

<b>Report to:</b>	Strategy and Resources	<b>Date:</b>	8 June 2020
<b>Report title:</b>	The London Cancer Hub - Update		
<b>Report from:</b>	Richard Simpson, Strategic Director of Resources		
<b>Ward/Areas affected:</b>	Belmont		
<b>Chair of Committee/Lead Member:</b>	Cllr Ruth Dombey, Leader of the Council Cllr Jayne McCoy, Deputy Leader of the Council		
<b>Author(s)/Contact Number(s):</b>	Kathryn Carr, Assistant Director, Amanda Cherrington, Head of Economic Renewal and Regeneration		
<b>Corporate Plan Priorities:</b>	<ul style="list-style-type: none"> <li>● Being Active</li> <li>● Making Informed Choices</li> <li>● Living Well Independently</li> <li>● Keeping People Safe</li> </ul>		
<b>Open/Exempt:</b>	Open		
<b>Signed:</b>		<b>Date:</b>	27 May 2020

## 1. Summary

- 1.1 The London Cancer Hub is a key project for the Council and an important part of our 'Ambitious for Sutton' vision. This report seeks authority to proceed with the proposed next phase of development at the LCH, focused on the direct delivery by the Council of a new innovation hub in an existing, Council owned building on the site. The report also describes how the Council is taking forward the learning from the procurement process initiated in 2019 and explains how the project has been adapted in response to changing circumstances.

## 2. Recommendations

- 2.1 To approve the direct delivery of the next phase of development at the London Cancer Hub, as detailed in this report.
- 2.2 To delegate authority to the Strategic Director of Resources to award all contracts necessary to deliver the next phase of development at the London Cancer Hub, including demolition and public realm works on site and construction works to convert Cumbrian House into an innovation hub.
- 2.3 To approve the sealing of the Strategic Investment Pot grant agreement between the City of London Corporation and the Council, for the London Cancer Hub award of £8.38m.

### 3. Background

- 3.1 The London Cancer Hub (LCH) is a partnership between the Institute of Cancer Research (ICR) and the London Borough of Sutton (LBS), supported by the Royal Marsden, the Mayor of London, Epsom and St Helier University Hospitals NHS Trust and One Public Estate. The partnership was established to transform Sutton's existing life-science site into a world-leading campus specialising in cancer research, treatment, education and enterprise.
- 3.2 The fully developed cancer hub has been estimated to contribute c.£1.2bn each year to the UK economy and deliver substantial benefits for the borough. It will create opportunities for sustainable economic growth and local employment in the key STEM (science, technology, engineering and maths) sector. It is expected to create more than 13,000 jobs in total – 7,000 permanent jobs at the Sutton site and 6,200 jobs during construction. It will generate new revenue for the borough, including a projected £13m in additional business rates, and act as a catalyst for broader changes that will benefit Sutton residents, such as local transport improvements.
- 3.3 In 2017 the Council appointed commercial advisors and began to assemble the site for the LCH including the acquisition of a 4.8ha plot of land in 2018. The LCH is a unique project within a specialised sector and it was therefore decided to seek a private sector investor/developer partner to secure the funding and expertise needed to deliver the next phase of development. As a unique scheme, with a mix of commercial development alongside a specific cancer research and drug discovery focus, the Council recognised that there would be a limited number of potential partners with the experience and skills across the full range of requirements.
- 3.4 The Council commenced its search for a development partner in September 2019 through an EU compliant (OJEU) process. Two bidders were assessed as having sufficient financial, technical and professional standing to be invited to participate in the competitive dialogue stage of the procurement. Subsequently, one bidder progressed to the final stage. They proposed to deliver the next phase of development through an income strip model whereby the bidder would secure the funding, but required the Council to underwrite this by guaranteeing 75% of rental income over the 35 years lifetime of the lease. The rationale underpinning this model as the only available option was that by minimising the risk of return and securing their developer profit the bidder increased the viability of the scheme. However, this model undermines one of the Council's key objectives in procuring a partner who would fund the development on a standard risk and reward model basis. Taking the development forward in this way would expose the Council to greater financial risk for many years.
- 3.5 The Council's commercial advisors urged caution on pursuing this delivery model. Their concerns related to both the financial risk to the Council and their lack of confidence, following extended dialogue, that the sector specialism required was sufficiently demonstrated by the bidder. As a result, the advisors questioned the added value offered to the Council by this proposal, particularly given the long-term financial risk.
- 3.6 It was therefore agreed with the bidder in early March to pause and reflect on the procurement process in order to consider next steps.

