

<b>Item No.</b> 8	<b>Classification:</b> Open	<b>Date:</b> May 19 2009	<b>Meeting Name:</b> Executive
<b>Report title:</b>		Support for Southwark Businesses in the Recession	
<b>Ward(s) or groups affected:</b>		All Southwark	
<b>From:</b>		Strategic Director of Regeneration and Neighbourhoods	

## RECOMMENDATIONS

1. That executive notes the content of this report and agrees the following enhancements to services to support local businesses:
  - i. Promote the small business rate relief scheme, as set out in paragraph 10;
  - ii. Instruct the Supply Southwark Group to develop and implement at the earliest opportunity a method to promote opportunities for Southwark businesses to supply to the council by advertising contracts locally, as set out in paragraph 18;
  - iii. Make best endeavours to accelerate payments to suppliers as set out in paragraph 23; and
  - iv. Permit businesses that are commercial property tenants of the Council to pay rents monthly rather than quarterly, as set out in paragraphs 27 to 31.

## BACKGROUND INFORMATION

2. The current economic downturn is requiring local authorities to develop, or promote, solutions aimed at addressing problems residents and businesses may be experiencing. Many of these interventions build on existing schemes, whilst others offer new projects which can be rapidly implemented. This report sets out four measures which seek to support businesses operating in Southwark. These measures are designed to be quick to implement, to ensure businesses can benefit immediately from the council's support. No additional government funding has been allocated for this purpose. However, while wellbeing powers give local authorities the opportunity to direct resources for this purpose, this does place strains on other council services.
3. The measures proposed are:
  - promoting small business rate relief to eligible businesses;
  - promoting opportunities to supply to the council;
  - reducing payment periods of invoices; and
  - reducing rent payment periods from quarterly to monthly.
4. London boroughs and sub-regional partnerships are encouraging discussions on such measures in their broader remit toward support of local business environments. Following discussions with local business community groups and traders, Southwark can be one of the first boroughs to take forward a package of steps to promote existing services and react positively in support of business to the current economic downturn. These measures reflect Southwark's particular circumstances.

5. Other councils are increasingly focusing on promoting 'supply to the council' initiatives. For example, the City of London is developing e-procurement to make contracts more accessible to small and medium-sized enterprises (SMEs). The City is also working with large purchasers to develop links to SMEs. Similarly, in Waltham Forest, a concordat between the council and local business support agency, East London Business Place, has committed the local authority to increase its local purchasing to 51 per cent within three years.
6. Similarly, there are a number of London boroughs beginning to develop publicity on how to claim Small Business Rate Relief (e.g. Barking & Dagenham, Croydon, Havering, Kingston).
7. Southwark will be the first borough outside of the City of London to offer changes to its rental payments to assist businesses during difficult market conditions.
8. Detail on the four measures is set out below. For the purposes of this report, a Southwark or local business is defined as one which is registered at a Southwark address or has a base at a Southwark address, on the grounds that such businesses provide employment opportunities and are likely to contribute to local wealth creation through the multiplier effects of employer expenditure and business-to-business trading.

#### **PROMOTE SMALL BUSINESS RATE RELIEF**

9. Eligible small businesses can benefit from rate relief, which offers the opportunity to claim back half of their business rates, to a maximum rateable value of £5,000, with incremental relief thereafter. This is a long-established offer to businesses, but is becoming increasingly well publicised during the downturn. Southwark Council offers business rate relief on its website and enterprise literature.
10. The council shall be undertaking discrete actions in relation to small business rate relief. These include:
  - Writing to all Southwark businesses which may be entitled to relief in late May 2009. This will tie in with the reminder notices for business rates and is therefore expected to have a greater impact;
  - A focus on refunds. There are overpaid credits on the business rates accounts that have not been reclaimed. The council will shortly be commencing an exercise to either off-set these against existing rate liabilities or refund them to businesses;
  - Support through the collection process. Whilst business rates are a statutory duty, some businesses will have difficulty paying and could be subject to enforcement action. The council is keen to engage with businesses and will make greater efforts to contact them before the instruction of bailiffs, which effectively could mean the closure of the business.
11. The government announced on March 31 2009 that it will introduce new measures to assist businesses to pay the increases to their 2009/10 business rates bills. The details of these measures have not yet been released. The scheme is not operational at the moment and will not be until after the necessary legislation is passed which the government aims to do by July 31 2009. A fact sheet has been sent to all businesses advising them of the proposed scheme. There are two important factors that Members should bear in mind regarding the

scheme, firstly, that until further notice, all businesses must continue to pay their business rates in accordance with their current bill. Secondly, this scheme does not provide a reduction in the rates payable for 2009/10 but it will allow businesses the option to defer payment of 60% of the increase until 2010/11 and 2011/12. Once the regulations are in place, officers will consider and implement the scheme as appropriate

12. The council already promotes small business rate relief on its website and in its enterprise literature; therefore it is a higher-profile awareness campaign which is required. This will need to comply with the council's communications guidelines.

