Business Plan 2015-2020

Yeovil innovation centre

space to PROSPER

A Partnership Project

Contents

1. Introduction

The funding partners for Yeovil Innovation Centre are Somerset County Council, South Somerset District Council and the Homes and Communities Agency.

Yeovil Innovation Centre was officially opened in the spring of 2009 when South Somerset District Council (SSDC) became the operator by default when the procurement of an independent operator was unsuccessful due to the prevailing national economic climate at that time. The funding partners have agreed that SSDC should continue to operate the Centre until it has recovered the revenue losses occurred in the initial years of operation.

The project has been operational for five years and operates at a profit. In 2013/14 a net profit of £34,017 was generated.

This business plan was informed by the SWOT analysis incorporating the views of operating staff, tenants and the two external audits that have been undertaken to review the practice and processes of the Centre. The key points are recorded in Appendix 1.

The Visionary Statement of the YIC is as follows:

Yeovil Innovation Centre exists to provide a dynamic and supportive incubation environment to accelerate the growth of ambitious, innovative firms in the South West region.

The fundamental principles of the innovation centre are:

- Flexible office space
- On-site support from a trained Centre team
- High speed broadband and excellent telephony
- A range of conference and meeting rooms
- Access to networking and collaboration opportunities

Yeovil Innovation Centre provides early stage companies in high tech, knowledge-based, and aerospace sectors with basic business services and flexible accommodation. In order for us to build on our work with these high-value business sectors, it is our intention to refocus on the appropriate levels of business support that high growth companies need. Yeovil is at the heart of the aerospace cluster and YIC recognises the important and pivotal role that it can play in helping develop emerging businesses both within this and other innovative sectors.

2. Current Position

One of the key components underpinning the financial stability of the project is the number of tenants occupying the Centre. The Centre has seen the level of tenancy expand to approximately 80% in terms of floor-space occupancy and, as predicted in the feasibility study, this level of occupancy has created a profit-making and viable scenario.

The take-up of rented units at the Innovation Centre has been as follows:

Date	Number of Units occupied
2009	9
2010	14
2011	20
2012	25
2013	28
2014	30
2015	34

In this time there has been a natural turn-over of tenants, with those who have left the Centre expanding their companies and choosing to relocate elsewhere. Only three tenants have moved to reduce the scale of their operation. In addition there are ‘virtual’ tenants who use our front-of-house services whilst establishing their start-up businesses.

The ground floor anchor unit was let in 2010 on a ten year lease with break clauses at 3, 5 and 7 years. This tenancy has given considerable financial security to the Centre’s operation and this security will be further enhanced when the second anchor tenancy space is let. The Innovation Centre has approximately 7000 sq. ft. of space designated for Anchor Tenants. Of this approx. 4500 sq. ft. is currently let.

The Centre returns a financial profit at around 65% of floor-space occupancy. In 2015 with one of the anchor tenant areas let and 34 start-up units let, the Centre is operating at around 80 % occupancy thus generating an overall net profit. Greater occupancy levels will generate higher revenue and profit for the Centre.

3. Governance

The Operator will report to the Funding Partners against an evaluation scheme based on the agreed project outputs. The funding partners will agree the financial and operational decisions for the Centre.

Under the terms of the Partnering Agreement, SSDC became Operator by default. The Board and the Funding Partners 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.

The current Board will be replaced and an Advisory Group will be established to provide the funding partners with strategic advice and guidance.

The Operator reports to the funding partners against an agreed monitoring and evaluation schedule.

3.1 Roles and responsibilities

3.1.1 The Funding partners

The existing legal Partnership Agreement between the funding partners sets out the terms, conditions and responsibilities of each of the funding partners.

The funding partners will meet quarterly to review the financial and operational performance against agreed Key Performance Indicators. The Operator will ensure that the funding partners receive operational and financial progress reports at least 1 week in advance of the partnership meetings.

