

# Evaluation of Ayrshire Innovation Centre

Final Report

for

Scottish Enterprise Ayrshire

April 2007



*economic development & regeneration*

**Registered Office: Glasgow**

St George's Studios  
93-97 St George's Road  
Glasgow, G3 6JA

Tel: 0141 353 1994

**Inverness**

10 Culduthel Mains Crescent  
Inverness  
IV2 6RG

Tel: 01463 729294

Registered in Scotland Reg No 145099

email: [ekos@ekos.co.uk](mailto:ekos@ekos.co.uk)

web: <http://www.ekos-consultants.co.uk>

# Contents

1.	Background	1
2.	Review of AIC	4
3.	Consultation Programme	13
4.	Tenant Survey	18
5.	Counterfactual Survey	32
6.	Economic Impact Assessment	40
7.	Conclusions and Recommendations	49
	Appendices	56

# 1. Background

## 1.1 Project Background

The Ayrshire Innovation Centre (AIC) was established (in its original format) in 1995 and is located within Irvine's Riverside Business Park. It aims to meet the needs of high growth start-up businesses through providing both accommodation (subsidised during early months of trading), tailored business development support and office/administration services.

A total of 11 incubator suites are available to let on flexible terms at the AIC and in addition, there are four second generation suites available on an annual lease basis.

Alongside the professional office accommodation, its associated services and administration support offered within the Centre, Scottish Enterprise Ayrshire (SEA) provides tenants with a wide range of business support, including a tailored package of development resources and hands-on assistance through a dedicated client manager.

The Centre also houses SEA's E-business Demonstration Centre, which provides advice and guidance on e-commerce and technology issues both to tenants and also to the wider Ayrshire business base.

The AIC was extensively refurbished in 2003 and since then it has supported 20 high growth companies within the incubator and second generation suites – the key target group for the Centre.

This evaluation considers the economic and other impacts that the AIC has had on the performance of, and outputs from, tenant companies within the incubator units and the second generation suites. This will assist SEA's understanding of the value in supporting this type of property intervention both currently and in the future.

## 1.2 Study Objectives

A number of study objectives were identified by SEA and these have been addressed throughout various stages of the evaluation:

- assess the success of the Centre in meeting its main objectives and targets as defined in relevant approval papers;
- assess the extent to which the objectives are still valid;

- compare the projects forecast and achieved running costs and income;
- evaluate the effectiveness of the graduated rental policy on company performance;
- comment on the rental level in the centre compared with other relevant locations;
- assess the impact of the centre and the support services on business growth;
- compare growth of supported companies with non supported companies;
- assess the impact of the centre in supporting SE Ayrshire's High Growth Strategy;
- review the rental policy for second generation accommodation; and
- consider the case the future for an Ayrshire Innovation Centre.

This evaluation addresses each of these objectives. Chapter 7 presents our overall study conclusions for each and considers the extent to which they have been achieved, or otherwise for the AIC.

### 1.3 Study Method

The evaluation was conducted over four stages between January and March 2006, as detailed below:

- **Stage One:** inception meeting and desk based review;
- **Stage Two:** consultation programme;
- **Stage Three:** fieldwork programme; and
- **Stage Four:** economic impact analysis and reporting.

## 1.4 Format of Report

The remainder of this report is structured as follows:

- **Chapter two** reports the findings of our desk based review which assessed the operational and financial performance of the AIC from its refurbishment in 2003 until March 2007;
- **Chapter three** summaries the output from the consultation programme;
- **Chapter four** outlines the results of the interviews carried out with current and previous tenants of the AIC – a vital stage in identifying the economic impacts of the Centre;
- **Chapter five** summarises the output from the counterfactual survey of non-tenant businesses enabling comparison of business growth between supported and non-supported companies;
- **Chapter six** assesses the economic impact of the AIC in terms of employment, salaries and GVA; and
- **Chapter seven** provides our overall study conclusions and recommendations.

## 2. Review of AIC

This chapter provides a desk based review of the AIC and is based on information provided by SEA and its AIC management/delivery contractors – Strategem and Falcon Management. As such the accuracy of the information is not warranted or guaranteed by EKOS.

### 2.1 Introduction

#### Background

In October 2002 approval was sought from SE Ayrshire for the refurbishment of the Riverside Incubation Centre, Irvine. The building had a number of occupiers including: SMEs, Small Business Gateway, Ayrshire Software and Ayrshire Business Technology Centre and the Liverpool Victoria Friendly Society Ltd. However, in 1999, the private sector tenant moved out of the premises and in 2002 Small Business Gateway was relocated to SE Ayrshire offices in Kilmarnock, freeing up additional space for customer use.

A full options appraisal was carried out internally by SE Ayrshire to examine the future operation of AIC and two studies<sup>1</sup> were commissioned to assess the impact of the business incubation units and views of existing tenants on service provision.

The appraisal identified that:

- current tenants enjoyed having access to superior technological support equipment and business growth support provided by the Gateway Team;
- there was some criticism regarding the quality of the building, availability of common services and impractical conference/meeting room sizes;
- the Centre was running at a loss and required substantial SEA financial support which was not sustainable;

---

<sup>1</sup> Scott Associates was commissioned to undertake a study to assess the impact of the business incubation units on the companies who had utilised Centre facilities. Strategem was commissioned to survey existing occupiers of the Centre to obtain their views on service provision, identify comparable centres in West Central Scotland and analyse potential demand for high growth incubator space in Ayrshire.

- rental levels within the Centre were substantially lower than market rental levels for similar types of properties in Ayrshire; and
- the Centre had created a benign environment from which many companies did not wish to progress, with the number and quality of companies graduating from the Centre comparably low.

The refurbishment and indeed implementation of a new operational strategy for the Centre in 2003 was developed as a response to tackling these issues.

### **Revised AIC Operational Strategy**

Following two SEA approval papers (October 2002 and February 2003)<sup>2</sup>, refurbishment of the Centre took place and a revised operational strategy was implemented. The layout of the building was upgraded to encompass 11<sup>3</sup> incubator units and four second generation business suites alongside a communal networking area. The E-Business demonstration centre (formally known as the Ayrshire Business Technology centre) remained on the upper floor of the AIC.

The target market for the AIC incubator units became high growth business start-up companies. A strict entrance evaluation process was implemented by SE Ayrshire to ensure occupancy by this target group, which meant that all tenant must:

- have the potential to achieve sustained growth of a minimum of £750,000 in turnover over a three year period and/or 15 employees; and
- businesses must also meet the majority of the following conditions:
  - innovative product or service
  - limited displacement
  - market potential beyond the UK
  - prior management or business experience
  - personal commitment of owners.

---

<sup>2</sup> October 2002 approval: £675,625 – 50% to support Centre refurbishment and 50% towards revenue cost for running the Centre until end of the 2005/06 financial year. February 2003 approval: £85,000 was to refurbish the second generation business accommodation.

<sup>3</sup> Initially 16 incubator suites were proposed as part of the AIC upgrade, however due to the location of some of these suites and the requirement for additional small meeting room/photocopying space the number of units was reduced to 11.

All incubator unit tenants must be willing to be client managed by an SE Ayrshire business adviser whilst operating from the AIC, allowing for tailored business development support to be provided.

The AIC offers a staggered pricing policy dependant on the age or stage of business development as identified in **Table 2.1**.

<b>Table 2.1: AIC Rental Pricing Policy</b>					
Business Stage/Trigger Date	Pre-Start	Trading	12 Months	18 Months	24 Months
% Rent Payable	25%	50%	75%	100%	110%

SE Ayrshire client managers monitor the growth of tenants during their tenancy within the AIC and the company progresses along the rental pricing policy outlined in **Table 2.1** as they expand and fulfil their business plan targets. Exceptions to this pricing and graduation policy are made on a case by case basis upon negotiation with SE Ayrshire.

At the end of the 24 month period, tenants should ideally leave the AIC incubator unit and move to alternative business premises in Ayrshire with the relocation assistance of SE Ayrshire's Global Connections Team.

The four self contained office units (the second generation suites) are one relocation option for tenants graduating from the incubator units. These second generation suites are leased on an annual basis and are not subject to the same tenant selection criteria, graduation or rental price polices in place for the incubator units.

Lastly the management of the AIC changed following the refurbishment in 2003. SEA sought to separate responsibility for delivering business development support and facilities management of the Centre to improve operational efficiency and assist in reducing the property-based subsidy required by the LEC.

For this purpose SEA appointed a management agent (Falcon Management) to run the Centre e.g. issue leases, collect rents, provide common services. This management structure remained in place until the end of June 2006.

In January 2006, further approval was sought from SEA to support the running of the centre until 2008/09 and to extend the services contracted to include facilities management alongside delivery of events and demonstrations of technology. Strategem were awarded the contract, which is designed to ensure that AIC is recognised as a centre for innovation and demonstration of latest business improvement technologies as well as a business incubation facility. Strategem subsequently sub-contracted the facilities management element to Falcon Management.



## 2.2 Operational Review

The following section reviews the operational performance of the AIC since its refurbishment in early 2003 until March 2007.

Six key objectives were identified within the August 2002 and February 2003 SEA approval papers for both the incubator and second generation suites. Alongside the study objectives outlined in **Section 1.2** we have identified fulfilment, progress or otherwise against the following approval paper objectives in various sections of this report.

***The August 2002 SEA approval paper (relating to the Incubator Facility) identified the following objectives:***

1. support four to six high growth start-up companies per annum who are looking for suitable accommodation and business support to develop their company through the initial two-year period of their existence (*see section 2.2*);
2. reduce the net cost of operating the Centre in line with the anticipated outcomes (*see section 2.3*); and
3. develop the effectiveness of the Centre and the business management services provided to the companies (*see Chapters 3, 4 and 5*).

***The February 2003 SEA approval paper (Relating to the second generation suites) identified the following objectives:***

4. retain companies within the Business Park who have graduated from the Incubation units within the Centre (*see section 2.2*);
5. support the continued development of high growth companies who are looking for suitable second generation accommodation (*see section 2.2*); and
6. develop the Riverside Business Park as a credible business location to those companies who have a small to medium sized office requirement (*see Chapters 4 and 5*).

Based on tenant records since 2003, the AIC has accommodated a total of 20 high growth business start-ups across both the incubator and second generation business suites. **Table 2.2** highlights the annual business intake for the Centre and the incubator facility.

<b>Table 2.2: AIC High Growth Business Start-up Intake</b>		
	Overall Centre Intake	Incubator Unit Intake Only
Prior to Refurbishment	2	2
2003/04	1	1
2004/05	4	4
2005/06	9	9
2006/07	4	4

Examination of the annual business entry dates shows that the centre has met the target of supporting four to six companies per annum in the last three years within the incubator facility (in total, though not on an annual basis). 2005/06 was a particularly successful year with nine businesses entering the Centre.

Evidently an occupancy lag occurred in 2003/04 as a result of the refurbishment of the Centre and implementation of the new operating strategy and management structure, as shown by the low intake for the Centre and the incubator units in that year.

**Table 2.3** further illustrates the occupancy data for the centre over 2003/04 to 2006/07 period.

<b>Table 2.3: AIC Occupancy (March 2007)</b>	
Total No. Tenants (2003/04-2006/07)	20
- Incubator Tenants Only	15
- Progressed Tenants	5
No. Current Tenants (March 2007)	12
- Incubator Tenants Only	8
- Progressed Tenants	4
Average Length of stay to date (Incubator Tenants)	12 months
- Max Length of Stay	25 months
- Min Length of Stay	3 months
Average Length Stay to date (Progressed Tenants)	47 months
- Min Length of Stay	21 months
- Max Length of Stay	83 months

Of the 20 businesses that have located within the AIC since its refurbishment in 2003, three quarters remained within incubator units and the remainder progressed from incubator units to the second generation suites.

At present all four larger second generation suites are occupied in the Centre and 8 of the 11 incubator units. As expected, the average length of stay<sup>4</sup> for tenants in the incubator units is substantially lower (35 months lower) than for tenants that have progressed into the second generation suites.

In terms of the ability of the AIC to retain companies that have graduated from the incubator units (objective 4) and to support continued development of high growth companies that are looking for suitable second generation accommodation (objective 5), to date the five tenants that previously/currently occupy the larger second phase accommodation have progressed from incubator units in the Centre. Positive progress against both these qualitative objectives has therefore been achieved.

