

Lithuanian Social Club

121 Middleton Road, Crumpsall, Manchester, M8 4JY

Purpose

This report aims to describe the current trading position of the club, identify the problems it is currently facing and recommend an action plan for its future survival.

Management Summary

The report will illustrate that the club is neither fulfilling the aims it was set up to achieve from a social and cultural perspective, nor is it a financially viable business in its present trading format.

An alternative business model will be proposed that is capable of generating the necessary funds to finance the activities of the Lithuanian Community in Manchester and surrounding areas. In addition, within the business model, there will be a built in provision to make funds available to maintain the club premises in a fully repaired and insured state.

The new approach will entail the closure of the club in its entirety and cease trading in its current format. It is proposed to rent out the whole of the club premises to a long term tenant who will have responsibility for paying rent and fully repairing and insuring the property.

A Managing Agent will be appointed by the Trustees of the Club to manage the Landlord / Tenant relationship.

The Club Trustees will be responsible for the distribution of the proceeds from rental income to support good causes in the Lithuanian Community.

Background

The social club was set up in the post war years by Lithuanians who settled in and around Manchester after fleeing from Lithuania after world war two. There was already a relatively small community in Manchester who had already moved to the area many years before. The membership was further swelled by local residents whose patronage and friendship was welcomed.

From its inception, the Club has until recently managed to fulfil its prime objectives from the profits it generated, namely:

- Subsidise / Donate money to social and cultural activities
- Allocate funds for the upkeep of the premises
- Hold in a savings account money for future needs.

The Lithuanian Club was the hub of social and cultural activity. Its committees helped co-ordinate and support all the activities of the various groups in the Manchester Region and contributed to the activities in the branch networks in nearby towns.

Over the years membership numbers have diminished. Some members emigrated. Others passed away. Some found it too far to travel to reach the club. As membership numbers fell so did the profitability of the club.

It was hoped that the new wave of Lithuanians would take over the club and revive the membership numbers but this has not materialised.

They were encouraged by the older membership to participate on committees and fully immerse themselves in the organisation of the club - or to whatever extent they felt able. However, there were not enough volunteers who were willing to get involved and those that did come forward (and we are grateful that they did) found it difficult to make headway. Even so, progress was being made, albeit slowly. The club's financial position then was relatively healthy.

Unfortunately, the so called 'Credit Crunch' destabilised the whole situation.

It is clear that there is enthusiasm and a willingness from the community to get involved but for the moment, understandably, the 'New Lithuanians' are now preoccupied with finding work, maintaining a household, or raising young families. Their time and disposable income is limited and uncertain.

There is no doubt that in the near future the community will be more established and its situation more stable but for now numbers visiting the club have diminished substantially.

Financial Situation

Unfortunately, time is a luxury that the club can no longer afford.

The club has immediate and pressing financial commitments that require attention.

Last year the club made a loss of £3,300. Currently it is making a trading loss each week. That being the case, it is finding it difficult to pay its day to day bills let alone meet the needs of the Lithuanian community in Manchester.

Money is being transferred from the savings account into the Club's current account to cover essential expenditure only. That money is limited and transfers cannot be made indefinitely.

If this situation continues without an alternative strategy in place the club will be insolvent.

Description of the Club House

The property is a leasehold property on a 999 year lease from approximately 1950? The ground rent payable is £20 / annum? There is no mortgage on the property.

The property is located in North Manchester 1.5 miles from the M60, J18 where the M60, M62 and M66 intersect. North Manchester general hospital is one mile away and Manchester City Centre is 2.5 miles away. The property is in an ideal position for organisations to locate their offices.

The building is a substantial three story Mock Tudor detached house set in its own grounds. There is on site parking available for 15/20 cars adjacent to an extensive garden area. The fabric of the building is generally sound but externally requires repairs, maintenance and redecoration to bring it up to the required standard.

The ground floor comprises of a bar area, lounge, hall and Ladies and Gents toilets. The bar area is dated and the toilets, while clean and tidy, require refurbishment to bring them into the 21st century.

There are extensive cellars in the basement used for storage. The commercial catering kitchen is located in the cellar. This does not comply with Food Hygiene Regulations and is not adequately equipped for medium / large scale catering.

There are nine rooms located over the first and second floors. These have limited use for domestic accommodation because there is only one bath/toilet area serving all nine rooms. Not all the rooms comply with current fire regulations for domestic residence. It will be very costly to bring these rooms to the standard required. However, it will require only a minimal investment to convert the rooms into office space.

Options considered

Mindful of the limited funds available to the Lithuanian community, the ideal strategy for the successful future development of the Lithuanian Community over the long term is one that is a low cost option and one that delivers maximum gain.

Option 1 – Business as usual

To continue to operate the business in its current format is unfeasible whether by the current committee or one that is made up of exclusively 'New Lithuanians'.

It is clear that the building is in need of repair and the facilities so outdated that they do not meet the current needs of the Lithuanian Community nor the broader local customer groups in the area. This is a contributing factor to the current poor trading figures.

On those grounds Option 1 is rejected.

