

Shared business premises and facilities to help businesses develop and grow

SUMMARY

Shared business support environments actively encourage economic growth by providing supportive physical environments with appropriate specialist knowledge and facilities to help new and existing businesses prosper and grow.

This product is designed to facilitate growth for businesses in priority sectors and/or to develop and sustain businesses that are in areas critical to the delivery of regional or local economic strategies.

There is a wide range of interventions that fall within the Shared Business Support Environments umbrella. In order to capture the diversity of interventions that fall under the shared business support environments umbrella the product has been split into two key products.

The two separate products are delineated by the customer base that will access the services and the complexity of services available within the shared business support environment.

The two products which fall into the shared business support environments parent offer are:

- 1) Business premises (e.g. managed workspaces and business parks)
- 2) Business Growth: Specialist Facilities and Environments (e.g. incubators, science parks, technology hubs)

Name of parent offer: Shared Business Support Environments

Product Name: Business premises

What is the support on offer to business?

Funding will be provided to intermediaries to establish and operate cost-effective, managed workspaces and business parks in priority localities where such facilities are not provided by the private sector.

Business premises could be provided as a part of local/regional economic strategy to regenerate a deprived area as the locality and types of business it would provide services to would be particularly unattractive to the private sector if located in such areas.

Managed workspace and business parks focus mainly on providing property solutions to selected businesses that have the potential to grow into locally significant employers. They might also offer grow on space for those businesses

that have started in knowledge based or more specialist shared support environments (e.g. incubators).

Managed workspaces and business parks provide businesses with a managed working environment and a gateway to business support, but do not actively develop their clients except by means of overt linkages with and / or on-site support from Business Link and other business support providers, for example local Incubation Environments.

Providing a physical space in which a business can operate is the primary purpose of the business premises. However, collaboration may be encouraged, although anti-competitive behaviour will not be tolerated.

Tenants may also have access to a range of basic business facilities such as operating floor-space, meeting rooms and shared utilities. Typically, managed workspaces and business parks will not provide business with direct access to specialist knowledge or equipment.

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Property deals with tenants should be flexible, but at commercial rent levels and generally be time limited in order to encourage churn. Over the lifetime of their tenancy businesses will pay market rates for the facilities provided. More ambitious clients may wish to move on to Incubation Environments or Science Parks for their next phase of growth.

This product should not attract public investment except where the private sector will not invest, which is typically in areas requiring regeneration.

Managed workspaces and business parks will not duplicate the business support offered through Business Link. Rather, they will work in partnership with Business Link to offer integrated access to the full range of private and public business support.

Funding will be provided to procure intermediaries to purchase and maintain the physical environment and to support the management and facilitation of access to IDB support through Business Link and support and facilities as appropriate.

Managed workspace and business parks are designed explicitly to meet the needs of the regional and local economies they are located within. As such, the funding given to the intermediaries selected to deliver this product will be primarily from Regional Development Agencies and Local Authorities and subject to the relevant project appraisal process. Intermediaries will be selected to deliver the service through a compliant procurement process.

Public support should only be provided to projects that will demonstrate best practice, are capable of being sustainable in impact and commercially and are appropriate to their socio-economic context. Funding will not be provided directly to businesses located within the shared business support environments.

This product covers a range of long-term interventions: The property developed for this product often has a fifty year life. However, public support is normally

provided in the form of capital grants to aid land assembly and the development of physical infrastructure. Therefore, the public sector *financial* exit is usually within three to five years from start-up. However, experience shows that the public sector often needs to maintain an active role in monitoring and evaluation post-funding exit to *safeguard* its, sometimes very significant, investment. This includes participating in project governance and long-term monitoring of contracts with intermediaries.

Funding will not be provided directly to businesses located within the shared business support environments. Support to businesses will be time-limited by a well defined set of exit criteria, for example limitations on tenancy lengths or assistance with exit when the business no longer meets key criteria (e.g. no longer growing).

The exact level of funding provided to intermediaries to build and manage business premises will be wide given the fact that the product includes a variety of built environments.

The scale of public sector funding for interventions of this nature could range from £50k to £10 million over the lifetime of the project. The funding will be a mixture of capital funding to build and equip the facility and revenue funding for its operation.

