

<b>DECISION-MAKER:</b>	CABINET COUNCIL		
<b>SUBJECT:</b>	DEVELOPMENT OF SITES IN LORDSHILL		
<b>DATE OF DECISION:</b>	15 OCTOBER 2013 20 NOVEMBER 2013		
<b>REPORT OF:</b>	LEADER OF THE COUNCIL		
<b><u>CONTACT DETAILS</u></b>			
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#### **STATEMENT OF CONFIDENTIALITY**

The appendix attached to this report is not for publication by virtue of category 3 paragraph 10.4 of the Access to Information Procedure Rules. This is required as the report contains information relating to the potential financial or business affairs of any particular person (including the authority holding that information). It is not considered in the public interest to release this information

#### **BRIEF SUMMARY**

Further to the Cabinet and Council reports of 16<sup>th</sup> and 17<sup>th</sup> July 2013, feasibility work regarding Oaklands Pool has been completed leading to recommendations regarding the procurement and delivery of works that could be complete in October 2014. Consideration to the disposal of three related development sites in Lordshill (Oaklands Community School, Lordshill Housing Office and Lordshill Community Centre) has also been taken forward leading to a proposal to combine the disposal of the sites in a single package to secure best value for the Council.

#### **RECOMMENDATIONS:**

##### **CABINET**

- (i) To delegate authority to the Director of Environment and Economy, following consultation with the Director of Resources, the Head of Legal, HR and Democratic Services and the appropriate Cabinet Members to negotiate and agree terms of sale and dispose of the sites identified within this report
- (ii) To approve, in accordance with Financial Procedure Rules, capital expenditure of £90,000 in 2013/14 from the Economic Development and Leisure Capital programme, prior to the full scheme value being approved by Council on 20<sup>th</sup> November 2013.

- (iii) To approve, subject to Council approval on 20<sup>th</sup> November 2013, in accordance with Financial Procedure Rules, the remaining capital expenditure of £1,580,000 phased £152,000 in 2013/14, £1,423,000 in 2014/15 and £5,000 in 2015/16 from the Economic Development and Leisure Capital programme for refurbishment works at Oaklands swimming pool.
- (iv) To approve the revenue expenditure of £60,000 to implement works to secure the site and building, and to provide ongoing support to Oaklands Pool Ltd.
- (v) To authorise the Head of Finance to agree the terms and form of any future loan at an appropriate time, up to a maximum of £73,000 to Oakland's Swimming Pool Ltd.
- (vi) To allocate £133,000 from the General Fund Revenue Budget contingency of £410,700 in order to provide the additional revenue resources required as set out in recommendations (iv) and (v) above.

## **COUNCIL**

- (i) To add, in accordance with Financial Procedure Rules, an additional sum of £412,000 to the Economic Development and Leisure Capital programme for refurbishment works at Oaklands swimming pool to be funded from Council resources.

## **REASONS FOR REPORT RECOMMENDATIONS**

1. To progress the development of key sites in the Lordshill area, enabling the delivery of investment and new homes.
2. To progress the refurbishment of the Oaklands Swimming Pool building, bringing a community facility back into use.
3. To progress negotiations with Lordshill Community Association to relocate resulting in an enhanced community facility for local residents.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

4. To dispose of each development site separately – rejected on the basis that a more comprehensive proposal for the area can be delivered through a single disposal and will secure better value for the Council
5. To proceed with a reduced range of works, delivering a shorter timeframe to open the swimming pool – rejected on the grounds that the building will need sufficient investment to allow an operator to develop a customer base, and a reduced scope of works retains the risk of closures being required for further repairs and maintenance.

