

Executive Report

Ward(s) affected: Friary and St Nicolas

Report of Strategy Director

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Digital Games Co-Working Facility – funding proposal

Executive Summary

The report presents a funding proposal by the Council for a new dedicated digital games co-working space in the town centre. Under the proposals highlighted, the Council would, in conjunction with the Enterprise M3 Local Enterprise Partnership, jointly match-fund the capital expenditure for setting up the new facility. The facility would be owned and run by the proprietors of the Rocketdesk Co-working space on the Surrey Research Park (the new facility would be branded 'Rocketdesk Guildford Riverside').

Recommendation to Executive

The Executive is asked to approve funding support of £40,000 to Rocketdesk Guildford Ltd to support economic growth in the Borough. The funding is for:

1. A grant of £10,000 from existing budgets
2. A deferred loan of £30,000 to be repaid over a 24-month period. The loan will be funded from the business rates equalisation reserve

Reason for Recommendation:

Support for this proposal will directly support the growth and development of the Digital Games sector in the Borough which is a priority in both the Council's Corporate Plan and Innovation Strategy.

Is the report (or part of it) exempt from publication? No

1. Purpose of Report

- 1.1 The report outlines details of a funding proposal to support the set-up of a new digital games co-working facility in Walnut Tree Close. The report outlines why supporting this sector is important for our local economy and helps deliver a priority in our Corporate Plan. The report provides details on the size and history of the sector and the kind of challenges it faces in the future to remain vibrant. The report will show how Guildford Borough Council (GBC) funds can directly support new jobs and emerging studios with the potential to grow and expand into new office space, whilst ensuring any risks to the Council are mitigated.

2. Strategic Priorities

- 2.1 The support for the digital games sector sits within the 'Innovation' theme in the Corporate Plan with a specific overarching priority to:

'Encourage sustainable and proportionate economic growth and help promote the prosperity and employment that people need'.

Linked to this is a specific action

'Deliver a bespoke business support plan for the digital games sector'.

The key elements of this plan mirror the requirements of the sector locally which were submitted by industry leaders as part of a consultation for the development of the Government's Industrial Strategy (these are highlighted later in the report specifically in 3.4). This project specifically addresses the need for flexible and competitive office start-up space for new and emerging studios and games designers.

- 2.2 The digital games sector is therefore given a high priority in the Industrial Strategy and the emerging Local Industrial Strategy ('LIS') being developed by the Enterprise M3 Local Enterprise Partnership ('LEP'). In their initial draft submission of the LIS, EM3 have identified nine Strategic Priorities of which the first is Science, Innovation and Enterprise. Within this the LEP want to provide an enterprise and innovation landscape that supports growth and collaboration in knowledge, digital and design-based sectors in the economy, including digital games. The sector also has considerable potential to boost other sectors of the economy such as aerospace, healthcare and automotive through its technology base (a term for this called 'Gamification' is now being widely used).

3. Background

- 3.1 The digital (or video games industry) contributes over £3bn to the UK economy and it is estimated that the global market is around £100bn. Guildford is one of the most significant hubs for the sector in the UK and Europe and was described by an influential business journalist in the Guardian newspaper as the 'Hollywood of Games'. The sector has over 70 studios locally employing over 1500 staff and over 300 games have been published. Some of the key players in the sector locally include EA Games, Hello Games, Media Molecule, Supermassive Games and Wargaming UK.

3.2 The sector also provides the UK with an international competitive advantage and in October the Guildford gaming hub and surrounding areas were designated 'High Potential Opportunity' ('HPO') status by the Department of International Trade. This means that the Guildford hub will be promoted much more widely in international markets.

