

<b>Grants Determination Sub-Committee Report</b>  28 <sup>th</sup> March 2017	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Aman Dalvi, Corporate Director	<b>Classification:</b> [Unrestricted]
<b>Ocean Regeneration Trust grant funding</b>	

<b>Lead Member</b>	Rachel Blake - <b>Cabinet Member for Strategic Housing</b>
<b>Originating Officer(s)</b>	John Coker
<b>Wards affected</b>	St Dunstons
<b>Key Decision?</b>	No
<b>Community Plan Theme</b>	A Great Place to Live

### **EXECUTIVE SUMMARY**

The report seeks approval for ongoing grant payment and to lease the Harford St Multicentre to Ocean Regeneration Trust on a five year lease. This approval updates previous Commissioner approvals made on the 23<sup>rd</sup> December 2015.

### **RECOMMENDATIONS:**

The Grants Determination Sub-Committee is recommended to:

Authorise the Corporate Director to continue the grant funding to the ORT for five years which will be linked with the lease of the Harford St Multicentre to be granted to ORT, subject to Commissioner's approval, and the delivery of the Ocean and Limehouse Community Review at Appendix 2 to this report.

#### **1. REASONS FOR THE DECISIONS**

The council seeks:

- 1.1 To grant Ocean Regeneration Trust £200,000 Per Annum from 2017 – 2022 to enable it:
- 1.2 A) Deliver the outcomes detailed in the Ocean Regeneration Trust Business Plan  
2017/2018 – 2021/2022; and
- 1.3 B) Cover the running costs of Harford St Community Centre.

## **2. ALTERNATIVE OPTIONS**

- 2.1 Cease the socio-economic programme. To discontinue with the ongoing programme which the Ocean Regeneration Trust (ORT) has started would be at high risk of reputational damage to the council. The council has made investment through the New Deal for Communities (NDC) legacy funds to continue to provide essential community services in an area which still has high levels of deprivation after the physical works of new build, refurbishment and environmental improvements completed.
- 2.2 Establish the programme in-house (council). The expertise to continue with the programme within the council does not exist in one place; fragmented delivery of such a programme often leads to inefficient delivery and wastage. The Trust also has the wider remit of fund raising for the community through private sources, such as benefactors, banks, etc which the council could not achieve.
- 2.3 Set up another organisation. If the Council cannot enable the Trust to take on the lease there would be a need to look to another organisation to take on the five year lease in order to keep the centre open for community use, broaden current services and maximise ground floor and first floor use. This option would seem the least likely as significant investment has gone into the setting up and retaining the Trust's Board and staff. The council's reputation would be at risk; community perception may be that community investment has been lost due to not enough support to ensure the success of ORT.

## **3. DETAILS OF REPORT**

### *Background*

- 3.1 The ORT was set up in 2008 as a legacy vehicle to the Ocean NDC. They have begun to deliver on their purpose in line with the Cabinet decision of 2007 and are a charity. They have been developing projects in line with the Council's agreed NDC Succession Strategy. It has become a key stakeholder in the community. Previous Commissioners reports have agreed three year funding for the Trust, along with a three year lease for the first floor for the ORT. The Council holds a twenty five year lease from East Thames Group.
- 3.2 The Harford St Multicentre ground floor is currently managed by the Council. The ORT holds a three year lease for the first floor. It is the intention of the Council to provide ORT a five year sub lease, subject to agreeing a five year funding arrangement to enable them to take on both the ground and first floors. The Lease application is with the Councils Asset Management team and will go separately to the Commissioners Individual Decision Meeting in March 2017.
- 3.3 The Trust's initial funding came from a grant from the NDC. This totalled £300,000 over the three years from 2011 to 2014. Ground rents from the completed blocks for sale on the estate are passed to ORT starting from £250 per annum per unit. This arrangement forms part of the lease agreement on the new build blocks on Aston St, just south of Ben Jonson Rd. This totals £105,000 rising each year by annual % RPI. Income from the shops on the south side of Ben Jonson Rd has been granted to the Trust for four years at £80,000 per year. This grant enabled the ORT to overcome shortfall in funding as the ground rents accrued piecemeal, depending on unit sales. This report seeks to transition ORT's funding regime from the retail units on the south side of Ben Jonson Rd to the new units on the north side.
- 3.4 ***Ocean Regeneration Trust***

### ***Background***

- 3.4.1 The ORT has been based at the Harford St Multicentre since the opening of the centre in November 2011 and as the successor body to the Ocean NDC continues to promote the socio-economic regeneration of the Ocean area and to hold assets, receive income and generate income for the benefit of the local community. It has always been the Council's

intention that ORT would take on the lease (and therefore the running costs) of the Harford Street Multicentre community space, sublet parts of it and be responsible for the management of the premises as the legacy body approved by DCLG.

