

## Report of Director of City Development

### Report to Executive Board

Date: 19 October 2016

Subject: Establishment of a Leeds Tech Hub Fund

Are specific electoral wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, name(s) of ward(s):		
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?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, access to information procedure rule number:		
Appendix number:		

### Summary of main issues

1. As reported at July 2016 Executive Board (agenda item 50: "Growing the Leeds Digital Economy"), the Leeds digital and tech sector goes from strength to strength, creating jobs and bringing wealth to the city and city region.
2. To support further growth, DCMS has provided £3.7m of capital funding from government 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.
3. In July 2016, Executive Board requested the Director of City Development to work up proposals for a Tech Hub in Leeds. Over the summer we have run a Market Sounding Exercise, taken extensive advice from colleagues in Procurement and Legal, and consulted with many members of the existing tech sector.

### Recommendations

4. Recognising the opportunity that has been provided by the £3.7m DCMS grant for a Tech Hub in Leeds, Executive Board is recommended to:
  - i) Establish a Leeds Tech Hub Grant Fund;
  - ii) Delegate to the Director of City Development the running of an open competition for that Fund and selection of project(s) to be supported, and ask that decisions are supported by input from the tech sector through input from Leeds Digital Board.

## **1 Purpose of this report**

- 1.1 This paper updates Executive Board on the development of proposals for a Tech Hub and proposes the establishment of a Leeds Tech Hub Fund and the running of an open grant competition in Autumn 2016 to select the best project(s) to support using this money.
- 1.2 It also seeks approval from Executive Board to delegate subsequent authority to select the winning project(s) and enter into funding agreements to the Director of City Development.

## **2 Background information**

- 2.1 On 7 March 2016, DCMS awarded £3.7m to Leeds as part of its £11.2m investment in northern Tech Hubs which will also see facilities in Manchester and Sheffield. The funding, provided under Section 31 of the Local Government Act 2003, is provided as capital and must be spent accordingly on capital items such as buildings and equipment. Although, as a Section 31 grant, there are no legal conditions beyond the spending of the money on capital items, the grant letter sets out a range of outcomes which it is expected that money will help to achieve.
- 2.2 In particular, the grant letter states that "*We aim to help accelerate the growth of the digital economy, the existing successful industry clusters and digital SMEs in the North of England. In particular we wish to help achieve the following:*

- *Address market failures in the supply of suitable facilities for digital SMEs in the North, for example capital for property development, by increasing provision: capital investment in three facilities, one in each city centre, providing 200,000 square feet of new space for digital entrepreneurs, start-ups and growing SMEs.*
- *Increase the provision of high quality business support services for digital entrepreneurs and SMEs.*
- *Strengthen the "pipeline" of digital start-up and scale-up businesses and improve business outcomes.*
- *Encourage knowledge spin-overs and innovation, for example through firms' proximity in working space, networks and events, benefiting young firms in particular.*
- *Encourage the further development of the existing successful tech industry clusters in these cities and across the North.*
- *Address market failures in access to finance and increase (domestic and international) investment, e.g. angel, corporate and venture capital.*
- *Raise awareness of Northern digital businesses' successes and opportunities, especially with young people, students and graduates living in the region and potential investors."*

- 2.3 The funding was originally announced in March 2015 as part of the last Coalition Government budget. The Budget statement named a particular building and project that would be supported, however the March 2016 grant letter is clear that Leeds City Council has a legal responsibility to ensure that the money is spent in accordance with all applicable legal and regulatory requirements, for example on use of capital funds, state aid, planning, and public procurement.
- 2.4 The Government's own research into the growth of Tech in Leeds – the Tech Nation 2016 study – shows a total of 23,734 people working in digital companies in the city, with an average growth in turnover between 2010-14 of 47%. It identifies the three main barriers to growth as a limited talent supply, lack of access to finance, and low sector awareness. Lack of available office space is not identified as a significant issue.
- 2.5 Tech Nation 2016 also identifies the development of clusters – where firms of different size in the same sector work collaboratively for mutual gain – as an overall challenge to the digital sector in the UK.

