

**To: Communities and Partnerships Scrutiny Committee 29th March 2010
City Executive Board 31st March 2010**

Item No:

Report of: Head of Community Housing and Community Development

Title of Report: Business Planning for the Old Fire Station Development

Summary and Recommendations

Purpose of report: To outline the options and recommend a business plan model for the Old Fire Station Development

Key decision: Yes

Executive lead member: Councillor Bob Price

Report approved by:

Finance: Gillian Chandler

Legal: Steve Smith

Policy Framework:

Corporate Plan Priorities: -

- More housing, better housing for all
- Stronger and more inclusive Communities
- Improve the local environment, economy and quality of life

Homelessness Strategy 2008-2011

Arts Strategic Plan

Regeneration Framework

Recommendation(s):

1. It is recommended to the City Executive Board that Option B – the Arts Company Operation be adopted for the delivery of the future OFS.

Introduction

1. Following a successful bid to the Places of Change Programme, Oxford City Council and Crisis are collaborating to transform the Old Fire Station (OFS) building into a high quality, multi-disciplinary arts and community resource for Oxford, at the heart of which will be a Crisis Skylight and social enterprise café.
2. A previous report to CEB in January 2010 approved the proposed design and development of the Old Fire Station, together with associated capital funding of £3.47m.
3. Key dates are summarised as follows:-

Planning Consent Granted	9 th February 2010
Contractor Interviews	12 th February 2010

Handover of building	1 st June 2010
Formal appointment of contractor	25 th June 2010
Start on Site	26 th July 2010
Completion on Site	9 th May 2011
Opening	6 th June 2011

4. A high level programme plan is attached in Appendix 1
5. However, the success of the Old Fire Station is linked not only to the high quality refurbishment but the ability to provide a sustainable venture that will minimise the call on public sector funding and this report is concerned with the proposed ongoing operation of the facility once the redevelopment is complete.
6. In light of the lack of public sector funding and an absolute requirement that the project washes its face financially, the arts-related activities have to be considered in relation to the potential income they could contribute to meet expenditure costs.
7. For this purpose, a “Business Planning and Revenue Sub-Group” was set up by the OFS Project Board to identify a viable and sustainable business plan for the OFS.
8. This work has included an initial feasibility study and detailed examination of two models for the management of OFS: a “hiring” model and model which includes the establishment of an arts management company with charitable status.
9. The OFS Project Board engaged an arts specialist to develop both models, to ensure input and comment from the City Council’s finance and legal teams and analyse the demand for the spaces by producing:-
 - An outline business plan for each model,
 - 5 year budget projection for both models.
 - Year 0 costs (pre-opening operation) for each model
 - An overview of how each model would best link with the work of Crisis Skylight
 - Notional programme for the main arts spaces to ensure that the levels of use projected are achievable and the demand is within the sector.
10. This report and its appendices present the findings of the consultant’s final report which outlines the two options and recommends a business plan model for the arts-related spaces at the OFS.
11. It should be noted that the Crisis Skylight and the social enterprise café are to be funded directly by Crisis at an estimated revenue cost of £700k per annum.

The Vision for the OFS

12. The overall vision for the OFS is to create a unique, dynamic and inspirational centre for creativity, skills development and enterprise in Oxford.
13. At its heart will be a new Crisis Skylight centre providing education, training and employment opportunities for homeless and vulnerably housed people and a social enterprise Crisis Skylight Café, open to the public.
14. There will also be high quality, flexible spaces for artistic professional development and training, and for community groups to use for performance and visual arts events, regular classes and courses for the public. These spaces will comprise an auditorium, a gallery and retail space, and a creative workspace for artists and designers.

15. Brought together under one roof and through interconnected spaces, people from across the city will be able to meet, learn, network, participate and move forward in their lives.
16. This vision is integral to the building's ability to retain its active role in the arts and cultural sector in Oxford whilst, at the same time, helping to end homelessness in the city – making it a true place of change for the whole community.

Aims of the OFS

17. The range of spaces within the OFS will run alongside each other, encouraging interaction and collaboration. These spaces will include:
 - an accredited education, training and employment centre for homeless and vulnerably housed people;
 - a social enterprise café providing on the job and accredited training and experience;
 - a flexible 141 seat arts auditorium for continuing professional development across art forms, and for rehearsal, training and performance use;
 - a flexible professional gallery to showcase new work;
 - a small commercial retail space for artists and makers to exhibit and sell work;
 - an affordable creative workspace for emerging professional artists, including those involved in digital technologies
18. These spaces will offer a range of supportive activities alongside professional development, creative learning and showcasing opportunities. They will be accessible to all to rediscover their potential and develop new skill. They will promote new talent and encourage a cutting edge culture of creative learning and the development of new work within a professional environment, focusing particularly on the visual arts, digital technology, dance and music.

Overview of the Options

19. The consultant's report identifies two possible ways of operating the OFS which are summarised in his report attached in Appendix 2: –
 - Option A - The Hall for Hire Operation
 - Option B – The Arts Company with charitable status Operation.

