



Report to Finance Sub-Committee

Author/Lead Officer of Report: Ben Morley,
Head of Programmes and Accountable Body, City Futures

Tel: 07909898754

Report of: Kate Martin, Executive Director City Futures

Report to: Finance Sub Committee

Date of Decision: 6th September 2022

Subject: Sheffield City Region Urban Development Fund (JESSICA Fund)

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? 1184				
Has appropriate consultation taken place?	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
Has a Climate Impact Assessment (CIA) been undertaken?	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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:-				
<p><i>“The (report/appendix) is not for publication because it contains exempt information under Paragraph (insert relevant paragraph number) of Schedule 12A of the Local Government Act 1972 (as amended).”</i></p>				

Purpose of Report:

This report updates the Committee on the progress of the Sheffield City Region Urban Development Fund (the JESSICA Fund) over the past ten years and seeks approval for the Fund to retain its initial allocation of capital funding for a further ten years to enable additional commercial investment loans across South Yorkshire.

Approval is also sought to expand the Investment Strategy of the Fund to include investment in residential, leisure and retail developments.

Recommendations:

That the Finance Sub-Committee:

1. Notes the progress of the JESSICA Fund over the past 10 years and approves the Council maintaining its lead role in the oversight of the JESSICA Fund;
2. Approves the JESSICA Fund retaining the Growing Places Fund Legacy for a further ten-year period with an expansion of the associated Investment Strategy to include residential, retail and leisure development; and
3. Notes the JESSICA Fund's intention to retain, with the permission of the Department for Levelling Up Housing and Communities, the original ERDF investment and the existing Sheffield City Region funding for a further 10 years.

Background Papers:

Report of a subsequent decision taken by the Executive Leader Growing Places Fund and South Yorkshire JESSICA 1st December 2011

Report of the Executive Director Place dated 25th April 2012 entitled South Yorkshire Development Fund and Housing and Transport Fund and subsequent Cabinet decision

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: Kerry Darlow
	Legal: Sarah Bennett
	Equalities & Consultation: Annemarie Johnstone
	Climate: Jessica Rick
	<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: Kate Martin, Executive Director, City Futures
3	Committee Chair consulted: Cllr Bryan Lodge & Cllr Zahira Naz
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 Committee 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: Ben Morley	Job Title: Head of Programmes and Accountable Body
Date: 5 th July 2022	

1. PROPOSAL

- 1.1.1 This report provides the Finance Sub-Committee with an update of the work of the Sheffield City Region Urban Development Fund (SCRUDF) and the South Yorkshire Property Investment Company (SYPIC) collectively known as the SCR JESSICA Fund ('the Fund').
- 1.1.2 The report provides details of the commercial property developments in Sheffield City Region that have happened over the past ten years since the Fund was created and the associated outputs and sets out a proposal to continue the work of the Fund over the next ten years which will specifically require:
- a) Retention of existing funding within the Fund.
 - b) Re-procurement of a Fund Manager.
 - c) Expansion of Growing Places Fund eligible property uses that might benefit from investment.
- 1.1.3 In addition, some future options are also set out that could potentially further increase the benefits of the Fund to South Yorkshire.

1.2 Background

- 1.2.1 In 2012, at the request of the SCR LEP and SCR Local Authorities, Sheffield City Council (SCC) agreed to establish the SCR JESSICA – an EU supported financial instrument to encourage European Regional Development Fund (ERDF) eligible development within South Yorkshire. The main purpose of the Fund is to stimulate speculative commercial development through loan finance and in doing so create employment space and economic growth for the region.
- 1.2.2 To comply with ERDF regulations and mitigate potential risk the Fund was established as a Limited Partnership (Sheffield City Region Urban Development Fund), with SCC as the sole Limited Partner, and operated through a General Partner (a company limited by share with SCC as the sole shareholder) (South Yorkshire Property Investment Company).
- 1.2.3 The Fund was initially capitalised with £8.1m Growing Places Fund and £15.3m ERDF. This initial funding was for commercial loans only and had to be invested in accordance with an approved Investment Strategy by the end of 2015. The Investment Strategy sets out that only commercial property (office and industrial) and low carbon energy projects can benefit from support.
- 1.2.4 Following an OJEU procurement, the Fund appointed CBRE as its Fund Manager to source, develop, administer, and monitor investments. The Fund Manager makes recommendations for investment to the General Partner but will only do so with the positive backing of the advisory JESSICA Investment Board made up of representation from nominees of

the South Yorkshire Local Authorities and SCR LEP.

