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SUPPLEMENTARY PAPERS

Committee	ECONOMY & CULTURE SCRUTINY COMMITTEE
Date and Time of Meeting	TUESDAY, 27 MARCH 2018, 5.00 PM
Venue	COMMITTEE ROOM 3 - COUNTY HALL
Membership	Councillor Howells (Chair) Councillors Ebrahim, Gordon, Gavin Hill-John, Parkhill, Robson, Sattar and Stubbs

The following papers were marked 'to follow' on the agenda circulated previously

3 Pre Decision Scrutiny: Cardiff Central Bus Station (Pages 3 - 48)

- (i) Exclusion of the Public
The appendices to the report are exempt from publication as they contain exempt information of the description contained in paragraph 14 of Part 4 and paragraph 21 of Part 5 of Schedule 12A of the Local Government Act 1972. The public may be excluded from the meeting by resolution of the Committee pursuant to Section 100A(4) of the Local Government Act 1972 during discussion of this item;
- (ii) Councillor Huw Thomas (Leader), Councillor Russel Goodway (Cabinet Member – Investment & Development) and Neil Hanratty (Director – Economic Development) will be in attendance to give a verbal update and answer Members' questions;
- (iii) Questions from Committee Members;
- (iv) Way Forward

Davina Fiore

Director Governance & Legal Services

Date: Wednesday, 21 March 2018

Contact: Andrea Redmond, 029 2087 2434, a.redmond@cardiff.gov.uk

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**CYNGOR CAERDYDD
CARDIFF COUNCIL**

ECONOMY & CULTURE SCRUTINY COMMITTEE

27 MARCH 2018

CARDIFF CENTRAL BUS STATION – PRE-DECISION SCRUTINY

Appendices 1, 3, 4 and 5 are not for publication as they contain exempt information of the description contained in paragraph 14 of Part 4 and paragraph 21 of Part 5 of Schedule 12A of the Local Government Act 1972. It is viewed that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Purpose of Report

1. This report provides the Committee with background information to enable Members to carry out pre-decision scrutiny of the report to Cabinet titled 'Cardiff Central Bus Station', prior to its consideration by the Cabinet at its meeting on the 28 March 2018.
2. A copy of the draft Cabinet Report is attached at **Appendix A**, which in turn has 5 appendices:
 - **Appendix 1** - Confidential – Bus Station Delivery Strategy
 - **Appendix 2** - Site Plan
 - **Appendix 3** - Confidential – Collaboration Agreement
 - **Appendix 4** - Confidential – Independent Valuation (full report to follow)
 - **Appendix 5** - Confidential – Confidential Financial Implications.
3. Members should note that **Appendices 1, 3, 4 and 5** of the report at **Appendix A** are exempt from publication. Members are requested to keep this information confidential, in line with their responsibilities as set out in the Members Code of Conduct and the Cardiff Undertaking for Councillors. Members will be able to ask questions regarding these appendices during closed session.

Structure of the meeting

4. The Chair will move that the presentation and discussion of this item be heard in closed session, given the majority of the information to be scrutinised contains confidential information by virtue of paragraph 14 of Part 4 and paragraph 21 of part 5 of Schedule 12A to the Local Government Act 1972.
5. Members will hear from Councillor Huw Thomas (Leader) and Neil Hanratty (Director of Economic Development). There will be a presentation taking Members through the proposals, followed by Members questions.
6. Members will then be able to decide what comments, observations or recommendations they wish to pass on to the Cabinet for their consideration prior to making their decisions.

Background

7. The Central Square Regeneration Scheme aims to deliver a high quality mixed-use urban gateway to the capital city and a modernised central transport hub. In September 2013, Cabinet gave authority to officers to work with Rightacres Property Co Ltd, as the adjacent landowner, to acquire a number of long leasehold interests at Central Square. In May 2014, Cabinet gave permission to obtain a long leasehold interest in the Wood Street NCP car park, in order to free up land. The decision was taken to demolish the Council- owned Marland House building.
8. Officers have worked in partnership with Rightacres Property Co Ltd. and Legal & General Pension Fund to progress the scheme. On 1st March 2017, planning permission was granted for a mixed-use development covering 250,000 sq. ft., including a new bus interchange.

