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Report of: Executive Director, Place and Executive Director of Resources

Report to: Cabinet

Date of Decision: 21st March 2018

Subject: Sheffield Retail Quarter – Heart of the City Phase II Delivery of the next phases

Is this a Key Decision? If Yes, reason Key Decision: -	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
- Expenditure and/or savings over £500,000	<input checked="" type="checkbox"/>	
- Affects 2 or more Wards	<input type="checkbox"/>	
Which Cabinet Member Portfolio does this relate to? Cabinet Member for Business & Investment and Cabinet Member for Finance		
Which Scrutiny and Policy Development Committee does this relate to? Economic and Environmental Wellbeing.		
Has an Equality Impact Assessment (EIA) been undertaken?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
If YES, what EIA reference number has it been given?	1159	
Does the report contain confidential or exempt information?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Part 1 – OPEN, with CLOSED Part 2 and Appendices F1 and F2 which contain commercially sensitive financial information		
<p>Part 2 of this report and Appendices F1 and F2 are not for publication by virtue of Regulation 20(2) Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 because, in the opinion of the proper officer, it contains exempt information under Paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.</p>		

Purpose of Report:

This report seeks

1/ Approval/endorsement for the Councils revised masterplan and delivery strategy for the Heart of the City II scheme, formerly known as the Sheffield Retail Quarter (SRQ).

2/ Delegated authority for the delivery of the next and future phases of the Heart of the City II scheme subject to compliance with the Council's budget processes, financial regulations and capital approval processes

3/ Approval to re-allocate the remainder of the previously approved Sheffield Retail Quarter budget to carry out the Pre Construction Services for the remainder of the phases of the revised masterplan and the stabilisation works to Leahs Yard

4/ Authority to purchase land and/or property by agreement for the Heart of the City II scheme, but in the absence of agreement to use, if necessary, as a last resort, its Compulsory Purchase powers in order to complete the acquisition of the whole of the proposed development site.

5/ Authority to award priority for rehousing on the grounds of demolition for any residential tenants effected by delivery of the next and future phases of the Heart of the City II scheme

Recommendations:

That Cabinet

1) Endorses the masterplan for and approves the strategy outlined in this report of a phased delivery of the Heart of the City II development and acknowledges the indicative development programme and estimated financial envelope.

2) Delegates authority to the Executive Director of Place and the Executive Director of Resources in consultation with The Cabinet Member for Business and Economy, The Cabinet Member for Finance, The Director of Legal & Governance and the Chief Property Officer, to

- Approve the detailed delivery plan for the development of the first phase namely Blocks B (Laycock House, 68- 82 Pinstone Street), C (Pepperpot Block, 88-104 Pinstone Street), E (Telephone House podium), G1 (38 Carver Street) and H1 (Leahs Yard)
- Submit detailed planning applications as necessary for the development of the first phase namely Blocks B, C, E, G1 and H1 and any adjoining public realm improvement works and to secure all necessary consents to enable delivery to proceed.
- Approve the detailed delivery plan for each of the subsequent development phases at the appropriate time.

- As necessary submit detailed planning applications for the development of the remaining blocks within the Heart of the City II development site and for any adjoining public realm improvement works and to secure all necessary consents to enable delivery to proceed.
- Continue the appointment of the full professional team to progress the detailed design work on the planning permissions and the public realm improvement works.
- Commission and agree terms with any other specialist consultants to advise the Council as necessary throughout the course of the Heart of the City II project
- Submit an outline planning application for Block F (Trafalgar Works), and if conducive to the redevelopment of the whole site place on the open market for sale as a residential development site and dispose of the site to the best offer.
- Develop and then implement a public realm management strategy for the public realm within the Heart of the City II development.
- Pursue Sheffield City Region Investment Fund (SCRIF), Historic England (HE) and any other funding streams that are available, where applicable, to assist in the funding of the Heart of the City II development, and where appropriate accept any obligations or restrictions that the funding is subject to.
- If necessary, serve the requisite notices to obtain vacant possession on all existing tenants
- Enter into negotiation and if possible acquire by agreement under s.227 Town & Country Planning Act 1990 powers, the Carver Street car park situated south of St Matthews House 45 Carver Street, and 30 Cambridge Street.
- Instruct the Director of Legal & Governance to complete all necessary legal documentation required to document the terms of any transactions agreed in accordance with the approvals delegated pursuant to this report.

3) Approves

- The re-allocation of the remainder of the previously approved Sheffield Retail Quarter budget to carry out the Pre-Construction Services for the remaining phases of the revised masterplan and stabilisation of Leah's Yard up to a maximum of £24m.
- For all relevant budgets to be able to be fully funded through Prudential Borrowing and be subject to the phasing of the spend going through the Council Capital Approval process,

- To use any increase in business rates income directly attributed to the scheme to repay any balance of the related Prudential Borrowing,
- To use any receipts from the disposal of any properties within the Heart of the City II developments to repay any balance of the related Prudential Borrowing.

4) Delegates authority to the Executive Director of Resources in consultation with the Executive Director of Place:

- On satisfactory completion of the requisite Pre-Construction milestones of each block to approve the budget to carry out the construction of the properties and all necessary public realm improvement works.
- To determine and action the most appropriate disposal strategy for the Council for the Heart of the City II development and if necessary for the Council to sell the whole, any block or any part of a block as an investment.

5) Confirms the principle that the Council will be prepared to use Compulsory Purchase powers as a last resort if terms cannot be reached by agreement to acquire the Carver Street car park situated south of St Matthews House 45 Carver Street, 30 Cambridge Street and office space within Barkers Pool House, Burgess Street, to complete the scheme. The use of such powers, if needed, will be subject to a further detailed report to Cabinet.

