

For general release

REPORT TO:	Scrutiny Streets, Environment & Homes Sub-Committee 17 December 2019
SUBJECT:	POLICY FOR COUNCIL COMMUNITY PROPERTIES, RENT SUBSIDY AND RATE RELIEF
LEAD OFFICER:	Gavin Handford, Director of Policy & Partnership
CABINET MEMBER:	Councillor Hamida Ali, Cabinet Member for Safer Croydon & Communities
PERSON LEADING AT SCRUTINY COMMITTEE MEETING:	Gavin Handford, Director of Policy & Partnership

CORPORATE PRIORITY/POLICY CONTEXT/AMBITIOUS FOR CROYDON:

The Corporate Plan and Voluntary & Community Sector Strategy recognises the importance of working in partnership to deliver the priorities and outcomes we have promised in new and creative ways. This includes working with the voluntary and community sector. This policy will enable the Council to make best use of its premises-related support to the sector.

ORIGIN OF ITEM:	Request by Councillor Hamida Ali for Scrutiny Committee to input into the development of a policy for the allocation of council community properties and setting rents, and providing rent subsidy and rate relief to Voluntary & Community Sector organisations.
BRIEF FOR THE COMMITTEE:	To provide comment and inform the development of a policy for the allocation of council community properties and setting rents, and providing rent subsidy and rate relief to Voluntary & Community Sector organisations.

1. EXECUTIVE SUMMARY

- 1.1. The Voluntary and Community Sector (VCS) is a fundamental part of Croydon. It is a key partner in delivering services and support to our residents. We know that the availability of affordable premises and space for events is a major challenge for VCS organisations and groups.
- 1.2. The Council supports VCS organisations in respect of premises and associated subsidies in a number of ways, in total worth more than £0.5m a year. We wish

to continue supporting the sector at the same level, but focus this assistance on organisations that support the priority outcomes in our VCS Strategy (adopted in March 2019) and have the biggest community impact and greatest need, and spread the benefit of funding as widely as possible.

- 1.3. The VCS Strategy was developed with the input of the Scrutiny and Overview Committee. The Council is now developing a policy for allocating and setting rents in council community properties, and providing rent subsidy and discretionary rate relief to give effect to the pledges made in the VCS strategy relating to premises related support. We want to provide transparency on how support is allocated and offer equality of opportunity to organisations that have not received funding to date, while operating within the Council's budgetary constraints.
- 1.4. This report provides background to the current approach, outlines the proposed approach within the policy and the rationale for this.
- 1.5. Consultation has been undertaken with voluntary and community sector organisations, and a summary of the feedback is provided.

2. VOLUNTARY AND COMMUNITY SECTOR STRATEGY 2019-23

- 2.1. Our borough benefits from a wonderfully diverse voluntary and community sector (VCS) that makes a vital contribution to Croydon. The VCS is a fundamental part of Croydon. It is a key partner in delivering services and support to our residents.
- 2.2. The Council is a strong contributor to the VCS in Croydon, providing significant funding and staff support through various teams, our commissioning and procurement function and the One Croydon partnership.
- 2.3. In March 2019 the Council adopted a VCS Strategy that provides an open and honest framework for prioritising the Council's support and resources for the VCS while working in partnership with it to deliver for Croydon. A summary of the priority outcomes within the strategy is set out in Appendix 1.
- 2.4. Engagement with VCS organisations during the development of the VCS Strategy highlighted that the availability of affordable premises and space for events was a major challenge for the VCS.
- 2.5. There was a desire for greater transparency and clearer guidelines about how and why organisations are allocated council premises or paid rent subsidy or discretionary relief from national non-domestic rates (commonly known as business rates), when many others do not receive such support. Organisations also said that there should be more monitoring of performance and of usage of allocated premises

2.6. The VCS Strategy therefore includes a number of actions for the Council concerning premises related subsidies:

- Develop clear criteria for allocating properties and rent subsidy, requiring organisations to support our priorities and making the sharing of premises a desirable requirement.
- Allocate properties for a limited term; performance and the level of use of the premises will be monitored regularly.
- Improve transparency by transitioning from peppercorn rents for community properties to market rents, with rent subsidy provided where appropriate.
- Encourage organisations to share available space: we will amend our leases to allow occupiers to sublet to approved organisations and develop proposals in 2019/20 to facilitate the exchange of information on spaces offered and spaces sought by VCS organisations.

2.7. The draft policy for council community properties, Rent Subsidy and Discretionary Business Rate Relief (DRR) seeks to implement these actions.

