

Decision maker:	Cabinet member corporate strategy and budget
Decision date:	4 July 2017
Title of report:	Short term loan support for the New Model in Technology and Engineering (NMiTE) university
Report by:	Programme manager housing and growth

Classification

Open

Key decision

This is not a key decision.

Wards affected

Countywide

Purpose

To approve the council's future financial support for the New Model in Technology and Engineering (NMiTE) university.

Recommendation(s)

THAT:

- a) the revised partnership agreement at appendix 1 be approved;**
- b) the council's representatives on the partnership board be the cabinet member economy and corporate services, the chief executive, and the director for economy, communities and corporate;**
- c) a loan facility of £300k be made available to the New Model in Technology & Engineering (NMiTE) for a period of up to five years to support the development of the new university on the following conditions:**
 - i. the support of the council for the university project is recognised on all publicity and website;**
 - ii. funding used to bankroll government grant funding is repaid on payment of claims;**
 - iii. in any event repayment will be made in line with the conditions of the loan agreement (within 5 years of the date of the loan agreement)**
 - iv. the loan is for capital funding, therefore the university must ensure that**

Further information on the subject of this report is available from
Richard Gabb, programme manager housing and growth on Tel (01432) 261902

- expenditure incurred using the loan is on things that the council would itself capitalise;
 - v. the council finance team and audit team will be allowed access to all financial records and procurement records relevant to use of the loan;
 - vi. NMiTE demonstrates that appropriate accounting and reporting processes are in place within the university organisation;
 - vii. NMiTE will follow the council's contract procedure rules when using council funding ensuring best value is achieved; and
 - viii. any other conditions specific to the draw-down request to be agreed on a case by case basis;
- d) the director for economy, communities and corporate be authorised, following consultation with the cabinet member corporate strategy and budget and chief financial officer and having regard to the views of the joint university project board (JUSB), to approve proposals for drawn down from the loan and any specific conditions to be applied on a case by case basis;
- e) the JUSB will monitor application of the loan and report on outcomes achieved from its use; and
- f) the grant provided in June 2016 to support the development of the university green book business case is varied so that the £9,032 remaining balance of the £30,000 is available to NMiTE to commission activities supporting implementation of the university.

Alternative options

- 1 The council could choose not to support the development of the university; this option is not recommended because of the economic and social benefits expected to accrue from the establishment of a university in the county as set out in the adopted economic vision.
- 2 The council could choose to make the funding available by way of a grant. This is not recommended given that the likelihood of recovering the investment remains and therefore a loan arrangement offers the best use of public resources.
- 3 The balance of the grant funding could be withheld. This is not recommended as the funds will be of value to NMiTE in reducing the risks involved with the early stage of its development.

Reasons for recommendations

- 4 To support the creation of a university for the county in line with the Herefordshire's economic development strategy approved by cabinet in December 2016. Provision has been made for this loan in the council's capital programme. This loan will allow the university to mobilise in advance of it drawing down funding that has been committed by central government.

Key considerations

- 5 Following the council resolution passed in 2014 asking the executive to explore options for supporting the development of a new university in the county a number of decisions have been taken to aid the development of a university. These are summarised below together with an update on implementation.

Date	Decision	Progress
May 2014	Commence negotiations for options on the purchase of Blueschool House, Franklin House, Bath Street, Station Approach Trading estate, Hereford Library and Museum, and a site on the North Magazine at Rotherwas. Sites (other than the first two in which the HCA held an interest) would attract market value	Not progressed pending development of a full business case by the university and in light of changes to the council's accommodation programme.
June 2016	Revenue grant of £30k, and in kind officer support, to assist the development of a green book compliant business case.	Green book compliant business case was submitted (and has been successful). Some £9k of this funding remains unspent and future use of this balance is to be determined (see recommendation f)
	Governance arrangements to support effective partnership working between NMiTE and the council, through the establishment of a joint university project board, whose purpose was to deliver the green book business case.	The initial purpose of the board has been achieved. Proposed future partnership governance arrangements are to be determined.
July 2016	£300k loan facility (provision included in the capital programme) to support the longer term business plan development and delivery of a new university in Herefordshire, to be repayable on securing the conditional funding commitment from central government.	The loan facility has not been accessed and conditional funding commitment has been secured. Future access to any loan facility is to be determined.
	The following sites could be sold or leased to NMiTE, subject to achieving market value: <ul style="list-style-type: none"> • 1. Franklin House • 2. Gaol Street car park • 3. Essex Arms, Police training ground (part) • 4. North Magazine plot (part) 	No disposals have been progressed pending confirmation of all government funding applied for.