6) Authorises the Director of Housing and Neighbourhood Services to award priority for rehousing on the grounds of demolition at an appropriate level to the residential tenants in Laycock House with effect from the date of approval of the detailed delivery plan pursuant to Recommendation (2) above.

Background Papers: New Retail Quarter – Compulsory Purchase Order Report to Cabinet 13th December 2006, Sheffield New Retail Quarter Report to Executive Leader dated 8th October 2013, New Retail Quarter Steps Towards Delivery Report to Cabinet on 23rd July 2014, Sheffield Retail Quarter Delivery of First Phase Report to Cabinet on 20th July 2016, Sheffield Retail Quarter – Proposed Appropriation of Land For Planning Purposes 15th December 2016.

Lead Officer to complete: -		
1	I have consulted the relevant departments in respect of any relevant implications indicated on the Statutory and Council Policy Checklist, and comments have been incorporated / additional forms completed / EIA completed, where required.	Finance: Jayne Clarke
		Legal: Gillian Duckworth.
		Equalities: Beth Storm
<i>Legal, financial/commercial and equalities implications must be included within the report and the name of the officer consulted must be included above.</i>		
2	EMT members who approved submission:	Laraine Manley & Eugene Walker
3	Cabinet Members consulted:	Mazher Iqbal Cabinet Member for Business & Investment & Olivia Blake The Cabinet Member for Finance
4	I confirm that all necessary approval has been obtained in respect of the implications indicated on the Statutory and Council Policy Checklist and that the report has been approved for submission to the Decision Maker by the EMT member indicated at 2. In addition, any additional forms have been completed and signed off as required at 1.	
	Lead Officer Name: Nalin Seneviratne	Job Title: Director – City Centre Development
	Date: 21st March 2018	

1.0 PURPOSE

- 1.1 This report seeks: -
 - 1.1.1 Approval/endorsement for the Councils revised masterplan and delivery strategy for the Heart of the City II scheme, formerly known as the Sheffield Retail Quarter (SRQ).
 - 1.1.2 Delegated authority for the delivery of the next and future phases of the Heart of the City II scheme subject to compliance with the Council's budget processes, financial regulations and capital approval processes
 - 1.1.3 Approval to re-allocate the remainder of the previously approved Sheffield Retail Quarter budget to carry out the Pre Construction Services for the remainder of the phases of the revised masterplan and the stabilisation works to Leahs Yard
 - 1.1.4 Authority to purchase land and/or property by agreement for the Heart of the City II scheme, but in the absence of agreement to use, if necessary, as a last resort, its Compulsory Purchase powers in order to complete the acquisition of the whole of the proposed development site.
 - 1.1.5 Authority to award priority for rehousing on the grounds of demolition for any residential tenants effected by delivery of the next and future phases of the Heart of the City II scheme

2.0 HOW DOES THIS DECISION CONTRIBUTE?

- 2.1 **Forging a true centre of gravity for our City** - Our city centre has a vital role to play in contributing to the economic success of our City. We need a city centre that continues to attract jobs and investment building on the original Heart of the City project. Heart of the City II (formerly Sheffield Retail Quarter) will build upon the original Heart of the City project, which saw the regeneration of the Peace Gardens, the creation of the Winter Garden and Mercure Hotel, new offices to expand the city's growing business services, Sheffield's tallest residential building, new restaurants and leisure and an iconic car park. This scheme will provide Sheffield with a centre that will be the place for buying and selling and for the exchange of ideas and collaboration, a focal point, a meeting place, a true centre of gravity.
- 2.2 Like the original plans for the Retail Quarter, Heart of the City II will meet an identified need for further and improved retail provision in the City Centre together with housing and leisure and providing additional office space for jobs. As with the Retail Quarter, Heart of the City II will integrate and complement the existing city centre and its shopping areas rather than sit in isolation from them. Built to retain existing street patterns and heritage buildings, it will integrate with the resurgence of The Moor as a shopping and leisure destination, the Devonshire Quarter of independent shops and bars, and Fargate. It will quickly build and maintain the momentum from the emerging new HSBC building, rapidly nearing completion as the first phase of this scheme delivering the first new retail, leisure and office spaces. Our vision for Heart of the City II seeks to build on what is uniquely Sheffield. We believe that is the best way to deliver a bigger heart that the City can be truly proud of.
- 2.3 This scheme will be made on Sheffield's own terms, a vibrant, distinctive, imaginative and productive place, forged from its unique qualities, but connected to entirely new patterns of trade and culture. The backbone of Heart of the City II runs on its fine-grain street layout

renewed for the 21st century as a place for people to engage, as opposed to a space for motorised traffic to move through. Like the original plan for the Retail Quarter a new public realm will become a key enabler of this activity, a newly green 'jewel in the crown' of what is a very green city elsewhere.

2.4 We are already delivering Heart of the City II as explained below. The revised masterplan and delivery strategy builds on the original plans for the Retail Quarter and sets out how the Council will seek to deliver this transformational development that will give resident's, workers and visitors an exciting quality experience that is distinctively of Sheffield and which is the hub linking the existing city centre retail, cultural, leisure and employment offers.

Economic Benefits

2.5 The delivery of the Masterplan will generate significant additional economic benefits during the construction of the scheme and when in operation. The figures below show the anticipated impact on the Sheffield City Region in terms of new jobs and the spending power that these create, and the additional profit derived by the operators of the commercial entities within the Heart of the City II scheme.

