

Report of the Director of City Development

Report to Executive Board

Date: 27 July 2016

Subject: Growing the Leeds Digital Economy

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 checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Is the decision eligible for call-In?	<input checked="" type="checkbox"/> Yes	<input 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 rapidly establishing itself as the digital centre of the north, with a thriving private sector, internationally important infrastructure, a significant public sector presence through NHS Digital, and an approach to growing the sector based on close collaboration between the Council and the private sector.
2. This paper updates Executive Board on the digital economy in Leeds and the work the council is undertaking to support the sector in terms of skills, promotion and infrastructure. The Best Council Plan promotes strong economic growth and employment support and we are delivering this with the help of the private sector and education institutes in the city.
3. Digital companies – specialist technology firms – employ around 45,000 people in our city and are growing rapidly. Through their innovative products and services, tech companies currently create huge economic value for Leeds. The sector is predicted to grow at by 15% over the next 5 years, providing new jobs and investment together with opportunities for local people and our student population.
4. Over the past 18 months we have worked hard to support individual firms to grow, promoting Leeds as the digital capital of the north. Through the Leeds Digital Skills Action Plan we are working on a set of outcomes to fill the large number of tech vacancies in the city and promote careers advice, bespoke training and increasing interest in tech careers across schools.

5. Initiatives such as the recent Leeds Digital Festival, the Promoting Leeds grant fund and the Leeds Digital Board have all helped us to link with the tech community and raise the profile of the city's achievements in tech. We have run targeted campaigns to bring companies and talent from London to Leeds, helped local companies recruit talent from within the city, and supported projects to spread the word on tech in Leeds through films, a new tech news website, and detailed work with potential overseas investors. We have also supported the work of the not-for-profit Leeds internet exchange, IX Leeds, the Leeds Digital Careers Fair and the Open Data Institute work in Leeds. We are currently undertaking work to position Leeds as a centre of excellence for cyber-security, innovation in distributed ledger technologies and fintech.
6. The not-for-profit FutureLabs project has secured for the city £3.7m of capital funding from government, which has been awarded to the Council, for a tech hub to act as the front door to the sector, to support early-stage businesses as they start up and grow, and to bring together established businesses and innovators. Work is progressing on how best to utilise this funding, and a report will be brought back to Executive Board later in the year. In the short term, to provide proof of concept and build a customer base for the project, a FutureLabs pop-up has opened at 1 Eastgate.
7. Other private sector-led initiatives, focussing on the emerging fintech, cyber security and insuretech sub-sectors – bringing the innovation of the tech sector to financial services, data security and insurance – are working towards additional new facilities for the city. There are opportunities for Leeds to support and promote these initiatives and for the city to lead the field in these specialist areas.

Recommendations

8. Executive Board is recommended to:
 - i) Endorse the Leeds Digital Skills Action Plan and endorse our approach to procuring sector specialists to lead on this moving to a model where it is entirely funded by the sector.
 - ii) Acknowledge the success of the Leeds Digital Festival and continue to offer support as this becomes an annual event, and continue to support the Leeds Digital Board and the work it does to promote the sector.
 - iii) Accept the £3.7m grant from DCMS and approve its injection into the capital programme.
 - iv) Request that the Chief Officer Economy and Regeneration works up proposals for a Tech Hub in Leeds, to be considered by Executive Board later in 2016.
 - v) Request that the Chief Officer Economy and Regeneration, in consultation with the relevant Executive Member develops a proposal to support the existing FutureLabs pop up in the short to medium term.

- vi) Request that the Chief Officer Economy and Regeneration works up proposals and bring these back to Executive Board for supporting the growth of fintech businesses in Leeds, developing Leeds as a centre of expertise for cybersecurity, and for Leeds becoming a hub for innovation in Blockchain and distributed ledger technologies.

1 Purpose of this report

- 1.1 This paper updates Executive Board on the growth of the digital sector in Leeds and the work undertaken by officers to support and promote this sector.
- 1.2 It also seeks approval from Executive Board to devolve powers to build a Tech Hub to the Director of City Development.