Option A – The Hall for Hire Operation

20. An outline business plan and financial model for Option A are attached in Appendices 3 and 3a.

Operational Approach

There are two key elements to this model:-

- The operation of a number of spaces for hire to generate as much income as possible.
- The building is managed under contract from Crisis UK by a third party management company.

Governance and Staffing

21. The governance of all aspects of the project would be with the trustees/directors of Crisis. Crisis would enter into a lease arrangement with the City Council and the leasing structure will permit the grant of a sub-lease(s) to a third party or similar in respect of the running and operation of the arts/cultural elements. Detailed terms and conditions, including any required variations to the leasing structure would be approved by the Head of Corporate Assets.

22. Crisis UK would then enter into a contract with a suitable third party management company, following a tendering process.

23. The third party would then employ a staff team to run the operation.

Meeting the Vision

24. Option A is a simple model and although it does not meet the original vision for the OFS artistically it is safe, its potential for growth is limited over a period of time and it is unlikely to attract further external funding due to the restrictions of the company and the activities.

Links with Crisis Skylight

25. Option A would also involve limited links with Crisis Skylight. As there will be no creative staff within the operation, each user will be an isolated activity, and there will be no overall programme. As such, any links with Skylight's work will have to be established through one to one contact between Skylight staff and each user.

Financials

Pre-operational Period (Year 0)

26. An operation will need to be in place before the building is open for use to undertake activities such as marketing the facilities and accepting hires. Year 0 costs for Option A are found on p6 of Appendix 2.

27. It is anticipated that Year 0 costs for this option are in the region of £22k and it is suggested that the covering of these costs will need to be part of the tender bid by the management companies, with costs to be carried forward and recovered over the operating years.

Income and Expenditure

28. The financial model for Option A is attached in Appendix 3a.

29. Forecasted figures show that Option A will cover its costs in Year 4 of the financial statements.

30. These figures show that there is a reliance on a spread of incomes across a number of different streams which reduces the risk that should one income stream be lower there is potential to increase income from a different stream.

31. This business model assumes that the building is leased to Crisis on a rent neutral basis and in accordance with best practice the Council will be proposing to deal with this through the charging of a market rent which will be 'recycled' through grant.

Option B – An Arts Company with charitable status

32. An outline business plan and financial model for Option B are attached in Appendices 4 and 4a.

Operational Approach

33. The key elements of this model are:-

- To set up an arts company limited by guarantee with charitable status which will have an operational approach that will initially be developed through hires, but will be organised and coordinated by an arts team who will be looking to create an overall programme of activities

- To create an overall programme of activities that meets the needs of the artists and art groups, linked to Skylight and present opportunities to the public to participate in and/or view a regular and coordinated programme of activities and events.

Governance and Staffing

34. The intended arrangement for the letting of the property will be by way of a lease of the whole building to Crisis UK. The leasing structure will permit the grant of a sub-lease(s) to an arts company or similar in respect of the running and operation of the arts/cultural elements. Detailed terms and conditions, including any required variations to the leasing structure will be approved by the Head of Corporate Assets.
35. The company will be set up with standard arts objectives and will be led through a board of approx 12 Directors/Trustees. A Chair, Treasurer and Secretary will be initially appointed by key stakeholders (but not be representative) and this would need to happen before the building works commence.
36. This board will in turn employ a staff team.

Vision

37. This option offers a vision that is close to what was originally envisaged and has the ability to deliver an ambitious programme of arts activities. It is likely to attract further support, interest and funding and allow the project to develop over time to something approaching the full potential.

Links with Crisis Skylight

38. Within the arts company model the capacity to develop these aspects will be central to the company's purpose and key in the appointment of staff.

Financials

Pre-operational Period (Year 0)

39. An operation will need to be in place before the building is open to market the facilities and accept hires. Year 0 costs for Option B are found on p6 of Appendix 2.
40. The run-in period for Option B is longer due to the nature of the future business and the need to build links with suitable partners, including Crisis, to ensure a programme of activity that meets need and demand.
41. These costs are currently projected to be in the region of £65k for Option B and it has been assumed that this cost will be subsidised. A number of possibilities have been identified including an application to the Arts Council for £10k, recommissioning of the arts budget, fundraising by the directors of the charitable company, reducing initial staff costs by seconding an OCC staff member to help set up initial bookings. Early commitment should be sought from potential room hirers to establish and confirm income streams. OCC could commit to hiring the space for planned meetings (e.g. management practice group meetings).

Income and Expenditure

42. The financial model for Option B is attached in Appendix 4a.
43. This proposed operation indicates that the facility will cover its costs in Year 4 of the forecasted financial statements.
44. These figures show that there is a reliance on a spread of incomes across a number of different streams which reduces the risk that should one income stream be lower there is potential to increase income from a different stream.

