Appraisal Panel Summary

Scheme Details

Project Name	Company 0098		
Grant Recipient	Company 0098 Limited		
SCR Executive Board	Business	**SCR Funding**	£619,000
% SCR Allocation	5%	**Total Scheme Cost**	£12,381,240

Appraisal Summary

Project Description

Company 0098 are considering investing into a leisure attraction in Sheffield and have requested grant funding as they are considering alternative locations.

They will only progress one of these sites and are judging them based on return on investment, ease of development and cost. The Sheffield site has geological challenges and grant funding would assist in improving return on investment.

The application is being made by Sheffield City Council (SCC) on behalf Company 0098, which is a subsidiary of the parent company who will be new to the Country as well as the region.

SCC describe the investment as "providing a strategically significant tourist attraction in a city region that lacks visitor attractions, cementing Sheffield's product offering as the Outdoor City, offering a unique experience". There may also be some supply chain opportunities during build and spin-off income to other businesses (hotels for instance) once operational.

Strategic Case

This is an inward investment application and there are other suitable locations vying for this investment. Whilst this is a tourism and leisure investment which is not one of the key priority sectors for the SCR, it does nevertheless offer opportunities beyond the core business.

Business Investment Fund was designed to support the following objectives with the SEP;

- **Creation of new jobs**
- **Creation of new businesses**
- **Increase of GVA**
- **Support projects that cannot proceed without grant support**

In terms of need for grant, the applicant could fund this project without LGF. However, that will have an impact on return on investment and thereby disadvantage the Sheffield site as a preferred location. The application does refer to the potential for a smaller project in Sheffield if the grant is reduced but this will not maximise the potential of the site and could also make Sheffield less attractive.

There is an acceptable strategic case for support of the project in terms of its alignment with local plans and objectives. However, the LGF relevant outputs include lower skilled jobs which are already over represented in the local economy.

Value for Money (Economic Case)

The scheme will deliver 26 net additional jobs (87 gross) which equates to an estimated net public sector (LGF) cost per job of £23,956. On this basis, the LGF investment will offer acceptable value for money.

The net present value of the GVA impact over ten years is estimated to be £5.8m. This represents a return of £9.69 for every £1 of LGF investment.

Inward Investment Scheme - 50% Repayable

Where an inward investment scheme is being promoted by a Local Authority (as is the case with this project) the Authority is required to confirm that they are prepared to repay 50% of the grant value (unless an exception applies) and that funding options have been considered prior to the application seeking full approval. It is understood that the 50% repayable element will be funded from a future business rate uplift directly associated with the Project and will be repaid within 10 years.

In cases where the Authority can demonstrate that the business rates uplift is insufficient to repay 50% of the grant over the 10-year period (i.e. where the cost of works is high and the premises to which business rates apply are relatively small) the BIF process states that the principle of "no detriment" should apply. This means that if the business rate uplift over 10 years does not repay the full 50% of the grant the burden for the shortfall should not fall on either the Authority or the applicant but will be written off.

For this project;

- Local Authority Section 151 Officer has confirmed that they are prepared to make the repayments.
- Local Authority Finance have submitted analysis of the potential business rate uplift projections.
- At this level of grant the 50% repayment would equate to £309,500. SCR evaluation of the business rate uplift projections have indicated in the 10-year, modelled period that the potential uplift could range between £150k and £532k.

This repayment should be considered when reaching an investment decision, it should however be noted that full value for money appraisal has also been undertaken.

Financial Assessment

This is a new business in the UK and thus there are no past financials on which to base an assessment. The following is the forecast information that was provided in the application. However, there is no detailed information behind the figures, particularly the assumptions used by Company 0098 in reaching these figures, or a balance sheet or cashflow forecast.

- Wages for 87 employees (year 3) based on the schedule provided would equate to a cost of £1.53m out of a cost base of c£3.1m in that year. We have no detail on other costs.
- If there was no grant and year 3 was assumed as the performance going forward, on net profit before tax payback on the £12.381m is less than 5.5 years, and under 5 years with the requested grant.

It is recommended that more detailed forecasts should be provided and for the MCA to confirm its satisfaction ahead of any contract execution. It must be said however that Company 0098 are a proven operator in this field and have established similar parks all around the world.

Also, the accounts reviewed are now 15 months out of date. Contract execution should be conditioned on receipt of satisfactory 2019 account.

The ultimate parent is a successful Parent Company with a strong track record. The business is strong with limited debt and good levels of retained profit. Income is spread across several operational sectors.

Delivery of the project is dependent on the parent company for funding so a parent company guarantee should be attached as a grant condition to cover the risk of non-delivery of outputs or failure of the new business.

Commercial Case (inc. risk)

This would be a 1st such operation in the UK and there is a risk that this might not be successful. However, the parent company has a strong track record and is intending to invest significantly.

The application plays heavily on attracting visitors from outside of the SCR and if successful in attracting visitors from far and wide, that can benefit other linked sectors such as hospitality.

