



|                           |                                                                                                  |
|---------------------------|--------------------------------------------------------------------------------------------------|
| <b>Subject:</b>           | Innovation Factory Annual Performance Review 2016-2017 and Updated Annual Service Plan 2017-2018 |
| <b>Date:</b>              | 11 October 2017                                                                                  |
| <b>Reporting Officer:</b> | Donal Durkan, Director of Development                                                            |
| <b>Contact Officer:</b>   | Colin McCabrey, Economic Development Manager                                                     |

|                                                          |                                                                     |
|----------------------------------------------------------|---------------------------------------------------------------------|
| <b>Restricted Reports</b>                                |                                                                     |
| <b>Is this report restricted?</b>                        | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |
| <b>If Yes, when will the report become unrestricted?</b> |                                                                     |
| After Committee Decision                                 | <input type="checkbox"/>                                            |
| After Council Decision                                   | <input type="checkbox"/>                                            |
| Some time in the future                                  | <input type="checkbox"/>                                            |
| Never                                                    | <input type="checkbox"/>                                            |

|                                              |                                                                     |
|----------------------------------------------|---------------------------------------------------------------------|
| <b>Call-in</b>                               |                                                                     |
| <b>Is the decision eligible for Call-in?</b> | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> |

|            |                                                                                                                                                                                                                                                                                                                                                                                                                                |
|------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1.0</b> | <b>Purpose of Report or Summary of main Issues</b>                                                                                                                                                                                                                                                                                                                                                                             |
| 1.1        | The purpose of this report is to: <ul style="list-style-type: none"><li>Update Members on the outcome of the Year One (2016/17) Annual Performance Review (APR) of the Innovation Factory Operator contract and set out the high level targets for the year Two Action Plan</li><li>Note a proposed amendment to the contract, which will be presented to the Strategic Policy and Resources Committee for approval.</li></ul> |

|            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>2.0</b> | <b>Recommendations</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 2.1        | <p>The Committee is asked to:</p> <ul style="list-style-type: none"> <li>• Note the outcome of the Innovation Factory operator contract Annual Performance Review 2016/17 and performance against year one targets;</li> <li>• Note a proposed amendment to the contract, which will be presented to the Strategic Policy and Resources Committee for approval;</li> <li>• Note the Key Performance Indicators set within the Year 2 Annual Service Plan which have been incorporated into a business plan for delivery and are aligned to the original tender submission by Oxford Innovation.</li> </ul>                                                                                                                                                                                                                                                                                                                    |
| <b>3.0</b> | <b>Main report</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 3.1        | <p>The Innovation Factory (IF) is located at Forthriver Business Park and offers Grade A-standard workspace for small businesses. The building is 55,000 sq. ft. in total; this includes 32,240 sq. ft. lettable space and 5,133 sq. ft. innovation space. It is the first development on the wider 14 acre business park site which was previously the site of James Mackie and Sons Engineering Works. This IF project was part-funded by Belfast City Council, Invest Northern Ireland and the European Regional Development Fund (ERDF) under the European Sustainable Competitiveness Programme for Northern Ireland.</p>                                                                                                                                                                                                                                                                                                |
| 3.2        | <p>The Centre will accommodate 382 workstations across 111 business units when at full capacity. It will support at least 145 jobs by December 2018 and 187 by December 2020. It will provide support annually to over 100 businesses and create 5 collaborative networks. It will promote and encourage social and economic regeneration, encourage local and foreign direct investment and act as a catalyst for further development of Forthriver Business Park. Belfast City Council accepted hand-over of the Centre from the contractor on 18th April 2016. Oxford Innovation Limited was appointed as the Operator of the Centre via a Competitive Dialogue procurement process. The Service Contract with Oxford Innovation came into effect on 1 June 2016. The contract is for an initial term of 5 years with the possibility of extension for a further three periods of three years, subject to performance.</p> |
| 3.3        | <p>In April 2017, the Council conducted the first Annual Performance Review (APR) of the operator contract. Given that this was the first time that the review was conducted, there were lessons learned on both sides in terms of the process and issues such as supporting information required. The timeframe for the sign-off of the document was extended by mutual</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

