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Report of: *Simon Green*
Report to: *Cabinet*
Date of Decision: *30 November 2016*
Subject: *China Economic & Civic Programme Update*

Is this a Key Decision? If Yes, reason Key Decision:-	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
- Expenditure and/or savings over £500,000	<input type="checkbox"/>	
- Affects 2 or more Wards	<input type="checkbox"/>	
Which Cabinet Member Portfolio does this relate to? <i>Business and Economy/ Communities and Libraries/ Culture, Leisure & Parks/ Children's and Young People</i>		
Which Scrutiny and Policy Development Committee does this relate to? <i>Economic and Environmental Wellbeing/ Children, Young People and Family support/ Healthier communities and Adult Social Care.</i>		
Has an Equality Impact Assessment (EIA) been undertaken?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
If YES, what EIA reference number has it been given? <i>(not required)</i>		
Does the report contain confidential or exempt information?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

Purpose of Report:

To update Cabinet on the programme of activities that has been developed with Chinese partner organisations, specifically -

- 1) The trade agreements developed with the Chinese Cities of Nanchang and Daqing and to seek authority to explore possible trade delegations to these partner cities for Sheffield-based businesses.
- 2) That our Chinese Investment partner's UK company, Guodong UK Limited (Guodong) is expected to shortly begin pre-planning application discussions with the Planning Authority for a private residential development in the West Bar area of the city.
- 3) That Guodong has formally expressed an interest in undertaking feasibility studies to understand the viability of developing a 5-star hotel and improving the Art Gallery at the Central Library Building on Surrey Street.
- 4) To obtain authority to explore options for the temporary and/ or permanent relocation of the library service in the City Centre in readiness for the possible eventuality of a Hotel development being confirmed as being viable at the Central Library building.
- 5) The educational partnership that has been established with Chengdu Government and the intention to establish "sister" schools in Chengdu's high tech zone and at the Oasis Academy at the Olympic Legacy Park in the Don Valley.

Recommendations:

That Cabinet:

- 1) Note the Council's programme of activity with Sheffield's Chinese partners.
- 2) Authorise the completion of the required legal documents which will underpin the long-term Strategic Investment Partnership with Guodong following the signing of Heads of Terms in June 2016.
- 3) Note the expression of interest received from Guodong and authorise entering into a twelve month period of exclusivity to assess the viability of developing a 5 star hotel at the Central Library building on Surrey Street.
- 4) Approve the commencement of the negotiation of terms with Guodong regarding the library building on the principles set-out in this report.
- 5) In line with the principles outlined in this report, approve the development of options for both the temporary and the permanent relocation of the Central Library Service and the Graves Art Gallery that may be required as a result of the receipt of the hotel expression of interest
- 6) Note that the terms of the hotel proposal and the options for any impacted

services will be the subject of a future report to Cabinet prior to entering into any binding agreement.

Background Papers:

Lead Officer to complete:-		
1	I have consulted the relevant departments in respect of any relevant implications indicated on the Statutory and Council Policy Checklist, and comments have been incorporated / additional forms completed / EIA completed, where required.	Finance: <i>(Insert name of officer consulted)</i> Paul Schofield
		Legal: <i>(Insert name of officer consulted)</i> David Hollis
		Equalities: <i>(Insert name of officer consulted)</i> Beth Storm
<i>Legal, financial/commercial and equalities implications must be included within the report and the name of the officer consulted must be included above.</i>		
2	EMT member who approved submission:	<i>(Insert name of relevant Executive Director)</i> Simon Green
3	Cabinet Member consulted:	<i>(Insert name of relevant Cabinet Member)</i> Leigh Bramall/Jack Scott/Mary Leal/ Jackie Drayton
4	I confirm that all necessary approval has been obtained in respect of the implications indicated on the Statutory and Council Policy Checklist and that the report has been approved for submission to the Decision Maker by the EMT member indicated at 2. In addition, any additional forms have been completed and signed off as required at 1.	
	Lead Officer Name: <i>(Insert name)</i> Howard Varns	Job Title: <i>(Insert job title)</i> Programme Manager
	Date: <i>(Insert date)</i> 2 November 2016	

1. Background

- 1.1 In March 2015, the City Council established an outbound programme with Sheffield Hallam University and the University of Sheffield and World Snooker, which was focused on securing foreign direct investment from China in order to: (a) improve Sheffield's physical infrastructure, (b) improve employment and training opportunities for citizens; (c) promote the City's Universities and cultural assets, and (d) promote Sheffield's businesses and industrial specialisms.

