

**Report of the Acting Head of Economic Policy, Innovation and Sector Development**

**Report to the Chief Officer Economy & Regeneration**

**Date: 12<sup>th</sup> October 2016**

**Subject: Grant for operation of temporary Tech Hub in Leeds**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s): City and Hunslet	<input checked="" type="checkbox"/> Yes	<input 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. Leeds is currently the only UK core city, and one of the only significant cities in northern Europe, without a dedicated Tech Hub. Such facilities act as catalysts for the development of new businesses in the high-value tech sector, and strengthen links between existing businesses in all sectors and the innovation that advances in digital technology bring to the broader economy.
2. Following several years of project development and lobbying from within the Leeds tech sector, the final coalition government budget in March 2015 included a commitment of £3.7m of capital to fund a Tech Hub for the city. The commitment led to a grant being made by the Department for Culture Media and Sport (DCMS) to Leeds City Council (LCC) in March 2016. This grant was in turn discussed in the report "Growing the Leeds digital economy" at LCC Executive Board in July 2016 and is the subject of a further report "Establishment of a Leeds Tech Hub fund" which will be discussed at the October 2016 Executive Board.
3. The Leeds Tech Hub fund, if approved by Executive Board, will lead to investments in 2017 in tech hub facilities for the city. However, only capital funding will be available and the challenge of running such facilities without any revenue support will be substantial. Sustainability models will rely to a greater or lesser extent on rental income from users of the tech hub, and it is therefore prudent to begin the work of building a community of hub users and to pilot the various services and facilities that a hub will provide.

4. The original proposers of the Leeds tech hub concept have established a new social enterprise - Tech Leeds Ltd – and opened a temporary popup hub named FutureLabs. This supports the tech sector by offering affordable, flexible accommodation and business support to tech start-up and scale-up businesses. The July 2016 Executive Board decisions, supported by the “Growing the Leeds digital economy” paper, requested officers (in consultation with the Executive Member for Strategy and Resources) to develop proposals to support the popup.
5. Although we are going to open competition to allocate the main funding, for the short term phase we have chosen to support the Tech Leeds Ltd popup. There are four reasons for this:
  - 5.1 The group have been working for several years to establish a hub in Leeds and thus had a group of tech businesses ready to move in. Other potential popup operators would have had to begin from a standing start, adding to the likely costs.
  - 5.2 Without the work of the entrepreneurs behind Tech Leeds Ltd, the £3.7m funding would not have been secured for Leeds. We have been working alongside the group over the period since the budget announcement. Without prejudice to the main grant fund decision, there is a strong rationale for continuing our support for this group as they establish their popup.
  - 5.3 Tech Leeds Ltd is a social enterprise, established for the benefit of the tech community of Leeds. Supporting this project demonstrates our support for the whole community rather than any single business or building owner.
  - 5.4 Executive Board expressed their support for the FutureLabs popup and requested that we support that specific project.
6. This report sets out a recommended approach to supporting the FutureLabs popup with revenue funding so that the tech hub(s) which secure support from the Leeds Tech Hub fund will have the greatest likelihood of early success, and to ensure that the Leeds economy benefits from a tech hub in the period prior to the establishment of more permanent facilities.
7. The new grant considered in this paper will be offered through a series of payments from October 2016 – December 2017 and will be funded by top-slicing the £3.7m grant from DCMS. A ceiling of £200k is recommended, with quarterly monitoring of progress to ensure that the requirement is limited to this amount or less.
8. A funding agreement between the council and FutureLabs will be entered into to ensure value for money and mitigate long term risk. This will monitor the project at all stages before agreeing to further grant payments, and is designed to ensure that the project moves towards sustainability.

## **Recommendations**

The Chief Officer Economy & Regeneration is requested to:

1. Acknowledge the request from Executive Board in July 2016 to support the FutureLabs Tech Hub in the short and medium term.
2. Approve a £200,000 grant to be awarded to FutureLabs in order to help fund ongoing costs of the Tech Hub in Leeds city centre from September 2016 – December 2017, and make arrangements for this to be paid from the £3.7m of external funding secured for the main tech hub project.
3. Agree to enter into a funding agreement between the council and FutureLabs as a framework for the delivery of the grant.

## **1 Purpose of this report**

This report sets out the case for support and seeks approval from the Chief Officer Economy & Regeneration for a grant of up to £200,000 to Tech Leeds Ltd to contribute towards operational costs for the FutureLabs temporary tech hub at 1Eastgate.