3. CURRENT APPROACH

3.1. Premises are a critical area of support for voluntary and community sector (VCS) organisations. They are also, however, an expensive resource that is often in short supply. The Council supports voluntary and community sector organisations in respect of premises and associated subsidies in a number of ways, in total worth more than £0.5m a year.

3.2. In order to make council-owned community premises more affordable, many rents are charged at only a peppercorn rent (for 51 premises), or the Council provides Rent Subsidy to support the VCS with premises costs. The Council provides Discretionary Business Rate Relief (DRR) in addition to the 80% mandatory rate relief that may apply. It also provides and fully funds internal and external repairs to its properties, buildings insurance and statutory inspections, a significant subsidy in itself.

3.3. The Council's approach to premises related subsidy and support to the VCS has lacked an integrated approach. There has been no formal adopted policy or procedure for allocating council community properties and setting the rents for such properties, and determining which organisations should benefit from Rent Subsidy and DRR. The draft policy is designed to rectify this.

Rent subsidy

3.4. The Council is providing £245,000 in Rent Subsidy in 2019/20 for 19 premises. The subsidy benefits a range of organisations including sports clubs, scouts associations, residents associations, youth and community centres as well as larger VCS organisations.

3.5. The budget is fully allocated against historic commitments, and the Council is therefore not able to consider any new applications for Rent Subsidy under current arrangements. No assessment is currently made on the community benefit provided by the organisations receiving funding.

Discretionary Business Rate Relief

- 3.6. Charitable organisations such as registered charities are entitled to 80% mandatory relief for national non-domestic rates ('business rates') wherever they are located. This cost is absorbed by central government.
- 3.7. Discretionary Business Rate Relief (DRR) provides further discount on non-domestic rates. These cost are met by the Council.
- 3.8. In 2019/20 a total of £143,000 was awarded to 47 organisations in respect of 69 properties. While the vast majority of organisations receive a 20% top-up in DRR to their mandatory rate relief, three payments cover 100% discretionary relief where groups did not qualify for mandatory relief.
- 3.9. There are currently three simple eligibility criteria. These are that the organisation is Croydon based, not for profit and meets basic requirements regarding governance, financial management and equalities.
- 3.10. Most of the payments are low value: 51 (74%) of payments are below the average of £2,075, but nearly 50% of the total budget is paid to just seven organisations.
- 3.11. As with Rent Subsidy, the DRR budget is fully allocated, and the Council is unable to consider any new applications for DRR under current arrangements. No assessment is currently made on the community benefit provided by the organisations receiving funding.
- 3.12. The Council operates a separate scheme for providing discretionary rate relief to businesses.

4. PRACTICE IN OTHER LOCAL AUTHORITIES

- 4.1. In developing the draft policy, the Council looked at how other local authorities provided premises related support for the VCS.
- 4.2. Many authorities do not offer any rent subsidy at all. Those that do only support organisations in council owned premises and require organisations to provide a community benefit. We are not aware of any authority that offers rent subsidy to VCS organisations renting privately.
- 4.3. The level of rent that is subsidised varies. Some councils require VCS tenants to pay for repairs, insurance and statutory services to council community buildings, reducing the value of the rent subsidy they provide. Some only pay subsidy to community centres.
- 4.4. DRR is provided by more councils than rent subsidy, but by no means all offer this support. Some will only support organisations that qualify for mandatory relief, and pay 20% top-up relief so that organisations pay no business rates at all. Others offer partial relief only, but exclude organisations getting 80% mandatory relief. Generally, organisations must apply annually for DRR.

4.5. The analysis demonstrated that Croydon Council continues to provide a strong level of financial support for the VCS, and more than most local authorities.

5. DRAFT POLICY OBJECTIVES

5.1. In drafting the policy proposals, the Council is seeking to offer organisations equality of opportunity to access premises and subsidies, ensure value for money and to spread the benefit as widely as possible across the VCS.

5.2. A number of objectives have been included in the draft policy, and are aligned to the priorities within the VCS Strategy:

- Focus funding on VCS organisations with biggest community impact and greatest need.

This is considered to be those organisations that support VCS Strategy priority outcomes, operate in areas of the greatest deprivation, use their properties as intensively as is practicable and those with the greatest financial need.

- Focus funding on VCS organisations occupying council community properties.

This is proposed for phase 1 (2021-2024). From 2024/25, subject to a review in early 2023, the policy proposes the option to open the rent subsidy scheme to applications from VCS organisations renting premises in the private sector, thus further widening the number of organisations that would be eligible.

