



## Cabinet Report

---

**Report of:** Simon Green – Executive Director Place

---

**Report to:** Cabinet

---

**Date:** 23<sup>rd</sup> July 2014

---

**Subject:** **New Retail Quarter – Steps Towards Delivery**

---

**Author of Report:** **Nalin Seneviratne**  
**0114-205 7017**

---

**Key Decision:** YES / NO\*

---

**Reason Key Decision:** Expenditure/savings over £500,000\*

~~Affects 2 or more wards\*~~

~~\*delete as appropriate~~

---

### Summary:

The City Council is now in a position to take the New Retail Quarter forward following the Executive Leader's Decision to proceed with the outlined scheme and to effect the land acquisitions (report annexed to this report). As already reported, the Council is targeting scheme completion during 2019 with further final phases being complete in 2020. To achieve this, the Council needs to work with a development / investor partner to finally secure delivery.

Alongside the process to secure a new partner, authority is sought to utilise funding that will be generated from the New Deal with Government (Tax Incremental Financing – TIF) for use in the scheme and to fund a Sheffield City Investment Fund that will then assist with further regeneration schemes in the City Centre.

## **Objectives**

The objectives of the recommendations are to:

1. Ensure that the city centre has a stronger retail and leisure offer that the people of Sheffield deserve and can be proud of, and one that is comparable to the best in the United Kingdom.
2. Make a step change and lift Sheffield up the national retail ranking to compete with major northern cities.
3. Deliver a more attractive proposition to strongly performing retail brands that can see the commercial value and demand a presence in the city centre.
4. Secure much improved city centre visitor numbers adding to the overall success of the City.
5. Regenerate a wider city centre area as a direct consequence of the investment commitment and opportunity provided by the NRQ project, through the Sheffield City Centre Investment Fund.

## **Benefits**

It is expected that the benefits of implementing the recommendations will be:

1. To provide clarity to the market, later in the year, around the Council's expectation of what the development opportunity at the NRQ comprises.
2. To offer a site and development in Council control that mitigates risk and provides an immediate opportunity to an investor for forward funding.
3. To offer a site with clarity around the planning policy, highways and other statutory consents needed to progress the NRQ
4. To provide clarity of the Council's financial support available (TIF) to assist with delivery of the NRQ.
5. To offer flexibility and a controlled approach to deliver the NRQ over an acceptable timescale, protecting the Council's interests and actively managing the delivery process.
6. To create a New Retail Quarter that will fundamentally improve the retail offer in the city centre, by providing modern flexible retail and leisure space, attracting quality fashion and accessories retailers, restaurants and leisure concepts and bringing back spend (up to £90m p.a.) into the city that is currently leaking elsewhere.

## **Reasons for Recommendations:**

The reasons for the recommendations are to provide the way forward for the delivery of the New Retail Quarter.

It is proposed that through the capital financial approval process, the Council establishes the procurement of a new development partner and creates the Sheffield City Centre Investment Fund to help progress the priorities of the Corporate Plan.

---

## **Recommendations:**

1. To note the decision of the Leader taken on 6 June 2014 to approve a strategy for delivery of a new retail quarter for Sheffield City centre.
2. To delegate authority to the Executive Director of Place in consultation with the Executive Director of Resources, Director of Commercial Services, Director of Capital and Major Projects and Director of Legal and Governance to agree the procurement strategy to seek a development/investor partner for delivery of the New Retail Quarter.
3. Subject to complying with the Council's capital approvals processes to delegate authority to the Executive Director of Place in consultation with the Cabinet Member for Business, Skills and Development, the Executive Director of Resources, Director of Commercial Services, Director of Capital and Major Projects and Director of Legal and Governance to negotiate and award contracts following the procurement process.
4. Subject to complying with the Council's normal budget processes and Financial Regulations to delegate authority to Executive Director of Resources in consultation with Executive Director of Place to borrow, based on the Tax Incremental Financing income streams and to make any other investment to support the costs of delivering the New Retail Quarter.
5. To note the decision of Cabinet of 1 August 2012 authorising the creation of a Sheffield Investment Fund and to note the proposal in the report as to the proposals of using such a fund for regeneration of the City Centre.
6. To delegate authority to the Executive Director of Resources in consultation with the Cabinet Member for Business, Skills and Development and the Executive Director of Place to place any surplus Tax Incremental Finance funding, income and investment returns from the New Retail Quarter into a Sheffield City Centre Investment Fund.
7. To delegate authority to the Executive Director of Place in consultation with the Cabinet Member for Business, Skills and Development, the Executive Director of Resources, Director of Commercial Services, Director of Capital and Major Projects and Director of Legal Services and Governance

to take such steps considered appropriate to achieve the outcomes in the report including;

- a. To negotiate, agree and complete legal agreements,
- b. To set up a separate legal entity special purpose vehicle either as a Sheffield City Council wholly owned entity or by way of joint venture with developer/investor partners, and
- c. To determine any terms on which property assets may be transferred to a special purpose vehicle.

---

**Background Papers:** Executive Leader's Decision - Steps Towards Delivery and the Use of CPO Powers dated 6<sup>th</sup> June 2014.

---

**Category of Report:**      **OPEN /~~CLOSED~~\***

**If CLOSED add '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).'**

---

\* Delete as appropriate

## Statutory and Council Policy Checklist

<b>Financial Implications</b>
YES/NO      Cleared by: Jayne Clarke
<b>Legal Implications</b>
YES/NO      Cleared by: David Hollis
<b>Equality of Opportunity Implications</b>
YES/NO      Cleared by: As per background paper
<b>Tackling Health Inequalities Implications</b>
YES/NO
<b>Human Rights Implications</b>
YES/NO
<b>Environmental and Sustainability implications</b>
YES/NO
<b>Economic Impact</b>
YES/NO
<b>Community Safety Implications</b>
YES/NO
<b>Human Resources Implications</b>
YES/NO
<b>Property Implications</b>
YES/NO
<b>Area(s) Affected</b>
Central Ward / City Centre
<b>Relevant Cabinet Portfolio Lead</b>
Cllr Leigh Bramall
<b>Relevant Scrutiny Committee</b>
Economic & Environmental Wellbeing
<b>Is the item a matter which is reserved for approval by the City Council?</b>
YES/NO
<b>Press Release</b>
YES/NO

## REPORT TO THE CABINET

### New Retail Quarter – Steps Towards Delivery

#### 1.0 SUMMARY

- 1.1 The City Council is now in a position to take the retail quarter forward following the Executive Leader's Decision regarding the land acquisitions (report annexed to this report). As already reported the Council is targeting scheme completion during 2019 with further final phases being complete in 2020. To achieve this, the Council needs to work with a development / investor partner to finally secure delivery.
- 1.2 Alongside the process to secure a new partner, authority is sought to raise capital funding (Tax Incremental Financing – TIF) that will be repaid from the retained business rate uplift generated from the New Deal with Government for use in the scheme and to use any surplus uplift to fund a Sheffield City Centre Investment Fund that will then assist with further regeneration schemes in the City Centre
- 1.3 The objectives of the recommendations are to:
1. Ensure that the city centre has a stronger retail and leisure offer that the people of Sheffield deserve and can be proud of, and one that is comparable to the best in the United Kingdom.
  2. Make a step change and lift Sheffield up the national retail ranking to compete with major northern cities.
  3. Deliver a more attractive proposition to strongly performing retail brands that can see the commercial value and demand a presence in the city centre.
  4. Secure much improved city centre visitor numbers adding to the overall success of the City.
  5. Regenerate a wider city centre area as a direct consequence of the investment commitment and opportunity provided by the NRQ project, through the Sheffield City Centre Investment Fund.
- 1.4 It is expected that the benefits of implementing the recommendations will be:
1. To provide clarity to the market, later in the year, around the Council's expectation of what the development opportunity at the NRQ comprises.
  2. To offer a site and development in Council control that mitigates risk and provides an immediate opportunity to an investor for

forward funding.

