

The Engine House, South Bank Leeds

Date: 19th April 2023

Report of: Director of City Development

Report to: Executive Board

Will the decision be open for call in? Yes No

Does the report contain confidential or exempt information? Yes No

Brief summary

The South Bank regeneration initiative has significant momentum, with over 3,000 homes under construction or delivered, over 200,000 sq. ft of commercial space under construction, major infrastructure now delivered – such as the David Oluwale Bridge and the first phases of the city park – as the city centre successfully grows in line with the long-established South Bank vision.

This paper presents an opportunity to continue this momentum by securing the future refurbishment of the Grade II listed Engine House, located within the centre of the Tower Works site. Independent valuations have demonstrated that the Engine House is not viable without grant support. The property has long been vacant, and the Council holds ringfenced grant available to part fund its refurbishment. There is major regeneration underway at Tower Works, with a Legal and General backed Fund funding and constructing new homes and public realm on the site via a property Trust. The fund is a UK Limited Partnership, and the investors are largely UK pension funds. The first phase is due to complete later this year.

It is proposed that the Council disposes of the property at market value to the adjacent landowner: Mustard Wharf Property Unit Trust (MWPUP). This is a Jersey based fund managed by Legal and General Investment Management (LGIM) and LGIM will manage the development. It is also proposed that the Council utilises £1m of externally funded and ringfenced grant held for the Engine House as a contribution towards the conservation deficit of the property (subject to compliance with subsidy control regulations and satisfactory security arrangements being in place). Should Executive Board agree to the proposals, this will lever £2m of private sector investment into the property, leading to the Engine House being refurbished and brought into use in 2024.

Recommendations

Executive Board is asked to

- a) Approve that the Council disposes of Engine House site at market value to MWPUP, in accordance with the Heads of Terms outlined in exempt Appendix 2.

- b) Approve that, utilising the external ringfenced monies held, the Council provides a heritage grant capped at £1m to MWPUT as a contribution towards the shell and core works in accordance with the Heads of Terms outlined in exempt Appendix 2, subject to subsidy control compliance agreement of satisfactory security arrangements.
- c) To give approval to the Director of City Development, in consultation with the Director of Resources and Executive Member for Infrastructure and Climate, to finalise detailed terms in accordance with the terms set out in exempt Appendix 2.

What is this report about?

- 1 The paper sets out proposals to secure the long-term sustainable re-use of the Grade II listed Engine House.

Engine House History

- 2 The Engine House is a vacant, c7,500 sq. ft. grade II listed building (see images and plan in Appendix 1) located in South Bank. It was constructed in 1899 as part of Tower Works, the successful factory founded by T.R Harding which made small parts for the textile industry.
- 3 The building itself is formed by three connected bays or sections; these were known as the Engine House, Boiler House and Economiser House. The 'Engine House' section has a decorative finish to include mosaic tiles to part of the floor and glazed brick walls with round arch recesses decorated with moulded circular plaques depicting notable industrialists of the time. With the survival of some internal machinery and fittings, fine craftsmanship and rich detailing the building represents a fine example of its type and is of significance in illustrating the historic functions and processes at Tower Works.
- 4 The site was owned by central Government Agency Homes and Communities Agency (now named Homes England). It has remained vacant for over two decades.
- 5 The Tower Works is a longstanding regeneration opportunity, within the city's South Bank Regeneration initiative. In 2013, Executive Board considered a paper on the regeneration of the Tower Works site. It was noted that the investment and long-term maintenance needed for the listed structures – namely the historic three towers and the Engine House – were seen as barriers by developers. The Engine House is not commercially viable and, as with many other heritage buildings, is eligible for public grant owing to its conservation deficit.
- 6 To support the regeneration of the site, Executive Board gave approval for the Council to take ownership, for a nominal £1, of the three Italianate Towers and Engine House, on the basis that HCA would provide a grant for 1) as a contribution towards the capital investment into the Engine House, 2) long term maintenance of the Towers. The Director of City Development subsequently authorised that the Council enter into funding agreements for the provision of grant to the Council and the transfer of the properties. c£1.1m was granted towards the Engine House.
- 7 The ringfenced grant funding of c£1.1m is a contribution to the costs of refurbishing the Engine House and was never 100% of the funding required – calculations at the time were that the sum would represent a contribution to the heritage viability gap but that other funding would be needed to refurbish the property. The Council's ownership of the Engine House is limited to the curtilage of the building shown in Appendix 1 – no outside space is owned by the Council and it is a tightly constrained site. Parts of the funding have been used to undertake repair works and survey works, as well as Council officer time on the Engine House. c£1m of grant remains
- 8 The property has been subject to competitive disposal exercises in recent years, on the basis of there being capital grant available towards the conservation deficit, although this exercise was not successful.

