

Decision maker:	Director for Economy, Communities and Corporate
Decision date:	Friday, 17 August 2018
Title of report:	Hereford Enterprise Zone - Cyber Security Centre potential delivery options
Report by:	Economic Development Manager

Classification

Open

Decision type

Non-key

Wards affected

Dinedor Hill

Purpose and summary

To seek approval for the council to undertake detailed legal and financial due diligence to determine the preferred partnering arrangements with the University of Wolverhampton (the University) for the development and operation of a centre for cyber security on Hereford Enterprise Zone.

The University propose to develop a centre for cyber security located on the Hereford Enterprise Zone, as a joint venture with Herefordshire Council. The proposed site will form part of a national '*Cyber Triangle*' with GCHQ Cheltenham and the Government Cyber Centre in Newport, South Wales, and '*Cyber Valley*' with Worcestershire. It will be an anchor building generating new research and short course opportunities that will feed into training and education in industry and within the University.

The University are proposing that the centre for cyber security is undertaken as a joint venture with the council. It is recommended that the council agree to take a direct role in the development and operation of the centre for cyber security through the establishment of some form of appropriate partnership structure, such as a company limited by shares. Further legal and financial due diligence will need to be undertaken to determine the most appropriate nature of this role for the council and evaluate the business case for the project and risks and

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Nick Webster, Tel number 01432 260601; email: nwebster@herefordshire.gov.uk

opportunities associated with it

In July 2018 Council made provision within the capital programme of £3.5m to support the delivery of the centre for cyber security.

When the due diligence work has been completed a recommendation on the way forward will be brought to Cabinet for consideration.

Recommendation

That:

- (a) **Up to £35k is allocated to provide the necessary legal and financial advice on appropriate partnership structures to secure delivery of the centre for cyber security in partnership with the University of Wolverhampton be approved.**

Alternative options

- 1 **Not having a direct role within the centre for cyber security project but instead seeking to sell the site to the University of Wolverhampton (the University).**

Advantages

Should the University still proceed with the project, the council would receive a capital receipt in the order of £500,000.

All risk associated with establishing and operating the centre would pass to the university.

Disadvantages

There is a strong likelihood that the University would review the business case for the project and may determine to postpone implementation of the project, or withdraw from the project altogether.

The council loses direct influence on the aims, objectives and future operation of the centre particularly in terms of ensuring local business benefit.

The council loses direct influence in terms of using the centre as an asset to leverage national government cyber policy, and future funding initiatives to invest locally, as well as a draw for international business investment into the zone.

No opportunity for the council to benefit from future success, financial or otherwise.

- 2 **Council undertakes to deliver the project itself.**

Advantages

Avoid the need to enter into negotiations with the University.

The council retains 100% control over the centre's construction and operation going forward.

Disadvantages

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Need to find £9m plus to fund the centre – not part of the current capital allocation for the Hereford enterprise zone.

Funding has already been secured by the University from the Marches Local Enterprise Partnership (Marches LEP), and from its own resources, with a bid to European funding already well advanced.

Likely to be significant fall out with those funding partners and an important local partner (the University).

The University is very experienced in starting and running business centres; the council would need to start from scratch, and seek to find a replacement and credible higher education partner, given the research and development, and knowledge transfer components.

Lack of operating expertise within the council so would require recruitment of additional staff or procurement of services to manage the facility.

