

Report to: Cabinet

Date: 11 February 2019

Title: Newhaven Enterprise Centre

Report of: Ian Fitzpatrick – Director of Regeneration & Planning

Cabinet member: Cllr Andy Smith – Leader of the Council and Cabinet Member for Regeneration and Business

Ward(s): Newhaven Valley

Purpose of report: To review future management operations for the Newhaven Enterprise Centre

Decision type: Key

Officer recommendation(s): (1) To authorise the Director of Regeneration & Planning, in consultation with the Chief Finance Officer, to settle the appropriate route to procure a suitable workspace provider to operate the Newhaven Enterprise Centre and to run a legally compliant process to appoint a contractor or concessionaire.

(2) To note the importance of the provision of flexible, managed small business workspace to the Council's wider ambitions on Growth and Prosperity.

Reasons for recommendations:

1. To ensure that the Council continues to support small businesses and start-ups through the provision of a range of suitable and flexible managed workspace.
2. To ensure that the Council receives Best Value for the management of its key property assets.

Contact Officer(s):

Name: Peter Sharp
Post title: Head of Regeneration
E-mail: peter.sharp@lewes-eastbourne.gov.uk
Telephone number: 01273 085044

Name: Bee Lewis
Post Title: Head of Capital Development (Interim)
e-mail: bee.lewis@lewes-eastbourne.gov.uk
Telephone number: 01273 085521

1 Introduction

- 1.1 Lewes District is an outstanding location for business and enterprise with a diverse community of over 4,800 businesses employing more than 35,000 people from a wide catchment area. Economic development and regeneration activities help to sustain our existing economic base as well as creating the conditions for further growth. This fits strongly within the Growth and Prosperity theme within the Council's Corporate Plan.
- 1.2 Newhaven Enterprise Centre is located on Denton Island and was opened in November 2007. The Centre provides more than 19,000ft² of lettable space for business start-ups and micro-businesses on flexible terms.
- 1.3 The Centre is managed by Basepoint Business Centres on behalf of the Council under an Operational Management Agreement (OMA). This is due to expire in November 2019.
- 1.4 There has been significant growth in the provision of managed workspace in recent years and there are now almost 800 registered centres across the UK. There are a range of active operators in the market, although there is a growing focus on market consolidation as reflected in the recent acquisition of Basepoint by IWG.
- 1.5 Most workspace providers are active in responding to market trends to maximise occupancy levels, this includes re-configuring units to meet demand for co-working space.
- 1.6 The primary future delivery options are set out in this report for Cabinet to assess.

2 Proposal

Newhaven Enterprise Centre

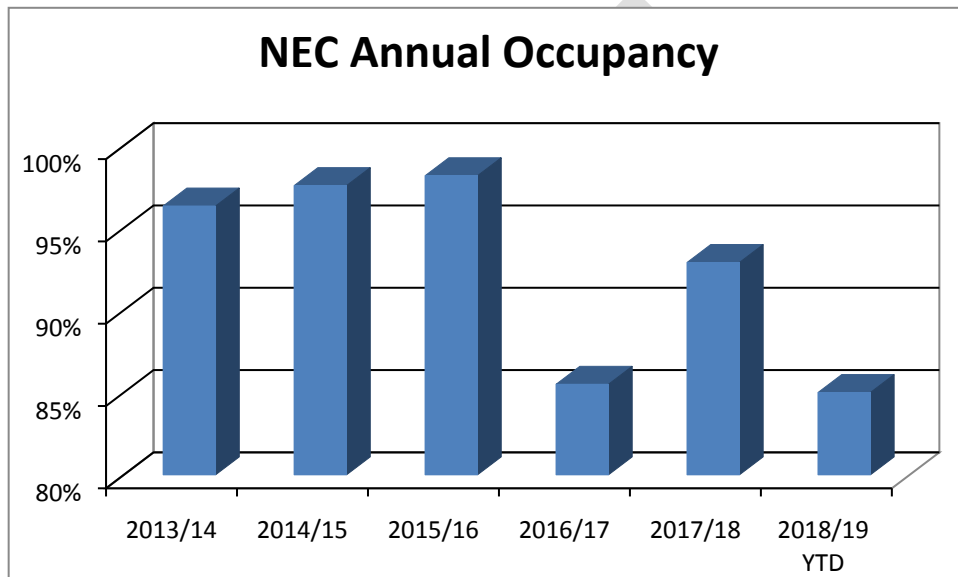
- 2.1 Newhaven Enterprise Centre is located on Denton Island and was opened in November 2007. The Centre was built using £4.75 million of funding secured from the now defunct South East England Development Agency (SEEDA). Subsequently, the Council was successful in a bid for just under £1.9 million towards the Newhaven Growth Quarter project, which included a significant extension to the Centre.
- 2.2 The Centre provides 19,111ft² of lettable managed business space across 60 incubator units for business start-ups and larger units aimed at micro-businesses¹. The units are let on flexible "easy in, easy out" terms that are ideal for new businesses, and are a mixture of offices and workshops.
- 2.3 Newhaven Enterprise Centre is managed by Basepoint Business Centres on behalf of the Council under a 10-year Operational Management Agreement (OMA). Cabinet agreed to extend this agreement by two years in November