3. To offer a site with clarity around the planning policy, highways and other statutory consents needed to progress the NRQ
4. To provide clarity of the Council's financial support available to assist with delivery of the NRQ (TIF)
5. To offer flexibility and a controlled approach to deliver the NRQ over an acceptable timescale, protecting the Council's interests and actively managing the delivery process.
6. To create a New Retail Quarter that will fundamentally improve the retail offer in the city centre, by providing modern flexible retail and leisure space, attracting quality fashion and accessories retailers, restaurants and leisure concepts and bringing back spend (up to £90m p.a.) into the city that is currently leaking elsewhere.

## **2.0 WHAT DOES THIS MEAN FOR THE PEOPLE OF SHEFFIELD**

- 2.1 As previously reported, the New Retail Quarter will provide a high class regional shopping and leisure facility which would compete with other city centres such as Manchester, Leeds and Nottingham.
- 2.2 The scheme would drive private sector investment in the city centre and create high quality retail led mixed use scheme and consolidate the prime retail offer. The development of a New Retail Quarter also enhances the status of the city centre in itself and should in turn stimulate office, commercial and leisure opportunities/activity/development in the city centre.
- 2.3 The proposals in this report would assist in the development and promotion of Sheffield's economy with investment in city centre projects that among other things lead to environmental improvements and growth in jobs, thereby assisting in the sustainable development of the economic, environmental and social well-being of the City and its inhabitants.

## **3.0 OUTCOME AND SUSTAINABILITY**

- 3.1 As reported in the report to the Executive Leader on the 6<sup>th</sup> of June, the New Retail Quarter Development would create construction jobs and new additional permanent jobs in the city centre estimated between 2000 and 3100. Training and employment opportunities for local people and business would form an integral part of the project delivery programme.

The development of the New Retail Quarter would also generate additional rates income which the Council can retain under the New Development Deal the Council was awarded by Government in November 2012 which became operational in April 2013. This increased income also allows the Council to raise finance which will be invested in the delivery of the New Retail Quarter

- 3.2 Also as previously reported, completion of the New Retail Quarter scheme would make the City Centre a more cohesive and sustainable location to attract further investment. Delivery of the New Retail Quarter will help the City Centre become more sustainable in terms of economic activity, by bringing about improvements in social well-being and deliver buildings designed to minimise environmental impact.

#### **4.0 STEPS TOWARDS DELIVERY**

##### **4.1 Development Partner Procurement**

The Council requires a development partner with the appropriate expertise, skills and level of resource to deliver this project. The Council has the land and the ability to raise funds to deliver the project and would therefore be a partner of equal standing with any developer / investor.

Given the history to date there is a need for the Council to retain a level of control with regard to project delivery. In addition, the Council through Tax Incremental Financing has the ability to invest substantial sums of money into the project. Therefore the options for creating a joint venture partnership look favourable.

However, given the varying market opportunities, and the scale and complexity of this project, the nature of any deal will have to be tested in the market place through a competitive process. This will ensure that the best deal can be obtained from the market.

It is proposed that the funding of the development will be met by the new development / investment partner with the exception of investment by the Council via Tax Incremental Financing. The levels of investment can only be finally assessed via the procurement process and hence the reasons for delegations sought in this report where through the procurement process, land deals may also play a part.

The Council's capital approval process will provide scrutiny of the proposals before they are finally agreed.

With the existing budgets authorised via the Executive Leader's Decision the Council have sufficient resources to work up the scheme towards a planning consent and also create an investment prospectus to put to the market.

The recovery of the Council's investment in the land will be provided through a ground rent payment or sale of the land on completion of the scheme. The funding of the scheme will then be made up of Tax Incremental Financing (TIF), Developer / Investor Funds (equity) and bank or institutional funding (debt). Only TIF and what the Council is



committed to on land acquisitions (see Executive Leader's Report of 6th June 2014) is what is envisaged to be the Council's exposure at this stage. Any further investment by the Council would need to follow the competitive dialogue procurement process and be subject to further Council approvals.

Any decisions to commit TIF or other Council funding to the project will be subject to considerations of the potential risks/rewards. Detailed risk analysis will only be possible as the scheme dynamics are developed through the procurement process.

## 4.2 Sheffield City Centre Investment Fund

### 4.2.1 Vision and Objectives:-

#### Sheffield City Strategy – Vision

**“It's 2020: Sheffield is a city of global significance, distinctive, successful, inclusive, vibrant and sustainable.**

**A great city, where people from across the world want to live, learn, work, invest and visit” - Sheffield First Partnership.**

#### The retail vision

To reposition and revitalise Sheffield's shopping zones into a single unified shopping experience that is engaging, sustainable and appropriate for a major city centre. The Vision should enhance the entire city centre and provide a platform for further regeneration and growth from the private sector in the future.

### 4.2.2 To objectives set against the retail vision for the City Centre are:

- To create a distinctive city centre
- To create long term value in the city centre to enable economic and social success
- To deliver a return on investment to Sheffield City Council, through economic development creating inclusive and vibrant environments
- To focus on sustainable growth so that Sheffield benefits now and in the long term

### 4.2.3 By creating an investment fund for the city centre, the uplift in values and cash flow that the development of retail quarter project creates can be invested to achieve the above objectives.

The creation of the Sheffield City Centre Investment Fund enables the adoption of a Stewardship model for the city centre whereby the city

centre is considered and looked after as a whole, with a long term view to its planning and management of resources.

The “New Retail Quarter” will be the catalyst for the fund and the City’s key opportunity and first major stage of investment activity, generating major uplifts in capital and revenue with subsequent business rate growth. Property development on its own is short term and a means to an end. An investment approach enables long term sustainability, enabling the needs of today to be met without compromising those of the future. Issues to be considered will include the degree to which there is a mix of uses other than retail and leisure, e.g. office, hotel and residential.

An investment fund approach enables the delivery of other phases of improvement including Fargate, Castlegate and the City’s cultural offer through the re-development of Central Library and Graves Gallery. Dealing with these issues helps to create the “point of difference” or distinctiveness that Sheffield City Centre can offer. Improvements to the cultural offer helps to enhance the visitor experience and investor confidence by ensuring added vibrancy through an improved, dynamic and inclusive cultural offer.

- 4.2.4 The Sheffield City Centre Investment Fund would be a special purpose property investment, trading and development vehicle established to generate capital growth and revenue through asset management of the City Centre.

Authority was granted by cabinet in 2012 to develop a Sheffield Investment Fund and this Fund would be developed under that authority.

The focus would be fund management against a clear investment strategy and target outcomes for the City, existing assets and capital funding could be matched with private funding to create the investment opportunity.

The fund will be required to invest in line with State Aid regulations and therefore will be investing at a market rate (subject to obtaining any notification to the contrary). It will aim to deliver a commercial return to its investors. The fund is not primarily about gap funding, but assisting projects that may require a more considered financing solution than the market can offer on its own. Gap funding will also be considered where appropriate.

Fund investments may be in the form of debt, equity or guarantee, and may take first or subordinated security (which will affect the rate of return). Projects for investment will be selected not only on the basis of a sound business case, but also for the regenerative, economic and wider social or environmental benefits that they will deliver for the city.

The fund is expected to have an initial life of 10 years, with capital and potentially returns above a certain level being retained by the fund for reinvestment during this period (a rotating or ‘evergreen’ fund).

CBRE were procured in 2013 to act as fund manager for the Council and that procurement included the management of the Sheffield Investment Fund and special purpose vehicles created through it.

#### 4.2.5 Financial & Resource Implications

The resources required for dealing with the procurement work (feasibility and investment proposition) have been covered under the decision of the Executive Leader dated 6<sup>th</sup> June 2014 including the land acquisitions.

This report requests the authority to commit tax incremental financing to both the New Retail Quarter project and the Sheffield City Centre Investment. This will be subject to the Council's capital approval process with reports to Capital Programme Group (CPG) and via budget monitoring that will detail the extent of that investment. At this stage the level and detail of Tax Incremental Financing and its requirement to finance the project will be subject to detailed design, rental levels achieved and profitability of the scheme subject to developer / investor required returns.

As previously stated, detailed risk analysis will only be possible as the structure and scale of the development and our investment in it become more certain through the competitive dialogue process. However, the key financial risks are set out below:

##### Risks During Procurement Process

That the Council is unable to capitalise the borrowing costs associated with the land acquisitions as assumed in the Leaders Report. If this is the case, options will be considered to mitigate the impact through offsetting against the rental income and the budget provision or exploring ways to extract early value out of the scheme. If this is not possible this will create a budget pressure.

