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| **MEETING:** | Cabinet |
| **DATE:** | Thursday, 9 March 2017 |
| **TIME:** | 10.00 am |
| **VENUE:** | Reception Room, Barnsley Town Hall |

# SUPPLEMENTARY AGENDA

4. Better Barnsley Phase 2 Funding - Public Report (Cab.9.3.2017/4) *(Pages 3 - 18)*

To: Chair and Members of Cabinet:-

Councillors Houghton CBE (Chair), Andrews BEM, Bruff, Cheetham, Gardiner, Howard, Miller and Platts

Cabinet Support Members:

Councillors Cherryholme, Franklin, Frost, David Griffin, Lamb and Saunders

Chair of Overview and Scrutiny Committee
Chair of Audit Committee

Diana Terris, Chief Executive
Rachel Dickinson, Executive Director People
Matt Gladstone, Executive Director Place
Wendy Lowder, Executive Director Communities
Julia Burrows, Director Public Health
Frances Foster, Director Finance, Assets and Information Services
Andrew Frosdick, Director Legal and Governance
Alison Brown, Service Director Human Resources
Katie Rogers, Communications and Marketing Business Partner
Anna Morley, Scrutiny Officer
Ian Turner, Service Director, Council Governance

Corporate Communications and Marketing
Labour Group Room – 1 copy

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***9 March, 2017***

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**BARNSLEY METROPOLITAN BOROUGH COUNCIL**

**This matter is a Key Decision within the council's definition and has been included in the relevant Forward Plan**

**Report of the Executive Director Place, Director of Finance, Assets and IT and the Director of Legal & Governance**

# Better Barnsley Phase 2 Funding Report

## 1. Purpose of report

1.1. To set out funding and delivery options for phase 2 of the Better Barnsley Glass Works scheme.

## 2. Recommendations

**It is recommended that:**

**2.1 Cabinet note the robust option appraisal work that has been carried out on Phase 2 of the Better Barnsley scheme;**

**2.2 Cabinet consider and recommends to Council the proposal to fund the development of Phase 2 with a total estimated cost of £70.1M, with the exact funding method to be agreed prior to awarding the main works contract at which time more concrete cost and income projections will be available;**

**2.3 Cabinet approve a procurement exercise for a main works contractor for Phase 2 of the Better Barnsley Scheme with contractor appointment being subject to a further cabinet report.**

**2.4 Cabinet approve a procurement exercise for further development management services for Phase 2 of the Better Barnsley scheme with contractor appointment being subject to a further cabinet report.**

**2.5 Cabinet approve the procurement of additional design services for Phase 2 of the Better Barnsley scheme with contractor appointment being subject to a further cabinet report.**

**2.6 Cabinet approves the use of £0.2M of the £14M earmarked for the Better Barnsley Phase 2 Development to fund the cost of the procurement exercises highlighted above together with earmarking an additional £4.2M to fund the estimated early year's annual operating costs prior to development becoming fully operational. The remaining £9.6M to be held as a contingency to ensure as far as is possible that no revenue budgetary impact arises as a result of progressing the scheme**

**2.7 Cabinet consider and recommend to the Council that the Council's recently approved Treasury Management Strategy and Prudential Indicators be updated to reflect the investment required within the Better Barnsley Phase 2 Scheme as highlighted in Section 7 and attached at Appendix C.**

**2.8 Cabinet consider and recommend to the Council a variation to the Council's Minimum Reserve Provision statement be approved in respect of the Better Barnsley Phase 2 scheme to allow debt for that scheme to be repaid over a 25 year repayment period.**

## 3. <u>Introduction</u>

3.1 In January 2017 Cabinet approved the business plan for phase 2 of the Better Barnsley scheme. Alongside this, cabinet were updated on the latest position in relation to the financial viability of phase 2 and the options being considered to fund the scheme.

3.2 This report sets out the current position in relation to scheme development and financial viability and an analysis and recommendation of a preferred funding option to deliver phase 2.

**Current Position**

3.3 Since the approval of the business plan work has been progressing on the detailed RIBA stage 3 designs for phase 2 of the scheme. These designs will form the basis of the information required for a detailed planning application. A planning strategy has been agreed with a target date for submission of April 2017 for a full planning application for detailed consent of the phase 2 scheme.

