

**EXECUTIVE
COMMITTEE**

16th June 2010

BUSINESS CENTRES - REVIEW

Relevant Portfolio Holder	Cllr Jinney Pearce, Portfolio Holder for Planning, Regeneration, Economic Development and Transport
Relevant Head of Service	Ruth Bamford, Head of Planning & Regeneration
Key Decision	
Appendix 4 to 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

A review was undertaken to consider the performance of the business centres and to clarify their role and purpose, as reflected in the recommendations.

2. RECOMMENDATIONS

The Committee is asked to **RESOLVE** that

- 1) the Borough Council continue to own / lease and manage all three business centres;**
- 2) the aim of the business centres be to provide accommodation and support to as many businesses as possible, having a mixture of maturities, that realises the Borough Council's wider objectives to boost enterprise and employment across the Borough as a whole (the business centres should be viewed as an economic development asset, contributing to the process of creating and supporting a prosperous community);**
- 3) in the first instance, Officers be instructed to improve occupancy and business support, with regard to helping start, grow, retain and attract businesses (Appendix 5 to the report outlines the matters which Officers shall consider in this respect);**
- 4) Officers be instructed to investigate how the business centres' expenditure can be reduced and income better maximised (Appendix 5 outlines the matters which Officers shall consider in this respect);**

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- 5) **the recommendations be reviewed in three years, as key factors may have changed in that time – or earlier if urgent matters arise which need examining or changing;**

and to RECOMMEND that

- 6) **further authority be delegated to the Head of Planning & Regeneration, Business Centres Manager, or Economic Development Manager, in consultation with the relevant Portfolio Holder, so that occupancy and performance can be improved, as detailed in Appendix 6 to the report.**

3. BACKGROUND

- 3.1 The business centres referred to in this report are described in appendices 1, 3 and 4 and consist of the three centres. Appendix 1 describes the business centres and services offered. Appendix 3 details the business centres' performance in terms of occupancy and customer satisfaction and characteristics of licensees. Appendix 4 summarises the current and recent financial performance and details of asset holdings. As a point of comparison, Appendix 2 summarises the accommodation and services at private business centres operating on similar terms in Redditch.
- 3.2 A key deliverable in Legal, Democratic, Property and Audit Services' 2009/10 Service Plan is to 'manage the Council's assets effectively', with a related action to review the business centres. The centres are also a useful economic development tool and, as they will be included in Economic Development's remit following the Shared Service restructuring, the review was led by Economic Development Officers.
- 3.3 Economic Development is the process in which economic wealth and wellbeing is improved. Increased prosperity can be affected by – and affect – growth, productivity, efficiency, income and job availability. The economy can be strengthened by the delivery of services to support the creation, growth and survival of businesses. As such, priorities in The Redditch Economic Development Strategy include: supporting starter and young businesses; encouraging businesses to move to and stay in Redditch; and establishing and maintaining a reputation as a 'business-friendly Council'.

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- 3.4 Whilst originally established to support new businesses, firms of all ages and types now operate in the centres (see appendices 1 and 3). As such the purpose of the centres needs to be re-visited and clearly defined, taking into consideration asset management and economic development priorities as well as the current economic climate.
- 3.5 On average, the centres are currently operating at a 65% occupancy level (see appendix 3). Although the 2009/10 budget projected a £41,560 surplus, a £11,395 deficit resulted – in part due to higher than anticipated void levels (see appendix 4). To improve the financial situation while assisting as many businesses as possible, initiatives are needed to improve occupancy and performance. Enhanced delegated powers would allow the Business Centres Manager flexibility to react to the market more quickly and instigate such initiatives.

4. KEY ISSUES

4.1 Continued ownership / lease

- a) The centres were originally intended to offer new businesses accommodation and support, thus filling a gap in the local market. The short notice license terms were to assist firms in times of economic difficulties – although these terms are now standard across most business centres. As a starting point the review considered whether the original gap in market provision still existed.
- b) The two private business centres operating on similar terms in Redditch are detailed in Appendix 2. The Imex Business Centre offers office and industrial accommodation, while the Edward Street Business Centre offers office accommodation. Comparing the offer, there is still a role, and need, for the Borough Council's centres in terms of serviced accommodation and business development support.
- c) With regard to office accommodation, the Borough Council's centres offer a wider size range than the Imex centre. Units can also be combined to offer a similar top end size to the Edward Street centre. The Rubicon and Heming Road centres offer smaller workshops and industrial units than are available at the Imex – suiting different markets and filling a gap in market provision for new and young small businesses. The Borough Council's centres offer secretarial services which are not available at the Imex centre.

