

Report of Chief Officer Culture and Sport

Report to Director of City Development

Date: 3rd September, 2013

Subject: Design and Cost Report Project Space Leeds – Request for a loan to part fund refurbishment works for The Tetley art space at the former Tetley Brewery Headquarters

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):City and Hunslet	<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
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. Project Space Leeds (PSL) is developing a visual arts centre on the Tetley Carlsberg site, and this is the first part of a major regeneration in the south of the city, and will act as a catalyst for other development in this area. This project will help deliver one of the Best Council objectives to promote sustainable and inclusive economic growth, where one of the 2013/14 priorities is to “enjoy an active and creative city where all cultural organisations feel they have a voice and influence over cultural direction”.
2. Project Space Leeds is entering into a 10 year lease with Carlsberg UK (CUK). PSL have informed us that CUK are paying almost £1m for the refurbishment of the building to make it fit for purpose as a publicly accessible facility. PSL was awarded a grant from the Business Growth Programme of £20,000 on 21st June 2013 towards the renovation and fit-out of the third floor of The Tetley only. This was to include architectural, mechanical and electrical works at a total approximated cost of £118,553. The grant was provided to enable the investment to proceed on schedule and create at least 3 new jobs.
3. However, PSL have some additional capital costs for creating specialist spaces within the building for learning and participation.
4. PSL’s capital costs are £589k and at the moment they have a funding shortfall of £190k and have approached the Council to provide funding which will be financed from their annual grant which the Council provides.

5. Aiding the financing of these capital costs will support Leeds' Sustainable Economy and Culture City Priority Plan. With the refurbishment of their new base at The Tetley, PSL will provide the city with its first independent contemporary art centre. The Tetley will contribute to an increased footfall in the south of the city and bring cultural provision nearer to the city's most disadvantaged communities.

Recommendations

6. The Director of City Development to authorise Authority to Spend of £190k against the injected capital scheme.

1 Purpose of this report

- 1.1 The purpose of this report is to promote a request for financial assistance from Project Space Leeds to develop a visual arts centre on the Tetley Carlsberg site, this being the initial step in the wider regeneration in the south of the city, and the request being in the form of a loan of £190K to fund a shortfall in their capital costs.

2 Background information

- 2.1 LMT will be aware that the Carlsberg Tetley site closed in 2011 and represents 22 acres of brownfield land at the heart of the South Bank Regeneration area. The Council is committed to bringing forward the South Bank for development which helps the natural expansion of Leeds City Centre and makes strong connections between South Leeds and the traditional city centre core.
- 2.2 PSL is a visual arts charity which was founded in 2006 to address a lack of provision for visual arts in Leeds. Between 2007 and 2012 PSL were based in a unit at Whitehall Waterfront working with emerging artists. PSL have reached agreement with CUK about taking tenancy of the former Tetley brewery headquarters on Hunslet Road and they have entered into a 10 year lease of the building. The refurbished building will reopen as "The Tetley", with PSL relocating to it and aiming to become a nationally recognised centre for contemporary art.
- 2.3 PSL state that CUK are investing almost £1m in the refurbishment of the building to make it fit for purpose as a publicly accessible facility and PSL have additional capital costs of £589k for "creating specialist spaces within the building for learning, participation and business incubation within the creative and cultural industries" (PSL's draft 2013/14 business plan). These include work to convert the ground, first and second floors into quality showing spaces, learning and community facilities, event and retail spaces and a café/bar.
- 2.4 PSL were awarded a grant from the Business Growth Programme of £20,000 on 21st June 2013 towards the renovation and fit-out of the third floor of The Tetley only. This was to include architectural, mechanical and electrical works at a total approximated cost of £118,553 (15% contingency included). The grant equates to 16.8% of the total refurbishment costs of the third floor and was provided to enable the investment to proceed on schedule and create at least 3 new jobs

3 Main issues

- 3.1 Of the £589k capital costs, PSL have secured a £180k capital grant from Arts Council England and a loan of £220k from CUK. The balance of the funding, £190k, they have requested the Council to provide funded through prudential borrowing which will be financed by their annual revenue grant. The current grant is £35k per annum and will be sufficient to cover repayments of £24k per annum. In future, it is considered unlikely that PSL's annual revenue grant will be significantly reduced below £35k as there are few visual arts organisations which the Council supports. However, should PSL's annual revenue grant be reduced below the annual loan repayments any shortfall will be funded by City Development.

- 3.2 The capital works to convert the building have started and the building is due to become operational in autumn 2013, hence the need for a quick decision on their application for funding.
- 3.3 Given the anticipated increase in the scale of their operation and to take advantages of tax benefits available to charities, PSL established in 2012 a wholly owned subsidiary company (PSL Enterprises Ltd) to operate the bulk of the charity's commercial activities.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 No specific consultation has been undertaken but the Executive Member for Leisure and Skills is supportive of this proposal.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 Due regard has been given throughout the decision making process through following the corporate procurement rules. As such, at this stage neither an Equality Impact Screening or Impact Assessment is required.

4.3 Council policies and City Priorities

- 4.3.1 Aiding the financing of these capital costs will support Leeds' Sustainable Economy and Culture City Priority Plan and assist the Best Council Plan objective of "Promoting sustainable and inclusive economic growth, to enjoy an active and creative city". With the refurbishment of their new base at The Tetley, PSL will provide the city with its first independent contemporary art centre. The Tetley will contribute to the regeneration of the south of the city, increasing much needed footfall and bring cultural provision nearer to the city's most disadvantaged communities.

