

1 – SCHEME DETAILS

Project Name	Canon Diagnostic Suite and Arena	Type of funding	Grant
Grant Recipient	Canon Medical Systems Ltd	Total Scheme Cost	£14.2m
MCA Executive Board	Business Growth	MCA Funding	£1.4m
Programme name	Business Growth	% MCA Allocation	9.9%
Current Gateway Stage	FBC	MCA Development costs	n/a
		% of total MCA allocation	n/a

2 – PROJECT DESCRIPTION

The project will build the UK's first sustainable and affordable community based multi-purpose arena with an integrated Sports Diagnostic and Medical Suite ("SDMS"). Over time, the facility will have an outstanding reputation for delivering a service that supports professional athletes and complements the health needs of the city's residents. This will be an integral part of the major complementary developments on the Olympic Legacy Park in Sheffield.

Sports Diagnostic and Medical Suite

Canon Medical, together with its UK R&D Division based in Edinburgh, will install the latest technology in imaging systems, data management and artificial intelligence solutions, to deliver the best patient outcomes for today and the future. Innovations developed here will be included in Canon's systems delivered around the world. The SDMS will include Canon Medical's state-of-the-art diagnostic and scanning facilities that will be available to elite performance athletes through to NHS patients.

Canon will be partnering with other establishments in and around the OLP where there will be a need for imaging as part of any research and data gathering. Some of this research will be as part of a collaboration with Canon Medical Research Europe, but with a facility located at the SDMS.

The SDMS will be a showcase for Canon Medical's latest products and a hub for its research and development division which will complement the AWRC. Canon Medical Systems are a global company, domiciled in Japan for most manufacturing but with multiple Research & Development hubs around the world including. The ambitions are to help the NHS be the first in the World to benefit from a comprehensive implementation of AI, especially in diagnostics, and our partnership with Academia and Healthcare in Sheffield, through this project, is key.

Arena

Park Community Arena Ltd has developed the project to date and is in the process of handing the ongoing development of the Arena to Canon Medical Systems. Upon completion, PCA Ltd will operate the new sustainable, multi-purpose and flexible small community arena (up to 2500 seats with 3 full-size basketball courts amongst other facilities) on the emerging, high profile Olympic Legacy Park in Sheffield, forming an accessible unique sporting, leisure and wellness campus. The project will offer the wider community, in a deprived area, affordable, quality, and flexible indoor facilities for a range of sporting, leisure, entertainment, health and educational services.

In addition, it will offer and support a range of research programmes that the Advanced Wellness Research Centre will seek to deliver around improving peoples' health and education through sport and physical activity.

Canon already have a national cryo-warehouse for MRI Scanners, which is also a training centre for its engineers nationally, based in Dinnington, Rotherham. This is also a base for the storage and maintenance of a fleet of mobile MRI and CT Scanners which require very high-power supplies and high indoor space to work in and on the trucks. Canon see the OLP development as an opportunity to develop the foundational footprint in South Yorkshire.

The MCA is being asked to support with grant funding to cover cost increases in relation to the Canon Diagnostic Suite and Arena, with build costs having increased from £11.9m to £14.2m due to increased cost of materials and labour as a result of the Covid-19 pandemic and other global factors. This is despite extending the repayment period of the loan to PCA from 15 to 20 years whilst maintaining a 3-year interest only period. This still leaves a funding gap of £1.4m to realise the full benefits of the project. This £1.4m funding gap is what is being requested from MCA.