3.4.2 Since November 2011 ORT has established links in the community. The Trust has an annual community grant fund of £40k to which organisations can apply for up to £5,000 for single projects or £10,000 for projects delivered in partnership with other organisations in the area. An example of local organisations who received grants were Stepney City farm, Half Moon Theatre, local football clubs, chiropody clinic and garden clubs for older people. Their main partnership is with City Gateway, who is based on the first floor of the Multicentre and working closely with the Trust on a programme of specialist women's services. This has embedded the Trust further into the identity of the centre. Delivery has been in the form of:

- Services primarily aimed at the most disadvantaged women and families in Ocean Estate and the surrounding area;
- Engage, mentor and train the most excluded individuals;
- Bring together different groups and cultures, and work against conflict and division;
- ESOL, literacy, numeracy, and apprenticeship sessions every week
- Innovative community development programmes – Advice Champions, Health Café and Advice Cafe
- Employment development workshops, including CV writing and Apprenticeships

3.4.3 In addition the Trust works with Tower Project who runs the Ocean View café on the ground floor of the Centre. Tower Project work with people with learning and physical disabilities; they take clients on for a period of six to nine months and deliver barista style and other café skills training. To date the café has provided training opportunities in hospitality and catering to over 30 young people and adults with learning disabilities from LBTH. These opportunities have ranged from short sessions in barista training to six month volunteering programmes; of these people 8 people have been employed in paid positions of at least 6 month at the café.

### 3.5 ***Ocean Regeneration Trust Delivery 2017-2022***

3.5.1 In May 2016 the Ocean and Limehouse Community Review was completed on the Ocean and Limehouse Fields estate, to examine how services were delivered locally. The review identified the need for greater community capacity and involvement, address gaps in services, better integration of services and stronger governance.

3.5.2 These included -

- Persistent low employment levels, particularly for women and some ethnic minorities;
- High levels of child poverty and the impact of welfare benefit changes on an already deprived community;
- Local people priced out by spiralling housing prices and the danger of a polarised community;
- Low levels of health and life expectancy;
- Growth and development impacting on local infrastructure and services;
- The need to be vigilant and tackle the potential for radicalisation and extremism; and
- A further programme of austerity and public sector cuts arising from the Spending Review and a consequent Medium Term Financial Strategy savings target of £59 million over the next three years to 2020.

The review recommended that ORT be the lead body in delivering the actions that have arisen. The ORT will develop a detailed action plan based on the above issues, which will be monitored by LBTH. See Appendix 1 with outline details of the actions. The Community Review was endorsed by the Cabinet Member for Strategic Housing, the Cabinet Member for Housing, Faith Communities and Welfare Reform and Cabinet Member for the Environment.

### 3.6 *The Multicentre*

The Multicentre was identified as a suitable location to take on the council's obligation to aid projects and organisations displaced when the former LiFRA hall was demolished as part of the wider Ocean estate regeneration scheme. This was to be a short term solution as the hire costs have not been adjusted to reflect the costs of running the Multicentre. Now that there is more certainty around funding of the ORT with the north side shops coming on stream, it is the right time for the Council to make longer terms arrangements with ORT, providing more comfort for both parties.

### 3.7 *Running Costs*

3.7.1 The running costs incurred by the Council of the Centre are high. The building is relatively new – five years old – and as such has the higher running costs associated with modern air warming/cooling systems and similarly with costs of repairs and maintenance. In addition the service charges, business rates and utilities bring the running costs to just under £90,000.

3.7.2 The ORT would have similar expenditure. They would be eligible for reductions in business rates but would incur other costs that the Council can absorb. These are increased salary costs for a facilities officer to support the director with the day to day running of the building, insurances and repairs and maintenance of a high specification building. The ORT has estimated their expenditure at circa £134,000.

### 3.8 *Income – Centre Generated*

3.8.1 The income generated by the centre can be split three ways; income from the so-called 'legacy' groups, income generated by hall hire and income from the leasing of the first floor class room and office space.