## **2 Background information**

- 2.1 Tech Hubs – start-up, grow-on and collaboration facilities specifically targeted at technology businesses and entrepreneurs – have become an established part of the tech scene across the world. Leeds is now the only UK core city and one of the only significant European cities without such a hub.
- 2.2 The digital sector in Leeds currently employs over 44,000 people and is expected to grow by over 7% from 2013-2020. Leeds has a strong background in professional services, data management, HealthTech and FinTech but is not yet fully recognised as a centre for tech businesses. This affects decisions by potential inward investors, graduate job seekers and entrepreneurs and thus holds back growth in our economy.
- 2.3 A group of tech entrepreneurs from Leeds have worked for several years to bring resources to the city that would enable a tech hub to be created. Lobbying of the Chancellor of the Exchequer in early 2015 led to an announcement in the March 2015 budget that £3.7m would be provided for a tech hub in Leeds as part of a broader investment seeking to grow tech in the north of England. This announcement led in turn to a grant being provided to Leeds City Council in spring 2016.
- 2.4 This group that worked on lobbying and making the case for a tech hub has now established a social enterprise – Tech Leeds Ltd – which has launched a temporary tech hub called FutureLabs in Leeds city centre. The facility is at 1 Eastgate, and provides flexible and affordable office accommodation for new companies, meeting and event space, and a soft landing zone for inward investors. The hub also offers mentoring and business support, training from the Google garage team and accelerator programmes.
- 2.5 At full capacity the Tech Hub will accommodate up to 50 businesses. Over the long term it is hoped that successful start-ups incubated in FutureLabs will grow into larger companies and settle permanently in Leeds, contributing to the growth of the sector. In the medium term, these companies will provide a cohort of initial tenants and users for the permanent tech hub(s) created through the Leeds Tech Hub fund.

## **3 Main issues**

- 3.1 Due to the nature of the funds provided by Government, the main Tech Hub fund will provide capital funding only. There will be no scope for hub operators to use our funds to pay staff and running costs for their centres. In the medium term, rental and other income will be able to support these costs, but in the short term, there are substantial risks in this capital-only approach.

- 3.2 For the hub(s) to be successful in the short term, they will need a ready flow of businesses and entrepreneurs who are able to pay for rent and room hire from day 1. This in turn requires a short term facility to begin this work of building a community ready for the main hub.
- 3.3 For this reason, the Sector Development Team at Leeds City Council have been working with Tech Leeds Ltd to identify a potential location for a popup facility and to build the required community. In early 2016 the Team introduced Tech Leeds Ltd to agents acting for Hammersons, the owners of 1 Eastgate, who were looking for temporary uses of their space which would complement their plans for phase 2 of the Eastgate development.
- 3.4 Tech Leeds Ltd made an agreement with Hammersons to use space at 1 Eastgate as it became available and to launch a popup tech hub there. The facility opened in July 2016, a week before Executive Board agreed to support the costs of the popup. Discussions have been ongoing with regard to the level of funding needed, and the full requirement is now clear.
- 3.5 FutureLabs requires financial support in the short and medium term to cover operational costs. A cash flow projection has been submitted to the council which shows a £200,000 funding gap between now until December, 2017 – the end of the current lease for the building. At this point it estimates that the Hub will be self-sustaining and no additional funds will be required.
- 3.6 The cash flow projection is a forecast only and sales will be challenging particularly as Leeds offers similar types of office accommodation (although not specifically for Tech) and the market is competitive. For this reason a funding agreement between FutureLabs and the Council will monitor the success of the project to generate revenue and determine how much of the grant is offered. It is proposed to release the grant in five stages as follows:

<b>Date</b>	<b>Maximum payment</b>
September 2016 (already paid)	6,000
October 2016	54,000
December 2016	60,000
March 2017	36,000
June 2017	30,000
September 2017	14,000
<b>TOTAL AVAILABLE</b>	<b>200,000</b>

- 3.7 The funding proposed is an estimate at this stage. The size of the grant reduces as the project progresses to reflect an increase in revenue from the Tech Hub as it gains more clients. The outcomes required by the funding agreement include the growth of income as forecasted in the business plan. This will be the key metric in determining the success of the project and in releasing payments.

