

Report of Director of City Development

Report to Executive Board

Date: 16 December 2020

Subject: Lease Agreement for Leeds Media Centre

Capital Scheme Number : 33054/LMC/000

Are specific electoral Wards affected? If relevant, name(s) of Ward(s): Chapel Allerton Ward	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
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 checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Will the decision be open 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:	Yes	<input checked="" type="checkbox"/> No

Summary

1. Main issues

- Leeds Media Centre is a Council-owned property in close proximity to the City Centre. The building was developed in the late 1990s as a Media Centre providing office and studio space at an affordable rent to small businesses, social enterprises and voluntary organisations with a particular focus on the creative and digital sectors.
- The building is in need of an upgrade, refurbishment and a reconfiguration to both sustain and boost its role as a managed workspace. The building suffers from long-standing issues related to the configuration of the internal space, the energy efficiency rating of the building and the quality of the office accommodation which combined impact on the long term sustainability of the building.
- An application for European funding for the capital improvements has been submitted by the Council, with the building operator, Unity Property Services Ltd. The aim of the £1.6m capital project is to upgrade, refurbish and reconfigure Leeds

Media Centre to provide affordable managed workspace and grow-on space for organisations working in the Creative and Digital sector.

- Unity Property Services Ltd (UPS) have submitted a 30 year business plan for the operation of the Media Centre, and once the decision has been made on the European funding for the scheme, it is proposed to enter into a long term Full Repairing and Insuring (FRI) lease with Unity Property Services Ltd.
- The lease with UPS will be for a period of 15 years on a peppercorn rent with an associated grant agreement approved by Executive Board in July 2019.

2. Best Council Plan Implications (click [here](#) for the latest version of the Best Council Plan)

- The project supports the clear ambitions set out in the Best Council Plan (2020-2025), and will contribute to the Best City Priorities of Inclusive Growth and Culture.
- The approach set out in the Leeds Inclusive Growth Strategy (2018-2023) aims to support places and communities adapt to economic change. The project makes a contribution to delivering the ambitions of the Leeds Inclusive Growth Strategy , specifically three of the Growth Strategy's twelve big ideas :
 - a. Big Idea Ten : Backing Innovators and Entrepreneurs in Business and Social Enterprises
 - b. Big Idea Five : Supporting Places and Communities to respond to economic change
 - c. Big Idea Seven : Building a federal economy – helping to create jobs close to communities
- The refurbishment of Leeds Media Centre aims to make the building more sustainable and more accessible to local businesses and aspiring entrepreneurs. The associated business advice element aims to develop local enterprises in the creative and digital sectors to survive and grow, enhancing the capacity of the creative economy in the city.

3. Resource Implications

- The funding package for Leeds Media Centre was approved at Executive Board in July 2019. This included a total of £800,000 to the operator of the Media Centre, with £300,000 allocated from the Creative and Digital Workspace Transformation Fund and £500,000 funded directly by the Council, which will be repaid to the Council by the centre operator. The £800,000 capital contribution will be used to deliver a £1.6m refurbishment and reconfiguration of the premises. Subject to a successful appraisal and approval in early December, the remaining £800,000 would come from the European Structural and Investment Funds Programme 2014-2020.
- The proposed project represents an excellent opportunity to significantly upgrade and improve a Council owned building, thereby ensuring a minimum additional 25 years of economic life as a small business centre, as well as generating an ongoing rental income based on its existing use providing small office spaces let on flexible terms to small businesses and/ or social enterprises.

- The proposed 15 year lease and associated grant agreement provides a mechanism to repay £500,000 of LCC capital borrowing, reducing the overall cost to the Council of the project to £300,000. In return, the project will provide suitable accommodation for businesses in the creative/digital sectors for the next 15 years and will deliver a significant enhancement to the capital value of the property asset.