#### **PROMOTE OPPORTUNITIES TO SUPPLY TO THE COUNCIL**

13. In 2003 Southwark Council began a comprehensive procurement modernisation programme driven forward by the '**National Procurement Strategy for Local Government**', which set out government's expectations on Local authorities to –
  - a) Use Procurement to help deliver corporate objectives including the economic, social and environmental objectives set out in the Community Plan.
  - b) Produce a Corporate Procurement Strategy that demonstrates how the council will achieve its corporate goals through procurement addressing -
    - the relationship of procurement to the community plan, workforce issues, diversity and equality and sustainability
    - how the council will encourage a diverse and competitive supply market, including small firms, social enterprises, ethnic minority businesses and voluntary and community sector suppliers
14. The council has signed up to the **Small Business Friendly Concordat** that commits councils to involving small- and medium-enterprises (SMEs) in the public procurement process. This concordat arises from the acknowledgment of the crucial role that SMEs play in maintaining a healthy local economy.
15. The Market Development Action Group, now renamed Supply Southwark, has been working to develop strategies for engaging smaller local businesses and encouraging the development of local supply initiatives. The group's vision statement is to 'encourage the development of a diverse and competitive local supply market and increase the opportunities for small businesses, ethnic minority-led businesses and third sector suppliers to do business with Southwark Council and other local public sector organisations'.
16. For works contracts, the council requires contractors to register with Exor, a supplier approval system managed by the Experian business rating agency. The council's economic development team (EDT) will run workshops for suppliers to explain these requirements and facilitate registration with the Exor service for relevant firms. EDT will also hold "**Meet the Buyer**" events for construction contracts where small local suppliers can meet with larger suppliers to network and form alliances.
17. Plans for holding an event at Canada Water with BL Canada Quays and Barratt East London are well advanced, with an event due to take place in late Spring 2009.

18. In addition, the council will take the following actions to facilitate SMEs in supplying to the council:
  - Publication of up-to-date contract tender information on the council's website by the end of July 2009;
  - Amend procurement guidelines to include that officers are reminded to ensure that local suppliers are aware of all procurements over £5,000 and less than £75,000;
  - Include a requirement to address local supply and local labour considerations in the contract procurement strategy (through requiring consideration of the issue through the procurement strategy - Gateway One - process), subject to affordability;
  - For other relevant procurements, require officers to advertise opportunities in local press outlets or on the council's website, and encourage the use of the registration of interest system in the use of this database to source tender lists.
19. Contracts will continue to be let on the basis of evaluation criteria that offer best value to the Council
20. The council's developing Supply Southwark policy reflects wider national thinking and strategy, particularly the recent recommendations from the Houghton Review and Glover Report. The latter sets out 12 key recommendations for public sector authorities to engage with SME suppliers. These include a specific recommendation that "tendering opportunities thought especially suitable for SMEs or consortia of SMEs should be flagged by the procurer during the advertising process. Government should provide strategic and detailed guidance for procuring authorities on assessing suitable contracts for flagging, based on risk, value and market maturity."
21. For some goods and services, businesses will still be required to gain approved list status via Exor, particularly for construction services.
22. All advertising will need to be in line with the council's communications guidelines.

#### **REDUCING INVOICE PAYMENT PERIODS**

23. It is proposed that best endeavours will be used to enable the standard time period that the council takes to pay suppliers to be reduced from up to 30 days at present to 20 days. This will not apply where there are over-riding contractual terms, and will not involve any changes to the council's terms and conditions.
24. The change in payment periods will apply to all suppliers, rather than only local suppliers, due to constraints within the council's systems and a need to avoid unnecessary administration.
25. The reduction of payment times from up to 30 days to 20 days is in line with recent national government policy, through the Prompt Payment Code, to speed up payments, especially to smaller suppliers.
26. As stated above, there will be no specific implications for the council's financial regulations. However, there will be financial implications for the council, as

discussed in the Finance Director's concurrent at paragraph 45.