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- d) Annual surveys show that licensees are satisfied with the business centres and believe a good service is provided. Licensees that left during 2009 did not do so due to dissatisfaction with the centres (see appendix 3). Most either ceased trading; or had outgrown the centre and bought larger commercial premises; or downsized to work from home due to the economic downturn. New licensees continue to move into the centres.
- e) However, the centres have not been operating at full capacity in recent years and generate little or no budget surplus. The suggestion of rationalisation to reduce excess capacity and budgetary pressure was considered but rejected on grounds of practicality, negative publicity and cost.
- f) Consolidating existing licensees into two centres rather than three would be impractical. It would not be possible to accommodate current licensees in just two of the existing centres, given the varied business activities and facilities required. For example, there is not enough space to accommodate Rubicon licensees in Greenlands and Heming Road, or vice versa. Also displacing any businesses could result in negative publicity and relations with licensees could deteriorate, particularly if they incurred relocation costs. It is hoped the demand for units will improve as overall economic activity increases. It is therefore sensible to retain capacity for when demand improves in order that the borough can support growth and boost the economy. In the interim, initiatives are required to increase occupancy.
- g) Critically, the cost of rationalisation is prohibitive. A full asset disposal analysis has not been conducted, but estimated headline figures for this option have been considered (see appendix 4). As illustrated in the appendix, financially it would be better to continue to operate three centres and absorb an actual budget deficit each year than to exit the centres. It is believed that in the current economic climate it would also be difficult to find a private company to buy a centre or take over a lease. Therefore it does not appear financially viable to dispose of these assets.
- h) As rationalisation is not an option, the question of whether resources and budget would be better spent on more direct help for business – rather than funding the business centres – was not considered.
- i) Some Councils contract the management of their business centres to a trust. However such a move should not be viewed as a cost-cutting option. In many examples in which trusts assume the overseeing of an asset, the governing Council pays a management fee and the trust take a percentage of the income generated once it exceeds a specified level.

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Trusts then have an incentive to improve efficiency and income levels. However this option still involves costs and only a limited income for the Council. It is believed that, at present, interest from trust operators would be limited by the small scale of operations and low profit levels.

- j) The likelihood of this option being suitable was too low to justify the cost of employing consultants to fully analyse the case for transferring ownership or management to a trust. It may, however, be worthwhile to re-examine trust or private management options in any future review.

4.2 Aim of the business centres

- a) The business centres were originally intended to give support to new businesses, although firms of all ages currently occupy units (see Appendix 3). This review recommends that a more appropriate aim for the centres is to support any business in an expansionary phase.
- b) Young businesses benefit from the centres' accommodation and secretarial services. If the centres' policy was to only accommodate and assist start-ups, each licensee would be required to move on after one year – because they would no longer be 'start-ups' according to the technical definition – to provide space for new licensees so the policy is consistent. Yet the constant and high level of demand necessary from new businesses to maintain a reasonable occupancy level under this policy is unrealistic. In recent years there has been insufficient demand from start-up businesses to fill existing available units, whilst larger units, designed for companies to expand into, may be difficult to let to new firms. Furthermore, displacing current licensees to instigate this policy would result in negative publicity.
- c) Furthermore, there are several benefits to having licensees of various ages. For example, established businesses can act as anchor tenants. They tend to occupy larger units for long periods, providing a steady and more reliable revenue stream. There is continued demand for units from businesses of all ages.
- d) Moreover, firms need support throughout the business maturity cycle. For example, firms are vulnerable during expansion when there is an interval between expenditure on working capital and a resultant increase in revenue. Office of National Statistics data on business demography supports the assertion that young, growing businesses are more vulnerable than start-ups.

