

Title of report: Appointment of Shell Store Operator

Decision maker: Corporate Director – Economy & Environment

Decision date: 21 October, 2022

Report by: Economic Development Manager

Classification

Open

Decision type

Non-key

Wards affected

Dinedor Hill;

Purpose

To appoint TownSq Limited as the Operator of the Shell Store Business Incubation Centre, for a period of five years by granting a five-year lease to TownSq Limited and to approve a £75,000 contribution to meeting the Marches Local Enterprise Partnership (LEP) loan repayment schedule (£25,000 per year) for the first three.

Recommendation(s)

That:

- a) To appoint TownSq Limited, as the Operator of the Shell Store Business Incubation Centre, for a period of five years**
- b) Grant a five-year lease to TownSq Limited; and**
- c) Approve a £25,000 contribution per annum (totalling £75,000 over three years) contribution to support the repayment of the LEP loan for the first three years.**

Alternative options

1. That the council operate the Shell Store as managed workspace and purely lease space to businesses without the wrap-around support offer. This is not recommended as this would

require the appointment of permanent staff to manage the building and take on responsibility for the ERDF funding and LEP loan outputs as well as LEP loan repayments of £100,000 per year. The council would have to procure and manage the business support services separately, in addition to managing the building, to meet the requirements of the funding to establish incubation space and related services, at an additional cost.

Key considerations

2. The Shell Store was a redundant First World War building that, following a circa £7.32m investment from the Marches LEP, the European Regional Development Fund and the council, has been converted into an award winning Business Incubation Centre.
3. The construction project was delivered on time and on budget. Approximately eighteen months ago the building was initially opened on a phased basis to test equipment and for snagging. The building is now fully operational and approximately 60% occupied. The Enterprise Zone Team has, to date, been responsible for marketing, building operation, and securing tenants following the initial opening. However, to meet the requirements of the funding agreements and the associated outputs associated with the incubation services a specialist business support operator is required. The outputs are listed in paragraph 8 and will be met through activities provided through co-working, meeting and event space and private offices. These activities include support via start up clubs, fast track to growth programmes, step up to growth programmes, workshops, health and well-being programmes, mentoring and peer networking.
4. In early 2022, following a period of soft market testing the council commenced an open market procurement process in accordance with the council's contract procedure rules, via the council procurement portal, to seek an experienced operator of the Shell Store, as a business incubation centre. The specification required suppliers to be responsible for:
 - a) Output delivery – the council is required to deliver outputs related to the funding received for the capital project for example: jobs created and businesses supported;
 - b) Incubation services and strategy – the provision of a compelling business advisory and support package that will nurture and catalyse business creation and growth;
 - c) Tenant management – marketing the space, securing tenants, managing queries and disputes, managing and setting leases and pricing / service structure;
 - d) Building management and maintenance – including facilities management, security, maintenance of plant and equipment, cleaning and landscaping.
5. The outcome of this procurement is a recommendation to appoint Townsq Limited, as the Shell Store operator and grant a lease, for a period of five years commencing at an agreed point in October 2022. There is a contract break and break option in the lease that can be exercised by the operator and TownSq Limited at three years. In addition to the five years term there is an extension option for a further two years that can be offered to the operator, at the council's discretion, if satisfactory progress has been made towards the achievement of the project objectives and outputs.
6. The appointment of Townsq Limited will enable the continued evolution of the Shell Store into a dedicated business incubation centre which attracts growing businesses, provides them with networking and support opportunities, and fosters their continued growth so they transition out of the centre and into dedicated accommodation elsewhere in the Enterprise Zone or wider Herefordshire.

