

**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 a progress report 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 Business Centre, Sunderland Software Centre and Washington Business Centre.
- 2.2 The three 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 set within the context of seeking 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, and through related support and advice.
- 2.3 This report provides an overview of the performance of the three business centres, including occupancy levels, financial information and an overview of actions which are being taken to increase occupancy and improve the overall financial position, including marketing and promotion. It includes information relative to the 2017/18 year end position as well as to the 2018/19 year, annual running costs and projected income figures for each centre.
- 2.4 The report follows previous reports to Scrutiny Committee, the latest of which was dated the 6 February 2018. Prior to the 6 February report these have primarily focused on the number and nature of businesses choosing to locate within the centres.
- 2.5 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. New and expanding enterprises now 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.

- 2.6 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. A new facility under construction on Helix is The Lumen, which will offer 107,639 square feet of office and incubation space, with the emphasis on fostering collaboration between anchor tenants and co-located emerging enterprises.
- 2.7 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.
- 2.8 Against this backdrop, it is more important than ever that Sunderland's 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 centres

- 3.1 This section gives a brief overview of each of the centres.
- 3.2 Evolve Business Centre was completed in 2016, 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 Centre information

- 4.1 This section sets out the financial information in respect of each centre and then covers the occupancy information.
- 4.2 The budget for the running costs of Evolve in 2018/19 is £553,264. The budgeted income from rent and service charges from businesses and room hire is £681,080. The year-end position for 2017/18 was a small surplus of £8,323, which supports future maintenance requirements. The 2018/19 year has required 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. Once the refurbished offices are leased to new companies projected income will increase.
- 4.3 The budget for the running costs of the Software Centre in 2018/19 is £609,898. The budgeted income from rent and service charges from businesses and room hire is £398,475. At the time the Software Centre was built it was recognised that business centres take a period of time to reach full occupancy; this was reflected in the council's experience with Evolve Business Centre. A reserve was therefore set aside to meet shortfalls in income and to smooth the impact of under occupancy during this period, and this provision continues to meet what is required. The year-end position for 2017/18 required the use of £209,469 of the allocated reserve.
- 4.4 The budget for the running costs of Washington Business Centre in 2018/19 is £279,764. The budgeted income from rent and service charges from businesses and room hire is £318,990. The year-end position for 2017/18 was a surplus of £30,815. 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.
- 4.5 Occupancy at Evolve Business Centre at year-end 2017/18 was 87% and stands at 91% at the end September 2018. The year-end target for 2018/19 is 90%, as it was for 2017/18. There are 47 private sector companies located in the centre. There are a number of companies currently interested in taking space, having a positive impact on occupancy.
- 4.6 Occupancy at the Software Centre at year end 2017/18 was 67% and stands at 59% at the end of September 2018. The year-end target for 2018/19 is 75%, increased from 70% from 2017/18. There are 23 private sector companies located in the centre. The occupancy has reduced recently unfortunately. This is partly as a result of the growth of a number of companies, including two that have relocated to Washington Business Centre with the need for a different type of accommodation due to the expansion of the companies i.e. hybrid and workshop space rather than office space. Within the last six months, one company has taken the decision to close

down, whilst a large company unfortunately went into liquidation. There are two new start-up companies who wish to take small offices and one other serious enquiry interested in a medium sized office. Therefore we are confident there will be a positive impact on occupancy in the next few months. 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 business within the centre.

- 4.7 Occupancy levels at Washington Business Centre at year end 2017/18 were 67% and stand at 70% at the end of September 2018. The year-end target for 2018/19 is 75%, increased from 70% from 2017/18. With a fresh approach to marketing being developed we are confident there will be a resultant increase in enquiries.

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 has been 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 Proposals are being taken forward to introduce more energy-efficient lighting within all of the centres, which will result in reduced energy costs following the initial capital investment.

- 5.2.3 ICT costs at the Software Centre have reduced significantly from September 2017 where we have saved £100,000 per annum, by renegotiating a new contract.

- 5.2.4 The Software Centre and Washington Business Centre are managed under one post and this has reduced the salary expenditure within the running costs of the Software Centre, as a recurrent year on year cost saving.

- 5.2.5 The reception arrangements for the Software Centre, currently provided by ISS security have been looked at, within a framework of maximising the tenant and visitor experience, whilst ensuring the appropriate level of health and safety. There is potential to reduce costs, and further work will be undertaken to determine if the current cover can be reduced during office hours and substituted with an alternative either

an apprentice or a receptionist to cover Front of House responsibilities. This will be part of the council-wide approach linked to implementation of the apprenticeship levy. We are also considering if there is potential to reconfigure security cover outside of office hours, and discussions are ongoing.

