

## CABINET MEETING – 14 SEPTEMBER 2021

### EXECUTIVE SUMMARY SHEET – PART I

**Title of Report:**

Next Generation Advanced Manufacturing Accelerator (N-GAMA) Project

**Author(s):**

Executive Director of City Development

**Purpose of Report:**

The report seeks Cabinet approval to take forward an ERDF funded Next Generation Advanced Manufacturing Accelerator (N-GAMA) project (“the Project”) following an approval in principle from Ministry of Housing, Communities and Local Government (“MHCLG”) issued on 15 July 2021 and approval to sign a subsequent funding agreement.

**Description of Decision:**

Cabinet is requested to:

- I) Authorise the Executive Director of Corporate Services, in consultation with the Leader and Cabinet Secretary, to accept the terms of a Funding Agreement with associated conditions from MHCLG to enable delivery of the Project;
- II) Authorise the Executive Director of City Development, in consultation with the Leader, Cabinet Secretary and Executive Director of Corporate Services, to agree the terms of a Partnership Agreement with the North East Automotive Alliance (NEAA) to underpin the delivery of the Project;
- III) Authorise the Executive Director of Corporate Services and/or the Assistant Director of Law and Governance to execute all necessary legal agreements in order to give effect to (i) and (ii) above; and
- IV) Authorise the Executive Director of City Development, in consultation with the Executive Director of Corporate Services and the Cabinet Secretary, to take all necessary steps to procure and award all relevant contracts to support delivery of the Project pursuant to the Funding Agreement.

**Is the decision consistent with the Budget/Policy Framework?** Yes

**If not, Council approval is required to change the Budget/Policy Framework**

**Suggested reason(s) for Decision:**

The Project will increase opportunities for economic growth and job creation across the NELEP region through providing access to expertise and additional funding for SMEs. It will benefit up to 20 eligible enterprises across the city and wider region which are engaged in process, product and service innovation within the advanced manufacturing and Power Electronics Machines and Drives (PEMD) sectors, strengthening and accelerating the North East’s adoption of digital technologies across the advanced manufacturing sector. This additional capability has the potential to help unlock inward investment from SMEs and help businesses capitalise on market opportunities in electrified propulsion, industrial digitalisation and low carbon technological solutions.

The Project will support delivery of the City Plan Dynamic City goal of creating more and better jobs. It will also support delivery of the North East Strategic Economic Plan ambition - to be a growth orientated, dynamic and productive environment where businesses invest, grow and thrive - by assisting SMEs to access the finance they need to grow.

**Alternative options to be considered and recommended to be rejected:**

There is no alternative option recommended. A decision not to proceed would mean that the opportunity to lever in ERDF funding to support economic growth for businesses in Sunderland and across the North East Local Economic Partnership (NELEP) area would be lost and the outcomes of the Project would not be delivered.

**Impacts analysed;**

**Equality**  **Privacy**  **Sustainability**  **Crime and Disorder**

**Is the Decision consistent with the Council's co-operative values? Yes**

**Is this a "Key Decision" as defined in the Constitution? Yes**

**Is it included in the 28 day Notice of Decisions? Yes**

**NEXT GENERATION ADVANCED MANUFACTURING ACCELERATOR (N-GAMA) PROJECT****REPORT OF THE EXECUTIVE DIRECTOR OF CITY DEVELOPMENT****1.0 Purpose of the Report**

The report seeks Cabinet approval to take forward an ERDF funded Next Generation Advanced Manufacturing Accelerator (N-GAMA) project (“the Project”) following an approval in principle from Ministry of Housing, Communities and Local Government (“MHCLG”) issued on 15 July 2021 and approval to sign a subsequent funding agreement.