The procurement process does not secure an acceptable development partner. At this stage any revenue costs associated with the property acquisitions and any previously capitalised project development costs will have to be managed within existing revenue budgets unless and until an alternative use for the properties or alternative source of funding can be secured.

##### Post Procurement Pre-construction Risks

Having committed TIF and any other investment, the key financial risk that the Council will carry will be that we are unable to meet the pre-let thresholds to commence development. If this results in a delay to the scheme then it adversely affects the NDD business rate uplift period reducing the potential TIF investment. If the scheme is abandoned at that stage then in addition to the above risk associated with the acquisition cost, the Council is likely to have incurred further fees which it will not be able to recover from the scheme.

### Risks During Construction

The extent of the risks at this stage will be very much dependent on the degree of investment that the Council has in the development. The key construction risks should be passed on to the selected construction partner but there may still be certain cost risks that rest with the developers.

### Post Construction

The key risk at this point is that the scheme cannot secure tenants for the remaining units or cannot sustain the occupation levels over the longer term sufficient to provide the expected level of business rate uplift and potential investor return.

At each stage of the procurement process and at each point that the Council commits to invest in the NRQ delivery, the risks and a risk mitigation strategy will be considered.

These risks and mitigations will be explored in more detail in the further reports to CPG.

Investment into the Sheffield City Centre Investment Fund will also be subject to the Capital Approval process, with the amount to be allocated also being subject to the competitive selection process for a development partner. The Fund will only be committed to future projects when there is an acceptable degree of certainty of business rate uplift.

Any other investment in the retail quarter project will be subject to negotiation with a future developer / investor partner through and following a competitive process and will also then be subject to the Council's capital approval process and subsequent authority.

#### 4.2.6 Legal Implications

In implementing these proposals reliance can be placed on the 'general power of competence' (the 'GPC') conferred on the Council by Section 1 (1) of the Localism Act 2011.

Section 1(1) came into force on 18th February 2012 and provides that, "A local authority has power to do anything that individuals generally may do". This is clearly a very broad power, which is subject to existing or future statutory limitations. Whilst no statutory limitations have at this point been identified, legal input will be required when the exact details of the development / investment deal and the working of the fund have been agreed, prior to its implementation.

The procurement of any goods, works or services must be undertaken in accordance with all relevant provisions of the Council's Constitution and Contract Standing Orders in addition to the European procurement rules and any investments must be made in accordance with State Aid regulations.

The need for any special purpose vehicles (SPVs) or joint ventures is yet to be determined and expert legal advice will be sought to determine the best option for Sheffield where required.

The TIF will need to be implemented in accordance with Schedule 1 of the Local Government Finance Act 2012 and the terms of the New Development Deal the City negotiated in 2012.

## **5.0 EQUALITY OF OPPORTUNITY / ENVIRONMENTAL SUSTAINABILITY / COMMUNITY SAFETY IMPLICATIONS / HUMAN RIGHTS ISSUES AND CONSULTATION**

5.1 All of the above matters were reported on in the accompanying background report to the Executive Leader dated 6<sup>th</sup> June 2014.

## **6.0 REASONS FOR RECOMMENDATIONS**

6.1 The reasons for the recommendations are to provide the way forward for the delivery of the New Retail Quarter.

6.2 It is proposed that through the Capital Programme Approval process, the Council establishes the procurement of a new development partner and creates the Sheffield City Centre Investment Fund to help progress the priorities of the Corporate Plan.

## **7.0 RECOMMENDATIONS**

- 7.1
1. To note the decision of the Leader taken on 6 June 2014 to approve a strategy for delivery of a new retail quarter for Sheffield City centre.
  2. To delegate authority to the Executive Director of Place in consultation with the Executive Director of Resources, Director of Commercial Services, Director of Capital and Major Projects and Director of Legal and Governance to agree the procurement strategy to seek a development/investor partner for delivery of the New Retail Quarter.
  3. Subject to complying with the Council's capital approvals processes to delegate authority to the Executive Director of Place in consultation with the Cabinet Member for Business, Skills and Development, the Executive Director of Resources, Director of Commercial Services, Director of Capital and Major Projects and Director of Legal and Governance to negotiate and award contracts following the procurement process.

4. Subject to complying with the Council's normal budget processes and Financial Regulations to delegate authority to Executive Director of Resource in consultation with Executive Director of Place to borrow, based on the Tax Incremental Financing income streams and to make any other investment to support the costs of delivering the New Retail Quarter.
5. To note the decision of Cabinet of 1 August 2012 authorising the creation of a Sheffield Investment Fund and to note the proposal in the report as to the proposals of using such a fund for regeneration of the City Centre.
6. To delegate authority to the Executive Director of Resources in consultation with the Cabinet Member for Business, Skills and Development and the Executive Director of Place to place any surplus Tax Incremental Finance funding, income and investment returns from the New Retail Quarter into a Sheffield City Centre Investment Fund.
7. To delegate authority to the Executive Director of Place in consultation with the Cabinet Member for Business, Skills and Development, the Executive Director of Resources, Director of Commercial Services, Director of Capital and Major Projects and Director of Legal Services and Governance to take such steps considered appropriate to achieve the outcomes in the report including;
  - a. To negotiate, agree and complete legal agreements,
  - b. To set up a separate legal entity special purpose vehicle either as a Sheffield City Council wholly owned entity or by way of joint venture with developer/investor partners, and
  - c. To determine any terms on which property assets may be transferred to a special purpose vehicle.

Author: Nalin Seneviratne  
Job Title: Director – Capital & Major Projects  
Date: 26<sup>th</sup> June 2014

## SHEFFIELD CITY COUNCIL



## Executive Leader Report

---

**Report of:** Executive Director, Place

---

**Report to:** The Executive Leader

---

**Date:**

---

**Subject:** Sheffield New Retail Quarter - Steps Towards Delivery and use of CPO powers.

---

**Author of Report:** The Director of Capital and Major Projects

---

**Key Decision:** Yes

---

**Reason Key Decision:** Expenditure/savings over £500,000

Affects 2 or more wards

---

**Summary:**

The Council is moving forward with the delivery of the New Retail Quarter and has set a programme that targets completion in 2019 with any remaining phases being completed in 2020. Work has begun to select a new development partner. They will work in conjunction with the Council to deliver the project. The intended start on site is spring 2016 with the potential for some early works from the spring of 2015.

The options for structuring the property deal are being finalised and will be presented to Cabinet. The potential for the Council to work up the project to create an investment grade opportunity and either seek a forward sale with interim funding or fund the scheme directly are also being considered. This work will be completed to enable the process for selecting the development partner. In addition, the delivery options for the Sheffield City Investment Fund that will be



utilised to deliver wider improvements in the City Centre linked to the New Retail Quarter project are also being finalised.

As detailed in the report, work on the sites required to implement the New Retail Quarter development will not commence until the period from January 2016 to January 2017, but in order to seek to ensure a timely delivery of the scheme the Council needs to protect its ability to acquire the land within the Sheffield City Council (Pinstone Street and Trafalgar Street) (New Retail Quarter) Compulsory Purchase Order 2006 ("the CPO"). The Council is empowered to acquire all the remaining interests comprised in the CPO, but in order to do so must act promptly.

Notices to Treat were sent out on 4<sup>th</sup> July 2011 and there is a three year period from the service of those notices to exercise compulsory purchase powers. This period can be extended by agreement with the affected property owners, but if this cannot be done, possession of the relevant interests will need to be taken by 4<sup>th</sup> July 2014. In order to do so, a Notice of Entry will need to be given not less than 14 days before possession can be taken. The affected land owners will be informed of the Council's requirement for possession of the land in January 2016 and every effort will be made to enable any land owner who wishes to do so to remain in occupation, either by reaching an agreement with them to extend the 3 year period available for taking possession or by entering into an arrangement with them, subsequent to the service of the Notice of Entry and the taking of possession, to grant them the right to retake and remain in possession of their property until it is required for the New Retail Quarter.

