

REPORT OF THE ASSISTANT DIRECTOR OF ECONOMIC REGENERATION

BUSINESS CENTRES OVERVIEW – PROGRESS REPORT

1. Purpose of the report

- 1.1 To provide a progress report on Evolve Business Centre, Sunderland Software Centre and Washington Business Centre, including an update on latest developments in relation to strengthening the business centre offer and building on the achievements to date.
- 1.2 The report follows previous reports to Scrutiny Committee, the latest of which was for the meeting held on 18 November 2018. Prior to 2018, reports primarily focused on the number and nature of businesses choosing to locate within the centres, however later reports have focused primarily on finance and occupancy.
- 1.3 This report provides background on the context within which the Business Centres are operated in Section 2, gives an overview of each of the Centres in Section 3, sets out the financial and occupancy position in relation to each of the Centres in Section 4. It then summarises the work which has been progressed in relation to maximising income and reducing expenditure in Section 5 before covering the wider economic impact of the centres in Section 6. Section 7 summarises work which has begun as part of new arrangements which have been put in place to help identify and enable further improvements. The report ends with a short conclusion in Section 8.

2. Background

- 2.1 Sunderland City Council has three business centres which are managed by the Business Investment Team. These are Evolve Business Centre, Sunderland Software Centre and Washington Business Centre.
- 2.2 The centres 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 facilitates collaboration and cross fertilisation by providing business, networking and socialising opportunities. This work is being taken forward by the Business Investment Team as part of the Council's investment in business growth in the city to provide a high-quality service for businesses in key sectors in the centres, to stimulate growth through the provision of an environment in which businesses can thrive coupled with related support and advice.
- 2.3 The business centres developed by Sunderland City Council to promote the diversification of the local economy are competing with a growing range of

comparable facilities throughout the region as well as within the city itself. New and expanding enterprises have a wide choice of high-quality accommodation at different locations. Competition is particularly strong from Newcastle-Gateshead, recognising the main regional centre's historic role as the principal focus of office-based business activity in the North East, and the efforts of public agencies to attract leading-edge digital and emerging technology enterprises.

- 2.4 Newcastle Helix (previously known as Science Central) is home to a range of facilities, including The Core, which offers incubation space for science and technology businesses, and the Lumen which has 107,639 square feet of office and incubation space, with the emphasis on fostering collaboration between anchor tenants and co-located emerging enterprises.
- 2.5 The Baltic Business Quarter in Gateshead is similarly home to a number of buildings, including the Northern Design Centre, which offers space for companies engaged in digital design, and hosts the North East & Tees Valley Immersive Technology Lab. Also, on Baltic, Baltimore House provides workspace for digital technology companies, and is home to the VRTGO labs (the virtual & augmented reality centre of excellence for the region). The most recent addition to the Baltic is PROTO, which is a new centre for businesses engaged in digital and emerging technology, with advanced R&D facilities for companies.
- 2.6 Within Sunderland itself, for example we have the North East Business Innovation Centre with its two locations, the University of Sunderland's facilities at Hope Street Xchange and St Peter's Gate, as well as the new private sector offering at St Thomas Street in the city centre.
- 2.7 Against this backdrop, it is more important than ever that our business centres retain their competitive edge, not only as a basis for attracting additional occupiers but also to retain existing tenants which, due to the nature of the tech sector, are highly mobile.

3. Overview of Business Centres

- 3.1 This section gives a brief overview of each of the centres.
- 3.2 Evolve Business Centre 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.
- 3.3 Sunderland Software Centre was completed in 2012, a £9m investment, part funded with resources from ERDF. It provides 37,582 square feet of high-quality incubator hub with scope to accommodate companies in offices that range from 130 to 2,027 square feet. Flexible terms can be provided for

tenants enabling them to grow and move into bigger offices and potentially to then consider their own stand-alone accommodation

- 3.4 Washington Business Centre 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, seven 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; providing a flexible approach related to individual company needs.

