

**EXECUTIVE SUB-COMMITTEE FOR PROPERTY
EXECUTIVE MEMBER FOR FINANCE, GOVERNANCE AND
SUPPORT: CLLR NICKY WALKER**

Report title	Southlands Centre – Future Options	
Executive Member*	Cllr Nicky Walker	
Chief Executive or Director	James Bromiley	
Date	20 April 2018	
Purpose of the report	To set out the future options for the Southlands Centre.	
Summary of the report	Set out the latest offer from the licensees / community operator together with associated risks. Analysis of the current uses at the centre, their contribution to local community / social regeneration and consider future options for the site.	
If this is a key decision, which key decision test applies?*	Over the financial threshold (£150,000)	X
	Amends the Council’s policy framework	
	Affects two or more wards	
	Non-key	
For the purposes of scrutiny call in procedure this report is*	Exempt under s.12a Local Government Act 1972	
	Urgent	
	Non-urgent	X
If this is a confidential report, which exemption(s) from the Schedule 12a of the Local Government Act 1972 applies?	N/A	
Decision(s) asked for	<p>That Executive Sub-Committee for Property:</p> <ul style="list-style-type: none"> notes that despite the genuine efforts made over a two-year period, there is a lack of a viable business plan for the continuation of the facility; the continued substantial subsidy that it will require; the relatively small proportion of the large former school building benefiting the local community directly and the opportunity to provide a local community facility 	

	<p>which is more fit for purpose in the event of closure;</p> <ul style="list-style-type: none"> • approves the closure of the Southlands Centre over a 6 month period to facilitate and assist the relocation of the existing licensees /community groups, and agrees that the Council will provide a new fit-for-purpose community facility; • notes that revenue savings of £210,000 (based on 2017/18 figures) are achieved through the closure of the site; • agrees that community engagement commences in order to ascertain the requirements for a fit for purpose community facility that will serve the needs of the area; • notes that a further report will be submitted by September 2018 setting out in more detail the options with regard to the future of the site, and the new community facilities; and • confirms the estimated provision of £100,000 (with the use of delegated Director's powers if more is required) as previously indicated in the report of 22 March 2017 to assist in the decant of licensees.
Impact of decision(s)	The closure will result in the relocation of 28 long-term licensees and the Community Groups involved. The closure will result in an annual revenue saving in the order of £210,000 (excluding overheads).
Contact:	

What is the purpose of this report?

1. To set out the future options for the Southlands Centre, by:
 - a. setting out the current state of Southlands, and the likely financial subsidy based on the current licensee / community offer;
 - b. analysing the licensee / community offer, setting out the associated risks / benefits;
 - c. evaluating the current and future community activity at Southlands together with the wider provision within the vicinity;
 - d. proposing a transition / decanting strategy for the site.

Why is this report necessary?

2. The Executive Sub-Committee for Property on 22 November 2017 tasked officers with undertaking further due diligence and analysis on the offer to date before presenting a final report by April 2018. This report sets out the latest offer from the licensees / community operator together with associated risks, analysis of the current uses at the

centre and their contribution to local community / social regeneration and considers future options for the site.

What decisions are being asked for?

3. That Executive Sub-Committee for Property:
 - a. notes that despite the genuine efforts made over a two-year period, there is a lack of a viable business plan for the continuation of the facility; the continued substantial subsidy that it will require; the relatively small proportion of the large former school building benefiting the local community directly and the opportunity to provide a local community facility which is more fit for purpose in the event of closure;
 - b. approves the closure of the Southlands Centre over a 6 month period to facilitate and assist the relocation of the existing licensees /community groups, and agrees that the Council will provide a new fit-for-purpose community facility;
 - c. notes that revenue savings of £210,000 (based on 2017/18 figures) are achieved through the closure of the site;
 - d. agrees that community engagement commences in order to ascertain the requirements for a fit for purpose community facility that will serve the needs of the area;
 - e. notes that a further report will be submitted by September 2018 setting out in more detail the options with regard to the future of the site, and the new community facilities; and
 - f. confirms the estimated provision of £100,000 (with the use of delegated Director's powers if more is required) as previously indicated in the report of 22 March 2017 to assist in the decant of licensees. Further work has been undertaken by officers since this report which has ascertained that this sum will adequately cover the needs of the licensees.

Why is this being recommended?

4. Despite the genuine efforts made over a two-year period, there is a lack of a viable business plan for the continuation of the facility; the continued substantial subsidy that it will require; the relatively small proportion of the large former school building benefiting the local community directly and the opportunity to provide a local community facility which is more fit for purpose in the event of closure.

