

Cabinet (Resources) Panel

25 April 2017

Report title	Community Centre Recharges	
Decision designation	AMBER	
Cabinet member with lead responsibility	Councillor Peter Bilson City Housing and Assets	
Key decision	Yes	
In forward plan	No	
Wards affected	All	
Accountable director	Tim Johnson, Place	
Originating service	Older People	
Accountable employee(s)	Chris East	Head of Facilities and Service Support
	Tel:	01902 550132
	Email:	chris.east@wolverhampton.gov.uk
Report to be/has been considered by:	Place Leadership Team	13 March 2017
	Cabinet Member for City Housing and Assets	7 March 2017
	Strategic Executive Board	14 March 2017

Recommendation for action or decision:

The Cabinet (Resources) Panel is recommended to:

1. Approve the proposed leasing and service charge arrangements for Community Associations (CA's) occupying CWC (City of Wolverhampton Council) community centres. Specifically, approve that negotiations for newly drafted leases commence on the principle of a notional 50/50 split of service charges between CWC and the interested CA (as option 2 of the appraisal summarised in this report) for a period of five years.

Recommendation for noting:

The Cabinet (Resources) Panel is recommended to note:

1. That future agreements and charges will be determined and documented in accordance with appropriate RICS Code of Practice for Service Charges.

1.0 Purpose

- 1.1 To review the basis on which leases and associated service charges are to be paid by Community Associations for the use of community centres in the City of Wolverhampton.

2.0 Background

- 2.1 Following a consultation exercise, on the 5 December 2012 Cabinet agreed various recommendations for the leasing and subsequent service charges, relating to Community Hubs. In particular CA's in CWC being required to take on increasing levels of responsibility in order to support them being as self-sufficient as possible. Also CA's to make a financial contribution to the overall running costs of the community centres they manage and this has subsequently been accommodated in planning of the council's Medium Term Financial Strategy.
- 2.2 The report in 2012 provided a basis on which to charge CA's, however, the terms for these agreements has expired and there has been an opportunity to review the effectiveness of this approach. Specifically, there has been a lack of a collective understanding amongst CA's as to why, under the previous leases, that some are paying proportionally higher or lower charges than others.

3.0 Scope of Service Charges

- 3.1 The proposed service charges will typically, but not exclusively, include costs for the following:
- Insurance: Landlord buildings/lift/employees and Public Liability insurance (CA's public liability and material damage insurance to be paid directly to insurer).
 - Building repairs and maintenance including statutory compliance.
 - Grounds maintenance.
 - Alarm rental and monitoring.
 - Pest control.
 - Contract cleaning and refuse.
 - Music Licencing (PPL and PRS).
- 3.2 It is proposed that utility charges (gas, electricity, water, telecoms, etc.) should be the responsibility of the tenant CA's whereby they enter into agreements directly with utility providers. Corporate Landlord will advise and assist in identifying the most cost effective providers and whether collective agreements, for example across all CA's, will secure cheaper tariffs. The viability of future utility charging will be resolved by all parties on an agreed open book basis within reasonable timescales.
- 3.3 Service Level Agreements (SLA's) will document respective roles and responsibilities between CA's and CWC. The SLA will be a document added into the final agreement which clearly identifies who is responsible for what within the building e.g. CWC will be responsible for the structure of the building and CA's will be responsible for any non-fixed items of equipment e.g. tills in café areas.

3.4 A condition survey and building assessment will be carried out for each community facility to establish any outstanding concerns (including repairs and maintenance issues) that will subsequently inform the level of service charge to be reasonably applied to lease.

4.0 Options considered for future levels of contributions and term of leases

4.1 In the context of the above the following options have been considered:

Option 1: CA's make no contribution to service charges

Option 2: CA's pay 50% of service charges.

Option 3: CA's pay 75% of service charges.

Option 4: CA's are self-sufficient and operate community centres at no cost to the council.