2.6

HOC Masterplan Proposal : Economic Indicators							
Total construction-driven impact (2017-2025)							
	Direct	Indirect	Induced	Total			
Total GDP, £ million	171.7	34.4	39.9	246.0			
Total Jobs created	401	90	124	615			
Total tax contribution	57.3	9.2	12.8	79.3			
Total operations-driven impact, (2019-2030)							
	Direct	Indirect	Induced	Total	Of which, due to:		
					Retail & leisure	Office activities	New residents
Total GDP, £ million	2,684.5	405.6	606.6	3,696.7	422.4	3,209.2	65.1
Total Jobs created	4,617	728	1,578	6,923	1,352	5,410	160
Total tax contribution	688.9	98.3	186.7	973.9	136.4	818.0	19.5

2.7 All the Direct Impacts and a significant proportion of the Indirect and Induced impacts will benefit Sheffield itself.

2.8 The impacts are measured on a gross basis and do not take account of any displacement elsewhere in the City Region.

3.0 HAS THERE BEEN ANY CONSULTATION?

3.1 The Council has already undertaken a comprehensive consultation process for the Sheffield Retail Quarter proposals with both key stakeholders and the public, and throughout this consultation there has been widespread and strong public support to see a scheme delivered on the site.

- 3.2 The last public consultation exercise undertaken by the Council in May/June 2015 attracted over 3,000 visitors to the marquee erected at the top of Fargate and approximately 800 written representations were received, with the clear majority supporting the Sheffield Retail Quarter proposals.
- 3.3 Given the large number of responses received the comments covered a wide spectrum of issues. However, several common themes could be drawn from the responses. These being:
- Retain the Sheffield character in any new development and respect the existing urban fabric.
 - Protect and promote the heritage assets within the proposed development site
 - Encourage independent retailers and food and beverage operators to take space in any new scheme and/or the city centre.
- 3.4 These key themes were further reinforced by the Sheffield Stars Big Survey where the responses they received from their readers about how they wanted the regeneration of the city centre to proceed, echoed these sentiments.
- 3.5 The Council and its design team have carefully considered and where appropriate taken on board these comments and have sought wherever possible to capture them in the revised masterplan and delivery strategy for the Heart of the City II development.
- 3.6 The Council has also continued to engage/consult with key stakeholders within the City as to the future of the Heart of the City II development.
- 3.7 As the Heart of the City II scheme moves forward there will be further public consultation undertaken as part of the normal process, providing another opportunity for the public to be engaged and to make comments.

4.0 BACKGROUND

- 4.1 The Council's vision for the Heart of the City II scheme is to deliver a sustainable vibrant mixed-use quarter in the heart of the city centre that is authentic to Sheffield, comprising of high quality retail, Grade A offices, hotel and residential developments, restaurants and cafes, leisure destinations, car parking linked by well-designed public spaces constructed with high quality materials.
- 4.2 Since the July 2016 Cabinet in which the Sheffield Retail Quarter – Delivery of the First Phase was approved considerable progress has been made on site.
- 4.3 The Cavendish block, which comprises of a landmark office building to be occupied by HSBC and almost 60,000 sq. ft of retail space, is on site and construction works by BAM, the main contractor, are progressing well. The steelwork for the Cavendish block has been erected and cladding work is progressing. Advanced talks are already underway to sign up the first retail and leisure tenants for this block.
- 4.4 The transformational public realm improvement works to infill the Charter Square roundabout, relocate the highway and improve the public realm to the rear of the Debenhams block on The Moor have been completed and works to Charter Square North

next to the Cavendish block to create a new distinctive to Sheffield people friendly public square, will be delivered as part of the Cavendish development. Practical completion of the Cavendish block and the new Charter Square is due in late 2019

4.5 At the same time the Council together with our development management advisors Queensbury Real Estate Ltd, have undertaken a complete review of the Sheffield Retail Quarter project. This was to determine how best to deliver the Councils vision for the site, that also meets the aspirations of the people of Sheffield and key stakeholders, provides a mix of spaces that businesses want and is adaptable and able to respond to any future changes.

4.6 Because of this work a new masterplan and delivery strategy for the Heart of the City II scheme has been drawn up. This will inform the development and/or release of the individual blocks within the Heart of the City II site, as well as setting out the strategy for how the public spaces between the buildings will be dealt with

5.0 MASTERPLAN/DELIVERY PLAN/JOHN LEWIS PARTNERSHIP.

5.1 Masterplan

5.1.1 The new masterplan sets out the Councils vision for the Heart of the City II development.

The scheme looks to bind together the old and the new by celebrating where possible our existing buildings whilst also allowing space for new modern architecture. The aim is to keep to and respect the existing street patterns as much as is possible and to retain/reuse as many of the existing historic buildings within the site, whilst also delivering high quality sustainable new buildings to meet modern retailer's requirements.