|     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|     | <p>agreement. This meant that an extended timescale was subsequently agreed for the finalisation of the Year 2 Annual Service Plan in order to ensure that the plan incorporated learning from the Year 1 Performance Review.</p>                                                                                                                                                                                                                                                                                                                                                                                      |
| 3.4 | <p><u>Annual Performance Review June 2016 – March 2017</u></p> <p>The Annual Performance Review 2016/17 was undertaken by the Council's Economic Development Unit with input from the wider Council multi-disciplinary team and professional advisors KPMG. The review monitors and assesses the Service Provider's performance in Year 1 (to 31 March 2017) in respect of annual targets and performance standards detailed within the contract.</p>                                                                                                                                                                  |
| 3.5 | <p>The contract was designed to ensure that the Service Provider was incentivised to maintain a very high standard of service delivery across all Key Performance Indicators within each category. There are four categories, namely Service Performance, Financial Performance, Outputs and Outcomes. The contract therefore reflects the importance of the project to the Council, the economic benefits it provides and the ongoing requirement to meet funding targets.</p>                                                                                                                                        |
| 3.6 | <p>Contract performance in Year 1 was deemed to be satisfactory in three of the four categories assessed, with some areas of weakness identified in the "Service Performance" category. In some instances, there were mitigating factors to explain areas of weaker performance. Despite some concerns having been brought to light in this review, the Council is confident that the Service Provider is able and committed to quickly address and resolve any issues which have been identified.</p>                                                                                                                 |
| 3.7 | <p>The key issues highlighted in the review relate to:</p> <ul style="list-style-type: none"> <li>• Timeliness and accuracy of reporting relating mainly to uploading compliance documents to the shared document system within agreed timeframes; and</li> <li>• Inability to meet some targets included in the Year 1 Social Integration and Community Engagement Plan. While there was a significant volume of community engagement activity undertaken, the limited pool of tenants in the first few months of opening meant that it was difficult to deliver on some of the community benefit clauses.</li> </ul> |
| 3.8 | <p>The commercial aspects of the Centre are performing well within a relatively short period of time. Average occupancy within the first six months of opening was 10% (3,571 sq ft) and</p>                                                                                                                                                                                                                                                                                                                                                                                                                           |

actual occupancy at the end of March 2017 was 3,989 sq ft. The Service Provider performed well in a number of areas despite significant time pressures and a demanding mobilisation plan. This is reflected in the tenant survey which resulted in 93% of tenants saying they were either 'satisfied' or 'very satisfied' with the service provision and 98% of centre users (meeting rooms and conferencing) 'satisfied' or 'very satisfied' with facilities and associated services provided. Recruitment of staff was an efficient process and the calibre, productivity and cohesiveness of the team is testament to the recruitment process adopted by the Service Provider and commitment demonstrated by each of the staff. This included engagement with local training organisations to provide work placement opportunities. A number of these work placements have now been employed as permanent members of staff.

3.9 The Centre's "Buy Local" ethos has resulted in 56% of £232K spend taking place in Belfast and these local suppliers have been paid within an average of nine days.

3.10 Some of the Business Growth and Innovation Programmes delivered at the Centre were more successful than others and this learning has been built into the programme of activity for the year 2 plan.

3.11 The Payment Mechanism by which the financial settlement to the contractor is reached is based on them meeting or exceeding targets across the four categories (Service Performance; Financial Performance; Outputs and Outcomes). Given that performance was deemed to be satisfactory across three of the four categories with minor concerns in one of the areas (Service Performance), a deduction of 10% was made from the Year One fee payable to the operator. This was in line with the contract stipulations.

3.12 The relevant teams within Belfast City Council and Oxford Innovation are fully committed to working in continued partnership to ensure that the project delivers to the benefit of both parties.

3.13 Proposed legal amendment

In the course of the Annual Performance Review process, the Service Provider's representative raised an issue with one particular element of the contract, namely schedule 6, part 2 clause 5.2.2:

*'The Council's representative shall award the Service Providers a score between 1 and 5 in respect of each of the four categories of Key Performance*

*Indicators (namely service performance, financial performance, outputs and outcomes), based on the scoring mechanism set out in the following table and the measures set out in the following table and the measures set out for each of the Key Performance Indicators in Annex 3 to this schedule. The score awarded shall be the highest score for which the performance of the Service Provider meets or exceeds the stated measure in respect of every one of the Key Performance Indicators (based on the evidence available to the Council).*

3.14

At present, each of the four categories has a number of Key Performance Indicators (KPIs). For example, the KPIs for the “Service Performance” category include Compliance with Council Requirements; Customer Satisfaction – tenancies; Customer Satisfaction – Business Growth and Business Innovation Services and Complaints. If the Service Provider falls short in any aspect of the KPI statements, this is reflected in the score for the category as a whole. Oxford Innovation felt that this condition didn’t fully reflect the breadth of the activity undertaken. Following engagement with the Council’s Legal Services Team and our contract advisors KPMG, a revised clause has been developed that meets the requirements of both parties. This revision also provides the Council with a mechanism to prioritise certain elements of the contract i.e. those linked to ERDF funding targets and areas that would pose a higher risk to the Council e.g. Health & Safety considerations. The change means that scores can be assessed more broadly rather than being dictated by the lowest scoring factor. The revised contract clauses will be presented to the Strategic Policy and Resources Committee for authorisation.