3.8.2 The 'legacy' groups' income is low and has not risen in the nearly five years of occupation. As described above, these groups were displaced by the demolition of the LiFRA hall and rehoused at the Multicentre but only on an interim basis. Their tenure is not guaranteed and their occupation should be reflected in either properly negotiated rental terms or they may seek alternative accommodation. The average income from the five 'legacy' groups is £10,000.

3.8.3 The hall is multi-purpose and big enough to hold parties and larger functions at weekends. During week days the hall can be split into three smaller working rooms for meetings/project delivery. The rooms are charged at £20 p/hour when split into three or £50 p/hour for the main hall.

3.8.4 First floor has a three year lease from 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2018 at £34,952.50 excluding VAT per annum. This income is derived from the ORT /City Gateway partnership who deliver services for women such as ESoL, childcare training and ICT skills.

3.8.5 The generated income from both floors of the Centre per annum is therefore approximately £65,000 as follows:

Legacy groups	£10,000
Hall hire and internal recharges	£20,000
First floor lease	<u>£35,000</u>
Total	£65,000

### 3.9 *Income – New Retail Units*

The projected income in the ideal scenario from the new retail units is £231,800. This projection is based on what the current cost per square foot is for the units and assumes that all 16 units can be let and the asking price and will be fully occupied by 2018. A 6% management fee on the annual rental income shall be retained in order to cover management services of an outsourced property management company.

### 3.10 *Income – Ground Rents*

Ground rent income comes from the private for sale units starting at £250 per unit in the first year as units complete which totals £105k per annum. The rents rise by % RPI each year. 2015/2016 is the first year with all units completed and sold.

### 3.11 *Risks Associated with New Retail Income*

3.11.1 The level of interest in the shops has been reasonable to date. However, at the time of writing there are five units vacant with no expressions of interest; it would be difficult to pinpoint the exact time these units will become occupied, thus impacting on income projections for the next five years.

3.11.2 Lease negotiations will take into consideration individual circumstances of fit out/rent free periods or a 'step up' approach to full rent. This will impact of the flow of income certainly in the first year of income and possibly into the second year.

3.11.3 The five year projection does not include any rise in rents as most businesses will sign up to 15 year leases with a review after five years so current projections won't rise.

3.11.4 The Highways Dept. are behind schedule on the installation of two delivery bays to service the retail units. They are impacted by delays with UK Power Network having to remove and install services.

### 3.12 *Mitigating the Risk in Income Shortfall*

3.12.1 As detailed above the Centre has a self-generated income of around £64,000 per year a shortfall of approximately £25k for running costs. Since the opening of the Centre in November 2011 income derived from the shops on the south side of Ben Jonson Road has been the main contributor to supporting the running costs before there was any self-generating income. The Council wish to continue this arrangement until the north side shops have reached the full potential of income flow.

3.12.2 Since the Council realise the constraints to the flow of income in the first year, the income from the south side shops will continue as before contributing to ORT's organisational and running costs. In the year commencing 2017/2018 the Council proposes to increase the grant associated with the south side of Ben Jonson Rd to cover the shortfall of the new retail units until the full income is realised. The year 2017/2018 has a projection of £51,325 a shortfall of £148,675. The subsequent four years will be assessed as it is the intention of the Council to reduce the dependency of the Centre on the south side retail income as the north side shops are fully occupied.

### 3.13 *Monitoring*

A delivery plan will be agreed with the ORT, this will be incorporated into the organisation's Business Plan. The plans outputs and objectives will be monitored by Housing Regeneration in conjunction with the Third Sector team.