### **3 Main issues**

#### Needs of the Leeds Tech Eco System

- 3.1 The digital sector is thriving in Leeds but requires continuing support in order to maximise growth. There have been several attempts in recent years to establish a tech hub in the city. We have also seen a burgeoning business start-up scene which has led to the establishment of at least 10 co-working spaces, where early stage businesses and entrepreneurs can work with like-minded people in an informal work environment. Facilities such as Duke Studios, Leeds Beckett University's Digital Hub, Round Foundry Media Centre and the Open Data Institute in Munro House all offer the kind of space sought by early stage tech companies and by larger companies seeking to place established teams alongside innovators.
- 3.2 Beyond the individual promoters of tech hubs, there is no great desire for a single building to encompass the tech sector. Rather, existing companies value the diversity of spaces currently available and wish to see better coordination of the sector through marketing, skills provision and access to finance.

#### Capital funding only

- 3.3 Although the outcomes listed at 2.2 are almost entirely dependent on human endeavour rather than the provision of a building, and thus "revenue" in nature, rather than "capital", only capital funding has been provided. This cannot be spent on salaries or staff, but can only be used for buildings and equipment. The business model of any tech hub funded through the money must therefore be carefully constructed so that it does not depend on public funds to pay staff and running costs.
- 3.4 An attempt has been made to secure revenue funding from the European Structural Funds (ESIF). The bid was submitted in June 2016, the day after the referendum on EU Membership. Recent announcements by the Chancellor of the

Exchequer on EU funding have focussed on the Autumn Statement, with a commitment to honour all projects in contract when the statement is published. Revised timescales have now been issued by DCLG and it is clear that our plans are not sufficiently advanced for a full application to be submitted and approved in time for the Autumn Statement which is expected on 23<sup>rd</sup> November 2016. No alternative public source of revenue funding has been identified.

#### State Aid

3.5 European State Aid regulations seek to prevent the distortion of markets through the use of public funds. In practical terms, the regulations limit the scale of funds that can be provided to any individual undertaking to:

- €200,000 in any three year period or
- 45% of total project costs for a project by a small business (<50 employees) in Leeds City Centre (35% for medium businesses (50 – 250 employees), 25% for large businesses) or
- Maximum 20% of project costs for projects elsewhere in Leeds.

3.6 In practice, this means that our £3.7m of funding must attract at least £4.5m of match funding from non-public sources if our project is to be State Aid compliant.

#### Competitive Process

3.7 As the first stage in an open process to determine the most advantageous use of the DCMS grant, we undertook a market sounding exercise (MSE) which concluded on 14<sup>th</sup> August 2016. The MSE sought expressions of interest from building owners and operators who wished to be considered for the Tech Hub. There were 5 formal responses to the MSE and a further 5 informal approaches which did not result in a submission.

3.8 There are thus at least 10 potential projects, many complementary to each other as they cover different sub-sectors (eg Fintech) and/or different areas of the city (South Bank, Holbeck, The Calls, Eastgate). The sustainability strategies outlined by respondents to the MSE focussed predominantly on harvesting companies as they emerge from the Tech Hub and securing them as tenants elsewhere in their estate.

3.9 While many of the key attributes of public procurement will apply to the funding decisions, including State Aid and Equalities considerations, the proposal is to establish a grant fund and distribute it through a competitive process, and not to formally procure a Tech Hub. This process will enable the outcomes at 2.2 to be specified, but based on capital funding only. We will not be buying in a management company to deliver specified outputs, but will instead seek to support projects which will use the capital to deliver outcomes.

