
REPORT TO THE EXECUTIVE DIRECTOR PLACE

SHEFFIELD RETAIL QUARTER – DELIVERY OF FIRST PHASE

1.0 PROPOSAL

1.1 This report seeks approval for the Council to commence delivery of the first phase of the Sheffield Retail Quarter development on the site of the former Grosvenor Hotel block as shown on the plan attached marked as **Appendix A** (hereinafter referred to as the HSBC/Retail Block), and to work with its Strategic Development Partner to work up a deliverable and commercially viable wider Sheffield Retail Quarter scheme.

2.0 HOW DOES THIS DECISION CONTRIBUTE?

2.1 The Sheffield Retail Quarter will provide a high class regional shopping and leisure addition to the current city centre retail offer which will deliver a step change and lift Sheffield up the national retail ranking to compete with other city centres such as Manchester, Leeds and Nottingham.

2.2 It will deliver substantial economic and social benefits, not only providing new retail, but also leisure uses, offices, housing and high quality public realm, creating an attractive environment in which to live, work, shop and relax

2.3 The scheme will stimulate wider investment in the city centre, generate business rates and create a high quality retail and leisure led mixed use scheme and consolidate the prime retail offer.

2.4 The development of the Sheffield Retail Quarter also enhances the status of Sheffield and the city centre in itself and it will help generate much improved city centre visitor numbers thus adding to the overall success of the city centre. It will help stimulate office, commercial and leisure investment/development in the city centre which is part of the City's growth strategy.

2.5 It will retain both HSBC a large financial services employer in the city centre in new modern flexible office space, and, subject to final agreements, provide a new department store, together with providing modern high quality retail/leisure accommodation that the city centre is currently lacking. This new space will allow both current retailers/leisure brands to expand and for new retailers/leisure brands to establish a presence in the city centre.

Outcomes:

2.6 Illustrative economic estimates have been provided to the Council on the benefits of delivery of the Sheffield Retail Quarter scheme. These estimates were calculated whilst the scheme is in the design phase and will be reviewed as the design and final occupiers of the Sheffield Retail Quarter scheme are settled.

2.7 Based on an estimated construction cost for the Sheffield Retail Quarter of £350

million (as per the current planning application) the average annual GVA (Gross Value Added) contribution generated will be in the region of £28.2 million over the next seven years. This contribution will peak at around £65.0 million in 2019. The bulk of this benefit is expected to accrue to Sheffield.

- 2.8 Each year as a result of investment in the project, Sheffield-based firms can expect to be paid more than £40 million for construction activities and professional services, generating a direct GVA contribution of £19.2 million for the City.
- 2.9 From 2022 onwards, when it is currently anticipated that the Sheffield Retail Quarter development (as currently planned) will be completed and fully open to the public, the expected uplift in annual consumer spending on retail and catering activity in Sheffield city centre, will have an even more substantial impact on the regional economy.
- 2.10 The GVA contribution for the City Region driven by this additional spending is put at £90.0 million per annum, sufficient to support around 4,470 jobs and generate £66.8 million in tax revenues (including the additional VAT). Most of this benefit will accrue to Sheffield itself, which will see £80.9 million in additional annual GVA, supporting around 4,210 jobs
- 2.11 When HSBC move into the new offices to be provided as part of the HSBC/Retail block this is expected (as reported by the bank) to support 2,700 jobs in Sheffield, and it is anticipated that this will protect an annual GVA contribution of £95.8m to the city region with £94.1m per annum accruing to Sheffield itself.
- 2.12 The additional business rates income the Sheffield Retail Quarter will generate can be retained the Council under the New Development Deal. This increased income allows the Council to raise finance which could be invested in the delivery of the development.

Sustainability:

- 2.13 Completion of the Sheffield Retail Quarter development will make the city centre a more cohesive and sustainable location to attract further investment.
- 2.14 Delivery of the Sheffield 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.