### **AMENDING COMMERCIAL RENT PAYMENT INTERVALS**

27. It is proposed that rent due and billed quarterly in advance be accepted calendar monthly in advance instead. This temporary concession will be made available to all tenants of all properties which are within the property division's defined Voluntary Sector Portfolio and all tenants of 'low and medium value shops' which are within the property division's defined commercial portfolio. In this context "shops" means all properties which fall within Class A of the 2005 Town and Country Planning Use Classes Order definition. This will generally include all retailers, offices, restaurants, take-aways and public houses. "Low and medium value" means all those units with an actual rent payable at the start of the scheme with a rent fixed at £50,000 p.a. or less.
28. Allowing "low and medium value shops" as defined above to opt to pay rents monthly should mean fewer closed businesses, more income overall to the council and a better street scene for all. The concession is not means tested or dependent on the success of otherwise of the business nor is it limited to 'small businesses', so that for example multiple retailers with several small often low value units will also benefit.
29. All tenants who wish to apply will need to already have their rent paid up to date and not be otherwise in breach of their tenancy at the date of their application for the temporary concession. If there are breaches of the monthly payment agreement and/or other breaches of the lease during the period of the agreement, the temporary concession will be withdrawn. Consequently, failure to comply with the calendar monthly payment arrangement will be subject to enforcement by the usual means.
30. This temporary concession will be made available after receipt of a prior written request from the individual tenant of each property. It will be available for the quarterly period immediately following the quarter in which the request is received. All temporary concessions will expire and all rent to be up to date on December 23 2010, rent to be due as per the lease terms thereafter. After this date, a decision will be taken to extend the concession or otherwise, and the decision will be taken by the head of property. The concession is temporary, tenants will be invoiced in the normal way and there will be need to vary any of the leases concerned.
31. For those covered by this arrangement billing will still remain quarterly in advance but collection will be monthly during each quarter. In effect each tenant can set up an arrangement, in advance of the due date, to pay late. Currently the substantial majority of tenants who either pay late, or have existing arrangements to pay late, or which are the subject of enforcement action, occupy "shops". The need to monitor and chase rents monthly rather than quarterly, will significantly increase the workload of the commercial rents team as three rather than simply one rental payment will be due each quarter.
32. Consideration will be given should this report be approved to the quickest method of implementation of this temporary facility to ensure that the council's interests in its properties are safeguarded.

## **COMMUNITY IMPACT STATEMENT**

33. Southwark's Active Enterprise Count of all PAYE and VAT registered SME businesses (that is, those with less than 250 employees) indicates that the borough contains 12,485 smaller businesses. 99 per cent of all businesses in the borough are classified as SMEs with 84 per cent being micro-businesses (10 employees or fewer).
34. There is therefore a large business community in Southwark potentially ready to benefit from these proposed operational changes, which will offer important opportunities to enterprises facing challenging market conditions during the economic downturn. The schemes will be available to all relevant businesses.
35. It is recognised that many smaller businesses in the borough serve specific communities and neighbourhoods, and the loss of these businesses would have a significant impact on these communities.
36. The measures proposed will be publicised on a regular basis to ensure that targeted businesses are aware of, and benefitting from, these operational changes. This could include press coverage of local businesses winning council contracts. There will also be a periodic review to estimate the value of local contracts.

## **RESOURCE IMPLICATIONS**

37. Measures to reduce invoice payment periods and rent payment terms are likely to have some resource implications for the council. Cost and cashflow implications are set out in the relevant concurrent reports.
38. There are no specific staffing issues associated with these recommendations.

## **CONSULTATION**

39. Internal consultation has taken place with departments affected by these recommendations, namely regeneration and neighbourhoods; deputy chief executive's department; and financial management services.
40. Consultation has taken place with local business representatives through the chair of Southwark Alliance's Enterprise Partnership. The Partnership welcomes the proposed measures, while maintaining the desire to see them extended further.
41. The chair of the Enterprise Partnership also expressed a desire for close co-operation across all aspects of the council's work in order to maximise support and resources for business and mitigate the worst effects of the recession on the local economy.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

42. Advice from departments affected by the recommendations is set out below.

### **Strategic Director of Legal and Democratic Services**

43. The council has a power to do anything likely to promote the economic, social and environmental well-being of the area; and in exercising that power has to take into account the strategic plan. The report sets out the issues for consideration by the

Executive in coming to a decision on the proposal.

### Head of Property

44. Accepting quarterly rent by subsequent calendar monthly instalments from tenants will not involve any changes to leases or billing. Instead it will be addressed by internal arrangement. This will substantially increase the number of current arrangements and increase the scope for potential breaches and need for rent chasing. There will therefore be some increase in workload and cost.

### Finance Director

45. The finance director recognises the severe pressure that small businesses are under, in particular, in the light of the recession, and supports these proposals made under the council's power to take action likely to promote the economic, social and environmental well-being of the area, as a means of helping to provide special support. Any support provided must be taken in the context of the wider Medium Term Resourcing Strategy. The finance director considers that the measures proposed within this report are appropriate and need to be contained within existing budget provisions. The major impact is likely to be on council cash flows and these will be monitored closely over the coming months. As a benefit of these proposals it is hoped that any lost interest arising from adverse cash flow will be offset by lower administrative costs.

### BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Contract Standing Orders	Financial Management Services	Jo Anson Ext. 54308
Financial Regulations	Financial Management Services	Jo Anson Ext. 54308
Supply Southwark Terms of Reference and meeting papers	Regeneration and Neighbourhoods	Amanda Lloyd Ext. 55479

**AUDIT TRAIL**

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<b>Report Author</b>	Gordon Mole, Economic Development and Strategic Partnerships	
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<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Strategic Director for Legal and Democratic Services	Yes	Yes
Finance Director	Yes	Yes
Head of Procurement	Yes	Yes
Head of Property	Yes	Yes
<b>Executive Member</b>	No	No
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