

Rental Grant Subsidy Applications

Strategy & Resources Committee Tuesday, 11 January 2022

Report of: Executive Head of Communities

Purpose: For decision

Publication status: Open

Wards affected: Caterham Valley/Harestone, Queens Park, Warlingham

Executive summary:

- A number of the Council's assets are currently let at less than market value reflecting the wider value that their use brings to the community.
 - A Rental Grant Subsidy policy was adopted by the Council in 2015. This policy aimed to provide greater transparency regarding the extent to which the Council subsidises tenant organisations.
 - This report considers Rental Grant Subsidy applications from three tenant organisations, the East Surrey Museum, The Caterham Community Centre and the Warlingham Sports Association.
 - The Committee should consider the applications and determine whether a rental grant subsidy should be awarded, and if so, the amount of rental grant subsidy.
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This report supports the Council's priorities of:

Building a better Council

Creating the homes, infrastructure and environment we need

Supporting economic recovery in Tandridge

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Recommendations to Committee:

That:

- A. a rental grant subsidy of 100% in years 1 to 3, approximately 90% in year 4 and approximately 80% in year 5 should be awarded to East Surrey Museum, subject to the conditions set out in this report
- B. a rental grant subsidy of 95% be awarded to Caterham Community Centre, subject to the conditions set out in this report
- C. a rental grant subsidy of 30% be awarded to Warlingham Sports Association, subject to the conditions set out in this report

Reason for recommendation:

The Council's Strategic Plan acknowledges the importance of local voluntary and community organisations in supporting strong and healthy local communities. It also acknowledges the need to tackle significant financial challenges. The scale of the financial challenge is significant, and it is therefore crucial that applications for subsidies are considered very carefully, so that subsidies are given to those community organisations that bring greatest value to communities, and that assets are revenue raising where organisations do not demonstrate wider community value.

The policy guides the Council to consider whether an organisation can demonstrate that it brings significant benefits to a community, and whether or not these benefits could still be realised without the rent subsidy. Consideration must also be given to any other costs in connection with the asset, and whether these are being met by the Council as landlord, or the tenant.

Introduction and background

1. Section 123 of the Local Government Act 1972 requires the Council to obtain best consideration in the disposal of its land (which generally means obtaining market value). The term "disposal" includes the grant of a lease for a term of over seven years.
2. The Council can however can grant a lease of more than seven years at an undervalue (ie. below market value), if it can demonstrate that the arrangement contributes to the improvement of the social, economic or environmental well- being of the area, or the community.
3. Several Council assets are currently let at less than market value reflecting the wider value that their use brings to the community.

4. When considering the extent to which these applications align with the Council's Strategic Plan, it is evident that there may be conflicting priorities. Priority Outcome 1.5 of the Plan states:

"the Council shall look for opportunities to support better health and wellbeing for local residents"

and specifically

"Work with the Voluntary, Community and Faith Sectors (VCFS) to develop proposals to support community resilience in the face of a crisis, building on work during the COVID pandemic"

"Maximise wellbeing and opportunities for young people through development of a Youth Strategy in partnership with health and employment partners"

5. However, Priority Outcome 1.1 is about agreeing and implementing the financial recovery plan, and states that we should

"Explore commercial opportunities within the district"

Rental Grant Subsidy Policy

6. A Rental Grant Subsidy policy was adopted by the Council in 2015 (see Appendix A) which aimed to provide greater transparency regarding the extent to which the Council subsidises community groups. The policy was intended for use at lease expiry and rent review dates. The most recent application considered by the Council was with respect to the application for rental grant subsidy by the Caterham Bowling Club in September 2018. At that time the Council agreed a 100% rent subsidy, however the Committee noted that the Bowling Club would be paying the high maintenance costs associated with the bowling green.

Grant Subsidy Applications

7. This report provides information on three applications for rental grant subsidies, following the expiry of their leases. The applications are from the East Surrey Museum, Caterham Community Association and the pavilion at Hamsey Green, occupied by Warlingham Sports Association. Officers found no existing scoring mechanism for applications and have devised a scoring matrix to help assess the applications. The scoring matrix is provided in Appendix B.

