



Agenda Item No: 2.4

University of Peterborough: Incorporation of PropCo2

To:	Business Board
Meeting Date:	12 January 2021
Public report:	Yes
Lead Member:	Austen Adams, Chair of the Business Board
From:	John T Hill, Director of Business & Skills
Key decision:	Key Decision for Combined Authority Board on 27th January 2021
Forward Plan ref:	2020/076
Recommendations:	<p>The Business Board is asked to:</p> <ol style="list-style-type: none">a) Recommend the Combined Authority Board delegate authority to the Director of Business and Skills, in consultation with the Lead Member for Economic Growth, the Section 73 and the Monitoring Officer, to develop the necessary legal documentation for the Peterborough R&D Property Company;b) Recommend the Combined Authority Board approve the Business Plan for Peterborough R&D Property Company Ltd; andc) Recommend the Combined Authority Board approve consent for PropCo2 to enter into the contract with the commercial operation who wins the procurement exercise.

1. Purpose

- 1.1 The purpose of this report is to update the Business Board on the progress of the University Phase 2 Research & Development project and to invite the Business Board to recommend to the Combined Authority Board that delegation is granted to officers to develop the legal documentation for the Peterborough R&D Property Co Limited, that the business plan for the company is approved and that consent is granted for the company to enter into a contract with the commercial operator which is successful in the procurement exercise.
- 1.2 Appendix 1 includes the business plan for PropCo2.

The purpose of the Peterborough R&D Property Company (PropCo2) will be to manage the University phase 2 property development, its finances including the delivery Funds and with it, procure the services of a commercial operating company from the private sector.

This business plan is designed to provide an overview and detail of the:

- Objectives
- Deliverability including timescales
- Economic appraisal
- The shareholders
- Governance
- Dependencies and risk
- Financial plan

The drivers for establishing the Peterborough R&D Property Company (PropCo2) are:

- To assist with delivering current and future objectives of the CPCA and the other shareholder in the company where those objectives align
- To manage the Getting Building Fund investment awarded by PropCo2
- To procure the commercial operator from the private sector who will then manage and market the phase 2 property.

Benefits of the Peterborough R&D Property Company Ltd (PropCo2) are:

- Creating a Property Co will be a key part of providing a structure that will support and help to achieve the aims of the CPCA. Therefore, provides CPCA with a vehicle to assist the:
 - Development of a Low Carbon Economy and alignment with the Government's Net Zero aspirations.
 - Achievement of significant sector-cluster growth, based on technological innovation that will transform the knowledge intensity of products, services and jobs
 - Establishment of skills and learning in the very heart of the city, providing a platform for a high value manufacturing innovation eco-system with a Technical University at its core.
 - Holding and management of the CPCA's investment
 - Manage the partnerships with the other shareholder and wider stakeholders
 - Provide more options for control of ownership and / or sale later

2. Background

- 2.1 The phase 2 of the New University of Peterborough (UoP) project is going to be a Research & Development (R&D) Building which will focus of delivering an Advanced Manufacturing Innovation Eco-system for Peterborough and the north of the economy. The R&D building will be a 3,283m² build across 3 floors and facilitating a mix of high-quality technical laboratory and office space for incubations and start-ups.
- 2.2 The CPCA element of the budget for the project is made up of £14.6m Getting Building Fund (GBF) from MHCLG. The award of the funding followed a formal joint application process by the CPCA and its partner Photocentric, which was approved by the Business Board and CA Board in November 2020. Of this £14.6m, £827k has been ring-fenced for the associated car park and £300k has been top sliced to cover staff costs as per the BEIS funding agreement, leaving £13.47m for the build itself.
- 2.3 In addition to the GBF funding, Photocentric have committed to invest its own finance, which is just over £3m into the project providing a total build cost of £16.47m
- 2.4 The land for the development of the R&D building will be purchased from the UoP Phase 1 company (Peterborough HE Property Ltd) by the new special purpose vehicle company (SPV, Peterborough R&D Property Company Ltd). This transfer will include obligations around the use of the building. These obligations have been implemented to provide confidence to the shareholders of the Phase 1 building, that the land will be used to support the overarching site aims. Specifically, the land (and any building upon it) may only be used for the purposes of operating a research and development and innovation centre that facilitates the commercialisation of research and the growth of knowledge intensive start-up businesses, with ancillary use for proof of concept and small-scale manufacturing of individual products and connected administrative purposes, or as an educational facility. The conditions on use will be specified in the land transfer agreement between PropCo1 and PropCo2.
- 2.5 Photocentric will be the anchor tenant to the project, owning 18% of the shares in PropCo 2 and occupying 39% of the building.

Subscriber	Number of New Shares (proportionate to value subscribed)	Total subscription monies ('000)
CPCA through the GBF	82% of Shares	£13,469
Photocentric	18% Shares	£3,000

- 2.6 The mechanism by which the project will be delivered is through the creation of a new SPV which has been incorporated as a company limited by shares on 18th November 2020, by officer decision under ODN 222 – 2020, as Peterborough R&D Property Company Limited.
- 2.7 As part of developing the legal structure and the working arrangement both within the SPV (Peterborough R&D Property Company Ltd) and also with the Phase 1 company (Peterborough HE Property Ltd), the CPCA is working with all relevant parties to develop a

set of Key Terms which will provide the foundation for the drafting of the legal, company and procurement documents.