3.3 The Council has continued to lend its support to the sector through:

- Strategic support through participation in the HPO Working Group
- Sponsoring and funding local industry events: Including being a key funding partner for the first Guildford Digital Games Festival in June 2019 and the regular Technical Users Group
- Supporting the Galvansing Guildford Games ("G3") network through presentations and venues
- Business Grants Funding
- Showcasing local businesses to Council officials

3.4 Key business leaders in the Sector have outlined to the Local Enterprise Partnership and to the Government what is needed locally to ensure it remains sustainable going forward. The key priorities they highlighted include:

- Ensuring strong talent pool and the development of future skills to meet the needs of the industry
- Better promotion of the sector
- Better access to specialised finance
- Enhanced digital connectivity
- Better supply of flexible office space for new studios and current home workers

3.5 Of the priorities in 3.4, the provision of flexible office space available over short leases at competitive rentals is particularly important and continues to be in high demand in the town centre. This kind of facility is essential for those start-up businesses that are migrating from home-based working to shared office space where they can rent a desk on flexible terms, but also build their business in an environment where there is networking, innovation and mutual support. The situation has improved since the opening of the SPACES facility near the train station <https://www.spacesworks.com/guildford/station-view-2/>

Outside the town centre the economy is relatively well served with the Surrey Technology Centre (which is generally for more mature companies and would be better described as business incubator)

<https://surrey-research-park.com/do-business/surrey-technology-centre/>

Also, in development is the Tannery Studios at Send supporting future growth in the creative industries sector including SME's involved in post-production in film

<https://tannerystudios.wordpress.com/about/>

The Council commissioned Economic Growth Management Ltd to review the current market and availability of this kind of office facility in Guildford and a

matrix summarising the position and 'RAG' rating in 2018 is shown below (it is worth noting that the provision of scale up space has improved with recent refurbishment projects).

| Support Requirement | Status | Main Providers | | | | | | Other Providers |
|--|--------|-----------------|-----|---------------|------|-----------|----------------|--|
| | | STC/Set Squared | SRP | UoS Faculties | 5GIC | Pirbright | EM3 Growth Hub | |
| IDEA GENERATION AND KNOWLEDGE TRANSFER | | | | | | | | |
| Development of scientific advances and applications | G | | | √ | √ | √ | | |
| Alerts on opportunities emerging from research | G | | √ | √ | √ | | | |
| BUSINESS SUPPORT | | | | | | | | |
| Product Development | | | | | | | | |
| Proof of concept advice | G | √ | | | | | | |
| Technology acquisition and matching | G | √ | √ | √ | √ | √ | | KTPs |
| Commercialization | | | | | | | | |
| Entrepreneurial education | A | | | | | | | Uos Business School |
| Access to specialist mentors | G | √ | | √ | | | √ | |
| Facilitating partnering & collaboration | A | √ | √ | | | | | GBC |
| International trade development | G | √ | | | | | | DIT |
| Corporate Development | | | | | | | | |
| Business plan development | G | √ | | | | | √ | Local professionals |
| General coaching support | G | √ | | | | | √ | |
| Education in management of innovation | R | | | | | | | UoS Business School |
| Finance | | | | | | | | |
| Advice to routes to raise finance | G | | | | | | √ | Surrey 100 |
| Proof of concept – up to £50k | G | | | | | | | TBC |
| Commercialisation - £50k to £1m | R | | | | | | | No provision |
| Growth - £1m + | G | | | | | | | Banks |
| Business Accommodation | | | | | | | | |
| Incubation capacity to meet current demand | G | √ | | | | | √ | Various workspace providers but capacity mostly full |
| Incubation capacity and drop in facility to meet future demand | R | | | | | | | Not currently provided for |
| Early stage expansion units to 400 sqft | A | √ | | | | | | Various workspace providers but capacity mostly full |
| Small expansion units 400 to 1000 sqft | A | | | | | | | Property agents & developers but supply scarce |
| Availability of scale up accommodation 1,000-10,000sqft | R | | √ | | | | | Property agents& developers but supply scarce |
| Infrastructure | | | | | | | | |
| Creation of fast internet capacity | R | | | | | | | Not fully covered |
| Introduction of improved and smart accessibility measures | R | | | | | | | Not currently provided for |
| ENGAGEMENT | | | | | | | | |
| Promoting awareness of support Available | G | √ | √ | | | | √ | |
| Facilitation of networking | G | √ | √ | √ | √ | | √ | GBF; G3; Chamber, GBC, Banks & Professionals |
| Promoting Guildford as a leading innovation location | R | | | | | | | Not currently coordinated |
| Attracting talented entrepreneurs to Guildford | A | √ | | | | | | Not currently coordinated |

