

Economic Development Committee Meeting



29th September 2022

Title	<i>Business Incubator Update</i>
Purpose of the report	To note
Report Author	<i>Keith McGroary</i>
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	<i>N/A</i>
Corporate Priority	Community Recovery Service delivery
Recommendations	Committee is asked to: <i>Note the report and make any recommendations</i>
Reason for Recommendation	<i>Not applicable</i>

1. Summary of the report

- 1.1 This report seeks to provide an update in respect of the Business Incubator situated within a SBC asset at 33, Hanworth Road, Sunbury-on-Thames. The incubator was opened by the Mayor in June 2021 and was established in order to provide a location for entrepreneurs to set up, receive support and accommodation at a below market rate.
- 1.2 It highlights the current situation, some of the challenges faced and provide an update from the owner of Co-Tribe who has also provided a report at appendix 'A' and will be present to take any questions with regards to the operation of the incubator.
- 1.3 The report sets out what has been achieved bearing in mind the opening of the facility coincided with on-going COVID-19 restrictions (with the challenges that this has brought). Information is provided on current levels of occupancy, income received and performance against the Key Performance Indicators (KPI's) in the contract. The committee are being asked to note at this stage, but there are a set of future options which are being highlighted at this point.

2. Key issues

- 2.1 A report went to Cabinet on 24 February 2021, which agreed a contract for a company to manage the delivery of the incubator for 3 years [Managed Services for the Incubator report.pdf \(spelthorne.gov.uk\)](#)
- 2.2 The incubator was opened by the Mayor in June 2021 and was established in order to provide a location for entrepreneurs to set up, receive support and accommodation at a below market rate. It is a very different offering from traditional serviced offices such as Regus. It provides a very flexible space where start-up or fledgling businesses can gain a foothold, where they can collaborate, learn from each other and establish new partnership arrangements with other businesses (founders lab), alongside opportunities for additional support ranging from training events to peer to peer mentoring and goal/target setting to actively encourage growth. The aim is for a business to incubate, grow and then move on
- 2.3 Working with Co-Tribe who received the contract to operate the incubator on behalf of the council, it became clear that for it to be sustainable, it was important that it also generated a rental income to at least cover all costs.
- 2.4 In order to enable that rental income to be achieved and provide potential experienced mentors for new businesses, it was important to attract established businesses who were experienced and in good financial health paying the market rate. With this in mind, (and taking account of what the market indicated was needed after the Incubator had opened) nine offices were created over a period of around 6 months. The building of these offices did create a disturbance and affected the level of tenancies due to the noise and distraction. It was considered that this was a necessary trade off in the short term to facilitate a longer term, more sustainable income stream.
- 2.5 Six of those offices are permanently occupied, with one office recently vacated, leaving 3 vacant.
- 2.6 Achieving near full occupancy of the incubator has been not been as quick as originally expected – the contract states that the contractor would look to deliver an estimated 90% occupancy by the end of year one (with 100% by month 14). However, it needs to be remembered that the initial business plan put forward by Co-Tribe on how the Incubator would operate was pre-pandemic. Given that the COVID-19 restrictions were largely lifted in June 2021 and completely lifted on 18th March 22, it is not a surprise that the uptake was not as rapid as originally expected in pre-pandemic times.
- 2.7 An important feature of the Incubator operating model is to provide flexible hotdesking space (it is not just about an ‘office’ offering) This is available for those businesses who are not sufficiently large to require even a small office space, or where they only wish to come in on a more infrequent basis to collaborate with other businesses as and when they want to. The number of people taking up the hot-desk opportunity at £99 +VAT (figure set out in the contract) a week is behind expectations, even taking into account the restrictions that have been in place. There are currently 3 people using hot desks (the contract indicated around 18 – 24 desks would be provided so on a worst-case scenario, around 12.5% are currently occupied).
- 2.8 In order to address this shortfall, in August 2022, Co-Tribe have had 5,000 leaflets distributed to houses within a 2-kilometre range and within just a couple of days this is already drawing interest in the hot-desk opportunity.