3.4 In addition there has been continued leasing interest in the scheme and the current position is that Heads of Terms have been agreed with a number of key operators. These consist of a:

- Retail Anchor taking approximately 29, 000 sq. ft.
- Bowling operator taking approximately 19,000 sq. ft.
- Cinema operator taking approximately 53,000 sq. ft.
- The first restaurant operator taking approximately 4000 sq. ft.

These deals represent the letting of approximately 31% of the scheme by space and 25% by income. Further discussions continue with other operators including a number of restaurants, retailers and further leisure operators.

3.5 These initial lettings are in line with the agreed leasing strategy which seeks to secure key operators first and then allocate remaining space to complementary leisure and retail operators. This strategy will ensure the right mix in terms of customer offer, income and management of the completed scheme.

3.6 The completion of the RIBA stage 3 works along with an updated leasing position has allowed for the scheme appraisal to be updated.

3.7 Securing private sector investment to deliver phase 2 of the scheme has always been the preferred option but based on this current appraisal the scheme is not commercially viable for an external funder to invest in.

3.8 Although currently unviable for external investment, leasing interest is strong with agreements progressing as set out in 3.4 of this report. These agreements do however contain clauses in relation to the funding being secured to deliver phase 2 of the scheme. The most urgent of these relates to the cinema, with the operator having specific conditions that commit the Council to securing funding for the scheme within a given period. Failure to do this would give the operator the option to walk away from the scheme. To avoid this risk it is now timely to reach a decision on the future funding of the phase 2 scheme.

## 4.0 Consideration of Alternative Options

### Option 1: Suspend Delivery of Phase 2

4.1 There is an option whereby the Council does not currently progress phase two of the scheme. Work on phase one would continue with potentially limited leasing of the space created by the phase 1 works to the Metropolitan Centre and the unit next to the new Library. The remaining development plots, including the land currently occupied by the TEC building, the existing multi storey car park and the plot created by the partial demolition of the existing Metropolitan Centre would be mothballed. Temporary uses for the sites could be explored; however the new development would not progress until there were changes in the cost, or development value of the scheme that enabled a more financially viable scheme to be presented to the investment market.

4.2 This approach is not recommended in that there is a significant risk that the scheme may never get delivered to the size and quality that is required. It could be a number of years, potentially between 5-10, until investment yields have reached the required levels and in this time there will be significant erosion of confidence of retail and leisure operators who could view it as a 3rd failed attempt to deliver a scheme in Barnsley.

4.3 In addition there are significant risks from competing schemes if the scheme is mothballed for a significant period. A planning permission for another cinema is in place and planning restrictions imposed in 2016 on the Peel Centre on Harborough Hills fall away in 2018 if insufficient progress is made on the phase 2 Better Barnsley scheme. There is a further risk from the planned expansion of Meadowhall. A planning application is being considered by Sheffield City Council with a completed scheme anticipated in 2022.

**Option 2: Reduce the size of Phase 2 of the Scheme**

4.4 There is a further option that involves looking to reconfigure the current phase 2 scheme so that it is smaller rather than one completed scheme. This approach could have the potential to reduce the construction cost therefore improving the scheme viability. One significant change could be to reduce or remove the multi storey car park.

4.5 This approach is not recommended. The current scope of development for the Phase 2 scheme is considered to be the optimal for the site in terms of both development density and the urban form. The creation of a leisure hub on the new square and a retail circuit are considered minimum requirements in terms of the creation of a marketable retail and leisure proposition with sufficient critical mass to be sustainable in the medium to long-term. The configuration and quantity of lettable space and car-parking facilities has been key in attracting the retail and leisure anchors to Phase 2. In particular, the potential cinema operator has sought to impose minimum numbers of restaurant units and car-parking spaces. Reduction of the size of the scheme is felt likely to lead to the loss of the key anchor tenants with a significant negative demand for the remaining space.

4.6 A reduction in the scheme could be made by taking out some of the lower value first floor space, however, again this would have a negative impact on the scheme. For example, the square would loose its impact and is unlikely to be acceptable from a planning perspective by only having a single storey building.