1.2.5 Since its inception the Fund has been successful in securing an additional £0.5m from DCLG, a £15m loan from the SCR LGF allocation, which has since been repaid with interest, and two additional grants from the SCR that can be used in the form of loan or grant with a value of £5m for development in the Enterprise Zones and £8.1m across the whole of the SCR. In addition, the Fund has established a relationship with the South Yorkshire Pension Authority which has seen a number of joint investments in the region.

1.2.6 The Fund was set up for an initial 10-year period with an exit strategy that would either see the Fund continue, be sold or terminated with capital being returned to the original investors.

1.3 Fund Performance

1.3.1 A summary of investments to date is provided below with full details provided in Appendix 1.

- Number of Investments: 20 (16 complete and repaid).
- Total Value of Investments: £64m (£56m loans)
- Floorspace: 105,683 sqm (95,189 sqm completed)
- Jobs Accommodated: 4,460 (3,710 completed)
- Private Sector Leverage: £182m (£23m completed)
- Business Rates Uplift: £5m (£3.5m completed)
- Interest Earned: £3.2m (£3.0m completed)
- Rental Loan Repayments: £0.81m
- Overage from First Loss Loans: £83k

1.3.2 From an original value of £23m the Fund's has increased this to £32.5m of which £22m is currently uncommitted. However the current pipeline of investments consists of a further eight developments seeking £25m in total (of which £5m is in the form of grants).

1.3.3 All costs associated with operating the Fund have been fully contained within the Fund's own capital with returns from investments more than covering the operational costs.

1.4 Issues Facing the Fund

a) Fund End Date and Continuation

Under existing agreements with its core Funders (DLUHC and SCC), the Fund must cease all investment activity by the end of 2022 and can only monitor extant loans for a further three years at which point all monies are returned to the Funders.

The Fund pipeline and general market conditions suggest that there remains a need for the Fund to continue beyond 2022 for up to a further ten-year period. This would see the Fund to continue to stimulate the

commercial property market and facilitate activity where appropriate.

The Fund has approached DLUHC to retain the original ERDF investment plus interest (Legacy) and they have confirmed that this is acceptable for a further 10 years. The ERDF Legacy is still required to be invested in property projects that bring a benefit to the South Yorkshire economy.

The request of the Council is to agree to the Growing Places Fund Legacy also remaining in the Fund for a further ten years alongside the ERDF. Retention of this funding is important to maintaining the scale of the Fund and its ability to support multiple investments at any one time. It should be noted that should the Growing Places Fund be repaid at this time it would likely not be retained by the Council but transferred SYMCA for use in South Yorkshire.

b) Fund Manager

To provide detailed support and to manage loans the Fund requires a Fund Manager. The current contract for this service ends in October 2022 but has the option to extend until June 2023 to facilitate any transition issues.

With confirmation of a further 10 years funding, it is proposed to undertake a procurement for a Fund Manager who will be appointed until October 2032. The procurement will be run through the Council's usual competitive process.

c) Investment Strategy

For each funding source the Fund has an Investment Strategy to determine the eligibility of the investment against the requirements of the original provider.

To provide additional flexibility DLUHC has agreed to the expansion of the ERDF Legacy Investment Strategy to also include retail, residential and leisure where part of a mixed-use development and where there are benefits to the South Yorkshire economy.

The Fund would also benefit from the Council agreeing to an amendment to the Growing Places Fund Legacy Investment Strategy that also allows support to retail, residential and leisure developments, whether part of a mixed-use scheme or not, and contributing the South Yorkshire economy.

d) Additional Funding

The existing investment pipeline has the potential to utilise a significant amount of Fund capacity for both loans and grant activity. Until some existing loans are repaid the Fund might face a cash flow issue which could constrain further investments in the short to medium term. Likewise, the gradual reduction grant funds will inhibit the Fund from supporting important developments that are non-viable or need a stimulus to bring to site.

Whilst not essential access to additional funding is seen as important for the Fund and options being explored include Gainshare from SYMCA and Levelling Up funds. Other sources will be considered as they become available.