- 9 New owners took a long leasehold interest in the Tower Works site in recent years. The investors ultimately reached agreement with Legal and General Investment Management (LGIM) to secure funding from Legal and General's Build to Rent Fund. The first phase of residential development, which surrounds the Engine House, is due to complete in spring 2023, with the Build to Rent Fund owning the housing development and land surrounding the Engine House via a Jersey based property trust named Mustard Wharf Property Unit Trust.
- 10 The Build to Rent Fund is a UK Limited Partnership, the investors in the UK are largely UK pension funds, including a number of Local Government Pension Schemes. Legal and General Investment Management (LGIM) act the asset managers for the Build to Rent Fund and property trusts. LGIM manage the Tower Works site as a long-term investment, including areas around the Engine House.

LGIM proposals for the Engine House

- 11 On behalf of the Legal and General Fund, LGIM has approached the Council with view of the Build to Rent Fund 1) acquiring the Engine House on a one-to-one basis, 2) accessing £1m of the ringfenced grant from the Council due to the major viability challenges at the property.
- 12 LGIM has set out proposals to invest a further c£2m of its own funds to redevelop the Engine House to shell and core, with the property sitting at the heart of a new public realm LGIM has already delivered as part of the wider Tower Works development on behalf of their Fund. The proposals, subject to listed building consent, would see the Engine House operational in 2024.

Analysis and Options

- 13 In considering this proposal, consideration has been given to the following factors:
- i) **Regeneration Strategy** – The Council's justification for acquiring and owning the Engine House has always been to support the regeneration of the Tower Works site, and bring about the long term re-use of an important heritage building.
 - ii) **Construction Constraints** – As highlighted above, the Council's ownership extends only to the Engine House building curtilage itself with limited servicing and access. Logistics wise, this makes it a very challenging property to undertake refurbishment works at.
 - iii) **Costs and inflation** – Recent pre-tender cost estimates are that it would cost at least c£2.6m to refurbish the property to shell and core – given construction price inflation and general volatility in the market, there is a possibility that these costs could be higher, factoring in the logistical challenges of the site
 - iv) **Viability** – Independent valuations have indicated that the Engine House is not a commercially viable development proposition and has a negative development value. The property has a significant conservation deficit based upon currently available information
 - v) **Market Interest** – There have been two failed competitive processes to secure a development partner, where grant was also available for interested parties to potentially draw down. The lack of surrounding ownership has been highlighted as a barrier as has lack of public space available for occupiers to utilise.
- 14 In this context, it is considered that there are the following options available to secure the future of the property:
- i) **LCC direct delivery** - LCC develops the property itself by undertaking prudential borrowing to borrow against future rental income, with finance costs of £100k per annum year over a 25-year period needing to be repaid via rental income. In the context of the Council's overall budget position, this represents the highest risk to the Council. The site

may not provide significant return on investment, as well as the Council needing to consider the practical challenges of redeveloping the site.

- ii) **Open Market Competition** – The Council could seek a competitive exercise to secure a developer partner, but there is high possibility of limited interest given 1) the viability challenge, 2) there being no immediate access to external spaces and the property's location in the centre of Legal and General's development, 3) the fact there has been limited market interest in previous competitions – when Council grant was also available, 4) the construction challenges where a landowner does not own surrounding land.
- iii) **A disposal to the adjacent landowner** (the LGIM proposal) – whereby the Council disposes of the property at market value, including marriage value, and provides a heritage conservation deficit grant utilising ringfenced grant only available for the Engine House.