7. Townsq Limited have been able to demonstrate operation of a number of similar centres across the country, for example – Wrexham, Bicester, Barnstable, Bognor Regis, Cardiff and London. It is considered that their Barnstable location, which similarly serves a rural location and relatively isolated from competing centres, is a good benchmark for the Shell Store. Townsq Barnstable opened in March 2021 and has 38 offices and space for 60 co-workers. As at April 2022, just over 12 months after opening, the centre has 29 offices and 37 co-working spaces occupied.
8. Through the Shell Store contract Townsq are required to deliver the following business related outputs:
 - a) 315 jobs created in business in occupation at the Shell Store
 - b) 202 businesses assisted (more than 12 hour's specific advice)
 - c) 20 businesses supported to bring new to the firm products to the market
 - d) 10 businesses supported to bring forward new to the market products
 - e) 10 businesses supported to collaborate with research institutions
 - f) A number of outputs relating to the use of conference and meeting space, collaboration, and perceived quality of services
9. A number of these outputs are required to be delivered in order to satisfy funding conditions set out in the Marches LEP grant funding agreement.
10. The Operating Agreement allows the council to terminate the agreement, if having allowed the Operator to follow a remediation plan (to address a default of a condition of the agreement), the Operator either fails to implement the remediation plan, or successfully complete the remediation plan.
11. A part of the capital funding package for the Shell Store construction was a Marches LEP loan for £2.5m. There is a requirement to repay this loan at a rate of £100,000 for 25 years commencing in October 2022.
12. The specification for the Shell Store operator procurement included an obligation that the preferred operator would be required to deliver a Business Plan for the centre operation which included the repayment of the Marches LEP loan. The soft market testing prior to procurement identified that an operator would initially require a period of three years in order generate the income required (through leases and uptake of business support services) to be able to fully meet the annual LEP loan repayment requirement.
13. Therefore the council will be making a payment of £25,000 towards the loan repayments for the first three years (totalling £75,000). The Shell Store Lease Agreement held with Townsq Limited will require them to pay rent to the council on the following basis to meet the loan repayment requirements:

2022/23	£25,000
2023/24	£75,000
2024/25	£75,000
2025/26	£100,000
2026/27	£100,000

14. Townsq Limited has confirmed budgeting for the rent payments within their Business Plan for the operation of the centre. The Business Plan has been reviewed by the project board (and the tender panel) and agreed that it is robust and realistic from a financial and delivery perspective. This has also taken into account the three year break out clause.
15. From a social value perspective, it is important to know that as a “B Corps” business Townsq Limited are part of a network of businesses that envision a global economy that uses business as a force for good. All B Corps sign a declaration of interdependence which commits to a responsibility to each other and future generations.
16. The council will not restrict the types of businesses that can be offered a tenancy at the Shell Store other than businesses that operate, or are involved in the operation of betting and gambling (including lottery tickets and casinos), dating and escort services, massage parlours, pawn shops, tobacco manufacture and distribution; anything illegal, that will cause a nuisance, activities not permitted under planning and any activities that do not comply with statute or regulations; businesses that are franchises of a regional, national, or international brand or business.

Community impact

17. The Shell Store Incubation Centre contributes to the council’s corporate plan priority of ‘supporting the growth of our economy’. It is also a priority project for the Marches Strategic Economic Plan by supporting business growth and physical infrastructure.
18. The Shell Store Project is supporting the County Plan by ‘developing environmentally sound infrastructure that attracts, investment’ and ‘uses council land to create economic opportunities and bring higher paid jobs to the county’
19. The project has also protected and promoted a heritage asset by restoring a First World War Munitions building, of key historical importance to the county, to bring about economic benefit
20. The Operator is a B-Corporation company and as such their social and environmental performance is independently verified.
21. Health and Wellbeing programmes are also built into the wider business incubation service delivered by the Operator. These include: having health and wellbeing clubs in the start-up club and fast track club, regular mentoring to support the wellbeing of business owners, self-care ‘drop ins’ being provided through the pro bono expert support programme.

Environmental Impact

22. The Operator will provide shared services and resources which reduce the emissions of each individual supported, and through their business incubation services. They will build the skills and knowledge and understanding of their members and the wider business community, with respect to key environmental challenges. They will prioritise environmentally conscious suppliers through their procurement process and prioritise membership and services for those organisations who can demonstrate a commitment to environmentally sustainable business practices.