**2.0 Description of Decision****2.1 Cabinet is requested to:**

- I) Authorise the Executive Director of Corporate Services, in consultation with the Leader and Cabinet Secretary, to accept the terms of a Funding Agreement with associated conditions from MHCLG to enable delivery of the Project;
- II) Authorise the Executive Director of City Development, in consultation with the Leader, Cabinet Secretary and Executive Director of Corporate Services, to agree the terms of a Partnership Agreement with the North East Automotive Alliance (NEAA) to underpin the delivery of the Project;
- III) Authorise the Executive Director of Corporate Services and/or the Assistant Director of Law and Governance to execute all necessary legal agreements in order to give effect to (i) and (ii) above; and
- IV) Authorise the Executive Director of City Development, in consultation with the Executive Director of Corporate Services and the Cabinet Secretary, to take all necessary steps to procure and award all relevant contracts to support delivery of the Project pursuant to the Funding Agreement.

**3.0 Background**

- 3.1 MHCLG launched an open call under the European Regional Development Fund (ERDF) Priority Axis 1 - Research and Innovation in October 2018 and made an indicative allocation of £6.9m for the More Developed parts of the NELEP area.
- 3.2 The Council, in collaboration with the North East Automotive Alliance (NEAA) as a delivery partner, submitted its final application for the Next Generation Advanced Manufacturing Project on 30 April 2021 in response to the regional call for Research and Innovation projects.

- 3.3 The application was approved in principle on 15 July 2021 and will secure £613,500 of ERDF grant to deliver business innovation advice through initial diagnostic support followed by grant investment in Research Development and Innovation (RD&I) projects. The Project will target advanced manufacturing businesses within the NELEP region, particularly in relation to the adoption of digital technologies. It will provide access to grant support to help companies become more competitive, to create new and innovative products, processes and services, and stimulate improvements in productivity, product quality and cost reductions.
- 3.4 The 2020 Make UK Bouncing Back Smarter Report identified finance as being the main barrier preventing businesses from adopting digitalisation technologies. Therefore, a key focus will be on accelerating the uptake of these technologies by providing financial support via a SME grants programme.

#### **4.0 Current Position**

- 4.1 The Council is the lead applicant for the Project and will enter into the Funding Agreement with MHCLG and establish a detailed Partnership Agreement with the NEAA as its delivery partner. NEAA is a not-for-profit organisation limited by guarantee. It is the UK's largest automotive cluster, led by industry, and established to support the economic sustainable growth and competitiveness of the sector in the North East of England. The NEAA has its registered office at Washington Business Centre.
- 4.2 The application secures £613,500 of ERDF grant for the Project which is expected to create a SME grant funding pot of £400,000 to provide financial incentives and a package of support to help:
- Indigenous businesses located in the NELEP region (Sunderland, South Tyneside, North Tyneside, Gateshead, Newcastle, Durham and Northumberland); and
  - Inward investors (SMEs) looking to locate new operations in the NELEP region
- 4.3 The proposed programme will provide support to SMEs over a 2 year period. Pending the completion of the funding agreement with MHCLG, initial Project activities commenced in July 2021 and will operate until the end of June 2023.
- 4.4 It is anticipated that the average grant per SME supported will be £20,000, contributing to an average total project cost per SME of £50,000 (given SME match fund requirements), with approximately 20 businesses being supported across the NELEP area. The Project is expected to generate leverage of £600,000 in private sector investment.

- 4.5 The grant programme will focus on supporting two key strands of activity:
- Manufacturing innovation (including digital manufacturing, vehicle electrification, sustainability, as well as manufacturing materials and processes); and
  - Prototype and scale-up activity
- 4.6 The grant funding will support eligible expenditure such as plant, machinery and other capital equipment and revenue costs directly associated with a capital investment where eligible under ERDF rules, together with specialist support where appropriate. All grants will meet both State Aid (given that the Project is to be subject to ERDF conditions) and Subsidy Control requirements (see Section 7.3 below).
- 4.7 The support package for businesses engaging with the Project will also involve activities such as workshops, events, networking, knowledge transfer, supply chain activities as well as promoting access to state-of-the-art equipment at the new Driving the Electric Revolution (DER) Centre based at the Skills Academy for Sustainable Manufacturing and Innovation (SASMI) led by Newcastle University.
- 4.8 It is expected that the applications for grant funding will be considered by an investment panel which will be established under the proposed partnership agreement with NEAA. Representatives from the Council's Business Investment Team and NEAA will sit on the panel.
- 4.9 The detailed terms of the Partnership Agreement will be agreed by the Executive Director of City Development in consultation with the Executive Director of Corporate Services, the Leader and the Cabinet Secretary and will reflect the conditions of the MHCLG Funding Agreement.
- 4.10 A project steering group will also be set up which will include representatives from the Council's Business Investment Team and the NEAA. The group will meet on a regular basis to monitor project progress, finances and output performance against agreed milestones, financial and output profiles.