3.1.2 Advisory Group

An Advisory Group will be established to include stakeholder representation, including but not limited to representatives from the Heart of the South West Local Enterprise Partnership ("HotSWLEP), FE/HE institutions, and private sector businesses such as AgustaWestland. The members of the Advisory Group will help to increase the credibility of the Centre; achieve industry buy-in/ownership of the vision, aims and objectives of the Centre; provide strategic advice on the operation of the Centre based on their expertise and experience. A strong Advisory Group will also support funding partners to help influence regional/national and local policies; share knowledge and examples of best practice; and help provide links/tap into intelligence about business support schemes, such as access to finance, funding opportunities, workshops to improve performance, growth hub and supply chain development opportunities. Engaging with stakeholders will also help to raise the profile of the Centre which is not currently as well-known as other innovation Centres in the region and attract high growth, innovative business tenants. A higher profile and credibility will also help to secure funding opportunities for future development of the Centre.

A refreshed Terms of Reference will be produced.

3.1.3 The Operator

The role of the operator is to provide a facility management service for the Centre; market and promote the Centre to attract tenants; maximise the offering for tenants and broker-in business support services to meet the business improvement, development and growth needs of tenants and the wider business community.

The Operator should also make links with other innovation Centres in the South West to exchange best practice; and learn where expertise and opportunities exist in other Centres in Somerset and the region that can be accessed for the benefit of the Yeovil Innovation Centre tenants.

The Operator will:

- Identify ways for the innovation Centre to act as a catalyst for economic development.

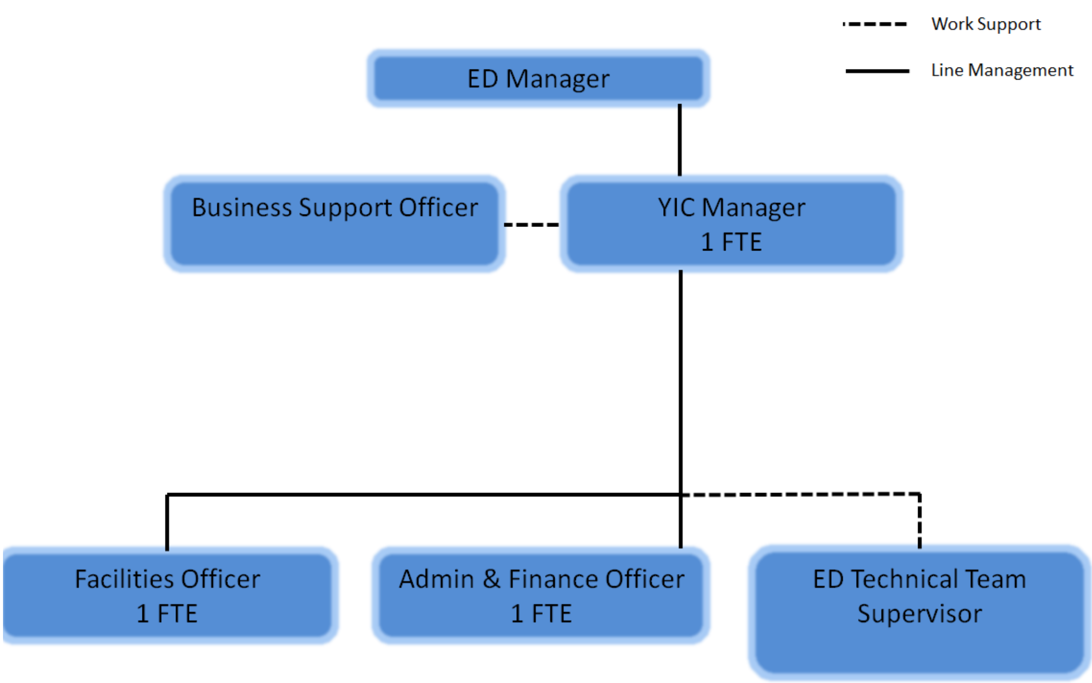
- Market and promote the Centre. An annual marketing plan will be prepared and agreed by the funding partners Provide flexible accommodation to support successive stages of tenants development
- Provide financial reports and other information as requested by the funding partners.
- Act as secretariat to the Advisory Group.
- Identify and secure funding for provision of specialist services where possible.
- Provide an induction to new tenants re the facilities and technical services provided at the Centre.
- The assessment and vetting of prospective tenants.
- On-going administration of tenancies and front of house support services.
- In-house provision of some business advice for the Centre and the wider start-up community.
- Develop linkages with relevant knowledge bases including university and research establishments.
- Provide networking opportunities to enable businesses to learn from and do business with each other.
- Creation of links between finance and investment ready companies

3.1.4 Operating Model

The operator has developed a working model and operating practices for the efficient and effective means of managing the Centre. This deployment of resource is a key factor to the success of the project.