Equality duty

Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to –

- a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

23. TownSq Limited is a gold standard 'Committed to Equality' accredited organisation and their diversity and equality processes are audited annually and deemed excellent.

Resource implications

24. The council's £75,000 contribution to the LEP Loan repayments will be funded through a reserve generated from income generated from the development of Skylon Court, funded through the European Regional Development Fund (ERDF). A requirement of the ERDF is that income generated over and above the maintenance of the site is utilised for economic development activity on the Enterprise Zone or wider county. The current balance of the reserve is over £341,000.

Revenue	2022/23	2023/24	2024/25	Future Years	Total
	£000	£000	£000	£000	£000
<i>Contribution to loan payments</i>	25	25	25		75
TOTAL	25	25	25		75

Funding streams (indicate whether base budget / external / grant / capital borrowing)	2022/23	2023/24	2024/25	Future Years	Total
	£000	£000	£000	£000	£000
<i>Skylon Court reserve</i>	25	25	25		75
TOTAL	25	25	25		75

Legal implications

25. Section 1 of the Localism Act 2011 provides a general power of competence for local authorities. It gives local authorities the same power that an individual generally has, to act (subject to its fiduciary and statutory duties) and this would include securing the provision of business incubation services at the Shell Store.
26. The procurement of TownSq Limited has been undertaken in accordance with the council's contract procedure rules and the Public Contract Regulations 2015 and the Operator Agreement has been drafted by legal services.
27. The council is empowered to grant a lease of the Shell Store by a variety of statutes. Section 123 (1) Local Government Act 1972 provides that a principal council may dispose of land held by them in any manner they wish provided that it is not for a consideration less than the best that can reasonably be obtained, unless with Secretary of State's consent. The grant of a lease constitutes a disposal of land and the consideration is considered to be the best that can reasonably be obtained.

Risk management

Risk / opportunity Example	Mitigation Example
TownSq withdraw from contract	<p>In the event that Townsq Limited withdraw from the contract, or default on the payments to the council, there is the option to terminate the contract with Townsq Limited and reduce the level of, or stop completely, the business support and incubation services provided through the building.</p> <p>In this event, a proportion of the income generated by tenants of the building would be available to be used to continue making the loan repayments. Other costs such as building maintenance, security, and reception would continue to be incurred.</p>
Failure to deliver the business support services and meet the funding outputs	<p>There is the option to terminate the contract with Townsq Limited and reduce the level of, or stop completely, the business support and incubation services provided through the building</p> <p>Subject to a new procurement exercise, an alternative provider could be appointed, or the council could commission individual contracts to meet the specific output related activity</p>
Failure to repay the loan	<p>The agreement allows the council to terminate the agreement, if having allowed the Operator to follow a remediation plan (to address a default of a condition of the agreement) and the Operator either fails to implement the remediation plan or successfully complete the remediation plan</p> <p>The council would then become responsible for repaying the loan as per the original loan term agreement</p>
Failure of TownSq to find clients	<p>Townsq Ltd opened Barnstable in March 2021 and has 38 offices and space for 60 co-workers. As at April 2022, just over 12 months after opening, the centre has 29 offices and 37 co-working spaces occupied. As the Shell Store has been managed by the EZ Team in the interim period, the building is already at 60% occupation with further enquiries for space being received.</p>

Consultees

Cabinet Member – Economy and Environment who is supportive of these decisions

Appendices

None

Background papers

None

Report Reviewers Used for appraising this report:

Please note this section must be completed before the report can be published		
Governance	John Coleman	Date 17/10/2022
Finance	Louise Devlin	Date 18/10/2022
Legal	Alice McAlpine	Date 20/10/2022
Communications	Luenne.featherstone	Date 18/10/2022
Equality Duty	Harriett Yellin	Date 18/10/2022
Procurement	Mark Cage	Date 17/10/2022
Risk	Kevin Lloyd	Date 17/10/2022
Approved by	Click or tap here to enter text.	Date Click or tap to enter a date.

[Note: Please remember to overwrite or delete the guidance highlighted in grey]

Please include a glossary of terms, abbreviations and acronyms used in this report.