Background and External Consultation.

5. A report came to Executive Sub-Committee for Property on 22 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 20 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. An update report requesting a short extension was agreed by Executive Sub-Committee for Property on 6 September 2017 and then a report came to the Sub-Committee on 22 November 2017 setting out progress to date regarding ongoing discussions with the licensees and the proposed community operator.
8. It was agreed that further due diligence was required in respect of analysis of current levels of community activity delivered from the Centre, analysis of business use / demand / market mix and further due diligence on the proposed community operator's business case.
9. The Council has wherever possible sought to retain a community facility through transfer of ownership often through the Community Asset Transfer (CAT) mechanism. This has proved successful with regard to a number of facilities such as Langdon Square Community Centre, The International Centre, Pallister Park Pavilion and Hemlington Recreation Centre.
10. The former converted secondary school has operated as a business centre providing easy-in; easy-out terms (1 month notice on either party) and was intended for short term start-up business enterprises. Currently the centre is not in a good state of repair and the facilities available to both licensees and community groups are far from ideal. The level of occupancy in the enterprise centre is low and as such the centre is losing money on an annual basis.
11. An independent Condition Report highlighted in 2015 that there is a backlog of £600,000 essential repairs to complete and a further £1,335,000 worth of desirable works needed to sustain the building long term.
12. Occupancy levels have decreased from in excess of 65% down to 38% 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.
13. The total loss for 2016/17 was £122,000 (excluding overheads) and the projected loss for 2017/18 is £210,000 (excluding overheads).
14. Currently there are 28 licensees, two of whom are in arrears and one has suspended paying rent. The Council is operating on-going payment plans to address these. The current level of indebted business / organisations occupying the centre is in the order of 10%.

Progress to Date

Licensee Offer

15. A working group of officers was set up to lead on and work with the group of licensees to investigate options to keep the centre open (See Appendix 1 for Actions Undertaken).
16. 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.
17. The working group undertook a detailed assessment of the current running costs, together with a phased investment strategy for the centre, funded through significant rent increases. These were shared with both the licensees and an interested party who had previously expressed an interest in running the community activity.
18. The engagement process with licensees / community operator has been undertaken in accordance with the Council Programme and Project Management Office (PMO) Framework, utilising Project on a Page (POAP) to ensure it has been robustly managed.
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 final offer from the business licensees is that they agree to pay the following rent increases (per square foot):

	Rent Increase	Enterprise Rents	Managed Space Rents
• Year 1	0%	£7.32	£11.20
• Year 2	15%	£8.42	£12.88
• Year 3	10%	£9.26	£14.17
• Year 4	8%	£10.00	£15.30
• Year 5	6%	£10.60	£16.22
• Year 6	3%	£10.92	£16.71
• Year 7	3%	£11.25	£17.21
• Year 8	3%	£11.58	£17.72
• Year 9	3%	£11.93	£18.26
• Year 10	3%	£12.29	£18.80

21. The above offer is on the proviso that the Council undertakes a £1.764 million phased investment in the building over an 8 year period, comprising re-roofing works, window replacement and upgrading of internal finishes. These would comprise:

- phased re-covering of existing flat roofs with a high performance roofing system, improved insulation together with new outlets and rainwater goods.
- phased replacement of existing single glazed window panels, with new double glazed aluminium units together with associated insulated infill panels.
- phased replacement of worn and defective floor coverings throughout the building.
- phased replacement of worn and defective ceiling tiles, with modern suspended ceiling finishes throughout the building.

22. In addition the existing business licensees have agreed to a minimum 12 month licence as opposed to the current 1 month easy in, easy out agreement. However they believe that new businesses should be offered a discount as follows:

- 0-6 months 35%
- 6-12 months 30%
- 12-18 months 20%
- 18-24 months 10%
- 24 months 0%

23. Finally their view is they should also benefit from a 6 month tenancy agreement for the first 2 years and then move onto an annual agreement.

Community Offer

24. With respect to the community operator (community interest company), the final proposal comprises a 15 year lease of the entire community facilities. The operator will retain all income generated, but will be only partially responsible for running costs in the form of staffing, cleaning, insurance and ancillary office costs (£139,920) associated with that part of the building. In addition the operator has offered to pay the following rent:

- Year 1 £0
- Year 2 £10,000
- Year 3 £20,000
- Year 4 £30,000
- Year 5 £40,000

25. From Years 6 to 15 a 3% inflation uplift has been offered in respect of the £40,000 rent payment. The offer equates to Year 2 rent of £1.86 sqft compared to business side of £8.42 sqft Enterprise (excluding electricity) or £12.88 sqft Managed (all inclusive).

