

Title of Report	SUPPORTING OUR COMMERCIAL TENNANTS THROUGH COVID-19	
Presented to	Councillor Roger Bayliss Housing, Property and Customer Services Portfolio Holder	
Background Papers	Corporate Asset Management Strategy	Public Report: Yes
		Key Decision: Yes
Financial Implications	The maximum impact to the Council is £125,000 although it is anticipated that the actual financial impact will be much lower, with most commercial tenants only needing to make use of a 3 month rent holiday.	
	Signed off by the Section 151 Officer: Yes	
Legal Implications	As included in report.	
	Signed off by the Monitoring Officer: Yes	
Staffing and Corporate Implications	As included in report.	
	Signed off by the acting Head of Paid Service: Yes	
Purpose of Report	To seek approval for officers to provide a 3 month rent holiday to our commercial tenants, or a 3 months rent-free period for those in most need.	
Reason for Decision	To enable the Council to support businesses that rent a commercial unit from us and reduce the risk of long-term reduction in income from our commercial units.	
Recommendations	<p>THE PORTFOLIO HOLDER APPROVES:</p> <ol style="list-style-type: none"> 1. THE OPTION OF A 3-MONTH RENT HOLIDAY FOR OUR COMMERCIAL TENANTS IN NEED. 2. THE OPTION OF A 3-MONTH RENT-FREE PERIOD FOR OUR COMMERCIAL TENANTS IN MOST NEED, BY APPLICATION ONLY. 	

1.0 INTRODUCTION

- 1.1 The Council currently has 77 occupied commercial units that are let to 68 businesses or individuals. We charge tenants rent for these commercial units, plus additional charges for maintenance requirements or services they receive at the units. The units generate the Council an annual rental income of around £540,000, and generate surpluses of £300,000 that is reinvested into other Council services.
- 1.2 In the past two weeks 12 of our commercial tenants have requested some support as a result of the coronavirus pandemic. The requests vary in nature and include requesting:

- a) A rent holiday.
- b) Some form of rent relief.
- c) An end to their tenancy.
- d) Cancellation of the rent payment.

1.3 Our tenants may be able to benefit from the support Government has already announced, including:

- a) Relief on Business Rate Relief;
- b) Business Support Grants;
- c) Coronavirus loan schemes;
- d) Job retention scheme covering 80% of wages;
- e) Deferred tax payments; and
- f) Protection from eviction from commercial units if businesses miss a payment as a result of Covid-19.

Each form of support has its own eligibility rules.

1.4 The council is involved in administering the business rate reliefs and business support grants listed above. We will also abide by the protection from eviction offered to commercial tenants and carry out any evictions during this period. We have also suspended recovery of historic debt during this time.

1.5 This report sets out options for additional support that we could provide our commercial tenants. We are guided by the Council's Corporate Commercial Asset Strategy, which states that the council will maintain and maximise the income generated from commercial units. In the current national crisis, that means offering the right support to our tenants and businesses to enable them to reopen once the current restrictions on trading and emergency has passed.

2.0 OPTIONS TO PROVIDE ADDITIONAL SUPPORT TO OUR COMMERCIAL TENANTS

2.1 Whilst we have received contact from 12 tenants so far, we are aware that nearly all of the businesses in our commercial units are currently closed, so we expect uptake to be high. We have considered four potential options for us to support tenants and minimise lost income through this period:

- a) **Do nothing:** we expect commercial tenants to continue to pay. We will not be able to evict commercial tenants if they do not pay due to new government guidance, however tenants are required to lodge a deposit of three months' rent with us at the start of our tenancy which we would retain.
- b) **Rent holiday:** we provide tenants with the option to take a three month holiday from their rent. We will expect them to repay that rent over a longer period of time. Tenants lodge a 3 month deposit with us, so we expect most of this rent to be recoverable if the business does not survive.
- c) **One-off rent free period:** We offer tenants a 3 month rent-free period from April to June if they can evidence hardship as a result of the pandemic.
- d) **Manage non-collection of rent:** We request rent payments, but do not expect the payment and subsequently look to write off the debt if they are not recoverable. This is the agreed approach for our housing tenants.

Confidential Appendix A summarises the advantages and disadvantages of each of these options.