8. Income and expenditure associated with the East Surrey Museum is part of the Housing Revenue Account (HRA) budget, as the building sits within the HRA portfolio. Income and expenditure associated with the Caterham Community Association Hall and the pavilion at Hamsey Green is part of the General Fund. The impact on these budgets will be marginally positive if the recommendations are approved.

East Surrey Museum

9. The East Surrey Museum is one of over 40 museums, galleries and heritage sites in Surrey. It is run entirely by volunteers. Entry to the museum is free. It has a small gift shop.
10. The museum currently occupies a prominent location in Caterham Valley town centre, at the intersection of Stafford Road with Church Hill/Station Avenue. The brick-built building, which dates from approximately late 19th Century/early 20th Century is not listed but is well-loved for its historical character. The museum occupies the ground floor of the building only. The first floor is used as temporary accommodation for families and is one of very few three-bedroom homes available for temporary accommodation in the district. The museum has expressed an interest in expanding into the first floor of the property, however due to the current shortage of larger temporary accommodation at present, this is not something that Housing Officers were willing to contemplate at this time. This will be kept under review.
11. The museum has held a five-year lease from 2017 paying £0 per annum in rent (against the 2017 rent assessment of £14,244). The museum is responsible for all business rates that are levied on the premises and payment of utility bills. They are also responsible for internal repairs and decoration, whereas the Council are responsible for external repair and decoration. The existing gas boiler and heating controls are at the end of the life and will soon need to be replaced and upgraded to be compliant with part L of the building regulations. The cost of upgrading the heating system is estimated to be £10,000-£15,000.
12. The Council have paid annually, on behalf of the Museum, for their subscription to the Surrey Museums Consultative Committee ('SMCC'). The annual subscription cost has been £2,987 since 2015/16. The SMCC reportedly promotes Surrey museums through a website, helps to publicise the smaller museums such as East Surrey Museum, offers help and advice to museums such as collections management, conservation, grant application etc. Membership of the SMCC also provides the East Surrey Museum with networking opportunities to share ideas, resources, exhibits and learning. The curator of the East Surrey Museum reports that the SMCC has been very useful, particularly during the pandemic. Officers understand that membership of the SMCC may also give the East Surrey Museum access to grant aid from various sources, including the National Lottery.

13. In addition to paying the SMCC subscription, the Council have also paid an annual revenue grant to the East Surrey Museum. The 20/21 grant allocation was £4,400.
14. The General Fund has paid the HRA a notional rent, based on social/affordable housing rent for the period that the museum has been in occupation of the property. The appropriate figure for 2022/23, taken on current year figures, would be £10,897.
15. The market rent is believed to be higher. Officers have assessed the market rent of the premises at a guide of £14,400 p.a. This assessment was supported by comparable evidence from both the private residential market and the commercial market. The museum has requested a 100% rent subsidy. Officers have scored the museum's rental grant subsidy application (Appendix C) at 15 out of a possible total of 28 (see Appendix D). Our recommendation is as follows:
16. That the museum be granted a 100% rent subsidy in years 1 to 3, with a smaller subsidy in years 4 & 5, and a rent review in year 5 and subject to the following conditions:
 1. That the museum take responsibility for replacing the boiler and heating controls, and ensuing compliance with Part L of the building regulations
 2. That the museum takes steps to improve the energy performance of the building, thus achieving greater alignment with Priority Outcome 4 (Becoming a Greener and more sustainable District).
 3. That the museum seeks grant funding from non-Council sources and/or fundraises to achieve conditions 1 & 2.
17. The museum has cited the lack of security of tenure as a barrier to securing grant funding. Typically, funding bodies will require a term certain of 10 to 15 years. However, the museum only requested a five-year lease. To mitigate against inability to secure grant funding due to lack of security of tenure, Officers recommend the following:
 - that the tenant is granted a 15-year lease, with a stepped rent of £1500 from the 3rd anniversary, £3000 from the 4th anniversary and rent reviews in year 5 and year 10, and a tenant option to break the lease on or after each review date;
 - that the lease should continue to be excluded from the security of tenure provisions of the '1954 L&T Act, to give the Council the flexibility that it needs, should circumstances be different at the end of the lease;
 - that the Museum prepare a detailed Business Case setting out its vision for improving and modernising the museum and providing detailed plans showing how it intends to deliver its vision.