5.3 Increasing income

- 5.3.1 From 1 August 2018 all of the room hire prices in the Software Centre and Washington Business Centre have been uplifted (whilst still remaining competitive) to increase the amount of room hire income received. This year to the end of September 2018 room bookings at Software Centre have totalled £22,500.00, and at Washington Business Centre £4,000.00. Evolve is looking at a similar exercise of reviewing its prices against the market from April 2019.
- 5.3.2 A new room booking system that allows individual centres to see the room availability across all three centres will assist in offering more choice to those clients seeking facilities hire, and will help keep the 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 provide an alternative solution.
- 5.3.3 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 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.
- 5.3.4 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. We have taken a long term Saturday meeting room let, which has brought in £2,000.00 of additional room hire income
- 5.3.5 The Software Centre gathers and disseminates information to tenants on events being held in the centre as well as delivering events itself. This is to increase vibrancy within the centre and showcase the centre to prospective new tenants.
- 5.3.6 Flexibility into the way office space is let at the Software Centre and Washington Business Centre 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.

- 5.3.7 We are considering a number of added benefits, which could be provided to tenants taking up space in the centre, in order to break down some of the challenges to taking up occupancy, such as car parking. These might include support to mitigate the impact of purchasing parking permits in Tatham Street car park, and an enhanced marketing package over that which is currently offered, to companies who take space in the Software Centre.

5.4 Marketing and Promotion

- 5.4.1 A refreshed marketing approach is being developed for Washington Business Centre and the Software Centre in conjunction with Corporate Affairs & Communications, reflecting the availability of offices at Washington Business Centre and the current lower levels of occupancy at the Software Centre. Marketing of the Centres is taken forward as part of MAKE it Sunderland, and work has started on refreshed marketing materials, refreshing the centres key messages, updating a tactical action plan and redefining the target market, with research into how to reach them. As part of the digital marketing approach our office spaces and meeting rooms are now marketed digitally, via the Twitter, LinkedIn and Facebook 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 To date advertising and promotion has taken place on social media platforms but also in daily bulletins such as the Bdaily, in Estates Gazette and Commercial Monthly Property. Also at specifically targeted local, regional, national and international events, and in newspaper supplements and most recently the Wall Street Journal.
- 5.4.3 Social media platforms are gaining momentum with the figures as at end of September 2018 included at Appendix A.
- 5.4.4 At Washington Business Centre work has started on refreshed marketing materials with a focus on the offices available within the centre which has nine vacant office spaces, as well as the meeting room space. MAKE it Sunderland are looking to re-run a campaign in a number of potential magazines which could include BDaily, BQ & BQ Breakfast. The target will be companies from across a number of sectors and stages. With workshops and hybrids in high demand the emphasis is on appealing to potential office tenants, particularly emphasis on marketing to engineering/manufacturing firms who may locate on the 'International Advanced Manufacturing Park' (IAMP) and could potentially use the centre as an interim base.

5.4.5 At Sunderland Software Centre the focus will be on marketing offices, meeting rooms and conference facilities, underpinned by new marketing materials and a continued digital focus. This is designed 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 Conclusion

- 6.1 The business centres have been established to be a significant driver in attracting new businesses, from several of the Council's priority sectors Software, Manufacturing, and Low Carbon. 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. The businesses centres continue to contribute to the achievement of the Council's business investment and economic development objectives.
- 6.2 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.
- 6.3 New centres generally 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, as we have seen with Evolve, and the hybrids and workshops at Washington Business Centre. With a focused approach to marketing of the office spaces, there is confidence that occupancy targets will be achieved at both Washington Business Centre and Evolve Business Centre. The Software Centre has recently gone through a period of flux with a number of companies moving out. However there remain many positive stories demonstrating how we have supported companies to find the most suitable business accommodation within our other business centres or in Sunderland, for their growing or changing needs. Although this represents a challenge for occupancy levels this does align with the purpose of the centre to support businesses both to start up and grow. We are also dealing with a number of new enquiries for office accommodation, and increased marketing and promotion has a key role to play in assisting.
- 6.4 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. These assets will also increase in value.

- 6.5 Ensuring the Centres are well-run and maintained to a high standard, whilst working to ensure value for money, is still an on-going challenge, and we will continue to focus on the most effective means to support Sunderland's Business Community through our centres. 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.
- 6.6 It is acknowledged that there are still challenges to overcome but the approaches we are taking to effectively manage and market the centres, are a strong foundation on which to continue to make progress.

7. Recommendations

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

8 Glossary

None

9 Background Papers

Appendix A

MAKE it Sunderland

Twitter –September 2018
3,750 Followers
43 new Followers in September
43.2K Impressions ↑72.1%

Software
FACEBOOK – September 2018
2 new page likes
Reach 134
Engagements 66

Top three posts:
5 Sept Meeting room video 43 reach, 16 video views, 5 engagements
7 Sept Walking Through Mowbray park video reach 48 reach, 37 views, 31 engagements
24 Sept Fancy trying a new meeting venue (clock gif) 42 reach, 2 engagements

Twitter
809 Followers
25 New Followers
17.2K Impressions

Top three tweets:
5 Sept Superb selection of meeting rooms video, 842 impressions, 83 media views 18 engagements 2.1% engagement rate
17 Sept Still time to get your tickets for Sunderland Digital event 1,386 impressions, 28 engagements, 2.0% engagement rate
25 Sept Sunderland Digital Event October details 1,386 impressions, 28 engagements, 2.0% engagement rate
As a comparison top tweet Business Lounge Video, 698 impressions, 12 engagements, 1.7% engagement rate, 68 media views