4 Financial and Occupancy Information

- 4.1 This section sets out the financial and occupancy information in respect of each centre.
- 4.2 It is important to note that, reflecting the Council's experience with Evolve, it was recognised at the time the Software Centre was built that business centres take a period of time to reach full occupancy. A reserve was therefore set aside at this stage to meet shortfalls in income and to smooth the impact of under occupancy during this period as part of the Council's investment in business growth, and this provision continues to meet what is required.
- 4.3 The budget for the running costs of Evolve in 2019/20 is £540,596. The budgeted income from rent and service charges from businesses and room hire is £700,082. The year-end position for 2018/19 required the use of £174,975 of the allocated reserve. This was due to significant re-modelling after a large company vacated the building with a loss of income while the work was being undertaken. In addition to re-purposing the office accommodation, a number of improvements have been needed including, installation of a new electric car charging point and replacement of the old 'end of life' Wi-Fi infrastructure with a newer, faster system. Facilities in the toilets needed replacing together with work to the staircase balustrades and fencing of the outside pond. Maintenance costs for Evolve tend to rise year on year as the building ages, in order to maintain or replace things that have reached the end of their economic life or have broken down. 2019/20 has seen significant investment in upgrading the ICT in the centre, refurbishing tenant accommodation to enable it to be re-let to new tenants, replacing original furniture, carpets and blinds, which had worn out. We have also had an electronic sign-in system installed to improve the welcome experience visitors to the centre receive.
- 4.4 Occupancy at Evolve Business Centre at year-end 2018/19 was 95% and stands at 95% again at the end of January 2020. Occupancy remains strong despite some larger companies moving out during this period, balanced out in time by others moving in. There are 44 private sector companies located at Evolve, with a small waiting list for office spaces at the centre.
- 4.5 The budget for the running costs of the Software Centre in 2019/20 is £614,571. The budgeted income from rent and service charges from

businesses and room hire is £392,208. The year-end position for 2018/19 required the use of £18,460 of the allocated reserve, to cover major repairs which needed to be undertaken following a sustained period of leaking water from the roof, including repairs to the roof itself, internal decoration and replacement carpets. Maintenance costs have increased as the centre gets older, and in 2019/20 we have invested in painting the communal ground floor areas in order to ensure the Software Centre remains fresh and vibrant. As at Evolve, we have also had an electronic sign-in system installed to improve the welcome experience for visitors to the centre.

- 4.6 Occupancy at the Software Centre at year end 2018/19 was 60% and stands at 74% at the end of January 2020. This has been a strong period of growth in occupancy at the centre, with the Software Centre currently at its highest occupancy level to date. There are 29 private sector companies located in the centre, occupancy has steadily increased since the last report, and we have a strong pipeline of prospective tenants. Marketing and social media activity are both key to continuing to raise the profile of the centre and to generating a sense of vibrancy and community among companies within the centre which has proved to be a key element in supporting and enabling business growth. The year-end target for 2019/20 is 80%, increased from 75% from 2018/19.
- 4.7 The budget for the running costs of Washington Business Centre in 2019/20 is £294,809. The budgeted income from rent and service charges from businesses and room hire is £341,334. The year-end position for 2018/19 required the use of £46,747 of the allocated reserve. The 2018/19 year has required additional staffing in order to improve the service offered to tenants and visitors, and to adjust for increased occupancy, as well as an increase in maintenance costs as the centre ages. The 2019/20 year has again required more maintenance expenditure as things start to wear out. We have invested in new furniture for the reception area, an electronic sign-in visitor system and electronic notice boards to ensure the centre offers a professional welcome, and feels modern and attractive to visitors, prospective tenants and tenants alike.
- 4.8 Occupancy levels at Washington Business Centre at year end 2018/19 were 68% and stand at 66% at the end of January 2020. There are 24 private sector companies located in the centre. Occupancy fell as one company relocated their training academy from the centre to integrate it within their main premises, leaving the centre's three largest workshops vacant. Historically demand for hybrid and workshop space at Washington Business Centre has been particularly high and there is a strong pipeline of enquiries currently. The year-end occupancy target for 2019/20 is 75%, increased from 70% from 2018/19.

5. Approaches to reducing expenditure and increasing income

5.1 We have continued to implement 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, which should realise greater efficiencies. Examples of the proactive approaches being taken are detailed below, some cover all centres, others are relevant to just one centre.

5.2 Reducing expenditure

5.2.1 Each centre budget is closely scrutinised to ensure that they are as efficient as can be and to ensure potential areas for savings are identified and explored.

5.2.2 Evolve and Sunderland Software Centre have both had inefficient lighting replaced with LED lighting and Washington Business Centre will also have the same work done shortly. This will reduce our energy costs.