## 2.3 Financial Review

The following section focuses on the financial performance of AIC from its refurbishment in early 2003 until March 2007<sup>5</sup> based on data made available from SE Ayrshire and facilities management contractors Falcon Management.

It is important to note that due to a number of changes in the contractual and internal SE Ayrshire management and monitoring of financial performance of the AIC since 2003/04, the level of complete financial data for each of the financial years examined was limited. We have therefore reported on the key financial indicators for the Centre, avoiding the usage of incomplete and therefore misleading financial data.

**Table 2.4** summarises the financial performance of the AIC over the evaluation period.

<b>Table 2.4: Financial Performance of the AIC</b>				
	2003/04	2004/05	2005/06	2006/07
<b>Operating Costs</b>				
Forecast Operating Costs	£495,000	£145,000	£145,000	£240,000
Actual Operating Costs	£498,157	£227,641	£215,089	£229,821
Variance (Forecast-Actual)	-£3,157	-£82,641	-£70,089	£10,179
<b>Income</b>				
Actual Income	N/A (1)	£206,069	£79,894	£122,822
<b>Income - Costs</b>	<b>N/A (1)</b>	<b>-£21,572</b>	<b>-£135,195</b>	<b>-£116,999</b>

(1) Actual income figures for the AIC in 2003/04 were unavailable.

<sup>4</sup> Average length of stay in both the incubator and second generation units based on current and previous tenancy to date (as of March 2007).

<sup>5</sup> Best fit financial years 2003/04 until 2006/07 have been examined to review financial performance of the AIC.

Looking firstly at the operating costs of the Centre since 2003/04, it is evident the initial operating costs were substantially higher than later years due to the refurbishment works.

One of the study objectives as set out in the study brief was to compare forecast and achieved running costs and income at the Centre. Forecast operating costs outlined in **Table 2.4** have been taken from the SE Ayrshire approval papers and show that actual expenditure exceeded the forecasts from 2003/04 until 2005/06.

In 2006/07 however the Centre did operate within its forecast costs – achieving a £10,179 cost efficiency. This is likely, at least in part, to be attributed to the decision to contract management functions to an external contractor in June 2006.

With respect to Centre income, forecast income data was not outlined in the aforementioned SE Approval papers for the project, therefore no comparison for forecast and achieved income could be made. Furthermore income data for financial year 2003/04 was not available.

What the available income data outlined in **Table 2.4** does highlight, however, is a significantly higher income level in 2004/05 compared with later years. This can be explained by the receipt of ERDF capital and revenue funds (£168,752) claimed by the project in 2004/05 to support the refurbishment works.

Comparing the Centre income against operating costs for the last three financial years shows that the deficit at which the AIC was operating at, increased substantially once additional public financial support (in this case ERDF funding) ceased. Between 2005/06 and 2006/07 there was a slight reduction the over operating deficit, however it was still at a significant level (51% of overall operating costs). The financial performance of the Centre has therefore not improved greatly despite substantial cost savings in the financial last year.

## 2.4 Comparator Review

As part of our desk based research we examined the rental levels of other serviced business centre accommodation in Ayrshire across Scotland to draw some initial comparators for the AIC in terms of their current occupancy level and staggered rental policy. This encompassed a web based search of other SE business centres, a detailed Ayrshire level search on the Scottish Property Network (SPN) website and where possible telephone consultations with relevant business centres<sup>6</sup>.

---

<sup>6</sup> Colliers, East Dunbartonshire Enterprise Trust and SE Borders.

Given the size and innovation focus of the centre it was difficult to identify any directly comparable business centres, therefore we focussed our review towards serviced office accommodation centres that provide smaller units (100 – 300 sq ft) similar to the AIC incubator units.

Based on this comparator review we were able to identify the following:

- the current (100% rental charge) of £45 per sq ft (inclusive of full service charges and business rates but exclusive of VAT) for an incubator unit within the AIC is higher than competitors:
  - for other SE led/partnership serviced business centres the typical rate for an incubator unit is between **£15- £19** per sq ft. This does not include communications, electricity or business rate charges
  - other innovation centre serviced business centre accommodation rentals in the region of **£37 per sq ft** – inclusive of all service charges and business rates
  - private sector serviced business centre office accommodation across Ayrshire seek rentals of between **£9 - £12** per sq ft exclusive of full service charges and business rates
  - private sector office accommodation across Ayrshire within a non serviced Business Centre and typically for larger units (400-800 sq ft) currently charge between **£13-£17** per sq ft which includes no additional services or business rates;
- the current AIC staggered pricing policy is not an approach adopted in other SE led business centres:
  - rental reductions in other centres were typically offered on an ad hoc basis under the guidance of the LEC and usually in the form of a 50% initial rent reduction for the first 6 months of trading for an SME;
- the 24 month stay policy within the incubator units of the AIC is not a policy adhered to in other (private or public) serviced business centres – even those targeting SMEs; and
- the availability of smaller (incubator) serviced office accommodation across Ayrshire is low – current accommodation is typically in the form of larger (300-800 sq ft) individual office units of a lower quality and within a Town Centre location.

We would therefore comment that while we find the current (100%) £45 per sq ft rental charge for incubator units at the AIC competitive, it is very difficult to make a direct comparison given the lower quality and different type of property (in size and in terms of the level of additional service provision) available in Ayrshire.



The staggered rental policy of the Centre, which would result in an initial rental charge of £11.25 per sq ft (75% reduction) does not appear to be replicated elsewhere within Ayrshire or across other SE led property projects does not appear to be competitive.

### 3. Consultation Programme

In order to gain a broader perspective on the performance and strategic contribution of the AIC, face to face consultations were carried out with five individuals involved in the project from SE Ayrshire, Falcon Management and Strategem.

A range of issues were covered including:

- views on Centre performance since its refurbishment in 2003;
- perception of the impact that the Centre is having on tenants;
- key difficulties/constraints in operating the AIC over the past four years;
- the extent of market failure in serviced office provision within Ayrshire;
- key strengths, weaknesses, opportunities and threats of the Centre;
- key lessons for the AIC in the future; and
- SE Ayrshires role regarding the AIC in the future.

Not all of these issues were relevant to all organisations and the consultations were tailored to fit the particular organisation being consulted. In addition, the output from the consultations is presented in aggregate form and reflects the general consensus of the Consultees. In particular, no reference or attribution is made to any specific organisation or individual.

Each of the consultees and their associated organisations have been involved to varying degrees in the past and current management and strategic operation of the Centre and provided valuable context relating to the AICs development and performance.

In general terms, the consultees were very supportive of the objectives and activities of the AIC and expressed a desire to see it continue in the future. However, from a public sector intervention perspective it is clear that there is a level of doubt about whether the Centre is generating sufficient economic development impacts and consequently value for money. This doubt puts into question the rationale for future SEA support for the Centre.

### 3.1 Performance of AIC

Prior to the refurbishment of the AIC, consultees agreed the Centre had not been operating effectively. The centre was of poor quality and had become a location for stagnating lifestyle businesses that lacked any real focus. The decision to make the Centre innovation focussed and for incubator units to exclusively accommodate high growth business start-ups was viewed as a positive and necessary step to change the direction of the Centre following refurbishment. As a result of this change, the operation and associated performance of the AIC followed and supported SEA priorities.

Consensus was shown among the consultees regarding performance improvements since AIC refurbishment, however, views concerning performance since then are mixed. Operationally the centre is felt to meet its objectives based on the number of high growth businesses being accommodated each year and the relatively high occupancy levels sustained since refurbishment.

However there was some concern with regard to the level of additionality being created as a result of this form of intervention. Some of the consultees were dubious as to whether the AIC had generated benefits to tenant businesses and therefore wider economic development benefits to the Ayrshire economy, which could not have occurred in the absence of the Centre.

One of the key performance issues discussed with consultees was their view on how well integrated the property and business development support were at the AIC. The recent contractual alterations to the management model of the Centre were felt to have further helped to define SE Ayrshire's role as being solely business development focused. This was identified as being a positive step forward to improving the operational and financial performance of the Centre as well as ensuring better integration of property and business development functions.

### 3.2 Impact of the AIC on Tenants

The AIC was recognised by consultees as providing excellent quality serviced accommodation at a fraction of the market rate. This range and quality of incubator units alongside the staggered rental policy and tailored business development assistance provided by SEA was felt to have a positive impact on high growth business start-up tenants.



Given the supportive operating environment of the AIC and preferential rental agreements, tenant companies were considered to be in a better operating position than other non-tenant high growth start up companies in Ayrshire. The potential for spin off benefits amongst tenants was also highlighted given the current tenant selection criteria ensuring all businesses operated in high growth sectors and the networking accommodation within the Centre itself.

With respect to the tenant selection criteria, most of the consultees supported the concept as it ensured the centre was occupied by growing companies and would help prevent the pre-refurbishment occupancy era, when the Centre was largely occupied by companies with limited, or no, growth aspirations.

There was some concern raised however regarding the size of the high growth business start-up base in Ayrshire over recent years and the level of churn, also whether the current tenancy selection criteria was the cause of current vacancies in the incubator facility.

The staggered rental policy was another area discussed with consultees as it its impact on tenants. Generally the full (100%) rental charges were considered to be competitive with other serviced business centre accommodation in Ayrshire and the West of Scotland. Adopting this competitive rate therefore and raising the rental to 110% after 24 months was still regarded as an effective means of ensuring tenant turnover in the incubator units.

The staggered rental rates and particularly the initial 25% rate was felt to be too low, particularly as this doubled within six months. The need for smaller increments and a higher initial rental rate for the incubator units was therefore identified by a number of the consultees.

A number of the consultees felt that the business performance of past and current tenants would have been compromised in some way had the AIC not been in place, this would have been as a result of paying higher business accommodation charges or operating from unsuitable premises. The actual extent to which this occurred was identified as a key objective of the evaluation as it could substantiate or otherwise the public sector intervention.

### 3.3 Key Difficulties and Constraints

The following section outlines the key difficulties and constraints identified by consultees in operating the AIC since 2003 alongside the measures used to address them:

- creating separation in the minds of tenants with regards to SEA involvement/influence (apart from business development support provision) within the Centre:

- the decision to contract out facilities management and event/marketing activities to Strategem/Falcon Management greatly assisted in ensuring tenants approach contractors in relation to property development and SEA in relation to business development issues; and
- poor marketing of the AIC:
  - this is now a key component of the Strategem contract and a new programme of events has recently been developed for the Centre as a first step to address this issue.

### 3.4 Market Failure Rationale

The poor quality, scale and availability of serviced office accommodation within Ayrshire and particularly North Ayrshire was widely recognised by all consultees. They felt that the property market had remained fairly static in recent years and therefore from a market failure perspective the case for SE Ayrshire supporting the AIC was still valid.

Other business centre units and office accommodation was available throughout Ayrshire but none of them provided the range of services and the business development support in particular which was available to AIC tenants. In short only second rate accommodation, not tailored to high growth business start-up or indeed any particular sector, was available.

Consultees noted that the extent of market failure has been demonstrated by the level of interest in the Centre over recent months. Ten company enquiries over the past 3/4months – none of which however where suitable tenants given SEA tenant selection criteria.

### 3.5 Future of the AIC

Consultees identified the following strengths, weaknesses, opportunities and threats in relation to the AIC:

- strengths:
  - its location within an established business estate setting and proximity to Irvine and the A71
  - building quality – refurbished to a high quality standard
  - provision of tailored business development support by an SE advisor;

- weaknesses:
  - the level of financial public sector support required to maintain the centre
  - current incubator suite vacancies (3 units – March 2007)
  - the centre's external environment – proximity to tip site;
- opportunities:
  - increased use of the E-Business Demonstration Centre and training room as a means of income generation and marketing of the Centre
  - increased marketing and awareness raising of the Centre
  - potential for a phase two development to further support the second stage property development of high growth business start-ups in Ayrshire; and
- threats:
  - the age of the IT equipment within the training room facility of the Centre
  - as ICT becomes a prerequisite for more businesses the usage of the E-Business Demonstration Centre and training room within the AIC will further decline
  - availability of future SEA financial support.

In terms of the case for the AIC in the future, based on the market failure issues discussed above, the perceived demand for accommodation within the centre and the recognition that it can positively impact on high growth business start-up performance, though consultees found this hard to quantify, most of the consultees believed there was a need for the AIC to continue in the future. From SEA's perspective however, the fundamental objective of this evaluation was to identify the impact and consequent case for the Centre in the future.

