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Report of: Mick Crofts
Report to: Cabinet
Date of Decision: 17th March 2021
Subject: West Bar Square Update

Is this a Key Decision? If Yes, reason for 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?
Business and Investment – Cabinet Member Mazher Iqbal

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?	919			

Does the report contain confidential or exempt information?	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
If YES, give details as to whether the exemption applies to the full report / part of the report and/or appendices and complete below:-				

Purpose of Report:

To provide an update on this strategic regeneration project and seek approval for the City Council to accept the new sources of external funding to support delivery outlined within the report.

Recommendations:

- 1 That Cabinet approve the proposals set out in this report and the terms of the proposed agreements. In so doing, Cabinet agree not to terminate the existing agreement with Urbo and Legal & General
- 2 That Cabinet delegate authority to the Executive Director Place in consultation with the Executive Director Resources and the Director of Legal and Governance to finalise, agree and execute the terms of the agreements and the terms of any other documentation required to give effect to the proposals set out in this report and generally to protect the Council's interests.

Background Papers:

Report to Cabinet 13th February 2019 and earlier papers referred to in that report

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: David Cutting
	Equalities: Annemarie Johnston
	<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 member who approved submission:
	Mick Crofts
3	Cabinet Member consulted:
	Councillor Mazher Iqbal
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: Neil Jones
	Job Title: Partnership Team Manager, City Regeneration and Property
	Date: 17 March 2021

1.0 BACKGROUND

- 1.1 West Bar Square is a long standing strategic project promoted by the Council which aims to extend the City Centre to the riverside, Kelham and Castlegate and reduce severance of Burngreave from the City Centre. The site is currently mostly vacant land and temporary car parks. Its development will create a vibrant new place including new 'build to rent' apartments and large-scale office development in high quality buildings set around new public realm. It is one of the few sites in the City Centre that can accommodate large floorplate offices and is particularly well suited to Govt/Public Sector relocations/consolidation due to existing occupiers nearby and lower rental values than in the prime core of City Centre.
- 1.2 Urbo (West Bar) Ltd is a joint venture between local regeneration developers Urbo Regeneration Ltd and Peveril Securities Ltd. Peveril is the development arm of Bowmer & Kirkland, the UK's largest independent building contractor. Urbo and the Council have an existing development agreement and Urbo now own the whole 7.33 acre development site following confirmation of a CPO in 2019. All businesses previously on the site have been successfully relocated.
- 1.3 In February 2017 Urbo secured an outline planning permission for the development of up to 1.5m sq.ft of mixed-use space. Over half of the developed scheme will be offices and the remainder a mix of residential apartments, small scale retail, leisure and other uses.
- 1.4 In view of the large scale regeneration nature of this project, Urbo approached Legal & General (L&G) who have developed a number of major funding/investment partnerships with Local Authorities in cities including Salford, Cardiff and Newcastle. L&G have also funded or delivered several new Government offices. In February 2019 Cabinet approved the Council entering into a 40 year lease agreement with Urbo and L&G for a 100,000sq ft office which would also unlock the first phase of over £150 million of new investment into the West Bar Square development.
- 1.5 The agreement was entered into in April 2020. This provides for Urbo to deliver and L&G to fund the first phase of office, 368 apartments, MSCP and public realm all to be built concurrently. A further 100,000sq ft office is to be developed speculatively by L&G within 2 years of practical completion of Office 1. Detailed planning applications were submitted at the beginning of March and construction could start before the end of this year.
- 1.6 Whilst the first phase of the development is financially viable there are some issues where additional external funding will help to ensure that it starts as soon as possible and mitigate some of the Council's letting risk. New funding has been approved (subject to finalising funding agreements) by the JESSICA Board and Sheffield City Region as explained below.

- 1.7 The agreement included an option for the Council to terminate it after 12 months from signing. If that happened the Council would be responsible for reimbursing part of the professional costs incurred by Urbo and L&G. In that scenario it is very likely that L&G would also withdraw and the development would be delayed by several years until new funding is secured by Urbo.

2. PROPOSAL

- 2.1 The Sheffield City Region JESSICA Fund was established in 2012 under the ERDF programme. The Fund provides loans to enable commercial development across South Yorkshire. Discussions with JESSICA fund managers CBRE have recently been approved in principle by JESSICA Board on the basis of a rental loan towards Office 1 West Bar Square on the following terms:

- Loan – £1.25m
- Borrower – Urbo West Bar Ltd (back to back arrangement with the Council to pass over funds)
- Guarantor – Sheffield City Council
- Term – Earlier of 3 years from signing or 2 years from practical completion
- Interest Rate – PWLB rates
- Set Up Fees – c. £20k + VAT.
- Drawdowns - The Fund will provide the Rental Loan to Urbo, drawdown against eligible capital expenditure. Urbo will then transfer the equivalent of the full amount of the Rental Loan to the Council in order to help to mitigate letting risk
- Repayment –
 - o Any rental income received by the Council during the Term only.
 - o Interest rolled-up through the loan term to earlier of maturity or repayment
 - o Interest due irrespective of how the scheme lets up.
 - o If required lettings not achieved, loan written off and interest only payable

- 2.2 The Fund acknowledge that if the Council grant rent free periods on lettings at reasonable open market levels, there is a possibility that very little rental income will be received during the Term and the loan would be written-off and only interest payable. The rent which the Council will pay to L&G is considerably below the market rent and has a significant rent free period, so the effect of the Rental Loan is to considerably reduce the Council's risk during the early years of the lease.

- 2.3 Sheffield City Region invited bids in August from the SCR Brownfield Housing Fund for shovel ready infrastructure projects that could accelerate housing delivery on brownfield sites. An outline bid was submitted by officers to assist viability and acceleration of the Build to Rent apartments at West Bar Sq by carrying out works to the junction of Bridge St and the Inner Ring Road and diversion of a large BT Openreach cable. This was approved in principle by SCR in October and a Full Business Case for £655,000 was approved in January and confirmed in March.

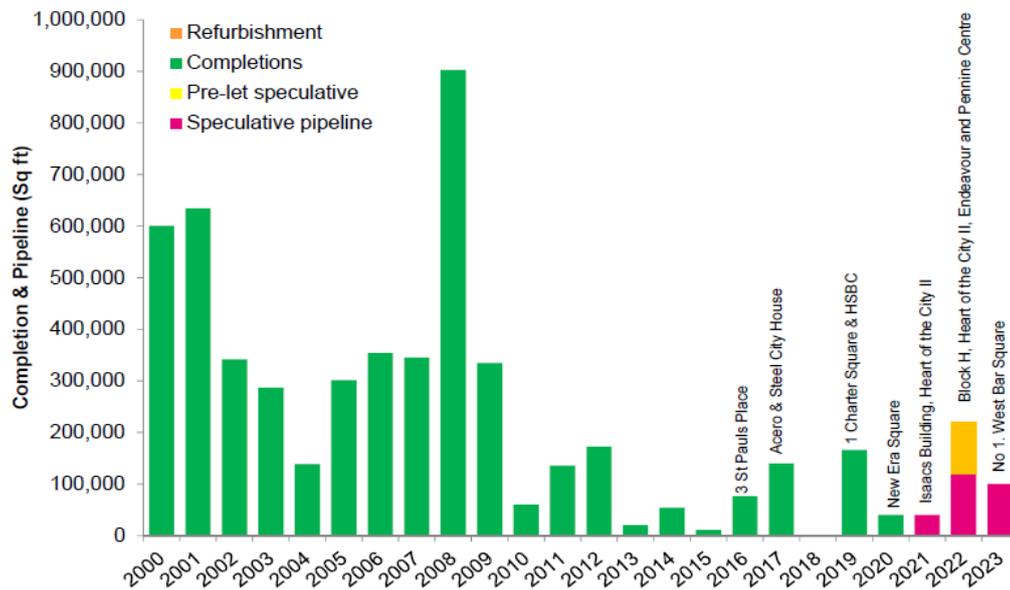
- 2.4 It is a requirement of the Brownfield Housing Fund that this grant be provided to the Council. The actual works will be procured and delivered by Urbo with the grant paid by the Council to Urbo to reimburse the costs. If the final costs are higher than the grant that risk will sit with Urbo not the Council.
- 2.5 The junction works benefit a wider area than just the West Bar site and will help to create a more attractive walking route from Burngreave and Kelham through the West Bar development and help to reduce some traffic from the proposed new cycle dominated roundabout at West Bar/Corporation St.
- 2.6 The objective and effect of both of these new external funding streams is to reduce risk and accelerate the delivery of the development this year.

3. HOW DOES THIS DECISION CONTRIBUTE?

3.1 Economic

- 3.1.1 Sheffield has a chronic shortage of Grade A office space. Other than Grosvenor House, which the Council developed as part of Heart of the City, virtually no new office development has been constructed since 2016-2017 when 3 St. Pauls Place, Acero at Digital Campus and Steel City House were completed speculatively. All of these buildings have subsequently been let.
- 3.1.2 Only 17,000 sq. ft of Grade A stock is currently available in the CBD, which is all in small suites across a number of buildings. This is the lowest ever supply on record and lettings of Grade A space in the City Centre has typically averaged 118,000sq ft per annum. Consequently, any major occupiers seeking in excess of 10,000sq ft of Grade A space will have to either wait 12-24 months for a pipeline building, or compromise by taking a lower standard of Grade B accommodation. This could have a very detrimental impact on the future growth of the economy.
- 3.1.3 The chart below shows levels of new build supply which are scheduled to be delivered over the next three years and the context of historic completions. There are currently no firm proposals in the pipeline beyond 2023. Whilst the Council's next offices in Heart of the City and Endeavour at Digital Campus will be brought forward at a similar timescale to 1 West Bar Sq all three are differentiated by location, floorplate size and rental values. We have good interest in Issacs Building which the Council is currently developing on Pinstone Street, with a strong possibility that the office space could be fully let before it is completed later this year.

NEW BUILD OFFICE DEVELOPMENT PIPELINE



Source: BNP Paribas Real Estate Research /PMA;

BNP PARIBAS
REAL ESTATE

3.1.4 The impact of Covid19 on future office demand remains to be fully clear. Whilst many employers have realised that they can work effectively from home, it has also become clear as time has passed that it is not likely to be a permanent move away from needing office space. In future, the quality, environmental standards and flexibility of space will be increasingly important and it is low grade offices which are likely to suffer most.

3.1.5 The advice from our office agents BNP Paribas and Cushman & Wakefield is that the current challenge for occupiers is to determine their precise requirements for future needs. Whilst anecdotally some occupiers are trimming spatial needs by around 20%, businesses are also mindful of temporary lower occupancy levels and the need for social distancing. In general, there is an accelerating trend toward deriving the maximum efficiency and flexibility of office environments. This can only lead occupiers toward more modern and well-designed contemporary offices, which can be future proofed in terms of layout and design to allow for flexible occupancy practices.

3.1.6 A particular area upon which the agents are focused for West Bar Sq is the local Public Sector estate. In particular, Sheffield has a strong existing presence from DWP, Home Office and Department for Education. Their research shows an estimated 'potential' space requirement in the order of 200,000 – 300,000 sq ft, although up to 1m sq ft of existing footprint could be under review, driven partly by lease events, as part of the Governments proposed re-organisation of the Public Estate

3.1.7 The Government Property Agency is actively looking at regional cities and

following some positive meetings it is anticipated that the GPA will shortly confirm potential requirements for new floorspace. West Bar is extremely well placed to attract and deliver a large Public Sector office requirement, given the rental levels, flexible good quality design; scale of the existing Government campus nearby and also the experience that L&G can bring having developed a large number of regional GPA Hubs already for HMRC. These requirements will require buildings with large floorplates, which the Sheffield office market does not have available at the moment, a gap in the city's offer which West Bar is intended to fill.

- 3.1.8 The West Bar scheme includes new ground floor units set in an attractive new public square. These will be mainly cafes and the aim is to target local independent businesses, building on the success of Kelham.
- 3.1.9 The first phase includes 368 apartments which will be owned and managed long term by L&G. This high quality accommodation will help to broaden the housing offer in the City Centre. The Council's 2018-23 New Homes Delivery Plan sets out its commitment to support the building of over 2,000 new homes per annum over the course of 5 years. To do this (delivering the scale and types of homes the city needs) the Council is pursuing opportunities to work in partnership with the private sector where it is sensible to do so. The West Bar development falls within the City Centre Housing Market Area where there is a target of around 5,300 new homes in the Plan period and West Bar Sq can make a significant contribution.
- 3.1.10 In addition to the above long term benefits to the local economy, with the potential to house up 6000 new jobs, it is also important to note that the first phase of the development will provide over 500 construction jobs. These could start on site later this year and will be a welcome boost as we begin to come out of the pandemic. The contractors will be encouraged to employ local workers and to create apprenticeships.