- Provide transparency on how rents are charged, subsidies are offered and council community properties are allocated.

- Spread the benefit of the funding as widely as possible, offering opportunity to organisations that have not received funding to date, while operating within the Council's budgetary constraints.

6. DRAFT POLICY: RENT SUBSIDY PROPOSALS

6.1. It is proposed that a new application process be introduced for rent subsidy. In order to provide some stability to VCS organisations, and enable them to plan in the medium to long term, it is intended that rent subsidy will be awarded to successful applicants for a period of 3 years. The scheme will offer rent subsidy up to 100% of the contractual rent.

6.2. Whilst rent subsidy funding will be awarded for 3 years, it will be with a requirement for annual monitoring and the ability to amend rent subsidy.

6.3. Clear eligibility criteria will be introduced. Organisations will need to be:

- Community led
- Properly constituted, with good governance

- Capable of sustainably, legally and safely managing an asset and delivering services
- Compliant with the Equality Act 2010
- Willing to offer space (if available) and support to smaller groups.

6.4. The organisations will also need to provide services that support the Council's VCS strategy (see Appendix 1) and these services must be delivered primarily for the benefit of Croydon residents. At least 75% of beneficiaries must be Croydon residents.

6.5. Profit making organisations, faith groups using premises mainly for religious purposes, and organisations providing services to a restrictive membership group will be excluded from receiving rent subsidy.

6.6. Where an organisation wholly or mainly sublets the premises to other organisations, then the property may be eligible for rent subsidy on condition that the subtenants are VCS organisations approved by the Council and the amount paid by the subtenant is no more than a charge to cover the organisation's reasonable costs of managing and running the building. The organisation's rent subsidy will only be reduced if it is making a profit from the arrangement.

6.7. If an organisation receives rental contributions from other council grants or commissioning, they will not be eligible to apply for rental subsidy. This ensures there is no duplication in funding contribution.

Assessment

6.8. Even with the exclusions above, there will be more eligible organisations than there is funding to support. Therefore, an assessment process will be utilised to score and prioritise applicants for rent subsidy.

6.9. Priority will be given to organisations that:

- Make greater use of the premises.
This will encourage organisations to make valuable community assets available throughout the week, offering more services and support to local communities.
- Share premises with other VCS organisations.
This will also increase availability of valuable community assets. However, where it is agreed that organisations cannot share premises, they will not be disadvantaged.
- Deliver services in areas of greater deprivation
- Are critical for achieving priority outcomes

6.10 The Council will seek to develop a web-based system to put VCS organisations and groups that have available space(s) within their premises in touch with other VCS organisations and groups that are looking for premises or space.

6.11 A financial assessment will form part of the application, with priority given to organisations with a lower gross annual income. Organisations with higher levels of gross annual income will be expected to demonstrate how they have secured funding from non-council sources. This will target funding where it is

most needed, whilst also encouraging VCS organisations to be less reliant on council funding.

- 6.12 Any organisation with reserves equivalent to more than two years' operating costs will not receive funding.

7. DRAFT POLICY: DISCRETIONARY RATE RELIEF PROPOSALS

7.1. It is proposed that a new application process also be introduced for DRR. As the amounts awarded are generally lower, it is considered less critical to provide a multi-year award. Therefore, it is intended that DRR be awarded on an annual basis.

7.2. Revised eligibility criteria will be introduced. Organisations will need to:

- Qualify for mandatory 80% business rate relief
- Support priority outcomes of the Council's VCS strategy (see Appendix 1)
- Meet requirements on governance, management and financial competence
- Comply with the Equality Act 2010.

7.3. The organisations will also need to provide services that support priority outcomes in the Council's VCS strategy (see Appendix 1) and these services must be delivered primarily for the benefit of Croydon residents. At least 75% of beneficiaries must be Croydon residents.

7.4. The following organisations will not be eligible for discretionary rate relief

- charity shops and cafés operated by trading arms of charities
- housing associations
- buildings used mainly for worship or to promote religious belief
- bodies operating a restrictive membership policy, unless they are fulfilling a special need within the community
- profit making organisations
- empty properties
- social clubs.

It should be noted that buildings registered for public religious worship or church halls are exempt from business rates altogether.

Assessment

7.5. Applications will open in October each year, with a closing date of 31 October. Assessment of applications would take place in November and December with decisions taken by March at the latest (see 7.10 and 7.11). It is anticipated that the total relief sought by eligible organisations will exceed the budget available.

