

Mayoral Combined Authority Board

18 October 2021

Programme Approvals

Is the paper exempt from the press and public?	No
Reason why exempt:	Not applicable
Purpose of this report:	Funding Decision
Is this a Key Decision?	Yes
Has it been included on the Forward Plan?	Yes

Director Approving Submission of the Report:

Gareth Sutton, Chief Finance Officer/s73 Officer

Report Author(s):

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Executive Summary

This paper requests progression of three capital schemes subject to conditions set out in the Assurance Summaries and three project change requests. The report also seeks acceptance of the Enhanced Partnership Officer funding from the Department of Transport (DFT).

What does this mean for businesses, people and places in South Yorkshire?

This report is seeking approval to progress business cases and enter into contract for a number of investment proposals which will support the MCA's aspirations

Recommendations

The Board consider and approve

1. Progression of "Thriving Town Centre" FBC to full approval and award of £3.6m grant to BMBC subject to the conditions set out in the Assurance Summary attached at Appendix 1 to be funded from previously committed Gainshare capital funding.
2. Progression of "Canon Diagnostic Suite and Arena" FBC to full approval and award of £1.4m grant to 3 Canon Medical Systems Ltd subject to the conditions set out in the Assurance Summary attached at Appendix 2.
3. Progression of D0036 Strategic Business Case Strategic Business Case to FBC subject to the conditions set out in the Assurance Summary attached at Appendix 3.

4. Approval of 3 change requests
5. Acceptance of £0.66m grant from Department of Transport (DFT) for Enhanced Partnership Officer Funding
6. Delegated authority be given to the Head of Paid Service in consultation with the Section 73 and Monitoring Officer to enter into legal agreements for the schemes covered above subject to funding being available.

Consideration by any other Board, Committee, Assurance or Advisory Panel

Assurance Panel	20 July 2022
Assurance Panel	19 August 2022
Housing and Infrastructure Board	31 August 2022
Business Recovery and Growth Board	01 September 2022

1. Background

- 1.1 This report seeks progression to full approval and award of funding for one infrastructure scheme funded from Gainshare. The scheme is located in Barnsley. The report also requests delegated authority to enter into legal agreements for the named scheme.
- 1.2 This report further details the results of the assurance process for two currently unfunded capital investments business cases totalling £6.4m. The report recommends one scheme progress to full approval and award of £1.4m and one scheme to progress from SBC to FBC, subject to the satisfactory conclusion of due-diligence and assurance processes and the agreement of a suitable investment model.
- 1.3 Award of funding to one of these schemes would require a draw down from the capital resource made available for delivery ready schemes in financial years 2022/23 and 2023/24. This would take available uncommitted capital funding to £21.6m over that timeframe.

1.3 Progression of schemes to full approval and award of funding

The report is seeking progression to full approval, contract, and award of grant funding for 2 schemes totalling £5m. The schemes are located in Barnsley and Sheffield.

1.4 BMBC - Thriving Town Centre

This project seeks £3.6m MCA funding as part of a wider £19.82m programme at an intervention-rate of c.18%.

The Thriving Town Centre project will complete the delivery of The Glassworks by securing high-quality tenants with an expanded capital budget for fit-out costs. The project will also help consolidate the retail offer within the town centre dealing with surplus units through the acquisition of 24-32 Cheapside. A number of tenants from 24-32 Cheapside will be supported to relocate to The Glassworks. Ultimately, an Urban Park will be created on the site of 24-32 and this project represents the first phase in the Park's development.

The applicant is requesting £3.6 million of MCA funding for the following:

- £1.0 million for Cheapside – acquisition cost
- £2.6 million for the Glassworks – Fit out contributions

Provision for this project was made in the Gainshare 'Place Investment' allocations approved by the Board in March 2021.