**Option 3: A phased approach to delivery of Phase 2**

4.7 A phased approach to delivering phase 2 is also not recommended. Opening of the scheme in a single phase will be required to deliver the impact of a new development and then continue the momentum to ensure its success. None of the key anchor tenants identified are likely to accept a phased delivery of the scheme.

**Option 4: Private Sector Funding for Phase 2**

4.8 A further option for delivering the scheme centres around a revised approach to the private sector investment market. This would be undertaken in the context of having to address or accept the issues of an unviable scheme.

**Option 5: The Council Front fund Phase 2**

4.9 There is an option where the Council takes an early decision to fund the phase two scheme in its entirety, developing and owning the scheme for a fixed period and then selling when there is a favourable investment market for town centre schemes.

4.10 Both the private sector funding option and the Council front funding option have been considered in detail with additional option appraisal work being undertaken.

**Private Sector Funding – Financial Considerations**

4.11 A number of mechanisms are available and can be broadly split between arrangements where the investor/developer forward purchases the development and those where an investor forward funds the scheme.

4.12 A forward purchase scheme involves an investor guaranteeing a purchase of the Phase 2 scheme prior to it being built. This often requires an investor to commit to the transfer of a lump sum at an agreed date, in exchange for the long leasehold of the completed development. However, this would mean that the Council would still underwrite all development risks throughout construction phase of the scheme.

4.13 An external review by CBRE has concluded that there could be investor interest for this approach, however, based on the current appraisal and current market conditions the value would be less than the cost of development meaning the Council would potentially sell at a loss. This would, in addition to value for money issues, give rise to State Aid implications. This issue is addressed in more detail later in paragraphs 4.22 to 4.25 below.

4.14 In terms of forward funding, a further option exists where the Council could opt to draw down funding from an investor to complete Phase 2 and subsequently transfer ownership to the investor at the end via a leasehold period. However, like the forward purchase approach the development risk sits with the Council and the cost of funding would potentially be higher than if the Council funded or borrowed the money itself. However both the above options (forward purchase or forward fund) remove any ongoing financial risk to the Council of holding the completed development.

4.15 Therefore, the favoured approach for the Council would be for the private sector to fully fund, construct and operate the Phase 2 scheme. Under this option the Council would remain responsible for completing Phase 1 together with securing planning approvals, tenancy pre-lets, and a construction contract. The developer/investor would enter into an agreement to take the leasehold with the Council for ownership of the completed scheme, alongside a development agreement to build the scheme.

4.16 Under this option the Council transfers the majority of the construction risk to complete Phase 2 to the developer/investor. However, the transfer of risk would also have to align with a transfer of control of the scheme. The developer/funder could therefore require greater control over the scheme business plan, design and delivery. This could create a significant issue for the Council which ultimately could affect the commitment to deliver an integrated phase 1 and 2 scheme that is primarily fixed in terms of design, and in parts now under construction.

4.17 The review by CBRE has suggested that this favoured approach is likely to be the least attractive to the investor developer market. It is felt that in the current development / investment market there is limited development finance and few investors willing to take on the phase 2 project. However, it is recognised there may be a limited number of institutional funders in the market. Such funders would likely enter into a partnership or joint venture with a Development

Manager to provide the appropriate skill and capital to take forward the project.

**Private Sector Funding – Procurement Considerations**

4.18 Each of the potential approaches to the investment market also raises issues about the timescales to secure the funding. The current delivery programme is being driven by the requirements of the cinema operator and the condition that funding has to be secured within a fixed timescale. The procurement timescales make securing an investor/developer significantly challenging.

4.19 Work has been undertaken to set out a detailed procurement timescale that delivers an investor alongside a building contactor with a fixed construction price. The timescales are very challenging to secure an investor and as currently set out cannot achieve the anticipated timescales of the cinema operator.

4.20 The key issue is the amount of time for the investor/developer to undertake due diligence. The investor/ developer will want to review all aspects of the scheme prior to going unconditional and committing to the development risk of funding and building of the scheme. This due diligence would relate to all aspects of the existing scheme including design, leasing, planning approvals and the building contract procurement. It is also highly likely that the developer could have procured debt finance on the scheme and therefore the lender will require a due diligence process in parallel to the developer.