3.15

Updated Year 2 Annual Service Plan April 2017 – March 2018

As mentioned above, the Year 2 Annual Service Plan (April 2017 – March 2018) has been updated to incorporate key lessons learned from the year 1 Annual Performance Review. This report summarises updated Key Performance Indicators (KPIs) for the coming financial year. Members should note that the next Business Plan (beginning April 2018) will be for a three-year period. It was agreed that year 1 and 2 would each be for a one-year period, due to this being a period of transition and in order to ensure that learning was being picked up and implemented on a regular basis.

3.16

Some of the headline indicators for the Year 2 Annual Service Plan include:

- Occupancy forecast to be 24% of available space by year end, in line with projections. Note that this is scheduled to increase to 43% in year 3; 76% in year 4 and 85% in

year 5. 85% is defined as full occupancy to allow for churn and growth of tenants within the Centre;

- Number of jobs at the Centre set to increase from 46 to 107 in the course of the year;
- Business Support programmes to focus increasingly on innovation support, in line with customer feedback;
- Additional events to encourage networking and collaboration to take place on a quarterly basis.

3.17

In addition to the economic focus of the Centre, social regeneration is a key element of the work programme at the Innovation Factory. The Annual Performance Review 2016-2017 identified that, while there was a significant volume of activity and engagement, it was difficult to quantify the deliverables. As a result, the following amendments have now been made to the year 2 plan:

- The Community Engagement Officer will focus activity on a number of priority tasks including skills development, work placement provision and establishing a 'buy local' supply chain platform. Tenant engagement in social regeneration activities will also be a priority for 2017-2018 as the occupancy in the Centre increases.
- A small budget has been allocated to the Community Engagement activities to allow new and innovative projects to be developed. The Community Engagement Officer will also work closely with the Council's Community Services and Economic Development teams to capitalise on other engagement activity with local young people in order to build skills, promote positive role models and encourage entrepreneurship.

3.18

In partnership with Invest Northern Ireland, Oxford Innovation have developed a soft landing, 'plug and play' option at Innovation Factory. This is aimed at attracting investment companies who want to mobilise quickly in the location and who may use this as a base from which to explore the viability of a larger presence in Belfast. By locating the space at this Centre, there are also opportunities to encourage potential collaborations with Centre tenants and to build local supply chains.

3.19

In order to ensure that this service is able to respond to client needs, it is proposed that the Director of Development – as the Senior Responsible Officer for this project – has delegated authority to grant access to the suite for relevant users, against a set of pre-agreed criteria. Any financial incentive would be agreed in collaboration with Invest Northern Ireland. This will be tabled to a future meeting of SP&R Committee for approval.

|                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>3.20</p> <p>3.21</p> <p>3.22</p> | <p>The updated business plan KPIs for Business Support and Social Regeneration activities to the period ending March 2018 are attached as Appendix 1.</p> <p><u>Financial &amp; Resource Implications</u></p> <ul style="list-style-type: none"> <li>• Annual Performance Review 2016-2017</li> </ul> <p>A 10% reduction has been applied to the annual management fee due for 2016/17 in line with the contract Payment Mechanism.</p> <ul style="list-style-type: none"> <li>• Revised Annual Service Plan 2017-2018</li> </ul> <p>The Year 2 business plan has been prepared in accordance with the financial model submitted as part of the original tender submission for the management of the Centre. These projections were taken account of in the Economic Development revenue estimates for the 2017/18 financial year. Income and expenditure aligned with occupancy and usage are consistent with the original submission.</p> <p><u>Equality or Good Relations Implications</u></p> <p>The Innovation Factory Project has been equality screened and the Social Regeneration Activities detailed within the Year 2 Annual Service plan will further develop equality and good relations impacts of the Centre.</p> |
| <p>4.0</p>                          | <p><b>Appendices – Documents Attached</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|                                     | <p><b>Appendix 1: Annual Service Plan Year 2 – Updated KPIs</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |