Leeds
CITY COUNCIL

Agenda:
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APPENDICES E, F AND G OF THIS REPORT ARE EXEMPT/CONFIDENTIAL UNDER ACCESS TO INFORMATION PROCEDURE RULES 10.4 (3).
A FURTHER CONFIDENTIAL APPENDIX WILL ALSO BE CIRCULATED AT THE MEETING.

Report of the Director of City Development

Executive Board

Date: 11 June 2008

Subject: The Future Ownership and Management of the Council's Small Industrial Unit Portfolio, St Ann's Mills/Abbey Mills Kirkstall, and the Investment and Agricultural Property Portfolios

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Electoral Wards Affected:	Specific Implications For:
All Wards	Equality and Diversity ☐
	Community Cohesion ☐
☐ Ward Members consulted (referred to in report)	Narrowing the Gap ☐

Eligible for Call In ✓

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

EXECUTIVE SUMMARY

Over the last 3 years the Council has been reviewing the ownership and management options for its Small Industrial Unit (SIU) portfolio. The Council owns 12 estates with some 250 individual units and these are in various states of repair. The portfolio generates a net income of around £600k per annum, which is an important element of the Council's revenue budget. However, this income stream, and the regeneration/employment benefits derived from the portfolio have been under threat due to the Council's inability to fund necessary improvement works to the properties. At its September 2005 meeting Executive Board confirmed that the SIU portfolio would not be given priority in terms of the allocation of Capital Programme resources and instructed officers to pursue partnership type options to generate the necessary capital funds to bring the portfolio back to a fit and proper state of repair.

This report updates Members on three separate but related matters:-

(i) the outcome of the SIU partnering exercise
(ii) the outcome of the St Ann's Mills/Abbey Mills partnering/marketing exercise
(iii) the current position regarding capital receipts and the funding of the Capital Programme.

It informs Members that the outcome of both the marketing of the SIU portfolio and the separate marketing of St Ann's Mills/Abbey Mills have produced disappointing results. There are a number of reasons for this but central to the matter would appear to be that the Council's need to maintain its net revenue income stream from these properties and the requirement for the partner to provide capital for upgrade, combined with the desire for the Council to have significant influence over policy relating to and management of the portfolio, has proved to be incompatible with the aspirations of potential partners.

The report recommends that the Council needs to review its position on the provision of Council run SIUs and determine what priority these have with regard to its core business and statutory functions. The report provides supporting information for such a review and recommends that, in the context of Capital Programme pressures, selective SIU sites which generate a poor financial return could be sold and the Council could rely upon the commercial sector to meet the need for SIUs (which to some extent it already does). The report also suggests that the Council should consider rationalising its investment property and agricultural property holdings as a part of this review process.

1.0 PURPOSE OF THE REPORT

1.1 The purpose of the report is to update Members on the outcome of the partnering/marketing exercises for the SIU portfolio and for St Ann's Mills/Abbey Mills Kirkstall. The report sets these outcomes in the context of the current Capital Programme pressures.

1.2 The report falls into three separate but related parts:-

(i) the outcome of the SIU partnering exercise
(ii) the outcome of the St Ann's Mills/Abbey Mills partnering/marketing exercise
(iii) the current position regarding capital receipts and the funding of the Capital Programme.

2.0 THE OUTCOME OF THE SIU PARTNERING EXERCISE

2.1 Background

2.1.1 The Council's SIU portfolio comprises 12 estates (see Appendix A) with a total of approximately 250 units. Typically units range in size from 27.8m² (300 sq ft) to 139.4m² (1,500 sq ft). Most of the estates are situated in inner city locations, within three miles of the City Centre and were originally established to assist businesses displaced by development in the 1960's. Later in the 1970's/early 1980's units were built to encourage the unemployed to start their own businesses. Much of the portfolio was constructed between 1978 and 1983 with assistance provided by the Government's Urban Programme and by the European Union. The private sector is now also a major provider of SIUs but, it has been argued, on less flexible terms than local authorities.