15 It is proposed that **option iii** is the preferred option, on the basis that it represents the best opportunity to secure the timely refurbishment of the property as part of a comprehensive redevelopment of the site and its wider area, whilst reducing the Council's risk exposure in time of ongoing financial challenges. The site being developed by the adjacent landowner will also provide efficiencies in the construction works, as the Legal and General Fund control adjacent land, and will allow any occupier of the Engine House to benefit from external spaces – increasing the potential vibrancy of the property and the placemaking benefits. The agreed price for disposal, detailed in the exempt Appendix, includes marriage value that would not otherwise be payable if sold to another party, and has been subject to an independent valuation. It is therefore considered to achieve best consideration.

16 This option will see the Council achieve a capital receipt, versus a current need for the Council to spend at least £2.6m (with at least £1.5m of borrowing) to refurbish the property. Simultaneously, option iii will see the Council leverage its grant to secure c£2m of private sector investment into the property. This is ringfenced funding held for the purpose of the restoration of the Engine House.

17 It is proposed that the Council's agreement to the proposal is subject to:

- i. Agreement of the terms of a disposal as per the Head of Terms set out in exempt Appendix 2
- ii. Agreement to the terms of a grant agreement as per the Heads of Terms set out in exempt Appendix 2
- iii. The disposal being at market value, as informed by an independent valuation
- iv. Demonstration of compliance with subsidy control legislation, including any reporting arrangements as may be required under new regulations
- v. Sufficient security being in place for repayment of grant should repayment be required (including the grantee super-profiting / disposing of the property in a defined timescale)
- vi. The grant of £1m being a maximum grant, and the landowner owning construction risk and responsibility for any increases in cost.

What impact will this proposal have?

18 This is a significant opportunity which will contribute to the long-term sustainability of the listed building and the wider momentum of regeneration of South Bank.

19 The project will contribute to the Council's zero carbon ambition by providing grant aid to help deliver the refurbishment and re use of the grade II listed historic building, which is in deteriorating condition. Through unlocking redevelopment, the grant will fund restoration of

historic fabric and features including the medallions, and the development of new use, contributing towards the long-term survival and sustainability of the building and its continued operation and inhabitation, as well as preserving the contribution it makes to the historic character of the Tower Works complex as its Engine House.

- 20 The proposal involves the development of an important heritage building, contributing to the to the redevelopment of Tower Works site and the significant momentum of wider regeneration of the South Bank. It will also directly contribute to delivery of the ambition of the South Bank Regeneration Framework. The Tower Works site is identified as a Key Development Area within the SBRF and in keeping with its aspirations, the proposal provides the opportunity to retain and re-use an existing historic asset, strengthening the identity of the South Bank and celebrating local history.
- 21 The adaptation and reuse of historic assets is central to the intention of the Regeneration Framework and enshrined within SBRF Principle 1. South Bank's former industrial heritage is being brought back to life in new schemes including the ongoing work at Temple Mills, proposed to be the new home of British Library in the north, the sympathetic restoration of the three Italianate towers at Tower Works itself, and new complimentary buildings such as Ironworks.
- 22 As highlighted at paragraph 18, it will also help to reduce the potential financial pressures that the Council may have in directly developing and continuing to own the property. An Equality, Diversity, Cohesion and Integration Screening has been completed, and is included in appendix 3. The proposals in this report will have a positive impact in securing the re-use of a building that has long been vacant in an area of high socio-economic deprivation

How does this proposal impact the three pillars of the Best City Ambition?

Health and Wellbeing Inclusive Growth Zero Carbon

- 23 As highlighted in paragraph 22, the proposals will provide carbon benefits by seeing investment into the re-use of a currently dilapidated building - increasingly, investment into the re-use of buildings is seen as a key component of achieving a zero-carbon economy. The South Bank area is identified as a major growth zone in the Inclusive Growth Strategy and securing investment into the Engine House will support ongoing economic growth in the South Bank.

What consultation and engagement has taken place?

Wards affected: Beeston and Holbeck

Have ward members been consulted? Yes No

- 24 Local Ward members have been briefed on and the proposals have been subject to consultation with the Executive Member for Resources, and the Executive Member for Climate and Infrastructure.
- 25 There has been engagement with both legal and finance officers in developing the proposal and recommendations contained within the report. There is no legal requirement for public consultation on the proposals.

What are the resource implications?

- 26 The grant the Council received for the Engine House is ringfenced and cannot be spent for any other purposes. The maximum £1m grant for the Engine House is included within the capital programme. The Council has used some of the grant received by the HCA on general maintenance. Surplus grant will be utilised to pay for the Council's historic staffing costs, and

survey costs, as well as costs to manage and administer the grant – which would otherwise be un-funded.

