

Overview and Scrutiny Management Committee

Meeting held 4 June 2020

(NOTE: This meeting was held as a remote meeting in accordance with the provisions of The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020.)

PRESENT: Councillors Mick Rooney (Chair), Ian Auckland, Steve Ayris, Ben Curran, Denise Fox, Julie Grocutt, Tim Huggan, Douglas Johnson, Mike Levery, Cate McDonald, Sioned-Mair Richards and Jim Steinke

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1. APOLOGIES FOR ABSENCE

1.1 No apologies for absence were received.

2. EXCLUSION OF PUBLIC AND PRESS

2.1 No items were identified where resolutions may be moved to exclude the public and press.

3. DECLARATIONS OF INTEREST

3.1 In relation to Agenda Item 7 (Call-in of the Leader's Decision on Month 11 Capital Approvals 2019/20 – Heart of the City II – Block A (Palatine Chambers)), Councillor Denise Fox declared a personal interest as partner of Councillor Terry Fox (Deputy Leader of the Council and Cabinet Member for Finance, Resources and Governance), who had liaised with the Leader in making the decision, and was in attendance at this meeting.

4. MINUTES OF PREVIOUS MEETING

4.1 The minutes of the meeting of the Committee held on 14th February 2020, were approved as a correct record and, arising therefrom, (a) the Chair reported that as Councillor Mark Jones (Cabinet Member for Environment, Streetscene and Climate Change) had been busy dealing with issues surrounding Covid-19, he had not yet received any indication from Councillor Jones as to when a Citizens' Assembly would be established to look at climate change and (b) the Policy and Improvement Officer (Deborah Glen) (i) reported that Louise Brewins (Head of Performance and Intelligence) had agreed to the request from Committee on 19th September 2019, regarding the Corporate Performance Framework, (ii) confirmed that, following discussions with colleagues in the Ethical Procurement Team, performance outputs would be included on the Corporate Performance

Framework and (iii) reported that she would chase up the information requested of the Executive Director, Resources, in connection with ethical procurement, and circulate such information to Members.

5. PUBLIC QUESTIONS AND PETITIONS

5.1 There were no questions raised or petitions submitted by members of the public.

6. CALL-IN OF THE LEADER'S DECISION ON MONTH 11 CAPITAL APPROVALS 2019/20 - HEART OF THE CITY II - BLOCK A (PALATINE CHAMBERS)

6.1 The Committee considered the following decision of the Leader, made on 16th April 2020, regarding the Month 11 Capital Approvals 2019/20 - Heart of the City II - Block A (Palatine Chambers):-

- (a) approves the proposed additions and variations to the Capital Programme listed in Appendix 1 of the report, including the procurement strategies, and delegates authority to the Director of Finance and Commercial Services or nominated officer, as appropriate, to award the necessary contract; and
- (b) approves the making of grants to third parties, as detailed in Appendix 2 of the report.

6.2 Signatories

The lead signatory to the call-in was Councillor Martin Smith, and the other signatories were Councillors Ian Auckland, Steve Ayris, Tim Huggan and Mike Levery.

6.3 Reasons for the Call-in

The signatories wanted the Council to review the size and timing of the investment for Heart of the City II (Block A) in the light of the current economic circumstances, together with the associated project risks.

6.4 Attendees

- Councillor Terry Fox (Deputy Leader and Cabinet Member for Finance, Resources and Governance), attending in place of the Leader (Councillor Julie Dore), who was not able to attend
- Councillor Mazher Iqbal (Cabinet Member for Business and Investment)
- Councillor Martin Smith (Lead Signatory to the Call-in)
- Nalin Seneviratne (Director of City Centre Development)
- Jayne Clarke (Finance Manager)

6.5 Councillor Martin Smith, as lead signatory, stated that, whilst he supported the Heart of the City II Scheme, there were three main reasons for the call-in, firstly due to the high value of the contract, secondly that the development was taking place in the most prominent block of the Heart of the City scheme and thirdly, the

decision required further scrutiny in the light of the potential adverse effect of Covid-19 on the economy, particularly in the light of the effects on the hospitality sector, which formed the core of this element of this Project. Councillor Smith concluded by expressing his surprise at such a decision being taken during the peak of the pandemic.

