

Report of the Director of City Development

Report to Executive Board

Date: 16 October 2019

Subject: Redevelopment of 6 – 32 George Street

Capital scheme No. 32554/GEO

Are specific electoral wards affected?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If yes, name(s) of ward(s): Little London and woodhouse		
Has consultation been carried out?	<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
Will the decision be open for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, access to information procedure rule number: 10.4 (3)		
Appendix number: 1		

Summary

1. Main issues

The Market has made good progress with lettings to new tenants and its events programme in recent months. The dinosaur trail that took place this summer attracted 150k visitors in its first week and the Indian Food Festival held last month led to footfall in the Market of 33k people in a single day. In addition to these successful events, the Market Kitchen is now fully let with three new units recently opened as its reputation continues to grow on the back of national reviews including food to go outlet, Owt, being featured in the Observer newspaper. This success has been further strengthened with the letting of four units to Master Chef semi-finalist, Liz Cottam, who will be opening in the near future.

The now completed improvement and refurbishment works to the Grade 1 Listed Kirkgate Market (the Market) provided an opportunity to consider the redevelopment of the Market's George Street frontage to provide it with a 'new front door' and improve links to and connectivity with the adjacent Victoria Gate development.

- An Official Journal of the European Union (OJEU) procurement exercise was undertaken and an acceptable scheme prepared by Town Centre Securities (TCS) was arrived at in 2017. The proposed scheme was for the development of a single multi-storey building comprising of 9 ground floor commercial units above which would be an apart-hotel. The development would entail the complete demolition of the existing structures.
- Executive Board at its meeting on 13 December 2017 approved a report which authorised the Director of City Development to approve the awarding of the contract to Town Centre Securities as the Council's selected development partner and approved the injection into the Capital Programme and authority to spend of £12.903m, for the purpose of :
 - (a) Acquisition of a 50% share in the ownership of the completed development.
 - (b) The refurbishment of Westminster Buildings for the relocation of the Market Service office.
 - (c) The costs associated with the legal and technical advice required.
- Full planning permission and listed building consent has subsequently been granted. An operator for the aparthotel has been secured. The refurbishment of Westminster Buildings and the relocation of the Market Service staff have been completed. Vacant possession of the remainder of the development area has also been secured.
- Through design development the scheme has been enhanced to accommodate 8 additional bedrooms. This change does increase the cost of the development which is more than off-set by the increase in the value of the end scheme.

2. Best Council Plan Implications

- The George Street redevelopment scheme supports the Inclusive Growth priority in the Council's Best Council Plan 2018/19 – 20/21 by promoting investment which will contribute to economic growth and job creation.

3. Resource Implications

- Executive Board is being asked to approve additional spending. However, even with the additional spending, the scheme is still forecast to produce a surplus income to the Council after funding costs are accounted for. The investment value of the completed property will be considerably greater than the existing properties.

Recommendations

Executive board is asked to :

1. Note the content of this report and the current position of the scheme
2. Approve the injection into the Capital Programme and authority to spend of an additional £917,000 for the purpose of acquiring a fifty percent share of the completed development. Approval is also sought for the Council's payments to acquire its interest in the completed development being made on a phased basis through the construction period against approved architect's certificates.

3. Endorse the scheme as detailed in this report and the previous recommendation, approved by Executive Board at its meeting on 13 December 2017 that, the Council should grant a 250 year ground lease of the development site to a Limited Liability Partnership (LLP) to be formed between the Council and Town Centre Securities and, that the LLP will appoint Town Centre Securities to undertake the development on behalf of the LLP.)
4. Authorise the Director of City Development to make all subsequent decisions that may be necessary to deliver this scheme, with the concurrence of the Executive Member for Learning, Skills and Employment . Learning, Skills and Employment
5. Authorise the Chief Finance Officer and the Director of City Development, in liaison with the Executive Member for Resources, to investigate further the opportunity for further financial savings if the Council were to forward fund the entire scheme. If it is considered to be financially beneficial to the Council to proceed on this basis, the Chief Finance Officer and the Director of City Development to be authorised to take all further decisions in respect of this proposal including the delegation of appropriate financial approvals.