To be considered for funding for business premises projects must show:

- Demonstrable lack of sufficient similar facilities with the local and/or regional economy it is designed to serve for the foreseeable future;
- Adherence to nationally agreed best practice principles and quality standards;
- Seamless working with Business Link;
- Value for money; and
- An appropriate and sustainable business model with a clear exit strategy for reliance on public funding.

Who is it for?

The target customers for business premises are potentially wide and will include:

- New businesses looking to start-up within the local area;
- Small and medium sized firms. The definition of a small and medium sized firm adopted is the European definition of a firm having <250 employees, a turnover of up to €50 million or balance sheet total of €43 million; and
- Large companies will be able to act as an anchor tenants within limitations determined when the project is initially approved. Business parks which operate as mixed use sites will only attract funding for those elements occupied by new and/or small and medium sized firms.

Businesses that could benefit from shared business support environments will also need to meet some of the following criteria:-

- Be willing and able to collaborate with related businesses
- Demonstrate the need for access to such facilities in order to start or grow their business
- Businesses that have the potential to be significant local employers, and
- Be in a priority sector or area as set out in the relevant regional or local economic strategy.
- Show that it will be able to benefit from collaboration in a shared business support environment

Commercial terms should be defined by the operator and be dependent upon the types of companies they are trying to support and the environment they are located within.

Marketing and access

Intermediary Access

Shared Business Support Environments are typically commissioned by a partnership of public bodies (e.g. RDAs, Local Authorities, HEIs) to respond to specific economic development opportunities. State aid compliant processes will be used to procure intermediaries to operate shared business support environment projects on behalf of their commissioning partnerships.

Client Access

Potential clients will be able to access shared support environments through two complementary routes:

- Referral via Business Link
- Direct approach to the shared business support environment operator

Business Link and Shared Business Support Environment operators will work in partnership to ensure that specific property offers are understood by Business Link staff, are clearly articulated on the relevant Business Link website, including application forms and eligibility, which will have an up-to-date list of available space in managed workspaces and business parks.

The business premise will not duplicate any IDB activity which will be provided to tenants by Business Link.

The intermediary will work closely with Business Link to market the business premise. Marketing will adhere to the national branding framework guidelines.

The intermediary will however retain responsibility for the customer relationship with all businesses that take-up tenancies.

Why?

The managed workspace/business park product will be provided on a regional or local level where there is an identified market failure in that the market will not provide this type of facility, or where there is an equity rationale for this type of business support intervention.

Direct access to facilities within business premises will enable businesses to benefit from a mix of facilities which they would not be able to access in the market place which will allow businesses to improve business growth and business survival rates.

Business premises provide a supportive environment in which to nurture and grow sustainable businesses which will help the growth of the local economy in which they are located.

Delivery–procurement

The nature and form of each business premise is explicitly dependent on bespoke local economic needs.

Intermediaries will be procured by Regional Development Agencies and Local Authorities to nationally agreed principles using compliant procurement processes.

In certain exceptional circumstances, potentially in the borderlands between neighbouring RDAs and LAs it may in the interests of the funding bodies to co-invest in the development of business premises.

State Aids Advice

Advice from the state aids department suggests that there is no need to seek state aids clearance prior to the shared business support environments product being launched. Instead, individual projects should undergo a state aids assessment as part of normal project appraisal processes in order to verify the position on a case by case basis.

Detailed advice from BERR's State Aids team in respect of this product is as follows:

"State aid: the European Commission's R&D and Innovation Framework sets out some useful principles on funding of infrastructure (such as incubator facilities) and services via intermediaries, but these have not yet been tested and there are some unresolved questions, so this is an area where authorities will have to look at projects on a case by case basis and may well need to adopt a risk based approach. To check whether there have been any recent developments or to discuss proposals, authorities should contact the State Aid Branch.

Aid to business end users: any funding to businesses in the form of vouchers to purchase services, or in the form of an intentional discount on prices funded via the intermediary, will almost certainly constitute state aid. In the second case, authorities would need to quantify the discount. Approvable aid routes include:

- De Minimis: covers aid up to €200,000 per recipient over any three year period, applies to any size of company, large or SME, no eligible cost restrictions and no notification is required, but there are restrictions on cumulation with other De Minimis grants and other state aid generally where this is being given to cover the same project costs

- the SME Block Exemption which allows subsidy of 50% of consultancy costs (for SMEs only). Schemes must be registered with the European Commission and annual reports are required

- the state aid framework for R&D and Innovation: allowable aid categories include aid for innovation support and advisory services worth up to €200,000 over three years per recipient. This category is restricted to SMEs only. Schemes must be notified and cleared in advance with the Commission and annual reports provided.