4.2 In the context of Corporate Landlord savings identified in the Medium Term Financial Strategy and the aspiration to support CA's to be more self-sufficient, option 1 (all costs paid by the council) is not considered an appropriate option for the council at this time. Similarly options 3 and 4 (75% or all costs paid for by the CA's respectively) implemented from the outset of any imminent new arrangements may place too significant financial pressure on CA's and potentially impact on their short term viability, especially where they are still establishing robust operating models. However, it is intended that CA's will be required to contribute an increasing proportion of service charges, ideally achieving 100% self-sufficiency.

5.0 Variations to Service Charges

5.1 Due to the differing circumstances and needs of CA's it is unlikely that a single approach to applying service charges will be achievable. It is therefore proposed to continue to provide guidance on how variations to the basis on which these charges are determined is provided to CA's. This is necessary to support any specific requirements of CA's whose viability would otherwise be at risk.

5.2 The guidance is aimed at demonstrating an equitable and transparent process to varying service charges that avoids any precedence being set, as this could be the basis of challenge from other CA's who feel they are disadvantaged. This issue has recently been discussed at a meeting with the majority of CA's and there was collective acceptance that such variations are required to assist those organisations that have financial challenges.

5.3 Appendix A provides indicative criteria by which variations will be negotiated and recorded with openness and transparency. Such variations would be reflected in leases and service charges and documented in RICS documentation. It is also proposed to secure a collective agreement from all CA's, possibly in the form of a concordat, that acknowledges the basis on which to vary service charges.

6.0 Governance

6.1 The Corporate Landlord service delivery model provides the opportunity to more effectively manage all agreements leases, licences and service charges in a coordinated and centralised manner. Dedicated staff will be responsible for the active monitoring and

management of all agreements with CA's, in particular in relation to evaluating levels of service charges as the specific circumstances of each organisation changes over time. CA's will be supported by the Assets team to develop succinct business plans and annual accounts necessary to determine annual service charges; leases will be amended as necessary to reflect any agreed changes.

6.2 Facilities Management, in collaboration with Community Recreation, will ensure ongoing consultation with all CA's both on a one-to-one basis as well as in collective forums necessary to ensure effective communication is structured, focussed and recorded and ensure future misunderstandings are avoided.

7.0 Summary

7.1 To ensure consistency across all Community Association leases and service charges, it is proposed:

- that standard leases are documented for all Community Associations with the proposed Heads of Terms, as summarised in Appendix B;
- to consult with CA's on proposed charging arrangements as detailed in this report, specifically:
 - commence on the basis of a 50/50 split of service charges between the council and the interested CA) for a period of five years (with a minimum period of three years if a break is exercised);
 - charges increase up to 100% over a period of time in line with an agreed business plan between the CA and CWC;
 - agree the approach and illustrative criteria by which variations to these charges may be accepted to support the viability of a CA;
 - consider the development of a concordat between all CA's to acknowledge the need to vary charges in line with the above criteria to support the differing needs of specific CA's;
 - that future agreements and charges will be determined and documented in accordance with appropriate RICS Code of Practice for Service Charges.

8.0 Financial implications

8.1 The table below summarises the costs to both the council and CA's for each of the four options detailed in this report. As CA's will be responsible for their own utility costs these costs are not therefore included in the figures provided in the below table.

Options	CWC Cost	CA Cost	Total Cost
	£000	£000	£000
Option 1 - 0% of cost to CA	314	-	314
Option 2 - 50% of cost to CA	157	157	314
Option 3 - 75% of cost to CA	78	235	314
Option 4 - 100% of cost to CA	-	314	314
Current Budget	202	112	314

8.2 Implementation of option two could generate a potential saving in the region of £45,000 per annum. For 2017/18 the Medium Term Financial Strategy assumes a budget reduction and income generation target of £500,000 in relation to Facilities Management against which the potential saving of £45,000 would score.
[TT/17032017/Z]

9.0 Legal implications

9.1 The majority of existing leases and associated schedules of service charges expired in April 2016. The council's legal team will prepare revised documentation in accordance with the Heads of Terms as set out in Appendix B and this will remain in draft format subject to the CAs taking independent legal advice as appropriate.