2 Background information

- 2.1 Leeds has a strong digital sector, founded on our heritage in the communications industry. The invention of the Wharfedale printing press in the 1850s transformed the print industry. More recently with the birth of the internet Leeds was home to Freeserve, one of the world's first popular internet service providers. The recent and rapid growth of SkyBet, now valued at over \$1bn and employing over 1,000 staff, demonstrates the potential that the sector now provides.
- 2.2 In recent years, Leeds has developed a particular expertise in:
 - the commercial exploitation of big data – through direct marketing, the analysis of credit card transactions and social media;
 - the IT systems underpinning the NHS, including HSCIC (the Health and Social Care Information Centre) and companies such as TPP, EMIS and Lhasa;
 - a leading city for open data, through the ODI and Leeds Data Mill;
 - digital media, including Sky's national technology centre of expertise which now employs 500 people at Leeds Dock, compared to 50 a year ago;
 - computer games, including a main development centre of Rockstar Games, who created the best-selling "Grand Theft Auto" in Leeds;
 - in-company tech, such as Asda Walmart's consumer data analytics function, or DLA Piper, the world's largest law firm which runs its global IT from Leeds;
 - financial technology, based on our position as the UK's second financial centre;
 - telecommunications and data storage, based on the IX Leeds infrastructure, and the position of Leeds as one of the UK's three internet nodes (and the only one outside London) with direct connectivity to the global internet infrastructure; and
 - university expertise in computing and data analytics.
- 2.3 The city is now home to around 3,500 digital and tech companies, the IT specialist teams of global companies such as DLA Piper, KPMG and Asda, and key digital infrastructure including IXLeeds – the only independent internet exchange outside London located at aql in Leeds South Bank.

- 2.4 Total employment in the sector in Leeds is estimated at 45,000 – approximately 10% of all jobs in the city. This is predicted to grow by 15% over the coming 5 years.
- 2.5 The sector is becoming increasingly collaborative and is represented by the Leeds Digital Board, formed following the Leeds Digital Summit 2015. The Board comprises of leaders of business, higher education providers and the council. Initiatives for skills, promotion and infrastructure have been recognised as important by the board to aid the sector moving forward.
- 2.6 Leeds Digital Festival 2016 was held in the week leading up to May Day Bank Holiday weekend. The festival was organised by the sector and supported with a small grant from the Promoting Leeds fund. In total, 5,000 people attended 53 separate events showcasing our strengths as a city in areas such as digital health, innovation, Fintech, software development and online marketing. The festival began with the launch of the film Tech in Leeds, and ended with a day of events on music and tech, leading into the Live at Leeds music festival.
- 2.7 Two specific areas of the digital economy – Fintech and cyber security – are thought to present significant opportunities for Leeds.
- 2.8 Fintech (financial technology), and more specifically block chain and distributed ledger technology, builds on the city's strong financial services sector, offering potential competitive advantages to Leeds through developing innovative technologies to support banking and personal finance, and to provide new ways to authenticate legal documents.
- 2.9 Cyber security is of increasing importance as more and more business is done online. Leeds has both a strong academic research background in this sphere and a unique position arising from the physical infrastructure present in the city, exemplified by IXLeeds, the regional internet exchange.
- 2.10 Through our work with the digital sector we are exploring how technology can help address city challenges such as the Age Friendly agenda. Our partnership with the Urban Sustainable Development Lab, recognised this year by NESTA as one of the 50 New Radicals, has led to the creation of new apps such as the Leeds Bin App, CareView and GSOH (Great Sense of Home). These innovations have great potential to make a big difference to our city and to highlight our work towards being a strong economy and a compassionate city.

3 Main issues

Coordination and collaboration

- 3.1 The digital sector is thriving in Leeds but requires continuing support in order to maximise growth. The Leeds Digital Board, established in June 2015, has a key role in ensuring that the best efforts of the public, private and education sectors are well-coordinated and promote collaboration. The Board has had a successful start, producing an overall strategy and a Skills Action Plan (see Annex 1).