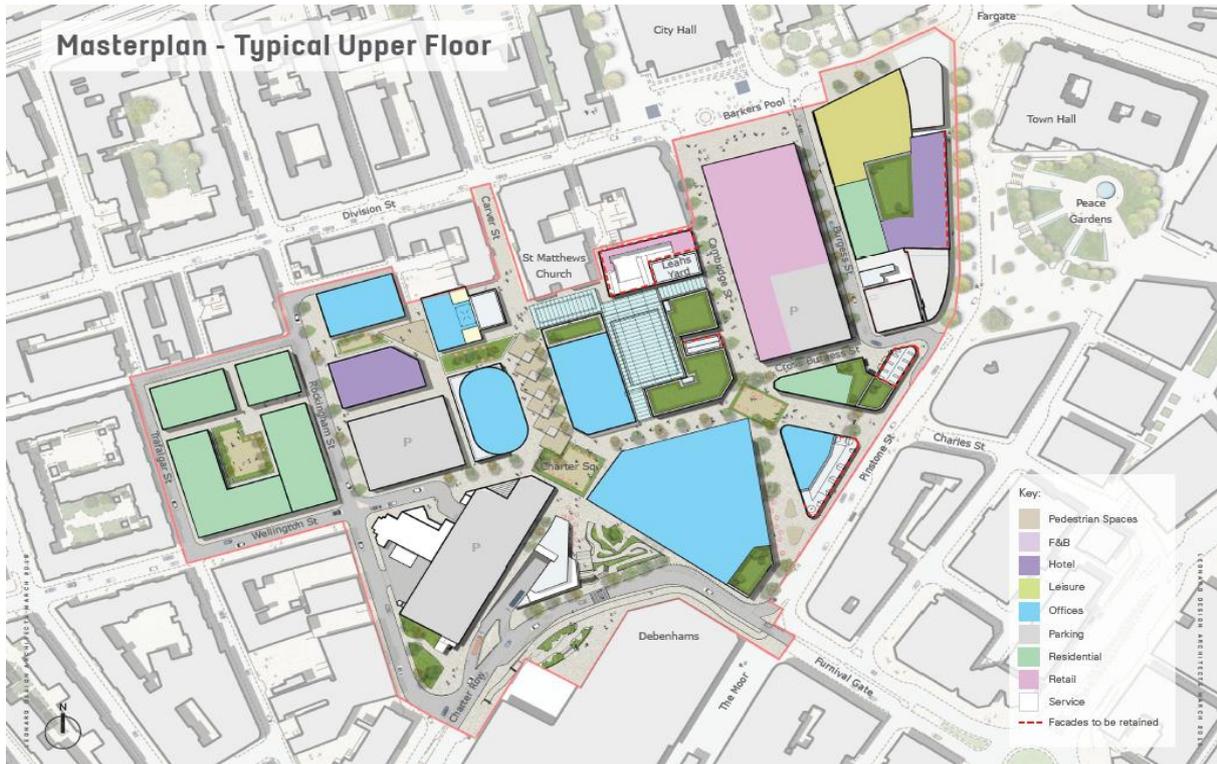
5.1.2 In drawing up this masterplan the Council and Queensberry has

- Listened to the views of both corporate and independent businesses, investors, key stakeholders and the people of Sheffield's view on how the development of this quarter of the city centre should progress
- Considered the changes in both shopping behaviour and shoppers expectations - whereby they demand for a more rounded leisure and food and beverage offer
- Sought to deliver modern retail and food and beverage units that will attract innovative, adaptable, corporate and independent retailers and food and beverage operators to the city centre.
- Included more office and residential space to bring more life and animation and a mix of uses to the upper floors
- Drawn up and then challenged, tested and reviewed several revised schemes for the site and carried out reviews of all the associated cost plans and delivery programmes
- Spoken with prospective major retailers, including John Lewis
- Prepared an adaptable business plan to achieve and deliver a viable and successful development.

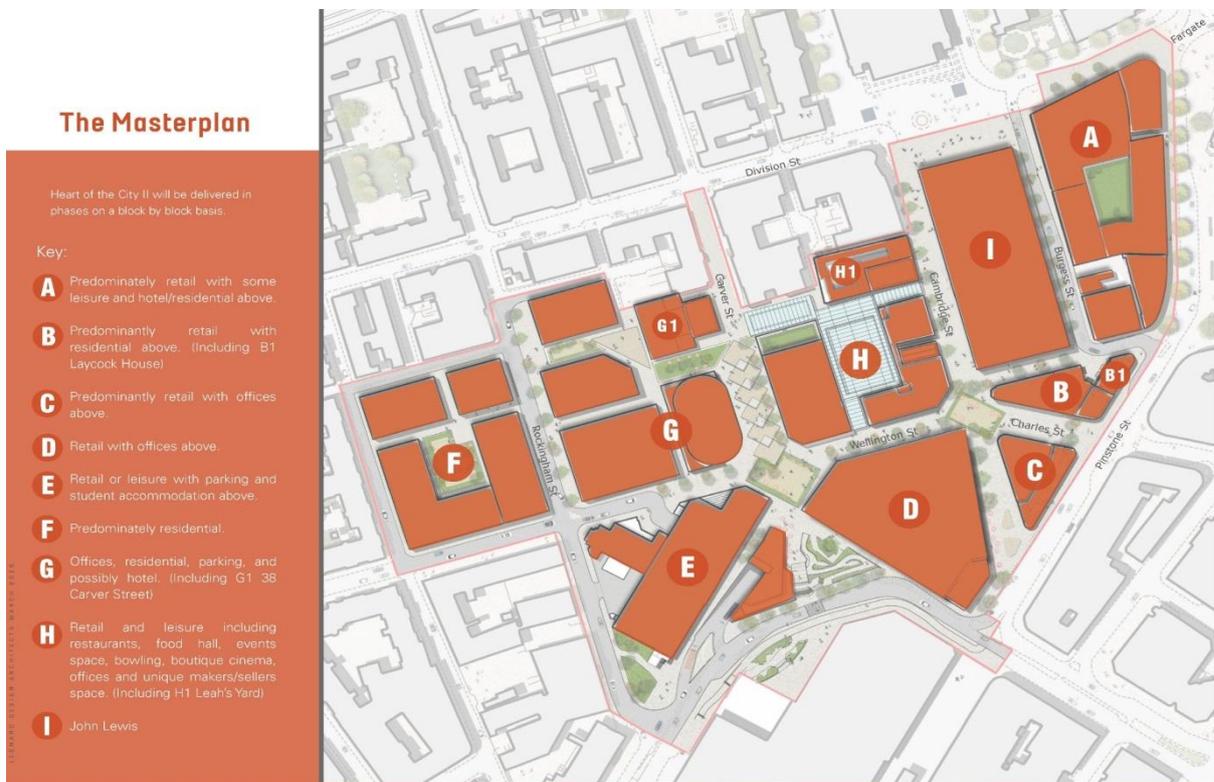
- 5.1.3 The changes in the retail, food and drink and leisure market are due not only to the challenging economic climate but also fundamental changes in peoples shopping and socialising habits. People are also expecting an authentic exciting and vibrant experience whilst shopping, living, working or visiting the city centre.
- 5.1.4 Both the Heart of the City II masterplan and the delivery strategy are forward thinking documents and as such they allow for changes over time to reflect the then current economic conditions and market, and changes in retailing leisure and eating out habits and trends
- 5.1.5 The plan below shows the proposed layout and uses of each block at street / ground floor level: -



