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**Report of the Director of Development**

**Executive Board**

**Date: 13 December 2006**

**Subject: The former Headingley Primary School**

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**Electoral Wards Affected:**  
Headingley

**Specific Implications For:**

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In

(Details contained in the report)

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**EXECUTIVE SUMMARY**

The report addresses the issues that have been raised through the evaluation of a request from Headingley Development Trust that the disposal of the former Headingley Primary School should be postponed whilst the Trust further develops its business case and seeks funding to support an application for the ownership of the property to be transferred to the Trust at nil or at less than best consideration.

It recommends that the request should be declined because of the loss of the envisaged capital receipt, the questions about the extent to which the Headingley Development Trust's business case can be delivered and because of the risks to which the Council would be exposed.

The support that Ward Members have offered to the request has been noted in the evaluation.

## **1.0 Purpose Of This Report**

- 1.1 The purpose of the report is to recommend to Executive Board that it should approve the continuation of the current arrangements for the marketing for disposal of the former Headingley Primary School (shown on the attached plan) to support the Capital Receipts programme.

## **2.0 Background Information**

- 2.1 The former Headingley Primary School is a two storey late Victorian building of 598 m<sup>2</sup>, with a modern detached single storey block of 159 m<sup>2</sup> and a separate two storey superintendent's house located in the Headingley conservation area on Bennett Road. The school closed at the end of the 2005/06 academic year following public consultation on a proposal to close Headingley and St Michael's CE Primary Schools and establish a one form entry primary school on the St Michael's site.
- 2.2 In reporting to Executive Board (21 October 2005) when seeking approval to the closure of the school, Education Leeds did note the view expressed by community representatives and those associated with the school that the building should be retained for some form of community use.
- 2.3 However, Capital Programme assumptions have been made about the funding required for the decanting and temporary remodelling works required at the St Michael's (now Shire Oak) site and for the construction of three or four classrooms at that site as the long term provision. The temporary works have cost some £57,000 and the estimated cost of the long term provision is between £500,000 and £600,000. The total cost of the works at Shire Oak is therefore estimated at between £547,000 and £647,000. The detailed costs will not be available until tenders for the works have been received and the results of the Strategic Design Alliance feasibility study are not expected until late December 2006.
- 2.4 Executive Board did determine in October 2005 that any capital receipt generated from the disposal of the school would be used to fund primary review works including improvements on the St Michael's Primary School site.
- 2.5 Accordingly, the building has been declared surplus and passed to Development department for disposal.
- 2.6 The Development Department is now in a position to proceed with the marketing of Headingley Primary School. However, before this commenced, consideration regarding the potential for disposal at market value for community use has been undertaken in consultation with Ward Members.

## **3.0 Main Issues**

- 3.1 In order to advise upon the potential and viability of community use, two broad options have been considered, namely
- The disposal of the property on the open market to support the decanting, remodelling and long term works at the Shire Oak Primary School and other works in the Primary Review
  - The development of the property for community purposes

- 3.2 **Disposal of the property:** The estimated Open Market Value of the school property is contained in the confidential annexe to this report as are the estimated Open Market Values of the other properties in the area which the Trust is suggesting could be sold by the Council to make up the deficit in the Capital Receipts programme.
- 3.3 **The development of the property for community use:** No Council department has come forward with proposals based on service need. However, further to the comments in the October 2005 Executive Board report regarding the potential for community use, a local group, Headingley Development Trust, has come forward with a proposal for the development of the property for a centre for social and community enterprises as well as private businesses.
- 3.3.1 The approach from the Headingley Development Trust (the Trust) proposes that the Council should offer a period of exclusivity during which the property would not be disposed of to allow the Trust to build a case for an Arts and Enterprise Centre. This period was originally suggested as being for six months but there is now a recognition from the trust that a rather longer period, of up to a year, would be required.
- 3.3.2 The Trust further proposes that on completion of satisfactory progress in that period of exclusivity the Council would grant either a long leasehold or freehold interest in the property at a less than best consideration premium to facilitate the creation of a centre which the Trust argues would contribute to the development of a sustainable community in Headingley.
- 3.3.3 The Trust recognises that the Council would need to protect its interest in the property should the project fail at some future stage.
- 3.3.4 The Trust also recognises that there is a tension between the needs of the Council to dispose of assets to support its Capital Receipts programme and the proposal that the Trust is making and seeks to offer a modest capital receipt (quantified in the confidential annexe to this report) to the Council.

