

CABINET	AGENDA ITEM No. 4
25th OCTOBER 2021	PUBLIC REPORT

Report from:	Peter Carpenter, Corporate Director, Resources and Steve Cox, Executive Director Place & Economy	
Cabinet Member(s) responsible:	Councillor Lynne Ayres, Cabinet Member for Children's Services, Education, Skills and the University. Councillor Peter Hiller, Cabinet Member for Strategic Planning and Commercial Strategy and Investments.	
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UNIVERSITY FUNDING AND FINANCE INTERIM UPDATE

RECOMMENDATIONS	
FROM: Corporate Director, Resources	Deadline date: October 25th, 2021 (cabinet) and November 10 th 2021 (full council)
<p>It is recommended that Cabinet:</p> <ol style="list-style-type: none"> 1) Authorise the Council to enter the Getting Building Fund (GBF) Grant agreement with the Cambridgeshire and Peterborough Combined Authority (CPCA) to provide a new surface car park supporting regional pool customers and free up spaces for university use as set out at paragraph 4.18 2) Recommend to Council, the re-allocation of the capital programme budget for University Access / Slip Roads to deliver the car park by December 2022, utilising Getting Building Funding Grant, and £500k of council match funding 3) Delegate authority to the Corporate Director Resources and the Director of Law & Governance and Monitoring Officer to negotiate and agree commercial terms with Peterborough Limited and PropCo 2 to lease spaces on PCC's regional pool car park; 4) Approve the development of an Her Majesty's Treasury (HMT) 5 case business case for development of Phase 3 of the university for subsequent consideration by Cabinet 5) Approve the instruction of a red book valuation for land at Bishop's Road for university Phase 3. <p><i>In the event of a successful Levelling Up Fund (LUF) bid for university Phase 3, delegate authority to the Executive Director for Place and Economy and the Corporate Director Resources to;</i></p> <ol style="list-style-type: none"> 6) Approve the business case set out at recommendation 5 capping PCC capital contribution to the project at £20m in line with the bid submitted to MHCLG 	

- 7) Note the governance arrangements proposed to govern the build of university Phase 3 as set out at Appendix 3
- 8) Enter into the Levelling Up Fund grant agreement with MHCLG
- 9) Approve the development of a Subscription Agreement between the Propco and Peterborough City Council for the capital investment into the development of Phase 3 and the land required and delegate to the Executive Director of Place and Economy and Corporate Director Resources, in consultation with Cabinet Member for Strategic Planning, Commercial Strategy and Investments and the Cabinet Member for Children's Services, Education, Skills and the University authority to negotiate and complete the Subscription Agreement;
- 10) Approve the commitment to invest the £20M capital grant into the Phase 3 build and draw down the funding to mobilise the activities and milestones identified within the Business Case to achieve the completion of university Phase 3 teaching building by end March 2024.
- 11) Approve transfer of a single further phase of land for university Phase 3 subject to relevant shares being allocated in favour of PCC in PropCo, planning permission, final independent red book land valuation and, adhering to all other legal and other necessary statutory obligations and consents as required.
- 12) To put a motion to the Board of Prop Co to increase the number of PCC directors and in so doing increase the degree of control of the company
- 13) Subject to recommendation 12, approve the nomination of Emma Gee, Assistant Director Growth and Regeneration, as an additional director on PropCo Board to reflect PCC increased shareholding in PropCo 1

1. ORIGIN OF REPORT

- 1.1 This paper follows the grant of planning permission for phase 2 for which parking is required to satisfy planning conditions and PCC's £20M Levelling Up Fund (LUF) bid in June 2021 for a second academic building at ARU Peterborough, referred to as Phase 3 in this report.

2. PURPOSE AND REASON FOR REPORT

- 2.1 This report provides an update on the university project and builds upon previous decision making, particularly Cabinet approval in September 2020 for the formation of a special venture vehicle between partners and, a March 2020 CMDN authorising (in principle) the transfer of land and to enter the required legal agreements.

It relates specifically to entering into grant agreements to draw down funding to facilitate delivery of current and future university phases and the associated commercial arrangements between partner organisations.

- 2.2 This report is for Cabinet to consider under its Terms of Reference No. 3.2.1, 'To take collective responsibility for the delivery of all strategic Executive functions within the Council's Major Policy and Budget Framework and lead the Council's overall improvement programmes to deliver excellent services.'

