

Report of: Leeds Tech Hub Fund Panel

Report to: Director of City Development

Date: 10th April 2017

Subject: Leeds Tech Hub Fund Allocations

Are specific electoral wards affected? If yes, 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 checked="" type="checkbox"/> Yes <input 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:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Summary of main issues

1. Executive Board approved the establishment of a Leeds Tech Hub Fund in October 2016 and delegated funding decisions to the Director of City Development, supported by input from the tech sector through Leeds Digital Board, which is chaired by the Executive Member for Strategy and Resources.
2. The decision by Executive Board anticipated that £3.7m will be used to fund one project of £2m, two projects of £500k, and two to three smaller projects totalling £4-500k, with the remainder being allocated to fees and supporting costs.
3. The fund was launched on 3rd November 2016 with a bid deadline of 19th December 2016. A total of 19 bids were received, totalling £23m. There is £3.7m capital in the fund, but no revenue available.
4. While the mechanism by which the money was provided from DCMS allows great flexibility in how the capital is spent, the Government set out in its grant determination letter 7 outcomes that we are expected to deliver. These are around increasing growth, start-up and investment in the tech sector, encouraging knowledge spill over into other sectors, and promoting the sector to potential employees, entrepreneurs and investors in the UK and beyond.
5. The bids have been assessed against the criteria set out in the application process, and the grant panel has determined a recommended programme of investments that are judged to provide the best approach to delivering these outcomes. There is a

significant risk that the capital projects funded will fail without any revenue support, and the sustainability of projects without additional funding was the highest weighted criterion in the scoring process.

6. The panel's recommended programme comprises:

- £2m investment in Bruntwood's Platform development, securing two floors of the building as a tech hub and providing grow on space elsewhere in the building
- £550,000 to East Street Arts' BEETA project, linking tech with an exceptional international artistic offer and promoting Leeds as a unique global location for creative digital projects and businesses
- £100,000 investment in the Leeds Open Data Institute at Munro House, linking tech growth with the cultural offer in Quarry Hill
- £36,646.52 to support the GameMakers project with specialist game development hardware, enabling computer game start-ups to accelerate their growth

Total: £2,686,646.52

7. The four successful projects will be officially announced ahead of the Leeds Digital Festival 22nd – 29th April, 2017.

8. The remaining capital has not been allocated at present, and will form part of further evaluation of the remaining eligible tenders. These will have the opportunity to resubmit revised proposals based on a proportion of the remaining capital on offer. A further report will be delivered to the Director of City Development in due course.

9. Four of the proposals were rejected as not meeting the required quality threshold.

Recommendations

1. That the panel's recommendations are approved by the Director of City Development.
2. That the Director of City Development instructs the Acting Head of Innovation and Sector Development and the Head of Asset Management to develop detailed funding agreements with the recommended projects and in consultation with Council's legal department.
3. That the programme of funded projects is overseen by a Leeds Tech Hub programme board, to be chaired by the Chief Officer, Economy and Regeneration.
4. The Director of City Development notes that £1,013,353.48 of the Tech Hub remains unallocated and a further report will be submitted in due course which sets out how this money will be allocated, following revised proposals from the remaining eligible projects.

1. Purpose of this report

- 1.1 To inform the Director of City Development of the recommendations of the Leeds Tech Hub Fund grants panel in support of the decision delegated to him by Executive Board.

2. Background information

- 2.1 Executive Board resolved, on 19th October 2016, to establish the Leeds Tech Hub Fund. The minute from that meeting is as follows:

91. Establishment of the Leeds Tech Hub Fund

To consider the report of the Director of City Development providing an update on the development of proposals for a Tech Hub and proposes the establishment of a Leeds Tech Hub Fund, with the running of an open grant competition in Autumn 2016 in order to determine the best project(s) to support using this money. In addition, the report sought approval to delegate subsequent authority to select the winning project(s) and enter into funding agreements to the Director of City Development.

Minutes:

Further to Minute No. 50, 27th July 2016, the Director of City Development submitted a report providing an update on the development of proposals for a Tech Hub, and which also proposed the establishment of a Leeds Tech Hub Fund, with the running of an open grant competition in Autumn 2016 in order to determine the most appropriate project(s) to support via the fund. In addition, the report also sought approval to delegate subsequent authority to the Director of City Development with regard to the selection of the winning project(s) and also to enter into any associated funding agreements.

Members welcomed the approach being taken in respect of the open grant competition and also welcomed the involvement of the tech sector in this initiative.