- 5.1.6 The proposed upper floor uses of each block are indicated on this plan below: -



5.1.7 The diagram below shows each of the blocks within the Heart of the City II masterplan boundary and their block references



5.1.8 Each block is an independent phase of the masterplan delivery and all contain a mix of uses. Some blocks are further sub-divided where stand-alone elements can be developed separately.

5.1.9 The masterplan is not a statutory planning document. It will however be referred to in all future planning applications.

5.2 **Delivery Plan**

5.2.1 The route for delivery of the Heart of the City II has changed since the report to Cabinet in July 2016. We will no longer be looking to deliver the Sheffield Retail Quarter scheme submitted for planning permission as one “big bang” corporate development and then be reliant on a single developer.

5.2.2 It is envisaged that delivery will now be done via an incremental measured block by block approach, working within the approved masterplan, which can be delivered comprehensively over time but not necessarily by a single developer and/or the Council. This approach mitigates the Councils risk and financial exposure and delivers momentum.

5.2.3 This phased approach to delivery also allows for future changes in the scheme to reflect changes in shopping habits/behaviours and the expectations of shoppers and users of the city centre.

5.3 **Council To Act As Developer**

5.3.1 It is imperative that the Council maintains the momentum of the Heart of the City II development on site ensuring a comprehensive redevelopment, and so it is proposed that the Council acts in the developer role with development management expertise provided by Queensberry Real Estate Ltd, to deliver the next phase of blocks as set out below in this report.

5.3.2 The Council can drive the development as it has control of the land/property to deliver this next phase and can raise finance through Prudential Borrowing, supported by the business rates uplift the Heart of the City II will generate.

5.3.3 As the scheme is built costs will then be recovered on a rolling basis either through the sale of the completed buildings or through the Council retaining the rental income. The exact exit route will be determined after careful consideration of the relative merits of the options available. The financial implications of the Council acting as developer are set out in detail in section 8.0 and in Part 2 of this report

5.4 **John Lewis**

5.4.1 As set out in the masterplan in order to maintain momentum the Council is working at this stage on the basis that we will be building around the existing main John Lewis shop.

5.4.2 The Council will continue to discuss with John Lewis as to how the store will be developed in conjunction with our proposals.

5.5 **Anticipated Delivery Programme**

5.5.1 The masterplan is proposed to be delivered on a phased basis with Pre-Construction Services across most of the blocks being concurrent but construction and opening of the blocks staggered.

report.

6.2 The development of these blocks is seen as the logical next step of the development of the Heart of the City II development as they are adjacent to, and once developed will enhance the setting of the Cavendish block or as is the case for block G1 38 Carver Street is a quick turnaround to get back into use a vacant building.

6.3 The proposed development of these blocks will be as follows:

6.4 **Block B – Laycock House, 68- 82 Pinstone Street**

6.4.1 Laycock House represents one of the historic early 20th century facades that characterize Pinstone Street. This is a good example of a late Victorian building and consists of 5 residential apartments with commercial retail units below.

6.4.2 The development of the block provides an opportunity to both enhance and retain Laycock House. The building will be completely stripped out and then brought back to life with a full renovation/refurbishment.

6.4.3 The remaining buildings contained within the plot will be demolished and the site redeveloped with a contemporary flexible mixed use building, which will be contextually sensitive to its historic neighbour. Ground floor space will be formed of new retail space, with modern high quality residential units above.

6.4.4 Two of the residential units within Laycock House are currently occupied. These residents were in occupation when the Council acquired the building in 2015 and they now occupy under weekly tenancies from the Council.

6.4.5 The Council will require vacant possession of the apartments in order to undertake the comprehensive works to the building.

6.4.6 Under the terms of the weekly tenancies the Council could obtain possession on giving 4 weeks written notice. However officers from Housing Service have already been in contact with them, and will continue to work with the residents, to help them find alternative accommodation, so it should not be necessary to serve the notices when vacant possession is required. When the delivery plan for this block has been approved the residents will be entitled to priority for rehousing on the grounds of demolition under the Councils Allocation policy.

6.4.7 The residents will be entitled, when they leave, to a statutory home loss payment and reimbursement of all reasonable removal costs. These payments will be authorised as part of the approved delivery plan.

6.5 **Block C – The Pepperpot Block, 88-104 Pinstone Street**

6.5.1 Within block C sit two significant historic buildings 94 -102 Pinstone Street known as the Pepperpot and 88 Pinstone Street the former HSBC bank. These facades and roofscapes are both good examples of Sheffield brick and terracotta architecture.

6.5.2 This historic façade will be retained and a new flagship mixed use retail and commercial building will be built behind, that will respond sensitively to its intricate levels and dynamic roofscape.