## **DETAIL (Including consultation carried out)**

6. Further to the Cabinet and Council reports of 16<sup>th</sup> and 17<sup>th</sup> July 2013, a considerable amount of work has been carried out to assess the works needed to deliver a viable future for Oaklands swimming pool.
7. Recommendations were made at those meetings to shorten the timescales for delivery of capital works as far as possible, and procurement methods to

address the aspiration for quick delivery have been considered

8. A method of procurement known as Prime Cost has been recommended and it is anticipated that this will enable works to be completed by October 2014. There will subsequently be some time required for the operator of the pool to prepare for opening before public access will resume.
9. The works proposed are planned to deliver a 15 year lifetime for the building and the mechanical and electrical elements. They include a comprehensive replacement and refurbishment of the pool plant, repairs to the roof and ceilings, alongside the provision of new flooring.
10. The procurement approach will secure contractors on site in January 2014. In the interim, it is proposed to implement some roof repairs, required as a result of vandalism in recent months. This will keep the building watertight over the next few months and will not be abortive work. The site will also be made secure.
11. Prime Cost is not a procurement route that the council tends to use as there are potential cost risks associated with this approach. The contractor does not tender on a firm contract sum as the exact nature and extent of the work is not known at the time of the appointment. Full design documents are not completed until after work has commenced and the condition of hidden elements, such as buried pipes become known. Options for mitigating the risks associated with this approach focus mainly on additional quantity surveyor resource which is provided on site to value the works as they are carried out and to monitor the resources being used. Strong client supervision combined with a contractor with reasonable labour costs and a good supply chain can deliver benefits in the right circumstances. In essence this approach shifts the cost estimate risk from the contractor to the council and so a larger than usual contingency of 20% has been built into the estimate.. However, it should be noted that traditional procurement routes can still result in extra costs and overspends in some circumstances and the nature of this project does lend itself more to prime cost method than would more straight forward building refurbishment projects. The likelihood (see paragraphs 17 and 18) of having to include as yet unknown extra works for the adjacent former nursery building during the contract also fit well with the flexibility of the prime cost approach.

Capita advise that this would also be the quickest contract procurement route possible to secure a 15 year life for the building. A more conventional method of procurement would take several months longer. An earlier completion allows some preparation prior to the start of the winter School term, which subsequently enables a positive start to the trading period as lessons and group bookings are often based on School terms.

12. The Community group has formed a Company Limited by Guarantee (Oaklands Pool Ltd) and has done an extensive amount of work to produce a business plan. The Consultants assisting them with their development recognise some strengths and weakness in the current plans and structure:
  - “The business plan .... is now much improved and has significantly developed, ...there is a rationale for how the income projections have been developed... the income is considered to be realistic and

achievable with the correct marketing and promotion”

- “we have concerns that the present committee requires bolstering with expertise from the Financial and Legal profession.....Without up front financial assistance and an improved level of Business Expertise on the Board namely Finance and Legal expertise OCP will not be in a position to manage and operate Oaklands Swimming Pool. “

13. The business plan projects a loss in year 1 with surpluses rising from then on, as set out in the table below:

	<b>Forecast profit (loss)</b> <b>£</b>
Year 1	(10,249)
Year 2	1,526
Year 3	43,603
Year 4	45,371
Year 5	47,336

A sensitivity analysis shows that should income fall by 10% from projections, losses of £35,000 - £40,000 would be incurred in years 1 and 2.

14. The current business plan allows for paying full business rates. The group’s intention is to apply for Charitable status, which would create further headroom in the business plan. This will take some time and initial costs. As reflected in the consultants advice above, the business management skills and experience in the community group are currently limited and there remains a reasonable risk of the community group failing to meet its business and income projections, with the subsequent risk of the organisation failing. This could lead to the closure of the pool while an alternative operator was sought.
15. It is proposed that ongoing support from the consultant is provided, to help address the weakness identified above, so that the Council’s investment is safeguarded and sufficient reassurances regarding preparing appropriately for opening can be secured.
16. Should the community group fail to make the necessary progress towards securing the additional skills and experience and enable the business consultant, or Officers, to present a positive recommendation to the Council it will still be possible for the Council to secure an alternative operator for the swimming pool. Equally, should the community group start to operate the pool, but fail to deliver a sustainable model, the Council would seek to regain the property under the terms of the lease and seek an alternative operator. However the ability of the Council to actually terminate the lease will depend on the terms of the lease, yet to be discussed and agreed, and the circumstances at the time. The Council would not be liable for any losses that the group would accrue, although it would be unlikely that any outstanding loan payments would be secured.