2.1.2 Following a review of the portfolio in 2002, it was recognised that the portfolio was performing well in terms of financial return, but the economic development return needed to be improved by updating and diversifying the stock to meet the changing needs of the Leeds economy. At the same time it was also recognised that the capital investment to achieve this could not be funded from the Council's own resources and would therefore have to be provided from external/alternative sources.

2.1.3 In September 2005, 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. This was because, in the context of the then Capital Programme pressures, Executive Board was unwilling to prioritise spending on the SIU portfolio above spending on core services. Executive Board also instructed officers to consider the inclusion of a number of other industrial properties in the portfolio (see Appendix B) The aims and objectives of any future partnership are summarised below:-

- make best use of the portfolio by encouraging tenants to expand and relocate at an appropriate time for their development
- attract new investment to modernise 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

2.1.4 In early 2006 a Project Board was established to oversee the partnering/marketing exercise and in August 2007 the outcome of the exercise was reported to Executive Board and Members approved the three shortlisted parties and the list of properties to be included in the portfolio for the purpose of inviting bids from those short-listed parties. The list of properties included in the bidding exercise is listed in Appendix C. In addition, as some estates were recognised as being of strategic regeneration importance, the Council also reserved the right to remove or add industrial premises to the list as it considered appropriate.

2.1.5 In November 2007, a second stage brief was issued by the Council's Corporate Procurement Unit (CPU) to the three short-listed parties (details in confidential Appendix G). The brief set out the requirements of the Council, and the criteria and weighting that bids would be assessed upon, together with the timetable. The assessment criteria and weighting are contained within Table 1 below. The key requirements in the brief were in line with the aims and objectives as detailed in paragraph 2.1.3 above. The proposed legal structure was based upon the Council entering into a partnership agreement with the successful bidder and granting a long leasehold interest of the portfolio. In order to safeguard the Council's budgetary commitments, there was also a requirement that the Council should continue to receive the existing net annual rental income (£600,000). It was proposed that the Council's net rental income would increase each year in line with the Retail Price Index. In addition bidders were asked to provide information to demonstrate how they intended to meet the expected criteria and were therefore asked to include information such as outline business and capital expenditure plans in support of their submission. The closing date for bids was 12 noon, 30 January 2008.

Table 1

Criteria		Weighting
Economic Development Proposals		
-	Demonstrate policies/procedures for prioritising lettings to new/small businesses	
-	Strategy for providing space for existing tenants to expand	30%
-	Evidence how tenants will be encouraged to expand and any meetings/advice/support offered to tenants to assist this process	
Investment Proposals		
-	The quality of your capital expenditure plan and the level of capital investment proposed	35%
-	The quality of your business plan	
-	The extent to which your bid fits within the proposed legal structure	
Revenue Return		
-	Ability to meet the minimum annual rental income required by the Council	25%
-	The level of profit share the Council will receive for any uplift/increase in rental value	

Future Capital Value		
-	The projected increase in capital values	10%

2.2. The Outcome of the Bid Stage

2.2.1 Following the issue of the second stage brief (16 November 2007) to the three short-listed parties, bidders were invited to submit pre-clarification questions to officers in order to address any queries they had. At this stage, officers advised bidders that with regard to such matters as the proposed legal structure, there was a willingness by the Council to consider alternative proposals, providing a compelling case to support the change could be made. Despite this, two of the bidders, A and B, decided not to proceed and their reasons for not proceeding included the perceived level of risk associated with having to pay the Council a guaranteed rental income, their ability to make sufficient profit and the Council reserving the right to add or remove sites from the portfolio. There were also some concerns raised regarding the level of control/the decision making process, as bidders again felt that if they did not have significant control over the portfolio and especially with regard to financial matters, the risk would be unacceptable to them.

2.2.2 The remaining bidder C, submitted a bid on 30 January 2008, however, the bid arrived over four hours past the 12 noon deadline and on the advice of CPU was deemed to be a non compliant bid. Furthermore, whilst the submission had very detailed economic development proposals, officers considered that the financial information was lacking, especially in respect of the outline business and capital expenditure plans. Indeed, had the bid been submitted at the correct time, officers are of the opinion that they would not have been able to recommend proceeding with bidder C.