1. Purpose of this report

- 1.1 The purpose of this report is to seek Executive Board approval to :
 - (a) The injection into the Capital Programme and authority to spend an additional £917,000 as detailed within the confidential appendix for the purpose of acquiring a fifty percent share of the completed development, with payments to be made on a phased basis through the construction period against approved architect's certificates. A further additional sum of £210,000 is also sought to be injected and authority to spend approved in respect of an increased provision for Stamp Duty Land Tax .
 - (b) To endorse the proposed scheme and to continue on the basis of the grant a 250 year ground lease to a Limited Liability Partnership (LLP) to be formed between the Council and Town Centre Securities.
 - (c) Authorise the Director of City Development to make all subsequent decisions that may be necessary to deliver this scheme, with the concurrence of the Executive Member for Resources.
 - (d) Authorise the Chief Finance Officer and the Director of City Development, in liaison with the Executive Member for Resources and the Executive Member for Learning, Skills and Employment, to investigate further the opportunity for further financial savings if the Council were to forward fund the entire scheme. If it is considered to be financially beneficial to the Council to proceed on this basis, the Chief Finance Officer and the Director of City Development to be authorised to take all further decisions in respect of this proposal including the delegation of appropriate financial approvals.

2. Background information

- 2.1 The Market is in a prime retail location in the heart of the city centre. It is a Grade 1 Listed building and is a central feature in the retail landscape in the city. The Market

is an important landmark in the city, not just in terms of the building but also in its importance to the people of Leeds.

- 2.2 The Market has made good progress with lettings to new tenants and its events programme in recent months. The dinosaur trail that took place this summer attracted 150k visitors in its first week and the Indian Food Festival held last month led to footfall in the Market of 33k people in a single day. In addition to these successful events, the Market Kitchen is now fully let with three new units recently opened as its reputation continues to grow on the back of national reviews including food to go outlet, Owt, being featured in the Observer newspaper. This success has been further strengthened with the letting of four units to Master Chef semi-finalist, Liz Cottam, who will be opening in the near future.
- 2.3 The now completed improvement and refurbishment works to the Market provided an opportunity to consider the redevelopment of the Market's George Street frontage to provide it with a 'new front door' and improve links to and connectivity with the adjacent Victoria Gate development. The George Street frontage comprises the 1930s single storey shops, the north side of Butchers Row (within the Market building) and the 1980s shops with Markets Service office accommodation above.
- 2.4 Executive Board had previously agreed the outline strategy for the now completed Market refurbishment, the future market management arrangements and the approach to be pursued for the redevelopment of the George Street frontage. Executive Board originally approved in principle the grant of a 250 year lease for the redevelopment, on the basis of a development partner constructing a multi-storey building and the Council taking a lease back of ground floor units. The development partner would be selected through an OJEU competitive dialogue process.
- 2.5 Through the competitive dialogue process an acceptable variant bid scheme was submitted by Town Centre Securities (TCS) whereby the Council would acquire a fifty per cent share in the ownership of the completed development. At its meeting on 13 December 2017 Executive Board approved a report with recommendations to:
 - (i) Note the content of the report and the scheme that had been produced.
 - (ii) Authorise the Director of City Development to approve the awarding of the contract to Town Centre Securities as the Council's selected development partner
 - (iii) Approve the recommended legal structure for the development partnership and the associated Heads of Terms as detailed in the confidential appendix to that report
 - (iv) Approve the injection into the Capital Programme and authority to spend of £12,903,600 as detailed with the confidential appendix to that report for the purpose of :
 - a) A fifty percent share in the ownership of the completed development.
 - b) The refurbishment of Westminster Buildings for relocation of Market Service staff.
 - c) The costs associated with the legal and technical advice required.
 - (v) Authorise the Director of City Development to make all subsequent decisions that may be necessary to deliver this scheme, with the then concurrence of the Executive Member for Regeneration Transport and Planning.