17. Discussions with Lordshill Community Association have been taking place about the occupation of buildings on the former school site. Their current facilities are on a site close to the former school, in two interlinked buildings; an older porta-cabin style building and a more recently constructed modular building. Discussions about the former Special Educational Needs (SEN) building have concluded that this will not meet their needs, but the Association have expressed an interest in locating to the former nursery building which is part of the Pool building. Negotiations are ongoing as to the detailed terms of any such occupation. The decision on the SEN building means that this can now be included in the demolition, incurring additional costs in the short term, but increasing the scope of the site for development.
18. An assessment of the impact, if any, that the works to the pool building will have on the Nursery area is required. The costs of carrying out this assessment are included in the capital costs in paragraph 24. In addition, the site has significant variations in levels and a means of providing access to the Nursery building from the new Car Park will have to be provided, should the occupation of the building proceed. Further work is needed to clarify the costs of these works.
19. Should the negotiations with Lordshill Community Association regarding the occupation of the Nursery building prove fruitful the Association will vacate its current site. This will free up the site to contribute to the development values referred to in appendix one. Some minor works will be required to ensure the former nursery building is fit for purpose as a community centre
20. The disposal of the rest of the former school site is to be combined with the disposal of the Lordshill Housing Office and Community Association sites, to provide a larger land deal to secure the best value for the Council. This is subject to the Community Association moving to the nursery building on the former school site, and vacant possession being obtained.
21. Receipts from the sale of the sites could be achieved in 2015/16, subject to vacant possession being achieved for the community centre site.

## **RESOURCE IMPLICATIONS**

### **Capital**

22. The £1,258,000 scheme for Pool Refurbishment Works was added to the Economic Development and Leisure Capital Programme by Council on 17<sup>th</sup> July 2013 funded from Council Resources.
23. Further to the detail now available within this study, together with a requirement for shortened timescales for the delivery of capital works, the latest estimated costs required to deliver the project are set out below. It is now anticipated that this will enable works to be completed by October 2014.

	<b>£000's</b>
Total cost of pool works including fees and contingency	1,520.0
Estimated car park costs based on £3,000 per space	150.0
<b>Total estimated costs</b>	<b>1,670.0</b>
Funding approved on 17 <sup>th</sup> July 2013	1,258.0
<b>Additional capital funding required</b>	<b>412.0</b>

24. It should be noted that the prime cost procurement method described within the report carries with it certain risks which have been identified, in particular the potential for cost overrun or a partially unfinished project. A contingency sum has been allowed within the overall cost envelope but there is a risk that this will be insufficient even if mitigating action is taken.
25. The costs of providing access to the Nursery building entrance have yet to be assessed, and could require additional funding.
26. In order to achieve the October deadline for completion of the works, design and procurement activity is underway. Costs of £90,000 will have been incurred up to the point of the Council decision on 20<sup>th</sup> November 2013.
27. It is proposed that funding for the project will be from Council resources. A capital receipt will be generated from the sale of the site and whilst we do not earmark specific receipts to ensure flexible funding of the capital programme, this receipt will contribute to the overall resources available to fund the Capital Programme.
28. Works to assess the potential development value of the former school site, the Lordshill Housing Office site and the Lordshill Community Centre site, both individually and collectively, have progressed. Confidential appendix one contains indicative values of the sites. Lordshill Housing Office is surplus to requirements and is currently unoccupied. It is not required for use by any other service within the council.
29. It should be noted that both the Lordshill Housing Office site and the Community centre site are within Housing Revenue Account (HRA) ownership. Any capital receipts associated with these sites will be retained by the HRA.

