



<b>SKILLS COMMITTEE</b>	<b>AGENDA ITEM No: 2.1</b>
<b>17 JANUARY 2020</b>	<b>PUBLIC REPORT</b>

## **UNIVERSITY OF PETERBOROUGH – OUTLINE BUSINESS CASE – PHASE 1**

### **1.0 PURPOSE**

- 1.1. Following the University of Peterborough update paper tabled at the last Committee meeting which outlined the recent progress made to mobilise the project in line with the Action Plan adopted in May 2019, an Outline Business Case (OBC) has been produced by CPCA and Mace to demonstrate the economic impact and educational need for the creation of the new University of Peterborough. The Outline Business Case comprises of the Strategic, Economic, Commercial, Financial and Management cases modelling the Green Book in line with the HM Treasury Central Government guidance on appraisal and evaluation.
- 1.2 This report provides the Committee with the information required to make recommendations to the Combined Authority Board to approve and agree the Outline Business Case. The Outline Business Case incorporates an Options Appraisal which will require approval on the preferred option.
- 1.3 As part of the Outline Business Case, it is necessary for the Combined Authority and Peterborough City Council [PCC] to sign up to the Subscription Agreement which is a pre-cursor to the Special Purpose Joint Vehicle (SPJV) to agree terms of investment on capital and land. Approval is sought for delegated authority to the Director of Business and Skills to enter into negotiations with PCC to agree the Subscription Agreement.

<b><u>DECISION REQUIRED</u></b>	
<b>Portfolio Holder for Skills:</b>	<b>Councillor John Holdich</b>
<b>Lead Officer:</b>	<b>John T Hill – Director of Business and Skills</b>
<b>Forward Plan Ref: N/A</b>	<b>Key Decision: No</b>
The Skills Committee are invited to recommend to the Combined Authority Board that it:	<b>Voting arrangements</b>  A simple majority of members

<ol style="list-style-type: none"> <li>1. Approve the preferred option as part of an Options Appraisal and adopt the Outline Business Case for the new University of Peterborough as a Combined Authority priority and key element of the Local Industrial Strategy and Skills Strategy.</li> <li>2. Approve the development of a Subscription Agreement between the Combined Authority and Peterborough City Council for the capital investment into the development of Phase 1 and the land required and delegate to the Director of Business and Skills, in consultation with the Lead Member for Skills, the Chief Financial Officer and the Monitoring Officer, authority to negotiate and complete the Subscription Agreement.</li> <li>3. Approve the commitment to invest the £12.3M capital budget into the Phase 1 build and draw down the funding to mobilise the activities and milestones identified within the Outline Business Case to achieve the target of opening the University in September 2022 to 2000 students.</li> </ol>	
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## 2.0 BACKGROUND AND CONTEXT TO DATE

- 2.1 Following the reprofiling of the University of Peterborough project in 2019, it was agreed in May 2019 that an Outline Business Case be prepared from the evidence base/data and research available to the Combined Authority, including the Cambridgeshire and Peterborough Economic Review (CPIER), the Local Industrial Strategy (LIS) and the Skills Strategy (SS). This evidence base demonstrated the need to create the University of Peterborough to address the cold spot in HE Education within the City and wider area including the two sub-economies The Fens and Peterborough/North Huntingdonshire. Due to tight timescales and the need to maintain momentum the OBC has been written for approval alongside the work being undertaken within the current workstreams;
- the HE Academic Partner selection process which is in train with an OJEU compliant negotiation process and likely to run for 6 months; and

- the Build Contractor procurement workstream which is due for procurement in Spring 2020 following a Tenderers' conference to be arranged for January/February 2020.

It is proposed that following the adoption of the Outline Business Case, a Full Business Case will be produced for approval at the Skills Committee and Combined Authority Board in March 2020.

2.2 Key to the success of the new University will be our ability to grow and retain local talent as well as ensuring that the HE academic offer meets the current and future demand of business in the City and wider area as well as attracting new high value businesses to the region. The priority areas namely professional services, agriculture, engineering, advanced manufacturing, IT & digital, logistics & distribution, health & social care, life sciences identified in the CPIER which are further endorsed by the People Pillar of the LIS are redefined within the Skills Strategy in more detail. These areas have underpinned the development of an innovative business-led curriculum. The Curriculum modelling identified in the Outline Business Case and the Shadow Curriculum planned for Phase 1, also takes account of the findings of the Combined Authority commissioned business survey of May 2019 which was carried out by Opportunity Peterborough. The plan for the courses to be provided, space required and staffing levels has been developed in the Shadow Curriculum Model referred to above to support the sub-economies of the region:

