



Author/Lead Officer of Report: Kevin Bennett, Head of Business Growth, Creative Sheffield
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Report of: Laraine Manley, Executive Director, Place
Report to: Cllr Leigh Bramall, Deputy Leader and Cabinet Member for Business and Economy
Date of Decision: TBC
Subject: AMRC Lightweighting Centre – Approval to Contract

Is this a Key Decision? If Yes, reason Key Decision:-		Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
- Expenditure and/or savings over £500,000		<input checked="" type="checkbox"/>	
- Affects 2 or more Wards		<input type="checkbox"/>	
Which Cabinet Member Portfolio does this relate to? Business and Economy			
Which Scrutiny and Policy Development Committee does this relate to? Economic and Environmental Wellbeing			
Has an Equality Impact Assessment (EIA) been undertaken?		Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
If YES, what EIA reference number has it been given? <i>(Insert reference number)</i>			
Does the report contain confidential or exempt information?		Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
If YES, give details as to whether the exemption applies to the full report / part of the report and/or appendices and complete below:-			
<p><i>“The (report/appendix) is not for publication because it contains exempt information under Paragraph (insert relevant paragraph number) of Schedule 12A of the Local Government Act 1972 (as amended).”</i></p>			

Purpose of Report:

Sheffield City Council (SCC) has been working with the University of Sheffield to secure Sheffield City Region Investment Fund (SCRIF) finance to fund a composites research facility called the Lightweighting Centre. This is required to support several important inward investments. The funding of £10m will be routed through SCC so the decision being sought is for SCC to enter into a Funding Agreement with Sheffield City Region and then in turn enter into a back to back Funding Agreement with the University. Approval from Sheffield City Region was forthcoming at the end of January.

Recommendations:

- Approval is given for SCC to accept SCR's grant offer of up to £10 million.
- Approval is given for SCC to become the Accountable Body for the grant on behalf of the University of Sheffield (UoS) who will be delivering the project.
- Approval is given for SCC to pay the grant of up to £10 million to the University of Sheffield (UoS) to deliver the project.
- Approval is granted for SCC to enter into a back to back Grant Funding Agreement with the University of Sheffield (UoS) in order to ensure that any risks to SCC are mitigated and passed on to the UoS.
- Delegates to the Director of Finance and Commercial Services and Director of Legal and Governance and Executive Director of Place the power to finalise the grant funding agreement in accordance with council procedures.

Background Papers:

The full business case for the project is attached at Appendix 1.

Lead Officer to complete:-		
1	I have consulted the relevant departments in respect of any relevant implications indicated on the Statutory and Council Policy Checklist, and comments have been incorporated / additional forms completed / EIA completed, where required.	Finance: M. Wassell Legal: Lawrence Gould and David Hollis via the Strong Economy Programme Board Equalities: <i>Annemarie Johnston</i>
	<i>Legal, financial/commercial and equalities implications must be included within the report and the name of the officer consulted must be included above.</i>	
2	EMT member who approved submission:	<i>Laraine Manley, Executive Director, Place</i>
3	Cabinet Member consulted:	<i>Cllr Leigh Bramall, Deputy Leader and Cabinet Member for Business and Economy</i>
4	I confirm that all necessary approval has been obtained in respect of the implications indicated on the Statutory and Council Policy Checklist and that the report has been approved for submission to the Decision Maker by the EMT member indicated at 2. In addition, any additional forms have been completed and signed off as required at 1.	

Lead Officer Name: Kevin Bennett	Job Title: Head of Business Growth, Creative Sheffield
Date: 27/2/2017	

1. PROPOSAL

(Explain the proposal, current position and need for change, including any evidence considered, and indicate whether this is something the Council is legally required to do, or whether it is something it is choosing to do)

- 1.1 Creative Sheffield has been working with the University of Sheffield to secure funding towards the development of a Lightweight materials manufacturing and research facility (LWC) at the Advanced Manufacturing Research Centre (Phase 2) adjacent to the Factory 2050 on the Sheffield Business Park. The facility is key to the AMRC establishing international credentials in this area of manufacturing and further cements the City/City Region's place as an important centre of translational research and innovation within the Northern Powerhouse. The investment is also vital to the delivery of the recently announced McLaren investment.

The Combined Authority (SCR) has approved investment in this scheme of up to £10m; approximately £6m towards the construction of phase 1 of the LWC building and £4m towards the purchase of experimental capital equipment. This was approved through the SCRIF mini commission process and expenditure needs to be completed by the end of March. SCR will only contract with Local Authorities so it is proposed that SCC contract with SCR and in turn has a back to back agreement with University in order to enable defrayal of the funding.