### **Revenue**

30. The revenue costs of the project are summarised in the table below:

	<b>£000's</b>
Start up support for Oaklands Pool Ltd	73.0
Immediate repairs and security	13.0
Demolition of Special Educational Needs building	30.0
Consultant Support	17.0
<b>Total</b>	<b>133.0</b>

31. In order to prepare properly for opening, to cover the projected deficit in the first year and to secure necessary equipment that fall outside of the capital works Oaklands Pool Ltd require start up funding. The total is estimated to be £73,000 and it is proposed that the Council offer a loan to Oaklands Pool Ltd to assist with bridging this shortfall in the early years. It is hoped that the group will seek and secure external funding to reduce the amount of funding required, whilst any reduction in the business rate bill may also help to reduce the term of the repayment. The form and terms of any future loan at an appropriate time, up to a maximum of £73,000 to Oakland's Swimming Pool Ltd, will be agreed by the Chief Financial Officer.
32. The revenue costs, including the loan requirements are estimated to be £53,000 in 2013/14 and £80,000 in 2014/15, subject to anticipated progress by the community group on securing charitable status.
33. There remains a reasonable risk of the community group failing to meet its business and income projections, with the subsequent risk of the organisation failing. This could lead to the closure of the pool while an alternative operator was sought. Any costs associated with this would need to be assessed separately and at this stage no provision has been made for this.

#### **Property/Other**

34. Oaklands Community Pool group have requested a 25 year lease and this is currently being considered by the council, alongside the obligation of a full repairing responsibility. This length has been requested by the Community Group to assist in attracting external funding. The business plan shows reasonable levels of maintenance budgets, and the building will have been subject to a comprehensive refurbishment. It is not anticipated that revenue funding will be ongoing, and so the site will be disposed of through a lease with permitted uses clauses directing the anticipated uses. There is not expected to be a management agreement or service concession to influence service design or delivery.
35. The pool building will need ongoing investment and care to ensure it can last beyond the 15 years delivered by the refurbishment programme. The business plan shows over £80,000 p.a from year 3 onwards available for building and equipment maintenance and repair. This, alongside the projected surpluses demonstrates an acceptable allowance for meeting this need.
36. The indicative values of the three sites are identified in confidential appendix one. The values assume that a successful purchaser will seek to locate the affordable housing elements of the scheme on the former housing office and community centre sites. However this will be for the developer to take a view on, and will be subject to the planning permission granted for the sites.

#### **LEGAL IMPLICATIONS**

##### **Statutory power to undertake proposals in the report:**

37. Pursuant to section 19 of the Local Government (Miscellaneous Provisions) Act 1976, a local authority may provide such recreational facilities as it sees fit, including indoor or outdoor swimming pools and any related facilities.

**Other Legal Implications:**

38. It should be noted that the prime cost procurement method described within the paper carries with it certain risks also identified within the paper, and particularly the potential for cost overrun or a partially unfinished project. This should be balanced against the potential advantages of this approach, notably a project finish date approximately 2 months earlier than possible if utilising a more predictable procurement method. State aid rules may apply to the proposed arrangements with the community group, depending on the overall value of the assistance provided.

**POLICY FRAMEWORK IMPLICATIONS**

39. The proposals are in line with the Council's Policy Framework

**KEY DECISION?** Yes

<b>WARDS/COMMUNITIES AFFECTED:</b>	Predominantly Coxford
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**SUPPORTING DOCUMENTATION**

**Appendices**

1.	Lordshill Site Valuations - Confidential
2.	

**Documents In Members' Rooms**

1.	
2.	

**Equality Impact Assessment**

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	Yes/No
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**Other Background Documents**

**Equality Impact Assessment and Other Background documents available for inspection at:**

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
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1.		
2.		