

Round Foundry Media Centre

Date: 21 June 2021

Report of: Land and Property

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

- This report is to seek approval to not renew the lease on the Round Foundry Media Centre.
- This report is concerning supporting the council's Financial Strategy which in turn helps to support the Best Council Ambitions of being an Efficient, Enterprising and Healthy Organisation.

Recommendations

It is recommended that:

- a) The current lease is allowed to expire by way of the current lease term coming to its end in September 2021
- b) Steps (as set out in the confidential appendix) are undertaken in order to manage the lease end

Why is the proposal being put forward?

- 1 The Round Foundry Media Centre, located in the South Bank Regeneration area, provides office, virtual office and meeting room space specifically targeted at the creative and digital industries on flexible terms. The property is a Grade II listed former engineering works.
- 2 It has been operating since 2003. At the time of its opening, it was pioneering and one of a very few examples of flexible workspace specifically targeted at creative and digital businesses to address market failures at that time. Yorkshire Forward, the Regional Development Agency, were instrumental in its success; and they took a 15 head lease from the owners to operate the space for the sector to respond to lack of viable workspaces being delivered by the private sector.
- 3 In doing so, the RFMC was a catalyst for regeneration of adjacent sites that form a wider Round Foundry estate with other office, residential and hospitality-led accommodation. This helped to embed the area as a hub for the creative sectors. The RFMC has incubated hundreds of businesses, and major successes for the city, with a number of businesses developing and growing at the RFMC over the last 18 years.

- 4 The principal remit of public sector involvement was to address market failures to support the economic growth of the key sector as part of the regeneration vision. In this regard the RFMC has been successful and public intervention at the time justified.
- 5 Notwithstanding the success of the RFMC, the facility has operated at a financial revenue loss for the head lease since inception: the rent and liabilities of the head lease are of greater cost than the revenue received by licensees or operators at RFMC.
- 6 Following the cessation of Yorkshire Forward, the head lease passed to the Homes and Communities Agency (HCA). In 2014, the council took an assignment of the leasehold interest at the Round Foundry Media Centre (RFMC) from the Homes and Communities Agency (HCA).
- 7 The justification of this, at the time, was to continue to support the economic and regeneration recovery of this part of the city – which was hard hit by the global recession. At that time, there were large swathes of vacant land in this part of South Bank and businesses were struggling. Furthermore, in order to mitigate against this loss to the council, the assignment from the HCA was undertaken with the benefit of a dowry to help meet those shortfalls, further details of which are set out in the confidential appendix.
- 8 The lease that the council took an assignment of in 2014 was for the balance of its 15 year term; this expired in September 2018. In May 2018 approval was given by the Director of City Development to enter into a new 3 year lease. This is the current lease and it is due to come to an end in September 2021. This extension was agreed on the basis that the Council has sufficient dowry sums remaining from the HCA assignment to cover the forecast shortfalls and, as such, the RFMC has not negatively impacted on the Council's overall budget situation.
- 9 RFMC requires day to day management and on site presence; this role is provided by Creative Space Management. Occupancy has been consistently in the order of 85-95% up until Covid-19 pandemic struck.
- 10 The property has been greatly impacted by Covid-19 and the occupancy levels have fallen to in the order of 30%. This is as a result of the occupants enjoying the benefit of 'easy in and out' occupation. They have been able to vacate in order to mitigate against the costs of occupation. This has though heightened the difference between net rents received and the head rent liabilities for the council.
- 11 The lease will come to the end of its current term in September 2021. A process now needs to be instigated in order to formally bring the end of the arrangement in an appropriate and managed way; this is set out in the confidential appendix.
- 12 In considering the Council's role with the RFMC a number of factors have been considered to include:
- 13 *Market Failure* – in 2019, the Council commissioned a study into city centre managed workspace to understand the ecosystem and market failures. This found a buoyant market, with new developments in the pipeline, for serviced workspace with flexible terms, including for the creative and digital sectors. This included similar properties and rental levels to the RFMC. The market failure evident in 2003 for this type of space is no longer prevalent, with businesses having a wide range of options for workspace and a healthy pipeline of new spaces planned. These are market led and, as such, it is not considered that there is now a compelling case for continued public sector intervention, at a financial loss to the public sector, at RFMC.
- 14 *Regeneration* – Furthermore, there is substantial new regeneration being funded and delivered by the private sector in the Holbeck area, including new major office workspace under construction and over 1,200 homes. This is now one of the most active parts of Leeds' development pipeline, boosted by the opening of the Leeds Station Southern Entrance.

