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Report of: Executive Director, Place and Executive Director of Resources

Report to: Cabinet

Date of Decision: 15th July 2020

Subject: Heart of the City II: Approval and endorsement for the Council's updated delivery strategy.

Is this a Key Decision? If Yes, reason 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? Cabinet Member for Business & Investment and Cabinet Member for Finance		
Which Scrutiny and Policy Development Committee does this relate to? Economic and Environmental Wellbeing.		
Has an Equality Impact Assessment (EIA) been undertaken?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
If YES, what EIA reference number has it been given?	926	
Does the report contain confidential or exempt information?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Part 1 – OPEN, with CLOSED Part 2		
<p>Part 2 of this report is not for publication by virtue of Regulation 20(2) Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 because, in the opinion of the proper officer, it contains exempt information under Paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.</p>		

Purpose of Report:

This report seeks to

- 1) Provide an update to the Heart of the City II development two years following the major decision that this Council took to invest in and progress the major re-shaping of Sheffield City Centre following past difficulties and seeks approval/endorsement for the Council's updated delivery strategy.
- 2) Delegate authority for the delivery of the remaining phases of the Heart of the City II as set out in this report, including proposals for introducing the Real Living Wage, measures to deal with Climate Change and specifically providing authority to enter into new lease arrangements with John Lewis & Partners for their existing shop in Barker's Pool. All subject to compliance with the Council's budget processes, financial regulations and capital approval processes.
- 3) Approve the reallocation of the previously approved financial envelope to reprioritise the delivery of the remaining Heart of the City II blocks in line with the proposals set out in this report taking into account current economic challenges, risks and the Covid-19 pandemic.

Recommendations:

That Cabinet

- 1) Notes the progress made to date on delivery of the Heart of the City II development
- 2) Endorses the updated strategy outlined in this report for the phased delivery of the Heart of the City II development together with the updated delivery programme, the proposed new lease arrangements with John Lewis & Partners and the updated estimated financial envelope.
- 3) Endorses the plan to encourage occupiers within the scheme to be good employers through, for example, paying employees the Foundation Living Wage as a minimum, or alternative mechanisms such as employee owned businesses.
- 4) Endorses the aim for all further development to exceed minimum environmental standards as set out by the international standards through the UK's Building Research Establishment Environmental Assessment Method (BREEAM) or the US Green Building Council's Leadership in Energy and Environmental Design (LEED).
- 5) Delegates authority to the Executive Director of Place and the Executive Director of Resources in consultation with The Cabinet Member for Business and Economy, The Cabinet Member for Finance, The Director of

Legal & Governance and the Chief Property Officer, to:

- a. Approve the detailed delivery plan for the development of the remaining development blocks as set out in this report
- b. Instruct the Director of Legal & Governance in consultation with the Chief Property Officer 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.

6) Approves:-

- a. The re-allocation of the previously approved financial envelope to reprioritise the delivery of the remaining Heart of the City II blocks in line with the proposals set out in this report
- b. That all relevant budgets if necessary be able to be fully funded through Prudential Borrowing and be subject to the phasing of the spend going through the Council Capital Approval process
- c. The use of any increase in business rates income directly attributed to the scheme to repay any balance of the related Prudential Borrowing,
- d. The use of any receipts from the disposal of any properties within the Heart of the City II site to repay any balance of the related Prudential Borrowing.

Background Papers:

Previous Reports: New Retail Quarter – Compulsory Purchase Order Report to Cabinet 13th December 2006, Sheffield New Retail Quarter Report to Executive Leader dated 8th October 2013, New Retail Quarter Steps Towards Delivery Report to Cabinet on 23rd July 2014, Sheffield Retail Quarter Delivery of First Phase Report to Cabinet on 20th July 2016, Sheffield Retail Quarter – Proposed Appropriation of Land For Planning Purposes 15th December 2016. Sheffield Retail Quarter – Heart of the City Phase II Delivery of the next phases report to Cabinet dated 21st March 2018.

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: Gillian Duckworth / David Sellars
		Equalities: 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 members who approved submission:	Laraine Manley & Eugene Walker
3	Cabinet Members consulted:	Mazher Iqbal Cabinet Member for Business & Investment & Terry Fox The Cabinet Member for Finance
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: Nalin Seneviratne	Job Title: Director – City Centre Development
	Date: 15 July 2020	

1.0 **PURPOSE**

- 1.1 This report seeks to provide an update to the Heart of the City II development two years following the major decision that this Council took to invest in and progress the major re-shaping of Sheffield City Centre following past difficulties and given the impact of Covid-19
- 1.2 Delegate authority for the delivery of the remaining phases of the Heart of the City II as set out in this report, including proposals for introducing the Real Living Wage, measures to deal with Climate Change and specifically providing authority to enter into new lease arrangements with John Lewis & Partners for their existing shop in Barker's Pool. All subject to compliance with the Council's budget processes, financial regulations and capital approval processes.
- 1.3 Approve the reallocation of the previously approved financial envelope to reprioritise the delivery of the remaining Heart of the City II blocks in line with the proposals set out in this report taking into account current economic challenges, risks and the Covid-19 pandemic.