3.0 PUBLIC CONSULTATION

- 3.1 The Council has undertaken a comprehensive consultation process for the Sheffield Retail Quarter proposals with both key stakeholders with the general public, and throughout this consultation there has been widespread and strong public support to see a scheme delivered.
- 3.2 The last public consultation exercise undertaken by the Council in May/June 2015 attracted over 3,000 visitors to the marquee erected at the top of Fargate and approximately 800 written representations were received, with the vast majority

supporting the Sheffield Retail Quarter proposals.

3.3 As the Sheffield Retail Quarter scheme moves forward there will be further public consultation undertaken as part of the normal process, providing another opportunity for the general public to be engaged and to make comments

3.4 The Council has carefully listened to the feedback it has received to date and this is helping to shape the Sheffield Retail Quarter proposals going forward

4.0 BACKGROUND

4.1 Following the report to the Executive Leader dated 8th October 2013, the Cabinet report on 24th July 2014 and through the capital approvals process the Council has continued to drive the Sheffield Retail Quarter project forward.

4.2 Progress to Date

4.3 Acquisitions

4.3.1 The ownership of the proposed Sheffield Retail Quarter site has been secured via the serving of CPO notices, acquisitions of properties by agreement and the acquisition of both the historic Hammerson and Homes and Community Agency (HCA) property interests within the site.

4.4 Planning application

4.4.1 Following a comprehensive consultation exercise with both the public and key stakeholders the Council (acting as developer) has submitted an outline planning application for the Sheffield Retail Quarter development.

4.4.2 Given the importance size and complexity of this planning application it is still progressing through the planning process, and it is currently anticipated that it will be considered later this summer.

4.5 Demolition of Grosvenor Hotel block

4.5.1 The demolition of the Grosvenor Hotel block is proceeding. The Council's selected demolition contractor, DSM is due to take control of the block and commence the demolition works in earnest in August 2016.

4.5.2 The demolition works are currently programmed to be completed by the end of the year

4.6 Selection of Strategic Development Partner

4.6.1 As previously reported to Cabinet the Council recognised that it required a Strategic Development Partner with the appropriate development expertise skills and resources to assist in the delivery of the Sheffield Retail Quarter.

4.6.2 The Council has carried out a comprehensive EU compliant procurement process to seek this partner, and Queensbury Real Estate Ltd have been identified as

having the necessary experience, skills and resources to work for the Council in a development management capacity to assist the Council in delivering the Sheffield Retail Quarter to the market.

- 4.6.3 Queensbury Real Estate Ltd will now take the overall lead in creating and then managing the delivery of the Sheffield Retail Quarter investment
- 4.6.4 They will undertake a comprehensive commercial review of the Sheffield Retail Quarter development proposals prepared to date.
- 4.6.5 This will involve
- Challenging testing and reviewing the current scheme, its layout and design to ensure it produces the most efficient retail/leisure space
 - Carrying out a review of all the cost plans and programmes for the delivery of the Sheffield Retail Quarter
 - Taking the lead on all negotiations with the retailers, including the proposed anchor John Lewis
 - Preparing the business plan to achieve and deliver a viable and successful development
 - Advising the Council on how to minimise development risk and produce a vibrant and successful scheme
 - Assisting the Council in the tendering of the construction packages
 - Helping the Council to secure private sector investment at the appropriate time to in order to help fund the delivery
 - Overseeing the delivery stages of the development and put in place the future management arrangements
- 4.6.6 The Council will pay Queensbury Real Estate Ltd a development management fee and will seek to recover this from the ultimate developer/investor in the Sheffield Retail Quarter development

5.0 COUNCIL TO ACT AS DEVELOPER/INVESTOR

- 5.1 To further reinforce the need for input from a strategic development partner it became apparent to the Council during both the strategic development partner procurement process, and following informal market testing of the Sheffield Retail Quarter development opportunity that in order to maintain project momentum and the fact that there is now a major office tenant to accommodate, the Council will need to continue to act as developer/investor.
- 5.2 In order to make the Sheffield Retail Quarter development/investment opportunity attractive to the market the Council needs to both deliver the first phase of the

