

MIDDLESBROUGH COUNCIL

EXECUTIVE SUB

Report Title: Update on Future of Southlands Centre

Executive Member for Finance and Governance: Cllr Nicky Walker

Strategic Director for Finance, Governance & Support: James Bromley

Date 6th of September 2017

PURPOSE OF THE REPORT

1. The purpose of this report is provide an update on the ongoing discussions with the current licensees around a revised management model for the centre together with any developments in respect of further third party interest in the site.

SUMMARY OF RECOMMENDATIONS

2. It is recommended:
 - a) That Executive Sub Committee for Property note the contents of this report and the progress to date.
 - b) That Executive Sub Committee for Property agree to a short extension to allow discussions to be fully concluded with the licensees / community operator, hopefully leading to a full and final offer. A further report will come before the committee in November, which will set out in detail the final offer from the licensees / community operator together with alternative uses or subsequent offers from third parties, from which members can make an informed decision around the future use of the centre.

IF THIS IS A KEY DECISION WHICH KEY DECISION TEST APPLIES?

3. It is over the financial threshold (£150,000)
It has a significant impact on 2 or more wards
Non Key

DECISION IMPLEMENTATION DEADLINE

4. For the purposes of the scrutiny call in procedure this report is
Non-urgent
Urgent report

BACKGROUND AND EXTERNAL CONSULTATION

5. A report came to Executive Sub Committee for Property on the 22nd of March 2017, where it approved the recommendation to cease discussions with the only bidder and explore alternative viable uses for the site. Officers were required to come back to Executive Sub Committee for Property in September 2017, setting out the viable uses for the site.
6. The decision was subsequently called in and Overview and Scrutiny Board on the 20th of April 2017 upheld the decision of Executive Sub Committee for Property. Following the meeting and partly in response to a request from the Board a group of senior officers / an executive member engaged in discussion with a number of licensees resulting in an agreement to explore further options to keep the centre open.
7. The outcome of these discussions along with any other viable uses for the site were to be reported back to the Executive Sub Committee for Property in September for consideration.
8. A working group of officers was set up to lead on and work with group of licensees to investigate options to keep the centre open (See Appendix 1 for Actions Undertaken). At the same time officers would explore alternative viable options as a result of third party expressions of interest.
9. The licensee group made it clear from the outset that they wanted the Council to continue to operate the business side of the centre as they did not have the capacity to manage this themselves. In addition their offer regarding increased rent or a new management model was contingent on the leisure side of the centre operating as a separate entity managed by a third party via a lease arrangement.
10. The working group undertook a detailed assessment of the current running costs, together with a phased investment strategy for the centre, funded through significant rents increases. These were shared with both the licensees and an interested party who had previously expressed an interest in running the community activity.
11. The projected profit and loss account, phased investment costs and proposed rental increases to fund this are set out in Appendix 2. They are based on a projected occupancy level of 75% which is typical industry standard for enterprise / start up accommodation.
12. The engagement process with licensees / community operator has been undertaken in accordance with the Council Programme and Project Management (PPM) Framework, utilising Project on a Page (POAP) to ensure it has been robustly managed.

CURRENT POSITION OF THE SOUTHLANDS CENTRE

13. Currently the centre is not in a good state of repair and the facilities available to both tenants and community groups are far from ideal. The level of occupancy in the enterprise centre is low and the centre is losing money on an annual basis.
14. Due to the prolonged deliberation surrounding the centre and its future, the occupancy levels have decreased from in excess of 65% down to 55% which then presents a risk to the Council in achieving the target occupancy levels of 75% and above. In addition, income from the community side is currently projected to be 20% below that forecast for the year.

15. A high level profit and loss analysis was undertaken for the centre based on actual costs and income for 16/17, together with 8.67% for overheads, resulting in an annual deficit of £159,814 (business), £83,986 (community), £243,800 in total. However it should be noted that in the event of the closure of the facility some staff would be relocated / reallocated to undertake other work within the Council so the savings made would be less than this total.
16. An independent Condition Report highlighted in 2015 that there is a backlog of £600,000 essential repairs to compete and a further £1,335,000 worth of desirable works needed to sustain the building long term.
17. In order for the revenue position of the centre to be improved investment would need to be made in the facilities in order to improve occupancy levels and attract higher rent. It is proposed that this investment is phased over a number of years, focusing primarily on the roofs and the windows and recovered through a significant rent increase.
18. While discussions are taking place with the licensees, no assistance has been provided to businesses who wish to leave the centre, and new tenants are considered on the understanding that no final decision has been made on the future of the centre.

