

GREATER LONDON AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD2299

Title: BEIS Business Basics Programme – AI in London's Retail and Hospitality Sectors

Executive Summary:

This Decision seeks approval to receive and spend up to £79,267 from the BEIS Business Basics Fund, through the Government's Innovation Funding Service. This money will be used by the GLA as its contribution to deliver the Business Basics project 'AI in London's Retail and Hospitality Sectors' (the "Project") as part of a consortium with CognitionX Ltd., Capital Enterprise Ltd., and the London School of Economics.

The Project aims to increase advanced technology adoption amongst London's retail and hospitality Small and Medium-sized Enterprises (SMEs), reflecting the aim of the Mayor's Economic Development Strategy to ensure new technology can be adopted by all sectors of London's economy. Moreover, the Project takes the format of a 12 month Randomised Control Trial (RCT), which tests the effectiveness of increasing adoption between two workstreams: (a) a series of events which introduces SMEs directly to tech vendors; and (b) distribution of £1,000 innovation vouchers, and giving access to a caseworker. The evidence base created by this Project will be used to inform future market interventions to spur technology adoption, a key pillar of the future London Industrial Strategy.

The role of the GLA as project lead is project design, overall project management, outreach to SMEs via the Growth Hub, and administration of the grants.

Decision:

That the Executive Director for Development, Enterprise & Environment approves:

1. The receipt of £79,267 funding from the BEIS Business Basics Fund; and
2. Expenditure of up to £79,267 in order to deliver the Business Basics project 'AI in London's Retail and Hospitality Sectors'.

AUTHORISING DIRECTOR

I have reviewed the request and am satisfied it is correct and consistent with the Mayor's plans and priorities. It has my approval.

Name: Lucy Owen

Position: Executive Director-Development,
Enterprise & Environment

Signature:



Date: 6.12.2018

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

- 1.1 The Mayor's Economic Development Strategy states that promoting innovation and the adoption of cutting edge digital technologies across our economy will be key to raising productivity.
- 1.2 The forthcoming London Industrial Strategy will build on this, outlining how technology can improve productivity across all of London's economy, as well as increasing the size of the market for innovative companies themselves.
- 1.3 Most businesses view Artificial Intelligence (AI) as new and complex, and do not understand the impact it can have on their productivity¹. Moreover, as McKinsey found in 2017² as a result of their survey of 3,000 companies, most businesses don't know where to find AI products, how to integrate them, or how to assess the return on investment. McKinsey found that there is a business case to be made, and that AI can deliver real value to companies willing to use it across operations and within their core functions. In their survey, early AI adopters that combine strong digital capability with proactive strategies have higher profit margins and expect the performance gap with other firms to widen in the next three years.
- 1.4 The GLA (as part of a consortium as described in paragraph 1.5 below) is launching the 'AI in London's Retail and Hospitality Sectors' project (the "**Project**") which aims to discover what is the best means of encouraging adoption of AI technologies in Small and Medium-sized Enterprises (SMEs). This will be achieved by trialling two methods and comparing the results against a control group who will receive no assistance. The first method is an event series where SMEs will be able to see product demonstrations and meet vendors. The second method involves providing grant funding (provided by the GLA) to SMEs so that SMEs can test the AI products directly, with the support of a caseworker.
- 1.5 The Project will be delivered by a consortium consisting of the GLA, CognitionX Ltd., the AI expert research house and authors of *London: The AI Growth Capital of Europe*; Capital Enterprise, the not-for-profit startup and scaleup network and London Co-Investment Fund partners; as well as The London School of Economics' (LSE) Centre for Economic Performance who will act as evaluation partners for the Project.
- 1.6 In order to take part in the Project, SMEs will need to meet light-touch eligibility criteria set out by the LSE ensuring: they are a SME according to standard number of employees and turnover thresholds, they are a UK registered business with a headquarters in Greater London and can provide a Companies House number. If they are registered for VAT, we will also request their VAT number in order to ensure long-term assessment and tracking of the impact of the Project. SMEs who meet the criteria will be allocated by LSE randomly into either method one, method two or the control group.
- 1.7 The grant funding for the Project is being provided by the Department for Business, Energy and Industrial Strategy (BEIS), and is administered through Innovate UK as part of the 'Business Basics Fund: Trial Strand'. The consortium applied for the funding through an open application process, involving both a written submission and an in-person interview.