2.3 Conclusions

2.3.1 The Council's desire to protect its financial position (in terms of guaranteed rental income and the requirement for the partner to invest capital in the portfolio) and to also retain significant control over policy on/management of the portfolio appears to have been incompatible with the aspirations of the potential private sector partners. It would appear that the Council now has three options:-

(i) do nothing. As has already been explained, without capital investment the condition of the portfolio will continue to deteriorate and the current economic and financial benefits of ownership will continue to decline. This option cannot, therefore, be recommended

(ii) to find additional capital itself to invest in the partnership. Executive Board has already determined that the SIU portfolio is not a Capital Programme priority.

or

(iii) to seek to relax its requirements in terms of controlling policy/management of the portfolio. If this option was to be pursued then it does bring into question the value of a partnership which would be based purely around a sharing of the financial benefits. Given that the private sector is already a provider of SIUs, albeit not on the same flexible terms as local authorities, the Council might arguably derive the same financial benefits from not entering into a partnership but by taking rent from the better performing estates and disposing of the under performing ones. This matter is revisited in Section 4.

3.0 THE OUTCOME OF THE ST ANN'S MILLS/ABBEY MILLS PARTNERING/MARKETING EXERCISE

3.1 Background

3.1.1 The Council owns two former mill premises in Kirkstall known as Abbey Mills and St Ann's Mills. Both are operated by Asset Management on behalf of Economic Services as small industrial units (SIUs). Both properties had been held within the Council's greater SIU portfolio, which mainly comprises purpose built industrial estates, which provide small unit accommodation for new and small businesses in Leeds. Following the departure of key tenants at both sites, Abbey and St Ann's Mills are largely vacant. Abbey Mills and St Ann's Mills differ from most other properties in the SIU portfolio in that they are old mill buildings with several floors and are not therefore purpose built SIU accommodation.

3.1.2 In December 2004, Executive Board considered a report about the condition of the Mills and their future use within the Council's SIU portfolio. As former mill buildings, neither property, in their existing condition, was considered to be ideal for their continued use as SIUs. Furthermore Abbey Mills, a Grade II listed building with a complex internal structure, was considered in both redevelopment, planning and conservation terms to be more suitable for residential use. In the context of retaining some small industrial units in Kirkstall, Executive Board instructed officers to explore the possibility of retaining and refurbishing St Ann's Mills for employment use, and funding its redevelopment from the capital receipt generated by the disposal of Abbey Mills.

3.1.3 The future of the mills was considered again by Executive Board in July 2006, at which time proposals to remodel/refurbish each of the buildings were considered in more detail, together with updated costings and valuations.

3.1.4 Inter alia, the reports outlined the findings of Asset Management surveys, identifying large items of backlog maintenance for each property, and, in view of the fact that funds would not be available from mainline capital resources, considered options for the funding/refurbishment/remodelling of the Mills.

3.1.5 At the July 2006 meeting Executive Board re-affirmed its commitment to continue to explore the previously preferred option of selling Abbey Mills and re-investing the proceeds in St Ann's Mills and the report acknowledged that the scale of investment required at St Ann's Mills would necessitate the then Development Department having to seek a private sector partner for the project.

3.1.6 In Summary therefore, Executive Board in July 2006:-

(i) re-endorsed the objectives agreed at Executive Board in 2004, that was, to retain some high quality employment units in Kirkstall, whilst seeking also to ensure that St Ann's Mills and Abbey Mills were brought back to their former glory through investment by the Council and/or the private sector, but minimising the requirement for investment by the Council.

(ii) instructed officers to await the outcome of a bid to Yorkshire Forward for capital funding for St Ann's Mills (Option A) and, should the bid be unsuccessful, that officers formally seek a private sector partner to help deliver the Council's aspirations (Option B).

(iii) agreed that should a suitable partner not be identified then St Ann's Mills be included in the Council's greater SIU portfolio for which a private sector partner was at that time being sought (Option C).
(iv) approved test marketing of Abbey Mills so as to determine its value more accurately for further consideration in the project.
(v) approved the revised planning brief for Abbey Mills
(vi) noted the service aspirations outlined by a Kirkstall Ward Member for recreation/voluntary use at St Ann's Mills and connected to the proposed Kirkstall Valley Park and that the possibility of them being delivered other than by use of the St Ann's building, be the subject of further discussion.