4.21 It will be possible to provide some details of the scheme to the developer during the course of the procurement exercise, however by the time the developer is appointed, all of these subjects will have progressed and there will be substantial additional information for the developer (and their funders) to review and sign off prior to going unconditional and ultimately securing the funding.

**Private Sector Funding – Legal Considerations**

4.22 Each of the above approaches to secure private sector funding for the scheme presents a particular difficulty with reference to the law of State Aid. Given that financial appraisal for the scheme will require some significant funding contribution from the Council to achieve viability this means that the Council will necessarily be giving financial assistance to that investor which would be likely to constitute State Aid.

4.23 The safest route to address the State Aid problem would be to apply for specific clearance to the European Commission on the grounds that financial support from the Council is necessary to address a "market failure" and that any impact on competition would be outweighed by the beneficial impact of the financial support. However, a period of at least three and up to six months is required to secure the clearance from the European Commission. The delay would have an adverse impact on the timetable for meeting the contractual requirements of the cinema operator.

4.24 A further option would be to establish a specific exemption from the state aid rules on the basis of the “Market Economy Investor principle. This exemption applies where it can be demonstrated that, notwithstanding any aid being provided, the overall terms of the transaction reflect what a private investor operating in a commercial market would achieve by way of a satisfactory financial rate of return.

4.25 However, the rate of return which the Council would need to secure in order to satisfy the market economy investor principle would make the scheme unviable to an investor.

**Council funding - Financial considerations**

4.26 There is an option where the Council takes an early decision to fund the phase two scheme in its entirety, developing and owning the scheme. The Council would then have the future option of selling the investment once the market improves at a later date.

4.27 The estimated current cost of the scheme totals £70.1M. This is based on the current stage 3 design for the development. Costs for the scheme will become more accurate once the scheme progresses through the planning application process and on to the Stage 4 design step within the overall project plan. As part of the due diligence undertaken to date, these costs have been independently reviewed by CBRE who have concluded that the cost plan calculated by Turner and Townsend has been prepared professionally, diligently and as comprehensively as can reasonably expected at the current stage of design.

4.28 A financial appraisal for the scheme has been completed on the basis that the Council takes the decision to fund the scheme via prudential borrowing, with the repayment of borrowing costs via the rental income received from the occupied units. The financial appraisal indicates a potentially viable scheme for the Council to invest in.

4.29 However, the above position is predicated on a number of risks that need to be considered:

<u>Time Delay</u>

There are a number of key milestones within the project plan that could impact on the overall scheme viability, cost and terms of individual tenancy agreements for the Phase 2 scheme. These include completion of the; Phase 1 scheme on time, the numerous procurement processes and gaining the necessary planning approvals.

<u>Development Cost</u>

The current estimated development cost of £70.1M (after pre-development costs already approved) is based on the RIBA stage 3 design principles. A more accurate cost will be provided upon completion of the necessary planning application and RIBA stage 4 designs.

Annual Operating Costs

The annual operating costs have been provided by Queensberry. These costs have been reviewed by the Council's Assets department and appear reasonable for the size and structure of the development. However these costs may change once the final design has been completed, in particular, the type of materials used will play a key part on the ongoing maintenance of the development.

Capital Financing Costs

The capital financing costs have been based on the proposal to prudentially borrow £70.1M Any fluctuation in interest rates, a change to the length borrowing or a change to the amount to be borrowed will impact on the annual capital financing costs incurred.

Rental Voids

The appraisal assumes an 80% occupancy upon completion of the development, with 94% occupancy being achieved within 1 year of opening. Whilst this being the ultimate aim, it may prove difficult to achieve so early within the development. Resources for scheme marketing are built into the cost plan and these will need to be used to drive leasing and complement the marketing of the wider town centre offer.

Rental Levels

Rental levels for the units within the development are based on the industry standard. These levels have been reviewed by the Council's Assets team whom appear comfortable that these levels can be achieved within Barnsley; however these will not be confirmed until negotiations with potential occupants are finalised.

