

## Bath & North East Somerset Council

MEETING/ DECISION MAKER:	<b>Cllr Mark Roper, Cabinet Member for Economic Development, Regeneration and Growth</b> <b>Cllr Richard Samuel, Cabinet Member for Resources</b>	
MEETING/ DECISION DATE:	<b>On or after 4 March 2023</b>	EXECUTIVE FORWARD PLAN REFERENCE:
		<b>E3452</b>
TITLE:	<b>Wansdyke Business Centre, Midsomer Norton</b>	
WARD:	Midsomer Norton North	
<b>AN OPEN PUBLIC ITEM (WITH EXEMPTED APPENDIX 2)</b>		
<b>List of attachments to this report:</b> Appendix 1: Wansdyke Business Centre Options summary Exempt Appendix 2: Wansdyke Business Centre Financial Impact Reason for exemption: Information relating to the financial or business affairs of any particular person (including the authority holding that information). Please see Information Governance Report for this item for more details.		

### 1 THE ISSUE

- 1.1 The Wansdyke Business Centre (the Centre) in Midsomer Norton is a serviced office established in 2004 and now managed directly by Bath & North East Somerset Council (the Council).
- 1.2 The intervention has historically addressed a market failure in provision of space for small and medium enterprises within the Somer Valley. In recent years the market has developed to now provide a more broad range of property options for businesses.
- 1.3 The Centre has previously operated a model that requires a Council subsidy of up to £25,413.18, per annum to continue as a service, and continues to be loss-making despite not being staffed at present.

1.4 Following receipt of professional advice on both lease regularisation and operational management options, if the Centre is to remain in operation significant investment would be required from the Council to upgrade the building and adopt an operational business/serviced office support model that is financially sustainable for the long term.

1.5 In light of these changes, the Council has reviewed options on future of the Centre.

## **2 RECOMMENDATION**

**The Cabinet Member is asked to;**

2.1 Approve Option 3 as set out in Appendix 1 to discontinue the operation of the centre as a serviced office.

2.2 To delegate to the Head of Corporate Estate in consultation with the Head of Finance and Head of Legal a disposal of the asset for commercial/industrial use.

2.3 Note that a budget of £20,000 for the disposal/exit expenses and any associated charges will be required, to be met from the proceeds of disposal as set out in Appendix 1 Option 3.

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## **3 THE REPORT**

3.1 The Centre is a two-storey commercial building of circa 5,500 sq.ft, located on Midsomer Enterprise Park [MEP], an industrial estate on the outskirts of Midsomer Norton in the Somer Valley. The property has a limited number of 14 car parking spaces, less than one bay per office and therefore a key constraint. The site is approximately 25 minutes' walk from both Midsomer Norton and Radstock town centres.

3.2 The Centre is held on a long lease dated 15.09.1993 for a term of 999 years from same date There is no rent payable, however, the Council is to pay 30% of the services/estates charge for MEP [ca £3,000 pa]. A premium was paid at the time of lease grant. The lease is flexible in terms of alienation [subletting] etc.

3.3 The building was formerly two light industrial units prior to being combined and converted for multiple office use. This was in response at the time for decreasing demand for industrial accommodation and an increasing demand for office space in the surrounding area.

3.4 For the last 20 years the Centre has been offered as serviced offices and in its current configuration provides 19 separate serviced offices, with reception, shared kitchen facilities and two meeting rooms. At present two remaining tenants businesses occupy with the remaining vacant and one occupier occupying or proposing to occupy under a short term tenancy. Furthermore, two internal offices are not appropriate for leasing due to lack of external windows, which reduces potential future income for the site.

3.5 The Council contracted out the management of the Centre/operation to GWE Business West in 2004. B&NES took back management of the Centre from

Business West in October 2018 following a SMT decision relating to financial and legal matters.

