

**REPORT OF THE ASSISTANT DIRECTOR OF ECONOMIC REGENERATION**

**BUSINESS CENTRES UPDATE**

**1. Purpose of the report**

- 1.1 To provide Members with the current position on the Council's business centres - Evolve Business Centre (Evolve), Sunderland Software Centre (SSC) and Washington Business Centre (WBC) - including an overview of the impact of COVID-19, and an update on progress in relation to the operational management of the centres.
- 1.2 The report follows previous reports to Scrutiny Committee, the latest of which was for the meeting held on 11 February 2020. Prior to 2020, a report was brought to Scrutiny Committee on 18 November 2018.
- 1.3 As an overview:
  - Section 2 provides background on the context within which the Business Centres are operated
  - Section 3 gives an overview of each of the Business Centres including a mini case study of one of the centre's businesses
  - Section 4 sets out the financial and occupancy position in relation to each of the centres including the impact of COVID-19
  - Section 5 summarises progress in relation to the new operating model
  - Section 6 provides a short conclusion.

**2. Background**

- 2.1 Sunderland City Council has three business centres which are managed in-house by a dedicated team, which is part of the Council's Business Investment Team. These are Evolve, SSC and WBC.
- 2.2 The business centres are intended to provide more than just office, workshop and hybrid employment space. Their purpose is to contribute to the diversification and growth of the economy in Sunderland by ensuring that there is a supply of appropriate spaces, and infrastructure, to meet demand for high quality small and growing businesses. Each of the business centres provides differentiated services targeted at a specific market sector designed to generate specific economic benefits.
- 2.3 The business centres are part of a wider offer across the North East. They are one component among a wide range of interventions intended to increase Sunderland's competitiveness in both attracting to Sunderland high quality jobs and businesses and supporting their development within the city.

### 3. Overview of Business Centres

- 3.1 This section gives a brief overview of each of the business centres.
- 3.2 Evolve was completed in 2006, a £10m investment, part funded by the European Regional Development Fund (ERDF). It provides 32,000 square feet of high-quality accommodation including incubator space for small firms, with scope to accommodate companies in a range of office sizes to meet the needs of individual businesses. Office sizes currently range from 180 to 4,048 square feet. Evolve performed well before the pandemic, both in terms of rental income and occupancy, and supporting helping multiple companies grow.

<b>Key facts:</b>	Number of employees based at Evolve	140
	Number of new jobs created during 2020/21	10
	Number of businesses expanding during 2020/21	4

Numbers as at end of October 2021.

#### Mini case study:

Evolve-based company Clixifix® is a cost-effective defect and repair resolution software application. They opened an office at Evolve in 2018 and have grown from inception from 2 to 22 employees.

Clixifix® is currently used by Housebuilders, landlords and property managers across residential, commercial, and social sectors throughout the UK and abroad, to identify defects during and post construction. They have over 70,000 users and have resolved over 1m housing and construction defects at much earlier stages resulting in financial savings for their customers. They were winners of the NE Business Awards 2017 and have been shortlisted and finalists for a number of technology and construction related award schemes.

Since 2006 Evolve has provided a home for over 70 companies, which have created approximately 500 jobs. A number of businesses based in Evolve over the years have spun out new companies, gone on to be acquired by larger companies, or moved out into the wider city and regional economy.

- 3.3 Sunderland Software Centre was completed in 2012, a £9m investment, part funded with European Regional Development Fund (ERDF). It provides 37,582 square feet of high-quality incubator space with scope to accommodate companies in offices that range from 130 to 2,027 square feet. The Centre has unfortunately not performed as well in terms of its projected targets, with occupancy and rental incomes below anticipated levels. Prior to the pandemic, SSC achieved 75% as its maximum occupancy. It is located at the edge of the City Centre, which has historically had almost no new office space. Whilst not achieving the levels of occupancy originally anticipated, it has provided a high-quality environment for technology focused companies with much needed, flexible workspace in the City Centre. With the development of The Beam and other offices as part of the wider Riverside Sunderland development there is now the prospect of an improving wider

market environment which may assist in attracting more businesses into the City, allowing SSC to operate more competitively with increased occupancy and rental incomes.

<b>Key facts:</b>	Number of employees based at SSC	80
	Number of new jobs created during 2020/21	7
	Number of businesses expanding during 2020/21	3

Numbers as at end of October 2021.

Mini case study:  
 SSC based company Kerkchoffs opened an office in 2017 and has since grown from 1 to 3 employees. Kerckhoffs Ltd is a software related company offering consultancy services, it also has a digital platform with its product Eyemmersive a visual/augmented reality product providing a live travel experience with a number of different applications – for example those with accessibility issues can undertake a virtual trip before deciding if the destination is suitable for them to visit in person, business travelers wanting to understand the nature of a destination can check it out before they make their business visit. Kerckhoffs have received support from Innovate UK towards the development of Eyemmersive and have been shortlisted for several awards.