## **5.0 Reasons for the Decision**

- 5.1 The Project will increase opportunities for economic growth and job creation across the NELEP region through providing access to expertise and additional funding for SMEs. It will benefit up to 20 eligible enterprises across the city and wider region which are engaged in process, product and service innovation within the advanced manufacturing and Power Electronics Machines and Drives (PEMD) sectors, strengthening and accelerating the North East's adoption of digital technologies across the advanced manufacturing sector. This additional capability has the potential to help unlock inward investment from SMEs and help businesses capitalise on market opportunities in electrified propulsion, industrial digitalisation and low carbon technological solutions.

- 5.2 The Project will support delivery of the City Plan Dynamic City goal of creating more and better jobs. It will also support delivery of the North East Strategic Economic Plan ambition - to be a growth orientated, dynamic and productive environment where businesses invest, grow and thrive - by assisting SMEs to access the finance they need to grow.

## **6.0 Alternative Options**

- 6.1 There is no alternative option recommended. A decision not to proceed, if the application for funding is successful, would mean that the opportunity to lever in ERDF grant to support economic growth for businesses in Sunderland and across the North East Local Economic Partnership (NELEP) area would be lost and the outcomes of the Project would not be delivered.

## **7.0 Relevant Consultations**

### **7.1 Financial Implications**

There is no funding contribution required from the Council for the delivery of the Project. The Council will receive funding for the costs of the support provided by Council officers within the Business Investment Team and Finance in supporting the delivery of the Project (estimated at £21,545). This is included in the Project budget and will be recovered as an eligible cost.

The match funding for the ERDF grant is secured through SMEs using their own resources as eligible match funding alongside the grant funding to finance their capital investment projects.

### **7.2 Risks**

Risks associated with the delivery of the Project and compliance with the MHCLG funding conditions will be managed through the terms of the proposed partnership agreement between the Council and the NEAA as delivery partner.

The Project steering group meetings will monitor project progress, finances and output performance against agreed milestones, financial and output profiles. This will be reviewed monthly with a written progress report on a quarterly basis as part of the ERDF claims process.

An issues log will also be maintained, to capture lessons learned, risks, and quality issues.

### 7.3 Legal Implications

The Council, as the lead applicant, will enter into the funding agreement with MHCLG for the funding and delivery of the Project. Separately, the Council will then agree and enter into a partnership agreement with NEAA covering the detailed delivery and governance arrangements for the Project. This will incorporate the relevant ERDF grant conditions from MHCLG so that the two agreements are effectively back-to-back.

A full State aid analysis in respect of the Project was undertaken as part of the funding bid to MHCLG. As the Project is being funded by ERDF, the State aid rules still apply to the grant from MHCLG to the Council.

The key findings of the State aid analysis were as follows:

- (i) No potential State aid is being provided to NEAA in this instance as they are acting as an intermediary only to provide wider business support to the third party SMEs and they are acting on a cost recovery only basis;
- (ii) The proposed support to the SME beneficiaries via the potential individual grants and general support packages can be provided on a lawful basis in accordance with either the de minimis aid exception (approximately £350,000.00) or the relevant provisions of the General Block Exemption Regulation (GBER) which permit the provision of certain eligible aid to SMEs subject to conditions (including investment aid to SMEs (Article 17) and innovation aid to SMEs (Article 28)). The appropriate lawful aid route will be determined on a case by case basis; and
- (iii) There will be no potential aid to the third party contractors to be engaged to support the delivery of the Project as each contract will be subject to a competitive procurement in accordance with the requirements of the Council's Procurement Procedure Rules.

### 8.0 Background Papers

None

