

Brighton & Hove City Council

Policy and Resource Committee

Agenda Item 155

Subject: Brighton Youth Centre - Youth Investment Fund

Date of meeting: 16th March 2023

Report of: Executive Director Families, Children & Learning

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Ward(s) affected: All

For general release

1. Purpose of the report and policy context

- 1.1 To provide Committee with the information required to make an informed decision regarding providing Brighton Youth Centre (BYC) with a grant of £2.3m as match funding to extend and fully refurbish BYC.
- 1.2 This report will provide background information related to the plans to redevelop BYC and the subsequent bid to the Youth Investment Fund (YIF).
- 1.3 In addition, this report will outline the Department for Culture, Media, and Sport's (DCMS) commitment, via the YIF, to contribute to the refurbishment and extension of BYC and their (both DCMS and BYC's) expectation, based on previous Committee decisions, that the Council will provide match funding to the value of £2.3m.
- 1.4 This report will also provide the Council's analysis of BYC's financial projections, and BYC's proposal.

2. Recommendations

- 2.1 That the Committee agrees that the Council should provide a £2.3m grant to Brighton Youth Centre to allow them to refurbish the youth centre, providing the chartered surveyor valuation conducted by BHCC matches that of BYC, also known as red book valuation.
- 2.2 That, subject to the caveat outlined in 2.1, the committee grants delegated authority to the Executive Director Families, Children & Learning to negotiate the legal documents and notes that a further report outlining the agreed documents will be brought to a future committee for oversight.

3. Context and background information

- 3.1 Brighton Youth Centre (BYC) is in a state of disrepair and discussions regarding the establishment of a Central Youth Hub on Brighton Youth Centre's site have been ongoing for over three years and various options regarding funding this project have been explored.
- 3.2 In September 2019 the Government announced a £500m YIF to help build new youth centres and refurbish existing centres; as well to support the provision and coordination of high-quality youth provision.
- 3.3 The Brighton and Hove City Council 2020 to 2023 Corporate Plan outlines its commitment to deliver high quality youth services, including establishing a central youth hub.
- 3.4 It was agreed at the Children and Young People and Skills (CYPS) Committee on 13th January 2020 that a review of current youth services in the city would be undertaken, including considering the development of a central Youth Hub in the city, working in partnership with OnSide and BYC to develop their site as a Youth Zone.
- 3.5 The Youth Review Report was presented at the CYPS Committee on 14th September 2020 where it was agreed that BYC is recognised as one of the key youth providers in the city and for the Council to decide how to support with its refurbishment or rebuild, exploring all options.
- 3.6 Various options were explored and the 2021 March CYPS Committee agreed to the Council entering into a non-legally binding Memorandum of Understanding with BYC and OnSide as a basis to submit a funding application to YIF to develop a Youth Zone on the BYC site. It was outlined that this would require a financial capital commitment from the Council of £2.7million (£2.1m capital and £600k revenue) to move forward.
- 3.7 The launch of the YIF was significantly delayed and following discussions with representatives from OnSide, the partnership between them, BYC and the Council was no longer an option. This was due to the significant differences that emerged between BYC's vision and OnSide's prescriptive building and business model.
- 3.8 As the YIF provides a significant opportunity to support the rebuilding/ expansion of the BYC offer, it was agreed at the June 2022 CYPS Committee that the Council continue to work with BYC to bid for funding and include neighbourhood, commissioned youth providers in the East, West, and North of the city, to consult and agree a submission to bid for Phase 2 YIF funding.
- 3.9 All commissioned youth providers met to discuss the launch of the main YIF bid. All providers were very supportive of the BYC development and agreed that their needs should take precedence when considering available funding, however the neighbourhood youth providers would consider their building needs and any costs linked to this.