- 3.4 WBC was completed in 2014, a £6m investment funded by the Working Neighbourhood Fund (WNF) and ERDF. It provides 42,557 square feet of high-quality accommodation including 13 workshops, 7 hybrids and 24 offices. Workshops range from 735 to 1,639 square feet, hybrids from 190 to 1,394 square feet and offices from 496 to 1,398 square feet. There is consistently strong demand for the workshop and hybrid facilities, whereas it has been more difficult to achieve higher occupancy for the offices.

<b>Key facts:</b>	Number of employees based at WBC	146
	Number of new jobs created during 2020/21	19
	Number of businesses expanding during 2020/21	6

Numbers as at end of October 2021.

Mini case study:  
 Turnmill Engineering was established in 2018 and chose to set up in a workshop at Washington Business Centre. The company, which provides precision turning and milling, had three founding employees all skilled in the engineering industry. In 2020, expanding quickly, they took on a further workshop and have diversified into fabrication and have grown their employees from 3 to 7. They cover local, national, and international markets.

#### **4. Financial and Occupancy Performance Information**

- 4.1 This section sets out the overall position for the business centres for 2020/21 and projections for 2021/22, as well as financial and occupancy information in respect of each individual business centre.
- 4.2 All of the business centres have been severely impacted operationally by the coronavirus pandemic and there is still uncertainty in terms of the medium to longer term impact. The team has had to manage the changing requirements of businesses as they reassess their own accommodation requirements, with some companies going back to working from home, many now working in a more hybrid/blended way, and a few unfortunately going out of business. To a certain extent, these changes have also created opportunities for stimulating new occupiers and lettings as business owners readjust their current business models. Anecdotally there is a desire from companies to return to their office bases as they miss the benefits of face-to-face interaction and collaboration. This is reflected in a gradual increase in the number of businesses / employees coming back into their offices. Many businesses are expected to have a hybrid/blended approach to working going forward, and some are moving to virtual tenancies to give them time to assess business need. There have also been ongoing additional costs in keeping the business centres Covid secure.
- 4.3 The overall financial position for all business centres for the financial year 2020/21 is summarised below.

	Budget (£)	Actual(£)	Variance (£)
Expenditure	1,532,827	1,376,277	156,550
Income	1,434,773	1,016,868	(417,905)
TOTAL	(98,054)	(359,409)	(261,355)

As set out earlier in the report the 2020/2021 financial position was adversely affected by the continuing impact of the Covid-19 pandemic on businesses and use of the business centres. The deficit for 2020/21 was funded from the overall council outturn position.

- 4.4 The 2021/22 projected position across all three business centres is as follows:

	Budget (£)	F'cast (£)	Variance (£)
Expenditure	1,413,898	1,391,054	22,844
Income	1,446,457	1,076,896	(369,561)
TOTAL	32,559	(314,158)	(346,717)

The 2021/22 projection (using financial information to end of October 2021) is a £346,717 deficit, which is intended to be funded from earmarked reserves which were established to support the financial position of the business centres. The forecast deficit is a worsening position from 2020/21, reflecting reductions in occupancy linked to the pandemic as well as reductions of conference / meeting room income across all three centres but particularly at Evolve.

- 4.5 The individual business centres' financial positions and occupancy performance are detailed below.

4.6 Evolve

- 4.6.1 Of the three business centres Evolve has been impacted the most from a financial perspective. It has lost more businesses, some of which have chosen to work fully from home, others which have moved to virtual tenancies, and others which unfortunately have gone into administration. The occupancy level has reduced from 98% at the end of the financial year 2019/20 down to 69% at the end of October 2021, and the position is still fluid. The reduction in occupancy has resulted in reduced rental income, while the national lockdowns and restrictions as a result of Covid-19 have impacted on conference and meeting room space rental income which was a significant income stream in previous years.

- 4.6.2 Evolve has attracted one new business this year and the team have been working on other opportunities to increase income. From April 2021, rental levels for new tenancies have been increased from £25.00 to £27.00 per sq. ft (rent and service charge combined). The team is also looking at opportunities to reduce expenditure and Evolve has benefitted from reductions in utilities costs, due to LED lighting having been installed in 2020 with PV panels and battery storage planned

to be installed in 2021. Evolve is also one of two test locations as part of the council's Low Carbon innovation project being developed with the Digital Catapult which is seeking to reduce energy costs and carbon emissions.

- 4.6.3 Although the position is uncertain, it is anticipated that occupancy levels will get back to pre-Covid levels by the end of financial year 2022/23, which will improve income levels.

