



## Joint Report of the Directors of City Development and Environment & Neighbourhoods

### Executive Board

Date: 4th March 2009

Subject: The former Headingley Primary School

**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 re

### EXECUTIVE SUMMARY

A request for the transfer at less than best consideration, of the former Headingley Primary School building to the Headingley Development Trust (HDT) was considered at Executive Board in December 2006. HDT proposed to operate an enterprise and arts centre – HEART - from the building. Their funding target for the scheme was £1.3 million which they aimed to raise from grants and a community share issue. The former school building was earmarked as a possible disposal for a receipt to contribute to the Council’s Capital Programme. Executive Board agreed to suspend disposal for a period initially of 6 months further extended till June 2008, to allow HDT time to raise the necessary funds. The opportunity offered to HDT also involved a requirement to take on the management of community use currently based at the Headingley Community Centre, so that the revenue savings achieved from the closure of that building could be used to balance the loss of the capital receipt from the disposal of the former school building.

HDT recently revised its budget for the scheme to £1.1 million following a redesign exercise. This included the removal of fitting out costs. HDT have secured commitments totalling £633,500 of which £500,000 are offers conditional on the full project budget being secured. Headingley ward members have supported the Heart scheme from its inception. They believe it will make a major contribution to social capital and community cohesion in their ward which has amongst the highest level of transient population in the city. They are now proposing that the Council should provide the remaining capital funds required. A new injection into the capital programme would require members concerned to agree to the cancellation of an existing commitment sufficient to cover the costs of the new proposal.

Headingley members have confirmed that they would be willing to support the cancellation of the proposed Town and District Centre Scheme for Headingley. The budget allocated to this scheme in the capital programme is £674,000. If the scheme were to be cancelled, the Council, subject to Executive Board approval, could create a new scheme for Heart to provide the £500,000 they propose, leaving a remaining sum of £174,000 to be reallocated within the Town and District Centre capital programme. The proposal of Headingley members to cancel the Town and District Centre scheme has been endorsed by the Inner North West Area Committee and a majority of residents consulted in a council supervised exercise.

The HDT business plan was appraised by officers and external advisers. The initial view formed was that the risk to the success of the project was high. HDT was able to provide further information addressing some of the concerns identified and as a result the level of risk was reassessed as lower than initially identified but remaining substantial. Outstanding concerns are that whilst there is the potential for HDT to run a sustainable business from HEART if it can get through what would be a very difficult initial period, the project lacks sufficient working capital to meet initial cash flow requirements, and that assumptions about demand and income for the managed workspaces element of the scheme, which is the main income source in the business plan, are difficult to evidence, particularly in the present economic circumstances.

In view of this continuing level of risk, officers' advice is that the Council should not agree to the transfer requested by HDT and that the Director of City Development should be authorised to proceed with the marketing of the former primary school, at an appropriate time, in line with the decision from Executive Board in November 2007.

If Members are minded, notwithstanding officers' advice, to support HDT's proposals, then this is a decision which Executive Board can take so long as it is fully aware of the risks associated with that decision and has contingency plans in place to address the situation where HDT is unable to continue to operate the building, should that situation arise. The main issues that would need to be addressed in the case of such a decision are included in the report.

## **1.0 Purpose Of This Report**

- 1.1 This report aims to resolve outstanding issues relating to the proposal of Headingley ward members, on behalf of the Headingley Development Trust (HDT), for the Council to provide £500,000 to enable HDT to develop its Heart proposal at the former Headingley Primary School.
- 1.2 The report provides Executive Board with further information about the Heart scheme and the community benefits which it aims to deliver for the Headingley area and which ward members believe justifies their proposal that the Council should support the scheme.
- 1.3 On the basis of the latest information provided by the HDT and the appraisal of its business plan, the report identifies a substantial risk that the Heart scheme will not succeed in achieving its business plan objectives and that there is a consequent risk to the Council in relation to the transfer of the asset and the provision of funds to the scheme. Consequently the report recommends that Executive Board should not agree to support the Heart scheme as requested and that, as previously determined, the marketing of the premises, at an appropriate time, to support the Capital Receipts programme should now commence.