6.6 **Block E – Telephone House, Charter Square**

6.6.1 The podium under the Telephone House Tower which comprises of retail units and the Multi-Story Car Park will be refurbished to improve its visual appeal and user experience. The retail units will be remodelled to improve flexibility and accessibility and the frontages to these will be extended vertically and horizontally to optimise visibility and presence onto the new Charter Square

6.7 **Block H1 - Leah's Yard, Cambridge Street**

6.7.1 Leahs Yard is an important heritage asset in the centre of the development. Works will be undertaken to this Grade 2 Star Listed Building to stabilise the structure, thus allowing for the removal of the extensive support scaffolding on Cambridge Street

6.7.2 The building will be made safe and secure so that it is capable of being converted at a later date to a fully functioning part of the overall Heart of the City II scheme.

6.8 **Block G1 - 38 Carver Street**

6.8.1 This is a fairly modern office building which is in a good structural condition. Internally it is slightly dated and run down after being vacant for a number of years and has suffered from some damage. It is the Councils intention to simply refurbish the building and then to re-let the office space.

6.9 **Public Realm Improvement Works**

6.9.1 Sheffield is known for its distinctive high quality public realm and as part of the development of these Blocks the Council will seek, in the spaces between them, to continue to deliver people friendly spaces.

6.10 **Future Phases**

6.10.1 The Council will seek to deliver further phases of the Heart of the City II as and when necessary.

6.10.2 There are certain property interests, namely the surface Carver Street car park situated south of St Matthews House 45 Carver Street and 30 Cambridge Street and leased office space within Barkers Pool House which the Council has already opened discussions about acquiring/regaining possession of. If these discussions are not successful officers will if necessary be coming back to Cabinet with a full report setting out why we may require these properties in order to deliver a comprehensive development.

6.10.3 The commencement of any future phases of the development will be subject to the Council obtaining satisfactory planning consent.

6.11 **Block F Delivery**

6.11.1 The masterplan for the Heart of the City II development identifies Block F (Trafalgar Works) as a predominantly residential site with some commercial space on the ground floor. The aim is to get more people to both live and work in the city centre and thus increase vibrancy and the sense of community

6.11.2 Given this sites prime position within the city centre as part of the Heart of the City II development there has already been a lot of interest in the site from private developers/investors.

6.11.3 Given this strong private sector demand the Council does not necessarily need to act as the developer for this block. The Council will submit an outline planning application to establish a residential use on the site within the context of the Heart of the City II masterplan and then if appropriate will place the site on the open market for to find a developer who will develop the site as a residential development site as part of the Heart of the City II proposals.

6.12 Pursue Funding Opportunities

6.12.1 The Council will seek to pursue where applicable and prudent to do so Sheffield City Region Investment Fund (SCRIF), Heritage England (HE) and any other funding streams that are available, to assist in the funding of the Heart of the City II development.

6.12.2 Such funding will come with conditions and potentially clawback liabilities and Cabinet is being asked as part of this report to delegate to officers authority to, where necessary and reasonable, accept any obligations or restrictions that any funding is subject to.

7.0 RISK ANALYSIS AND IMPLICATIONS OF THE DECISION

7.1 EQUALITY OF OPPORTUNITY IMPLICATIONS

7.1.1 The redevelopment of the Heart of the City II site will be of universal positive benefit for all local people regardless of age, sex, race, faith, disability, sexuality, etc. Local people will benefit from the creation of a significant number of new full and part time jobs. The socio economic and community cohesion impacts locally will be particularly positive.

7.1.2 No negative equality impacts have been identified.

7.1.3 As the Heart of the City II development progresses there will be further opportunities for stakeholders and the public to be engaged and to make comments through the statutory planning process.

7.1.4 Ease of pedestrian access throughout the Heart of the City II scheme is of paramount importance and will require careful design and integration of lifts, ramps, and stairs for all users as appropriate.

7.1.5 An Equality Impact Assessment has been carried out for the Sheffield Retail Quarter project – reference number 1159 and the Council is satisfied that its conclusions remain valid.

8.0 FINANCIAL AND COMMERCIAL IMPLICATIONS

8.1 Total Capital Commitment

8.1.1 The Council has already made a significant financial commitment to the delivery of the Heart of the City II with the decisions to acquire the properties within the Sheffield Retail Quarter site in 2014 and the approval of the first phase of delivery of the Cavendish block and the appointment of a Development Manager in 2016 to take the previous scheme to an unconditional stage ready for construction.

Previously Approved Budgets	£m
Land Assembly and Enabling Works	61.2
Phase 1 Construction incl. Public Realm and Transport	81.6
Pre-construction Development Management of previous scheme	35.8
Total Capital Expenditure	178.6

8.1.2 As has been detailed elsewhere in this report, previous versions of the Sheffield Retail Quarter masterplan have been reviewed and revised to ensure that the masterplan is deliverable and a new approach to the Heart of the City II has been developed which takes a more flexible and current market facing approach to delivery. However, the Sheffield Retail Quarter scheme has always been about regenerating the city centre and addressing market failure and not about undertaking the development for purely commercial objectives and this is still the case. The masterplan will therefore require additional support from the Council to make this scheme viable.

8.1.3 The full delivery of the remainder of the Heart of the City II masterplan will therefore have further significant financial implications for the Council in terms of the level of capital investment and the long- term financing of the development.

8.1.4 The majority of the site falls within the boundary of the New Development Deal (NDD) agreed with central government in 2013 so that any increase in Business Rates created in that area up to the end of a 25-year period (from 2013) can be retained in full by the Council.

