

09 June 2015**Agenda Item: 8****REPORT OF THE GROUP MANAGER, CORPORATE STRATEGY****INTEGRATED INNOVATION CENTRE CONTRACT
PERFORMANCE REPORT 2014/15****Purpose of the Report**

1. To report on performance during the fourth 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 and
2. To seek approval for £25,000 to meet identified property costs at Worksop Turbine.

Information and Advice

3. Members will be aware that there are three innovation centres in Nottinghamshire - all originally built independently of one another to provide flexible and high-quality business accommodation and to drive economic growth in their respective local areas.
4. 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.
5. The County Council manages the contract on behalf of partners and reports quarterly to the contract's Strategic Management Board (SMB). This Board is chaired by County Councillor Meale, who together with elected members from Newark and Sherwood District Council and Mansfield District Council and the Homes and Communities Agency (HCA) hold voting rights. This covers items such as approval of the annual budget and performance targets and property investments. The governance arrangements are formalised in a formal Memorandum of Understanding.
6. The aims of the integrated contract are:
 - a. To provide the on-site and cross centre management of high spec commercial facilities

- b. 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
 - c. To provide appropriate tailored business advice and support targeted on growing tenant businesses.
7. 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.
 8. In February 2015, partners opted to invoke the option of a single year extension for OI as referenced in paragraph 4. This has resulted in this becoming a six-year contract ceasing on the 31st March 2017. During this consultation, partners agreed the principle of the “three centre model” believing it is still financially and operationally beneficial to run the three buildings collectively.
 9. However, 2015 will be used to test the market to establish a delivery model for the 3 centres with the objectives of achieving best value and accounting for the changing external environment - including the advent of the Growth hub.

Performance against targets in 2014/15

Occupancy

10. The contract specifically targets occupancy growth across all three centres with a view to creating financial operating surpluses. This is balanced with the competing requirements of customer satisfaction (measured annually) and the facilitation of company growth/job creation and the graduation from the centres to external accommodation.
11. At the start of the contract, baseline composite occupancy across all three centres was 71%, in 2014/15 average occupancy was 91% (+3% to target). There are variations across the centres with Mansfield i-Centre achieving 89%, Worksop Turbine 93% and Newark Beacon 91% - but all of these averages were above target.
12. The total number of tenant businesses in the centres as at 31st March 2015 was 100. This is an increase of two on the previous year and is 3 below target. This is likely to reflect an upward trend in the size of businesses at the centres which will merit some attention during the soft market testing later in the year. Virtual Tenants numbered 101 - an increase of 12, but still falling short of target. This should be addressed via a new virtual offer in 2015/16.

Jobs

13. A key aim of the contract is employment growth and the number of jobs based at the centres continues to grow – albeit at a slower pace than in previous years. The table below reflects the changes over the last 12 months.

Table 1 – FTE Jobs in Tenant Businesses by Innovation Centre		
Centre	FTEs at 31 March 2014	FTEs at 31 March 2015
Mansfield i-Centre	165	178 (+13)
Newark Beacon	153	185 (+32)
Worksop Turbine	239	208 (-31)
Totals	557	571

14. Of the 571 jobs, 78 were new jobs created in tenant businesses - significantly exceeding the contract target of 55 new jobs. In addition there were 163 FTE jobs recorded in virtual tenancy businesses (against a contract target for the period of 110 based on 1 per company). This reflects a trend in the upward size of virtual businesses.

Graduations

15. Nine tenant graduations have been recorded by OI this year exceeding target by 4. This reflects businesses moving to external premises to accommodate growth (2 from Mansfield i-Centre, 6 from Newark Beacon and 1 from the Worksop Turbine). As a key objective of the contract, the aim is to keep these business graduations locally where premises are available to accommodate it.
16. Internal graduations also remain strong across the centres – with several virtuals graduating to full tenants and others seeking extra space to accommodate growth within the centres.

Customer Satisfaction Rates

17. Considerable emphasis is placed on the quality of customer care in every aspect of day to day delivery in order to achieve continuous improvement throughout the contract. OI is contracted to undertake an Annual Customer Satisfaction Survey across all Centres. This is currently underway and will be reported to the Contract's Strategic Management Board (SMB) in July 2015. This year the Survey has been enhanced to specifically review satisfaction with business support services in order that partners can better understand this offer and its impact on/added value for recipient businesses.