- scheme (the HSBC/Retail block) and also at the same time undertake further work to advance the project with Queensbury Real Estate Ltd.
- 5.3 The Council will therefore need to continue to act as the developer and investor in this stage of the development, and has control of the land and the ability to raise finance through Prudential Borrowing and any business rates uplift the Sheffield Retail Quarter will generate, to do this.
- 5.4 This additional work on the Sheffield Retail Quarter (excluding the HSBC/Retail block) is to work up and deliver an “oven ready” scheme which can be demonstrated to the market is commercially viable and thus investable, with planning permission in place and with the key anchor pre-lets of retail space agreed, the required level of pre-lets of the retail space to secure an income stream in place, the costs of delivery fixed and a long term finance source identified.
- 5.5 When this point is reached the project will be subject to a further report to Cabinet to approve the final delivery stage of the Sheffield Retail Quarter.
- 5.6 The current delivery stage is made of up a number of key milestones whilst the planning process is ongoing, and the project will only continue in its current form if these milestones are satisfactorily completed. If the milestones are not complete then alternative proposal will be developed and may be subject to further reports to Cabinet.
- 5.7 Key Milestones :

Milestone Date	Indicative Deliverables
December 2016	<ul style="list-style-type: none"> Anchor Tenant Agreement
March 2017	<ul style="list-style-type: none"> Anchor Tenant Agreement for Lease agreed
December 2017	<ul style="list-style-type: none"> Planning Permission in place and conditions discharged Acceptable level of rental value pre-lets in place Development Funding Agreement agreed Tendered construction costs

- 5.8 The full financial implications of the Council continuing to act as developer/investor are set out in detail in paragraph 9.0 of this report

Governance

- 5.9 The Sheffield Retail Quarter project is managed through the Sheffield Retail Quarter Programme Board which includes the Executive Director of Place, the Executive Director of Resources, the Director of Legal & Governance and the Director of Capital and Major Projects, with further authorisation on financial matters going through the Capital Gateway Process, and Cabinet as required
- 5.10 The Board monitors the delivery of the Sheffield Retail Quarter, managing the vision, outcomes, benefits and any strategic risks to the Council. The board also takes overall responsibility for decision making in line with the delegations authorised by Cabinet.

6.0 DELIVERY OF FIRST PHASE – THE HSBC/RETAIL BLOCK AND RELATED PUBLIC REALM IMPROVEMENT WORKS

- 6.1 In order to make a real statement of intention to the market the Council will deliver the first phase of the Sheffield Retail Quarter development directly (the HSBC/Retail Block) ahead of the rest of the scheme. This move was prompted in part by the HSBC Banks requirement for new office space within the city centre
- 6.2 HSBC currently occupy office space in Griffin House and other office buildings within the city centre but it is dated accommodation and no longer meets their needs.
- 6.3 HSBC have been looking to consolidate their offices into one modern flexible office space in the city centre for some time and have been in discussions with a number of developers on various sites.
- 6.4 The Council identified HSBC as a key anchor tenant for the Sheffield Retail Quarter as it would not only help deliver an early phase of the development but also provide footfall and spending power to help underpin the wider development and act as a catalyst for the scheme.
- 6.5 The Council therefore submitted a proposal to the bank. Heads of terms have now been agreed and subject to these being ratified by both parties the Council will then submit a detailed planning application for the HSBC/Retail Block.
- 6.6 The HSBC/Retail Block will consist of a Net Internal Area of 228,000 square feet. HSBC will take a majority of the office space created above the ground floor retail space.
- 6.7 The details of the commercial terms with the bank are contained in Part 2 of this report.
- 6.8 The commencement of any development will be subject to the Council obtaining satisfactory planning consent which is anticipated to be secured by Quarter 1 2017. The bank are seeking a completion date in Quarter 1 2019.
- 6.9 The development of the block also creates circa 52,000 square feet of retail/leisure floor space at ground floor level which does not yet have any tenants secured. The Council will market and seek to let these units on the best terms available in the market.
- 6.10 However because of the strict timeline that is required to meet the banks occupation target, then the rest of the building will have to be completed on a speculative basis leaving the Council with the occupation risk.
- 6.11 Once the block has been built and the lease to HSBC granted the Council will be HSBC's landlord and will have an asset with a value which we can hold, put into

the wider Sheffield Retail Quarter scheme or sell.

