Project Review:
Alba & Hillington Innovation Centres

Final Report for

Scottish Enterprise

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Executive Summary

Introduction and Review Methodology

Frontline Consultants was commissioned to conduct a review of the Hillington and Alba Innovation Centres. The Hillington Park Innovation Centre was established in 2000 and the Alba Innovation Centre in 2005. Both Innovation Centres were established to support the development of knowledge-based, high growth technology companies. This review covers the period 1999-2008, where around 187 companies have been supported by the Centres, but also developed a full ten year impact assessment for each centre.

Rationale, Inputs and Activities

The Innovation Centres were established on equity and efficiency arguments, with equity driving the creation of the centres in both West Lothian and Renfrewshire. The centres were both set up to develop areas experiencing either large scale closure (in the case of Alba) or low economic growth (in the case of Hillington).

However, incubation centres are more commonly founded on market failure rationales. In the case of Alba and Hillington, this is founded on the idea that there are information asymmetries, business collaboration issues and issues around the provision of business premises that are scaleable, affordable and flexible enough for early stage innovation businesses.

The Innovation Centres have attracted significant investment from Scottish Enterprise and wider public sector resources. Tables 2.2 and 2.3 set out the capital and revenue costs for each of the centres, with the data for Alba including forward projections of revenue costs. The investment models for both centres have been very different. Hillington Park Innovation Centre has had private sector investment from Caledonian Land (MEPC), who has provided 40% of financial costs associated with building and running the centre. While the Alba Innovation Centre received significant public sector investment from the West Lothian Strategic Action Plan in the aftermath of the closures of NEC and Motorola in the local area.

The Alba and Hillington Innovation Centres provide business space for early stage and young companies as well as integrated support services designed to grow and develop businesses.

Evaluation Evidence from Stakeholders

Stakeholder feedback was gained from the two centre project managers as well as a representative from the enterprise team. Feedback was largely positive with the following strengths identified:

- high occupancy levels in both centres and steady flow of high quality enquiries
- good connectivity between companies and wider industry
- provision of regular, high quality networking opportunities for companies

In addition, a review of progress against target areas, demonstrated that both centres were making steady progress across most key target areas.

Stakeholders did suggest that there were some weaknesses including:

- a lack of profile within Scottish Enterprise
- changes to the Alba Centre manager (though this was viewed as now having been resolved)

A number of wider areas for consideration were also raised:

- the fit of centres within the context of the Scottish Enterprise restructure
- requirement for monitoring data to reflect the priorities in the recent strategic review of incubation support

Impact Assessment

As no direct consultation was undertaken with businesses the economic impact assessment provides a GVA assessment based on data provided by the centres and adjusted for additionality based on a review of evidence presented in a Strategic Review of Incubation Support (2009), which included evaluations of:

- Hillington Park Innovation Centre
- Lanarkshire Business Incubation Centre
- Kelvin Institute
- Wireless Innovation Centre

This has been supplemented with more recent evidence from a review of SE's approach to Commercialisation.

Over a 10 year impact period the projected level of impact could amount to:

- £18m of net GVA benefit
- £7.8m net GVA benefit for Hillington
- £10.2m net GVA benefit for Alba

Conclusions & Recommendations

The key conclusions from this review are that the Hillington and Alba Innovation Centres:

- had a rationale for activity and fit with the policy environment of the time – the Centres also fit with the current aims of the Government Economic Strategy and the Scottish Enterprise business plan
- have both made steady progress against their respective targets
- both Centres appear to be working well and are demonstrating the key success factors in relation to the physical elements of incubation
- are likely to have generated a modest return to date, though a greater return if capital costs are excluded from the assessment

The key recommendations from this review are:

- **raise the profile of Centres within Scottish Enterprise –** clear messages need to be articulated to relevant Scottish Enterprise personnel about how the Centres could be leveraged to help achieve key targets, particularly around increasing the number of high growth start ups or pipeline of DRM companies. The Centres could be positioned as a pipeline for these types of companies with SE staff working closely with ICS to identify growth prospects
- **identify where Centres fit within the Scottish Enterprise restructure and plan activity to align with any decision –** there is uncertainty regarding where the Centres fit at present. There is potential for the Centres to fit under a range of directorates, eg Innovation, Enterprise, Priority Industries, but as yet no clear decision has been taken about which directorate is most appropriate
- **review monitoring procedures –** the way in which company performance is monitored needs to be revised to ensure that it includes the suggested indicators in the recent Strategic Review of Incubation. These include; R&D spend and intellectual property generated

- **develop consistent targets across the centres –** at present the two centres have different targets (both in number and scope). A more consistent set of targets across the centres should be developed, though ensuring that the different size of the centres is accounted for in any final targets set

1 Introduction

Enterprise and innovation are key economic drivers. Innovative new starts are therefore key targets for public sector support and development. They offer the potential for high value employment, knowledge driven products and rapid value creation.

The Hillington and Alba Innovation Centres are therefore potentially important supports. This is not just because they offer flexible office space, or because they also offer business planning, finance and intellectual property advice but because they do so in a holistic manner.

1.1 Study requirements

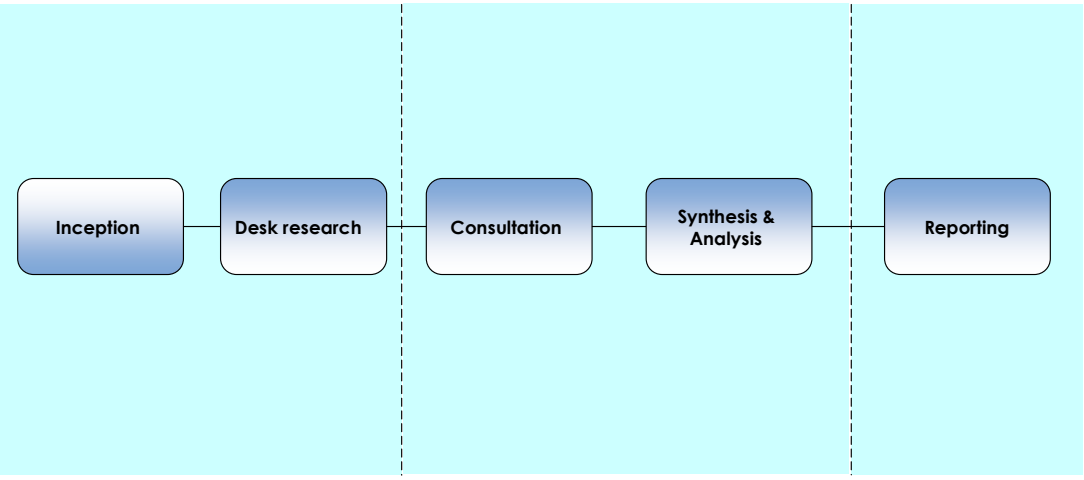
Scottish Enterprise wanted a project review of the Alba and Hillington Innovation centres, following on from an earlier Strategic Review of Incubation Support. The key aims of the review were to assess:

- the strategic fit of the schemes
- project costs across both the centres
- project performance and benefits achieved
- economic impact
- delivery processes
- management information
- linkages and dependencies
- contribution to the equity and equalities agenda

1.2 Our approach

Frontlines approach to this work has focused on developing a robust project review of the Alba and Hillington Innovation Centres that meet best practice guidance in the HM Treasury Green Book and SE Economic Impact Assessment Guidance.

Our method covered a five stage process as outlined below.



A wide range of background material was reviewed including:

- the Alba and Hillington approval papers
- key policy and strategy documents
- wider research and evaluations covering market failure
- the Hillington Park Innovation Centre Evaluation
- Hillington and Alba financial papers

Three interviews were undertaken with key stakeholders, two of these with the Scottish Enterprise project managers for each of the centres, which included detailed discussions on project financial data.

In addition, the economic impact model was based on annual turnover held on the companies within each of the centres. **It was not based on any direct consultation with companies, either currently or previously located within the centres.** Additionality adjustments were based on a wider review of recent evaluations that use the Scottish Enterprise standard question set and build GVA from components, rather than more traditional turnover to GVA ratios.

2 Rationale, Inputs and Activities

2.1 Rationale for the Hillington & Alba Innovation Centres

Government and public sector agencies traditionally intervene in the economy for three reasons – efficiency, equity and environment. In the case of Hillington and Alba, Scottish Enterprise originally intervened for equity reasons, but also due to perceived efficiency issues around the provision of support for early stage innovative businesses.

The presentation of the rationale for intervention in the Hillington and Alba approval papers covers much of the information presented below, but did so in a less formal manner. The section is therefore a more structured presentation of the rationale than a retrofit analysis.

2.1.1 Equity rationale

Equity rationales are based on the logic that there is somehow an uneven distribution of outcomes. This is relevant to both Hillington and Alba Innovation Centres, with both being developed to raise the economic performance of their respective local areas. It is important to note that this was at a time when Scottish Enterprise operated with Local Enterprise Companies, each responsible for economic development at a local level.

Alba Innovation Centre is the most obvious example, having been born out of the West Lothian Strategic Action plan. This plan was devised after the closure of Motorola in 2000 and NEC in 2002 to reinvigorate the West Lothian economy. Scottish Enterprise managed the funds allocated by the then Scottish Executive and saw the Alba innovation centre as a positive response to the threat of longer term economic decline.