7.6. VCS organisations will be asked to submit an application form, their most recent audited/checked accounts, the amount and purpose of funding currently received

from the Council and other sources and a business plan or budget to allow an assessment of their financial management and viability.

- 7.7. Priority will be given to organisations with lower rateable values. It is proposed that applications will be ranked according to the amount of rate relief applied for, from lowest to highest. Rate relief will be allocated, starting with the lowest amount, until the budget is fully allocated.
- 7.8. Using rateable value is administratively simple, encourages organisations to avoid higher value properties and use buildings with a lower rateable value.
- 7.9. The allocation system prioritises smaller qualifying organisations, although there is no guarantee that an organisation will get relief two years in a row, even if its circumstances have not changed. This is because it will be dependent on the total applications received.
- 7.10. Organisations will be notified in March, once the council budget has been set and central government has notified the Council of the business rate multiplier, usually in February, which is used to calculate the rate demand.
- 7.11. It should be noted that 2021, the first year of a new policy, will be a valuation year, with some rate bills varying considerably. In these circumstances it would be difficult to give indicative notifications with any degree of accuracy in January and impossible to confirm amounts of DRR until late March.

8. DRAFT POLICY: ALLOCATION OF COMMUNITY PROPERTIES

- 8.1. The Council works closely with the VCS to identify suitable future uses for vacant space within its community properties portfolio.
- 8.2. These properties will be available to organisations delivering services primarily for the benefit of Croydon residents, and that support the priority outcomes in the VCS Strategy (see Appendix 1). Organisations will need to be properly constituted, capable of managing an asset, willing to offer space to smaller groups and compliant with the Equality Act 2010.
- 8.3. The supply of council properties is insufficient for all potentially eligible VCS organisations that may need premises. The Council will therefore consider applications according to a number of criteria including:
 - The soundness of the business case for why the building or land is needed
 - The community benefit offered by the organisation
 - Local need for the service
 - Financial management and viability: VCS organisations will be asked to provide their most recent audited/checked accounts, a business plan or budget, and sources of funding.
 - Ability for the organisation to manage an asset and comply with the lease obligations.

9. DRAFT POLICY: RENT CHARGING FRAMEWORK

- 9.1. It is proposed to establish a framework for charging VCS organisations market rents for council community properties, rather than peppercorn rents. Instead, subsidy will be provided through rent subsidy. This approach provides greater transparency.
- 9.2. The market rent will reflect the geographical location, the use, the physical condition and the repair liability applicable to the property. However, a market rent for a D1 (community use) property may be significantly lower than the market rent for other properties classified for alternative commercial use.
- 9.3. Although rents will be individually assessed, given the nature of Croydon's community buildings and their current occupation, it is proposed that a simplified approach be adopted:
 - Basic properties offering community activities that actively support the Council's key policies will give rise to a rental value in the region of £4 per square foot per annum (it is assumed most will fall within this category)
 - Buildings that offer more potential for third party/commercial letting will be valued at £8 per square foot per annum or higher where the property is predominantly used as office space, is in a specific geographical location commanding higher rental values (such as a town centre), or involves a use that generates a significant income.
- 9.4. Any additional income raised by moving from peppercorn rents will be utilised for the continued funding of the VCS sector, such as through rent subsidy, and the provision of council services.
- 9.5. Exceptions to the above framework will include properties such as scout sites, where, due to the restrictive nature of the use, a standard rent of £500 per annum will be applied. There will also be some instances where a volunteer group with no income is undertaking a service on behalf of the Council where it is appropriate to continue to charge a peppercorn. Where a VCS organisation is investing capital to fit out premises, the Council may agree a rent-free period in recognition of this investment.
- 9.6. There will be no change to the current rent charged where there is an existing lease or agreement that sets the rent. There will also be no change to properties that are subject to a Community Asset Transfer.

10. IMPLEMENTATION

- 10.1. In proposing changes to the funding schemes, we are aware that this may have an impact on those organisations currently in receipt of the funding.
- 10.2. The Council has notified these organisations at regular points over the last 2 years of our intentions to review the scheme, and that this could impact on any future funding.

10.3. In addition, it is proposed to implement the changes to the scheme over a longer period, to ensure organisations have sufficient notice of any changes in the funding they receive.

10.4. Therefore, during 2020/21 rent subsidy and rate relief will be payable under current arrangements.

10.5. It is proposed that the policy be reported to the Cabinet meeting on 20 January 2020. If approved, the following timetable is planned.