- 6.12 The retail space once let will be an asset with value for the Council which we can again hold, put into the wider Sheffield Retail Quarter scheme or sell.
- 6.13 The full financial implications of delivering the HSBC/Retail block are set out in detail in paragraph 9.0 of this report
- 6.14 As part of the development of the HSBC/Retail Block the Council will deliver high quality public realm around the new block
- 6.15 As part of the public realm improvement works circa 13,000 of retail space will be created, and these will be targeted at food and beverage operators to compliment the use of the public spaces
- 6.16 The new spaces around the HSBC/Retail Block development provide the opportunity for the Council to create a new series of well-designed open public spaces constructed with high quality materials that will connect with both The Moor and the Sheffield Retail Quarter development.
- 6.17 Creating a strong link between The Moor and Sheffield Retail Quarter is seen as vital to both the success of the development and also to strengthen the city centre retail offer. The new retail space created in the HSBC/Retail block and the food and beverage units will benefit from the opening of the new cinema on The Moor.

7.0 RISK ANALYSIS AND IMPLICATIONS OF THE DECISION

- 7.1 A number of key risks have been identified and mitigation strategies have been put in place to manage the risk where possible. These are as follows:
- 7.2 Obtaining all necessary planning and highways consents to build the HSBC/Retail block.
 - 7.2.1 A detailed planning application for the HSBC/Retail block will be submitted. The professional team acting for the Council have already in in pre-application discussions with Planning Officers. The deal with the bank is conditional on planning consent being obtained.
- 7.3 Construction cost and programme risk
 - 7.3.1 The Council acting as developer of the HSBC/Retail block has the risk of construction costs going above budget and programme slippage.
 - 7.3.2 The Council has already secured pre construction services so that construction costs and programme can be discussed /worked up in detail before the Council becomes contractually committed.
- 7.4 Letting of the HSBC/Retail block
 - 7.4.1 As set out in the financial implications above the Council is taking the risk on securing lettings of the completed HSBC/Retail block.

- 7.4.2 A large proportion of the office space is pre-let to HSBC and Queensbury Real Estate Ltd the Councils Strategic Development Partner will now be taking the lead on all negotiations with the retailers.
- 7.5 Changes to the political/economic climate
- 7.5.1 It is impossible to judge the impact (if any) of the current economic and political uncertainty on this project
- 7.2.4 The Council will monitor the situation and report back to Cabinet if necessary

8.0 EQUALITY OF OPPORTUNITY IMPLICATIONS

- 8.1 The redevelopment of the Sheffield 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.
- 8.2 No negative equality impacts have been identified.
- 8.3 As the Sheffield Retail Quarter development progresses there will be further public consultation providing another opportunity for stakeholders and the general public to be engaged and to make comments
- 8.4 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 Sheffield Retail Quarter is also an aspiration of the Council.

9.0 FINANCIAL AND COMMERCIAL IMPLICATIONS

- 9.1 The delivery of the next stage of the Sheffield Retail Quarter will have significant financial implications for the Council across the key areas of activity as set out below.
- 9.2 **Continuation of Wider Sheffield Retail Quarter Development**
 - 9.2.1 In order to carry out the next stage of the Sheffield Retail Quarter delivery, the Council will incur further costs, as set out below, which will consist largely of the external advisors required to produce a scheme that is attractive to both potential tenants and funders.
 - 9.2.2 The scheme has been treated as Assets Under Construction (AUC) and therefore all costs to date (including financing costs) have been capitalised. This will continue whilst the development remains active.