Consequently, this report specifically requests authority for the following:

- (i) to proceed with the New Retail Quarter scheme as outlined in this report
- (ii) to serve Notice of Entry in respect of all land interests comprised in the Compulsory Purchase Order ("the CPO")
- (iii) to enter into any necessary documentation with the affected land owners to enable them to remain in or resume possession of their property until it is required for the New Retail Quarter
- (iv) to seek to bring the New Retail Quarter site into the Councils ownership/control at a cost of up to £61 million (including project delivery and scheme preliminary costs), with approval for spend to follow through normal Capital Approval processes.
- (v) to exercise where necessary the Councils rights under all the existing New Retail Quarter legal agreements and/or to renegotiate/vary the terms of these agreements if it is considered necessary to do so
- (vi) to carry out or procure the carrying out of early enabling works on the whole or any part of the New Retail Quarter site as deemed necessary.



(vii) to determine the most appropriate method for the funding and delivery of the New Retail Quarter

The Acquisition budget of up to £55 million will be spent over the next 2 or 3 years with a return anticipated in 5 to 6 years' time.

The Council will obtain a return on this investment through an uplift in business rates through the 100% retention allowed by Government and either a subsequent sale of the New Retail Quarter development site or via a ground rent, or a combination thereof, following completion of the New Retail Quarter development.

The financial details of the current scheme are outlined in the Development Appraisal dated May 2014 Update forming Part II to this report.

This report is being brought at this time to allow commencement of the work to allow consideration of options for delivery and due to the need for the Council to protect its ability to use its powers under the NRQ CPO, which run out in July 2014. A further report will be taken to Cabinet to detail the options for delivery.

---

### **Reasons for Recommendations:**

As outlined in this Report, there is a clear strategic and economic case to justify the delivery of the New Retail Quarter development and therefore the Council is acquiring/securing all the land and property necessary to secure the development.

This case is based on maintaining momentum in the delivery of the New Retail Quarter project and maximising the prospects of the earliest possible start on site, by working on the options for development delivery and consolidating land ownership, which is one of the key reasons for market failure in the past.

Failure to act to acquire the remaining land, either under the options in the legal agreements or under CPO powers would result in fragmented land ownership within the proposed New Retail Quarter site. This would, in all likelihood, result in continued blight, diminishing economic activity and output and further decline in the physical environment and environmental standards of this important area of the City Centre.

---

### **Recommendations:**

(1) That The Executive Leader approves the strategy outlined in this report for the delivery of the New Retail Quarter , and

(2) That authority is given for the Director of Capital and Major Projects in

consultation with the Interim Director of Legal and Governance to take such steps as he deems appropriate to secure possession of all land interests comprised in the CPO including to agree and enter into any necessary documentation with the land owners affected by the CPO to enable them to remain in or resume possession of their property and continue to trade, if they wish to do so, until possession of the New Retail Quarter site is required for dates within the period January 2016 and January 2017 to suit phasing or earlier if required by agreement.

(3) That authority is given for the Director of Capital and Major Projects in consultation with the Interim Director of Legal and Governance and the Acting Executive Director of Resources to acquire land and property interests within the proposed site for the New Retail Quarter development on the terms outlined in this report and for the costs of £61 million, including a land value of £55 million to be funded through prudential borrowing and subject to the phasing of this spend going through the Council's Capital Approval process.

(3) Delegates authority to the Executive Director of Place in consultation with The Cabinet Member for Business Skills and Development, the Acting Executive Director of Resources and the Interim Director of Legal & Governance and Monitoring Officer and the Director of Capital and Major Projects, to

- Serve an Option Notice on Hammerson under the provisions of MDA, and then to take all steps deemed necessary to acquire the Hammerson land and property interests within the New Retail Quarter development site that are required for the New Retail Quarter development.
- To serve notice on HCA to acquire their property interests within the New Retail Quarter CPO boundary and if necessary to renegotiate the terms of any of the legal agreements with HCA or to enter into new legal agreements in order to facilitate these acquisitions. Agree and enter into all necessary legal documentation with the owners/occupiers of any property required for the New Retail Quarter to facilitate the purchase by agreement
- Take all steps necessary to acquire from Hammerson any information that they hold that the Council require in order to bring forward delivery of the New Retail Quarter.
- If necessary exercise the rights as contained in the JLP Agreement or to renegotiate the terms of its legal agreement with JLP or enter into further agreements in order to facilitate the delivery of the New Retail Quarter.
- Agree and enter into all necessary legal documentation with the owners of the Citadel to effect those terms outlined in this report.

- To take such steps as appear appropriate to secure the outcomes in this report

(4) To request that a further report is taken to Cabinet to outline options for procurement of a development partner and funding of the development.

---

**Background Papers:** Sheffield New Retail Quarter Report to Executive Leader dated 8<sup>th</sup> October 2013.

---

**Category of Report:** Part 1 – OPEN, Part 2 - CLOSED

**Part 2 Closed - Not for publication because it contains exempt information under Paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended) being information relating to the financial or business affairs of any particular person (including the authority holding that information) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information. .**

---

---

### Statutory and Council Policy Checklist

<b>Financial Implications</b>
YES Cleared by: Anna Peysner
<b>Legal Implications</b>
YES Cleared by: Gillian Duckworth
<b>Equality of Opportunity Implications</b>
YES Cleared by: Ian Oldershaw
<b>Tackling Health Inequalities Implications</b>
YES
<b>Human Rights Implications</b>
YES
<b>Environmental and Sustainability implications</b>
YES
<b>Economic Impact</b>
YES
<b>Community Safety Implications</b>
YES
<b>Human Resources Implications</b>
YES
<b>Property Implications</b>
YES
<b>Area(s) Affected</b>
City Centre
<b>Relevant Cabinet Portfolio Lead</b>
Leigh Bramall

<b>Relevant Scrutiny Committee</b>
Economic and Environmental Wellbeing
<b>Is the item a matter which is reserved for approval by the City Council?</b>
NO
<b>Press Release</b>
YES

## REPORT OF THE EXECUTIVE DIRECTOR PLACE

### SHEFFIELD NEW RETAIL QUARTER – STEPS TOWARDS DELIVERY.

#### 1.0 SUMMARY

- 1.1 This report updates the Executive Leader following the report to the Executive Leader dated 8<sup>th</sup> October 2013 on the strategy to bring forward the New Retail Quarter and outlines proposals to maintain project delivery and secure the development opportunity.
- 1.2 The steps towards delivery are based on a target completion date of 2019 with completion in 2020 for any remaining phases. To achieve this we need a new development partner to work in conjunction with the Council no later than the autumn of this year with the partner being in place for the spring of 2015. The intended start on site is spring 2016 with the potential for some early works from the winter of 2014.
- 1.3 The details of the current scheme is outlined in the Development Appraisal - May 2014 Update forming Part II to this report.
- 1.4 As part of the ongoing process CBRE have been commissioned to prepare a report outlining the various options for delivery of the New Retail Quarter project, having regard to the potential interest in the market for various funding/delivery models. The potential for the Council to work up the investment grade opportunity and either seek a forward sale with interim funding or fund the scheme directly are also being considered. The plan is for this work to be completed to enable marketing in the autumn of this year. Alongside this will be the delivery options for the Sheffield City Investment Fund that will be utilised to deliver wider improvements to the City Centre linked to the New Retail Quarter project.
- 1.5 As detailed in the report work on the sites required to implement the New Retail Quarter development will not commence until the period from January 2016 to January 2017, but in order to seek to ensure a timely delivery of the scheme the Council needs to protect its ability to acquire the land within the Sheffield City Council (Pinstone Street and Trafalgar Street) (New Retail Quarter) Compulsory Purchase Order 2006 (“the CPO”). The Council is empowered to acquire all the remaining interests comprised in the CPO, but in order to do so must act promptly. Notices to Treat were sent out on 4<sup>th</sup> July 2011 and there is a three year period from the service of those notices to exercise compulsory purchase powers. This period can be extended by agreement with the affected property owners, but if this cannot be done, possession of the relevant interests will need to be taken by 4<sup>th</sup> July 2014. In order to do so, a Notice of Entry will need to be given not less than 14 days before possession can be taken. The affected land owners will be informed of the Council’s requirement for possession of the land between January 2016 and January 2017, depending on phasing and every effort will be made to enable any land owner who wishes to do so to remain in occupation, either by reaching an agreement with them to extend the 3 year period available for taking possession or by entering into an arrangement with them, subsequent to the service of the Notice of Entry and the taking of possession, to grant them the right to retake and remain in possession of their property until it is required for the New Retail Quarter.