Background & Context

- 1.4 Following the decision to invest in phase one, with the delivery of Grosvenor House, now home to HSBC (an international bank), Marmadukes Restaurant (an independent restaurant), Weekday, Monki (two highly sought after fashion retailers – brands of Swedish Retailer H&M) and soon to join them Cameron McKenna Nabarro Olswang LLP (CMS), a major international law firm, the Council committed to deliver the remaining phases of the development on a block by block basis using the existing street patterns within an approved capital budget of £469m.

The achievements to date are testament to the strengths of Sheffield to draw in major international firms / brands that drives confidence throughout the city for wider investment creating jobs and homes.

- 1.5 This decision was in many ways ahead of the times with a local authority stepping into an arena more recently only being the domain of development companies. Now, given the changes to the retail environment up and down the United Kingdom others are looking at what Sheffield is achieving and want to learn from our experience and success.
- 1.6 We have achieved a lot in the last two years since the last report. Grosvenor House and Charter Square have been completed. Our first new retailers and food and drink operators have moved in. Our office occupiers, HSBC have now made this their new home and the remaining office space is now let to CMS.
- 1.7 Going forward and continuing the positive direction of travel a preferred operator has been selected for the purpose built food and drink unit within Charter Square. New World Trading Company will take the 2 floors of the building and open a high quality bar/restaurant. In addition, Radisson were recently selected to operate the Radisson Blu brand for the new hotel on Pinstone Street (Block A)
- 1.8 Despite the Covid-19 pandemic, we were able to complete the leases with CMS and

New World Trading. Radisson continue to work with us and the continued interest from retailers, the hospitality industry and major office occupiers is testament to the strength of our City and shows that by taking the brave step to invest we are able to deliver what both the market is demanding but more importantly what the people of Sheffield deserve from their city centre.

Updated Delivery Strategy

- 1.9 Some key changes are set out in this report for which approval/endorsement is sought.

In Summary:

1. We will be working with tenants to encourage the delivery of good jobs through either them paying the Real Living Wage or to be an Employee Owning Business. Both CMS and HSBC, two major tenants are accredited Living Wage employers.
2. We will be delivering more in terms of climate change mitigation as set out in the report.
3. To restructure the leasing arrangements of John Lewis & Partners, reduce development costs risk by offering block G (Wellington Street Car Park) to the private sector for delivery (as we did with block F) and the review all market conditions before making the final commitments on blocks A and H given the global Covid-19 pandemic and economic circumstances.

- 1.10 **Firstly**, this Council sees the successful regeneration of the Heart of the City II as an opportunity to work toward accrediting the area as a “Real Living Wage Zone”. In doing so this will open a gateway to having meaningful negotiations/conversations with incoming and existing tenants of the Council about paying the Real Living Wage to all directly employed and contracted staff and, by doing so create a climate of change and widen the conversation to major stakeholders city wide.

- 1.11 We will also take steps to identify one of the buildings within the scheme to be accredited as a Real Living Wage Building, in which 100% of tenants pay the real Living Wage to all of their directly employed and contracted staff.

- 1.12 **Secondly**, this Council has made its declaration regarding Climate Change to the effect that it has declared a climate emergency and is working towards Sheffield becoming a zero-carbon city by the end of the next decade and making our full contribution to the Paris Climate Change agreements. As a key part in delivering to that target we have reviewed building plans and identified some key opportunities.

- 1.13 The development of Grosvenor House has been carried out to standards in excess of the UK Building Regulations aiming to achieve the United States Green Building Council’s LEED Gold standard. Leadership in Energy and Environmental Design (LEED) is a green building certification used across the world. The rating system covers the design, construction, operation, and maintenance of green buildings that aims to use resources efficiently

- 1.14 The Heart of City II development team will continue to address the need to produce

environmentally efficient buildings including the reuse of existing buildings within the site.

- 1.15 Also the public realm within the project continues the exemplary design approach of the Grey to Green scheme, addressing climate change through sustainable drainage, increasing biodiversity and contributing to improving air quality. This also has positive benefits for physical and mental wellbeing which will be even more important in a post Covid19 environment.
- 1.16 Support for shops in our city centre also plays a major part in tackling climate change in reducing delivery fuel costs and excess packaging that is generated from online sales
- 1.17 Within Block H on the Carver Street / Wellington Street junction we have the opportunity to build an office which will be net zero carbon in its operation. This will have allow the ability to offset any remaining residual CO₂ emissions while the energy grids decarbonise as part of the nation's work on reducing carbon emissions from energy generation. This office will be built to the audited standards as set out in the UK Green Building Council Guidelines. This will be a first for Sheffield.
- 1.18 The matters set out in paragraphs 1.8 to 1.17 above will see the Heart of the City II scheme create a great example of both ethical employment principles and environmentally sustainable development.
- 1.19 A **third** aspect of change will be to work with John Lewis & Partners to restructure their leasing arrangements as required and to release up block G the former South Yorkshire Fire Authority Headquarters site (now the Wellington Street surface level car park) for the development industry to come forward with ideas for schemes of their own that fit our updated masterplan. This will enable the delivery to be shared with other developers and investors so that the entire financial burden does not fall to the Council. This will reduce our borrowing requirements and therefore see an improvement to our financial arrangements and risk exposure. This reduction will also enable us to invest in other key opportunities while keeping well within the existing financial budget.