9.2.3 Total Expenditure

	£m	Basis/ Status Of Figures
Land Assembly and Enabling Works	61.2	Already approved by Cabinet
Continuation of SRQ To unconditional Stage (Dec 2017)		
External Advisor Fees - includes design and preconstruction services	26.9	
SCC Direct Costs	1.1	
Capitalised Interest	7.8	Based on 5% cost of capital
Sub Total	35.8	
Total Capital Expenditure	97.0	

- 9.2.4 As indicated above a further £35.8m of funding is required to complete the next stage. The whole £97m budget will be split out and profiled through the normal capital approval processes.
- 9.2.5 The project will be monitored through the Councils usual capital monitoring and reporting process.
- 9.2.6 This expenditure is to complete all of the necessary stages for the project to secure funding. This expenditure is all at risk until the scheme is commercially viable and has secured the necessary funding for the scheme to be taken forward into the delivery stage. Once delivered it is assumed the costs will be recovered from either an increase in business rates or a contribution from the development returns.
- 9.2.7 As set out above there are a number of key milestones throughout this stage and the project should only progress if the pre-requisites for those milestones have been complete as approved by the Project Board.
- 9.2.8 Should those milestone conditions not be met at the required time, then alternative proposals will be developed and if necessary would be subject to further Cabinet approval.
- 9.2.9 The Milestone profile of the above expenditure is set out in Part 2 of this report as **Appendix B**.
- 9.2.10 Peak Revenue Budget Exposure
- 9.2.11 If the project is halted or stalled for a considerable time such that it ceases to pass the criteria for being treated as an AUC then the financing costs (Interest and Minimum Revenue Provision) will have to be covered from Council budgets.
- 9.2.12 The following tables show the impact on the revenue budget based on expenditure to date and if the scheme continues to December 2017.

9.2.13 Do Nothing (Assumes Sheffield Retail Quarter Aborted)

	£m	Basis/ Status Of Figures
Funding Requirement	50.5	Current costs incurred to date
Annual Financing Costs from 2016/17 (Based on Annuity w/o over 30 years)	3.3	Timing of charge to Revenue depends on point that whole development ceases to be active
Net Worst Case Annual Exposure	3.3	
Existing Properties Value	41.1	Based on historic purchase cost (actual value could be higher or lower depending on current market conditions)
Net Best Case Annual Exposure	0.6	Financing of residual costs if asset value realised

9.2.14 Sheffield Retail Quarter Continues to Unconditional Stage

	£m	Basis/ Status Of Figures
Funding Requirement	97.0	
Annual Financing Costs from 2016/17 (Based on Annuity w/o over 30 years)	6.3	Financing of capital costs if development ceases to be active
Net Worst Case Annual Exposure	6.3	
Existing Properties Value	48.6	Forecast Acquisition costs
Net Best Case Annual Exposure	3.1	Financing of residual costs if asset value realised

9.2.15 As can be seen from the above tables a significant proportion of the costs incurred are for the appointment of expert advisors which do not create a proportionate asset value. Therefore if the scheme does not proceed and there has been no appreciation in the value of the asset acquired those residual sunk costs would have to be charged to the revenue account.

9.2.16 There has been no provision made for these costs in the Councils Medium Term Financial Strategy and so if the project cannot realise sufficient returns then this would cause a budget pressure for the Council.

9.2.17 It is imperative therefore that proper governance is exercised over the progression of the scheme and that additional costs commitment will only be made if there is tangible evidence that scheme is positively addressing the viability issues it currently faces.

9.3 **HSBC/Retail Block**

9.3.1 As the Council is carrying out the development role for the HSBC/Retail block as a

stand-alone investment, then it will incur significant expenditure. The table below sets out a summary of the expected costs for the completion of the block.

A breakdown of the heads of expenditure, estimate of income and basis of the assumptions is contained in Part 2 of this report

9.3.2 Base Case Appraisal

	£m	Basis/ Status Of Figures
Land Assembly and Enabling Works	n/a	Assumed to be funded from wider Sheffield Retail Quarter scheme
Grosvenor Block Build Costs, Fees & Interest	73.3	
Sub Total	73.3	
Less		
Exempt VAT		Potential £8.2m if Partial Exemption strategy is successful
Total Block Capital Expenditure	73.3	
Public Realm, Transport and Highways	8.3	
Total Development Capital Expenditure	81.6	

- 9.3.3 The costs above include an element of irrecoverable VAT on the construction costs of the HSBC Office. This is because the structure of the commercial deal could influence the treatment of the expenditure for VAT purposes.
- 9.3.4 This reflects a worst case scenario but the Council is exploring an option to use its Section 33 Public Body Status to recover that VAT. This will require a change to the way we report our compliance with the Partial Exemption (PE) provisions to HMRC moving to a 7 year average from the current three year.
- 9.3.5 Approval is therefore sought to pursue this option with HMRC when appropriate. It is proposed that an application for Sheffield City Region Investment Fund (SCRIF) funding be made towards the public and infrastructure costs of the scheme.
- 9.3.6 The proposed exit strategy for the building is to sell the long leasehold interest of some or all of the elements to one or more investors. This could be a stand-alone disposal or could be as part of the wider Sheffield Retail Quarter.