2. Objectives and expected outcomes

- 2.1 The objectives of the Project are:

¹ Hall and Pesenti, 2017: Growing the Artificial Intelligence Industry in the UK

² McKinsey Global Institute, 2017: Artificial Intelligence, the Next Digital Frontier?

- 2.1.1 To drive adoption of new advanced technologies amongst SMEs in London's retail and hospitality sectors;
- 2.1.2 To conduct a 12 month Randomised Control Trial (RCT)-quality experiment with the involvement of the London School of Economics, in order to discover the most effective, and cost-effective means of driving technology adoption amongst SMEs;
- 2.1.3 To create greater awareness amongst SMEs in these sectors (as well as sectors with similar business-to-customer models, such as leisure, music and sport) about the technologies which could improve their productivity and competitiveness;
- 2.1.4 To inform future policymaking on how to drive technology adoption and raise productivity UK wide.

2.2 Overview of the Project:

- 2.2.1 The Project is based on testing two methods of catalysing the adoption of AI technology amongst SMEs in retail and hospitality. In addition to the issues around driving adoption of any new technology, AI is particularly poorly understood, multi-faceted and does not have a well-developed standard means of calculating ROI.
- 2.2.2 The Project is divided into two streams, each of which will serve 75 SMEs.
 - Stream 1 is an event series, which will involve introducing SMEs to AI vendors, and allowing them to demonstrate their products – based on the notion that AI vendors themselves are best placed to drive adoption.
 - Stream 2 is a more targeted intervention - based on the notion that more support, and access to independent expertise is needed in order to increase uptake of AI amongst SMEs. It will therefore involve the granting of £1,000 funding to SMEs to test the products directly, plus access to an expert caseworker. This comparative structure is a requirement of the funding received by BEIS.
- 2.2.3 The two streams will test the difference in achieving the objectives outlined above by addressing the following barriers to adoption of AI technology by SMEs: (1) a lack of knowledge and a lack of motivation by introducing SMEs directly to AI vendors who can demonstrate their products and explain the potential impact on their business (addressed in Stream 1); and (2) risk aversion and real or perceived financial constraints by offering a financial incentive and support to overcome (addressed in Stream 2).
- 2.2.4 The remaining SMEs (at least 150) will form the control group, who will receive neither treatment, but will still be incentivised to be involved through the 'Guide to AI for SMEs document', which is a resource to be created by CognitionX Ltd.
- 2.2.5 The AI vendors who will be involved in the Project will be sourced by CognitionX.
- 2.2.6 The Project will focus on capabilities which augment the power of existing workers rather than automate their jobs, and will ensure that the baseline and end of project research undertaken by the London School of Economics contains questions which monitor the impact on jobs and the sentiment towards automation.

- 2.3 The Project will be managed with existing resource within the Economic Development team – led by the Senior Policy Officer for Technology, working with the LEAP and Growth Hub team. Innovate UK

have appointed a monitoring officer who will convene regular monitoring meetings, as will be set out in the consortium agreement which will follow this decision.

2.4 These objectives will be achieved through the following outputs:

| | |
|-----------------------------------|---|
| Greater London Authority | <ul style="list-style-type: none"> • Administering up to 75 x £1,000 grants; • Outreach, communications and promotion for the project; |
| Capital Enterprise | <ul style="list-style-type: none"> • Caseworker providing 75 companies with on average 1 day of support; • Supporting outreach; |
| CognitionX | <ul style="list-style-type: none"> • Building the 'AI for SMEs' guidebook; • Planning, organising and delivering 3 events; • Sourcing and briefing the AI vendors for inclusion; |
| London School of Economics | <ul style="list-style-type: none"> • Ensuring the project meets the requirements of an RCT; • Developing the evaluation framework; • Drafting the evaluation report; |