The Council and partners targeted new and existing relationships and partnerships with China to enhance and develop our economy and the job opportunities for local people. This report seeks to provide an update on various activities and request for approvals for further actions.

2 The Programme of China-based Activities

- 2.1 The Council has developed the following programme with Chinese partner organisations. It includes:
 - 2.1.1 An education partnership with Chengdu Government to develop “sister” schools in Sheffield and Chengdu,
 - 2.1.2 An agreement with Chengdu, to forge stronger civic, trade, investment, educational, cultural and sporting links,
 - 2.1.3 The agreement of trade with the Chinese Cities of Nanchang and Daqing,
 - 2.1.4 The Strategic Investment Partnership with Sichuan Guodong Group,

3.0 Sheffield – Chengdu Education Partnership

- 3.1 Sheffield has been approached by Chengdu Government representatives to enter into an education partnership to develop “sister” schools in each city. This involves supporting the development of a reciprocal school in each city and then supporting these schools in building close educational and sporting ties and regular student and teacher exchanges.
- 3.2 Specifically, Chengdu has requested that Sheffield work with them to design a school in Chengdu’s high tech zone and assist in the development of course content and student and teacher exchange programmes. It is expected that the school in Sheffield will provide Mandarin classes to students along with classes in Chinese history and culture, with the equivalent being provided at the “Sheffield” school in Chengdu.
- 3.3 The development of language skills will be a key component of the educational offer in the respective schools and is particularly important in the UK where the lack of language skills, and the limited exposure to China and Chinese culture, is seen as a major weakness for businesses that are looking to expand within this rapidly developing marketplace.
- 3.4 Chengdu government representatives have been particularly impressed with the Oasis Academy at the Olympic Legacy Park in the Don Valley and its close links with the Innovation District and the Advanced Wellbeing and Research Centre. Chengdu have approach Sheffield to understand if this school can be used as the model for the “Sheffield” school in Chengdu. To this end, Chengdu have entered discussions with Bond Bryan Ltd, the designers of the Oasis Don Valley Academy, and are seeking to commission them to design a school based on the Oasis Don Valley Academy in Chengdu’s high-tech zone. This represents a significant commercial opportunity for a Sheffield-based business.
- 3.5 As the Oasis Don Valley Academy at the Olympic Legacy Park and the

“Sheffield” school in Chengdu will both have strong links with innovative and hi-tech companies it is felt this cooperation creates connections for students that foster innovation, creativity, enterprise and opportunity in both cities. Innovation is expected to be at the heart of these educational relationships and technologies are expected to be fully utilised to enable students and classrooms to be connected in order to enable and promote educational interaction and collaboration.

3.6 This is a ground-breaking initiative between the two cities, and between the UK and China, with the “Sheffield” school in Chengdu being the first English school in the Chinese state school system. At this very early stage the project is gaining significant profile with key influencers throughout China and is likely to become an exemplar model for increasing aspiration among pupils and educators in both countries by developing partnerships through education, culture-exchange and business and innovation.

3.7 The “Sheffield” school in Chengdu’s high tech zone will be open in Autumn 2018. Work is due to commence shortly with the Oasis Don Valley Academy on establishing the sister school concept and the required mechanisms for the educational partnership. It is hoped that if this model proves successful that this partnership approach can be widened across both cities.

4.0 Update on the Strategic Investment Partnership between Sheffield & Sichuan Guodong

4.1 This programme of outbound activities in China led to numerous investors expressing an interest in Sheffield. After a period of reviewing possible investment partners, a Memorandum of Understanding was signed between Guodong, Sheffield City Council and UKTI (United Kingdom Trade and Investments) in October 2015. This committed these parties to a period of joint-working to explore the possibility of establishing a long-term investment relationship.

4.2 In June 2016, the Leader and Deputy Leader of the Council agreed to establish a strategic investment partnership with Guodong. This agreement established the operating principles and an outline investment blueprint which will see Guodong invest an initial £200 million into Sheffield over the next five years via a number of residential and commercial real estate projects.

4.3 As individual investment projects begin to enter their delivery phase the investment partnership with Guodong also must move into an operational state to drive and assure the delivery of the identified projects. To facilitate this, the Heads of Terms which were agreed in June 2016 need to now be developed into full legal agreements. It is anticipated this work will commence in January 2017 and provide the detailed governance and operational framework for the long-term investment relationship.

5 Residential Project

- 5.1 Guodong's first UK based project is currently in the design development stage and a target date of January 2017 has been identified for this project to enter its pre-planning application stage.
- 5.2 The private residential development is located in the West Bar area of the city centre and is expected to represent an investment of around £30million in to this area of Sheffield. The Council entered into an exclusivity agreement with Guodong to enable it to develop proposals for the site prior to agreeing Heads of Terms and entering into a conditional contract for the land.