- a. Business, Innovation, Entrepreneurship and Professional Services.
- b. Creative & Digital Arts and Sciences.
- c. Agriculture, Environment and Sustainability.
- d. Health and Social Care
- e. Engineering
- f. Manufacturing and Advanced Materials
- g. Logistics and Distribution;

2.3.1 The infrastructure for the Phase 1 building location was identified following an options appraisal of the 55 acre site on the Embankment to ascertain the best location for the Phase 1. Prior to the undertaking of this detailed assessment, it was agreed that all feasible options must:

- be deliverable within the title constraints of the site in the given timescales;
- be located with land zoned in the Local Development Framework as reserved for University;
- avoid substantive alterations to existing infrastructure or facilities;
- be able to accommodate 3,500m<sup>2</sup> of space (space driven by assumed budget referred to in financial case); and
- be deliverable with the assumed budget of £20 million.

From the appraisal annotated within the Outline Business Case for the new University of Peterborough, Option A, the Wirrana Car Park, has been selected as the preferred option, having the following clear benefits:

- 3,500m<sup>2</sup> building which achieves outcomes within the assumed budget of £20 Million.
- Maximises available capital for building.
- Good visibility (identity) and accessibility to/ from the city centre.
- Minimises expenditure on infrastructure and external works.
- Minimises impact on adjacent residences
- Supports a logical growth of the campus in future phases.

In order to summarise the Outline Business Case for your information, the Executive Summary is below:

### **3.0 EXECUTIVE SUMMARY**

#### **3.1 Strategic Case**

3.1.1 Peterborough is a recognised cold spot for Higher Education. To address this, Cambridgeshire and Peterborough Combined Authority (CPCA) and Peterborough City Council (PCC) are committed to securing a new University for the City in readiness for the Academic Year 2022/23. This Outline Business Case is concerned only with the Phase 1 development of the new University:

- Development of a Phase 1 university building on the Embankment site in Peterborough.
- Procurement of an Academic Delivery Partner (ADP) to provide the skills, knowledge, experience and resources to make a practical reality of the new higher education provision.

3.1.2 The intention is for the new University be fast-growing between 2020 and 2028 (supported by subsequent phases of infrastructure development), at which point there will be an independent review to evaluate the benefits and feasibility of the University becoming independent from the ADP. The strategic policy framework within which CPCA works and the rationale for the University for Peterborough project flows from the Cambridgeshire and Peterborough Independent Economic Review and related documentation including in the CPCA skills strategy and Local Industrial Strategy. The project supports national policy as expressed in the Augar Review of Post-18 Education funding, the review of Higher Technical Education and the Government's Industrial Strategy.

3.1.3 A new University will make a substantial positive economic impact in Peterborough and the wider sub-region, enabling the region and the UK to compete in an ever more dynamic global economy through innovation and creating knowledge-intensive businesses. It will deliver significant cultural

and social benefits. It is a Mayoral priority within CPCA's Business Plan and a key intervention within the Local Industrial Strategy and Skills Strategy, to address the current disconnect between work and qualifications. Expanded HE provision will be an essential component in realising ambitions to:

- establish the foundations for raising aspirations and attainment;
- support business skills needs;
- improve productivity;
- stimulate structural economic change; and enhance well-being.

3.1.4 The top-line objectives for the new University are:

- Accelerating economic growth in the local economy.
- Increasing productivity by job-ready degrees that support the local economy.
- Increasing GVA through meeting business, student and employer aspirational needs.
- Creating an effective progression route for technical learning.
- Re-skilling and up-skilling the workforce to meet technical skills market needs.

3.1.5 Peterborough and the wider region are under-served by current providers and there is a net-outflow of students from the East of England. Current HE provision consists of Peterborough Regional College (around 500 qualifications per annum) and Anglia Ruskin University (bespoke provision of around 400 qualifications per annum). There is no HE provision in Fenland or North Huntingdonshire, largely due to their dispersed rural character and poor transport networks. Addressing provision to under-represented and under-employed groups will be critical in meeting local labour market demand and provides an uncontested HE market space (unemployment rates in the sub-region are higher than the national average, the local population has grown at a faster rate than the national average and a lower proportion of 18-24-year olds are in full-time education).