RESOLVED – That in recognising the opportunity that has been provided by the £3.7m Department of Culture, Media and Sport (DCMS) grant for a Tech Hub in Leeds:

- (i) Approval be given to the establishment of a Leeds Tech Hub Fund;
- (ii) The necessary authority be delegated to the Director of City Development in order to run an open competition for the allocation of the Leeds Tech Hub Fund, together with the selection of the successful project(s) to be supported via the Fund;
- (iii) The decisions being made in line with the resolutions above be supported via input from the tech sector, through input from the Leeds Digital Board.

- 2.2 Executive Board also considered the potential range of allocations and concluded that the funding would be used to fund one project of £2m, two projects of £500k, and two to three smaller projects totalling £4-500k, with the remainder being allocated to fees and supporting costs.
- 2.3 The Fund was launched on 3rd November 2016, with a deadline for applications of 10am on 19th December 2016. 19 bids were received from 15 separate bidders, and these were appraised by the Sector Development team. The grant panel met on 11th January 2017 and has determined a recommended programme of projects to meet the criteria and objectives of the Fund.

2.4 The criteria for the fund are set out below.

Leeds Tech Hub Fund criteria

It is anticipated that £3.5m will be used to fund one project of £2m, two projects of £500k, and two to three smaller projects totalling £4-500k, with the remainder being allocated to fees and supporting costs. £200k has already been allocated to support the FutureLabs pop-up project at 1 Eastgate. *(nb. Since the criteria were agreed the Council has received advice that the Tech Hub grant is ineligible to fund this £200k, and the full £3.7m is now available).*

However, if all of the available money is needed for a viable project, the option of a single project will be considered. Therefore, applicants are invited to make proposals at the levels of £3.5m, £2m, £500k and less than £500k, and the Grant panel will determine the most effective use of the funding in relation to the outcomes set by DCMS and listed above. Applicants are free to make multiple applications at different levels, and also to be part of multiple bids as they see fit.

The criteria for the grant fund will focus on these outcomes, in particular:

- Addressing market failure – projects will need to demonstrate that they would not happen without support from the Leeds Tech Hub Fund, and that they are responding to unmet market demand
- Catalytic effect on digital sector growth – projects should explain how they will amplify growth in businesses and employment in the sector
- Track record and capability of the management team – projects will need to have demonstrable experience in working with the sector, providing incubation and growth facilities, and attracting existing companies to collaborate with start-ups and entrepreneurs
- Innovation – how will the project link to the existing innovation sector in Leeds, and in particular the three Universities and their research facilities?
- Sustainability – there is only capital available, and projects will need to explain how they will cover the running cost of facilities and fund initiatives such as accelerators, mentoring programmes and business support

Value for money – projects must identify targets in terms of the number of businesses started, companies supported to innovate, and individuals supported to develop business ideas. The scale of hub facilities – floorspace, diversity of spaces available, other services provided – will also be a key metric in assessing applications.

The tech hub(s) we fund will be physical office/incubator space(s) in Leeds city centre designed to attract, develop and retain the best of digital talent whether this is engineers or entrepreneurs. This will include nurturing start-ups, fostering collaboration and providing mentoring, learning and business support. Projects outside of the city centre must demonstrate how they will link to the broader tech scene in the city.

3. Main issues

Platform

- 3.1 The highest scoring project was Bruntwood's Platform, providing 33,500 sq ft for a tech hub including 410 desks in co-working and small office environments, a business lounge, café-bar and event space on the first three floors of the building. A further 85,000 sq ft of grow on space will be available elsewhere in the development, which is located above Leeds station. The project would provide access to high quality business support, links to Angel investors, and Gigabyte connectivity. This project would require £2m of investment.
- 3.2 The support package for tenants would comprise a range of subsidised work spaces, with business advice through the MSP network and supplemented by legal input from Shoosmiths and financial input from KPMG. Complete Resourcing would bring links to investors, including the £200m Mercia fund, through the Investor Ladder. In year 1, there would be 156 desks available in a range of settings from co-working to private offices, with over 50 of those at discounted rates including 9 free spaces.
- 3.3 This project in itself will achieve the bulk of expected outcomes for DCMS by supporting over 100 start-ups per annum through subsidised workspace and a broad business support offer. By providing around 120,000 sq ft in incubation and grow-on space, Platform also hits the Leeds workspace target set by DCMS.

BEETA

- 3.4 East Street Art's BEETA project was the second highest scoring application. This innovative project seeks to bring together Business, Engineering, Environment, Technology and Art, exploring their interrelationships and developing international work that promotes Leeds on the global stage. East Street Arts have existing links with the Mozilla Foundation in Berlin, the Stockholm Environmental Institute and UKTI, the governments trade and investment body. The project has been allocated £550k for initial conversion and detailed design (East Street Art's originally asked for £570k).