Recommendations

Executive Board is requested to:

1. approve in principle a Full Repairing and Insuring lease of the Leeds Media Centre to Unity Property Services Ltd on a peppercorn rent basis for a term of 15 years.
2. delegate to the Director of City Development the final terms of the lease, at less than best consideration.
3. agree the exemption for call-in on the basis that the decisions are urgent due to the short timescales provided by the ESIF appraisal process

1 Purpose of this report

- 1.1 To approve in principle a 15 year, full repairing and insuring lease of the Leeds Media Centre to Unity Property Services Ltd on a peppercorn rent basis.
- 1.2 To delegate to the Director of City Development the responsibility of agreeing the final terms of the new lease and associated grant agreement, at less than best consideration, subject to any final issues that may arise.

2 Background information

- 2.1 Leeds Media Centre is a Council-owned property in close proximity to the City Centre. The building was developed in the late 1990s as a Media Centre providing office and studio space at an affordable rent to small businesses, social enterprises and voluntary organisations with a particular focus on the creative and digital sectors.
- 2.2 The centre has proved a popular small workspace facility, with occupancy at around 85% of the lettable space. It has acted as a small scale hub for creative and digital businesses, with tenants including a local TV channel, an internet radio station and a number of small media producers.
- 2.3 The building, however, has a number of long-standing building issues, which were not addressed in the original development in the 1990s, nor subsequently: it has a poor energy efficiency rating and a proportion of internal space which has been difficult to let since the centre was created. The building is therefore in need of an upgrade, refurbishment and a reconfiguration to both sustain and boost its role as a managed workspace, thereby supporting future small business growth, and to significantly improve its environmental sustainability.
- 2.4 Leeds Media Centre is currently managed on the Council's behalf by Unity Property Services Ltd (UPS), a not-for-profit social enterprise, owned by Unity Housing Association Limited. In addition to Leeds Media Centre, UPS manages two other business centres; Unity Business Centre and Chapeltown Enterprise Centre. The organisation has a long track record of successfully managing these centres and supporting small businesses, social enterprises and voluntary organisations operating in the Chapeltown and Harehills areas of the city.
- 2.5 The Council has been working with UPS since February 2019 to develop a project to upgrade Leeds Media Centre, reconfiguring some of the internal space to create a new business workspace facility and some new grow-on units to support new entrepreneurs. The project aims to secure a minimum of 25 years' future life for the building as affordable workspace let on flexible terms which meet the needs of small businesses, particularly those operating in the Digital and Creative sectors, and to tackle the issues relating to the building's economic and environmental sustainability.
- 2.6 During 2019, the Ministry of Housing Communities and Local Government issued a 'call for proposals' for capital projects to provide new or refurbished facilities for incubation or managed workspace for small and medium-sized businesses, funded by the European Structural and Investment Funds Programme 2014-2020 (ESIF). The ESIF Programme offers up to 50% of costs towards eligible projects, thereby doubling the resources available, and this provided an opportunity to secure funding

to invest in a Council-owned property asset to provide managed workspace and grow-on space, which is suitable to support new and small businesses.

- 2.7 The proposed ESIF-funded project will reconfigure this space into a new business incubation facility and some new grow-on units to support new entrepreneurs. It will upgrade the Leeds Media Centre premises and create new lettable space to support new/young businesses particularly those in the Creative and Digital sector. The total value of the capital project is just under £1.6m: £800k from the ESIF Programme, and £800k match funding.
- 2.8 At Executive Board in July 2019, the funding package for Leeds Media Centre was approved. The funding package approved included: a total of £800,000 to the operator of the Media Centre, UPS, with £300,000 allocated from the Creative and Digital Workspace Transformation Fund and £500,000 funded directly by the Council, which will be repaid to the Council by UPS. UPS will use the £800,000 capital contribution towards delivery of the £1.6m refurbishment and reconfiguration of the premises.
- 2.9 Authorisation for the Director of City Development to enter into all contracts and funding agreements associated with the Leeds Media Centre Project, and to agree final, detailed terms was also approved at the July 2019 Executive Board meeting.
- 2.10 A decision on the application for ESIF funding is expected in early December 2020. Subject to this approval, the procurement and appointment of contractors will take place with works envisaged to commence early in 2021 and be completed by February 2022.