## 4. Tenant Survey

### 4.1 Introduction

This chapter outlines the results of a survey with current and previous AIC tenants. It was envisaged that face to face consultations would be conducted with all current tenants of both the incubator units and secondary suites within the Centre, alongside a telephone survey of available past tenants.

Unfortunately, despite numerous attempts to arrange consultations, interviews were completed with nine out of 12 (75% response rate) of the current Centre tenants and with two past tenants (from a total sample of five). **Appendices A and B** provide a copy of the two different questionnaires used to survey these tenants.

The key objective of the tenant survey stage was to identify the impact of the AIC on business outputs and performance. Furthermore, the survey assessed the facilities and business development support available to tenant companies.

General topic areas discussed included:

- business characteristics;
- tenancy details;
- business impacts of the AIC;
- pull factors of the AIC; and
- views on alternative property in Ayrshire and surrounding area.

### 4.2 Tenant Sample Characteristics

The start-up dates of the tenant business sample ranged from 1999 through to 2006. **Table 4.1** over highlights the current business life cycle stages of current and previous tenants. More than half of the respondents that are current tenants of the Centre identified themselves as new businesses.

<b>Table 4.1: Business Lifecycles</b>				
	Start-up	New Business	Existing 3yrs+	Existing 5yrs +
Current AIC Tenants	2	5	1	1
Past Tenants	0	1	0	1

Business sectors represented by respondents varied, however the majority were software and IT related businesses and they all fitted within the wider innovation sectoral definition. The main business sectors include:

- software/development (5 companies);
- IT support (3 companies); and
- finance and consultancy (2 companies).

**Tables 4.2 to 4.4** summarise the employment, turnover and profit levels of current and past tenants. Furthermore, they also highlight past and forecast employment, turnover and profit levels, helping to show business performance trends across a range of measures both prior to, currently/ on leaving the AIC and future forecasts.

<b>Table 4.2: Employment</b>						
	Full-time Employees			Part-time Employees		
	Moved into AIC	Currently/ Leaving AIC	Forecast (3 years)	Moved into AIC	Currently/ Leaving AIC	Forecast (3 years)
0 to 5	11	11	4	11	3	2
6 to 10	0	0	4	0	1	0
11 to 25	0	0	3	0	0	0
25+	0	0	0	0	0	1
Total No. employees	28	37	82	0	12	122

**Table 4.2** shows that in terms of employment:

- the sample accounted for a total of 28 FTEs when they first began operating from the AIC;
- the sample currently accounts for 43 FTEs, an increase of 54%; and
- employment is expected to rise to 143 FTEs within three years for current numbers, an increase of 233%.

<b>Table 4.3: Turnover</b>			
	Moved into AIC	Currently/Leaving AIC	Forecast (3 years)
Nil	9	0	0
Under £50k	1	3	0
£50-£149k	1	3	1
£150-£249k	0	2	1
£250-£499k	0	2	0
£500-£749k	0	1	2
£750-£999k	0	1	1
£1-£2.49m	0	1	2
£2.5-£4.99m	0	0	2
Over £5m	0	0	0
Don't know	0	0	2

Our analysis shows that nine of the surveyed companies have increased their turnover bracket since locating at the Centre. Further points raised in **Table 4.3** include:

- three companies currently have turnover in excess of £500k; and
- four companies predicted they would generate over £1m in three years.

**Table 4.4** over shows the profit levels of surveyed companies within a number of ranges.

<b>Table 4.4: Profit</b>			
	Moved into AIC	Currently/ Leaving AIC	Forecast (3 years)
Negative	5	6	0
Breaking Even	3	0	0
Under £50k	0	2	3
£50-£249k	0	0	1
£250-£499k	0	0	0
£500-£999k			2
Over £1m	0	0	2
Don't know / No comment	3	3	3

The analysis shows that, as would be expected, all respondents were either not profit making or breaking even when they began trading from the AIC. Since being located in the Centre one of the respondent companies has seen a decrease in profits and is now operating at a loss. Two companies have reported an increase in profits, both in the under £50,000 category.

Further to this, predicted increases in profit over the next three years were identified by seven of the eight respondent companies, four of these were over £500,000.

The justification provided by respondents for changes and predominately increases in employment, turnover and profit levels was related to natural business growth and expansion. This explanation is feasible given that all of the respondents would have been identified as high growth businesses upon entering the Centre.

### 4.3 Suitability of AIC

This section examines the survey respondents views on the suitability of the AIC for their particular business across a number of key Centre characteristics.

**Table 4.5** begins by outlining respondents' views on the current rental terms of the Centre.

<b>Table 4.5: Do Rental Terms Meet Business Needs</b>					
Max 24 month Stay		Inclusive office, security, parking, rates etc		Rental Charges (Current rate & Staggered Policy)	
Yes	No	Yes	No	Yes	No
6	5	11	0	7	4

The current £45 per sq ft rental charge for incubator units (and variable rate for the secondary suite accommodation) within the AIC is inclusive of all costs for tenants such as business rates, security, facilities management etc with the exception of VAT. All respondents reported that having this inclusive charge was beneficial and met their business needs.

With respect to the level of rental charges and the staggered rental policy as outlined in **Table 2.1**, views were mixed on their suitability against business needs. The majority of respondents (64%) said the current rental policies met businesses needs but one-third (four companies) disagreed with this point.

Views were also mixed with regards to the 24 month maximum stay policy in the incubator facility of the centre. Five respondents stated the policy didn't meet their business needs and in fact two of these companies stated they were unaware of this policy.

Six respondents stated that the maximum stay policy was appropriate – however half of these businesses had progressed into the secondary suite accommodation. Such businesses were therefore not adversely affected by the policy on leaving the incubator facility and consequently more likely to rate this particular characteristic of the centre positively.

**Table 4.6** focuses on how the size and type of premises within the AIC met business needs at present and for the future, and in the case of the two past tenants how the Centre met their initial business needs and requirement on leaving the Centre.

<b>Table 4.6: Did property meet business needs</b>				
	Size of Premises		Type of Premises	
	Currently/Moved into AIC	Prior to leaving/In future	Currently/Moved into AIC	Prior to leaving/In future
Yes	10	9	10	9
No	1	2	1	2

In general, respondents rated the size and type of premises highly in terms of meeting their business needs both currently and when they moved in the Centre and in the future or prior to leaving.

**Table 4.7** over, further shows how the respondents rated the individual one-off service charges of the centre. Generally the charge payments were viewed as reasonable, however, it is important to note that many of the companies identified low usage of the additional services listed, which would have affected their judgement with regards to the reasonableness of current costs.

<b>Table 4.7: Are Charges for Services Reasonable?</b>			
	Yes	No	Unsure
Meeting Room	8	1	2
Board Room	7	2	2
Photocopying	8	1	2
Fax	7	1	3
Bind	7	1	3
Projector	7	1	3
Laptop	7	1	3
Lap Projector	7	1	3
Marketing stand	7	1	3



## 4.4 Direct Impact of the AIC

An important aspect of the study is to examine what direct impacts the AIC has had on business performance, in particular examining its effect on business start-up and growth.

The following section summarises the views of respondents' in terms of how the Centre directly impacted on their business. This section is not an assessment of the economic impact of the AIC – this issue is addressed within **Chapter 6** – but provides an indication of its overall impact.

**Table 4.8** shows the extent of impact that the Centre had on those respondents that began operating from the AIC (10 out of the 11 respondents for whom the AIC was their first formal business location).

<b>Table 4.8: Impact of the AIC on Business Start-up and Growth</b>				
	Business Start-up		Business Growth	
	Property Support	Business Development Support	Property Support	Business Development Support
Very Positive	4	3	4	3
Positive	5	2	2	3
No Effect	1	5	3	3
Negative	0	0	1	1

**Table 4.8** highlights that:

- in terms of supporting business start-up, past and current tenants rated the property assistance higher (9 positive/very positive ratings) than the business development (5 positive/very positive ratings) assistance within the centre;
- in terms of supporting business growth the rating given by respondents for property and business development assistance was equal (6 positive/very positive ratings); and
- the only one previous tenant of the Centre felt that the property and business development support provided at the AIC had actually negatively impacted on their business growth.<sup>7</sup>

Overall, the past and current tenants of the AIC were able to identify positive impacts on their business start-up and growth as a consequence of the property and business development support they had received.

---

<sup>7</sup> This particular business was dissatisfied as a result of not receiving public sector grant funding. This has potentially shadowed their responses to this particular question

Furthermore, businesses were further asked if they could directly attribute any increase or safeguarding of company employment or sales as a direct result of their decision to locate within the AIC. The results are summarised in **Table 4.9**.

<b>Table 4.9: Employment and Sales Attribution</b>		
	Currently	Within 3 Years
<b>Employment</b>		
Number of respondents attributing new employment	3	2
- Total number of FTEs attributed	7 FTEs	3 FTEs
Number of respondents attributing safeguarded employment	1	0
Total number of FTEs safeguarded	3 FTEs	0
<b>Business sales<sup>8</sup></b>		
No of respondents attributing new sales currently	1	0
- Total sales attributed currently	£462,000	£0
Number of respondents attributing safeguarded sales	4	1
Total sales safeguarded	£35,000	£15,000

From **Table 4.9** we can see that less than of respondents were able to attribute actual employment and business sales impacts to their decision to operate from the AIC and that it was more difficult for them to determine potential impacts in the future.

We would expect this to be the level and type of response, however, given that businesses would deem their own hard work alongside a wide range of factors (e.g. unique business concept, key clients, marketing etc) as the source of business success and find it very difficult to identify the impact of public sector support to business growth.

Nevertheless, the sample were able to determine that some 10 FTEs had been created or safeguarded as a consequence of the their decision to the locate within the Centre (27% of the employment identified in the Centre currently or on leaving from **Table 4.2**) with a further 5 FTEs likely to be created/safeguarded in the future. Moreover, five respondents identified some type of sales impact as a result of the AIC.

The main reasons reported for employment and sales attribution to the AIC relates to the fact that businesses could concentrate on the business growth/sales aspect of their business at the start-up stage and not have to worry about sourcing suitable premises and services such as communications, cleaning and property maintenance.

---

<sup>8</sup> Business sales levels were determined based on the responses made by companies and calculating their actual current and turnover levels using mid-point analysis.

## 4.5 Market Characteristics

The following section highlights the geographical spread in terms of markets in which current and past tenants of the AIC currently operate. The results of this section were used later on in the economic impact assessment of the evaluation to assess levels of displacement.

In terms of the distribution of current business sales, **Table 4.10** shows that whilst all of the respondents operated in Ayrshire this did not account for a large proportion of their overall business activity (11 respondents identified that between one and 25% of business sales were made in the Ayrshire area).

**Table 4.10** further highlights that all of the respondents were engaged in some level of exporting activity – for the majority this represented between one and 25% of their business sales.

<b>Table 4.10: Distribution of Sales</b>				
	Ayrshire	Rest of Scotland	Rest UK	Outwith UK
1- 25%	11	5	3	9
26% - 50%	0	3	3	1
51% - 75%	0	0	5	1
75%+	0	3	0	0

**Table 4.11** further illustrates that whilst the majority of respondents could identify some type of competitor (often this was not what they considered as a direct competitor) within the local economy, the rest of the UK and indeed outwith the UK was where key competitors operated.

<b>Table 4.11: Distribution of Competitors</b>				
	Ayrshire	Rest of Scotland	Rest UK	Outwith UK
0 - 25%	9	6	3	7
26% - 50%	0	2	3	3
51% - 75%	0	1	2	0
75%+	1	1	2	0
Unknown	1	1	1	1

Businesses were also asked to rate the current performance of the markets for their individual products and services. **Table 4.12** shows that all of the respondents identified their product/services market as growing or indeed growing strongly.

Table 4.12: Market performance for products/services				
Growing Strongly	Growing	Static	Declining	Declining Strongly
6	5	0	0	0

Combining the results of **Tables 4.10 to 4.12** allows us to determine that the businesses currently/previously operating in the AIC do not have high level of business displacement at the Ayrshire economy level. Markets are growing, they have relatively low levels of local competitors and sales are mainly outwith the local area.

## 4.6 Business Support

This section focuses specifically on the public sector support received by respondents, including the tailored business development support delivered to businesses within the incubator facility of the AIC as part of their tenancy agreement.