- 6 The university project has received support from central government, with £8m being secured through the Marches Local Enterprise Partnership (LEP) from the growth fund. A decision on further funding sought from the Department for Education (DfE) is awaited.
- 7 The university business plan has been refreshed by NMiTE in the light of the recently announced public funding for the university. This refresh has identified that if it is to meet its deadlines, in particular opening the full facility in September 2019, the

university will require some financial support over the next 5 years until the university becomes self-sustaining.

- 8 NMiTE have requested that the council make available loan support of up to £300k. The loan will be used to support delivery of the business plan and delivery programme developed in the green book business case. The loan will be used to finance elements of the business plan in anticipation of other sources of funding becoming available to the university. It is expected that these other sources, once secured, will be used to pay back the loan.
- 9 The loan will be drawn down subject to a number of conditions that will be monitored by the JUDB. When assessing the business justification for each draw down, the JUDB will review the proposed use of the grant to ensure it is complying with the conditions and that the proposed repayment regime is in line with this report. The conditions for the loan are:
 - a. the support of the council for the university project is recognised on all publicity and website;
 - b. funding used to bankroll government grant funding is repaid on payment of claims;
 - c. in any event repayment will be made in line with the conditions of the loan agreement (within 5 years of the date of the loan agreement)
 - d. the loan is for capital funding, therefore the university must ensure that expenditure incurred using the loan is on things that the council would itself capitalise;
 - e. the council finance team and audit team will be allowed access to all financial records and procurement records relevant to use of the loan;
 - f. NMiTE demonstrates that appropriate accounting and reporting processes are in place within the university organisation;
 - g. NMiTE will follow the council's contract procedure rules when using council funding ensuring best value is achieved; and
 - h. any other conditions specific to the draw-down request, to be agreed on a case by case basis by the director for economy, communities and corporate, having regard to the views of the JUDB.
- 10 Approximately £9k (£9,032) of the £30k originally made available remains unspent. NMiTE has requested that this funding remain available to the university to support activity such as the planning stages of the university estate, necessary for the implementation of the business plan.
- 11 The existing terms of reference for the project board have been revised to reflect the future role of the council, namely primarily as an enabler through the provision at market value of certain sites and to advise and facilitate effective spatial and infrastructure planning in accordance with planning policy and council strategic objectives. The proposed partnership agreement and terms of reference for the JUDP are attached at appendix 1.

Community impact

- 12 It is anticipated that a new university in Herefordshire would have the following transformative economic benefits both locally and regionally:
- a. With up to 5,000 students there would be an immediate and direct benefit to the Herefordshire economy;
 - b. There would be value added by local firms benefitting from knowledge transfer, research and access to university expertise;
 - c. 10-40% of students are likely to remain in the area either as employees or starting their own businesses; and
 - d. Over 25 years the university will add some 7,000 economically active residents which is about a third of the estimated 20,000 needed to make the county sustainable as a separate entity.
- 13 With some 500 well paid staff the university will help raise average wages in the county. Development of the higher education proposals, included in the council's corporate plan, would enable both residents and businesses to have much needed access to higher education and be a catalyst for learning progression in Herefordshire. The new university would also help address the challenge around raising average wage levels in the county.
- 14 The Herefordshire economic development strategy, approved by council in December 2016 identifies the New Model in Technology & Engineering (NMITE) University as being crucial to the county's future plans. NMITE will be the UK's first new university for 40 years, it will be an independent, not-for-profit, teaching only, world class engineering university based in Hereford. NMITE will have a game-changing impact on the city, county and UK plc. NMITE is projecting a student population of five thousand by 2031.