9. At its meeting on 6 July 2017, Cabinet confirmed its commitment to deliver ‘*a new transport interchange which will be at the heart of the Cardiff Metro*’ and to secure the earliest possible start date for the new bus station.
10. At the Cabinet Meeting on 27 July 2017, the Cabinet resolved that the developer be allowed to maximise capital receipts for the commercial floor space within the Bus Interchange development, by allowing end use to be driven by market demand. At the same meeting, Cabinet resolved that authority be delegated to the Director of Economic Development¹ to acquire the Saunders Road Car Park site owned by Network Rail.
11. At the Cabinet Meeting on 20 December 2017, the Cabinet resolved to agree a new mixed-use scheme comprising 110,000 sq. ft. of Grade A* office space, 400 residential units and 250 car parking spaces. At the same meeting, Cabinet resolved in principle agreement to a proposed new funding model involving Welsh Government and Rightacres Property Ltd, and that authority be delegated to the Director of Economic Development² to:
- a. agree the final contracts with Welsh Government and the developer for delivery of the new Central Bus Station in line with the principles set out in the Metro Delivery Partnership Heads of Terms.

Issues highlighted in the report to Cabinet

12. The Cabinet Report attached at **Appendix A** sets out a strategy for delivering the Central Bus Station, via a partnership approach with Welsh Government and Rightacres Property Ltd. The report sets out the contributions from each partner, including the Council’s contributions.
13. The Cabinet report highlights the following developments since the previous report to Cabinet in December 2017:

¹ in consultation with the Cabinet Member for Investment & Development and the Cabinet Member for Finance, Modernisation and Performance, the Section 151 Officer and the Monitoring Officer

² As above

- a. Cardiff Capital Region City Deal has given an in-principle commitment of £40m towards the delivery of Metro Central
- b. The Welsh Government is prepared to commit to an operator lease on the bus station element of the mixed use scheme
- c. The developer has revised the plans for the superstructure of the building, which will improve the efficiency re the car-parking element of the scheme.

14. At point 10 of the report to Cabinet, it states that:

'The revised scheme will still deliver the same 14 stand bus station on the ground floor, with circa 10,000 sq. ft. of associated retail space. The car parking requirement will now be delivered on two floors over a reduced footprint to reduce cost. The commercial development above will consist of circa 300 Private Rented Sector (PRS) residential units fronting Wood Street and circa 80,000 sq ft of Grade A offices fronting Saunders Road.'*

15. Point 10 of the report to Cabinet also states that:

'The cycle hub will now be moved out of the ground floor area of the bus station concourse following strong representations from a variety of representative groups concerned about the risk of pedestrian-cycle conflict at the intersection between the bus station and the train station. A cycle hub of similar specification in a stand-alone kiosk style building will be delivered to the north of the railway line in close proximity to the bus station/train station, with the exact location to be confirmed.'

16. At point 5, the report states that the Cabinet and Welsh Government have been working together regarding an investor which has confirmed a preference to be located within the bus station development and that:

'Cabinet has subsequently invited Welsh Government to become a partner in the project in order to help retain offices as part of the mixed use scheme and to keep open the option for the inward investor, whilst enabling a start on site.'

17. The report to Cabinet sets out plans to consolidate the leasehold and freehold elements of the various parts of the site, culminating in the freehold interest of the whole site being vested to the Council. As part of this, it is proposed to dispose of the Council's leasehold interest (in the land marked red on the site plan attached at Appendix 2) to the Welsh Government.
18. The report to Cabinet sets out the financial implications for the Council, at points 23-24 of the report and in **confidential Appendix 5** of the report to Cabinet.
19. In terms of timeline, the report to Cabinet states that it is anticipated the final contractual agreement for the delivery of the new bus station development will be concluded in May 2018.

Proposed Recommendations to Cabinet

20. The report to Cabinet contains the following recommendations:

The Cabinet is recommended to:

(1) Approve in principle the Metro Delivery Partnership collaboration agreement as set out in Confidential Appendix 1 and delegate authority to the Director of Economic Development in consultation with the Cabinet Member for Investment & Development and the Cabinet Member for Finance, Modernisation and Performance, the Section 151 Officer and the Monitoring Officer to negotiate and conclude all aspects of a final agreement with Welsh Government and the developer for delivery of the new Central Bus Station.

