

# MIDDLESBROUGH COUNCIL

## EXECUTIVE SUB COMMITTEE FOR PROPERTY

**Report Title: Update on the Southlands Centre**

**Executive Member for Finance, Governance and Support: Cllr Nicky Walker**

**Strategic Director for Finance, Governance and Support: James Bromiley**

**Date 22<sup>nd</sup> of November 2017**

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### PURPOSE OF THE REPORT

1. The purpose of this report is to provide a further update on progress to date and seek approval to undertake further due diligence and analysis on the offer to date before presenting a final report in April 2018.

### SUMMARY OF RECOMMENDATIONS

2. It is recommended that;
  - a) That Executive Sub Committee for Property consider the contents of this report and agree to officers undertaking further due diligence and analysis on the offer to date before presenting a final report in April 2018.

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

It is over the financial threshold (£150,000)	<input checked="" type="checkbox"/>
It has a significant impact on 2 or more wards	<input type="checkbox"/>
Non Key	<input type="checkbox"/>

### DECISION IMPLEMENTATION DEADLINE

3. For the purposes of the scrutiny call in procedure this report is

Non-urgent	<input checked="" type="checkbox"/>
Urgent report	<input type="checkbox"/>

If urgent please give full reasons

### BACKGROUND AND EXTERNAL CONSULTATION

4. A report came to Executive Sub Committee for Property on the 22<sup>nd</sup> 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.

5. The decision was subsequently called in and Overview and Scrutiny Board on the 20<sup>th</sup> 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.
6. 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.
7. 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 as such the centre is losing money on an annual basis.
8. 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.
9. 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. The projected loss at Q2) for year- end was £27,000 for the community side, due to reduced income and increased staffing costs, however actions will be put in place to reduce costs in order to achieve a break even at year end.
10. The total loss for 2016/17 was £122,000 (excluding overheads) and the projected loss for 2017/18 is £210,000 (excluding overheads).
11. Currently a number of existing tenants are in arrears and 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 16%.

## **PROGRES TO DATE**

12. 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.
13. 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.
14. 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.

15. The engagement process with licensees / community operator has been undertaken in accordance with the Council Programme and Project Managers (PPM) Framework, utilising Project on a Page (POAP) to ensure it has been robustly managed.
16. 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.
17. The final offer from the business tenants is that they agree to pay the following rent increases :-
  - Year 1            0%
  - Year 2            15%
  - Year 3            10%
  - Year 4            8%
  - Year 5            6%
  - Year 6-10        3%
18. 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

In addition the existing business tenants 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%

They should also benefit from a 6 month tenancy agreement for the first 2 years and then move onto an annual agreement.

19. With respect to the community operator, the final proposal comprises a 5 year lease of the entire community facilities, the operator will retain all income generated, but will be responsible for all staffing, cleaning, insurance and ancillary office costs

(£131,000) 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

20. 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 entire building including the community side.
21. The current community offer requires an ongoing subsidy from the Council and or business side which would be fully dependant on achieving the required occupancy levels and proposed rental increases. The Council would be required to still heavily subsidise the centre.
22. Further work is required to fully understand the robustness of the community offer as well as the capacity of the existing businesses to sustain the proposed rental increases bearing in mind the current levels of indebtedness. Modelling on the likely demand for business space at the centre needs to take place to ensure that the projected occupancy levels can be realistically achieved.
23. In addition further analysis is required around the current level of community activity at the site and if the proposed offer is the ideal mechanism to deliver this. A clearer understanding of how the centre contributes to the social fabric of the immediate area is required to ensure any future proposals effectively deliver on the Councils wider social regeneration objectives.

## **RISKS**

24. The current offer from the tenant group /proposed community operator present a number of significant risks:-
  - Proposed covenant from existing tenants is limited to one year.
  - Failure to attract enough new businesses to achieve the 75% occupancy levels.
  - Lease on community facility is initially only for 5 years.
  - Council is exposed to future volatility of utility costs.
  - Financial resilience of the proposed community operator.
  - Changes in the workplace environment i.e. agile working leading to reduced need for large office space.
  - Current occupancy levels are 55%
  - Potential competition / conflict between the business centre and proposed community operator.
  - Capacity of the community operator to achieve the level of income to sustain his business model
  - Current levels of indebtedness of business tenants / organisations (currently running at 16%)

## **IMPACT ASSESSMENT**

25. 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**

26. **Financial** – The financial implications will be set out in the final report which will come forward in April 2018.
27. **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 18<sup>th</sup> of July 2017.
28. **Legal Implications** – Any future proposal will be subject to existing legal practices in respect of property disposals or leases.

## **RECOMMENDATIONS**

29. It is recommended that;
- a) That Executive Sub Committee for Property consider the contents of this report and agree to officers undertaking further due diligence and analysis on the offer to date before presenting a final report in April 2018.

## **REASONS**

30. The current offer from the tenants group and community operator present a number of significant risks for the Council which requires further due diligence and analysis so that members have all of the salient facts to enable them to make a fully informed decision on the future of the centre.

## **BACKGROUND PAPERS**

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

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