

Delegated Decision Report - Leeds Media Centre Grant Agreements

Date: 21 May 2021

(Previous reports on 24 July 2019 and subsequent, linked decision on lease agreement of 16 December 2020)

Report of: Head of Funding Programmes and Business Support

Report to: Chief Officer Asset Management and Regeneration

Will the decision be open for call in? ☐ Yes ☒ No

Does the report contain confidential or exempt information? ☐ Yes ☒ No

What is this report about?

Including how it contributes to the city's and council's ambitions

- Leeds City Council has secured £929,961 from European Regional Development Fund (ERDF) for the Leeds Media Centre project, a £1.859m refurbishment scheme and associated business support project. The project will be delivered in partnership with Unity Property Services (UPS), the current operator of the Media Centre. The project will make the Centre more sustainable and more attractive to businesses and aspiring entrepreneurs, as well as developing the capacity of local creative and digital enterprises
- The project supports the Best Council Plan (2020-2025), contributing directly to the Best City Priorities of Inclusive Growth and Culture, as well as 3 Inclusive Growth Strategy's 'big ideas' : Backing Innovators and Entrepreneurs in Business and Social Enterprises; Supporting Places and Communities to respond to economic change; and Building a Federal Economy.
- The Ministry for Housing Communities and Local Government (MHCLG) will shortly issue the ERDF Grant Funding Agreement for the project. This must be signed by Senior Responsible Officer on behalf of the Council and returned within 14 days of receipt to enable formal delivery of the project to commence.
- An award of £300,000 grant from the Creative and Digital Workspace Fund and a loan of £500,000 to UPS was approved at Executive Board in July 2019. Once the ERDF Funding Agreement is signed, the Council will issue a grant and loan agreement to UPS to carry out the refurbishment.

Recommendations

The Delegated Decision Notice is attached. The Chief Officer Asset Management and Regeneration is recommended to:

- a) sign the ERDF Grant Funding Agreement issued by the Ministry for Housing and Local Government

- b) approve and enter into the funding agreement for the £300,000 Council grant and associated ERDF grant to Unity Property Services for the refurbishment of Leeds Media Centre

The decisions will be implemented by the following Council services: Economic Development, Land and Property, Legal Services and Financial Management.

Why is the proposal being put forward?

- 1.1 Leeds Media Centre is a Council-owned property, developed in the late 1990s 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 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.
- 1.2 The Media Centre has proved a popular 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.
- 1.3 The property, however, has long-standing issues, including a low energy efficiency rating and poor quality internal space which has been difficult to let since the centre was created. It is therefore in need of an upgrade, refurbishment and a reconfiguration to sustain and boost its function as a managed workspace. The project will reconfigure this space into a revamped business facility and some additional 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.
- 1.4 This investment, and the 15 year lease agreement (approved by Executive Board in December 2020), 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 in the Digital and Creative sectors, and to tackle the centre's economic and environmental sustainability.

What impact will this proposal have?

Wards Affected:

Have ward members been consulted? ☒ Yes ☐ No

- 2.1 An Equality Impact Assessment has been completed and indicates that the project will have a neutral or positive effect on equality groups.
- 2.2 Leeds Media Centre is located in Chapeltown, part of Chapel Allerton ward. The capital project will significantly improve the internal and external appearance of the building, which is in a prominent position on the edge of Chapeltown, and the local conservation area. The building sits between two LSOAs which fall into the top 10% most disadvantaged in England, with high levels of unemployment and benefit dependency. Chapeltown has attracted diverse communities for many decades: UPS are keen to enhance existing relationships within the local community, and to develop future initiatives relating to, for example, entrepreneurship for younger people from BME backgrounds.

- 2.3 The hub will provide an affordable opportunity for local people to get connected with initiatives at LMC and wider initiatives across the city that form part of the Leeds media ecosystem
- 2.4 It will form part of a developing cluster of centres supporting the wider creative and digital sector on the northern edge of the city centre, including Patrick Studios managed by East St Arts, which provides accommodation for visual artists, and Hope Foundry, whose ERDF application was recently approved) which will accommodate makers and other creative businesses.

What consultation and engagement has taken place?

- 3.1 The Executive Member for Inclusive Growth and Culture was consulted through the approval of the original funding package in summer 2019, through the Council's Capital Programme Review process in September 2020, and through the approval of a linked report to approve the lease arrangement between the Council and UPS in December 2020. Chapel Allerton Ward Members were consulted through a meeting held on 24 June 2019: further consultations have not taken place as the fundamental project details remain the same.
- 3.2 Senior Officers in the West Yorkshire Combined Authority, Leeds City Council Legal, Finance, and Asset Management and Regeneration have been consulted on this proposal.

What are the resource implications?

- 4.1 Capital grant funding of £300,000 from the Creative Workspace Transformation Fund, approved by the Executive Board in July 2019
- 4.2 European Regional Development Fund (ERDF) of £929,691 from the European Structural and Investment Funds Programme 2014-2020.
Note that this amount includes capital funding for the building upgrade and refurbishment, and revenue for the management and administration of the ERDF contract, and a business adviser to provide dedicated support to tenants of the Media Centre as well as in the wider creative, digital and media sector.
- 4.3 The lease with UPS will be for a period of 15 years on a peppercorn rent – the lease approval is subject of a separate decision report but referenced here for information.
- 4.4 Loan funding of £500,000 to Unity Property Services funded directly by the Council and approved by Executive Board in July 2019, which will be repaid to the Council over a 15 year period. The loan approval is also subject of a separate decision report and referenced for information.
- 4.5 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 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.
- 4.7 The costs of a contract manager and contract support officer are included in the application.