3.0 Main issues

- 3.1 Leeds City Council is acting as the applicant and lead partner for the ESIF funding: UPS will act as delivery partner, manage the proposed capital project and the associated ESIF liabilities. UPS has extensive experience of European funds, having delivered a successful refurbishment of Unity Business Centre and Chapeltown Enterprise Centre in partnership with the Council during 2011- 2014.
- 3.2 Once the decision has been made on the ESIF funding for the scheme, it is proposed to enter into a new lease arrangement with UPS. UPS have submitted a 30 year business plan for the operation of the Media Centre, which was the basis for the approved grant and loan package approved in 2019. This demonstrates that a £500,000 borrowing facility can be serviced and repaid through additional income over a 15 year operational period. The additional income is forecast to be generated from the creation of additional units in the premises which can be let to small businesses.
- 3.3 An agreement for lease will be entered into which will allow Unity to undertake the works, and the full lease will commence upon satisfactory completion of the works. The agreement for lease will be for a period of up to 24 months to allow sufficient time for the works to be completed. The current expectation is that the full lease will be invoked in spring 2022.

- 3.4 Following the agreement for lease period, it is proposed that the Council enters into a 15 year, full repairing and insuring lease of the Leeds Media Centre to UPS on a peppercorn rent basis. This reflects the need to service and pay back the £500,000 borrowing facility agreed by Executive Board in July 2019 and to keep the lettable units on affordable rents for prospective tenants. A term of 15 years is proposed to allow sufficient time to complete the proposed capital project, meet all the associated project costs and repay the £500,000 borrowing facility.
- 3.5 Furthermore, it is proposed that the lease is reviewed every five years to ensure that the operating business model is meeting the original objectives set out above and that sufficient income is being generated to service and pay back the £500,000 over that 15 year period.
- 3.6 The market rental value of the Leeds Media Centre after the proposed refurbishment works are completed has been assessed. It is proposed the 15 year lease to UPS will be granted for a peppercorn rent which is below market value and therefore will be on a less than best basis.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 This proposal has been subject to consultation with the Executive Member for Inclusive Growth and Culture, through the approval of the original funding package in summer 2019, and subsequently through the Council's Capital Programme Review process in September 2020. Chapel Allerton Ward Members were consulted on 24 June 2019: further consultations have not taken place as the fundamental project details remain the same.
- 4.1.2 The proposals have also been discussed and agreed with the Director of City Development. Senior Officers in the West Yorkshire Combined Authority, Leeds City Council Legal, Finance, Land and Property, and Asset Management and Regeneration have been consulted on this proposal.
- 4.1.3 The proposal is aligned with the 'Creative and Digital Workspace' report (May 2019) which analyses the current supply of commercial space for the creative and digital sector within the city centre and the immediate fringe areas, the types of workspace currently available, and its exact locations. This research identified and emphasised the need for the Council to support affordable workspace in close proximity to the City Centre, which could be utilised by new and young small businesses, particularly those operating in the creative sectors. The proposal complements the Council's experience of providing services to new and young enterprises as part of the Ad:Venture business support programme, as well as the other projects within the Creative Workspace Transformation Fund, namely Hope Foundry and Leeds Arts Hostel.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 Consideration of equality and diversity are an integral part of the development and appraisal process for ESIF projects. An equality, diversity and cohesion impact screening has been completed, provided at appendix 1 identifying that the project will have a neutral or positive effect on equality groups.

4.3 Council Policies and the Best Council Plan

4.3.1 The project supports the clear ambitions set out in the Leeds Inclusive Growth Strategy (2018-2023) and Best Council Plan (2020-2025). The approach set out in the Inclusive Growth Strategy aims to support places and communities adapt to economic change. Leeds Media Centre is located in Chapeltown within the Chapel Allerton ward, one of the twelve priority wards in Leeds. The development of Leeds Media Centre aims to make the building more sustainable and more accessible to local businesses and aspiring entrepreneurs.