#### **4.0 The Trust's development proposal and business case**

- 4.1 The Trust has been developing proposals for a centre which would house social and community enterprises as well as private businesses that would pay rent and generate an income stream for the centre. Community facilities will include a performance and exhibition area, meeting and training rooms and facilities for small conferences. The centre would operate as a social enterprise but a café and catering facilities would be available operating on a commercial basis helping to provide a sound income stream for the centre. The Trust envisages that the centre would cover its own operating costs and would not be a cost to the community.
- 4.2 The definition of the Headingley Enterprise and Arts Centre project is as a sustainable community enterprise as part of the regeneration and renewal strategy that the Trust suggests Headingley needs. It aims to provide business start-up space particularly, but not exclusively, for arts and creative industries and to make enough profit in doing so to fund the continued upkeep and management of the project and to subsidise community use of parts of the building.
- 4.3 The Trust suggests that the main strengths of this proposal are its potential for building bridges between the various communities in Headingley and its provision of

a unique opportunity to provide high quality community and arts facilities and affordable space for new businesses in the creative industries

- 4.4 The Trust argues further that the loss of this school has had a severe impact on the morale of long-term residents and that its disposal for commercial use with the capital receipt funding improvements to the newly merged Shire Oak School would have only a minor mitigating effect. It goes on to say that disposal by the Council for development as luxury apartments, student housing or commercial units on the open market would have a detrimental effect on the community.
- 4.5 An initial business plan and a building cost estimate for the conversion works was submitted to the NW Area Management team and a revised business plan has now been submitted.
- 4.6 The business plan makes the assumption that the building will be transferred to the Trust in return for a modest payment and that the capital for the conversion of the building and for working capital requirements will come from the Big Lottery Community Buildings Fund, the Adventure Capital Fund, the Unity Bank and local fundraising from potential members of the Trust. The fund raising target of the Trust is quantified in the confidential annexe to the report
- 4.7 The cost of refurbishment and remodelling works is estimated by the Trust to be in the order of £750,000 excluding VAT and fees. It may be that the Trust could be offered some services on a fee-free basis by local companies. This offer extends to the project management of the refurbishment but would not extend to include the architectural, quantity surveying and site management elements or the cost of professional indemnity cover. These costs would add at least £200,000 to the total cost of the refurbishment project. The Trust is exploring how to reduce these costs but recognises that its capital plan is very tight after the payment of a modest amount to the Council.
- 4.8 The four aspects of the Trust's proposals would be the use of the upper floor as a Catalyst centre in which new businesses would start up, the former reception class and outside area would be the integral café, the recently built annexe in the playground and the remainder of the ground floor would be available for conference, meeting and training purposes, both to users of the Catalyst and to outside businesses and the ground floor would be available primarily, but not only, during the evening for community purposes including evening classes, meetings, events and exhibitions.
- 5.0 Commentary upon the proposal, the business plan and the implications for the Council**
- 5.1 Officers from both the Development and Neighbourhood & Housing Departments have been involved in assessing the Trust's proposal and its business plan. The issues revolve around three main areas to which officers wish to draw Members' attention. These issues are: the funding risks, the business plan and the impact on other community facilities.
- 5.2 The funding risks:**
- 5.2.1 A feature of the Trust's case is that the Council could make up the loss of the envisaged receipt from the disposal of the former school through the disposal of two caretakers' houses in the area. This argument is not accepted by officers because

these properties would, in the normal course of events, be sold by the Council anyway and their disposal would not, therefore, bring any “new” resources to bear.