Open Data Institute

- 3.5 The Leeds ODI Node (Open Data Institute – the organisation established by Sir Tim Berners Lee) will help cement the Quarry Hill area as a home for tech and culture cross-overs. The site is in the emerging Leeds cultural quarter, underpinning the city's ambition to be 2023 European Capital of Culture.

GameMakers

- 3.6 A modest investment of £36,646.52 has been requested by GameMakers, a specialist incubator for computer game start-ups. This is currently located in the FutureLabs pop-up. The project has requested funding for specialist equipment to enable the development of augmented reality and 3D virtual environments, a server farm and specialist scanners and printers. This is all equipment that is not readily available to start-ups.

Next steps

- 3.7 While initial due diligence was undertaken as part of the appraisal process – checking that applicants are legally constituted, reviewing published credit ratings, and verifying directors – a further stage of analysis will be undertaken as part of the preparation of funding agreements. Detailed State Aid advice will also be sought at this stage.

- 3.8 The remaining £1,013,353.48 will form part of the next stage of projects due to be funded. Although not part of this initial announcement, there remain some excellent projects which will benefit from the Tech Hub fund. The panel will decide from the 11 eligible projects still in the competition. Due to the limited amount of funds remaining it is expected that these will be asked to submit revised costings and in some cases downgrade the scope of their submissions to reflect a new budget.
- 3.9 An allocation of funding to cover the costs of this work from Leeds City Council will be included as part of the next stage.

4. Corporate considerations

4.1 Consultation and engagement

- 4.1.1 Executive Board asked that the decisions be taken with support from Leeds Digital Board. In practice, all the private sector members of the Board are either applicants to the fund or are named in individual applications, and thus have a conflict of interest.
- 4.1.2 The views of the chair of Leeds Digital Board - the Executive Member for Strategy and Resources – have been sought. Cllr Lewis was supportive of the approach taken and the proposed distribution of the fund.

4.2 Equality and diversity / cohesion and integration

- 4.2.1 A screening exercise was held for the establishment of the Fund in September 2016. This found a potential positive impact for equality and diversity due to the encouragement and support of potential users from under-represented groups in the tech industry. This screening has been revisited for the allocation of the funding and found to be still valid.

4.3 Council policies and best council plan

- 4.3.1 As discussed in the Tech Hub Fund Executive Board paper, the fund and its investments are in line with Council policies and plans.

4.4 Resources and value for money

- 4.4.1 Value for money, and the protection of future resources through designing in sustainability, are at the heart of the recommendations presented above. As discussed, there is a high risk that capital-only investments such as the fund will require future revenue support, and our appraisal of applications put the highest weighting on sustainable business models for delivery.

4.5 Legal implications, access to information, and call-in

- 4.5.1 The individual funding decisions and arrangements have been delegated to the Director of City Development and are not eligible for call-in.
- 4.5.2 Individual funding agreements will be developed with the Council's Legal department, who will also undertake detailed State Aid compliance analysis as part of a due diligence process.

4.6 Risk management

- 4.6.1 The Executive Board paper establishing the fund set out the main risks inherent in this exercise and recommended that a range of projects be supported to reduce the risk of failure. These considerations have been at the heart of the process described above.

5. Conclusions

- 5.1 Leeds City Council is awarding the first stage of the Tech Hub Grant Fund. The projects will deliver all the outcomes requested by DCMS, the funding will be allocated as follows:

Project	Amount
Platform	2,000,000
BEETA	550,000
ODI Leeds	100,000
GameMakers	36,647.52
Total allocation	£2,686,646.52

- 5.2 The official announcement will be made ahead of the Leeds Digital Festival 22nd – 29th April.
- 5.3 There is still £1,013,353.48 remaining in the Tech Hub Grant Fund and this will be allocated as part of the next stage of the process, all eligible tenders from the competition will be considered.
- 5.4 A project board, chaired by the Chief Officer Economy and Regeneration, should be established to oversee the delivery of the programme.

6. Recommendations

1. That the panel's recommendations are approved by the Director of City Development.
2. That the Director of City Development instructs the Acting Head of Innovation and Sector Development and the Head of Asset Management to develop detailed funding agreements with the recommended projects and in consultation with Council's legal department.
3. That the programme of funded projects is overseen by a Leeds Tech Hub programme board, to be chaired by the Chief Officer, Economy and Regeneration.
4. The Director of City Development notes that £1,013,353.48 of the Tech Hub remains unallocated and a further report will be submitted in due course which sets out how this money will be allocated, following revised proposals from the remaining eligible projects.