3.1.6 The University, therefore, has the opportunity to provide a unique offer to serve the cold spot, attract under-represented groups and redress the imbalance with the rest of the CPCA region. Various efforts over the last 20 years to produce a commercially viable HE provision of sufficient scale and quality have failed and a different approach is required. The intention of the new University is to address the cold spot through an increase in the number of HE entrants from the sub-region by attracting and retaining students locally, in particular people who do not currently participate in HE but who would participate and remain locally if suitable provision was available. Based on the CPIER and related analyses it is clear that the first tier of University strategy must be to craft a sustainable portfolio of taught courses that addresses the characteristics of the cold spot before building research expertise.

3.1.7 CPCA is determined to make these investments, to encourage others to make such investments and to bring the positive benefits of HE to the people of the

sub-region. This will not only address the labour market needs of the sub-region, it will give the area an opportunity to reinvent its economy; raising aspirations locally and supporting business skills needs.

- 3.1.8 The main benefits of the new University stem from establishing a Phase 1 University Campus in Peterborough, for 2,000 students by September 2022 and include:
1. 10,000 new learners assisted (Levels 5 and 6 over five years)
  2. 50 temporary construction jobs, 170 university jobs initially (rising to 467), 300 initial supply chain jobs (rising to 900), 14,000 indirect jobs and 1800 apprenticeships over 3 years.

### 3.2 Economic Case

- 3.2.1 Four options have been identified for consideration in the economic case as follows:
1. **Business as Usual**: continuation of the current local provision described above.
  2. **Do Minimum**: investment in capability building of Peterborough Regional College to achieve Taught Degree Awarding Powers (and perhaps University Title for the current University Centre Peterborough in due course).
  3. **Recommended Option**: investment to tackle the characteristics of the addressable component of the current market failures in HE provision in Peterborough, targeted at infrastructure provision and capacity building.
  4. **Do Maximum**: investment scaled to found, ab initio, a new University on a model similar to those founded in the 1960s (the so-called Robbins Institutions).
- 3.2.2 Do Maximum can be ruled out on the grounds it is unaffordable and unachievable within the constraints of the project. Quantitative economic appraisals of the remaining three options show that the Recommended option has by far the highest Benefit Cost Ratio (46, compared with 3 for the Do minimum option and zero for the Business as Usual). When coupled with the qualitative analysis of each option against the project objectives, this confirms the Recommended option as the preferred option and this conclusion easily survives sensitivity testing of assumptions on the scale of the costs and benefits of the Recommended option.

### 3.3 Commercial Case

- 3.3.1 This is a complex project that requires careful sequencing and coordination if the objectives are to be met. Given the need to proceed with the development of the site and procurement of the ADP in parallel (to meet the overall programme) a Shadow Curriculum Model has been developed, which has informed the Strategic Brief for the Phase 1 building development.
- 3.3.2 The Combined Authority and PCC will form a special purpose vehicle, (PropCo) under a Subscription Agreement, to build the new campus on the Embankment site. Conditions Precedent in the Subscription Agreement state

that the completion of the overall project is conditional on: agreement of the ownership structure for delivery of the project; Local Growth Fund (LGF) funding being awarded; planning permission being obtained; and the Building Contract being successfully procured.

- 3.3.3 Procurement (following approval of this Outline Business case) of the infrastructure will involve selection of a Main Contractor to deliver the physical capital works via a Design & Build procurement route utilising a competitive tender and an industry standard form of contract (JCT or NEC). There is a wealth of potential main contractors and subcontractors who operate in the region and therefore interest in this scheme is expected to be high, which will typically result in competitive pricing.
- 3.3.4 The property will be leased to a new special purpose vehicle (UniCo). The ADP will provide the skills, knowledge, experience and resources to make a practical reality of UniCo as the new higher education provider and ultimately a university with degree awarding powers. The preferred procurement strategy for the ADP involves publication of a Prior Information Notice (PIN) and Advert as a call for competition followed by either negotiation with a single provider or a Competitive Procedure with Negotiation. The PIN elicited responses from 11 parties. Three prospective bidders submitted Expressions of Interest, one of which was disqualified early in the process but two remain in contention. At the time of writing this procurement has progressed to negotiations with two bidders, expected to conclude in January 2020. At the point of signing Heads of Terms, the ADP will assume responsibility for operation of the University, pending securing ultimate independence.

### 3.4 **Financial Case**

- 3.4.1 A key project objective is to create a sustainable operating model for the University such that, after initial start-up costs, it will operate on a self-sufficient basis. The financial model developed for the project, in line with the Shadow Curriculum Model shows that the key risks to achieving this are: timing of repayment of the LGF investment; the impact of the anticipated increase in specialist teaching and research activities over phases 2 and 3; and how the ADP will bridge the working capital gap in the start-up phase. It is anticipated that these will be overcome during the current negotiations with the prospective ADPs.
- 3.4.2 Based on the funding position set out in the table, given Combined Authority funding is in place project affordability is critically dependent on: securing the LGF investment; and agreeing with the prospective ADP methodology to fund the working capital gap. Therefore, at this stage of development, the project is affordable within the assumptions made in this Outline Business Case.