18. This recommendation would have no immediate impact on the Council's revenue budget and would reduce the need for capital to deal with boiler replacement and heating upgrades. The longer lease would give the museum the length of term that it requires to seek alternative funding for capital improvements. The capital improvements would help to reduce ongoing expenditure on heating and lighting and reduce energy consumption and carbon emissions.

Caterham Community Association

19. The Caterham Community Association is a registered charity that provides a community centre for residents of Caterham and District to have a place to attend various clubs and classes on a regular or casual basis. It is also used for educational purposes by a school and by members of the community for family gatherings and celebrations.
20. The community centre is located in the heart of Caterham on the Hill, occupying a large plot on the High Street. It is a single storey building dating from approximately the 1960s. It contains a main hall, a stage, an ancillary kitchen, WCs, a small hall and a smaller room at the back. Timetables show that the regular hires of the main hall are predominantly for dance, drama, gym and cheerleading activities, whereas the small hall is predominantly used for music lessons and art & craft activities.
21. The Community Association holds a five-year lease from 2016 paying a small percentage (£166 increasing each year by RPI) of the yearly rent (then estimated at a surprisingly low £3,327). The Community Association takes full responsibility for the repair and maintenance of the building, any rates or taxes and utilities. It therefore costs the Council nothing except the opportunity cost of a market rent or development opportunity.
22. Officers have assessed the market rent of the premises at a guide of £16,100 p.a. This assessment was supported by comparable evidence from the commercial market including the nearby Westway CIC, which was recently valued by external valuers. The Community Association has requested a 98.5% rent subsidy. Officers have scored the Community Association's rental grant subsidy application at 18 out of a possible total of 28 (see Appendix G). Our recommendation is as follows:
23. Caterham Community Association be awarded a 95% rental grant subsidy on the condition that:
 1. *That the Association continues to be responsible for the repair and maintenance of the building and grounds, in full;*
 2. *That the Association take steps to improve the energy performance of the building, thus achieving greater alignment with Priority Outcome 4 (Becoming a Greener and more sustainable District);*

3. *That the Association seeks grant funding from non-Council sources and/or undertakes fundraising to achieve the above.*
24. The Community Association initially requested a five-year lease, however has since realised that the lack of security of tenure could be a barrier to securing grant funding. To mitigate against inability to secure grant funding due to lack of security of tenure, Officers have amended Heads of Terms to a 15-year lease, with a rent review in year 5 and year 10 and requested receipt of a detailed Business Plan that sets out the Association's vision and a delivery plan for the vision. The lease will continue to be excluded from the security of tenure provisions of the 1954 L&T Act, to give the Council the flexibility that it needs, should circumstances change during the lease term.
25. This recommendation would mean a net increase in income to the general fund of a few hundred pounds each year. The Community Association generates an annual income of over £20,000 and should not find a rent of £805 per annum too onerous. The Community Association also has several thousand pounds of financial reserves and scope to increase its hire rates slightly.