27 The sale of the property will provide income and is included in the capital receipts programme.

28 As highlighted above, the proposals will leverage £2m of private sector investment into the property.

What are the key risks and how are they being managed?

29 The legal agreements have been designed to mitigate the risks to the Council and ensure legal compliance. Highest impact risks include:

- 1) **Works not progressing at the Engine House** – the Council’s freehold interest will only transfer once works are completed, and the legal agreements will set milestones for the delivery of works
- 2) **Cost increases** – as set out above, the Council’s grant is a maximum grant and the Council will not be liable for further cost increases
- 3) **Subsidy control breach** – the grant constitutes subsidy and the council will take steps to ensure compliance with new regulations that came into force in January 2023. In any instance, the Council will be indemnified against such risks
- 4) **Non-compliance** – the grant agreement will set out instances where grant will be repayable, and this will be backed up with sufficient security provided by the grantee.

What are the legal implications?

30 It is proposed that the Council would enter into Grant Agreement with MWPUT as per the Heads of Terms detailed at exempt Appendix 2

31 The information contained in Appendix 2 is designated as being exempt from publication under Access to Information Rule 10.4 (3) on the grounds that it contains information relating to the financial or business affairs of any person or company (including the authority holding that information) which may result in prejudicial trading of that company, the Council’s commercial position and linked 3rd parties. It is considered not to be in the public interest to release such information at this time, as this would compromise the Council’s position.

32 Section 1 of the Localism Act 2011 empowers the Council to do anything that individuals generally may do, subject to any restrictions as to the use of its powers to which the Council was subject when that Act came into force or which have subsequently been imposed.

33 The Council has a duty to the Council Tax and business rates payers of Leeds to conduct its financial affairs in a business-like manner, with reasonable care, skill and caution, and with due regard to their interests. It is considered that, in the case of the proposals outlined in this report, they will, at worst, be cost neutral to the Council. The Council will also obtain adequate security in respect of the Fund’s liability to the Council.

34 Section 123 of the Local Government Act 1972 allows the Council to dispose of land at market value. The Technical Services Lead (Property) confirms that in their opinion the terms offered to the Council represent the best consideration that can reasonably be obtained under Section 123 of the Local Government Act 1972. The Subsidy Control Act 2022 (“the Act”) set out principles to define a subsidy and make it unlawful for public funds to be used to provide a subsidy unless the purpose the subsidy will be used for accords with a set of Principles, or an exemption applies.

35 Although the Grant, constitutes a subsidy under the Act it has been assessed and judged to comply with the principles set out in the Act permitting a recipient to receive a subsidy.

36 To ensure continued compliance with the Act the grantee must retain appropriate information to govern the administration and use of funds which should remain accessible to the Council at all times.

37 The Council retains the right to claw back of funds in the event that grant agreement terms are breached or, if funds are surplus and are not required, or if it is determined that the funding to MWPOT is in breach of any Subsidy Control rules. This protects the Council by providing sufficient ability to collect funds back where agreements are not followed.

Options, timescales and measuring success

What other options were considered?

38 The principal options considered are highlighted within the report. Another option would be for the Council to do nothing. This is not considered an option, given that the property is a listed building and the Council has a responsibility as a custodian of the building to secure its future.

How will success be measured?

39 Success will be measured by:

- Ensuing the grant agreement and development agreement is entered into
- Securing the refurbishment works necessary at the Engine House and its conversion (to an agreed standard) including restoration of heritage fabric and features
- Ensuring the project is completed to set timescales and the transfer of title secured to MWPOT
- Inhabitation and operation of the refurbished Engine House by a new operator

What is the timetable and who will be responsible for implementation?

40 Should Executive Board agree to the proposals, it is proposed that a Grant Agreement and Development Agreement is entered into by the summer, and LGIM will progress a listed building consent application this year on behalf of the Fund, leading to works completing in 2024

Appendices

- Appendix 1: Location Plan and Images of Engine House
- Appendix 2: Exempt Appendix - exempt from publication under Access to Information Rule 10.4 (3)
- Appendix 3: Equality, Diversity, Cohesion and Integration Screening

Background papers

- N/A