**Table 4.13** outlines the ratings provided by respondents of the business adviser support and the E-Business Demonstration Centre.

Table 4.13: Business Support Ratings		
	Business Adviser Support	E-Business Demo Centre
Very Good	3	0
Good	4	1
Satisfactory	3	0
Poor	0	0
Very Poor	0	1
No Answer	1	9

The ratings for business adviser support were positive – with seven companies identifying this particular type of support as good/very good and none of the respondents giving a negative rating.

The E-business Demonstration Centre was not widely used by respondent businesses and hence the majority of respondents were unable to provide a rating.

In addition to the tailored business development support offered as part of AIC tenancy, nine of the 11 companies surveyed had also received further public sector support from sources such as North Ayrshire Council and the Chambers of Commerce as well as SE Ayrshire. Types of additional support received included:

- soft business loan fund support;
- mentoring assistance to examine export markets;
- R&D and new product development grant support; and
- Regional Selective Assistance.

## 4.7 Pull Factors of the AIC

The survey tried to establish the main pull factors of the AIC. **Table 4.14** over shows what past and current tenants considered to be the key pull factors of the AIC when searching for a business premises.

<b>Table 4.14: To What Extent Did The Following Aspects Attract You to The AIC</b>				
	Not at all	Some Extent	Very Much	No Answer
Quality	0	3	8	0
Size of Units	1	6	4	0
Range of Units	3	6	2	0
Accessibility	2	4	5	0
Location	2	4	5	0
Innovative Aspects	6	5	0	0
Affordable Rent	0	1	7	3
Graduated Rent	2	4	5	0
Additional Business Services	1	3	7	0
Access to Public Transport	11	0	0	0
Availability of Workforce	6	4	1	0
Professional location	2	2	7	0
Business Development Support	1	6	4	0

The pull factors considered to be most important were:

- the quality of the building;
- affordability of the premises in terms of the rental charges;

- additional business services on offer i.e. full security, cleansing and reception services in place; and
- providing tenants with a professional address/location.

Over half the respondents (six businesses) reported that the innovative aspects of the AIC (e.g. the E-demonstration Centre and concentration of innovative businesses operating in the Centre) had no influence on their decision to locate there.

**Table 4.15** over shows how the respondents became aware of the AIC. For the most part, respondents were made aware of the premises through direct contact with SE Ayrshire and the local Business Gateway. Other awareness measures included networking and visiting clients in the centre and one business had operated in the AIC previously under a different business.

<b>Table 4.15: How They Found Out About AIC</b>	
Press	0
Business Advertisement	0
Estate Agent	0
Promo Leaflet	0
Billboard	0
Word Of Mouth	2
SEA/Business Gateway	5
Other	4

## 4.8 Alternative Business Property

Nine of the respondents had looked at other premises before starting up in the AIC. The location of the majority of these premises was within Ayrshire, however, other West of Scotland locations were considered such as Glasgow, South Lanarkshire and Renfrewshire. These other premises were rejected due to suitability, rental costs and commuting time and expense for employees.

**Table 4.16** shows that only one respondent could say with any confidence that they would be able to find other suitable business premises within Ayrshire, highlighting the property gap currently being filled by the AIC.

<b>Table 4.16: Locating Other Suitable Premises</b>	
	No. Respondents
Yes - Easily	1
Yes - With Difficulty	0
No	8
Don't Know	2

Respondents were asked to consider the likely impact on their business performance if the AIC hadn't been available. Six respondents could identify some type of negative impact on their business performance had the Centre not been available, including:

- the cost and time to start-up their business would have been significantly greater – the incubator units enabled an easier business start-up scenario;
- reduction in travelling/commuting time for business owners/ managers and staff with the majority residing in Ayrshire; and
- flexibility of the business premises – the flexibility of the rental agreement for the incubator units of the AIC ensures the tenants do not need to commit to lengthy lease periods.

Further to this, respondent companies were asked about their future business premises plans as shown in **Table 4.17**.

<b>Table 4.17: Plans To Move To Another Location</b>	
Yes - When rental period ends	1
Yes - Need alternative accommodation	2
Yes - Rent too expensive	0
Yes - Too small	1
No	5
Don't Know	2

Four companies reported plans to relocate from the AIC, two due to a need for alternative accommodation, one due to lack of space for expansion and one due to their maximum 24 month stay period coming to an end. Five companies have no future plans to relocate to other premises.

## 4.9 Views on the AIC

The final section of the survey examined the perceived strengths and weaknesses of the AIC and improvements suggested by current and past tenants that could be made in the future.

The main strengths of the AIC were identified as:

- ease of business start-up;
- professional location;
- flexible rental periods;
- networking opportunities; and
- additional support services (communications, boardroom etc).

The main weaknesses of the centre were considered to include:

- the staggered rental policy rises too sharply in this first year for start-up businesses trying to establish themselves;
- poor transport links to the centre;
- outside environment i.e. proximity to the refuse site; and
- limited consultation with tenants regarding the additional services/operation of common Centre services.

Suggested improvements for the AIC include:

- additional on-site storage facilities;
- regulation/upgrade of the heating system within the building;
- better utilisation and promotion of the E-business demonstration and training centre; and
- business development support, additional to that already provided to tenants.

## 4.10 Summary

This final section summarises the information gained from the survey of current and past AIC tenants.

- the key pull factors of the AIC are the quality of the development, the affordability, the additional services and the professional location/address that it provides;



- nine of the companies looked for alternative premises, of whom eight reported that they were unable to find suitable alternative premises within Ayrshire;
- regarding the Centre itself, the facilities available all met the business needs of the surveyed companies, and 10 out of 11 respondents said the type and size of premises was meeting their business needs. However, there were some issues with the graduated rental policy and staggered rental charges;
- survey sample totalled 28 FTEs on arrival and now currently stands at 43 FTEs with expected employment growth to reach 143 FTEs, a predicted increase of 233% based on current levels;
- six respondents could identify negative impacts on their business performance had AIC premises not been available;
- five respondents do not have plans to move from the AIC, one business may have to leave due to max the 24 month stay policy;
- strengths: ease of business start-up, professional location, flexible rental periods, networking opportunities and additional support services (e.g. communications, boardroom);
- weaknesses: pace of staggered rental policy, lack of public transport, external environment and poor consultation with tenants on service issues; and
- improvements: storage options, heating regulation, better utilisation of the E-Demonstration Centre and additional targeted/proactive business development support.

## 5. Counterfactual Survey

### 5.1 Introduction

This Chapter focuses on the results of the counterfactual survey, which examined a sample of Ayrshire high growth business start-ups that do not and have not operated from the AIC. A total of 10 telephone interviews were completed with this target group from a possible sample of 13 (generating a high 77% response rate). A copy of the questionnaire used to carry out this counterfactual survey is provided in **Appendix C**.

The main purpose of carrying out this counterfactual survey was to collate business performance information on other Ayrshire high growth businesses to enable a comparison to be made with the performance of AIC tenants. This sets the results outlined in **Chapter Four** into some context.

Unfortunately the number of companies that could take part in this survey were limited due to the small proportion of high growth companies identified within Ayrshire each year. Furthermore, those companies we did consult with operated in different sectors from those operating from the AIC and as a result had very different business property requirements.

The output from this counterfactual survey stage, whilst providing some comparable evidence, is limited in the extent to which a direct comparative assessment can be made. It was, however, a useful exercise to gain an understanding of the wider business property issues facing start-up companies in Ayrshire and the current level of usage and awareness of the AIC.

The remainder of this chapter covers:

- business sample characteristics;
- current business property characteristics;
- awareness of the AIC;
- potential pull factors of the AIC;
- additional business support; and
- views on the AIC.

## 5.2 Sample Characteristics

The following section provides an overview on the types of businesses that participated in the counterfactual survey.

The 10 businesses surveyed were all Ayrshire high growth business start-up companies. The establishment dates of these businesses ranged from 2002 to 2006 and in line with the AIC tenant sample, they were all operating as limited companies.

**Table 5.1** shows the business life cycles stages of the counterfactual sample.

Table 5.1: Business Lifecycles				
Start-up	New Business	Existing 3yrs+	Existing 5yrs +	Spinout
1	5	4	0	0

Half of the respondents identified themselves as new business (operating between one and three years), none were longer-term established companies (over five years). The business sectors represented by this sample varied, however the majority operated within the manufacturing and distribution sector (7 companies). Other sectors included IT support (1 company) and motor vehicle related services (2 companies).

**Tables 5.2 to 5.4** summarise the employment, turnover and profit levels of respondents. Similar to **Chapter Four** they also highlight past and forecast future employment, turnover and profit levels for comparison with those achieved by AIC tenants.

Table 5.2: Employment						
	FT Employees			PT Employees		
	Business started	Currently	Forecast (3 years)	Business started	Currently	Forecast (3 years)
0 to 5	9	5	1	10	10	0
6 to 10	1	3	5	0	0	0
11 to 25	0	2	2	0	0	0
25+	0	0	2	0	0	0
Total employees	26	76	142	1	2	0

**Table 5.2** shows that in terms of employment:

- the sample accounted for a total of 26.5 FTEs when they first began trading;
- the sample currently accounts for 77 FTEs, an increase of 191%; and

- employment is forecast to rise to 142 FTEs within three years, an increase of 84% based on current levels.

The employment increases experienced by the counterfactual survey sample from when business first began operating to the present day are 137% points above that identified by AIC past and current tenants. However, given the variation in the sectors being analysed it is not possible to deduct that growth of the counterfactual businesses has outstripped that of the AIC tenants. Furthermore anticipated future employment growth of the AIC tenants is 149% points above the non-tenant business sample.

**Table 5.3** reviews changes in business turnover.

<b>Table 5.3: Turnover</b>			
	Business started	Currently	Forecast (3 years)
Nil	9	1	0
Under £50k	0	0	0
£50-£149k	0	1	1
£150-£249k	0	2	1
£250-£499k	0	1	0
£500-£749k	1	1	2
£750-£999k	0	2	1
£1-£2.49m	0	2	2
£2.5-£4.99m	0	0	2
Over £5m	0	0	0
Don't know	0	0	1

Our analysis shows that eight of the surveyed non-tenant companies have increased their turnover bracket since they began trading. In addition:

- four companies currently have turnover in excess of £750k; and
- four companies predicted they would generate over £1m in three years.

**Table 5.4** shows the profit levels of respondents, again within a number of ranges.

Table 5.4: Profit			
	Business start	Current	Forecast (3 years)
Negative	9	5	0
Breaking Even	1	0	2
Under £50k	0	1	2
£50-£249k	0	3	3
£250-£499k	0	1	2
£500-£999k	0	0	0
Over £1m	0	0	1
Don't know / no comment	0	0	0

The analysis shows that, as would be expected, all respondents were either not profit making or just breaking even when they began trading. However, as the businesses have progressed, five now identified an increase in their profits with one company reporting profits levels of between £250,000 and £500,000. Further to this, there are predicted increases in profit over the next three years with one business in particular forecasting profit levels of over £1m.

As with the AIC tenant sample, respondents apportioned their improving business performance to business growth and expansion.

### 5.3 Current Business Property Characteristics

The majority of the businesses surveyed (8 companies out of 10) operate from the same business premises in which they began trading. Only two respondents have moved to bigger premises within Ayrshire. Key characteristics of current business premises include:

- seven companies occupy industrial premises with attached offices ranging from 300 sq ft to 20,000 sq ft;
- six companies reported that their premises do not have any on-site services and only one respondent operated from a location with similar business services to that available within the AIC;
- seven respondents rent their current business premises, the other three own their premises;
- only three of the companies currently renting premises were on a fixed rental period longer than one year; and
- only one of the surveyed companies received any assistance from SE Ayrshire in locating their current premises – however the majority of respondents had not sought this type of help.

Evidently, due to the industry sectors represented by the counterfactual business sample, the types of business premises sought varied greatly with AIC tenant businesses. Typically they required larger, self-contained industrial units and their property needs were therefore not comparable with AIC tenants.

With respect to the respondents views on the availability of suitable business premises within Ayrshire:

- only three companies identified availability as poor/very poor due to the lack of good quality premises available;
- a further three respondents felt they were unable to comment as they had not undertaken any extensive search for premises across Ayrshire; and
- the remaining businesses (4 respondents) rated the availability as satisfactory – notably none of the respondents reported the business property situation as good or very good.