Consequently, this report specifically requests authority to;

- (i) to proceed with the scheme as outlined in this report
- (ii) to serve Notice of Entry in respect of all land interests comprised in the CPO
- (iii) to enter into any necessary documentation with the affected land owners to enable them to remain in or resume possession of their property until it is required for the New Retail Quarter
- (iv) to seek to bring the New Retail Quarter site into the Councils ownership/control at a cost of up to £61 million (including project delivery and scheme preliminary costs), with approval for spend to follow through normal Capital Approval processes.
- (v) to exercise where necessary the Councils rights under all the existing New Retail Quarter legal agreements and/or to renegotiate/vary the terms of these agreements if it is considered necessary to do so
- (vi) authority to carry out or procure the carrying out of early enabling works on the whole or any part of the New Retail Quarter site as deemed necessary.
- (vii) to determine the most appropriate method for the funding and delivery of the New Retail Quarter

The Acquisition budget of up to £55 million will be spent over the next 2 or 3 years with a return anticipated in 5 to 6 years' time.

The two significant risks to the Council of these acquisitions are as follows:-

1.6

(i)The final delivery of the New Retail Quarter development, as it is assumed that the cost of these acquisitions will be repaid through the receipt of ground rent once the scheme is complete; and

(ii)The ability to defer the interest on the borrowing for these acquisitions whilst they are in construction. Providing the interest on the borrowing can be deferred there will be a budget surplus over the next 5 years of between £4.8m to £5.6m. If the interest cannot be deferred and has to be funded from Council Budgets there will be a budget deficit in the region of £6m to £8.7m.

1.7

The Council will obtain a return on this investment through an uplift in business rates through the 100% retention allowed by Government and either a subsequent sale of the New Retail Quarter development site or via a ground rent, or a combination thereof, following completion of the New Retail Quarter development.

1.8

This report is being brought at this time to authorise the current proposals and due to the need for the Council to protect its ability to use its powers under the NRQ CPO, which expire on 4<sup>th</sup> July 2014, as detailed in this report. A further report will be taken to Cabinet to detail the options for delivery.

## **2.0 WHAT DOES THIS MEAN FOR SHEFFIELD PEOPLE**

- 2.1 The New Retail Quarter will provide a high class regional shopping and leisure facility which would compete with other city centres such as Manchester, Leeds and Nottingham.
- 2.2 The scheme would drive private sector investment in the city centre and create high quality retail led mixed use scheme and consolidate the prime retail offer.
- 2.3 The development of a New Retail Quarter also enhances the status of the city centre in itself and should in turn stimulate office, commercial and leisure opportunities/activity/development in the city centre.

## **3.0 OUTCOME AND SUSTAINABILITY**

### **Outcomes:**

- 3.1 The New Retail Quarter Development would create construction jobs and new additional permanent jobs in the city centre of between 2000 and 3100. Training and employment opportunities for local people and business would form an integral part of any project delivery programme.
- 3.2 The development of the New Retail Quarter would also generate additional rates income which the Council can retain under the New Development Deal the Council was awarded by the Government in November 2012 and became operational in April 2013. This increased income also allows the council to raise finance which will be invested in the delivery of the New Retail Quarter

### **Sustainability:**

- 3.3 Completion of the New Retail Quarter scheme would make the City Centre a more cohesive and sustainable location to attract further investment.
- 3.4 Delivery of the New Retail Quarter will help the City Centre become more sustainable in terms of economic activity, by bringing about improvements in social well-being and deliver buildings designed to minimise environmental impact.

## **4.0 BACKGROUND**

- 4.1 Following the report to the Executive Leader dated 8<sup>th</sup> October 2013 the Council served notice on Hammerson to terminate the existing development agreement with them. The agreement terminated pursuant to that notice on 24<sup>th</sup> December 2013.
- 4.2 Although it has terminated the development agreement, the contract with Hammersons to acquire their land interests within the New Retail Quarter site remains in place and exercisable by the Council.
- 4.3 The termination of the development agreement with Hammersons has enabled the Council to take the lead with the New Retail Quarter and it is now driving the New Retail Quarter project forward and has commissioned CBRE to prepare a report outlining the various options for delivery of the New Retail Quarter project, having



regard to the potential interest in the market for various funding/delivery models. The potential for the Council to work up the investment grade opportunity and either seek a forward sale with interim funding or fund the scheme directly are also being considered. The plan is for this work to be completed to enable marketing in the autumn of this year. Alongside this will be the delivery options for the Sheffield City Investment Fund that will be utilised to deliver wider improvements to the City Centre linked to the New Retail Quarter project.

- 4.4 The Council has already undertaken a full review of the New Retail Quarter, working with expert advisors and key stakeholders in the City centre to give careful and informed consideration to the changes to the economy, trends in the retail industry and recent successful UK or European models of mixed development which combine retail led proposals with other activities and attractions.
- 4.5 In March this year the Council promoted the scheme at the International Property Festival in Cannes and a number of informal approaches have been made from the developer/investor community.
- 4.6 It is clear from the review and informal interest that demand for the New Retail Quarter remains strong from shoppers, retailers and leisure operators and from developers/investors.

## **5.0 STEPS TOWARDS DELIVERY**

- 5.1 In order to be able to deliver the New Retail Quarter the Council needs to have control of the proposed development site. A plan showing the extent of the land to be acquired is attached to Part 2 of this report.
- 5.2 This report is being brought at this time due to the need to protect the Councils ability to use the NRQ CPO to acquire all the land and property deemed necessary to deliver the New Retail Quarter development.
- 5.3 Subject to a further report to Cabinet, the aim is to bring the New Retail Quarter development opportunity to market later this year. This further report will set out how the costs of acquisition of land will be recovered through an onward sale of the site or ground rent receipt and how the overall scheme will be funded through increased business rates and development returns.
- 5.4 A summary of the proposed delivery approach is set out in Part 2 of this report.
- 5.5 The Council has the ability either under the terms of existing legal agreements or via the NRQ CPO or via negotiation to acquire the New Retail Quarter site.
- 5.6 The Council recognises and appreciates the uncertainty caused to land and business owners within the New Retail Quarter site as a result of the previous delays in implementing the New Retail Quarter development. As a result of this, it is stating its commitment to take possession of the remaining land affected by the CPO between January 2016 and January 2017, unless an affected land owner wishes to vacate at an earlier date, to enable businesses to undertake proper business planning

### **NRQ CPO**

- 5.7 The most time critical route to obtain ownership of the land and properties within the NRQ CPO boundary it has not yet acquired, is for the Council to use the powers conferred on it under the CPO. These are also needed to secure the temporary accommodation rights that allow the physical construction of the New Retail Quarter development.
- 5.8 On 10<sup>th</sup> July 2008 the Sheffield City Council (Pinstone Street and Trafalgar Street) (New Retail Quarter) Compulsory Purchase Order was confirmed by the Secretary of State. Following that a notice of intention to make a General Vesting Declaration (GVD) was served on all land and property interests within the CPO boundary, to enable the Council to vest those interests if it wished to do so. A GVD was subsequently made in respect of some of those land interests, which vested in the Council in November 2011 and on 4<sup>th</sup> July 2011 (following a report to Cabinet on 23<sup>rd</sup> March 2011) Notices to Treat were sent out in relation to all the remaining land and property interests within the CPO boundary.
- 5.9 The effect of the service of a Notice to Treat is to put the affected owners on notice that the Council intends to exercise the powers conferred on it under the CPO to acquire their land/property, but before possession of that land can be taken, a Notice of Entry would need to be served on them, at least 14 days before possession is taken.
- 5.10 A Notice to Treat is only valid for 3 years and unless a Notice of Entry is served and possession of the land taken within that period the statutory powers to secure ownership of the parts of the New Retail Quarter comprised in the CPO will be lost. As the Notices to Treat were sent out on 4<sup>th</sup> July 2011, it is safest to assume that this period expires on 4<sup>th</sup> July 2014.
- 5.11 This 3 year period can be extended with the agreement of the affected land owner, but if this cannot be obtained, the only way that the Council can preserve its powers to acquire the relevant land via the CPO is for it to serve Notice of Entry on any owners with whom agreement cannot be reached
- 5.12 If the Notices of Entry are not served and possession of the land taken by 4<sup>th</sup> July 2014 then the Council will not be able to guarantee the acquisition of all the land/properties required to deliver the New Retail Quarter
- 5.13 Authority is therefore requested in this report to make the necessary arrangements for the serve of Notices of Entry on the property interests within the New Retail Quarter CPO boundary that are required for the New Retail Quarter.