<b>Funding Source</b>	<b>Amount (£)</b>
CPCA	12,300,000
LGF investment Funding	12,500,000
Land Acquisition (gifted)	1,600,000
<b>Total Budget</b>	<b>26,400,000</b>
Construction Works (Phase 1 building)	20,000,000
Financial deal secured with ADP and/or contingency for changes in the Phase 1 building specification	4,800,000
<b>Total Expenditure</b>	<b>24,800,000</b>
Balance (Land acquisition – to be donated by PCC)	1,600,000

### 3.5 Management Case

- 3.5.1 The project has a number of stakeholders including: planning consultees; neighbours; Members of Parliament; and PCC and the Combined Authority. These key internal and external stakeholders will be managed under a strategy agreed between PCC and the Combined Authority outlined in the established communications strategy and underpinned by the Subscription Agreement.
- 3.5.2 The project is led by the Combined Authority in partnership with PCC and this relationship will be formalised through the Subscription Agreement. The Combined Authority will agree Heads of Terms for operation of the University with PCC and the ADP and will provide funding to support development of the university through existing capital monies and grants. PCC is working with the Combined Authority to support the delivery and in particular is providing the land valued currently valued at £1.6M for Phase One.
- 3.5.3 The Combined Authority and PCC have put in place the resources needed, however, if there is a capital funding gap to manage methodology to do so will need to be explored further. CPCA and PCC have agreed the work streams required to deliver the project, based on an understanding of the shared goals (set out in the Subscription Agreement). CPCA have appointed external consultants to ensure the necessary capacity and capability is available for successful implementation of the project.
- 3.5.4 Project governance (set out the Subscription Agreement) has been established to reflect the current arrangements within each organisation and specific terms of reference for the project will be mandated by each organisation as part of the sign off of the Outline Business Case and Subscription Agreement. Responsibility for the project will be mandated to the Transition Board and Project Management Board, up to completion of the Conditions Precedent within the Subscription Agreement and Heads of Terms. The strategy, framework and plan for dealing with change is embedded within the project governance arrangements.
- 3.5.5 Completion of the Full Business Case, will be presented for agreement by PCC and Combined Authority following the procurement of the HE partner and a satisfactory outcome of all negotiated conditions. This will include terms of reference for the project and its governance from that point onwards.

- 3.5.6 The project plan has been developed around the following key dates: spade in the ground (commencement of Phase 1) Q4 2020; and completion of Phase 1 (for occupation) September 2022. To achieve these milestones there are two key work streams: develop brief and procure the ADP; and develop, design and procure a Main Contractor to deliver Phase 1 infrastructure. To meet the key dates, it is necessary to parallel track these workstreams, which come together into one unified workstream at the end of Q1 2020, after which the project will be progressed under the agreed Heads of Terms and associated requirements.
- 3.5.7 Responsibility for benefits realisation under the Subscription Agreement will sit with Combined Authority and PCC. Once the Heads of Terms are signed then responsibility will be transferred to PropCo and UniCo to realise the project objectives. The agreed infrastructure milestones and targets will be reported against at monthly project board meetings until execution of the Heads of Terms, after which this will be reported to PropCo. Milestones, targets and KPIs will be agreed with the ADP as part of the procurement. These will be audited under the terms of the UniCo agreement and will be independently reviewed at key milestones. The project board nominated officer will update the Skills Committee and the CA Board.
- 3.5.8 A detailed project risk register (including control strategies) has been developed based on the following risk categories: surveys and site constraints; commercial; design; legal; procurement; operational; and governance. The project team holds quarterly risk workshops and the risk register is reviewed monthly at the Project Management Board.
- 3.5.9 Project assurance will initially be conducted under the Subscription Agreement and responsibility for project assurance will transfer to PropCo and UniCo for the building and HE operations respectively.
- 3.5.10 The project will adopt the Business Services Research and Information Association (BSRIA) Soft Landings framework and follow the Stages of the Soft Landings process.
- Stage 1: Inception and Briefing,
  - Stage 2: Design Development is predicated on Stage one;
  - Stage 3: Pre-handover requires follow-through with;
  - Stage 4: Initial Aftercare. This will help solve any performance gap between design intentions and operational outcomes.