From the information provided, the works have not been tendered for, so it is not yet clear how accurate the costs are. The application intends to use experienced contractors however there is a risk to be managed (overruns etc).

Delivery

Funding – balance sheet of parent company would indicate that they have the necessary funding in place (although accounts out of date).

Management team – there is limited information about how the project will be delivered, other than appointing a local project manager. There is a long list of potential risks considered by the business in the schedules, and most can be managed locally. Company 0098 have established a number of similar sites so it is not unreasonable to expect they are able to manage delivery here.

Timescales – there is risk that this project cannot be delivered by March 2021 given that planning consent is not secured**.** Project milestones from the application are:

- Receive funding approval from Sheffield City Region July'19
- Site design Sept'19
- Receive planning approval from Sheffield Council Dec'19
- Engage main contractor Jan'20
- Construction begins Jan'20
- Staff recruitment Dec'20 - Jan'21
- Construction completed Jan'21
- Open for Business Mar'21

There is minimal room for time slippage here in terms of defrayment of grant by March 2021.

Legal (inc. State Aid)

Project costs as described in this proposal appear eligible under the terms of Article 14 Regional Investment Aid GBER 651/2014 and the proposed grant is within the 10% intervention threshold for a large sized company in an assisted area. None of the costs constitute operating aid (Article 15) nor is the firm regarded as being an undertaking in difficulty (Article 2 section 18). The project satisfies the requirement for 'incentive effect' as defined in Article 6, with an application submitted prior to commencement of the project.

Recommendation and Conditions

Recommendation	Full award
Payment Basis	Payment on defrayal
Conditions of Award (including clawback clauses)	

The following conditions must be satisfied before contract execution.

1. Formal confirmation that all other funding approvals required to deliver the project are in place.
2. Confirmation that all statutory approvals are in place including planning permission
3. Agree appropriately detailed schedule of inclusive growth indicators and targets (e.g. % of [previously unemployed] locals offered permanent contracts and apprenticeships, mentoring and school engagement and engagement with the local supply chain) to ensure the project delivers wider socio-economic benefits and that these can be captured, monitored and reported.
4. Provision of 2019 parent company accounts for review
5. Provision of the detailed information that underpin overall forecasts, a balance sheet or cashflow forecast and the assumptions used, for MCA to confirm its satisfaction
6. Detailed milestones to be provided for the delivery of the scheme. Contract to include suitable clauses that non-achievement of delivery milestones will result in an event of default.

The conditions above should be fully satisfied by 30th September 2019. Failure to do so could lead to the withdrawal of approval.

The following conditions must be satisfied before drawdown of funding.

7. Submission of a copy any loan agreements, relevant to this project, including the terms and conditions.
8. Submission of evidence of Board approval for the scheme.
9. Formal confirmation of commitment to address any cost overruns (without recourse for further LGF support) without unduly compromising project outputs and outcomes.

The following conditions must be included in the contract

10. On completion of physical works, 30% (£185,700) of this LGF grant will be placed out of scope for any clawback. The remaining 70% LGF grant (£433,300) will remain in scope until 80 gross fte jobs have been created at the site. The SCR Operational Contracts team will monitor progress on job creation based on the annual profile (as at funding agreement) submitted by the promoter. If by the end of March 2024, the minimum threshold of 80 gross fte jobs have not being created, the applicant will return £5,416 for each job below the threshold.
11. Suitable overage clause linked to excess profitability over and above estimated profit
12. If at any point parent company funding is withdrawn and scheme becomes unviable, public grant should be clawed back
13. Suitable parental company guarantee

<table>
<tr><th colspan="6">Record of Recommendation, Endorsement and Approval</th></tr>
<tr><th colspan="6">Project Name</th></tr>
<tr><th colspan="2">Appraisal Panel Recommendation</th><th colspan="2">Board Endorsement</th><th colspan="2">CA Approval</th></tr>
<tr><td>Date of Meeting</td><td></td><td>Date of Meeting</td><td></td><td>Date of Meeting</td><td></td></tr>
<tr><td>Head of Paid Service or Delegate</td><td>Ruth Adams
Deputy CEX</td><td>Endorsing Officer (Board Chair)</td><td></td><td>Approving Officer (Chair)</td><td></td></tr>
<tr><td>Signature</td><td></td><td>Signature</td><td></td><td>Signature</td><td></td></tr>
<tr><td>Date</td><td></td><td>Date</td><td></td><td>Date</td><td></td></tr>
<tr><td>S73 Officer or Delegate</td><td>Simon Tompkins
Finance Manager</td><td colspan="4" rowspan="6">Statutory Finance Officer Approval

Name:

Signature:

Date:</td></tr>
<tr><td>Signature</td><td></td></tr>
<tr><td>Date</td><td></td></tr>
<tr><td>Monitoring Officer or Delegate</td><td>Steve Davenport
SCR CA Solicitor</td></tr>
<tr><td>Signature</td><td></td></tr>
<tr><td>Date</td><td></td></tr>
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