6 Hotel Location Enquiry

- 6.1 Guodong have a specific interest in developing a Hotel portfolio outside of China and are of the view that Sheffield is well placed to capture increased volumes of the business, events and conferencing market. They deem Sheffield and its surrounding area to have the latent demand for a market-leading development around a 5-star Hotel offer.
- 6.2 Guodong have been actively assessing potential options over the last six-months and have now approached the Council with information on their preferred location. They have expressed an interest in the Central Library building on Surrey Street being a possible location for a hotel development and wish to explore whether this would be possible and viable, and whether the City Council's has an appetite for such a development at the location.
- 6.3 A formal approach has been received from Guodong outlining–
 - 6.3.1 That Guodong are actively seeking to develop a 5-star Hotel in Sheffield's city centre,
 - 6.3.2 That they have reviewed potential locations in the city and their preferred site, if feasible, would be the Central Library building on Surrey Street due to its prominent location at the heart of the City and next to the theatres and transport.
 - 6.3.3 That the building's design and architectural features are considered a major asset and they would wish to protect and work to maintain and enhance it in order to preserve the building's character.
 - 6.3.4 Guodong have also asked the Council to consider whether the Graves Art gallery could continue to be based within any future 5-star Hotel development if one was to be developed. They have in outline expressed a wish to incorporate and enhance the gallery offer itself and also improve and increase public access to the collection.

7 City-to-City Trade Agreements

- 7.1 Sheffield is a world-leader in the fields of advanced manufacturing and new technologies. Sheffield is of particular interest to Chinese political and business leaders because it is at an advanced stage of a journey that many Chinese cities anticipate will face them.
- 7.2 Sheffield's emergence from rapid de-industrialisation and its expertise in new technology industries, along with the promotional work undertaken to showcase the city in China, has resulted in requests being received from numerous Chinese cities to establish various partnerships. These requests have predominantly been in the fields of trade, investment, sport and education. Although Sheffield has its principle relationship in China with Chengdu. Trade and business agreements have been agreed with Nanchang and Daqing due to their strategic fit.
- 7.3 In February 2016, Sheffield signed a trade agreement with Nanchang, a wealthy and rapidly growing city which is a major hub for the aerospace, automotive, healthcare and outdoor recreation tourist sectors which strongly align with Sheffield's own specialisms.
- 7.4 In June 2016, Sheffield signed a trade agreement with Daqing. This city, in the far north of China, is built around one of the largest and most productive oil and gas fields in China. Daqing as a result is not only a wealthy city but a place that is looking to diversify away from carbon based energy and is a centre for renewable technologies. These are sectors of significant interest to Sheffield and this represent significant opportunity for manufacturing, engineering and low carbon technology businesses.
- 7.5 Work is underway to explore potential trade, investment and joint venture relationships within these cities for Sheffield-based companies and it is hoped that if companies can be aligned there may be significant opportunities. Through the networks the City Council has developed in China, and the trade agreements, it is anticipated that if there is demonstrable business potential identified, trade delegations can be supported to enable companies to take these opportunities.

8 HOW DOES THIS DECISION CONTRIBUTE?

- 8.1 The education project is expected to increase aspiration among pupils and educators in both Cities through the close collaboration between education, innovation and business sectors. With opportunities magnified through the benefit of cross-cultural exposure and direct access to language and society.
- 8.2 The expression of interest in Surrey Street provides an opportunity for the city to retain, protect and enhance an important building. The addition of a 5* Hotel will provide an enhanced hotel and hospitality offer for visitors to the city, its theatres, conferences and events by adding a

quality of product that currently does not exist. For a city of its size without this offer, the proposal may provide the opportunity for a product that would bring significantly benefit to the local economy, creating hundreds of jobs, by attracting high value business and more of the conferencing sector.

- 8.3 The Central Library building is home to the Central Library service along with the Graves Art gallery and the Library Theatre. If the building was to be considered as the location for a 5* Hotel, the Central Library service would need to be permanently relocated.
- 8.4 Equally, plans would need to be explored as to options for the continued and enhanced presence of the gallery in the building which ensure that the collection is maintained as a gallery with public access at least equal to the public access afforded currently but ideally with extended hours. In addition, temporary solutions for the collection during any redevelopment period would have to be resolved.
- 8.5 The Central Library service forms part of the Council's overall library offering and any temporary or permanent relocation would have to be considered in that context. This may provide a unique opportunity to develop a 21st century library service within the City Centre.