- 6.6 Councillor Mike Levery also welcomed the Heart of the City II scheme, but stressed that the scheme had been approved in line with the vision approved by the Cabinet in 2018, whereas the world had changed considerably since then. He stressed that the Council was already looking at a difficult budget preparation for 2021/22, and approving this project would result in an increase in borrowing costs. He expressed concerns with regard to the Council committing to the construction phase, and questioned whether there was any mitigation regarding risk. He concluded by stating that the Council needed to do the correct thing that met the City's needs.
- 6.7 Councillor Steve Ayris stated that he was also in support of the Heart of the City scheme, albeit at the correct time. He queried what the Council's vision of the City Centre was at this time, given the current situation regarding Covid-19, stating that, until the Council had seen the economic recovery plan, there would obviously be a lack of clarity on this issue. Councillor Ayris also referred to the fact that there could be an upturn in the virus, requiring further lockdown measures. He considered that there was a need for a careful evaluation of the economic and social impact of Covid-19 before committing more public funds. Councillor Ayris referred to the recent decision of Sheffield Hallam University to drop its Gateway Tower project on Sheaf Street, for economic reasons, as well as referring to the closure of a number of large stores in the City Centre, and to the difficulties currently being faced by other major retailers in the City. He stressed that Covid-19 was having a major adverse effect on the hospitality sector.
- 6.8 Councillor Tim Huggan queried the logic of the decision being taken by the Leader, who would be leaving the Council next year, and would not see any impact of the decision. He also referred to the current pandemic, and questioned whether this was the right time to be making such a decision.
- 6.9 Councillor Mazher Iqbal provided a brief history of the Heart of the City I scheme, indicating that the £160 million investment had enabled the Council to lever in substantial private sector investment. The scheme had comprised a number of high quality buildings and open spaces within the City Centre. In order to de-risk the Heart of the City II scheme, the scheme had been broken down into different segments, where decisions regarding progression could be made at different stages. Councillor Iqbal stated that the Heart of the City II comprised a mixed development of housing, leisure, hotel, food and beverage and retail facilities, and was expected to create around 500 construction jobs. When complete, it was expected to provide between 5,000 and 7,000 jobs. The Council was very aware of the risks involved, particularly regarding the £470 million cost of the scheme. There was now a new development partner, Queensberry, and the scheme had already delivered its first success in terms of Block D (HSBC), with two major retailers, Monki and Weekday, moving in some time ago and a recent announcement just made regarding letting office space to CMS, an international

law firm. Councillor Iqbal stated that Blocks B and C were currently under construction, planning permission had recently been approved in respect of Block F, a large company had expressed an interest in respect of Block G, and the plans in respect of Block H were currently out to consultation. Radisson Blu, a well renowned hotel chain, had expressed an interest in Block A, and had been selected through the competitive process, with the plans shortly to go through the planning process, as well as public consultation. Councillor Iqbal stated that he appreciated the reason for the call-in, particularly in the light of the current situation, but stressed that, given the increasing confidence in the City Centre, he believed that such a project was deliverable and sustainable. Although Radisson Blu had committed to the development in Block A, the planning and construction process could take up to two to three years, when it was hoped things had changed by then. He stated that the Council had been working closely with the Business Improvement District (BID) and South Yorkshire Police in connection with re-opening the City Centre following the lockdown. He added that officers were in contact with the British Retail Consortium, the body responsible for analysing retail performance both locally and nationally, and referred to the success of the HSBC building, the first completed building as part of Heart of the City II. He stated that members of the public and businesses were starting to have an increased confidence in the City Centre, and it was expected that, with the development of the further blocks, such confidence would be higher. Councillor Iqbal referred to the recent establishment of a Business Recovery Group, which comprised representatives of the City's two Universities, the Chamber of Commerce and other organisations, and which met weekly to discuss issues regarding business confidence in the City Centre.