Warlingham Sports Association – Pavilion at Hamsey Green

26. The Warlingham Sports Association, in its current guise, has existed since the 1930s. The club offers cricket, football, tennis and squash/racketball. The club's main facilities are next to All Saints Church off Church Road. However, the club has leased the grounds and pavilion at Verdayne Gardens in Hamsey Green for many years, as an additional facility to accommodate demand. The club uses the facilities at Hamsey Green to provide football and cricket facilities for both matches and training. The club's objective is to provide sporting facilities to the local community at a reasonable cost so as not to restrict participation.
27. The Sports Association hold a five-year lease from 2016 paying a percentage (equating to £4,267) of the yearly rent (assessed in 2016 at £9,482). They are one of the only sports associations leasing premises from the Council who pay a rent. However, unlike other sports associations who lease premises from the Council, they don't pay a maintenance contribution. The Council maintain the grounds to recreational standard (grass cutting every other week from March to November, trimming hedges, clearing ditches, maintaining car parks and access tracks etc). Any pitch maintenance over and above recreational standard e.g. for a cricket green, is carried out by the Club. Responsibility for repair and maintenance of the pavilion is currently split between the Council and the Club. Revenue costs incurred by the Council include ongoing costs for statutory compliance e.g. fire risk assessments, electrical inspections, legionella testing, as well as external repairs due to wear and tear/age/vandalism.

28. The club is willing to take on responsibility for statutory compliance if the lease is renewed. The club already undertakes statutory compliance on its main premise off Church road and is confident in its ability to take on this responsibility. This will reduce the Council's revenue costs by several hundred pounds per year.
29. Officers have assessed the market rent of the premises at a guide of £6,100 p.a. This assessment was supported by comparable evidence. The Club has requested a 100% rent subsidy. Officers have scored the club's rental grant subsidy application at 15 out of a possible total of 28 (see Appendix J). Our recommendation is as follows:
30. That the Warlingham Sports Association be awarded a 30% rental grant subsidy on the condition that:

The Association takes a new lease in which it accepts responsibility for all internal repairs and maintenance and statutory compliance at the pavilion.
31. Heads of terms for a new five-year lease have been agreed, subject to the outcome of the application for rental grant subsidy.
32. This recommendation would mean income to the general fund stays the same, and costs decrease slightly as result of the sports association taking over all internal repair and statutory compliance obligations. The club would be able to continue using the pavilion at Verdayne Gardens to support its sporting activities, which have significant health & wellbeing benefits for residents.

Summary

33. The table below provides a summary of recommendations. The impact on the Council's revenue budgets will be marginally positive.

Organisation	Old Rent per Lease	Rent Currently Paid	Guide Market Rent	Subsidy Requested	Recommendation
East Surrey Museum	£14,244	Nil	£14,400	100% (£14,400)	Award 100% subsidy in years 1 to 3, approximately 90% subsidy in year 4 and approximately 80% subsidy in year 5, with conditions – see section 2 above. Tenant to pay £1500 from year 3 and £3,000 from year 4.
Caterham Community Association	£3,327	£166	£16,100	98.5% (£15,858.50)	Award a 95% subsidy (£15,295) with conditions – see section 3 above. Tenant to pay £805 p.a.
Warlingham Sports Association	£9,482	£4,267	£6,100	100% (£6,100)	Award a 30% subsidy with conditions – see section 4 above. Tenant to pay £4,270 p.a

Key implications

Comments of the Chief Finance Officer

The financial implications of the report to the General Fund are a few hundred pounds of increased income for the revenue account and no capital implications. The leases are intended to mitigate the Council's costs and liabilities. It should be noted that in future years when the stepped lease arrangement starts the council will receive further income from the East Surrey Museum.

Comments of the Head of Legal Services

The report tries to balance the concept of best value under s123 of the Local Government Act 1972 recognising with the need and basis to provide rent subsidy via a definitive application process. The process modelling is intended to obviate accusations of unfair subsidies being provided from public funds and ensure a transparent auditable system of rents to be charged. It also avoids potential challenges regarding fairness and equality of the assessment process and subsequent outcomes.

If Members choose to charge rents at market value or reduce any rent subsidy there will be implications for the organisations involved, in terms of the level of support services they can provide and might result in the organisations ceasing to operate with the Council incurring additional cost from taking back the assets or from residents no longer receiving support.

Equality

Community organisations play a key role in supporting equality of opportunity and supporting groups with protected characteristics. The applications for rental grant subsidy should be considered in this context.

The East Surrey Museum is located in a town centre, very close to the train station and bus stops. Its facilities include ramped access and an accessible WC. Entry to the museum is free and anyone can visit (membership not required). In addition, museum volunteers take museum exhibits to schools and care homes. The proposals in this report will enable the museum to continue to operate without impacting accessibility of the museum to the wider community.

