

# LIVERPOOL CITY REGION COMBINED AUTHORITY

To: The Metro Mayor and Members of the Combined Authority

Meeting: 1 November 2019

Authority/Authorities Affected: Liverpool and Halton

EXEMPT/CONFIDENTIAL ITEM: Report is not exempt

Appendices 1 to 3 are exempted by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Key Decision

## **REPORT OF THE PORTFOLIO HOLDER FOR INCLUSIVE GROWTH AND THIRD SECTOR AND DIRECTOR OF COMMERCIAL DEVELOPMENT AND INVESTMENT**

### **PROVISION OF GRANT SUPPORT TO THE MANUFACTURING TECHNOLOGY CENTRE'S DIGITAL MANUFACTURING ACCELERATOR**

#### **1. PURPOSE OF REPORT**

- 1.1 This report seeks Liverpool City Region Combined Authority (LCRCA) approval to support to The Manufacturing Technology Centre Ltd ("MTC") to develop a digital manufacturing accelerator ("DMA") which will allow companies to develop and test new manufacturing approaches and technologies in a secure and industrially robust environment.
- 1.2 The DMA is cutting edge technology and will provide a major boost for the City Region's advanced manufacturing sector.

#### **2. RECOMMENDATIONS**

It is recommended that the Liverpool City Region Combined Authority:

- (a) Approve the provision of grant support of up to £14,950,000 to the Manufacturing Technology Centre; and
- (b) Grant authority to the Director of Commercial Development and Investment to finalise negotiations of detailed terms of the funding and associated agreements in consultation with the Combined Authority Monitoring Officer and Combined Authority Treasurer.

### **3. PROJECT SUMMARY**

#### **Sponsor**

- 3.1 The MTC was established as an independent, non-profit, research and technology organisation with the objective of bridging the gap between academia and industry. The MTC is one of the seven centres which make up the High Value Manufacturing Catapult and is part funded by Innovate UK.
- 3.2 In 2010, Advantage West Midlands and the East Midlands Development Agency provided £42m of capital investment to initiate MTC, the project was set to deliver a GVA growth of £1.6bn, with 12 new businesses created, 3,201 new and safeguarded jobs and £60m leveraged private sector investment over a 10-year period. Those KPIs associated with these targets were achieved in 2012, less than two years since from the beginning of operations. Since then, MTC has continued to grow exponentially and is now operating at over 5 times the scale originally predicted for 2020.
- 3.3 Currently, MTC has 25 dedicated staff in the Liverpool City Region. It believes there is substantial potential for expansion in providing bespoke support to the Liverpool City Region. believes there is substantial potential for expansion in providing bespoke support to the Liverpool City Region.

#### **Project**

- 3.4 The LCR Digital Manufacturing Accelerator will be comprised of two key assets:
  - A Rapidly Reconfigurable Factory Environment (“RRFE”), located at Liverpool Science Park in the Knowledge Quarter. This will be a physical testbed facility, which will allow manufacturing companies (primes and SMEs) across the City Region to develop and pilot new manufacturing approaches in an industrially robust and secure environment. The Fast-Moving Consumer Goods (“FMCG”) and Pharmaceutical Industries are the initial target sectors for this facility, both of which are important to the City Region’s economy. This asset will include the innovative ‘Factory in a Box’ concept, in which highly automated, and digitally-enabled production processes are implemented within container units that can increase the agility of firms to change production patterns and enable customisation of products, enhancing market opportunities for the City Region’s companies.
  - A Digital Factory Environment (‘digital sandpit’), which will be hosted at STFC’s Hartree Centre in the SciTech Daresbury campus. This will allow manufacturers, both Primes and SMEs, to build a ‘digital twin’ of their manufacturing process, test out new configurations and technologies and evaluate its results in advance of physically implementing any changes. This will allow companies from any sector in the City Region to better manage risks, reduce costs, and foster growth opportunities by working in an agile, industrially robust, and secure environment.
  - Key objectives of the project include:

- providing a tangible mechanism to promote inward investment; and
  - development of a network of regional business supply chain of Primes to SMEs capable of manufacturing, exporting, and servicing small factories to deliver products locally on a global scale.
- The project has received over 28 letters of support from leading companies and institutions from within the City Region and across the UK. Industry understands this project to be transformational for the City Region's landscape, and an opportunity to develop new markets.

### **Strategic Investment Fund Commitment**

- 3.5 The majority of the costs during the development and construction phase of the project are expected to be funded with the grant funding from the LCRCA. Once the development phase is completed, the MTC and its partners will provide revenue match funding to support, and foster, the development of projects across the City Region with their collaborative approach.
- 3.6 Without LCRCA funding, the project would not be viable.
- 3.7 The ask, to cover the development phase, amounts £14.95m of capital funding. Details of the cost of the project and funding available is set out in Appendix 1.
- 3.8 The MTC Business Plan has been reviewed in detail, to ensure that they have sufficient resources to complete the construction, and reassurances from the MTC headquarters in Coventry that if required financial support for operations will be provided to support their expansion plans.