- 3.6 From October 2018 until March 2020 the Council's Business & Skills Team managed the Centre directly through existing staff, whilst also employing two part-time reception/administration staff via an agency who were permanently on site until the outset of the COVID-19 pandemic.
- 3.7 Following the COVID-19 pandemic, the Council have not replaced front of house management and reception services at the Centre in order to minimise further financial losses to be incurred. Council employees have had a presence at the centre, and in 2022 have used the site as a location for a series of business networking and training events.
- 3.8 Since taking over management of the Centre in October 2018, work was carried out to assess various options around regularising tenant leases and developed heads of terms which would allow for the letting of vacant units to new tenants. Work was also commissioned to help develop a sustainable financial model for the Centre which wouldn't require significant subsidy from the Council. The break-even financial model put forward resulted in proposed rental levels far greater than the market rate for similar accommodation in the locality.
- 3.9 In summer 2022 the Council's Property and Facilities Management Team commenced support with management and compliance, while the Business & Skills Team has been seeking funding solutions to support necessary refurbishment and staffing of the Centre. This has not been possible to date.
- 3.10 As part of an asset management exercise for the Centre section 25 notices were served on tenants which expired on 31.01.2023. The notices end current tenancies and seek to regularise occupation and increase income. Following this exercise, the number of occupiers in Centre reduced and the remaining are in discussions or in the process of exiting the property. There is also one virtual tenant of the centre that does not have a physical office but uses the Centre to provide a business address.
- 3.11 Asset management in improving income and lease terms will not guarantee the Centre breaks even. Increasing inflationary pressures on variable costs like utilities, cleaning and supplies, untested demand at higher rental levels and existing and future maintenance costs place high intended to raise the rental income all carry significant budgetary risk. The new terms will place responsibility for business rates with the occupying tenant rather than the Council, however this only adds to the risk of the Centre being uncompetitive and unviable as serviced offices.
- 3.12 The Council has taken advice from local commercial agents and property consultants who have extensive experience of work in the locality (including the Somer Valley Enterprise Zone).
- 3.13 The professional advice received can be summarised as follows -
  - i) the centre does not present well as serviced office and requires substantial improvements, maintenance and modernisation.
  - ii) the financial model to modernise and run the centre at breakeven is likely to result in rental charges that are unviable to tenants without continued public

subsidy. This can be evidenced by a number of recent tenants not agreeing to new terms that seek to cover the Council's costs of operating the Centre.

iii) the property was originally designed as an industrial unit, and this use is likely to attract the greatest demand from end users when considering the scarcity of similar premises in the locality. The recommended option is for disposal under vacant possession, either in its current configuration or reconversion to one or two industrial units.

- 3.14 Economically, demand for industrial space in B&NES remains very high, with no new industrial developments of late meaning take-up levels are low and headline rates increased by 18% to £13 per square foot in 2022 (Alder King Market Monitor).
- 3.15 Refurbishment of the Centre to include reconfigurations and improvements would appear to be prohibitive for the Council, with the resulting increase in income required to recover the expenditure/deficit if commercial principles and returns were applied.
- 3.16 The B&NES provision of a subsidy to maintain the operation of the Centre should only be in place to meet a market failure. A range of agents / consultants' reports have been undertaken in the area, none of which have concluded that there are high levels of excess demand for serviced offices in the Somer Valley. Alternative office space (including serviced offices) is located in the area, with more in development as part of the Somer Valley Enterprise Zone. However, there is demand for industrial accommodation, which is demonstrated by extremely low vacancy rates and available accommodation of a mid-size (5,000 sqm – 10,000 sqm) not remaining on the market for extended periods of time.
- 3.17 Future investment necessary to improve the premises to suit the operation and the expected rental levels does not provide a viable operating model and would necessitate continued B&NES subsidy for the Centre. Whilst one-off funding opportunities may present themselves to make capital improvements. The intervention to provide this business space is not considered to be necessary as there is no market failure.
- 3.18 Closure of the Centre will reduce pressure on limited staff resources from both the Council's Business & Skills and Property & Maintenance Teams. At a critical economic time for both the Council and local business community, this staff resource is required to support a wider range of businesses through financial, training and skills measures, as well as management of the Council's vast property portfolio to maximise income and support tenants. These measures would enable more assistance to businesses and effective economic outcomes both for locally based businesses and council assets for delivery of other services alternative to the retention of the Centre.

## **4 STATUTORY CONSIDERATIONS**

- 4.1 There is a commitment in the B&NES Placemaking Plan to retain business in the Somer Valley (SV1 3.b) and an objective to create approximately 900 new jobs, to reduce commuting and traffic.
- 4.2 The recommended option will require some relocation of existing tenants to suitable alternative accommodation. There are currently a limited range of premises

available in the Somer Valley. To date, all former tenants of the centre have successfully found alternatives.