In addition given the Covid-19 pandemic, a review of the project has been undertaken with regard to the overall finances and also the way forward with the two remaining significant blocks.

- 1.20 This project as property development always carries risk. In order to deal with previous market failure that risk has been accepted in order to move the City forward with a thriving and vibrant centre. However, with the Covid-19 pandemic, that risk has increased. Against this new delivery plan, we are already 70% into the scheme in terms of commitment. Block D is complete and Blocks B & C are under construction. The remaining blocks to be delivered are A, E, G, and H. Our proposal is not to self-deliver block G but to put that block to the private sector to deliver. This reduces our borrowing requirement and development risk. See 9.3 below. Block E consists of replacing cladding to the NCP car-park on Welling Street / Charter Square and shell works to the shop units below. Details of the financial position for each of the blocks are set out in section 9 and Part 2 to the report.

Given the impact of the **Covid-19 pandemic**, three options have been considered

following input from the professional team. Those options in summary are:

1. To continue exactly as planned
2. To continue cautiously, step by step with additional gateway checks, building to shell only where appropriate and to maintain momentum and play a part in the economic recovery of the City, or;
3. To suspend works.

The financial details of these three options and the background to them are in Part 2 of this report.

However, although the finances have been approved for the majority of the scheme, the two major blocks which are in the pre-construction phase are Blocks A and H.

These are the most significant blocks that are left to be delivered. The delivery strategy for these blocks will be to obtain construction prices, planning permission, review the position on pre-letting to occupiers and review the state of the market / economy prior to making a commitment to deliver. This is what we have done previously as a matter of course. However this is worthy of highlighting given the economic situation.

For Block A this review will take place in November 2020 and for Block H, the review will take place by September 2020. The decision to proceed, hold or suspend will be taken in accordance with the delegated authorities provided for.

The planned completion of Block A is early 2023 and Block H late 2022.

2.0 **PROGRESS TO DATE**

2.1 Since the last report to Cabinet in March 2018 the Council has continued to deliver on its vision for the Heart of the City II development.

2.2 The diagram below shows each of the blocks within the Heart of the City II and their block references.

Block A: Retail, hotel and office/event space

Block B: Retail, food & drink, office and residential

Block C: Retail and office

Block D: Office, retail, leisure and food & drink

Block E: Retail and leisure

Block F: Residential, retail/food & drink

Block G: Opportunity for offices, hotel, residential and retail

Block H: Retail, leisure, food & drink and office

Block I : John Lewis



2.3 Each block is an independent phase and some of the blocks are further sub-divided where stand-alone elements can be developed separately.

2.4 The progress made to date by the Council on each block is as follows:

Block A

2.5 Design work has progressed and the pre-planning application consultation has commenced. Radisson has been selected to operate the hotel which makes up the majority of the use in Block A and terms are in the process of being agreed with them. Construction work, subject to tender prices, planning and a further check on market conditions is due to start in the winter of 2020 with enabling works and main construction works to begin in January 2021. The part of the block that fronts Barker's Pool is planned to undergo remodelling of the retail spaces and general refurbishment and building improvements.

Block B – Laycock House, 68- 82 Pinstone Street

2.6 The Council has appointed Contractor Galiford Try as the main contractor and works on site are well underway to construct this block. Laycock House which consists of 52 residential apartments with commercial retail units below will be completely stripped out and then brought back to life with a full renovation/refurbishment. The remaining

buildings on the plot have been demolished and the site is in the process of being redeveloped with a contemporary flexible mixed use building. This block will be known as Athol House, Burgess House and Laycock House, which will consist of new retail space, with modern, high quality residential units above and a small amount of office/workspace. It is currently anticipated that this will be completed by spring 2021

Block C – The Issac’s Building, 88-104 Pinstone Street

- 2.7 The Council has appointed Contractor Galiford Try appointed as the main contractor and works on site are well underway to deliver the development of this block. The buildings on the block have been demolished with the historic façade onto Pinstone Street retained. A new flagship mixed use retail and commercial building known as Isaacs Building is in the process of being built behind this façade and it is currently anticipated that this will be completed by spring 2021.