- 6.10 Councillor Terry Fox stated that he appreciated and accepted the concerns now raised, and stated that the Leader had made the decision in consultation with himself and Councillor Mazher Iqbal, together with relevant senior officers, in order to highlight the City's ambition going forward. He stressed that he was convinced, at this moment in time, it was the correct approach, and was fully behind the project. One of the Council's main aims was to get quality, long-term jobs into the City, including apprenticeships, and this was seen as an ideal opportunity. He concluded by stating that the Council took a very prudent approach, seeking advice from relevant officers and representatives from external organisations at each stage of the overall scheme.
- 6.11 Nalin Seneviratne reported that Block A was a gateway to the Heart of the City II scheme, and represented an important and strategic part of the overall development. The Block comprised three buildings, Barkers Pool House, Palatine Chambers and the former Gaumont Cinema building, and the site had been relatively unoccupied for some years, other than temporary lets and shop licences. John Lewis had agreed to vacate Barkers Pool House with effect from November 2020, to enable the redevelopment to proceed. The overall project would include the demolition of Barkers Pool House, the retention of the Victorian façade on Pinstone Street, the construction of a new 4-star hotel and the re-cladding and refurbishment of the former Gaumont Cinema building, to allow for modern-day retail use. The hotel development would form the primary use of the block, and would account for over 75% of the revenue with regard to the investment value generated by the development. Pre-construction activity was well advanced and,

whilst the application for planning permission had originally been ready for submission later this month, there was now likely to be a delay due to this call-in. Mr Seneviratne stated that risk management of the Project was a major issue, as it was for the whole Scheme, and that the Council could not go out to tender for construction prices until the budget had been approved. Also, as part of the risk management process, and particularly in the light of the current economic circumstances, the project would be developed step by step, and even when the finance was approved, further checks would be made on the construction market to assess the position at that time. Radisson Blu, the second largest hotel operator in the world, would be responsible for operating the hotel as part of the project, with the Company still very much committed to working with the City. The Council was working with Colliers international, consultants who provide strategic and commercial advice for developers, and were also consulting with a company called STR, who were a premier provider of data on hotel performance. The hotel was scheduled to open at the beginning of 2023, at which time it was expected that the Covid-19 virus will have passed. Mr Seneviratne stressed that the Council could sell the building if it was deemed necessary. There were a number of standard project risks associated with the site, which included the need to ensure that the scope of the hotel did not exceed its budget, dealing with external repairs to existing buildings, issues with regard to construction works on such a tight site and dealing with the removal of asbestos on the site. It was envisaged that there would be an income of between £2.6 and £3 million on an overall investment of £47 million, with a return to the Council of between 5.5 and 6.4%, minus any management and finance costs. Mr Seneviratne concluded by referring to the importance of having such a major hotel operator in the City, particularly one that would employ its staff on the real living wage.

6.12 Jayne Clarke stated that the project would be funded through prudential borrowing during construction, therefore there would be no revenue impact on the Council's budget. The prudential borrowing only kicked in if and when the Council drew down on expenditure, therefore there would be no major interest charges. In terms of risks, having a major tenant helped, and would result in the receipt of substantial business rates.

6.13 Members of the Committee raised questions, and the following responses were provided:-

- In terms of the timing of the Leader's decision, the process commenced prior to the start of Covid-19 pandemic, and the City Development Programme Board took the view that the Council needed to keep a close eye on each step as the project progressed. The Council took commercial advice from Colliers International, who had a wealth of knowledge in terms of the hospitality sector. It was envisaged that the hotel would be completed in early 2023, and that the pandemic was more than likely to be over by that time. The advice from Colliers had been obtained around three to four weeks ago as part of the risk management process, and following the Leader's decision on 16th April 2020. The Programme Board wanted to see the results of construction pricing, and that a review of the hotel market would also occur prior to entering into the contract.

- The Programme Board comprised Councillor Mazher Iqbal, Eugene Walker (Executive Director, Resources), Gillian Duckworth (Director of Legal and Governance), Laraine Manley (Executive Director, Place), Ryan Keyworth (Director of Finance and Commercial Services), Jayne Clarke (Finance Manager), Tammy Whitaker (Head of Regeneration and Property Services), David Sellars (Senior Lawyer, Legal Services), Edward Highfield (Director of City Growth) and Neil Jones (Programmes and Partnerships Team Manager), and Andrew Peacock from CBRE, an international real estate firm. The Board would always seek specialist independent advice, and the decision regarding the capital approval had been made on the back of having Radisson Blu on board. The Council was currently working through the agreement process with Radisson Blu.
- The Council was currently beyond the Heads of Terms arrangements with Radisson, and the legal agreements had nearly been finalised, but not yet entered into. It was fully accepted that there was a level of risk involved in the project, therefore the Council wanted to go out to the market in terms of construction prices prior to committing any further. The Council was not able to go out to tender unless the finances had been approved. Radisson was seeking its final board approval this month, and wanted to progress the deal, in time for the hotel opening in 2023. The Company had committed a considerable sum in terms of costs with regard to design and legal discussions. When the Council obtained the tenders, a further review would be undertaken, which would include seeking further advice from Colliers International.
- The Council had instigated an overall review of the Heart of the City II Scheme, and not just regarding Block A. This had involved asking its development partner, Queensberry, to undertake a review on the current position with regard to the retail market. The Council had also liaised with the CBRE, who were represented on the Programme Board, and also sought advice on capital markets. The plan was to submit a report to the Cabinet in July 2020, containing an update on the overall scheme, including details of finances.
- The Council's former Chief Executive (John Mothersole) used to be a member of the Project Board, but the present interim Chief Executive (Charlie Adan) was not. The Leader of the Council was also not a member of the Board as it was not possible for her to cover all meetings, therefore the duties regarding such attendance had been delegated to Councillors Mazher Iqbal and Terry Fox. There were comprehensive political checks and balances of the whole process, and the proposals would be submitted to the Cabinet for final approval. All decisions made with regard to the Heart of the City II scheme had been made by the Executive Director, Resources, and Executive Director, Place, in consultation with Councillors Mazher Iqbal and Terry Fox and other Members and officers as appropriate. All financial decisions still go through Cabinet as part of the capital approvals process.
- Queensberry were the Council's development manager and received a fee for their work.

- Unless dealing with a major city or a tourist hotspot, hotel operators don't generally take leases any more. The Council was looking at the hotel management agreement with Radisson Blu. There was a considered amount of risk shared with that Company in terms of performance fees, and Radisson Blu also bared a considerable level of risk in the operation. Radisson Blu would be looking to establish a company in the City to operate the hotel.
- The information contained in the independent report produced by Colliers International had not been included in the papers for consideration at this meeting, as it was not required to be so. It was not apparent that there was any other information available at the time the papers for this meeting were published.
- If there were any delays on the part of Radisson Blu in terms of entering into an agreement, there would be no financial detriment to the Council as it would not be entering into an agreement. The aim was to get the agreement with Radisson Blu in place prior to entering into construction contracts. The Council was the developer in this case, therefore carrying the risk, and this was why the deal was being progressed very prudently. The Council made every effort to try and identify an occupier in respect of each Block, as part of the overall scheme, as in the case with Radisson Blu in terms of Block A. If Radisson Blu decide they didn't want to go ahead, the Council would not construct a hotel. If Radisson Blu decided they wished to delay construction, particularly in the light of the current economic situation, the Council would work with them on this.
- The Council had recently undertaken a complete financial review of the scheme, and did this on a regular basis. There was a much smaller retail content in this particular project compared with past plans, therefore this was seen as less of a risk. Sheffield is one of the largest cities in the country, and retailers were still interested in locating to the City. In terms of other development in the City Centre, Charter Square had now been completed, and was ready to accommodate a leisure operator. This therefore proved that there was still interest and confidence in the City Centre, despite the current situation with regard to Covid-19.
- One of the key ambitions for the current Administration was to ensure that the City Centre was a place where local residents and visitors from elsewhere in the country, and elsewhere in the world, could come to work, live and play. Each different Block as part of Heart of the City II went through an appraisal process in view of the public finances involved. Reference was also made to the £150 million development with regard to West Bar, the development of the Old Town Hall building on Castlegate and the recent works on The Moor, which all represented development schemes which helped to add to the vibrancy of the City Centre. The development of the Radisson Blu hotel would give confidence to other investors, both nationally and, hopefully, globally.
- Queensberry were traditionally retail developers, and still managed a number

of retail schemes around the country. The Council, together with Queensberry, worked closely with commercial property agents Central Retail and Distrikt, which was involved in niche and emerging markets in the food and beverage sector. It was also in collaboration with the CBRE. The Council would bring in such organisations when it required specific advice. It was acknowledged that a number of major retailers had closed down in the City Centre, but there were also a number of success stories. The Council was always monitoring what was happening locally, nationally and globally. There were plans for the City Centre to reopen in the near future and as part of this work, the Business Recovery Group had written to all businesses in the City Centre, asking what their plans were.