2. HOW DOES THIS DECISION CONTRIBUTE?

- 2.1 Over the past ten years the Fund has enabled commercial property developments across South Yorkshire which have the capacity to accommodate over 4,000 jobs. The retention of the Fund with its existing capital and re-procured Fund Manager should see this level of activity repeated.
- 2.2 The nature of the investments made by the Fund reflect the diverse nature of the South Yorkshire economy with developments taking place in office developments in Sheffield City Centre, modern manufacturing units at the Advanced Manufacturing Park in Rotherham, larger industrial units along the M1 corridor and small business units in the Dearne Valley and at Doncaster-Sheffield Airport. The units have enabled business growth and also facilitated inward investment.
- 2.3 Retaining the JESSICA Fund ensures that at least £17m of former European funding is retained in South Yorkshire for further investment over the next 10 years.
- 2.4 The expansion of the Investment Strategy to retail, leisure and residential opens up the opportunity for the Fund to support other developments where access to finance may be difficult secure particularly when local financial institutions are becoming increasingly important in the property market.

3. HAS THERE BEEN ANY CONSULTATION?

- 3.1 Given the nature of the proposal there has been no public consultation in respect to the proposals however the extension of the Fund is supported by the other Local Authorities in South Yorkshire and the Mayoral Combined Authority. As appropriate existing Inter Authority Agreement associated with sharing Fund loses will be reviewed and extended if deemed necessary.

4. RISK ANALYSIS AND IMPLICATIONS OF THE DECISION

- 4.1 Equality of Opportunity Implications
 - 4.1.1 The original Equality Impact Assessment has been reviewed and updated in respect to Equalities issues. No negative equality impacts have been identified. The purpose of the Fund is to help improve the economy of South Yorkshire and create opportunities for its communities as jobs are created.

4.2 Financial and Commercial Implications

- 4.2.1 Whilst the Council remains the Accountable Body for the JESSICA Fund (as Limited Partner) the retention of both the ERDF Legacy and Growing Places Fund within the JESSICA fund has no direct implications for the Council.
- 4.2.2 Should funds be withdrawn from the Fund then they would be expected to be returned to the original providers (SYMCA in the case of Growing Places Fund) and not retained by the Council.
- 4.2.3 The costs associated with operating the Fund are financed fully from the Fund itself and the interest it earns from its investments. This includes payment of a Service Fee to SCC for the support it provides the Fund.

4.3 Legal Implications

- 4.3.1 It is proposed that the existing governance structure of the Fund remains unchanged with the Council continuing to be the Limited Partner and owner of the General Partner. This structure continues to mitigate risk for the Council whilst maximising the tax efficiencies for the Fund.
- 4.3.2 Any proposals to change structure would be subject to a separate report, as required, in the future.
- 4.3.3 The General Partner has existing authority to enter into agreements to secure the ERDF Legacy funding and appoint a Fund Manager. The Council, however, is required to approve the retention of the Growing Places Fund Legacy and the recommended variation to its associated Investment Strategy.
- 4.3.4 The Council does not have specific powers to promote economic regeneration. However, it does have a general power of competence in s1 Localism Act 2011, which allows it to do anything that an individual may do so long as restrictions are already placed upon in that regard it by other legislation. No such restrictions apply to prevent the proposals outlined in this report.

