



Cabinet Report

Report of: Simon Green, Executive Director, Place

Report to: Cabinet

Date: 9th March 2016

Subject: Sheffield Digital Business Incubator

Author of Report: Ben Morley
0114 223 2389

Key Decision: YES

Reason Key Decision: Expenditure/savings over £500,000

Summary:

Sheffield City Council has been requested by the Department of Culture, Media Sport (DCMS) to receive and then act as Accountable Body for £3.5m of capital funding to establish a new facility providing work space, business incubation and other services for entrepreneurs and small and medium sized businesses (SMEs) based in the Sheffield City Region whose ambitions and business models rely on digital technologies and their applications.

Acting as Accountable Body SCC will assess detailed proposals and enter into Funding Agreements with third party delivery bodies.

Reasons for Recommendations:

The underlying benefit of this proposal is to enable up to £3.5m of funding from Central Government to be invested in the City Centre to bring forward business incubation space for companies in the digital industries sector. Successful delivery of this space will support the jobs growth and wealth creation in Sheffield and the wider City Region and as well as the 'Tech Nation' concept being promoted by Government. This is one of three Digital Business Incubators being supported by Government in the North, the others being in Manchester and Leeds.

It is expected that this funding will be used to secure and refurbish a property in the City Centre with the current option having been identified as Sheffield 'Maker Hub' – the renovation of Castle House (former Co-op) in Castlegate. This investment will add to the vibrancy and reinvigoration of the Castlegate area and wider City Centre and has economic benefits in terms of making the city an exciting place to locate and attract talented staff for businesses in the creative and digital industries which is a key growth area for the City Region.

The funding Government Department (DCMS) has assessed proposals from the promoters of this project in Sheffield and allocated £3.5m but is not in a position to invest directly into the project. SCC has been requested to act as an intermediary in the form of the Accountable Body for the funding and will not only receive the capital funding but will undertake appropriate detailed assessment to ensure the project delivers the most positive outcomes for the city and the tech sector. With Accountable Body status the Council will ensure the delivery body is fit for purpose and delivers the project and associated outputs in a legally compliant manner via a Funding Agreement.

Recommendations:

That Cabinet agrees:-

- 1.1 To accept the grant offer of £3.5 million.
- 1.2 To accept Sheffield City Council becoming the Accountable Body for the grant on behalf of a third party who will deliver the project and payment of grant aid to the third party delivering the project.
- 1.3 To delegate authority to the Executive Director of Place in consultation with the Cabinet Member for Business Skills and Development and the Director of Finance to instruct the Director of Legal and Governance to finalise terms and complete all the necessary documentation to give effect to the proposals set out in this report.

Background Papers: Draft Grant Determination Letter

Category of Report: OPEN

If CLOSED add 'Not for publication because it contains exempt information under Paragraph (insert relevant paragraph number) of Schedule 12A of the Local Government Act 1972 (as amended).'

Statutory and Council Policy Checklist

Financial Implications
YES Cleared by: M Wassell
Legal Implications
YES Cleared by: S Bennett
Equality of Opportunity Implications
YES Cleared by: A Johnston
Tackling Health Inequalities Implications
NO Cleared by:
Human Rights Implications
NO Cleared by:
Environmental and Sustainability implications
NO Cleared by:
Economic Impact
YES Cleared by: Edward Highfield, Director Creative Sheffield
Community Safety Implications
NO Cleared by:
Human Resources Implications
NO Cleared by:
Property Implications
NO Cleared by:
Area(s) Affected
City Centre
Relevant Cabinet Portfolio Lead
Cllr Leigh Bramall – Business, Skills and Development
Relevant Scrutiny Committee
Economic and Environmental Wellbeing Scrutiny and Policy Development Committee
Is the item a matter which is reserved for approval by the City Council?
NO
Press Release
NO

SHEFFIELD DIGITAL BUSINESS INCUBATOR

1.0 SUMMARY

- 1.1 Sheffield City Council has been requested by the Department of Culture, Media Sport (DCMS) to receive and then act as Accountable Body for £3.5m of capital funding to establish a new facility providing work space, business incubation and other services for entrepreneurs and small and medium sized businesses (SMEs) based in the Sheffield City Region whose ambitions and business models rely on digital technologies and their applications.
- 1.2 Acting as the Accountable Body for the grant and the third party delivering the project, SCC will assess detailed proposals and enter into Funding Agreements with third party delivery bodies.