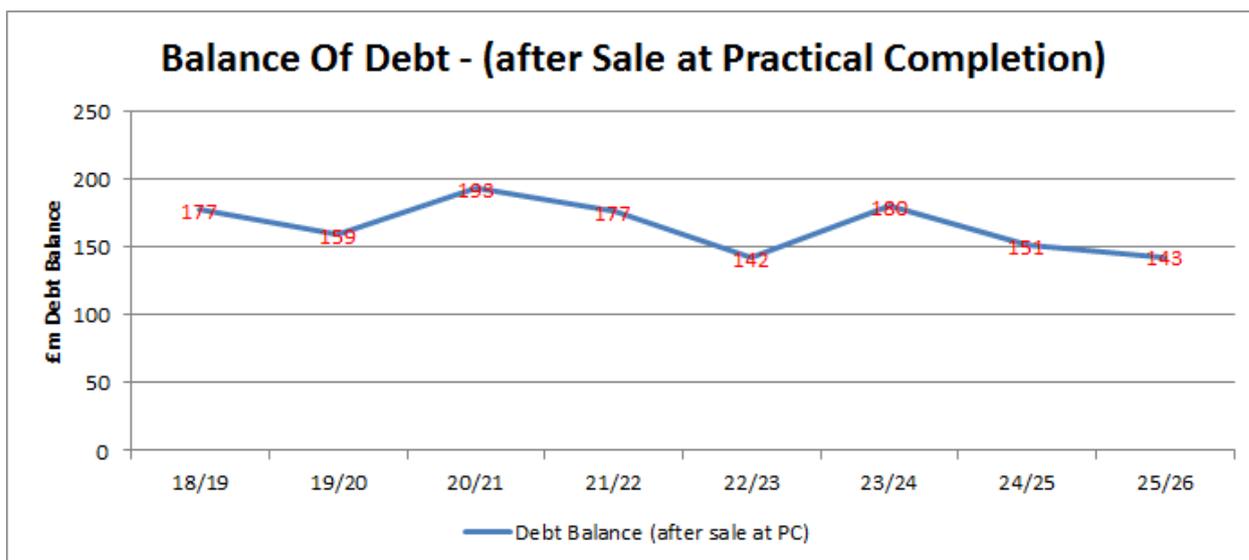
8.1.5 The total Development costs for the new masterplan before the beneficial impact of disposals and income are as shown in the table below:

Current Commitment	Additional Commitment	Total Commitment
£179m	£291m	£469m

8.1.6 The base case masterplan appraisal has been carried out on the basis that each of the phases is delivered by the Council and funded through Prudential Borrowing. The expected rental values of the retail, office and residential units created, have been determined by expert agents (local and national) in the particular sector.

8.1.7 It is assumed that each property is sold on completion (on a long leasehold basis) and the capital value has been determined on the basis of full occupation and using anticipated market yields for the different types of use.

8.1.8 This has the advantage of using capital receipts to reduce levels of borrowing so that the total debt requirement never reaches the level of the £469m total costs. This is illustrated in the graph below.



8.1.9 Selling the properties also transfers the liability for Business Rates and the majority of the risk for rent receipt to the new leaseholder. The Councils ground rent income would vary with any reduction in rent received.

8.2 Initial Budget Requirement

8.2.1 As the previous scheme has not been progressed as anticipated a significant proportion of the £35.8m approved budget has not been spent. It is proposed therefore to reallocate the remaining **£24m** of budget to carry out the pre-construction stage for each of the remaining blocks and to bring forward works to stabilise Leah's Yard ahead of the rest of the block H development. This expenditure is to complete all the necessary stages of planning, detailed design, costing, marketing etc. This expenditure is all at risk until the acceptable levels of pre-letting have been achieved and the construction works have been tendered so that the block can be taken forward into the delivery stage.

8.2.2 In accordance with the masterplan programme set out in section 7 above, the budget requirement will be phased across a number of years.

8.2.3 When each of the blocks successfully meet its required pre-conditions, approval will be sought in accordance with the recommendations of this report for the remainder of the budget for that block to award the contract to carry out the construction works and any associated public realm works.

8.2.4 The budgets will be governed through the Councils usual capital monitoring and reporting process and approved in accordance with the delegations in this report

8.3 Revenue Budget Requirement

8.3.1 On completion of each block the residual borrowing costs will be charged to General Fund budgets with Minimum Revenue Provision (MRP) and interest charged over a 40-year asset life. They will be off-set by the increased Business Rates created from the properties and the Ground Rent receivable.

8.4 Financial Risks

8.4.1 A programme of development of this size carries with it significant levels of risk across a number of areas. These risks are amplified because of the length of the development programme and because of the uncertainties caused by the rapidly changing retail landscape and the unknown effect of Brexit.

The key risk areas are as follows:

- Construction Risk

Whilst prudent cost assumptions have been used for construction and reasonable levels of cost inflation applied, a construction programme of £290m spread over a six-year period is particularly exposed to scarcity of resources and unexpected levels of inflation.

- Interest Rate Movement

The appraisals have been based on an interest rate of 3% for the majority of blocks with 5% used for the larger, later Block G. This level of interest is very prudent based on the current and forecast PWLB rates, but unexpected market movements could result in higher rates.

- Demand Risk

This is the primary risk that the Council carries in relation to securing tenants in the various commercial and residential units created, both in terms of speed of take up and price. The appraisals are based on expected levels of rental which are comparable to similar properties in the City but assume that virtually full occupation is achieved within a short period of completion. The rationale for the staggered delivery programme is to better match future supply and demand but this can only be fully tested when the properties begin to be marketed.

