

Report of: Leeds Tech Hub Fund Panel

Report to: Director of City Development

Date: 25th July 2017

Subject: Leeds Tech Hub Fund Round 2

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: Appendix 1 of this report is exempt under the Access to Information Procedure Rules 10.4.3 as this contains commercially sensitive bidding information relating to the organisations involved.	<input checked="" type="checkbox"/> Yes <input 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 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.
3. Four projects valued at £2m, £550k, £100k and £37k were approved in a first round of decisions, announced on 21st April 2017. Allowing for fees, supporting costs, and a £60k contribution to the FutureLabs popup, approximately £850k remains to be allocated.
4. A second round was opened to existing applicants in May 2017, and seven revised applications were received. These have all been appraised in detail by an Officer team, supported by external opinion on State Aid implications and a financial appraisal from colleagues in the Projects Programmes and Procurement Unit (PPPU).
5. The highest scoring project is to undertake improvements to the event space and the establishment of a digital fabrication facility at Duke Studios at a cost of £393k. The

second ranked project is from FutureLabs with Land Securities in City Exchange (£1m requested, State Aid limit for funding £787k).

6. The panel recommends awarding Duke Studios the full amount requested, subject to their landlord extending their lease to cover the full 10 years of the programme, and further due diligence to confirm State Aid compliance. This would leave £455k of funding, less than half of that requested by the second highest scoring project. Further one-to-one discussions are proposed with FutureLabs to establish whether they are able to deliver a project for £455K (rather than the £1m requested), and, if so, the money offered to them, subject to due diligence and State Aid requirements. Any remaining budget should be held as a contingency for review in 2018.
7. Other costs allocated to the Tech Hub fund include £60k towards the FutureLabs popup in 1 Eastgate, £10,600 of time costs incurred in 2016/17, £25k to cover legal costs for the funding agreements and State Aid assessments, and a further £70k to cover future programme management costs. Less than 3% of the fund will be used to cover these management and administration costs, which would not otherwise be funded.

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, 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.

1. Purpose of this report

- 1.1 To inform the Director of City Development of the recommendations of the Leeds Tech Hub Fund Round 2 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 Four projects were announced on 21st April 2017, with the remaining funds launched as a second round, open only to existing applicants. Round 2 was thus open to the 7 applicants who were not selected in Round 1 but had met the quality threshold. The deadline for revised applications was 31st May 2017.
- 2.3 Six full applications were received by the deadline. These were appraised by a small team of Officers who considered the detailed written submissions, visited all the projects and interviewed the applicants, offering the same opportunities to all to revise and enhance their plans. Views were also sought on the written submissions from a project accountant in the Council's PPU and our external State Aid

advisers. The grant panel met on 17th July 2017 and has determined a recommended programme of projects to meet the criteria and objectives of the Fund. The Confidential Appendix to this report provides full details and scoring for the seven projects.

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

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

3.1 Duke Studios - Digital and Technology Event Centre plus Innovation Lab

The highest scoring application was from Duke Studios, who propose to invest £393k to create an upgraded events space and innovation lab within their rented premises in the South Bank. The work would involve:

- conversion of the current warehouse event space into a flagship digital and tech conferencing centre, with state-of-the-art projection and sound facilities allowing Leeds events to be streamed to a global audience
- creation of an outdoor conferencing extension to increase capacity and flexibility
- general upgrading and expansion of existing meeting room facilities
- extension and fit out of Innovation Lab Workshop to provide a mix of clean and dirty prototyping facilities including 3D, UV and ceramic printing, 3D modelling, CNC machining, and laser and vinyl cutting
- upgrades to IT networking to allow additional high speed broadband provision for current and future users of the coworking and small business spaces

They currently provide work space for 110 people working in 65 digital and creative businesses, including hot desks, allocated desks and offices, and hosted 83 large events last year. None of the existing space is subsidised, with all tenants and event organisers paying the same market rates. This is an important principle for Duke Studios, who strive to be affordable to all by keeping their standard charges low rather than offering different rates to different people.