Block D – Grosvenor House

- 2.8 The Grosvenor House block, which comprises a landmark office building office with retail space below has been completed. The office space is 100% let to high quality tenants HSBC and CMS Cameron Mckenna Nabarro Olswang LLP (CMS), and a large proportion of the retail space below is let to exciting new to Sheffield retail brands Monki and Weekday and to Marmadukes a local operator who has opened a second city centre coffee shop/café. Discussions with other interested parties for the remaining ground floor units are ongoing.

- 2.9 The transformational public realm improvement works to Charter Square have also been completed and a new people friendly public square created which is distinctive to Sheffield . The new food and beverage kiosk unit built adjacent to this new square has been let to The New World Trading Company under their “Trading Post” brand and is set to open later this year. They also operate the Botanist in Leopold Square.

Block E – Telephone House, Charter Square

- 2.10 The podium under the Telephone House Tower which comprises of retail units and the Multi-Storey Car Park is being refurbished to improve its visual appeal and user experience. The Council are seeking to re-clad the carpark exterior and the ground floor units are being remodelled to improve flexibility and accessibility with the aim to optimise visibility and presence onto the new Charter Square. The ground floor will units will be remodelled and will then be marketed later this year.

Block F - Kangaroo Works

- 2.11 The site has been marketed and sold for residential development and planning permission for developing the site with 364 build to rent apartments has been obtained. Preparatory ground works have commenced on site and the main building works will follow. It is currently anticipated that this will be completed by the summer of 2022.

Block G (Remaing Site – Wellington Street Car Park)

- 2.12 A review of the master plan for this site has been undertaken in order to put the site to the development market later this year. The Council will therefore not need to fund the

development of this block or take on the development risk. Following the success of attracting the private sector to deliver block F, initial work indicates that block G will be viable for the development market to deliver. The Council will set out its requirements for the site and quality of buildings which it will control through leases with the developers.

Block G1 - 38 Carver Street

- 2.13 The vacant office building situate on this site has been marketed by the Council and let to Cubo on a 20 year lease, and is being refurbished as managed workspace with a roof top bar. Works have commenced on site and it is anticipated that these will be completed by the Autumn of 2020.

Block H – Cambridge Street Collective and Bethel Chapel

- 2.14 Further design work was also undertaken on this block resulting in the retention of the existing buildings on the Cambridge Street / Wellington Street. The construction procurement process has commenced and planning consent has been submitted. Construction work is expected to start in the Autumn and finish in summer 2022.

Block H1 - Leah's Yard, Cambridge Street

- 2.15 Works have been undertaken to this Grade 2 Star Listed Building to make it safe and secure enough for our consultants to prepare the necessary reports and surveys required to allow the Council to apply for the necessary listed building consents and to procure a specialist contractor to undertake the following works. Repair and stabilise the structure (allowing for the removal of the extensive support scaffolding on Cambridge Street) reroof the property, replace the windows and strengthen the floors.
- 2.16 The overall objective of these works is to put the building back into a good state of repair so that Leahs Yard is capable of being converted at a later date to a use that safeguards its long term future and complements the uses around it.
- 2.17 The listed building application has been submitted and the procurement process for a specialist contractor has commenced. It is anticipated that works will commence on site in the Autumn of 2020.

3.0 UPDATED DELIVERY PLAN FOR REMAINING BLOCKS

Masterplan/delivery plan

- 3.1 The Council's vision for the Heart of the City II still remains to bind together the old and the new by celebrating where possible our existing buildings whilst also allowing space for new modern architecture. The aim is to keep and respect the existing street patterns as much as is possible and to retain/reuse as many of the existing historic buildings within the site, whilst also delivering high quality sustainable new buildings to meet modern occupier requirements.
- 3.2 The office, retail, food and drink and leisure markets continue to evolve. This is due not only to the challenging economic climate but also the fundamental changes in people's shopping and socialising habits. People are now expecting an authentic exciting and vibrant experience whilst shopping, living, working or visiting the city

centre. This is unlikely to change following recovery from the Covid-19 pandemic however, some behaviour changes are likely, so designing buildings that can accommodate a range of uses is important and what we have designed.

Designing to the existing street grid with walkable city blocks also allows for easier future adaptation when compared with large monolithic shopping mall type designs which preceded the current plan.

3.3 Both the masterplan and delivery strategy are forward thinking and can be adapted to allow for changes to be made to reflect the current economic conditions and market, and changes in offices and retailing leisure and eating out requirements/habits and trends.

3.4 Given the significant demands and investment priorities the Council faces, it is important that within the Heart of the City II development, the Council focuses its strategic intervention where it is most appropriate to address market failure and deliver the maximum regeneration benefits but also facilitates the introduction of third party developers into the scheme where appropriate to mitigate risk.

3.5 The remaining blocks will be developed as follows:-

Block A - Barkers Pool (Gaumont block)

3.6 The Barkers Pool /Gaumont block is to be retained. It is proposed that the building be re-clad and refurbished. Ground floor retail units will be re-configured, refurbished and then re-let and we will look at alternative uses for the upper floors. This minimises our original risk where we were planning to demolish and re-develop.