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The annual failure rate in Redditch is worst in years two to three. In contrast, less than 6% of new Redditch businesses on average fail in the first year (2003-2007). This may suggest that businesses are given sufficient financial and other support during their first year in order to ensure survival, but that, once established and therefore considered to be secure, support for businesses in subsequent years can dwindle. An emphasis on new businesses can be to the detriment of all other businesses at different stages in their lifecycles. Support therefore needs to be available and forthcoming not only in the first year of operation, but more crucially in every year of operation.

- e) A firm's decision to stay in a location or move may be affected by costs, premises, customer and supplier base. While some of these factors are beyond the Borough Council's control there are ways in which the centres' wide offer and supportive environment can aid efforts to retain businesses in Redditch. The units can act as a stepping stone for businesses expanding or contracting in size. Licensees can have close contact with Economic Development Officers who can, for example, help with property searches and raise awareness of financial assistance and business support organisations.
- f) Greenlands could have a role in attracting business to Redditch. For example, inward investment enquirers could be offered a unit within the centre on a short-term license to use as a project office. An Economic Development Officer could be assigned to help them investigate relocation options.
- g) This review therefore proposes the centres' remit be formally expanded to recognise that all businesses in an expansionary phase are eligible for, and may need, accommodation, secretarial and business development support.
- h) The Borough Council can help to "start – grow – retain – attract" businesses if the aim of the centres is "to provide accommodation and support to as many businesses as possible having a mixture of maturities that realises the Borough Council's wider objectives to boost enterprise and employment across the borough as a whole".
- i) Operating the centres this way would contribute to the Borough Council's priority of developing and maintaining an 'enterprising community' as well as its Economic Development work 'to encourage a thriving local economy with diverse successful businesses'.

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4.3 Improving occupancy and business support

- a) In recent years – perhaps reflecting the economic downturn – void levels at all three centres have been steadily increasing towards the current 35% level (see appendix 3). Void levels have a direct impact on income but also affect the centres' vibrancy and appeal to prospective tenants.
- b) As such, initiatives are required to boost occupancy. This includes ensuring the offer is attractive to existing and potential tenants – in terms of services, support and accommodation – with incentives to become and remain a tenant. The offer must appeal to a wide range of businesses, reflecting the centres' role in helping start, grow and retain Redditch businesses and attract firms to Redditch. Appendix 5 outlines the matters which Officers will consider in this respect.

4.4 Improving the income-expenditure balance

- a) Financial data is given in appendix 4. Apart from 2007/08 when a profit of £24,018 was made, in recent years the centres have tended to be in deficit. In 2008/09 and 2009/10 surpluses of £12,900 and £41,560 were projected, but deficits of £9,124 and £11,395 resulted, respectively. In both years income was less than anticipated, while in 2008/09 expenditure was also more than expected.
- b) The resulting variance between budget projections and actuals was £22,024 and £52,955 respectively. This should however be viewed as the Borough Council in effect investing £74,979 in business support over these two financial years, thus having an intrinsic value to the Borough Council in terms of financing economic development and the business community.
- c) Initially work should aim to both (a) trend the variance towards zero or a positive figure (actuals equal to or greater than the budget projection); and (b) generate an actuals surplus. Any surplus could be used as re-investment income. Alternatively, it could be held in a separate reserve to support the centres during downturns in the economy and occupancy. In this way the centres could become self-financing over the course of a business cycle. Another possibility would be that the surplus could be re-invested in business support activities.
- d) Finance Officers have confirmed such a reserve could technically be established, with Members' approval. However the reserve would have to be used to meet deficits. Difficulties would arise should there be a situation where the business centres were making continuous deficits.

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In the current climate – even using pessimistic occupancy projections and setting the budget to help achieve a positive variance – this option may not be easily implemented. It should however be considered when this review is revisited in three years.