9.3.7 Post Completion Income

Business Rates		
Cavendish Office	0.9	
Additional Office	0.2	
Retail and Leisure space	0.4	
Total Annual Income	1.5	

Period In which Residual Financing Costs Paid Back	Year 9	After Practical Completion
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9.3.8 It assumed that all of the business rates uplift from the building will be retained by the Council and used as a first call to cover the residual financing costs of the public realm improvement works.

9.3.9 If VAT on exempt expenditures can be recovered and full SCRIF grant is secured then the project would virtually break even at Practical Completion leaving all business rate uplift as income to the Council.

9.4 Council Scenario Modelling

9.4.1 Whilst securing the anchor tenant in the building for an initial term goes a long way to mitigate the financial risk associated with it, the fact that the rest of the building will have to be completed on a speculative basis leaves the Council with considerable risk if the assumed levels of occupation and rental cannot be achieved.

9.4.2 This is illustrated by the scenario analysis below. The detailed cash flows for each of the base case scenarios are attached in Part 2 of this report as **Appendix C**.

9.4.3 Scenario Set 1- Full Occupation, Leasehold Sold and All Rental Income Streams Capitalised

The risk in this scenario is that the Council cannot secure the level of expected rent for the non-office elements of the building which results in a lower capital receipt

Scenario	Average Rent psf	Pay Back year
Base Case	£26.61	9
Sensitivity 1 - Non-Office element rental value reduced by 10%	£20.89	12
Sensitivity 2 - Non-Office element rental value reduced by 25%	£17.41	18

9.3.4 Scenario Set 2- Full Occupation, Leasehold Retained, Rental and business rates Received Annually

If the Council cannot secure the required level of Capital value for building then it could hold on to it and receive an annual rental income in addition to the business rates

Scenario	Average Rent psf	Pay Back year
Base Case	£26.61	20
Sensitivity 1 - Non-Office element rental value reduced by 10%	£20.89	21
Sensitivity 2 - Non-Office element rental value reduced by 25%	£17.41	23

9.3.5	Sensitivity 3 –Mitigation Case – Rental value that non-office element would have to be fully let at to break even (NPV Over 30 years)	£8.91 psf (66% reduction)	£1.1m per annum
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9.3.6 The above scenarios assume that the building is fully leased for the 30 year duration at a constant rental value. It is possible that rental values for individual units could go up or down depending on the length of lease entered into and the prevailing market conditions on renewal.

9.3.7 The above scenarios indicate that taken over a 30 year period, if the office remains occupied throughout, then the level of rent required from the remainder of the building to break even is relatively low.

9.3.8 Scenario Set 3- Initial Void Period on Non-Office then 5 yearly void periods throughout

The biggest risk to the project is the securing of tenants for the non-office building from the outset of completion and for the offices, if the anchor tenant exercises the first break option.

Scenario	Average Rent psf	Pay Back year
Base Case	£26.61	27
Sensitivity 1 - Non-Office element rental value reduced by 10%	£20.89	30
Sensitivity 2 - Non-Office element rental value reduced by 25%	£17.41	31

9.3.9 The above scenarios therefore illustrate the impact of:

- the occupation of the retail and food and beverage units being delayed for 3 years and then being subject to a 5 yearly lease cycle with a void year in between;
- the occupation of the Offices after the initial period being subject to the same 5 yearly lease cycle with a void year in between;

- 9.3.10 This indicates that at the assumed rental values, the project does still pay back with the 30 year financing period and will do so providing the rental value achieved on average is reduced by less than 25%.