## **2.0 Background Information**

- 2.1 This proposal for the transfer of the former school building was first reported to Executive Board in December 2006 with a recommendation that the proposal put forward by HDT did not justify a less than best disposal and that arrangements for the marketing of the property (for disposal at market value) should continue.
- 2.2 Executive Board resolved to accept the request for a period of exclusivity to be granted to HDT to allow it to work up a business case to support its proposal for the transfer of the ownership of the property.
- 2.3 The initial six-month period of exclusivity came to a close in July 2007 and a report was submitted to Executive Board in September that year but consideration was deferred to the November 2007 meeting to allow a further two month's extension to HDT. At the November 2007 meeting, it was resolved that an additional period of time should be granted, expiring on 30 June 2008, for HDT to demonstrate substantial progress.
- 2.4 HDT has presented the progress it has made since that time to officers of Environment & Neighbourhoods and City Development for consideration by the Council.

## **3.0 The changed position since November 2007**

- 3.1 The initial proposal from HDT identified an application to the Community Asset Transfer Fund for £750,000, as a key element of its funding arrangements with the application representing rather more than half of its overall requirements. HDT was advised at the end of March 2008 that its application to the Community Asset Transfer Fund had been unsuccessful. Clearly, this had an adverse impact upon the Trust's business plan. However, HDT has been successful in obtaining conditional offers of financial support from the Adventure Capital Fund. Other funding applications made by HDT have been unsuccessful.
- 3.2 As the Executive Board deadline of June 2008 approached, Headingley ward members proposed that the Council should provide £500,000 to meet HDT's funding shortfall. In order for a new capital scheme to be injected into the capital programme Executive Board have already agreed that sufficient funds would need to be released elsewhere in the programme to meet the required sum. Headingley ward members have proposed the cancellation of the Headingley Town & District Centre Regeneration scheme which has an allocation of £674,000 in the capital programme. This would allow for a new scheme of £500,000 scheme to be brought forward to support Heart. The remaining sum of £174,000 would be reallocated within the Town and District Centre capital programme elsewhere in the city. This proposal has been endorsed by the Inner North West Area Committee and by a Council supervised consultation in the Headingley community which indicated a majority of support from respondents for the ward members' proposal. There is the further consideration that some £55,000 in design and other professional fees has been expended on preparing the works for the proposed Town and District Centre Scheme. Officers advise that these costs, which could not be allocated to the capital programme if the Town and District Centre scheme is foregone, should be met from funds allocated to the Headingley ward, including Area Committee Well Being Funds, were Executive Board minded to support Headingley ward members' proposal.

## 4.0 The Trust's Proposals

4.1 HDT was set up in September 2005 to try and address issues created by the highly transient population of Headingley. Of the 24,000 residents, 60% are students. To date the trust has successfully managed two projects: a deli market and a community buyout of a natural food store that included £100,000 raised from the local community. One of the trust's earlier visions was to put the recently closed Headingley Primary School into community use, a project that is now known as Heart. HDT believes that:

'HEART ticks all the boxes in terms of responding to the key issues facing the Headingley community and exemplifying community-led enterprise and activity which supports many of the goals of the Leeds Strategic Plan and Vision for Leeds. In our view, taking the wider factors into account, the balance of issues and risks clearly comes down in favour of proceeding, and we therefore strongly urge the Council to recognise this and to take the bold decision to invest the TDC money without delay so that the project can go ahead as soon as possible.' (Heart Briefing, Dec 2008)

HDT's business proposal comprises a refurbishment of the former primary school to provide a focal point for community activity together with a 'Catalyst Centre' enterprise base for Headingley which would support start-up businesses and help them move through to managed workspace as they develop. The Heart enterprise would be open to all types of business but an important aim would be to provide networking between those engaged in arts and media businesses.