Skills

- 3.2 The recent Scrutiny Board (City Development) Digital Inclusion Inquiry considered broader issues of digital skills and inclusion for the citizens and businesses of Leeds and identified actions to reduce digital inclusion and increase general digital skills. This is distinct from the advanced technical skills needs of the digital sector discussed below.
- 3.3 One of the consequences of a rapidly growing digital sector is the danger that demand from employers will outstrip supply. This is the situation Leeds faces, in February there were 640 vacancies for mid-level tech jobs in the city, an increase of over 50% from the previous six months.
- 3.4 The city wants to retain graduates from our high quality universities and we want to attract graduates from other parts of the UK and internationally. We also want businesses to invest here confident that they can find the right employees.
- 3.5 To meet the skills challenge we have developed the Leeds Digital Skills Action Plan, focussing on short, medium and long term aims. This was launched in March, 2016 and has support from business, the universities, education providers and others such as Tech North. The Skills Action Plan and Digital Board are being followed by other authorities as an example of best practice and have the support of the Department for Culture, Media and Sport. Initiatives which are being developed following the Skills Action Plan include:
- A tech careers fair which took place in February at Leeds Arena and was attended by over 1,500 graduates. An additional event took place in London in May to recruit tech workers to Leeds. The success of the careers fair has led to future events being planned in Leeds.
 - Digital “boot camps” and bespoke university courses working with local employers.
 - A new University Technical College for 16-18 year olds specialising in tech. A submission for funding is expected in October.
 - A digital skills summit bringing employers and education providers together.
 - Improving careers advice, particularly in schools. There is also a need to offer training and advice to people wishing to make a career change.
 - Developing more code clubs for primary schools to get children interested in tech – particularly girls as women are underrepresented in the digital sector.
- 3.6 The Leeds Digital Board will lead on these actions with the help of the council. It is proposed to procure sector specialists to implement the Plan which will be primarily funded through the sector, overseen by the Digital Board. Ownership of the Action Plan by the sector is considered key to its success, particular with regard to the medium and longer term objectives of the plan.

Promotion

- 3.7 As a council we have supported this promotion through the Digital Economy team and we now link with over 1,000 companies through our newsletter and email list. The Promoting Leeds Grant Fund launched in September, 2015 offered financial support to projects focussed on the digital sector and included the Leeds Digital Festival, Leeds Indie Map, the Tech Careers Fair and Leeds Arena, Tech in Leeds promotional film, a tech news website and others.
- 3.8 The projects have resulted in positive promotion of the digital sector, greater collaboration between businesses, wider community engagement with the digital and tech sector and numerous events showcasing digital and the city. The Leeds Digital Festival will now become annual event following the success of the weeklong event held in April, this featured 56 events across the city and was attended by approximately 5,000 people. It has led to greater collaboration in the tech sector, showcasing of companies and products as well as a new regular serial promoting the digital sector in the Yorkshire Evening Post.

Infrastructure

- 3.9 Leeds has secured a government grant towards providing a new Tech Hub for start-up and scale-up companies. Announced as part of the 'Tech Nation' initiative, a project to help promote the UK's technology industry and support entrepreneurs, the grant is intended to *"nurture start-ups, foster collaboration and provide mentoring, learning and business support"* (DCMS, Sept 15) in the tech sector.
- 3.10 The government has invested a total of £11m for hubs in Manchester, Sheffield and Leeds. Leeds has secured £3.7 million from DCMS as a capital injection to fund the project. The money was transferred to the council in March, 2016. No additional council funds are to be used for this project.
- 3.11 The hubs are designed to stimulate growth in the tech sector which the government has recognised as underperforming in the north, and DCMS estimate that the three tech hubs could create or safeguard 6000 jobs over 10 years.
- 3.12 The grant is to be spent on capital works and it is intended to use this money to secure a building, the council will also procure an operator to run the Hub. There is no revenue funding as part of the grant and we have identified this as a risk to the project as the Hub would benefit from revenue in the form of business support to companies, improving links with the universities, funding accelerator programmes and strengthening links with the tech community,
- 3.13 In an attempt to secure revenue funding we have submitted a bid for European funding as part of the ERDF programme for innovation. The £3.7m UK government grant has been used as partial match funding, we have applied for an additional £3.5m. A decision on this bid is expected in September and at this stage we will be in a position to move forward with the Tech Hub project. If successful, it is proposed that a full bid will be worked up for submission in December. If on the other hand we are unsuccessful in our ERDF bid we will continue with the project on the basis with a total budget of £3.7m and scale down

the ambitions of the Hub to fit within this. If this process is delayed by the recent EU referendum result, officers propose that the Council push ahead with the project as a capital only scheme.

- 3.14 The Council is working with the LEP and a number of leading global financial, digital and telecoms firms on proposals for a fintech innovation hub. This would provide a space for research and development in new technologies such as blockchain, and data analytics enabled by advances in computing. It is envisaged that this will complement a tech hub in the city centre.
- 3.15 In order to provide proof of concept and begin the work of linking with the tech community, FutureLabs has opened a pop-up version of the hub at 1 Eastgate. The centre is already being used by a range of tech startups and as a venue for many of the city's tech networks.

An update to Executive Board on the Tech Hub project, including the FutureLabs pop-up, will be provided at the end of the year.