Hillington Park Innovation Centre was also born out of an equity argument, though one more subtle than the direct economic shock of large scale closure faced in West Lothian. The aim of the Hillington Park Innovation Centre was to grow the number of innovative technology based firms within Renfrewshire. It also aimed to change the perception of the Hillington area to a location of choice for innovative technology based businesses by developing business in the centre and then providing follow on space within the local area. Again, the aim was on developing an area suffering from limited economic growth, low business base and high claimant unemployment relative to Scotland[1].

2.1.2 Efficiency rationale

Efficiency rationales are based more on the logic that somehow markets are not operating effectively. This is the classic market failure rationale. Market failure refers to a situation where the market has not and cannot of itself be expected to deliver an effective outcome[2].

The Strategic Review of Incubation[3] suggested that there were three broad market failures suggesting a need for incubation space which are relevant to Hillington and Alba, covering:

- **information asymmetry**: in which the search costs and the need to commit resources to obtaining information on business operation and growth (such as

[1] See for example the 2005 Renfrewshire Council Labour Market Statement

[2] HM Treasury (2003) *The Green Book: Appraisal and Evaluation in Central Government*, HMSO

[3] SQW Consulting (2009) *Strategic Review of Incubation*, Scottish Enterprise

securing finance, technological development or intellectual property protection) are not provided in a co-ordinated way by the private sector
- **business collaboration**: a subset of imperfect information, in which businesses do not understand the costs and benefits of inter firm collaboration limiting activity and benefit generation amongst the business base
- **business premises**: with a lack of combined support for business growth as well as space for company development (this is more an outcome of imperfect information rather than a market failure in itself)

However, there would appear to be two wider reasons for intervention that also lead to sub-optimal market outcomes and a rationale for intervention, covering:

- the high cost of building and staffing a centre designed for high risk early stage companies requiring some form of public intervention
- the risk and uncertainty associated with early stage companies resulting in inadequate provision (an outcome of the high cost of building and staffing a centre due to imperfect information)

The high cost of land purchase, construction and fit out associated with incubation centres requires public sector funding in order to get them off the ground.

In addition, once the centre has been constructed there is a need to ensure it is operated in accordance with economic development principles, which in the case of the Alba and Hillington Innovation Centres means staff on hand who can provide business development advisory services. The requirement to provide flexible (easy entry and exit) physical space and bespoke incubation support, which limits, rather than maximises the duration of business tenancies is likely to be a disincentive for the private sector, particularly in areas where business start ups and spin outs are low.

The risk and uncertainty associated with early stage technology businesses with the returns to investment less certain, could limit the supply of 'supportive' business accommodation. The occupancy levels for Alba and Hillington provide some evidence of this. Property agents seek to generate a long term return from the property within their portfolio. This means they under provide for early stage companies because of:

- the cost of suitable property is prohibitive to early stage companies who are traditionally cash poor. It is also not certain whether they will be successful enough over time to pay for premises
- the potential rapid change in employment size of early stage companies means they are unable to remain within one site, unless there is additional grow on space
- a combination of the above two issues which require leases that are flexible, in terms of the scale of rent and when it is paid and the need to change terms to accommodate rapid growth or decline

Whether this market failure still persists is questionable and would need to be tested with property experts.

2.1.3 Summary and market adjustment

The evidence presented above suggests that there was a rationale for intervention and an ongoing set of imperfections. In the absence of evidence of adjustment it could be that that there is still a potential need for the centres – and public sector support.

Understanding market adjustment is more complicated. There are two possible outcomes, one focused on propping up the market and the other focused on adjustment.

In terms of propping up the market the Centres offer combined space and support that would remove the barriers for the companies who get in to either of the centres. Bringing companies in and then moving them on allows for new companies to come in and the cycle to start again, propping up the market. This means the failure is removed for a select few companies but will not be removed at the level of the market.

For the Centres to be making a contribution to market adjustment they would need to be used as demonstrators to the private sector of the ability to offer flexible, scalable and affordable accommodation and still generate a commercial return. This would provide evidence of success and address the information failures that exist in the area. This was outlined as an objective in the Hillington approval paper, though the extent to which this has happened, or is possible, is unclear.

2.2 Hillington & Alba Innovation Centres project inputs

To date Scottish Enterprise has approved funding up to £5.63 million to support the Hillington Park Innovation Centre and £4.67 million for the Alba Innovation Centre.

2.2.1 Hillington Innovation Centre

The Hillington Park Innovation Centre was a unique public private partnership between Caledonian Land (later acquired by MEPC) and Scottish Enterprise Renfrewshire. In 1999, the Scottish Enterprise Board approved expenditure up to £5.63 million to support the Centre for an initial five year period (including ERDF funding). Caledonian Land agreed to provide up to 40% of financial costs associated with building and running the Hillington Innovation Centre and to support the project as an incubation centre for ten years. In its role, Scottish Enterprise Renfrewshire provided a rental guarantee to Caledonian Land for the first five years of its operation.

The actual expenditure from 2000 - October 2005 is provided below.

Hillington Park Innovation Centre Funding Contribution 2000-2005 **Table 2.1**

Contributions	Construction Cost	Revenue Cost	Total
Caledonian Land	£2,930,080	£0	£2,930,080
SE Renfrewshire	£387,738	£1,186,970	£1,574,708
ERDF	£1,313,262	£539,729	£1,852,991
Total	**£4,631,080**	**£1,726,699**	**£6,357,779**

Source – Hillington Park Innovation Centre Five Year Extension 2005 Appendix 7

In 2005, Scottish Enterprise Renfrewshire gained approval for £1.86 million of the original budget to be retained to support the provision of business development services at the Centre for a further five years.

The following cost data has been used when estimating the impact of the centre. The values are presented in 2007 prices, inclusive of HM Treasury discounting (3.5%).

Hillington 10 Year Costs (2007 prices) **Table 2.2**

Hillington	Actual year	SE Capital Costs NPV)	SE Revenue Costs (NPV)	Other public costs (ERDF) Capital Costs (NPV)	Other public costs (ERDF) Revenue Costs (NPV)	Total Costs (NPV)
Year 0	1999	£162,150	£0	£883,177	£0	£1,045,327
Year 1	2000	£153,219	£0	£834,530	£0	£987,749
Year 2	2001	£0	£867,490	£0	£129,726	£997,216
Year 3	2002	£0	£811,981	£0	£121,425	£933,406
Year 4	2003	£0	£762,777	£0	£114,067	£876,844
Year 5	2004	£0	£717,470	£0	£107,292	£824,762
Year 6	2005	£0	£122,536	£0	£0	£122,536
Year 7	2006	£0	£279,528	£0	£0	£279,528
Year 8	2007	£0	£352,113	£0	£0	£352,113
Year 9	2008	£0	£340,206	£0	£0	£340,206
Year 10	2009	£0	£328,693	£0	£0	£328,693
Total		**£315,369**	**£4,572,794**	**£1,717,707**	**£472,509**	**£7,078,380**

2.2.2 *Alba Innovation Centre*

In response to the closure of the Motorola in 2000 and NEC 2002, £6 million of additional ring fenced funds were made available by the Scottish Executive under the West Lothian Strategic Action Plan for specific projects in West Lothian. It was decided that a significant proportion of that funding would be allocated to an incubation centre in the local area to accelerate the start-up of new businesses. In addition to funding from the West Lothian Strategic Action Plan, a Scottish Enterprise approval paper was also submitted in 2004 to access £3.5 million to develop Alba Innovation Centre.

The initial funding approval for 2004-2010 may be broken down as follows:

Original Alba Innovation Centre Funding Contribution **Table 2.3**

Contributions	Construction Cost	Revenue Cost	Total
WLSAP (Scottish Executive)	£1,500,000	£300,000	£1,800,000
SEEL (Discretionary)	£0	£1,000,000	£1,000,000
SEEL (Investment Plan)	£700,000	£0	£700,000
Total	**£2,200,00**	**£1,300,000**	**£3,500,000**

Source: National Gateway SE Board – Scottish Enterprise Edinburgh & Lothian, Growing Business, Alba MOCT Team/Development Solutions – October 2004

However, as the project progressed, the costs increased in three key areas; construction, site access and lease costs and a requirement for temporary incubation space. In light of this, Scottish Enterprise provided further approvals for an additional £1,118,000 on top of the total outlined above.

The following cost data has been used when estimating the impact of the centre. The values are presented in 2007 prices, inclusive of HM Treasury discounting (3.5%).

Alba 10 Year Costs (2007 prices) **Table 2.4**

Alba	Actual year	SE Capital Costs NPV)	SE Revenue Costs (NPV)	Other public costs (WLSAP) Capital Costs (NPV)	Other public costs (WLSAP Revenue Costs (NPV)	Total Costs (NPV)
Year 0	2004	£1,006,498	£0	£0	£80,822	£1,087,320
Year 1	2005	£952,950	£0	£1,530,434	£229,565	£2,712,950
Year 2	2006	£0	£319,838	£0	£0	£319,838
Year 3	2007	£0	£300,647	£0	£0	£300,647
Year 4	2008	£0	£290,480	£0	£0	£290,480
Year 5	2009	£0	£250,000	£0	£0	£250,000
Year 6	2010	£0	£250,000	£0	£0	£250,000
Year 7	2011	£0	£250,000	£0	£0	£250,000
Year 8	2012	£0	£250,000	£0	£0	£250,000
Year 9	2013	£0	£250,000	£0	£0	£250,000
Year 10	2014	£0	£250,000	£0	£0	£250,000
Total		**£1,959,448**	**£2,410,965**	**£1,530,434**	**£310,387**	**£6,211,235**

Note: Cost data from year 5 has been estimated at £250,000 per annum to provide a consistent 10 year cost benefit assessment, though there is no Scottish Enterprise approval for this amount

2.3 Centre management

In 2003, Scottish Enterprise approved the formation of a new company, Innovation Centres Scotland, to manage the Hillington Innovation Centre. Following on from an OJEU tendering exercise Innovation Centres Scotland (ICS) were selected to operate the Alba Innovation Centre.