45. This business model assumes that the building is leased to Crisis on a rent neutral basis and in accordance with best practice the Council will be proposing to deal with this through the charging of a market rent which will be 'recycled' through grant

Percentage Use and Rates

46. Initial analysis has shown that there is demand for the spaces and the percentage usage has been modelled on conservative estimations and following feedback from the arts sector, the rates have also been modelled on figures that are affordable to the sector.

47. It is worth noting that it is the availability of the performance space that makes the business plan sustainable. This was originally designated as a Crisis space but has been added to the arts spaces in order to further potential revenue streams.

48. The gallery rent is based on the current situation with OVADA where a grant of £15k from Oxford City Council covers the rent and it would be necessary for this arrangement to continue.

49. Many of the designated Crisis Skylight spaces will also be available for hire in the evenings. These spaces include

- The IT Room
- The Training Room with access to a Roof Garden
- The Activity Room (which could be used for yoga classes)
- The Art Room

50. Income from these spaces are not reflected in the business model as the income would essentially go to Crisis. However, there would be a % charge for the administration of the hire and % of the profit to be negotiated.

Programming

51. Based on the operational approach of Option B, a notional programme for the patterns of use for the main arts spaces is attached in Appendix 5. It has been developed in order to establish possible patterns of use so it is clear that the levels of use, suggested by the budgets, can be achieved and that uses are not incompatible.

52. The hires model does not provide for active programming and therefore levels of use are projected on a percentage basis and using previous identified overall use levels.

Level of Risk

53. A risk analysis of both options is found in Brian Harris' report, attached in Appendix 2.

54. A risk register for taking forward Option B is attached in Appendix 6. Further work is needed to develop the necessary action plan to mitigate the risks.

Financial implications

55. The recommended business operation assumes a rent neutral position. Confirmation that this can be achieved will be required before a lease "heads of terms" can be agreed.

56. The recommended model assumes £65k start up monies is available and the work identified in this report needs to be undertaken to confirm these sources.

57. Audit and legal costs are shown as rising from £1,750 in the first year. This figure is low and would exclude the legal cost of preparing standard hire agreements with users.
58. The consultant's report supports the view that the business model is financially viable and could be made to work as a self-funding arts project. His conclusions are based on tested financial information and his own extensive experience. Option B is a financially viable business model and could work as a self-funding arts project.
59. Further work around risks and some sensitivity analysis is required to test the key numbers further and this will be done after a decision regarding the legal status of the business entity has been made.

Legal Implications.

60. It is proposed that the Council should grant a lease of the building to Crisis on terms to be agreed and Crisis should subsequently be permitted to grant a sub-lease of the building to a newly created company limited by guarantee set up specifically to operate the arts elements of the OFS. The Council will have the right to nominate a director of the company.
61. Appendices 3,3a, 4 and 4a are exempt from publication by virtue of paragraph 3 of Schedule 12A to the Local Government Act 1972 - information relating to the financial or business affairs of any particular person [including the authority holding that information]. The public interest in maintaining an exemption is that any future negotiations relating to the business is not compromised.

Summary

62. This report has been prepared following decisions by the Old Fire Station Project Board. Its purpose is to present and evaluate the two options for delivering the arts elements of the Old Fire Station. It has looked at these two options from both a financial and non-financial perspective. Both options present financially sustainable models over a 5-year period. However, Option B would require funding of approximately £65k to cover Year 0 costs.
63. Although Option A may deliver a useful addition to the arts and community resources of Oxford it does not meet the stakeholders' original vision for the project and this may compromise the capital funding from the HCA.
64. Option B offers a vision that is closer to the original vision. It has the ability built into it to deliver much more of the inspirational and ambitious vision that accompanied the Places of Change Bid if additional resources become available in the future.
65. Therefore on the basis that both models can be financially sustainable but that Option B can deliver better outputs in terms of strategic aims and social capital it is recommended to City Executive Board that Option B should be adopted for the delivery of the future OFS.
66. If agreed, the following next steps will be undertaken immediately by the Project Team:-

31st March 2010	Deadline for submission of ACE Bid
w/c 19th April 2010	Advert for recruitment of Chair of Board
14th May 2010	Application deadline
w/c 7th June 2010	Interviews and decision for Board

	Chair
22nd June 2010	Approval of decision by OFS Project Board
22 nd June 2010	Year 0 costs identified
25th June 2010	Appointment of Chair
w/c 28th June 2010	- Application to set up an independent company and apply for charitable status - Recruitment of other directors
September 2010	Recruitment of Head of Crisis Skylight and Artistic Director

67. The details of the governance structure and leasing structure will continue as a matter of urgency and initial conversations with Crisis UK are due to start in the week commencing 15th March.

68. Extensive consultation has been carried out on all aspects of the Old Fire Station development and a consultation report can be found on:-
<http://consultation.oxford.gov.uk/consult.ti/oldfirestation/consultationHome>

Recommendation

69. It is recommended to the City Executive Board that Option B – the Arts Company Operation be adopted for the delivery of the future OFS.

Name and contact details of author:

Nerys Parry
Rough Sleeping and Single Homelessness Manager
01865 252825
nparry@oxford.gov.uk

List of background papers:

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