4 Corporate considerations

4.1 Consultation and engagement

- 4.1.1 The Deputy Leader and Executive Member for Resources and Strategy, who also chairs the Leeds Digital Board, was briefed on this paper on 23rd June and is supportive of the approach.
- 4.1.2 Consultation has been undertaken on the Leeds Digital Skills Action Plan including a skills summit held on 7th March 2016. Links with the tech community have been improved over the last 18 months through work on promotion of the sector, including the Leeds Digital Festival which will become an annual event.
- 4.1.3 The Digital Economy team has links with the tech sector through a mailing list of over 1,000 companies.

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. An Equality Impact Assessment has been completed and is attached to this report.
- 4.2.2 It is recognised that the tech sector is underrepresented by women and the council and wider sector has taken steps to encourage more women in tech through aims set out in the Leeds Digital Skills Action Plan. These include improved careers advice, promotion of the sector and increasing the amount of code clubs in primary schools to encourage more participation particular from girls.
- 4.2.3 The grant to build a new Tech Hub which will provide more affordable office space for new tech companies to grow, generating jobs for the city.

4.2.4 Our longer term work on digital skills aims to increase the opportunities for all people in Leeds to benefit from growth in the digital economy. Projects such as coding clubs in primary schools, women into tech initiatives, and digital apprenticeships are key to achieving this objective.

4.3 Council policies and best council plan

4.3.1 The vision from the Best Council Plan is for Leeds to be a compassionate, caring city that helps all its residents benefit from the effects of the city's economic growth. The digital sector within Leeds is growing faster than the wider economy resulting in more jobs and economic growth for the city.

4.3.2 The council's vision is for Leeds to be the best city for children and young people to grow up in. Work focussing on improving skills, careers advice and code clubs for young people support this aim.

4.3.3 The success of the Leeds Digital Festival has led to this becoming an annual event and will contribute to wider council aims as it bids to be European Capital of Culture 2023.

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. It has been provided as a capital grant, and can only be spent on capital items, which provides a challenge as many of the early costs of a tech hub will be revenue items such as staffing and other operating costs. We will explore with DCMS whether there are options either for flexibility in supporting revenue costs from the existing grant or for additional revenue funding to support the hub through its start-up stage.

4.4.2 Ensuring value for money and minimising risk are key factors which will be used to determine how best to spend the grant. It is likely that there will be a requirement for an open and competitive process for ensuring the project represents value for money.

4.5 Legal Implications, access to information and call in

4.5.1 Advice has been sought from the council's legal and procurement departments who are assisting with the tech project, offering advice on process, value for money, legal and state aid implications.

4.5.2 There are no legal implications on the wider digital sector as a result of this report.

4.5.3 This report is eligible for Call-In.

4.6 Risk management

4.6.1 The tech hub project is at an early stage contains an element of risk. These include ensuring the money is spent in accordance with all applicable legal and regulatory requirements, including use of capital funds, state aid, planning, public procurement, and the Public Sector Equality Duty as set out in Section 149 of the Equality Act 2010.

4.6.2 To minimise risk a European funding bid has been submitted for additional revenue funds and the council will be informed of the result this September. If unsuccessful the project will be scaled back in order to minimise any potential risk to the council.

5 Conclusions

5.1 This paper updates Executive Board on the growth of the digital sector in Leeds and the work undertaken by officers to support this sector including work on skills promotion and infrastructure.

5.2 The paper also informs Executive Board of a £3.7m grant from DCMS to build a new tech hub and seeks approval from Executive Board to devolve powers to build the Tech Hub to the Chief Officer of City Development.

6 Recommendations

6.1 Executive Board is recommended to:

- i) Endorse the Leeds Digital Skills Action Plan and endorse our approach to procuring sector specialists to lead on this moving to a model where it is entirely funded by the sector.
- ii) Acknowledge the success of the Leeds Digital Festival and continue to offer support as this becomes an annual event, and continue to support the Leeds Digital Board and the work it does to promote the sector.
- iii) Accept the £3.7m grant from DCMS and approve its injection into the capital programme.
- iv) Request that the Chief Officer Economy and Regeneration works up proposals for a Tech Hub in Leeds, to be considered by Executive Board later in 2016.
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- vi) Request that the Chief Officer Economy and Regeneration works up proposals and bring these back to Executive Board for supporting the growth of fintech businesses in Leeds, developing Leeds as a centre of expertise for cybersecurity, and for Leeds becoming a hub for innovation in Blockchain and distributed ledger technologies.

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.