

**Open Report on behalf of Andy Gutherson, Executive Director - Place**

Report to:	<b>Environment and Economic Scrutiny Committee</b>
Date:	<b>10 September 2019</b>
Subject:	<b>Business Centres and Economic Development Portfolio - Strategy Review, Policy and Procedures</b>

**Summary:**

The Regeneration Team's Business Plan produced in early 2019 describes the role of the Team to elected members, tenants and other LCC Departments. The document was produced in such a way that it is a useful reference document for each team member and will facilitate consistent decision making and the adoption of a coordinated approach to the management of the Council's portfolio of business centres and industrial units.

It is well established that the principle remit of the Regeneration Team is to manage the Council's portfolio in such a way that the Council can support economic prosperity and job growth across Lincolnshire whilst at the same time maximising the net income generated from the portfolio. This is a challenging set of priorities which must be considered with some flexibility to reflect the characteristics of each location and to take account of various statutes and guidance which governs the work of the estate managers.

Whilst the Business Plan assists team members to balance these objectives, the Plan is a dynamic document and in order to refine it further it is desirable to add greater detail to the Letting Strategy elements of the document. Certain elements in particular need expanding for example issues affecting the use to which the Council's premises will be put and the length of new tenancies. Whilst identifying a number of guiding principles, this paper also includes a simple analysis of the portfolio measuring lease length and uses.

Finally, this paper provides a number of "next steps" to ensure that the Business Plan and Letting Strategy are successfully implemented.

**Actions Required:**

The Environment and Economic Scrutiny Committee is requested to review the economic development portfolio Business Plan and Core Assessment Criteria and consider the following:

- 1) Whether the various principles described in the report will allow the Council to more effectively manage the portfolio and meet the twin objectives of supporting business growth AND maximising rental income.

- 2) Consider and provide a recommendation on the proposal that new tenancies should be granted for a maximum of five years unless there are exceptional business reasons to extend this period.
- 3) Consider whether the current guidance on the use of business centre and industrial units meets the required objective of maintaining an appropriate tenant mix and providing a suitable mix of premises for start-up businesses.

## 1. Background

Within the Economic Development department, the Regeneration Team is responsible for managing a large portfolio of properties which are owned by the Council and let to small businesses in order to support economic growth and job creation across the county. These properties are mainly small industrial units and individual suites of offices located within converted or purpose built buildings. In parallel with this over-arching objective, the Council must manage the estate in a commercially astute way in order to maximise rent income, comply with legislation and ensure that the Council's holding costs are minimised.

In order to assist officers to balance these requirements, the Regeneration Team produced a Business Plan at the beginning of 2019 which describes the role of the Team in managing the Council's portfolio of industrial units and business centres. The Plan also provides a useful guide for elected members and also acts as a Procedure Manual for officers to refer to and ensure consistent decision making by providing a framework to ensure that the best use is made of the Council's premises. For example, what uses are deemed acceptable and what criteria will be used to select suitable tenants.

The Plan was created to be document that will be regularly reviewed and updated to reflect the changing workload of the team and changes to case law and statute which affects the way that the estate is managed and since drafting, we would like to add further clarity to the Council's lettings policy in particular as requested by members in April 2019. The suggestions detailed in this report have been provided as they reflect many of the day to day challenges that officers face when deciding to let Council premises and, if adopted by members, they will ensure greater consistency in decision making and allow the Council to balance the competing objectives described above.

A copy of the Business Plan is attached for information purposes together with a location plan showing the location of our industrial estates and business centres. **(For ease of reference the various appendices referred to in the Business Plan have not been reproduced).**

The portfolio comprises of 122 managed workspace units, 15 miscellaneous properties and 70 light industrial units. The rental income collected from these properties equates to over £1 million per year.

We have carried out a simple analysis of the Council's existing portfolio in order to analyse our portfolio against the criteria described above. Our analysis has found that:

- All of the Council's traditional industrial estates across the county are fully let.
- We have some void units at each of our Business Centres as follows:
  - Oak House, Lincoln 16% empty
  - Aura, Skegness 11% empty
  - Eventus, Market Deeping 5% empty
  - Mercury House, Gainsborough 44% empty
- One office (Mercury House) and one industrial unit (Peregrine Mews in Lincoln) are used as storage space by LCC. Office space at Aura is also used by LCC staff as workspace.
- Out of the portfolio of industrial units and offices there are 10 tenants who have been in occupation for a period of five years or more. This may indicate that there is sufficient built in "churn" within the portfolio and that there is a low volume of established tenants "blocking" access to new businesses.
- Across the industrial and office estate we have six tenants who are non-business users and these are typically sports clubs. This represents 3.125% of the portfolio. The letting to non-business users has typically happened in locations or at times when it was difficult to attract commercial uses and the Council has wanted to reduce its holding costs. Members may prefer a more robust policy whereby all future applications for such uses are refused.

## **2. Core Assessment Criteria**

Officers have compiled a list of the main criteria which they consider are useful to consider when reviewing all applications for new tenancies in order meet the Council's primary objective of maximising economic growth and prosperity. The Council considers that it would inequitable to apply any of these criteria retrospectively and we will not ask any tenant to vacate their premises where they have an existing lease just because they do not meet these criteria. Similarly, we must stress that it may not be appropriate to review all of the following points across the whole portfolio and in some cases they may be used as "guidance" only. This is because, across the County, the performance of the Council's portfolio varies from location to location and some flexibility may be required to ensure that the Council's holding costs are mitigated where appropriate.