- Exit Value Risk

The exit values have been determined based on expected yields for the different types of use. Again, these are prudent assumptions based on the current performance of similar property sales. However, given the significant period until these properties come on to the market then it is possible that lack of demand may make pricing less competitive.

- Business Rate Risk

The Council is reliant on the increased Business Rates created to fund the residual cost of the development. The rateable values have been estimated based on a proportion of the market rent which is prudent but will only be validated when the properties are rated by the Valuation Office. The council also carries the risk of subsequent claims for relief and payment default.

8.4.2 However, it should also be noted that the assumptions used could be overly prudent and improved positions could be achieved.

- 8.4.3 Detailed Sensitivity Analysis of those key risk areas is set out in Part 2 of this report.
- 8.4.4 It is imperative therefore that proper governance is exercised over the progression of the scheme and that additional costs commitment will only be made if there is tangible evidence that scheme has positively achieved its pre-conditions and that the demand, rental levels and costs can be evidenced to be in line with or an improvement on base assumptions.
- 8.4.5 During the pre-construction stage the detailed designs, uses and costings will be reappraised and reengineered to ensure the optimum solution is derived.

9.0 LEGAL IMPLICATIONS

- 9.1 A number of the recommendations in this report are intended to allocate and identify sources of funding for the Heart of the City II development. In order to comply with the Council's constitution and rules of governance a further approval will be required via its Capital Approval process. As mentioned in this report, this will be undertaken in respect of individual items of capital expenditure.
- 9.2 Paragraph 3 of Schedule 1 to the Housing Act 1985 provides that a Council tenancy is not a secure tenancy if the dwelling-house is on land which has been acquired for development and the dwelling-house is used by the landlord, pending development of the land, as temporary housing accommodation. The residents of Laycock House occupy under such tenancies, which are contractual tenancies that may be ended by Notice to Quit. If displaced by redevelopment they are however entitled to statutory home loss payments, the reasonable costs of removal, and suitable alternative accommodation under the provisions of Part III of the Land Compensation Act 1973.
- 9.3 Under section 123 of the Local Government Act 1972 the Council is under a statutory duty to obtain the best consideration achievable for its land.
- 9.4 Under the Localism Act 2011 a general power of competence was introduced that empowered local authorities to do anything as long as it is not specifically prohibited under the Localism Act or other legislation. Section 1 subsection 1 allows the Council to do anything that individuals generally do.

10.0 PROPERTY IMPLICATIONS

- 10.1 The rental income produced by the existing properties within the Heart of the City II site will be used to help fund their holding and management costs until such time as they are required for redevelopment.
- 10.2 If the Council decide at a future date not to proceed with the Heart of the City II scheme then the Councils remaining land and property holdings at that time within the site will be capable of being sold to generate capital receipts, either individually back to previous owners or as investments, or as mixed-use development sites. In these circumstances such disposals would need to have regard to the Crichel Down Rules.

11.0 ENVIRONMENTAL SUSTAINABILITY

- 11.1 The long term strategic implications of a Heart of the City II development to Sheffield

have already been covered in this report and the detailed elements of environmental and sustainability matters have and will be incorporated into the planning process by virtue of negotiated designs, planning conditions and S106 obligations.

- 11.2 Any development will promote the use of sustainable materials wherever viable and the structures will be designed as efficiently as possible to reduce the quantity of raw construction materials; and every effort will be made to minimise its carbon footprint.

12.0 COMMUNITY SAFETY IMPLICATIONS.

- 12.1 The Heart of the City II development will incorporate a series of well-designed public spaces and squares between the buildings. These spaces will be well designed and constructed with high quality materials and will provide a safe environment for all.

- 12.2 Use of CCTV and informal policing by The City Centre Ambassadors will help ensure that a safe and secure environment will be maintained.

13.0 ECONOMIC IMPACT

- 13.1 The long-term economic benefits to Sheffield of securing delivery of the development of the Heart of the City II are both enormous and long lasting. It will generate new tax revenue and retain and/or create new jobs in the city centre.

- 13.2 The anticipated long term economic benefits of the Heart of the City II development have already been set out in paragraphs 2.7 to 2.13 of this report

- 13.3 The development of the Heart of the City II scheme also enhances the status of the city centre in itself creating an attractive environment in which to live, work, shop and relax and will in turn help stimulate other office, commercial and leisure investment and/or development in the city centre generating additional business rates and creating more jobs.

14.0 ALTERNATIVE OPTIONS CONSIDERED

- 14.1 The do-nothing option i.e. complete only the delivery of the first phase (the HSBC/Retail block) and cease work on the wider Heart of the City II scheme has been considered, not only has a potentially worse financial impact but also has many negative outcomes for the Council.

- 14.2 The status of city centre will continue to diminish, the Councils long term economic aspirations for the City and the city centre will become less feasible, there will be a lack of confidence for other projects and the reputation of both the City and Council will also suffer.

- 14.3 The Council will also make a loss if the Heart of the City II development is not delivered, as its investment to date in working up the scheme will be lost.

15.0 REASONS FOR RECOMMENDATIONS

- 15.1 As outlined in this Report, there is a still a very clear strategic and economic case to justify the Heart of the City II development, and to maintain project momentum.

- 15.2 The Executive Director, Place and the Executive Director of Resources believe that the Heart of the City II development is vitally important for the regeneration of the city centre.
- 15.3 The reasons for the recommendations are to provide a way forward for the Council to deliver the Heart of the City II development
- 15.4 For the above reasons it is proposed that the Cabinet adopts the recommendations set out in this report.

Eugene Walker
Executive Director of Resources

Laraine Manley
Executive Director, Place

21st March 2018