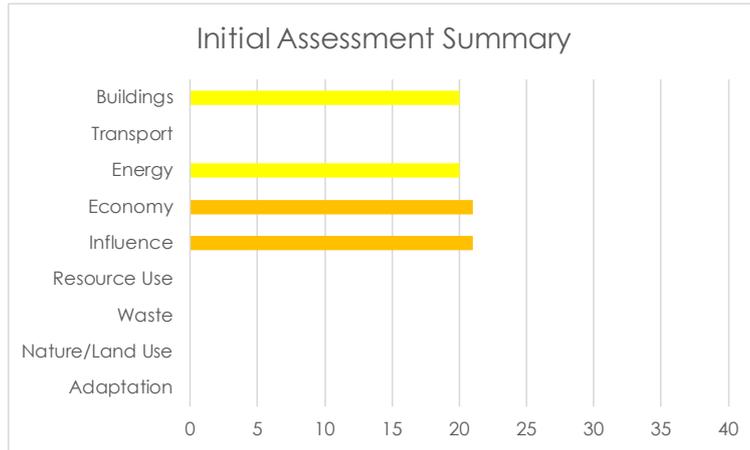
4.4 Climate Implications

- 4.4.1 The nature of activity of the Fund does result in an impact upon the climate through the development of new property. However, the Fund requires every development it supports to achieve BREEAM rating of Very Good as a minimum now expects Office areas to secure an 'A' for its Environmental Performance Certificate (EPC) rating. The Fund will also require borrowers to sign up to the RIBA 2030 climate challenge targets and will undertake a Environmental, Social, and Governance (ESG) assessment as part of the wider loan appraisal process.

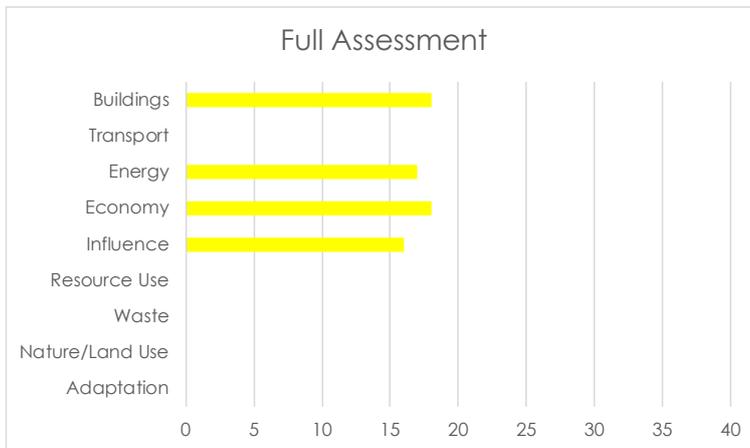
4.4.2 Recently the Fund has used some of its flexible funding (grant support) to improve the environmental performance of the developments it invests in and this has seen items such as heat pumps, solar arrays, low energy lighting and EV parking bays being included in developments.

4.4.3 The Fund also has the ability to support commercially led renewable energy projects although none have approached the Fund to date. This type of scheme will remain an option for the Fund.

Initial Assessment Summary



Full Assessment Summary



4.4.4 The results of the Climate Impact Assessment as provided above and indicate a potential improvement in the impact of the activity of the Fund by implementing the measures identified in 4.4.1.

4.5 Other Implications

4.5.1 HR Implications

The ongoing oversight of the Fund will be undertaken by the nominated Officer in City Futures with costs covered by the Fund.

5. ALTERNATIVE OPTIONS CONSIDERED

- 5.1 A do-nothing option would see the Fund end its activity in supporting activity in South Yorkshire and its capital proportionally returned to DLUHC to be invested in the UK and to SYMCA with investment in the South Yorkshire economy.
- 5.2 The Fund could be 'sold' as an ongoing asset to a private investment vehicle. This would likely generate a small return for the Funds original investors but would see a loss of control of the Funds activity. It is likely that the geographic and sector restrictions in the Investment Strategies would be removed, and investments would no longer be directed at those that have both economic and social benefits for South Yorkshire.

6. REASONS FOR RECOMMENDATIONS

- 6.1 The underlying benefit that this proposal brings is that it retains a sustainable source of finance that can be used for future capital developments that might not be feasible through traditional commercial (private sector) finance and will support the economic regeneration of the City and wider region. A successful JESSICA Fund represents an opportunity to progress the local and regional regeneration agenda creating jobs and wealth.
- 6.2 Retaining the JESSICA Fund with its Legacy funding and newly procured Fund Manager for a further ten years with an expanded Investment Strategy will:
 - i) Retain £32m in the South Yorkshire economy to support property development and the wider economy through the accommodation of indigenous business growth and inward investment.
 - ii) Enable a local Fund to invest in a broader range of property investments thereby improving the opportunity for businesses to access finance.
 - iii) Provide an innovative local investment vehicle to attract additional private and public sector investment into the region.