26. The community offer is also dependant on sub-letting approximately 40% of the space as a Health and Beauty Spa, Nursery and Community Café and Bar, which could potentially be in competition with the business side of the site at a much lower rent.

27. The Council would continue to be responsible for the business rates, the utility costs, building maintenance costs as well as the proposed capital improvement costs for the community side. These costs and in particular the utility costs are not split between the business and community element of the site, however an approximate estimate of the Council deficit for the community element is in the order of £82,000 annually based on the 16/17 outturn.

28. The current licensee / community offer is dependent on achieving a significant increase in the current occupancy levels without which the Council would be required to further subsidise the ongoing cost of that part of the Centre.
29. Further analysis has taken place regarding the levels of community activity delivered from the centre see Appendix 2. These activities range from those directly attributed to the locality and others which attract a wider catchment such as stage dance and fitness events, although they may also be attended by local residents. Consideration has also been given to how these activities could be relocated in the event of the centre closing.

Potential decant strategy

30. In the event that the Executive Sub-Committee for Property decides to close the Centre, it will be necessary to decant the current licensees. Appendix 3 sets out potential relocation options as part of a possible decanting strategy for the site. The Council has made available a provision of up to £100,000 with the use of delegated Directors powers if more is needed to assist in the relocation of the licensees /community groups. A detailed assessment of likely need has been carried out. Officers are confident that this is more than sufficient to facilitate the decanting of the licensees / community groups from the centre.

Proposed New Community Facility

31. In the event that the Executive Sub-Committee for Property decides to close the Centre, the Council will create a community facility to serve the area. This facility would be located in East Middlesbrough, following local consultation, and will be a fit for purpose building.

Potential asset disposal

32. The recommendations in this report do not involve disposal of the site, and therefore an asset disposal business case is not included. However, in accordance with the Council's asset disposal policy, an asset disposal business case is in preparation and will be brought forward in the event that a future report recommends disposal. Any such report which recommends disposal will also include financial analysis of the options and information on asset valuation, in accordance with usual practice.

Conclusion

33. The report has set out both the ongoing cost of the facility as it stands and the proposed licensee /community offer. The Council is not in a position to support either option due to financial pressures on the revenue budget elsewhere and the need to make savings. It is therefore necessary to consider options around closure of the Centre. In addition, there is the potential for the Council to reprovide a better, more modern facility for community use.

Recommendations

34. That Executive Sub-Committee for Property:

- a. notes that despite the genuine efforts made over a two-year period, there is a lack of a viable business plan for the continuation of the facility; the continued substantial subsidy that it will require; the relatively small proportion of the large former school building benefiting the local community directly and the opportunity to provide a local community facility which is more fit for purpose in the event of closure;
- b. approves the closure of the Southlands Centre over a 6 month period to facilitate and assist the relocation of the existing licensees /community groups, and agrees that the Council will provide a new fit-for-purpose community facility;
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- e. notes that a further report will be submitted by September 2018 setting out in more detail the options with regard to the future of the site, and the new community facility; and
- f. confirms the estimated provision of £100,000 (with the use of delegated Director's powers if more is required) as previously indicated in the report of 22 March 2017 to assist in the decant of licensees. Further work has been undertaken by officers since this report which has ascertained that this sum will adequately cover the needs of the licensees.

Reasons

35. The building is in a poor state of repair and requires substantial investment. The offers from the licensees and proposed community operator would still require a substantial subsidy from the Council and there are risks associated with the offers. The recommendations provide for the making of revenue savings to support the Council's revenue budget and statutory services for the people of Middlesbrough; a period in which businesses and community groups can locate suitable alternative premises; and the ring-fencing of the capital / income streams as necessary in the event of a future decision for disposal and redevelopment to ensure that locality benefits from the re-provision of a community facility which is fit for purpose and meet current standards.

Other potential decisions and why these have not been recommended

a) Status Quo

36. This is not a realistic option due to the current condition of the centre, occupancy levels, levels of indebtedness and its declining financial position resulting in a projected loss of £210,000 in 2017/18 (excluding overheads).

b) Progress Licensee / Community Offer

37. The offer provides for the retention of the existing licensee and community groups at the centre and seeks to address / mitigate the Council's current financial deficit.