The staffing structure from 2014 is set out below and from SSDCs perspective is viewed as being an optimum level of staffing to enable the project objectives to be met efficiently and effectively. This view is based on the experience gained as operator for the last five years

Economic Development: YIC Staff Structure



3.1.5 Business Support

The Business Support that the Operator will provide shall include:

- Support in preparation of viable business plans.
- On-going support and advice on access to sources of finance and other financial issues.
- Access to expert advice and guidance on legal, patent and intellectual property rights issues.
- Mentoring should include support to overcome the barriers to becoming established in the market, such as introductions to key clients, help in negotiating contracts, or where possible, securing funding for products.
- Develop stronger links with Universities and other Innovation Centres, to learn from their best practice, ensure that there is cross-fertilisation of knowledge of the YIC, access and support to and from academic research facilities and other like-minded IC companies.
- Supporting clients in further opportunities to network with like-minded businesses, entrepreneurs and companies in similar fields.
- Offer a more detailed advisory service on the various streams of grant funding available,

4. Next steps

4.1 Financial stability

There will always be a profit level ‘ceiling’ associated with the Centre. This is defined largely by the amount of available tenancy space and partly by the additional operations such as conferencing. The maximum occupancy level is never likely to exceed 90% and for forecasting purposes a maximum level of 85% occupancy should be assumed to allow for tenant turnover. On the current growth trajectory, 85% occupancy rates will be achieved by 2015.

The Operator will provide the funding partners with quarterly financial reports that set out the operating costs for the Centre, income generated and repayment to SSDC of early years operating losses,

4.2 Business support services

The Operator will continue to deliver a range of generic business support and to broker more tailored and specialist business support services as outlined above.

4.3 Relationship development

The Operator will develop stronger linkages with higher education establishments, other innovation Centres, and relevant sector specific specialists; and where appropriate the Strategy Board will support the Operator in making linkages and developing relationships. The Funding Partners will produce a Development Plan for the next three years as a separate document.

4.4 Removing barriers to development

Reviewing the Business Plan has highlighted the need to review some of the criteria that currently defines the Centre and its operation. These include a review of:

- the role and composition of the Advisory Group
- the sectors from which prospective tenants can be drawn
- the tenants exit strategy

4.5 Reviewing Rental Levels

Current rental levels and service charges will be reviewed to reflect current market values.

Currently, rental and service charges are packaged together as the ‘one-price covers most costs’ approach.

The Operator will be empowered to negotiate rental and service charges in exceptional circumstances, such as attracting an anchor tenant.

4.6 Entry Criteria:

Entry criteria had originally been based on the target sectors as previously identified by the South West Regional Development Agency. At this stage the criteria will be widened but will maintain the central tenor of innovation. It is intended that this position will be reviewed again in 2018 at the earliest, or at the latest in the next review of the business plan.

If a tenant’s ability to match the entry criteria is in doubt, then the matter will be referred to the Funding Partners for a view. A majority decision then prevails.

These criteria will not apply to approximately 8000 sq. ft. designated as anchor tenancy space within the Centre, although the appropriateness of the anchor tenant should receive full and careful consideration.

4.7 Exit Strategy

Occupation of the Centre is expected to level out and operate at around 85% tenant capacity. It is therefore considered vital that a satisfactory ‘churn’ of new businesses is maintained to preserve the integrity of the project.

The principle of ‘moving-on’ after four years in the Centre will be explained at the onset of a tenancy and the license of tenant occupation will make specific reference to the ‘exit strategy.

The structure of the tenant’s rental agreement will reflect a gradual move from a low rent position, to market value rent, to an above-market value rent by the third year of occupancy. This principle is applied to prepare a tenant for a move outside the Innovation Centre and to encourage a tenant to seek competitive rented space elsewhere.

It is not in the interest of any party to enforce the exit strategy before a business is capable of surviving outside the Centre. The Operator will establish the robustness of a business to move on before the exit strategy applies.

Where possible, the Operator will support the exiting tenant to relocate within Somerset.