Key considerations

- 3 The cyber security sector is of huge and growing importance in the global economy; expected to total £86 billion by 2020. The UK cyber security market alone is currently worth £2.8 billion; and it is the fastest growing business sector in the Midlands. Its significance, not only for national security, but also for resilience and capability in the service and manufacturing sectors, is increasingly recognised and profiled through national Government strategy and priorities.
- 4 Hereford (through the HQ of the Special Forces, particularly through the communications regiment presence) forms part of a significant cyber asset triangle with Great Malvern (Qinetiq) and Cheltenham (GCHQ). A significant number of small and medium enterprises (SMEs) have spun out of these institutions over past decades and stayed within the geographic area.
- 5 Working with local enterprise partnerships (LEPs), Herefordshire is gaining national and regional recognition of this geographical strength through the Midlands Engine cyber initiatives and a successful bid to Government to run a Science and Innovation Audit (SIA) into local cyber capability. The SIAs are forward looking, examining what the opportunities may be in the locality for their chosen sectors, in this case cyber capability, and how those opportunities could be best exploited or pursued.
- 6 The Hereford enterprise zone has recognised the potential and allocated six acres of the South Magazine site as a cyber campus for local business occupation and growth. The University's proposition to build a centre within that campus will provide the facilities and support to catalyse opportunities and growth amongst local SMEs.
- 7 The University has strengthened its cyber research capabilities and developed a detailed design and cost plan for the centre and secured planning permission on the Hereford enterprise zone. It has also conducted business planning which shows the centre being viable as the services and facilities get fully utilised and Intellectual property gets properly exploited.
- 8 The centre will provide:
 - Over 1,000 m² of research and development floor space for 3 cyber laboratories,

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- providing new laboratory and testing facilities for researchers in this area.
 - More than 1,500 m² of employment space for 16 cyber security business incubator units, 2 workshops and 3 high security meeting rooms.
 - 250 m² of high quality business training floor space.
 - 185 jobs are anticipated to be created.
- 9 The University has secured Marches LEP and ESIF grant funding of a combined £4.1m for the project which has a total cost of £9m. The University are proposing that the centre for cyber security is undertaken as a joint venture with the council and is seeking £4m financial support from the council through a mixture of a short term loan of £2m, a capital investment of £1.5m, and the land value of £500k. The University is ready to go out to tender for a contractor which would see construction of the centre start by January 2019 and opening by spring 2020.
- 10 Taking a more direct involvement in the project will give the council direct influence on the business plan and operation of the centre and the ability to maximise opportunities and benefits for local businesses. It also provides the best means to play this new asset into the various national and regional strategic initiatives through the Marches LEP, Midlands Engine and national government departments.
- 11 Partnering with an established university with considerable experience in developing and operating specialist incubation centres will help to establish the centre quicker and bring wider resource to bear to make links and contacts drawing in networks and customers.
- 12 Considering the most appropriate form of involvement for the council to have within the project will require dedicated legal and financial advice to assess the project's business plan and proposed legal structure. Both services will be procured in accordance with the council's contract procedure rules. When the due diligence work has been completed a recommendation on the way forward will be brought to Cabinet for consideration.

Community impact

- 13 There is no adverse impact on the community in undertaking due diligence to determine the legal and financial implications of having direct involvement within the cyber centre project.
- 14 Having a direct involvement within the cyber centre project would enable the council to have a greater degree of control over a project that would realise the following corporate plan objectives;

Support the growth of our economy

- Make best use of existing land and identify new opportunities to enable existing business to study and expand and new businesses to locate to the area.
- Make Herefordshire more attractive to younger age groups for a more balanced age profile improving local access to skills training so that everyone can benefit from economic prosperity
- Continue to work with further and higher education
- Support the improvement in quality of natural and built environment bringing about quality development to enable sustainable growth addressing the need for better business space
- Continue to work with the LEP and government with focus on employment creation and business support skills health transformation transport broad band

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property finance and government.

- 15 This investment should also serve to raise the profile and awareness of the benefits of Hereford as a location for such businesses, encouraging the build out of adjoining land in the campus either by those businesses themselves or by others for such businesses to rent.
- 16 This gives the prospect of drawing other future resources in to fund new and enhanced services and further development of the campus area. The council and enterprise zone can also make maximum use of its catalytic benefit for inward investment opportunities, marketing it as a unique Hereford asset rather than relying on the university to do so as its own asset.

Equality duty

- 17 Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

 - (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 18 This development within the enterprise zone will support the council's commitment to equality by advancing equality of opportunity, with the potential of increased job opportunities.