4.2 The Catalyst Centre is the main source of income for the project. A Catalyst Centre is a business centre that encourages entrepreneurship by providing workspace and a permanent business network. Catalysts operate a membership charging fee based on the amount of time a member wants to use the facilities. Prices vary from £10-300 per month. The Catalyst Centre will occupy 2,411 square feet in the building. The business plan assumes that the centre will have 120 members at an average membership level of £100 when operating at full capacity and this level can be reached within twelve months. HDT's Catalyst will differ from those in the rest of Leeds in that it will operate in an area with a high level of graduates rather than a deprived area and will focus on the arts sector. In addition HDT has been working closely with both universities to generate interest.

4.3 The Heart centre will combine the functions of the current Headingley Community Centre with meeting space for businesses and arts exhibition space. The centre will have a total meeting room area of 3,628 square feet. The proposal incorporates a cafe of 1,000 square feet that will provide internal seating for 50 covers and external seating for 30. The cafe will provide food sourced locally where possible. The business plan states it will "appeal to both those on a high income and those who are less affluent". The cafe will either be operated by HDT or an external operator. The cafe will also provide catering for events in the Heart centre.

4.4 The original cost estimate for the works proposed was £1,390,000 but HDT has recently revised that estimate by undertaking a re design exercise with its advisors that showed that the essentials of the scheme could be delivered for £1,100,000. The Trust has been advised in this matter by a team led by Brewster Bye (architects) and Cyril Sweett (quantity surveyors), who performed the same roles for Hillside Primary School in Beeston for Tiger 11. The £1.1m scheme includes provision for a new and

efficient heating system. This new budget estimate excludes the fit-out costs for the scheme. The Trust has informed the Council that it believes funds to cover the costs of fit out would be achievable from grant funds that could only be approached after a decision in principle had been taken.

4.5 The Trust's funding proposal, as at November 2007, was as shown in the table below:

<b>Funding Source</b>	<b>£ 000's</b>
Adventure Capital Fund	400
Community Share Issue	100
Inner North West Area Committee	100
Community Asset Transfer Fund	750
<b>Total</b>	<b>1,350</b>

4.6 This has now been revised to reflect the decision of the Community Asset Transfer Fund not to support the Trust's application; and the current position, proposed by the Trust, is as shown in the table below:

<b>Funding Source</b>	<b>£000's</b>
Adventure Capital Fund -loan <b>(note 1)</b>	250
Adventure Capital Fund -grant <b>(note 2)</b>	150
Share issue <b>(note 3)</b>	105
Inner NW Area Committee <b>(note 4)</b>	100
The current request to the Council	500
Contributions from Charitable Trusts	28.5
<b>Total</b>	<b>1,133.5</b>

Notes:

1. This offer is conditional upon written confirmation that all other funds required have been raised and upon acceptance by the trust prior to 28 June 2008.
2. This offer is conditional upon written confirmation that all other funds required have been raised and upon acceptance by the trust prior to 28 June 2008.
3. However, this agreement is conditional upon all other funds being in place
4. The possible contribution from the Area Committee was offered as the final element in the Trust's capital requirements. It is, therefore, conditional.

## **5.0 Officers' commentary upon the current proposal from the Trust**

5.1 In considering the proposal from HDT outlined above, officers have looked at the capital scheme proposed and the Heart business plan.

5.2 In relation to the capital scheme HDT have engaged reputable consultants to undertake the redesign of the scheme to reduce costs. However the removal of fit out costs from the new budget and the consequent need to raise further funds in addition to the amount requested from the Council is a matter of considerable concern. Clearly the building cannot be opened for business until it has been fitted out. Whilst HDT is confident it can achieve that further funding target there is a risk that they will be unable to do so and that a further request for some or all of the amount required for fitting out will be made to the Council. Furthermore the funding commitments secured by HDT include a loan of £250,000, from the Adventure Capital Fund, which would be repayable by the Council should the scheme fail and the building be returned to the Council.

