

POLICY AND RESOURCES COMMITTEE

**14th DECEMBER
2016**

Is the final decision on the recommendations in this report to be made at this meeting?

Yes

Business Terrace Update

Final Decision-Maker	Policy and Resources Committee
Lead Head of Service	Head of Regeneration and Economic Development
Lead Officer and Report Author	Regeneration and Economic Development Manager
Classification	Public
Wards affected	High Street

This report makes the following recommendations to this Committee:

1. To note the report
2. To consider whether a Business Terrace mark two can be accommodated as part of the Council's own office requirements

This report relates to the following corporate priorities:

- Enhancing the appeal of the town centre for everyone.
- Promoting a range of employment opportunities and skills required across the Borough.

Timetable

Meeting	Date
Policy and Resources Committee	14 th December 2016

Business Terrace Update

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 In June 2016 this Committee received a report on the Business Terrace's first nine months of operation. The report demonstrated that The Business Terrace was performing well but also set out the challenges faced with the lack of "next-stage" move-on office accommodation for businesses graduating from the Business Terrace. This Committee asked for an update regarding performance of the Business Terrace after one year of operation and the issue of the move-on accommodation. The Business Terrace continues to perform well but without grant support the expansion of the Terrace to the rest of floor one on Maidstone House is not commercially viable.
-

2. INTRODUCTION AND BACKGROUND

- 2.1 Establishing a start-up, affordable workspace is a critical element of the Economic Development Strategy helping to break down barriers to business formation and survival across the borough.
- 2.2 The Business Terrace was established as a pilot project on the first floor Terrace of the Gateway building in September 2015 and in December 2015 extended into the former Members Areas on the first floor of Maidstone House. It currently consists of 11 offices, 1 seminar room, 1 meeting room and 15 desk spaces, together with a kitchen and the usual amenities, accommodating over 20 businesses.
- 2.3 Business support is offered for occupiers of the Business Terrace but also for all businesses and start up business across the Borough. The focus is on start-up and businesses in their first two years of incorporation. Start-up advice is available through:
- Specific information provided on our website www.businessinmaidstone.co.uk;
 - Business advisors from Lets Do Business (a not for private profit company helping businesses to start-up and grow) who are onsite 3 days a week.
 - The Kent Foundation for Young Entrepreneurs workshops and mentors on site 1 day a week.
 - Free private sector workshops from Gullands Solicitors and RIFT Accounting.
 - A former tenant, Pentascape, offering start-ups free advice on web design 2 days a month.
 - Signposting to grants and Council services by the Business Terrace Coordinator.
- 2.4 In addition to the above further partnerships arrangements are being put in place with MHA MacIntyre Hudson, University for the Creative Arts and the National Association of Finance and Credit Brokers.

2.4 Appendix 1 sets the activities on the Business Terrace regarding business support, workshops, events and publicity between June and November this year.

2.5 BUDGET

2.6 Marketing the offices, desk and meeting room has increased thanks to the work of the new Business Terrace Coordinator (see Appendix 1).

2.7 The Business Terrace is generating a surplus and meeting its contribution to the Medium Term Financial Strategy (MTFS) of £27,000 by reducing expenditure. See Table 1 below:

Table 1 Finance

	2015/16	2016/17	2017/18	2018/19
	Actual	Forecast	Forecast	Forecast
*Total Expenditure	£23,718	30,360	£30,967	£31,587
Total Income	-£22,007	-£57,529	-£64,927	-£70,000
Net contribution/cost	£1,711	-£27,169	-£33,960	-£38,413

*Excludes expenditure on rent, rates and other premises costs which are unavoidable and not incurred as a direct result of the business terrace.

2.8 In addition to the MTFS contribution The Business Terrace has gross income targets in 2016/17 of £78,950 and £93,950 in 2017/18 and every year thereafter. On current projections these targets are not going to be reached. However work is ongoing to increase income and a business case is currently being prepared setting out a proposal to introduce Virtual Office Services. These services are offered by Medway Innovation Centre and are very profitable. It would assist home based businesses with a business address and increase the profile of The Business Terrace and could significantly reduce the income gap.

2.9 In addition desk hire usage still has capacity to grow income. Currently one desk is permanently occupied by a Business Advisor leaving 14 desks. 7 desk packages are currently being used. Extensive use of social media since September is yielding results as can be seen from Table 2.

Table 2 Growth in desk hire income following new marketing activity

June	July	August	September	October	November
£432	£651	£735	£867	£867	£1099

2.10 MEETING DEMAND AND MOVE ON ACCOMMODATION

2.11 All 11 offices are occupied and another two person office (number 12) has been constructed and is now occupied.

2.12 Existing tenants currently need move on space; 2 seven person offices and 1 twenty person office. As from November there is demand for 3 two

person offices, 1 three person office and 2 four person offices none of which can be accommodated by the Business Terrace.