- In terms of borrowing, the Council only drew down funding when there was a shortfall in its requirements as part of the Council's overall treasury management. Interest would only be incurred at such stage when funding was drawn down. Interest was then capitalised whilst each block was under construction.
- Block A was well progressed in terms of its design, and was just about ready to go out for public consultation, and the Council was ready to go out to the construction market in respect of the design stage. At the present time, the retail elements were effectively shell and core, with the hotel design well advanced.
- If it was the case that no major retailers could be attracted to this space, such space could be used for other purposes. All blocks as part of the overall scheme were designed flexibly for this purpose. The projected yield in respect of the commercial and retail element of the project was 5.7%.
- It was hoped that, like with the HSBC building in Block D, the construction costs in respect of Block A would be less than envisaged. The overall plan of the scheme was to target viable, sustainable and deliverable developments, such as HSBC. There were approximately 2,000 employees working in HSBC's offices in Block A, and the international law firm, CMS, had recently agreed to take up the remainder of the office space in the building.
- It was envisaged that the second phase of the Heart of the City Scheme would build on the success of the first phase, and it was hoped that, following further major development schemes, more local people, as well as tourists, would choose to visit the City Centre. There was an element of risk to the project following the call-in and there were concerns that if the Council did not show a level of ambition, this would portray a negative outlook. If the development of Block A did not proceed, there would be a lack of confidence in terms of the future of the overall scheme, as well as a potential for it to have a major adverse effect on the City's reputation.
- The independent report from Colliers now referred to would be circulated to all Members of the Committee.
- The term of the agreement with Radisson Blu was 20 years, and if the

Company pulled out at any stage, the Council could sue them for breach of contract. Every check would be made to ensure that everything was satisfactory prior to signing up with Radisson Blu, prior to construction commencing. The target date for the signing of the agreement was July, although there could now be a delay in this.

- Radisson Blu would set up in Sheffield as an operator, taking a fee, as well as sharing the risk. The Council, as developer, would be the owner of the hotel, but could look to sell at any point. It was likely that the Council would review the position after three years of the hotel operating in order to see how things were going.
- The Council would be taking the income from the hotel business, therefore more visitors would result in more income for the Council. It was however, believed that the level of turnover would be manageable. The delivery of the scheme would be in three years. The income from the hotel was expected to be between £6 and £7 million per annum, of which the Council would receive a share.
- A number of major companies were deemed to be taking a risk by investing in the City in the middle of the Covid-19 pandemic. As well as major companies, the Council had also been approached by a number of independent traders, expressing an interest in being part of the scheme. As each Block was occupied, this gave other businesses and traders confidence. The more businesses and retailers attracted to the City, as part of the scheme, would create a huge number of jobs, as well as creating a supply chain.
- It would definitely be detrimental to the local economy if the development of this project did not proceed, and would be particularly detrimental for local independent traders.
- A large proportion of the City's income comes from business rates and Council Tax, therefore it was important to make sure that the City's economy was strong. There had been objections to past developments in the City Centre, which had proved to be major successes, such as the Peace Gardens and St Paul's. It was accepted that there was pressure on all areas of the Council's budget, but it was important that decisions regarding future developments were taken, whilst being prudent at the same time.

6.14 Councillor Martin Smith expressed his thanks to all participants at the meeting for their contributions, but still expressed concerns at the decision being taken at the very height of the Covid-19 pandemic. He was particularly concerned that the Council had sought independent advice on the economic effects of Covid-19 only after the decision was taken by the Leader on 16th April 2020, and the fact that such advice was not circulated to the Cabinet, this Scrutiny Committee or the Leader of the Council. Councillor Smith stated that as there was no full legal agreement with Radisson Blu, he believed that this element of the project should be paused, subject to the outcome of the Covid-19 pandemic on the City's economy.