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	YES	If yes, date for Cabinet meeting	25/10/21
Date for relevant Council meeting	10/11/21	Date for submission to Government Dept. <i>(Please specify which Government Dept.)</i>	N/A

4. BACKGROUND AND KEY ISSUES

Background.

4.1 This report sets out recent progress against university objectives of the Council's and partners Cambridgeshire and Peterborough Combined Authority (CPCA) and Anglia Ruskin University (ARU) as well as next steps in realising the next phase of the university.

4.2 In 2020 Anglia Ruskin University was awarded Academic Delivery Partner status and entered into contract to deliver:

- Up to 2,000 students for the 2022/23 academic year
- Rising to 3,000 by 2024/25 and
- Up to 4,000 by 2025/26, with an aspirational target of
- Up to 12,500 students by 2030/31.

4.3 In December 2020, legal agreements concluded between the three partners and Peterborough HE Property Company Limited (PropCo), the development vehicle tasked with delivering university buildings and infrastructure, was formed.

4.4 The Council and CPCA are partners in PropCo together with Anglia Ruskin University (ARU, the procured higher education provider) into which 13.5 acres will, in due course be transferred by the Council.

4.5 The first 4 acres (Phase 1) was transferred on 23rd December 2020 and the balance of land will transfer as further phases of campus development come forward.

University Phase 1 and Phase 2

4.6 The £31m university phase 1 building will enable delivery of a curriculum matched to the growth needs of local businesses, providing new opportunities for communities to gain access to higher level skills, better paid employment, and enhanced life-chances. The first teaching building is now on site and scheduled for completion in September 2022.

4.7 The £16m phase 2 research building will house established and start-up companies developing cutting edge technologies linked to net zero carbon products and equipment development, as well as advanced manufacturing processes to produce them. The anchor tenant, will be Photocentric, developing new 3D printed battery technologies for vehicles. This phase of the University will link academia and industry to establish a net zero research cluster in the very heart of Peterborough, providing a platform for a high value manufacturing innovation eco-system with a Technical University at its core. The building is anticipated to complete in December 2022.

- 4.8 In July 2020, PCC allocated £2m in the Capital Programme to deliver a new access off the Parkway to support delivery of university phase 2. Later, in June 2021, planning permission was secured for phase 2 with outline permission for new a car park with capacity for up to 180 additional spaces. In order to discharge planning conditions the car park is required to be operational on occupation of the phase 2 building.
- 4.9 The requirements of the planning consent triggered a change in priority for enabling infrastructure to support the delivery of the phase. This meant the original investment in highways by way of a new slip road was overtaken by the need to provide parking to facilitate the implementation of the planning consent. In response to the new need PCC went on to secure external grant funding and provisionally allocate PCC capital funding to car parking at the Bishops Road site.
- 4.10 An Outline Planning Application (OPA) is required for future phases of the university, and partners are of the view that developing a new permanent decked car park on the regional pool car park runs the risk of compromising the wider, long term university campus ambition.
- 4.11 The wider campus ambition and phasing, including parking provision on or off site will be considered by both the Embankment Masterplan and any accompanying city centre wide Parking Strategy as well as the outline planning application and any reserved matters applications.
- 4.12 University access (and broader improved access to the city centre off Frank Perkins Parkway) is a longer term issue that relates to the wider transport network and future transport strategy for the city. The council will shortly be finishing phase 1 of an Outline Business Case called University Access. This work is funded by the CPCA and is looking at transport options to the east of the city centre that are required to support all the growth in that section of the city. Currently, options are being considered against factors such as traffic modelling, environmental considerations, and land use issues. A public consultation will be undertaken to seek the publics input into options so that a preferred option can be selected and developed further.