Car Parking Income

The estimated car parking income built into the appraisal has been provided by Queensberry based on a similar development they have worked on within Newport. The income derived is after the costs of servicing the car park together with the potential loss of income forecast from the provision of customer incentives that may be required to be offered as part of the tenancy agreements with occupiers of the units. There will be the need to integrate the charging and management arrangements of the car park into the existing car parking provision within the town centre. This will form part of the town centre car parking strategy to be completed within the summer 2017.

Business Rates

The development is expected to generate additional business rate income for the Council. A prudent estimate has been made of the likely additional income to be generated from the development and has been built into the revenues to be generated by the scheme. However it should be noted that Business Rate income forms a major part of the Council's Core funding and therefore if this income is used to support the development it cannot be used to support wider service delivery.

**Council funding – Procurement Considerations**

4.30 Although the Council funded option would not require the procurement of an investor/ developer there is still the need to undertake timely and appropriate procurement to progress the scheme, details of which are discussed further in the report.

**Council funding – Legal Considerations**

4.31 State Aid analysis has also been carried out with regard to the incentives which the council is prepared to provide to end-users and which had been offered as part of securing their commitment to enter into agreements for lease. These incentives are considered to be well within normal market parameters and therefore do not present in themselves a state aid problem.

4.32 If the Council were to undertake financing of the development itself then no aid would be received by any recipient third-party as long as any sale in due course of the completed development was at market value.

## 5. Proposal and justification

5.1 Although securing private sector funding had previously been the preferred route this option now causes a number of issues. In summary these are:

- Potential lack of appetite from the market for securing private sector investment on terms that would be acceptable to the Council
- Potential State Aid risks linked to the need to provide additional funding to make the scheme viable
- Significant difficulties in procuring an investor/ developer on timescales to meet the contractual requirements of the cinema operator.

5.2 Securing an investor / developer who was prepared to take forward the development of the scheme would reduce the financial risk to the Council. However, there is insufficient certainty that this can be delivered in a timely manner, or in a way that maintains the objectives of the whole Better Barnsley scheme.

5.3 The preferred option is for the Council to fund phase 2 of the Better Barnsley Scheme. The proposal is that the Council takes the decision to fund and build phase 2 and then own and operate it once completed.

5.4 The option gives the greatest certainty of delivery. This is in terms of not only phase 2, but also delivering an overall development that integrates and complements the committed phase 1 investment.

5.5 The phase 2 scheme is an investable opportunity for the Council. Significant due diligence has been undertaken and the scheme can deliver a financial return. There are financial risks of the Council investing however there are mitigations to these risks. If the risks /costs increase unexpectedly there is the ability for the Council to undertake a review before exposure to major legal and financial commitments. In view of the need to achieve the timescale required to meet the preconditions for the cinema operator and other potential pre lets, there may be a need to consider committing to the main construction works package at a time when the level of committed pre lets is significantly lower than the assumed 80% levels of occupancy on completion. However this issue can be addressed at the relevant time in the light of the actual position that has been achieved on pre lets.

5.6 Investment in phase 2 also provides the Council with greater control over the future of the scheme. Owning, allows the Council to decide whether to sell the scheme at a point when market conditions have improved or hold it as a longer term investment and benefit from income that may be generated .

5.7 Certainty of delivery also confirms wider benefits for the local economy. The scheme itself could deliver approximately 800 new retail leisure jobs along with associated construction jobs. The scheme also presents the opportunity to continue the development of the skills and training legacy that is a key feature of the current phase 1 scheme.

5.8 A decision for the Council to fund the scheme also provides confidence to retail and leisure operators that the Better Barnsley scheme will be delivered. Securing the right retail and leisure mix is crucial to generating the rental income and an early commitment from the Council supports this. Beyond the Better Barnsley scheme wider investor confidence could benefit and longer term this will be important when promoting other development opportunities in the town centre.

**Delivery of the Preferred Option**

5.9 If members take the decision to fund and deliver phase two of the scheme additional work will need to commence to continue momentum. Critically, it is important to continue the design process to RIBA stage 4 to allow the procurement of a works contractor. This procurement process is key in determining the construction cost of the scheme; one of the key risk elements if the Council was to fund and build.