Exceptions to the four-year rule include:

- A company is deemed to be placed at undue risk if an exit is forced upon them.
- A company may be at a critical point of expansion or contraction and the exit is deemed to be inappropriately timed.
- A tenant has affected a move between suites within the Centre to accommodate the growth of a company and the company is deemed to be in a new phase of growth.
- Special consideration should also be given if a business is part of a wider cluster or collaboration within the Centre where the removal of that business will have a negative impact on the remaining tenants.

In the event of a dispute over length of tenancy, the matter will be referred to the funding partners and the majority decision will be final.

A tenant may move to a full standard lease agreement and become an ‘anchor tenant’ at the Centre provided the amount of anchor tenancy space does not exceed approx. 8000 sq. ft. in total.

In enforcing the exit strategy, the funding partners should not put the Operator in a position where overall financial operating losses may result.

5. Performance

5.1 The overarching objectives of the project are to:

- Increase the number of business start-ups in South Somerset.

- Improve the survival and growth rates of knowledge based business in the county, through access to high-quality business support.

- To create a regenerative effect locally, increase high value employment opportunities and help diversify the local economy.

- To develop a wider network of entrepreneurs in the area and promote collaboration and business development.

- To facilitate the provision of essential business skills and industry awareness among entrepreneur clients.

5.2 The key outcomes of the project will be to:

- Attract new and additional knowledge based businesses.
- Enhance the survival and growth prospects of these businesses through the provision of high quality business support and mentoring.
- Create a wide network of businesses, promoting business collaboration amongst knowledge based businesses.
- Widen employment opportunities in Yeovil and for further afield.
- Increase research and development and collaboration with the knowledge base for the target sectors.
- Strengthen the role of Yeovil in the South West's focus on aerospace and advanced engineering.
- Become self-supporting financially and thereby minimise the future demands on public sector funding.
- It will also have a regenerative effect on surrounding area through physical refurbishment of a prominent building.
- It will provide affordable business accommodation for knowledge based businesses, thus meeting an identified need.
- YIC Phase 1 success will drive demand and need for a potential Phase 2, to expand the service and sectors which could be assisted.

5.3 Performance Measures

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 for YIC.

	Project Outputs	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
1	Number of Tenants at YIC	28	32	34	34	34	34
2	Floor space Occupied	75%	80%	85%	85%	85%	85%
3	Businesses Moved On	2	4	7	7	7	7
4	Businesses Created annually	2	2	7	7	7	7
4.b	Ratio of businesses created Indigenous: inward investment						
5	Businesses created cumulative	25	27	34	41	48	55
6	Jobs created annually	4	8	14	14	14	14
7	Jobs created cumulative	124	132	146	160	174	188
8	Jobs safeguarded annually	120	132	135	135	135	135
9	Business supported annually	75	75	75	75	75	75
10	Number of new networks created	2	2	2	2	2	2
11	Recovery of temporary Operator costs	£34k	c£39k	c£45k	c£50k	c£50k	c£50k
12	Tenant Satisfaction Survey Score	65%+	65%+	65%+	65%+	65%+	65%+

Other measures and indicators:

Yeovil Innovation Centre also monitors and measures the following indicators from a more operational angle to improve its service and knowledge wherever possible:

- Use of the Centre's facilities by external organisations, businesses and community groups for activities including meetings, training sessions and exhibitions. This is a measure of the Centre's external reach;
- Tenant satisfaction which is measured using a tenant survey which should be commissioned annually to probe the tenant experience and provide important feedback to the Centre Manager and Strategy Board

- Participation of Centre staff in regional and sub-regional meetings, events and activities as a measure of its involvement with the wider innovation community in the Region.

6. Financial Plan

This consists of two elements - a revenue projection taking into account all the various changes to the scheme as they currently stand and a risk assessment that takes into account the risks identified and potential mitigation of those risks. The following points are noted:

6.1 Revenue Projection

The revenue projection covers the financial years to 2019/20. This projection will be reviewed at each financial year end and adjusted accordingly. This updated position will be provided to the financial partners and to the Strategy Board. The figures include the recovery of revenue losses.