- 3.6 The Council has itself sought to develop a business case to develop its own co-working facility or innovation hub in its own buildings firstly at New House and on Bedford Wharf and then at No 3 the Billings, but following feasibility assessments the decision was taken not to proceed (for either financial reasons or in the case of New House, the site could only be offered on a short term basis because of future development plans). The Council has concluded that future provision of this kind of space should be driven either by the private sector or where an opportunity to partner with an existing operator would improve feasibility.
- 3.7 The Council has been approached by the proprietors of the Rocket Desk Digital Games co-working Facility on the Surrey Research Park to help fund plans to open a second site in Walnut Tree Close. This is to be branded Rocketdesk Guildford Riverside. The existing Rocket Desk facility is a co-working pace for start-ups, indie developers and freelancers occupying circa 1500 square feet in a University owned building at Nugent Road. They offer 24/7 access to their clients either with full membership or through flexible use of desk space from 1-3 days a week with access to high-quality meeting rooms and full fibre broadband.
- 3.8 Rocketdesk members have hosted major worldwide technology companies including Microsoft, Sony, McLaren Automotive and Jaguar Land Rover. Past and current successful companies include: Vector Suite – successfully raised £2.4 million within 18 months with global clients in automotive, architecture and aerospace and Mojo Works – raised £2.6m whilst at Rocketdesk and successfully expanded from 2 people to 30 plus in the town centre.
- 3.9 The detailed Rocketdesk Proposal is attached in **Appendix 1**. The proposal is summarised as follows:

- Rocketdesk have been offered a sub-lease at Riverside Business Park close to the Railway Station to be shared with successful creative tech company Figment Productions
- The space is a 3,000 sq. ft facility with meeting rooms, lounge and communal kitchen area and room for 50 desks
- This second facility will provide opportunities for the automation of billing and economies of scale
- Having secured provisional Capital expenditure from the LEP, Rocketdesk have approached the Council for match funding (£40,000) to move forward with the Project. The funding from the LEP is contingent on achieving the requisite match. The proposal being considered is that GBC offer a mixed loan/grant funding arrangement as highlighted more fully in 7.1

4. **Consultations**

- 4.1 Details of this Proposal have been shared with the Leader of the Council, the Lead Councillor for Finance and Assets, Customer Service and the Director of Strategy. The ward councillors in Friary/St Nicolas have also been consulted.
- 4.2 The Senior Policy Officer Economy & Innovation is also seeking views from the UKIE (the digital games trade association), the University of Surrey and the Enterprise M3 Growth Hub and is confident of their support.

5. **Executive Advisory Board comments**

5.1 This proposal has not gone to the Place Making and Innovation Executive Advisory Board, partly due to the timing and opportunity and the requirement to move quickly to secure LEP funding and finalise the lease. However, the Economic Development Team and Sam Read, Sector Specialist from the University of Surrey, did deliver a well-received presentation at the EAB meeting held on 20 May 2019. The presentation was focussed on the history of the sector, the factors that have led to its growth and the future challenges.

5.2 The main points discussed and highlighted by the EAB were:

- The need to boost digital connectivity including full fibre broadband infrastructure (including in Council buildings)
- The fact that the sector can not 'sit on its laurels' and is under competitive pressure from other hubs such as Brighton, Dundee and Leamington Spa
- The Council is keen to support the sector through sponsorship/funding for events
- The Council should seek to work with partners (such as Guildford College) to develop the skills pool that the industry needs
- The Committee was encouraged that the Council can support the sector through its free business advice service 'Guildford Business Growth'

6. **Equality and Diversity Implications**

6.1 This duty has been considered in the context of this report and it has been concluded that there are no equality and diversity implications arising directly from this report

6.2 Officers are aware that the Digital Games sector through the Galvanising Games Group ('G3') locally has worked hard to ensure the sector remains one that supports and attracts individuals with any of the Nine Protected Characteristics

7. **Financial Implications**

7.1 The Proprietors of Rocketdesk have provided a detailed financial breakdown of the Project as highlighted in their proposal. This is summarised as follows:

- Initial Construction/Set Up - £80,000
- Monthly operating costs – (month-by-month operations) £9150

7.2 It can be seen from the Rocketdesk financial forecast set out in **Appendix 1** that the facility will move into profit at the beginning of Q5 (Approximately April 2021). This assumes a certain level of occupancy although they do have the advantage of being able to bring in 15 members/tenants as soon as the facility opens. Rocketdesk as with many co-working facilities is relatively low margin and any gains are normally re-invested.