5.10 Design works are captured by the services of the Development Management organisation (DMO); however, the RIBA stage 4 works are the next stage of the development process and are not captured by the scope of the current contract. Authority is requested to use existing framework agreements to reengage the exiting DMO team to deliver the next stages of the design process.

5.11 Work also needs to commence to procure DMO services beyond the current contract that is due to end in November 2017. It is important to have continuity of the services of a DMO and wider professional team, particularly in key areas such as leasing which are important in maximising the rental stream for the scheme. The intention is to procure DMO services through to the scheme opening and as a result authority is requested to commence a full procurement exercise for these DMO services.

5.12 In terms of the procurement exercise for the main phase 2 works contractor, authority is also requested to commence this process. Significant experience has been gained through the procurement exercise to select the phase 1 works contractor and this, along with experience on site to date, will be invaluable in the design of a robust procurement process to select a phase 2 contractor.

## 6. <u>Implications for local people / service users</u>

6.1 The creation of new retail and leisure facilities will create significant job opportunities for the local people. The scheme will provide a number of part time and full time opportunities within the local economy, with a mix of employment opportunities to help people find varied employment based upon their work life balances.

6.2 In the short term there could be some adverse impacts on existing businesses and potential redundancies as a consequence of the site assembly, demolition, refurbishment and redevelopment requirements of the proposed scheme.

6.3 There will be significant construction over a period of time which will cause some disturbance to the town centre. The scheme will be managed to minimise impact on existing businesses and the public, including those businesses whose premises are close to the development area**.** Significant emphasis will also be placed on maintaining a vibrant town centre throughout any construction works. Central to this will be the development of a promotion and events programme to support retail footfall to the Town Centre.

## 7. <u>Financial implications</u>

7.1 In July 2015, Cabinet approved the procurement of a Development Management Organisation (DMO) at a cost of £3.2M to assist in the development of a business case for Phase 2 together with securing private sector investment to deliver new retail and leisure units in the Better Barnsley Scheme. As a result of the EU Referendum and the wider economic market the proposal to seek a private sector investor is being presented to the market at a very challenging time. Investment yields on commercial property have deteriorated with yields required increased to 6.75% from 6.25%.

7.2 The proposal therefore is that the Council takes the decision to fund the development of the scheme and own and operate the development either for a period of time until the investment market improves or hold the scheme as a long term investment thereby potentially benefiting from the revenues the scheme may return.

7.3 The capital cost of the scheme totals in the region of £70M. This cost includes the full cost of construction together with other associated costs of the development. It is proposed that these costs are funded via prudential borrowing. The Council's prudential indicators will be updated accordingly.

7.4 It is also proposed to utilise £4.2M of the £14M earmarked for the Town Centre Phase 2 scheme as part of the 2017/18 budget setting process to fund the early year's annual operating costs prior to the development becoming fully operational. In addition to this £0.2M of the £14M set aside will be used to fund the costs of procurement. Once operational, it is expected that annual revenues estimated to be generated from the Glassworks development will cover the annual running costs therefore there will be no additional ongoing cost to the Council. However, the remaining £9.6M is to be held as a contingency to ensure as far as is possible that no revenue budgetary impact arises as a result of progressing the scheme. This position will be reviewed periodically with regular updates being reported to Cabinet as necessary.

## 8. Employee implications

8.1 There are no employee implications arising from this report.

## 9. Communications implications

9.1. There are significant communication implications for the scheme. A detailed communication strategy has been developed around phase 2 of the Better Barnsley scheme. There are a number of related strands that include:

- A marketing and communication strategy to promote the town centre whilst the scheme is been constructed
- A formal launch of the Glassworks brand to Barnsley residents and the retail/ leisure trade press
- An ongoing strategy to secure interest from key leisure and retail operators.

As the scheme progresses the emphasis will change to include employment and training opportunities and the scheme opening.

## 10. Consultations

10.1 Consultations have previously taken place with elected members via a number of all member briefings.

10.2 Consultation has taken place with representatives from the Director of Finance, Assets and Information Services regarding the financial implications and Risk Management issues.

10.3 Consultations have previously taken place with representatives of the Director of Legal and Governance regarding the legal implications of any future procurement process.