3. Main issues

3.1 Negotiations with Town Centre Securities

- 3.1.1 In September 2018 TCS secured full planning permission and listed building consent for the development, including the demolition of the existing George Street frontage, which comprises the 1930s single storey shops, the north side of Butchers Row (within the Market building) and the 1980s two storey shops and Markets Service office accommodation. The detail of the scheme is provided at 3.2 below, and visuals are included in Appendix 3
- 3.1.2 Negotiations with Town Centre Securities have been ongoing and the requisite legal documentation has been prepared, including for the apart-hotel operator. Negotiations in respect of the legal documentation is ongoing. TCS have undertaken extensive negotiations with the proposed apart-hotel operator and terms have been provisionally agreed for a lease to the operator, the details of which are included in the confidential appendix to this report.
- 3.1.3 TCS have approached the Council requesting that the level of the Council's contribution to the scheme be increased by £ 917,000. This is due to an increase in the estimated construction costs, principally associated with an increase in the number of rooms in the aparthotel (136 from 128) to meet customer demand and the associated fit-out costs.
- 3.1.4 The increased cost has been more than off-set by an increase in the investment value of the completed scheme and which is in excess of the increased cost. The increased value is as a result of improved lease terms being agreed with the aparthotel operator. The revised overall cost of the scheme to the Council, including to acquire a fifty percent share ownership, is now estimated to be £ £14.07mm. There has been an increase in the budget provision for Stamp Duty Land Tax (SDLT).
- 3.1.5 The terms agreed with TCS are subject to TCS' board approval. The TCS Board meeting is scheduled to take place after the Executive Board meeting later in October 2019.
- 3.1.5 The opportunity also exists for the Council's financial contribution to be potentially reduced if the Local Authority forward funds the entire scheme. Potentially this could provide a further saving which is dependent upon the cost of finance applied in a State Aid compliant way. On the basis that members of Executive Board support this approach in principle, it is proposed that the Chief Finance Officer and the Director of City Development in consultation with the Executive Member for Resources shall be authorised to investigate further and, if it is considered to be financially beneficial to the Council to proceed on this basis, to take all further decisions in respect of this proposal including the delegation of appropriate financial approvals.

3.2 The proposed scheme

- 3.2.1 The proposed scheme as presented to Executive Board on 13 December 2017 remains the same in terms of its design and for which full planning approval and listed building consent has been granted. There is a proposed increase in the number of rooms by changing the internal layout. The design is for a single building of five storeys which fronts the back edge of the current footpath. 3.2.2 The elevations are primarily of brick construction, however, given the total length of the building is approximately 120 metres the building is punctuated approximately halfway along by a recessed slot which is proposed to be clad in glass. This will also be the location for the replacement entrance to the northern side of the market hall. There will be a 5 metre gap between the schemes western end and Leeming

House where a 2 storey glass addition is to be inserted. This will retain the view of the gable end of Leeming House and the dome on the market roof.

- 3.2.2 The increase in the number of rooms will be within the envelope of the approved building. The apart-hotel will have a substantive ground floor presence and an entrance directly from the Market as well as from the George Street frontage. The ground floor is still proposed to contain 9 retail units of varying sizes for a range of commercial uses, retailing (A1), café/restaurant (A3), bar (A4) and take-away (A5).
- 3.2.3 The ground floor units will be through units in order to provide permeability between George Street and Butchers Row, which was a key requirement of the Council's procurement specification. It is intended that the units will be flexible in terms of size giving greater opportunities to a range of prospective tenants.
- 3.2.4 It is now envisaged that the western section from the new middle entrance up to Leeming House will be for café/restaurant/bar uses, and which are intended to complement and integrate with both the apart-hotel's ground floor reception and apart hotel above and the units on the south side of Butchers Row opposite which are to be retained by the Council. The eastern section is still intended to be for retail uses. The aspiration is to achieve uses that are both complimentary to the Market. Provision has been made in the prepared legal agreements to ensure the exclusion of uses that may have a reputational risk to the Council.
- 3.2.5 It is now proposed that the lease to the aparthotel operator shall include all the ground floor units as well as the aparthotel itself. This approach enhances further the investment value of the scheme. The aparthotel operator will sub-let the units thereafter. The identity of the aparthotel operator and the principal terms of the lease are contained in the confidential appendix to this report.