- 4.6.4 The financial position for Evolve for 2020/21 was as follows:

2020/21	Budget (£)	Actual (£)	Variance (£)
Expenditure	597,962	528,255	69,707
Income	700,082	461,623	(238,459)
TOTAL	102,120	(66,632)	(168,752)

- 4.6.5 The projected financial position for Evolve for 2021/22 is as follows:

	Budget (£)	F'cast (£)	Variance (£)
Expenditure	592,427	584,454	7,973
Income	692,082	537,133	(154,949)
TOTAL	99,655	(47,321)	(146,976)

## 4.7 SSC

- 4.7.1 SSC has suffered significantly financially during the pandemic. This is as a result of most of its business not using their office accommodation and working from home during the pandemic, with many still not returning or choosing to switch to virtual tenancies, which has for many companies become the new norm.
- 4.7.2 Prior to the pandemic it was confirmed SSC would lose one of its anchor tenants, which previously rented 20% of the overall centre accommodation. The business relocated in mid-2020, although it has chosen to retain a small office in SSC. Another business from the centre moved into its own building in Sunderland City Centre, fulfilling a long-time aspiration to have its own city centre premises.

- 4.7.3 Occupancy at SSC reduced from 71% at the end of the financial year 2019/20 down to 34% at the end of October 2021. The business centre is still quiet, but we have recently seen the return of more companies, and an upturn in enquiries for office space. Although some companies are still finding trading conditions very difficult, we have experienced low levels of companies going into administration.
- 4.7.4 Base rate rents for new tenants at SSC has been increased from April 2021 to £14.00 sq ft with a service charge of £8.00 sq ft in addition. Expenditure has been reduced by £90,000 per annum by remodelling the security provision and savings are being achieved on utilities costs due to LED lighting installed in 2020 with PV panels and battery storage due to be installed in early 2022.
- 4.7.5 SSC has attracted two new business during the pandemic and is looking for other opportunities to increase income appropriately whilst ensuring that occupancy of the SSC remains attractive and a viable location for businesses. Significantly, the Council has recently entered into a 5-year lease agreement for 18,000 sq ft of space within SSC to be rented to the Department of Work and Pensions (DWP) as part of the Government's activity to facilitate post Covid recovery. This will provide much needed support to residents who may have lost their jobs during the pandemic. The lease will bring in circa £400,000 per annum in rent and service charge, increasing occupancy to 69%. The DWP will have their own separate entrance on Laura Street with work having begun to fit out their space from the end of November. The time-limited lease has been agreed as an exception to allow this important work by DWP to take place within SSC in parallel to its core function which remains focused on supporting business start-up, growth and innovation to grow the city's software and technology sector.
- 4.7.6 Although the position remains uncertain it is anticipated that occupancy levels (including the DWP occupancy) will return to or exceed pre-Covid levels, by the end of financial year 2022/23.

4.7.7 The financial position for SSC for 2021/21 was as follows:

2020/21	Budget (£)	Actual (£)	Variance (£)
Expenditure	603,158	529,523	73,635
Income	392,208	241,448	(150,760)
TOTAL	(210,950)	(288,075)	(77,125)

4.7.8 The projected financial position for SSC for 2021/22 is as follows:

	Budget (£)	F'cast (£)	Variance (£)
Expenditure	538,752	520,155	18,597
Income	410,690	206,191	(204,499)
TOTAL	(128,062)	(313,964)	(185,902)

#### 4.8 WBC

4.8.1 Of the three business centres, WBC has been the least adversely affected financially through the pandemic. The diversity of the accommodation (offices, workshops and Hybrids) separates it from the other business centres. Businesses operating from hybrids and workshops were mostly unable to work from home and therefore continued to work primarily from the business centre following an initial period between 23 March 2020 and 30 April 2020 for workshops and hybrids and 23 March 2020 and 18 May 2020 for offices, when all three business centres were closed. The offices are the accommodation that is hardest to let at WBC and many of the office-based companies did switch to home working. However, throughout the pandemic, the business centre continued to be relatively busy overall with many of the companies gaining new business, some diversifying into Covid related activities. For example, one engineering company made ventilator parts and another company made all of the signage for one of the Nightingale hospitals.

4.8.2 Occupancy at WBC was at 68% at the end of the financial year 2019/20 and 64% at the end of October 21. Savings are being achieved on utilities due to LED lighting being installed in 2020 and PV panels and battery storage being installed in early 2022.



