

Subject: Inward Investment Decision – Leonardo UK
Report of: Chrisi Page, Principal Investment Programme Manager
Portfolio: Investment and Resources

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Report Summary

The purpose of this report is to request approval of an Inward Investment Fund application, with a total value of £420,000 which will both support Leonardo UK, to expand its UK presence with an office in Newcastle. Leonardo UK is a large-scale UK-based manufacturing and technology business specialising in defence, aerospace, and electronics applications.

At its meeting on 5 February 2019 (Agenda Item 4), the North of Tyne Combined Authority (NTCA) Cabinet approved a proposal to create an Inward Investment Grant fund with an initial budget of £1m per annum and on 22 October 2019 (Agenda Item 6), the NTCA Cabinet noted the launch the fund. On 4 June 19 (Agenda item 8) the NTCA Cabinet approved delegation to the then interim Head of Paid Service, in consultation with the Investment Panel, for approval of individual awards. The NTCA Cabinet extended the delegation at its meeting on 17 December 2019 to include consultation with the Mayor and also agreed to increase the Inward Investment fund to a total value of £10m Inward Investment Fund for the period up to 30 September 2022.

On 14 September 2022, NTCA Investment Panel considered the proposal and on receipt of the final appraisal outcome on 27 September recommended the project for approval by the Chief Executive in consultation with the Mayor, subject to the funding conditions outlined below.

Recommendations

The Chief Executive is recommended to approve the application, subject to the following funding conditions:

1. The Company to provide additional evidence and analysis at the due diligence stage (as required by NTCA) to demonstrate fully the need for a minimum grant of £420,000.
2. Company to update the grant application form, financial appendices, supporting evidence, and Subsidy Control letter (as required by NTCA) to ensure the final version of the application reflects the eligible project cost, grant value, project dates, and other project details presented in the independent appraisal report.
3. A monitoring clause should require the Company to confirm at the end of the project that the new jobs created with grant support are sustained in the North of Tyne area for the full five years following the creation of each job, as required of a large enterprise, and as stated by the Company in the response to appraisal queries. A grant clawback condition should be included in the funding agreement allowing NTCA to reclaim from the Company any grant paid out in relation to initial jobs that are not sustained for five years.
4. Eligible grant to be paid out only in relation to new employees resident in the North East region (i.e. wider than the North of Tyne area). This is to safeguard against the risk of the grant subsidising employment of residents elsewhere in the UK or overseas, in light of the growing trend towards homeworking. *
5. Within six months of the grant being drawn down, the Company needs to have achieved the minimum of a Standard Award of NTCA's Good Work Pledge with a commitment to work towards the Advanced Award within a reasonable timeframe.

* Please note: this does not preclude the company from recruiting other non-funded posts from elsewhere.

1. Background Information, Proposals and Timetable for Implementation

1.1 In October 2019, the Combined Authority launched its £10m Inward Investment Fund which will be open to applications up to 30th September 2022. Cabinet subsequently approved delegation to the Head of Paid Service, in consultation with the Investment Panel and the Mayor for approval of individual awards. As part of the process, and following an in-principle decision on funding, a robust due diligence appraisal will be undertaken by UNW. The final offer of grant is dependent on a satisfactory final report.

1.2 To date, 7 applications with a combined value of £6,603,828 have been approved from the NTCA Inward Investment Fund and of this £4,603,828 is legally committed. This leaves £3,396,172 of the Inward Investment Fund remaining.

1.3 Project Outline

Company Name	Leonardo UK
Parent Company	Leonardo S.p.A, Italy.
Project location	Newcastle Upon Tyne (The Spark, Newcastle Helix)
Start Date	March 2023
Financial End Date	December 2026
Practical completion date (date by which all outputs will be achieved)	January 2025
Total expenditure	£9,780,936
NTCA IF	£420,000 (as recommended by the appraiser)
Jobs created	75 across the project
Financial Implications	This project will be funded from the Inward Investment Fund workstream of the NTCA Investment Plan of which £3,396,172 remains.

1.4 Leonardo UK Ltd provides a wide range of services and products for defence and civilian applications. The Company, which has over 7,000 employees, operates from eight main sites across the UK with divisions including Electronics, Cyber and Helicopters. The company invests around £180m in the UK in research and development each year and through this innovation investment, delivers some of the UK's most advanced technology programmes. The Company is the second biggest supplier of equipment to the Ministry of Defence. It has a very strong order book and pipeline and achieved turnover of almost £2.1bn in 2021.

1.5 The Company has a very well established and diverse customer base across a broad range of markets including: UK Government (MOD); Tier 1 manufacturing businesses (e.g. BAE Systems); transport; media; security; and space technologies. As part of the process to secure the MoD contract, the company has been through a rigorous process including security checks.

1.6 The Company is planning to establish a new site at a location in the UK, providing a focal point to recruit and accommodate the additional staff needed to meet current and future contractual commitments, undertake R&D, and deliver strategic growth plans. This includes an MoD contract for a new Radar system for Eurofighter Typhoon programmes (Mk2), which is currently in the design / development phase, with production orders expected in 2024/25. Development of the new Radar system will sustain more than 600 highly skilled jobs, with many to be located at the new site. This would help reinforce the North East as a world leader in digital and tech. As well as supporting delivery of the MOD radar contract, the aim is also to establish the new office facility as a centre of excellence in software and data-led engineering including artificial intelligence, machine learning and data-fusion.