(2) Approve the disposal of the leasehold interest in the land marked red and acquisition of the land shown coloured blue in the site plan attached as Appendix 2 to support delivery of the new Central Bus Station on the terms set out in Confidential Appendix 1 and in line with the independent valuation provided at Confidential Appendix 4.

Key Lines of Enquiry

21. Pre-decision scrutiny aims to inform the Cabinet's decisions by making evidence based recommendations. Scrutiny Members are advised to:
- a. look at the information provided in the report to Cabinet to see if this is sufficient to enable the Cabinet to make an informed decision;

- b. check the financial implications section and confidential **Appendix 5** of the Cabinet report to be aware of the advice given;
- c. check the legal implications section of the Cabinet report to be aware of the advice given;
- d. check the recommendations to Cabinet to see if these are appropriate.

22. Members have the opportunity to explore issues relating to the financing of the transport interchange and the Metro delivery partnership, including but not limited to:

- a. Financial assumptions made in the report;
- b. Whether there are any risks to the Council;
- c. How any risks to the Council are being addressed and mitigated; and
- d. The timeline for delivering the transport interchange.

Previous Scrutiny

23. In June 2017, the Economy & Culture Scrutiny Committee held a joint meeting with Environmental Scrutiny Committee to carry out pre-decision scrutiny of a report to Cabinet titled 'Funding the New Bus Transport Interchange'. The information presented to the Committee was mostly confidential information. Members of the Committee endorsed the recommendations to Cabinet.

24. In September 2017, the Economy & Culture Scrutiny Committee held a joint meeting with Environmental Scrutiny Committee to carry out a Call-In scrutiny of the decisions taken by the Cabinet, as detailed above at point 2. Members decided not to refer the decisions back to Cabinet for reconsideration.

25. In December 2017, the Economy & Culture Scrutiny Committee received an update on progress with delivering the Cardiff Central Bus Station. The information presented to the Committee was confidential information relating the changes in the mixed-use scheme, the proposed funding model and the Metro Delivery Partnership.

Way Forward

26. At this meeting, the following witnesses will be in attendance to give a presentation and answer Members' questions:

- (i) Councillor Huw Thomas, Leader
- (ii) Neil Hanratty, Director for Economic Development.

27. Members will then be able to decide what comments, observations or recommendations they wish to pass on to the Cabinet for their consideration prior to making their decisions.

Legal Implications

28. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct legal implications. However, legal implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any legal implications arising from those recommendations. All decisions taken by or on behalf of the Council must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. Scrutiny Procedure Rules; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its taxpayers; and (h) be reasonable and proper in all the circumstances.

Financial Implications

29. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct financial implications at this stage in relation to any of the work programme. However, financial

implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any financial implications arising from those recommendations.

RECOMMENDATIONS

It is recommended that the Committee:

- i. Consider the proposed draft report attached and decide whether it wishes to relay any comments or observations to the Cabinet at its meeting on the 27 March 2018; and
- ii. Decide the way forward with regard to any further scrutiny of this issue.

DAVINA FIORE

Director of Governance and Legal Services

22 March 2018

CARDIFF CENTRAL BUS STATION

JOINT REPORT OF THE LEADER (COUNCILLOR HUW THOMAS) AND INVESTMENT & DEVELOPMENT (COUNCILLOR RUSSELL GOODWAY)

AGENDA ITEM: 1

DIRECTOR OF ECONOMIC DEVELOPMENT

Appendices 1, 3, 4, & 5 of this report are exempt from publication because they contain information of the kind described in paragraphs 14 and 21 of parts 4 and 5 of Schedule 12A to the Local Government Act 1972.

Reason for this Report

1. To update Cabinet on the financial model and delivery strategy for the new Central Bus Station development.
2. To seek Cabinet authority to dispose of the leasehold interest in Council owned land at Central Square marked red on the site plan attached at Appendix 2 to Welsh Government to support delivery of the new Central Bus Station development.
3. To seek delegated authority to agree the Metro Delivery Partnership (MDP) collaboration agreement which sets out the terms of reference and governance arrangements for the partners involved in delivery of the wider Metro Central project incorporating the Central Bus Station development attached in draft form at Confidential Appendix 3.