2.5 The table below sets out how the grant funding will be used:

| Use of Funding | Cost | Start Date |
|---|----------------|-------------------|
| 75 x £1,000 grants, distributed to SMEs in London's retail and hospitality sector | £75,000 | March 2019 |
| Recovery of staff labour cost spent on project, as per requirements of funding | £4,267 | December 2019 |
| Total | £79,267 | |

2.6 The table below sets out the funding split for the overall Project:

| | |
|-----------------------------------|-----------------|
| Greater London Authority | £79,267 |
| Capital Enterprise | £32,543 |
| CognitionX | £34,647 |
| London School of Economics | £43,092 |
| Total | £189,549 |

3 Equality comments

3.1 Under Section 149 of the Equality Act 2010, as a public authority, the Mayor of London must have 'due regard' of the need to eliminate unlawful discrimination, harassment and victimisation as well

as to advance equality of opportunity and foster good relations between people who have a protected characteristic and those who do not.

- 3.2 Gender Equality and Equal Opportunities are enshrined within the GLA's programmes and activities according to the Mayor's Framework for Equal Life Chances (June 2014) and the Mayor's draft Diversity and Inclusion Strategy.
- 3.3 The programme will be promoted through a wide variety of channels to reach out to underrepresented groups, and we will ensure that when the baseline survey is sent out to the SMEs at the beginning of the process, we also collect the appropriate diversity and inclusion metrics.
- 3.4 The allocation of SME treatment between Stream 1, Stream 2 and the control group will be randomised, as is necessary for an RCT-level project. If there is a surplus of applicants, the additional companies will be placed into the control group.

4 Other considerations

Key Risks and Issues

- 4.1 The below risk register outlines the major risks to the Project:

| Risk Description | Risk Owner | Likelihood | Impact | Severity (likelihood + impact) | Mitigation |
|---|-------------------------------------|-------------------|---------------|---------------------------------------|---|
| Not enough SMEs apply to take part | GLA | Low | Low | Low | Direct recruitment through email or phone |
| £1,000 is not enough for a grant | GLA | Low | Low | Low | Only recruit AI supplier who are happy to deliver for the price |
| Non-random attrition undermines RCT | LSE | Low | Low | Low | Explain at outset the importance of the survey. Ensure survey is not time consuming. Follow up by phone |
| Contamination between study groups | CognitionX, Capital Enterprise, GLA | Low | Low | Low | Additional survey questions to ascertain whether this is an issue |
| AI Vendors Struggle with boom in demand | CognitionX, Capital Enterprise | Low | Medium | Medium | Delivery phased over 12 months |
| AI Vendor Failure | CognitionX, Capital Enterprise | Low | Medium | Medium | Replace vendor |

Procurement and State Aid

- 4.2 CognitionX will be sourcing and briefing a number of AI vendors for inclusion in the Project. These 4-6 companies will have products aimed at the retail and hospitality sector and will be suggested as companies at which the SMEs can use their grant.
- 4.3 This is necessary because of the lack of information or ability to undertake due diligence on the part of the SMEs – which is the basis of the need for the Project. However, in order to avoid the creation of a state aid or procurement issue, there will be no requirement that the grant must be spent at one of these companies, and on request, further suggestions will be made available.

Agreement between the parties

- 4.4 In order to ensure the completion of the Project, the consortium members are required to enter into a consortium agreement which deals with the terms between parties, and the ownership of the IP. This will go through the appropriate legal guidance and approval following the signing of this Directors Decision.

Links to Mayoral Strategies and Priorities

- 4.5 The Objectives and outcomes of this programme are in line with the Mayor's Economic Development Strategy, which prioritises the adoption of cutting edge technologies to improve productivity in London's economy. Specifically, this directly addresses the consultation responses to the strategy which called for more support for SMEs to understand the implications of the development of new technologies and support SMEs with technology adoption.
- 4.6 The programme will also inform the design of policies emerging from the London Industrial Strategy, creating a robust evidence base for policy interventions.
- 4.7 Building on *London: The AI Growth Capital of Europe*, this Project will help drive market creation for AI vendors in London, further boosting the capital's AI sector – the majority of whom themselves are SMEs.
- 4.8 This work is directly aligned with other ongoing work aimed at increasing uptake of new cutting-edge technologies across London's 'everyday economy'. Though the Project is sufficiently unique in that it takes the required format of a randomised control trial, and that it is time-bound and limited in scope, we will ensure that the work as agreed by the LEAP programme board on the 1st November 2018³ is branded and presented consistently.