3.3 Interface with Kirkgate Market

- 3.3.1 A key issue for this project is the future of the interface between the new development and the market. This is in terms of both the existing physical connection and the operational requirements of the Market both during and after completion of the development.
- 3.3.2 In terms of the physical connection, the principal consideration is the wooden roof which spans over the walkway running east - west immediately behind the western half of the development site, and known as Butchers Row. The roof connects between those buildings proposed to be demolished and to the 1875 Block shops on the south side of Butchers Row and which are the original element of the Market

A satisfactory design solution for the roof in relation to the development is in the process of being established by TCS' design team This area of the market remains operational and therefore it is not yet possible to undertake all the necessary survey work.
- 3.3.3 The eastern half of the development, past the new middle entrance, backs immediately onto that element of the Market known as the 1981 Hall. An engineering solution for this interface is again required. The same considerations apply as per 3.3.3.
- 3.3.3 With regards to the day to day operation of the Market, officers are presently working with Town Centre Securities to establish a method statement for the development phase, which a building contractor would have to adhere to. In addition, the rights of access over the Market to be granted to the aparthotel operator and ground floor tenants post development are being established.

3.4 Development partnership – Financial and legal proposals

- 3.4.1 The basis of the proposal remains that LCC will grant a 250 year ground lease to a Limited Liability Partnership (LLP) to be formed between the Council and Town Centre Securities. The LLP will appoint Town Centre Securities to undertake the development.
- 3.4.2 TCS have supplied a revised development appraisal reflecting the increased costs associated with the apart-hotel. The Council has instructed an independent valuation surveyor to consider the appraisal and advise as to the acceptability of the revised development value. There is further detailed commentary in the confidential appendix to this report.
- 3.4.3 It is proposed that payments by the Council to acquire a 50% share of the completed development shall be made on a phased basis through the course of the construction period. Payments shall only be made against approved architects' certificates.

3.5 Vacant possession to permit demolition and redevelopment

- 3.5.1 Vacant possession of the entire development site and an area of the 1981 market hall for the works area is a condition of the development commencing. In addition, Butchers Row will have to close for the duration of the development and therefore it is has also been necessary to negotiate with those remaining tenants in the 1875 Block shops on the south side of Butchers Row.
- 3.5.2 The Council has continued to negotiate for vacant possession and substantial progress has been made such that the development area is now totally vacated. .

4. Corporate considerations

4.1 Consultation and engagement

- 4.1.1 The Executive Members for Resources and Employment Skills and Learning have been briefed and are supportive of the proposed course of actions
- 4.1.2 Prior to the Executive Board meeting on 13 December 2017 the Kirkgate Market Management Board received a presentation of the proposed scheme and were generally supportive.

4.2 Equality and diversity / cohesion and integration

- 4.2.1 An Equality, Diversity, Cohesion and Integration Screening has been undertaken and no specific considerations arise from the immediate proposal to dispose of the site and is attached at appendix 2.

4.3 Council policies and the Best Council Plan

- 4.3.1 The proposed scheme supports the Inclusive Growth priority in the Council's Best Council Plan 2018/19 – 20/21 by promoting investment which will contribute to economic growth and job creation.

Climate Emergency

4.3.2 The Elected Members of Leeds City Council have recently declared a Climate Change Emergency, committing to become carbon neutral by 2030. The proposed development will be constructed to BREEM Excellent standard. The development will offer the highest standard of compliance with the Minimum Energy Efficiency Standards (MEES), which all lettings of commercial and residential properties must comply with. The existing single and two storey premises have exceeded their useful economic life and exhibit poor environmental credentials reflecting their age and would require significant investment to reach compliance with MEES.

4.4 Resources, procurement and value for money

4.4.1 At the time of the report to Executive Board in December 2017, the Council had already incurred expenditure to undertake the procurement exercise and to facilitate a vacant possession programme. A budget for that expenditure had been previously approved.

