

**Report to the City of
Nottingham and
Nottinghamshire Economic
Prosperity Committee**

23rd September 2016

Agenda Item: 4

**REPORT OF THE CHIEF EXECUTIVE, NOTTINGHAMSHIRE COUNTY
COUNCIL**

INNOVATION CENTRES IN NOTTINGHAMSHIRE

Purpose of the Report

1. To give an overview of the current contract and its performance
2. To outline the direction of travel for the new provision and
3. To seek funding for business property upgrades from the N2 Business Rates Pool

Background

4. The Integrating Innovation Centres in Nottinghamshire Contract provides day to day operational and facilities management to 3 Centres in the County together with an overarching mentoring and business support programme for tenants.
5. Oxford Innovation Ltd (OI) was contracted from 1st April 2011 for a period of 5 years with 2 single year options to extend. The contract is now in year 6, following a one year extension and is currently scheduled to cease on the 31st March 2017.
6. Table 1 sets out a summary of the contract and its underpinning arrangements

| Table 1: Summary of the contract and underpinning arrangements | |
|---|--|
| Contract inclusions | 1. Newark Beacon 2. Worksop Turbine 3. Mansfield i-Centre |
| Key partners and signatories of the underpinning Memorandum of Understanding | Nottinghamshire County Council – contract manager and owner of Worksop Turbine |
| | Newark and Sherwood – owner of Newark Beacon |
| | Mansfield District Council – owner of Mansfield i-Centre |

| | |
|---|--|
| The Homes and Communities Agency | Retains an equity share in each building – acting on behalf of BEIS in relation to the Turbine |
| Contract Value | £5.6m (estimate) |
| Contract Governance | Through a Strategic Management Board (SMB), currently chaired by County Councillor Diana Meale. The SMB sets the annual budgets and performance targets |
| Aims of Overarching Contract | <ul style="list-style-type: none"> • To provide the on-site and cross centre management of high spec commercial facilities • To generate and capture the maximum economic benefit from the activities of the 3 centres – individually and combined – including business collaboration, networking and supply chain development and • To provide appropriate tailored business advice and support targeted on growing tenant businesses. |
| Contract Costs and income | <ul style="list-style-type: none"> • The aim is for income to cover the management fee and operational costs. |
| Incentives and Penalties | <ul style="list-style-type: none"> • Years 1-4 penalty provisions existed but were applied pragmatically with OI, year 3 onwards, being asked to make good deficit to budget. • Surpluses were predicated by financial performance. In year 5 – a weighting scheme was introduced to reflect the quality and importance of other indicators including occupancy, customer satisfaction, business support targets. |

Performance

7. The performance of the contract has fluctuated – being impacted by variations in the operational delivery/hand over of each centre, inherited local discounting, local economic performance and competition and the national recession. Partners have, by necessity, had to push financial performance to limit their risk of meeting their own centre deficits and in doing so have compromised on the levels of innovation within some of the tenant base. OI has pushed up the average price per square foot and has increased income generated from conferencing and the virtual customer base. However income does have a ceiling based on the levels of occupancy, local market, commercial demand and the centres operating budget.
8. A key rationale for a three-centre contract was to achieve efficiencies in a common model and cross referrals between centres. These have by and

large not materialised as the geographic dispersal of the centres has precluded this opportunity – i.e. if a tenant is looking for premises in Newark they have been reluctant to relocate to Mansfield or Worksop and have instead looked at alternate local provision. Furthermore service contracts and operational spend have tended, for the same reason, to remain local and individual to each centre.

9. In terms of the qualitative outputs of the contract, customer satisfaction (including business support recipients, tenants and conferencing/external users) has regularly exceeded the target of 85% of customers rating the service as very good or excellent.
10. Whilst the financial performance and efficiencies targets have remained somewhat disappointing, the “added value” of the contract – the business support, job creation, business graduations have largely improved over the period the contract has been operational.
11. As of 31st March 2016, there were 577 FTE jobs in 102 tenant business. Of these jobs, 80.5 were new jobs created in year 5 of the contract. A further 149 jobs were employed by the virtual business base and in 2015/16 51 companies received a variety of bespoke support and 9 tenant graduations were recorded i.e. **businesses moving to external premises to accommodate growth** All 9 of these companies remain located in Nottinghamshire.
12. This success in the “value added” components of the contract must however be reviewed in the context of a greatly changed innovation, business support and funding landscape. With the advent of the D2N2 Growth Hub and the ERDF funded Innovation Support Programme alternate provision now exists, which needs to be taken into account in future offers.