#### **4.0 THE SUBSCRIPTION AGREEMENT - Governance and Legalities**

- 4.1. It is necessary for the CPCA to enter into a Subscription and Project Management Agreement (Subscription Agreement) with Peterborough City Council (PCC) to establish a robust methodology for and the parameters within which the Combined Authority and PCC will create and manage a newly formed company limited by shares, which will be a Special Purpose Joint Venture (SPJV), with both the Combined Authority and PCC as

shareholders, for the building and management of the university campus. It is referred to in this paper as “PropCo”.

- 4.2. The Subscription Agreement should be finalised and entered into as soon as possible (and in any event before the end of the procurement processes) to provide certainty in the process for all stakeholders, as it commits both the Combined Authority and PCC to the project jointly and protects their capital investments.
- 4.3. The Academic Partner and/or the Developer may subsequently become investors in PropCo, subject to negotiation as part of the procurement processes, in the event that either or both include investment in PropCo in their procurement proposals in respect of the build and development phase.
- 4.4. The Subscription Agreement is the pre-cursor to a detailed Joint Venture Agreement and Articles of Association for Propco, which will in turn be shaped and informed by negotiation and agreement with the Academic Partner (and/or the Developer) during and as a result of the ongoing procurement processes.
- 4.5. Strategic Heads of Terms have been drafted and included in the tender pack for the procurement of the Academic Partner, which set out the key objectives and requirements of the project in terms of the delivery of the academic, regulatory and operational aspects of the new University and those terms are also summarised in this paper.
- 4.6 It is envisaged that the future buildings for Phase 2 and Phase 3 will be 7,800 sqm for Phase 2 and 18,500 sqm for Phase 3 totalling 29,800 sqm for the entire campus. This will be developed over 11 acres and housed in 3 to 4 campus buildings. The site plan is annotated within the Masterplan being developed by Mace.

## 5.0 FINANCIAL AND INVESTMENT IMPLICATIONS

- 5.1 The Combined Authority has approved the overall budget figure of £12.3M as capital investment to the project. This finance model is annotated within the OBC. The aims and objectives for Phase 1 include securing the £20M build costs, as well as, securing additional funding that, subject to negotiation with the HE Delivery Partner being procured, will be used for either;
  - A subsidy to operational costs in the early years or
  - To meet specific requests of the HE Provider through increases to the size and features of the building; or both.

Therefore the funding arrangements of Phase 1 are:

<b>Funder</b>	<b>Amount</b>	<b>Purpose</b>
CPCA	£12.3M	Mobilisation of the University Programme of delivery, land preparation, planning permissions and capital investment into the

		building of Phase 1 to opening in September 2022.
LGF loan	£12.5M	Capital investment in Stage 1 of Phase 1 building.
PCC	£1.6M	4 acres of land for the Phase 1 site to be invested at a value of £400,000 per acre.
<b>TOTAL</b>	<b>£26.4M</b>	

5.1.1. It should be noted that there is a cash deficit in financial years 2021-22 and 2022-23 before the break-even point in 2023-24. This short term cashflow issue will need to be resolved to make the project viable. A potential solution to this could be via a short-term loan, the interest charges on this are not included in the model and would reduce the overall return of the project.

5.1.2 As Phase 1 funding is on progress and on track, it is necessary for us to explore further funding options for the Masterplan to achieve campus growth.

## 6.0 LEGAL IMPLICATIONS

6.1. The University of Peterborough is a key project identified in the Combined Authority's Business Plan 2019/20. The proposed legal arrangements for the delivery of the project are set out at Section 4 above.

6.2 The Combined Authority has a general power of competence granted by Article 11 of the Cambridgeshire and Peterborough Combined Authority Order 2017.

## 7.0 APPENDICES

7.1 Appendix A – Outline Business Case [The Annexes to the Outline Business Case are not reproduced here due to their volume but are available via the page for the meeting on the Combined Authority's website with the exception of Annexes 6.2 [Shadow Curriculum Model] and 6.7 [Facilities Management Strategy] which are commercially sensitive].

7.2 Appendix B – Draft Subscription Agreement

<b><u>Background Papers</u></b>	<b><u>Location</u></b>
Combined Authority Board Report May 2019	<a href="#">CA Board Report May 2019</a> [Item 5.3]
Combined Authority Board Minutes May 2019	<a href="#">CA Board Minutes May 2019</a> [Minute 367]
Skills Committee Report November 2019	<a href="#">Skills Committee Report November 2019</a> [Item 2.1]
Skills Committee Draft Minutes November 2019:	<a href="#">Skills Committee Draft Minutes Nov 2019</a> [Minute 45]