- 5.2.2 It is also suggested that the Headingley Youth Annexe could relocate to the refurbished centre and the current property be sold with the receipt being applied to make up the Capital Receipts shortfall. This could only be achieved if the accommodation to be provided by the Trust in the centre would meet the changing operational requirements of the Youth Service. The cost of provision of this accommodation would have to be borne by the Trust as, otherwise, the capital receipt would be reduced. The revenue cost to the Council could not exceed that currently incurred at the North Lane premises. The estimate of value of the Youth Annexe is given in the confidential section of this report.
- 5.2.3 Members may also recall that it was originally proposed that the Youth Annexe function should transfer to the Royal Park premises and that the capital receipt from the North Lane premise should support that scheme. Although there is no longer a definitive commitment to continue to support the Royal Park scheme in this way, that property is now the subject of marketing to the private sector with a requirement that a new library and some community space should be provided by any successful developer. It is still possible that the Royal Park scheme will still require financial support from the council and one way of doing this could be to transfer the Youth Service function to Royal Park and use the capital receipt from the North Lane premises to meet part of the requirement for such support. The offer period for Royal park does not close until the end of January 2007
- 5.2.4 It does seem likely that a loan provider of would seek a first charge upon the building as security. This would prevent the Council from regaining possession of the building should the Trust be unable to maintain a viable future and, because of this, officers cannot recommend that such a charge be granted unless that loan provider would commit to continuing the project in very much the same form as the trust proposes.
- 5.2.5 It would, inevitably, take some time for applications to any funding organisations and the outcome is uncertain. This would pose a risk to the Council in keeping the building secure and through the unavoidable deterioration that would occur impacting on its value. Thereafter, a further period would then elapse prior to the commencement of any works to allow for detailed design, planning applications and the tender process. Experience suggests that, in total, this period may stretch to two years during which period the building would have to be secured and maintained and would remain at risk. Of course, the Trust may not be successful in obtaining the full level of grant and loan support it requires and this would mean, at the end on an initial period of exclusivity for the Trust of around 12 months that the Council could then proceed with its original intention of marketing the property.
- 5.2.6 The initial cost of the security works is estimated at £11,000, although there is a question mark over whether these are appropriate as they might actually draw unwanted attention to the fact that the building is vacant, with necessary annual costs of £6,000 also being incurred. So far, there have been no incidents of vandalism or attempted break-in at the premises.
- 5.2.7 From very recent discussions with the Trust, it does seem that there is a reduction in the scale of the refurbishment that the Trust may be proposing. There has been no clear guidance on this but the constraints on the funding that can be achieved are likely to be leading to this reduction. If the refurbishment works are less than complete, it does call into question the protection and maintenance of this building.

### 5.3 **Business plan issues:**

- 5.3.1 It is recognised that the Trust is at a relatively early stage in the development of its proposals. The Trust has been revising its business plan but the latest version does leave some questions unanswered. Any lack of credibility in the plan would mean, of course, that any potential funding organisations would be less likely to support the Trust's proposals.
- 5.3.2 The Trust has submitted a revised business plan which assumes higher income from business accommodation. The business plan has been assessed by LCC officers and feedback has now been given to the Trust.
- 5.3.3 The business plan does not take account of the allocation of space to the Council should it be determined that the disposal of operational property was required to make up for the loss of the potential receipt from the disposal of the school itself.
- 5.3.4 There would be a significant reduction in the income available to the Trust if the Council did require that space. The only revenue support that would be provided by the Council would be an amount equivalent to the current operational cost of the Youth Annexe, around £12,000 per year. It is not yet clear what impact this would have upon the Trust's current revenue forecast in respect of this space.
- 5.3.5 The Trust's proposals rely very heavily upon the business "catalyst centre" concept. Catalyst centres are largely unproven, with the exception of one in Islington and there is very little evidence in the business case to assess the feasibility of such a provision. The number of proposed members of the Trust seems high and the business case seems to be that the £10 monthly fee is of little account, with the Trust comparing it to the "price of a pint of beer" each week. Members will note, however, that this does equate to a not insubstantial £120 per annum. There is no tangible description of what this membership fee would provide. Despite these negative comments, officers would accept that a catalyst centre would work successfully on a commercial basis in Headingley if it would work anywhere in Leeds. The five catalysts proposed by the Council as part of the LEGI application rely heavily on public subsidy.
- 5.3.6 There is no statistical evidence of market demand. The business case uses phrases such as "considerable use" and "we believe there is demand for". This is particularly worrying as the proposal for the catalyst centre is driven by the "vast young educated laptop population" in North West Leeds but there is no independent evidence provided to support this.
- 5.3.7 The business plan acknowledges that 80% rate relief is a key consideration for this venture. This level of relief would be available only to a registered charity (as opposed to other types of social enterprise) but there is no mention in the business plan that HDT intends to register as a charity. Currently, there is no intention to register the charity.
- 5.3.8 If the Council were to provide the school premises at less than best consideration and the scheme then includes a commercially based café, then it could be suggested by other cafes in the area that the Council was subsidising competition. This point is also addressed in the section of this report relating to the legal and resource implications that would flow from supporting the Trust's proposals

- 5.3.9 The business plan is reliant upon loans and other forms of finance that are nowhere near finalised. It even concedes that, should these avenues prove unsuccessful, HDT would then seek more time to develop its proposals. Officers would advise that HDT should be at a more advanced stage with grant and loan applications. There is a forecast deficit in the business plan each month until the end of month 8, with a maximum cumulative deficit of over £34,000 but no indication of how this will be funded.
- 5.3.10 The viability of the business plan is reliant, in part, upon voluntary work by members of the trust. There is no long term guarantee that this voluntary work will continue and, if it had to be substituted by paid employees, the overall costs of the proposed centre could rise substantially.
- 5.3.11 One of the key impacts of the HDT project is generating long term commitment to the area. The whole idea behind a catalyst centre is that the provision is short term and that businesses develop quickly and move on. This contradicts the argument about long term commitment.