2.0 WHAT DOES THIS MEAN FOR SHEFFIELD PEOPLE

- 2.1 The Creative and Digital Industries are a key growth sector for Sheffield and the wider City Region with the potential to generate a large number of high skilled, well paid jobs. The funding being made available for the establishment of this Digital Business Incubator will be a boost to expanding the number of such businesses in future.
- 2.2 The proposal to establish the incubator in Castle House at Castlegate will be a major boost for the regeneration of the area following the demolition of the Markets building and will form an important element of the Council's aspiration to change the nature of, and attract new uses into, the area, particularly in respect of creative and digital businesses and activities. It will also bring a large and distinctive Listed building which has been vacant for several years back into use.

3.0 OUTCOME AND SUSTAINABILITY

- 3.1 The funding is being made available to establish a significant facility within the City Centre to encourage and promote the development of the digital technology sector within Sheffield, the City Region and the wider 'North'. Using this Central Government funding together with private sector investment the facility is expected to lead to significant job creation and economic growth in a key growth sector – both locally and nationally. This will directly support the Council's strategic objective to create a Strong and Competitive Economy; it will generate growth and help to create more and better jobs.
- 3.2 It is anticipated that the capital funding will be used to bring a vacant or under-utilised building in the city centre back into full productive use. The development will need to comply with current Planning policies and Building Regulations. In addition the investment has the potential to stimulate further regenerative activity in surrounding areas.

3.3 The project is not expected to be delivered directly by the Council and specific conditions contained within the Grant Determination Letter will be passed on to the delivering organisation through a Funding Agreement. As a result there are no financial obligations for the Council to maintain and support the proposal in the long term once the project has been completed.

4.0 MAIN BODY OF THE REPORT

4.1 Background

4.1.1 In the context of the Northern Powerhouse, the 2015 Spring Budget announced that Government would invest £11 million in tech incubators in the North of England, to nurture start-ups, foster collaboration, and provide mentoring, learning and business support. The funding is expected to deliver 200,000 square feet of new incubator space supporting digital start-ups, entrepreneurs and growing SMEs in the North, and creating or safeguarding an estimated 6,000 jobs in ten years. In order to accelerate this growth Government has agreed to support the development of innovative businesses across the North through investment in tech incubators in Leeds, Manchester and Sheffield.

4.1.2 In response to market failures in the supply of suitable facilities for digital SMEs in the North a local entrepreneur based consortium developed a business case for the creation of a tech based incubation facility within Sheffield City Centre. The business case is based upon the refurbishment of Castle House (the former Co-op building) in Castlegate. Following assessment of the proposal, Central Government (DCMS) has approved a capital grant of £3.5m for the Sheffield City Centre scheme.

4.1.3 The aims of the funding are to:

- 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 spill-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.

4.1.4 In order to make the capital funding available to the project DCMS has requested the Council to act as the Accountable Body for the grant and the third party delivering the project which will be actioned via a Funding Agreement with the delivery organisation.

4.2 Accountable Body

4.2.1 As the Accountable Body for the DCMS funding and the third party delivering the project the Council will be responsible for:

- Ensuring the delivery body has the ability and capacity to deliver the investment.
- Ensuring that the money is spent in compliance with the grant terms and conditions.
- Ensuring the money is spent in accordance with all applicable legal and regulatory requirements, for example on 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.
- Making arrangements to achieve the desired outputs and outcomes.
- Monitoring and evaluating progress, outputs and outcomes against agreed core metrics.

