

REDDITCH BOROUGH COUNCIL

EXECUTIVE COMMITTEE

11th November 2019

REDDITCH BUSINESS CENTRES REVIEW

Relevant Portfolio Holder	Cllr Mathew Dormer, Leader of the Council, Portfolio Holder for Planning, Economic Development, Commercialism and Partnerships
Portfolio Holder Consulted	✓
Relevant Head of Service	Kevin Dicks – Chief Executive
Ward(s) Affected	Greenlands, Lodge Park and Matchborough
Ward Councillor(s) Consulted	N/A
Key Decision / Non-Key Decision	Key Decision
This report contains exempt information as defined in Paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972, as amended	

1. SUMMARY OF PROPOSALS

- 1.1 A review of the Redditch Business Centres – Greenlands, Rubicon and Heming Road - has been undertaken focussing on their strategic fit (delivery of strategic purposes), market demand and financial performance.
- 1.2 This report details the findings of that review and seeks Executive recommendation accordingly.

2. RECOMMENDATIONS

The Executive Committee is asked to RESOLVE that

- 1) the review of the business centres is noted including the financial performance of the centres (two make a surplus and one makes a loss);**
- 2) consideration be given to options for improving the viability of the Rubicon Centre, including increasing the rent levels charged for both office and industrial / workshop space**

Or

- 3) consideration be given to exiting the Rubicon Centre**

3. Background

Strategic Context

- 3.1 One of the Council's six Strategic Purposes is "Help me run a successful business".

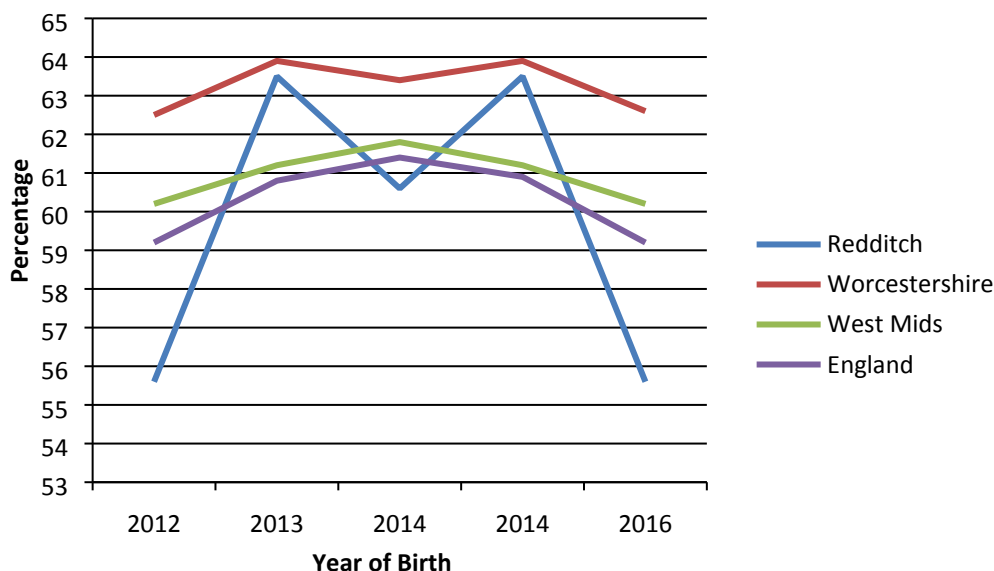
- 3.2 In pursuit of the Strategic Purpose, the Council seeks to “nurture existing businesses and encourage a future generation of entrepreneurs”. The Council Plan 2017-2020 states that the Council will:
- work with partners to provide a comprehensive business support package for small and growing businesses and aspiring entrepreneurs
 - help people to find business property in the Borough
 - review the availability of flexible business workspace within Redditch including Council owned property.
- 3.3 The Council supports the above through the Business Centres, which offer a range of flexible workspace accommodation and through a package of support services for start-up and small businesses.
- 3.4 In addition, at its meeting on 6th February 2018, the Executive Committee endorsed the revised Redditch Economic Development Priorities and Action Plan which, under the theme “An Enterprising Redditch” includes a specific action to continue to invest and develop the Business Centres and identify opportunities to the Council to invest in developing new commercial units.
- 3.5 The business support provided by the Business Centres is aligned with the Local Enterprise Partnerships’ strategies. The Greater Birmingham & Solihull Local Enterprise Partnership’s Strategic Economic Plan includes the strategic priority to “increase business start-up, survival and growth rates (scale-ups)”.
- 3.6 The Worcestershire Local Enterprise Partnership’s Strategic Economic Plan has identified a business growth offer as being integral to its strategic priority of “developing world class competitive and innovative businesses”. This offer includes “structured and tailored business support with additional provision for new and growing enterprises”.
- 3.7 The model which the Centres provide continues to meet the Council’s and partners’ strategic priorities and going forward, could also be used as a model to develop other similar or even larger accommodation to meet the needs of existing occupiers and other start-up and growing businesses. The Council’s Investment Strategy provides an opportunity for the Council to identify and seek out and acquire suitable sites and premises to provide additional start-up and “grow on” space.