Block G

3.7 To manage the Council's overall risk/exposure in the Heart of the City II development it is proposed that we will test the market to see if the private sector have an appetite to develop this block out either as a whole or as individual plots.

3.8 The Council will produce planning guidance for the block and will then look to sell the whole or split the site into individual building plots and sell these individually with the Council possibly providing the public realm elements.

3.9 As set out in climate emergency section of this report the Council will seek to ensure that the development of the block will be environmentally sustainable aiming for a net zero carbon (or net zero carbon ready) development and it could provide a mix of residential, hotel and office space with ancillary retail and food and beverage units.

3.10 We will also not be seeking to develop or allowing a new multi-storey car park to be developed on this site.

Block H – Henry's Block (Cambridge Street Collective)

3.11 The proposal is to reuse the existing heritage buildings on Cambridge Street, Henrys and Brewhouse buildings (on the corner of Cambridge Street and Wellington Street) the former Bethel Sunday School building (32-34 Cambridge Street), and the Bethel Chapel building (30 Cambridge Street).

- 3.12 The works will repair the structure and then convert/refurbish the buildings to a shell and core standard. The final fit out will depend on the end user. Within these buildings we will create exciting spaces for an innovative food offer complemented with the best elements of a beer garden, craft brewery, craft makers, art, music, movies, sport, event and live entertainment venue. An opportunity to actively curate all of these uses within the spaces exists.
- 3.13 For Leah's Yard the second phase of works, after the structure has been repaired/refurbished, is to bring it back into everyday use and incorporate this use within the wider uses of block H. The building offers an opportunity for independent/local businesses with potential uses being a mix of maker/craft use, event space, gallery/exhibition space, together with a café use on the ground floor and potential for co working space on the upper floors.
- 3.14 The Council will undertake a comprehensive competitive process to select future occupiers for the block and will commencing marketing this opportunity as soon as it is considered to be sensible to do so.
- 3.15 On the Carver Street/ Rockingham Street frontage of the block the Council will look to build a modern grade A office block. This will be a net zero carbon ready office. Off-setting will be possible to deliver the building to a net zero carbon building in its operation while the energy grid continues to de-carbonise.

Block I – John Lewis & Partners Shop

- 3.16 John Lewis & Partners occupies a prominent site in Barkers Pool located at the centre of the HOC II Master Plan. The existing shop is held on a long lease from the Council and is in need of refurbishment/investment to bring it up to modern retail standards.
- 3.17 The Council are fully engaged in discussions with John Lewis & Partners and the basis of a deal will enable the retention of this high quality retailer in the city centre within their current building
- 3.18 The basis of this deal is that the Council will pay a fair price/premium for the proposed surrender of their existing lease, which has a term of 42 years remaining at a nominal ground rent. It is proposed that The Council will then grant a new 20 year modern lease for the building based on current market terms with a rent based on turnover.
- 3.19 This surrender of the old lease and grant of the new lease will include a capital contribution from the Council towards the refurbishment costs of the building (final terms to be agreed). Monies will only be released to John Lewis & Partners as works to the building are undertaken and completed.
- 3.20 The financial/budget envelope, for the terms of the deal, we are working within are set out in Part 2 of this report.
- 3.21 The Council is acting as a commercial landlord would do, and the final terms of the proposed surrender and renewal deal will, once agreed, be signed off by expert advisors/consultants, acting for the Council.
- 3.22 They will sign off the final terms to represent a fair price paid for the surrender using

the general powers under s120 of the Local Government Act 1972, best value and best consideration (thus comply with the Council's duties under Section 123 of the Local Government Act 1972); and will also be confirming for state aid purposes that the Council has entered into a commercial deal on market terms, that a commercial landlord would do, in order to protect both the long term investment value of the asset and its rental income from its adjacent property assets " the Market Economy Investor Principle"

- 3.23 Securing a more viable John Lewis & Partners shop in the city centre will safeguard a significant numbers of jobs within the Shop and wider supply chain and also ensure the continued receipt of Business Rates.
- 3.24 It will also help to maintain both the publics and commercial retailer/investor confidence in retail in the city centre which will assist in letting the surrounding properties in the Heart of the City II development and wider city centre.
- 3.25 As with all commercial development and especially retail deveopment, such an investment also carries with it a degree of risk with regard to the longer term viability and continued levels of turnover of the Shop in a still evolving retail market.
- 3.26 Delegated authority is therefore requested in this report to agree a surrender and renewal deal with John Lewis & Partners within the parameters of the proposed commercial terms and the financial/budget envelope as set out in the closed section of this report.

Governance

- 3.27 The Heart of the City II development project is managed through the City Centre Development Programme Board and Strategic Partnering Board
- 3.28 The Executive Director of Place, the Executive Director of Resources, the Director of Legal & Governance, the Director of Finance and Commercial Services, The Director of City Growth, The Chief Property Officer and the Director of City Centre Development all sit on the board.
- 3.29 This Board in consultation with the relevant Cabinet Members will continue to monitor the delivery of the Heart of the City II project, managing the vision, outcomes, benefits and any strategic risks to the Council. The Board provides a forum for decision making in line with the delegations authorised by this and previous reports and with further authorisation on financial matters going through the Capital Gateway Process, and Cabinet as required.