¹ Those employing up to 10 people.

2015 to reflect the construction activity undertaken as part of the Newhaven Growth Quarter project. The OMA is now due to expire in November 2019.

2.4 The OMA outlines the responsibilities of both parties, with the contractor (Basepoint) appointed to manage the Centre and perform the services for the benefit of the Council. This includes the provision of monthly financial reports and letting the units.

2.5 The graph below shows annual occupancy levels at the Centre over recent years².



It is worth noting the fall in occupancy in 2016/17 reflects the extension opening and considerably more lettable space becoming available.

2.6 Generally speaking, occupancy levels have remained consistently high in recent years, although the Newhaven Enterprise Centre has begun to see the effects of the wider economic uncertainty. Occupancy levels have fallen considerably in recent months, although these do appear to be mirroring wider market performance as businesses are increasingly reluctant to make any financial commitments until there is greater clarity nationally. Overall performance has, however, been positive and we would expect to see improved occupancy in line with wider economic performance moving forward.

Basepoint Business Centres

2.7 Basepoint Business Centres opened their first centre in Hampshire in 1994. Their portfolio now extends to 31 innovation and enterprise centres with over 700,000 ft² of lettable space across Southern England, the Midlands, East Anglia and Wales. These Centres are a mixture of owned (via leases) or managed (eg. Newhaven) by Basepoint.

2.8 Basepoint was previously wholly owned by The ACT Foundation – a charitable trust with a mission to “*enhance the quality of life for people in need*”. However,

² 2018/19 figures show YTD (year-to-date) to end October 2018.

in August 2017 Basepoint was purchased by the International Workplace Group (IWG) for around £100 million³. This reflects forecasts that the future for the industry is one primarily of consolidation.

- 2.9 IWG operate a number of leading brands in the serviced workspace market including Regus and Spaces. Overall, IWG have 3,300 locations in 110 countries.

The Market for Managed Workspace

- 2.10 Managed workspace (also referred to as serviced workspace) provides business premises at an affordable rate for business start-ups, micro-businesses and SME's. Managed workspace typically differs from standard leased business premises in that it offers the option of 'easy in, easy out' tenancy agreements (usually requiring no more than one months' notice), and the workspace provider manages key services such as power, heating, security, telecoms and broadband.

- 2.11 Flexible managed workspaces are one of the fastest growing property sectors, with the Business Centre Association (BCA) now estimating that there are 774 such locations registered in the UK, hosting companies that employ a total of 141,000⁴. Recent years have seen a surge in demand, with more than 70 new centres opening in 2015 alone. Typically, such workspace providers constantly adjust their offer to capitalise on the latest trends (eg. the growth in demand for co-working space).

- 2.12 In the South East region there are 194 BCA-registered sites, of which 20 are located in East or West Sussex. These sites are managed by a total of eight different providers and vary significantly in size and scale. The table below shows those operators that have a presence within Sussex.