Local Business Context

- 3.8 Redditch has lower than average levels of entrepreneurship. Startup Britain ranks Redditch 175 out of 348 areas for start-ups per 1,000 people (2016). The Grant Thornton Vibrant Economy Index places Redditch 319 out of 324 local authority areas for dynamism and opportunity – a measure of business formation, innovation and skills.

3.9 The business survival rate in Redditch, which measures how many businesses are still trading three years after they started, is very erratic although typically, the rate is below the county, regional and national rates. The rate for Redditch businesses is consistently below the Worcestershire rate.

3 Year Survival Rate



3.10 The Council has put in place a number of measures to address this, which are delivered in partnership with the Greater Birmingham and Solihull LEP Growth Hub and Worcestershire Business Central Growth Hub.

The provision of flexible managed office space is part of a suite of support designed to help businesses to start up and grow. Entrepreneurs can participate in a business start-up programme which comprises one-to-one support from a business advisor; workshops covering such topics as business planning, marketing and financial planning; and access to grant funding up to £2,500. In the past 3 years, 191 entrepreneurs have participated in the programme, including tenants in the business centres.

There is also a number of grant programmes available to young businesses to help them to scale-up. Grants of up to £1 million are available, although the typical average grant is £20,000. In the past three years, Redditch businesses have accessed £1,129,963 to help them to scale-up and grow.

Supply of Start-up Units

3.11 There are a number of business centres in Redditch that offer office space for small businesses. Many of these are actually stand alone buildings or buildings in multiple occupancy which operate conventional commercial leases and provide no business support services.

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3.12 Whilst not directly comparable due to the variety of costs that are covered by the fees quoted, other local private sector serviced business centres which operate and offer similar short-notice licence terms to the Council's Centres are detailed in the table below:

Business Centre	Accommodation	Unit Sizes (sq ft)	Average rent per sq ft per annum	Comments
<i>Office Headline Rate (non-serviced)</i>			<i>£11.50</i>	<i>GJSDillon Commercial Property Report 2018/19</i>
Greenlands Business Centre	Office	108 – 600	£27.74	Fee inc rent, water & service charge
Rubicon Business Centre	Office	150 – 300	£18.17	Fee inc rent, water & service charge
The Business Centre	Office	150 – 4,000	£24.00	Fee inc rent, heat, lighting, power, cleaning, reception
Ashtenne Business Centre	Office	100 – 1000	£15.32	Fully furnished, utilities included
The Excalibur Centre	Office	82 – 675	£29.76	All inclusive price
Basepoint	Office	73 - 531	£30.35	Fee inc rent, service charge & use of common areas (breakout space)
<i>Industrial Headline Rate (non-serviced)</i>			<i>£6.55</i>	<i>GJSDillon Commercial Property Report 2018/19</i>
Rubicon	Workshop	280 – 590	£13.13	Fee inc rent, water & service charge
Heming Road	Workshop	110 – 428	£9.59	Fee inc rent, water & service charge
Basepoint	Workshop	460 - 835	£20.22	Fee inc rent & service charge.
Ashtenne	Workshop	100 – 15,000	£6.00	Fee rent only,

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Business Centre				service charge extra
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- 3.13 As can be seen by comparison to the headline rate, businesses in serviced accommodation pay a premium for the convenience of being in a business centre. Greenlands Business Centre is priced near the top-end of the market whereas Rubicon and Heming Road are priced more competitively.

