

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

Yes**The Business Terrace: Pilot progress report**

Final Decision-Maker	Policy & Resources
Lead Director or Head of Service	Head of Commercial & Economic Development
Lead Officer and Report Author	Principal Economic Development Officer, Karen Franek
Classification	Non-exempt
Wards affected	All

This report makes the following recommendations to the final decision-maker:

1. That the contents of the report are noted
2. That direction is given on the frequency of future progress reports.

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

<i>Meeting</i>	<i>Date</i>
Corporate Leadership Team	14 June 2016
Policy and Resources Committee	29 June 2016
Council	N/A
Other Committee	N/A

The Business Terrace

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 To report progress on the first nine months' operation of The Business Terrace pilot project. This report will demonstrate The Business Terrace is performing well against quantifiable measures of success – occupancy, budget, business support provided. It will also set out the challenges faced with unmet demand and lack of “next-stage” move-on accommodation for businesses graduating from the Business Terrace.

2. INTRODUCTION AND BACKGROUND

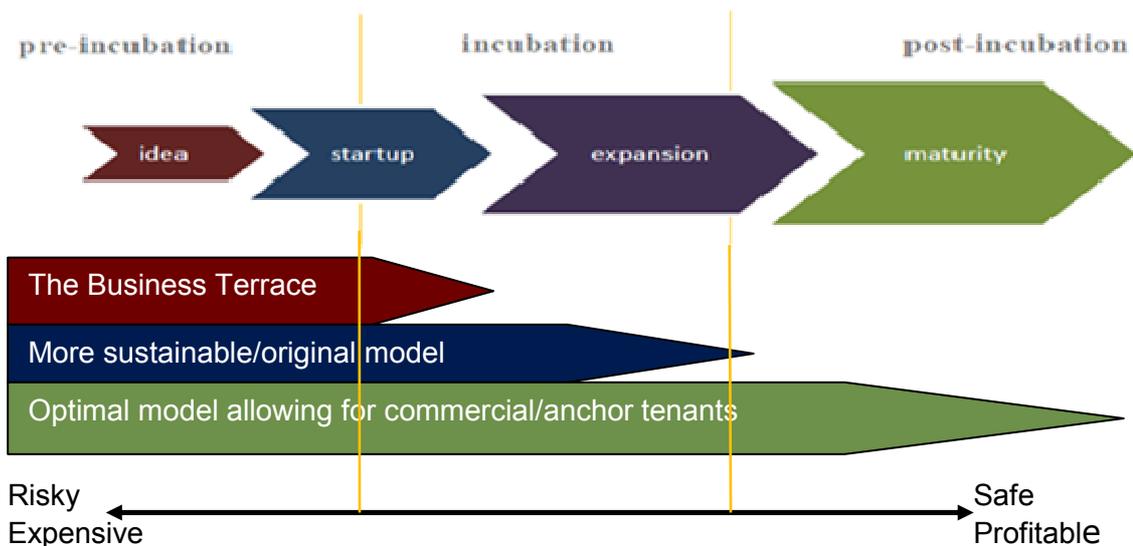
- 2.1.1 Maidstone continues to have poor one, two and three year new business survival rates, albeit there are signs of improvement; the Borough remains exposed to continuing wider job losses having the second highest dependency on public sector jobs in the South East. We also have one of the highest concentrations of home-based businesses in the country (9,000), mainly in rural areas, with more than half being trading businesses working in isolation with no access to professional meeting facilities and peer-to-peer networking. There is also a global trend towards flexible “working anywhere, anytime.”
- 2.1.2 To address these issues and trends one of the five key priorities in the Council's adopted Economic Development Strategy is to create a dynamic and innovative economy by supporting new business start-ups and those with growth potential to move up the value chain. Establishing a start-up, affordable workspace is a critical element of this strategy helping to break down identified specific and generic barriers to business formation and survival across the borough. These include:
- The high cost and inflexible terms of premises in Maidstone
 - Too many micro businesses working in isolation with few natural clusters or opportunities for developing local supply chains, and
 - A lack of business skills: with little awareness of what is available, and the perceived high cost of engaging help.
- 2.1.3 In December 2014 Cabinet agreed capital expenditure of up to £250,000 (from an original allocation of £700,000) to establish The Business Terrace as a pilot project on the first floor terrace of the gateway building, and that an initial progress report be presented after nine months of operation and a full review undertaken after 18 months into the success and progress of the facility; and
- 2.1.4 That, subject to the review findings, the Economic Development unit in conjunction with the Property & Procurement Manager continues to look for suitable land and/or buildings for a longer term enterprise hub solution and report back with fully costed options as appropriate. It was further agreed that the Council re-affirm its commitment to providing a longer-term enterprise hub solution when the right building and/or land became available, and that the

balance of the original £700,000 allocation be retained in the capital programme. These funds have subsequently been removed from the capital programme to help re-balance the overall capital programme to accommodate other priorities.