4.4 Resources and value for money

- 4.4.1 Of the £589k capital costs, PSL are seeking capital funding of £190k from the Council to fund their shortfall. This will be funded by prudential borrowing which will be financed by the annual revenue grant which the Council pay PSL. In future the grant paid to PSL will be reduced to fund the annual prudential borrowing costs of £24k at an annuity of 4.5% over 10 years.
- 4.4.2 The current grant to PSL is £35k. In future, it is considered unlikely that PSL's annual revenue grant will be significantly reduced below £35k as there are few visual arts organisations which the Council supports. However, should PSL's annual revenue grant be reduced below the annual loan repayments any shortfall will be funded by City Development.
- 4.4.3 A funding agreement drafted by Legal Services will need to be signed by PSL before the loan is paid to them.
- 4.4.4 PSL have explored other financing options but have not been able to secure suitable terms.

4.4.5 PSL have submitted their business plan for the Tetley covering the capital costs and the ongoing running costs of the gallery. The business case indicates that the running costs will be covered by income and is not reliant in the future on the full annual grant allocation. The business plan assumptions are considered reasonable although are not without risk. The risks are considered in section 4.6.

4.4.6 Capital Funding and Cash Flow.

Complete the embedded table below:-

Funding Approval :							
Previous total Authority to Spend on this scheme	TOTAL £000's	TO MARCH 2013 £000's	FORECAST				
			2013/14 £000's	2014/15 £000's	2015/16 £000's	2016/17 £000's	2017 on £000's
LAND (1)	0.0						
CONSTRUCTION (3)	0.0						
FURN & EQPT (5)	0.0		0.0	0.0			
DESIGN FEES (6)	0.0						
OTHER COSTS (7)	0.0						
TOTALS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Authority to Spend required for this Approval							
Authority to Spend required for this Approval	TOTAL £000's	TO MARCH 2013 £000's	FORECAST				
			2013/14 £000's	2014/15 £000's	2015/16 £000's	2016/17 £000's	2017 on £000's
LAND (1)	0.0						
CONSTRUCTION (3)	0.0		0.0				
FURN & EQPT (5)	0.0						
DESIGN FEES (6)	0.0						
OTHER COSTS (7)	190.0		190.0				
TOTALS	190.0	0.0	190.0	0.0	0.0	0.0	0.0
Total overall Funding (As per latest Capital Programme)							
Total overall Funding (As per latest Capital Programme)	TOTAL £000's	TO MARCH 2013 £000's	FORECAST				
			2013/14 £000's	2014/15 £000's	2015/16 £000's	2016/17 £000's	2017 on £000's
Departmental USB	190.0		190.0				
Total Funding	190.0	0.0	190.0	0.0	0.0	0.0	0.0
Balance / Shortfall =	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Parent Scheme Number :

Title :

Revenue Effects

The revenue effects of the budgeted unsupported borrowing charges shown below:

REVENUE EFFECTS	2013/14 £000's	2014/15 and SUBSEQUENT YEARS £000'S
EMPLOYEES		
PREMISES COSTS		
SUPPLIES & SERVICES	24.0	216.0
EXTERNAL INCOME GENERATED		

4.5. Legal Implications, Access to Information and Call In

4.5.1 This is not a key decision and therefore not subject to call in.

4.5.2 A funding agreement drafted by Legal Services will need to be signed by PSL before the loan is paid to them. The prudential borrowing by the Council will not exceed the limit set under section 3 of the Local Government Act 2003.

4.5.4 As the purpose of the funding is to provide cultural facilities the funding will comply with the European Commission's State aid rules.

4.5.5 The Board of Trustees includes Councillor Ogilvie and the former Director of City Development Jean Dent. They have not been party to discussions or decision making about the loan.

4.6. Risk Management

4.6.1 It is considered that PSL's draft business plan for 2013/14 does contain a degree of income optimism and there is a risk that the charity could cease to be financially viable over the 10 year period of the lease although to balance this, PSL aim to manage any shortfalls in income by reducing expenditure. Irrespective of whether the capital funding is awarded or not, this could become a potential issue for the Council in that the charity could seek further financial assistance should they encounter problems in balancing their financial plan. The funding will enable the completion of facilities which will contribute to the income assumptions included in the business plan.

4.6.2 Reimbursement of the funding will be secured by reducing the planned annual revenue grant to PSL thereby not creating any additional financial pressures for the Council. Legal Services have advised that a funding agreement will be required but have asked whether any further security is required for the repayment of the loan (to cover the scenario whereby PSL's revenue grant is reduced/withdrawn and they are unable to make the repayments to the Council). If the decision is taken that further security is required, Legal Services have advised that this will increase the time required to complete the loan agreement."

5.0 Conclusions

5.1 The provision of funding to PSL would aid the completion of the Tetley gallery and will aid the Council in meeting its Sustainable Economy and Culture City Priority Plan objectives and bring cultural provision nearer to the most disadvantaged areas in Leeds together with regenerating an area of the city centre which would benefit from increased footfall.

6.0 Recommendations

6.1 The Director of City Development to authorise Authority to Spend of £190k against the injected capital scheme.

7.0 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.