to expire in January 2019, following an agreement to an extension.
- 2.4.4 Some of the units have been modernised by existing tenants, but some units are in need of investment and some key infrastructure within the property is dated and requires investments in a number of areas. In addition the property only has 62.7% lettable space substantially below average for this this type of entry level space. Opportunities to blend leisure/ bar/ restaurant uses within the offer are not exploited. The property was on the Council's disposal list within its capital programme.
- 2.4.5 The current tenants of LCVS made a deputation to Council in Autumn 2017 detailing their concern across three areas 1) the value of small business to the local economy, 2) the multiple industries located within Aire Street Workshops, community contained within them and lack of alternative spaces within the city centre for this type of operation and 3) the role and ideas of LCVS's tenants to improve the productivity of Aire Street workshops.
- 2.4.6 The Council has undertaken some high level feasibility work to consider the options to enhance the operation and efficiency of the building, whilst also examining estimated costs to refurbish the property to extend its life as workspace and deliver

more space for businesses, to consider the Council's preferred solutions at the property. The property was removed from the Council's disposal list as part of the capital receipts list approved in February 2018. Accordingly, the Council is now at a stage of considering the future of Aire Street Workshops.

3. Main issues

3.1 How to address the challenge

- 3.1.1 For the city to achieve inclusive growth and to maximise economic growth opportunities, it is an important priority for there to be affordable and accessible space available for SME and creative businesses across the city centre as the city centre grows and new development is delivered.
- 3.1.2 Whilst the city centre property market and rents charged are outside of the Council's direct control and driven by market demands, it is considered that the Council can play a proactive role to help gain understanding of and facilitate solutions which may address market failures and issues.
- 3.1.3 It is proposed that this can be achieved in two ways
 - 1) In the short term, the use of Council assets at the Engine House and Aire Street Workshops as sustainable workspace for new, creative businesses.
 - 2) In the longer term and building on these steps, the Council works with key stakeholders to develop an action plan of steps to secure more sustainable solutions for the sector in the city centre.

3.2 LCC Assets: Engine House and Aire Street Workshops

- 3.2.1 There is the opportunity for the Council to use its assets in support by investing in the Engine House and Aire Street Workshops to stimulate activity. In this context, it is therefore proposed that steps are taken to secure the redevelopment/ refurbishment of the properties. It is proposed that the following principles guide the future of Aire Street Workshops and the Engine House:
 - a) Investment takes place in both the Engine House and Aire Street Workshops to secure their future as workspace for small creative businesses, with opportunity for some ancillary A3 leisure use within them.
 - b) The Council will seek expressions of interest for the redevelopment/ refurbishment of the Engine House and Aire Street Workshops for this purpose. Bidders will have the option to redevelop the properties as a package or separately. Proposals could either be developer led, whereby a single party develops and operates the facilities. Alternatively, the Council will also invite proposals whereby the Council develops the buildings to shell fit out and invites an operator to operate the facilities.
 - c) The operation and business plan should be sustainable, with affordable spaces for new creative businesses but proposals should generate market rent for this type of operation (e.g. workspace on flexible terms for new creative businesses).
 - d) The Council will seek to achieve financial certainty and mitigate its risks where possible.
 - e) Once Expressions of Interest are received, it is proposed that a further report is brought back to Executive Board with recommendations on how to proceed, including funding and financing proposals.

- 3.2.2 At this stage, there is high level feasibility undertaken for Aire Street Workshops and at the Engine House considering works which may be required. It is considered that, based on the information available and high level of design work to date, that the combined capital costs of refurbishing the properties to shell fit out will require c£4.2m of investment although a significant amount of further design work is required to achieve cost certainty.. Should the Council ultimately seek to develop the property, it would seek to capitalise rent/ income received by an operator to fund the capital costs of funding works to Aire Street Workshops and Engine House. For the Engine House, £1.1m of remaining dowry could be used to fund capital works in addition to capitalising future income.
- 3.2.3 If Executive Board is minded to agree to these principles, it is proposed that the following actions will be implemented.
 - a) In the summer, Expressions of Interest are sought, with a paper brought back to Executive Board in the autumn with recommendations on the preferred way forward.
 - b) Work will take place to consider funding opportunities for workspace, including consideration of European Structural and Investment Funds, as well as the recently announced Creative Industries Sector Deal.
 - c) It is acknowledged that, by seeking to redevelop Aire Street, there may be uncertainty for existing businesses located there, as the current tenant of the Council, LCVS, may not operate the property in the future. This, and the impacts of construction, may see a risk of some businesses potentially being decanted temporarily or permanently. Whilst there remains a number of issues that still need to be worked through, the Council wishes to minimise, where possible, any impact and disruption for businesses located there and will seek to work with the businesses to better understand and consider appropriate support to mitigate risks that they may face. Accordingly, the Council will enter into more detailed dialogue with LCVS to consider the termination event at Aire Street Workshops of the current lease, and when this may take place. In particular, the dialogue will consider the transitional arrangements for existing users from the current lease to new arrangements and also as refurbishment takes place. Dialogue will also commence with existing users of Aire Street Workshops to understand key issues.

3.3 Longer Term: Work with Stakeholders

- 3.3.1 Building on these steps, it is proposed that there is an opportunity to better understand and develop actions across the city to identify property solutions for small creative businesses and start-ups in Leeds City Centre.
- 3.3.2 Accordingly, it is proposed that the Council, with businesses, landowners and property specialists, co-produce an action plan a plan that will aim to take steps that ensures a sustainable supply of accessible and affordable space for businesses in the growing Leeds City Centre.
- 3.3.3 In developing this, it is proposed that there will be a 'call for evidence' with terms of this to be agreed with stakeholders which will aim to understand the specific challenges and:
 - a) Develop greater intelligence of the **numbers and types** of creative businesses located in Leeds City Centre.