The ICS contract for Alba Innovation Centre comprises four key elements;

- Innovation Support Programme (discretionary financial support administered to assist companies, for example rent assistance)
- Alba Innovation Centre operational costs
- rental element payable to Scottish Enterprise (£60 per occupied desk per month)
- ICS management fee – 15% of management costs

Any net surplus in operating costs is used to offset the operational cost to Scottish Enterprise, comprising the management fee and the ISP budget. Any net deficit in operating costs is funded by Scottish Enterprise. Where ICS generate a surplus this is used to support economic development activities for tenants.

The ICS contract for Hillington Park Innovation Centre comprises the following elements:

- Hillington Park Innovation Centre operating costs
- Innovation Support Programme (discretionary financial support administered to assist companies, for example rent assistance)
- ICS management fee – 10% of management costs

2.4 Centre cost comparison

The budgets for both centres are presented in different formats, reflecting Scottish Enterprise's distinct role within each centre, i.e. funder of business development advisory services in Hillington Innovation Centre and owner and funder of business development services in Alba Innovation Centre. It is important to note that while the funding models vary, the support on offer for incubation client companies is the same across both Centres.

2.4.1 Operational cost comparison

A comparison of operational costs are provided below covering the costs associated with the provision of the advisory and administrative support services for the clients. Before comparing costs it is important to note the size of the Centres and the number of tenants in each. This is set out in the table below:

Size and occupancy of Centres **Table 2.5**

	Hillington Park Innovation Centre	Alba Innovation Centre
Size (Total)	3,600 sqm	2,250 sqm
Size (Accommodation)	2,600 sqm	1,184 sqm
Average no of tenants 2008-09	37	20

Over the period 2008-2009 key operational costs which can be compared include:

- business development advisory services (staff costs, staff expenses and consultancy support for companies)
- management fees (these costs are fixed at 10% of management costs for Hillington and 15% of management costs for Alba[4])
- marketing (all marketing and PR activities)
- incubator support programme (a discretionary fund used by the centres to support companies on an individual basis e.g. rent reduction support)

Alba and Hillington Centre Costs 2008-2009 **Table 2.6**

Budget Area	Hillington		Alba*	
	Cost	Cost per Sqm (total)	Cost	Cost per Sqm (Total)
Business development advisory services	£248,377	£69	£229,009	£102
Management Fees	£24,838	£6.90	£34,350	£15.30
Marketing	£17,184	£4.80	£17,009	£7.60
Incubator Support Programme	£20,000	£5.50	£46,988	£20.90
Total	**£310,399**	**£86**	**£327,356**	**£145**

* The Alba costs do not take into account of the revenue generated by the centre from desk rental and credit notes

This table shows that there is a comparatively higher level of investment in business development advisory services in the Alba Innovation Centre. This may be due to the fact that this Centre has more of a focus on incubation of pre and new start companies who require more support around company development[5].

[4] While there is a differential in these percentages – the Alba costs were assessed as part of a competitive tendering exercise and while higher represented the best value for money at the time, based on a process that has been audited for compliance

[5] The average turnover of a Hillington company between 2002 and 2008 was £323,600 while the average for Alba between 2006 and 2008 was £98,300. The extent to which this is driven by gaps in turnover information is unclear, but could suggest more pre revenue companies in Alba

Again, this focus on pre and new start companies may provide an explanation for the higher investment in the Incubator Support Programme in the Alba Innovation Centre. Costs for marketing were also different with Alba costing almost twice as much as Hillington. This differential in cost results from the different stages of the centres. Hillington has been running for almost 10 years and is therefore well established and has a lesser need for marketing. Alba, however, is younger and therefore needs more activity to promote the centre incurring more spend.

However, while the operational costs for the Alba Innovation Centre were comparatively higher than those for Hillington Park Innovation Centre across a number of areas, it should be noted that the Alba Innovation Centre generated revenue for Scottish Enterprise over the same period, including:

- desk rental of £57,600 (based on £60 per desk occupied per month)
- credit notes to the value of £17,624 issued to Scottish Enterprise by ICS (offset directly against management costs)

2.4.2 *Cost per company supported*

It is important to understand the comparative costs involved in providing company support across each of the centres.

An analysis of tenant numbers and staff salary costs over 2008/2009 show that the average cost of providing business advisory support to a company based in Hillington Park Innovation Centre is £5,721, compared with a cost of £9,996 for a company based in the Alba Innovation Centre. This is based on average staff numbers of 4.7 in Hillington Park Innovation Centre and 4 staff in Alba Incubation Centre. It should be noted that during this period, the Alba Innovation Centre covered salary costs for two staff members' on maternity leave.

The comparatively higher cost of providing support to companies based in the Alba Innovation Centre may again be due to the relatively high number of pre revenue companies based in the Centre who require intensive support.

Cost comparison of company support 2008/09 **Table 2.7**

	Hillington Park Incubation Centre	Alba Innovation Centre
Average no of tenant companies	37	20
Salary costs for staff	£211,685	£199,917
Average cost per company supported	£5,721	£9,996

Note that salary costs include staff salaries and expenses. Additional consultancy fees for private sector expertise and shared costs paid to ICS have not been included.

2.5 Hillington & Alba Innovation Centres activities

Tenant companies in the Alba and Hillington Innovation Centres are provided with a full suite of incubation and innovation services to support their growth and development. These services include:

- access to high quality business accommodation on a flexible basis (internal)
- on site team of highly experienced business advisors, providing companies with advice, mentoring, access to professional networks (internal)
- tailored support arranged by the Innovation Advisory Team on a range of specialist areas (from sales and marketing to legal and intellectual property issues provided by external experts)

There is a high degree of consistency in relation to the support on offer to the companies at both the Hillington and Alba centres.

2.5.1 *Finance Raised by the companies*

The finance raised by companies located within each of the centres was recorded between 2005 and 2008. Over the same period there were 104 tenant companies in the Hillington Park Innovation Centre and 39 tenant companies in the Alba Innovation Centre.

In total £23.9 million has been raised by Alba and Hillington companies, with the vast majority of this being equity funding. This amounts to:

- £20.1 million raised by Hillington companies, or an average of £193,471
- £3.8 million raised by Alba companies, or an average of £96,800

This higher level of finance accessed by Hillington companies may reflect the more mature nature of the companies within Hillington compared with Alba.

Overall, this is a substantial amount of finance raised by Alba and Hillington companies.

Finance Raised between 2005 and 2008 **Table 2.8**

Finance Type	Hillington	Alba	Total
Debt finance	£4,133,000	£458,000	£4,591,000
Equity finance	£12,207,000	£2,082,000	£14,289,000
Other public sector support	£3,443,000	£1,235,197	£4,678,197
Own money	£338,000	n/a	£338,000
Total	**£20,121,000**	**£3,775,197**	**£23,896,197**
Average level per company	**£193,471**	**£96,800**	**£165,946**

2.6 Progress towards targets

Both Alba and Hillington Innovation Centres report to Scottish Enterprise on a range of targets. An overview of the most recent target updates is provided below:

2.6.1 *Alba Innovation Centre – targets*

Alba Innovation Centre's progress against targets is set out in the table below. Overall, the centre has achieved two from five targets, including:

- higher progress than the target in relation to cumulative jobs created
- achievement of the company survival rate target

Achievement is behind target on three indicators, including:

- achievement of turnover in companies, which was 90% of target
- number of start up companies, which was 89% of the target set
- centre occupancy level, which is at 85% of target

This suggests mixed progress in relation to the targets set.

Alba Innovation Centre - Targets **Table 2.9**

	Target March 2009	Actual March 2009	Progress towards target
Centre occupancy level	80%	68%	85%
Number of start up companies (cumulative) as tenants	45	39	89%
Jobs created(cumulative)	140	157	112%
Turnover levels (£million)	£7.665	£6.924	90%
Survival rate (3 years)	85%	85%	100%

2.6.2 *Hillington Innovation Centre – targets*

Hillington Innovation Centre has made progress against the five year targets set in 2005.

Over the period to 2009 the centre has achieved seven targets from twelve (though one target has no data on progress), with almost a year still to go before the end of the target period.

In this time the centre has generated 57 high growth start ups/high growth potential companies. These companies have exceeded targets for funding, attracting £13.6 million of investment, over four years. The tenants have also benefited from a range of commercialisation projects (such as SMART, SCIS and SPUR). Hillington Innovation Centre has also attracted 26 inward investment projects to date. The companies have created 43 new jobs and the three year business survival rate is very high, estimated to be at 90%.

This suggests relatively solid progress in relation to targets.