- 3.7 During the procurement process to identify an investment partner, the Council submitted a bid to the Strategic Investment Pot (SIP), coordinated by the City of London to encourage economic growth, to support the delivery of building and infrastructure costs at the LCH. The bid was successful and the Council secured a significant award of £8.38m for these purposes.

### **Options Analysis**

- 3.8 The pause has given the Council time to consider the best way forward for both the LCH development and the borough. This has allowed a thorough review of the commercial proposal presented by the bidder and an analysis of alternative delivery models. This has been supported by dialogue with legal, financial, property and sector specialist advisors. An options appraisal was developed which ranged from running a new procurement process on a different proposition, to incorporating residential development to subsidise the core science offer.
- 3.9 The global outbreak of the Covid19 pandemic coincided with the agreement to pause the procurement process. As such it was necessary to consider this as a further, and key, factor in evaluating how best to take the LCH development forward. While the full impacts of Covid19 will be better understood as the country starts to emerge from the crisis, it is clear that the global economy will face unprecedented challenges over the short to medium term. The climate of uncertainty is expected to reduce the appetite for risk among investors, developers and contractors alike. This reinforced the case for a careful review of the most prudent and diligent approach to the delivery of the LCH, to achieve best use of public funds while maintaining the opportunities and benefits of the scheme for Sutton's local economy.
- 3.10 In this context, the Council acting as the developer to directly deliver a smaller scale next phase of development provides the optimum solution. The availability of the £8.83m SIP grant is an unprecedented opportunity for the Council to respond quickly to the changing landscape in order to harness emerging sector demand for such provision. This approach minimises the Council's exposure to financial risk and makes best use of one-off grant funding. It was therefore decided not to proceed with the procurement of a development partner at this time.
- 3.11 However, it is important to note that the procurement process of itself was beneficial in a number of ways. As a learning experience for colleagues within the Council, it provided useful lessons that can be applied to any future LCH partner procurement. It also communicated Sutton's clear commitment to the LCH concept and its serious intent to deliver the development. This undoubtedly raised the profile of the LCH development among key target audiences, including public funding bodies. To this end, while procurements always incur costs, in this case the spend was key to the Council securing the £8.38m SIP grant.

## **4. Next Steps**

- 4.1 The LCH's unique vision enables enterprise and research innovation sectors to be co-located with world leading scientists and clinicians. Attracting the right businesses from the scientific spin out and research community is therefore critical to its successful delivery. While the Covid19 pandemic is widely anticipated to change the global availability of investment capital

and the appetite for risk for some time, it has also emphasised the critical role of scientific research to the national economy. Initial soft market testing by expert advisors confirms these twin drivers are likely to steer sector demand towards the provision of smaller-scale, more flexible provision for the foreseeable future.

- 4.2 The award of the £8.38m SIP grant allows the Council to capitalise on the changing and more incremental nature of development now anticipated. This will be achieved by transforming Council owned Cumbrian House on the site into a new innovation hub. The re-purposed building will provide affordable incubation space immediately adjacent to the ICR, enabling start-up and spin-out companies, along with teams from larger enterprises, to work closely with, and learn from, world-class academic scientists. In fostering organic growth, evidencing demand and creating a pipeline of occupiers for future phases of larger, new build development the innovation hub will facilitate the sustainable growth of the UK science sector. Building on learning from the procurement process and utilising the market intelligence drawn from this next phase of Council delivered development, the LCH partnership will be able to identify the best mechanism for delivering the full development as envisioned, including the larger Knowledge Centre, at the appropriate time.
- 4.3 Plans will therefore be drawn up to create the new innovation hub alongside the demolition of some redundant buildings, to improve visibility and movement around the site, plus a package of works to upgrade the public realm. The costs of this first phase of development will be contained entirely within the SIP funding envelope, removing the need for further borrowing. This is undoubtedly the most prudent and effective use of public funding, offering the lowest risk/highest impact short to medium term solution. It will kick start delivery, while allowing the Council to further manage risk for the longer term development phases.

