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Report of: Laraine Manley
Report to: Cabinet
Date of Decision: 13th February 2019
Subject: West Bar Square Potential Investment Partner

Is this a Key Decision? If Yes, reason for Key Decision:-	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
- Expenditure and/or savings over £500,000		<input checked="" type="checkbox"/>		
- Affects 2 or more Wards		<input type="checkbox"/>		

Which Cabinet Member Portfolio does this relate to?
Business and Investment – Cabinet Member Mazher Iqbal
Finance – Cabinet Member Olivia Blake

Which Scrutiny and Policy Development Committee does this relate to? Economic and Environmental Wellbeing

Has an Equality Impact Assessment (EIA) been undertaken? Yes No

If YES, what EIA reference number has it been given? *(Insert reference number)*

Does the report contain confidential or exempt information? Yes No

If YES, give details as to whether the exemption applies to the full report / part of the report and/or appendices and complete below:- Confidential information is within report in the Closed Part 2 to this report

Purpose of Report:

To seek approval to the City Council entering into an agreement with a major financial institution which would deliver over £150 million of new investment into the West Bar Square development in the city centre.

Recommendations:

- 1 That Cabinet notes the Executive Director Resources' advice in the Financial Implications contained in section 5.2 and in the closed Part 2 to this report.
- 2 That Cabinet approves the proposals set out in this report and the terms of the proposed agreement as explained in the closed Part 2 to this report.
- 3 That Cabinet delegate authority to the Executive Director Place in consultation with the Executive Director Resources and the Director of Legal and Governance to agree the terms of the agreement and the terms of any other documentation required.
- 4 That the Director of Legal and Governance be authorised to complete such legal documentation as she considers necessary or appropriate on such terms as she may agree to give effect to the proposals set out in this report and generally to protect the Council's interests.

Background Papers:

Report to Cabinet 21st March 2018 and earlier papers referred to in that report

Lead Officer to complete:-		
1	I have consulted the relevant departments in respect of any relevant implications indicated on the Statutory and Council Policy Checklist, and comments have been incorporated / additional forms completed / EIA completed, where required.	Finance: Jayne Clarke
		Legal: David Sellars and Sarah Bennett
		Equalities: Annemarie Johnston
<i>Legal, financial/commercial and equalities implications must be included within the report and the name of the officer consulted must be included above.</i>		
2	EMT member who approved submission:	Laraine Manley
3	Cabinet Member consulted:	Councillor Mazher Iqbal and Olivia Blake
4	I confirm that all necessary approval has been obtained in respect of the implications indicated on the Statutory and Council Policy Checklist and that the report has been approved for submission to the Decision Maker by the EMT member indicated at 2. In addition, any additional forms have been completed and signed off as required at 1.	
	Lead Officer Name: Neil Jones	Job Title: Partnership Team Manager, Regeneration and Property Services
	Date: 13 February 2019	

1. BACKGROUND

- 1.1 West Bar Square is a long standing strategic project promoted by the Council which aims to extend the city centre to the riverside and Kelham on a site that is currently mostly vacant land and temporary car parks. Its development will create a vibrant new place offering large-scale office development to accommodate over 3,600 jobs for major business and potentially public sector employers in high quality buildings set around new public realm. The development will also include a significant element of long term 'build to rent' homes. Whilst a great deal of preparatory work has been done by private developers on assembling most of the land and securing planning permission the development has not yet started.
- 1.2 Urbo (West Bar) Ltd is a joint venture between local regeneration developers Urbo Regeneration Ltd and Peveril Securities Ltd. Peveril is the development arm of Bowmer & Kirkland, the UK's largest independent building contractor. Urbo and the Council have an existing development agreement in respect of West Bar Square.
- 1.3 Urbo controls the 7.33 acre development site by direct ownership and by legal agreements with the Council and options. A small proportion of the site remains to be acquired, but this process is the subject of current commercial negotiations with current owners. A report to Cabinet on 21st March authorised using the Council's CPO powers if required and the Order was formally made on 24th October. The acquisitions are being funded by the Peveril partner in the Urbo joint venture company.
- 1.4 In February 2017 Urbo secured an outline planning permission for the development of up to 1.5m sq.ft of mixed-use space. It is proposed that over half of the developed scheme will be offices and the remainder a mix of residential apartments, small scale retail, leisure and other uses. The scheme comprises:
- Up to 85,000m² of office space
 - Up to 50,000m² or 525 units of residential
 - Up to 20,000m² or 500 bed spaces of hotel use
 - Up to 5,000m² of combined retail and leisure uses
 - Up to 25,000m² or 700 car parking spaces
 - Provision of high quality public realm including new pedestrian routes and two new squares
- 1.5 Urbo and regeneration officers of the Council are working together to secure delivery of the first phases of the project and in order to accelerate the development it needs the introduction of a substantial long-term investment partner to bring forward the main elements.
- 1.6 In view of the large scale regeneration nature of this project, Urbo approached Legal & General (L&G) who have recently developed a number of major funding/investment partnerships with Local Authorities in cities including

Salford, Cardiff and Newcastle. These regeneration projects have been funded by Legal & General Capital (LGC) which invests L&G's balance sheet into strategically important direct investments.

