

**REPORT OF THE HEAD OF INTERNATIONAL RELATIONS, BUSINESS
ENGAGEMENT AND INVESTMENT**

BUSINESS CENTRES OVERVIEW – PROGRESS REPORT

1. Purpose of the Report

- 1.1 To provide an update on Evolve Business Centre, Sunderland Software Centre and Washington Business Centre.

2. Background

- 2.1 Sunderland City Council has three business centres which are managed by the Business Investment Team. These are Evolve, the Software Centre and Washington Business Centre.
- 2.2 This report has been prepared to provide an overview of the performance of the three business centres including current financial information and an overview of actions which are being taken to increase occupancy and improve the overall financial position. The report includes financial information on annual running costs and projected income figures for each centre, followed by measures that have been taken, or are being progressed or considered within each centre, in terms of both increasing income and reducing expenditure.
- 2.3 An overview of the financial position for each of the centres is provided in section 3. This is followed in section 4 with information on measures to reduce expenditure and increase income.
- 2.4 This work is being taken forward by the Business Investment Team set within the context of seeking to provide a high quality service for businesses in key sectors in the centres and an environment in which they can thrive and grow, and being on hand to offer support and advice.
- 2.5 The centres are there to provide more than just office, workshop and hybrid accommodation. They are striving to bring added value to the working experience by providing a vibrant environment for tenants to work in, which includes networking and socialising opportunities and facilitates collaboration.
- 2.6 The report follows earlier reports to Scrutiny Committee which have primarily focused on the number and nature of businesses choosing to locate within the centres.

3. Overview

Evolve Business Centre

- 3.1 Evolve Business Centre was a £10m investment in 2006 and was part funded by the European Regional Development Fund. Occupancy stands at 99% at end January. It provides 32,000 square feet of high quality accommodation with scope to accommodate companies in a range of office sizes to meet the needs of the individual businesses. Office sizes currently range from 180 to 5,000 square feet. A range of businesses are interested in taking more space once this becomes available as a result of plans by one of the current tenants to relocate to other premises.
- 3.2 The budget for the running costs of Evolve in 2017/18 is £786,858. The budgeted income from rent and service charges from businesses (based on 95% occupancy) and room hire is £701,080. There has been a one-off business rate rebate which has funded Health and Safety works and broadband costs in this financial year and which should ensure that Evolve has a balanced budget for this financial year.

Software Centre

- 3.3 The Software Centre was a £9m investment and was completed in 2012. It was part funded with resources from the European Regional Development Fund. The Centre provides 37,582 square feet of high quality accommodation with scope to accommodate companies in offices that range from 130 square feet to 2,027 square feet allowing the team to respond to the needs of the individual businesses. Occupancy levels within the Software Centre at end January 2018 are 66.5% with 26 private sector companies located in the Centre, and the team is continuing to work to achieve the year-end target of 70%.
- 3.4 The budget for the running costs of the Software Centre in 2017/18 is £669,689, including ICT costs from the period prior to the Managed Service Provider contract being re-tendered. The budgeted income from rent and service charges from businesses and room hire is £581,678. At the time the Software Centre was built it was recognised that such centres take a period of time to reach full occupancy; this was reflected in the Council's experience at Evolve. A reserve was therefore set aside to meet any shortfalls in income and to smooth the impact of under occupancy during this period.

Washington Business Centre

- 3.5 Washington Business Centre was a £6m investment funded by the Working Neighbourhood Fund (WNF), and European Regional Development Fund,

(ERDF), which opened in 2014. The centre provides 42,557 square feet of high quality accommodation with an offer which includes 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. This enables a flexible approach related to individual company needs. Occupancy levels at Washington Business Centre at end January 2018 stand at 62%. Based on existing enquiries, as well as plans for several tenants expected to take up occupancy before the year end, occupancy is expected to increase to 69% shortly.

- 3.6 The budget for the running costs of the Centre in 2017/18 is £280,465, (based on 63% occupancy). The budgeted income from rent and service charges from businesses and room hire is £316,990. Any surplus will be set aside to meet future maintenance needs. As occupancy increases in the future, running costs will also increase, however it is predicted that the Centre will continue to break even and cover required maintenance costs as and when needed.

4. Reducing expenditure and increasing income

We have adopted a proactive response to increasing income and reducing expenditure in all of the centres and are increasingly moving to manage the financial position collectively across all three centres with greater collaboration.

Examples of the proactive approaches being taken are detailed below, taking each centre in turn.

Reducing expenditure - Evolve Business Centre

- Despite having a positive overall budget position the team continues to strive for increased value for money across all running cost activities. Evolve, as the oldest of the 3 business centres, requires considerable expenditure for planned and reactive maintenance of circa £100,000 per year. The contracts for planned and reactive maintenance have been renegotiated and will, from April 2018, be placed under a Service Level Agreement (SLA) with Building Services within the Council. This will reduce the expenditure per annum on these services.
- Proposals are also being taken forward to introduce more energy-efficient lighting within the centre, which will result in reduced energy costs following the initial capital investment.