3.2 Environmental

- 3.2.1 The development will deliver considerable environmental improvements; removing semi-derelict buildings and surface car parks; delivering energy efficient buildings, high quality public realm and landscaping with new pedestrian routes linking to/from the City Centre, Kelham and Burngreave.
- 3.2.2 The office which the Council is to lease will be built to BREAM Excellent standards. It has been designed to maximise daylighting and views out whilst avoiding solar gain by a more solid façade to the south. At least 12% of the energy required will be provided by solar PVs and air source heat pumps.
- 3.2.3 As part of the first phase Urbo will continue the Grey to Green style planting and sustainable drainage along the length of the inner Relief Road. The central public space also includes elements that help to reduce flood risk to the site itself and the surrounding neighbourhood
- 3.2.4 When the full development is complete there will be approximately 500 cycle

spaces, including over 300 in the first phase. Urbo have also agreed to dedicate part of their land to enable the delivery of the TCF cycle scheme at West Bar roundabout

3.2.5 The first phase of the development includes a 450 space multi storey car park. Whilst the scheme is being designed to encourage active travel and use of public transport there will still be a need for car parking and the MSCP will contain a lot fewer parking spaces than are currently on the whole site. It will include more electric vehicle charging points when it opens than are currently required by the planning permission and will also incorporate the necessary infrastructure to expand that number in future.

3.2.6 The works to the Bridge St junction being supported by the SCR funding will improve access to the wider area. The works include removing large retaining walls and redundant structures which create quite a hostile environment for pedestrians walking from Burngreave and Kelham to the middle of the City Centre. An attractive new landscaped route will also be created through the development.

3.3 Social

In addition to the substantial number of jobs which can be accommodated the development will deliver improvements to social well-being with a high quality development with new public spaces and active ground floor leisure uses for people to meet; safer routes through the area for pedestrians; high quality housing and offices.

4. HAS THERE BEEN ANY CONSULTATION?

4.1 The proposals set out within this report are aimed at accelerating the delivery of the project and as such there has been no formal consultation. However the principle of comprehensive redevelopment at West Bar Square has been the subject of numerous public consultations with positive feedback including the West Bar IPG (2006), previous developer Castlemore's planning application (2006), City Centre Masterplan (2008 and Draft 2018) and community consultation was undertaken as part of the promotion of Urbo's planning application (2015).

4.2 New consultation on scheme design will be carried out as part of the current planning applications.

5. RISK ANALYSIS AND IMPLICATIONS OF THE DECISION

5.1 Equality of Opportunity Implications

An Equality Impact Assessment has been carried out in respect of the proposals set out in this report. It concluded that overall there are no significant differential impacts, positive or negative, from this proposal. The acceptance of additional funding will support the redevelopment of the site will be of universal positive benefit for all local people who will benefit from the

creation of a significant number of new full and part time jobs. The socio economic and community cohesion impacts locally should be particularly positive. There are no negative equality impacts identified.

5.2 Financial and Commercial Implications

- 5.2.1 The report to Cabinet in February 2019 highlighted that the proposal involves the Council entering into a 40 year property lease from which there are no early exit clauses. Income generated from letting should cover the annual revenue charge over time and the Council will have the option to purchase the building for £1 at the end of the lease. On the assumption of a staggered take up of occupation and a number of 10 year leases, there will be a net cost in the first few years and then there will be an income risk every 10 years as leases come up for renewal. It was agreed that on balance the scheme offers potentially significant economic activity, with commensurate business rate and council tax income. However, the risk and potential cost to achieve this continues to come at a time when Council budgets are under severe pressure and so officers are monitoring the position regularly and constantly looking at ways to mitigate risks.
- 5.2.2 The first phases of development deliver Business Rate and Council Tax growth for the Council of approx. £143m over the term of the lease. Part of that growth is to be earmarked to first underwrite risk on Office 1 and by accepting the JESSICA Rental Loan the amount of underwriting can be reduced. If a significant level of long term pre-letting of the building can be achieved then this will change the risk profile considerably
- 5.2.3 The grant from the SCR Brownfield Housing Fund will help to secure the delivery of the apartments within the first phase and thus the assumed Council Tax growth.
- 5.2.4 The West Bar project will be coming forward alongside the Heart of the City project and both projects involve a degree of financial risk to the Council, as well as providing wide ranging economic, environmental and social benefits. Officers are ensuring that the financial implications of both are reviewed and monitored together on a regular basis in order to ensure that total financial risks are maintained at an acceptable, prudent level.
- 5.2.5 In order to underwriting the shortfall of the Office 1 costs in the initial years, £2m of Corporate Investment Funding (Revenue) has been earmarked which will be repaid from income generated by the scheme in 25/26. This a significant improvement of the previously assumed figure of £3m.
- 5.2.6 The Business Rates and Council Tax income modelled for this report only account for the first phase of the development which makes up just over half of the total development on the site. Over future years significant additional income will be also be derived.

5.2.7 Finalised grant terms and conditions for the projects are still awaited from SCR at this point and will be reviewed and approved by Finance when they arrive.

