

03 June 2014**Agenda Item: 6****REPORT OF THE GROUP MANAGER, CORPORATE STRATEGY****INTEGRATED INNOVATION CENTRE CONTRACT: PERFORMANCE
REPORT 2013/14****Purpose of the Report**

1. To report on performance during the third year of operation of the Nottinghamshire Integrated Innovation Centre Management Contract covering the county's three specialist innovation centres of Mansfield i-Centre, Newark Beacon and Worksop Turbine.

Information and Advice**Background**

2. As previously reported, Members will be aware that the three innovation centres in Nottinghamshire were originally built independently of one another to provide flexible and high-quality business accommodation and to drive economic growth in their respective local areas.
3. In April 2011, a single, outsourced management contract was introduced covering all three centres. Oxford Innovation Ltd (OI) was appointed operator on a five-year contract to 31st March 2016, with the possibility of two one-year extensions.
4. The aims of the integrated contract are:
 - a. To provide on-site and cross centre management
 - b. To generate and capture the maximum economic benefit from the activities of the 3 centres – individually and combined - including:
 - i. Business collaboration
 - ii. Networking
 - iii. Supply chain development and
 - c. To provide appropriate tailored business advice and support, targeted on growing tenant businesses and enhancing the supply and development of cross-sector innovation in the county
5. The contracted activities thereby ensure that tenant businesses at all three centres benefit from excellent commercial accommodation – including access to

conferencing facilities and bespoke business support to assist tenant businesses to realise their commercial potential.

6. The premises continue to have different building owners but the County Council is an equity stakeholder in all three, having contributed capital to the construction of all centres.
7. Members will however recall that at its meeting on the 6th May 14, Committee approved the signing of the deed of release to enable Bassetlaw District Council to withdraw from the original 2004 Deed of Agreement relating to Worksop Turbine. This will mean from 1st April 2014 that any operating deficits at the Turbine will be met by the County Council in full but that it will get a higher proportion of the operating surpluses – receiving 62.47% with the Homes and Communities Agency (HCA) receiving the balance. For this period covered by this report (2013/14) the terms of the original Deed of Agreement will apply.

Performance against targets in 2013/14

Occupancy

8. The contract specifically targets occupancy growth across all three centres with a view to creating operating surpluses.
9. This is balanced with the competing requirements of achieving minimum customer satisfaction rates (measured annually) and the facilitating of company growth and graduation from the centres to external accommodation.
10. At the start of the contract, baseline composite occupancy across all three centres was 71%. Performance at the end of each contract year is as follows:
 - a. 2011-12 – 72.7% (+1.7%)
 - b. 2012-13 – 80.6% (+7.9%)
 - c. 2013-14 – 88% (+7.4%)

As with the previous 2 years of the contract, Year 3 has continued to see variations across the three centres with individual centre occupancy on the 31st March 2014 being as follows:

- d. Mansfield i-Centre – 87.3% (-1.3%)
- e. Worksop turbine – 94.9% (+22.1%)
- f. Newark Beacon – 84.93% (+4.63%)

The figures in brackets reflect changes since 1st April 2013.

11. Four graduations have been recorded by OI in Year 3 (one from Mansfield i-Centre, two from Newark Beacon and one from the Worksop Turbine). This is one less than target. Each graduation reflects the growth of a company into larger external premises. It should be noted that 18 internal graduations were achieved in 2013/14 – seeing tenants either move from virtual offices to physical

tenures within the centres or existing tenants increase the size of their office or workshops to accommodate new/planned growth.

12. The total number of tenant businesses in the centres as at 31st March 2014 was 98. This is an increase of nine on the previous year and exceeds the contracted target by three. Virtual Tenants numbered 89 in total representing the targeted uplift of 5% on the previous year's performance. The split across Centres is illustrated in table 1.

Table 1 – Tenant businesses and Virtual Tenants by Centre		
Centre	Tenant Business Numbers as at 31 March 2014	Virtual Tenants as at 31 March 2014
Mansfield Centre i-	32	36
Newark Beacon	22	19
Workshop Turbine	44	34
Totals	98	89

Customer Satisfaction Rates

13. OI is contracted to undertake an Annual Customer Satisfaction Survey across all Centres. The overall satisfaction score (excellent – good) was 95% against a target of 80%+. The response rate was 54% but with wide variances across individual Centres – efforts to increase the response rate above 60% will be targeted for the 2014/15 period – although it is noted that the 13/14 survey still represents a statistically sound survey. The highest areas of tenant concern and dissatisfaction were: i) the speed and reliability of the internet ii) café service and offer (across all centres) and iii) networking opportunities/value (particularly at Mansfield). The highest satisfaction scores were recorded for reception staff and services and overall centre image.
14. OI and partners are committed to addressing any satisfaction concerns. OI has developed tailored internet packages to increase tenant access/speed as a bolt-on to free provision (through an inclusive rental price) – this is currently being rolled out after a series of trials at Newark Beacon. The Centre Manager is also working proactively with the Mansfield tenants to ascertain their current needs and adapt and develop the networking plans to accommodate these. Furthermore, efforts are underway to resolve tenant concerns relating to the café offers at each site.

Jobs

15. A key aim of the centres continues to be employment growth. On the 31st March 2013 there were 528 FTEs across the three centres. As of the 31st March 2014 there were 557 FTE – an increase of 29 jobs (+5.5%). Whilst the rate of increase is slower than the previous period, this still exceeds contract targets of 5% and

Members will note that there are ceilings in terms of the number of tenants/FTEs that the building can support both physically and virtually. Table 2 below breaks the job numbers down by centre.