## 5.4 Awareness of the AIC

The non-tenant sample were asked if they were aware of the AIC and the potential impact the Centre could have had on their business if they had located there.

Just over half of the sample (6 companies) reported some level of awareness of the AIC but none of the respondents had considered locating there. Reasons for this include:

- lack of storage space;
- generally the units available within the Centre (and particularly the incubator facility) are too small;
- limited requirement for a fully serviced business centre location – not wholly appropriate to their business; and
- the staggered rental policy rises sharply during Centre tenancy.

Only one of the businesses felt that locating within the AIC would have impacted positively on their business performance. Indeed the AIC was so inappropriate for some of the businesses consulted due to their sectoral focus that six commented locating in the Centre would have resulted in a negative impact on their business performance. Once again, the reasons for this relate to the lack of storage space and the type of premises being unsuitable for their business sector.

Despite the inappropriateness of the AIC in terms of their business premises decision-making, the majority of respondents (9 out of 10 companies) felt that there was a need for the AIC. This response was made due to a perceived need to support high-growth start-up companies to locate in the area and also to encourage higher quality business start-up and associated employment within Ayrshire.

## 5.5 Pull Factors of the AIC

Similar to the survey of past and current tenants, respondents were asked what key factors would have attracted them to locate within the Centre. **Table 5.5** outlines the responses made.

<b>Table 5.5: To What Extent Would The Following Aspects Attract You To The AIC</b>				
	Not at all	Some Extent	Very Much	No Answer
Quality	1	6	2	1
Size of Units	4	3	3	0
Range of Units	5	2	3	0
Accessibility	2	5	3	0
Location	3	6	1	0
Innovative Aspects	6	1	2	1
Graduated Rental Policy	6	1	3	0
Additional Business Services	2	5	3	0
Access to Public Transport	6	4	0	0
Available Workforce	3	6	1	0
Professional location	3	6	1	0
Business Development Support	2	6	2	0

Similar in some respects to the responses made by current and past AIC tenants, the key pull factors of the Centre as viewed by other high growth business start-ups included:

- quality of the development;
- additional business services; and
- location and accessibility.

Once again, innovative aspects of the Centre e.g. the EBDC are not viewed significantly. Indeed, respondents were further asked if they had ever utilised the E-Business Demonstration centre – only three businesses had used the centre, two of which were to attend a conference or networking event and not to use the centres' facilities.

## 5.6 Business Support

Whilst the respondents were not tenants of the AIC and had limited awareness and usage of the wider services it offers to businesses across Ayrshire, they were all identified as high growth business start-ups and as such assigned an SE Ayrshire account manager to deliver specialist business development assistance.

The ratings provided by respondents of the business adviser/SE Ayrshire business development support were generally positive. The majority of businesses rated the support as good or satisfactory, only three companies rated the support as poor and this was as a result of not receiving the level of financial based support from SE Ayrshire that they had hoped for.

Eight of the respondents had also received other forms of public sector support from North Ayrshire Council and the local Chamber of Commerce as well as SE Ayrshire such as:

- website development assistance;
- soft loans;
- grants for staff training and development; and
- grants for marketing.

## 5.7 Views on the AIC

This last section of the survey examined non-tenant companies views of the AICs main strengths and weaknesses, however, it should be noted that four of the respondents did not know enough about the centre and were unable to comment on this issue.

The main perceived strengths of the AIC were:

- the board and meeting rooms facilities available for hire;
- ease of the business start-up process – fully furnished and equipped units, no initial capital expenditure on business premises; and
- professional business premises/address.



The main weaknesses were identified as:

- no storage capacity;
- unit sizes – some larger units for more industrial based businesses would be advantageous; and
- the sharp increase in rental charges throughout the 24 month tenancy.

## 5.8 Summary

The final section of this chapter presents a summary of the telephone based survey carried out with Ayrshire high growth start-up companies that have not operated from the AIC. Key findings are:

- six companies were aware of AIC – however none of the respondents had considered locating in the Centre. This is primarily a result of the companies requirement for larger, industrial business units;
- the majority (seven respondents) operate from rented premises - only three had fixed leases for over one year and only one company received assistance with their property search;
- the counterfactual sample totalled 26.5 FTEs when they initially began trading, they currently employ 77 FTEs and expect growth in 3 yrs to reach 142 FTEs, a predicted increase of 84 per cent;
- only 1 respondent believed that locating within the AIC could have had a positive impact on business performance;
- six respondents rated business adviser support they received as good/satisfactory;
- only 3 businesses had used the E-Demonstration Centre – provided good/satisfactory ratings; and
- generally there was a lack of awareness and usage of the Centre amongst the counterfactual sample to provide detailed and justified strengths/weaknesses however 9 respondents believe that there is a need for the Centre.

## 6. Economic Impact Assessment

### 6.1 Introduction

This chapter considers the economic impact of the AIC and the support services it provides. This is one of the 10 key study objectives set out in the initial evaluation brief.

This economic impact assessment (EIA) has been undertaken by examining the results of the tenant survey in terms of the total employment (FTEs) accommodated within each business. This equates to the gross employment impact.

These gross employment impacts must then be translated into gross attributable impacts<sup>9</sup> (i.e. the gross jobs directly attributable/safeguarded to the businesses as they began operating from the Centre) and then net employment impacts, taking account of leakage, additionality, displacement and multiplier effects. These areas are discussed in more detail in the following sections.

It is not, however, a straightforward process to translate gross into net employment impacts. Difficulties arise in isolating and attributing the effects of the premises on the businesses employment figures. Businesses often receive other assistance from public sector agencies, particularly in business development and skills support. The objective of this assistance is to improve the effectiveness and/or efficiency of business operations and performance – influencing employment and turnover.

For the businesses located within the AIC we have identified a low degree of interaction between other business support services provided by SEA and other public sector bodies and our business sample, however, where identified we have taken account of this assistance and reduced impacts to reflect 'double counting' i.e. where employment impacts are attributed to the another form of public sector support.

Economic impacts can be expressed by either the output and income created or the number of jobs supported by a particular activity. For this study consideration was given to the employment effects attributable to the AIC.

---

<sup>9</sup> Gross attributable employment takes into account the level of employment reported by tenants just prior to entering the AIC and deducts this from the gross employment figure that can be accommodated by each business within the Centre. Therefore those businesses that began trading from another location other than the AIC are likely to have fewer gross attributable jobs than gross accommodated jobs.

The employment effects examined within this economic impact assessment include:

- **direct employment** – derived from the actual number of personnel employed by the assisted companies;
- **indirect employment** – captured through estimates of the number of employees supported by the purchase of goods and services to supported companies; and
- **induced employment** – generated from direct and indirect employees who spend part of their wage and salary incomes on goods and services within the economy, thus generating extra economic activity.

The impact assessment was undertaken using an Excel based spreadsheet that allows gross to net impact assessment. This is sufficiently flexible to accommodate sensitivity analysis of the results. The appraisal is company specific at both the Ayrshire and national level and is based on individual responses to the tenant survey. The detailed results of our analysis are presented in **Appendix D**.

## 6.2 Leakage

Leakage relates to the proportion of outputs that benefit those outside of the target group i.e. businesses and residents outwith Ayrshire or Scotland. In identifying the appropriate multiplier factor that should be applied to each company, the Scottish Input-Output Tables for 2003 were used. These tables take into account leakage factors for indirect and induced employment, however, there is a need to consider leakage for gross direct on-site jobs.

In appraising relevant leakage ratios (at both the local and national level) we considered the likelihood that employees would travel (from outwith the local or national area) to each company for employment. We have used a standard factor in our estimation of employment leakage based on the following:

- the location and accessibility of the AIC;
- the number of businesses that wished to locate in Ayrshire over and above other areas ; and
- views made by current tenants regarding their residence within Ayrshire and that of their employees.

Based on these factors, we have adopted a standard leakage rate of 10% at the local level and zero at the national level.

## 6.3 Additionality

A key aspect of the assessment is to determine the role that the AIC has played in the decision of tenant businesses to locate in Ayrshire and Scotland and the effect the Centre and its associated business development services has had on tenant business performance, i.e. the level of additionality for each business. Deadweight is the inverse of additionality and represents the economic impacts that would have happened in the absence of the project.

To identify the level of additionality it was necessary to ascertain the previous location of each tenant and their reasons for locating at the AIC. There are a number of possible scenarios that will affect the scale of the additionality factor applied to any employment impacts. In practice, individual assessments for each company were made based on the companies' responses to relevant issues and in particular the following key questions within the tenant survey:

- did you company start-up in the AIC?
- if you were a business start-up, what effect did the property and supports services have on the start-up of your business?
- if you were a business start-up, what effect did the property and supports services have on the growth of your business?
- if you were an established business, what effect did the property and supports services have on the growth of your business?
- why did you company move to the AIC?
- if the AIC was not available, where would your business have located and what effect would this have had on business performance? and
- current and forecast employment attribution made by tenants.

Our economic impact appraisal identified that at a local level, additionality averaged at 57% (with deadweight therefore averaging at 43%) and at a national level additionality averaged at 51% (deadweight therefore averaging at 49%).

## 6.4 Displacement

Displacement is an estimate of those impacts that may reasonably have been attained by other competitors in the absence of the particular project – in this case the AIC. For example, the sales contracts/business secured by the companies located at the Centre could have been awarded to another local company.

Displacement has been estimated at the local and national levels as shown in the analysis.

Our investigation of displacement considered those factors that would dilute the gross impact of any increases in business activity. It included collecting information on a variety of areas including the location of major competitors, location of main markets and current market conditions.

Individual assessments were made for each company, based on their response to relevant issues and in part the following three questions:

- what proportion of your business sales are split across different geographical areas?
- where are your major competitors based? and
- generally, how are the markets for your products/services performing?

Displacement can be considered at the following levels:

- **high displacement:** where the company sells most of their products or services locally and where there is a high level of local competition. This produces displacement in the range of 70% to 90%;
- **medium displacement:** where the company is a partial exporter with limited Ayrshire/Scottish competition and operates in a growing market. This produces a displacement in the range of 40% to 60%; and
- **low displacement:** where the company operates mainly in export markets with only a few Ayrshire/Scottish based competitors and their market is growing. This produces a displacement in the range of 10% to 30%.

The assessed levels of displacement are shown for the 6 companies located within incubator units in the Centre that participated in the research programme:

- at the local level, five companies displayed low levels of displacement, and one displayed high levels of displacement; and
- at the National level, three companies displayed low levels of displacement, two medium levels and one high levels.

The analysis shows that the AIC has generally supported low displacement companies at the local level and low to medium displacement companies at the national level.

## 6.5 Multipliers

Economic multipliers refer to the indirect employment impacts generated by the purchase of goods and services by businesses located at the AIC and the induced employment generated by the consumption expenditures of those directly and indirectly employed there. These have again been calculated at the local and national level.

The increase in economic activity as a result of the SMEs locating at the AIC could have two types of wider impact on the economy:

- **supplier effect:** an increase in sales in a business will require it to purchase more supplies than it would otherwise have done. A proportion of this 'knock-on' effect will benefit suppliers in the local/national economy; and
- **income effect:** an increase in sales in a business will usually lead to either an increase in employment or an increase in incomes for those already employed. A proportion of these increased incomes will be re-spent in the local/national economy.

We have used the Input-Output Tables and Multipliers for Scotland 2003 to identify the Type II employment multiplier that should be attributed to each individual company, based on their industrial sector. This identifies the direct, indirect and induced impacts to be attributed to each FTE.

These tables do not, however, identify local multiplier factors, therefore we have assumed that local factors would be equal to half that of the national factor.

This analysis produced company specific Type II multiplier factors at both the local and national levels that we have attributed to each company. Multiplier factors at the local level ranged from 1.15 to 2.35. At the national level, multiplier factors ranged from 1.3 to 3.7.

## 6.6 Gross To Net Employment

Based on our sample survey of six tenants that currently operate from the incubator facility of the AIC, we have prepared an economic impact analysis that considers the impact of each individual company. This takes the gross attributable employment impacts and applies factors for leakage, additionality/deadweight, displacement and multipliers (supplier and income) to provide estimates of net additional employment levels.

Our assessment has identified that the six businesses that participated in our survey sample accommodated 26 gross FTEs, of which 22 FTEs were directly attributable to the AIC. After allowing for leakage, additionality, displacement and multipliers this translates into a total estimate of 15 net additional FTEs at the local level (Ayrshire) and 16 net additional FTEs at the national (Scottish) level.