- 7.3 Our proposal is to offer £40,000 as the match for the capital funding with £10,000 as a grant payable immediately and a deferred loan of £30,000 with an annualised interest rate of 2.5% payable in 24 equal monthly payments commencing in April 2022. The table below sets out the re-payment profile in the table below

| Month | Opening Balance | Interest | Repayment | Closing Balance |
|--------------|-----------------|----------|-----------|-----------------|
| | - | - | - | 31,519.00 |
| 1 (April 20) | 31,519.00 | 64.92 | 1,347.37 | 30,236.55 |
| 2 | 30,236.55 | 62.28 | 1,347.37 | 28,951.46 |
| 3 | 28,951.46 | 59.64 | 1,347.37 | 27,663.72 |
| 4 | 27,663.72 | 56.98 | 1,347.37 | 26,373.33 |
| 5 | 26,373.33 | 54.32 | 1,347.37 | 25,080.28 |
| 6 | 25,080.28 | 51.66 | 1,347.37 | 23,784.57 |
| 7 | 23,784.57 | 48.99 | 1,347.37 | 22,486.19 |
| 8 | 22,486.19 | 46.32 | 1,347.37 | 21,185.14 |
| 9 | 21,185.14 | 43.64 | 1,347.37 | 19,881.40 |
| 10 | 19,881.40 | 40.95 | 1,347.37 | 18,574.98 |
| 11 | 18,574.98 | 38.26 | 1,347.37 | 17,265.87 |
| 12 | 17,265.87 | 35.56 | 1,347.37 | 15,954.06 |
| 13 | 15,954.06 | 32.86 | 1,347.37 | 14,639.55 |
| 14 | 14,639.55 | 30.16 | 1,347.37 | 13,322.33 |
| 15 | 13,322.33 | 27.44 | 1,347.37 | 12,002.40 |
| 16 | 12,002.40 | 24.72 | 1,347.37 | 10,679.75 |
| 17 | 10,679.75 | 22.00 | 1,347.37 | 9,354.38 |
| 18 | 9,354.38 | 19.27 | 1,347.37 | 8,026.27 |
| 19 | 8,026.27 | 16.53 | 1,347.37 | 6,695.43 |
| 20 | 6,695.43 | 13.79 | 1,347.37 | 5,361.85 |
| 21 | 5,361.85 | 11.04 | 1,347.37 | 4,025.52 |
| 22 | 4,025.52 | 8.29 | 1,347.37 | 2,686.44 |
| 23 | 2,686.44 | 5.53 | 1,347.37 | 1,344.60 |
| 24(March 22) | 1,344.60 | 2.77 | 1,347.37 | (0.00) |
| | | 817.95 | 32,336.95 | |

- 7.4 The grant will come from the existing Guildford Business Grants Programme on the premise that this grant funding will directly and in-directly support several early stage and start-up companies who will be based at the Rocketdesk Facility (there are expected to be up to 25 members by the end of the first year of operation).
- 7.5 The loan will be funded from the Business Rates Reserve via a capital supplementary estimate. The repayment will be dealt with as income and treated

as a capital receipt when it is repaid. As part of the Surrey 100% Business Rates Retention pilot during 2018-19, the Council committed to using part of the gain from being a pilot area to fund business grants and incubation space to support further economic growth. The gain from the pilot was not fully spent in 2018/19 and has been carried forward in the business rates retention reserve. As the loan is being funded from the reserve, there is no interest or debt impact (minimum revenue provision, MRP) on the general fund revenue account.

- 7.6 RocketDesk have secured £40,000 provisional match funding from Enterprise M3 which is contingent on identical match being secured from another partner.

