

CABINET	AGENDA ITEM No. 8
19 JUNE 2023	PUBLIC REPORT

Report of:	Adrian Chapman, Executive Director for Place and Economy	
Cabinet Member(s) responsible:	Cllr Lynne Ayres, Cabinet Member for Education, Skills, and Children's Services	
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ADDITIONAL EQUITY INVESTMENT INTO PETERBOROUGH HE PROPERTY COMPANY LTD FOR PHASE 3 OF THE UNIVERSITY

RECOMMENDATIONS	
FROM: Executive Director – Place and Economy	Deadline date: N/A
<p>Cabinet is recommended to:</p> <ol style="list-style-type: none"> 1. Review recommendation 2 which will be considered at Shareholder Cabinet Committee, on 12 June 2023 and subject to its approval; 2. Approve an additional investment of 1,300,000 Ordinary Shares (to the value of £1 per share) into Peterborough HE Property Company Ltd, to enable phase 3 of the University development to proceed, should Shareholder Cabinet Committee, at its meeting on 12 June 2023, have made the appropriate recommendation to Cabinet; 3. Delegate authority to the Executive Director for Place and Economy, in consultation with the Executive Director for Resources, to agree final versions of the subscription letter and the funding profile to be included in the shareholder's agreement with Peterborough HE Property Company Ltd. 	

1. ORIGIN OF REPORT

- 1.1 This report is submitted to Cabinet at the request of the Executive Director for Place and Economy.

2. PURPOSE AND REASON FOR REPORT

- 2.1 The purpose of the report is to seek approval from Cabinet, subject to approval of the recommendation at Shareholder Cabinet Committee on 12 June, to invest an additional £1.3m equity into the Peterborough HE Property Company Ltd (known as PropCo1) to contribute towards additional construction costs on the University of Peterborough Phase 3 Living Lab project.
- 2.2 Peterborough City Council (PCC) is party to a Shareholders Agreement in respect of the Company dated 23 December 2020 as amended and restated on 1 April 2022. Should the additional equity investment be agreed, PropCo1 will be entitled to call upon PCC to pay the Subscription Amount in exchange for the allotment of the relevant number of New Shares. A request for additional investment into PropCo1 is a shareholder consent matter, and, as one of the shareholders in PropCo1, this decision is required to be made by Cabinet via a recommendation from Shareholder Cabinet Committee.

- 2.3 This report is for Cabinet to consider under its Terms of Reference No. 3.2.17, ‘*Cabinet will be responsible for the following functions in relation to the Council’s companies ... (e) The determination of the investment of funds and assets.*’

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	N/A

4. BACKGROUND AND KEY ISSUES

4.1 Phase 3 of the new university is a new teaching building and Living Lab. The delivery of this phase is largely funded via Levelling Up Funding (LUF) which requires completion of the project by September 2024.

4.2 In early 2023, at tender stage the main contractor flagged significant cost pressures relating to specific packages of work, namely cladding, external, and mechanical and electrical works. Work has been undertaken to value engineer costs down, and addressing the remaining cost pressure via detailed re-design would have resulted in a delay to completion to Summer 2025, with likely cost increases and significant changes to outcomes, and ultimately would have placed the LUF funding at risk. DLUHC have been notified of the issue, but additional funding via LUF is not an option. Furthermore, a loan to the company was also discounted on the grounds that the leasehold and shareholder arrangements mean that the company is not income generating until 2032. It therefore would not have sufficient funds in place to repay the loan.

4.3 Following the outcomes of the value engineering work, an additional £3.9m funding is required to meet the programme and project objectives. Prior to confirming this figure, PropCo1 directors and support staff have met on various occasions to examine in detail the budget information to satisfy themselves that all other options have been exhausted.

4.4 This means that there is insufficient funding within the budget to bridge the cost variance. As a result, PropCo1 have approached its Shareholders (Peterborough City Council, Cambridgeshire and Peterborough Combined Authority, and Anglia Ruskin University), who have all agreed, in principle and subject to appropriate governance, to identify additional funding to bridge the cost variance.