The Caterham Community Centre is located on Caterham on the Hill High street, close to bus stops. There is a ramped access and an accessible WC. The Community Association is available to hire by anyone regardless of gender, age, faith or other characteristic. The proposals in this report will enable the centre to continue to operate without impacting accessibility of the centre to the wider community.

The Warlingham Sports Association run sports and activities for a range of age groups including children, youth, adults and seniors. They report to be a club that supports diversity and is for everyone regardless of faith or gender.

Climate change

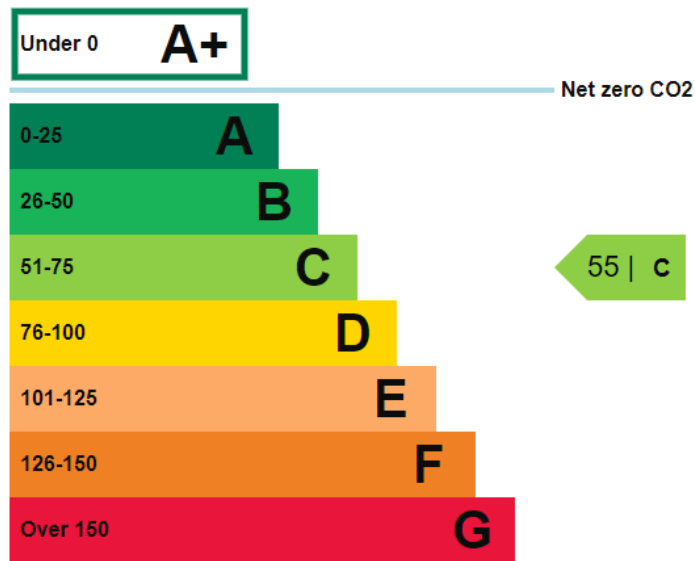
In accordance with the Minimum Energy Efficiency Standards (MEES) any property with an Energy Performance Certificate (EPC) rating below E will be deemed sub-standard. At present it is an offence to grant, extend or renew a lease of a commercial property with an EPC rating of below E. From 1 April 2023 it will become an offence to continue to let a commercial property with an EPC rating of below E.

Officers arranged for EPC assessments to be undertaken on all three properties.

Property	Rating	Recommendations – short payback period*	Recommendations – medium & long payback period*
East Surrey Museum	C (55)	Replace T8 lamps with retrofit T5 conversion kits; introduce heating controls	Replace heating boiler plant with a condensing type; improve wall and roof insulation and glazing
Caterham Community Centre	D (94)	Solar control measures to windows; replace T8 lamps with retrofit T5 conversion kits	Introduce cavity wall, loft and solid wall insulation, introduce heating system controls, consider secondary glazing
Hamsey Green Pavilion	D (76)	Add time control to heating system, replace T8 lamps with T5 conversion kits, install secondary glazing	Install an air source or ground source heat pump; replace; improve glazing/frames, introduce HF ballasts for fluorescent tubes

*These are not complete lists of the recommendations, but examples of the items listed

Table for reference only



Properties are given a rating from A+ (most efficient) to G (least efficient).

Properties are also given a score. The larger the number, the more carbon dioxide (CO2) your property is likely to emit.

Appendices

Appendix 'A' - 2015 RSG Policy - Rent Review/Lease Renewal Methodology

Appendix 'B' - Scoring Matrix

Appendix 'C' - East Surrey Museum - Application form for RSG

Appendix 'D' - East Surrey Museum matrix score

Appendix 'E' - Caterham Community Centre - Application form for RSG

Appendix 'F' - Caterham Community Centre - supporting documents

Appendix 'G' - Caterham Community Association matrix score

Appendix 'H' - Warlingham Sports Association - Application form for RSG

Appendix 'I' - Warlingham Sports Association - supporting documents

Appendix 'J' - Warlingham Sports Association matrix score

Background papers

None

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