Background

4. Cabinet, has, since May 2017, confirmed the new Administration's commitment to deliver a new Central Bus Station and to take the steps necessary to ensure an earliest possible start on site. In December, Cabinet agreed that it was open to revisiting the planning constraints previously imposed on the development and to exploring different funding models, if that proved necessary to secure its objectives.
5. In addition, over the last twelve months, Cabinet has been working closely with Welsh Government on a major inward investment enquiry where the investor has confirmed a preference to be located within the bus station

development. However, that investor's decision-making timeframe, with the associated risks, does not provide the developer with the confidence to make a start on site without the offer of a form of public sector security. As a result, Cabinet has subsequently invited Welsh Government to become a partner in the project in order to help retain offices as part of the mixed-use scheme and to keep open the option for the inward investor, whilst enabling a start on site. Cabinet will be aware that officials have been exploring potential mechanisms capable of securing this outcome over recent months.

6. As a result, Cabinet has adopted a twin track approach and, in December 2017, gave authority for the Council to work with the developer to undertake a comprehensive review of the approved scheme, to establish a commercially viable mix of uses that would enable the development to proceed without further delay. Whilst the delivery of offices as part of the mixed use scheme remained a key aspiration for the Council, authority was granted to consider student accommodation and other commercial uses with a view to maximising the potential of the development.
7. The funding model presented to Cabinet in December was based on the Council contributing land assets and costs incurred relating to site preparation and the planning permission granted in June 2017. The cost of construction was to be funded by Rightacres Property Ltd with Welsh Government potentially providing commercial security for the office element of the scheme as well as funding the technical fit-out of the bus station. The Council's compensation for its land assets and IP was to be realised once the building is sold to an institutional investor.
8. In January 2018, Welsh Government expressed an interest in extending their involvement in the bus station project following the Council's success in securing an in principle commitment from its City Deal partners to provide £40m of funding towards delivery of the wider Metro Central project. In addition to funding fit-out of the bus station, Welsh Government would like Transport for Wales to operate the bus station to enable seamless integration with the modernised train station development that will be delivered through the Metro Central project. As such, Welsh Government is now prepared to commit to an operator lease on the bus station element of the scheme.

Issues

9. The developer has now undertaken a comprehensive review of the approved scheme to establish a commercially viable and deliverable proposition. In particular, the developer has revised plans for the super-structure of the building which will improve the efficiency of the way in which the car parking element of the scheme is delivered. Revised plans will now be submitted in the form of a new planning application to secure changes to the planning permission granted in June 2017.
10. The revised scheme will still deliver the same 14 stand bus station on the ground floor, with circa 10,000 sq ft of associated retail space. The car parking requirement will now be delivered on two floors over a reduced

footprint to reduce cost. The commercial development above will consist of circa 300 Private Rented Sector (PRS) residential units fronting Wood Street and circa 80,000 sq ft of Grade A* offices fronting Saunders Road. The cycle hub will now be moved out of the ground floor area of the bus station concourse following strong representations from a variety of representative groups concerned about the risk of pedestrian-cycle conflict at the intersection between the bus station and the train station. A cycle hub of similar specification in a stand-alone kiosk style building will be delivered to the north of the railway line in close proximity to the bus station/train station, with the exact location to be confirmed.

