

Decision maker:	Director for economy, communities and corporate
Decision date:	Friday, 26 January 2018
Title of report:	Herefordshire Council continued support for the development of the new university - use of loan
Report by:	Commissioning programme delivery manager

Classification

Open

Decision type

Non-key

Wards affected

(All Wards);

Purpose and summary

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

In July 2017 the council approved a loan facility for the New Model in Technology & Engineering (NMiTE) for a period of up to five years to support the development of the new university. A £300k drawdown from the loan facility was agreed on 11th July 2017 and the funds were provided to NMiTE. The bulk of the money was to be used on acquisition and refurbishment of Franklin House.

The purpose for which the drawdown is required has changed in line with changes to the university's campus development plans. The university has decided to focus its development around St Peters Square and will be adapting and fitting out 6a St Peters Square and 1b Offa Street and carrying out investigative work on Gaol Street car park. A revised business justification for the loan has, therefore, been provided to enable the Joint University Development Board (JUDB) to monitor the use of the loan.

This revised business justification has been reviewed by the council's head of corporate finance and has been approved as relating to matters that the council would itself consider to be capital spend. It now requires approval by the council's director for economy, communities and

corporate.

Recommendation(s)

That:

- (a) NMiTE be advised that they may use the £300k loan facility for the purposes of:
- Adaptations and fitting out of 6a St Peter Square and 1 b Offa Street;
 - Investigations into potential development of Gaol Street car park;
 - Teaching and living space review;
 - Establishment of creative vision and masterplan; and
- (b) otherwise the conditions relating to the drawdown remain unchanged and repayment of the £300k is required in accordance with the loan agreement

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.

Key considerations

- 2 In July 2017 the council approved a loan facility for the New Model in Technology & Engineering (NMiTE) for a period of up to five years to support the development of the new university. A £300k drawdown from the loan facility was agreed on 11th July 2017 and the funds were provided to NMiTE. The money was to be used on: the acquisition and adaptation of Franklin Barnes; college (residential accommodation) specification; and the establishment of strategic vision and creation of masterplan.
- 3 The purpose for which the drawdown is required has changed in line with changes to the university's campus development plans. The university has decided to focus its development in the eastern part of the city and will now be using the loan on: adaptations and fitting out of 6a St Peter Square and 1 b Offa Street; investigations into potential development of Gaol Street car park; teaching and living space reviews; and establishment of creative vision and masterplan.
- 4 The 6a St Peter Square property is being leased and 1b Offa Street is being purchased. 6a was formerly the Connexions centre and 1b Offa Street was a flat that will be opened up as office and learning space and will be connected to 6a as part of the refurbishment works.
- 5 The total amount required is unchanged (£300k) as are the other conditions relating to the original drawdown.
- 6 A revised business justification for the loan has been provided to enable the Joint University Development Board (JUDB) to monitor the use of the loan.
- 7 This revised business justification has been reviewed by the council's head of corporate finance and has been approved as relating to matters that the council would itself consider to be capital spend. It now requires approval by the council's director for economy, communities and corporate.

- 8 The loan was drawn down subject to a number of conditions that are monitored by the JUDB. When assessing the business justification for each draw down, the JUDB reviews the proposed use of the grant and the proposed repayment regime to ensure that they are in line with the loan conditions. 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 agreed by the director for economy, communities and corporate, having regard to the views of the JUDB, for each specific drawdown.
- 9 The revised business justification is included as appendix 1. It has been reviewed by the council's head of corporate finance and has been approved as relating to matters that the council would itself consider to be capital spend. The business justification was reviewed and approved by the JUDB at its meeting on 18th December 2017. The repayment terms will remain the same as those included in the original drawdown agreement. This revised business justification requires approval by the director for economy, communities and corporate.

Community impact

- 10 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.

- 11 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.
- 12 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

- 13 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.
- 14 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.
- 15 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.

Resource implications

- 16 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.

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- 18 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.
- 19 The JUDB are responsible for reviewing 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.
- 20 The loan facility has been approved on a capital basis, and therefore the draw-downs are approved for capital expenditure only, and with sufficient evidence provided.
- 21 Failure to repay the amount loaned will result in capital financing repayment costs falling due to the Council. Currently this risk is considered low. NMiTE have secured substantial grant funding and have committed to the terms of the loan agreement which includes repayment terms. The risk will be further mitigated through the close financial monitoring of NMiTE and a further decision report will be drafted if this risk is considered to become more likely.

Legal implications

- 22 The loan agreement requires monies lent by the council to be approved by the Joint University Development Board (JUDB).
- 23 The monies must be used 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.
- 24 The loan will only be provided if the draw down satisfies one of the conditions in the agreement.
- 25 If the purposes the monies were loaned for changes the lender must be advised to decide whether to waive repayment.
- 26 This decision is in accordance with the loan agreement.

Risk management

- 27 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 from the DfE. Shropshire County Council will be the accountable body for the funding being provided via the growth fund and Herefordshire Council is the accountable body for funding provided by the DfE. This provides assurance for this part of the spend and for the business plan as a whole.

Risk / opportunity	Mitigation
<p>Future central government funding depends on the university achieving a number of milestones including identifying match funding. There is a risk that they may be unable to do so.</p>	<p>The council has agreed to be the accountable body for the DfE grant. This will allow the council to monitor the university's progress and get an early indication of any issues. Also, Shropshire County Council will be the accountable body for the funding being provided via the growth fund</p>
<p>The university may not be in a position to repay the loan when the repayments become due.</p>	<p>The JUDB has been established to support the delivery of the university. This close working will allow the council to monitor the university's progress and get an early indication of any issues with delivery that may impact the loan.</p>

- 28 As indicated above, the risks will be managed through the council's role as accountable body and via its joint working managed by the JUDB.

Consultees

- 29 The director for economy, communities and corporate has consulted with the chief financial officer, the Cabinet member for finance, housing and corporate services, and the JUDB in making the recommendations in this report.

Appendices

Appendix 1 – Justification of loan drawdown by NMITE v3 30Nov17

Background papers

None identified