9.2 The revised schedules of service charges need to be transparent and demonstrate an equitable approach to varying service charges. The differing levels of contribution currently paid by the various CA's lacks clarity and therefore a perceived lack of consistency and potentially open to challenge.

9.3 As landlord the council has duty holder responsibilities for employees under the Health and Safety at Work Act 1974 (HASAWA), to visitors and non-employees under the Occupiers Liability Acts and to tenants under the Gas Safety (Installation and Use) Regulations 1998. These statutory compliance requirements and roles and responsibilities for all parties will be documented in proposed leases with CA's.
[RB/16032017/Q]

10.0 Equalities implications

10.1 There are no equalities implications associated with this report as it based on a cost to the Community Centres and there will be an agreed charge between CWC and CAs

11.0 Environmental implications

11.1 There are no environmental implications associated with this report.

12.0 Human resources implications

12.1 There are no human resources implications associated with this report.

13.0 Corporate Landlord implications

13.1 The establishment of the Corporate Landlord service delivery model and the centralised approach to managing assets has provided the opportunity to holistically review the approach to setting and collection of service charges to CA's.

13.2 The remaining Corporate Landlord implications are contained in the body of this report.

14.0 Schedule of background papers

- 'Community Hubs - Recommendations on the outcomes of the consultation exercise' Cabinet report 5 December 2012
- 'Community Hubs - Proposals for Consultation' Cabinet report 26 June 2012
- 'Community Hubs - A Five-Year Vision for Wolverhampton' Cabinet report 7 December 2011.

Appendix A: Indicative Criteria for Varying Lease/Service Charges to Community Association

Mission, vision and/or objectives of the Community Association	Does the organisation have social value or specific aims that require subsidy from CWC? Is the CA supporting disadvantaged/vulnerable groups?
Financial viability	Is there a need to subsidise the organisation to ensure its initial establishment viability/recent management change? How can this subsidy be phased over a period of time and at what point would you expect to in a position to meet your full costs? Does the CA require deferred payments to assist in establishment costs? Has a formal review of financial activities taken place between the CA and CWC?
Accommodation costs	Are there specific fit out or associated establishment costs that need subsidy to support the activities of the CA?
Lease term	Does the lease term impact on the viability of the CA? Would a longer lease attract grant/funding support?
Activities	Does the CA plan to increase activities over a period of time that will subsequently increase income in later years? Are there specific requirements for these activities? Is the booking system for CA activities suitable and efficient to maximise sustainable income? Are there any specific improvement required to allow increased activities in each locality?

Appendix B: Proposed Heads of Terms for template Community Association Lease.

- Landlord** : Wolverhampton City Council
Civic Centre, St Peters Square
Wolverhampton
WV1 1SH
- Tenant** : xxx Community Association
- Tenant Solicitor** : TBC
- Premises** : All that land and buildings known as xxx
Community Centre, Wolverhampton indicated on
the lease plan and including all fixtures and fittings
and plant and machinery.
- Tenant responsibilities** : A Service Level Agreement is to be prepared to
document the respective roles and responsibilities
between the Community Association and CWC
- Occupational charges** : 50% of the Total Running Costs based on the
previous year payable in advance of each standard
Quarter Day
- Term** : 6 years from 1 April 2016

The lease will exclude s24 – s28 of the Landlord
and Tenant Act 1954 part 2
- Charges Review** : An annual review of occupational charges to occur
where the Community Association accounts are
available.
- Break Option** : The tenant will be offered the option to break the
lease at the end of the 3rd year of the term upon
six months prior written notice on the condition
that all the rent and other charges have been paid.
- Repairs** : Tenant Internal Repairing terms
- Permitted Use** : Offices, ancillary storage and function or meeting
room purposes in conjunction with the Community
Association.

Legal Costs

: Each party to bear their own legal costs in the transaction

Conditions

- : 1. Subject to Contract
- 2. Subject to Formal Council Approval