3.2 **Current Position**

3.2.1 In October 2006 Yorkshire Forward informed officers that the bid for capital funding in support of the redevelopment of the St Ann's Mills site (Option A) had been unsuccessful. In accordance with the July 2006 Executive Board instruction, officers therefore sought to secure a private sector partner to deliver the scheme (Option B). However, a number of key challenges faced officers, namely:-

- obtaining the necessary capital investment which had been estimated at between £3.8 million and £5.1 million in 2006, whilst at the same time keeping the Council's capital contribution to a minimum. Abbey Mills had been independently valued at £1.2 million in 2006, thus leaving a significant funding gap after applying any such capital receipt to fund works at the St Ann's site
- in order to facilitate development at St Ann's Mills, an appropriate relocation solution for the three remaining tenants was required
- to negotiate with the tenants of Abbey Mills the offer of alternative accommodation, preferably at the refurbished St Ann's Mills site

Furthermore, it became apparent that in order to offer the tenants of Abbey Mills a realistic relocation prospect, the test marketing of Abbey Mills would have to be deferred to allow time for the advancement of the redevelopment /refurbishment proposals for St Ann's Mills.

3.2.2 Discussions with the tenants of Abbey Mills, identified that one tenant had already decided to vacate the site and that all three remaining tenants were prepared to give further consideration to the possibility of relocating to St Ann's Mills. In addition, two of the tenants expressed an interest in purchasing a unit at St Ann's Mills, as they felt that owning their business premises could present a more attractive investment opportunity.

3.2.3 With regard to St Ann's Mills, negotiations with the remaining tenants had concluded with two of the three tenants confirming that they did not want to remain at St Ann's Mills in the longer term and they therefore agreed to surrender their existing tenancy/lease agreements, and enter into a form of lease whereby the Council can terminate their occupation upon the service of three months written notice. The third tenant at St Ann's Mills has a relatively minor interest, that is held by way of an annual ground tenancy, and as such, vacant possession of the site, to facilitate development, can be obtained relatively quickly.

3.2.4 Having due regard to the issues detailed above, it was considered that granting a long lease was the most appropriate means to achieve a balance between retaining sufficient control and ownership of the site, against providing the necessary security that a private sector partner would require to fund the development, ahead of any potential capital receipt from the sale of Abbey Mills. In addition, a long lease would also afford the tenants of Abbey Mills an opportunity to either occupy a unit at a market rent, on similar terms and conditions to their existing agreements, or alternatively, those tenants wishing to purchase a unit could take a greater legal interest through the granting of a sub ground lease. Under this arrangement the sub ground lease would be granted for a slightly shorter term than the head lease, the tenant would pay for the construction of their unit and only be responsible for a nominal ground rent.

3.3 **Marketing of St Ann's Mills**

3.3.1 The St Ann's Mills site was marketed in September 2007. In addition to the usual terms and conditions contained within a commercial lease, in order to facilitate the wider economic development aspirations for the site and the accommodation requirements of the tenants at Abbey Mills, the proposed development agreement and lease included the following specific obligations:-

- to construct three new build, high quality units for the displaced tenants at Abbey Mills
- in support of new and small businesses, all subsequent lettings, with the exception of the accommodation to be made available to the Abbey Mills tenants, to be limited to a term of three years or under
- the sub division of the mill building to be restricted to office units with a floor area up to a maximum of 21.5 square metres (2000 sq ft), again in support of new and small business requirements
- the Council to retain tenant nomination rights for a period of 25 years
- the use of the two smaller new build units to be restricted to Class B1 c of the Town and Country Planning Use Classes Order (industrial)
- the land to the rear of the mill building to be excluded from the lease and retained by the Council with rights of access reserved in favour of the Council

All of the above should be seen in the context of the Council's main objective to secure sufficient capital investment in the St Ann's Mills site.