Getting Building Fund Grant Agreement

- 4.13 The council secured £827,000 from the Getting Building Fund to support infrastructure delivery on the university project with a £1.9m match contribution from PCC borrowing. As set out above the grant will now deliver new parking capacity at embankment. The grant agreement is being finalised in preparation for signature pending cabinet approval.
- 4.14 A revised grant application will now account only for expenditure on the new car park and not wider enabling infrastructure, releasing c£1.5m of borrowing. A grant change control request will go first to The Business Board who administer the Getting Building Grant and then to BEIS as the government awarding body. A decision is expected at Business Board meeting in November 2021 and the Council is confident that the change will be deemed acceptable.
- 4.15 Following approval from both bodies it is recommended that the £2m in the Capital Programme for the year 2021/22 be reduced to (£1.327m). This revised figure will comprise £827K third party grant and £500K Council borrowing. This reflects the provisional costs of the car park. It is proposed this spend is re-profiled, with GBF grant spent from 2021/22 and PCC borrowing to be incurred in 22/23. The cost plan for the car park will be revised over the coming month and only the investment required will be borrowed.

University Car Parking and Regional Pool Commercial Terms

- 4.16 The new surface car park will be built east of the Pool building and will be set well back from Bishops Road. The Council will retain the freehold of both the new car park east of the Regional Pool, annotated (A) on the plan at Appendix 1 and the Regional Pool Car Park annotated (B).
- 4.17 The Corporate Director Resources and the Director of Law & Governance and Monitoring Officer will negotiate and agree commercial terms with PropCo 2 to lease 128 spaces on the regional pool car park for university and R&D users and revert with a proposal for approval via CMDN in due course.
- 4.18 PropCo 2 will enter a 5-year lease and be liable for all rates and maintenance under a full repairing lease. The lease cost will be set at a level which generates income sufficient to cover the borrowing costs for the replacement car park to the east of the pool.
- 4.19 PCC will lease all 128 spaces east of the pool to Peterborough Limited to serve pool users on the same terms they currently benefit from. It will also lease 70 of the 198 spaces on the current Regional Pool car park.

University Phase 3 and Beyond - Outline Planning Application

- 4.20 In July 2021, PCC planners advised that any further phases of the university would need to be guided by an outline planning application (OPA) to ensure that the campus develops in a strategic way that allows for future growth and assimilates with the wider embankment in a complementary way. This OPA will include the phase 3 academic building which is the subject of a recent PCC bid to MHCLG Levelling Up Fund in July 2021.
- 4.21 PropCo 1 is already working towards an outline planning application in Spring 2021. They have appointed MACE to design and tender the scheme, ensuring continuity with phases 1 and 2. PropCo 1 and CPCA are cashflowing work on the OPA until such time as a decision on the Levelling Up Fund bid is made by MHCLG. Working at risk is necessary to allow the partners to meet the spend criteria set out in the Levelling Up prospectus which requires investment and/or a start on site for projects by end March 2021 and completion by March 2024.

Embankment Masterplan

- 4.22 In January 2021, PCC was successful in agreeing terms with MHCLG to deliver a capital programme of £22.9m over 10 projects to boost the city with a wealth of cultural, health and wellbeing and tourism improvements and to make it an even better place to live, work and visit.
- 4.23 One of the projects was to plan for an enhanced green and accessible Embankment for residents to relax and enjoy for leisure and entertainment purposes, linking in with the new planned University and driving footfall to and from the city centre.
- 4.24 In September 2021, Masterplanners Barton Wilmore and multidisciplinary consultants Stantec were appointed to take forward a comprehensive plan to guide the future of Embankment. Over the next 4 months the highly experienced team will undertake widespread community and stakeholder engagement as part of that exercise. The end result will be a vision for the future of the whole of Embankment and Middleholme supported by technical studies to ensure proposals are appropriate and deliverable. The masterplan will inform and influence the development of the outline planning application for the next phases of the university.

- 4.25 To that end, in July 2021, the Combined Authority Board resolved to match fund the £200K Town Deal revenue funding with a £100K contribution to the project.