Condition of the Central Library Building

- 8.6 The Central Library building has presented increasing maintenance problems over the last 10 years, despite considerable investment made to keep the building operational. For example, in the last five years around £550,000 has been spent on essential repairs and maintenance.
- 8.7 It is estimated that to keep the building open for the next three years, it will require investment in essential works of around £2.2m. This includes works relating to the heating system; roof; fire risk and general repairs. Whilst this will secure the building's operation in the short term, experience over the last 10 years shows that continued essential investment will be required on an on-going and sizeable basis.
- 8.8 Beyond essential repairs and maintenance, it is estimated that a major refurbishment of the building would cost at least £16m and a major redevelopment (modernising the layout and uses) would cost in excess of £30m. The challenge in finding capital monies for the building are now greater than ever given the unprecedented pressure on the council's budget and the fact that the Central Library would be highly unlikely to attract significant external capital support from key public sources such as Arts Council or Heritage Lottery Fund. As such, the approach received by the Council creates the *prospect* - for the first time - of developing an enhanced, fit for purpose and sustainable central library service in different city centre location.

9 HAS THERE BEEN ANY CONSULTATION?

- 9.1 This report is seeking permission to explore options. The options presented back to Cabinet in a future report will deal with any consultation elements of displacing and relocating services that could arise.

10. RISK ANALYSIS AND IMPLICATIONS OF THE DECISION

10.1. Equality of opportunity Implications

S149 Equality Act 2010 sets out what is referred to as the Public Sector Equality Duty. The council must, in all of its decision making, have regard to the obligation;

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

- 10.2 There are no differential equality implications arising from the recommendations in this report. However, as proposals are further developed, they will be assessed for potential differential equality of opportunity implications on a case by case basis and Equality Impact Assessments will be carried out as required.

Financial and Commercial Implications

- 10.3 The 5* hotel proposal if it were to progress should bring significant direct and indirect financial benefits to the city albeit with some risk which could be mitigated by the terms of the commercial agreements which will underpin and effect the transaction.

- 10.4 It may likely require the Council to commit to some up-front costs to relocate the Central Library service and potentially undertake other enabling works. This proposal is in its formative stages, with further development required should the plan proceed.

The benefits can be grouped into three headings:

- Economic regeneration of the city centre
- Avoidance of a significant capital maintenance liability
- Opportunity to improve the Revenue Budget position of the Council

- 10.5 The addition of a 5* hotel created by a significant private investment will greatly enhance the appeal and reputation of Sheffield potentially drawing in further significant investment creating employment and GVA.

The enterprise would also substantially enhance the city's economy, which will have a further positive multiplier effect.

- 10.6 The Central Library building has a substantial maintenance liability, which as accrued over several decades. Near term works to make it compliant with building standards legislation are in the region of £2m. Longer term refurbishment is in the order of £16m and a full redevelopment into a remodelled and fully modernised library service would be in excess of £30m. The Council's Capital Programme will not have the resources to fund this work. Future plans for the building have always focused on attracting external funding from grant funding bodies but this strategy always required a significant (at least 50%) match funding from the Council and the redevelopment of the central library building would be unlikely to attract major matching external funds from Arts Council or other similar bodies.. Thus, an alternative use of this building will relieve the Council of a significant and growing financial burden whilst creating the opportunity, in the fullness of time, for an enhanced central library service in a new city—centre location
- 10.7 The direct impact of the construction of the hotel on the Council's Revenue Budget could be additional annual gross business rates in the region of £1m. Further investment in the city related to, or attracted by, this proposal, would add to this benefit. Relocating the Central Library from its current base to more modern premises will provide an opportunity to improve operations both for the user and the Council. There is the real possibility of saving on utility, insurance, maintenance and other operating costs should the library service ultimately be relocated.
- 10.8 If committing itself to this proposal the Council may incur significant revenue operating costs in the movement of the library operations and project costs to conclude the deal, temporary costs for the art collection, capital costs for the new location and potentially enabling infrastructure or other public realm works. These costs will be detailed in any future Cabinet report presenting the options.
- 10.9 These works would not be funded through the existing capital programme. However, the economic impact of the Hotel project overall is likely meet the criteria for support from the Growth Investment Fund. This report does not seek any specific financial approval and any submissions will be submitted in due course at the appropriate time.

11 Legal Implications

- 11.1 The various projects referred to in this report are considered to be lawful and within the powers of the Council. All will have various other legal implications that will need to be fully considered at the time decisions are made. These include but are not limited to the power to dispose of property by way of s123 Local Government Act 1972, State Aid, EU and UK procurement law and the duty to provide a comprehensive and

efficient library service. These will be fully developed and dealt with in later reports.