Bidders were instructed to provide information in support of their offer, including such criteria as their track record of delivering similar schemes and evidence of their ability to fund the development in order to be evaluated against this. The table below sets out the evaluation criteria used:

Criteria		Weighting
-	Financial offer including financial appraisal/investment plan	70%
-	Proof of sufficient and available funds	5%
-	Proposed timetable and ability to meet the 2 year development programme	5%
Deliverability		
-	Demonstrate the ability to meet the development obligations, including the provision of three new build units for the Council's nomination rights (if required)	10%
-	Track record and previous experience of delivering successful refurbishment/development schemes	10%

During the marketing period significant interest was generated and the closing date for offers was 26 October 2007. Unfortunately, only two offers were received, which was disappointing, given the earlier level of interest shown.

A number of the parties that had expressed interest during the marketing exercise, but subsequently decided not to bid, informed officers of their reasons for not proceeding. These included concerns about the Council's requirement for nomination rights, the poor quality of some of the privately owned properties adjacent to the Council's ownership, the obligation to construct units for the displaced Abbey Mills tenants and the exclusion of the land to the rear of the mill building. It is officer's professional opinion that these factors have been reflected in the value of the bids received.

A schedule of the offers together with valuation opinion and other financial implications will be circulated at the meeting.

The information contained in the circulated paper 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 respect of certain companies and charities. It is considered that since this information was obtained through inviting of best and final offers for the property/land then it is not in the public interest to disclose this information at this point in time as this could lead to random competing bids which would undermine this method of inviting bids and affect the integrity of disposing of property/land by this process. Also it is considered that the release of such information would or would be likely to prejudice the Council's commercial interests in relation to other similar transactions in that prospective purchasers of other similar properties would have access to information about the nature and level of offers which may prove acceptable to the Council. It is considered that whilst there may be a public interest in disclosure, much of this information would be publicly available from the Land Registry should this transaction be completed 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.

3.4 **Conclusions**

3.4.1 Following the failure of the bid to Yorkshire Forward for funds for St Ann's Mills (Option A) officers were charged by Executive Board with seeking a partner for the project (Option B). The result of this exercise has, like that of the marketing of the greater SIU portfolio, been disappointing, and neither of the offers received and detailed in the circulated paper can be recommended to Members.

3.4.2 Once again, one of the key issues appears to have been the Council's desire for control/influence over the management of the units whilst also protecting its financial interests. It would appear that, especially in the current economic downturn, these two aspirations are, perhaps, not deliverable together.

3.4.3 As with the SIU portfolio therefore, the Council needs to review its priorities and options. These can be summarised as:-

(i) do nothing. This option is not recommended because both Abbey and St Ann's Mills require significant investment in order to restore them to their former glory. In addition, both sites are largely vacant and therefore face an increased risk from vandalism and arson. Abbey Mills is a Grade II listed building and is considered to be more suitable for residential conversion than the existing industrial/commercial use.

(ii) accept the highest offer for St Ann's Mills and enter into lease/partnership with the successful bidder. Although this would deliver the Council's objectives in terms of regenerating the St Ann's Mills site and fulfilling the obligations contained within the development agreement/lease, the financial offers are disappointing and officers do not believe that they reflect the value of the site.

(iii) reject the highest offer for St Ann's Mills and retain ownership of Abbey Mills and St Ann's Mills for employment use, with the Council finding the capital to refurbish both. This option is not recommended because, as identified in previous reports to Executive Board, both properties require significant capital investment which is unlikely to be forthcoming from the mainline Capital Programme, and as detailed in Option 1 above, Abbey Mills is considered more suitable for conversion to residential use.

(iv) reject the highest offer for St Ann's Mills, dispose of Abbey Mills, reinvest the capital receipt generated in the St Ann's Mills site and provide employment units and accommodation for the remaining tenants at Abbey Mills. The sale of Abbey Mills would not generate sufficient capital for the redevelopment of the St Ann's site and therefore the Council would have to make additional capital funding available at risk on the assumption that future rents would cover prudential borrowing costs. Furthermore, as a Grade II listed building, it is considered that the disposal of Abbey Mills would be a lengthy and complex process. If the redevelopment of St Ann's Mills was dependent upon the capital receipt realised from the disposal of Abbey Mills, it is likely that the delay would place the St Ann's Mills building, already vacant, at increased risk from further deterioration of the fabric and arson/vandalism. The redevelopment of Abbey Mills would also be delayed, as the tenants would not be able to vacate until the new build units at St Ann's Mills had been completed.