The analysis is presented in **Table 6.1**.

<b>Table 6.1: Economic Impact Analysis</b>		
	Local (Ayrshire) Level	National (Scottish) Level
Gross FTEs Accommodated	26	
Less Gross Non-attributable FTEs	-4	
Gross Attributable FTEs	22	
Less Leakage	-3	0
Less Deadweight	-9	-12
Gross Additional FTEs	10	10
Less Displacement	-2	-4
Non-Displaced FTEs	9	7
Add Multiplier Jobs	+6	+9
Net Additional FTEs	15	16

Note: Numbers may not add due to rounding.

## 6.7 Grossing Up

The net additional FTEs identified in **Section 6.5** represent the sample of six companies that participated in our study fieldwork programme from the incubator facility of the AIC. We do not have a detailed understanding of the businesses located in the other occupied incubator units and have therefore assumed that our sample businesses will have achieved broadly similar employment impacts as the other beneficiary businesses.

In order to identify the total employment impact that the AIC currently generates in aggregate, we have adopted a process of 'Grossing Up' the sample to represent the full range of businesses presently located there.

There are two ways in which this can be done and each produce different employment impacts:

- grossing up based on the **proportion of tenants** included in our survey work – interviews were undertaken with 6 tenants from a total of 8 (as at February 2007). Grossing up on this basis produces 20 net FTEs at the local level and 21 net FTEs at the national level; and
- grossing up based on the **proportion of floorspace** that the sample tenants occupied – interviewed tenants accommodated 1,884 sq ft from a total occupied floorspace of 2,433 sq ft. Grossing up on this basis produces 19 net FTEs at the local level and 21 net FTEs at the national level.

In this case, we would recommend using the latter method i.e. grossing up based on the proportion of floorspace occupied as this is likely to produce a more accurate result since the size of the incubator units available within the AIC vary from 172 and 423 sq ft.

Therefore, if we assume that the sample of companies included in our fieldwork survey is broadly representative, our assessed employment impacts for the whole site would result in **19 net additional FTEs** at the local level and **21 net additional FTEs** at the national level. These results, however, assume 73% occupancy, as at present.

Data illustrating the grossed up employment impacts from the AIC is given in **Table 6.2**.

<b>Table 6.2: Estimated Net FTEs (Assessed Impacts)</b>		
	Local Level	National Level
Net FTEs (Survey Sample – 6 tenants)	15	16
Estimated Net FTEs (Current Occupancy 73%)	19	21
Estimated Net FTEs (Maximum Occupancy 100%)	24	26

This analysis shows that at the current 73% occupancy level, the AIC is potentially losing 5 net additional FTEs at both the local and national level.

## 6.8 Sensitivity Analysis

Economic impact appraisal is not, however, an exact science. The employment impacts outlined above indicate an exact figure that the AIC can be accredited with. It is therefore normal practice to adopt a sensitivity analysis approach that allows for a +/- 10% variation in the likely net impacts that will stem from the Centre, particularly as the employment figures discussed are relatively small.



Based on this sensitivity analysis approach we have reviewed the employment impacts presented in **Section 6.7** and would estimate that the AIC can be accredited with impacts in the range of:

- between 17 and 21 net additional FTEs at the local level; and
- between 19 and 23 net additional FTEs at the national level.

These employment impacts represent the total grossed-up impacts, allowing for 73% occupancy.

## 6.9 Cost Per Job

The total spend<sup>10</sup> by SEA on the AIC over the period 2003/04 and 2006/07 was £1.17m. This figure has been used to calculate the following cost per job figures for the Centre based on the current 73% occupancy rate:

- gross attributable (based on 28 jobs)
  - £42,165 per job
- net additional
  - local: £61,060 per job (based on 19 FTEs)
  - national: £55,748 per job (based on 21 FTEs)

These represent high levels of cost per job and indicate this high opportunity cost to SEA of continuing to run the AIC. We would expect that alternative investment opportunities could produce significantly lower net additional cost per job ratios.

## 6.10 GVA and Salary Assessment

Gross Value Added (GVA) is a measure of the value of goods and services produced before allowing for depreciation or capital consumption<sup>11</sup>. It measures the income generated by businesses after the subtraction of input costs but before costs such as wages and capital investment are paid before arriving at a figure for profit.

---

<sup>10</sup> Total spend includes capital/refurbishment costs in 2003/04 and revenue costs for the 4 year period.

<sup>11</sup> Gross Value Added (GVA) is equivalent to Gross Domestic Product (GDP) at basic prices.

Based on the net additional FTEs identified in the sensitivity analysis for the current occupancy level (73%) at the Centre, we would estimate that the net additional GVA for the AIC is likely to be in the order of:

- between £0.67 million and £0.82 million at the local level; and
- between £0.71 million and £0.87 million at the national level.

As a direct result of the net employment created by the AIC, associated employee salaries will also be generated. These salaries will support the local and national economies. They have been calculated using average annual salary rates for the various sectors represented by the tenant sample, taken from the Scottish Executive's Annual Business Statistics (2004).

Once again, based on the net additional FTEs identified in the sensitivity analysis above for the current occupancy level (73%) at the Centre, we would estimate that the net additional salaries for the AIC is likely to be in the order of:

- between £0.36 million and £0.46 million at the local level; and
- between £0.4 million and £0.5 million at the national level.

## 7. Conclusions and Recommendations

### 7.1 Introduction

This Chapter draws on the various elements of the evaluation programme to present overall study conclusions. These are organised around the detailed objectives of the study, as reported in Chapter 1. In addition, a number of key issues for the future of the AIC and recommendations for the future are offered.

### 7.2 Conclusions

#### **Assess the success of the Centre in meeting its main objectives and targets as defined in relevant approval papers**

In terms of high growth start-up intake, the AIC has largely achieved the desired number of companies per annum to be accommodated (4-6 new companies) as outlined in **Table 2.2**. The exception to this was in 2003/04 where only one new company entered the Centre, however this can be partly explained by the occupancy lag that occurred following the major refurbishment work carried out in that year.

A further objective identified for the AIC was to develop its effectiveness and strive to ensure the Centre was recognised as a credible business location. Given the current and previous high occupancy levels attained in the Centre coupled with the positive rating and views made by past/current tenants as well as non-tenants (reviewed within **Chapter 4 and 5**) it is evident that the AIC has achieved this goal.

The AIC has also managed to support the retention of companies within the Centre and Ayrshire that have graduated from the incubator facility as shown in **Table 2.3**. To date all four tenants within the second phase accommodation have graduated from the incubator units. Therefore the Centre has met its target in supporting the continued development of high growth companies progressing to second-generation accommodation, however, we would reiterate that this is based on a limited sample of companies that have operated from the AIC to date.

### **Assess the extent to which the objectives are still valid**

The study brief and approval paper objectives for the AIC focussed mainly on the need to support high growth start-up businesses, work on improving the effectiveness of the Centre and its businesses development support activities and to assist tenants progressing from the incubator facility.

Given that Scottish Enterprise and SE Ayrshires priority towards high growth companies has not changed and the experience gained from the centre operating on less stringent tenancy selection criteria basis, we believe the current stance of supporting 4-6 high growth start-up businesses is still appropriate.

Further objectives related to ensuring the continued effectiveness of the Centre and its business development support activities should also remain, this is vital to ensuring that the desired outcomes of the Centre are realised in the future.

In terms of supporting the second phase accommodation process, given the current flexible rental and lease policy applicable to the four secondary suites in the AIC we do not think the Centre is best placed to support this objective. Tenants wishing to progress from the incubator units should be offered property search assistance by SE Ayrshire as originally intended to assist with their relocation. However, the centre does not have sufficient capacity or procedures in place at present to support secondary premises moves within the Centre itself.

### **Compare project forecast and achieved running costs and income**

Only headline financial data for the AIC was available, therefore our ability to thoroughly examine financial performance was constrained. We could however identify that the operating costs of the centre have fallen year on year and the recent decision to incorporate the EBDC with other services contracted out to Strategem, have resulted in a significant cost savings for SEA.

Examining total operating costs and income for the centre over the evaluation period does highlight that the Centre is running at a loss year on year and requires continual SEA financial support. Furthermore the overall picture is not improving, as previous ERDF income offset the real operating loss of the Centre in earlier years, therefore the 2006/07 deficit of £116,999 is a better reflection of the actual public sector support required to maintain the running of the Centre.

### **Evaluate the effectiveness of the graduated rental policy on company performance**

The graduated or staggered rental policy of the AIC was put in place to encourage businesses not to remain within the incubator facility for more than two years and to ensure a level of churn in terms of tenant occupancy.

Given that only 20 companies have located within the AIC over the evaluation period, four of which have progressed into the second phase accommodation (not subject to the same pricing policy) and a further 8 are current occupants that have all yet to reach the maximum 110% rental charge it was not possible to assess with any robustness, the effectiveness of the policy.

What is evident however is that the 110% rental charge does not appear to be discouraging some of current tenants. As discussed in Section 4.8, five companies would like to remain in the AIC and seven rated the rental policy as meeting the needs of their business.

We would therefore conclude that it is too early to say whether the graduated rental policy has been effective in encouraging occupancy churn within the centre, however, early indications suggest it is not likely to do so.

### **Comment on the rental level in the centre compared with other relevant locations**

Finding direct comparators to the AIC in terms of scale and selection criteria at the national level was very difficult and impossible at the local level.

By examining wider serviced business centre accommodation and the only other innovation centre operating within Scotland we would conclude that the current (100%) rental charge for the AIC is competitive.

At the initial 75% and 50% rental reduction stage for incubator tenants however we would view the AIC as non-competitive, as no other public or private sector led Centres offered such favourable rental policies.

### **Assess the impact of the centre and the support services on business growth**

From our survey of current and past AIC tenants we were able to assess the impact of the centre on the growth of their business. Six out of ten companies that began trading in the Centre identified that the property and business development support they received had positively/very positively impacted their business growth.

### **Compare the growth of supported companies with non supported companies**

The purpose of the counterfactual survey outlined in Chapter 5 was to provide evidence regarding the performance of other Ayrshire high growth start-ups that had not benefited from locating within the AIC to assess if this had any effect on their business performance and growth.

Whilst we were able to speak with 77% of the survey sample provided by SEA and draw some results for that group – given the variation in the sectors and types of businesses contained in this counterfactual sample it was not appropriate to make any direct comparisons with AIC tenants. To do this effectively we would have needed to consult with similar sized, innovative high growth business start-ups and there simply were not enough of these companies in Ayrshire not accommodated in the AIC to consult.

We could draw out some useful data however on the usage and awareness of the AIC from non-tenants, which was generally low. We were also able to assess their level of support for the centre – with the vast majority of respondents reporting that it was addressing a key business property market gap within Ayrshire.

### **Assess the impact of the centre in supporting SEAs High Growth Strategy**

The current tenant selection criteria used in the AIC ensures that only appropriate high growth start-up businesses occupy the centre and therefore all of the economic impacts outlined in Section 6.6 are drawn from this target business group.

Given that there were 51 high growth business start-up companies identified in Ayrshire between March 2003 - 2007 and nine of these companies were accommodated in the Centre – it is evident the project has only supported 18% of Ayrshires high growth business base. Given that the centre can only accommodate 11 companies at any one time this proportion appears to be low.

### **Review the rental policy for second generation accommodation**

Detailed information on the rental income generated by the second generation suites within the AIC was unavailable. Information on current rental charges across these units however was obtained, ranging from £12 to £19.60 per sq ft.

At the time of reporting a review of the rental policy for the second generation suites was being undertaken. We would conclude that the current rental charges do not appear to be competitive in comparison with the incubator facility of the Centre and the wider market.

### **Consider the case for a future for the Ayrshire Innovation Centre**

Based on the results of the evaluation and the economic impact assessment we examined a number of options for the future of the AIC as outlined:

- **(1) the status quo**
  - allow the AIC to carry on in its current format, with no changes to the rental policy or tenant selection criteria;
- **(2) SE Ayrshire withdrawal**
  - complete closure of the AIC as a business centre
  - or disposal of the asset with a requirement to operate it as a business centre;
- **(3) phase two expansion of the AIC**
  - development of AIC II to accommodate wider second stage high growth business expansion; and
- **(4) alterations to the current operating model of the AIC**
  - changes to the tenant selection criteria, staggered rental and graduation policies.