5.2.3 We will implement an enhanced ICT solution with a reduced overall cost for all of the centres from the new financial year. A short haul data service (SHDS) link will be installed which will enable all of the centres to benefit from increased and better-managed bandwidth, yet will reduce our costs as we will pay less rental fees to BT.

5.2.4 Centre management responsibilities for the Software Centre and Washington Business Centre continue to be covered collectively as a recurrent year on year salary cost saving.

5.2.5 The reception arrangements for the Software Centre, currently provided by ISS security as part of a Council-wide service on a 24/7, 365 day basis, have been looked at, within the context of maximising the tenant and visitor experience whilst ensuring the appropriate level of assurance. From April 2020, day-time security will therefore now be replaced by a front of house Council employee role, resulting in savings of around £6,000. We will then look to establish whether the retained security arrangements could be reorganised. Any changes would be looked at on a staged basis taking all factors into consideration but, as an example, for a reduction in two hours of week day security staff cover routinely provided on-site we could save approximately £6,640.00 per annum.

5.3 Increasing income

5.3.1 Our new room booking system which allows individual centres to see the room availability across all three centres has assisted in offering more choice to those clients seeking facilities hire, and has helped to keep room hire business within the centres. If an enquiry is made to one centre but cannot be accommodated the booking information is being shared between the centres to seek to provide an alternative solution.

- 5.3.2 Promotions of Evolve's offer for meeting 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 currently taken forward as part of MAKE It Sunderland, and work will continue to be developed on an ongoing basis to ensure Evolve remains visible as a vibrant place to work or meet.
- 5.3.3 The Software Centre's offer for meeting rooms now includes twilight sessions and is also available at weekends in order to increase potential rental income.
- 5.3.4 The Software Centre gathers and disseminates information to tenants on events being held within the centre as well as delivering events itself. This is to increase vibrancy within the centre and showcase the centre to prospective new tenants.
- 5.3.5 Flexibility in the way office space is let at the Software Centre and Washington Business Centre also ensures that we can meet the varying needs of tenants, for example staged occupancy is offered on larger rooms. Given that room sizes cannot be adjusted structurally in these two centres, as it can be at Evolve, this flexibility allows support for business growth and frees up smaller rooms which can be then be re-let to earlier stage businesses.
- 5.3.6 We have introduced a customised package of support to prospective new tenants in the Software Centre to assist in breaking down some of the barriers to taking a tenancy. This covers support to mitigate the impact of purchasing parking permits in Tatham Street car park and an enhanced marketing package to companies who take space in the Software Centre.

5.4 Marketing and Promotion

- 5.4.1 Marketing and promotion going forward will become more focused with the development of new stand-alone websites for each of the Centres (as referenced above in 5.3.2 re Evolve) and a more proactive approach to promotion via social media, for example using Twitter and LinkedIn platforms. This fits the software and technology target market we are seeking to engage with and is designed to increase uptake, occupancy and therefore income.
- 5.4.2 At Washington Business Centre the focus will be on companies from across a number of sectors and stages of growth. With workshops and hybrids in high demand, the emphasis is on appealing to potential office tenants, particularly on engineering / advanced manufacturing firms who may locate on the International Advanced Manufacturing Park (IAMP) and could potentially use the centre as an interim base.
- 5.4.3 At Sunderland Software Centre the focus continues to be marketing the larger offices, meeting rooms and conference facilities. This is to ensure that awareness of what the centre has to offer remains at the forefront, together with the co-located support from the Business Investment Team, Sunderland Software City and the Digital Catapult North East & Tees Valley (NETV).

6 Wider Economic Impact

- 6.1 As set out in section 4, the centres are home collectively to 97 private sector companies. There are a broad range of examples of how many of these businesses within the centres have been supported to establish themselves, thrive and grow, with details of expansion and job growth included in paragraphs 6.4 to 6.6 below. This includes businesses capturing the commercial opportunities which can arise through co-location with potential customers, both in the centre where they are based and increasingly across the centres. In this way, the businesses centres continue to contribute to the achievement of the Council's business investment and wider economic development objectives.
- 6.2 In addition, there continue to be positive stories demonstrating how we have supported companies to find the most suitable business accommodation, within our other business centres or elsewhere in Sunderland, for their growing or changing needs. Although this can represent a challenge for occupancy levels, this does align with the purpose of the centres to support businesses both to start up and grow.
- 6.3 For example, two companies moved from Sunderland Software Centre and relocated to Washington Business Centre as the accommodation was more suited to their business needs. We have also had a company move from Washington Business Centre into their own refurbished accommodation (unfortunately into a neighbouring authority) but owning their own accommodation had always been their long-term aspiration. Similarly, we know we will have a company move from Sunderland Software Centre into their own refurbished accommodation in the city centre in 2020, again in line with their long-term aspirations linked to growth of the business. We have also unfortunately lost a few companies from Evolve to accommodation outside of Sunderland. This reflects the extent of the competitive market within which we are operating, as highlighted in section 2 of this report. On a more positive note we have also attracted companies from within the region and within Sunderland into our business centres, bringing jobs with them, and have supported our existing businesses to grow within our centres creating new jobs as illustrated below.
- 6.4 At Sunderland Software Centre, since the last report in November 2018:
- seven of the existing companies within the centre have grown and taken on more or bigger offices creating 47 new jobs
 - five established companies have relocated to the centre bringing 22 jobs, and
 - five new companies have been established in the centre creating 16 new jobs.
- 6.5 At Evolve, since the last report in November 2018:
- six existing companies have grown and taken on more or bigger office space creating 41 new jobs, and
 - four new companies have been established in the centre creating 15 new jobs.

- 6.6 At Washington Business Centre, since the last report in November 2018:
- four existing companies in the centre have taken on more workshop, hybrid or office space creating 11 new jobs
 - four companies have relocated bringing 25 jobs, and
 - six new companies have relocated in the centre creating 26 new jobs.

7 Ongoing improvements

- 7.1 Recognising the contribution which the Business Centres can make in relation to the City Plan, particularly to the goal of More and Better Jobs within Dynamic City, the Council has appointed a business centre specialist (Creative Space Management) to assist the team in developing and implementing a change management plan building on work to date across the three centres. This has the following objectives:
- to provide practical and informed support in relation to HR, marketing, facilities management, customer relationship management, asset management and governance
 - to increase net income
 - to improve the economic impact of the business centres in terms of new jobs and growth businesses supported
 - to establish a collective, strong and informed management team, ensuring they have the resources to deliver these key objectives.
- 7.2 This is a planned two-year programme of work over which time Creative Space Management, working closely with Sunderland City Council, will together implement the change management strategy. This will result in increased income, increased net income, more effective management reporting drawing on good practice elsewhere, a knowledgeable, well trained and informed collective business centres team, and a more empowered approach to day to day management where centre managers are able to more flexibly control every aspect of the day to day management of the centres.

8 Conclusion

- 8.1 The business centres were established to be a significant driver in attracting new businesses, from several of the Council's priority sectors - software and technology, manufacturing, and low carbon - and supporting them to grow. They provide bespoke accommodation coupled with the flexibility and support that the council's Business Investment Team can provide. There are a broad range of examples of how businesses within the centres have been supported to establish themselves, thrive and grow with specific information on business growth and job creation in section 6. The businesses centres continue to contribute to the achievement of the Council's business investment and economic development objectives.
- 8.2 It is widely recognised that new business accommodation takes time to reach full occupancy, and within that timeframe occupancy levels can go through periods of rise and decline. Starting a small business is a significant undertaking and not all new companies are able to establish themselves, with

key challenges in the early years. The challenge for the business centres is not only in increasing occupancy but working with companies to ensure that they are supported and given the best chance of thriving and surviving.

- 8.3 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.
- 8.4 Ensuring the Centres are well-run and maintained to a high standard (while they each get older and require increased maintenance costs), as well as balancing this to ensure value for money, is an on-going challenge. The market in which they are operating is increasingly competitive as new business accommodation is built within the region and this, together with their remit as an economic development tool, influences the levels of rent that can be charged. We will continue to focus on the most effective means to support Sunderland's business community through our centres as part of our overall approach to encouraging business growth.
- 8.5 It is acknowledged, however, that while significant progress is being made there is still room to do more. Hence the approach we have taken as the next stage, in appointing Creative Space Management to support us in ensuring the centres reach maximum occupancy and move to become economically self-sufficient, while continuing to fulfil their economic development objectives.

9. Recommendations

- 9.1 The Scrutiny Committee is asked to note the information included in this report, and to consider and comment on the contents.

10 Glossary

None

11 Background Papers

None