#### **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 4.1 This report seeks the approval of the Grants Determination Sub-Committee to allocate grant funding of £200,000 per annum to the Ocean Regeneration Trust (ORT) for each of the five years from 2017-18 to 2021-22.
- 4.2 Under agreements previously entered into as part of the Ocean NDC succession plan, the Trust will receive funding from the Council in the form of the rental income generated from the retail units on the north side of Ben Jonson Road. These receipts have been earmarked for the ORT in future budget modelling.
- 4.3 Sixteen new retail units were constructed on the north side of Ben Jonson Road (within the blocks at 47-77 Ben Jonson Road) with the proposed lease terms of eleven of the sixteen units being approved by the Commissioners in December 2016. It is anticipated that occupation will take place during 2017/18. These units have been developed by Bellway as part of the Ocean Estate regeneration scheme. Bellway (as freeholder) has granted a long lease for the units to the council which in turn is now leasing the units itself to retailers. The remaining five vacant units are continuing to be marketed, and when all units are let it is anticipated that total income will exceed £230,000 per annum.
- 4.4 After the expiry of the various rent free periods that have been agreed to reflect the costs that the tenants will incur in fitting out the shops, rental income of approximately £170,000 (excluding business rates) will accrue each year on the eleven properties that are currently being let, prior to the rent reviews that will take place after five years. These receipts will initially be credited to the General Fund, with the receipts ultimately earmarked towards the funding of the Ocean Regeneration Trust (ORT) as outlined below.
- 4.5 The ORT was created in May 2008 to own assets and receive income generated from the Ocean estate regeneration scheme to use for the benefit of the local community. This included the income for the retail units on Ben Jonson Road. In accordance with the Government Directions, the onward transfer of these receipts should be treated as a grant payment and as such requires approval as part of the agreed grant awarding processes.
- 4.6 Approval was previously given by the Mayor in Cabinet on 10<sup>th</sup> April 2013 for the adoption of a capital estimate of £1 million to convert the eight basic shell units on the north side of Ben Jonson Road into sixteen new 'fitted out' commercial units which would be leased to tenants at market rent. The scheme is being funded through prudential borrowing, with the rental charges enhanced to reflect the fact that the units are being let at 'white box' standard rather than as 'shells'. The Council will retain an element of the increased rental charge to recover the capital financing costs - both the interest and the necessary principal repayment - prior to the balance of the rental income, after offsetting management and maintenance costs, being transferred to the ORT.
- 4.7 In advance of this funding source becoming available, following the Government Directions of 17<sup>th</sup> December 2014, the Commissioners approved interim arrangements to use part of the rental income for the existing retail units on the south side of Ben Jonson Road to pay grant of £50,000 for the 2014/2015 financial year and £80,000 for each of the 2015/2016 and 2016/2017 years, pending the letting of the new retail units on the north side of Ben Jonson Road.
- 4.8 As stated above, arrangements for leases are progressing on eleven of the sixteen units, but these will not generate sufficient resources to fully finance the proposed grant of £200,000. It is therefore proposed that until sufficient rental income is realised elements of the rents raised from the retail units on the south side of the road continue to be used to cover any funding shortfall.
- 4.9 Income received by the ORT is used to run the Harford Street Centre and deliver the various activities and outputs that have been agreed with the Council as part of the ORT's Business

Plan (see Appendix A). This includes funding for a Community Grant Fund of £40,000 per annum.

- 4.10 The estimated annual income generated by the ORT totals £370,000 (including the proposed grant funding) as follows:

		£	
	Ground Rent	105,000	(paragraph 3.10)
the	Harford Street Centre Income	65,000	(paragraph 3.8.5)
	Grant	200,000	
		370,000	
of			Offsetting estimated annual running costs the Harford
Street Centre of £134,000 per annum (paragraph 3.7.2), leaves a balance of approximately £236,000 for delivery of the Business Plan.			

- 4.11 The leasing arrangements between the Council and the ORT for the premises at Harford Street will be subject to separate approval by the Commissioners in accordance with the terms of the Ministerial Direction of 17<sup>th</sup> December 2014.

## 5. **LEGAL COMMENTS**

- 5.1. Whilst it is appropriate for this Sub-committee to make the decision in respect of the grant (and has authority delegated from the Executive so to do) it is notable that the decision for the grant of the lease rests with the Secretary Of State's Commissioners in line with the existing Secretary Of State's Directions. Therefore, the granting of the lease is not the subject of this report.
- 5.2. However, for the purposes of this scheme, both the grant and the lease are inextricably linked, and therefore, any subsequent agreements in respect of both the grant and the lease should also be contingent upon each other. For example, a breach of one agreement should be legally made to be a breach of both agreements as the success of this scheme relies on both strands of this arrangement
- 5.3. As regards the grant of monies the Council has power to make the grants under section 1 of the Localism Act 2011 which gives the Council the general power of competence. This means that the Council has the power to do anything which an ordinary human being could do, unless statute specifically restricts the Council for acting in the way it wishes. It appears that there is no specific legislation prohibiting the making of the grant itself.
- 5.4. However, the Council must satisfy itself that the giving of any such grant would not constitute State Aid for the purposes of European Law. Whilst the grant itself has some of the hallmarks of state aid and would be above the de minimis threshold that applies to State Aid it is unlikely:
- 5.3.1 That an organisation resident in another member state would be interested in providing services in the UK of a type similar to that which the Trust will carry out and
- 5.3.2 That the Trust will be in a position to compete for services advertised in another member state given the nature of the Trust itself (in that it is not operating in a commercial context) and the nature of the provided services
- 5.5. This means that it is unlikely that there is any "cross border interest" in the giving of the grant and therefore would not constitute state aid for the purposes of European Law.
- 5.5. The Council has a duty to achieve Best Value in respect of its expenditures. This is by virtue of Section 3 of the Local Government Act 1999. The Council must satisfy itself that the giving of any grant represents Best Value. This means that it will have to ensure that any grant is made under terms that enable the proper monitoring of outcomes to demonstrate that the money achieves the appropriate outcomes for which it was given.