Given the continued financial support required to maintain the AIC and the limited economic impact that has been derived over the evaluation period, the AIC is not generating sufficient added value to support SE Ayrshires longer-term commitment to the Centre. **We would therefore conclude that option 1 is not a viable option for SEA.**

Following on from the refurbishment of the Centre in 2003 a significant re-think in terms of the tenant selection criteria and rental policies was carried out by SE Ayrshire to improve the effectiveness of the AIC. Whilst further alterations could be made to improve financial performance and occupancy churn, we believe that the end result will still require significant SEA financial support. Based on the scale of the policy changes that have already been incorporated within the Centre and the unlikelihood that further changes will dramatically improve the financial or economic development performance of the Centre **we would therefore conclude option four is not viable.**

Undoubtedly expansion of the AIC to support the second phase business property progression would benefit incubator tenants and assist in retaining companies within Ayrshire. Unfortunately the economic impact of the Centre thus far does not justify a Phase II development and **we would therefore conclude that option 3 is not viable** on the grounds of the net economic impact it will generate and the requirement for even further SE Ayrshire funds to support it.

### 7.3 Recommendations

Of the four potential future options for the AIC we would recommend that option two – SE Ayrshire withdrawal is the best way forward for SEA. Ideally we would recommend that the Centre be sold to the private sector and maintained as a serviced business centre to ensure that SE Ayrshire's capital investment in the building is sustained.

This recommendation is justified on the following grounds:

- demand for units within the AIC is higher than that demonstrated by **Tables 2.2 and 2.3**. Unfortunately not all of the businesses that would wish to locate in the Centre meet current SE Ayrshire tenancy selection criteria and therefore SEA requirements are constraining occupancy;
- we believe the current interest in the Centre by non-eligible businesses at present and the desire by existing tenants to remain in the Centre would be a clear signal to the private sector that the centre could operate as a profitable commercial serviced business Centre;
- despite recent operating cost efficiencies, the centre has sustained year on year financial losses which have been met by SEA, however, this tradition does not justify continued financial support for the centre;



- as outlined in **Section 6.6** the net additional economic impacts created by the centre are not sufficient to substantiate continued SEA support. This is best reflected in the cost per job figures outlined in **Section 6.9** which clearly shows that the centre is a high cost project in comparison with the impacts achieved and that alternative projects may offer better economic returns; and
- as part of the Irvine Bay URC Masterplan proposals, a series of five serviced business centres will be developed to address the current under provision within Ayrshire. This will create an expanded provision of business incubation and serviced business premises within the area.

## **Appendices**

**Appendix A – Current Business Tenant Questionnaire**

**Appendix B – Past Business Tenant Questionnaire**

**Appendix C – Non-Tenant Business Questionnaire**

**Appendix D – Economic Impact Analysis**

## Appendix A - Current AIC Business Tenant Questionnaire

Interview Details	
Company	
Company Contact	
Position in Company	
Tel No.	
AIC Location	
Date of Interview	
Interviewer	

Q1) When was your company formally established?

Q2) When did you move into the AIC?

Q3) Did your company start-up in the AIC? (If no, please specify the business start-up location)

Q4) Please describe your main business activities and sector:

Q5) Please indicate the type & current life cycle stage of your business:	
Start-up business (0-12 months)	
New business (1-3 yrs)	
Existing company (more than 3years old)	
Existing company (more than 5 years old)	
Spinout company	
If other – please specify	

Q6) What is the legal status of your company?	
Sole trader	
Partnership	
Limited company	
If other – please specify	

<b>Q7) What accommodation do you occupy at AIC?</b>		
	<b>On Arrival</b>	<b>Now</b>
Unit no.(s)		
Total floorspace (Sq Ft)		
<i>Please specify the reasons for any changes in the units occupied:</i>		

**Q8) When will your current rental period at the AIC come to an end?** (Probe to see if there have been any extensions to rental periods and the reasons for this).

<b>Q9) Do the rental <u>terms</u> meet the needs of your business?</b>		
	<b>Max 24 month stay period</b>	<b>Inclusive office, security, parking, rates etc</b>
Yes – please state why		
No – please state why		
<i>Please justify your answer:</i>		

<b>Q10) Do the rental <u>charges</u> suit the needs of the business? (e.g. graduated rental policy)</b>	
Yes – please state why	
No – please state why	
<i>Please justify your answer:</i>	

<b>Q11) Are the charges for the following services reasonable?</b>		
	<b>Yes</b>	<b>No</b>
Meeting room hire (£8 per hour, £20 half day, £35 full day)		
Board room hire (£20 per hour, £25 half day, £40 full day)		
Photocopying (6p per A4 Copy)		
Fax (incoming – 25p per page/outgoing 50p per page)		
Binding (£3 per document)		
Ceiling mounted projector (£30 half/£50 full day)		
Laptop (£30 half/£50 full day)		
Laptop Projector (£60 half/£100 full day)		
Marketing stand (£30 half/£50 full day)		

<b>Q12) Does the size and type of premises meet your business needs?</b>		
	<b>Current Business Needs</b>	<b>Future Business Needs</b>
Size of premises		
Type of premises		
<i>Please justify your answer:</i>		

<b>Q13) (If Business Start-up) To what extent did the property and associated services help your <u>start-up</u> process?</b>		
	<b>Property</b>	<b>Services</b>
Very positive effect on the business start-up		
Positive effect on the business start-up		
No effect at all on the business start-up		
Negative effect on the business start-up		
<i>Please justify your answer</i>		

<b>Q14) (If Business Start-up) To what extent did the property and associated services help your business to <u>grow</u>?</b>		
	<b>Property</b>	<b>Services</b>
Very positive effect on the business growth		
Positive effect on the business growth		
No effect at all on the business growth		
Negative effect on the business growth		
<i>Please justify your answer</i>		

<b>Q15) (If established business) To what extent did the property and associated services help your business to <u>grow</u>?</b>		
	<b>Property</b>	<b>Services</b>
Very positive effect on the business growth		
Positive effect on the business growth		
No effect at all on the business growth		
Negative effect on the business growth		
<i>Please justify your answer:</i>		

<b>Q16) How many people do you employ at this location?</b>			
	<b>When moved in/ business started</b>	<b>Currently</b>	<b>Anticipate in 3 yrs time</b>
Total no. full time jobs			
Total no. part time jobs			
Total. no seasonal/temp jobs (probe for length)			

Q17) Please identify the main reasons for any changes in employment?

<b>Q18) Can you attribute any increase/safeguard in jobs directly to your decision to locate within the AIC?</b>		
	<b>To Date</b>	<b>Anticipated in 3 yrs time</b>
New FT jobs		
New PT jobs		
New temp/seasonal jobs		
Safeguarded FT jobs		
Safeguarded PT jobs		
Safeguarded temp/seasonal jobs		

Q19) Please outline the reason for this level of employment attribution (if applicable):

<b>Q20) What were/are annual business turnover levels?</b>			
	<b>When moved in/ business started</b>	<b>Currently</b>	<b>Anticipate in 3 yrs time</b>
Nil (business just started)			
Under £50,000			
£50,000 - £149,999			
£150,000 - £249,999			
£250,000 - £499,999			
£500,000 - £749,999			
£750,000 - £999,999			
£1m - £2,499,999			
£2.5m - £4,999,000			
Over £5m			
Actual (Probe for this)			

Q21) Please identify the main reasons for any changes in turnover?

<b>Q22) Can you attribute any increase/safeguard in sales directly to your decision to locate within the AIC?</b>		
	<b>To Date</b>	<b>Anticipated in 3 yrs time</b>
New sales		
Safeguarded sales		

Q23) Please identify the reason for this level of sales attribution:

<b>Q24) What proportion of your current business sales are within:</b>	
Ayrshire	%
Rest of Scotland	%
Rest of UK	%
Outwith UK	%

Q25) Do you expect this market focus to change over the next 3 years?

<b>Q26) Where are your main competitors:</b>	
Ayrshire	%
Rest of Scotland	%
Rest of UK	%
Outwith UK	%

<b>Q27) Generally are the markets for your products/services:</b>	
Growing strongly	
Growing	
Static	
Declining	
Declining strongly	

<b>Q28) What were/are annual business profit levels?</b>			
	<b>When moved in/ business started</b>	<b>Currently</b>	<b>Anticipated in 3 yrs time</b>
Negative – operating at a loss			
Breaking even			
Under £50,000			
£50,000 - £249,999			
£250,000 - £499,999			
£500,000 - £999,999			
Over £1m			
<b>Actual</b>			

Q29) Please identify the main reasons for any changes in profits?

<b>Q30) How did you find out about the premises available in the AIC?</b>	
Press advertisement	
Business advisor	
Estate agent	
Promotional leaflet	
Billboard	
Word of mouth	
SEA/Business Gateway	
Other	

<b>Q31) Please advise <u>why</u> you moved into the AIC? (Probe for key pull factors)</b>

<b>Q32) To what extent did the following aspects attract you to the AIC?</b>			
	Not At All	To Some Extent	Very Much
Quality of the development			
Size of units available			
Range of units available			
Accessibility of site			
Overall location			
Innovative aspects of the site (e.g. access to e-business Demonstration Centre)			
Affordable rent			
Graduated rental policy			
Additional business services (reception, meeting facilities etc)			
Access to public transport			
Availability of workforce in the area			
Professional office location/address			
Business development support for tenant businesses (e.g. SEA business adviser)			

<b>Q33) Did you look at other business premises before choosing this location?</b>	
Yes	
No	
Please qualify answer	



Q34) If yes, how did the rent at AIC compare with these other locations?

<b>Q35) Could you have found similar business premises within Ayrshire?</b>	
Yes, easily	
Yes, but with difficulty	
No	
Don't know	
If yes, would the premises be located within?	
At the same costs	
At higher costs	
At lower costs	

<b>Q36) If AIC premises had not been available, where would your business be located? What effect would this have had on performance?</b>
Alternative location:
Impact on business performance of alternative location:

<b>Q37) Have or do you receive any other type of public sector support for your business?</b>	
Yes	
No	
Don't know	
<i>If Yes, please specify the support you receive and comment on the quality:</i>	

<b>Q38) How would you rate the quality of the follow types of business development support:</b>		
	<b>SEA Business Adviser/ Business development support</b>	<b>e-business Demonstration Centre</b>
Very good		
Good		
Satisfactory		
Poor		
Very poor		
<i>Please justify your answer:</i>		

**Q39) What are your plans (specifically in relation to businesses premises) for the future?**

--

**Q40) Do you have plans to move to a new location in the near future?**

Yes – because AIC rental period is coming to an end	
Yes – because need alternative accommodation	
Yes – because AIC rental too expensive	
Yes – because accommodation at AIC is too small	
No	

*If yes – please justify your answer and probe to see if the company will remain within Ayrshire.*

**Q41) What are the key strengths & weaknesses of being an AIC tenant?**

Strengths:

Weaknesses:

**Q42) What key improvements (if any) would you like to see in the AIC with regards to the following:**

Quality/fabric of the AIC

Management of the AIC

Business development support offered

Any other improvements

**Thank you for your time**

## Appendix B – Past AIC Business Tenants

Interview Details	
Company	
Company Contact	
Position in Company	
Tel No.	
Business Location	
Date of Interview	
Interviewer	

Q1) When was your company formally established?

Q2) When did you move into the AIC?

Q3) Did your company start-up in the AIC? (If no, please specify the business start-up location)

Q4) When did you move out of the AIC?