5 Financial comments

- 5.1 The total budget for this project is £189,549, of which the GLA will receive and spend £79,267, specially upon 75 x £1,000 small grants and staff time. The funding will be received from the BEIS Business Basics Fund (as detailed within the main body of this report). As per table 2.6, the other consortium members will receive (where applicable) and spend their element of project directly.

6 Legal Comments

- 6.1 The foregoing sections of this report indicate that:
 - (a) the decisions requested of the director concern the exercise of the GLA's general powers, falling within the GLA's statutory powers to do such things considered to further or which are

³ LEAP Paper: The London Technology Adoption Service

facilitative of, conducive or incidental to the promotion of economic development and wealth creation, social development or the promotion of the improvement of the environment in Greater London; and in formulating the proposals in respect of which a decision is sought officers have complied with the Authority's related statutory duties to:

- pay due regard to the principle that there should be equality of opportunity for all people;
- consider how the proposals will promote the improvement of health of persons, health inequalities between persons and to contribute towards the achievement of sustainable development in the United Kingdom; and
- consult with appropriate bodies.

- 6.2 In taking the decisions requested, the director must have due regards to the Public Sector Equality Duty; namely the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Equality Act 2010, and to advance equality of opportunity between persons who share a relevant protected characteristic (race, disability, gender, age, sexual orientation, religion) or share it and foster good relations between persons who share a relevant protected characteristic and persons who do not share it (section 149 of the Equality Act 2010). To this end, the director should have particular regard to section 3 (above) of this report.
- 6.3 Officers have indicated above that the funding required for the Project is being provided to the consortium by BEIS (administered through Innovate UK) as part of the 'Business Basics Fund: Trial Strand'. Officers must ensure that they are content that the GLA and the other members of the consortium can comply with any conditions to which the funding is subject and in any event no reliance should be placed upon such funding until there is a legally binding commitment from BEIS to provide the same.
- 6.4 Officers have also indicated that the GLA intends to award grant funding to SMEs in order to achieve the outcomes detailed above. Officers must therefore ensure any funding is distributed fairly, transparently, in accordance with the GLA's equalities and in manner which affords value for money in accordance with the Contracts and Funding Code.
- 6.5 Officers must also ensure that an appropriate funding agreement is put in place between and executed by the GLA and the recipient(s) before any commitment to fund is made.

7. Planned delivery approach and next steps:

| Activity | Timeline |
|---------------------------------|---|
| Announcement of funding by BEIS | December 2018 |
| Launch by Mayor | Jan/Feb 2019 |
| Procurement of contract: | n/a the Project is delivered by consortium and each member is directly funded by BEIS |
| Delivery Start Date | Dec 2018 |
| Delivery End Date: | Dec 2019 |

Appendices and supporting papers:

None

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary.

Note: This form (Part 1) will either be published within one working day after approval or on the defer date.

Part 1 Deferral:**Is the publication of Part 1 of this approval to be deferred? YES**

If YES, for what reason: It is a requirement of the funding agreement that the announcement is made by BEIS. They are planning to announce in December, though this is subject to change.

Until what date: 1st January 2019

Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – NO

ORIGINATING OFFICER DECLARATION:

Drafting officer to confirm the following (✓)

Drafting officer:

Nick Swanson has drafted this report in accordance with GLA procedures and confirms that:

✓

Assistant Director/Head of Service:

Debbie Jackson has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

Financial and Legal advice:

The finance and legal teams have commented on this proposal, and this decision reflects their comments.

✓

Corporate Investment Board:

The Corporate Investment Board reviewed this proposal on 3 December 2018.

EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature

M. D. Allg

Date

3.12.18