- 3.10 The Department of Culture, Media and Sport (DCMS) finally announced the launch of the £368m main YIF funding round in August 2022.
- 3.11 BYC (as owners of the land and building) expressed an interest in a bid for YIF funding and were allocated a relationship manager who are working closely with BYC.
- 3.12 Information on BYC's current offer, their proposal, the cost of rebuilding and their financial sustainability, including a 3-year financial plan was collated as a report (see appendix). The report was presented to the Social Investment Business (DCMS commissioned Grantmaker) Grant Committee in October 2022 and BYC were successful in securing £3.9m with an additional £400k as contingency.
- 3.13 BYC are requesting £2.3m match funding from the Council; rather than the £2.7m initially required to build a Youth Zone in partnership with OnSide, BYC and the council.
- 3.14 It has been confirmed that the £4.3m grant from DCMS to BYC is dependent on the Council's £2.3m match funding.
- 3.15 The proposal from BYC is for the Council to provide £2.3m capital contribution but no additional contribution to revenue costs above the current level of grant funding is required. It is estimated at currently available interest rates (these may be subject to change) and repayment over a 50 year period that annual funding of £0.098m will be needed with a total repayment cost of around £4.9m.
- 3.16 BYC are stating that the funding from both DCMS and the Council would enable the refurbishment and extension of their building to operate as an accessible central youth hub, a city wide, 7 day a week programme (minimum of 40 hours week of activity including school holidays), working with partners to provide multiple activities at any one time, with open access youth groups, sports programme, specialist groups (e.g. for young people previously in care, young people with SEND, unaccompanied asylum seeker, etc.) and a 'surgery' for young people to gain advice on a range of issues.
- 3.17 The Council's latest Youth Service Grant Programme data report indicates that BYC worked with 1549 individual young people from 1st October 2021 to 31st September 2022 and (working with partner organisations) held 7607 sessions that are accessed by young people from across the city. With a refurbished, extended and more accessible building BYC are projecting that between 2500-3500 individual young people could be accessing the building each year for support or an activity.
- 3.18 Given the financial model changing significantly from the one agreed by P&R, officers were tasked with assessing BYC's financial stability and their three-year financial plan and to explore options by which the Council's investment could be secured.

Financial analysis and BYC response

- 3.19 Brighton Youth Centre submit annual accounts to the Charity Commission. At the time the analysis was carried out, the most recent published accounts are for the year ended 31st March 2021. It is these published accounts and the information provided in the BYC report of September 2022 that formed the basis of the analysis. In addition, BYC have provided financial forecasts for the current year (2022/23) and for the first three years of the new service model following completion of the building works.
- 3.20 In recent years BYC have been operating with an annual loss each year (In the four years up to March 2020 losses totalled £117,727 with an 84% reduction in cash balances) which only ended in 2020/21 with significant additional Covid19 grant funding.
- 3.21 BYC have stated that during this period there was a planned overspend (25k per annum) to invest in programme development and can be seen in increased staffing budget. The outcome of this investment was a significant increase in Young People Contacts in the Council Aspire reports showing a significant increase in Youth Work contacts. Before this period BYC had been running a surplus and reserves (investment account + bank account) were running at significantly over 12 months of turnover which prevented BYC from accessing a number of grants.
- 3.22 BYC advised officers that it is normal for Charities to make losses and gains over different financial years. The Charity Commission guidance advises they cannot make profits on an ongoing basis like a business, they have to spend funds on their Charitable purpose whilst maintaining adequate but not excessive reserves. Many Charities run their reserves at between 3 months and 6 months of annual turnover, BYC keeps liquid reserves of 6 months or more. This does not take into account the value of fixed assets which are far higher. An additional problem with large reserves BYC state, is that it can also cause problems in applying for grants as many grant givers will not fund organisations that have reserves beyond six months.
- 3.23 Officers noted that the new financial model, post development, relies on a significant increase in revenue generation to sustain the service. There is an increasing reliance on grant funding resulting in 40% of total revenue being derived from grants (double previous years published figures). In addition, there would be increases in donations, membership and subscriptions and lettings income.
- 3.24 BYC have stated that their forward budget projections have been developed in consultation with their accountants and an experienced Charity fundraiser and are seen as realistic and are based on up-to-date financial information. Their budget projections are based on their current financial year 2022/23 and they have provided additional detailed information on how they expect to increase income. BYC's report (see appendix) notes that "even if income was significantly worse than forecast, we can easily cover the building cost and basic delivery to keep the service and building operating," At BYC's current level of income they state they could deliver a 7 day a week programme particularly with the running costs of the new building being lower they expect to meet or exceed these targets.
- 3.25 BYC state that they have operated in Brighton and Hove for over 100 years and in partnership with the Council for over 40 years; they are a very well-known organisation and have evidenced consistently strong financial

management with high reserves and delivery that is excellent value for money and recognised nationally for innovative work.