4.0 FOUNDATION LIVING WAGE

- 4.1 The Council is an accredited Real Living Wage employer.
- 4.2 As opposed to the Minimum and National Living Wage the Real Living Wage is the only UK wage rate that is voluntarily paid by nearly 6000 UK business who all believe that their staff deserve a fair days pay for a hard day's work
- 4.3 Outside of London the current rate is £9.30 for 18 year olds and above. It is paid by 1/3 of the FTSE 100 Companies and notable names signed up include ITV, Google,

IKEA and KPMG.

- 4.4 Both members and officers see the successful regeneration of the Heart of the City II as an opportunity to work toward designating the area as a “Real Living Wage Zone” and in doing so this will open a gateway to having meaningful negotiations and conversations with incoming and existing tenants of the Council about paying the Real Living Wage to all directly employed and contracted staff and, by creating a climate of change widen the conversation to major stakeholders city wide.
- 4.5 We will also take steps to identify one of the buildings within the scheme to be accredited as a Real Living Wage Building, in which 100% of tenants pay the real Living Wage to all of their directly employed and contracted staff.
- 4.6 The Living Wage Zones scheme, run by the Living Wage Foundation, is an ambitious scheme and is still at pilot phase. By signing up as one of the Living Wage Foundation’s first partners, Sheffield will pioneer a new, more inclusive approach to city centre regeneration.
- 4.7 The Living Wage Foundation will support us to make the business case for potential tenants to pay Real Living Wage. The Foundation has also published research showing the beneficial impact on local economies when higher levels of employers within city regions pay the real Living Wage.

5.0 CLIMATE EMERGENCY & ENVIRONMENTAL SUSTAINABILITY

- 5.1 The Council recognise that we face a climate emergency
- 5.2 The development of Grosvenor House has been carried out to standards in excess of the UK Building Regulations set to achieve the United States Green Building Council’s LEED Gold standard.
- 5.3 Leadership in Energy and Environmental Design (LEED) is a green building certification program used across the world. The rating system covers the design, construction, operation, and maintenance of green buildings that aims to use resources efficiently
- 5.4 The Heart of City development team will continue to address the need to produce environmentally efficient buildings and public spaces including the reuse of existing buildings to address the recommendations of this report.
- 5.5 Within Block H (Carver Street / Wellington Street junction), we have the opportunity to build an office which will be net zero carbon ready in its operation with the ability to offset any remaining residual carbon dioxide (CO₂) emissions while the energy grids decarbonise as part of the nation’s work on reducing carbon emissions from energy generation. This office will be built to the audited standards as set out in the UK Green Building Council Guidelines. This will be a first for Sheffield.
- 5.6 As part of the Council meeting its carbon emergency targets we will not be building a multi storey car park (MSCP) within the scheme and will impose conditions that one can’t be developed by the private sector should we dispose of the site for 3rd party development.

- 5.7 The Council will look to offset any carbon from development of any of the blocks mainly blocks A and H.
- 5.8 Connection to the District Energy Network (DEN) will continue where the building design requires a heat load that the DEN can supply. The current design for the new Radisson Hotel plans for a connection to the DEN.

6.0 HOW DOES THIS DECISION CONTRIBUTE?

- 6.1 Heart of the City II development meets an identified need for improved retail provision, housing, food and drink/leisure facilities and providing additional high quality office space for jobs. It will give residents, workers and visitors an exciting quality experience that is distinctively Sheffield and which is the hub linking the existing city centre retail, cultural, leisure and employment offers.
- 6.2 The development integrates and complements the existing city centre and its shopping areas rather than sit in isolation from them. Built to retain existing street patterns and heritage buildings wherever possible, it integrates with the resurgence of The Moor as a shopping and leisure destination, the Devonshire Quarter of independent shops and bars, and Fargate.
- 6.3 The development will contain a broad mix of uses, including retail and hospitality and whilst at the time of writing this report these sectors of the economy are under particular stress as a result of Covid-19, the delivery of individual units is some time away which will allow time for the market to recover. Ultimately the scheme is being designed with significant flexibility to allow for future trends

Economic Benefits

- 6.4 As set out in previous Cabinet reports by undertaking the Heart of the City II development the Council's aim was to create jobs and improve the economy of the city for all.
- 6.5 We anticipated in 2018 that the jobs that we would create within the Heart of the City II development site in the period 2019 to 2030 would be 7,000 and to date we have achieved 2,400 jobs (this includes construction jobs). The current impact of the Covid-19 pandemic is expected to delay the overall outcome, originally planned for achieving the jobs total by 2030.
- 6.6 In 2018 the increase in economic activity as a result of the Heart of the City II development was estimated at £3.7bn. To date we estimate we have delivered £0.4bn of growth after delivering phase 1. So again we consider that we are on track to deliver the predicted growth in the economy of the City.
- 6.7 This economic activity, to date, has induced a confidence in the private sector that has resulted in other major development schemes now being planned in the city centre.
- 6.8 Although this report sets out a range of alternative delivery options for the remaining blocks of the Heart of the City II which are aimed at reducing the level of direct intervention by the Council, the pre-development work that the Council has already undertaken should facilitate the continued achievement of the economic benefits

through a range of delivery partners.

