

# **Yeovil Innovation Centre – Business Plan and Update Report**

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## **1. Purpose of the Report**

This report seeks the approval of the District Executive Committee for SSDC to formally adopt the new Yeovil Innovation Centre (YIC) Business Plan 2015- 2020 and seeks approval for SSDC to continue as Operator at the Centre. The report also provides an update on the performance of YIC.

## **2. Public Interest**

YIC is run by South Somerset District Council on behalf of the three funding partners. The partners are: the Homes and Communities Agency (HCA) (who inherited the contingent assets of the former South West Regional Development Agency in 2011), Somerset County Council and South Somerset District Council.

The Business Plan (that is included as an appendix to this report) sets out the aims and objectives of the Centre and sets targets and outputs against which the future performance of YIC may be measured.

This report seeks three resolutions from the District Executive Committee relating to the operation of YIC and these are:

## **3. Recommendations**

It is recommended that the District Executive resolves to:

1. Note the detail provided on the performance of Yeovil Innovation Centre
2. Approve the Yeovil Innovation Centre (YIC) Business Plan for 2015-20 (attached as Appendix A)
3. Agree a continued period of operation of YIC by SSDC (as described in paragraph 5.2)

## **4. Background**

The SSDC District Executive Report in June 2013 contained a detailed background to the YIC operating arrangements 2008 – 2013 and outlined the future operating arrangements for YIC. Prior to the 2013 report, SSDC had undertaken the role and function of Operator since 2008/09 (as set out in the terms of the YIC Partnering Agreement) following the failure of the Funding Partners to attract and procure a commercial Operator for the project.

In June 2012 the YIC Steering Board had recommended that SSDC remain as the Operator of YIC until March 2016 (in the first instance). The HCA and SCC subsequently agreed not to take their share of profits from the project until SSDC recover their full staff

costs and other service charges that had been incurred in the early years of the operation of YIC.

In June 2013 SSDCs District Executive resolved (subject to SCC and The HCA formally agreeing a deed of variation relating to the treatment of costs at YIC) that:

- The new operating arrangements with SSDC continuing as temporary operator would continue until 31<sup>st</sup> March 2016 in the first instance. Prior to this date operating arrangements would be formally reviewed and a management options report would be prepared.
- It was also noted that HCA and SCC would allow SSDC to keep any operating financial surplus from the centre to offset any revenues lost in the first four years of the operation.

The formal Deed of Variation was completed and signed by the three funding partners in 2013. The partners did not place any restriction on the length of time that SSDC should remain as the Operator, although clearly the ability to regularly review the position is beneficial to all parties concerned. Effectively the Deed of Variation agreed that *'SSDC be allowed sufficient time as Operator to recover the historic operating costs. It has been agreed by the Funding Partners that SSDC will remain as operator until these costs are recovered'*.

## **5. Report**

### **5.1 Operational Performance of YIC**

Prior to the drafting of the new Business Plan, performance was measured against the projections set out in the original project feasibility studies. It was always recognised that it would take several years for the tenant occupancy levels at YIC to firstly, generate a profit (at around 65% occupancy) and secondly, to reach a stable and higher rate of continued occupancy (of approx. 85%).

Because of the entry and exit criteria for tenants (as set out in the Business Plan) there will always be a churn of tenants at YIC as businesses enter, grow and then move. For budgeting purposes we have never assumed an occupancy rate of greater than 85% at the centre although in reality higher occupancy rates can (and currently are) being achieved.

The table on page 4 of the Business Plan shows the historic uptake of office space. In the first year of operation it was approximately 25%. It reached its break-even goal of approx. 65% in 2012/13 and has progressed to a level of approx. 95% by October 2015. The ongoing churn of tenants created by the entry and exit policies will mean that this unexpected high level is unlikely to be sustained for a long period. The occupancy figures do however give us the confidence that an occupancy rate of 85% is both attainable and sustainable.

The Business Plan at Appendix 1 sets out the objectives agreed by the Funding Partners in 2015. These are set out for the six year period 2014 – 2020 but it is intended that the objectives are revisited and their on-going relevance be ascertained as part of an annual review process.