(v) reject the highest offer for St Ann's Mills, dispose of Abbey Mills, reinvest the capital receipt generated in the St Ann's Mills site and provide community facilities as previously requested by one Ward Member. As with option (iv) it is not believed that the sale of Abbey Mills would generate sufficient capital for the redevelopment of the St Ann's Mills site. A previous report to this Board has addressed this matter (see extracts at Appendix D) and at that time Executive Board concluded that there was no case for a conversion of the St Ann's Mills main building completely to community use. However, Members may wish to revisit this proposal.

(vi) reject the highest offer and dispose of both mills on the open market including the currently unused adjoining land at St Ann's Mills and offer the tenants of Abbey Mills appropriate assistance/support to relocate. This option would ensure the regeneration of both sites and generate a capital receipt in support of the Council's capital programme. In addition, it is also expected that best consideration would be achieved by selling the freehold interest of these sites, without the obligations as detailed in paragraph 3.3.1 above. It is anticipated that the refurbishment of both sites, particularly St Ann's Mills, would be achieved more expeditiously if this option was agreed by Members. However, this option would not necessarily achieve Members previous aspiration of retaining some accessible employment units in Kirkstall.

(vii) reject the highest offer and, as previously determined by Executive Board (option C), include St Ann's Mills in the greater SIU portfolio for which a private sector partner has been sought. Unfortunately, Members will note from Section 2 of this report that the marketing of the greater SIU portfolio has also proved disappointing and that therefore this option would not now appear to be viable.

3.4.4 Members should note that the Capital Programme already assumes that a capital receipt will be generated from the sale of Abbey Mills in the financial year 2010/11.

4.0 CAPITAL RECEIPTS AND THE FUNDING OF THE CAPITAL PROGRAMME

4.1 The 2008-12 Capital Programme approved by Executive Board on 8 February 2008 showed a £48.2m overprogramming position on an overall General Fund Programme for the four years of £989.3m. The Director of Resources considered this level of overprogramming was manageable given some likely programme slippage and by the prudent management of contractual commitments for new schemes.

4.2 Over the last 8 years, if major capital receipts such as Sharp Lane Middleton (£60m) and Leeds Bradford International Airport (£51m) are removed from the capital receipts analysis, the Council has generated an average of £20m per annum from disposals to support delivery of its key Capital Programme priorities. With the current downturn in the property market, and the pressure for the Council to enter into public consultation regarding Community Asset Transfer of its surplus property, this annual £20m target will prove more difficult to meet. At the same time, due to Executive Board's aspirations of delivering a £989.3m Capital Programme over the next four years the Council has concluded that the target for capital receipts in 2008/09 needs to be £30m (ie 50% greater than the trend over the last 8 years). The only way in which this target can be met is for the Council to examine its property investment portfolio to identify those properties which are providing relatively low rental returns compared with their capital values and to seek to dispose of these. This is an exercise which has been ongoing over the last few years but would need to be given greater priority if Members determine that the funding of the Capital Programme, as published, must be achieved.

4.3 The Property Investment Portfolio falls into 3 categories:-

(i) the Small Industrial Unit Portolio
(ii) the Agricultural Portfolio
(iii) the Miscellaneous Investment Properties

Officers have examined these properties and have identified a number of them which meet the criteria of relatively low rental income when compared to capital value. The details are given in Appendix E and can be summarised as:-

	Existing Use £m	**Redevelopment Value £m**
SIU portfolio	4.170	6.015
Agricultural portfolio	0.450	0.450
Misc Investment properties	1.080	1.080
Total	5.700	7.545

4.4 Members will note that even the higher redevelopment valuation of £7.545m does not provide the extra £10m (over and above the annual average of £20m) currently required to fund the Capital Programme.