- 1.7 Legal & General Investment Management (LGIM) is one of the largest fund investors in UK property. L&G is also one of Europe's largest institutional asset managers and currently manages over £700bn across all asset classes. Many of LGC's completed developments are transferred to LGIM. This combination of in house development expertise creating long term investment propositions for the annuity funds within the same group of companies is unique and allows L&G to deliver large scale regeneration projects in very cost effective structures with their selected partners.
- 1.8 LGC looks to invest in area-wide regeneration of the type proposed at West Bar Square in order to benefit from long-term good management and investment growth. LGC has spent several months carrying out due diligence on West Bar Square and following negotiations with officers and Urbo, LGC is now positively considering the commitment of a substantial financial investment.

2. PROPOSAL

- 2.1 Officers, supported by specialist property advisers Cushman and Wakefield have been negotiating with LGC and Urbo on a proposal which would be very similar to that entered into between Newcastle City Council and LGC at Science Central, the first phase of which is now on site.
- 2.2 The proposal is that the Council agrees to take a lease of a high quality new office building of 100,000sqft (net internal) to be developed by Urbo. At the same time LGC will simultaneously fund the development by Urbo of 345 'build to rent' apartments; a multi storey car park and good quality public realm. These elements will all form phase 1 of West Bar Square and demonstrate a huge commitment to the delivery of the project.
- 2.3 If this is agreed then LGC will also fund the development of a second 100,000sq ft office to start on site on the earliest of Office 1 being 85% let or two years from practical completion. This building will be sufficiently different from Office 1 as to avoid each competing with the other for tenants.
- 2.4 Due to the covenant strength of the Council and the long term nature of LGIM investment strategy, LGC is able to offer the Council an extremely competitive rental deal on Office 1 which is well below market value. This will create a profit rent buffer which reduces the Council's financial letting risk over the term. The Council will have the option to acquire the asset at the end of the 40 year term for £1.
- 2.5 If the proposals are agreed and progressed this would represent a substantial commitment by LGC of over £150 million in investment over the next 5 years and would show a tremendous level of confidence in the economic strength and potential of Sheffield City Centre.

- 2.6 In other cities, such as Newcastle and Cardiff, where LGC have committed to an initial investment on this basis they have subsequently sought out further investment opportunities and delivered far in excess of the first tranche. There is no reason why this should not also be the case here and LGC and Urbo are already discussing how they could work together on the rest of West Bar Square.
- 2.7 If the current proposals set out in this report are approved it is anticipated that the first phase will start on site in 2020.

3. HOW DOES THIS DECISION CONTRIBUTE?

3.1 Economic

- 3.1.1 It is widely acknowledged that as the new offices which have been built in the city centre over the past 3 - 4 years have been occupied there is now an increasing need and demand for more good quality office development. Figures released recently by Invest Sheffield and Knight Frank showed that total office take up across the city in 2018 was 363,584 sq ft, higher than the ten-year average take-up of 300,000 sq ft. There is currently no new speculative office space of scale being built in the city centre and this could have a negative impact on the local economy in terms of options for new or existing businesses to move.
- 3.1.2 The City Centre Plan proposes a strategy to enhance and expand the existing business districts within the city centre which each have distinctive attributes to meet a wide range of differing occupier requirements. West Bar Square is an important site within the Riverside Business District that is particularly well suited to large floor-plate employment space. The surrounding area is well established as a location for large public sector employers and other businesses requiring larger floor space than can be found in the Central or Sheaf Valley Business Districts.
- 3.1.3 Officers, our advisors and importantly LGC are confident that new office development at West Bar Square will provide desirable new space which will be attractive to a wide range of tenants and can also be let without detriment to new office space which is proposed to be developed as part of the Heart of the City II project. Officers are intending to commission a study from specialist commercial agents to advise on current and future office demand in the city centre in order to ensure that these schemes are designed so as to complement and not compete with each other.
- 3.1.4 It is expected that the entire West Bar Square development will deliver commercial employment floor space supporting around 3,660 full time jobs and new homes for up to 850 residents.
- 3.1.5 The development will generate Council Tax and business rate receipts for the Council's revenue budget. It is estimated that the first phase of the

development which would be delivered through this proposal would generate approximately £1.6m pa in business rates and £500k pa of Council Tax and New Homes Bonus.

- 3.1.6 Delivery of the first phase will greatly enhance progression of the rest of the West Bar Square project. The total annual impact has not been assessed at this stage as the development will be delivered in phases over 5-10 years. However it is likely to generate similar amounts as the first phase which represents approximately 50% of the total floorspace that the whole site could accommodate.

3.2 Environmental

The development will deliver considerable environmental improvements; removing semi-derelict buildings and surface car parks; delivering energy efficient buildings, high quality public realm and landscaping with new pedestrian and cycle routes to/from the City Centre, Kelham Island and Woodside/Burngreave.