<p><i>Options assessment</i></p>	<p>The applicant sets out a range of potential options, including a Do Minimum, one Viable Alternative (£1.2m shortfall made up through MCA grant) and the Preferred Option (£1.4m shortfall made up through MCA grant).</p> <p>The rationale supporting the choice of the preferred option is that without grant funding, the quality and functionality of the Arena and associated facilities would have to be compromised. This would result in the removal of the Endoscopy Unit to save £1.2m and a reduction in the Arena seating to save £0.2m. As a consequence, 15 Endoscopy Nurses and 5 Healthcare assistants and an additional 5FTEs per annum associated with the arena hosting larger events would not be employed, as well as endoscopy capacity not being delivered, and AI capabilities not being realised when compared with the Do Minimum.</p> <p>The Preferred Option is also more advantageous than the Viable Alternative due to the inclusion of the Arena seating, which will deliver more bed nights as the expected larger events, leading to higher employment.</p> <p>Given these aspects of the options appraisal, it is clear why the preferred option has been chosen.</p>
<p><i>Statutory requirements and adverse consequences</i></p>	<p>The applicant states that full planning permission has been received for the project and all pre-planning conditions have been discharged. As previously mentioned, the tree-planting program as a means to offset carbon has been accepted as a condition of the Planning Approval.</p> <p>In terms of transport routes, the applicant has stated that a transport plan was previously submitted with the Planning Application for the entire OLP, developed by ARUPS. Parking and road infrastructure in the area is already developed/submitted, and the arena is served by bus and tram.</p> <p>No adverse consequences have been identified by the scheme promoter. Carbon offsetting is a key aspect of this scheme's carbon neutrality, and therefore, the implementation of these measures should be a key outcome measured through the Monitoring and Evaluation process.</p>
<p><i>FBC stage only – Confirmation of alignment with agreed MCA outcomes (Stronger, Greener, Fairer).</i></p>	<p>The project aligns with the “Stronger” outcome through supporting increased productivity, creating 62 jobs by the end of 2023/24, including 4 in management roles and 41 in professional occupations. The project has a strong emphasis on research, which helps to contribute to the MCA's aim of increasing investment in R&D in South Yorkshire. The Enterprise indicator will be supported through the research elements of the project, which aims to support between 2 and 5 projects from 2023-2028.</p>

The project also aligns with the “**Fairer**” strategic outcome through its delivery of education and community-based programmes through the arena’s Study Support Centre, with the applicant stating that 50 schools will be supported in South Yorkshire by 2025. The scheme will aim to help young people at risk in their own communities to gain skills and enhance their employment prospects in collaboration with the UTC College. All jobs will be at the Living Wage or above, whilst the diagnostic suites and affordable access to the arena will improve health journeys and outcomes. This will also meet the MCA’s target for the population to “live increasingly long, healthy lives”. In terms of health indicators, the applicant states that there will be 38,400 appointments per annum attended by local Sheffield residents to the medical centre, however this is not a direct link to improving health outcomes for the area.

This project will also contribute to the “**Greener**” strategic outcomes in the SEP, with the arena carbon emissions being offset through Canon’s Carbon Zero initiative. The carbon used in the project, including building materials, fit out and the energy usage of the diagnostic equipment, will be offset through programmes in Kenya and Uganda. The building is to be constructed to BREEAM standard Good.

4. VALUE FOR MONEY

Monetised Benefits:

<i>VFM Indicator</i>	<i>Value</i>	<i>R/A/G</i>
<i>Benefit Cost Ratio / GVA per £1 of SYMCA Investment</i>	5.25	G

Value for Money Statement

The costs and benefits are calculated over a 10-year appraisal period, with costs and benefits discounted by 3.5% per annum. Based on this, a BCR of 5.25 is calculated, representing good value for money. A similar calculation for the Reasonable Alternative Option (Option 2) was also undertaken and resulted in a BCR of 2.41, demonstrating that the Preferred Option offers higher value for money.

There are also many non-monetisable benefits resulting from the scheme. Through the Preferred Option, there will be the ability to offer more community support through Arena facilities, however this is not quantified. Other important non-monetised benefits focus on engagement “*across a wide range of partners and collaborators including the Universities and other occupiers on the OLP. AI development is expected to result in the set-up of a least 10 early stage AI businesses, which will be based on or around the OLP.*”

5. RISK

The applicant has included 5 main risks within the business case, with 24 risks identified in the Risk Log in Appendix A.3.