Demand for start-up units

- 3.14 Demand for offices in Redditch is high, with a 2018 vacancy rate of 4.8% (GJSDillon Commercial Property Market 2018/19 Report). 41,492 sq ft of office accommodation was let during 2018 and it is estimated that there is 23 months of supply of accommodation available.
- 3.15 During the past 12 months, GJSDillon has received 15 enquiries for leasehold offices in Redditch of less than 1,000 sq ft. However, they estimate that this represents a small proportion of demand as they do not have a lot of exposure in this market due to the size of units that they market.
- 3.16 The industrial market is even tighter with a 3.2% vacancy rate. 87,113 sq ft of industrial space was let during 2018, leaving 22 months of supply available.
- 3.17 During the past 12 months, GJSDillon has received 31 enquiries for leasehold workshops in Redditch up to 1,000 sq ft. Again, as they mainly operate in the market for larger units, they estimate that this is a small proportion of actual demand.

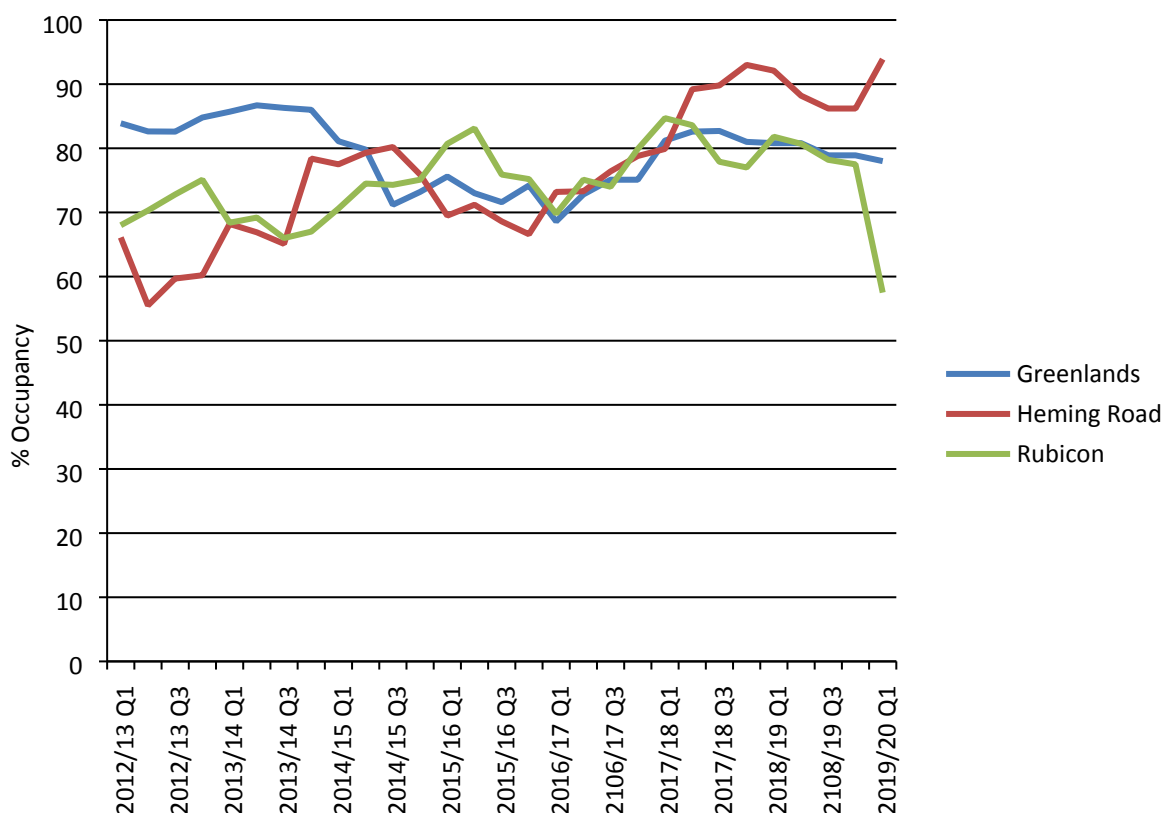
Operational Context

- 3.18 The day to day running of the three centres has been managed on Redditch Borough Council's behalf by NWEDR since 2011. Redditch Borough Council Property Services are responsible for all property related aspects of the Centres.
- 3.19 The centres comprise a total of 105 units (54 office units and 51 workshop units) as follows:
- 35 office units at Greenlands Business Centre, Studley Road, Redditch
 - 16 office and 23 workshop units at Rubicon Business Centre, Lakeside Industrial Estate, Redditch and
 - 28 workshop and 3 office units at Heming Road, Washford Industrial Estate, Redditch.

Occupancy