Financially and commercially, the project is relatively straightforward. It comprises the construction of a £6m building and the acquisition of £4m of experimental capital equipment. The £10m has been approved by SCR, through their SCRIF process, based on an undertaking that the UoS will underwrite any overspends on either the capex or building. The University will also cover running costs of the Centre through the revenue derived from the likes of the McLaren project. This is estimated to be up to £3m per annum.

As the £10million investment was required to support the delivery of the McLaren investment and as SCC are locked into SCR timescales, the University has commenced spending on the construction of the facility in advance and at risk. Practical completion is anticipated be achieved in March. Procurement of the equipment is also underway.

Clearly, acting in this capacity is not a statutory requirement, but Creative Sheffield believes that it is in the City's long terms interests to act in this contractual capacity, as it gives us a significant interest in this key area of work going forwards.

2. HOW DOES THIS DECISION CONTRIBUTE ?

(Explain how this proposal will contribute to the ambitions within the Corporate Plan and what it will mean for people who live, work, learn in or visit the City. For example, does it increase or reduce inequalities and is the decision inclusive?; does it have an impact on climate change?; does it improve the customer experience?; is there an economic impact?)

- 2.1 The project has a significant economic impact on the City and City Region more widely. It has been an essential component in securing the recently announced McLaren investment, which, alone will generate over £100m of gross value

added to the local economy. Looking ahead at other investments the LWC is likely to support, the project is forecast to generate:

- Over £118,000,000 of gross value added
- Generate over 400 jobs; and
- Attract private sector income of over £20m

The project will become a major addition to the facilities available for R&D within the Advanced Manufacturing and Innovation District, will help to drive research **and** production in areas of manufacturing such as automotive and aerospace and should make a significant contribution to our attempts to attract further investment in the future.

3. HAS THERE BEEN ANY CONSULTATION?

(Refer to the Consultation Principles and Involvement Guide. Indicate whether the Council is required to consult on the proposal, and provide details of any consultation activities undertaken and their outcomes.)

- 3.1 There is no formal requirement for the Council to consult in respect of the project. However, internally, the project has been considered by the Strong Economy Programme Board for inclusion in the capital programme. Externally, the project has progressed through the Combined Authority's governance process, including the Business Growth Executive Board, the Chief Executives meeting and the full meeting of the CA Leaders.

4. RISK ANALYSIS AND IMPLICATIONS OF THE DECISION

4.1 Equality of Opportunity Implications

- 4.1.1 On the face of it, there are no obvious equalities implications. The project is essentially required to fund a research facility. However, one of the drivers behind this is that the businesses coming to the Centre to develop their products will hopefully invest in production in the area in time. This is the model we have developed with McLaren. That as an example will create over 200 skilled and semi-skilled jobs, including a number of apprenticeship opportunities. Securing this kind of investment in the area means that the benefits (in employment terms) of the project will not just accrue to highly qualified researchers and engineers, but also to young people aspiring to careers in manufacturing and those already in similar employment but looking to upskill and achieve greater long term job security.

4.2 Financial and Commercial Implications

- 4.2.1 Key features (not exclusive) of the draft Funding Agreement (to be finalised) between SCR and SCC are as follows:

- A grant of up to £10 million will be given to SCC.
- Project start date 16th January 2017 and an end date of 31st March 2017.
- The grant must only be used for the project and must achieve the required Outputs and Outcomes as defined in the Funding Agreement.

- If the grant terms and conditions are not complied with and / or the project outputs and outcomes are not achieved then the grant is at risk of clawback plus interest charges.
- The Project has a Monitoring Period of 5 years from the Completion Date;
- Any changes to the project must be notified to SCR in advance.
- With regard to procurement the project must comply with all of the requirements in the Funding Agreement.
- With regard to State Aid the project must comply with all relevant EU State Aid rules and all the requirements in the Funding Agreement.
- All claims, financial statements and returns etc. to SCR will need to be completed within the timelines defined in the Funding Agreement.

4.2.2 Given SCR's tight timescales for the grant funding the University has had to start advance spending on the project, prior to the finalisation of all relevant details. There is a degree of risk associated with this approach, but this must be considered against the risk of a delayed project start and the loss/repayment of grant funding.

4.2.3 As Accountable Body for the grant, SCC will develop a back to back Funding Agreement with the UoS which covers/replicates SCR's Terms and Conditions. This will mitigate the risk to SCC as the UoS will be responsible for the risks associated with the funding and delivery of the project.