4.4.2 Subsequently the Council has continued to incur expenditure to deliver the key condition of vacant possession, along with associated professional fees. Expenditure has been incurred to convert the basement of Westminster Buildings in order to relocate the Market service staff. The conversion has been completed within the approved budget and the staff have relocated. The budget expenditure is detailed in the confidential appendix.

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

4.5.1 The information contained in Appendix 1 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 provided to enable the Council to consider the commercial viability and funding option for the redevelopment of the George Street shops, 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 the OJEU procurement exercise. 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 development structure 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 Confidential/Exempt under Access to Information Procedure Rules 10.4 (3).

4.5.2 The Council obtained a legal opinion from leading Counsel on the powers to enter into a partnership with a development partner. Counsel advised that the Council is authorised by the general power of competence under the Localism Act 2011 (LA 2011) to participate in a limited liability partnership, subject to Section 4 of the LA 2011. Section 4 requires the general power of competence to be exercised through a company if the power is being exercised for a commercial purpose. The Council's purpose is the regeneration of a key area in the heart of the city, notwithstanding that the council will share any profits ultimately made. Therefore Section 4 is not engaged.

4.5.3 Section 123 of the Local Government Act 1972 gives local authorities the power to dispose of land in any manner they see fit for the best price reasonably obtainable. Approval is in part being sought to grant a 250 year ground lease of the

development site to an LLP, of which the Council will own a 50% share. The Council has taken independent advice on the value of the ground lease in the context of the proposed development. The granting of the lease forms part of the Council's overall investment in the regeneration of this site. The capital value of the Council's share in the completed development under the LLP and the associated share of the rental income is expected to be in excess of any value that might be attributable to the grant of a 250 year lease of the existing premises without any conditions requiring redevelopment and the formation of an LLP.

4.6 Risk management

- 4.6.1 An analysis has been carried out of the key risks associated with this proposal and which are detailed in the confidential appendix to this report. There is a level of uncertainty associated with the timescales detailed. The Council has developed a risk register, working in liaison with TCS.
- 4.6.2 This includes the interface of the proposed development with the 1875 Hall, which will be addressed through detailed design.

5 Conclusions

- 5.1 The city centre has seen a positive change in the regeneration of the Eastgate quarter over the last 36 months, including the refurbishment of the Market, completion of the Victoria Gate development, the City College building and the Playhouse entrance upgrade. The proposals for the redevelopment of the George Street frontage and the completed refurbishment of the ground floor accommodation at Westminster Building will continue to regenerate and enhance the area, creating a positive and attractive retail destination for residents and visitors to the city.

5. Recommendations

6.1 Executive Board is requested to:-

1. Note the content of this report and the current position of the scheme.
2. Approve the injection into the Capital Programme and authority to spend of an additional £ 917,000 as detailed within the confidential appendix for the purpose of acquiring a fifty percent share of the completed development. Approval is also sought for the Council's payments to acquire its interest in the completed development to be made on a phased basis through the construction period against approved architect's certificates. .
3. Endorse the scheme as detailed in this report and the previous recommendation, approved by Executive Board at its meeting on 13 December 2017 that, the Council should grant a 250 year ground lease of the development site to a Limited Liability Partnership (LLP) to be formed between the Council and Town Centre Securities and, that the LLP will appoint Town Centre Securities to undertake the development on behalf of the LLP.)
- 4 Authorise the Director of City Development to make all subsequent decisions that may be necessary to deliver this scheme, with the concurrence of the Executive Member for Learning, Skills and Employment.

- 5 Authorise the Chief Finance Officer and the Director of City Development, in liaison with the Executive Member for Resources and the Executive Member for Learning, Skills and Employment, to investigate further the opportunity for further financial savings if the Council were to forward fund the entire scheme. If it is considered to be financially beneficial to the Council to proceed on this basis, the Chief Finance Officer and the Director of City Development to be authorised to take all further decisions in respect of this proposal including the delegation of appropriate financial approvals.

7 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.