5.3 Legal Implications

5.3.1 Section 1(1) of the Localism Act 2011 states that a local authority has power to do anything that individuals generally may do. This power of general competence allows local authorities to act in innovative ways and sub section 1(5) makes clear that the generality of section 1(1) is not limited by the existence of any other power of the authority which may over-lap the generality of the power. As with all functions of the Local Authority the exercise of the power of general competence is subject to the public law limitations in respect of vires and any existing specific limits imposed by other legislation. There are no known restrictions affecting the funding referred to in this report and accordingly the Council is empowered to accept these funding arrangements.

5.3.2 The Council is yet to receive the terms and conditions of the loan from Urbo, in respect of the JESSICA fund loan, although the Council has seen the heads of terms from the fund to Urbo. Urbo will receive the rental loan and then these funds will be passed to the Council under a back to back Agreement from Urbo, this will pass all of the obligations from Urbo to the Council.

At present the main terms of the Agreement, which will be passed onto the Council are:

- The Council will be a guarantor for Urbo in respect of the loan from JESSICA to Urbo and will meet all borrower obligations under the loan.
- Repayment date- The earlier of 2 years from practical completion or 3 years from signing the Agreement:
 - Any amounts of rent received by the Council during the rental loan period will be applied to repay the loan.
 - If the required lettings are not achieved, then the loan is written off and only the interest will then become payable.
 - Interest rolled-up through the loan term to earlier of maturity or repayment.
- Interest Rate – Public Works Loan Board rates.
- A number of conditions precedent to drawdown are identified, such as:
 - Must be against eligible capital expenditure. Urbo will then transfer the equivalent of that full amount to the Council in order to help to mitigate letting risk, as discussed above.
 - Satisfactory evidence of the Sheffield City Council Lease being in place, as detailed in 1.4 above
 - A satisfactory independent valuation confirming the Market Rent (as defined in the RICS Red Book).

Once in receipt of the full agreement a legal and financial review will be completed and all risks/ implications considered in accordance with any delegation allowed by the approvals requested in this report.

The Council has completed a review of the heads of terms detailed above and has determined that the loan is not a form of subsidy control. Urbo will take their only legal advice in this regard.

- 5.3.3 The Council has applied for and been accepted for funding from the Sheffield City Region Brownfield Housing Fund. Once we receive the full terms and conditions in from SCR legal and finance will review these. The Council will receive the funding from SCR and then pass this funding onto Urbo via a back to back agreement, which will also pass on the responsibilities and obligations. Full legal implications of entering into this agreement will be dealt with in a separate report going to Cabinet, which is being used to cover all of the SCR Brownfield Funding streams that the Council has been accepted for.

6. ALTERNATIVE OPTIONS CONSIDERED

- 6.1 The 2020 agreement with Urbo and L&G includes an option for the Council to terminate the agreement in April this year and pay compensation towards costs incurred by the other parties. If that was to happen it is very likely that L&G would also not proceed as the involvement of the Council is extremely important to their partnership approach on regeneration schemes such as this.
- 6.2 It would then be necessary for Urbo to find a new source of development finance. In the current economic circumstances that will not be straightforward, but it is possible that the scheme would still eventually be delivered in more phases over time. However there is no doubt that this would take considerably longer to achieve than what is being proposed.
- 6.3 If this approach were to be taken then the significant economic, environmental and social benefits to the city set out in the report would take much longer to materialise. The same would apply to the financial benefits accruing to the Council from new business rates and Council Tax.
- 6.4 The Council could decide not to take up the JESSICA or SCR Brownfield Housing Fund monies which have been negotiated. However, the costs to the Council of securing that funding are low and in terms of what benefits the funding secures that would not seem a commercially sensible option.

7. REASONS FOR RECOMMENDATIONS

- The West Bar Square development is a transformational project that ties together the northern fringe of the City Centre and Fargate with Kelham and Castlegate and removes a physical and psychological barrier from Burngreave to the City Centre
- The initial phases of the development secures £150m of private sector investment from Legal and General which would be a much needed boost to the local economy in the current economic climate.

- Planning applications have been submitted for the first phase and could start on site by the end of this year
- The first phase of the project can generate Business Rate and Council Tax growth for the Council of approx. £143m with further significant amounts in future years from the next phases
- The requirement for the Council to take a 40 year lease of Office 1 is not without risk, however this is mitigated by the very low rent payable to L&G
- The proposed JESSICA loan reduces the risk further and also reduces the short term CIF requirement
- If the Council serves the termination notice in April and does not take the lease then it is highly likely that L&G will not proceed and the scheme will be stalled for several years.

Mick Crofts
Executive Director Place