- 2.13 As reported to this Committee in June, the success of the Business Terrace presents problems as demand and move-on needs cannot be met within the Terrace. There is paucity of good quality, small office accommodation available on flexible terms in Maidstone. The availability of office accommodation has been made worse by permitted development rights enabling office space to be converted to residential accommodation without the need for planning permission.
- 2.14 Small business locations such as Turkey Mill and Springfield House are nearly 100% occupied.
- 2.15 Exploratory talks have been held with Capital & Regional, the owners of Maidstone House, about the feasibility of leasing and converting more space on the first floor of Maidstone House aligned to the remaining 7 year lease term that the Council has on the Gateway, and floors 4, 5 and 6. Unfortunately the capital payback period is over 14 years.
- 2.16 Officers have considered whether leasing a smaller area of floor 1 might be more viable, rather than the whole floor, and whether the Business Terrace could take a longer term view say 10 years, breaking the ties with the Council's existing leases on Maidstone House. Unfortunately the payback period was still 12 years generating only a marginal surplus. Capital and Regional has subsequently expressed their preference to see the whole of floor 1 leased to a single tenant (no further subdivision) and have three private sector businesses interested in it.
- 2.17 Buying or leasing and converting another office or building in Maidstone to create a second Business Terrace has also been considered. However this idea has a number of drawbacks. It would have to be upwards of 20,000 sq. ft. to generate enough income to support the costs of staffing, utilities and services. Unfortunately there is not a property of this size currently available.
- 2.18 Office rents have begun to rise slowly as supply decreases and demand rises but the ability of smaller businesses to afford higher rents means that office rents will not go up significantly over the short term. The private sector still find it difficult to raise finance for office accommodation which offers licenses and very short leases to small and start-up businesses.
- 2.18 Officers will continue to explore options for an expanded Business Terrace. Grant funding opportunities will be explored and the potential to link the Council's own office needs (post 2023) with accommodation for small businesses will be considered.
- 2.19 In the short term, if move-on accommodation is not found, the Business Terrace will have to consider offering existing tenants the opportunity to remain in the Business Terrace rather than face the unacceptable risk of moving out into unsuitable accommodation with long term leases and increased costs.

3. AVAILABLE OPTIONS

- 3.1 Continue with existing facility. While there is still room to increase income, it is not meeting the move on needs of businesses and therefore is at risk of becoming restricted, which could impact on the popularity and success at this time.
- 3.2 Continue with the existing facility and explore the possibility of taking a lease of the remainder of the first floor if as part of the office accommodation review. There is however a risk that the owners will let the space in the meantime.
- 3.3 Continue to look for another site and/or building with the support of grant funding.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 With no obvious way forward at this stage keeping all available options under review seems a sensible approach.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 Extensive Demand and Viability work was carried out on behalf of the council by one of the UK's leading Workhub experts, Tim Dwelly, to test the potential for an enterprise hub in Maidstone Town Centre.
- 5.2 Policy and Resources Committee asked for an update on the Business Terrace in June 2016.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The contents of this report and the decision of Members will be communicated to licensees and tenants of The Business Terrace

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The proposal impacts on the corporate priorities in two ways: 1. Enhancing the town centre	Head of Regeneration and Economic Development

	2. Promoting employment Failure of the Business Terrace will seriously impact on the Council's ability to deliver a key theme in its Economic Development Strategy.	
Risk Management	Income targets not being met and lack of move on accommodation may undermine the success of the Business Terrace	Head of Audit
Financial	The financial implications are set out in the report.	Section 151 Officer
Staffing	A new post of Business Centre Coordinator has been appointed within existing budgets	Head of HR
Legal	The legal work required in relation to future occupational arrangements (by license or lease) of The Business Terrace and any variation or extension to the Head Lease with Capital and Regional.	Head of Mid Kent Legal Partnership
Equality Impact Needs Assessment	There is no specific impact	Policy & Information Manage
Environmental/Sustainable Development	N/A	Head of Commercial and Economic Development
Community Safety	N/A	Head of Commercial and Economic Development
Human Rights Act	N/A	Head of Commercial and Economic Development
Procurement	Procurement of Business support services, consumables, and ICT services. Procurement of contractor(s) to build office 12.	Head of Commercial and Economic Development
Asset Management	The Business Terrace is managed by the Council	Head of Commercial and Economic Development

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

Appendix 1 Activity Report

9. BACKGROUND PAPERS