Hillington Park Innovation Centre Progress Towards Targets **Table 2.10**

Target	Targets 2005-2010	Progress – March 09	Progress towards target
Occupancy Rate (Average for 2008/09)[6]	n/a	93%	n/a
High growth start-ups	32	21 (36)*	66%
Survival rate (3 year)	85%	90% (estimated)	105%
Number of account managed graduates	29	14	48%
No of high growth start up businesses located in the centre	4	5	125%
Amount of funding obtained (Co-Investment scheme and business growth fund)	£12m	£13.6m	113%
No of deals (Co-Investment scheme and business growth fund)	20	22	110%
No. of ITI projects located in the centre	2 (5 years)	2	100%
No of Proof of Concept and Enterprise Fellowships located in the centre	3 (5 years)	1	33%
No of SCIS, SMART, SPUR and SCORE projects	20	19**	95%
Increased R&D spend	20%	***	n/a
No. of inward investment projects	2	26	1,300%
No. of jobs created by inward investment	40	43	108%

*high growth start ups were measured until March 2007, then recorded as high growth potential recorded in brackets. This is not the same as progressing firms to the SE High Growth Start Up Unit, which is measured in Table 2.11

** numbers were not counted for March 2007-April 2008

*** progress was expected to be captured during full evaluation

2.7 Fit with strategy

At approval in 1999, the strategic objectives of Hillington Innovation Park could be summarised as follows:

- growing the business base (with a focus on indigenous innovative high growth companies)
- enhancing the attractiveness of Renfrewshire to inward investors
- encouraging the private sector to increase provision of suitable commercial accommodation

[6] The occupancy rate was not a target but is presented for reference based on the 2008/09 Hillington Annual review

The Alba Innovation Centre had one key strategic objective; to improve the business growth and survival rates of high growth technology businesses through provision of dedicated support.

On a national level, these objectives aligned with two key themes within the Scottish Executive's former economic strategy, Smart Successful Scotland (2001):

- growing business – greater entrepreneurial dynamism and creativity
- global connection – Scotland to be a globally attractive location

The programme also supported the recommendations of Scottish Enterprise's Business Birth Rate Strategy Review which concluded that resources should focus on technology based start-ups with high growth potential.

Below we look at how the Hillington and Alba Innovation Centres fit with the current priorities of both the Scottish Government and Scottish Enterprise.

2.7.1 *Fit with the Government Economic Strategy*

The Scottish Government Economic Strategy recognises the importance of the business base as the driver of sustainable economic growth. The strategy identifies the creation of a supportive business environment as a strategic priority. Creating this environment requires a number of different approaches, including:

- providing joined up business supports addressing skills, finance and business infrastructure issues facing Scottish business
- providing targeted support to help companies to internationalise
- stimulating innovation and continuous R&D across all sectors
- strengthening the links between the research base and the business base
- building a critical mass of activity across key sectors
- introducing tax incentives to stimulate business growth

Both centres are taking active roles in developing this pro-business environment. Client companies are supported to achieve growth plans through the provision of on site dedicated business advisory support. This includes access to specialist expertise across a range of areas, including; innovation, IP, commercialisation and marketing. Development of networks is also high on the agenda at Hillington and Alba, this includes developing strong links with higher education. Hillington Innovation Centre is home to 'Wireless Innovation', a national initiative which provides support to over 210 companies in Scotland developing wireless, mobile and digital media products and services.

The Hillington and Alba Innovation Centres therefore have a strong fit with the provision of a supportive business environment for enterprise and innovation.

2.7.2 *Fit with the SE business plan*

The Scottish Enterprise business plan for 2009-12 aims to support the government in delivering its Economic Strategy by focusing on three key areas of activity:

- supporting enterprise in growth companies and key industry
- promoting innovation to improve productivity and achieve competitive advantage
- stimulating investment in both physical infrastructure and companies

The philosophies of both the Hillington and Alba Innovation Centres demonstrate a clear match with these three areas. As incubation space, the centres provide a physical infrastructure, which is tailored to early stage company requirements, such as

modern office accommodation with grow on space and flexible licence terms. The centres are aimed specifically at supporting high technology companies, with the recent Strategic Review of Scottish Enterprise Incubation Support demonstrating Hillington's alignment with the Digital Media and Enabling Technologies priority sector. Finally, innovation is at the heart of the centres' offering, with Innovation Advisory Support teams on hand to provide support to companies across a range of areas from technology review to advice on IP protection.

There is therefore a clear fit with the themes in the business plan moving from the supply of infrastructure (the physical incubator centres) to the development of new businesses and support for innovation.

2.7.3 *Fit with SE innovation policy*

There is a renewed importance around innovation, with recent plans approved by the SE Board, covering recognition of the need for diffusion of business innovation and more companies being brought into the innovation process. Under the new innovation policy, there are ambitious plans to increase the numbers of young innovative enterprises.

The Hillington and Alba Innovation Centres are currently home to approximately 60 companies. These are a combination of pre-start, early stage and established technology companies who are all deemed to be innovative. The innovation policy sets that Scottish Enterprise will create an enhanced Innovation Service, which is much more heavily involved in actively prospecting for growth pipeline companies. If positioned correctly, both the Hillington and Alba Innovation Centres could represent a pipeline, and/or location, for new high growth start-ups.

2.7.4 *Fit with SE's incubation review*

The recent review of Scottish Enterprise's incubation support identified a number of common objectives for all incubation supports. Namely to:

- support innovative and/or technology companies
- help them to grow
- improve the flow of such businesses into the pipeline of companies that can be eligible for Designated Relationship Management status

Both the Hillington and Alba Innovation Centres are strongly geared towards innovation and high tech companies. In addition both Centres provide tailored supports which are geared to help companies develop and grow. While Hillington has a target for companies being taken forward by the High Growth Start Up Unit, there is no similar target for Alba. In addition, the centres do have not a formal mechanism for providing a pipeline of companies for Designated Relationship Management status.

2.7.5 *Fit with key sectors*

The Industry Demand Statements (IDS) produced by Scottish Enterprise, identify their principal contributions to the delivery of the strategic goals for each priority industry. At the point of evaluation the IDS for each sector were being updated and revised. Therefore our analysis is restricted to the completed documents from 2008/2009. On review of these, connections exist between the plans and the activities of Hillington and Alba Innovation Centres in the following areas:

- Digital Markets and Enabling Technologies (DMET)
- Life Sciences
- Energy and Renewables

DMET has a focus on supporting companies to get their offering to market, through assisting the development of market driven innovation, providing linkages to early or existing markets and by providing linkages to partners who can drive and develop early markets. The supports provided by the Hillington and Alba Innovation Centres are provided with high technology companies in mind and so provide a natural fit with DMET.

The key focus of the supports provided by Centre staff are geared towards getting their products to market, through providing tailored assistance to companies on marketing, technical and IP issues. ICS also plays a role in assisting companies to grow their networks, through organising business events in the centres, which are attended by larger industry players as well as other local businesses.

Life sciences aims to stimulate the attraction of new SMEs and support the growth of existing SMEs as well as capitalising on Scotland's strength in innovation to support company creation and growth in all areas of life sciences. One of its key objectives is to build on the strength of current networks, organisations and groups and encourage them to work together. Again these objectives fit very closely with the overall aims of the Centres. In addition, ICS also manages the Wellness and Health Innovation initiative from Hillington Innovation Centre which adds an additional strength to the centre in terms of access to networks and in-house expertise.

Energy & Renewables aims to support companies within the renewable energy sector to achieve the greatest possible opportunities for Scotland over the medium to longer term. This support includes strategy development, industry promotion, provision of market information and support for R&D. Again these objectives and supports fit very well with the supports provided by the Centres.

Sectoral Analysis

It was not possible to gather full Standard Industrial Classification codes for all Alba or Hillington companies using the Companies House WebCHeck service. This may reflect companies not being registered due to their early stage. However, where it was possible to assess the codes (in a minority of cases) it suggested:

- Hillington was home to companies in the following sectors (based on details for 27 companies):
    - other business activities
    - other computed related activities
    - other software consultancy and supply
    - R&D on natural sciences and engineering
    - software publishing
    - telecommunications
- Alba was home to companies in the following sectors (based on details for 7 companies):
    - other software
    - R&D on natural sciences and engineering
    - software publishing

This suggests, subject to the limited data, a fit with the DMET sector and nominally life sciences sector.

2.7.6 Contribution to other SE activities

Companies based in the centres are innovation driven and this is reflected in the levels of commercialisation activity undertaken by tenants.

Table 2.11 highlights the wider commercialisation projects that Hillington and Alba companies benefitted from a range of innovation support. The data is drawn from a

recent review of Scottish Enterprise's commercialisation activities and a company mapping exercise undertaken as part of that work.

Across both centres 15 companies accessed the Edinburgh Stanford Link project, though this was largely seminars rather than wider knowledge transfer support. In addition, the Small Company Innovation Scheme (SCIS) was accessed by 14 companies (largely Hillington companies), while a further 12 accessed SMART. When SPUR supports accessed are included this brings the total support associated with the Scottish R&D notification (excluding SCORE companies for which no data is held) to 31, suggesting a strong focus on R&D and innovation.

In addition a wide range of other supports have been accessed by Hillington and Alba based companies including five companies in the Alba Innovation Centre and two in the Hillington Park Innovation Centre achieved High Growth Start Up (HGSU) status.

This shows that both Alba and Hillington tenant companies are accessing a range of wider Scottish Enterprise commercialisation projects in addition to any in house support accessed in the centres.