2.9 A report is attached from Co-Tribe setting out the performance of the Incubator over the first 12 months in relation to the key performance indicators set out in the contract (Appendix A).

3. Options analysis and proposal

3.1 The contract with Co-Tribe is flexible and if the council were not satisfied with the operational delivery of the incubator, the contract could be cancelled with a months' notice.

3.2 If that was the case at some point, then an option would be for consideration of the Economic Development Team taking over the day to day running of the incubator. If this was a desired option, the level of resources available would be a key consideration, especially given that the Economic Development Manager is retiring at the end of 2022.

3.3 Another option would be for another company to take over the running of the premises, but given the difficulties experienced in the original tender attracting interest, this may take some time.

3.4 A change of operational delivery is not something under currently under consideration. A report has been submitted by Co-Tribe to provide an update in respect of the key performance indicators (KPI's) within the contract and the Committee has the option to take account of this and make any comments or decisions.

3.5 The preferred option is to maintain the current arrangement and review again at the Committee Meeting to be held on 15th June 2023 (post local elections) to establish progress with the delivery of the key performance indicators. This will then allow for a period of just over a year since all Covid-19 restrictions had been lifted.

4. Financial implications

4.1 The Incubator is run by Co-Tribe with a 60-40 split on rental income (60% in favour of the Council). As Co-Tribe are a community interest company (CIC), they have received 80% business rates relief and 20% discretionary relief which has saved the council £18k that it otherwise would have been liable for. In the 2023-24 period the 20% discretionary relief will not be available.

4.2 It is worth noting that around December 2022 a donation of £100k from Shepperton Studios to support the incubator will become available, although this may be provided at £20k a year over 5 years.

4.3 Funding for the incubator is through the ring-fenced Business Rates Retention fund which is held in reserves. There is currently around £600k in this fund, but it also serves other financial requirements for economic development outside the scope of the Council's budget for the year (for example it currently pays for two temporary posts).

4.4 Total revenue for the Incubator to June 2022 was £25,983,53 with 60% of this £15,590,12 going to the council. In their contract proposal CoTribe set out that with around 90% occupancy, they were expecting to achieve around £75k income in the first year (with £45k to the Council and £30k to them). For the reasons set out above, the income achieved has only been 35% of that initially anticipated.

5. Risk considerations

5.1 No issues have been raised by audit with regards to this report.

6. Legal considerations

6.1 There is a contract with Co-Tribe Incubator CIC which runs for 5 years and has a set of key performance indicators to measure the success or otherwise of the delivery of the contract. The contract allows for termination by either side with a minimum of one months' notice of cancellation.

7. Other considerations

7.1 When the contract went out for tender, it did attract interest, but there was only one actual submission, so the pool of businesses that could take on the incubator seems to be small.

7.2 The quality of the tenants is really high including digital, social media and environmental businesses and an accountancy, which will no doubt benefit the fledging business owners.

7.3 Given the level of inflation in the U.K, this may influence some businesses to look to see where they can save and decide to work from home to save costs. Another scenario may be that taking accommodation in the incubator may be seen as a good move as it includes electric, heating, Wi-Fi, tea and coffee, as well as the accessing support and mentoring, but time will tell.

8. Equality and Diversity

8.1 A new disabled toilet has been fitted in order to comply with regulations and provide the facilities needed for those with walking difficulties. Equality and diversity issues are considered at all times.

8.2 An Equality Impact Assessment is being undertaken and will be available before final adoption.

9. Sustainability/Climate Change Implications

9.1 Consideration is currently underway to reduce energy costs and CO2 emissions by installation of LED lighting and movement sensors.

10. Timetable for implementation

10.1 The incubator has now been occupied by the first business since September 2021, although as can be seen from the report from Co-Tribe in respect of the KPI's, there is room for improvement.

11. Contact

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Background papers: There are none.

Appendices:

Appendix 'A' Co-Tribe Report