## 11. Community Strategy and the Council's Performance Management Framework

11.1 The proposals in this report are consistent with Council's Corporate Plan 2012-15 as it directly contributes towards the aspiration of delivering a thriving and vibrant economy. A specific outcome of this objective is a vibrant town centre with clear linkages to the further outcomes of creating more and better jobs and increasing skills to get more people working.

11.2 The corporate performance framework monitors the vibrancy and health of the town centre by measuring footfall and the occupancy levels of retail units in the town centre.

## 12. Tackling Health Inequalities

12.1 The creation of new jobs reduces overall worklessness which provides a significant contribution to addressing inequalities in health and developing a healthy productive workforce.

## 13. Climate Change & Sustainable Energy Act 2006

13.1 Action to improve the energy efficiency of buildings constructed as part of the project will help to reduce carbon emissions.

## 14. Risk Management Issues-

14.1 A detailed risk register relating to Phase 2 of the Better Barnsley Scheme has been developed.

14.2 The key risks associated with this matter are as follows:

| Risk | Consequences | Score | Mitigations |
|---|---|---|---|
| Lack of interest from Retail tenants | Scheme becomes unviable through operators losing confidence in wider economy;<br>Scheme pre-lets not achieved;<br>Impact on rental streams;<br>Incorrect tenant mix would reduce the attractiveness of the scheme and ultimately its value to Barnsley and its stakeholders; | 2 | - Defined leasing strategy;<br>- Engaged experienced Development Manager;<br>- Engaged Specialist retail and leisure leasing agents;<br>- Marketing and promotion information produced to attract occupiers; |
| Loss of anchor tenants | Scheme becomes unviable;<br>Inability to attract other occupiers because anchor tenants not in place; | 1 | - leasing strategy has identified replacement anchors;<br>- Leasing Strategy has Early engagement with anchors with both retail and leisure anchors in hands of solicitors; |
| Failure to collaborate with wider project team, and link to Phase One | Increase in cost and programme extension due to poor collaboration;<br>Inability to connect to Network Rail development; | 1 | - Deign integration meetings in place;<br>- Overarching town centre board in place that oversees both phases of project;<br>- Representation of both phase on phase 1 and phase 2 board; |
| Failure to secure investment | Scheme not viable;<br>Loss of anchor tenants<br>Inability to attract other tenants because anchors not in place<br>Impact on committed phase 1 investment<br>Significant reputational damage | 1 | - Business case developed for an investable scheme<br>- Development manger continues to develop and design a commercially viable scheme<br>- Options for securing |

| Risk | Consequences | Score | Mitigations |
|---|---|---|---|
| | for scheme and wider town centre<br>Impact on wider town centre of stalled development site<br>Risk of existing occupiers leaving town centre to go to competing centres | | investment developed<br>Due diligence on investment options |
| Lack of Budget Management | Scheme not viable; | 2 | Specialist cost consultancy arrangements in place;<br>Cost plan updated as scheme design develops;<br>Specialist resource in place from to check and verify invoices and claims; |
| Failure to procure an appropriate Development Management Organisation for Phase 2 | Scheme becomes unviable as resources not in place to secure tenants and manage costs;<br>Programme extensions as impacts on engagement with main works contractor; | 2 | Initial Procurement Strategy identified;<br>Resources identified to deliver procurement process;<br>Lessons learnt from previous DMO procurement; |
| Failure to ensure that any State Aid issues are addressed | Delays to investor/ developer procurement process therefore inability to meet contractual requirements for cinema operator;<br>Potential of impact on ability to attract investor as they view state aid as a potential risk | 1 | Specialist State Aid advice taken; |
| Failure to ensure the Council is able to act as a developer | Inability to control cost affects scheme viability<br>Failure to deliver to programme increases risk that delivery long stop dates of anchor tenants not met , increasing risk that they do not occupy the scheme<br>Quality aspirations are not met resulting in miss match between phase 1 and phase 2; | 2 | Due Diligence undertaken on Council funded option;<br>Review of Existing Governance arrangements required to meet the requirements of a council funded scheme to ensure scheme delivered by the Council;<br>Further opportunity to consider any changes in financial assumptions before significant financial and legal commitments commence;<br>Procurement of competent development manager to deliver scheme through to scheme opening |
| Failure to ensure BMBC is able to control the development, if it is led by an investor or developer | Scheme does not deliver expected outcomes; | 2 | Need to develop a robust and enter into a long lease arrangement with the investor/ developer;<br>Need to develop and enter into a robust development agreement with investor/ developer;<br>Need to amend existing governance arrangements to reflect involvement of developer/ investor; |
| Failure to ensure there is an unconditional development agreement in place with any investor / developer | Inability to deliver phase 2 of the scheme;<br>Loss of anchor retailers<br>Impact on the phase 1 investment;<br>Impact on the wider town centre of a stalled development;<br>Potential loss of operators to competing centres; | 1 | Need to design and deliver an effective and time efficient procurement process for investor developer<br>Need to secure works contractor to give cost certainty to developer/ investor<br>Need to ensure sufficient legal expertise and capacity to develop market facing / commercially realistic development agreement<br>Early engagement with potential investor/ developer on format and content of development agreement |
| Failure to ensure any incentives for retailers such as rent free periods does not impact on scheme viability | Scheme becomes unviable; | 2 | Largest incentives already agreed with anchor tenants<br>Likely incentives reviewed as part of the ongoing updates of the development appraisal<br>Experienced leasing teams |