3.20 Occupancy levels, which fluctuate as businesses frequently arrive and leave, are currently averaging at 77% (July 2019). However, the levels vary significantly across the three centres with Heming Road at 93.6% and the Rubicon at 58.8%. Greenlands is currently 78% occupied but a number of the vacant units are currently not available to let due to damage caused by a serious flood in November 2018. The occupancy levels are calculated based on lettable square feet.

Occupancy Over Time

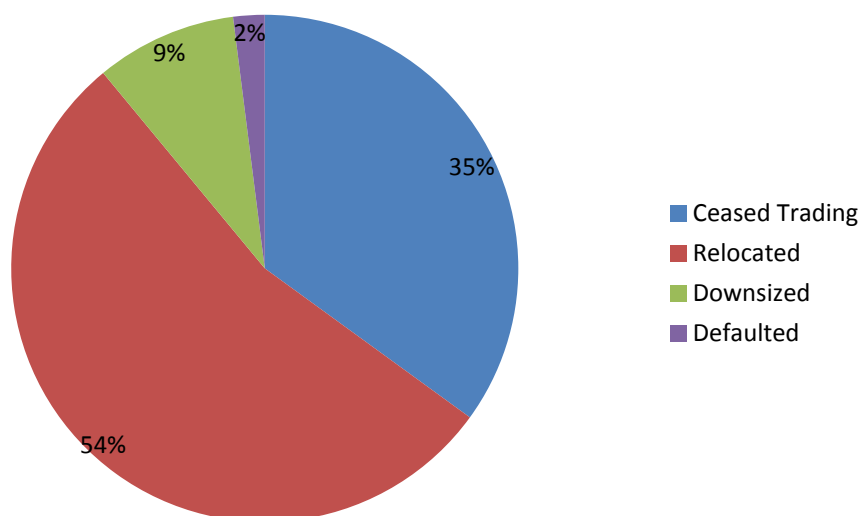


- 3.21 59 business currently operate from the three Centres.
- 3.22 Occupiers hold an “easy in / easy out” licence agreement which can be terminated by either party giving 14 days notice. The flexibility is attractive, particularly to new and growing businesses that may be hesitant about committing to long leases. New businesses can move in quickly and inexpensively. Licensees can also move to a larger or smaller unit – or leave – without penalties or legal costs.
- 3.23 41% of the current businesses (24 businesses) have been operating from the Centres for over 10 years. Of these, 6 are in Greenlands, 10 are in Heming Road

and 8 are in Rubicon. 17% of occupiers (10 businesses) occupy more than one unit – 5 in Greenlands, 2 in Heming Road and 3 in Rubicon.

- 3.24 Whilst there are a number of long-term occupiers, on average, businesses that were tenants of the centres and then moved on remained in the centres for about 3 years. The average occupancy of businesses that have been tenants in Greenlands is 940 days (31 months), in Heming Road is 1134 days (37 months), and in the Rubicon is 964 days (32 months).

Destination of Businesses Leaving the Centres



- 3.25 The majority of businesses that leave the centres relocate to alternative, larger premises. However, a significant proportion cease trading. This is particularly true of Heming Road, where 44% of previous tenants ceased trading. Frequently, this is due to the business owner retiring rather than the business failing.