#### **5.4 The impact on other community facilities:**

- 5.4.1 The Trust is suggesting that the provision of additional room hire and meeting facilities in the area will not adversely affect the viability of other facilities such as St Chad's, St Michael's, St Columba's, the Methodist Church, South Parade or the Cardigan Centre and will, if its request for a period of exclusivity is granted, undertake a full impact analysis. It may be that there would be some opposition to the Trust's proposals from one or other of these facilities.
- 5.4.2 The Trust does not envisage that the current Community Centre on North Lane should relocate to the former primary school believing that the activities and user base are different to those that it wishes to provide. This would limit the "new" resources that the Council could, otherwise, have brought to bear. The estimated value of the North Lane Community Centre is given in the confidential section of this report. The gross internal area of the Centre is approximately 376 sq m and this would take up almost two thirds of the gross internal area of the ground floor of Headingley Primary School.
- 5.4.3 It should be noted that there is an aspiration, on the part of Youth Services, to create a "hub" in this part of the city for its activities. This would require significantly more space than is proposed in the relocation of the Headingley Youth Annexe which is, essentially, a "back-office" operation. The aspiration is at a very early stage of development and has no real status and, importantly, no budget attached.

#### **6.0 Ward Members consultation**

- 6.1 Ward Members are supportive of the Trust's proposals but acknowledge the need for the Trust and/or the Council to identify resources to cover the costs of the proposed improvements at the Shire Oak School and the need to ensure that the Enterprise and Arts Centre could support its own revenue running costs.
- 6.2 To date, the North West Inner Area Committee is aware of the proposals but formal support has not been sought. However, an information report on Headingley Development Trust will be considered at the December 2006 meeting.

## **7.0 Implications For Council Policy And Governance**

- 7.1 The Council could, if it so determined, support the request from the Trust for a six-month period of exclusivity whilst fundraising and further business planning was undertaken. However, this course of action is not recommended because of the implications for the Capital Receipts programme and risks identified below in Section 9.
- 7.2 Notwithstanding this, the Council could, if it so decided, subsequently grant a long lease of the building to the Trust, should it be able to secure all of the funding that it requires to implement its proposal, in support of the Council Plan priority of making all communities thriving and harmonious places where people are happy to live.

## **8.0 Legal And Resource Implications**

- 8.1 For the Council to forgo some or all of the planned receipt from the disposal of the former Primary School would mean a shortfall in the Capital Receipts programme. No case has been made as to why the council should accept less than best consideration for Headingley Primary School and no Council department has stepped forward to sponsor the Trust's proposals. It is therefore not clear why agreeing to the Trust's proposals would assist the Council in delivering its corporate objectives.
- 8.2 Although the immediate shortfall could be made up through the disposal of other properties in the area these would then no longer be an asset to be realised at some future date. These assets include the Headingley Youth Annexe which could be disposed of only if alternative accommodation were available, at no cost to the Council, within the Trust's scheme. The size of the accommodation required for this purpose would be around 150 m<sup>2</sup> or almost half of the main ground floor area of the Headingley Primary School building.
- 8.3 It would be possible to make up the shortfall through a reduction in the support provided to Education Leeds. It is estimated that to implement both the temporary and permanent proposals at the Shire Oak site a cost of between £547,000 and £647,000 will be incurred. A significant reduction in the support to Education Leeds would mean that the primary education facilities in the area would be inadequate and, accordingly, this approach is not recommended.
- 8.4 The grant of a long lease could protect the Council's position through ensuring that it had first call upon the assets of the Trust, in the event of its failure, although this would impact upon the Trust's ability to raise funding against those assets.
- 8.5 Supporting the request may set a precedent which would mitigate against the Council delivering its corporate objectives. There are many instances across the city of Council premises no longer required for their original operational purpose. It is common for local organisations to seek to retain these buildings for community use. If such requests are supported, the buildings are no longer available for disposal to contribute to the Capital Receipts programme which in turn supports the Council's approved Capital Programme.
- 8.6 The establishment of a commercial café, as proposed in the Trust's business plan, may breach the rules on State Aid given that the Council is being asked to transfer the ownership of the property as less than best consideration.