However there are significant risks associated with it. The offer is dependent on achieving 75% occupancy levels within a 8 year period against a backdrop of businesses paying significantly higher rents over a 10 year period. Over time with these increases are likely to bring the rents in line with a number of private sector providers which will be in direct competition to the centre. In addition the Council would be committed to investing £1.764 million over an 8 year period. Though this would address the overall condition of the buildings the facility would still remain a converted 60's school and not a modern / flexible working environment. Even if these levels of occupancy can be achieved the resulting subsidy would be in the range of £470,000 to £652,000 (dependant on level of discounts / turnover) over a 10 year period.

Impacts of Recommended Decisions

38. **Legal Implications** – Any future proposal will be subject to existing legal practices and approval processes. Notice will be served on all licensees, with an extended notice period to assist in an orderly decant of the site.
39. **Financial** – The projected loss for 2017/18 for the centre is £210,000 (excluding overheads). The projected subsidy over a 10 year period based on the current licensee / community operator was originally calculated at £386,930. This was based on the known income and occupancy levels at the time i.e. 55%. However since then the income and occupancy levels have deteriorated further (38%) resulting in a projected subsidy over 10 years of £470,000 to £652,000 dependant on the level of turnover and discounts over this period and on achieving the 75% occupancy target within 8 years.
40. The cost for the new community facility will be developed in consultation with residents and will form part of the council's capital programme.

The Mayor's Vision for Middlesbrough

41. The report considers the existing direct community offer and how this can be supported going forward to facilitate social regeneration through the provision of fit for purpose community facility funded from the capital receipt / income streams derived from the redevelopment of the existing site.

Policy Framework

42. **Business Imperatives** - The continued use of the facility or the licensee / community offer is not sustainable in the long run and the Council will need to continue to subsidise the facility for the foreseeable future. Therefore based on the Council operating the facility as effectively and efficiently as possible the recommendation is that the centre closes over a 6 month period to allow the existing businesses/ licensees to relocate in an orderly manner.
43. **Physical Regeneration** - Further work is to be undertaken to establish the optimum solution for the future use of the site.

44. Social Regeneration - In the event that the Executive Sub-Committee for Property resolves to close the Centre, a new community facility will be developed.

Wards

45. **Ward Implications** – Southlands Centre is used by residents across Middlesbrough and the wider Tees Valley. All ward and neighbouring ward members (total of 9) are to be invited to a briefing on 11th of April 2018; and the licensee group are also to be briefed.

Equality and Diversity

46. An Impact Assessment was undertaken in the report to Executive Sub-Committee for Property on 22nd of March 2017. The proposals do not disadvantage any groups in respect of human rights, equality and community cohesion.

Risk

47. The current offers from the licensee group /proposed community operator present a number of significant risks to the Council:
- Current levels of failure to pay are 10% which may be exacerbated by uncertainty. No allowance built into figures for this.
 - The centre is currently only 38% full; requires uplift of 5% per year over next 8 years to achieve 75% target.
 - Risk of securing 75% occupancy sits with the Council (though above 75%, Council subsidy is less)
 - Difficult to demonstrate demand though 75% of current licensees have agreed to the proposal.
 - Borrowing costs are based on current low rates.
 - Council is exposed to future volatility of utility costs.
 - Financial resilience of the proposed community operator.
 - Capacity of the community operator to achieve the level of income to sustain his business model. Dependant on subletting approximately 40% of space which could impact on the 75% occupancy target for business side of the centre.

Actions to be taken to implement the decision(s)

48. The Council will undertake phased closure of the site over a 6 month period to facilitate orderly decanting of licensees and community groups from the building.
49. A further report to come back by September 2018 setting out in more detail the options with regard to the future use of the site and the re-provision of direct community facilities.

Appendices

50. Appendix 1 Actions Undertaken
Appendix 2 Current Community Use
Appendix 3 Business Decanting Option

Background papers

The following reports and associated minutes.

Body	Report title	Date
Executive Report	Withdrawal of Sport and Leisure Service Provision from Southlands Centre.	26 January 2016
Executive Sub-Committee for Property	Expressions of Interest for Southlands Centre	15 June 2016
Executive Sub-Committee for Property	Future of Southlands Centre	22 March 2017
Executive Sub-Committee for Property	Update on future of the Southlands Centre	6 September 2017
Executive Sub-Committee for Property	Update on the Southlands Centre	22 November 2017