

**07 June 2016**

**Agenda Item: 7**

**REPORT OF THE CORPORATE DIRECTOR, PLACE**

**INTEGRATED INNOVATION CENTRE CONTRACT  
PERFORMANCE REPORT 2015/16**

**Purpose of the Report**

1. The purpose of this report is to:
  - a) provide a summary of the performance position during the fifth 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;
  - b) seek approval for £25,000 to meet property costs at Worksop Turbine for 2016/17, and;
  - c) update members on the progress towards the future operational delivery arrangements at the Centres.

**Information and Advice**

2. Members have received annual updates since the commencement of the contract in April 2011. Table 1 provides a summary of the contract and underpinning arrangements:

| <b>Table 1: Summary of the contract and underpinning arrangements</b>               |   |
|---|---|
| <b>Managing Agent</b>   | Oxford Innovation (OI)  |
| <b>Key partners and signatories of the underpinning Memorandum of Understanding</b> | 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  |
| <b>The Homes and Communities Agency</b>   | Retains an equity share in each building  |
| <b>Contract Value</b>   | £5.6m (estimate)  |
| <b>Contract end date</b>  | 31 <sup>st</sup> March 2017   |
| <b>Contract Governance</b>  | Through a Strategic Management Board (SMB), currently chaired by County Councillor Diana Meale. The SMB sets the annual budgets and performance targets |

3. The key functions of the contract are:

- Facilities Management (FM)
  - Day to day management of Centres, tenancies, sales, financial administration etc.
  - Marketing, PR, website development and content management
  - Operation of Virtual Tenancy packages, internal and external conferencing
  - Business Support, initiatives, events and networking
4. The overarching contract delivers some of the services more commonly provided by individual local authority property functions, with the aim of achieving economies of scale and bulk buying power across all three centres. The driver of the contract, and its key differentiator from standard FM contracts, is its contribution to four of the area’s long-term economic objectives by supporting:
- Existing companies to grow
  - New businesses to set up
  - Sustainable job creation
  - Business collaboration and supply chain development
5. The financial model underpinning the contract is for the income generated from tenancies, conferences etc. to meet the fixed management and variable operational costs of the centres **and** to generate a sufficient surplus to cover building reinvestment costs at the Beacon and Mansfield i-Centre, as well as to generate additional surpluses for each owning authority<sup>1</sup>.

## Performance against targets in 2015/16

### *Occupancy*

6. The current contract seeks to achieve the highest possible **occupancy levels** across all three centres. The base target is a minimum 88% occupancy in order to: allow sufficient supply of space to meet external demand, to facilitate the growth of internal customers and to allow flexibility in the contract to support the exit of those tenants that have outgrown the space and need to “graduate” to their own premises.
7. In 2011, baseline composite occupancy across all three centres was 71%. In 2015/16 average occupancy was 90% (+2% to target). Table 2 illustrates the occupancy performance at each Centre follows:

| <b>Table 2: Occupancy at each Centre</b> |                  |
|--|------------------|
| <b>Centre</b>                            | <b>Occupancy</b> |
| Mansfield i-Centre                       | 93%              |
| Worksop Turbine                          | 92%              |
| Newark Beacon                            | 86%              |

8. As a direct result of performance at the Beacon, occupancy performance in year 5 is marginally below the previous year (-1%). This is a key priority for OI to address with: new programmes of web-based marketing and PR, a re-assessment of the current offer (including spatial configuration) and pricing. Partners are supporting this work wherever possible.
9. The total number of **tenant businesses** in the centres as at 31<sup>st</sup> March 2016 was 102. This is an increase of two on the previous year but is 8 below target. The target was a “stretch target” and actual performance reflects a forecast trend in the increased size of businesses at the centres. This is a feature that will need to be accounted for in future delivery options, in order to accommodate the demand profile for space and for the type of support offered to those businesses dependent on their growth stages.

#### *Jobs*

10. A key aim of the contract is **employment growth**. As illustrated in Table 3, the full-time equivalent (FTE) jobs in tenant businesses by innovation centre are as follows:

| <b>Table 3: FTE Jobs in Tenant Businesses by Innovation Centre</b> |                                  |                                  |
|--|----------------------------------|----------------------------------|
| <b>Centre</b>  | <b>FTEs<br/>at 31 March 2015</b> | <b>FTEs<br/>at 31 March 2016</b> |
| Mansfield i-Centre   | 178                              | 192(+14)                         |
| Newark Beacon  | 185                              | 181 (-4)                         |
| Worksop Turbine  | 208                              | 204(-4)                          |
| <b>Totals</b>  | <b>571</b>                       | <b>577 (+6)</b>                  |

11. The jobs number is slightly below the targeted 585. Of those 577 jobs within the centres, 80.5 were **new jobs created** in tenant businesses during 2015/16 - significantly exceeding the contract target of 70 new jobs. There were 149 FTE jobs recorded in virtual tenancy businesses (against a contract target for the period of 150).

#### *Graduations*

12. Nine tenant graduations have been recorded by OI this year, exceeding target by 5. This reflects **businesses moving to external premises to accommodate growth** and comprises: 2 from Mansfield i-Centre, 4 from Newark Beacon and 3 from the Worksop Turbine. All 9 companies remain located in Nottinghamshire.

#### *Customer Satisfaction Rates*

13. A key differentiator in this contract and the offer of the centres, is the focus on customer care excellence. This is assessed by an Annual Satisfaction Survey with **OI seeking 85% of respondents as rating the centre and services as very good or excellent**. Survey responses have seen revisions to the offers on broadband packages at the centres, event programmes and internal communication strategies. Each survey is followed up with an Action Plan that is

taken to the SMB. The 2015/16 annual survey is currently being finalised and will be reported at the next SMB.