## Making the most of the opportunities provided

- 3.10 As discussed, the Tech Hub should not be seen as simply a property project – the outcomes required go way beyond what could simply be achieved by a building. The response we have seen to the MSE also demonstrates that there are many potential projects, each with their own strengths. The original Government analysis, that we need a single building to act as the catalyst and drive growth, does not reflect what either the market is telling us, or what individual companies and entrepreneurs are saying.
- 3.11 The strength of the Leeds economy is often reflected through its diversity. In the case of the proposed Tech Hub, the solution that is emerging is one which seeks to support a range of projects which support different sub-sectors and geographic clusters. Rather than back one project to the exclusion of others, it is proposed to use the capital grant to establish a Leeds Tech Hub Fund and invite applications which support the outcomes listed at 2.2.
- 3.12 This grant competition would be run over an 8-10 week period, with applicants asked to identify buildings and supporting activities which would run over a period of at least 10 years in exchange for part or all of the available £3.7m. Each application would need to explain how State Aid requirements would be met for their project and how the operation would be financially sustainable, given the absence of public revenue funding. Following formal submissions, the Grant panel may then enter discussions with the applicants prior to making formal decisions.
- 3.13 It is anticipated that the £3.7m will be used to fund one project at £2m, two projects at £500k, and two to three smaller projects totalling £4-500k, with the remainder being allocated to fees and supporting costs. However, if all of the available money is needed for a viable project, the option of a single project will be considered. Therefore, applicants will be 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 overall criteria set by DCMS and set out at 2.2.
- 3.14 The criteria for the grant fund would focus on the outcomes listed at 2.2, including aspects such as:
- 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 startups 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.

- 3.15 To support the grant competition, advice would be sought through the Leeds Digital Board. Detailed input from the nominees of the Board would support the appraisal process with insight into the needs of tech companies large and small.
- 3.16 Following the completion of the grant competition, the Director of City Development would, in consultation with the Executive Member for Resources and Strategy, who chairs the Leeds Digital Board, determine which applications should be supported and issue grant agreements to successful parties.

## **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 16<sup>th</sup> September 2016 and is supportive of the approach.
- 4.1.2 DCMS have been consulted to establish whether the proposed approach is acceptable to the ultimate funders. They have raised no objections.
- 4.1.3 Through the grant competition and appraisal process, we will engage more broadly with the digital sector to ensure that the supported projects have broad support from the market they seek to serve.

### **4.2 Equality and diversity / cohesion and integration**

- 4.2.1 An Equality, Diversity, Cohesion and Integration screening form has been completed and is attached as an appendix. The screening identified potential positive impacts for women and young people seeking opportunities in the tech sector.
- 4.2.2 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.
- 4.2.3 The grant to build a new Tech Hub will provide more affordable office space for new tech companies to grow, generating jobs for the city.

#### **4.3 Council policies and best council plan**

- 4.3.1 The ambition 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 Work focussing on improving skills, careers advice and code clubs for young people contributes to the Best Council Plan priorities around skills programmes and employment support and educational achievement and the supporting Children and Young People's Plan aim for Leeds to be the best city for children and young people to grow up in.

#### **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.
- 4.4.2 Through supporting multiple projects which aim to grow the tech sector, we seek to get better value for money and maximise the impact of the available resources, supporting our Best Council ambition of being an efficient and enterprising organisation.

#### **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 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 contains significant risks. Delivering a capital project which has no ongoing revenue funding available brings several risks, including that the project fails, leaving a closed facility which cannot deliver the desired outcomes. There is no financial risk to the Council from this, as the Section 31 grant has no enforceable conditions other than that the money can only be spent on capital items.
- 4.6.2 To minimise the risk of individual project failure, we seek to support a number of complementary projects. If one of these proves unsustainable, the other projects will continue to deliver.

### **5 Conclusions**

- 5.1 This paper updates Executive Board on the need for and development of Tech Hubs in Leeds. It demonstrates that there is strong case for a diverse Tech Hub

offer involving the support of multiple projects, and that establishing a grant fund – the Leeds Tech Hub Fund – would enable outcomes to be delivered which would not be possible through a standard procurement contract.

- 5.2 The paper also outlines to Executive Board a route to offer the £3.7m grant from DCMS, through the proposed Leeds Tech Hub Fund, to a range of projects in the City that will support the continued growth of our important tech sector.

## **6 Recommendations**

- 6.1 Recognising the opportunity that has been provided by the £3.7m DCMS grant for a Tech Hub in Leeds, Executive Board is recommended to:

- i) Establish a Leeds Tech Hub Fund; and
- ii) Delegate to the Director of City Development the running of an open competition for that Fund and selection of project(s) to be supported, and ask that decisions are supported by input from the tech sector through input from Leeds Digital Board.

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

- 7.1 None.

---

<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.