

<b>Key Decision Required:</b>	<b>Yes</b>	<b>In the Forward Plan:</b>	<b>Yes</b>
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## CABINET

**16 NOVEMBER 2011**

### REPORT OF THE FINANCE AND ASSET MANAGEMENT PORTFOLIO HOLDER

#### **A.4 COMMUNITY ASSET RENTS OFFSETTING SCHEME: REVIEW**

(Report prepared by Andy White)

#### **PART 1 – KEY INFORMATION**

##### **PURPOSE OF THE REPORT**

To consider options for the future operation of the Community Asset Rents Offsetting Scheme (CAROS).

##### **EXECUTIVE SUMMARY**

The Council is the freehold owner of a number of community and sports and leisure premises that have been let in the past at low rents so the clubs and organisations can improve and create a sustainable and stable environment for their organisations. In order to balance its statutory duties with support for these community organisations the Council introduced CAROS. The underlying principle is that organisations have leases at full open market rents meeting the Council's statutory obligations but can also apply for support in the form of a discretionary grant that leaves a net payment by the organisation of £150 per year, with no reference at all to the actual values of the premises. The scheme was started in 2008/9 with an annual budget of £25,000. By 2010/11 the cost of the scheme had risen to £25,320. A significant number of rent reviews and lease renewals are overdue or due and it is estimated that unless revised the annual budget requirement for the scheme will be in the order of £108,218 in 2013 rising further to around £112,000 in 2016 as more leases are renegotiated or reviewed and moved to market rents.

This budget is not a direct cost: it represents potential rental income that is foregone.

Details of the use made of the grants in the last financial year were set out in the report on the current scheme level dated 30 March 2011.

##### **RECOMMENDATION(S)**

**That the Cabinet considers which option for the future of the scheme should be implemented and how to fund it.**

#### **PART 2 – IMPLICATIONS OF THE DECISION**

##### **DELIVERING PRIORITIES**

The clubs and associations that benefit from the scheme provide facilities and services that contribute to the Council's objectives in a variety of ways.

##### **FINANCE, OTHER RESOURCES AND RISK**

###### **Finance and other resources**

Revenue from leasehold property supports the Council's revenue budgets. The annual budget is now too small to fund the scheme as it currently exists and reviews and renewals

take place. If the scheme is to continue in its present form a substantial increase in the budget would be required.

Where financial support enables community groups to deliver community facilities or services the position would be in line with the Coalition Government's ideals of The Big Society. It may also be in line with the Community Right to buy initiative, depending on individual decisions on disposal and terms. A further report may be required to advise members of the implications of the initiative as details become established in order to clarify the potential effects on the council and other organisations involved.

Because the Council does not yet receive any increased rent leaving the scheme as it stands would not place an additional cost burden on the Council's net financial position. However, if the scheme is adjusted to decrease support there will be a corresponding increase in the Council's income. Rental income that is forgone is an opportunity cost to the Council. Any increased revenue can be used to support service delivery.

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	Budget	Cost
2008/09	£25,000	£19,157.41 (Actual)
2009/10	£25,000	£17,358.92 (Actual)
2010/11	£17,500*	£25,320.00 (Actual)
2011/12	£17,850	£24,792.00 (Actual to August)
		£50,263 (estimated full year – see assumptions <sup>Ω</sup> )
2012/13	TBA	£91,288 (estimated– see assumptions <sup>Ω</sup> )
2013/14	TBA	£108,268 (estimated– see assumptions <sup>Ω</sup> )
2014/15	TBA	£108,800 (estimated– see assumptions <sup>Ω</sup> )
2015/16	TBA	£110,950 (estimated– see assumptions <sup>Ω</sup> )
2016/17	TBA	£114,550 (estimated– see assumptions <sup>Ω</sup> )
2017/18	TBA	£114,800 (estimated– see assumptions <sup>Ω</sup> )
2018/19	TBA	£116,900 (estimated– see assumptions <sup>Ω</sup> )
2019/20	TBA	£116,900 (estimated– see assumptions <sup>Ω</sup> )
2020/21	TBA	£116,900 (estimated– see assumptions <sup>Ω</sup> )

\*The reduction in budget of £8K in 2010/11 was put forward and approved via the budget saving reviews.

<sup>Ω</sup>Assumptions:

- That actual rental valuations will match officer estimates
- Annual and held over leases will be renewed or reviewed effective on 01 April 2012
- All reviews and renewals will be agreed and effective
- The status of the clubs and groups will remain the same
- All of the properties remain let
- CAROS scheme remains as existing
- No properties or groups are added or removed from the scheme.

### Risk

If support for these organisations is reduced there is risk that a number of them will fail and/or default on rent payments. If leases are terminated or surrendered the Council will have a choice of whether to operate the facility direct, seek another tenant, clear the site, or dispose of it for some other purpose. There may be financial implications if it is decided

to run facilities direct. It may be hard to find alternative tenants or alternative uses for some of the sites.

## **LEGAL**

The Council has a statutory duty under section 123 of the Local Government Act to achieve the Best Consideration Reasonably Obtainable in any disposal. Disposal is defined to include any lease of seven years or more. This duty is offset by the General Disposal Consent (England) 2003 which allows Councils to dispose of land at a discount not exceeding £2m provided that this will enhance the Economic Social and Environmental Wellbeing of the area. Exercise of this discretionary power requires a specific decision on the merits of each case in a form set out in the legislation and subject to a Cabinet decision under the Council's constitution.