Benefits and outcomes:

- The occupancy of The Glassworks by high-quality tenants is secured and accelerated, improving the retail and leisure experience in the Barnsley.
- Excess retail units in the town centre are reduced consolidating the offer.
- Retail and leisure businesses in the town centre benefit from a more secure future with increased footfall, dwell time and spend.
- Safe and welcoming public realm with sustainable design principles reducing potential for anti-social behaviour and crime

The Assurance Summary notes some conditions of approval that will need to be resolved prior to contract execution, these are detailed in full within Appendix 1

Funding

Gainshare capital resource was committed to this scheme in March 2021 as part of the initial 'Place Investment' infrastructure allocations made. Accordingly, this scheme can be funded from within existing resource.

1.5 Canon Medical Diagnostic Suite

This project seeks investment of £1.4m towards project costs of £14.2m at an intervention rate of c. 10%.

The project is sponsored by Canon Medical Systems Ltd – an existing international business based at the Olympic Legacy Park (OLP) in Sheffield – with the MCA's proposed intervention focused on medical diagnostics.

The project would see the build of the UK's first sustainable and affordable community based multi-purpose arena with an integrated Sports Diagnostic and Medical Suite ("SDMS").

This investment will be an integral part of the major complementary developments on the OLP and a contributor to the ongoing development of AMID as a centre for world-class wellbeing research.

The project has been endorsed by the Business Growth and Recovery Board but is currently unfunded.

Sports Diagnostic and Medical Suite

Canon Medical Systems are a global company, domiciled in Japan for most manufacturing but with multiple Research & Development hubs around the world including, including the OLP.

Canon aim to help the NHS be the first in the world to benefit from a comprehensive implementation of AI, especially in diagnostics. As part of this aim Canon will use MCA investment to part fund the installation of the latest technology in imaging systems, data management, and artificial intelligence solutions within a new diagnostic suite.

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.

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 OLP forming an accessible unique sporting, leisure and wellness campus. The project will offer affordable, quality, and flexible indoor facilities for a range of sporting, leisure, entertainment, health and educational services to the wider community.

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.

Further details of the schemes and risks are included in the Assurance Summary at Appendix 2.

Funding

This project is currently unfunded. Should the Board wish to proceed with the scheme funding would need to be drawn from the Gainshare capital projects fund.

This fund was set up with £26m to enable the MCA to support delivery ready schemes ahead of Place Allocations being released from 2024 onwards.

To-date, £3m of this fund has been committed, with £23m remaining. Approving the use of this fund for this project would result in £21.6m remaining.

1.6 Progression of scheme from SBC to BJC/FBC

D0036

Scheme D0036 is a pre-authorisation financial services firm that is seeking an equity investment of £5m to support the set-up of a new national challenger bank, based in central Sheffield.

The bank will focus on the provision of targeted residential mortgage lending at a high Loan-to-Value (LTV) rate (eg. 5% deposit) and retail savings products to people in secure but lower paid jobs (specifically public sector and key workers), older consumers and first time buyers who may struggle to access mortgages from high-street lenders.

Potentially, the bank will also design products specifically for South Yorkshire residents only, such as mortgages with reduced fees for first time buyers and savings accounts paying higher rates of interest, as well as 'later life' products that will free up capital for older homeowners with large capital assets but small pensions. The bank is currently progressing through regulatory processes.

D0036 is being set-up by a group of former banking professionals. The applicant estimates that the bank will grow in employment from less than 10 employees in its first year of operation, to employing 226 employees in ten years, including apprentices and paid internships, with profits secured within the first three years of trading.

The applicant has estimated a Return on Investment for the MCA of circa £50m gross by year 10. This is based on an assumed loan book value of approximately £2.3bn and total balance sheet assets of £2.5bn by year 5; funded by retail deposits and capital funding. The MCA's £5m equity stake would secure a shareholding in the equity of around 26%.

Independent expert due-diligence has been commissioned for this proposition, along with the MCA's standard assurance challenge. At this stage scrutiny has raised issues around the risk the MCA would be exposed to as a first investor in an early-stage business that is still progressing through regulatory processes.

The Business Growth and Recovery Board have endorsed the proposal to continue with due-diligence and assurance processes, with the proposal proceeding to FBC.

Further details of the scheme and risks are included in the Assurance Summary at Appendix 3.