- 4.3 It should also be noted that B&NES is investing in the development of the Somer Valley Enterprise Zone, a 13-hectare employment site creating 1,500 (FTEs) jobs and the provision of accommodation for approximately 24 businesses, in managed workspace. The workspace that will be developed at the Enterprise Zone is in response to the needs of the local market, which through a range of market assessments has been identified as workspace that can support a mix of flexible uses across including both office and industrial sectors and use classes. This will result in a net gain in both office and industrial workspace in the locality focussing on a demand led strategy and will ensure a sustainable business support/workspace model, free of B&NES subsidy.
- 4.4 If the Centre is to close it is recommended that B&NES Business & Skills team will work proactively with the remaining three tenants to find alternative accommodation over the time period, including identifying suitable sites within both Radstock and Midsomer Norton or other nearby centres. The Council is committed to supporting growth of our business base.

## **5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

- 5.1 The remaining two tenants and the other occupier may need to be relocated; assistance is being provided including dedicated property searches where required.
- 5.2 The Centre will need to be closed and exit/disposal costs and expenses budgeted for. Costs associated with closure are estimated in Appendix 1.
- 5.3 Disposal of the Centre as a commercial, office or redevelopment proposal [e.g. conversion back to industrial] will return a capital receipt to the Council. The estimated costs and receipts associated with each option are set out in Appendix 1.
- 5.4 The revenue costs associated with the closure of the Centre can be underwritten by an allocation of **£20,000** that can be repaid after the Centre has been sold.
- 5.5 The current forecast revenue liability of the Centre is approximately **£34,000** for 2022/23 (unstaffed). Staffing is deemed necessary to operating the Centre successfully. Were the Council to return staffing the anticipated financial liability of the Centre would worsen, initially in excess of **£60,000** per annum before ranging between £41,000 and £58,000 per annum. Closure will remove the risk of losses at a time of high financial stress for the Council.
- 5.6 Additional costs in relation to IT systems and services have been minimal to date due to goodwill from the Council's IT department.
- 5.7 This decision avoids capital costs for refurbishment, reconfiguration and establishment costs would be excessive as evidenced by the 2017 Capita Condition Survey and 2020 Lambert Smith Hampton Options Report. There is currently no allocation for these improvements and capital expenditure, thus external funding would likely need to be sought.
- 5.8 Freeing up of staff resource to concentrate on supporting business across Bath & North East Somerset and to manage the Council's other property assets.

5.9 For any disposal [sale or reletting] agency and legal costs will need to be allowed for.

## 6 RISK MANAGEMENT

6.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management guidance.

## 7 CLIMATE CHANGE

7.1 As stated there is an objective to reduce out commuting from the Somer Valley, with one of the outcomes being reductions in carbon emissions, through reduced travel distances. The impact of the Centre closing is not considered to affect this long-term goal and mitigation measures, such as the Somer Valley Business Centre will be in place, offering alternative accommodation well before the 2030 B&NES deadline.

7.2 The current EPC rating is "D". As the building is to be closed no works would be required by the Council and such could be left to an acquiring party to address in the event of disposal.

## 8 OTHER OPTIONS CONSIDERED

8.1 See Appendix 1 – Four options have been considered including closure. The provision of serviced offices or offices for SME's is currently considered to be sufficiently provided for in the private sector [in the locality] and no additional Council support in the form of a dedicated building for such purpose is considered necessary. Other business support services are available from the Council. Options 1 & 2 are therefore discounted and would result in savings of expenditure and resources. Option 4 has been considered, however, there appears to be sufficient property within the Council's corporate property estate to satisfy any requirements for additional offices for administration or other purposes.

## 9 CONSULTATION

9.1 There has been consultation with Finance, s151 and Monitoring Officer.

<b>Contact person</b>	Claire Lynch, Business and Skills Manager
<b>Background papers</b>	Mickeldore. Flexible Workspace – Somer Valley Enterprise Zone, Final Report. Oct. 2019  Lambert Smith Hampton. Wansdyke Business Centre Options Assessment. Jan 2020.  Capita. Wansdyke Business Centre Condition Survey. 2017.  Alder King. Market Monitor. 2022.
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