Commercialisation Support Accessed by Tenants 2004-2008 **Table 2.11**

Wider SE Support	Hillington Tenants	Alba Tenants	Total
Edinburgh Stanford Link	8	7	15
Small Company Innovation Scheme	11	3	14
SMART	6	6	12
High Growth Start Ups	2	5	7
Technology Gateway	3	4	7
Scottish Co-Investment Fund	3	3	6
SPUR	3	2	5
Industry Fellowships	0	3	3
Business Growth Fund	3	0	3
SEED Fund	1	1	2
Proof of Concept	1	0	1
Enterprise Fellowships	0	1	1
Venture Fund	0	1	1
Direct	1	0	1
Total	**42**	**36**	**78**

Source: Scottish Enterprise Company Mapping Database, 2004-2008

2.7.7 Contribution to the equity and equalities agenda

While Hillington and Alba are economic development projects, with an objective to deliver added value to the Scottish economy, there is also a need for an underpinning commitment to the overarching equity and equalities agenda.

ICS have developed both an Environmental Policy Statement and Equal opportunities statement. This suggests a commitment to equity and the equalities agenda.

The Environmental policy focuses on the potential impact of ICS activity on the environment and their commitment to minimise and mitigate this where possible. The key areas they aspire, applying to all staff and business located at Alba and Hillington include:

- comply fully with all relevant legal requirements, codes of practice and regulations
- prevent pollution to land, air and water
- reduce energy consumption

- minimise waste and increase recycling within the framework of our waste management procedures
- identify and manage environmental risks and hazards
- involve customers, partners, clients, suppliers and subcontractors in the implementation of our objectives
- promote environmentally responsible purchasing
- provide suitable training to enable employees to deal with their specific areas of environmental control
- improve the environmental efficiency of our transport and travel
- establish targets to measure the continuous improvement in our environmental performance

The equal opportunities policy is focused on ICS's commitment to equality of opportunity at work. This means not tolerating any discrimination on the following grounds:

- sex
- race, nationality or ethnic origin
- sexual orientation
- disability
- age
- religion
- marital status

This policy is overseen by all managers and applies to all staff, with any breeches in this area leading to summary dismissal.

The embedding of these policies suggests that the activities delivered out of Alba and Hillington are making a contribution to the wider equity and equality agenda.

3 Evaluation Evidence from Stakeholders

This section of the report provides feedback from a small number of short consultations with key staff within Scottish Enterprise who are involved with the Alba & Hillington Innovation projects. The discussions centred on:

- the key processes associated with delivery
- monitoring arrangements
- strengths of the centres
- weaknesses of the centres
- wider operational issues
- critical success factors

3.1 Delivery processes

Innovation Centres Scotland (ICS) Ltd have been employed to manage both the Hillington and Alba Innovation Centres. The company was formed from the existing management team in Hillington in 2003 and subsequently went on to win the tender to manage the Alba Innovation Centre. ICS is responsible for all aspects of centre management and receive a management fee for their services. This management fee is a percentage of management costs (staff costs, expenses and consultant costs). The management fee for Hillington Innovation Centre is 10% and the fee for Alba Innovation Centre is 15%. While the fee for Alba is higher than for Hillington this represented best value based on a competitive OJEU tendering exercise.

ICS are responsible for recruiting companies to the Centres and this appears to be well managed with a steady stream of enquiries. There is a set innovation appraisal process in place and ICS need to be satisfied that the company meets with key criteria before the company would be granted a licence.

Scottish Enterprise is the owner of the Alba Innovation Centre and needs to get a return on its investment. To achieve this, ICS pay a 'desk rental' to Scottish Enterprise on a monthly basis. This equates to £60 per occupied desk in the Centre. Levying a fee in this way helps to maintain the balance between the commercial need to fill space and the economic development requirements to bring the right companies on board. The desk rental system means ICS are not subject to charges for any unoccupied space.

The consultations suggested that there had been a lack of consistency around the centre manager post in the Alba Innovation Centre with four managers since the centre was established. This has been problematic in providing continuity for tenant companies and in establishing consistency with data management and monitoring. However this issue appears to have been resolved.

Overall, the delivery process appears to be working well with clear communication between ICS and no major delivery issues raised.

3.2 Monitoring arrangements

It was clear from a review of data and discussions with stakeholders that a great deal of information is collected and held on both Alba and Hillington. This largely comprises financial data associated with the delivery of the centres, activity data and a small amount of output data, covering finance raised and company turnover.

Both centres also submit a monthly report to Scottish Enterprise which includes;

- company highlights (such as new orders secured)

- company statistics (number of tenants, desks occupied, % of total space occupied, virtual tenants, company turnover/employment and graduations etc)
- centre tenant movements (plans for entry, expansion and exit)
- enquiries update (note of all new enquiries)
- summary of Incubation Support Programme
- summary of desk occupancy

However, when assessed against the suggested indicators in the Strategic Review of Incubation support it was clear that there were gaps, including R&D spend, qualifications of staff and intellectual property generated. It seems much of this is collected on an ad hoc basis and reported back on a company by company basis but not done systematically across the centres. This is not to be critical of the monitoring as these new indicators reflect current thinking, they were not a consideration when the centres were set up. Therefore this is not any sort of failure of monitoring.

However, going forward there is a need to devise a more robust and systematic monitoring and evaluation framework that gathers information on the operation of the centre and the achievements of the companies on an annual basis. An outline monitoring and evaluation structure is included in Appendix 4. Collecting this information going forward will give a much clearer picture of progress in the current policy environment and evidence much better the achievements of the centres in delivering incubation and innovation support.

3.3 Strengths

The following strengths were identified though the consultation process:

High occupancy levels and quality pipeline

Both Hillington and Alba Innovation Centres reported high occupancy levels, and a steady stream of queries from high quality prospective tenants. Since they were established the Centres have supported around 187 companies (148 in Hillington Park Innovation Centre and 39 in Alba Innovation Centre). There is a sense that both Centres have developed a strong reputation and that this along with word-of-mouth recommendations is ensuring a steady pipeline of new tenants. In addition, ICS' role with the Wireless Innovation and Wellness and Health Innovation initiatives[7] is building profile for the Centres within these two sectors and also having a positive impact on the company pipeline.

Connecting companies to industry

ICS is well connected to industry and leverages these contacts effectively in making company introductions. This can be on a one-to-one basis, where a company is introduced to a potential investor or on a wider level where ICS bring businesses (such as IBM and Google) to the Centres for particular events.

Provision of networking opportunities

Hillington and Alba Innovation Centres are seen as good networking hubs and tenant companies benefit from the image of being associated with the centre. The Centres also play an important role in running events. For example, over 300 Scottish business people attended the 10 BigThings Global Forum in Edinburgh which brought together a panel of technology industry experts and internet visionaries to give the audience an insight into the upcoming technology trends which will shape the future of Scottish business. This was organised by ICS in conjunction with ScotlandIS. This is also an

[7] These are two separate projects that are delivered by ICS that have crossover with the Hillington Innovation Centre

example of ICS tapping into wider Scottish Enterprise teams – providing benefits both inside and beyond the centres.

3.4 Weaknesses of the centres

A number of weaknesses were identified and these are outlined below:

Lack of profile within Scottish Enterprise

There is a sense that the Centres have fallen victim to becoming 'yesterday's news' within Scottish Enterprise. As with all economic development agencies, strategies change, new initiatives are announced and attention moves on. In addition to the centres not being on the radar, there is also confusion about Scottish Enterprise's ongoing role in the centres. This is due to a number of factors:

- Alba Innovation Centre confused with the broader Alba Campus that also includes the Alba centre
- ICS has created a strong brand and identity for the Centres, and it is not apparent that there is a strong Scottish Enterprise link

There is work to be done to raise the profile internally and clearly articulate how the centres could be leveraged to achieve Scottish Enterprise and Scottish Government economic development objectives. As mentioned earlier, under Scottish Enterprise's innovation policy, there are ambitious plans to increase the number of young innovative enterprises. There is potential for the Centres to provide a pipeline of these types of companies, though this will require ICS and Scottish Enterprise to work closely to identify and nurture these high growth prospects.

Change in Alba Innovation Centre management

As cited earlier, there have been four different centre managers over the life of the Alba Innovation Centre. These changes in personnel, coupled with ICS being new to the East and having to develop their network from scratch, have meant that it has taken longer than anticipated for the Centre to gain momentum. Changes in personnel also had implications for the way in which company performance data was captured initially, resulting in a lack of consistency. The feeling is that these issues have now been resolved and that the current centre manager has brought a sense of stability.

Impact of construction delays on the Alba Innovation Centre

There were a number of delays with the construction of the Alba Innovation Centre. This resulted in ICS operating out of temporary, smaller accommodation on the Alba Campus from April 2005-December 2006. ICS took up occupation of the new building in mid-December 2006 and so were not fully up and running until January 2007, a full nine months later than scheduled. Due to the level of uncertainty around the completion date of the new building, ICS held back on marketing the Alba Innovation Centre until January 2007. This had a negative impact on early occupancy levels and the situation was compounded by the fact that the largest tenant graduated immediately prior to the move into the new centre.

3.5 Wider Operational Issues

In addition to the strengths and weaknesses outlined above, a number of wider issues were raised during consultation:

Fit of centres within Scottish Enterprise restructure

When the centres were established, they reported to their respective Local Enterprise Companies with funding coming from the Growing Business Directorate. Under the new structure, there is uncertainty around where these centres will naturally fit. There is potential for the centres to fit under a range of Directorates, such as Innovation, Enterprise or Priority Industries, but no clear decision has yet been taken about where the centres will sit and ultimately where centre funding will come from.