1.7 Project Change Requests

In recognition of unforeseen circumstances that can arise during the project delivery phase, the approved Assurance Framework establishes a formal process for the acceptance of change requests. These change requests could be financial, requiring reprofiling of funds, or could be to amend deliverables or timescales.

Details of the 3 change requests can be found in Appendix 4.

1.8 Enhanced Partnership Officer Funding - £666k

This grant is only available to Local Transport Authorities (LTAs) that did not receive an indicative BSIP funding allocation. The purpose of the grant is to ensure that those LTAs have the ongoing internal capacity and capability to dedicate to the continued development and delivery of their BSIP and EP (or franchising) over the next three years (2022/23 to 2024/25). DfT will pay this in one lump sum this financial year. It is non-legally binding, as required in Section 31 grants.

2. Key Issues

2.1 Further scheme details and risks are included in the assurance summaries which are presented as appendices to this report.

3. Options Considered and Recommended Proposal

3.1 Option 1

Approve all recommendations.

3.2 Option 1 Risks and Mitigations:

Approval to progress the unfunded business investment proposition may result in a requirement to make a commitment against the MCA's 2022/23 gainshare allocation.

3.3 Option 2

Reject some, or all, of the recommendations.

3.4 Option 2 Risks and Mitigations:

Rejection of some, or all, of the recommendations in this report would mean the region foregoing the forecast benefits arising from the investment and potentially also mean that funding would be returned to government.

3.5 Recommended Option

Option 1

4. Consultation on Proposal:

4.1 Discussions for these projects has continued with thematic boards during project development.

5. Timetable and Accountability for Implementing this Decision

5.1 Subject to the approval of the recommendations and approval by the MCA, the Head of Paid Service in consultation with the Section 73 Officer and Monitoring Officer will progress to enter into a legal agreement with the promoter.

5.2 The promoter is responsible for the further development of projects that have gateway approval to the next stage of the MCA Assurance process.

6. Financial and Procurement Implications and Advice:

- 6.1 Two projects are recommended for funding award in this report. Funding has previously been committed to the Barnsley Town Centre scheme, and accordingly this recommendation is in budget and affordable. The second proposal to support the Canon Medical Systems Ltd scheme is currently unfunded, but could be resourced from a draw on the Gainshare capital resource that has been made available for financial years 2022/23 and 2023/24.
- 6.2 Should this resource be drawn upon the available uncommitted capital that could be drawn upon for new and emerging delivery ready schemes would stand at £21.6m.

7. Legal Implications and Advice:

- 7.1 The legal implications of the projects have been fully considered by a representative of the Monitoring Officer and included in the recommendations agreed within the Assurance Summaries as presented in the Appendices. Projects have taken full legal advice regarding subsidy control with legal letters supporting applications included
- 7.2 Prior to awarding the grants and entering into investment, the MCA shall ensure contracts are put in place to ensure the recipients comply with the grant conditions

8. Human Resources Implications and Advice

- 8.1 Not Applicable

9. Equality and Diversity Implications and Advice

- 9.1 Appropriate equality and diversity considerations are considered as part of the assurance of the project business cases.

10. Climate Change Implications and Advice

- 10.1 Several the schemes include new and/or enhanced active travel initiatives and improvements to public and community transport infrastructure thereby shifting private vehicle use to more sustainable modes of transport. This aims to deliver huge benefits for health and the prosperity of cities, positively contributing to the the MCA's climate change aspirations.

11. Information and Communication Technology Implications and Advice

- 11.1 Not Applicable

12. Communications and Marketing Implications and Advice:

- 12.1 The approvals provide positive opportunities to highlight the difference the MCA's investments will make to people and passengers, businesses and places across South Yorkshire and how Members are taking action to support the region's recovery from Covid-19.

List of Appendices Included

- 1 Assurance Summary - Thriving Town Centre
- 2 Assurance Summary – Canon Diagnostic Suite and Arena
- 3 Assurance Summary – D0036
- 4 Change Requests

Background Papers

None