Post 31st March 2017

13. Partners have agreed the benefits of continuing the “three centre model” believing it could still be operationally beneficial to run the three buildings collectively whilst building on the qualitative offer to tenants.
14. Soft Market Testing has been undertaken to determine what will be attractive to the market and what it will support going forward – this has led to work on the form of contract which is currently still being developed. Partners are however being guided by lessons learned from the current contract and wish to:
 - i. Improve the certainty of income from the centres with better forecasting, improved cost efficiency and improved local cost competitiveness of the 3 centres
 - ii. Reduced financial risk (deficits) for the owning authorities and
 - iii. Simplified processes and lighter touch contract management

Centre Competitiveness

15. Each centre is in need of some form of property update. Whilst an annual Building Sinking Fund contribution has been made to Mansfield and Newark and Sherwood District Councils since the start of the contract, the emerging needs of the centres is outstripping the funding available. Funding to meet property needs for the Turbine is sought annually from the Economic Development Committee but is a modest budget to meet only immediate maintenance demands.
16. Whilst the Innovation Centres do not seek to compete with state of the art facilities at the universities or private provisions they do meet a local demand. However, they need to respond to the needs of a commercial customer in terms of modern, fit for purpose general offices /workshops and reception/service facilities– both to retain tenants and to attract new customers in order to help support start up and small companies with high growth potential.
17. To this end, a request is being made to the EPC to approve a capital contribution to each of the centres together with the Creative Village Phase 2 at Worksop in order to support, through the provision of modern managed workspace, the growth of the business base in the county.

Forward proposals

18. That the Business Rates Pool supports a £75,000 contribution to each of the following projects:
 - a. The upgrade and replacement of skylightsⁱ and ventilation system, roof drainage system and internal refurbishment and upgrade at **Mansfield i-centre**. Costs and reports on much of this work are in place and are supported by a 5 year conditions survey;
 - b. The reconfiguration of existing space to convert a dis-used first floor café to office space and the provision of a ground floor Business Lounge at **Worksop Turbine** to offer light snacks and beverages to tenants and external businesses and to support events and programmes through the creation of an accessible flexible space to increase centre footfall (hot desking and drop in informal use) and to grow the conferencing offer. Plans and costings are in place;
 - c. To support a programme of internal space re-configuration at Newark Beacon which is currently operating at 75% occupancy with a major tenant also set to leave the centre in the next quarter. Despite a major digital marketing campaign, all demand evidence indicates that the current room offer is too large. A full re-modelling and repricing exercise has been undertaken and this together with car parking adjustments (to increase capacity where possible) and internal upgrades would address current and emerging risks to the successful operation of the Centre; and

- d. To contribute to the funding package of **Phase 2 of the Creative Village** regeneration project in Worksop. Phase 2 involves the conversion of the former Print and Electricity Works to create space specifically targeted at the creative industries. The project cost is estimated at £1m. The project has planning permission and builds on the success of Phase 1, which created 18 units that were fully let within 8 weeks. A contribution is sought to address a funding shortfall created by the high costs of renovating a 100 year old industrial site.

Total Request £300,000

Reason(s) for Recommendations

19. In order for the county to support and grow businesses and innovation a modern, fit for purpose offer must be created that is attractive to the commercial sector. Each of the 3 existing centres has become tired or needs investment and/or re-configuration to meet basic customer expectations.
20. The Phase 2 Creative Village is included in this package due to the excellent take up of the Phase 1 offer and demand for further business space.
21. Physical business space is essential to help balance and facilitate growth and employment opportunities across the county and maximise access to existing and new job opportunities. Evidence supports the premise that bringing together like-minded companies provides opportunities for business networking and supply chain development.
22. The proposal seeks to both upgrade and future proof the offer and to compliment private sector provision as oppose to entering into competition with it. It is anticipated that the £300,000 investment requested will leverage far greater values in terms of business output and jobs safeguarded/created.

Other Options Considered

23. Each local authority could seek to invest in their own premises. Resources however are scarce and provisions would be at best incremental, at worst partial or not at all. The proposal made seeks to implement a co-ordinated investment to launch as a single offer to maximise occupancy and customer satisfaction. This in turn – for the 3 Innovation Centres - will make the operational contract more attractive to market when the new contract is procured.

Statutory and Policy Implications

24. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and adults at risk, service users, sustainability and the environment.

RECOMMENDATION

25. It is recommended that committee notes the update on the Innovation Contract and approves the request for £300,000 investment across the 4 business sites.

Anthony May

Chief Executive Nottinghamshire County Council

For any enquiries about this report please contact:

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Background Papers

Except for previously published documents, which will be available elsewhere, the documents listed below 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
- Strategic Management Board 22nd July 2015 Report on Draft Contract Performance 2014/15
 - Appendix 1: KPI Monitoring and Appendix 2 Financial Performance
- *Nottinghamshire Economic Insight – Issue 44 – Special Feature – available at: <http://site.nottinghamshire.gov.uk/EasysiteWeb/getresource.axd?assetid=352982&type=0&servicetype=1>*
- *Integrated Innovation Centre Contract: Performance Report* – report to Economic Development Committee, published 26-06-2012
- *Integrated Innovation Centre Contract: Performance Report* – report to Economic Development Committee, published 11-06-2013
- *Integrated Innovation Centre Contract: Performance Report 2013/14* – report to Economic Development Committee, published 03-06-2014
- *Integrated Innovation Centre Contract Performance Report 2014/15* – report to Economic Development Committee, published 09-06-2015

Electoral Division(s) and Member(s) Affected

Newark West, County Cllr Tony Roberts

Worksop North, County Cllr Sybil Fielding

Mansfield South, County Cllrs Stephen Garner, and Andy Sissons

ⁱ As required. Many have been replaced but are costly to do so and remain under review