Monitoring data

The way in which company performance is monitored in centres needs to move on to reflect the priorities in the national economic strategy and Scottish Enterprise's business plan. A need exists to monitor and track the level of turnover that tenants are generating, and also to track the performance of graduate firms. A method should be adopted to capture the net effect of Scottish Enterprise support. Greater emphasis should also be placed on tracking investment in R&D and IP generation as well as resources committed to staff training. Ensuring that this data is monitored will ensure that these important issues are discussed and reviewed regularly with all tenant companies as part of their wider engagement with business advisors.

Flooding of the Hillington Innovation Centre

The centre was recently flooded and is not expected to be fully operational for a period of around three months. Approximately one third of tenants are back into the centre. MEPC has secured alternative business accommodation for companies in the local area and a number of smaller companies are opting to work from home. There is a feeling that this flooding incident may prompt some companies to graduate from the centre earlier than intended. This is likely to result in a significant dip in occupancy levels and care must be taken to ensure that the commercial focus of the centre is balanced with the economic development objectives to ensure that suitable companies are recruited to fill any gap.

3.6 Critical success factors

The consultees suggested that the Centres were working well and delivering a range of value for companies.

The key critical success factors cited included:

- **support tailored to companies' unique requirements –** ability of tenant companies to access expert advice and support to address particular issues which are critical to their business development and growth in a timely way
- **well connected ICS team -** along with business expertise, ICS also bring an extended network of industry contacts which they use effectively for the benefit of tenant companies, this includes potential investors and clients
- **professional and dynamic business environment –** the centres were seen to provide high quality business accommodation for tenant companies, providing instant credibility with potential customers and investors

A recent strategic review of incubation support in Scotland[8], considered the key critical success factors in relation to the non physical elements of incubation. There is a strong cross over with the strengths highlighted in this review and the 2005 evaluation of the Hillington Innovation Centre. These success factors include:

- very close links with the investment community
- appropriate and experienced business mentors

[8] SQW Consulting (2009) Strategic Review of Scottish Enterprise Incubation Support, Scottish Enterprise

- strong advisory business development support and specialist support from the private sector

This suggests that the projects operate in accordance with factors seen as critical to the successful operation of physical incubators.

4 Impact Assessment

This section considers the economic impact of the Alba and Hillington Innovation Centres over a ten year period from centre approval. The assessments therefore do not cover the same calendar years, as the centres were both opened at different times, though both offer a consistent ten year assessment period.

The key measure in this assessment is GVA, or the difference between output (what is produced) and intermediate consumption (the costs of inputs to products/services/processes) in a given sector. Put simply, it is the value of company sales less the cost of the inputs needed to make those sales.

This section draws out the GVA impacts of the Alba and Hillington projects, covering:

- the approach to assessing economic impact
- a full impact assessment covering cost benefits ratios for all costs as well as revenue costs only

4.1 Approach to assessing economic impact

4.1.1 Developing gross impacts

The economic impact model developed for this review used annual turnover data as the basis for the assessment. Annual figures for the companies based within the Centres, as well as graduates to date, were collected from 2005 to 2008 in the case of Alba and 2002 to 2008 in the case of Hillington[9]. The annual data was then summed to provide a gross annual total for each centre giving annual totals over a 10 year period.

The turnover data was then converted to GVA using evidence gathered from a wide ranging review of SE's commercialisation activities, which consulted in depth 100 technology businesses who had engaged with the commercialisation programme, including some Alba and Hillington beneficiaries. The ratio amounted to 1: 0.29, or 29% of turnover generated amounting to GVA.

It is important to note that some of the impacts presented in this review are likely to have been captured in the wider commercialisation review. Separating out the distinctive role within a complex web of activity is extremely challenging. Table 2.11 shows that businesses located at Alba and Hillington have benefitted from a wide range of interventions, each of which can claim a distinctive role in the accumulation of improved business performance.

It was beyond the scope of this small commission to consult directly with businesses and gather cost data for every intervention received by Alba and Hillington firms. Instead costs relate to the direct capital (in effect construction) and revenue (in effect ongoing) costs for each centre, with benefits gathered from project monitoring data on company financials.

4.1.2 Adjusting for additionality

The gross impact figures then needed to be adjusted for additionality (in effect what has happened that would not have happened anyway).

The additional benefit of an intervention is the difference between the reference case (what has happened anyway) and the intervention case (the position when the intervention has been implemented). Full additionality workbooks are included in Appendix 2.

[9] Turnover information was provided for most companies – though there were some gaps and a number of companies who were pre revenue and therefore had no turnover values associated with their operation

In order to fully understand this, there is a need to move all results from gross to net. This adjusts for:

- deadweight – what would have happened anyway
- leakage – the extent to which the benefits are lost to Scotland
- displacement – the extent to which the benefits are achieved at the expense of other Scottish based businesses
- substitution – the extent to which one activity is simply substituted for another
- multipliers – the positive downstream effects created through spending on supplies and the wider wages generated from these downstream effects

The first preference for identifying the level of deadweight is to conduct primary research, using methods to highlight how pubic sector support may have led to outcomes over and above what would have occurred anyway. The constraints of this commission meant that no survey work could be undertaken.

As no actual survey work was undertaken deadweight was estimated using evidence from previous studies. Intelligence from four ex-post evaluations studies, three of which were physical in nature, was used to inform the level of deadweight to be applied.

An earlier evaluation of Hillington Park Innovation Centre highlighted an average deadweight value of 63%. This compared to 50% from an evaluation of the Kelvin Institute (2008), 50% for the Lanarkshire Business Incubation Centre. A much higher value of 90% was reported in a recent evaluation of the Wireless Innovation Centre (2008). The average value across the four studies was found to be 65%, a value that is broadly similar to the conclusion reached in the earlier Hillington Park Innovation Centre evaluation. A deadweight value of 65% has therefore been used.

Consideration was also given to the use of survey work linked to a recent review of SE's commercialisation support. Within the commercialisation review deadweight is less static, with the values changing year on year and found to be at a higher level (even amongst the two Hillington companies and two Alba companies included in the survey work). However, a significant proportion of the data in this study relates to future projections of impact, and therefore future projections of deadweight. For the purposes of this review the deadweight values used are linked to survey work that is ex-post rather than ex-ante.

Displacement values were sourced from the wider evaluations[10] based on the average across all the company responses and applied consistently to employment, turnover and GVA. This was initially based on the location of the companies direct competitors (and adjusted based on the growth of the market they operate in). This amounted to a displacement value of 12%. This value was held constant over the 10 years of the economic appraisal.

Leakage was estimated at 0% for turnover and GVA. At present Scottish Enterprise practice is to assume that if turnover and GVA are generated within Scotland then they are retained within Scotland. This assumption has therefore been used in the impact assessment. This value was held constant over the 10 years of the impact assessment.

Substitution was based on the review of wider evaluation evidence[11]. No evidence of substitution was found across the evaluations giving a value of 0%. This value was held constant over the 10 years of the impact assessment.

[10] Including the *EPIS Economic Impact Evaluation*, *Commercialisation Programme Review*, *DRM Evaluation*, *2005 Hillington Evaluation* and Enterprise Ireland *Campus Incubation Programme evaluation*

[11] Ibid

Multiplier values were sourced from the wider evaluations[12] based on the average across all the company responses held. These values were initially sourced from the Scottish Government Input Output Tables using the appropriate turnover or GVA multiplier for each company. These were held constant over the 10 year impact assessment.

4.1.3 Assessing Future GVA

Future GVA values were estimated in two ways, covering:

- estimates for companies where historical turnover data was received
- estimates for pre revenue companies

In the case of companies where historical turnover data was held it was assumed that these firms would grow in line with historical trends across Scotland. Based on a review of published evidence from the Scottish Annual Business Statistics (produced by the Scottish Government), GVA growth was held constant at 8% per annum.

In the case of companies who were pre revenue it was assumed that the growth patterns of EPIS, Hillington and Alba companies (in each case using the trends of those who had moved on from pre revenue to revenue status) could be used to estimate likely GVA. Using this data GVA was estimated to grow from £0 to £200,000 over a five year period, the first year representing no growth and the next two years only nominal growth.

As both these estimates are relatively cautious there are no adjustments for optimism bias.

4.1.4 Adjusting for business failure and acquisition

Once the final net impact figures are converted to 2007 prices there are two further adjustments that need to be made to the figures to avoid presenting overly optimistic estimates of impact. These adjustments are made to the expected GVA covering:

- adjustment for business failure
- adjustment for potential company acquisition

Each year is adjusted for business failure. This is based on the monitoring data held on Hillington and Alba companies that suggests a 3 year survival rate of around 85%. We assume therefore that every three years 15% of business will fail, with the average net value for GVA subtracted in each year to account for this. This could amount to:

- 6 businesses failing within three years at Alba (in effect 6 from 39 companies)
- 9 businesses failing within three years at Hillington (in effect 9 failures from 63 companies)

The model also adjusts for potential company acquisition. In this case companies that are successful may make themselves a target for larger companies either interested in their technology or their market. A report on High Growth Firms in the UK produced by the Department for Business, Enterprise and Regulatory Reform[13] suggested that around 30% of the firms in their study population had been acquired. As such it is assumed that 30% of companies will be acquired over the period to 2014.