Of the objectives for 2014/15, all targets were either met or exceeded with the exception of output 7 (jobs created cumulatively at YIC). Our cumulative total for this output is

marginally below target and is partly due to a number of businesses at YIC whose growth is either static or may have reached the limit of their growth potential. Not all businesses can be in continual growth mode. The cumulative number of jobs created at YIC stands at 112 as opposed to the target of 124. Output 7 will remain as a measurable output for the duration of the business plan, but will be reviewed beyond that point if it represents an unrealistic target.

Additionally no tenant satisfaction survey was carried out in 2014/15, but a survey is currently underway (November 2015) for 2015/16 and will be conducted annually from here on. Initial feedback from this survey is indicating a satisfaction level of greater than 65% for the period 2016/17.

In its 7 years of operation YIC has enjoyed notable success extending beyond the strong occupancy rate. The entry criteria has been geared towards attracting businesses from the high-tech and innovative sectors. As of November 2015 the *approximate* breakdown of businesses at YIC by sector include: Aerospace 28%, High Tech 28%, Service Provider 31% Media and Communication 6% Education 6%

Examples of noteworthy success include: Perspicuity, who achieved Microsoft Gold Partner Status and also secured a runner-up Apprentice of the Year in 2013, Invirt Reality who have developed high resolution virtual reality 3 dimensional computer graphics for use in computer programming; AIM Norway who are a Norwegian Aerospace Company trialling the Yeovil Aerospace Market and Geek Central, a local website design company who have gone from being Virtual Tenants at YIC to a larger company now occupying state-of-the-art-anchor tenancy offices. There are many such examples of new companies at YIC who are now making their mark on the high-tech and aerospace sectors.

There are now 150 people working at the centre for 32 different businesses.

## **5.2 SSDC's continued role as operator at YIC**

In 2013 the District Executive Committee asked for an options report for the future operation of the centre to be prepared before 31<sup>st</sup> March 2016. It should be remembered that at that stage the YIC was just beginning to return a financial profit and the mid and long term futures were viewed with caution.

Since 2013 the level of profit has increased in line with a greater occupancy and these higher levels of return together with greater levels of confidence are now being sustained. The letting of the majority of the Anchor Tenant areas has also helped our financial certainty.

Financial figures for year ending March 2015 showed an operating profit of £38k with projections for the years to 2020 shown within the Business Plan. The financial forecasts within the Business Plan project an 85% occupancy rate so that we maintain a prudent baseline for our forecasting.

In 2013 the Partnering Agreement was varied by the partner's mutual consent in favour of SSDC retaining all operational profits until the revenue losses of the early years were recovered. The recovery rate of the full revenue costs for SSDC shows that the recovery period is likely to extend beyond the timeframe of this Business Plan.

There are two realistic options for the future operation of YIC:

1. SSDC can continue to run the centre and fully recover its early operating losses.
2. The operation can be put out to tender to procure a private operator.

By continuing as Operator SSDC will:

- Be able to recover all earlier revenue losses incurred.
- Ensure that the service standards that have underpinned the success of YIC are continued.

By putting the operation out to tender through a competitive bidding process SSDC would

- Reduce the certainty of recovering all earlier revenue losses.
- Potentially diminish the level of service previously enjoyed.
- Most likely result in diminished profits for the partners. Whilst making a profit was never the paramount aim of YIC, the ability to recover the full costs of the operation in the early years and to re-invest in the local economy remains an important objective.
- Not necessarily be able to guarantee the procurement of a suitable operator. The previous attempts of 2008 and 2010 (the ERDF process) both ultimately failed and proved to have been extremely time-consuming and costly.

The ability to review the position of the Operator remains important and the Business Plan now recommends that an option to review is considered by the Funding Partners by December 2016.

### **5.3 YIC Business Plan 2015-2020**

The Business Plan was prepared jointly by officers of SSDC, SCC and the HCA. The process by which a succinct document was produced and deemed acceptable to each of the funding partners proved to be a lengthy process.

The Business Plan (2015-2020) now forms Appendix 1 of his report. In July 2015 the HCA agreed to leave the final drafting of the plan to SSDC and SCC, particularly as the HCAs interest at YIC is largely limited to their contingent asset (a covenant on the land) rather than the operation of YIC itself. The drafting of the plan was completed by SSDC and SCC in September 2015 and the plan was formally approved by SCC in October 2015.