- 2.8 The CPCA has commissioned Pinsent Mason LLP (through officer decision notice) to draft the Articles of Association and the Shareholder Agreement that will apply to the functioning of the SPV. The allocation of shares in the company will be proportional to the financial investment made by each shareholder
- 2.9 In order that the project can be delivered in a timely manner, the CPCA, on behalf of the SPV, and following advice from Pinsent Mason, issued a Voluntary Ex-Anti notice to publicise the intention to direct the construction works to the same contractor as is delivering the Phase 1 build. This approach and the issue of a notice was approved under an officer decision. There has been no challenge to this approach and so the contract can be concluded subject to Board Approval.
- 2.10 The proposed Construction approach is to let a service contract for the design and then incorporate this into a works contract for the build. Both documents, and associated warranties, will be drafted by Pinsent Mason and will be executed between the SPV and the contractor.
- 2.11 The CPCA will, on behalf of the SPV, procure a Commercial Operator to be responsible for the marketing and securing the tenants/ letting of the building and the day-to-day management of the facility. This will be procured through a Competitive Procedure with Negotiation (accelerated through the publication of a prior information notice) and awarded under a Concession Contract such that the operating risk for the building will be transferred to the successful company. This Contract will be for an initial five-year period with an option to extend for a further five years, at the discretion of the SPV shareholders. As part of balancing this risk and ensuring commercial interest, the SPV will agree to offer an initial rent-free period that will be agreed as part of the procurement negotiations and in accordance with State Aid Rules. In addition, to aid the Commercial Operator in securing suitable tenants, the tenants may be given reduction/ support with regards to their rent, in accordance with State Aid rules. This is detailed further in section 8 of the business plan in appendix 1.
- 2.12 As part of the suite of procurement documents, Pinsent Masons will draft a Concession Agreement for lease and a lease that will be entered into by the SPV and the successful Commercial Operator; this will address the required building management standards, services (such as soft FM/ICT services to include cleaning, security, catering and reception services, network connectivity and infrastructure), and letting obligations. It is anticipated that the building and land maintenance will be provided by the SPV. In addition, Pinsent Mason will provide a sublease that can be used/ tailored for use both between the Commercial Operator and Photocentric and with other identified tenants.

Concerning the use of the Business Board's investment in the building

- 2.13 To enable the potential future expansion of the Campus, PCC have, through negotiation of the Key Terms, specifically requested that the CPCA as the original applicant for the GBF investment in the Research building, applies reasonable endeavours to make a case to the Business Board, for use of any recycled funding out of its investment in the building, for further expansion of the University & Research Campus, subject to compliance with

CPCA's Assurance Framework and rules for the administration of the business board funding at that time.

- 2.14 It is important that the agreement provides for the option that the current investor Photocentric, or a third party, to invest further, which would allow the CPCA to sell some of its shareholding and recycle some or all of the GBF invested in the building for new projects.
- 2.15 Conditions Precedent - Completion of the overall Project and procurement of the Commercial Operator is conditional on:
1. The transfer of the land;
 2. The confirmation of the GBF and Private investment funding and the Shareholder Agreement being signed Planning Permission being obtained; and
 3. The Construction Contract being agreed and signed by the SPV.
- 2.16 Photocentric, the co-investor in the new SPV, will also act as the Anchor Tenant, occupying one of the three floors of the building (nominally 39%) under a sub-lease from the Commercial Operator.
- 2.17 The intention is Photocentric will be afforded 18% of the building space at a peppercorn rent, on the basis of their 18% of shares in Propco2, while forgoing any rights to profits from the letting of the remaining space in the building (i.e. the CPCA will be entitled to 100% of the profits in return for its 82% shareholding). The remaining space they intend to occupy, will be charged to them, at the same discounted commercial rate as all other tenants. This approach will be subject to legal review in January once the state aid regime in place after the Brexit transition period ends has become clear.

Significant Implications

3. Financial Implications

- 3.1 The table below sets out the funding streams being put forward by the two investors

Funding	Total investment £'000
CPCA top-slice (GBF)	304
CPCA equity investment (GBF)	13,469
Photocentric equity investment	3,000
Total	16,773

To minimise the risk to the funds, the CPCA will subscribe to the total value of their shares upon the shareholder agreement being signed. Then will pay them up to Peterborough R&D Property Company Ltd (i.e. make the actual cash transfer) as the company requires over the course of delivery to meet the costs of the project.

3.2 The draft table below sets out the expected cashflow for the SPV over the delivery phase of the project

	FY 20/21	FY 21/22	FY 22/23	FY 23/24	Total
Income	£,000	£,000	£,000	£,000	£,000
GBF Investment drawdown	-2,000	-9,200	-2,573	-	-13,773
Photocentric Investment	-190	-	-2,625	-185	-3,000
Total	-2,190	-9,200	-5,198	-185	-16,773
Expenditure					
Sustainability extras			300		
Land purchase	190				190
Construction Works	92	8,482	4,003	189	12,766
Fees & Surveys	886	714	209	-	1,809
Client Direct Costs	-	-	250	-	250
Contingency	-	911	547	-	1,458
Totals	1,168	10,107	5,309	189	16,773
Opening Balance	-	-1,022	-114	-3	N/A
Total Income	-2,190	-9,200	-5,198	-185	-16,773
Total Expenditure	1,168	10,107	5,309	189	16,773
Closing Balance	-1,022	-115	-3	-	N/A

Further detail is included in section 12 of the business plan for The Peterborough R & D Property Company Ltd (Appendix 1).

4. Legal Implications

4.1 None

5. Other Significant Implications

5.1 No other significant implications identified.

6. Appendices

6.1 Appendix 1 – Business plan

7. Background Papers

7.1 None