10.0 LEGAL IMPLICATIONS.

- 10.1 The recommendations in this report are intended to allocate and identify sources of funding for the Sheffield Retail Quarter development. In order to comply with the Council's constitution and rules of governance a further approval will be required via its Capital Approval process. As mentioned in this report, this will be undertaken in respect of individual items of capital expenditure.

- 10.2 The recommendations in this report also envisage the Council procuring various constructions works in order to implement the Sheffield Retail Quarter development. Although the UK has recently voted in favour of leaving the EU, the EU procurement regulations are enacted into UK law by the Public Contract Regulations 2015. As a result any procurement process will need to be conducted in accordance with these regulations until such time as further legislation is enacted.

11.0 PROPERTY IMPLICATIONS

- 11.1 The Council has now acquired a majority of the Sheffield Retail Quarter site and is managing these properties for redevelopment.

- 11.2 Any temporary new lettings are made on the basis that the Council can obtain vacant possession at any time on 3 months' notice, so as not to disrupt/delay the Sheffield Retail Quarter development.

- 11.3 The rental income that these properties produce is used to help fund the holding and management costs of the Sheffield Retail Quarter estate.

- 11.4 If the Council decide at a future date not to proceed with the Sheffield Retail Quarter development 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.

12.0 ENVIRONMENTAL SUSTAINABILITY

- 12.1 The long term strategic implications of a Sheffield Retail Quarter to Sheffield have already been covered in this report and the detailed elements of environmental and sustainability matters have and will be incorporated into the planning process by virtue of negotiated designs, planning conditions and S106 obligations.

- 12.2 The Sheffield Retail Quarter development will promote the use of sustainable materials wherever viable and the structures will be designed as efficiently as possible to reduce the quantity of raw construction materials. Every effort will be made to minimise its carbon footprint.

- 12.3 The offices will be designed to achieve the banks criteria of a LEED (Leadership in Energy and Environmental Design) silver standard, and the remainder of the block

to achieve a BREEAM (Building Research Establishment Environmental Assessment Method) very good

12.4 LEED is a green building certification processes that rates the design construction operation and maintenance of green buildings, and BREEAM assesses and rates the sustainability of a building.

12.5 The block will be designed to be energy efficient and to reduce energy consumption and carbon omissions. A minimum of 10% of its energy needs will come from decentralised and renewable or low carbon energy.

COMMUNITY SAFETY IMPLICATIONS.

13.0

13.1 The Sheffield Retail Quarter development will incorporate a series of well-designed pedestrianised streets and public squares within the scheme, and these will provide a safe environment for all.

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

HUMAN RIGHTS ISSUES

14.0

14.1 There are not thought to be any human rights implications arising from the proposals set out in this report.

ECONOMIC IMPACT

15.0

15.1 The long-term economic benefits to Sheffield of securing delivery of the Sheffield Retail Quarter are both enormous and long lasting. It will generate new business rates and Council Tax for the Council and retain and/or create new jobs in the city centre.

15.2 The anticipated long term economic benefits of the Sheffield Retail Quarter have already been set out in paragraphs 2.6 to 2.11 of this report

15.3 The development of the Sheffield Retail Quarter also enhances the status of the city centre in itself creating an attractive environment in which to live, work, shop and relax and will in turn help stimulate other office, commercial and leisure investment/development in the city centre generating additional business rates and creating more jobs.

16.0 ALTERNATIVE OPTIONS CONSIDERED

16.1 The do nothing option i.e. cease both the delivery of the first phase (the HSBC/Retail block) and work on the wider Sheffield Retail Quarter scheme has been considered, but has many negative outcomes for the Council.

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

Council will also suffer.

- 16.3 The Council will also make a loss if the Sheffield Retail Quarter is not delivered as its investment to date in working up the scheme will be lost.