[12] Ibid

[13] BERR (2008) *High Growth Firms in the UK: Lessons from an Analysis of Comparative Performance*, Department for Business, Enterprise and Regulatory Reform

Further research evidence[14] was then used to look at the status of acquired Scottish companies, which suggested that around one third will retain some degree of status and function that could contribute to economic growth in Scotland. This could amount to:

- twelve companies being acquired from Hillington, estimated at two per annum
- five companies being acquired from Alba, estimated at one per annum

Subtracting the potential loss of value (as articulated in the research into corporate headquarters in Scotland) through acquisition and failure is done by simply taking the average GVA in the specific year for the companies and multiplying this by the level of acquisition and failure in that year and subtracting it from the total GVA.

A summary table outlining the acquisitions and failure values for each centre is provided in Appendix 3.

4.1.5 Cost benefit analysis

Once the results were adjusted for additionality and acquisition/failure the results were imported into the Scottish Enterprise cost benefit calculator.

Costs were collected on the project using data supplied by Scottish Enterprise. The data covers the capital costs associated with the construction of the two centres as well as on the ongoing revenue costs. Annual data was extrapolated from information in approval papers and in the case of Hillington the 2005 evaluation report.

The results were discounted as per UK HM Treasury Best practice guidance at a rate of 3.5% per annum. This is based on the view that society prefers to generate benefits sooner rather than later. The starting point for each centre is different, and represents the point of approval for each of them (1999 for Hillington and 2004 for Alba). All impact figures have been collected at 2007 prices[15].

4.2 Full Impact assessment

An estimate of 'impact' is the ultimate effect of the project on the economy, or in this case its contribution towards Scottish economic growth. This is measured as the net increase in gross value added (GVA or regional economic productivity) accruing as a direct result of the programme. The costs and GVA benefits associated with the Hillington Innovation centre, Alba centre and a combined analysis are included in Tables 4.2, 4.3 and 4.4 below.

Hillington

Table 4.1 below presents the estimated net impact of the Hillington Innovation Centre. Applying the additionality assumptions discussed above the net additional level of GVA impact over the period (1999-2009) for Hillington amounts to £9.8m of GVA, which when discounted using the HM Treasury discount rate of 3.5% per annum provides a Net Present Benefit of £7.8m GVA. This produces a Scottish Enterprise cost benefit ratio of 1: 1.60, or £1.60 back for every £1 Scottish Enterprise invested in the Hillington centre over the initial first 10 years of operation. The inclusion of wider public sector cost reduces this ratio while maintaining a positive outcome.

[14] Training and Employment Research Unit (2005) *Corporate Headquarters in Scotland, their Nature and Contribution to Scotland's Economic Development*, Scottish Enterprise

[15] Data from the HM Treasury GDP Deflators were used to convert the prices to a consistent basis, namely 2007 sourced from http://www.hm-treasury.gov.uk/data_gdp_index.htm

A number of qualifications are needed when interpreting this data. The impact projections are based on available monitoring data. The table below sets out gross and ne t benefits for Hillington. It is evident that from 2006 onwards GVA at the gross and net level declines sharply. It is our view that this reflects a gap in monitoring data rather than a significant decline in business performance. A consequence of this is that the estimated net GVA effect could under-estimate the impact of the centre.

Despite the above qualifications the net GVA effect produces a positive return when measured against Scottish Enterprise inputs and wider public sector investment. It is worth noting that although the timeframe spans 10 years, the first two of these related to the construction phase, benefits are therefore only recorded over an 8 year period. If revenue costs only are included in the cost benefit analysis the ratio rises to 1: 1.71, or £1.71 back for every £1 of revenue cost.

Alba

Table 4.2 below sets out the estimated GVA impact of the Alba Innovation Centre. The GVA impact for Alba is estimated over the period (2004-2014). Applying the additionality assumptions to; the available monitoring data and forward projections of company performance produces a net GVA impact of £10.2m. This represents a cost benefit ratio of 1: 1.64, or £1.64 back for every £1 of public sector investment in the Alba centre over its first 10 years of operation. This is a positive return from the initial investment and represents the return during the early years of the centres operation (inclusive of full construction costs).

A number of qualifications are needed when interpreting this data. The Scottish Enterprise revenue cost data from year five has been estimated at £250,000 to provide a full 10 year cost benefit assessment. However, there is no Scottish Enterprise approval for this amount.

Hillington and Alba

Taken together the combined GVA impact from Alba and Hillington is estimated at £19m of GVA. The estimated ratio of benefits to costs relative to Scottish Enterprise spend is 1: 1.95, with every £1 invested by Scottish Enterprise producing almost twice as much in terms of net GVA return. The inclusion of wider public sector and EU investment lowers the ratio of benefits to costs, while remaining positive. This is included in Table 4.3.

Again, the qualifications for Hillington, around the potential undercounting of impact, and for Alba, around the addition of revenue cost data that has not been approved, need to be noted when interpreting the overall picture.

Hillington 10 Year Cost Benefit Model in 2007 prices **Table 4.1**

Hillington	Actual year	SE Capital Costs NPV)	SE Revenue Costs (NPV)	Other public costs (ERDF) Capital Costs (NPV)	Other public costs (ERDF) Revenue Costs (NPV)	Total Costs (NPV)	Gross GVA	Net estimated GVA (NPV)
Year 0	1999	£162,150	£0	£883,177	£0	£1,045,327	£0	£0
Year 1	2000	£153,219	£0	£834,530	£0	£987,749	£0	£0
Year 2	2001	£0	£867,490	£0	£129,726	£997,216	£0	£0
Year 3	2002	£0	£811,981	£0	£121,425	£933,406	£82,540	£38,887
Year 4	2003	£0	£762,777	£0	£114,067	£876,844	£603,498	£274,709
Year 5	2004	£0	£717,470	£0	£107,292	£824,762	£3,109,753	£1,367,676
Year 6	2005	£0	£122,536	£0	£0	£122,536	£7,147,333	£3,037,114
Year 7	2006	£0	£279,528	£0	£0	£279,528	£1,953,066	£801,851
Year 8	2007	£0	£352,113	£0	£0	£352,113	£1,951,700	£774,194
Year 9	2008	£0	£340,206	£0	£0	£340,206	£1,876,300	£719,115
Year 10	2009	£0	£328,693	£0	£0	£328,693	£2,121,024	£785,398
Total		**£315,369**	**£4,572,794**	**£1,717,707**	**£472,509**	**£7,078,380**	**£18,845,215**	**£7,798,943**
Benefit to cost ratio (SE revenue costs only) Year 10								**1.71**
Benefit to cost ratio (SE capital and revenue costs) Year 10								**1.60**
Benefit to cost ratio (Full SE and ERDF costs) Year 10								**1.10**

Note: GVA data was unavailable for Hillington companies in the first two years of the centres operation. Cost data has also been estimated and extrapolated from approval papers and the Hillington evaluation

Alba 10 Year Cost Benefit Model in 2007 prices **Table 4.2**

Alba	Actual year	SE Capital Costs NPV)	SE Revenue Costs (NPV)	Other public costs (WLSAP) Capital Costs (NPV)	Other public costs (WLSAP Revenue Costs (NPV)	Total Costs (NPV)	Gross GVA	Net estimated GVA (NPV)
Year 0	2004	£1,006,498	£0	£0	£80,822	£1,087,320	£0	£0
Year 1	2005	£952,950	£0	£1,530,434	£229,565	£2,712,950	£0	£0
Year 2	2006	£0	£319,838	£0	£0	£319,838	£720,577	£351,365
Year 3	2007	£0	£300,647	£0	£0	£300,647	£966,957	£455,560
Year 4	2008	£0	£290,480	£0	£0	£290,480	£1,649,314	£750,760
Year 5	2009	£0	£250,000	£0	£0	£250,000	£1,781,259	£783,401
Year 6	2010	£0	£250,000	£0	£0	£250,000	£2,457,759	£1,044,375
Year 7	2011	£0	£250,000	£0	£0	£250,000	£2,347,388	£963,744
Year 8	2012	£0	£250,000	£0	£0	£250,000	£3,986,691	£1,581,426
Year 9	2013	£0	£250,000	£0	£0	£250,000	£6,151,695	£2,357,712
Year 10	2014	£0	£250,000	£0	£0	£250,000	£5,208,466	£1,928,652
Total		**£1,959,448**	**£2,410,965**	**£1,530,434**	**£310,387**	**£6,211,235**	**£25,270,108**	**£10,216,994**
Benefit to cost ratio (SE revenue costs only) Year 10								**4.24**
Benefit to cost ratio (SE capital and revenue costs) Year 10								**2.34**
Benefit to cost ratio (Full SE and WLSAP costs) Year 10								**1.64**

Note: Cost data is only available for 5 years for Alba; an estimate of £250k per year from 2009 has therefore been used.