- 5.3 Officers assessed HDT's Business Plan between October and December 2008. Opportunities were afforded to them to make further representations and provide additional information in support of their application during that time and subsequently. The income estimates for the café, hall, meeting and training rooms all appear reasonable. However the largest proportion of income in the Business Plan will be generated by the Catalyst Centre.
- 5.4 External professional advice has been commissioned by the Council on the letting assumptions for the Catalyst Centre and the revenue stream that would flow from these. The external advice is that the assumptions made in HDT's business plan of £120,000 to £144,000 a year are not justified by the level of market rent in the area, which is estimated to be in the region of £70,000 a year for the amount of floor space proposed at the Catalyst Centre. Even accounting for a busy 'hot desking' schedule this appears to be a very large gap. HDT believe that there is latent demand for business start up space of the kind offered by the Heart Scheme, indicating that there is unmet demand that could be attracted to Heart. Officers do not share this belief, given that there are in fact current vacancies in the 2 units managed by LMU and the unit at Park Lane College. The University has closed its unit because the low level of demand did not justify operating costs. These units have lower average charges and in some cases additional facilities compared to the Heart offer. HDT maintain that these problems stem at least in part from staffing shortages and lack of promotion. It is important to note in this regard that HEART will have a full-time worker, funded by Yorkshire Forward, to promote the facilities and "pre-sell" them in advance of opening. Nevertheless the target of 120 members paying an average of £100 per month within a year of opening does appear overly optimistic.
- 5.5 There is a further concern about initial operating capital. HDT has acknowledged a risk of around £60,000 shortfall in the first year of operation. They believe they would be able to fundraise this amount if required.
- 5.6 On balance, officers advise that it would not be prudent for the Council to support the request from HDT for the transfer of the building to proceed and for additional Council funding of at least £500,000 to be made available.

## **6.0 Ward Members Consultation and Community Benefit**

- 6.1 Ward Members are very supportive of HDT's proposals on the grounds of the considerable benefits that they believe the project would realise for the local community in Headingley. These include: the physical regeneration of the site and location; a new events, performance, meetings and private function space for the local community; significantly improved disabled access compared to the current access at the Headingley Community Centre; potential employment and trading opportunities for local residents and businesses; a new training and educational facility; a new arts and culture activity and exhibition centre; and a community café. The Heart Scheme is intended to develop a strong core of social capital and self sufficiency in the Headingley neighbourhood through enterprise and voluntarism, building a more cohesive and independent community in an area of high population transience. Headingley has a relative lack of venues available for community use compared to other neighbourhoods and wards in the city.
- 6.2 The North West Inner Area Committee has shown its support for the principle of the project and has offered £100,000 capital, conditional upon all other necessary funding being in place. At its meeting on 25 September 2008, the Area Committee also confirmed its support for the proposal to forego the existing Town & District

Centre scheme for Headingley to enable a new scheme to be brought forward to support the Heart proposal. The strong level of community support for Heart is demonstrated by the majority of support for ward members proposal in the consultation mentioned above in para 3.4 above and by the commitment of over £100,00 in share capital from community members of HDT to the Heart project.

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

- 7.1 The Council seeks to empower community organisations to underpin the creation of strong and prosperous communities. To this end, the Council has traditionally granted a range of leases of land or buildings to community organisations, which are aligned to the delivery of strategic outcomes, set out in the Council Plan. Where a request is received for property at less than market value, it is evaluated through the Council's "Less Than Best Consideration" policy which assesses the capital opportunity cost of the proposal to ensure that it is appraised on a consistent basis and satisfies Council Plan objectives. Organisational capacity, financial and constitutional safeguards on revenue resources are included within this evaluation.
- 7.2 In relation to the Quirk Review on Community Ownership of Assets and the Government White Paper on Strong and Prosperous Communities, the Council could, if it so wished, accept this request to transfer the ownership of the former primary school as being in line with the Community Centre Strategy which is aimed at optimising the distribution, level of usage and quality of community facilities across the district. The case regarding the necessary links to Council priorities is not felt to be sufficiently strong, on its own, to accept the request and that is the reason why it has been thought necessary to require that HDT should take on responsibility for delivering the services currently provided from the Headingley Community Centre.
- 7.3 Finally, the Council has a policy on the General Fund programme which also impacts on the position here. In August 2007, Executive Board approved a report which included the point that capital receipts from sites on the existing disposal programme cannot be diverted to other projects and initiatives. This means that the potential receipt from other disposals already in the disposal programme in the Headingley area cannot be used to support HDT's proposals.

