

Report to Chief Officer Economy and Regeneration

Date: 1.8.2016

Subject: Research report and strategy development into fintech potential of Leeds City Region for Leeds City Council – Waiver of Contracts Procedure Rules (CPRs) 8.1 and 8.2 to award contracts directly to Finextra and Finexus.

Are specific electoral wards affected? If relevant, name(s) of ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. Fintech is a key driver of economic growth in the UK and a key priority of the UK Government. There are already significant fintech activities under way in key regions in the UK. Leeds has a number of inherent advantages when it comes to developing as a fintech centre, including – financial services business, digital credentials, including the highest concentration of digital, data and technology innovators in the UK, strong universities, an attractive cost base - this is clearly a major advantage Leeds can offer versus London, amongst others.
2. Leeds has a clear and credible opportunity to increase its activities in fintech, to attract new investment and jobs into the city and region. The city has some powerful advantages to exploit, and some distinct opportunities to carve out a unique, complementary and strategically significant role in the fintech landscape – regionally, nationally and internationally.
3. To do this, credible independent research is required to enable Leeds to submit and promote a strong proposition to central government and present a case for consideration as a key location for the fintech industry, outside London.
4. This work will help build a clear picture of the fintech sector in Leeds to use as a foundation to build a strategy to extend our fintech ambitions further. Outlining possible routes for expansion, investment opportunities and how to drive stronger relationships between the region and other key centres in the UK and the rest of the world.

5. The last Executive Board meeting (27 July 2016) approved recommendations to support the growth of the digital economy 'Growing the Leeds Digital Economy'. This proposal for research, strategy development and the promotion of the Fintech potential in Leeds is aligned with the direction of travel of Leeds City Council on the digital sector development.
6. This report seeks to waiver of CPR 8.1 and 8.2 to enable two direct awards of contract to Finextra to conduct and prepare a research report for Leeds City Council and to Finexus on developing and promoting the fintech potential of Leeds City Region - to scope and build a case for central government for a distributed ledger technology and blockchain facility in Leeds, based on the key strengths and assets in the city and the region.
7. There is a clear and immediate case to act quickly to inform the debate and present the Leeds proposition to central government and key advisors.
8. Finextra is the leading independent information source for the worldwide financial technology community, based in London. Finextra has gained an excellent understanding of the issues and matters surrounding the Leeds financial sector and the potential for a fintech industry in Leeds.
9. Finexus (Dr Chris Sier) is a leading authority on the fintech sector and has co-ordinated various central government stakeholders such as BIS, Treasury and Cabinet Office on promoting regional centres of excellence for this industry.
10. This prior knowledge and work from both parties in this field will enable Finextra and Finexus to start work immediately which allows for the timely conclusion of the report and swift adoption of recommendations with key decision makers.

Recommendations:

The Chief Officer Economy and Regeneration is recommended to: Approve the waiver CPR 8.1 and 8.2 to enable a direct award of a contract to Finextra in the sum of approximately £25,000 and to Finexus for the sum of £15,000 without seeking permission. A total of £40,000.

1.0 Purpose of this report

- 1.1 The purpose of this report is to build a case for Leeds to promote its assets and exploit credible opportunities to increase its activities in fintech, to attract new investment and jobs into the city and region.
- 1.2 To seek approval to waive CPRs 8.1 and 8.2 and award two direct awards of contract, one to Finextra to conduct and prepare a research report for Leeds City Council for the sum of approximately £25,000 and the second to Finexus to scope and build a case for central government for a distributed ledger technology and blockchain facility in Leeds, the contract sum of £15,000 without seeking permission. A total of £40,000.

2 Background information

- 2.1 Fintech is a key driver of economic growth in the UK and a key priority of UK Government. There are already significant fintech activities under way in key regions in the UK, among them Leeds and Leeds City Region.
- 2.2 Viable locations for a fintech accelerator are currently being explored by central government, who are taking advice from industry experts and key advisors.
- 2.3 There is an immediate and emerging opportunity for Leeds to present its case for consideration as a preferred location for a fintech / DLT accelerator.
- 2.4 There is a clear and immediate case to act quickly to inform the debate and present the Leeds proposition to central government and key advisors.
- 2.5 Leeds has a number of advantages when it comes to being a fintech centre, and there could be an opportunity to build on these advantages in order to expand its fintech presence further and establish itself as a key centre for fintech in the UK.
- 2.6 Within Leeds FinTech has a large presence including banking, health tech and also has 30 finance software companies that have organically grown from financial sector presence in Leeds. These are supported by 5 IT security companies as data security is paramount to this sector.
- 2.7 Significant opportunities exists for Leeds in this new technology space, based on the city's strengths and assets including; the established financial services, digital, health and public sectors (particularly strengths in data analytics, online betting, gaming, and cyber security - the UK's only internet exchange independent of London). We have the ingredients to exploit the opportunities from distributed ledger technologies.
- 2.8 This could include but not be limited to the creation of facilities to drive accelerated development of new technologies with strong fintech applications such as blockchain and distributed ledger technology.
- 2.9 Discussions have been held with a potential developer (contribution of a building), the Local Enterprise Partnership, and industry stakeholders to explore the potential of a fintech / distributed ledger technology centre based in Leeds.