4.2.4 The UoS will underwrite any overspends on the project and will also be responsible for all of the ongoing running costs of the project.

4.2.5 The Project Manager will need to read, understand and comply with all the terms and conditions in the SCC/UoS Funding Agreement.

4.3 Legal Implications

4.3.1 Power for SCC to act in this capacity in funding the research facility known as the Lightweighting Centre is provided through the General Power of Competence in Part 1 of the Localism Act 2011 subject to any specific statutory restrictions, none of which apply in this case.

4.3.2 Officers are mindful of the importance of putting into place appropriate arrangements to secure the desired outcomes, ensure compliance with legal requirements, including state aid, and protect the Council's position.

4.3.3 Funding Agreements will be entered into between SCR and SCC and, on corresponding terms, between SCC and UoS (using the standard prescribed CA

agreement).

4.3.4 Accordingly , relevant responsibilities and liabilities of SCC to the SCR have been passed to UoS under its funding agreement with SCC, which include the following:

- undertaking appropriate due diligence and taking appropriate advice concerning compliance with state aid rules;
- administering the Grant in accordance with all applicable state aid rules
- Operating the Lightweighting Centre at all times to ensure that the relevant aid intensity thresholds under the GBER applicable to any aid are not breached; and
- indemnifying SCC against any liabilities arising as a result of or in connection with any breach of the terms of the funding agreement or otherwise through the default of the UoS.

4.4 Other Implications

(Refer to the Executive decision making guidance and provide details of all relevant implications, e.g. HR, property, public health).

4.4.1 None.

5. **ALTERNATIVE OPTIONS CONSIDERED**

(Outline any alternative options which were considered but rejected in the course of developing the proposal.)

5.1 In terms of the overall project, the following options were considered:

Do Nothing

The advantage to the region of not funding this initiative would be money saved that could then be allocated to alternative schemes. The disadvantage is that the project would not proceed without Sheffield City Region support and the opportunity to attract major inward investors to the region would be lost. Uptake of R&D and collaboration with the knowledge base would remain at similar level to that currently taking place and Sheffield City Region would not have provided the uplift in R&D and innovation compared to other UK and European regions.

Reduced SCRIF Investment

If the Sheffield City Region were to only part support the development of the Lightweighting centre with reduced funds, then some additional funds not committed would be available for alternative initiatives. In reality this was never a practical option. The £10m is required to construct the building and procure the initial generic equipment required for the McLaren project and other similar projects. The project is split between £4m of experimental capex and £6m for the building in which the kit and hydraulic press will be housed. Basically, without the equipment, the building would be pointless and without somewhere to put it, the equipment would be useless. In theory, it could be possible to buy less kit, but then we would severely limit our ability to carry out appropriate research across all areas of composite material lay-up, RTM, and finishing/machining. This option would undermine the credibility of the centre as a globally significant research location.

Full or preferred option

The preferred option was to secure support for the Phase 1 Lightweighting Proposal as outlined in the initial expression of interest. This involves £10m for the phase 1 facility split between generic experimental capital equipment, which is necessary to deliver the McLaren project (£4m), and the 788m2 building for the press and other equipment (£6m).

In terms of the decision for SCC to lead the development of the project, to put forward the bid to the SCR and if successful, handle and manage the funding, UoS had little capacity to do this and particularly, were very unfamiliar with the processes of the SCR. We also took an internal decision to lead on this in order to allow us to apply some influence over the development and delivery of the project; in particular in terms of how it relates to the implementation of inward investment projects such as McLaren.

Initially, when it became clear that the SCR approach was to only contract via lead Local Authorities, we pushed backed and challenged the principle. However, it became clear that this was the only way they were prepared to operate, either because they do not have the capacity to manage contracts directly or they see this as a deliberate way of managing liabilities and risks. Either way, we essentially had no choice.

6. REASONS FOR RECOMMENDATIONS

(Explain why this is the preferred option and outline the intended outcomes.)

- 6.1 As explained above, this was a short term SCR commission of projects which required us to be able to act quickly to undertake the necessary development work to bring a credible business case forward. Because the project was/is instrumental in the delivery of the McLaren and other similar future investments, we were content to take the lead and influence the development. Initially it would not have been our choice to contract with the University for the delivery of the scheme, but the CA have insisted that they will only transact through lead LAs.

On reflection, we believe that this is actually a positive position to be in because holding the contract will allow us to maintain a long term interest in the delivery of the centre and have at least a level of influence over how the University deliver this in the future. So long as we have effectively dealt with the legal issues identified in 4.2.1 above, we are of the view that this is a positive position for us to be in.