- e) The void levels used when setting the budget were overly optimistic given occupancy patterns in recent years. Although in both years the assumed void levels took into consideration the difficulties in the economy, the impact of the downturn was worse than expected. A more cautious bias would be appropriate in the future.
- f) Examination of the centres' standalone position – of income compared with the direct costs attributable to that income only – illustrates that the centres effectively make a significant contribution to the Borough Council. Without central services recharges and depreciation costs, the centres could have made a large surplus in 2006/07 and 2007/08 (£85, 216 and £109,880 respectively). Even during the economic downturn, a surplus could have been generated (£42,925 in 2008/09 and £39,204 in 2009/10).
- g) Income-expenditure patterns for each centre show Greenlands and Heming Road have a reasonable – although decreasing – gap between income and expenditure. At Rubicon, however, expenditure has consistently exceeded income; a major factor being the rent. Income projections suggest that while an overall surplus would have been possible if all units were in theory let, Rubicon would still be just in deficit.
- h) A review of the Council's continued lease of Rubicon and viable alternatives should be considered as a matter of policy at least one year before the lease ends. Options may include negotiating a new lease; relinquishing the building and accepting the cost of re-instating it to its original state at lease end; then finding new premises or closing the centre altogether. Sufficient time should be allowed to investigate options properly. If the centre closed or moved, tenants would appreciate more than the standard one-month notice to find and fund any relocation.
- i) Looking at the balance sheet in isolation may suggest the centres use significant resources for seemingly little return. However a large number of businesses are supported. The strategic benefits in terms of economic development and enterprising community priorities should be considered alongside the accounts.
- j) Appendix 5 details the matters on which Officers will work to improve income, notably rent, service fee and meeting room hire income.

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Options to reduce expenditure are limited. As noted above, it is less costly in the long term to continue operating the three centres – and if necessary absorbing an actual budget deficit each year – than try to exit the centres.

4.5 Revised and extra delegated powers

- a) Under the Shared Services restructure, the Business Centres' Manager will be overseen by the Head of Service for Planning and Regeneration. Continued technical assistance is required from Property, Legal and Financial Services, for example advising on rent reviews.
- b) Currently, the Business Centres' Manager only has discretion to offer a rent-free period of up to three months for new lettings. Anecdotal evidence suggests some enquirers have taken units at a competing centre as it was more flexible on terms and incentives. It is a buyer's market at present, with several business centres locally competing for the same few business opportunities.
- c) During Economic Advisory Panel meetings, it was proposed that the Business Centres Manager and the Head of Service would benefit from greater flexibility to react to the market and negotiate to win business.
- d) Details of the existing scheme of delegation and proposed revisions are outlined in Appendix 6. The aim is to allow more flexibility and a faster reaction to enquiries and market changes, but maintain a suitable level of accountability. There is a change to the delegated Officers – from the Property Services Manager to the Business Centres Manager, Economic Development Manager or Head of Service. Decisions are to be made with the portfolio holder.
- e) Current delegated authority to annually review and set rents and fees (for all tenants from 1 April) remains. The maximum change Officers (with the portfolio holder) can make remains at plus or minus 10% of the preceding year's rents / fees. (The wording in the Scheme has been altered to simplify it but the authority has not changed.)
- f) Authority to offer a rent free period to secure new lettings remains the same. Not all new lettings receive a rent free period – rather it is used if necessary during negotiations to secure new tenants. (The wording in the Scheme has been altered but the authority has not changed.)

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- g) This review proposes that to secure new lettings in times of decreased demand, Officers (with the portfolio holder) may agree a period of reduced rent. The rent on new lettings could be reduced by a maximum of 20%. Such offers would be judged on a case-by-case basis.
- h) Discretion of (up to) 20% is proposed to boost the process of securing more tenants; and on the basis that earning 80% of potential income for a limited time is better than the units remaining empty and not generating any income. It would be continually monitored and reviewed as necessary.
- i) This review also suggests that in times of increased demand, Officers are able to maximise income from new lettings. It is proposed that Officers (with the portfolio holder) may increase the rent on new lettings by up to 20%. This would be judged on a case-by-case basis. This would also enable Officers to ensure the business centres reflect market circumstances. For example increased demand may occur when the economy is more buoyant and hence the market rate – and what other business centres charge – is pushed up.
- j) This review recommends the Scheme of Delegation include authority to agree these two different types of offer (reduced rents and rent free periods), to allow Officers flexibility to respond to different offers made by competing business centres, as necessary.
- k) In addition, the revised Scheme proposes Officers be able to agree a period of reduced rent for specific licensees in response to evidence of hardship – from time to time during their tenancy. Agreements would be judged on a case-by-case basis.
- l) Finally, Officers could agree a discounted rate for bulk orders of secretarial services, again judged on a case-by-case basis. This would help Officers negotiate to secure income-earning business.