3.3 Social

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

4. HAS THERE BEEN ANY CONSULTATION?

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

5. RISK ANALYSIS AND IMPLICATIONS OF THE DECISION

5.1 Equality of Opportunity Implications

An Equality Impact Assessment has not been carried out in respect of the proposals set out in this report. However an EIA was carried out at the time of the March Cabinet report on the CPO and that concluded that the redevelopment of the site will be of universal positive benefit for all local people who will benefit from the creation of a significant number of new full and part time jobs. The socio economic and community cohesion impacts locally will be particularly positive.

5.2 Financial and Commercial Implications

- 5.2.1 Analysis has been carried out by the Council's property advisers, Cushman and Wakefield, of the likely take up of the office space over the term of the agreement based on anticipated demand. It has been assumed that there will be a staggered take up of occupation with a number of 10 year leases in operation.
- 5.2.2 Members are advised to note that the proposal involves a 40 year property lease from which there are no exit clauses. Income generated from letting should cover the annual revenue charge over time but, as well as the net cost in the first few years, there will be an income risk every 10 years as leases come up for renewal. Clearly there are considerable potential economic benefits from the scheme too, but this is a significant long term financial commitment.
- 5.2.3 On balance the scheme does offer potentially significant economic activity, with commensurate business rate and council tax income. However, the risk and potential cost to achieve this comes at a time when budgets are under severe pressure.
- 5.2.4 If a significant level of long term pre-letting of the building can be achieved then this will change the risk profile of the transaction considerably. The Council will therefore actively market the building following the Cabinet approval and seek to secure the necessary commitment. Further details of the types and levels of pre-let that would give the required level of comfort and the detailed financial and commercial implications of the proposals relating to the terms of the LGC offer are set out in Part 2 of this report.

5.3 Legal Implications

- 5.3.1 The taking of the lease as proposed is an acquisition of land. Section 120(1) of the Local Government Act 1972 allows a local authority to acquire land (a) for the purposes of any of its statutory functions or (b) for the purposes of the benefit, improvement or development of their area.
- 5.3.2 More generally section 1(1) of the Localism Act 2011 states that a local authority has power to do anything that individuals generally may do. This power of general competence allows local authorities to act in innovative ways and sub section 1(5) makes clear that the generality of section 1(1) is not limited by the existence of any other power of the authority which may (to an extent) overlap the generality of the power.
- 5.3.3 As with all functions of the Local Authority the exercise of the power of general competence is subject to the public law limitations in respect of vires and any existing specific limits imposed by other legislation.
- 5.3.4 The terms proposed, which are set out in detail in the closed Part 2 of this report, have been negotiated and verified by experienced specialist surveyors acting on the behalf of the Council. The level of rent which would be payable

is well below current open market value. The proposals are therefore in accordance with the Council's statutory obligations in respect of best value.

- 5.3.5 The specialist surveyors also carried out some limited soft market testing with a small number of other financial institutions who invest in similar long term lease deals with Local Authorities. This concluded that whilst there could be other institutions who would be willing to negotiate a similar proposal with the Council on a stand alone office building, there do not appear to be any who would be willing or able to commit to the wider comprehensive development proposals. It is these wider benefits which are particularly attractive in this scenario.
- 5.3.6 On the basis of the commercial aspects outlined in paragraphs 5.3.4 and 5.3.5 it is considered that the proposals are State Aid compliant.
- 5.3.7 The proposals in this report involve land and / or financial transactions. The Council will agree to take the lease of a building if certain conditions are met and will have no obligation to lease the building if those conditions are not met. No works or services will be completed on behalf of the Council and no goods will be purchased on the Council's behalf. Consequently the proposed transactions/agreements do not involve the procurement of goods, works or services which are subject to the public procurement regime.

6. ALTERNATIVE OPTIONS CONSIDERED

- 6.1 The Council could simply do nothing to try to bring this development forward and leave it entirely to Urbo to negotiate development finance. It is quite possible that the market is strong enough to support this and the scheme would still be delivered over time. However there is no doubt that this would take considerably longer to achieve than what is being proposed.
- 6.2 If this approach were to be taken then the significant economic, environmental and social benefits to the city set out in the report would take longer to materialise. The same would apply to the financial benefits accruing to the Council from new business rates and Council Tax.
- 6.3 As described briefly in paragraph 5.3.5 it might be possible to negotiate similar lease terms with an alternative investor on a stand alone office building. However if this was to be done it is highly unlikely that the wider development would be brought forward at the same time. As with the do nothing option this would result in delays to the delivery of the wider benefits

7. REASONS FOR RECOMMENDATIONS

- 7.1 The proposed agreement with Legal and General and Urbo outlined in this report will secure over £150 million of new investment into the city centre. This will deliver a substantial first phase of development at West Bar Square totalling 200,000 sq ft of new Grade A offices, 345 private rented apartments, a multi storey car park and new high quality public realm.

- 7.2 This represents a massive sign of confidence in the future of the city and will generate major economic, environmental and social benefits as well as new business rates and Council Tax receipts to the Council.
- 7.3 Based on evidence from other cities where Legal and General are investing on a similar basis it is considered likely that the Council agreeing to enter into the proposed agreement will stimulate further substantial investment by Legal and General in future years.
- 7.4 The proposals are commercially sensible for the Council and comply with statutory obligations.

Laraine Manley
Executive Director Place

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