- 11.2 In relation to the recommendation to enter into a period of exclusivity for the development of the Central Library Building the Council has the power under s111 Local Government Act 1972 to do anything that is calculated to facilitate, or is conducive or incidental to, the discharge of any function and this gives the power to enter into the exclusivity agreement. Alternatively the general power under the Localism Act 2011 would also permit this.
- 11.3 The land that forms the Central Library is held absolutely by the Council and is not subject to any restriction on use or disposal nor is it bound by any form of trust either express or implied. It stands on sites acquired between 1865 and 1909. The old Public Library was demolished in the early 1930s to make way for the new Central Library and Graves Gallery which cost a total of £95,000 to construct of which £30,000 was contributed as unconditional gift from Alderman J.G.Graves.'
- 11.4 The Graves Art collection is currently displayed in the Central Library and Graves Art Gallery building. The collection is held on trust and any proposals will have to have regard to the terms of the trust. Both Museums Sheffield and the Graves Trust are being consulted on options for the collection and are supportive of the proposals.

12 Other Implications

Property Implications

- 12.1 The proposal is to enter into an exclusivity agreement on the Central Library building for 12 months. This will allow the developer the security to employ resources to undertake feasibility and due diligence work prior to contractual commitment.
- 12.2 It will also give the Council the opportunity to identify an appropriate relocation opportunity for the short and longer terms. When both parties are in a position to proceed they will enter into a conditional contract to allow the transaction to proceed. At that stage the developer will seek planning permission and listed building consent for the proposed development, in accordance with normal practices. Once the contract is unconditional then the Council will need to provide vacant possession within an agreed period of time.
- 12.3 The land transaction is likely to be based on a long lease of the property with provisions to ensure that the property is developed out in accordance with the planning permission, its listed status and within an agreed period of time. There will also be provisions in the lease to ensure that the property remains in operational use with provisions for the lease to revert to the Council in the event of any significant default by the

lessee.

- 12.4 Exclusivity agreements have been used by the Council on a number of occasions in the past to allow prospective investors and / or developers to undertake feasibility studies prior to entering into contractual commitments with the Council. This allows both parties to ensure that the development proposals are realistic and gives the developer the confidence that any investment in resources will not be wasted by the Council entering into discussions with third parties.

13 ALTERNATIVE OPTIONS CONSIDERED

- 13.1** Alternative options considered regarding the expression of interest in the Central Library building to be developed into a 5* Hotel

13.1.1 Do nothing. This option does not take into consideration the imminent need for repairs to the building and the almost certain inability to secure major capital investment in the building as a library

13.1.2 Market the building for sale. There is no indication that there is any interest from the market in acquiring this building.

13.1.3 Undertake a feasibility study for the future of the building. This is likely to take a minimum 12 to 18 months during which time this current development proposal could be withdrawn. There will be a cost associated and no guarantee of a long term solution for the building

13.1.4 Identify funding for refurbishment of the building. There will still be an ongoing maintenance cost

- 13.2** Alternative options considered in place of establishing the trade partnership agreements with Daqing and Nanchang:

13.2.1 Do nothing: Not entering into these relationships limits opportunities for Sheffield and its businesses in these fast growing commercial centres.

13.2.2 Ad hoc: Without the city-to-city framework being established as a protocol for joint-work between the two cities, businesses would be less likely to be able deliver commercial and economic benefits from the relationships established in China.

- 13.3** Alternative options considered in place of establishing a strategic investment partnership with Guodong:

13.3.1 Do nothing: Not entering a long-term investment relationship does not support the economic and regeneration objectives of Sheffield.

13.3.2 Establish Partnerships with other organisations: The review of investor and investment opportunities that was undertaken by UKTI in 2015 established that Guodong was likely the the best fit long-term

investment partner for Sheffield.

14 REASONS FOR RECOMMENDATIONS

- 14.1 The expression of interest regarding a hotel development received from Guodong presents a substantial opportunity to protect the future of an iconic building within the city centre. It also presents an opportunity to enhance the hotel offer and increase investment and employment in Sheffield.
- 14.2 This proposal provides an opportunity to give proper consideration to the future of the Central Library Service and the Graves Art Gallery, if a hotel development at this location is deemed viable.
- 14.3 Developing the investment partnership with Guodong to an operational state will enable the delivery of projects and ensure activity is performance managed.
- 14.4 The educational partnership is supported between the “Sheffield” School in Chengdu and the Oasis Don Valley Academy, along with wider collaboration between Sheffield and Chengdu, as it offers a special opportunity to increase aspiration among pupils and educators in both cities.

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