

Report to: Place and Economic Development Committee, 1st November 2021

Report of: Corporate Director – Planning and Governance

**Subject: THE KILN CO-WORKING INNOVATION SPACE PROJECT:
PROGRESS UPDATE**

1. Recommendation

That the Place and Economic Development Committee:

- 1.1 **Note the update on The Kiln Co-working Innovation Space Project, two years into operation;**
- 1.2 **Approves the reprofiling of the Kiln outputs as set out in Appendix 1 and authorises the Corporate Director - Planning and Governance to amend the project legal agreements accordingly.**

2. Background

- 2.1 The Kiln Co-working Community Interest Company was incorporated in March 2018 to oversee the management and development of the Kiln co-working space at 2 Copenhagen Street Worcester. The co-working space was developed mainly for creative and tech freelancers and small businesses to deliver a previously unmet need in the city.
- 2.2 The objects of the Kiln Co-working CIC, as set out in the company's Articles of Association, are to provide affordable and accessible co-working space in Worcester; facilitate networking and collaboration; and to provide some free office space to local charities and not for profit organisations. The Kiln brand is owned and licensed by two creative directors from F8 Creates Ltd, who were the founding members of the Kiln project, working alongside the City Council to build a community of potential members and provide an attractive and inspiring space for co-working and collaboration in the city.

Funding package

- 2.3 Worcester City Council completed the refurbishment of 2 Copenhagen Street in August 2019 as the Kiln, Worcester. Worcester City Council provided £400,000 and Worcestershire LEP £195,000 for the building and refurbishment works. Both funding streams were made conditional on the delivery by the Kiln CIC of a set of economic outputs. These economic outputs justified the level of public funding made into the Kiln.
- 2.4 Worcester City Council approved a rental package of £88,600 as part of the match funding for the Worcestershire LEP grant. The schedule for rent payment commences 7 February 2022. The amount due is £12,250 per annum until 6 February 2024. From 7 February 2024 until the end of the term the rent payable is £24,500 per annum. Rent is payable quarterly in advance. The contractual term for the lease is until 6 August 2029 and the review date 7 August 2024.

- 2.5 Worcester City Council made a loan agreement for £20,000 with the Kiln CIC. This was to provide working capital to support the early operation of the Kiln CIC in accordance with the agreed business plan. The loan was fully drawn down in December 2019 and is due to be repaid in November 2022; a repayment schedule will need to be agreed between the Council and the Kiln CIC.

Governance

- 2.6 The Kiln CIC currently has 5 Directors, two of whom are the founding members and brand owners and one of whom, Cllr Gregson, is a nominated representative for Worcester City Council. The other Directors are the Kiln Manager and a professional business coach. The Board is open to the recruitment of further Directors subject to a skills match. The Board is supported by independent financial advice from accountants Perrigo Consultants Ltd and the Board engages book-keepers and legal advisers to support with statutory filings to Companies House. In addition, Council officers are providing some assistance and guidance to the Board while it is still working its way through the economic outputs and related reporting requirements that are associated with the public funding package.
- 2.7 The Kiln CIC is responsible for the overall strategic management and development of the co-working space to ensure the outputs are met and the business is financially viable. The Board sets and works to its business plan and the day-to-day management of operations is undertaken by a full time Kiln Manager and the two founding member Directors, who receive remuneration for these services.

Economic outputs

- 2.8 There are defined outputs for the co-working space which form part of the funding agreement between Worcestershire LEP and Worcester City Council. There are additional outputs which contribute to the delivery of the Worcester City Plan. Details of the outputs and the requirement to collate evidence and provide data are part of the operating agreement between Worcester City Council and the Kiln CIC. The outputs and completion dates represent the Key Performance Indicators which are set out in the Kiln CIC business plan. Progress is monitored monthly and reported to the Kiln CIC board; Worcestershire LEP; and Worcester City Council.

Impact of Covid

- 2.9 The Kiln at 2 Copenhagen Street opened in August 2019 and was performing well with increasing membership and room hire; active programme of events and collaboration activities; and income growth. However, in March 2020, the Kiln closed in response to the Government's decision to instigate a lockdown as part of the measures to deal with the COVID-19 pandemic. The Kiln re-opened in June 2020 but endured further closures during the November 2020 and January – March 2021 lockdowns.
- 2.10 The period of closures and subsequent restrictions on operational capacity have had a significant impact on the Kiln. During the period of closures, the majority of members stopped paying their fees and it has taken time to rebuild the membership. When the Kiln did re-open after each closure, occupier numbers were restricted to comply with social distancing requirements. This also had an impact on room hire, hosting events and collaborative activities. Events started again in September after a delay of 18 months.