4.5 There are no policy issues associated with the disposal of the selected miscellaneous investment properties. Similarly, there are no policy issues if the Council disposes of farm buildings but retains the associated farm land to provide extra safeguards on green belt issues. However, the Council is faced with a difficult decision regarding priorities in the case of the SIU portfolio. This is now discussed in some detail.

4.6 The portfolio of small industrial units provides a valuable contribution to small businesses as there is a general lack of small units in the city which are essential in providing businesses with start up opportunities. The Council provides a business support function assisting new businesses to set up and sign posting tenants to other economic development agencies.

4.7 Retention/part retention of the SIU portfolio would continue to provide an important business opportunity for the city and revenue for the Council. There is a lack of small units in the city as a whole, the City Council being one of the main providers of start up/small unit space. However, the City Council has not invested sufficiently in the maintenance of these units and it was considered that the formation of a partnership would have provided the necessary capital investment. As the exercise to procure a private sector partner was unsuccessful, any capital investment would fall to the Council, but the Council would continue to receive a substantial rental income. The retention of the Industrial portfolio links to the Strategic Outcomes of providing employment and business space in the city. The provision of industrial units does not necessarily have to be by the Council, although if retained under the Council's ownership it could control the portfolio.

4.8 The Council could decide to sell part of the portfolio and the various options for splitting up and selling parts are detailed in confidential Appendix E.

4.9 Disposal would produce a substantial capital receipt for the Council, although it would not make sense to sell off parts of the small industrial portfolio that either have future development potential or create additional value by being combined with adjacent Council sites.

4.10 The investment market has deteriorated over the last few months which can be seen in respect of the valuations originally undertaken in December 2007 and those undertaken in April 2008 (see confidential Appendix F). Also in terms of marketing these interests it is not necessarily considered to be the best time, but, in support of marketing them now, there are few investment opportunities in Leeds of this nature.

4.11 Appendices E and F are designated as confidential under Rule 10.4.3 of the Access to Information procedures in that the release of such information would undermine future lettings on these estates and therefore prejudice the Council's commercial interests.

4.12 As can be seen from the Appendix, some of the sites do have longer term redevelopment potential, particularly Domestic Street, which comprises two multi-storey industrial blocks plus a number of single storey industrial units with approximately 60 tenants. The two estates at Jack Lane which are on the city rim could fall within wider development/regeneration proposals for these areas. Also it would be better to dispose of the industrial units at Limewood Approach at the same time as the adjacent Print Unit should this become vacant at a later date, (consideration is currently being given to the potential relocation of the Print Unit).

4.13 Obviously the disposal of any of these estates would be sensitive in respect of the future occupation by the tenants and the impact this might have on their businesses. In addition Members may have concerns in respect of the sale of industrial units and the potential for new owners to close/redevelop estates for other uses although private sector operation of industrial estates is now common place. Tenants were previously advised that one of the reasons for seeking a partner was to ensure the long term future of the portfolio so tenants would need to be advised if the Council's intentions were to change.

4.14 From an economic development perspective the Council would still wish to see a good stock of small units in the city with flexible letting terms to cater for small and start up business. Of the voids within the Council's SIU portfolio some are within primarily regeneration areas and, where the LEGI programme is targeted, such units could therefore provide accommodation for businesses supported by the LEGI programme.

4.15 In order to assess the options to market the portfolio it would be necessary to seek external advice on the best way to dispose – either as individual estates or as a package of portfolios. Due to the current credit crunch there may be more interest from investors acquiring individual estates rather than packaging a number of estates together into a portfolio. If a decision is made to sell some of the industrial units then one option would be to dispose of them on a phased basis. This would limit the numbers of estates put on the market at any one time and allow the Council to review the prevailing market conditions to ensure it was obtaining best consideration. Due to the amount of work undertaken in preparing the marketing of the portfolio to seek a partner it is considered that it would not take long to put individual estates on the market. There are a number of companies that hold portfolios of industrial properties or specialise in industrial premises and may pay a premium for such a portfolio, particularly if the marketing is specifically targeted.

