

Mayoral Combined Authority Board

15 November 2021

Programme Approvals

Is the paper exempt from the press and public?	No
<i>Reason why exempt:</i>	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 report requests the progression of seven schemes, early release of development cost funding subject to conditions to be set out in the Assurance Summaries and delegated authority to enter into legal agreements for the schemes.

Notably, this report details the results of the assurance processes undertaken on three proposed business investments totalling c.£12m. These schemes represent the first of a number of investable propositions that are currently being considered through Assurance processes, with the possibility of further opportunities being brought to the Board in January.

The report recognises that whilst all three proposals meet the threshold for consideration for investment - and would support wider aspirations around the restructuring of the South Yorkshire economy - there is currently insufficient headroom within the MCA's residual LGF allocation (£4.37m) to support all proposals.

The report requests that the Board approve all proposals on their technical merit, consider how the balance of the LGF funding should be deployed, and consider whether alternative funding could be used to support the balance of proposals.

Recognising the potential for further investment opportunities to arise by January and beyond, the report recommends that the Board authorise officers to develop a decision-making framework to support future decisions and give officers license to discuss more sustainable means of investment with prospective applicants beyond simple grant interventions.

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 "D0004 - R&D 2025" to full approval and award of £4.8m grant to, a Sheffield based company subject to funding being available and the conditions set out in the Assurance Summary attached at Appendix A1,
2. Progression of "D0011 - Manufacturing, Research and Development" to full approval and award of £2m grant and £3.2m loan to a company looking to locate in South Yorkshire subject to funding being available and the conditions set out in the Assurance Summary attached at Appendix A2,
3. Progression of "D0003 - Accelerate" to full approval and award of £1.98m grant to a Rotherham based company subject to funding being available and the conditions set out in the Assurance Summary attached at Appendix A3,
4. Progression of "West of Doncaster Active Travel" from OBC to FBC and release of development cost funding up to £0.05m to Doncaster Borough Council subject to the conditions set out in the Assurance Summary attached at Appendix B1,
5. Progression of "O50 Sheaf Valley Route" from OBC to FBC and release of development cost funding up to £0.05m to Sheffield City Council subject to the conditions set out in the Assurance Summary attached at Appendix B2,
6. Progression of "City Centre to Attercliffe and Darnall Active Travel" from OBC to FBC and release of development cost funding up to £1.2m to Sheffield City Council subject to the conditions set out in the Assurance Summary attached at Appendix B3,
7. Progression of "Park Hill Phase 4" project from OBC to FBC to Sheffield City Council subject to the conditions set out in the Assurance Summary attached at Appendix B4
8. Commitment of gainshare funding to support schemes 1 - 3 presented that cannot be progressed from the residual LGF allocation
9. Development of a decision-making framework to support consideration of future investments
10. 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	01 September 2021
Assurance Panel	15 September 2021
Assurance Panel	01 October 2021
Transport and the Environment Board	21 October 2021

1. Background

Business Growth Schemes

- 1.1 Investments into business has to-date been funded from the Local Growth Fund (LGF) programme which ended in March 2021. During the programme the MCA entered into several business support arrangements where loan funding was provided. Subsequently some of these loans have been repaid and resulted in a finite fund of £13m becoming available for the financial year. In September 2021, the MCA approved two awards to businesses to be resourced from this fund which totalled £8.63m, leaving a residual balance of £4.37m.
- 1.2 In addition to the three schemes under consideration today, there are a further two schemes that have been submitted into the MCA's Assurance process and seven schemes are also being actively developed. These projects collectively are seeking an additional £51.23m. Further opportunities may arise into the future.
- 1.3 This report details the assurance results of three schemes requesting funding of £11.98m. The proposals require funding facilitated by a mixture of grant and loans. The MCA has entered into non-disclosure agreements with the three applicants for funds, therefore appendices are included within private papers.
- 1.4 This report recognises that whilst the schemes presented meet the threshold for investment and would contribute to aspirations around the restructuring of the South Yorkshire economy, they cannot be resourced in full from the residual LGF allocation.
- 1.5 Accordingly, the report requests that the Board consider how to deploy the residual LGF allocation and recommends that the Board consider both the means and manner in which an alternative funding source – such as future gainshare - could support the balance of requests.