Legal Risks

- 3.26 The key risks which the Council needs to mitigate against are that BYC go insolvent, do not progress the build or that the build is not carried out to a sufficiently high standard.
- 3.27 The Council's preferred route to protecting its investment and mitigating against these risks was to take ownership of the freehold of the site. This would have ensured that the Council had more control over the site both during the build and in the long term. If the Council was the freeholder, it would build some protection into the lease it granted to BYC preventing them from assigning or selling their lease, stating that the lease would be forfeited in the event of insolvency and placing requirements on the leaseholder in relation to the works.
- 3.28 This proposal was rejected by BYC who are instead offering the Council a pari passu charge. This means that both the Council and YIF will both have a charge over the land. Pari passu means in equal shares. If the site was sold the value would not be sufficient to meet both charges (see the valuation information below) but the proposal is that the premium would be split on the basis of BHCC and YIF receiving 50% of the sale price each. There is therefore a reasonable prospect that the Council would be repaid a significant proportion of its investment provided the extension and refurbishment had taken place (and the value of the site is therefore higher than its current value).
- 3.29 The Council's charge over the land will be for the amount of the grant (£2.3m) and would be lifted after a period of years (the Council will be proposing 50 years). The terms of the pari passu charge will need to be negotiated with YIF and BYC but is likely to enable the Council to enforce a sale if BYC had breached the terms of the grant agreement and/ or was required to repay the grant or was insolvent.
- 3.30 BYC were asked for a valuation of the site and freehold including estimates for value at completion. In January 2023 BYC commissioned Oakley Property to undertake this valuation. The key points highlighted by the Oakley valuation are as follows:
- The market value of the freehold, subject to vacant possession and its current condition is valued at £1.75m
 - Following the extension and refurbishment of the existing building the value of the freehold is set at £4.25m
 - The site has potential to demonstrate a land value in the region of £5m
- 3.31 As the valuation, commissioned by BYC was not one undertaken by a Royal Institution of Chartered Surveyors Registered Valuer (known as a red book valuation); it is an opinion of value, the Council will need to commission a red book valuation to confirm the value of building (pre and post development) and land.

- 3.32 In addition to the charge, BHCC will require a restriction against the freehold title, which would prevent BYC from disposing of the property without the Council's consent.
- 3.33 The Council will put in place a grant agreement with BYC but a grant is not a contract and the terms of a grant agreement cannot place detailed requirements on the recipient. Under a grant agreement, the funder can claw back funding if the recipient does not carry out the activities funded but if they are carried out to a poor standard the funder will not be able to take any action.
- 3.34 The difficulty with BYC's proposed option is that ultimately it does not give the Council much control. The Council would be able to force a sale to recoup the grant if the centre was not built and would be able to prevent a sale but will have limited control.

4. Analysis and consideration of alternative options

- 4.1 Discussions regarding the development of BYC and establishing a central youth hub for young people have been ongoing for well over 3 years, including exploring several options other than the one being proposed, with all others being dismissed. This proposal does provide a viable option to fund this project and maximise the investment opportunity via government funding.
- 4.2 Brighton Youth Centre offers the ideal city centre location on which to build a central youth hub. Recent data reports highlight that they are reaching over 1500 individual young people each year, offering excellent value for money as a Youth Service Grant 2021-25 provider. The proposal includes reaching an additional one to two thousand more young people with more key services being available to them. In addition, the 2020 Youth Review noted that young people are travelling into the city centre to attend BYC and others would be willing to if the activities or services available met their needs.

5. Community engagement and consultation

- 5.1 As part of the 2020 Youth Review, consultation events for young people and stakeholders focus groups were held. There was agreement that BYC attracts large numbers of young people who travel across the city to attend but it was run down and in urgent need of investment and funding for this should be to be found for this.
- 5.2 BYC have held a range of events to consult with the community and particularly young people. These include an initial event was held in 2019 and attended by over 40 people and showed strong support for the redevelopment of BYC. The most recent event was held in September 2022 where outline plans for the redevelopment were shared. The meeting was attended by over 50 people. The plans were well received.