5.0 SUMMARY

5.1 Sections 2 to 4 of this report outline the challenges faced by the Council in terms of:-

(i) identifying capital funding to upgrade the SIU portfolio
(ii) funding the approved Capital Programme

5.2 A part disposal of the SIU portfolio, would reduce the pressure to expend capital monies on its upgrade whilst at the same time generating capital receipts to fund the already approved Capital Programme. Any disposals would need to have regard to minimising the loss of rental income, or this would simply shift the budget pressure from the Capital Programme to the Revenue Budget.

5.3 There are important considerations also in terms of the economic benefits delivered through the Council operating and controlling its own SIU portfolio and Members will need to take a view about the importance of retaining either the whole or a reduced portfolio in the future as against the delivery of the Council's key objectives as reflected in the Capital Programme.

5.4 The SIU properties identified as available/suitable for disposal (total value £4.17m-£6.015m in the table at 4.2) include St Ann's Mills at Kirkstall, which is now void of tenants. Members will be aware of the sensitivities regarding this property within the Kirkstall community and therefore the recommendations at the end of this report request that Members give serious consideration to this matter and make a specific resolution with regards to the future of this property.

6.0 FINANCIAL IMPLICATIONS

6.1 Disposals in support of the Capital Programme

6.2 The disposal of the selected SIU properties, as outlined in Appendix E Table 1a, but excluding St Ann's Mills Kirkstall could generate a capital receipt of between £3.1m and £5.015m. The full year impact on the City Development revenue budget of these disposals would be a net loss in income of approximately £100k, based on a reduction in rental income of approximately £137k offset by a saving in associated running costs of approximately £37k. Consideration will need to be given as to how City Development will deal with this loss of rental income.

6.3 The disposal of the farm buildings and gardens, as outlined in Appendix E Table 2a, could generate a capital receipt of £0.45m and there would be no impact on the City Development revenue budget.

6.4 The disposal of selected miscellaneous investment properties, as outlined in Appendix E Table 3a and 3b, could generate a capital receipt of approximately £1m in 2008/09. The properties are currently owned by either City Development or Environment and Neighbourhoods. The revenue impact of the disposals will depend on which properties are actually sold, however, none of the properties provide significant revenue income with rental income varying from £50 to £10,000. The maximum full year impact on City Development and Environment and Neighbourhoods revenue budget would be a loss of income of approximately £60k. Again, consideration will need to be given as to how the Directorates will deal with the loss of rental income.

6.5 As already outlined in the report if the Council was to retain the current SIU portfolio then significant capital investment will be required to prevent the continued deterioration in its condition. Disposal of part of the Property Investment Portfolio will produce a substantial capital receipt to support the Capital Programme and will reduce the need for future capital investment in the portfolio.

6.6 St Ann's Mills Kirkstall

6.7 St Ann's Mills is currently vacant and as such is not providing any rental income to support the City Development revenue budget. Disposal of the St Ann's Mill's Kirkstall would generate a significant capital receipt. If it was retained in Council ownership then Capital Programme provision would need to be identified or the building is at increased risk of further deterioration.

6.8 With regard the option for use by community groups, a fully costed appraisal of this option has not been carried out and although potential partners have been identified there are at present no firm funding commitments.

7.0 RECOMMENDATIONS

7.1 Members are asked to note:-

- (i) the failure to identify a suitable partner to manage the Council's SIU portfolio
- (ii) the failure to identify a suitable partner and to receive a credible offer for St Ann's Mills Kirkstall

7.2 Members are asked to agree the disposal in support of the Capital Programme of:-

- (i) selected miscellaneous investment properties as detailed in Appendix E Tables 3a and 3b
- (ii) the farm buildings and gardens, but not the associated farm land, of the agricultural properties detailed in Appendix E Table 2a.
- (iii) the selected SIU properties detailed in Appendix E Table 1a (but with the exclusion of St Ann's Mills which is considered below)

7.3 Members are asked to instruct officers with regard to the future of St Ann's Mills Kirkstall and whether the site (including land to the rear of the Mill Building) should be:-

- (i) sold
- (ii) retained for Council use as SIUs and the necessary Capital Programme provision for its upgrading made
- (iii) examined further for use by community groups