

University of Peterborough Manufacturing & Materials Research & Development Centre Project Change Request

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 and Skills
Key decision:	Key Decision for Combined Authority Board on 27 th January 2021
Forward Plan ref:	2020/086
Recommendations:	<p>The Business Board is asked to</p> <ul style="list-style-type: none">a) Recommend the Combined Authority Board agree to the £1.13m increase in equity investment from the existing project partner into the Peterborough R&D Property Company Ltd; andb) Subject to the approval of recommendation (a), recommend the Combined Authority Board note the new revised total project budget of £19.5 million and the revised shareholding split in Peterborough R&D Property Company Ltd, the Joint Venture Company delivering the project.

1. Purpose

- 1.1 This paper formally reports to and seeks approval of the request from Photocentric the Joint Venture Partner in the University of Peterborough Manufacturing & Materials Research & Development Centre Project to purchase an additional £1.13 million shares in the joint venture, increasing the total project budget by an additional £1.13m and allowing for the scope of the building to be increased correspondingly.
- 1.2 If accepted, Photocentric will invest a total of £3m, bringing the total equity in the joint venture company to £16.47m and Photocentric's share in the company to 18.2%, compared to the existing equity funding approved to the project of £15.34m investment of which Photocentric would own 12.2%.

2. Background

- 2.1 On the 5th November 2020 the Mayor using his general power of competence, having consulted with the Combined Authority Board Members at the Leaders' Strategy Meeting on 28th October 2020 approved £14.6 million Getting Building Funding into the University of Peterborough Manufacturing & Materials Research & Development Centre Project.
- 2.2 Since the approval, activity has commenced including the enabling groundworks for this project (linked to University phase 1 groundworks happening at same time), final design works, preparation for submission of the planning application, and the Centre operator procurement notice being released.
- 2.3 A condition on the award of the Getting Building funding was the approval of the Joint Venture Business Plan before final release of the Getting Building Fund can proceed, this business plan has been completed ready for approval and it has been during this process of agreeing and formalising the business plan that Photocentric have made the request to invest additional funding above their original investment of £1.87 million to make a total of £3 million.
- 2.4 Photocentric made the formal change request to increase their investment on the 20th November. This would increase the total project budget from £18.37 million to £19.5 million. The funding contributions from the partners involved in the project would be as per table below, the increased figure is in italics:

Revised Whole Project Funding Totals		
Equity investment into joint venture	CPCA via Getting Building Fund	£13,469k
	<i>Photocentric (per change request)</i>	<i>£3,000k</i>
	Total equity in Joint Venture	£16,469k
Enabling infrastructure funding, delivered by Peterborough City Council (PCC)	CPCA via Getting Building Fund	£827k
	PCC	£1,900k
	Total infrastructure funding	£2,727k
CPCA direct costs (staff, legal support, etc)		£304k
	Total	£19,499k

- 2.5 The increased investment would allow for the overall size of the new centre building to be enlarged by an increased footprint and expansion of all 3 floors, this results in increasing the Lettable Area by 16% from 1657m² to 1924m²

- 2.6 The building specification is not only increased in size, but the revised building plan has been value engineered, without any sacrifice in quality, meaning the actual build spend decreases from £4,105 per metre construction cost to £3,887 per metre.
- 2.7 As was set out in the paper at this meeting regarding the business plan of PropCo 2, subject to a state aid analysis, the intention is that Photocentric will forego their rights to dividends, or other financial proceeds, from the renting of the building and are, instead, being granted space in the building at a peppercorn rate (i.e. £1 per annum) equal to the percentage of shareholding.
- 2.8 The space available to Photocentric at this rate is equivalent to the proportion of their overall ownership in the joint venture. As such, by increasing their shareholding from 12.2% to 18.2% they will increase the office/lab space available to them in the eventual building at the peppercorn rent rate, but it is their intention to occupy the whole top-floor of the building with the remainder of the space leased at market rates.
- 2.9 The increased building scope, enabled by the increased investment, would provide for additional floorspace for Photocentric to occupy as tenant while also increasing the lettable space available for market rent by 119m².
Under the revised agreement, Photocentric would secure 18.2% of lettable space (349m²) at peppercorn rent while the additional space they require above that is a further 21.2% (414m²) which would be charged to them at a commercial rate.
- 2.10 A comparison of the costs and benefits of the investment below which sets out the difference between the two Photocentric investment scenarios and confirms that the Combined Authority is not disadvantaged as a result of the increased investment.

Analysis of increased Photocentric investment	Scenario 1	Scenario 2	Comments
CPCA Investment via Getting Building Fund	£13.47m	£13.47m	Equity investment into Joint Venture Company to deliver building
Photocentric Investment	£1.87m	£3m	Both include c.£387k for purchase of land. Any saving due to land costing less than estimate would be reinvested
Photocentric (shareholder) share	12.20%	18.20%	Investment is into whole project costs of build programme
Phase 2 – gross size in m2	2954	3283	Increase in Gross of 10%
Phase 2 – lettable space in m2	1657	1923	Increase in Lettable of 16%
Photocentric space at peppercorn rent in m2	202	349	Photocentric gains 18% space at peppercorn rent
Total Letting space available for commercial rental income in m2	1455	1574	Total letting space increases by 266m2 from which Photocentric gains 147m2 and the balance for commercial rented space increases by 119m2

- 2.11 Project delivery remains on target for occupation from September 2022 plus the Getting

Building Fund spent by end of March 2022, Design work and planning application is not delayed by the change in specification because of the additional investment.

- 2.12 The Business Board is asked to recommend that the Combined Authority Board recommend approval of the project change request from Photocentric to increase their equity investment into the joint venture from the current proposed £1.87 million to a total of £3 million.
- 2.13 The Business Board is asked to recommend the Combined Authority Board note the new revised total budget and proposed new shareholding in the Joint Venture Company delivering the project.
- 2.14 Any future requests from Photocentric for additional investment into the Peterborough R&D Property Company Ltd that adjusts the shareholding will be have to be considered by the Combined Authority Board as the main shareholder in this joint venture.

Significant Implications

3. Financial Implications

- 3.1 It is not possible to establish the detailed financial implications of the proposed project change, as only the agreed project proposal will be taken forward through procurement of a building operator. However the revised proposal includes an increase in overall floor space available for market rent, whilst also improving the green credentials of the building itself, and it is reasonable to assume that this would result in an increase in the potential financial return that could be achieved by letting out the asset.
- 3.2 As the CPCA would be entitled to all the profits from the company from the asset, the proposed change is likely to have a positive financial impact on the CPCA's position for no additional public funding whilst improving the outcomes in terms of total lettable space for SMEs and zero carbon technology start-ups.

4. Legal Implications

- 4.1 The Combined Authority will remain the majority shareholder in the Peterborough R&D Property Company Ltd. The reduced percentage of Combined Authority shareholding in the company equates to an increased overall Lettable area for each partner in the larger expanded property asset owned by the company.

5. Other Significant Implications

- 5.1 None.

6. Appendices

- 6.1 Appendix 1 – Revised Project Funding Budget Profile
- 6.2 Appendix 2 – Revised High-Level Plans Building Area Increase

7. Background Papers

- 7.1 Paper 3.2: Allocation of Getting Building Fund, Combined Authority Board 25th November 2020
[3.2 Allocation of Getting Building Fund](#)
- 7.2 Local Growth Fund Application Documents, Investment Prospectus, guidance and application forms,
<https://cambridgeshirepeterborough-ca.gov.uk/business-board/growth-funds/>