- b) Develop an understanding of the likely **space and property demands** of the sector over the next 5 to 10 years gaining a detailed understanding of the pipeline for new start-ups and growth of existing businesses.
- c) Gain evidence as to the **barriers** businesses are facing in terms of property solutions – what concerns does the sector have, where can Leeds perform better?
- d) Understand the perspective of **landowners and developers** what barriers they face in providing incubation space and spaces for new businesses.
- e) Consider the challenges and opportunities at **specific locations** where creative businesses are located. For example at Mabgate, and how the city can ensure that development in this location, and other locations, is not to the detriment of small, creative and independent businesses.
- f) Explore the merits and scope of a small grants programme as a consideration of next year's capital programme, and where funding may help to facilitate and deliver activity that aligns to the city's inclusive growth priorities.
- 3.3.4 This will sit alongside work to explore the rental levels paid by the sector, the Leeds office market and city centre development pipeline more generally to analyse where there are risks and opportunities for the new start-up businesses. As an outcome, it is proposed that there may be some specific actions for the Council when considering its investment portfolio and external funding sources for this type of development.
- 3.3.5 It is proposed that a further report is presented to Executive Board at a future date along with recommendations for its consideration on these points.

4. Corporate considerations

4.1 Consultation and engagement

- 4.1.1 In coming to these recommendations, there has been consultation and engagement with the Executive Member for Regeneration, Transport and Planning and Leader of the Council.
- 4.1.2 The Council has consulted with Homes England given they own the freehold of the site surrounding the Engine House.
- 4.1.3 The Council has met with the representatives of businesses located at Aire Street Workshops. The representatives have indicated that they are supportive of the property not being disposed of, and it remaining as workspace for small businesses. The businesses have flagged up the need for clarity and certainty on their licences. The businesses also have ideas for the future design and operation of the property that they would like to be considered. There will be further dialogue to work through issues with businesses as per the principles contained at 3.23 of this report as well as dialogue with LCVS (the council's tenant and the landlord of businesses within Aire Street Workshop).

4.2 Equality and diversity / cohesion and integration

4.2.1 An equality and diversity/ cohesion and integration screening has been produced. It is proposed that a full equality and diversity/ cohesion and integration assessment takes place at the point of the detailed designs being completed.

4.2.2 The screening assessment has indicated that there may be some potential impacts with the recommendations. For example, at Aire Street Workshops, a number of businesses are led by females, and many of the start-up businesses in the city centre, whilst works to the Engine House and Aire Street can help to ensure that the buildings are accessible for disabled visitors and businesses.

4.3 Council policies and best council plan

4.3.1 The proposals in this paper will help to achieve Best Council Plan objectives of 'Investment, helping everyone benefit from the economy to their full potential' and 'Supporting businesses and residents to improve skills, helping people into work and into better jobs'. As the paper highlights, the proposals respond to the strategic context set out in the Inclusive Growth Strategy.

4.4 Resources and value for money

4.4.1 Should Executive Board agree to the recommendations of this paper, Expressions of Interest, with initial financial proposals will be sought from developers and operators. Upon completion of this exercise, there will be further certainty on the business case and likely financial implications. The Council retains £1.1m to secure the redevelopment of the Engine House.

4.5 Legal implications, access to information, and call-in

- 4.5.1 The recommendations contained in this paper are subject to call in.
- 4.5.2 As part of the work, it is proposed that appropriate legal structures are put into place e.g a leasehold with a tenant secured through the Council's standard procedures for its assets. The Council holds the Engine House for planning purposes under the Town and Country Planning Act 1990. This means that the Council's obligation in developing the Engine House is to secure 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.

4.6 Risk management

- 4.6.1 There is a risk that, without a proactive analysis and intervention, small creative and new businesses could be priced out of parts of the city centre or there may not be sustainable spaces for businesses across the city centre. Not developing proposals to deal with these challenges may therefore harm economic growth.
- 4.6.2 There are risks that, once an operator is on board, that the scheme may not be viable and there may be a funding gap when considering the prudential borrowing case. This risk will be managed and further clarity will be sought through the Expression of Interest.
- 4.6.3 There is a risk at the Engine House of works being disrupted by works to adjacent sites. The Council retains legal rights and access rights to redevelop the Engine House and will maintain a proactive dialogue with surrounding landowners to mitigate these risks.

5. Conclusions

5.1 The Council is committed to ensuring a city centre that offers opportunities for businesses of all sizes. As highlighted through the Inclusive Growth Strategy, there are risks that small, creative start-up businesses are being priced out of parts of the city centre. Accordingly, it is considered that the Council takes steps to address this by facilitating the co-production of an action plan to address this challenge and also by using its assets at Aire Street Workshops and Engine House to provide space for businesses.

6. Recommendations

6.1 Executive Board is asked to:

- Reaffirm the Council's commitment to a city centre that includes a diversity of uses and has affordable and accessible spaces for new, creative businesses.
- ii) Agree that the Director of City Development invites Expressions of Interest for the redevelopment/ refurbishment of Aire Street Workshops and the Engine House as per the principles contained at paragraph 3.21.
- iii) Request that that the Director of City Development reports back with recommendations on the preferred way forward for the redevelopment of Aire Street Workshops and the Engine House upon the conclusion of the Expression of Interest stage.
- iv) Request that the Director of City Development works with stakeholders to develop longer term plans to support the delivery of workspaces for creative and start-up businesses in the city centre, which can inform the creation of a small grants programme as part of the consideration of next year's capital programme.
- v) Note that the Chief Asset Management and Regeneration Officer will be responsible for implementing these actions.

7. Background documents¹

7.1 None.

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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.