6. Conclusion

- 6.1 The expansion and refurbishment of BYC would significantly improve the youth offer to young people living in the city and would bring in an additional capital investment of £4.3m for the project from DCMS.
- 6.2 This funding would provide a resolution regarding BHCC's commitment within its 2020 to 2023 Corporate Plan to deliver high quality youth services, including establishing a central youth hub.
- 6.3 As described within the financial and legal sections of this report, the risks associated with agreement to fund the extension and refurbishment of BYC need to be noted, as does the proposed legal agreement that will be in place to mitigate some of these risks.
- 6.2 The Council, over the past three years, via Committee meetings, have considered providing funding to BYC to establish a central youth hub and currently DCMS have provided a commitment to contributing £4.3m to the cost of extending and refurbishing BYC, however this is dependent on the councils £2.3m match funding.

7. Financial implications

- 7.1 The financial model outlined in this committee report is substantially different from that previously presented. The estimated capital investment needed for building and refurbishment works as stated in paragraph 3.14 is £6.600m. It is proposed that this is funded by a grant of £4.300m from the YIF and match funding of £2.300m from BHCC. Financing the borrowing required to raise £2.300m capital (repaid over 50 years) will need an annual commitment of £0.098m over the period based on currently available interest rates, with an estimated total payback cost of £4.900m. Funding of £0.098m per annum has been set aside in the budget and is available for this purpose.
- 7.2 The new funding model for the service does not include any additional revenue funding from BHCC above the current level. It is assumed that the additional costs of running the new service will be funded from increased revenue generation by BYC. This will require a significant increase from the current levels of revenue, comprising: membership; donations; lettings income and grants. The latter includes a grant of £0.050m per annum from BHCC funded from the Commissioned Youth Services budget.
- 7.3 The recommendation of the report does carry financial risks. The capital investment from BHCC does not result in the acquisition of any tangible asset and given the terms of the grant funding from YIF and the legal risks outlined in the report, if BYC were unable to continue operating at any point, it is possible that the Council would be unable to fully recoup the investment. This could result in partial or total loss of the Council's investment potentially leaving an ongoing loan liability to be funded. In addition, if BYC are unable to raise the additional revenue funding required, they will have to scale back the service offer which would ultimately mean the Council would not get the level of youth services it is anticipating from the investment.

8. Legal implications

- 8.1 The legal implications are set out in the body of the report. Discussions with BYC are at an early stage but if the recommendation in this report is approved, the necessary legal documents will be drawn up, negotiated and agreed.

Name of lawyer consulted: Alice Rowland Date consulted: 02/03/23

9. Equalities implications

- 9.1 The three Equality youth providers were consulted and invited to discuss a potential YIF bid and their needs were fully considered.
- 9.2 All commissioned youth providers are required to have equality, diversity and inclusion embedded in their activities, governance, and management arrangements with plans on how they will promote inclusion within their service. This is reviewed regularly via the Youth Service Grant Programme (2021-25) monitoring framework.
- 9.3 In addition, providers promote a culture of collaboration and joint working with all youth provision and specialist services that support young people, particularly around mental health, including council provided services.
- 9.4 In the 2020 Youth Review it was acknowledged that youth workers have a significant role to play in supporting young people with their mental health. If successful with a partnership YIF bid, a wider youth offer, would result in more preventative support for mental health.

10. Sustainability implications

- 10.1 To comply with YIF's grant conditions BYC are required to complete the following:
- Improve the environmental sustainability of the youth sector estate in target areas through energy efficiencies and/or low carbon heating.
 - Reduce the environmental impact of construction activities across the programme, by funding facilities with the lowest reasonable carbon footprint across their lifetime.
 - Reduce build and ongoing running costs, by supporting new or redeveloped youth facilities that demonstrate 20% reduced annual running costs by 2025/26, compared to ageing youth facilities.

SUPPORTING DOCUMENTATION

Appendices: Brighton Youth Centre Report

Documents in Members' Rooms: None **Background Documents:** None