4.8.3 The financial position for WBC for 2020/21 was as follows:

2020/21	Budget (£)	Actual (£)	Variance (£)
Expenditure	331,707	318,499	13,208
Income	342,483	313,797	(28,686)
TOTAL	10,776	(4,702)	(15,478)

4.8.4 The projected financial position for WBC for 2021/22 is as follows:

	Budget (£)	F'cast (£)	Variance (£)
Expenditure	282,719	286,445	(3,276)
Income	343,685	333,572	(10,113)
TOTAL	60,966	47,127	(13,839)

## **5. Progress in relation to the new Operating Model**

5.1 It was agreed in 2019 to review the operating model of the Council's Business Centres and opportunities to consolidate various aspects of delivery. A third-party specialist was appointed to support this process and, during this period, significant changes and improvements have been implemented to the management and operation of the business centres. These include:

- The introduction of regular monthly strategic management meetings between Centre Management and the third-party specialist to look in depth at all aspects of operation, and to pool and share good practice. This has led to the standardisation of systems and procedures across all three centres, more flexible deployment of staff and more effective use of time as staff can carry out responsibilities in relation to any of the centres wherever they are based, and more effective joint working increasing the team's ability to retain business from external enquiries (for office or meeting space) within the three business centres.

- Reshaping the staff team roles and responsibilities, including front of house at SSC and Evolve, recruiting new team members and creating one central dedicated team (moving away from the model of reception cover provided centrally through Business Support), introducing a single line management reporting structure (following financial efficiencies achieved at centre management level, as a result of the retirement of one centre manager).

- Working to improve the visibility and promotion of the Business Centres through the development of new websites and letting processes. Dedicated business centre websites are set to go live during December 2021.

- Seeking to broaden the business model for the Software Centre to target some lettings to companies looking to take longer term leases whilst still retaining the remainder of space for more flexible shorter-term arrangements.

5.2 Significant progress has been made despite the additional challenges associated with the pandemic. Work is ongoing and it is anticipated that both the economic impact and the financial performance of the business centres can be significantly improved during the 2022/23 financial year.

5.3 Post Covid, there are also expected to be new opportunities for the business centres in terms of supporting business growth. Many employers are being encouraged to adopt more flexible working practices, to support better work-life balance, as well as to contribute to carbon reduction by cutting down on commuting and reducing pressure on the road network as confidence increases in public transport post pandemic. The relationship between home and office workplaces is changing. This provides opportunities for the business centres which have high-quality meeting and collaboration spaces, are located in close proximity to a range of residential neighbourhoods, bring together communities of like-minded businesses, and offer distinctive opportunities to enhance the business centre service offering across Sunderland.

5.4 Overall, the aim of this continuing programme of improvement work is to ensure that each of the business centres achieves the maximum economic impact for Sunderland, as the region as a whole seeks to recover from the impact of the pandemic. The team will continue to measure economic impact and benefit. There are opportunities to build on performance to date, with ongoing benefits each year to be captured in terms of jobs created, spin-out businesses and growing companies.

5.5 The approach will include enhanced marketing and social media as well as enquiry handling, with a very strong approach to customer relationship management, and identifying economies of scale. With a new team structure now embedded, standardised operating procedures in place, a continued focus on increasing income and reducing expenditure, and a programme of training and support scheduled to continue until March 2022, the impact should result in increased performance, significantly enhancing centre management for the 2022/23 financial year. Close interaction with the wider Business Investment Team remains important in making the business centres a location of choice for new and growing companies across the city.

## **6 Conclusion**

- 6.1 Whilst the business centres operated at an overall loss during 2021/21 and are forecast to do so during the current year they have continued to deliver wider economic benefits to the city through supporting companies to grow and provide high quality jobs.
- 6.2 In relation to SSC, there has unfortunately been consistently lower demand for office space than anticipated, particularly for the larger offices. The rental price, which was set when SSC opened at a level designed to attract businesses and accelerate occupancy levels was maintained in order to optimise occupancy and rental income. SSC, which is home to Sunderland Software City and the Digital Catapult for the North East & Tees Valley, has however played an important role in positioning Sunderland as a centre of innovation and key location for software and technology businesses, with clear links to Sunderland's Smart City Strategy which will continue to be developed pro-actively in parallel to supporting residents to access employment through engagement with DWP at its new city centre base.
- 6.3 The ongoing improvement programme, including enhanced marketing through dedicated websites, is designed to raise awareness of the centres and what they have to offer. This should increase enquiries, and resultant lettings, therefore improving the financial position across all three business centres.
- 6.4 As we seek to kickstart the local economy in a post-pandemic context, our business centres are importantly positioned to provide the capacity and resources to support local business growth. There is a real opportunity to maximise improved staff resources within the new team structure to increase business occupancy and growth. The business centres have historically provided significant economic value to the city and can continue to do so as they adapt to the new and emerging requirements of businesses and employees.

## **7 Recommendation**

- 7.1 That the report be noted.