CAROS works by charging full open market rents for properties as above and giving a discretionary grant that offsets this. The operation of grant schemes such as this falls within the Council's discretionary powers. Because of the cross-cutting nature of this proposed scheme it is proposed that this report is considered by Cabinet.

## **OTHER IMPLICATIONS**

**Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.**

**Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.**

### **Crime and Disorder**

Many of the organisations provide engaging programmes for young people that can be seen as diversionary.

### **Equality and Diversity**

Many of the organisations provide engaging programmes that serve hard to reach and minority groups.

### **Health Inequalities**

Many of the organisations provide services and activities that promote active and healthy lifestyles. Many provide services aimed directly at the older population.

### **Area or Ward Affected**

Potential effect on all wards.

## **PART 3 – SUPPORTING INFORMATION**

### **BACKGROUND**

The Council is the freehold owner of a number of community and sports and leisure premises that have been let in the past at low rents. In many cases these were properties that the Council could not afford to repair and it seems that decisions were taken to let them to clubs and groups on full repairing terms but with a discounted rent that would allow the clubs to resolve the repair issues. Many of these leases are now reaching their end and the Council is seeking to renegotiate rents at market levels. Some, but by no means all, of the groups have carried out repairs. There is an assumption that the majority of the groups rely on the low level of rent in order to remain viable.

In order to balance its statutory duties with support for these community organisations the Council introduced CAROS. The underlying principle is that organisations have (whether existing or at the first available renewal or review) leases at full open market rents meeting the Council's statutory obligations but also apply for support in the form

of a discretionary grant that leaves a net payment by the organisation of £150 per year, reviewed on an annual basis: a figure that bears no reference to the market value. A number of groups are reluctant to sign new leases at full rent because they will be exposed if CAROS is not continued.

## CURRENT POSITION AND PROPOSAL

The table below illustrates the number of leasehold properties where the Council is landlord. It also shows the existing and estimated full open market rents for six classes of property.

Category	No	Existing rent (not including CAROS grant)	Estimated full market rent	Balance Existing to Market Value
Commercial Properties	53	£191,382	£199,018	£7,636
Community Properties	17	£11,221	£50,100	£38,879
Domestic Properties	5	£190	£300	£110
Historic Properties	7	£221	£4,951	£4,730
Public Sector Properties	18	£66,423	£89,465	£23,042
Sports and Leisure Properties	18	£20,228	£65,725	£45,497
<b>Total</b>	<b>118</b>	<b>£289,665</b>	<b>£409,559</b>	<b>£119,894</b>

Estimated Full Market Rent is based on Officer estimates. These will be subject to individual formal valuation and negotiation at the appropriate review/renewal.

The difference between existing and full rents in the commercial class does not reflect subsidised rents, it is the cumulative effect of existing rents reviewed up to six years ago being compared with current estimates.

None of the figures are increased for future inflation.

It is presumed that Commercial and other public sector organisations will not benefit from CAROS.

### Options:

There are four main options for the future of CAROS:

- A Continue the scheme as existing and increase the budget to suit.
- B Discontinue the scheme and address any failing groups as the need arises
- C A phased reduction in the level of support given over three years.
- D Rebalance the scheme to continue to support groups while reducing the financial impact on the Council:
  - i) Increase the amount of the flat rate scheme, if increased to £500 the estimated 2016 budget would be £101,925
  - ii) Change the grant to a percentage of the open market rent, if set at 50% the estimated 2016 budget would be £60,296
  - iii) Change the grant to a flat rate with a percentage of the open market rent above that, if set at £500 and 50% the estimated 2016 budget would be £50,713

The financial effect (specifically the budget required for the scheme) of these options is represented in the table overleaf:

Option	A	B	C	D(i)	D(ii)	D(iii)
Threshold/ discount	150			500	50%	500 50%
2011/12*	£50,263	£50,263	£50,263	£41,438	£27,438	£20,407
2012/13	£91,288	£0	£63,902	£80,313	£48,465	£39,882
2013/14	£108,268	£0	£43,307	£96,443	£57,040	£47,947
2014/15	£108,800	£0	£21,760	£96,975	£57,306	£48,238
2015/16	£110,950	£0	£0	£98,425	£58,496	£48,963
2016/17	£114,550	£0	£0	£101,925	£60,296	£50,713
2017/18	£114,800	£0	£0	£101,925	£60,476	£50,713
2018/19	£116,900	£0	£0	£104,025	£61,526	£51,963
2019/20	£116,900	£0	£0	£104,025	£61,526	£51,963

\* Theoretical position based on all reviews etc being completed. See assumptions in the Financial section. It is unlikely that this position will manifest itself.

These figures represent the budget required for the scheme in the various options. They are not actual costs. The council will invoice the full market rent with the grant amount deducted, with the result that income actually received will be the net amount for each property, aggregating to the difference between the open market rents and the CAROS budget. If CAROS is revised or stopped there will be potential for higher income: the full open market rent from each site, subject to the risk that some tenants will be unable to continue to operate.

The effect of changes to CAROS could be offset by other support initiatives such as the Big Society Fund, Community Right to Buy Scheme or other similar proposals.

#### **BACKGROUND PAPERS FOR THE DECISION**

None.

#### **APPENDICES**

None.