### **Hammerson**

- 5.14 Even though the Council has formally terminated the development agreement with Hammerson, it retains an option to acquire any of the Hammerson owned properties within the New Retail Quarter development site at the current open market value.
- 5.15 This option lasts for 18 months from the Termination Date, and during this time Hammerson cannot dispose of their property without the Council's consent.

- 5.16 It is recommended that authority be given to serve notice exercising this option and for the Council acquire all of the Hammerson owned properties within the New Retail Quarter development site that are required for the New Retail Quarter development.
- 5.17 The Council also retains an option to acquire, under licence from Hammerson, all the Intellectual Property rights (copyright) relating to the Hammerson Sevenstone New Retail Quarter scheme, at market value. This option also last for 18 month from the Termination Date
- 5.18 The Council is still considering whether any of the Hammerson Intellectual Property rights have any benefit in bringing the delivery of the New Retail Quarter development forward.
- 5.19 It is recommended that should the Council identify any information that Hammerson hold that we require to bring forward the delivery of the New Retail Quarter that authority be given to take all steps necessary to acquire this information.

### **Homes and Communities Agency (HCA)**

- 5.20 During the currency of the previous New Retail Quarter scheme the Council and the Homes and Communities Agency (HCA) entered into a number of legal agreements for the New Retail Quarter. Collectively these are referred to as the EP Agreements.
- 5.21 These EP Agreements set out how HCA (formerly known as English Partnerships (EP)) work with both the Council and Hammerson to progress the delivery of the New Retail Quarter.
- 5.22 Now that the Council has terminated its development agreement with Hammerson, the HCA have served notice on the Council to terminate the EP Agreements.  
  
Under the terms of the EP Agreements the Council has an 18 month option period,
- 5.23 from the date of termination, in which to purchase all of the HCA owned properties within the New Retail Quarter site.
- 5.24 The process for acquiring these sites together with a mechanism to calculate their price is contained in the EP Agreements.
- 5.25 Authority is therefore requested in this report to serve notice on HCA to acquire their property interests within the New Retail Quarter CPO boundary and if necessary to renegotiate the terms of any of the legal agreements with HCA or to enter into new legal agreements in order to facilitate these acquisitions .

### **Acquisition Budget**

- 5.26 In order to acquire/control all of the land and property within the proposed New Retail Quarter development boundary The Council will have to commit up to £61 million (including £55 million for land purchases). Funding for this will be through prudential borrowing
- 5.27 It is expected that the £55 million spend will be incurred over the next 3 years at the

outside. However all attempts will be made to avoid a lengthy process so that the properties are available to be developed at the earliest opportunity.

- 5.28 All spend will be subject to a further scrutiny through the Capital Programme Group and then will be subject to the usual capital monitoring and reporting requirements. All acquisitions will be independently signed off by commercial property experts acting for the Council, to the satisfaction of the Director of Capital and Major Projects, to represent best consideration and to comply with the Council's duties under Section 123 of the Local Government Act 1972.

### **John Lewis Partnership (JLP)**

- 5.29 JLP are one of the most sought after anchor tenants for any retail scheme and so are critical to the success of any New Retail Quarter scheme.
- 5.30 As part of the revised delivery process the Council is continuing to work closely with JLP to ensure that in the short term the environment around their existing store is improved wherever possible and that their future requirements for remaining in the city centre are incorporated within any New Retail Quarter scheme.
- 5.31 In August 2007 the Council entered into a Legal Agreement with JLP concerning the New Retail Quarter
- 5.32 The termination by the Council of the development agreement with Hammerson triggers certain obligations on the Council to consult on and discuss with JLP the appointment of an alternative developer in order to deliver a revised scheme.
- 5.33 In order to do this authority is sought if necessary to exercise the rights as contained in the JLP Agreement or to renegotiate the terms of its legal agreement with JLP or enter into further agreements in order to facilitate the delivery of the New Retail Quarter.

### **Citadel**

- 5.34 In 2007 the Council and Hammerson entered into a Legal Agreement with the owner of the Citadel to secure the removal of their objection to the CPO
- 5.35 Under the terms of this Legal Agreement the owner would not object to the CPO but undertook to refurbish/develop the Citadel in conjunction with the New Retail Quarter, and granted the Council and Hammerson a high level of control over the physical works to the building, there timing and the proposed use and tenants of the Citadel.
- 5.36 This Legal Agreement now needs to be amended as firstly following termination of the development agreement Hammerson are no longer the Councils developer partner and secondly because a number of the long stop dates by which works had to be done need to be pushed back , due to the delay in the delivery of the New Retail Quarter by Hammerson.

## **6.0 FINANCIAL IMPLICATIONS**

- 6.1 In commencing this next stage of the New Retail Quarter, the Council will need to fund the following:
  - 6.2 Capital Expenditure
    - 6.2.1 Land acquisitions as detailed in this report including the capitalised borrowing costs whilst the properties are held for development or in construction.
    - 6.2.2 Any immediate demolition or stabilisation works required on any of the properties acquired; and
    - 6.2.3 Any preliminary work on the NRQ Site or scheme delivery proposal to develop the proposition to a point where an investment decision can be taken
    - 6.2.4 The continued feasibility costs including internal and external resource to develop a viable delivery proposal.
    - 6.2.5 This expenditure will be subject to the usual governance of the Capital Approval and Management process.
  - 6.3 Revenue Expenditure
    - 6.3.1 The interest costs on holding the acquired property are significant (rising to a maximum of £3.7m per year for all £55m of acquisitions plus other costs). This cost is not provided for within the Council's financial strategy, but we believe that is appropriate to defer these costs while the assets are in construction in order to fund them from a future development deal. This needs to be agreed with our external auditor and this remains a risk until resolved.
    - 6.3.2 The other costs associated with the properties once they come into Council ownership (maintenance and management) net of any rental income received.
    - 6.3.3 The Medium Term Financial Strategy agreed by Cabinet in September 2013, provided for a revenue budget for the New Retail Quarter of £0.4m for 2014/15 and £1m per annum thereafter to 2018/19
    - 6.3.4 An analysis has been carried out of the rental income and servicing costs of the various properties as they currently operate. A best and worst case has been developed in terms of timing and value of acquisition and how the income generation and holding costs of the properties might flex over time once an impending development is known. At the point at which the New Retail Quarter development commences all the associated costs will be met by the developer.
    - 6.3.5 On the basis of that best and worst case then the properties are expected to continue to be occupied and therefore generate a net income until the point that they are subsumed into the New Retail Quarter development at that point they will become vacant but become the responsibility of the developer with the Council just left with the on-going borrowing costs

For the purpose of this analysis this has been assumed to be March 2016 but could be earlier depending on the conclusion of the land acquisition processes and

positive progress of the wider New Retail Quarter delivery solution.