Alternatively, if accommodation and services are charged at a market rate or at a rate which reflects costs plus a profit element there should be no state aid to business end users.

Aid to the intermediary service provider: the question of whether funding to intermediaries constitutes state will depend on a range of factors, including the status of the intermediary (e.g. whether it is a private sector business, or a non-profit entity like a university or other research organisation, whether publicly or privately owned), how the facility/service is financed, and what happens to any profits or assets owned by the facility/project.

Private sector business: although there are grey areas here, funding of hub facilities and services owned by business entities, or run by them other than on a straightforward contract basis on behalf of the funding authority following a competitive tender, is likely to fall within state aid territory. The main approval route for this would be:

- the aid for innovation clusters category in the R&D and Innovation Framework: this allows member states to fund businesses to provide open access facilities and services like training, research, laboratory and testing facilities, and broadband network infrastructure, within innovation clusters. There are conditions, including that the prices charged to end users should reflect their costs. The aid can take the form of initial investment aid to help with costs such as land, buildings and equipment, in which case the aid intensity is 15% (higher for SMEs or in some assisted areas); or the form of operating aid for the first five years in which case the aid intensity is either degressive 100% to 0% over the period or 50%

throughout. Aid in this category would require notification and prior clearance by the Commission who would require analysis of the technological specialisation involved, existing regional potential, whether there are other clusters within Europe with a similar purpose and potential market volumes (a more detailed economic impact assessment is required where funding per cluster exceeds €5 million). Annual reports are required post approval.

Non-profit entities: the underlying rule is that where non-profit bodies, whether public or privately owned, are engaged in economic activities, including providing services or infrastructure for business use, they have to be treated like any other business for state aid purposes, regardless of their ownership. However, section 3.1 of the Framework also sets out the "flow-through" principle that where non-profit bodies like universities and other innovation intermediaries are effectively acting as conduits for funding that benefits users of the facility or service being provided, and are not benefiting themselves, then the funding that they get does not constitute state aid; any aid to business end users would be subject to the normal state aid rules. The framework does not specify in detail what authorities/intermediaries would have to do in order to demonstrate compliance with this principle.

The Commission is expected to produce formal guidance on the new framework including on the issue of cluster/infrastructure funding of both the state aid and non-aid kinds as case experience in this area builds up, but in advance of this our advice, in order to limit the risk of a state aid complaint and/or the risk of the Commission finding aid of an unapprovable kind in infrastructure funding schemes, is to:

- avoid any overlap with commercially provided services by checking what services are available to users before committing to projects; projects should be focused on areas which market operators are not serving or are unlikely to serve e.g. because of the technological risks or uncertainty of demand
- ensure that the prices charged to end users are as close as possible to a market rate (e.g. by benchmarking with similar commercially provided services or by reflecting costs plus a profit element). Avoid tying other aid packages (for example, aid for business R&D projects) to use of hub facilities or services of the kind covered in this category to limit the risk of unfair competition with commercial suppliers
- whether the hub facility/service provider is a commercial or non-profit entity, ensure the project safeguards against any undue profits or commercial advantage e.g. establish what will happen to any income generated by the project, consider claw-back arrangements if take-up of services exceeds expectations, establish what will happen to any assets at the end of the project, ensure that the facilities/services are genuinely open access and no-one including the intermediary can get preferential terms of use."

Current national 'schemes'

The business premises product is location specific and not national in nature. As such, no existing products will be closed.

Individual Regional Development Agencies and Local Authorities will, however, work with Regional Transition Management Boards to identify and transition schemes which no longer meet the investment criteria associated with this product.

Initial thoughts on Monitoring and Evaluation

It will be important to monitor and evaluate the business premises product as well as individual projects.

Any evaluation criteria must be related to the Investment Evaluation Framework that the Regional Development Agencies utilise.

Indicators that could potentially be used to monitor business premises could include:

- Increased profitability in the participating businesses;
- Survival rates of occupants;
- Occupancy rates;
- Churn rates;
- GVA growth of participating businesses; and
- Turnover performance of incumbents.

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Take up of external Business Link services offered;

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