8. **Legal Implications**

- 8.1 The RocketDesk proprietors will need to enter into a suitable loan agreement with the Council with requisite clauses to protect the Council from possible default or non-payment of the Loan (including circumstances where the site gets redeveloped before the loan is repaid)
- 8.2 As the Council is offering a grant as part of the funding package, we will need to check for State Aid implications (if any). The de minimis rule is updated to exempt aid of less than EUR 200 000 from the requirement to notify the European Commission in advance. Aid of no more than EUR 200 000 granted over a period of three years is not regarded as state aid within the meaning of Article 107(1) Treaty on the Functioning of the European Union (TFEU). Therefore, we will need to ask Rocketdesk to sign a letter of undertaking that they have not exceeded de minimis rules.

9. **Human Resource Implications**

- 9.1 There are no significant human resource issues related to this proposal. The Senior Policy Officer Economy and Innovation will be involved in regular dialogue with Rocketdesk to see how the project is progressing and will seek to offer tenants with the Councils free business advice service – ‘Guildford Business Growth’
<https://www.guildfordbusinessgrowth.co.uk/>
- 9.1 There will be officer time within both Legal and Finance in managing the loan agreement and loan repayments. As part of the refurbishment of the facility there may be input from planning and building control.

10. **Summary of Options**

- 10.1 The Executive does have the option if it decides not to proceed with this recommendation to agree to promote the new facility, or to provide business support (as already highlighted) or to seek out referrals for potential occupiers. These are options that officers believe will not have the same impact.
- 10.2 As with any projects of this nature there are risks, officers believe these can be addressed:

- The facility may not attract the occupancy levels required – the advantage here is that there are guaranteed occupants from day one and proprietors of Rocketdesk already have a successful track record and substantial business experience.
- The risk of loan default – this will be covered within the loan agreement that will fully protect the Council's interests
- Could other businesses question why priority is being given to this Project – it is clearly demonstrated that it meets our strategic objectives and will ultimately support several strategically important businesses going forward.

11. Conclusion

11.1 As highlighted in this report, the Council has a strategic priority to support the digital games sector. We do have to think carefully about how this can be done effectively given current funding pressures and resources. The business case being put forward based on the Treasury Green Book Five Case Model is summarised below:

- **Strategic Case**– Officers have already highlighted that supporting the digital games sector is a strategic priority in the Corporate Plan and emerging Local Industrial Strategy.
- **The Economic Case:** Officers believe that as the funding is critical for the project to proceed and the current Rocketdesk facility has already delivered significant economic impact including the growth and expansion of new studios and the attraction of significant investment then a strong economic rationale can be proved.
- **The Commercial Case:** The owners of Rocketdesk have excellent existing experience in running this kind of facility and will have a very good understanding of costs and potential future occupants.
- **The Financial Case:** The Council will receive the loan repayments plus interest, with risks mitigated through the proposed loan agreement.
- **The Management Case:** The Council will need to work collaboratively with the owners of Rocketdesk to promote and support the facility. Officers will need to ensure that the loan agreement is properly managed.

The funding for the first digital games festival in Guildford, for example met these criteria and proved to be instrumental in ensuring that this key event proceeded and has built a platform for collaboration and promotion of the sector.

- 11.2 Executive is asked to agree to fund the new Rocketdesk Guildford Riverside Proposal as it meets the criteria shown in 11.1 above. It has already been highlighted that there is a lack of flexible and competitively priced co-working space in the town and the sector has already stressed this is essential for the long-term future of the industry here. Without the Council's support, match-funding from Enterprise M3 will not be forthcoming and the Project is unlikely to proceed.
- 11.3 The funding package proposed is part grant, but the majority is a competitive loan which the Council will receive back with a reasonable rate of return. The funding is also provided from existing allocated budgets and reserves.

11.4 The full Rocketdesk Proposal is included in **Appendix 1**. The proposal highlights:

- The history of the Rocketdesk facility since its inception
- The impressive range of businesses that have spun out of Rocketdesk, many of whom have stayed in Guildford and expanded into larger office space
- The high-profile clients that have been supported by their network
- The substantial levels of investment raised.
- The real tangible benefits of the proposed new location on the town centre

12. **Appendices**

Appendix 1: Rocketdesk Proposal