## **5. Conclusions and Recommended Way Forward**

- 5.1 The Council carried out a robust, OJEU compliant procurement process focused on a clear proposition and the competitive dialogue was very constructive. As the process progressed, it became clear there were better delivery models for the LCH. The insight gained through the process, and the £8.38 SIP award which reduced the requirement for private sector borrowing, opened up new opportunities for direct delivery of the scheme. It was therefore decided to review the Council's position and not to appoint a commercial partner to develop the LCH at this time.
- 5.2 The optimum delivery route, taking account of all relevant factors now and in the foreseeable future, is the recommended option whereby the Council will act as the developer to deliver a smaller scale first phase of development. The original vision for the full development remains and will be reinforced by the incremental, re-phasing of delivery that is appropriate at this time.
- 5.3 The ICR fully supports this approach. They are keen to make early progress to create certainty in order to harness sector demand for this type of provision. In tandem, to maximise the benefits of the investment, the Council and ICR will build new, and strengthen existing, local business supply chains.

## 6. Impacts and Implications

### Financial

- 6.1 Since April 2018, £349,062.59 has been spent on external legal and commercial advice relating to the procurement of an investor/developer for the site. This has included developing an OJEU compliant procurement strategy, documentation and soft market testing. They have also provided the Council with commercial advice and legal support throughout the dialogue meetings (including negotiating Heads of Terms and financial structures to bring forward the development).
- 6.2 In 2016, Sutton was successful in its application to the One Public Estate programme. OPE is a national programme delivered by the Cabinet Office and the Local Government Association to provide support and funding to councils to deliver surplus public sector partnership land programmes. OPE awarded grant funding of £550,000 to Sutton to deliver work across a range of areas to bring forward the London Cancer Hub. In total, £208,151.03 of this funding has been used to offset procurement costs incurred by the Council. The remaining funding has been met from the Council's budget.
- 6.3 A successful bid was submitted to the Strategic Investment Pot - 2019/20 for £8.38m to help prepare the site for development through demolition, infrastructure and public realm works.
- 6.4 Currently design and scoping is underway. The change of use alterations and refurbishment to provide laboratory and associated spaces for Cumbrian House is estimated to be around £1.7m. For demolition and public realm improvements including improved signage, lighting and way-finding the costs would be in the region of £1.3m. Design works are currently being undertaken, followed by procurement.

### Legal

#### **Legal Implications provided by Trowers & Hamblins LLP**

- 6.5 The Council has powers to secure the proper planning of its area. Local authorities have the power to do anything that an individual may do pursuant to section 1 of the Localism Act 2011. This is referred to as the "general power of competence". The Council may use this power for its own purpose, a commercial purpose and/or for the benefit of others.
- 6.6 Local authorities have the power to enter into contracts pursuant to section 1 of the Local Government (Contracts) Act and to invest pursuant to section 12 of the Local Government Act 2003, provided this is consistent with the Council's investment strategy. This gives the Council the power to fund and deliver the first phase of development at the London Cancer Hub (the LCH). This would include the ability for the Council to carry out demolition and public realm works on site and construction works to convert Cumbrian House into an innovation hub.
- 6.7 The Council would retain control over the first phase of the development. This would enable the Council to work with the ICR (its Partner), and the Royal Marsden, and Epsom and St Helier University Hospitals NHS Trust (the Stakeholders) to shape the development of the first phase

of the LCH. This could significantly reduce the complexity of the development and any ongoing management arrangements.

- 6.8 The Council would also have the ability to control lettings, and set rents. In order to comply with the Council's fiduciary duty to obtain value for money and State aid law, we would advise the Council to set rent rates for the innovation hub at market rate or in accordance with State aid exemptions.
- 6.9 The Council may also benefit from the long-term income stream produced by the retention Cumbrian House.

**Appendices and Background Documents**

Appendix letter	Title
	None

Background documents
None

Audit Trail		
Version	Final	Date: 27 May 2020
Consultation with other officers		
Finance	Yes	Richard Simpson
Legal	Yes	Fabiola Hickson
Equality Impact Assessment required?	No	N/A