7.0 HAS THERE BEEN ANY CONSULTATION?

7.1 The Council has over the years undertaken comprehensive consultation with key stakeholders and the public as to the development of this major city centre site, and will continue to engage/consult as to the future of the Heart of the City II development.

7.2 As part of the normal development/planning process the public will have the opportunity to be engaged and to make comments on the development of each block. Recently, block H and now block A have been out to consultation.

There is active engagement with a variety of stakeholders and the people of Sheffield at large through a variety of means including e-letters, web-site, consultations, social media and face to face meetings.

8.0 EQUALITY OF OPPORTUNITY IMPLICATIONS

8.1 The Heart of the City II 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 Heart of the City II development continues to progress there will be further opportunities for stakeholders and the public to be engaged and to make comments through the statutory planning process.

8.4 An Equality Impact Assessment was carried out for the Sheffield Retail Quarter project – reference number 926. This has been reviewed with no change on 1st July 2020.

9.0 RISKS AND FINANCIAL & COMMERCIAL IMPLICATIONS

Headline Financial Envelope

9.1 In March 2018 Cabinet approved a set of financial parameters for the delivery of the masterplan based on a total capital expenditure envelope and long term residual financing costs for each block.

9.2 Headline Financial Parameters:

- Total Capital Expenditure : £469m
- Net Development loss (after Business Rate growth) : £71m.
- All funded through Prudential Borrowing with the residual balance of borrowing on each block, repaid over 40 years post completion
- Maximum Annual Reveue Cost of 3m (2024/25).

9.3 It is proposed that any updated delivery plans will be contained within those headline financial parameters.

Reprioritisation of Financial Envelope

- 9.4 As set out in this report the two key changed areas of proposed priority investment are:
- a. the new lease with John Lewis & Partners and;
 - b. the aspiration to develop to a zero carbon impact : likely to increase costs e.g. the cost of a zero carbon ready office on Block H will add circa 10% to construction costs and further offsetting costs may be required.

- 9.5 In order to create the capacity for any investment in the John Lewis & Partners' Shop and to meet the demands of the climate emergency then a range of alternative delivery options are to be considered, that will involve bringing in third party development at the earliest opportunity appropriate to each block (or part of a block).

The momentum created by the completion of and letting of Blocks D and G1 and the visible development of Blocks B, C & F has increased interest and confidence in the City, making developer involvement more likely now that it would have been at the outset of the programme.

Any proposals will seek to ensure the continued growth of Business Rates and/or Council Tax revenue for the Council. This will reduce the level of capital expenditure the Council incurs but will also reduce the capital receipt as we will not be realising the fully developed value.

Further details of the range of options and financial implications are set out in part 2 of this report.

- 9.6 Delegated approval is therefore sought to determine and action the most appropriate disposal strategy for the Council for the Heart of the City II development and if necessary for the Council to sell the whole, any block or any part of a block as an investment.

Financial Risks

- 9.7 The Council is still carrying a significant level of risk in relation to the blocks it is currently developing in particular with regard to the risks associated with the construction and also the demand risk for the commercial and retail spaces that are being created.
- 9.8 However, by transferring parts of the development to other delivery partners then this will significantly reduce the capital expenditure risks and in particular the letting risk post completion. The downside to this course of action is that the Council will lose some degree of control of the development which could impact the pace of delivery.
- 9.9 The impact of C-19 has been reviewed and will be closely monitored. It is likely to cause some impact on lettings particularly on the space currently vacant and as the remainder of blocks is completed. Based on the OBR, Bank Of England and International Monetary Fund predictions of economic impact and recovery more extensive void periods have been built into the financial assumptions contained in this report and detailed in Part 2. In addition the construction phasing of Block H has been revised to allow a pause in the process to secure lettings before all costs are committed.

- 9.10 It is imperative therefore that sound governance continues over the progression of the scheme and that decisions are made taking proper consideration of the relative risks and the ability of the scheme to meet or better the assumed benefits in a timely manner.

Capital Budget Requirement

- 9.11 For the remaining blocks to be developed, on satisfactory completion of the requisite milestones for that block, approval for budget to carry out the construction of the properties and all necessary public realm improvement works will be sought through the Councils capital approval process.