16. Table 2:

Table 2 – FTE Jobs by Innovation Centre		
Centre	FTEs in tenant customers at 31 March 2013	FTEs in tenant customers at 31 March 2014
Mansfield i-Centre	187	165 (-22)
Newark Beacon	135	153 (+18)
Workshop Turbine	206	239 (+33)
Totals	528	557

17. Of the 557 jobs, 90 were new jobs created in tenant businesses during the year – significantly exceeding the contract target of 50 new jobs. In addition to the 557 jobs in tenant customers, there were a further 117 FTE jobs associated with virtual tenant customers of the three centres (against a contract target for the period of 112).

Business Support

18. Members will recall that the provision of free innovation business support to centre tenants was a critical service enhancement in the integrated contract and a key differentiator to the offer of the innovation centres over and above other public and private sector managed workspace in the county. In the third year, the target was to provide at least ten hours of innovation business support to 46 tenant businesses and this was met and in terms of hours provided was exceeded with over 600 hours of business support recorded with key focus areas being customer acquisition, people productivity and business modelling/profit maximisation. This provision had to be made to tenants who had not previously received support through the Programme or who were receiving a different form/source of specialist advice to the initial in-house offer.
19. In four cases “enhanced” support is being offered to tenants under the government backed Growth Accelerator Programme - a partnership between leading private sector business growth experts which includes OI. Further details on the business support activities of the contract will be given to Members in a presentation by Jo Willett, OI’s Marketing and Business Development Director
20. A breakdown of business support by centre is given in Table 3 below:

Table 3 – Business Support 2014/14

Centre	No of customers benefiting from business support Target	No of customers benefiting from business support (the percentage indicates the overall number of tenant businesses accessing OI business support)
		Actual
Mansfield iCentre	16	13
Newark Beacon	15	15
Workshop Turbine	15	18
TOTAL	46	46 (47%)

Financial Performance

21. The total contract value is approximately £5.6m over five years – just over £1m per annum. Over the course of the contract period it was anticipated that the contract fee would be met from rental and conferencing income generated by the centres. At the end of year 2, total income generated was around £100,000 less than the contract fee. For Year 3 (2013/14) there will be a surplus. Provisional year end results indicate a net surplus of income over expenditure in two of the three centres. The Turbine is reporting a deficit of £3,291, the Beacon a surplus of £42,676 and Mansfield i-Centre a surplus of £13,970 – resulting in a total contract surplus of £53,355.
22. However, the contract requires various deductions from that sum to meet in house charges and building investment costs. These contractual deductions will leave a surplus in the region of £11,000. Whilst these figures are still subject to final verification – due to utility recharges across the three owning authorities, the contractual deductions are likely to take Mansfield i-Centre into deficit. In respect of impact on contractual performance, the matter is currently under the consideration of the contract Strategic Management Board (SMB)

2014/15

23. In terms of going forward into year 4 the operator will be challenged in terms of the business support offered within the centre and to look at how the benefits can be enjoyed further down the tenant supply chains.
24. In terms of performance at Mansfield, discussions with the District Council will be initiated and options to look at the offer and physical configuration of the building considered with a view to maximising the sales and space offer of the centre in the face of growing local competition. In particular, enquiry conversions at Mansfield have suffered throughout 2013/14 with a lack of entry size small units/offices. Accordingly, the SMB has identified funds within the Building Sinking Fund held by the District Council to undertake some internal subdivision to create the optimum size configuration to meet local demand based on the operator's market intelligence.

25. Other improvements are planned at the centres in 2014/15 to meet current and future tenant demand and to maximise local competitiveness of the offer at each site. This will look at additional car parking at Newark, telephony at Mansfield and Worksop, on-going internal and external maintenance etc.
26. It is also noted that the operator inherited some discounted prices and in the first three years of the contract, in order to address the competitive trading environment OI was also sanctioned to use discounting to drive occupancy. As of the 1st April 2014, tenants at Mansfield have been subject to market rate price increases resulting in the average price per square foot increasing from £18.13 psf to £20.47 psf. In Worksop a similar increase in licence fees has been applied incrementally resulting in average prices per square foot increasing from £16.32 to £17.41.
27. Efforts to further develop the sales pipeline, increase the conferencing offer and address the issues identified in the Customer Satisfaction Survey will be priority activities in 2014/15. Furthermore, a Nottinghamshire Centres Review will be published as a sales document for prospective tenants and to maximise referrals and linkages through raising awareness with partners and stakeholders across the county.

Other Options Considered

28. No options apply to this information report.

Reason/s for Recommendation/s

29. The report is for information.

Statutory and Policy Implications

30. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

31. The County Council has pre-existing commitments to support deficits and share in surpluses contained in Deeds of Agreement for each of the centres. Appropriate budgetary provision is made from within the Economic Development Budget, where required.

RECOMMENDATION/S

- 1) That the report be noted
- 2) That a further report on the annual performance of the Integrated Innovation Centre contract covering the 14/15 performance be brought back to Economic Development Committee in 12 months.

Report of the Group Manager, Corporate Strategy

For any enquiries about this report please contact: Mandy Ramm ext 72685

Constitutional Comments (NAB 22.05.14)

32. The Economic Development Committee has authority to consider the matters set out in this report by virtue of its terms of reference.

Financial Comments (SEM 21/05/14)

33. The financial implications are set out in the report.

Background Papers

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

Contract Award Notice, 1 March 2011

Strategic Management Board 29th April 2014 Report on Draft Contract Performance 2013/14 Appendix 1: KPI Monitoring and Appendix 2 Financial Performance

Electoral Division(s) and Member(s) Affected

Newark West, Tony Roberts

Worksop North, Sybil Fielding

Mansfield South, Stephen Garner, Andy Sissons