Appendix 1: JESSICA FUND INVESTMENTS

JESSICA Summary										
Indicator	JESSICA £'m			Interest Accrued	Floorspace sqm	Est. Jobs	Potential Rates p.a.	Private Leverage £	Status	LA Area
	Loan	Rental Loan	First Loss Loan							
Re:volution @ AMP	£ 2,355,658			£ 16,134	4,831	330	£ 150,000	£ 650,000	P.C. / Repaid	RMBC
St Pauls Place	£ 3,265,171			£ 513,237	9,947	524	£ 746,880	£ 1,300,000	P.C. / Repaid	SCC
Rockingham	£ 4,454,942			£ 59,423	6,038	122	£ 148,000	£ 920,000	P.C. / Repaid	BMBC
Rockingham 5	£ 2,298,245			£ 104,568	6,967	120	£ 180,000	£ 1,100,000	P.C. / Repaid	BMBC
Robinhood Airport	£ 1,530,001			£ 16,572	4,087	200	£ 119,000	£ 1,010,000	P.C. / Repaid	DMBC
Steel City House	£ 5,000,000			£ 469,534	5,442	500	£ 329,000	£ 3,500,000	P.C. / Repaid	SCC
AMP Units 7&8	£ 2,500,000			£ 140,362	4,808	137	£ 164,000	£ 1,320,000	P.C. / Repaid	RMBC
AMP 3 (Maclaren)	£ 4,000,000			£ 113,839	7,316	209	£ 190,000	£ 574,000	P.C. / Repaid	RMBC
NUM Barkers Pool	£ 4,510,000			£ 328,676	1,345	149	£ 205,000	£ 900,000	P.C. / Repaid	SCC
Capitol Park			£ 2,200,000		7,468	142	£ 218,000	£ 5,400,000	P.C. / Repaid	BMBC
AMP 5&6 (EZ)	£ 2,852,000	£ 379,000		£ 207,751	5,179	180	£ 175,000	£ 1,000,000	P.C. / Repaid	RMBC
Ashroyd Business Park (EZ 4B)	£ 2,085,000	£ 262,500	£ 370,000	£ 83,983	4,877	130	£ 65,000	£ 615,825	P.C. / Repaid	BMBC
Ashroyd Business Park (Plot 5)	£ 2,315,000		£ 1,095,000	inc above	5,263	140	£ 185,000	£ 1,764,175	P.C. / Repaid	BMBC
Little Kelham	£ 2,780,000			£ 850,000	2,679	225	£ 172,800	£ 285,000	P.C. / Repaid	SCC
Maple Road	£ 4,900,000		£ 1,390,000	£ 36,000	12,067	335	£ 300,000	£ 2,400,000	P.C. / Repaid	BMBC
Barrowfield Business Park	£ 1,300,000		£ 500,000	£ 55,000	2,323	67	£ 55,000	£ 370,000	P.C. / Repaid	BMBC
Glass Yard, Chesterfield	£ 3,262,500			£ 200,000	4,920	400	£ 320,000	£ 3,500,000	P.C. / Repaid	CDC
Beighton Link		£ 500,000		£ 3,000	4,552	200	£ 136,000	£ 162,000	P.C. / Repaid	RMBC
Bolsover Infrastructure	£ 4,000,000			£ 78,000	*	*	£ 200,000	£ 12,820,000	Repaid	BDC
Sub Total (Repaid)	£ 53,408,517	£ 1,141,500	£ 5,555,000	£ 3,276,079	100,109	4,110	£ 4,058,680	£ 26,771,000		
Vidrio Digital Campus	£ 3,000,000				5,574	350	£ 450,000	£ 3,000,000	On site	SCC
West Bar Square		£ 1,250,000			10,219	2,200	£ 750,000	£ 35,500,000	On site	SCC
Gateway 36	£ 3,400,000				10,219	217	£ 722,000	£ 3,400,000	On site	BMBC
AMP Tech Centre	£ 2,900,000	£ 340,000			7,664	100	£ 680,000	£ 2,500,000	To start	RMBC
Sub-Total (Contracted)	£ 6,400,000	£ 1,250,000	£ -	£ -	135,593	7,477	£ 6,636,680	£ 41,900,000		
TOTAL	£ 59,808,517	£ 2,391,500	£ 5,555,000	£ 3,276,079	235,702	11,587	£ 10,695,360	£ 68,671,000		

*(130,000 sqm facilitated / 500 jobs)

This page is intentionally left blank