1.5 **Progression of schemes to full approval and award of funding**

This report notes the assurance results of three schemes requesting in aggregate £8.78m grant funding and £3.20m loan for three private sector applicants to grow their business in South Yorkshire subject to funding availability.

Two projects are indigenous businesses based in Rotherham and Sheffield who are looking to expand their activity and a third project is a company who is looking to locate within South Yorkshire following grant approval.

The report recognises that whilst the proposals meet the threshold for consideration for investment, there is currently insufficient headroom within the MCA's residual LGF allocation (£4.37m) to support all proposals.

The report recommends that the Board consider allocating alternative funding – such as gainshare - to support those schemes that cannot be resourced from the residual LGF allocation.

The MCA has entered into non-disclosure agreements with the applicants for funds, therefore appendices with the details of the schemes and risks and conditions of funding are included within private papers

1.6 Funding Position

Whilst In the current financial year the MCA has significant amounts of funding and considerable underspend positions, the vast majority of its resource is ringfenced by grant conditions to specific activity.

In the current year there is limited funding available for business investments. Available funding can be sourced most readily from the residual legacy LGF funding. Following awards made this year, this funding currently stands at c. £4.37m but may increase over time as LGF business loans fall due for repayment (c.£15m repayable by 2024/25).

The aggregate resource required to support the proposals in this report totals c.£11.97m, consisting of grant and loan. To mitigate against the risk of loans not being repaid, the full £11.97m must be matched to a funding source.

The tables below highlight that the aggregate asks are in excess of the available LGF funding by £7.60m:

Proposals	Grant £m	Loan £m	Total £m	Proposals	Capital £m	Revenue £m	Total £m
D0004	£4.80	£0.00	£4.80	D0004	£4.80	£0.00	£4.80
D0011	£2.00	£3.20	£5.20	D0011	£5.20	£0.00	£5.20
D0003	£1.97	£0.00	£1.97	D0003	£1.97	£0.00	£1.97
	£8.77	£3.20	£11.97		£11.97	£0.00	£11.97
Funding Available:				Funding Available			
LGF			£4.37	LGF	£4.37	£0.00	£4.37
Additional Funding Required			£7.60	Funding Required			£7.60

Considered in isolation from one another, only one of the proposals could be resourced from the residual LGF allocation

Ability to Fund			
Proposal	Requirement £m	Available £m	Deficit £m
D0004	£4.80	£4.37	-£0.43
D0011	£5.20	£4.37	-£0.83
D0003	£1.98	£4.37	£2.39

1.7 **Additional Funding**

To meet the costs of these proposals in full an additional £7.60m of capital funding is required. In addition to the proposals presented in this report further investment propositions totalling over £50m are progressing through the business case processes. Into the future new business investment opportunities may also emerge.

This report notes that to support the current and emerging asks new resource will be required beyond the residual LGF allocation.

Across all its functions the MCA has limited access to funding that could be applied to Business Growth activity. The delay to the roll out of the Shared Prosperity Fund, and the paucity of other business support funding announced in the Spending Review, has further exacerbated this issue.

Whilst the MCA does expect other loans to be repaid by 2025 (c.£15m) this funding is not readily available.

The report notes that the Board could consider supporting the current and emerging proposals with alternative funding. Most readily available at the scale and flexibility required is the MCA's current and future gainshare resource.

Gainshare could be used to support investment in full, or in part as an underwriting bridging fund until outstanding LGF loans are repaid.

Should the Board wish to consider using gainshare it may wish to further consider adopting funding parameters to ensure that the full pipeline of projects can be considered against a set-criteria. This would be similar to the processes previously adopted for the Business Investment Fund and JESSICA investment vehicles.

Board could also consider how investment opportunities could be met within the principles of gainshare deployment, including sustainability and seeking a return on the deployment of the funding. This will support the principle of recycling funding to other future priorities.

Should gainshare be the only route to support, capital required would come from within the £18m p/a capital allocation, and should proposals require borrowing to accelerate investment ahead of those annual allocations, interest costs would be incurred that would need to be resourced from within the £12m p/a allocation.

1.8 **Progression of schemes from OBC to FBC**

The paper is seeking progression from OBC to FBC for 4 projects with the release of development costs for 3 of the projects which are detailed in Appendix B. The total amount of funding requested is £1.3m grant from the Transforming Cities Fund 2 programme. The projects are located within Doncaster and Sheffield.