Q5) Please describe your main business activities and sector:

Q6) Please indicate the type & current life cycle stage of your business:	
Start-up business (0-12 months)	
New business (1-3 yrs)	
Existing company (more than 3 years old)	
Existing company (more than 5 years old)	
Spinout company	

Q7) What is the legal status of your company?	
Sole trader	
Partnership	
Limited company	

Q8) What were your reasons for leaving the AIC

<b>Q9) What accommodation did you occupy at AIC?</b>		
	<b>On Arrival</b>	<b>Before leaving</b>
Unit no.(s)		
Total floorspace (Sq Ft)		
<i>Please specify the reasons for any changes in the units occupied:</i>		

<b>Q10) Did the rental <u>terms</u> meet the needs of your business at that time?</b>		
	<b>Max 24 month stay period</b>	<b>Inclusive office, security, parking, rates, etc</b>
Yes		
No		
<i>Please justify your answer:</i>		

<b>Q11) Did the rental <u>charges</u> suit the needs of the business at that time? (e.g. graduated rental policy)</b>	
Yes – please state why	
No – please state why	
<i>Please justify your answer:</i>	

<b>Q12) In your view, are the charges for the following services reasonable?</b>		
	<b>Yes</b>	<b>No</b>
Meeting room hire (£8 per hour, £20 half day, £35 full day)		
Board room hire (£20 per hour, £25 half day, £40 full day)		
Photocopying (6p per A4 Copy)		
Fax (incoming – 25p per page/outgoing 50p per page)		
Binding (£3 per document)		
Ceiling mounted projector (£30 half/£50 full day)		
Laptop (£30 half/£50 full day)		
Laptop projector (£60 half/£100 full day)		
Marketing stand (£30 half/£50 full day)		

<b>Q13) Did the size and type of premises meet your business needs?</b>		
	<b>First Moved In</b>	<b>Prior to leaving</b>
Size of premises		
Type of premises		
<i>Please justify your answer:</i>		

<b>Q14) (If Business Start-up) To what extent did the property and associated services help your <u>start-up</u> process?</b>		
	<b>Property</b>	<b>Services</b>
Very positive effect on the business start-up		
Positive effect on the business start-up		
No effect at all on the business start-up		
Negative effect on the business start-up		
<i>Please justify your answer</i>		

<b>Q15) (If Business Start-up) To what extent did the property and associated services help your business to <u>grow</u>?</b>		
	<b>Property</b>	<b>Services</b>
Very positive effect on the business growth		
Positive effect on the business growth		
No effect at all on the business growth		
Negative effect on the business growth		
<i>Please justify your answer</i>		

<b>Q16) (If established business) To what extent did the property and associated services help your business to <u>grow</u>?</b>		
	<b>Property</b>	<b>Services</b>
Very positive effect on the business growth		
Positive effect on the business growth		
No effect at all on the business growth		
Negative effect on the business growth		
<i>Please justify your answer:</i>		

<b>Q17) What type of business accommodation do you currently have?</b>	
Type of premises	
Size/no. of units	
Location	
On-site services/ facilities	
Rented or privately owned	
Rental Period <i>(If Appropriate)</i>	
Rental Charges <i>(Per Annum)</i>	

<b>Q18) When leaving AIC, did you get help finding new business space?</b>	
Yes	
No	
Please justify your answer and if yes, how would you rate this assistance?	

Q19) How easy was it to find new business space?

<b>Q20) How would you rate the availability of business space in Ayrshire?</b>	
Very good <i>(e.g. good range and high level of supply)</i>	
Good	
Satisfactory	
Poor	
Very poor <i>(e.g. poor range and low level of supply)</i>	
<i>Please justify your answer:</i>	

<b>Q21) In terms of employment, how many people do you employ:</b>				
	<b>When moved to AIC</b>	<b>When left AIC</b>	<b>Now</b>	<b>Anticipated in 3 yrs</b>
Total full time jobs				
Total part time jobs				
Total seasonal/temp jobs <i>(probe for length)</i>				

Q22) Please identify the main reasons for any changes in employment?

<b>Q23) Can you attribute any increase/safeguard in jobs directly to your decision to locate within the AIC?</b>		
	<b>To Date</b>	<b>Anticipated in 3 yrs</b>
New FT jobs		
New PT jobs		
New temp/seasonal jobs		
Safeguarded FT jobs		
Safeguarded PT jobs		
Safeguarded temp/seasonal jobs		

Q24) Please outline the reason for this level of employment attribution (if applicable):

<b>Q25) Please identify the following business turnover levels:</b>				
	<b>When moved to AIC</b>	<b>When left AIC</b>	<b>Now</b>	<b>Anticipated in 3 yrs</b>
Nil (business just started)				
Under £50,000				
£50,000 - £149,999				
£150,000 - £249,999				
£250,000 - £499,999				
£500,000 - £749,999				
£750,000 - £999,999				
£1m - £2,499,999				
£2.5m - £4,999,000				
Over £5m				
Actual (probe for this)				

Q26) Please identify the main reasons for any changes in turnover?

<b>Q27) Can you attribute any increase/safeguard in sales directly to your decision to locate in AIC?</b>		
<b>(Please specify figure or %)</b>	<b>To Date</b>	<b>Anticipated in 3 yrs</b>
New sales		
Safeguarded sales		

Q28) Please outline the reason for this level of sales attribution:

<b>Q29) What proportion of your current business sales are within the following:</b>	
Ayrshire	%
Rest of Scotland	%
Rest of UK	%
Outwith UK	%

Q30) Do you expect this market focus to change over the next 3 years?

<b>Q31) Where are your main competitors:</b>	
Ayrshire	%
Rest of Scotland	%
Rest of UK	%
Outwith UK	%

<b>Q32) Generally are the markets for your products/services:</b>	
Growing strongly	
Growing	
Static	
Declining	
Declining strongly	

<b>Q33) Please identify the following business profit levels:</b>				
	<b>When moved to AIC</b>	<b>When left AIC</b>	<b>Now</b>	<b>Anticipated in 3 yrs</b>
Negative				
Breaking even				
Under £50,000				
£50,000 - £249,999				
£250,000 - £499,999				
£500,000 - £999,999				
Over £1m				
Actual				

Q34) Please identify the main reasons for any changes in profits?



<b>Q35) How did you find out about the premises available within the AIC?</b>	
Press advertisement	
Business advisor	
Estate agent	
Promotional leaflet	
Billboard	
Word of mouth	
SEA/Business Gateway	
Other	

<b>Q36) Please indicate <u>why</u> you moved to AIC? (Probe for key pull factors)</b>

<b>Q37) To what extent did the following aspects attract you to the AIC?</b>			
	Not At All	To Some Extent	Very Much
Quality of the development			
Size of units available			
Range of units available			
Accessibility of site			
Overall location			
Innovative aspects of the site (e.g. access to e-business Demonstration Centre)			
Graduated rental policy			
Additional business services (reception, meeting facilities etc)			
Access to public transport			
Availability of workforce in the area			
Professional office location/address			
Business development support for tenant businesses (e.g. SEA business adviser)			

<b>Q38) Did you look at other business premises before choosing the AIE?</b>	
Yes	
No	
Please qualify answer	

<b>Q39) Could you have found similar business premises within Ayrshire?</b>	
Yes, easily	
Yes, but with difficulty	
No	
Don't know	
If yes, would the premises be located within?	
At the same costs	
At higher costs	
At lower costs	

<b>Q40) If AIC had not been available, where would your business be located and what effect would this have had on performance?</b>
Alternative location:
Impact on business performance of alternative location:

<b>Q41) Have or do you receive any other type of public sector support for your business?</b>	
Yes	
No	
Don't know	
<i>If Yes, please specify which kind of support you receive and comment on the quality:</i>	
<i>From what organisations:</i>	

Q42) How does the business development support that you receive now compare with the support received when you were a tenant at AIC?

<b>Q43) What are your plans (specifically in relation to businesses premises) for the future?</b>

<b>Q44) What were the key strengths &amp; weaknesses of AIC?</b>
Strengths:
Weaknesses:

**Q45) What key improvements (if any) would you have liked to see within the AIC with regards to the following:**

Quality/fabric of the AIC

Management of the AIC

Business development support offered

Any other improvements

**Thank you for your time**

## Appendix C - Non AIC Tenants

Interview Details	
Company	
Company Contact	
Position in company	
Tel No.	
Business location	
Date of interview	
Interviewer	

Q1) When and where was your company formally established?

Date:

Location:

Q2) Please describe your main business activities and sector:

Q3) Please indicate the type & current life cycle stage of your business:	
Start-up business (0-12months)	
New Business (1-3 yrs)	
Existing Company (more than 3years old)	
Existing Company (more than 5 years old)	
Spinout Company	

Q4) What is the legal status of your company?	
Sole Trader	
Partnership	
Limited Company	

Q5) Does your business still operate in the same location/premises in which it was established?	
Yes – same premises and location	
Yes – same location	
No - moved premises and location	

<b>Q6) What type of business accommodation do you currently have?</b>	
Type of premises:	
Size/no. units	
Location	
On-site services/ facilities (if applicable)	
Rented or privately owned	
Rental period (if appropriate)	
Rental charges (per annum)	
Do the premises meet your business needs	

<b>Q7) When searching for your current business premises, did get help?</b>	
Yes	
No	
<i>Please justify your answer and if yes, how would you rate this assistance?</i>	

<b>Q8) How would you rate the availability of suitable business premises in Ayrshire?</b>	
Very good (e.g. good range and high level of supply)	
Good	
Satisfactory	
Poor	
Very poor (e.g. poor range and low level of supply)	
<i>Please justify your answer:</i>	

<b>Q9) In terms of employment, how many people did/does the company employ:</b>			
	<b>When started operating</b>	<b>Currently</b>	<b>Anticipated in 3 yrs</b>
Total no. full time jobs			
Total no. part time jobs			
Total no. seasonal/temp jobs (probe for length)			

Q10) Please identify the main reasons for any changes in employment?

<b>Q11) Please identify the following business turnover levels:</b>			
	<b>When started operating</b>	<b>Currently</b>	<b>Anticipated in 3 yrs</b>
Nil (business just started)			
Under £50,000			
£50,000 - £149,999			
£150,000 - £249,999			
£250,000 - £499,999			
£500,000 - £749,999			
£750,000 - £999,999			
£1m - £2,499,999			
£2.5m - £4,999,000			
Over £5m			
Actual (probe for this)			

Q12) Please identify the main reasons for any changes in turnover?

<b>Q13) Please identify the following business profit levels:</b>			
	<b>When started operating</b>	<b>Currently</b>	<b>Anticipated in 3 yrs</b>
Negative – operating at loss			
Breaking even			
Under £50,000			
£50,000 - £249,999			
£250,000 - £499,999			
£500,000 - £999,999			
Over £1m			
Actual (probe for this)			

Q14) Please identify the main reasons for any changes in profits?

<b>Q15) Are you aware of the AIC?</b>	
Yes	
No	
<i>Probe for information on their level of awareness:</i>	

<b>Q16) Did your company ever consider locating within the AIC?</b>	
Yes – but preferred another location	
Yes – but were unable/non-eligible to become tenants	
No	
Don't Know	
Please justify your answer:	
Why did you prefer an alternative location?	
<i>Why did they not consider the AIC</i>	

<b>Q17) If your company had been located in AIC, do you think it would have impacted positively on business performance?</b>	
Yes – definitely	
Yes – probably	
Unable to say	
No – probably not	
No – definitely not	
<i>Please justify your answer – probe for quantitative impact on sales/employment:</i>	

<b>Q18) Do you think there is a need for the AIC?</b>	
Yes	
No	
<i>Please justify your answer:</i>	

<b>Q19) To what extent would the following aspects have attracted you to the AIC when you were setting up?</b>			
	Not at all	To some extent	Very much
Quality of the development			
Size of units available			
Range of units available			
Accessibility of site			
Overall location			
Innovative aspects of the site (e.g. access to e-business Demonstration Centre)			
Graduated rental policy			
Additional business services (reception, meeting facilities etc)			
Access to public transport			
Availability of workforce in the area			
Professional office location/address			
Business development support for tenant businesses (e.g. SEA business adviser)			

<b>Q20) Have or do you receive any public sector support for your business? (e.g. SEA High Growth Start-up support)</b>	
Yes	
No	
Don't know	
<i>If yes, please specify the kind of support you receive and comment on quality:</i>	

<b>Q21) Have you ever used the e-business demonstration centre in AIC?</b>	
Yes ( <i>specify what type of activities/support you have received</i> )	
No ( <i>specify why this is the case</i> )	
Don't know	
<i>Further information:</i>	



<b>Q22) How would you rate the quality of the follow types of business development support:</b>		
	<b>SEA Business Adviser/ Business Development support</b>	<b>e-business Demonstration Centre</b>
Very good		
Good		
Satisfactory		
Poor		
Very poor		
<i>Please justify your answer:</i>		

<b>Q23) What do you think are the strengths and weaknesses of the AIC?</b>
Strengths:
Weaknesses:

<b>Q24) What key improvements (if any) do you think should be made to the AIC with regards to the following:</b>
Quality/fabric of the AIC
Management of the AIC
Business development support offered
Any other improvements – e.g. eligibility criteria

**Thank you for your time**