- 2.11 The situation has had a significant impact on Kiln finances. Although the Kiln CIC utilised the furlough scheme, received COVID support grants and drew down the remaining loan amount, these were not sufficient to replace the income that would have been received from membership fees and other activities. Whilst the financial situation has started to improve, the Kiln is still operating at a small loss currently but is forecast to move to a profitable position within this financial year. The forecast does allow for the commencement of the Council's rent repayments in February 2022 but it is a finely balanced position and obviously this situation could change should income drop below forecast levels for any reason.
- 2.12 The Covid pandemic has also had an impact on achieving the outputs. Whilst the Kiln has fully achieved some outputs already and on most others, achieved more than 50%, it may not be feasible to fully achieve those which are due to be completed by March 2022. Worcestershire LEP have agreed in principle to a re-profile of their outputs to extend the deadline by 1 – 2 years without the need to amend the funding agreement. All outputs need to be achieved by the end of 2024/25.

Success stories

- 2.13 Despite the impact of Covid, the Kiln has produced many success stories during its two years of operation. A significant number of small businesses have responded positively to the opportunity to collaborate in a city centre location and have described the benefits to their businesses of being able to work from the Kiln. Examples are set out in the "The Kiln Good News 2021" booklet at Appendix 2.
- 2.14 Due to commercial sensitivity, the information provided has been anonymised, but sitting behind it is a rich data source from local individuals and small businesses which have praised the Kiln in recent surveys and feedback requests. The Kiln CIC Board have considered member feedback in order to make improvements and ensure the business plan leads the Kiln Worcester into the right direction for the future so that it can be financially sustainable and meet local needs.

Future direction

- 2.15 The brand owners and founding members of the Kiln are consulted for their advice on other potential co-working projects, based on the success of the Worcester site. The Kiln CIC is set up to run the Worcester site at 2 Copenhagen Street; the Council's primary interest is in securing value for money and delivery of specified economic outcomes in return for the level of public investment made into this particular site.
- 2.16 The brand owners and founding members are not precluded from "spinning out" other delivery models building on the success of the Kiln, Worcester. It could be said that the delivery model even in Worcester should provide sufficient incentives for commercial enterprise to ensure the Kiln can succeed, in the longer term, beyond the public funding package. The present position is that the Council has a legally binding agreement in place with the Kiln CIC to secure delivery of the economic outputs from the Worcester site. Assuming the project milestone is reached where the outputs have been satisfactorily met and all funding commitments are on track (eg loan, rent) the Council may then wish to review the level of involvement it has in the Kiln Worcester, as it would with any funded economic intervention.

3. Preferred Option

- 3.1 The Committee approve the re-profile of the Kiln outputs as set out in Appendix 1 and note the positive progress being made by the Kiln to deliver a unique and valued collaboration workspace in the city.

4. Alternative Options Considered

- 4.1 To do nothing would mean the Kiln CIC is unlikely to achieve outputs within the current timescales with a potential implication for the funding agreement between Worcestershire LEP and Worcester City Council.

5. Implications

5.1 Financial and Budgetary Implications

The funding arrangements for the Kiln are described in the report. There is a risk of clawback of the LEP funding if outputs are not met or reprofiled. At the present time the Kiln CIC is forecasting that it is affordable to begin payments of rent on the building in February 2022; should the financial position change adversely for any reason over the coming months, the Board of the Kiln CIC may need to request a review of the rent repayment date with the Council.

5.2 Legal and Governance Implications

There are no significant implications identified.

5.3 Risk Implications

Risks are reviewed at Board meetings; in common with many small businesses, the key risk that the Kiln faces relates to its financial viability. Ensuring it does not default on the terms of its agreements with funders will help ensure it remains financially viable in the longer term.

5.4 Corporate/Policy Implications

The Kiln project is still aligned with the Worcester City Plan 'a prosperous city' and with the Council's Covid economic recovery plans.

5.5 Equality Implications

None directly arising from this report.

5.6 Human Resources Implications

None directly arising from this report.

5.7 Health and Safety Implications

None directly arising from this report.

5.8 Social, Environmental and Economic Implications

The Kiln Co-working space continues to be an important asset in Worcester city centre providing affordable and flexible workspace for start-ups and small businesses; improving access to business support services; encouraging collaboration between businesses; and working in partnership with other city centre businesses.

The benefits and achievements of the Kiln will continue but re-profile of the outputs will help in the recovery from the impact of the COVID-19 restrictions.

Appendix 1: The Kiln outputs as at October 2021

Appendix 2: The Kiln Good News 2021

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Background Papers: None