### **5.4 The Future**

The success of the Innovation Centre and the growing confidence in its ability to deliver against its objectives has resulted in plans for a second phase in the development of YIC. SSDCs Infrastructure Programme has prioritised a significant extension to the current building. This second phase of the YIC project is included in the Somerset Growth Plan and Expressions of Interest for funding have been submitted to both the Growth Deal 2 and Growth Deal 3 LEP funding programmes.

## **6. Financial Implications**

Since 2013 YIC has shown a substantially improving financial situation with profits improving on a year on year basis. Importantly in 2013 our partners agreed that SSDC will recover all outstanding revenue before the project partnership takes shares on excess

profit made. The revenue projection at 6.1 in the Business Plan forecasts the rate of costs recovery for the period to 2020.

In 2014/15 the Centre made a net profit of £38,198 as reported through budget monitoring. Budget forecasts for 2015/16 indicate a likely profit of £28,489 - this lower figure is due to SSDC landlord contributions to alterations to the upper anchor tenancy space. The resulting increased rental level and reduced commitment to business rates on the large empty office dramatically increases the income from 2016 and onwards. For 2016/17 and beyond, YIC forms part of the income generating activities of the District Council.

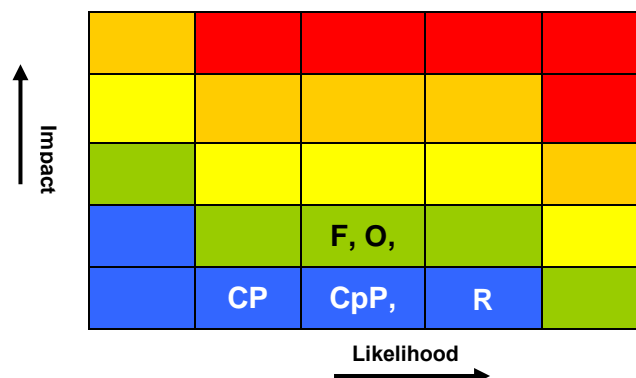
## 7. Risk

There are five areas of financial risk identified that could affect the viability of this project where potential mitigation could be achieved.

Risk Identified	Level of Risk	Mitigation measures	Residual level of Risk
Management Costs	Low	Adhering to current staffing structure with review at point of Operator Review	Low
Business Rates	Medium	Apply for small business rates relief where and whilst possible. Maintain high occupancy rates of units	Medium/Low
Retaining anchor tenants	Medium	Marketing campaign as necessary with reasonable flexibility around lease negotiations	Medium/ Low
Maintaining and increasing rental levels	Medium	Sliding scale on tenant rentals over duration of occupation. Annual review of market rental levels with adjustments as necessary	Low
Operator default	Low	SSDC to remain as operator with first review recommended at December 2016	Low

## Risk Analysis

This risk analysis is based on an assumption that the recommendations made in this report are approved.



## Key

Categories	Colours (for further detail please refer to Risk management strategy)
R = Reputation	Red = High impact and high probability
F = Financial	Orange = Major impact and major probability
O = Operational	Yellow = Moderate impact and moderate probability
CpP = Corporate Plan Priorities	Green = Minor impact and minor probability
CP = Community Priorities	Blue = Insignificant impact and insignificant probability

## 8. Corporate Priority Implications

The operation of YIC offers a mainstay of the Council Plan 2012-15 (Focus 1-Jobs) by helping *'create and support new businesses through the YIC'* and by *'providing targeted support for start-ups and small businesses and those with the aspiration to expand'*.

The Successful operation of YIC is also a priority of the SSDC Economic Development Strategy 2012-15 and the SSDC Economic Development Service Plan 2012-15

## 9. Carbon Emissions and Climate Change Implications

None directly associated with this report

## 10. Equality and Diversity Implications

None directly associated with this report

## 11. Background Papers

- *Yeovil Innovation Centre - Future Operating Arrangements – District Executive Report (June 2013)*
- *Council Plan 2012-15*
- *Economic Development Strategy 2012-15*  
**Appendix: *Yeovil Innovation Centre Business Plan 2015-2020***