17.0 REASONS FOR RECOMMENDATIONS

- 17.1 As outlined in this Report, there is still a very clear strategic and economic case to justify the Sheffield Retail Quarter development, and in order to maintain project momentum given that there is now a major office tenant to accommodate the Council will need to continue to act as developer/investor until such time as the scheme will be ready for the investment market. This will be when the Council has completed the designs, obtained construction tenders and achieved a required level of pre-lets to secure an income stream.
- 17.2 The reasons for the recommendations are to provide a way forward for the Council to deliver the Sheffield Retail Quarter

18.0 RECOMMENDATIONS

That Cabinet:

- 18.1 Approves the strategy outlined in this report for the delivery of the next stage of the Sheffield Retail Quarter to December 2017
- 18.2 Delegates authority to the Executive Director of Place in consultation with The Cabinet Member for Business and Economy, The Cabinet Member for Finance & Resources , Executive Director of Resources, the Director of Legal & Governance and the Director of Capital and Major Projects, to
- 18.2.1 Negotiate and agree the terms of an Agreement for Lease and Lease with HSBC for their new office development within the Sheffield Retail Quarter site and all other necessary legal documentation consistent with the contents of this report as he believes are reasonable in all circumstances
- 18.2.2 Negotiate and agree the terms of an Agreement for Lease(s) for the retail units within the HSBC/Retail Block and all other necessary legal documentation
- 18.2.3 Submit detailed a planning application for the development of the HSBC/Retail Block and adjoining public realm improvement works and to secure all necessary consents to enable delivery to proceed.
- 18.2.4 Continue the appointment of the full professional team to undertake detailed design work on the HSBC/Retail Block and the Sheffield Retail Quarter public realm improvement works and to progress the wider Sheffield Retail Quarter planning permission.
- 18.2.5 Procure construction services and enter into contracts for pre-construction services for the Sheffield Retail Quarter development in accordance with the Councils usual procurement process and any applicable laws relating to procurement with contract values not exceeding the project financial authority

- 18.2.6 Commission and agree terms with any other specialist consultants to advise the Council as necessary throughout the course of the Sheffield Retail Quarter project
- 18.2.7 Upon completion of the Agreement for Lease and Lease with HSBC to let the construction contract(s) for the development of the HSBC/Retail Block and the public realm improvement works together with any retail/food and beverage kiosks/units, subject to the Councils usual procurement process and any applicable laws relating to procurement with the total cost not exceeding the project authority
- 18.2.8 Negotiate and agree the terms of conditional Agreement for Lease(s) and Lease(s) for the remainder of the retail units within the Sheffield Retail Quarter together with all other associated office residential food and beverage and leisure units
- 18.2.9 Determine the most appropriate disposal strategy for the Council and if necessary sell the whole or any part of the HSBC/Retail Block as an investment and if necessary use the Councils covenant to underwrite the financial viability
- 18.2.10 Amend the Councils VAT Partial Exemption reporting policy to maximise the recovery of VAT on expenditure relating to the HSBC/Retail Block and liaise with HMRC accordingly
- 18.2.11 To instruct the Director of Legal and Governance to complete all necessary legal documentation required to document the terms of any transactions agreed in accordance with the approvals delegated pursuant to this report
- Subject to compliance with the Councils budget processes, financial regulations and Capital Approval processes.
- 18.3 That in the absence of the Executive Director of Place due to annual leave or illness, the Director of Capital and Major Projects is authorised to exercise the powers given to the Executive Director of Place by Cabinet in this report
- 18.4 Approves
- 18.4.1 The budget as set out in this report to deliver the HSBC/Retail Block and all necessary public realm improvement works of up to a maximum of £90m.
- 18.4.2 For this budget to be funded through Prudential Borrowing and be subject to the phasing of the spend going through the Council Capital Approval process,
- 18.4.3 To earmark any business rates uplift to repay any balance of the Prudential Borrowing, and
- 18.4.4 The application for Sheffield City Region Investment Fund (SCRIF) funding to be applied in accordance with any obligations or restrictions that the funding is subject to
- 18.5 Approves the additional £35.8m budget as set out in this report to progress the wider Sheffield Retail Quarter development up to December 2017, to be funded

through Prudential Borrowing

- 18.6 Delegates' authority to the Executive Director of Resources in consultation with the Executive Director of Place to approve the release of the budget on the satisfactory completion of each of the relevant milestones.

Simon Green
Executive Director Place
20th July 2016