2.1.5 In judging the success of the pilot - beyond income, occupancy and business support provided – account needs to be taken of how The Business Terrace helps improve the survival rates of new businesses and existing micro businesses, and an understanding of the life cycle of businesses and how they can be directly related to the types of interventions and support needed.

2.1.6 This is important because while the pilot has been a success against all quantifiable measures, this now presents inherent risks with the potential to undermine the very reasons The Business Terrace was established. The 100% office occupancy, and inability to expand further, has removed the flexibility needed and ability to provide move on space.

The life-cycles of business and how they can be directly related to the types of interventions needed



2.1.7 Since opening on 7 September 2015 office occupancy has been 100%. Five additional offices were opened in December 2015 to meet demand when further space became available on the first floor of Maidstone House.

2.1.8 There are currently 18 start-ups working from 10 offices; the FSB has a five-year lease as an anchor tenant and a 12th office is planned. There is a rolling office waiting list which cannot be met. (See Appendix 1 for current waiting list).

2.1.9 The first business to sign up to an office “off-plan” in August 2015 moved out on 6 June as The Business Terrace cannot accommodate their expansion / move on needs. (See Appendix 2) This is high risk for the business and too early in their business life-cycle and serves to highlight one of the persistent critical barriers to business formation/survival: the high cost and inflexible terms of premises in Maidstone.

2.1.10 Desk Memberships are gaining momentum, as predicted, following the later than originally intended opening (September not March 2015). There are currently six start-ups working on desks along with two fulltime remote workers (Defra and Cisco). On average six of the 11 available desks have been occupied since opening, mainly on unlimited packages, waiting for an office.

Desk and Meeting and Room Bookings			Table 1
	7 September to 31 March Seven months	1 April to 17 June Two and a half months	Totals
Day Pass	5	2	7
Terrace 30	1	5	6
Terrace 50	7	2	9
Terrace 100	1	1	2
Unlimited	14	8	22
Meeting spaces	43	49	92
Income	3277.50	1802.50	£5080.00

2.1.11 A critical element of The Business Terrace is the wrap-around Business Support and Borough-wide service. There are business and specialist advisors onsite five days a week as part of our growing partnerships with business support organisations and companies including local accountants and legal firms. These include The Let's Do Business Group - the Government's Kent delivery partner for Start-Up Loans; The Kent Foundation for Young Entrepreneurs; The Rift Accounting Group; Gullands Solicitors and Whitehead Monckton. Partnerships have also been forged with Greenwich University (and through them access to Innovate UK) and Oxford Innovation finance specialists, who have run workshops.

2.1.12 More than 420 unique individuals/businesses have received detailed Information (206), specialist Advice (71) and substantive Guidance (144) as at 31 May 2015. This borough-wide support has been through our new website Start-Up Resource & information packs (I); workshops/seminars (A) and onsite advisors (G). This is in addition to the on-going support given to our office licensees and desk members.

2.1.13 The Business Terrace consistently attracts positive press coverage, and hosted the Kent Messenger's "Top 30 under 30" celebration reception. The Business Terrace is home to three of Kent's top 30 under 30 (*see Appendices 3/3a*), and is highly regarded by other Kent District/Borough Councils with many having been on fact-finding visits. SE Business is using The Business Terrace to "launch" a new start up section which publishes at the end June.

2.1.14 The build was brought in on time and slightly under budget. This underspend was used to convert, furnish and network cable the five additional offices.

2.1.15 As detailed in the report to Cabinet December 2014 The Business Terrace income covers all new costs with any "surplus" then used to reduce the Council's committed accommodation costs for the terrace area for the remainder of the lease term to October 2023.