- 2.2 Our wider intelligence suggests that businesses across the district (as well as the nation) are struggling with cash flow at the moment. There is a chance that this could result in some businesses permanently ceasing to trade – although it is not possible to estimate how many of our commercial tenants are at risk.
- 2.3 Table 1 shows which option is likely to be best based on three different scenarios representing the health of the business renting a unit from us. Unsurprisingly it shows that the best response would be to target support at those that need it post.

Table 1: Our best options if we understand business' health

Category	1	2	3
Business' health	Will stop trading regardless of our support	Will continue trading with our support	Will continue trading regardless of our support
Best response	Option A: do nothing	Option B or C: rent holiday or rent-free period	Option A: do nothing
Rationale	We will be able to recover three months' rent from the deposit the tenant is required to lodge with us.	By providing support we will ensure the business' long-term survival, protecting our rents in the long term.	We would continue to gain our full rent

- 2.4 However, it will not be possible to obtain accurate information on the state of businesses. Therefore, in a situation where we do not know the health of the business offering either a means-tested rent-free period or a rent holiday is the best position, as it will result in businesses in both categories 2 and 3 in table 1 surviving. This in turn should maximise our income and also bring the wider benefit of helping some businesses to weather the storm.

3.0 RECOMMENDATION

- 3.1 The analysis above shows a rent-free period or a rent holiday being the optimal policy response in this situation. Officers therefore recommend offering a 3 month rent holiday for all those commercial tenants who request it, with the option of allowing a rent-free period of 3 months to those businesses who can demonstrate significant need for it.
- 3.2 Adopting this approach will reduce business' fixed costs whilst they are closed, making it easier for them to reopen as a viable business in the future. This should increase business owner's confidence to keep their business running through the emergency.
- 3.3 The council has always acted as a fair commercial landlord and following the suggested option will ensure that approach continues. This is likely to be something which tenants view positively in the future when the commercial unit market will be competitive.
- 3.4 Our losses as a council will also be minimised. If we were to offer a 3 month rent-free period to all tenants we could expect to lose circa £125,000 in income in 2020-21. But limiting the number of businesses we offer this option to would reduce this, but it will not be possible to estimate the precise cost until businesses have applied.

4.0 ADMINISTERING THE RELIEF

- 4.1 The details of the council's approach to administering the relief policy are contained within confidential Appendix B.

5.0 RISKS

5.1 We have designed this support so that risks are relatively minimal. Table 2 shows the risks associated with the policy and how we have mitigated them.

Table 2: Risk register for support to commercial properties

Risk	Likelihood	Impact	Risk Score	Mitigation	Post-mitigation score
The rent holidays will threaten the Council's cash flow position	5	1	5	Finance are closely monitoring our cash flow position. Delaying rent payments will have a negative effect, but the impact of £125,000 over 3 months is not significant compared to our other cash flows.	1
We will not be able to recover to debt	3	1	3	Commercial tenants provide a deposit of three months at the start of the lease. This should enable the vast majority of any bad debt to be recovered.	1
Tenants fraudulently request assistance	2	1	2	With most commercial tenants getting a rent holiday, there is little risk of loss to the council. On a rent free period, the risk is reduced by having an application process administered by a multi-disciplinary team, and by minimising the number of applications.	2
Delivery challenges, due to: - Number of applications - Staff availability	3	2	6	Multiple teams involves to reduce burden.	4

Policies and other considerations, as appropriate	
Council Priorities:	Support for businesses and helping people into local jobs
Policy Considerations:	This report is in line with the Corporate Asset Management Strategy.
Safeguarding:	None.
Equalities/Diversity:	None.
Customer Impact:	This policy is a direct response to the impact Covid-19 could be having on our commercial tenants.
Economic and Social Impact:	This policy will have a minor positive economic and social impact, by supporting our commercial tenants to continue trading through this difficult period.
Environment and Climate Change:	None.
Consultation/Community Engagement:	Some commercial tenants have been in touch with us requesting assistance. This policy is in line with some

	of the requests we have received.
Risks:	The risks are detailed in section 5 of this report.
Officer Contact	Tracy Bingham, Head of Finance and Section 151 Officer Tracy.bingham@nwleicestershire.gov.uk 01530 454 707