6.15 RESOLVED: That the Committee:-

- (a) notes the information reported as part of the presentation, the responses to the questions raised and the comments now made;
- (b) agrees that no action be taken in relation to the called-in decision, but requests that further updates on the Heart of the City II scheme be submitted to the Economic and Environmental Wellbeing Scrutiny and Policy Development Committee.

The votes on the above resolution were ordered to be recorded and were as follows:-

- For the resolution (8) - Councillors Ben Curran, Denise Fox, Julie Grocutt, Douglas Johnson, Cate McDonald, Sioned-Mair Richards, Mick Rooney and Jim Steinke
- Against the resolution (4) - Councillors Ian Auckland, Steve Ayriss, Tim Huggan and Mike Levery

(NOTE: Prior to the passing of the above resolution, an amendment moved by Councillor Tim Huggan and seconded by Councillor Mike Levery, to replace paragraph (b) with the following, was put to the vote and negatived:-

“requests that the decision be deferred to allow for further scrutiny of the independent report of Colliers International”

The votes on the amendment were ordered to be recorded, and were as follows:-

- For the resolution (4) - Councillors Ian Auckland, Steve Ayriss, Tim Huggan and Mike Levery
- Against the resolution (8) - Councillors Ben Curran, Denise Fox, Julie Grocutt, Douglas Johnson, Cate McDonald, Sioned-Mair Richards, Mick Rooney and Jim Steinke

7. OVERVIEW AND SCRUTINY DURING COVID-19

- 7.1 The Committee received a presentation from the Head of Policy and Partnerships (Laurie Brennan) containing proposals with regard to the role of scrutiny during Covid-19.
- 7.2 Mr Brennan reported on the democratic accountability and scrutiny during Covid-19, the role of scrutiny as the Council recovers from the pandemic, the effectiveness of the virtual scrutiny meetings held to date, and a suggested way

forward.

7.3 Members of the Committee raised questions, and the following responses were provided:-

- It was planned that a review of the proposals would be undertaken in August 2020, and it was confirmed that the suggestions now reported only comprised temporary arrangements.
- The Committee was being asked to put forward a number of suggestions and a range of views, which could then be considered at a meeting of the Committee Chairs, and the respective Policy and Improvement Officers.

7.4 Members of the Committee raised the following points:-

- It was correct that specific emphasis should be given to meetings of the Healthier Communities and Adult Social Care Scrutiny and Policy Development Committee, in the light of Covid-19.
- It was important to look at other issues which would be considered by the other Scrutiny Committees, such as domestic violence and the impact of Covid-19 on the Housing Revenue Account.
- Whilst the current, temporary arrangements appeared to be working satisfactorily, there was no substitute for the usual scrutiny function.
- There could be justification for arranging meetings of all the Scrutiny Committees as Covid-19 was affecting the City in a number of different ways.
- It was important that all the Scrutiny Committees were back up and operating as soon as possible as there were a number of Members on the other committees with specific knowledge, which was valuable as part of the Council's democratic process, particularly during these difficult times. All the Scrutiny Committees should be meeting, although not as regularly as they used to.
- There was no need to arrange meetings for the sake of it, particularly given the present situation, and the demands on officer time and resources.
- The Chairs and Deputy Chairs of all the Scrutiny Committees should meet to discuss which topics required scrutiny.
- This Committee should meet in the near future to discuss which topics should be prioritised.
- There was a need to be mindful of staffing resources available, as well as issues regarding Information Technology.

7.5 RESOLVED: That the Committee:-

- (a) notes the information reported as part of the presentation, the responses to the questions raised and the comments now made;
- (b) agrees that arrangements be made for a further meeting of this Committee to be held in the near future, given the number of important issues requiring consideration, and discussion be held at that meeting on a proposed plan with regard to arranging meetings of the other Scrutiny Committees, with such proposals being based on current staffing resources and IT capacity; and
- (c) requests that the Head of Policy and Partnerships meets with the Chairs and Deputy Chairs of all the Scrutiny Committees to prioritise a list of suggested topics for consideration, to inform the discussion to be held at the next meeting of this Committee, as referred to above.

8. DATE OF NEXT MEETING

- 8.1 It was noted that the next meeting of the Committee would be held on a date to be arranged.