The greatest risk relates to the supply chain delays and constraints, with the mitigation that key items are being purchased in advance, and the building is phasing its opening. However, delays may consequently increase the overall cost of the project. COVID-19 and a shortage of labour is also identified as a key risk. While no mitigations are identified for the risk in the text, the applicant previously clarified that *“Project partners have good networks in various sectors and will use these as well as other means to start the recruitment process. The relatively long lead time gives more opportunity to recruit.”*

Two of the risks presented are related to delays in the project. Further delays leading to higher costs are mitigated by the project commencing prior to Christmas, with preliminary costs, such as legals and other professional fees, were incurred before Christmas but not the building work. As clarified by the applicant, site preparation and clearance commenced in April 2022. Further delays to the programme are also to be mitigated through managing expectations for the public and communities involved. However, this could also lead to reduced revenues for a short period after the construction period, so should be considered a minor temporary risk for the project.

An additional high priority risk within the FBC body is the financial viability of anchor tenants, which while a low likelihood would have a high impact on the project. However, this is mitigated by anchor tenants having passed due diligence criteria set by Canon’s corporate parent in Japan to release the authorisation to invest.

Although the majority of costs should be fixed once the JCT Fixed Price contract is signed in Feb 22, given the evidence of previous cost increases and potential for further value engineering/cutbacks noted in the business case, it would be advised for the MCA to introduce clawback conditions on the grant funding to ensure the delivery of the community elements/social value outcomes as part of the grant agreement.

No funding risks have been identified for this project as the only unsecured funding source required is from MCA.

As noted, the procurement process is now complete, which will mean that some risks are now greatly reduced. However, there are still risks associated with project partners and the works to be undertaken.

The applicant has supplied a risk register drafted for Canon Diagnostic Suite and Arena, detailing these risks. Firstly, there is a risk of B&E Boys not being able to supply the correct materials to meet the programme specification. This will be mitigated by B&E Boys reviewing the specification and limiting changes to this specification such that early ordering of materials can be processed. Another risk highlighted is the final build, and achieving a good BREEAM standard, which is considered a low risk and will be monitored by the applicant. Finally, there is a risk associated with construction issues due to restricted access from adjacent developments, which will be mitigated through communication and co-operation with adjacent developments.

It is also noted by the applicant that B&E Boys have previously delivered a similar project with Leicester Arena which was delivered on time and on budget which was a key determinant of the approach to procurement.

6. DELIVERY

The delivery timetable represents a relatively ambitious programme of activity which aims to complete construction by August 2023, as outlined by the applicant. Procurement has been completed and the Statutory process is now completed with no dependencies identified. The lease has also been signed for this project. The applicant has also clarified that some aspects of the scheme have begun, stating in clarification responses that *“UXO clearance [took place] in April 2022, grouting to mitigate the mine shafts beneath [in] May 2022 and concrete pouring into the foundations and site preparation [during] June and July 2022.”* Collectively, this reduces the level of uncertainty regarding the project and its milestones, though the programme remains ambitious to complete the project within 16 months.

The procurement process was initially by negotiated tender using the company that built the Leicester Riders Basketball Arena (B&E Boys Construction). An alternative contractor, GMI was also asked to provide a quote, which was approximately £1m higher than those provided by Boys. The procurement process is now complete, and the contract has been awarded to B&E Boys, with full RIBA stage 4 drawings and a JC Fixed price contract in place. The only aspect not covered by B&E Boys is the Diagnostic Suite, where works *“will be undertaken by Canon’s preferred supplier as they have specialist experience in this area.”*

Therefore, the procurement strategy is clear in this application.

The level of cost certainty is stated as 95% within this business case. Given that RIBA Stage 4 designs have been developed and the signing of the JCT Fixed Price contract is in place between Canon Medical and Boys Construction (as explained in the commercial case and subsequent clarifications), this represents a high degree of cost certainty.

