

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 three business centres - Evolve Business Centre, Sunderland Software Centre and Washington Business Centre - including an overview of the progress post pandemic, the current challenges, financial and occupancy information 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 7 December 2021. Previous reports were brought to Scrutiny Committee on 11 February 2020 and 18 November 2018.
 - 1.2.1 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 business from each centre.
 - Section 4 sets out the financial and occupancy position in relation to each of the centres.
 - Section 5 summarises progress in relation to the revised 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 centres are Evolve, Sunderland Software Centre and Washington Business Centre.
- 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 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 high quality jobs and businesses to Sunderland and supporting economic 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. Prior to the pandemic Evolve performed well in terms of rental income and occupancy and supported multiple companies to grow.

Key facts:

Number of employees based at Evolve ¹	140
Number of new jobs created during 2022/23	10
Number of businesses expanding during 2022/23	3

Mini case study:

Evolve Assessment Solutions Limited

Evolve Assessment Solutions Limited offer an online assessment platform aimed at business leaders and business psychologists. They offer the development of bespoke psychometric products covering a range of assessment models widely used in business these include personality questionnaires, cognitive ability testing, 360-degree appraisal.

Evolve Assessment Solutions Limited took a small 2-person office in 2019. During the pandemic the company continued to grow and in 2022 they took on more than double the original size of office space and now have 7 employees. The product they have is growing in demand as companies search for cost effective solutions which take the effort out of recruitment, selection and performance management.

<https://www.evolveassess.com>

3.3 Since 2006 Evolve has provided a home for over 70 companies that 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 grown into workspace elsewhere in the wider city economy.

3.4 **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 2,000 square feet. The Centre has taken longer than expected to reach its projected targets, with historic occupancy and rental incomes below anticipated levels. Prior to the pandemic, Sunderland Software Centre achieved 75% as its maximum

¹ As at end of October 2022.

occupancy. Occupancy fell to 33% at its lowest point. 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 a part of the city centre that has suffered from a lack of new office space.

- 3.5 During 2021 Sunderland City Council took the decision to rent 48% of the building on a three-year lease (with the option to extend for a further two years) to the Department for Work and Pensions (DWP) to support DWP objectives of providing additional support to those left unemployed as a result of the pandemic. The letting required significant adaptation of the Software Centre building. DWP took up occupancy in May 2022, increasing both the occupancy and income levels and thereby turning around the financial performance of the centre. However strategic planning and development work will be needed to ensure the current position is maintained beyond the current lease agreement.
- 3.6 With the development of The Beam and other office buildings 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 Sunderland Software Centre to operate more competitively with increased occupancy and rental incomes.

Key facts:

Number of employees based at Sunderland Software Centre ²	120
Number of new jobs created during 2022/23	12
Number of businesses expanding during 2022/23	2

Mini case study:

Teeny Weeny VR

Teeny Weeny VR took an office in Sunderland Software Centre in 2020. The company provides virtual reality (VR) headsets to support and enhance the learning experience of SEND (special educational needs and disabled) children. The idea came from the founder's own experience. The VR headsets provide exciting and immersive experiences including travel attractions, providing a calming influence for anxiety and a non-threatening way of escape. The Company has been successful in obtaining grant funding to develop the product which is marketed to schools, as well as individuals. The company is currently small but has potential for real growth.

<https://teenyweenyvr.com>

- 3.7 **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, 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

² As at end of October 2022.

facilities, whereas it has been more difficult to achieve higher occupancy for the offices.

Key facts:

Number of employees based at Washington Business Centre ³	146
Number of new jobs created during 2022/23	12
Number of businesses expanding during 2022/23	3

Mini case study:

BPP Visual Limited took up space in Washington Business Centre in 2014, the year it opened. They provide a one stop design, print, manufacture and installation service. They worked with a range of high-profile clients including Airbus, Rolls Royce, Balfour Beatty, Tarmac, Transport for London, HS2 and Nissan providing visual management products to support the management of systems and processes. During the pandemic they provided signage for the nightingale hospitals and expanded their print products to include social distancing signage, and their manufacture products to include perspex screening. Whilst the work force has increased minimally though putting their own products into action they are able to work smarter and manage a larger order book.

<https://www.bppvisual.com>

4. Financial and Occupancy Performance Information

- 4.1 This section sets out the overall position for the business centres for 2021/22 and projections for 2022/23, as well as financial and occupancy information in respect of each individual business centre.
- 4.2 All of the business centres are still impacted operationally by the coronavirus pandemic and are now dealing with the challenges of buildings which are all ageing and the rising costs of utilities. There has, despite the external economic environment been an increase in enquiries for new accommodation, requests for meeting room hire are going up and we have had a small number of businesses converting from enquiry to occupancy. This has both improved and stabilised the performance of all the centres after what has been a turbulent couple of years. Occupancy across all three centres has improved the overall financial position. Part of the management of the business centres has been listening to the needs of businesses as they operate within a post pandemic new normal. The accommodation offer has been developed to be more flexible in order to match a range of hybrid working arrangements. These evolving requirements have also created opportunities for stimulating new occupiers and lettings as business owners readjust their current business models. Many companies have returned to their office bases as they miss the benefits of face-to-face interaction and collaboration. There is however a much greater mix of operating models than there was before the pandemic with some businesses operating a hybrid/blended approach to working, some

³ As at end of October 2022.

back to office working full time and others wanting a more diversified virtual tenancy offer.