4.5 Following a review between the shareholders, it was agreed that an equal contribution of £1.3m each towards the funding gap was appropriate due to the short notice required to support the company, lack of available funding opportunities to shareholders via central government or other potential investors, and lack of sufficient income streams to repay a loan. Furthermore, an additional £1.3m investment from each shareholder does not significantly impact the overall proportion of the shareholding, which means that the principles regarding the shareholders agreement remain in place.

5. CORPORATE PRIORITIES

The Economy & Inclusive Growth

The new University in Peterborough will improve access to better quality jobs and improve access to better quality employment, helping to reverse decades of relative economic decline, and increasing opportunities, aspiration, wages and social mobility for residents.

Our Places & Communities

The expanded University in Peterborough will translate the resulting increase in individual opportunity, prosperity, and social mobility into outcomes across wellbeing, health, and healthy life expectancy from the programme, and on into people living happier, healthier lives.

Prevention, Independence & Resilience

The new University in Peterborough will address one of the country's most significant "cold spots" for Higher Education. With a curriculum co-created by local employers it will give both students the skills they need for great careers and offer employers access to the talent they need to thrive in the modern economy.

Sustainable Future City Council

The new University in Peterborough will accelerate the renaissance of Peterborough as a knowledge-intensive university city, increasing civic pride and satisfaction within Peterborough as a place offering a good quality of life with improved public facilities, and providing a tangible example of levelling up.

6. CONSULTATION

6.1 Consultation with other shareholders has taken place via formal PropCo1 Board meetings. Relevant Cabinet Members has also been consulted.

7. ANTICIPATED OUTCOMES OR IMPACT

7.1 It is proposed that PCC will invest a further 1,300,000 Ordinary Shares (to the value of £1 per share) into PropCo1 to contribute towards additional construction costs that have resulted from increases in inflation and rising materials costs.

7.2 PCC are the legal and beneficial owners of 38.7% of the existing share capital of the Company. It is proposed that PCC subscribe to more shares that, along with the known intention of the other two existing shareholders (Cambridgeshire and Peterborough Combined Authority and Anglia Ruskin University), will result in a 37.6% holding in the PropCo1 shares.

7.2 The additional shares will ensure that the Phase 3 building is delivered to the original programme and agreed outcomes as detailed and agreed by the Cabinet at their meeting on 16 January 2023.

8. REASON FOR THE RECOMMENDATION

8.1 The recommendations contained in this report are designed to ensure that phase 3 of the new university programme can continue as planned and on schedule.

9. ALTERNATIVE OPTIONS CONSIDERED

9.1 These are described in section 4 of this report.

10. IMPLICATIONS

10.1 Financial Implications

It is proposed that the additional funding requested in this report will be found within the existing approved Capital Programme. To achieve this, officers will:

- (i) Further review the projects within the existing programme to determine whether any could be reduced or delayed.
- (ii) Replace corporate borrowing required within the existing capital programme with grant funding that is or becomes available – for example, we currently plan to fund Highways-related extreme weather works with borrowing but could switch this with DfT pothole funding.

The financial planning intention is to drawdown and expend the £20m Levelling Up funding first, and the already planned shareholder call downs of funding, so it is expected that the additional share for £1.3m will be required in the last quarter of 2023/24. This additional shareholder share

profiling, and subsequent cash drawdown, is being reviewed once the final expenditure profile is agreed.

10.2 **Legal Implications**

Section 1 of the Localism Act 2011 provides that a local authority has power to do anything that individuals generally may do. Consequently, PCC is able to invest in a company as an individual can do, bearing in mind the limitations of Section 4. This is not a commercial venture, as the company was set up for the provision of education.

The Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 include the requirement for local authorities to have regard to CIPFA guidance.

Revised reporting is required due to revisions of the Ministry of Housing, Communities & Local Government ('MHCLG') Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

The Legal Team will be involved in the preparation of any legal documents relevant to the investment.

10.3 **Equalities Implications**

The new University in Peterborough will improve access to better quality jobs and improve access to better quality employment, helping to reverse decades of relative economic decline, and increasing opportunities, aspiration, wages, and social mobility for residents.

11. **BACKGROUND DOCUMENTS**

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

[Cabinet meeting paper 16 January 2023](#)

12. **APPENDICES**

None.