What are the legal implications?

- 5.1 The decision to award a grant to this project was agreed by the Council's Executive Board in July 2019, with the detailed terms of any funding agreement with UPS delegated to the

Director of City Development to approve. Therefore, the decision to approve the Heads of Terms for the grant agreement with UPS is an Administrative Decision and not subject to Call In.

- 5.2 The project's development has been supported by the Council's Legal section, and the drafting of the LCC grant and a separate loan agreement to Unity is in progress. The loan agreement will be the subject of a report at a later date. A due diligence assessment has been carried out to assess the risk of lending to UPS, and the interest rate determined using safe harbour rates and agreed by Finance Head of Service.
- 5.3 Independent State Aid advice was sought in relation to all aspects of this project, including the value of the lease referred to elsewhere in this report. Both the ERDF funding and the Council grant to the project constitute state aid, but these are both permissible under Article 56 of the General Block Exemption Regulation. Although the UK has now left the European Union, State Aid rules will continue to apply to projects in receipt of ERDF until the end of 2023, with project delivery taking place in line with any individual state aid approval. (ERDF State Aid Law Guidance – October 2020)

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

6.1 The main key risks include:

- Compliance with the requirements of the ERDF funding
- Risks associated with a major refurbishment project
- Ensuring the future rental income stream is sufficient for UPS to repay the loan.

- 6.2 The short, medium and longer term risks are set out in the project's risk register, which will be regularly re-assessed during project delivery 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 ERDF funding are met, and identified risks are managed and mitigated.
- 6.3 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.
- 6.4 Risk associated with use of funding for ineligible purposes/ activity will be mitigated through clauses set out within the formal legal grant agreement, which will cover the terms and conditions for both the ERDF and Council funding.
- 6.5 Risk associated with Unity Property Services ceasing to trade prior or to or during the works. The operator, Unity Property Services, is a wholly-owned subsidiary of Unity Housing Association, and is protected by the covenants relating to the housing association.
- 6.6 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.
- 6.7 Full due diligence checks have been carried out, to assess the risk of lending to UPS. On the basis of these checks, the interest rate applied to the loan was determined using 'safe harbour rates' and as required agreed by Finance Head of Service.
- 6.8 A Privacy Impact Assessment has been carried out and no risks were identified

Does this proposal support the council's 3 Key Pillars?

☒ Inclusive Growth

☐ Health and Wellbeing

☐ Climate Emergency

- 7.1 The refurbishment of Leeds Media Centre aims to make the building more sustainable and more accessible to local businesses and aspiring entrepreneurs. It 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 will contribute to three of the Growth Strategy's twelve big ideas : Backing Innovators and Entrepreneurs in Business and Social Enterprises; Supporting Places and Communities to respond to economic change; and Building a Federal Economy – helping to create jobs close to communities.
- 7.2 The Media Centre project will improve the internal and external appearance of the building, which is a prominent and well-known building in one of the most disadvantaged neighbourhoods in the city. The support offered by the business adviser will enable local enterprises in the creative and digital sectors to survive, grow and create jobs locally, enhancing the economy in the immediate area, as well as increasing capacity in the city's creative economy.
- 7.3 In addition, the project will significantly improve the building's energy efficiency rating and the project is aiming to achieve a BREEAM 'very good' rating. (BREEAM is a world-leading assessment process for the sustainability developments, infrastructure and buildings)

Options, timescales and measuring success

a) What other options were considered?

- 8.1 In the financial climate pre-pandemic, funding available to deliver against key priorities, was low. At the time of submitting the ERDF application, it was the last opportunity to access this source of funding, which subsequently closed to applications from December 2020. It presented a genuine opportunity for the Council, as a source of external grant funding which could up to 50% of the project costs.
- 8.2 Accessing a commercial loan to develop the building was considered pre-2019. However an independent valuation of the property confirmed that the capital project could not be financed on commercial terms. Therefore the proposed funding package represented the only realistic means of financing the project.
- 8.3 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, with space for independent media and music companies and other in the Creative and Digital sector.
- 8.4 The independent valuation of the property established 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 valuations of both the lease and of the property were carried out, 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.

b) How will success be measured?

- 9.1 Achievement of contracted ERDF output targets

Over the project's delivery timeframe to end 2023, the project will deliver 1,994m² of renovated business space, support a total of 84 businesses, of which 12 are expected to be new enterprises, and create 24 new jobs.

9.2 Success of the operating model

This will be considered over the longer term, monitoring the % occupancy in the building, achievement of market value rents from tenants, and maintaining this rental income over the period of the 15 year lease.

c) What is the timetable for implementation?

10.1 Implementation of the project activity will begin once all legal agreements are signed with the aim of implementing by early-mid June. The ERDF Grant Funding Agreement from MHCLG is expected to be issued imminently.

Appendices

11.1 Appendix 1 : Draft Grant Agreement

Background papers

12.1 None