The assurance summaries include conditions of funding which must be met before contract execution. Full details of the schemes and risks are included in Appendix B

2. Options Considered and Recommended Proposal

2.1 Option 1

Do not approve the recommendations for the business projects in this report due to funding availability.

2.2 Option 1 Risks and Mitigations

Inability to approve the projects presented may result in a slower pace of delivery and potential subsequent loss of jobs to the region.

2.3 Option 2

Approve all recommendations subject to funding availability and the applicant having their private sector match funding in place. All projects should be considered for overage clauses which allow any “super-profits” to be paid back up to the full value of the grant offer

2.4 Option 2 Risks and Mitigations

Risk that projects may be lost to the region due to lack of funding availability. Overage contract clauses could be considered whereby grant is returned to SYMCA if the applicant is highly successful in their venture (e.g. using an overage “super-profit” clause)

2.5 Option 3

Approve all recommendations but look to negotiate on the mixture of grants and loans to maximise future funding availability in regard to the business projects.

2.6 Option 3 Risks and Mitigations

All funding awards associated with the projects have been fully appraised in line with the MCA Assurance Framework to ensure value for money. Any projects approved to develop FBC’s have their costs and funding tested on submission of their FBC alongside financial due diligence of the applicant. Therefore, it may not be possible to secure an improved grant/loan ratio for the SYMCA

2.7 Recommended Option

Option 2

3. Consultation on Proposal

- 3.1 Once a project has been accepted onto a programme pipeline, the Value for Money Statement is published on the SYMCA website alongside a summary of the activity. This is updated periodically to include links to the key documents for each project and a record of progress. The SYMCA Executive Team collects any external comments on these schemes, and these are considered as part of the appraisal process. Project sponsors are also required to publish business cases on their own websites (or an appropriate summary of the submission) and must consider all comments received and reflect this in the next stages of the application process.

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

4. Timetable and Accountability for Implementing this Decision

- 4.1 Subject to the approval of the recommendations, the Head of Paid Service in consultation with the Section 73 Officer and Monitoring Officer will progress to enter into legal agreements with each promoter.
- 4.2 The promoter is responsible for the further development of projects that have gateway approval to the next stage of the SYMCA Assurance process.

5. Financial and Procurement Implications and Advice

- 5.1 Resource available to support the MCA's business investment pipeline currently comes from its residual LGF funding allocation. This allocation stood at c. £13m, and in recent months £8.63m of commitments have been made against it.

The residual balance of £4.37m is available to support the proposals within this report in full or in part. Where schemes cannot be fully funded from the LGF allocation the Board may request the MCA to consider releasing other funding, such as gainshare.

The residual LGF allocation may increase in future years as further loans fall due for repayment.

- 5.2 Alternative funding for Business Growth schemes are in short supply, with no defined grant funding from government, and with the Shared Prosperity Fund now not expected to be implemented in the near-term.
- 5.3 This report notes the benefits of adopting an investment framework for future business investment opportunities, and the benefits of adopting a sustainable approach to business support through financial interventions that provide the potential for the MCA to receive financial return.

6. Legal Implications and Advice

- 6.1 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
- 6.2 Prior to awarding the grants, the MCA shall ensure contracts are put in place to ensure the recipients comply with the grant conditions

7. Human Resources Implications and Advice

- 7.1 N/A

8. Equality and Diversity Implications and Advice

- 8.1 Appropriate equality and diversity considerations are taken into account as part of the assurance of the project business cases

9. Climate Change Implications and Advice

- 9.1 A number of the programmes include new and/or enhanced active travel initiatives and improved infrastructure availability 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 SYMCA's climate change aspirations.

10. Information and Communication Technology Implications and Advice

10.1 N/A

11. Communications and Marketing Implications and Advice

11.1 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

List of Appendices Included

- A Progression of schemes to full approval and award of funding
- A1 Assurance Summary – D0004 R&D 2025
- A2 Assurance Summary – D0011 Manufacturing, Research, and development
- A3 Assurance Summary – D0003 Accelerate
- B Progression of schemes from OBC to FBC
- B1 Assurance Summary – West of Doncaster (TCF)
- B2 Assurance Summary – Sheaf Valley Route (ATF2/Gainshare)
- B3 Assurance Summary – City Centre to Attercliffe and Darnall (TCF)
- B4 Assurance Summary – Park Hill Phase 4 (BHF)

Background Papers

N/A