4.2.2 Whilst no specific outputs and outcomes are identified in the Grant Determination Letter success indicators include the following:

- Performance against timetable and budget for: completion of building works; associated professional services; and facilities opening.
- Provision of additional facilities and services to what was previously or would otherwise be available in each city.
- Take-up of facilities and services by appropriate individuals and SMEs; occupancy and participation levels (on and off-site), incoming revenue.
- Equality and diversity (occupants, clients of services, people directly and indirectly employed).
- Suitability, quality, financial sustainability and environmental performance of facilities and services. We hope that the facilities will be open to businesses and operational for their intended purpose for ten years.
- Job creation and safeguarding (direct and indirect), especially higher-skilled, higher-paid technical and management roles. It is hoped the £11m spending will result in 6,000 jobs being created or safeguarded in the North.
- Increase in the number and proportion of new businesses that survive, grow and relocate, especially to these three cities or elsewhere in the North.

- Increase in private investment in digital SMEs in the region.
- 4.2.3 Further consultation will be required with DCMS to determine whether any of the above relate to specific output and outcome targets. All grant conditions, outputs and outcomes within the Section 31 Grant will be passed onto the delivery body to comply with and minimise risk to the Council.
- 4.3 Demand for the Facility
- 4.3.1 The consortium's business case indicates that there is demand for proposal and currently no existing or prospective incubator facilities delivering targeted business advice, investment, support and services to the businesses and people this project targets. Electric Works, providing SME workspaces and co-working in the city centre, is reaching capacity and keen to refer clients to the new facility.
- 4.3.2 It is considered that the new facility is sufficiently distinctive and differentiated such that it will not have a significant detrimental impact on other managed workspace in the city centre given the specialised nature of the offer being proposed. This wider offer of an incubation service separates the proposal from other 'start up' facilities and the provision and funding of such services will be tested as part of the Accountable Body due diligence process.
- 4.4 Financial Implications
- 4.4.1 Sheffield City Council will become the Accountable Body for the £3.5 million funding which will be paid to a third party to deliver this project. The grant will be paid to the Council via a Section 31 Grant with the key conditions being as follows:
1. The funding can only be spent on capital expenditure in accordance with Section 11 of the Local Government Act 2003.
 2. Failure to comply with point 1 above will result in the clawback of grant.
- 4.4.2 Up to £3.5 million of funding will be made available by Sheffield City Council to a third party to deliver the digital incubator facility with the appropriate legal documentation to be drawn up with the successful delivery organisation. Sheffield City Council will not be providing any capital funding towards this project from its own resources.
- 4.4.3 Where possible, and in accordance with the grant terms and conditions, any costs incurred by Sheffield City Council in relation to this project will be recharged to the grant. Once the project is completed any ongoing costs will not be the responsibility of the Council. No budget provision exists to fund any ongoing costs.
- 4.5 Legal Implications