Equality duty

- 15 Supporting the establishment of a university for Herefordshire is totally compatible with our general duty under section 149. The Equality Duty 2010 has 3 aims (general duty):
- a. Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the act;
 - b. Advance equality of opportunity between people who share a protected characteristic and those who do not; and
 - c. Foster good relations between people who share a protected characteristic and those that who do not.
- 16 The establishment of a university in Herefordshire will support the council in achieving the aims of the equality duty in particular by advancing equality of opportunity within the county. The aims of the university include specific commitments to advancing equality of opportunity in its specialist field of engineering. In particular it aims to deliver a 50:50 ratio of male to female students and faculty in an industry where less than one in ten engineering professionals is a woman.

- 17 The university plans to offer a practically based liberal engineering syllabus which will provide opportunities for staff and students to contribute to the wider community and, in particular, disadvantaged communities. Specifically opportunities for:
- a. students to learn in the community – and contribute to the community – through placements and projects;
 - b. collaborative practical research with communities; and
 - c. student and staff volunteering.

Financial implications

- 18 A loan facility of up to £300k was included in the council's capital programme as approved in December 2016, to be financed by prudential borrowing until such time as the loan is repaid.
- 19 The university will be charged interest on the loan balance at the council's weighted average interest rate, currently 3.42% per annum, ensuring that the loan repayment reimburses all costs incurred. Where principal and / or interest repayments are deferred, interest will accrue accordingly.
- 20 The JUDB will be responsible for reviewing and approving draw-down applications received from the university. The JUDB will agree the loan period and repayment structure on an application by application basis, always remaining within the parameters of this cabinet member decision and always in consultation with the council's S151 officer.
- 21 The loan facility has been approved on a capital basis, and therefore it will be necessary for draw-downs to be approved for capital expenditure only, and with sufficient evidence provided.
- 22 The balance (£9k) of the agreed business case revenue grant support remains available in current ECC revenue budgets.

Legal implications

- 23 The council has no express statutory duty or power to provide a loan for the development of the longer term business plan and delivery of the new university in Hereford. The council may however, under the general power of competence set out in s.1 Localism Act 2011, do anything that individuals generally may do.
- 24 Paragraph 4.7.21.5 of the council's Financial Procedure Rules states that loans to third parties will only be made in exceptional circumstances.
- 25 Full council resolved at its meeting on 7 March 2014 to request that the executive identify the most appropriate way for the council to assist in securing the future of higher education in the county. The loan of £300k is in line with this resolution.
- 26 The loan will not be classified as State aid provided that the NMiTE university is not yet carrying out any economic activity even if its eventual activities were to be regarded as commercial and the loan is at market rates or any subsidy is below the de minimus requirements. Accordingly there is no aid to NMiTE.
- 27 The terms upon which the loan is made would need to be negotiated and agreed to

ensure the council protects its financial position and mitigates against the possibility of the loan not being repaid. Such terms include what the money can be spent on, the draw down conditions, interest rates, notice provisions and fees.

Risk management

- 28 There is a risk that the new university fails to repay the loan. This risk will be monitored and managed by the joint university delivery board in the course of the delivery of the university business plan. The risk that the university project fails to get underway has reduced as it has recently been given support by central government. Currently support has been committed via the growth fund and further support has been requested from the DfE. Shropshire County Council will be the accountable body for the funding being provided by central government which provides additional assurance for this part of the spend and for the business plan as a whole.

Consultees

- 29 None

Appendices

Appendix 1 - Draft partnership agreement

Background papers

- None identified