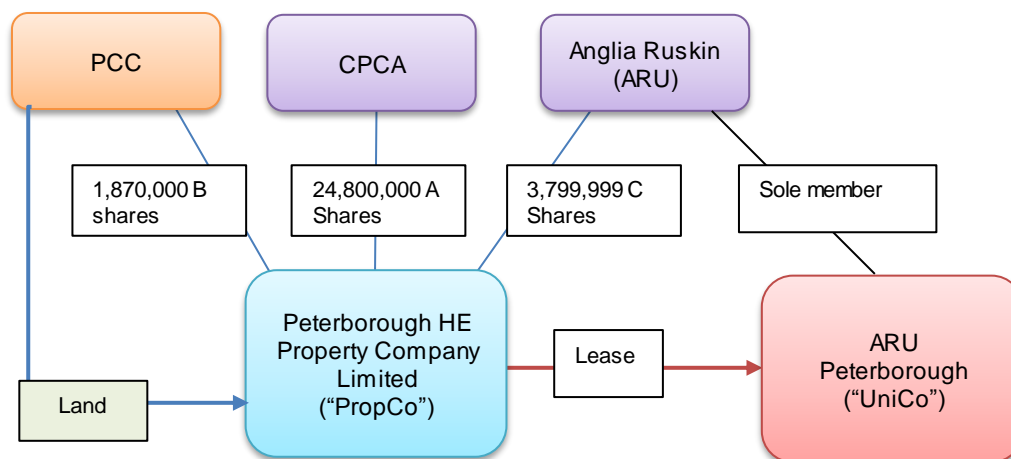
Levelling Up Fund Bid

- 4.26 The Levelling Up Fund was announced in the Budget 2021. A £4.8 billion fund designed to invest in local infrastructure that has a visible impact on people and their communities including local transport schemes, urban regeneration projects and cultural assets.
- 4.27 In May 2021 PCC issued a 'call for projects' where parties were invited to submit projects for consideration that met key criteria such as strategic fit with national and local policy objectives, deliverability and value for money. Following ratification by a panel of councillors, business and community representatives and both MPs the council submitted a £20 million LUF bid to government in June 2021 for University Phase 3 with the formal support of MP Paul Bristow. The application is included at Appendix 2.
- 4.28 The bid was complemented by £2m match funding from The Business Board and £4m from Anglia Ruskin University. The total value of the project build will not exceed £26 million and the Council's contribution is capped at the value of the £20m LUF grant. Any cost overruns will be dealt with through value engineering.
- 4.29 The bid seeks funding to deliver the next academic teaching building, namely the Living Lab, University Quarter Cultural Hub (phase 3). A decision is expected by MHCLG in Autumn 2021. In the event the Peterborough bid is successful and a grant offer is made, it is proposed that council will enter the grant agreement with MHCLG and then onward transfer the funding via grant funding agreement with relevant conditions to PropCo 1 to deliver the building and environs.
- 4.30 A similar arrangement is successfully delivering university Phase 1 which is now on site. It will involve a change to the current Shareholder's Agreement which the Council entered into in 24 December 2020.
- 4.31 The governance arrangements in place to manage the funding and delivery of the university phases have been updated as set out at Appendix 3.
- 4.32 In addition to the capital funding, PCC will also transfer a further tranche of land to PropCo1, as previously agreed by Cabinet in September 2020 and subsequent CMDN. All partners receive shares in the Peterborough HE Property Company Ltd that will own the building, in proportion to their contribution to it.

PropCo

- 4.33 The ownership structure of the University reflects the commitment of resources each of CPCA, PCC and ARU to the project. At completion in December 2020, CPCA subscribed for 24,800,00 A ordinary shares for cash and also for proportion of PropCo costs funded by prior to completion. PCC subscribed for 1,870,000 B ordinary shares in consideration for the transfer of the Property (land) and ARU subscribed for 1 C ordinary share and then subscribed for the balance of its 3,799,999 C ordinary shares following the satisfaction of certain conditions under an agreement for lease.
- 4.34 The structure of the arrangement is set out in the diagram below.

4.35



4.36 Subsequent to this diagram, ARU invested a further £1.7m into Phase 1 taking their contribution up to £5.5m.

4.37 If the Council is successful in securing the additional investment into the university through LUF it would increase the Council's share allocation in PropCo1 to make PCC the second majority shareholder. Table 1 below sets out the revised indicative allocation on grant award and following PCC land transfer to PropCo.