## **8.0 Risks**

- 8.1 In common with any Community Asset Transfer, successfully managing a building carries risk for the community-led organisation and for the local authority considering the potential transfer.
- 8.2 In this case the principal risk to the Council is that HDT's Business Plan will not deliver its income targets and the Council will be required to either provide further subsidy or take the building back into its control.
- 8.3 There is the risk that not transferring the property to HDT and offering it for sale on the open market may not provide any benefits for the area. Private sector organisations have been shown not to be immune from failure. This risk is relatively small as it is probable that any private sector scheme would be for residential refurbishment or redevelopment which, even in these uncertain times, does offer a reasonable prospect of success.
- 8.4 The Council is currently carrying some of the risk of "doing nothing" There are security and maintenance factors which have a cost associated with them.

- 8.5 The local area is also carrying some of the risk of “doing nothing”. The property is not contributing in any meaningful way to the life of the community nor is it making a contribution to social cohesion, local enterprise delivery or inward investment.
- 8.6 There is a risk associated with the Council’s wider policy and management of Community Asset Transfer, in terms of the consistency of treatment of requests, particularly in relation to the levels of financial support provided. The request made by HDT is for a level of support far greater than that agreed with other community organisations in other parts of the city. The Council may well come under renewed pressure from such groups for a level of funding and terms of transfer comparable to this request, if it is agreed. In this connection, the points made at 8.3 to 8.5 above are important, as is the Area Committee’s determination to support the abandonment of the currently approved Town and District Centre scheme for Headingley to allow the HEART scheme to proceed.
- 8.7 There is a specific risk relating to State Aid regulations and this is being investigated by officers but it should be pointed out that this particular risk has been disregarded, for the present, when framing the overall advice to Members.

## **9.0 Mitigation of Risk**

- 9.1 The level of risk attached to HDTs proposals is assessed by officers as substantial. Nevertheless, should Members be minded, notwithstanding this assessment, to support the scheme, then officers advice is that the following conditions should be agreed with HDT in order to mitigate the level of risk to the Council:

The Council funding support of £500,000, proposed by Headingley ward members, should be made available to HDT as a long-term, interest-free, loan secured against the building but ranking after the loan secured from the Adventure Capital Fund so as not to affect that element of the funding package. The Council should also require that no further loans, secured against the building asset, should be taken without the express consent of the Council.

The cost of designs and other professional fees for the original Headingley Town and District Centre scheme of £55,000 should be defrayed from funds allocated to the Headingley ward, including Area Committee Well Being Funds.

The Council should require that its capital contribution be committed to ensuring that the refurbishment scheme provides for a minimum of any subsequent work to be required to return the building to more general use in order to protect the interests of the Council and the ACF.

The Council should retain the right to inspect the building at regular intervals and should require HDT to provide evidence of expenditure on a proper maintenance regime.

- 9.2 The Council has already set out its expectations of HDT and established that, should the request for the lease be granted, the responsibility for future repair and maintenance of the building would lie with the Trust.
- 9.3 The Council has also indicated that it would work with HDT to assist new enterprises that are created in the centre so as to support its business plan.



9.4 HDT, for its part, has confirmed that open access for all the community would be a fundamental part of its policy.

## **10.0 Recommendations**

10.1 That Members should decline the request from the Headingley Development Trust for further financial support towards the current proposal in the light of the appraisal of the capital scheme and business plan and the consequent substantial level of risk to the Council.

10.2 That should Members approve the recommendation at 10.1, the Director of City Development be instructed to make arrangements for the marketing and disposal of the property at an appropriate time.

10.3 That should Members, having regard to all that is said in paragraph 8 above, determine:-

(i) to approve the request from HDT for the transfer of the former Headingley Primary School; and

(ii) to agree that Council funding, in the amount of £500,000, be made available to support the scheme,

the Board should resolve that the proposed transfer and funding will be made subject to the imposition of the conditions outlined in paragraph 9.1 of the report.

## **Background Papers**

Executive Board Report December 2006

Executive Board Report November 2007