Resource implications

- 19 Determining the most appropriate direct involvement for the council to have within the project will require legal and financial due diligence. An allocation of £35k has been set aside from existing budgets for this purpose. As far as possible it is intended that the cost and benefit of the legal and financial due diligence work will be shared between the council and the University. It is proposed to capitalise this expenditure should the council take a direct role within the project, within the Hereford Enterprise Zone capital approved budget.
- 20 The ongoing resource implications of having a more direct involvement within the cyber centre project will be determined by any final legal and financial structure adopted by the council for its involvement within the project and will be reported to Cabinet as part of any recommendation to proceed with the project.
- 21 The council has approved an allocation of £3.5m from within its capital programme for drawdown against the cyber centre project. The drawdown of this finance is dependent on the due diligence determining a suitable legal and financial structure for the council's direct involvement, and on the approval of any subsequent required decision.

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- 22 Having a direct involvement in the project could potentially bring a financial return to the council, the extent of the return will depend on the legal and financial terms agreed with the University over the council's involvement.

Legal implications

- 23 The council has legal powers to provide financial investment into a cyber centre project, potentially form a joint venture partnership with the University and take an active role in the running of the cyber centre, though s1-4 of the Localism Act 2011 and other enabling legislation. In exercising these powers and applying its funds, the council must have regard to its general fiduciary duty in the management of public finances, as well as its specific duty to obtain best value in the delivery of all of its functions, under s3 of the Local Government Act 1999. Further, the council must ensure that any disposal of its land meets the requirements of best consideration set out in s123 of the Local Government Act 1972.
- 24 In order to demonstrate the council has met its legal obligations, the council will need to take expert advice on potential delivery structures as well as evaluate a detailed business case for this project taking account of all relevant benefits, risks and potential risk mitigations in the proposal.
- 25 The form of the potential joint venture between the council and the University could either be a contractual partnership or a corporate entity. The only type of corporate entity which the council could lawfully consider for this centre, which will be a trading entity not a purely investment vehicle, would be a company. It is likely that the company limited by shares model will be more suitable than any other (eg company limited by guarantee) but the detailed legal and financial due diligence work will confirm this.
- 26 This report requests authority to incur expenditure on the detailed legal and financial due diligence work and is not seeking approval to the project. This will be subject to a later report to Cabinet. Therefore there are no other legal implications to note at this stage.

Risk management

- 27 **a) If the recommendations are agreed:**

Risk / opportunity	Mitigation
Legal	
The legal due diligence fails to identify a suitable legal mechanism for the council to have direct involvement within the project that meets the council's objectives, governance and accountabilities.	Appointment of suitably qualified legal advisors to work closely with the economic development manager, enterprise zone team, and the council's legal service on the appropriate legal mechanism.
Financial	
The financial due diligence fails to identify a suitable financial mechanism for the council to have direct involvement within the project that meets the council's objectives,	Appointment of suitably qualified financial advisors, if required to support the work of the in-house team.

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governance and accountabilities.

A failure of the project to go ahead or for the council to take a direct involvement in its operation would result in not being able to capitalise the expenditure on the due diligence process.

The revenue expenditure on the legal and financial due diligence is being underwritten by reserves from within the enterprise zone budget. These reserves will only be used if the expenditure cannot be capitalised.

Operational/reputational

Failure to enter into, or to agree, negotiations with the University of Wolverhampton.

Establish a joint project board with the University of Wolverhampton to manage the due diligence process.

b) If the recommendations are not agreed

Risk/opportunity

Mitigation

Operational/reputational

University would reconsider investment decisions at Hereford, potentially relocating the project elsewhere. Would result in the loss of profile and support in the cyber sector reducing growth prospects and potentially seeing flight of existing local businesses elsewhere.

Develop a separate package of support for cyber businesses

Build own facilities seek funding from national/LEP sources to support alternative arrangements.

Consultees

- 28 The Enterprise Zone Board has seen and is supportive of the approach. They see the cyber campus as a key differentiator in the Hereford enterprise zone attracting investment, particularly 3 national and international businesses. They would like the Hereford Enterprise Zone involved as part of the council representation. This will be considered as part of the legal due diligence.
- 29 The ward member Councillor David Summers has been consulted and is supportive of the proposal.

Appendices

None

Background papers

None identified

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