4.38 **Table 1: Joint shareholding based on second PCC land contribution of circa 4 Acres (size of the Wirrina Car Park) and LUF Funding (£20M)**

Shareholding in The Peterborough Higher Education Property Company					
		PCC	CPCA	ARU	total
Phase 1	First teaching building	1.87	24.8	5.50	32.17
		5.8%	77.1%	17.1%	100.0%
Phase 3	Second Teaching building	21.87*	2	4	27.87
		78.5%	7.2%	14.3%	100.0%
	Total Shareholding in Propco1	23.74	26.8	9.5	60.04
		39.6%	44.6%	15.8%	100.0%

*land value of £1.87m may change subject to independent valuation

4.39 **PropCo Directors and Voting Rights**

The Shareholder Agreement (SHA) establishes that the management of PropCo is vested in the board (clause 4.1), with each PropCo Director present entitled to one vote on each issue put to the vote, per 15.1 of the Articles. The SHA also sets out the number of board directors permitted by each party at clause 4.2, with CPCA entitled to appoint and maintain up to 2 CPCA Directors, and PCC and ARU to appoint and maintain up to one each.

4.40 The current arrangement gives the PCC director 25% of the voting rights on each issue. While technically the PCC director can be outvoted on any matter, there are also a series

of matters (called “reserved matters”) that require the consent of all three shareholders. In respect of those decisions, each party essentially has a veto.

- 4.41 In the event of LUF bid success, PCC will take further legal advice to nominate Emma Gee as an additional PCC director to the PropCo Board with amended PCC voting rights due to PCC’s higher share allocation. This would result in 40% voting rights for PCC in line with majority shareholder CPCA. With 1 vote or 20% voting rights for Anglia Ruskin University.

5. CONSULTATION

- 5.1 Since the formation of PropCo in Q1 2021, engagement with council and CPCA officers occurs on a fortnightly basis. Council also engages with ARU regularly and attends PropCo 1 board meets with ARU, CPCA and PCC directors for progress updates, issue escalation and decision-making purposes. Peterborough Limited, as regional pool leisure centre operator also been consulted as part of the process.

Shareholder Committee of 13th September also trailed the activity set out in more detail in this report.

The CPCA also reports into the Combined Authority Skills Committee and is scheduled to take a report outlining the next phases beyond the Living Lab that will be the subject of the OPA.

Governance arrangements for the development and delivery are set out at Appendix 3.

- 5.2 Officer consultation with Cllr Ayres, Cabinet Member for Children’s Services, Education, Skills and the University occurred on 25/08/21 and with Cllr Allen, Deputy Leader and Cabinet Member for Housing, Culture and Communities on 26/08/21.
- 5.3 Public consultation and stakeholder engagement on Phase 1 and 2 proposals occurred over Q4 2020-Q3 2021. Feedback from statutory consultees such as Historic England over determination stage was also considered in decision making by the planning authority. Bowmer and Kirkland, the university P1 and P2 main contractor regularly engages with residents over construction stage. An ARU communication working group also supports the workstream.
- 5.4 Further engagement and consultation is expected during the design and planning stages of the outline planning application as it emerges over 2021 and 2022.

6. ANTICIPATED OUTCOMES OR IMPACT

- 6.1 Entering the LUF grant agreement in a timely fashion in the event of success, supporting the university programme financially and agreeing interim arrangements such as a lease of spaces on the regional pool car park makes the ultimate goal of a university for the city with up to 12,500 students in the next 15 years more likely to be realised. This in turn, helps the city to address its high-level skills deficit and create a pipeline of skilled graduates to support the future growth of local businesses and the city’s economy.

7. REASON FOR THE RECOMMENDATION

- 7.1 This cabinet paper builds upon previous university programme decision making including a March 2020 CMDN, September 2020 cabinet paper and a June 2021 CMDN. Given its ongoing development ambitions, the university programme will be the subject of further governance and decision-making papers as it develops and achieves its vision for the city in the coming years.

8. ALTERNATIVE OPTIONS CONSIDERED

- 8.1 The Council could choose not to accept the grant funding for the car park which in turn allows the university to satisfactorily discharge planning conditions thereby not permitting occupation of the building. This would bring reputational, political and financial risk to the university programme, partners CPCA, ARU and council directly (as landowner and planning authority). Given this, the option to do nothing was discounted at the outset
- 8.2 The Council could not accept LUF funding for Phase 3 of the university denying £20m investment into the city as well as partner match funding of £6m. This would mean the university would be limited to a single teaching and R&D building stunting its growth and its ability to reach critical mass and attract students.
- 8.3 In respect of transferring the funding to PropCo 1 to deliver the university, PCC could accept the grant and choose instead to contract and deliver the building. This would not utilise the track record and capacity offered by the current delivery route which is successfully delivering against phases 1 and 2.