- 4.3 The overall financial position for all business centres for the financial year 2021/22 is summarised below.

	Budget (£)	Actual (£)	Variance (£)
Expenditure	1,590,525	1,701,109	(110,584)
Income	1,454,457	1,081,621	(372,836)
TOTAL	(136,068)	(619,488)	(483,420)

As set out earlier in the report the 2021/2022 financial position was adversely affected by the continuing impact of the pandemic on businesses and use of the business centres. The deficit for 2021/22 was funded as part of the overall council outturn.

- 4.4 The 2022/23 projected position across all three business centres is as follows:

	Budget (£)	F'cast (£)	Variance (£)
Expenditure	1,512,034	1,556,092	(44,058)
Income	1,454,457	1,482,881	28,424
TOTAL	(57,577)	(73,211)	(15,634)

The 2022/23 projection (using financial information to end of October 2022) is forecasting a small deficit against budget. The forecast is a much-improved position from 2021/22, mainly due to the DWP occupancy at Sunderland Software Centre.

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

4.6 Evolve

- 4.6.1 Evolve continues to be impacted the most of all three centres from a financial perspective. In the period during and post pandemic it has lost 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 reduced from 98% at the end of the financial year 2019/20 down to 69% at the end of October 2021, however during 22/23 the position has improved, and the occupancy stands at 78% at the end of October 2022. The reduction in occupancy has resulted in reduced rental income. The maintenance costs for the centre have also increased significantly due to the age of the building and its systems, which has resulted in significant overhead increases which will continue to be a challenge.

4.6.2 Evolve has attracted three new small businesses this year and also had three companies upscale. The income from meeting room hire is 2.5 times greater comparing the period April to October 2021 to April to October 2022, as businesses increasingly require either in-person or hybrid (in-person and virtual combined) meetings. The team continues to develop other opportunities to increase income. Rental rates of £27.00 a square foot (inclusive of rent and service charge) have been upheld since April 2021. The team is also looking at opportunities to reduce expenditure. Evolve continues to benefit from reductions in utilities costs, due to having LED lighting installed since 2020, PV panels and battery storage have been installed in 2022 and we will start benefitting from solar power and a resultant saving on utilities during 2023. Evolve has also had an air source heat pump installed in early 2022 which heats the centre's hot water and replaces the old gas boilers. Evolve was also one of two test locations as part of the council's Low Carbon innovation project developed with the Digital Catapult which sought to reduce energy costs and carbon emissions. The recommendations identified within this project has resulted in a reduction in the use of gas and resultant cost savings and provided for monitoring of the air quality.

4.6.3 It is anticipated from the number of enquiries for office space that occupancy levels will continue to increase during the remainder of 2022/23 and into 2023/24 which will improve income levels.

4.6.4 The financial position for Evolve for 2021/22 was as follows:

2021/22	Budget (£)	Actual (£)	Variance (£)
Expenditure	653,244	725,547	(72,303)
Income	700,082	553,918	(146,164)
TOTAL	46,838	(171,629)	(218,467)

4.6.5 The projected financial position for Evolve for 2022/23 is as follows:

	Budget (£)	F'cast (£)	Variance (£)
Expenditure	599,083	632,847	(33,764)
Income	700,082	551,474	(148,608)
TOTAL	100,999	(81,373)	(182,372)

The overall position has shown a slight improvement due to a reduction in forecast expenditure. Projected income is slightly less than the 21-22 actual.

4.7 Sunderland Software Centre

4.7.1 Sunderland Software Centre has seen a very significant financial improvement during 2022/23, wholly due to the DWP renting 48% of the space.

