

Delegated Decision Report - Leeds Media Centre - Request for Increase in Funding

Date: 6 October 2022

(Previous decision 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: Director of City Development

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 £1,859,382 capital refurbishment scheme and associated revenue business support project. The project is being 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.
- An award of £300,000 grant from the Creative and Digital Workspace Fund, a loan of £500,000 to UPS, and the linked lease and agreement for lease agreements have already been approved and agreements prepared.
- Unity Property Services have proceeded with a procurement to appoint a contractor to carry out the refurbishment. All submissions were in excess of the budget available. The total value of the scheme (including capital & revenue) is now £2,125,327 and an additional £265,945 is required to fill the funding gap.

Recommendations

The Delegated Decision Notice is attached. The Director of City Development is recommended to:

- a) Approve the additional £265,945 to the Leeds Media Centre project, to be funded from the options set out in the Confidential Appendix, which total in excess of £530,000.
- b) Authorise the inclusion of the additional £265,945 in the grant agreement to Unity Property Services.

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 Full details of the project have been presented in previous reports, and these can be found at the links at points 11.2 and 11.3 below.
- 1.3 During the summer, Unity Property Services proceeded with the procurement for a contractor to carry out the refurbishment on the building. There were four submissions, with values ranging from £1.787m to £2.75m, meaning that all of the bids were in excess of the budget available of £1.522m for the capital project (out of a total capital & revenue budget of £1,859,382). The values of the submissions emphasise the current market conditions, issues with materials supplies, continuing costs inflation and other perceived risks.
- 1.4 There have been several attempts to procure a contractor to carry out the refurbishment of the building. The first attempt attracted only a bid of around £2.75 million considerably in excess of the project budget. At this point, the project was value-engineered and re-scoped for a subsequent procurement to ensure that submitted bids were more likely to be within the available budget, and would also be able to meet key energy performance criteria of the two major funders, LCC and ERDF. These criteria are as follows: for ERDF, achievement of a BREEAM rating of 'Very Good' and for LCC, achievement of an EPC Rating of B.
- 1.5 To value-engineer the project further would create a scheme which would no longer achieve the above criteria, and which would be fundamentally different to the proposal set out in the full application for the European funding. Therefore this request for an additional £265,945 LCC funding is being put forward.

What impact will this proposal have?

Wards Affected:

Have ward members been consulted? Yes No

- 2.1 An Equality Impact Assessment has already been carried out for the overall scheme and this 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, 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 Officers from Economic Development attended Chapel Allerton Ward Councillor briefing on 12 September 2022 to provide a progress update for elected Members.
- 3.3 Senior Officers in the West Yorkshire Combined Authority, Leeds City Council Legal, Finance, and Asset Management and Regeneration have been consulted on the overall proposal.

What are the resource implications?

- 4.1 An additional £265,945 in grant funding is requested from Leeds City Council resources to cover the funding shortfall between the originally approved scheme budget of £1,859,382 and the revised scheme costs of £2,125,327.

The resource implications set out at 4.2- 4.7 below were considered at the time of approving the original grant agreement.

- 4.2 Capital grant funding of £300,000 from the Creative Workspace Transformation Fund, approved by the Executive Board in July 2019.
- 4.3 European Regional Development Fund (ERDF) of £929,691 from the European Structural and Investment Funds Programme 2014-2020.
- 4.4 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.
- 4.5 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 was subject of a separate decision report and referenced for information.
- 4.6 The approved 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 (included the funding contribution to fill the shortfall) to £545,965. 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 almost complete. The loan agreement has already been approved. 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)
- 5.4 The Appendix is Exempt/Confidential under Access to Information Procedure Rules 10.4 (3) as it related to the business / financial affairs of the Council and other parties.

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

- 6.1 The key risks for the project and the approach to mitigating these remain the same as in previous decision reports and are set out in points 6.2 – 6.8 below. The timeline for delivery of the capital works is now much shorter, and therefore the level of risk on points (i) and (ii) below is currently heightened. UPS have proceeded as far as possible with the procurement and appointment of the contractor and legal advisers for both parties are finalising the detail of all agreements between LCC and UPS.
- (i) Compliance with the requirements of the ERDF funding, particularly ensuring that the refurbishment work is completed, and all expenditure defrayed by 30 June 2023, the practical completion date.
 - (ii) Ensuring that the delivery of the capital project remains within the revised and increased budget
 - (iii) Risks associated with a major refurbishment project
 - (iv) 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, aiming to achieve an EPC Rating of B, as well as 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 LCC and UPS considered a second phase of re-scoping of the project to reduce the scheme costs further. However, this would mean that elements of the project which allow it to meet the energy performance criteria of the two funders would not be met, and would create a

project whose scope is fundamentally changed from the one described in the ERDF funding application.

- 8.2 Increasing the value of the loan to UPS was also considered. This was deemed unfeasible: one of the issues for the longer-term operating model means ensuring a sufficient future rental income stream to allow UPS to repay the loan under the currently agreed terms.
- 8.3 Seeking alternative sources of funding. There are few sources of funding whose processes would allow for an approval and expenditure within the next 6-9 months: the remaining time for delivery on the LMC refurbishment is now too short.
- 8.4 The inclusion of additional LCC funding is the only genuine option available at this point in time to enabling the project to progress in the current financial climate. This is the last opportunity to use EU funding which funds up to 50% of a project's costs, to deliver against key priorities, and if this additional funding could not be found, then the project is at risk of not proceeding.
- 8.5 Officers are exploring options with a total value of £530,000 to fund the shortfall. The options being explored are set out in the financial risk section of the Confidential Appendix.
- 8.6 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 post-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. If the value of the building is £1,350,000 after the refurbishment, then there has been a £850,000 increase in value for a Council investment of £545,945.

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 imminently, and as soon as the additional funding is approved. Unity Property Services are working with the successful contractor to ensure the activity on site can begin as soon as possible. The pressure remains the increasingly constrained timetable and the requirement from ERDF for all activity to be complete and all capital expenditure defrayed by 30 June 2023.

Appendices

- 11.1 Appendix 1: Confidential Appendix. Note that this is also the confidential appendix to the decision report for the loan and lease agreements at 11.3.

Background papers

12 None.

Related Previous Decisions

Executive Board Report of 24 July 2019 – Creative and Digital Workspace Fund

Executive Board Report of 16 December 2020 – Lease Agreement for Leeds Media Centre

Decision report for the grant agreement

<https://democracy.leeds.gov.uk/ieDecisionDetails.aspx?ID=54170>

Decision report for loan and lease agreements

<https://democracy.leeds.gov.uk/ieDecisionDetails.aspx?ID=55659>