2.1.16 Income in the current financial year is slightly ahead of projection as a result of desk memberships increasing. A few changes to desk membership packages will be made in the coming months to reflect feedback from users. These will include restructuring some packages to be inclusive of meeting room usage and printing: with a subsequent increase in prices). Two recent office moves have afforded the opportunity to bring forward rent increases for those units. The other nine office rents will be uplifted when the current licences to occupy expire in September. The new rents will be based on a unit/office cost and not a £ per square foot basis as originally set. The following table includes rent increases already applied and those being applied from September this year but does not include the uplift in desk membership packages being introduced over the coming months. The Business Terrace has experienced many of the same issues as any new start-up business, following which we are now in a better position to forecast with more certainty projected income, subject to the facility remaining flexible.

	2015/16 Actual	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast
Premises	£ 3,181	£ 5,453	£ 7,000	£ 6,500
Supplies & Services	£ 13,227	£ 15,000	£ 15,500	£ 15,500
Agency	£ 7,310	£ 11,000	£ 12,000	£ 13,000
Total expenditure*	£ 23,718	£ 31,453	£ 34,500	£ 35,000
Rental Income	-£ 16,325	-£ 45,632	-£ 50,880	-£ 50,880
Other Income	-£ 5,682	-£ 10,094	-£ 12,000	-£ 13,000
Total Income	-£ 22,007	-£ 55,726	-£ 62,880	-£ 63,880
Net Contribution/Cost	£ 1,711	£ 24,273	£ 28,380	£ 28,880
*Excludes expenditure on rent, rates and other premises costs costs which are unavoidable and not incurred as a direct result of the business terrace.				

2.1.17 Overall The Business Terrace has been successful. However it also presents problems as demand and move-on needs cannot be met. Initial exploratory talks were held with Capital & Regional in January about the feasibility of taking more space on the first floor of Maidstone House including the unconverted rear section. The project was not achievable over the remaining six years of the Council's current lease as the capital payback period was 14.3 years as per Chart Two below:

Chart Two

Take on lease of whole floor - no increase in rent					
Consequences	Capital	Revenue	Income	Surplus	Risks
Retain Phase 2 business hub leases/licences - (Former member areas)	£0	£0	£30,780		Income based on a rate per office and includes an allowance of 10% for voids.
Retain staff facility and showers	£0	£0	£0		
Construct self contained secure offices for DWP Fraud team on 1st floor in Mid Kent College area	£40,000		£60,000		
Expand Business Hub into remainder of 1st floor - additional to C&R contribution	£100,000	£0	£147,420		Income based on a rate per office and includes an allowance of 10% for voids.
Cost of the Pods	£245,000				
Additional staff requirement - restructure within ED		£10,000			
Extend wireless broadband	£100,000	£0	£0		
Rent	£0	£86,900	£0		
Business rates	£0	£24,300	£0		
Running costs	£0	£83,070	£0		
TOTALS	£485,000	£204,270	£238,200	£33,930	
Based on the information above it would take 14.3 years to repay the capital expenditure.					

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 at risk of becoming restricted, which in itself could impact on the popularity and success at this time.
- 3.2 Continue with the existing facility and look to take rest of first floor if MBC extends its lease for Maidstone House as part of the office accommodation review. There is however a risk that the owners will have let the space in the meantime.
- 3.3 Continue and look for another site and/or building.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

This report is for information only at this time.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1.1 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. Headline summary findings from his final report showed strong demand for a workhub facility in Maidstone and more than 90% of businesses surveyed online said they would pay to use a workhub.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

Legal	The legal implications relate to on-going licenses and leases for the licensees and tenants on The Business Terrace and the Head Lease with Capital and Regional.	Head of Mid Kent Legal Partnership
Equality Impact Needs Assessment	There is no specific impact.	Head of Commercial and Economic Development
Environmental/Sustainable Development	N/A	Head of Commercial and Economic Development
Community Safety	N/A	N/A
Human Rights Act	N/A	N/A
Procurement	Procurement of Business support services, consumables, and ICT services.	Head of Finance & Resources
Asset Management	The Business Terrace is managed by the Council	Head of Finance & Resources

8. REPORT APPENDICES

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

- Appendix 1 Email from Office Six Licencee
- Appendix 11 Copy of Kent Profile article
- Appendix 111: Copy of Downs Mail article

9. BACKGROUND PAPERS