## **9.0 The risks for the Council in supporting the request from the Trust**

- 9.1 The Council would be exposed to the risk and cost of securing the building whilst the Trust seeks funding support for its proposals.
- 9.2 Even if the building is secured, there would be the risk that the condition of the building would deteriorate during that time and the Council would end up in possession of a building with a reduced value should the Trust be unsuccessful in its fund-raising efforts.
- 9.3 There is a risk of market conditions changing adversely during that time because of events entirely outside the Council's control. Any significant rise in the general level of interest rates could impact quite severely on the demand for and value of residential developments.
- 9.4 There is a risk that, even if the Trust is successful in its fund-raising efforts, its long term business plan could fail. It is probable that the Trust would seek loan support against the security provided by the value of the building. In these circumstances, the loan provider would have first call upon the Trust's assets. However, it should be noted that officers would recommend that the Council should not agree to the grant of a first charge on the property to any other party.
- 9.5 There is a risk that the Trust will not be able to achieve all of the funding support that it is seeking. If that is the case, then the only recourse open to the Trust would be to seek a greater level of support from the Council.
- 9.6 There is a risk that the Trust's proposals will face direct competition from a development of the former Lounge Cinema. An application was submitted in 2005 for a mixed use scheme comprising a café/restaurant and retail units with small business units to the rear together with a total of 68 car parking spaces. This application has not progressed but it does demonstrate what might happen to threaten the viability of the Trust scheme.

## **10.0 Conclusions**

- 10.1 The Trust argues that there would be benefits in supporting the request. These would include the retention of a well-remembered building in and for the community, the potential for contributing to the economic well-being of the area and the creation of exhibition and arts facilities in the area.
- 10.2 However, supporting the Trust's request for a period of exclusivity would have an immediate impact upon the Council's Capital Receipts programme with the deferment of the envisaged receipt. The Capital Receipt is required to fund the current Capital Programme. No Council department has stepped forward to support/sponsor the Trust's proposals and therefore no case is made as to why the Council should accept less than best consideration for this building.
- 10.3 Should the Trust secure the other funding that it requires and seek to complete the transfer of the building the Council would forego the whole of the forecast capital receipt amount less any payment made by the Trust.
- 10.4 The Council could, in theory, make up the immediate cash flow shortfall in the Capital Receipts programme by disposing of unused properties and by relocating services into the refurbished primary school. This could only be achieved if the Trust met the cost of the refurbishment and if the revenue cost of that space were no

greater than that currently incurred. The Trust has indicated that it would be willing to consider this course of action. However, it has to be recognised that

- (i) these receipts could be generated independently of the Trust's proposal and that there would be a real and permanent loss in the Capital receipts usable by the Council; and
- (ii) the Trust's business plan makes no allowance for the loss of income generating space which would result from a relocation of Council facilities into Headingley Primary School

- 10.5 There are significant risks to the Council in supporting the request. These relate to the security of the building, the Health & Safety risks flowing from keeping the building vacant, the possible reduction in its value should market forces change, and the extended period during which the Council could be open to accusations of inactivity.
- 10.6 Additionally, the Council would be exposed to the possibility of requests for financial support from the Trust should the business plan prove less than robust once the property was in use as proposed by the Trust. It would be difficult to decline such requests if the building was in reasonably substantial use but the revenue stream was less than necessary. At this point, the Council would be in partial occupation of the property. The Trust claims that this risk is small because it would undertake not to make any such request but clearly this cannot be guaranteed.
- 10.7 Should the business plan fail, then the Council would be left with a building from which it was providing services but was less than fully utilised. To dispose of the building at that stage, it would be necessary to relocate these services once again and other premises would have to be acquired. It is not certain that works proposed by the Trust would add to or protect the value of the building because of the alterations that it is proposing and because it is seeking to minimise the investment it would make in these alterations. A period of gradual decline in the viability of the proposed centre could reduce the expenditure on routine maintenance and this could also affect the value of the asset.
- 10.8 When viewed overall, the Headingley Development Trust's proposals would require the Council to face a significant reduction in its Capital Receipts programme and would expose the Council to a high level of financial risk both in the short and long term.
- 10.9 The business plan prepared by the Trust is not thought to be fully credible at present. Any delay in disposal or suggestion that the Council will work with the Trust to make its business plan more robust would raise aspirations in the community which might not be realistic
- 10.10 The Council cannot afford to delay because of the risk of vandalism/arson to the premises and the associated cost of security

## **11.0 Recommendations**

- 11.1 Members of Executive Board are recommended to decline the request from Headingley Development Trust to be given access to Headingley Primary School and to continue with the previously planned marketing of the property to support the Capital Receipts programme.