- 1.7** The Company has considered several locations across the UK, including Belfast, Manchester, Dundee, Glasgow and Derby, as well as Newcastle. The assessment criteria for selecting the preferred site include: wage and accommodation costs; availability of skilled workers and competition for engineers; and access to relevant disciplines / research groups at universities.
- 1.8** Based on an analysis of these factors, Newcastle has been identified as the preferred location for a new office. As well as being the lowest cost location, Newcastle also ranked highly on its ability to provide a pool of skilled engineers, with no direct competitors to Leonardo UK in the local area, and close alignment between local university strengths and the skills and technologies needed by the Company.
- 1.9** Should the Company locate to Newcastle, it will recruit 75 new highly skilled jobs by March 2025, with potential for a further 125 new FTE jobs in future years, as part of the larger and longer-term Radar 2 programme and depending on performance and market conditions. The new jobs will include: electronics engineers; firmware engineers; hardware engineers (power); software engineers; systems engineers; research scientists and engineers; as well as senior management and office staff.
- 1.10** In line with NTCA's approach to building an inclusive economy, the company is committed to signing up to NTCA's Good Work Pledge. The Company is also one of the UK's largest employers of engineering apprentices and graduates, investing £3.5m on employee training and development annually.
- 1.11** For the project to be approved by the Company Board to proceed in Newcastle it must be able to meet the Company's financial criteria by delivering Economic Value Added (EVA) above the minimum requirement of 4% for external projects (i.e. projects outside existing sites). This EVA threshold reflects the extra costs (salaries for additional staff, capital expenditure) and risks associated with delivering the MOD Radar contract at a new site. Whilst the Company had applied for a grant of £450,000, the appraisal team recommended this should be reduced to £420,000, which is the minimum required to exceed the Company's profitability / EVA threshold of 4% needed for the project to go ahead. On this basis, the recommended grant is £420,000.
- 1.12** Through its sustainability strategy, the company is committed to sustainability as a force for business transformation and a driver of its activities. The company is a founding member of the Joint Supplier Accreditation Register (JOSCAR), a UK-wide initiative in the UK aerospace/defence industry designed to drive common standards across the supply chain, including Environmental Social and Governance (ESG) criteria. As part of its ongoing commitment to ethical procurement, Leonardo also publishes an annual Modern Slavery statement.

1.13 NTCA Outputs

Output / result type	Total
Number of new jobs created	75 (by January 2025)
Private sector investment (£)	£9.36m in total - £9.36m (in wage costs) (by December 2026)

- 1.14** In line with similar investments, it is recommended that the Company should be asked to provide monitoring reports to NTCA on an annual basis for five years following commencement of the investment project. This would enable NTCA to capture any additional jobs that may be created in the fifth year, over and above the target.

1.15 Milestones

Headline milestones include:

Project milestone	Delivery date
Project Start	1 June 22
CAPAPP Approved	30 June 22
Grant Approved	16 Sep 2022
Board Approved	20 Sep 2022
Lease Agreed	28 Oct 2022
Fit Out start	28 Oct 22
Fit Out complete	1 Feb 23
Move in Complete GTS and first jobs recruited	1 Mar 23
Move in Complete DES and Restricted	23 Oct 23
Office Fit Out Project Finish	23 Oct 23

2. Potential Impact on Objectives

2.1 Inward investment is a key element of the NTCA's strategy to deliver the objectives set out in the devolution deal, Economic Vision and the Corporate Plan. The area has historically had relatively low levels of business start-ups, and inward investment opportunities directly provide additional job opportunities.

2.2 This project would provide a stimulus to both jobs and the wider economy. Value for money the investment is good, with 75 jobs expected by January 2025.

2.3 Appraisal

In line with the agreed process for Inward Investment Applications a full external appraisal has been undertaken by New Skills Consulting. A final report has been received and describes in detail the findings from project appraisal. A summary of the key findings is included below.

Overall RAG assessment		
Risk Rating	Project Activity	
	Eligibility Check	
	Strategic Case	
	Economic & Financial Case	
	Management & Deliverability Case	
	Compliance	
	Overall rating	

2.4 The appraiser considered this to be a good project which offers potential to deliver significant economic benefits for the North of Tyne economy, creating 75 highly paid, highly skilled new jobs. The project will attract a leading global engineering design and manufacturing business to the area and, given the Company's software and digital technology-led approach to delivering engineering solutions, it will further strengthen the North of Tyne's growing digital technology sector. The project aligns well with NTCA's strategic economic priorities (including the focus on developing the region's role as a key UK centre for digital technology-led industries), and the objectives and criteria of the Inward Investment Fund

2.5 The application makes a reasonable and valid argument that grant funding is needed to enable a new office in Newcastle to deliver profitability / EVA above 4% (the Company's stated threshold for external investment projects) which must be met to allow the project to go ahead in Newcastle. Overall, the application makes a reasonable case that a grant will make it easier for the Company to decide to go ahead with the project in Newcastle.