- 4.7.2 Occupancy at Sunderland Software Centre increased from 34% at the end of October 2021 to 73% at the end of October 2022. The business centre continues to be relatively quiet, but more companies have returned to office-based working and there has been an upturn in enquiries for office space.
- 4.7.3 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. 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.
- 4.7.4 Sunderland Software Centre has attracted two new businesses during 2022/23 and continues to look for other opportunities to increase income appropriately whilst ensuring that occupancy of the centre remains attractive and a viable location for businesses. Significantly, the Council entered into a 5-year lease agreement for 18,000 sq. ft of space within the centre to be rented to the DWP as part of the Government's activity to facilitate post Covid recovery. This service has been operational since May 2022 and is providing much needed support to residents who may have lost their jobs during the pandemic. The lease income is circa £400,000 per annum in rent. The DWP have their own separate entrance on Laura Street. The time-limited lease was agreed as an exception to allow this important work by DWP to take place within Sunderland Software Centre 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.
- 4.7.5 There has been an increased number of enquiries and occupancy levels are currently 73% at the end of October 2021). We also have two companies who have upsized and taken additional space in the centre demonstrating business growth and business investment.
- 4.7.6 The financial position for Sunderland Software Centre for 2021/22 was as detailed below:

2021/22	Budget (£)	Actual (£)	Variance (£)
Expenditure	604,367	628,847	24,480
Income	410,690	211,229	(199,461)
TOTAL	(193,677)	(417,618)	(223,941)

- 4.7.7 The projected financial position for Sunderland Software Centre for 2022/23 is as follows:

Budget (£)	F'cast (£)	Variance (£)
------------	------------	--------------

Expenditure	594,783	606,274	(11,491)
Income	410,690	568,379	157,689
TOTAL	(184,093)	(37,895)	146,198

The projected financial position for 2022/23 is significantly improved from previous years.

4.8 Washington Business Centre

4.8.1 Of the three business centres, Washington Business Centre has emerged from the pandemic as the least adversely affected financially, although it now faces the challenges of higher utilities costs (particularly for the workshops some of which have high energy usage because of the nature of the work being performed). The diversity of the accommodation (offices, workshops and hybrids) differentiates it from the other business centres. The workshops and hybrids always have high levels of occupancy. Historically, the offices have been hardest to let at the centre and whilst occupancy of the offices fell during the pandemic we are now receiving increased enquiries for larger spaces, which will increase occupancy. Washington Business Centre has attracted 2 new businesses during 2022/23, with another two companies moving in before the end of the financial year.

4.8.2 Occupancy at Washington Business Centre was at 64% at the end of October 21 and is at 68% at the end of October 2022. Savings are being realised on utilities due to LED lighting being installed in 2020 and PV panels and battery storage installed in 2022. Despite the energy saving improvements we have still to factor in rising utilities costs.

4.8.3 The financial position for Washington Business Centre for 2021/22 was as follows and shows a deficit.

2021/22	Budget (£)	Actual (£)	Variance (£)
Expenditure	332,914	346,716	13,802
Income	343,685	316,474	(27,211)
TOTAL	10,771	(30,242)	(41,013)

4.8.4 The projected financial position for Washington Business Centre for 2022/23 is as follows:

Budget (£)	F'cast (£)	Variance (£)
------------	------------	--------------

Expenditure	318,168	316,971	1,197
Income	343,685	363,028	19,343
TOTAL	25,517	46,057	20,540

The projected financial position for 2022/23 is an improvement from last year.

5. Progress in relation to the revised operating model

5.1 It was agreed in 2019 to review the operating model of the Council's Business Centres and explore opportunities to consolidate various aspects of delivery. A third-party specialist was appointed to support this process. We have continued to work alongside the third-party specialist since this time. 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 Sunderland Software Centre and Evolve, creating one central dedicated team and introducing a single line management reporting structure.
- Working to improve the visibility and promotion of the Business Centres through the development of new websites and letting processes. Dedicated business centre websites went live in December 2021.
- During 2022/23 the support has been concentrated on marketing and promotion through our social media channels, Twitter, and LinkedIn in as well as providing content for the websites to grow our followings and promote all the facilities and services the business centres have to offer.

5.2 Significant progress has been made despite the residual impact of the pandemic, managing the impact of rising utilities costs, as well as the increasing maintenance costs associated with the ageing of the buildings. It is anticipated that both the economic impact and the financial performance of

the business centres can be significantly improved during the 2023/24 financial year.

- 5.3 There are also expected to be different 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 and are located in close proximity to a range of residential neighbourhoods, to 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 wider region seeks to recover from the impact of the pandemic as well as effectively managing the impact of rising utilities costs. 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 continue with a programme of enhanced marketing and social media as well as enquiry handling, with a very strong approach to both customer relationship management and identifying economies of scale. With standardised operating procedures in place, a continued focus on increasing income and reducing expenditure, and a programme of support scheduled to continue until December 2022, the impact should result in increased performance, significantly enhancing centre management for the 2023/24 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 2021/22 the current projection for 2022/2023 is for a significantly reduced deficit. Wider economic benefits to the city through supporting companies to grow and provide high quality jobs will continue to be generated.
- 6.2 The ongoing improvement programme, with a focus on improved marketing will continue to raise awareness of the centres and what they have to offer. This should increase enquiries, and resultant lettings, feeding through into and improved financial position across all three business centres.

- 6.3 During a challenging external economic environment, our business centres continue 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 in what is to be a further period of economic challenge.

7 Recommendation

- 7.1 The Committee are asked to consider and comment on the report.