Where demand is high from new businesses who are looking for space to grow, there is a process to review each new application against the following criteria in order to ensure that the portfolio is being used to meet the Council's objectives.

- **Business Entity** – Occupiers must be a legal entity to include sole trader, social enterprise, co-operative, franchise, partnership or corporation. For example, private limited company, public limited company.
- **Viability** – Each prospective tenant must be able to demonstrate that it is a viable concern. A number of measures will be accepted to demonstrate the feasibility and financial strength of a business including level of market demand, cash flow forecasting, profit and loss account and balance sheet.
- **Planning** – Reference will be given to the Town and Country Planning (Use Classes) Order 1987 to determine whether or not an application for a tenancy will be a suitable for locating within one of the Council's industrial units or business centres. Prospective tenants will be responsible for ensuring that their proposed use meets all relevant planning laws.
- **Use** - When determining the use to which Council premises are put, the following points will be considered:
  - It will be specifically prohibited to use Council premises for any illegal or immoral activity or any activity that could bring the name of the Council into disrepute.
  - Uses that are non-business related activities, including hobbies, domestic storage, leisure activities or events will be excluded.
  - Detailed consideration will be given on a case by case basis for lettings connected with the motor trade.
  - Careful consideration will also be required before allowing any retail uses or other uses likely to generate a high number of visits from members of the general public on health and safety grounds. For example, vehicle parking on many industrial estates is limited and the estate layouts are not compatible with the unrestricted movement of people.
  - Careful consideration will be required before permitting the use of premises solely for storage purposes of goods or materials etc.
  - Use of premises by LCC Departments, for example for office use, will be discouraged in all but exceptional circumstances. For example to support disaster recovery activities.
- **Temporary Uses** – From time to time the Council may receive requests for the use of Council premises on a temporary basis. Such requests will generally be refused unless there is an exceptional business case. For example in a disaster recovery scenario or to support an existing business entity seeking to expand and create jobs because of an immediate business need. In such circumstances the permitted length of occupation will be for a maximum of six months at a market rent.
- **Multiple Occupancy and Competition** – All enquiries from an existing tenant to take occupation of additional space within the same estate or business centre must take into account the need for the Council to achieve an

appropriate balance of uses across each location and to accommodate a mix of businesses at their various stages of development. An important principle will be to ensure that smaller units or offices designed for "start-up" businesses are available and not "blocked" by larger, expanding businesses.

There must be a compelling economic development rationale for an existing tenant to take on additional space within the same estate or centre. It is more appropriate for the Council, through its various resources, to support the business to relocate to larger premises rather than occupy a series of smaller, individual units. Whilst this will be considered on a case by case basis, in many locations it is considered that an optimum limit would be a maximum of two units occupied in a single location by one business entity. This principle could be relaxed in locations where there is a higher level of voids in order to reduce the Council's holding costs.

Notwithstanding the above, the Council must avoid adopting anti-competitive practices and in order to adhere to the principles of Competition Law, the following policy will be applied:

*When a property becomes vacant, seek a non-competitive use for the first six months of any marketing period in order to ensure an optimum tenant mix. If the property remains vacant after this six month marketing period, allow competing tenants to take a lease.*

- **Length of Occupation** - This is perhaps the most contentious of all of the detailed considerations that we would like to explore with members as it would be a significant departure from normal estate management practice to limit the length of occupation of a business unit as a "blanket" approach and indeed, commercial landlord and tenant law makes it very difficult for a landlord to remove a tenant unless very specific grounds can be proven.

The Council already offers very flexible "break" provisions within its leases requiring only one months notice in the Business Centres or three months notice elsewhere. This makes forecasting income very unpredictable and increases the Council's costs in the event that several tenants end decide to end their lease at the same time.

Limiting the length of occupation for all new tenants for a maximum period of five years would lead to the Council incurring significant costs for example in non-domestic rates, on-going repairs and legal and marketing costs. This approach would not be desirable where estates or business centres already have a higher rate of vacant units.

In other locations however, it may help to create a dynamic business environment, especially where the Council may be able to offer suitable "grow on" space. This approach is actively being investigated in Market Deeping at the present time.

As recommended above, it is proposed that all of the above criteria will be used to assess all new applications for new tenancies.

### 3. Conclusion

The overarching aim of the service is to provide suitable premises to support new businesses and enhance economic growth and job growth across Lincolnshire whilst at the same time maximising revenue from the Council's portfolio.

Ultimately, the Council should retain the right to reject any application for a tenancy or begin recovery proceedings against an existing tenant on the grounds of what is considered reasonable estate management, health and safety or any other statutory or regulatory concerns.

Consideration of all of the criteria described above provides clear guidance to officers, members and prospective tenants regarding the letting and management of the Council's portfolio of business centres and industrial units and allows officers to lease Council premises in a flexible and dynamic way to reflect economic conditions across each location.

The simple analysis of the portfolio carried out indicates that many of these principles have been effectively applied in the past but by documenting them more clearly it will lead to greater consistency in decision making.

### 4. Consultation

#### a) Have Risks and Impact Analysis been carried out?

No

#### b) Risks and Impact Analysis

N/A

### 5. Appendices

These are listed below and attached at the back of the report	
Appendix A	Regeneration Team Business Plan 2018/19
Appendix B	Property Location Map April 2017

### 6. Background Papers

This report was written by Simon Wright, who can be contacted on 01522 550599 or [simon.wright@lincolnshire.gov.uk](mailto:simon.wright@lincolnshire.gov.uk).