Services

- 3.26 Additional chargeable services include:
- telephone switchboard dedicated answering
 - postal services (franking and posting)
 - meeting / conference room hire
 - secretarial support
 - postal address

Financial Performance

- 3.27 The Business Centres' financial performance over the past three years is summarised in the tables below:

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2016/17

Centre	Income	Expenditure	Surplus / (Deficit)
Greenlands	£164,393	£128,180	£36,213
Heming Road	£69,710	£106,293	(£36,583)
Rubicon	£164,695	£216,799	(£52,104)

2017/18

Centre	Income	Expenditure	Surplus / (Deficit)
Greenlands	£166,632	£141,920	£24,712
Heming Road	£78,880	£72,002	£6,878
Rubicon	£169,916	£221,923	(£52,007)

2018/19

Centre	Income	Expenditure	Surplus / (Deficit)
Greenlands	£168,140	£135,810	£32,330
Heming Road	£88,828	£66,264	£22,564
Rubicon	£156,849	£262,601	(£105,752)

- 3.28 The majority of income received by the centres is from rental of units. The cost of postage is recharged to the tenants with a small surcharge added to cover the costs of hiring the franking machines and stationary. Income is also generated from the hire of the conference rooms and secretarial services.
- 3.29 The income derived from secretarial services at Rubicon is negligible; whereas at Greenlands it is c£3,000 per annum. Income from the hire of the conference rooms is c£2,000 at the Rubicon and c.£3,000 at Greenlands.
- 3.30 Whilst it is difficult to give an absolutely precise figure due to the number of variables, Greenlands needs to reach 60% occupancy level to break even and Heming Road needs to be 70% occupied. Rubicon Centre, makes significant losses even at 85% occupancy, with a modest surplus at 100% occupancy. This calculation does not take into account income from secretarial services and hire of the conference room.

4. KEY ISSUES

Financial Implications

- 4.1 Of the three centres, Greenlands and Heming Road make a surplus and Rubicon Centre makes a loss.

Rubicon Centre

- 4.2 Appendix 2 illustrates the centre's financial performance modelled on the current rent levels and at 21% increase, 48% increase and at the top end of the market (66% increase). Cost wise, the modelling is based on the 2016-17 and 2017-18 figures.

Increase rent option

- 4.3 To break even at 70% occupancy, the rent levels would need to be increased from £18.17 / sq ft to £30.35 / sq ft (66%) for office space and from £13.13 / sq ft to £20.22 / sq ft (53%) for workshop space or a different combination of the two. However, at 65% occupancy, which is industry average, the centre would still make an annual loss of £18,224. In fact any increase below these levels would still result in significant annual losses.
- 4.4 A key question is whether such an increase would be realistic and competitive from a market perspective given the fact that the centre does not offer the level and quality of facilities required at the top end of the rental market.
- 4.5 Cost wise, there is limited scope for reductions, which would not generate significant savings relative to the scale of need.

Exit the centre option

- 4.6 The option to exit the centre is subject to the provisions of the lease under which the council occupies the premises. The relevant lease clauses are summarised in Appendix 3.

Legal Implications

- 4.7 The Council owns the freehold for the Heming Road Enterprise Centre; ownership having been transferred from the Commission for New Towns in 1998. This transfer was conditional on a minimum of 75% of the floor area of the premises being used for housing, small businesses and managed workspace.
- 4.8 The key provisions of the leases on Greenlands and Rubicon Centres are summarised in Appendix 3.

Customer / Equalities and Diversity Implications

- 4.9 The Centres continue to contribute to the Borough's much needed infrastructure for business growth by continuing to provide workshop and office space for new and growing businesses.

5. RISK MANAGEMENT

- 5.1 The financial performance of the business centres is linked to the occupancy levels. Any fall in occupancy will result in a reduction in any surplus generated or

an increase in the deficit. A marketing plan is being put in place to promote the centres and the business support services offered, including access to the Growth Hubs and support to secure business grants.

- 5.2 Any potential decision to close one or more of the business centres could affect the survival of the occupying businesses due to the lack of alternative accommodation.
- 5.3 Any potential decision to close one or more of the business centres could generate negative publicity and lead to reputational damage.

6. APPENDICES

Appendix 1 - GJS Dillon Commercial Property Market 2018/19 Report
Appendix 2 – Rubicon Centre financial modelling
Appendix 3 – Key lease provisions (Greenlands and Rubicon Centres)

7. BACKGROUND PAPERS

None

AUTHOR OF REPORT

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