The applicants estimate that the investment would increase their capacity for events, enabling an additional 50 events per annum, and enable 1,300 people and businesses to access rapid fabrication equipment each year. Both sides of the project would complement the round 1 Tech Hub fund offer, providing opportunities for high quality events and product launches and cutting edge prototyping facilities.

Although Duke Studios are tenants and the investment would thus not be in their own building, they have assurances from their Landlord that they can extend their lease to cover at least the 10 years of the Tech Hub fund. Some further work is needed to clarify the State Aid position, but initial guidance from external specialists is that, as there is no subsidy to users of the facilities, the project falls within the scope of Article 56 and is thus fundable to the value of the viability gap, which is likely to be 100% of costs.

3.2 FutureLabs

A revised application from FutureLabs, involving a partnership with Land Securities to refurbish parts of City Exchange, was the second highest scoring application. The application is for £1m, to be spent on:

- Fit out of 25,000 ft² of unused office space in City Exchange for FutureLabs, the mHabitat health hub and GameMakers (£476k)
- A contribution of £524k towards the overall costs of a refurbishment of City Exchange including replacement of the air conditioning system, replacement of lighting with an LED system, a new lift and an upgrading heating system. Total costs for this element would be £3,111,000

Spend on non-FutureLabs space in the building would incentivise Land Securities to offer a 10 year lease to FutureLabs at a rate significantly below market rent.

Without this investment, the space would be refurbished more slowly and then offered on a purely commercial basis. Our investment would secure this space as a Tech Hub.

Through supporting FutureLabs to develop their current pop-up in 1 Eastgate, we have seen the capabilities of the management team and the programme of support they can offer at first hand, and there is strong evidence that enabling their project to transfer into a longer-term home would be beneficial to growth in the tech sector. There may be challenges in creating a sufficiently distinctive offer to that provided at the Platform site approved in Round 1, but FutureLabs are clear that they would be targeting very early stage businesses for whom the heavily subsidised rents would be a big attraction.

State Aid advice is that this funding model, which is a pragmatic and commercial response to the challenges of a capital-only grant, would restrict our contribution to the full costs of the FutureLabs space (with some longer term restrictions on use and tenants) and 10% of the overall building costs for Land Securities. The maximum grant available under State Aid regulations would thus be £476k FutureLabs and £311k to Land Securities. It is not clear at this stage whether this level of funding would enable the project to proceed – in previous meetings, Land Securities have stated that the project is only viable with a £1m public investment.

- 3.3 Five further applications were received, and are described in the Confidential Appendix. These all scored significantly less than those outlined, although they had passed the threshold quality requirement. The panel recommends that these projects are declined.
- 3.4 Our recommendation is thus that, subject to the current lease being extended to cover at least 10 years and detailed due diligence with regard to State Aid, we award £393k to Duke Studios. The remaining £455k should be offered to FutureLabs, subject to a revised business case demonstrating that the project would be feasible and State Aid compliant with this support. Any remaining budget should be held as a contingency after charging legal and programme management costs.

4. Corporate considerations

4.1 Consultation and engagement

- 4.1.1 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.

4.5.3 Appendix 1 of this report is exempt under the Access to Information Procedure Rules 10.4.3. The public interest in maintaining the exemption in relation to the confidential appendix outweighs the public interest in disclosing the information which, if disclosed would adversely affect the business affairs of the organisations involved.

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 second round of the Tech Hub Grant Fund. Including existing allocations, the funding is recommended to be allocated as follows:

Project	Amount
Round 1	2,686,646.52
Round 2	
Duke Studios Events and Innovation	393,435.63
FutureLabs	454,917.85
FutureLabs Popup (part of funding – remainder from revenue budgets)	60,000.00
Legal and management costs	105,000.00
Total allocation	£3,700,000.00

- 5.2 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.