Revenue Budget Requirement

- 9.12 On completion of each block the residual borrowing costs will be charged to General Fund Budgets with Minimum Revenue Provision (MRP) and interest charged over a 40 year asset life. They will be off-set by the increased Business Rates and Council Tax and any rents received while held by the Council and ground rent receipts post sale. Any alternative proposals will be considered against the base case long term revenue implications.

Revised Financial Envelope

- 9.13 A re-refresh of each of the remaining block appraisals has been carried out. This takes account of the most current market information for those blocks assumed to be fully developed by the Council. For Block G an assumption has been made as to the costs to prepare the site for market and of the likely public spaces that will be retained by the Council. This also includes the costs associated with acquiring a new lease with John Lewis & Partners

In all cases an assessment of the potential impact of C-19 has been included.

On that basis the revised financial headlines are:

	March 2018	March 2020
<u>Total Capital Expenditure</u>	<u>£469m</u>	£372m
<u>Net Development loss</u>	<u>£71m</u>	£79m
<u>Maximum Annual Revenue Cost</u>	<u>£3m (24/25)</u>	£3m (38/39)

So the increased scope in terms of the new John Lewis & Partners lease and zero carbon aspirations can be delivered with a significant reduction in capital costs. Whilst the net development loss is increased, this has a minimal impact on the long term revenue cost.

The reduction in the capital programme also reduces the associated construction risks.

Seeking private sector development for Block G also significantly reduces the letting risk for the Council on the properties developed.

10.0 LEGAL IMPLICATIONS

- 10.1 A number of the recommendations in this report are intended to allocate and identify sources of funding for the Heart of the City II 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 Section 123 of the Local Government Act 1972 contains a duty on local authorities to obtain the best consideration that can be reasonably obtained for the disposal of land. Disposal includes not only the sale of land but also the granting of leases.
- 10.3 Section 120 of the Local Government Act 1972 enables local authorities to acquire property for any of their functions or for the benefit improvement of their area. The surrender of a leasehold interest by a tenant to a landlord where the landlord is a local authority is an acquisition for the purposes of section 20.
- 10.4 Sections 1 to 6 of the Localism Act 2011 deal with what is known as the General Power of Competence ("GPC"). In simple terms it gives councils the power to do anything an individual can do provided it is not prohibited by other legislation. The use of GPC may be for a commercial purpose or otherwise and without the need to demonstrate the use will benefit the authority, its area or persons resident or present in its area although in practice any use of GPC for the purposes of this report will be in order to realise such benefits.

With regard to state aid the Market Economy Investor Principle ("MEIP") should be followed which means that an investment by the Council will not constitute state aid where a private investor of a comparable size operating in normal conditions could have been prompted to make the investment in question.

For the reasons set out in Part II of this report it is considered that where applicable the transactions set out in this report accord with the MEIP.

11.0 PROPERTY IMPLICATIONS

- 11.1 The rental income produced by the existing properties within the Heart of the City II site continue to be used to help fund the holding and management costs until such time as they are required for redevelopment.
- 11.2 As set out in previous reports should the Council not to proceed with any of the blocks within the Heart of the City II then the remaining land and property holdings will be capable of being sold to generate capital receipts.

12.0 COMMUNITY SAFETY IMPLICATIONS.

- 12.1 The Heart of the City II development will incorporate a series of high quality well-designed public spaces and squares between the buildings. These spaces will be constructed with high quality materials and will provide a safe environment for all.
- 12.2 Use of CCTV and informal policing by The City Centre Ambassadors will help ensure that a safe and secure environment will be maintained.

13.0 **ECONOMIC IMPACT**

- 13.1 The Heart of the City II scheme will create an attractive environment in the city centre to visit, live, work, shop and relax and will help stimulate other office, commercial and leisure investment and/or development in the city centre, generating additional business rates and retaining or creating more jobs.

The project will form a vital part of the recovery of the City Centre following the end Covid-19.

14.0 **ALTERNATIVE OPTIONS CONSIDERED**

- 14.1 The do-nothing option i.e. complete the current phases the Council has committed to deliver (blocks B, C and stabilisation works only on E and H1) and then cease work on the wider Heart of the City II scheme has been considered. Not only does this course of action have a potentially worse financial impact but also has many negative outcomes for the Council.
- 14.2 The status of city centre will 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.
- 14.3 Whilst it would reduce the level of capital expenditure it would mean that the Council will have to crystalize the loss if the Heart of the City II development is not delivered, as much of its investment to date in working up the scheme will be lost and this will cause a more immediate pressure on Revenue budgets...

15.0 **REASONS FOR RECOMMENDATIONS**

- 15.1 As outlined in this Report, there is a still a very clear strategic and economic case to justify the Heart of the City II development, and to maintain project momentum.
- 15.2 The Executive Director Place and the Executive Director of Resources still believe that the Heart of the City II development is vitally important for the regeneration of the city centre.
- 15.3 The reasons for the recommendations are to provide a way forward for the Council to deliver the remainder of the Heart of the City II development.

Eugene Walker
Executive Director of Resources

Laraine Manley
Executive Director, Place

15th July 2020