4.3.2 The project makes a contribution to delivering the ambitions of the Leeds Inclusive Growth Strategy. The project delivers against three of the Growth Strategy's twelve big ideas :

- *Big Idea Ten : Backing Innovators and Entrepreneurs in Business and Social Enterprises* – the project supports start-ups and scale-ups by providing business incubation facilities & small units at affordable rents in close proximity to Leeds City Centre.
- *Big Idea Five : Supporting Places & Communities to respond to economic change* – the project is an example of the Council using its assets to support business growth in local communities.
- *Big Idea Seven : Building a federal economy* – helping to create jobs close to communities

Climate Emergency

4.3.3 The project is an example of a practical response to the Climate Emergency declared by the Council. The project will significantly improve the building's energy efficiency rating and the project will be required to achieve a BREEAM 'good' rating as part of applying for ESIF funding. BREEAM is a world leading sustainability assessment process for developments, infrastructure and buildings.

4.3.4 The Leeds Media Centre was originally built in 1936 and is a good example of a 1930s art deco building. It is located in the Chapeltown Conservation Area and any proposed refurbishment works affecting the external fabric of the building are subject to planning controls that reflect its history and architecture. Conservation officer review took place as part of the preparation for submitting the ESIF application and full planning permission has been approved.

4.4 Resources, procurement and value for money

- 4.4.1 In the current financial climate, funding available to deliver against key priorities, is low. The ESIF programme is the largest economic development programme currently operating in the Leeds City Region, and this is the last opportunity to access funding from the programme which closes to applications in December 2020
- 4.4.2 This is a genuine opportunity for the Council. It is a significant source of external grant funding which can contribute up to 50% of the costs of projects thereby doubling the resources available.
- 4.4.3 The proposed project represents an excellent opportunity to significantly upgrade and improve a Council owned building and ensure a minimum additional 25 years of economic life as a small business centre providing affordable flexible workspace aimed at new/young businesses particularly those in the Creative and Digital sectors.
- 4.4.4 The building and the market rental of the lease have been valued as part of the overall development process. The market rental value of the Leeds Media Centre after the proposed refurbishment works are completed has been valued at a maximum potential value of £95,697 per annum. Accordingly this is the maximum rental value foregone on less than best terms per annum, during the term of the lease. It is proposed that the 15 year lease to UPS will be granted for a peppercorn rent, which is below market value, and therefore the lease will be on a 'less than best' basis.
- 4.4.5 An independent valuation of the property has also been carried out, establishing the unrestricted open market value of the property in its current condition, and its value after the proposed refurbishment. The assessment indicated that the unrestricted open market value of the property in its current condition to be £500,000, and £1,350,000 after the proposed refurbishment. The independent valuation also confirmed that the capital project could not be financed on commercial terms, hence this opportunity represents the only realistic means of financing the project in the current climate. The valuations of both the lease and of the property were carried out in the early part of 2020, prior to the Covid-19 pandemic and reflect market conditions at that time. It should be noted that the impact on property values is therefore uncertain.
- 4.4.6 The project partnership with UPS helps to share the risks involved in both delivering this capital investment project and in managing the premises post refurbishment.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 The decision to approve the lease in principle and the decision to delegate final terms of the lease to the Director of City Development is recommended to be exempt from call-in on the basis that the decisions are urgent due to the short timescales provided by the ESIF appraisal process and the need to confirm as quickly as possible and in line with the approval timetable set out at 2.10 above. This new lease arrangement with UPS has been developed specifically to take

into account the refurbishment and upgrade of the Media Centre, and the funding package as set out elsewhere in this report, and is therefore dependent upon the approval of the ESIF funding. The appraisal of the ESIF funding application has been significantly delayed because of the impact of Covid-19, and the reallocation of staff resources in both Leeds City Council and in Government to focus on immediate and urgent responses to the pandemic. Should the decision be delayed by the operation of the call-in mechanism, the Council could lose the opportunity to access up to £800,000 from the European Structural & Investment Funds (ESIF).

- 4.5.2 Under the terms of the Withdrawal Agreement, the UK continues to participate in the 2014-2020 European Structural and Investment Funds programme, and will do so until programme closure. Funding can be awarded to new projects until the end of December 2020 and the end of the transition period, and project delivery is permitted until 2023.
- 4.5.3 Local authorities have a general statutory power to dispose of land in any manner they wish, under section 123 of the Local Government Act 1972. The disposal must not be for less than the best consideration that can reasonably be obtained, unless specific Secretary of State consent is obtained or the disposal is permitted under the General Disposal Consent (England) 2003 which allows local authorities to dispose of any interest in land at less than the best consideration that can reasonably be obtained subject to the following conditions:
- the authority must be of the opinion that the disposal is likely to contribute to the promotion or improvement of the economic, social or environmental well-being of their area or people living or working there; and
 - the difference between the unrestricted value of the land (basically the unrestricted market value of the land, ignoring any conditions voluntarily imposed by the authority) and the actual consideration for the disposal must not exceed £2,000,000.