Reducing expenditure - Software Centre

- One of the most significant costs for the Software Centre has been the cost of ICT connectivity at £145,000 per year. This was delivered under contract by IBM. However from September 2017 this contract has been

re-procured as a collective contract covering all three business centres, with savings of just over £100,000 per year. These savings will be reflected fully in next year's running costs.

- The Software Centre and Washington Business Centre are now managed under one post reducing the salary expenditure within the running costs of the Software Centre.
- The levels of security required at the Software Centre are being considered to see if cover can be reduced during office hours and substituted with an apprenticeship to cover Front of House responsibilities as part of the Council-wide approach linked to implementation of the apprenticeship levy.
- The contracts for planned and reactive maintenance will, from April 2018, be placed under a Service Level Agreement (SLA) with Building Services within the Council. As with Evolve, this will reduce the expenditure per annum on these services. We will consider further shared approaches across all three Business Centres where these could deliver increased financial efficiencies.

Reducing expenditure - Washington Business Centre

- The contracts for planned and reactive maintenance will, from April 2018, be placed under a Service Level Agreement (SLA) with Building Services within the Council. As with the two other business centres, this will reduce the expenditure per annum on these services. We will consider further shared approaches across all three Business Centres where these could deliver increased financial efficiencies.
- A decision to combine staffing resources across the Software Centre and Washington Business Centre, and set Washington Business Centre up as an office base for a member of the wider Business Investment Team, has contributed to being able to forecast that the Centre will break even during this financial year.

Increasing income - Evolve Business Centre

- Marketing of the rooms and conference facilities will be strengthened to ensure that awareness of what the centre has to offer remains high. Marketing of the Centre is taken forward as part of MAKE It Sunderland, and work will continue to be developed on an ongoing basis to ensure Evolve remains seen as a vibrant place to work or meet.

Increasing income - the Software Centre

- The Software Centre has a new marketing plan which has a strong digital focus at its heart, ensuring it meets the needs of the target software and technology audience.

- The Centre has a full events programme which is shared with tenants on a month by month basis, to increase vibrancy within the centre and showcase the centre to prospective new tenants.
- Flexibility into the way the team approaches letting of space is ensuring that we can meet the varying needs of tenants, for example we offer staged occupancy on larger rooms. This is important, given that room sizes cannot be adjusted structurally in the Software Centre in the way which they can be at Evolve, both to support business growth, and to free up smaller rooms which can be then be re-let to earlier stage businesses.
- As part of the digital marketing approach we will start to market our office spaces and meeting rooms digitally. This fits the software and technology target market we are seeking to engage with and is designed to increase uptake and therefore income.
- The Software Centre offer for meeting rooms now includes twilight sessions and is also available at weekends in order to increase potential rental income.

Increasing income – Washington Business Centre

- A refreshed marketing approach is being developed for Washington Business Centre in conjunction with Corporate Affairs & Communications, which will include a digital aspect to maximise the impact which can be achieved with limited resources. This will focus particularly on the office space available within the centre.

5 Conclusion

- 5.1 The development of the business centres by the Council has been a significant driver in attracting new businesses from several of the priority sectors set out in the Economic Masterplan (Software, Manufacturing, and Low Carbon). They provide bespoke accommodation and there are a broad range of examples of how businesses within the centres have been supported to establish themselves, thrive and grow. The businesses centres contribute to the achievement of the Council's business investment and economic development objectives.
- 5.2 It is widely recognised that new business accommodation takes time to reach full occupancy. Generally, new centres first need to build up a few established clients and gain a positive reputation as a good place to do business before they gain momentum and attract and retain more tenants. It took Evolve almost 8 years to reach its current occupancy levels. The Software Centre and Washington Business Centre are both increasing their occupancy levels in line with Corporate Plan occupancy targets.

- 5.3 The Centres, in addition to their contribution to economic development objectives, provide important assets for the Council with a collective value, based on build costs, of £28m investment. Funding from the European Regional Development Fund was equivalent to half of this total. As assets they should also increase in value.
- 5.4 Ensuring the Centres are well run and maintained to a high standard, whilst working to ensure value for money, is an on-going challenge. The market in which they are operating is extremely competitive and this, together with their remit as an economic development tool, influences the levels of rent that be charged.
- 5.5 Considerable progress has been made within the last 12 months both to increase occupancy and income and to reduce expenditure, as has been illustrated, most notably with the re-procurement of ICT Managed Service Provision across the three centres. The projected achievement of break-even point during 2017/18 at Washington Business Centre is also significant.
- 5.6 It is acknowledged that efforts need to continue and it is expected that the tactical marketing approach which has been developed with colleagues in Communications and Corporate Affairs, with a particular focus on digital marketing, will assist the team in continuing to make further progress.

6. Recommendations

- 6.1 The Scrutiny Committee is asked to consider and comment on the contents of the report.

7 Glossary

None

8 Background Papers