Combined 10 Year Cost Benefit Model in 2007 prices **Table 4.3**

Combined		SE Capital Costs NPV)	SE Revenue Costs (NPV)	Other public costs (ERDF) Capital Costs (NPV)	Other public costs (ERDF) Revenue Costs (NPV)	Total Costs (NPV)	Gross GVA	Net estimated GVA (NPV)
Year 0		£1,168,648	£0	£883,177	£80,822	£2,132,647	£0	£0
Year 1		£1,106,169	£0	£2,364,964	£229,565	£3,700,699	£0	£0
Year 2		£0	£1,187,328	£0	£129,726	£1,317,054	£720,577	£351,365
Year 3		£0	£1,112,628	£0	£121,425	£1,234,053	£1,049,497	£494,447
Year 4		£0	£1,053,257	£0	£114,067	£1,167,324	£2,252,812	£1,025,469
Year 5		£0	£967,470	£0	£107,292	£1,074,762	£4,891,012	£2,151,077
Year 6		£0	£372,536	£0	£0	£372,536	£9,605,092	£4,081,488
Year 7		£0	£529,528	£0	£0	£529,528	£4,300,454	£1,765,594
Year 8		£0	£602,113	£0	£0	£602,113	£5,938,391	£2,355,619
Year 9		£0	£590,206	£0	£0	£590,206	£8,027,995	£3,076,827
Year 10		£0	£578,693	£0	£0	£578,693	£7,329,490	£2,714,051
Total		£2,274,817	£6,983,759	£3,248,141	£782,896	£13,289,615	£44,115,323	£18,015,937
Benefit to cost ratio (SE revenue costs only) Year 10								**2.58**
Benefit to cost ratio (SE capital and revenue costs) Year 10								**1.95**
Benefit to cost ratio (Full SE and ERDF costs) Year 10								**1.36**

Note: This table covers the combined effects of each centre from the period of approval. The figures do not correspond to calendar years

4.3 Value for money

In order to understand value for money there is a need to understand the economy, efficiency and effectiveness of the projects.

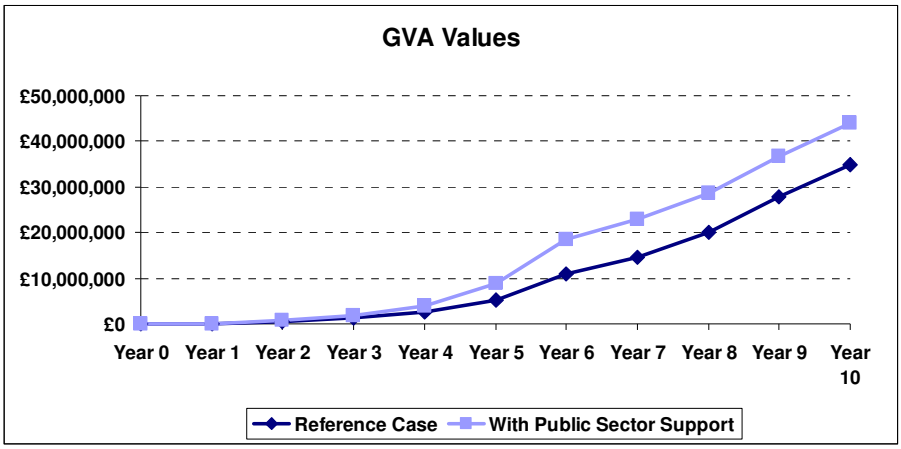
The first covers the **economy** of the intervention. Economy is concerned with the overall cost of the inputs (in effect the project) and if this is reasonable. With the lack of good comparable data on the centres and wider supports we use the benchmarking of the Hillington Innovation centre to assess economy. When benchmarked with the CSES report[16] it is clear that Hillington (and Alba) were more expensive to create. It would therefore be fair to categorise the economy of the centres as medium, but with the qualification that the comparison is not like for like.

The second covers the **efficiency** of the intervention. This covers the extent to which the inputs have led to the desired outputs. The best way to measure this is to compare the SE funding for the project with the finance raised by Alba and Hillington companies. These figures suggest finance raised of £23.9 million over the past 4 years. This amounts to a ratio of 1: 4.5. This compares with finance leverage of the EPIS project of 1: 3.03 suggesting a high level of efficiency across both Hillington and Alba, especially given that the cost data includes the capital and revenue costs.

The final measure covers the **effectiveness** of the intervention. This covers the extent to which the outputs have led to the desired outcomes, in this case the inputs leading to GVA. Although the full economic value of the centres is likely to be realised over the long-term the existing data shows that benefits at this point in time are outweighing SE and wider public sector costs. In addition the data in table 2.11 demonstrates that the centres provide an effective mechanism for targeting other forms of innovation support, maximising the potential for incubating firms to grow.

A final point on effectiveness covers the original equity objectives for each centre, with both designed to reposition their respective areas as new areas of sustainable economic growth. The chart below highlights that the centres are producing net additional effects. As firms mature the level of additionality can tail off as they become less reliant on public sector support for their survival and growth. This emphasises the need to continue to move firms out of the incubation centres, creating space for new young innovative enterprises. The GES emphasises the benefits of sustainable economic growth. Hillington and Alba can make a positive contribution to this by helping early stage firms achieve a position of stability and maturity.

Cumulative Gross and Net GVA **Chart 4.1**



[16] CSES (2002) *Benchmarking of Business Incubators*, European Commission Enterprise Directorate General

5 Conclusions and Recommendations

5.1 Conclusions

The Alba and Hillington Innovation centres provide business space for early stage, and young companies as well as integrated business support services designed to grow and develop businesses.

Both centres are founded on equity and efficiency arguments, with equity driving the creation of the centres in both West Lothian and Renfrewshire. However, incubation centres are more commonly founded on market failure rationales. In the case of Alba and Hillington this is founded on the notion that there are information asymmetries, business collaboration issues and issues around the provision of business premises that are scaleable, affordable and flexible enough for early stage innovative businesses.

The scheme has a strong fit with the headline aims of the Government Economic Strategy and the policy outlined in the Scottish Enterprise business plan. There are also complementarities with the life sciences, digital media and energy industry demand statements as well as the wider activities of Scottish Enterprise. However, there is a lack of clarity around just where the projects fit within Scottish Enterprise. The dual role of enterprise creation and innovation development means they could sit within either directorate, but at present this has not been ironed out.

Stakeholder consultations suggest that both centres are working well with clear strengths around:

- a high occupancy level for both centres and steady flow of enquiries
- good connection between companies and wider industry
- regular networking opportunities

The centres also appear to operate in ways that reflect critical success factors in the provision of physical incubation support.

Stakeholders did suggest that there were some weaknesses as well though including:

- a lack of profile within Scottish Enterprise
- changes to the Alba centre manager in the past

In addition to this there are gaps in monitoring with only project financials, activities, turnover and finance raised collected in a systematic manner. Wider data that track progress does not appear to be collected and this should be addressed going forward. An outline monitoring and evaluation framework is included in Appendix 4 for reference.

As no direct consultation was undertaken with businesses the economic impact assessment provides a GVA assessment based on data provided by the centres and adjusted for additionality based on a review of wider commercialisation and incubation evaluation evidence. The impacts for both centres combined could amount to:

- a combined value of £18m of net GVA benefit over the 10 year assessment
- a value of £7.8m of net GVA benefit for Hillington over the 10 year assessment
  a value of £10.2m net GVA benefit for Alba over the 10 year assessment

The analysis suggests that the centres are generating positive returns relative to the investment to date. However, there are three issues here.

- The first is that if they are dealing with truly innovative and young companies the scope to generate GVA is limited by the low level of profit and high level

of cash burn associated with their growth and development. It is therefore important to consider what is happening to graduate firms and consider what role incubation support has played in their business success.

- Second, the cost of construction means that before the centres even accommodates their first business they have a sizeable surplus of costs over benefits (this is further exacerbated if wider public sector costs are included which are largely made up of capital costs). Where capital costs are excluded the centres offer a greater return.

- Finally, the return is driven by the large number of companies supported by the centres, estimated at around 187 firms. Therefore increasing economic impact is dependent on ensuring companies are supported for fixed periods in the centre then moved on ready for the next group of companies to take their place. Where this does not take place the economic impact could stagnate and reduce the effectiveness of the centres.

Overall, the centres appear to be making a positive contribution to the growing business agenda of Scottish Enterprise.

5.2 Recommendations

Based on the findings of this review the following recommendations can be made:

- **raise profile of centres within Scottish Enterprise –** steps need to be taken to raise awareness of the centres and the success of their tenants. Clear messages need to be articulated to relevant Scottish Enterprise personnel about how the Centres could be leveraged to help achieve key targets, particularly around increasing the number of young innovative enterprises. The Centres could be positioned as a pipeline for these types of companies with SE staff working closely with ICS to identify growth prospects
- **identify where Centres fit within the Scottish Enterprise restructure –** there is uncertainty regarding where the Centres fit at present. There is potential for the Centres to fit under a range of directorates, eg Innovation, Enterprise, Priority Industries, but as yet no clear decision has been taken about which directorate is most appropriate. Greater clarity on fit should be addressed with clear targets prepared that reflect the end directorate
- **review monitoring procedures –** the way in which company performance is monitored needs to be revised to ensure that it includes the suggested indicators in the recent Strategic Review of Incubation. These include; R&D spend, qualifications of staff and intellectual property generated. Collecting this information going forward will give a much clearer picture of progress in the current policy environment and evidence the achievements of the Centres in delivering incubation support. Data should also be captured to allow the gross and net impact of the centres to be reviewed periodically.
- **develop consistent targets across the centres –** at present the two centres have different targets (both in number and scope). A more consistent set of targets across the centres should be developed, though ensuring that the different size of the centres is accounted for in any final targets set