- 5.6. To this end the agreement, implementation and monitoring of the delivery plan referred to in the body of the report will be a central document and the giving of grant ought to be made subject to the achievement of that plan. Also, grant expenditure by the Trust (or any reimbursements of expenditure incurred) should also be on a basis that shows that the expenditure itself represented Best Value.
- 5.7. In respect of the management of the Harford Street Multicentre community space it is recommended that the parties enter into an SLA that will define the rights and responsibilities of each party in respect of the management services to be delivered by ORT. This should be co-terminus with the lease.
- 5.8. The Council must also ensure that it fully understands the impact on persons with a protected characteristic for the purposes of the Equality Act 2010. It may therefore need to undertake desktop evaluations and where appropriate carry out equality consultations also. It should be noted that the performance of the delivery plan objectives by the Trust also contribute to the Council's Equality Duty under S.149 of the Equality Act and should therefore also be consistently and appropriately monitored.

## **6. ONE TOWER HAMLETS CONSIDERATIONS**

- 6.1 The funding and lease requests for the ORT contribute to the council's equality of opportunity aim. The proposed services and permanent base for five years if the lease were granted would enhance local residents' chances to broaden their role in society and the workplace.
- 6.2 Activities by the Trust will help promote good relations within the community as local people see the Trust for the benefit of residents and groups, particularly those who are more vulnerable in the community.
- 6.3 The ORT proposals aim to target all residents an equal opportunity to access the services that will potentially be provided at the Centre.

## **7 BEST VALUE (BV) IMPLICATIONS**

- 7.1 The economic value of the ORT can be measured in the work to date e.g. community grants and the relationships they have built up within the Ocean community. To replace the Trust with another body in order to continue the socio-economic work started four years ago would need time and investment to restart the programme.
- 7.2 The ORT can deliver programmes efficiently through its partnership with City Gateway delivering programmes to support women in the community. In addition the Trust actively looks for community partnerships when assessing their small grant applications. A five year lease for the Centre allows the ORT control over all areas and can engage closely with projects being delivered from the Centre.
- 7.3 The council is committed to the effectiveness of a local organisation such as ORT to deliver the ongoing socio-economic programme for the community with a focus that the council could not deliver on.

## **8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 8.1 None



## **9. RISK MANAGEMENT IMPLICATIONS**

- 9.1 The ORT has been involved with community life on the Ocean for a number of years through the small grants programme, involvement with local organisations and through its development of the partnership with City Gateway. If the council grant was not awarded it could be perceived as the local authority not willing to support the local community and risk reputational damage to the council. In addition it is the Council's intention to outsource the management of the Centre and this would have to continue if ORT are not awarded the lease.

## **10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 10.1 The Trust has a remit to engage with wider projects and organisations in the community. They actively link with the local Safer Neighbourhood teams and the Anti Social Behaviour (ASB) team within Tower Hamlets Homes to look at support for their efforts to reduce ASB in the community.

## **11. SAFEGUARDING IMPLICATIONS**

- 11.1 The Trust will support organisations who work with the most vulnerable in the community. It will actively promote engagement with excluded individuals and community development within the area.
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### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- **Commissioners Lease Report**

#### **Appendices**

- **Appendix 1 Ocean Regeneration Trust Business Plan 2017/18 – 2021/22**
- **Appendix 2 Ocean and Limehouse Community Review**

#### **Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012**

- none

#### **Officer contact details for documents:**

N/A