*Business Support*

14. **10 hours of free innovation business support is available to all tenants** not in receipt of previous OI support. The target is for 50 businesses to receive this dedicated support. 51 businesses were supported in 2015/16 (17 at Mansfield, 13 at Newark Beacon and 21 at Worksop Turbine). OI uses bespoke diagnostic tools to assess the needs and potential of a business. Each new tenant is offered access to the service (including virtual customers).
15. Centre based staff and the Incubation Director, build close-working relationships with tenants to understand key business drivers and accordingly help mentor and coach centre customers. These formal and informal services can result in referrals to external funding and support programmes, links with the universities and/or specialist services to support specific business needs. Tenants can “top up” OI offers with a ‘paid for’ service from OI or another provider. OI works closely in the area with business support partners and in particular the D2N2 Growth Hub. OI offers events and workshops to support business needs – often in association with the universities.
16. Following the success of the SPARK Programme, OI will soon launch the Pioneer 10 programme in Nottinghamshire. The cost of this will be met by OI – outside of the contract costs – and will take the form of a competition to identify existing businesses with growth potential in the county with space and business support offered as a “prize” to the best 10 companies.

*Financial Performance*

17. The draft 2015/16 results to date indicate that the contract is now performing far better financially. Nevertheless the budget targets for 2015/16 have not been achieved - although surpluses have been generated at each of the Centres. This is reflected in Table 4 below:

| <b>Table 4: 2015/16 Draft Financial Results Before Building Sinking Fund and Partner Deductions</b> |                  |                 |                 |
|---|------------------|-----------------|-----------------|
|   | <b>Budget</b>    | <b>Actual</b>   | <b>Variance</b> |
| <b>Income – licence fees, conferences and Virtual Offices</b>                                       | £1,266,932       | £1,252,356      | £-14,576        |
| <b>Expenditure – Management Fee and Utility Costs</b>   | £1,133,504       | £1,165,048      | £+31,544        |
| <b>Surplus/Deficit Total</b>  | <b>£+133,428</b> | <b>£+87,308</b> | <b>£-46,120</b> |

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|--|--|--|--|
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*2016/17 Onwards*

18. 2016/17 is the extension year of the existing contract. Every effort will be made by the SMB to maximise performance. The operator has displayed an intent to continue to deliver the contract to achieve the best possible outcome, with ongoing improvements to the offer and occupancy take up. It is understood that the current operator will tender for the new contract.
19. During 2015, partners have agreed that after the cessation of the current contract, they wish to proceed with the “three centre model” believing it is still financially and operationally beneficial to run the three buildings collectively. Soft Market Testing took place in March 2016 to: explore how the market may respond to such an opportunity, the risks that may emerge and the best practice opportunities in terms of contract form and performance management techniques. Discussions with Nottingham City Council on expanding the partnership to include more centres are underway.
20. To support the development of the work, a partner working group has been formed through the SMB, along with an Internal Working Group consisting of colleagues from: Property, Legal, Finance, HR and Procurement.

*Property Maintenance at the Worksop Turbine*

21. In 2015, members were advised that property requirements at the County Council-owned Turbine had built-up over time as there was no Building Sinking Fund arrangement. Accordingly a provision of £25,000 was made to address immediate needs. This investment has been utilised with extensive upgrades and improvements to ground floor toilet facilities and other repairs which have been well-received by both internal and external customers.
22. Supplementary property needs have since been identified with the objective of continuing to make the building commercially competitive and able to retain existing and attract new tenants. This requirement is made all the more imperative in this final year of the contract. In re-tendering the work, the County Council needs to optimise the commercial interest in operating the Turbine and this can best be realised by facilitating the highest levels of income, occupancy and pipeline interest in the centre.
23. The four key property requirements include: external painting, reception refurbishment, improved customer kitchens and car parking improvements to address safety, security and recently introduced statutory requirements. The current estimates for these works (with a small contingency to address any in year needs that may emerge) is £25,000. As with the previous year, Committee is asked to approve this provision to be met from the Economic Development budget.

## **Other Options Considered**

24. No options apply to this report.

## **Reason/s for Recommendation/s**

25. The report is largely for information in respect of the 2015/16 performance of the contract. However, there a request to utilise £25,000 from the Economic Development Budget to support the building needs over the next year in order to keep the building fit for purpose and able to attract and retain new and existing tenants. Such repairs and minor upgrades are considered essential to the successful operation of the contract in order to be able to maximise income and to achieve the overarching economic objectives set out in paragraph 5

## **Statutory and Policy Implications**

26. 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**

27. 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. The £25,000 capital related work will need to be reported to Finance and Property Committee and added as a variation to the capital programme funded as a revenue contribution to capital outlay (RCCO).

## **RECOMMENDATION/S**

28. It is recommended that:

- a) The performance during the fifth year of operation of the Nottinghamshire Integrated Innovation Centre Management Contract along with the work underway on the new contract form and procurement be noted;
- b) a further report on the annual performance of the Integrated Innovation Centre contract covering the 2016/17 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 for 2016/17.

**Report of the Corporate Director, Place.**

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

### **Constitutional Comments [LM 12/05/2016]**

The recommendations in the report fall within the Terms of Reference of the Economic Development Committee.

### **Financial Comments [SES 13/05/16]**

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
- Strategic Management Board 22<sup>nd</sup> 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, Cllr Tony Roberts  
Worksop North, Cllr Sybil Fielding  
Mansfield South, Cllrs Stephen Garner, and Andy Sissons

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<sup>i</sup> NCC receives a proportion of the surpluses at the Beacon in addition to 100% of the surplus generated at the Turbine after all other contract costs have been met.