Option 2 – Undertake a refurbishment programme and continue running the business as a club.

For the Lithuanian Community to refurbish the club facilities so that it can attract more members (Lithuanian and local) and continue to operate the club themselves in an up to date environment the cost of the investment would be approx. £175,000. This figure takes into account the following works:

To refurbish the bar area in such a way that is comfortable and functional, including the construction and fitting out of a new commercial kitchen coupled with new Ladies and Gents toilets.

To fit out the upstairs rooms to the standard required to comply with the current Fire Regulations for use as bed and breakfast rooms or domestic rooms for rent will cost a further £100,000.

The total cost of Option 2 is £275,000.

The Lithuanian Community is not able to raise this amount of investment so this option is rejected on that point alone.

If a private operator were to undertake such an investment in order to develop a bar / food operation questions about the long term viability would need to be clarified. Many pubs and clubs have closed in the area seemingly indicating little or no demand for such a business in the locality. Also, noise nuisance is a sensitive issue in the neighbourhood and will limit the style of trading of the club and ultimately its ability to pay rent.

Because there are doubts that an investor would be willing to invest such a large sum of money in what would be a high risk venture with an uncertain long term future option 2 is rejected.

Option 3 – Convert the whole building into domestic letting accommodation to generate rental income from residents.

The cost of such a project would be in the region of £125,000. The Lithuanian Community does not have the ability to raise the funds.

Even if funds were available for the project the local market is saturated with vacant apartments. It may prove difficult to attract long term tenants and to get a commercial return on the investment.

On these grounds Option 3 is rejected.

Option 4 – Sell the Club Premises, deposit the cash and survive on the interest.

Property values have plummeted since the so called 'Credit Crunch' and we understand that the value of our club premises has halved. It does not make any sense selling the property now in the depths of recession. Once a property is sold it will be lost forever. If property values recover over the medium to long term, as they are likely to, the Lithuanian Community will not benefit from the recovery.

Retaining the property is by far the better option for now. So selling the property at the moment is not an option. Option 4 is rejected.

Option 5 – Sell the property and distribute the proceeds among the remaining membership for their personal gain.

The Lithuanian Community bought the club so that the whole community could benefit from its existence. It was not intended for personal gain by a select few. On those grounds Option 5 is rejected.

Option 6 – Rent the property to commercial tenants.

This is the only option that satisfies the criteria that we set ourselves. It is a low cost option and one that can generate income over the medium to long term.

It's low cost to the Community because the tenant will be responsible for the repairs and maintenance of the building as well as its running costs. That way the community will not be required to fund any of the works and the Community's asset (the property) will be safeguarded from further deterioration. By not having to pay the running costs ourselves 100% of all the proceeds from rental income will go directly to the Lithuanian Community in Manchester.

The tenant will enter into a fixed term lease agreement which will give us the reassurance that the rental income will be forthcoming over a period of years. That way income will be consistent and we will be able to plan its distribution to the most deserving good causes.

The location of the club is ideal for commercial tenants. It's close to the motorway network as well as the city centre.

The type of commercial tenants we would ideally like to attract are professionals such as Solicitors, Doctors, Accountants, Architects, or similar professionals.

Proposed Strategy

There are two strands to the strategy going forward. Firstly, we must appoint a Managing Agent to start looking for tenants immediately on, say, a three month agreement which will be subject to a performance review.

The role of the Managing Agent will be as follows:

- Find long term tenants
- Check their background and suitability
- Negotiate the terms of the lease
- Collect the rent on our behalf
- Inspect the property to check that the tenants are complying with their repair obligations.

The Managing Agent will take 15% of rental income to cover his fees.

If we feel that progress is not being made in a timely manner, as we might expect, we will want to be able to cancel the services of one agent in favour of another.

Secondly, we must keep the social club business running for as long as possible while exploring ways to reduce the losses if at all possible, but ideally exploring ways to make a profit or break even.

The New Lithuanians can play their part in this process as they will ultimately benefit from the new initiatives.

If it transpires that the club business is unviable the club should be closed for trade and 'mothballed' leaving the live-in caretaker to look after the property until a tenant is found. There will be a cost implication to keeping the premises closed. This should be minimised as much as possible.

The Lithuanian Community could transfer its activities to an alternative venue, for example, the Ukrainian Club in Cheetham when required. It must also take steps to keep the local members informed and involved in the transition. Their loyalty and support is valued.

The Club Property Insurance Policy will need to be reviewed to assess if we are fully insured and covered for all adverse eventualities that may affect the letting of the premises.

Conclusion

There is much to do between now and the time we eventually find a tenant.

The most important initiative at the moment is to review every item of expenditure if it has not already been done to reduce costs, and assess where extra income can be generated that is not already being generated so that the business losses are kept to a minimum.

If we can get over that hurdle and change the style of operation where Bar Income is replaced by rental income we can say with confidence that we have taken the first step towards financial security.

Finally, we ought to keep an open mind at each step in our plans so that we can take advantage of any unforeseen changes in our circumstances that may benefit our situation.

Paul Podvoiskis
Club Trustee