Rental subsidy

10 February 2020	New rent subsidy scheme opens for applications
13 March 2020	Deadline for applications for rent subsidy
April 2020	Organisations notified of decisions regarding rent subsidy
1 April 2021	New rent subsidy payments begin

Discretionary rate relief

1 October 2020	New rate relief scheme opens for applications
31 October 2020	Deadline for applications for discretionary rate relief
March 2021	Organisations notified of decisions regarding discretionary rate relief
1 April 2021	New rate relief payments begin

10.6. The transition from peppercorn rents to market rents would be implemented over time from April 2021: immediately for expired leases, and in other cases, as leases expire or break clauses allow.

10.7. Allocations of council community properties will be made under the new policy from 1 April 2020, commencing with a review of leases that have expired and are holding over.

11. CONSULTATION

11.1. As set out earlier in the report, the Council undertook engagement to inform the VCS Strategy that was adopted in March 2019, which in turn has informed the proposals within the draft policy.

11.2. In addition, consultation on the draft rent setting framework and policies for allocating properties, rent subsidy and rate relief was undertaken between 9 October and 19 November. The consultation included an online survey and engagement event. The consultation was promoted on the Council's Get Involved web portal and via the VCS infrastructure organisations' regular communications channels to VCS organisations across Croydon.

11.3. 21 representatives of VCS organisations and groups attended the engagement event, which was held on 1 November 2019. 63 VCS organisations responded to the online survey. Respondents to the survey included organisations that did not rent their premises from the Council (52%); did not receive rent subsidy (65%) and did not receive DRR (43%). Of those that did rent from the Council,

23% paid nil rent; and 68% did not share their premises with another VCS organisation.

11.4 Responses to the proposals were broadly positive across the board:

- **Overall policy objectives:** 67% agreed or strongly agreed with the policy objectives, and 24% neither agreed nor disagreed
- **Rent setting framework:** 51% agreed or strongly agreed with the proposed method for setting rents in council community properties, and 33% neither agreed nor disagreed
- **Rent subsidy:** 70% agreed with the proposed eligibility and assessment criteria for rent subsidy, with 24% neither agreeing nor disagreeing. 57% agreed or strongly agreed with the proposed grounds on which rent subsidy might be reduced or withdrawn, with 33% neither agreeing nor disagreeing
- **Renewal of lease:** 77% thought that the Council should renew the lease if a tenant organisation still met the eligibility criteria at the end of the lease
- **Discretionary Rate Relief (DRR):** 57% agreed with the proposed criteria for determining eligibility, assessing priority and awarding DRR, and 28% neither agreed nor disagreed
- **Performance monitoring:** 67% agreed or strongly agreed with the proposed arrangements for performance monitoring and other arrangements, and 21% neither agreed nor disagreed
- **Implementation:** 64% agreed or strongly agreed with the proposed implementation arrangements, and 24% neither agreed nor disagreed.

11.5 A summary of the consultation responses is set out in Appendix 2.

12. CONCLUSIONS

12.1. The Council is a strong contributor to the VCS in Croydon. The Council has maintained premises related support where many authorities do not offer this support.

12.2. The VCS strategy sets out our commitment to support and work in partnership with the VCS. Premises is a key issue for the sector, and the strategy set out a number of priorities and actions for the Council in relation to premises. These were about creating a more transparent process.

12.3. The Council is therefore developing a policy that provides clear eligibility and assessment criteria for:

- Allocating community properties and setting rent
- Providing rent subsidy and discretionary rate relief

12.4. A number of objectives have been included in the draft policy, and are aligned to the priorities within the VCS Strategy:

- Focus funding on VCS organisations with biggest community impact and greatest need.
- Focus funding on VCS organisations occupying council community properties
- Provide transparency on how rents are charged, subsidies are offered and council community properties are allocated.
- Spread the benefit of the funding as widely as possible, offering opportunity to organisations that have not received funding to date, while operating within the Council's budgetary constraints.

12.5. In drafting the policy proposals, the Council is seeking to offer organisations equality of opportunity to access premises and subsidies, ensure value for money and to spread the benefit as widely as possible across the VCS.

CONTACT OFFICER: Gavin Handford, Director of Policy & Partnership

BACKGROUND DOCUMENTS: None

APPENDICES: Appendix1: Summary of Voluntary and Community Sector Strategy priorities

Appendix 2: Summary of consultation responses

Appendix 3: Draft Policy for allocating council community properties, setting rents and providing rent subsidy and discretionary rate relief to VCS organisations