- 3.8 The council is able to support FutureLabs using part of the £3.7m DCMS grant and it is proposed to cap this at £200,000. This is the maximum amount of funding that will be offered for the entirety of the project. No more funds will be offered by the council to mitigate any long term risk that may occur post December 2017 if the lease for the current building is extended. This will be made clear through the funding agreement and has been discussed with FutureLabs. If it becomes clear that the project will not become sustainable, we reserve the right to terminate the funding agreement and cease our grant funding.
- 3.9 Revenue generation will be carefully monitored throughout; this includes levels of occupancy, events and accelerator programmes. Further details are available in the cashflow projections attached, note these are confidential and not to be shared. If revenue generation falls below the estimates then the council reserves the right to seek changes to the project or withhold the grant. This will be determined through the continued funding agreement and meetings with FutureLabs.
- 3.10 When the Leeds Tech Fund opens for applications, Tech Leeds Ltd will be able to apply for funding alongside other potential providers. The provision of funding for the popup is separate from the main competition and any successful project(s) will need to work with the popup to provide continuity of service for its tenants. The award of popup funding for Tech Leeds Ltd does not guarantee longer term support for that particular hub – it is for the benefit of any and all future hubs that we are seeking to support this short term project.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

- 4.1.1 Executive Board approved the principle of supporting the FutureLabs popup over the short and medium term through the paper “Growth in the Digital Economy” in July, 2016 and delegated this matter to the Chief Officer Economy and Regeneration.
- 4.1.2 Consultation with the Deputy Leader and Executive Member for Resources and Strategy took place on 16<sup>th</sup> September and he is supportive of this proposal.

### **4.2 Equality and Diversity / Cohesion and Integration**

- 4.2.1 The Council aims to improve the lives of all its citizens and foster good relations between different groups in the community and it is considered that the recommendations in this report will have a positive outcome through promoting sustainable and inclusive development and encouraging economic growth.
- 4.2.2 An Equality, Diversity, Cohesion and Integration screening exercise has shown that there will be no adverse impacts arising from the project.

### **4.3 Council policies and City Priorities**

- 4.3.1 The vision from the Best Council Plan is for Leeds to be a compassionate, caring city, which promotes sustainable and inclusive economic growth. Supporting the

FutureLabs Tech Hub will help new businesses within this sector, creating jobs and economic growth.

#### **4.4 Resources and value for money**

4.4.1 The £3.7m grant from DCMS for the Tech Hub is an additional resource to the council rather than a reallocation of existing funds. No funds from the council's existing budget will be spent on supporting the popup.

4.4.2 A funding agreement between the council and FutureLabs will monitor the sustainability of the Tech Hub to ensure continued value for money. The current lease expires in December 2017 and no additional funding will be made available beyond this point.

#### **4.5 Legal Implications, Access to Information and Call In**

4.5.1 The decision has no financial or legal implications. It is below the threshold for a key decision and is not eligible for call in. The funding is provided as a discretionary grant and is thus not subject to full procurement rules.

#### **4.6 Risk Management**

4.6.1 FutureLabs is a new venture and will rely on income generation in order to survive. The cashflow projections include estimates for demand and these targets may not be met. In the short and medium term a funding gap has been predicted and the council grant will be used to fill this gap.

4.6.2 The council will enter into a funding agreement with FutureLabs to minimise risk. Processes to address this include quarterly reviews prior to the grant being released, the ability to hold or reduce funding and reductions to costs.

4.6.3 The funding is capped at £200,000, to include an interim £6k payment made on 30<sup>th</sup> September 2016. This payment was covered by a separate report and Delegated Decision Notice.

### **5 Conclusions**

5.1 The report seeks approval from the Chief Economic and Regeneration Officer for a £200,000 grant to FutureLabs to fund operational costs for its Tech Hub based in Leeds city centre.

5.2 The funding will help the Tech Hub operate until at least December 2017 providing flexible and affordable office space for tech start-ups, and will have the overall effect of reducing the inherent risk in providing capital only grant(s) through the Leeds Tech Hub fund.

## **6 Recommendations**

6.1 The Chief Officer Economy & Regeneration is requested to:

1. Acknowledge the request from Executive Board in July 2016 to support the FutureLabs Tech Hub in the short and medium term.
2. Approve a £200,000 grant to be awarded to Tech Leeds Ltd in order to help fund the running costs of FutureLabs from September 2016 to December 2017, and make arrangements for this to be paid from the £3.7m of external funding secured for the main tech hub project.
3. Agree to enter into a funding agreement between the council and Tech Leeds Ltd as a framework for the delivery of the grant.

## **7 Background documents<sup>1</sup>**

Cashflow Projections - CONFIDENTIAL

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<sup>1</sup> 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.