The applicant notes that the building work is being procured through a JCT contract to limit any potential cost over-runs. Should there be any increase in associated cost this will be covered by support from Canon Medical Systems Ltd (CMS), value engineering if any further opportunities available or cutbacks to the project. Subsequent clarifications note that any cost increases are expected to be marginal and that the applicant would *“try and identify cost savings not impacting on the deliverables of the project. If this is not possible CMS will review and potentially increase a small amount of additional funding. There will be limited impact on social outcomes from any cost increases and so the social value outcomes within the MCA will not be affected”*.

The applicant has identified a clear governance structure for the operation of the project, provided in the project organogram. Canon Arena and Canon Medical Systems UK will be the developers and funders, with Park Community Arena Ltd as the operating company. Upon the operational stage of the scheme commencing, the anchor tenants will be Living Care in the Diagnostic Medical Suite, Sheffield Sharks Basketball Franchise and MLS Contracts Ltd.

The applicant has noted that key team members overseeing project delivery are in place. The SRO identified is Canon Medical Systems Ltd represented by their Chief Executive, Mark Hitchman and the Director of Commercial Solutions, Ian Watson. Further detail regarding the governance/oversight in relation to project delivery and reporting lines and procedures would further benefit this business case.

The applicant notes that the project is supported by the Olympic Legacy Board and its Chairman, Richard Caborn. Subsequent clarifications highlighted that the Canon Diagnostic Suite and Arena has been subject to public consultation as part of the wider Olympic Legacy Park project. Within this, the Arena is considered an integral part of the Olympic Legacy Park development and has received support from schools and the University Technical College on site. Sheffield City Region are also supportive of the project and have provided assistance for planning permission for the scheme. Therefore, it is fair to assume that there is public support for this project.

At the time of writing, the applicant has not developed the monitoring and evaluation procedures for this scheme nor outlined how this would be resourced, with this element still to be determined between Canon and the MCA. Canon as project lead will be monitoring outputs through the scheme, however, it is unclear if these will be directly reported, and other elements are considered out of scope for the applicant. The applicant has also stated that there are no monitoring obligations for other funders.

7. LEGAL

The applicant originally sought advice from DLA Piper, whose advice was *“that the provision of funding to MRC does not infringe UK subsidy control law”*. The applicant states that due to the change in funding ask since this point (£1.4m funding compared to £1.2m previously) that this advice may need updating. However, no issues are foreseen in completing this minor change.

8. RECOMMENDATION AND CONDITIONS

Recommendation	Full grant award subject to conditions
Payment Basis	Payment on defrayal

Conditions of Award (including clawback clauses)

The following conditions must be satisfied before contract execution.

1. Provision of a suitable subsidy control legal opinion. Clarity should be sought on subsidy control compliance, to confirm that the increase in the funding ask still complies with subsidy control laws.
2. Confirmation of planning approval
3. Confirmation of other funding in place
4. Confirmation of how any cost overruns will be funded without further recourse to the taxpayer. Although the majority of costs should be fixed once the JCT Fixed Price contract is signed in Feb 22, given the evidence of previous cost increases and potential for further value engineering/cutbacks noted in the business case, it would be advised for the MCA to introduce clawback conditions on the grant funding to ensure the delivery of the community elements/social value outcomes as part of the grant agreement.
5. Provision of current employment baseline and proposed phasing of headcount expansion, with evidence showing proportion of SY residents recruited
6. The MCA should confirm the monitoring and evaluation plans for the scheme with the applicant to determine how this will be resourced and confirm outputs and outcomes to be monitored in order to evidence the impact of the scheme.
7. Evidence of long-term hire agreements with principal partners should be provided to the MCA once signed.
8. Confirmation of how project delivery will be monitored

The following conditions must be included in the contract

9. Agreed schedule of inclusive and environmental commitments
10. Clawback on outcomes, including both jobs and social value commitments, at MCA's discretion
11. Suitable overage clause to be considered for inclusion in agreement
12. Confirmation the Applicant will cover cost overruns without reducing outcomes