For the reasons set out above, the Director of City Development considers that granting the lease to UPS for the purposes outlined will contribute to improving the economic wellbeing of Leeds and the foregone market rent is within the £2,000,000 limit: therefore it is considered that the proposed lease is permitted by the General Disposal Consent.

- 4.5.4 EU State aid rules make it unlawful to use state resources to grant aid to organisations engaged in economic activity if that aid provides an advantage which distorts or has the potential to distort competition unless the aid is approved by the EU Commission or falls within an exemption. Aid includes granting a lease of state-owned property for less than best consideration. The ESIF appraisal process for the proposed refurbishment project requires a rigorous assessment of any State aid implications and the Council and UPS sought independent State aid advice to ensure that the project is fully compliant with State aid regulations. Article 56 of the General Block Exemption Regulations 651/2014 permits aid for local infrastructure up to 100% of the relevant eligible investment costs. The independent State aid advice has confirmed that the proposed use of Leeds Media Centre after the renovation works are complete falls within the definition of

local infrastructure for the purposes of the Article 56 exemption and that the granting of lease at less than market rent would be an eligible investment cost.

4.6 Risk Management

4.6.1 The proposed project has a number of risks which relate to the nature of the ESIF funding programme, risks associated with a major refurbishment project and risks over a future rental income stream which is sufficient to repay the proposed loan. The short, medium and longer term risks are set out in the project's risk register, which will be managed by LCC officers assigned to the scheme's contract management. The risk register will be regularly re-assessed during the refurbishment programme of works, and will form part of the monitoring and review meetings with UPS. Leeds City Council and UPS both have extensive experience in managing projects of this nature and appropriate Council staff will work closely with UPS to ensure all targets associated with the ESIF funding are met, and identified risks are managed and mitigated.

4.6.2 A detailed business plan has been developed which shows that UPS can continue to operate the Media Centre without any ongoing revenue subsidy from the Council.

5 Conclusions

5.1 Leeds Media Centre is a significant Council-owned property in the Chapeltown area, and has been successfully managed by UPS since 2008. The project represents an excellent opportunity to upgrade, refurbish and reconfigure an existing business centre in the Council's ownership aimed at small businesses, social enterprises and voluntary organisations, particularly those operating in the Creative sector.

5.2 The project will see the refurbished and refreshed centre attract new businesses and entrepreneurs, helping to create a vibrant enterprise environment, and helping to create additional employment opportunities.

5.3 Although there are some risks associated with the delivery of the project, these have been fully considered during project inception and development and will be carefully managed during project delivery. The partnership with a delivery partner and building operator with a track record in managing small business centres will help to mitigate these risks.

5.4 There is a clear rationale to support this proposal given its contribution to the Leeds Inclusive Growth Strategy and Best Council Plan.

5.5 The proposed 15 year lease and associated grant agreement provides a mechanism to repay £500,000 of LCC capital borrowing, reducing the overall cost to the Council of the project to £300,000. In return, the project will provide suitable accommodation for new/small businesses in the creative/digital sectors for the next 15 years and will deliver a significant enhancement to the capital value of the property asset as set out in Section 4.4.5.

6 Recommendations

6.1 Executive Board is requested to:

1. approve in principle a Full Repairing and Insuring lease of the Leeds Media Centre to Unity Property Services Ltd on a peppercorn rent basis for a term of 15 years.
2. delegate to the Director of City Development the final terms of the lease, at less than best consideration.
3. agree the exemption for call-in on the basis that the decisions are urgent due to the short timescales provided by the ESIF appraisal process.

7 Background documents¹

7.1 None.

8 Appendices

8.1 Appendix 1 - Equality, Diversity and Cohesion Impact Screening

8.2 Appendix 2 – Location Map

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.