| Risk | Consequences | Score | Mitigations |
|---|---|---|---|
| | | | as part of the development management contract |
| Failure to ensure there are robust verification arrangements in place to underpin construction costs | Scheme becomes unviable Borrowing requirements overstated affecting Council's financial strategy; Has potential to increase some professional team costs as they are a function of the construction cost; | 2 | - Employment of cost consultancy as part of development management contract<br>- Construction costs reviewed as part of design process<br>- Independent review of cost consultancy methodology<br>- Opportunity to market test key elements of construction |
| Failure to clearly model Business rates yields including the impact of displacement / revaluation appeals to show a reasonable case expectation regarding business rates | Impact on the wider income streams of the Council; | 2 | - Development of robust modelling tool |
| Failure to ensure that final rent levels achieve modelled rental rates | Overall rent roll for the scheme is reduced | 2 | - Modelled ERV schedule in development appraisal reflects current market position for rents in Barnsley<br>- Use of experienced leasing teams to set realistic rental expectations<br>- Monthly monitoring of actual leasing deals/ rents achieved against expectations within development appraisal<br>- Budget built in the annual running costs for ongoing marketing |
| Failure to secure a management organisation to operate the facility on behalf of the council moving forwards | Failure to operate the scheme successfully impacting on annual costs and income levels | 2 | - Procurement exercise to be undertaken to manage the facility if required<br>- Alternatively Council's own Assets function will manage and operate the facility |

14.3 It is envisaged that the decision by Cabinet to approve a developer led, or BMBC led scheme will add significant clarity to the risk profile of the scheme, and will allow for the production of a detailed risk register that will reflect the strategic direction of the scheme.

## 15. Health & Safety Issues

15.1 None arising directly from this report although there is the need to ensure all relevant staff are trained up on health and safety issues.

## 16. Compatibility with the European Convention on Human Rights

16.1 There are no matters of relevance arising from this report.

## 17. Promoting Equality & Diversity and Social Inclusion

17.1 There is an understanding that anyone with disabilities can face all kinds of challenges using the town centre. The goal is that the finished scheme is a destination of choice for anyone with disabilities to visit, shop, eat and have the facilities they need to fully enjoy their day.

17.2 The Town Centre delivery team have put significant emphasis on consulting with local access groups as the scheme has developed to outline planning stage. There has been engagement with local disabled people to ensure that the re-developed town centre is fully accessible and the existing town centre remains accessible for the duration of the work period. This detailed work will continue as the scheme develops and detailed designs emerge for the new retail and leisure facilities created by the scheme.

## 18. Reduction of Crime & Disorder

18.1 The Council is collaborating with the Police to address anti-social behaviour across the town centre. Good, safe design principal will help and assist this work going forward.

## 19. Conservation of Biodiversity

19.1 There are no matters of direct relevance arising from this report.

## 20. Glossary

DMO- Development Management Organisation

## 21. List of Appendices

## 22. Background Papers

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