- 2.13 *Figure 1: Managed Workspace Providers with existing Sussex presence*

Operator	Sites in Sussex	No. of Centres	Average Floorspace m ²	Average Centre Size (No. Units)	Total Number of Centres Nationally
Basepoint [#]	Chichester, Crawley, Haywards Heath, Newhaven, Shoreham.	5	1,739*	61	31
Bizspace	Hove, Lewes, Littlehampton.	3	4,795	33	103
Chilgrove	Chilgrove.	1	598*	19	1
Citibase	Brighton, Burgess Hill, Horsham.	3	2,579	38	39
Flexspace	Crawley.	1	14,478 ⁺	40	57
Needspace	Three Bridges	1	1,563	31	10
Orega	Gatwick.	1	6,705	48	21
Regus [#]	Brighton, Crawley, Horsham.	5	18,343 ⁺	54	900 ⁺
Spaces [#]	Brighton.	1	29,999 ⁺	51	28
University of Sussex	Sussex Innovation Centre	1	<i>Data unavailable</i>	200	3

³ Property Week, 25 August 2017

⁴ The UK Business Centre Market, BCA, June 2017

- 2.14 Data provided by local property agents has shown that, even in nearby Brighton, demand for small office space on a traditional leasehold basis is dwindling, with the preference being for serviced workspace such as that offered in Newhaven.

3 Corporate Plan and Council Policies

3.1 The LDC Corporate Plan to 2020 identifies a number of commitments, including 'Place'. Within this commitment is the objective of *Growth & Prosperity*. Lewes district is recognised as an outstanding location for business and enterprise and the Council recognises the importance of attracting inward investment and in enabling new and developing businesses.

3.2 The Newhaven Enterprise Centre enables new business start-ups and supports existing businesses to develop and grow, and is therefore a key element in achieving the growth and prosperity objective.

3.3 The Joint Corporate Asset Management Plan for Lewes District and Eastbourne Borough Councils is also of relevance, as the Centre is a key asset owned by the Council. This Plan identifies four key areas:

1. Improving yield from the investment portfolio
2. Reducing maintenance costs and liabilities
3. Delivering efficiencies through smarter procurement
4. Increasing the capital value of each Council's asset base.

3.4 The Newhaven Enterprise Centre is a critical component of the Council's business support infrastructure and is also an income-generating asset. In line with Council policies, the future operation of the Centre offers opportunities to maximise the return from this asset whilst continuing to provide flexible workspace for micro and small businesses locally.

4 Business case and alternative option(s) considered

4.1 The existing OMA is due to end in November 2019. As such, Officers have considered a number of options open to the Council. These options are:

1. Agree a new OMA with an external operator
2. Lease the Centre to an external operator
3. Bring the management of the Centre in-house
4. Let the building to a single occupier
5. Disposal / Sale of the Centre

5 Financial appraisal

5.1 The financial appraisal is contained within Appendix A – exempt – Options and Financial Appraisal.

6 Legal implications

New OMA

- 6.1 There are two procurement routes for a new OMA.
- 6.2 A new OMA would be a supplies or services contract for the purposes of the Public Contracts Regulations 2015. The procurement threshold for supplies or services contracts is £181,302. It is anticipated that the value of the OMA will exceed this threshold. Contracts with a value that exceeds the applicable threshold must be procured in accordance with the Public Contracts Regulations 2015 (i.e. a tender process).
- 6.3 There is an alternative route where the contractor is being granted a services concession contract to provide services to others. The main feature of a concession (the right to exploit the services) is the transfer to the concessionaire of an operating risk of economic nature involving the possibility that it will not recoup the investments made and the costs incurred in operating the services under normal operating conditions, even if a part of the risk remains with the Council. The part of the risk transferred to the concessionaire must involve real exposure to the vagaries of the market, such that any potential estimated loss incurred by the concessionaire shall not be merely nominal or negligible. This route is governed by the Concession Regulations 2016. An OJEU Competition is only required if the overall value of the concession is above £4,551,413.
- 6.4 Where the value of a service concession is below the threshold, there is only a need to run some form of open competition advertised Europe-wide if the contract is of a kind that will be of interest to undertakings in other Member States (ie. there will be cross-border interest). If not, then it is up to the Council to determine what sort of competition it undertakes or whether it runs a competition at all. We do not consider that the nature or value of the proposed contract will be of sufficient cross-border interest to require a Europe-wide competition to be held.
- 6.5 Consideration will have to be given to the procurement route. If a services concession contract is of interest, there will need to be detailed consideration as to whether the requirements of a concession contract can be met. If Members decide that a new OMA is the way forward, it is recommended that the Director of Regeneration & Planning be given authority to settle the appropriate procurement route and to run a legally compliant process to appoint a contractor or concessionaire.