Revenue Projection

(Including Maintenance Plan & SSDC Costs)

Year	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Projected	Projected	Projected	Projected	Projected
Occupancy %	76	90	85	85	85	85
Income	429,704	445,000	450,000	460,000	469,200	478,584
Expenditure						
Non Pay	202,614	225,000	200,000	210,000	220,500	231,525
Staff Costs	152,408	153,932	155,471	157,026	158,596	160,182
Support Service Costs	36,484	37,579	38,706	39,867	41,063	42,295
Total Expenditure	391,506	416,511	394,177	406,893	420,159	434,002
Net Profit/(Loss)	38,198	28,489	55,823	53,107	49,041	44,582
Recovery SSDC costs	38,198	28,489	55,823	53,107	49,041	44,582

Figures as of November 2015

6.2 Maintenance Schedule

The Maintenance Schedule has been prepared and is available separately as an electronic attachment.

The costs within the maintenance schedule include the cost of a replacement roof. Whilst this may not be necessary in the lifetime of this business plan, the funding partners will need to agree as to when this measure will take place.

6.3 Profit and Loss Sharing

SSDC will recover their operating costs as part of an ongoing process. Whilst it is highly unlikely that the project will lapse back into a loss-making situation, the partners should be prepared to assume a proportionate responsibility for any operating losses beyond 2014. Should any operating losses be accrued beyond this date then the losses should be divided and borne by the partners. The apportionment of such loss is yet to be agreed.

Partner	Original Capital Invested	Profit or Loss Share percentages
HCA	2,910,000	60
SSDC	1,200,000	24
SCC	750,000	16
Totals	£ 4,860,000	**100**

6.4 Risk Assessment

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
Attracting and retaining anchor tenants	Medium	On-going marketing campaign 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 at December 2016	Low

7. Future Strategy

The growth of the Centre is finite in terms of the tenancy space available. The key consideration for future growth is how to increase the tenancy space available without increasing the costs of the front of house operation or the business support capabilities. Increasing the size of the building is an option with two possible areas of land that might be available for future expansion.

One possible location for expansion is the land immediately to the west of the existing building. This is a field within the existing industrial park and within the ownership of two of the funding partners. Both partners have agreed that this land may be used for expansion of the existing operation. Acquiring adjacent land (not within the ownership of the partnership) would be the second consideration. Valuations of prospective sites were undertaken in December 2012.

Additional research and consultation will be undertaken during the coming year to establish the demand and need for a Phase 2 YIC.

Full consideration also needs to be given to converting unused anchor tenancy space within the existing Centre to smaller units suitable for business start-up.

Appendix 1

Analysis of Strengths, Weaknesses, Opportunities and Threats

This SWOT incorporates the views of operating staff, tenants and the two external audits that had been undertaken to review the practice and processes of the Centre. The key points raised by the analysis are recorded thus:

Strengths	Weaknesses
1. Project is proving a success 2. YIC has moved to a break-even position (or better) 3. SSDC will now recover its earlier revenue investment 4. Excellent feedback from tenants 5. Excellent feedback from external parties	1. No bespoke financial advice provided at YIC 2. Strategy Board needs to be more strategic with a separate board or sub-board for funding partners to discuss their interests 3. Part of 1st floor empty (anchor tenancy space) 4. High maintenance building (£115k pa business rates) 5. No 'sinking fund' - appropriate amount to be transferred to ring-fenced maintenance budget annually 6. Hands tied on adjacent field, beneficial interest lies with HCA 7. Large suites not attractive to start-ups 8. Need an investment fund 9. Need better university connections
Opportunities	**Threats**
1. The concept can be transferred elsewhere 2. Review of Innovation Centre 3. Change role of Strategy Board with tenant representatives 4. Better LEP representation on Board 5. 2 tenants within Innovation Centre 6. Purchase of land to the rear of Paragon 7. Rent reviews required	1. Empty property rates 2. Perception of competition 3. Anchor tenant could move out (10 year lease with 3, 5, 7 year reviews) 4. Sterilization of land by wind turbine 5. No guaranteed cash flow 6. Rent reviews required

An overview of some key issues

- Recovery by SSDC of unmet revenue costs before funding partners are able to take a profit or reinvest the surplus back into the Centre.

- The Centre needs to engage with the LEP and align its strategy with the LEP to maximise opportunities to secure funding.

- The Centre needs to broker financial support to enable clients to raise finance and help clients to become investment ready.

- The Centre must aim for less than 100% occupancy to allow for the movement of clients as space requirements change. This movement will only take place if there is a functioning exist strategy.