- 15 *Budget* – The Council has not profited from its operation at RFMC. The Council’s budget has been subject to ongoing and sustained reductions; amplified by the impacts of COVID. The dowry sum received by the HCA has covered the losses at the RFMC. Furthermore, the RFMC is considered dated and requires significant capital investment and upgrades to modernise the M&E in order to run efficiently. As set out in the exempt appendix, if the Council were to continue its lease, additional revenue and capital budget would need to be identified which would put pressure on budgets for other city services and priorities.
- 16 *Occupancy* – owing to the impacts of COVID-19, occupancy levels are now at 30% down from the average of c 85-95%. This adds to the financial liability and risks.
- 17 Put simply, for the Council to continue its lease would be to commit to an ongoing financial liability, adding to budget pressures, where there is no evidence of market failure justifying continued public sector intervention. In the context of the above, it is proposed that the Council does not renew its lease at RFMC. The property will return to the landlord who will determine the future of it.
- 18 In making this decision, the Council wishes to ensure that existing businesses are fully supported. Officers are mindful that licensees will need to identify and source new premises at a time of uncertainty. As highlighted above, market assessments indicate that there is a suitable supply of space, with necessary infrastructure, for businesses to relocate to in close proximity to the RFMC and Leeds Station.
- 19 Mindful of the disruptions, as well as wider impacts on businesses during the pandemic, it is proposed that the Council goes beyond its legal duties and commissions an agent to provide bespoke relocation support and advice to each of the remaining businesses operating from the RFMC. This is with view of making the process as seamless as possible for each of the businesses. The Council’s agent will work with businesses to identify specific barriers and measures to mitigate in so far as possible any disruption risks to them. There will be close liaison with each of the businesses through this.

What impact will this proposal have?

Wards Affected: Beeston & Holbeck		
Have ward members been consulted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

- 20 The current occupying businesses will be required to find alternative accommodation if the council is required to give vacant possession upon lease end. If this event, the council will work with effected businesses to support relocation as detailed above.

What consultation and engagement has taken place?

- 21 Ward Members have been consulted on 11 June 2021. One ward member expressed concern about the businesses in occupation and wanted assurance that support would be given to help relocation. A response has been sent back outlining the help that is to be offered to those in occupation, which goes beyond what is required under the terms of the occupational arrangement.
- 22 The then Executive Member for Resources was consulted on 14th May 2021 regarding the recommendation within this report; support was given.
- 23 The current Executive Member for Resources was consulted on 09th June 2021 regarding the recommendation within this report; support was given.
- 24 The Executive Member for Economy, Culture and Education was briefed on the proposal contained within this report on 10th June 2021 noting that support would be provided to help the impacted businesses relocate. No concerns were raised.

- 25 Engagement with the Managing Agent has taken place and the council will work with them to arrange for an appropriate winding down of the property and lease end events.
- 26 The representative for the Council's Landlord who has responsibility for their management of this particular asset, has been asked on 18th June 2021 if it would consider the property being returned to them with the current tenants in place and this was rejected. The landlord requires that the property is returned in accordance with the lease i.e. with vacant possession.

What are the resource implications?

- 27 The original leasehold interest was assigned with the benefit of a dowry to assist in the shortfall between the net rents received and the head lease liabilities to include terminal lease liabilities, details of which are set out in the confidential appendix.
- 28 In terms of officer resources, in order to bring about an appropriate and managed end to the leasehold arrangement there will be the need for officer time to assist to negotiate the terminal lease liabilities. This will include officers in Asset Management and Regeneration and Legal Services.
- 29 The onsite Managing Agent will be engaged to undertake a bespoke piece of work to support the current occupiers to find alternative locations, this goes beyond our legal duties under the occupational arrangements.

What are the legal implications?