### **Key Terms of the Grant**

- 3.9 The LCR Combined Authority has negotiated terms of the grant. Detailed legal agreements are being progressed to conclude the funding agreement, subject to authority being granted by the LCRCA.
- 3.10 Heads of Terms in respect of the grant are included in Appendix 1, under section "Appendix 2 – Proposed Heads of Term" of the Investment Panel paper and are summarised below.
- 3.11 The following key terms and conditions apply:
- Provision of up to £14,950,000 towards eligible capital expenditure.
  - Agreed level of outputs and direct FTE creation 43 FTE specialists' positions.
  - A commitment as part of the project outcomes to facilitate the use of assets and capabilities developed through the project for the benefit of SMEs in the City Region, and to co-fund SMEs' projects throughout the term of the agreement.

- Provisions agreed related to sharing of revenue, and in the event of selling the assets and/or monetising intellectual property developed by The MTC through the DMA.
- A mutual commitment to explore further opportunities for joint arrangements within the Liverpool City Region, including the development of apprenticeships and training opportunities.

#### 4 SUMMARY APPRAISAL

4.1 The LCRCA engaged the economic development consulting firm SQW to conduct an external, independent economic appraisal of the Project. This report concluded that the Project would deliver high value for money.

4.2 The below table provides an economic appraisal summary:

Item	Value	Explanation
Public Sector Costs (Discounted). (A)	£13.9m	This is the net level of Combined Authority's investment in current terms.
Economic Benefits (Discounted) (B)	£48.0m	This is the gross level of overall economic benefit which will accrue to the City Region economy if MTC achieve their business plan objectives.
Net Present Value of Benefits	£34.1m	This is net present value of the benefits above minus the costs (B-A).
Benefit Cost Ratio (2020-2030)	3.5:1	This is the ratio of Benefits to Public Sector Costs.
Direct Jobs	43	The number of jobs anticipated to be directly engaged by the MTC as a result of the investment.
Jobs Net	235	The number of additional jobs created by the investment.

#### 5 INVESTMENT PANEL CONSIDERATIONS

5.1 At its meeting of 11 October 2019, the Strategic Investment Fund panel endorsed the Project to proceed to the LCRCA for consideration. The Panel suggested that the project sponsor should make reasonable efforts to ensure a comprehensive approach to ensure engagement, and awareness of the City Region's companies about the uses and benefits of the project.

5.2 A copy of the Full Business Case Investment Panel paper is attached as Appendix 1.

## **6 RESOURCE IMPLICATIONS**

### **6.1 Financial**

The LCR Combined Authority Treasurer has confirmed that the proposed funding request can be accommodated as part of the overall Strategic Investment Fund allocation.

### **6.2 Human Resources**

The Investment Team and Legal Team will lead the negotiation of the Funding Agreement. The Programme Management Office will have responsibility for managing the delivery of the LCRCA's investment.

### **6.3 Physical Assets**

The assets to be created by the project are fully detailed in this report.

### **6.4 Information Technology**

The approval of funding will not give rise to information technology issues.

## **7 RISKS AND MITIGATION**

7.1 The key risks of this project are:

- Capacity to migrate to other regions of the UK given the significant component of intangible assets in the project structure.
- Continuous contribution of revenue match funding for projects in the Liverpool City Region.
- The funding profile of the project, with the LCR Combined Authority funding the development phase and match funding being provided subsequently during the operational phase, increases the LCR Combined Authority's financial exposure in the event that the project is unsuccessful during or at the end of the development phase.

7.2 The LCR Combined Authority has reviewed the business plan and has taken actions to mitigate these risks through the Grant Funding Agreement, where specific conditions are included to encourage the project, and MTC remaining in the City Region for at least a 10 years period, whilst ensuring a minimum, reasonable, match funding commitment over the same time span.

7.3 Funding risks will be mitigated by making grant payments in instalments against independently verified evidence of project progress. MTC's track record and standing within the sector also provide significant assurance in relation to such risks.

## **8 EQUALITY AND DIVERSITY IMPLICATIONS**

- 8.1 Equality and Diversity implications are considered as part of the appraisal process in accordance with the LCRCA's Investment Strategy.

## **9 COMMUNICATION ISSUES**

- 9.1 All projects approved will be subject to the LCRCA's branding guidelines and publicity requirements placed upon them as part of the Funding Agreement. In addition, the LCRCA will, through its adopted communication protocols, publicise the award of funding to the projects and the associated envisaged outcomes.

## **10 CONCLUSION**

- 10.1 This report presents the proposed grant funding arrangements in respect of the development by MTC of new purpose-built facilities and gives approval to the Director of Commercial Development and Investment to proceed with the finalisation of the funding agreements.

MARK BOUSFIELD

Director of Commercial Development and Investment

COUNCILLOR PAT HACKETT

Portfolio Holder: Inclusive Economy and Third Sector

Contact Officer(s):

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### Appendices:

1. Investment Panel Paper – Exempt by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972
2. Full Business Case Economic Assessment of Project – Exempt by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972
3. Pictorial Representation of Proposed Investment – Exempt by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972

### Background Documents:

N/A