- 6.4 A schedule showing the expected capital and revenue costs for 2014/15 and 2015/16 for the best and worst cases is set out in Part 2 of this report. A summary is set out below. In overall terms in both the best and the worst case scenarios, provided we can defer the interest, the Council has made adequate provision to cover the costs and builds up a surplus of rental income. The biggest financial risk therefore lies in the ability to defer the interest cost a sensitivity for this is shown in the last table below:-

6.4.1

<b>Worst Case</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>Total</b>
Capital Expenditure	£26.8m	£34.4m				£61.2m
Interest Charge @ 5%	£0.8m	£2.9m	£3.4m	£3.5m	£3.7M	£14.3M
Total Capital Value To Be Recovered					£75.6m	
<u>Revenue Costs</u>						
Budget Provision	£0.4m	£1m	£1m	£1m	£1m	£4.4m
Management Costs	£0.04m	£0.42m				£0.46m
Rental Income	(£0.46m)	(£1.23m)				(£1.7m)
<b>Budget surplus/(deficit)</b>	<b>£0.8m</b>	<b>£1.8m</b>	<b>£1m</b>	<b>£1m</b>	<b>£1m</b>	<b>£5.6m</b>

6.4.2

<b>Best Case</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>Total</b>
Capital Expenditure	£2.3m	£49.9m				£52.2m
Interest Charge @ 5%	£0.1m	£1.8m	£2.8m	£3.0	£3.1	£10.8m
Total Value To Be Recovered					£63.0m	
<u>Revenue Costs</u>						
Budget Provision	£0.4m	£1m	£1m	£1m	£1m	£4.4m
Management Costs		£0.4m				£0.4m
Rental Income		(£0.8m)				(£0.8m)
<b>Budget surplus/(deficit)</b>	<b>£0.4m</b>	<b>£1.4m</b>	<b>£1m</b>	<b>£1m</b>	<b>£1m</b>	<b>£4.8m</b>

- 6.5 For illustrative purposes the table below shows the budget deficit created in the event that the interest on the acquisitions cannot be deferred.

6.5.1

<b>Worse Case</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>Total</b>
Net Variance	£0.8m	£1.8m	£1m	£1m	£1m	£5.6m

	against Budget						
	Interest Charge @ 5%	£0.8m	£2.9m	£3.4m	£3.5m	£3.7m	£14.3m
	<b>Budget surplus/(deficit)</b>	<b>£0 m</b>	<b>(£1.1m)</b>	<b>(£2.4m)</b>	<b>(£2.5m)</b>	<b>(£2.7m)</b>	<b>(£8.7m)</b>
6.5.2	<b>Best Case</b>	2014/15	2015/16	2016/17	2017/18	2018/19	Total
	Net Variance against Budget	£0.4m	£1.4m	£1m	£1m	£1m	£4.8m
	Interest Charge @ 5%	£0.1m	£1.8m	£2.8m	£3m	£3.1m	£10.8m
	<b>Budget surplus/(deficit)</b>	<b>£0.3</b>	<b>(£0.4m)</b>	<b>(£1.8m)</b>	<b>(£2)m</b>	<b>(£2.1m)</b>	<b>(£6m)</b>

6.6 It is assumed that the acquisition value and all associated capitalised borrowing and project costs will be repaid through the receipt of ground rent once the scheme is complete. This will be by way of an upfront capital value or an ongoing rental receipt or a combination of the two. If the sites can be acquired for less than the worst case budget then there could be a surplus which could be invested in other projects or used to reduce the council's investment in the scheme delivery.

6.7 The further report to Cabinet will set out in detail the wider financial implications of the scheme delivery and what role the Council will have in that delivery and how it will extract a return for both the acquisition costs and any direct investment in the scheme.

### Financial Risks

6.8 The key financial risk is that the Council having committed to purchase land, cannot secure the New Retail Quarter development as envisaged because of, for example:

- Inability to attract an acceptable co-funder; or
- Inability to secure the appropriate anchor tenants required to deliver a viable New Retail Quarter
- Inability to attract sufficient pre-lets

6.9 At each stage of the projects development and at each point that the council commits to invest in the New Retail Quarter delivery, the risks and a risk mitigation strategy will be developed.

6.10 These risks and mitigations will be explored in more detail in the further report to Cabinet.

6.11 A significant risk is that the Council is unable to defer the borrowing costs as expected. In this case, options will be considered to mitigate the impact through setting off against the rental income and the budget provision or exploring ways to extract early value out of the scheme but where this is not possible this will create a budget pressure. Officers are to enter into discussions with external audit on this



matter.

## **7.0 LEGAL IMPLICATIONS.**

- 7.1 The Interim Director of Legal & Governance and Monitoring Officer is satisfied that the Council has the ability to acquire the remaining land and property interests within the NRQ CPO as long as possession is taken by 4<sup>th</sup> July 2014, or an agreement is reached with the affected owner to extend the time limit for obtaining possession.
- 7.2 The Interim Director of Legal & Governance and Monitoring Officer is satisfied that the Council has now terminated the development agreement with Hammerson in accordance with the termination clauses contained in the Master Development Agreement
- 7.3 The legal consequences of the termination of the development agreement with Hammerson are as set out in the report to the Executive leader dated 8<sup>th</sup> October 2013.
- 7.4 The Interim Director of Legal & Governance and Monitoring Officer is satisfied that the Homes and Communities Agency has validly terminated the EP Agreements on 3<sup>rd</sup> March 2014
- 7.5 The termination of the EP Agreements means the Council has an 18 month option period from the EP Termination date in which to purchase all of the HCA owned properties within the New Retail Quarter site
- 7.6 It is the view of the Executive Director, Place, that the proposed regeneration of the New Retail Quarter site in the city centre is likely to achieve the promotion or improvement of the economic and environmental well-being of the City and its inhabitants, and consequently their social well-being as well.
- 7.7 For reasons set out in paragraph 7.4 above the Interim Director of Legal & Governance and Monitoring Officer confirms that under section 227 of the Town and Country Planning Act 1990 the Council may acquire by agreement the land required for the development.
- 7.8 Procurement and state aid issues will be fully considered and addressed as part of the feasibility study and will be reported back to Cabinet at a later date as part of the report on the New Retail Quarter delivery strategy.
- 7.9 The appointment, novation and/or extension of the contracts as required of providers of professional services to assist the Council to work on the New Retail Quarter and its delivery will be undertaken in accordance with all relevant provisions of the Councils Constitution and Contract Standing Orders in addition to the Public Contract Regulations 2006.

## **8.0 PROPERTY IMPLICATIONS AND RISK**

- 8.1 All land and property is being acquired on the assumption that the Council will deliver the New Retail Quarter.



- 8.2 The terms of all acquisition will be independently signed off by commercial property experts acting for the Council, to the satisfaction of the Director of Capital and Major Projects, to represent best value for the Council.
- 8.3 Many of the properties to be acquired produce a rental income which will be collected by the Council.
- 8.4 The costs of holding and managing the New Retail Quarter estate will fall to the Council. It is anticipated that the rental income generated by the properties within New Retail Quarter estate will meet these costs

However as the New Retail Quarter estate is managed down for commencement of development, the rental income will fall as vacant possession is gained.

- 8.5 When vacant possession is obtained and the land and buildings are decommissioned for development all the associated costs will have to be met by the New Retail Quarter developer.
- 8.6 If the Council decide at a future date not to proceed with the New Retail Quarter development it will own a considerable amount of land and property in the city centre.
- 8.7 These substantial land and property holdings will be capable of being sold to generate capital receipts, either individually as investments, or as piecemeal mixed use development sites.

## **9.0 EQUALITY OF OPPORTUNITY**

- 9.1 The redevelopment of the New Retail Quarter 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.
- 9.2 No negative equality impacts have been identified. However, a full Equality Impact Assessment will be undertaken at a later stage as part of the ongoing development proposal.
- 9.3 Ease of pedestrian access throughout the scheme is of paramount importance and will require careful design and integration of lifts, ramps, and stairs for all users. The provision of a Shop Mobility facility within the scheme is also an aspiration of the Council.

## **10.0 ENVIRONMENTAL SUSTAINABILITY**

- 10.1 The long term strategic implications of a New Retail Quarter to Sheffield have already been covered in this report and the detailed elements of environmental and sustainability matters will be incorporated into the planning process by virtue of negotiated designs, planning conditions and Section 106 planning obligations.
- 10.2 Included in these requirements are high standards for the following:-

Provision of “Green Roofs”, highway works, preparation of a Travel Plan, recruitment and training of local people and employment of local businesses, implementation and maintenance of a high quality public realm, and provision of high quality street furniture and signage.

- 10.3 Within properties that have been acquired in the proposed site for the New Retail Quarter a number of temporary lettings to start up and small businesses have taken place and empty units have been incorporated into the highly successful Sheffield Showcase initiative, which has helped to maintain the environmental quality within the site and immediate environs.
- 10.4 It is the Council’s intention to carry out a comprehensive refresh of the hoardings and shop frontages of the vacant properties within the New Retail Quarter development site this summer to give a short term lift to the quality of the environment.