Lease to External Operator, Letting to Single Occupier and Disposal/Sale of the Centre

(i) Funding Agreement – Newhaven Business Centre (2006)

- 6.6 In September 2006 LDC and South East England Development Agency (SEEDA) entered into a Funding Agreement in respect of Newhaven Business Centre, under which LDC received substantial funding from SEEDA for the new Centre.
- 6.7 The Funding Agreement contains provision for clawback of funding (ie. repayment of funding by LDC) and restrictions on how LDC can use the site and dispose of it. The terms of the Funding Agreement are complicated and to keep

things simple this report focuses on the main clawback and use obligations. Any potential disposal would have to be checked in full against the detailed text of the Funding Agreement.

6.8 During the “Restricted Period”:

- a) LDC shall not, without the prior written consent of SEEDA, dispose of the whole or any part of the site other than by way of a Permitted Disposal or by way of a freehold transfer of the whole of the site.
- b) For any disposal (other than a Permitted Disposal), LDC must repay funding received from SEEDA.

6.9 Key terms are as follows:

- The “Restricted Period” ends in September 2021.
- A “disposal” includes a freehold transfer, grant of a lease and licence to occupy. “Permitted Disposal” means the granting to an occupier (being a Small or Starter Business) of a licence to occupy any part of the site for use falling within the definition of the Approved Purpose. Approved Purpose means the use and operation of the building (following completion of the works) as an Enterprise Business Centre within use classes B1 or B2 of the Town and Country Planning (Use Classes) Order 1987 as enacted at the date of the Funding Agreement.
- For any disposal (other than a Permitted Disposal), LDC has to pay to SEEDA a sum being the market value of the interest which LDC is disposing of less LDC’s proper and reasonable costs of disposal, subject to a maximum amount calculated as being the amount of funding paid to LDC by SEEDA under the Funding Agreement, and subject to a ceiling of the Maximum Sum of £4,503,158.

6.10 The Funding Agreement definition of SEEDA includes any statutory successors. Along with other Regional Development Agencies (RDAs) SEEDA was abolished in 2012. Our understanding is that land and property assets acquired by RDAs were transferred as a result of Government order. Assets went to the Homes and Communities Agency, which has now been replaced by Homes England and the Regulator of Social Housing. Subject to further investigation, it appears that Homes England is the successor to SEEDA for the purposes of enforcing the clawback terms of the Funding Agreement.

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6.12 Until expiry of the Restricted Period in September 2021, LDC is at risk of having to pay clawback if it disposes of an interest in the site other than by a Permitted Disposal.

6.13 Note that the current flexible letting of units at the Centre comes within the scope of Permitted Disposals.

(ii) Coastal Communities Fund Grant – Newhaven Growth Quarter (2014)

6.14 LDC received a grant from the Coastal Communities Fund for the Newhaven Growth Quarter project (see paragraph 2.1). Any lease, letting or disposal / sale of the Centre will have to take account of LDC's obligations under the grant conditions.

3 January 2019 Ref: 007950-LDC-MR

7 Risk management implications

7.1 A detailed Risk Register was prepared at the time of construction of the Newhaven Enterprise Centre. This was debated by the Newhaven Enterprise Gateway Sub-Committee in July 2006 (Report No. 133/06).

7.2 In addition, there are a number of key risks that can be identified at this early stage. These are highlighted below.

Risk	Likelihood	Impact	Mitigation
Existing OMA expires and operator pulls out, leaving the Council liable for all costs	Medium	High	A good relationship is maintained with the existing operator and this report has been prepared with sufficient time to undertake a procurement exercise.
The Council does not follow appropriate procurement guidelines	Low	High	Officers have taken Legal advice and identified the appropriate procurement route.
The Council is unable to find an operator for the contract	Low	High	The Council has taken advice from a local commercial agent, as well as considering the market growth being seen in this sector.

7.3 A full risk register will be prepared once the most appropriate procurement route has been agreed by Members.

8 Equality analysis

8.1 At this stage, a full equality and fairness analysis is not required. However, subject to Cabinet's decision, clauses on equalities and fairness will be included as part of the procurement and tender assessment process.

9 Appendices

- Appendix A – Exempt – Options and Financial Appraisal

10 Background papers

None