- 4.5.1 The Council has a general power under Section 1 of the Localism Act 2011 to do anything that an individual may generally do (which would include applying for and providing grants and providing guarantees) provided it is not prohibited by other legislation and the power is exercised in accordance with the limitations specified in the Act e.g. around charging for the provision of a service.
- 4.5.2 It is expected that the funding for the project will be provided as a grant through a Funding Agreement. Although the grant funding will provide an advantage to the delivery organisation that is not being made available to other developers we do not believe that this will significantly distort competition between member states and might not be considered to constitute State Aid. Notwithstanding this view, it is proposed to provide grant funding as lawful state aid under the provisions of the Commission's General Block Exemption Regulation, in particular Article 27 or Article 56. There is a small risk that our interpretation of the relevant regulations may be challenged. In the event of a successful challenge the European Commission would seek to recoup the unlawful aid and so an obligation to repay the grant plus interest will be incorporated into the grant agreement. An obligation, and associated right to clawback the funding, to use the grant for capital expenditure in accordance with Section 11 of the Local Government Act 2003 will also be included.
- 4.5.3 Should it be deemed necessary, additional security through guarantees or charges on property will be put in place to protect the Council's position.
- 4.6 Equalities Implications
- 4.6.1 The proposal is considered to be equality neutral, affecting all Sheffield people equally regardless of their age, race, faith, gender, sexuality, gender, etc. However, it is likely to be positive for financial inclusion as it will create investment in the local economy and job creation and, by its nature, support young entrepreneurs.
- 4.7 Risks
- 4.7.1 The main risk is that the grant will be clawed back if it is not spent on capital expenditure in accordance with Section 11 of the Local Government Act 2003. Furthermore all grant conditions, delivery outputs and outcomes will be passed onto the delivery organisation to comply with through the Funding Agreement.
- 4.7.2 To mitigate risks associated with entering into a Funding Agreement appropriate due diligence will be undertaken that will consider the deliverability of the proposal including assessment of the delivering organisation, state aid, regulatory compliance and whether additional security is required eg a charge in favour of SCC being imposed on the property.

5.0 ALTERNATIVE OPTIONS CONSIDERED

- 5.1 Without SCC being in a position to act as Accountable Body for the capital funding it is understood that DCMS would not make the £3.5m grant funding available for investment in Sheffield. This would lead to the project not proceeding resulting in a missed opportunity to create the facility and stimulate the Sheffield economy.
- 5.2 The Council could look to use the £3.5m grant funding to deliver the facility itself through the Capital Programme rather than act as Accountable Body and enter into a Funding Agreement with a third party. Whilst this remains an option it is not preferred given it would make SCC wholly responsible for the financial delivery of the project and outcomes based on a business case that was developed by another party.

6.0 REASONS FOR RECOMMENDATIONS

- 6.1 The underlying benefit of this proposal is to enable up to £3.5m of funding from Central Government to be invested in the City Centre to bring forward business incubation space for companies in the digital industries sector. Successful delivery of this space will support the jobs growth and wealth creation in Sheffield and the wider City Region and as well as the 'Tech Nation' concept being promoted by Government. This is one of three Digital Business Incubators being supported by Government in the North, the others being in Manchester and Leeds.
- 6.2 It is expected that this funding will be used to secure and refurbish a property in the City Centre with the current option having been identified as Sheffield 'Maker Hub' – the renovation of Castle House (former Co-op) in Castlegate. This investment will add to the vibrancy and reinvigoration of the Castlegate area and wider City Centre and has economic benefits in terms of making the city an exciting place to locate and attract talented staff for businesses in the creative and digital industries which is a key growth area for the City Region.
- 6.3 The funding Government Department (DCMS) has assessed proposals from the promoters of this project in Sheffield and allocated £3.5m but is not in a position to invest directly into the project. SCC has been requested to act as an intermediary in the form of the Accountable Body for the funding and will not only receive the capital funding but will undertake appropriate detailed assessment to ensure the project delivers the most positive outcomes for the city and the tech sector. With Accountable Body status the Council will ensure the delivery body is fit for purpose and delivers the project and associated outputs in a legally compliant manner via a Funding Agreement.

7.0 REASONS FOR EXEMPTION (if a Closed report)

- 7.1 Not applicable

8.0 RECOMMENDATIONS

That Cabinet agrees:-

- 1.1 To accept the grant offer of £3.5 million.
- 1.2 To accept Sheffield City Council becoming the Accountable Body for the grant on behalf of a third party who will deliver the project and payment of grant aid to the third party delivering the project.
- 1.3 To delegate authority to the Executive Director of Place in consultation with the Cabinet Member for Business Skills and Development and the Director of Finance to instruct the Director of Legal and Governance to finalise terms and complete all the necessary documentation to give effect to the proposals set out in this report.

Author: Ben Morley

Job Title: Head of Strategic Development and External Programmes

Date: 10th February 2016

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