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. In the fourth year, the target was to provide at least ten hours of innovation business support to 46 tenant businesses and this was exceeded by one additional beneficiary. This provision had to be made to tenants who have not previously received support through the Programme or who were receiving a different form/source of specialist advice to the initial in-house offer. The service is a key sign-poster, supporting businesses to understand and articulate their growth needs and then securing the relevant support from external providers. This often results in referrals to programmes such as Growth Accelerator or trade and export advice and has included referrals to the County

Council's Economic Development Capital Fund. Case studies on the impact of the business support provided are being prepared for the July 2015 meeting of the SMB.

Financial Performance

19. The total contract value is approximately £5.6m over five years – just over £1m per annum. The model anticipates that the contract fee is met from rental and conferencing income generated by the centres.
20. Provisional year end results indicate a small contract surplus of income over expenditure. However, the arrangement with partners requires various deductions from that sum to meet in-house charges and building investment costs. Furthermore, adjustments for changed lease terms in period, utility costs and historic debt treatments still need to be agreed among partners. It is anticipated however that the contract will, at the combined level, at least break even. The biggest risk however is with the Mansfield i-Centre – although the SMB can invoke penalty payments from OI or ask OI to make good the deficit.
21. All in all however, the draft 2014/15 results to date indicate that the contract is now performing far better financially – although the continued accumulation of Building Sinking Funds (BSF) at both the I-centre and the Beacon is essential in order to address emerging and future property concerns.

2015/16 Onwards

22. In terms of going forward into year 5, the operator continues to be challenged by the SMB in terms of financial performance, quality, job creation, business support and the offer to virtuals.
23. The physical state of the centres has a direct correlation to attracting and retaining new business. The SMB has delegated authority over the partners BSFs and receives an annual report indicating known needs for the centres for the coming year. The SMB received such a report in May 2015.

Property Maintenance at the Worksop Turbine

24. The property requirements at the Turbine have built-up over some time because there is no BSF arrangement for this building and the County Council's Lifecycle Maintenance Fund ceased in 2013/14. The SMB has however identified a number of urgent investment requirements that need to be addressed to maintain the building to satisfactory levels. These appear in Table 2 below:

Item	Estimated Cost (rounded)
Audio/Visual equipment – replacement and upgrade	£1,000
Insulation or rerouting of wastepipe to avoid disruption to users of adjacent meeting room.	£1,000

Replacement and upgrade to ground floor male toilets	£5,000
Boiler Flue and Fan replacement	£7,000
Address unregulated temperature control in toilets.	£1,000
Roof Repairs	£1,000
Repairs to lift intercom	£1,000
Repairs to Lift Hydraulics	£1,000
2015/16 contingency (to address property needs emerging in year)	£7,000
TOTAL 15/16	£25,000

25. Some of these items are urgent and have health and safety implications including lift and roof repairs and others relate to ensuring the commercial space is to the standard expected by the tenants. The total cost identified is a maximum of £25,000 which includes a small contingency for other needs that may emerge throughout 2015/16. The Committee is asked to approve this provision to be met from the Economic Development budget.
26. 2015/16 will see a change in the offer to virtuals which, it is hoped, will drive performance, growth and pipeline activity. In addition to this, a Business Lounge project is under development at the Turbine – for which Committee has already approved a £75,000 provision. This will improve the catering offer to tenants, upgrade conferencing facilities and expand the use of the centre and its customer base with the development of flexible space to accommodate hot-desking/drop in and event hosting. This initiative responds directly to the needs of tenants as expressed in customer feedback.

Other Options Considered

27. No options apply to this report.

Reason/s for Recommendation/s

28. The report is largely for information in respect of the 2014/15 performance of the contract. There is however a request to utilise £25,000 from the Economic Development Budget to support the building needs identified in paragraph 26 together with a small buffer. These repairs and provisions are considered essential to the successful operation of the centre and thereby the contract in order to maintain occupancy and income levels.

Statutory and Policy Implications

29. 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

30. 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

31. It is recommended that:
- a) The performance during the fourth year of operation of the Nottinghamshire Integrated Innovation Centre Management Contract be noted;
 - b) a further report on the annual performance of the Integrated Innovation Centre contract covering the 2015/16 performance be brought back to Economic Development Committee in 12 months and
 - c) Economic Development Committee approves the provision of £25,000 from the Economic Development Budget to address the identified property needs at Worksop Turbine.

Report of the Group Manager, Corporate Strategy Celia Morris

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

Constitutional Comments (SMG 29/05/2015)

The proposals set out in this report fall within the remit of this Committee.

Financial Comments (SES 28.05.2015)

The financial implications are set out in the report.

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

Electoral Division(s) and Member(s) Affected

Newark West, Cllr Tony Roberts

Worksop North, Cllr Sybil Fielding

Mansfield South, Cllrs Stephen Garner, and Andy Sissons