FUTURE OPTIONS FOR THE SOUTHLANDS CENTRE SITE

19. Discussions have taken place with the business licensees and interested party who wishes to deliver the community offer, based on the Council continuing to manage the centre and recovering its costs through increased rents. The centre would also benefit from substantial capital investment over a period of years, again recovered through increased rents, and longer lease / licence periods.
20. The Council has also received an unsolicited interest in the Centre from a third party who is interested in developing the existing facility, especially in respect of the community offer and is prepared to fund some improvements. The offer is likely be in the form of a capital sum for the freehold of the site.
21. Further discussions need to take place to tease out the future uses for the site, the level of investment, the sustainability of the offer and the level of security given to the existing users of the building and the likely capital offer. However at this time there is no firm viable offer on the table to recommend to members. Further discussions will take place with interested parties with a view to achieve such an outcome and a deadline of the end of September has been set to achieve this.
22. Currently licensees operate on a "month-in, month-out" basis. In order to make a capital investment viable it will be necessary to substantially increase the commitment in lease terms from licensees and that is part of the negotiation/discussions.
23. A further report in November will set out the final offer from the business licensees / community operator, together with the financial impact of that offer for the Council going forward. Alongside this offer members will have any other third party expressions of interest which may or may not have progressed, together with redevelopment potential for the site.
24. The report will clearly set out the benefits and risks relating to the available options. This will allow members to make an informed choice regarding the future of the

centre. However at this time we do not have a firm offer from the licensees / community operator to present and there is no guarantee that this will be forthcoming.

25. In the event that the decision is that the Council closes the facility, the existing users of the building will be given 6 months- notice and assisted in relocating to new venues both within and outside the Councils control.
26. A relocation fund of £100,000 as been initially earmarked to assist in the relocation process and officers will work closely with those affected on an individual basis to mitigate the impact of the closure and associated relocation. Further work will be undertaken to fully establish these costs and these will be presented to enable evaluation of all options in the November report to Executive Sub Committee for Property.

IMPACT ASSESSMENT

27. An Impact Assessment has been undertaken and the proposals do not disadvantage any groups in respect of human rights, equality and community cohesion.

FINANCIAL, LEGAL AND WARD IMPLICATIONS

28. **Financial** – The financial implications are set out elsewhere in this report (paragraphs 14 to 16) together with a detailed breakdown in Appendix 2.
29. **Ward Implications** – Southlands Centre is used by residents across Middlesbrough and the wider Tees valley. All ward and neighbouring ward members (Total of 9) were invited to a briefing setting out progress to date on the 18th of July 2017. A further briefing will take place with ward / neighbouring members before the final report in November.
30. **Legal Implications** – Any future proposal will be subject to existing legal practices In respect of property disposals.

RECOMMENDATIONS

31. It is recommended:
 - a) That Executive Sub Committee for Property note the contents of this report and the progress to date.
 - b) That Executive Sub Committee for Property agree to a short extension to allow discussions to be fully concluded with the licensees / community operator, hopefully leading to a full and final offer. A further report will come before the committee in November, which will set out in detail the final offer from the licensees / community operator together with alternative uses or subsequent offers from third parties, from which members can make an informed decision around the future use of the centre.

REASONS

32. Officers have engaged constructively with the users of the facility to help them develop a sustainable offer which will allow the centre to remain open.

33. Alongside this approach officers continue to speak to interested parties with a view to exploring alternative offers which could provide a viable / sustainable use for the site which promotes ongoing business /community use.
34. Once these discussions conclude and we have a range of finalised offers, members will be presented with a report setting these out in terms of costs, benefits and risks. It is hoped that this report will come forward in November of this year and will allow members to make a fully informed decision on the future of the Centre.

BACKGROUND PAPERS

35. The following background papers were used in the preparation of this report:
 - Expressions of Interest for Southlands Centre Executive Report 15th June 2016.
 - Future of Southlands Centre 22nd of March 2017

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