- 30 Under Part 3, Section 3E(g) of the Council's Constitution (Officer Delegation Scheme (Executive Functions)) the Director of City Development has authority to discharge any function of the Executive in relation to Asset Management.
- 31 The Chief Officer Asset Management and Regeneration, Head of Asset Management and Deputy Head of Land and Property have authority to take decisions in relation to Asset Management as delegated in the Director of City Development's sub delegation scheme.
- 32 The proposal constitutes a Significant Operational Decision and is therefore not subject to call in. The original lease assignment was taken as a Key Decision at Executive Board in March 2014; the subsequent lease in 2018 was taken as a Significant Operational Decision.
- 33 The information contained in the Appendix attached to this report relates to the financial or business affairs of a particular person (s), and of the Council. This information is not publicly available from the statutory registers of information kept in respect of certain companies and charities. It is considered that since this information was obtained through one to one negotiations in relation to the property/land then it is not in the public interest to disclose this information at this point in time. Also it is considered that the release of such information would or would be likely to prejudice the Council's commercial interests in relation to other similar transactions in that prospective purchasers of other similar properties would have access to information about the nature and level of consideration which may prove acceptable to the Council. It is considered that whilst there may be a public interest in disclosure, much of this information will be publicly available from the Land Registry following completion of this transaction 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 exempt under Rule 10.4.3 of the Access to Information Procedure Rules.

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

- 34 The leasehold interest will come to an end in September 2021 and any associated costs relating to that are already committed to be way of having entered into the lease arrangement previously.

- 35 The risks relating to the proposal contained herein relate to the level of costs associated with the terminal liabilities most notably the dilapidation costs. Whilst there is a dowry sum to assist towards these costs, the reduction in occupancy due to Covid-19 and the additional 3 year term beyond the original lease has used the dowry to a greater degree than originally anticipated. There is a risk that there is insufficient dowry money to cover the cost of dilapidations and other costs associated with exiting the arrangements; this will be classed as an overspend.
- 36 At the end of the original lease term, discussions were undertaken with the landlord to ascertain if they would be willing to continue the centre in its current arrangement and effectively be the landlord to the current occupants. This was dismissed by them and the current lease arrangement entered into. They have been asked again on this occasion on the same point. Again, they wish to have the council as a head lessee or that the property is returned with vacant possession. In providing vacant possession there is the risk that suitable alternative accommodation cannot be found for all current occupants. It is considered that this risk is low given that there is other similar space in the city and the current pandemic has resulted in opportunities as other retract from space to work in alternative ways.

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

Inclusive Growth

Health and Wellbeing

Climate Emergency

The council's continued investment into the building has helped to secure a range of economic growth outcomes as highlighted above. Whilst the decision will mean that businesses located within the RFMC need to relocate. As highlighted, market assessments indicate that there is a healthy supply of comparable workspaces. Accordingly, the Council will provide additional support to the businesses to support their relocation as to ensure that businesses continue to operate in Leeds.

Options, timescales and measuring success

a) What other options were considered?

- 37 In considering the Council's future role at the RFMC, the following options have been taken into consideration:
- 38 *Enter into a new lease arrangement:* The subject property operates at a loss to the council and there is no identified budget to continue. A dowry sum was provided to assist with the losses at the time when the original assignment was undertaken in 2014; this was to last until the end of the lease in 2018. A further 3 year term was taken which has increased losses for the council. Sums remaining are to be used against termination costs in order to bring about a lease end. In the context of budgetary pressures for the council it is not considered appropriate to continue with a loss making operation with no identified budget to provide for this. Nor is there any reason to provide public sector support for this type of facility.
- 39 *Hold over on the current lease arrangement.* As above, whilst this may present a short term measure to enable additional time beyond the lease term, there is no identified budget to remain in a loss making arrangement.
- 40 *Head Landlord continue with the facility.* The property could continue to operate as it currently is i.e. managed workspace but without the head lease in place to the council. However, this is at the discretion of the property owner (the council's landlord) and is not for the council to be able to control this. An approach has been made to the property owner and this option has been rejected by them. They wish to have the property returned to them in accordance with the lease i.e. with vacant possession.

b) How will success be measured?

- 41 When the lease liabilities have been settled and the council exited from the interest.

c) What is the timetable for implementation?

42 The lease will come to the end of its term on 25 September 2021; this is the target date. However, the council has the right to remain after this date should it wish.

Appendices

43 One confidential appendix attached.

Background papers

44 None