4.6 Review the recommendations in three years

The recommendations reflect the current operating position, economic climate and businesses' needs. Revisiting the review in three years will allow consideration of any changed circumstances affecting these issues. The recommendation acknowledges that Officers will address urgent matters which may occur in the interim.

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5. FINANCIAL IMPLICATIONS

None identified. It is envisaged that the recommendations would improve the financial standing of the centres.

6. LEGAL IMPLICATIONS

None identified.

7. POLICY IMPLICATIONS

There is a suggested alteration in relation to delegations to Officers as discussed in this report. Furthermore this report clarifies the role and purpose of the business centres.

8. COUNCIL OBJECTIVES

The business centres – in terms of accommodation provided and services offered – can play an important role in supporting small businesses and contributing to the Borough Council's priority of encouraging an enterprising community.

9. RISK MANAGEMENT INCLUDING HEALTH & SAFETY CONSIDERATIONS

None identified.

10. CUSTOMER IMPLICATIONS

None identified.

11. EQUALITIES AND DIVERSITY IMPLICATIONS

None identified.

12. VALUE FOR MONEY IMPLICATIONS, PROCUREMENT AND ASSET MANAGEMENT

12.1 There is a risk that the business centres as assets will not be best utilised to advance the corporate priority of enterprise and the aims and objectives of the Economic Development Strategy.

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12.2 Following the introduction of Shared Services and transfer of responsibility for the business centres to Economic Development, Economic Development Officers shall require continued support from Property Services, Finance and Legal Services in the management of the business centres. The nature and degree of this technical assistance is yet to be agreed.

13. CLIMATE CHANGE, CARBON IMPLICATIONS AND BIODIVERSITY

None identified.

14. HUMAN RESOURCES IMPLICATIONS

None identified.

15. GOVERNANCE/PERFORMANCE MANAGEMENT IMPLICATIONS

Expanded performance monitoring criteria are suggested.

16. COMMUNITY SAFETY IMPLICATIONS INCLUDING SECTION 17 OF CRIME AND DISORDER ACT 1998

None identified.

17. HEALTH INEQUALITIES IMPLICATIONS

None identified.

18. LESSONS LEARNT

None identified.

19. COMMUNITY AND STAKEHOLDER ENGAGEMENT

Property Services, Finance, Legal and Internal Audit Officers, the Business Centres Manager, Economic Advisory Panels Members, the Federation of Small Businesses and the Herefordshire and Worcestershire Chamber of Commerce were consulted.

20. OTHERS CONSULTED ON THE REPORT

Portfolio Holder	Yes
Chief Executive	No

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Executive Director (S151 Officer)	No
Executive Director – Leisure, Cultural, Environmental and Community Services	No
Executive Director – Planning & Regeneration, Regulatory and Housing Services	Yes
Director of Policy, Performance and Partnerships	No
Head of Service	Yes
Head of Resources	Yes
Head of Legal, Equalities & Democratic Services	No
Corporate Procurement Team	No

21. WARDS AFFECTED

All Wards.

22. APPENDICES

- Appendix 1 - Description of business centres and services offered
- Appendix 2 - Summary of private business centres operating on similar terms in Redditch
- Appendix 3 - Performance (occupancy and customer satisfaction) and characteristics of licensees in Redditch Borough Council's business centres.
- Appendix 4 - Current and recent financial performance and details of asset holdings of Redditch Borough Council's business centres (Confidential)
- Appendix 5 - Further detail regarding Recommendations 3 and 4 – improving occupancy, business support and the income-expenditure balance

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Appendix 6 - Further detail regarding Recommendation 5 and revised delegated powers

23. BACKGROUND PAPERS

Legal, Democratic, Property and Audit Services' 2009/10 Service Plan
Redditch Economic Development Strategy 2009-2018
Council Constitution, Appendix C (revised and approved October 2007)
Internal Audit Report, November 2009
Office of National Statistics 2008 Business Demography data
Asset Management General Suitability and Sufficiency Assessment, 2009
Occupancy, customer survey and performance monitoring data
(confidential)
Financial accounts (confidential)

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