- 2.10 We are seeking to scope and build a case for central government for a distributed ledger technology facility in Leeds, based on the strengths and assets in the city and region.

3 Main issues

- 3.1 Credible independent research is required to enable Leeds to submit and promote a strong proposition and present a case for consideration to central government as a key location for the fintech industry.
- 3.2 This research could lead to the development of potential fintech assets in Leeds, for example national incubators / accelerators.
- 3.3 Unfortunately the timeframe for conducting credible independent research on Leeds as potential fintech centre is short to shape Leeds' proposition and to inform key decision making in central government on this agenda.
- 3.4 Finextra has demonstrated a high level of experience in respect to informing strategies in the fintech space as well as establishing itself a well-respected and trusted partner in this industry.
- 3.5 Finexus (Dr Chris Sier) has demonstrated a clear and compelling understanding of the Leeds proposition and has promoted the opportunity of a regional fintech centre through established channels in central government (BIS, Treasury, Cabinet Office) as well as to industry and the investing community.
- 3.6 Therefore we are not going out to competitive tender on the basis of Finextra's and Finexus's unique positions in the fintech space, including their industry expertise, national reputation and understanding of the sector in Leeds, in the UK and globally.

4 Corporate considerations

4.1 Consultation and engagement

- 4.1.1 The report has been considered by the Procurement Unit.

4.2 Equality and diversity / cohesion and integration

- 4.2.1 Not applicable.

4.3 Council policies and best council plan

- 4.3.1 Leeds' vision to become the best city in the UK by 2030, with an economy that is both prosperous and sustainable.
- 4.3.2 Increasing inward investment. Continuing to work with and learn from our business community to allow enterprises to thrive to create sustainable jobs and careers.

4.4 Resources and value for money

4.4.1 Considering the scope of the research study an acceptable fee of approximately £25,000 has been identified as appropriate and £15,000 for the development, promotion and co-ordination of the Leeds proposition. A total of £40,000.

4.5 Legal Implications, access to information and call In

4.5.1 This decision is a significant operational decision and is not subject to call-in but will be published by the Council. The report does not contain any exemptions or confidential information under the Access to Information Rules.

4.5.2 In approving this waiver without subjecting the contract to competition, there is a risk of challenge to the Council from other potential providers that it has not been wholly transparent and that they may have been unfairly denied the chance to tender for this opportunity. In terms of transparency it should be noted that European case law suggests that contracts of this value should be subject to a degree of advertising if it is considered that it would be of interest to contractors operating in another Member State. It is up to the Council to decide what degree of advertising is appropriate. In particular, consideration should be given to the subject-matter of the contract, its estimated value, the specifics of the sector concerned (size and structure of the market, commercial practices, etc) and the geographical location of the place of performance.

4.5.3 The EU case law has been considered in this and, due to the nature of the product, it is considered that the scope and nature of the services are such that it would not be of interest to contractors in other EU member states.

4.5.4 There is a risk of an ombudsman investigation arising from a complaint that the Council has not followed reasonable procedures, resulting in a loss of opportunity. Obviously, the complainant would have to establish maladministration. It is not considered that such an investigation would necessarily result in a finding of maladministration however such investigations are by their nature more subjective than legal proceedings.

4.5.5 Whilst making the decision, the Chief Officer (Economy & Regeneration) should acknowledge the risks identified above.

4.5.6 Although there is no overriding legal obstacle preventing the waiver of CPR 8.1 and 8.2, the above comments should be noted. In making their final decision, the Chief Officer (Economy & Regeneration) should be aware of the risk of challenge to the Council and be satisfied that on balance the course of action chosen represents Best Value for the Council.

4.6 Risk management

4.6.1 As identified in section 4.5 above, there is a risk to the Council in awarding a contract directly in this way. However, the Chief Officer (Economy & Regeneration) may consider that the risks are outweighed by the benefits of awarding a contract and the resource/value for money implications of doing so.

4.6.2 It is considered that in terms of the risk of challenge to the procurement route of this contract, the Council has taken steps to mitigate this. The contract, given its

value, falls outside any remit of the EU Procurement Regulation beyond the duty to act transparently, fairly and non-discriminatorily that applies to all contracts.

- 4.6.3 The failure of Finextra to deliver either the full scope of the brief or miss the delivery schedule and could have wider implications of developing Leeds' proposition for the fintech sector. This risk is considered minor when considered against their previous track record of delivery and their reputation. This risk will be managed throughout the commission.

5 Conclusions

- 5.1 Due to the matters set out in this report, it is considered that there is a tangible benefit to the Council to waive CPRs 8.1 and 8.2 and make a direct award to Finextra to prepare the research report and Finexus to develop, promote and co-ordinate key areas of work to secure a potential facility for Leeds.

6 Recommendations

- 6.1 The Chief Officer Economy and Regeneration is recommended to:

Approve the waiver of CPRs 8.1 and 8.2 and award direct contracts to Finextra in the sum of approximately £25,000 and to Finexus for the sum of £15,000 without seeking permission. A total of £40,000.

7 Background documents¹

- 7.1 None.

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.