## **11.0 COMMUNITY SAFETY IMPLICATIONS.**

- 11.1 Any design for the development of the New Retail Quarter will incorporate a series of well-designed pedestrianised streets and public squares within the scheme, and these will provide a safe environment for all.
- 11.2 Use of CCTV and informal policing by The City Centre Ambassadors will ensure that a safe and secure environment will be maintained within any completed New Retail Quarter scheme.

## **12.0 HUMAN RIGHTS ISSUES**

- 12.1 The Human Rights Act 1998 incorporated into domestic law the European Convention on Human Rights (“the Convention”). The specific rights protected by the Convention include, amongst others:
- The right of everyone to the peaceful enjoyment of their possessions, which can only be impinged upon in the public interest and subject to relevant national and international laws;
  - The right to a fair and public hearing for those affected by the scheme; and
  - The right to a private and family life, home and correspondence, which again can only be impinged upon in accordance with law and where such encroachment is necessary in the interest of national security, public safety or the economic well-being of the country
- 12.2 The above rights would be engaged by the use of a CPO to acquire land for the New Retail Quarter scheme. However, the European Court has recognised that “regard must be had to the fair balance that has to be struck between competing interests of the individual and the community as a whole”. Any interference with a convention right must be necessary and proportionate.
- 12.3 In the light of the significant public benefit which would arise from the implementation

of the New Retail Quarter scheme should this become necessary, and the fact that the known owners and occupiers of land within the site will be contacted regarding the scheme and will, should their land be compulsorily acquired, qualify for compensation under the Compensation Code, the Council has concluded that in principle it would be appropriate to make the Order. It does not regard the proposed Order as constituting any unlawful interference with any individual's rights under the Convention, including in particular any property rights.

### **13.0 CONSULTATION**

- 13.1 Since the instigation of the New Retail Quarter initiative in 2000, extensive consultations have been undertaken. These have consisted on both statutory consultations through the planning and CPO processes and initiatives set up by the Council and Sheffield One (now Creative Sheffield), in relation to the City Centre Masterplan and on all occasions the feedback from consultations has been overwhelmingly in favour of the New Retail Quarter initiative.
- 13.2 As part of the ongoing review of the City Centre Masterplan a number of workshops with key stakeholders in the city centre were held, facilitated by The Academy of Urbanism, to review the concept, content, delivery and spatial extent of the New Retail Quarter and the central retail area in the City Centre.
- 13.3 These workshops show the continued need for a New Retail Quarter and the support of key stakeholders in the city centre to its delivery
- 13.4 Landowners/occupiers affected by the CPO have to date been served with all the necessary Statutory and Legal Notices and the necessary press releases have been issued.
- 13.5 Detailed discussions and negotiations with the affected property owners/occupiers will commence as soon as the funding approvals as set out in this report are secured and the necessary statutory CPO notices served.
- 13.6 As part of the planning process for any new revised New Retail Quarter development a new comprehensive consultation exercise will be undertaken.

### **14.0 ECONOMIC IMPACT**

- 14.1 As set out above in this report the long-term benefits to Sheffield of securing delivery of a New Retail Quarter would be both enormous and long lasting. It would provide a high class regional shopping facility which would compete with other City Centres such as Manchester, Leeds and Nottingham and create a major private sector investment in the City Centre and create a high quality retail led/mixed use scheme.
- 14.2 The development of a New Retail Quarter also enhances the status of the City Centre in itself and will in turn stimulate office, commercial and leisure opportunities/activity/development in the City Centre.

### **15.0 ALTERNATIVE OPTIONS CONSIDERED**

- 15.1 The choices between the two main alternative options are stark.

15.2 Outcomes with Council acquiring the land/property required for the New Retail Quarter

- Secures the site for the New Retail Quarter – thus the development opportunity is not lost
- Further establishes the Council as a long term investor in the New Retail Quarter project.
- Council control/ownership of land/property will make the New Retail Quarter a more attractive proposition to any new developer/investor(s).
- Prevents long term blight and decline in the city centre.
- Managed programme of acquisition to gain control wherever possible, and retain operational tenants, thus securing active uses of buildings.

15.3 Outcomes without the Council acquiring the land/property

- As detailed in this report, the Council's powers to acquire the land comprised in the CPO will expire on 4<sup>th</sup> July 2014
- Once this date has passed, the Council will not have any way of guaranteeing the acquisition of all the land/properties required to deliver the New Retail Quarter
- By not utilising the current CPO powers by 4<sup>th</sup> July 2014, it may prove necessary to make a further compulsory purchase order which would increase costs and reduce certainty.
- Continued risk of blight in the area.
- Status of city centre diminishes.
- Long term economic aspirations less feasible.
- Lack of confidence for other projects.
- Detract from inward investment potential.
- City Centre Masterplan unfulfilled.
- Reputation of the City and the Council will suffer.

**16.0 REASONS FOR RECOMMENDATIONS**

16.1 As outlined in this Report, there is a clear strategic and economic case to justify the Council acquiring/securing all the land and property necessary to secure the opportunity for delivery of the New Retail Quarter development scheme as outlined

and therefore the Council acquiring/securing all the land and property necessary to secure the development.

- 16.2 This case is based on maintaining momentum in the delivery of the New Retail Quarter project and maximising the prospects of an early start on site, by working on the options for development delivery and consolidating land ownership, which is one of the key reasons for market failure in the past.
- 16.3 Failure to act to acquire the remaining land, either under the options in the legal agreements or under CPO powers would result in fragmented land ownership within the proposed New Retail Quarter site. This would, in all likelihood, result in continued blight, diminishing economic activity and output and further decline in the physical environment and environmental standards of this important area of the City Centre.

## **17.0 RECOMMENDATIONS**

- 17.1 That The Executive Leader approves the strategy outlined in this report for the delivery of the New Retail Quarter , and
- 17.2 That authority is given for the Director of Capital and Major Projects in consultation with the Interim Director of Legal and Governance to take such steps as he deems appropriate to secure possession of all land interests comprised in the CPO including to agree and enter into any necessary documentation with the land owners affected by the CPO to enable them to remain in or resume possession of their property and continue to trade, if they wish to do so, until possession of the New Retail Quarter site is required for dates within the period January 2016 and January 2017 to suit phasing or earlier if required by agreement.
- 17.3 That authority is given for the Director of Capital and Major Projects in consultation with the Director of Legal and Governance and the Acting Executive Director of Resources to acquire land and property interests within the proposed site for the New Retail Quarter development on the terms outlined in this report and for the costs of £61 million, including a land value of £55 million to be funded through prudential borrowing and subject to the phasing of this spend going through the Council's Capital Approval process.
- 17.4 Delegates authority to the Executive Director of Place in consultation with The Cabinet Member for Business Skills and Development , the Acting Executive Director of Resources and the Interim Director of Legal & Governance and Monitoring Officer and the Director of Capital and Major Projects, to
- Serve an Option Notice on Hammerson under the provisions of MDA, and then to take all steps deemed necessary to acquire the Hammerson land and property interests within the New Retail Quarter development site that are required for the New Retail Quarter development.
  - To serve notice on HCA to acquire their property interests within the New Retail Quarter CPO boundary and if necessary to renegotiate the terms of any of the legal agreements with HCA or to enter into new legal agreements in order to facilitate these acquisitions.

V5 060614

- Agree and enter into all necessary legal documentation with the owners/occupiers of any property required for the New Retail Quarter to facilitate the purchase by agreement
- Take all steps necessary to acquire from Hammerson any information that they hold that the Council require in order to bring forward delivery of the New Retail Quarter.
- If necessary exercise the rights as contained in the JLP Agreement or to renegotiate the terms of its legal agreement with JLP or enter into further agreements in order to facilitate the delivery of the New Retail Quarter.
- Agree and enter into all necessary legal documentation with the owners of the Citadel to effect those terms outlined in this report.
- To take such steps as appear appropriate to secure the outcomes in this report

17.5 To request that a further report is taken to Cabinet to outline options for procurement of a development partner and funding of the development .

Simon Green  
Executive Director Place  
18<sup>th</sup> June 2014