

**Written statement of a non-key decision  
Cabinet member corporate strategy and budget**

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| <b>Title</b>                                                                                                                                                                                                                                                                                                     | <b>Development and regeneration programme project approval for student accommodation at Station Approach</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Decision maker                                                                                                                                                                                                                                                                                                   | Cabinet member corporate strategy and budget<br>Information about cabinet, including the names and contact details of the cabinet members, can be found here:<br><a href="http://councillors.herefordshire.gov.uk/mgCommitteeDetails.aspx?ID=251">http://councillors.herefordshire.gov.uk/mgCommitteeDetails.aspx?ID=251</a>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Date of decision                                                                                                                                                                                                                                                                                                 | 10 June 2019                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Report exemption class                                                                                                                                                                                                                                                                                           | Part exempt                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| A notice was served in accordance with Part 2, Section 5(2) (Procedures prior to private meetings) of The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012. Further notice was served in accordance with Part 2, Section 5(4) of the same regulations. |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Purpose                                                                                                                                                                                                                                                                                                          | To confirm final approval of the project to develop student accommodation on Station Approach.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Decision</b>                                                                                                                                                                                                                                                                                                  | <p><b>That:</b></p> <p><b>(a) the stage two submission for the development of student accommodation on Station Approach (appendix 2) be approved and that a 125 year lease with a mutual break option at 50 years be granted to the external finance provider for a premium of £677,300 to enable the construction of student accommodation on the Station Approach site;</b></p> <p><b>(b) the Project Criteria approved by cabinet on 13 December 2018 for the project to provide student accommodation on Station Approach, are confirmed as having been met as detailed at paragraph 12; and</b></p> <p><b>(c) funding for the project be provided by M&amp;G Investments with the council acting as guarantor during the operational phases. The Chief Finance Officer has completed legal and financial due diligence on this funding option, including the selection of a preferred funder and the negotiation of final terms, and confirmed that the funding model delivers for the council:</b></p> |

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|                         | <p><b>i. a capital receipt for the leasehold interest in the site that reflects the best consideration that can reasonably be obtained; and</b></p> <p><b>ii. a best value solution for the project which meets the Project Criteria;</b></p> <p><b>(d) the council enter into the Nominations Agreement for a period of 50 years as guarantor to Hereford College of Arts and in the first three years of the Nominations Agreement to provide nominations of students to occupy the student accommodation on the Station Approach site; and authority be delegated to the acting Director for economy and place, following consultation with the Cabinet member contracts and assets and the Chief Financial Officer, to enter into all necessary legal agreements and/or the giving of securities or guarantees and take all operational decisions necessary to implement the above within the approved budget.</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Reason for the decision | <p>As set out in the report. Documents relating to this decision are available at</p> <p><a href="http://councillors.herefordshire.gov.uk/mglIssueHistoryHome.aspx?IId=50030620">http://councillors.herefordshire.gov.uk/mglIssueHistoryHome.aspx?IId=50030620</a></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Options considered      | <p>1. The council could choose not to proceed with the project. This would mean that the council would not be able to offer student accommodation to local higher education providers in Herefordshire in time for the academic year starting in September 2020, in this case, the Hereford College of Arts and NMiTE. Neither Higher Education provider is currently in a position to establish purpose built student accommodation by alternative means, and the lack of any provision would critically hinder their growth and/or adversely impact the availability of private rental sector accommodation for local housing needs with the loss of significant economic benefits to Hereford and the wider county. The council will be required to pay the cost of development that it has underwritten during the new project approval process (£1.405m see paragraph 44, Resources Section), and the council's relationships with its partners – developers, higher education providers, and investors – could be negatively impacted. The council would remain owner of the land and decide on alternative uses or retain the land for car parking.</p> <p>2. The project could be approved with different financial arrangements. Specifically with the council sourcing the funds from PWLB borrowing for the project. This is considered in more detail in the business case</p> |

(appendix 2). The option was considered to be feasible but less attractive for a number of reasons.

3. The council could fund the development directly. However, the timing of financial benefits towards the end of the project are less advantageous to the council; and the funds allocated to this project will not be available for other projects less attractive to external funders. Our developers have advised that such a change at this stage in the project development would delay the availability of the new student accommodation for one academic year and would incur additional costs, including construction inflation. The developers have advised that this could be in excess of £500k.
4. One of the advantages of utilising external finance is that a number risks are transferred to the financier, such as;
  - a. Construction Phase: The construction phase risks are passed to Cityheart Partnerships Ltd, such as managing any related delays in completing the construction, and additional costs through the construction phase.
  - b. Rent setting: The external funding model requires at the outset that the Special Purpose Vehicle (SPV) increases rents by the Retail Prices Index (RPI) (within the cap and collar) for the life of the agreement.
  - c. Operating costs: One of the features of the external funding model is that the risks associated with operating costs are passed to the SPV. This means that the SPVs are effectively taking the risk for the full 50 years on bad debts, energy, utilities, insurances, WiFi ,security, planned preventative maintenance, reactive maintenance, staffing, cleaning, grounds maintenance, health & safety and all the other services required under the Nominations Agreement.
  - d. Inflation: a tracking error between assumed interest and actual interest could cause financial stress.
5. The land could be made available to the Hereford College of Arts to develop the facility with the council taking the capital from the sale of the land. However, the college do not currently have the resources, the capital, or the capability to do this.
6. The council could sell the land to a developer with the expectation that they work with the college to develop student accommodation. Once the land has been sold, however, neither the council nor the college would be able to control development on the site. The development of the proposed project, with a range of

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|                                                                                                   | external advice sought, has demonstrated that the development is not sufficiently commercially attractive until the projected growth in student numbers have been achieved. Therefore, it is very unlikely that a developer would establish a similar facility on their own. |
| Declarations of interest (see<br>▪ below)                                                         |                                                                                                                                                                                                                                                                              |
| Call-in expiry date (decisions are not subject to call-in where special urgency provisions apply) | 14 June 2019                                                                                                                                                                                                                                                                 |

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| Councillor: .....                                                            | Date 10 June 2019 |
| Cabinet member corporate strategy and budget<br>(Councillor David Hitchiner) |                   |

- a record of any conflict of interest declared by any executive member who is consulted by the member which relates to the decision;
- and
- in respect of any declared conflict of interest, a note of dispensation granted by the relevant local authority's head of paid service.