9. IMPLICATIONS

Financial Implications

- 9.1 Approval of Recommendations 1 to 3 will result in the Council's capital programme being amended as described in paragraph 4.15 as follows:
- Removal of planned expenditure in 2021/22 : (£2m);
Insertion of planned expenditure over 2021/22 & 2022/23: £1.327m (tbc); funded £0.827m grant, £0.5m borrowing.
- 9.2 The net revenue cost of borrowing is around £26k per year and this is expected to be funded through income as set out in paragraph 4.19
- 9.3 If the Council's "Levelling Up Fund Bid" is approved by MHCLG, as set out in recommendation 10 the funds once received by the Council will be transferred to the University Propco company
- 9.4 The Council's Shareholding will increase from £1.87m (5.8%) to 23.74m (39.6%) under this proposal (See Table 1).
- 9.5 Shares will be subject to valuation each financial year under IFRS9 - Financial Instruments; the value of shares may change and there may be a cost associated with obtaining the valuation.
- 9.6 The additional director on the board of the company may change the accounting classification of the company which will be reviewed when the Group Accounting considerations are made when preparing the Council's statement of accounts.
- 9.7 There are no additional costs to PCC arising from the proposal to secure match funding for the Embankment Masterplan.

Legal Implications

- 9.2 The relationship between PCC, CPCA ARU and ARU Peterborough is governed by a number of legal documents completed in December 2020, summarised as follows.
- A. Collaboration agreement. At contract signing, the terms of a collaboration agreement were agreed. This agreement sets out the basis upon which the parties will work

together to ensure the successful delivery of the university. It also sets out the obligations placed on ARU and ARU Peterborough to deliver on the proposed timeline for achieving university status. This proposed timeline is contained within the Master Schedule, which is a timeline to which ARU must meet. Failure by ARU to meet the requirements of the Master Schedule may give rise to step-in event that can see CPCA take further control over the project delivery. The agreement also provides that PCC is entitled to appoint one individual to sit on the board of UniCo.

- B. Shareholders' agreement. The terms of a shareholders' agreement were also agreed. This agreement governs the relationship between the shareholders in PropCo, being PCC, CPCA, and ARU. It deals with a wide range of issues, including funding requirements, company management (PCC has the right to have 1 director on the board at all times), matters requiring the consent of all shareholders, financial management, access to PropCo information, share transfer provisions, deadlock scenarios and termination. It also includes a right of pre-emption in favour of ARU in the event that PropCo decides to sell the land transferred by PCC into PropCo. In such an event, ARU will need to pay market value. The Shareholder's Agreement, particularly Schedule 3 which relates to the Shareholder Protection Matters will be amended to reflect PCC position as a majority shareholder following a LUF grant award, alongside CPCA.
- C. The (existing) Regional Pool car park lease will be for a term of 5 years. Use of the land will be restricted to car parking associated with the university and the research and development activity undertaken from Phase 2 building. The rent being levied will be sufficient to cover the cost of borrowing to free up the spaces from regional pool users by creating a new car park to the east of the pool.
- D. If there is an inconsistency between any of the provisions of this Cabinet Report and the provisions of any Heads of Terms, Iterations, Agreement for Lease, Lease and Service Agreement, the provisions of this Cabinet Report shall prevail.

Equalities Implications

- 9.3 No implications – relates to funding & finance arrangements on university programme only.

Rural Implications

- 9.4 No implications.

Carbon Impact Assessment

- 9.5 No implications, neutral impact – relates to funding & finance arrangements on university programme only.

The carbon impact of the university buildings is being considered as part of the design specification process. The embankment masterplan will look at active travel modes to encourage walking and cycling to and from the university campus/Embankment and the city centre/Fletton Quays.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

- 10.1 Previous decisions relating to the university were taken by March 2020 CMDN, September 2020 Cabinet and June 2021 CMDN.

11. APPENDICES

11.1 Appendix 1 – Car Parking Plan showing new and existing Regional Pool Car Parks and lease demises.

Appendix 2 – Living Lab Levelling Up Fund Bid

Appendix 3 – University Phase 3 Governance Arrangements

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