- 2.6 The Company's customer base has been assessed at appraisal stage with no cause for concern identified.
- 2.7 Therefore, the appraiser deems it reasonable to recommend the project for approval. In reaching a final decision on the application, NTCA should take the following factors into account:
- **Grant Value** - The Company applied for a grant of £450,000. However, the appraisal team recommends that the grant offer should be reduced to £420,000, which is the minimum required to exceed the Company's profitability / EVA threshold of 4% needed for the project to go ahead in Newcastle.
 - **Final confirmation of need for grant and minimum funding requirement** - Given the importance of the EVA argument in establishing the minimum value of grant required, any funding offer should be conditional on the Company providing further evidence and analysis at the due diligence stage to demonstrate fully the need for a minimum grant of £420,000.
 - **Subsidy Control** - The Company has sought independent legal advice (from DWF Law) which confirms that the proposed grant is consistent with Subsidy Control principles and can be made in accordance with these principles. The DWF Law letter provides comfort that the proposed grant is Subsidy Control compliant. However, the NTCA will need to satisfy itself that the funding is consistent with Subsidy control principles. NTCA is therefore recommended to undertake a balancing test, assessing the relative positive and negative effects of the investment, prior to making the grant award. This is to confirm compliance with Subsidy Control Principle 6.

3. Key Risks

- 3.1 Individual programme risks have been included in the application form.
- 3.2 Risk will be managed by the NTCA programme team in line with the claims and monitoring work instruction. Risk is reported to the Investment Panel as part of the monthly performance report.

4. Financial and Other Resources Implications

- 4.1 In line with our agreed claim process, grants will be paid at the agreed intervention rate quarterly in arrears and upon verification of costs.
- 4.2 The financial completion date for the projects will be December 2026.
- 4.3 Below is an approximate forecast projected spend profile:

Funding Profile						
	2022/23	2023/24	2024/25	2025/26	2026/27	TOTAL
NTCA (4.3%)	£1,666	£44,310.5	£154,855	£165,689.5	£53,479	£420,000
Match (95.7%)	£37,123	£987,589.5	£3,451,408	£3,692,878.5	£1,191,937	£9,360,936
Total	£38,789	£1,031,900	£3,606,263	£3,858,568	£1,245,416	£9,780,936

- 4.4 The grant per new job created is £5,600 (per gross job) which is slightly higher than the Inward Investment Fund's value for money guideline of £5,000 per job. However, the jobs to be created by the project will be highly skilled, highly paid roles offering an average salary of £52,223 with some roles offering salaries up to £59,500. While the grant per job for this project is high, this can be justified based on the high value of the jobs to be created, which will deliver a significant GVA boost to the North of Tyne economy. Therefore, the project is considered to offer reasonable value for money.
- 4.5 Match funding will be provided by the company and contribute to NTCA targets for private sector leverage.

5. Legal Implications

5.1 The Monitoring Officer has been consulted and has no comments to add

6. Equalities Implications

6.1 As required by Section 149 of the Equality Act 2010, the Combined Authority has considered its obligations regarding the Public Sector Equality Duty and there will be no anticipated negative impact on groups with protected characteristics from these proposals.

The company will be required by law to meet all relevant requirements in the workplace in respect of equalities. In addition, we will encourage wherever possible, all companies we work with to be mindful of our commitment to equalities and direct them to guidance provided by the Equalities and Human Rights Commission. <https://www.equalityhumanrights.com/en/advice-and-guidance/guidance-businesses>.

7. Inclusive Economy Implications

7.1 All Inward Investment Fund applications are required to set out an approach which contributes towards NTCA's ambitions for an inclusive economy, this has been assessed through the appraisal process and considered acceptable.

8. Climate Change Implications

8.1 Climate change benefits are not specifically referenced in this report. It is not envisaged however to have any negative impact, in fact as the company is digitally focused environmental impact should be low.

9. Consultation and Engagement

9.1 Throughout the process, extensive consultation has taken place, this has included discussion at Technical Officers Group meeting, Investment Panel, at both Officer and Director level between teams in NTCA and with Invest Newcastle.

Regular briefings have been provided to the elected Mayor and Portfolio lead for Investment and Resources, both are supportive of the investment.

10. Appendices

10.1 None

11. Background Papers

11.1 NTCA Cabinet, 4 June 2019, Item 8 (DD to HoPS)
NTCA Cabinet, 17 December 2019, Item 5 (DD to HoPS, with Mayor consultation)

12. Contact Officers

12.1 Melissa Wells, Policy Advisor, melissa.wells@northoftyne-ca.gov.uk , 07917 232515

13. Glossary

FTE	Full-time Equivalent (job)
NTCA	North of Tyne Combined Authority
DD	Delegated Decision
HoPS	Head of Paid Service
UNW	Accountancy Firm

11. Sign-off

1) Portfolio holder Yes	2) Director/SMT Yes	3) Chief Finance Officer: Yes	4) Monitoring Officer: Yes
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