11. Further to the above, a new funding model has been proposed between the Council, Welsh Government and Rightacres Property Ltd set out in Confidential Appendix 1.
12. As part of this, the Council is proposing to dispose of its leasehold interest in the land marked red on the site plan attached at Appendix 2 to Welsh Government on the terms set out in Confidential Appendix 1 and in accordance with the independent valuation attached at Confidential Appendix 4. This approach enables Welsh Government to consolidate the land interest in the area through the purchase of the Saunders Road car park from Network Rail. The Council will retain the freehold interest in the site and Welsh Government has agreed to transfer the freehold interest in the Saunders Road car park site to the Council (shaded blue on the site plan attached at Appendix 2) to vest the long term ownership of the whole of the bus station development site in the Council.
13. The agreement with Welsh Government will see the Council recover a large proportion of the costs expended on the bus station development to date, which was not previously anticipated. Confidential Appendix 5 sets out the Council's expenditure to date and provides an overview of the financial implications of the new funding and delivery approach. Most importantly, the Council will no longer be required to fund the construction cost of the bus station element of the development which will now be delivered on a commercial basis given that Transport for Wales is now prepared to enter into an operator lease. This in effect reduces the Council's financial exposure by between £15m - £20m.
14. It is intended that in due course the development will be sold to an institutional investor on the same leasehold terms as those to be granted by the Council to Welsh Government. Transport for Wales will take a shorter operator lease for the ground floor element including the bus station and associated retail floor space and Welsh Government will fund the development of the offices which will be sold to the institutional investor once a tenant has been secured.
15. To this end, Welsh Government intends to utilise in-year capital funding to assemble the leasehold interest in the site before the end of the current financial year (that is, prior to 31 March 2018). The new proposal is for the office element of the development to be funded by Welsh Government to keep open the potential to secure inward investment opportunity referred to above. Rightacres will fund the remainder of the development based on

a pre-let of the PRS element to an institutional investor and an operator lease for the bus station and associated retail to Transport for Wales.

16. The decision has been certified by the Monitoring Officer as urgent because any delay likely to be caused by the call-in process could seriously prejudice the Council and is in the public interest under section 13 of the Scrutiny Procedure Rules and the call-in procedure does not apply to it.
17. The reason for this is that Welsh Government requires completion of the lease of the Interchange site and payment of the lease premium to occur before 31st March 2018 and the 30th and 31st are non-working days. Completion of the lease will enable to development of the Transport Interchange to proceed.
18. The Chair of the Economic & Culture Scrutiny Committee has agreed that this report should be certified as urgent.

Next Steps

19. In order to move the new bus station project forward the partners involved in the wider Metro Central project (Welsh Government; Network Rail; and Rightacres Property Ltd) are required to sign-up to the Metro Delivery Partnership collaboration agreement set out in Confidential Appendix 3. This agreement provides the terms of reference and governance arrangements for the wider project and will oversee the delivery of a number of projects that will together deliver the wider integrated transport hub, including the bus station development and the modernisation of Cardiff Central Train Station.
20. In terms of the bus station development delivery timetable, the developer is currently negotiating with two main contractors and will be in a position to appoint a preferred contractor as soon as an agreement is reached with Welsh Government on the funding of the office element of the development and a lease is agreed with Transport for Wales for the operation of the bus station. Both of these negotiations are progressing at a pace.
21. It is anticipated that a final contractual agreement for the delivery of the new bus station development with the construction contractor will be concluded in May/June 2018. In the meantime the developer has committed to progressing with early site works in April utilising the existing planning permission to get the development underway as soon as the main contractor is appointed.

Reason for the Report

22. To seek Cabinet approval to agree a new approach to the delivery of the new Central Bus Station project including authority to dispose of the leasehold interest in Council owned land at Central Square.

Financial Implications

23. This report sets out updated arrangements for the delivery and operation of the new Central Bus station. These arrangements result in a significant reduction in the capital funding required from the Council to deliver this project and a sharing of the delivery risk with the Welsh Government and the developer. A number of areas require further work including confirming the mechanism to deliver the receipts for both the IP transfer to WG and the reimbursement of any abortive costs outlined in the report. Until these mechanisms, and any conditions that relate to them, have been confirmed the risk both in terms of the quantum of the receipt and the timing of receiving the funding will remain with the Council.
24. A number of additional financial implications are set out in Confidential Appendix 5.

Legal Implications

25. In its dealings with property, the Council has to be mindful of its fiduciary duty to the local tax payers and the need to demonstrate value for money. In disposing of property, the Council has a specific duty to secure the best consideration reasonably obtainable pursuant to section 123 of the Local Government Act 1972. The Council's procedure rules for the disposal of interests in property require the Council's decision makers to have proper regard to professional advice from a qualified valuer at all relevant stages during the disposal process. The intention is that due probity and accountability can be demonstrated as well as value for money.
26. Properties can be disposed of with overage provisions which seek to ensure payment of market value and avoid developer's super profit. However there is no guarantee of an overage payment. In the case of commercial properties, disposal prices are impacted upon by considerations such as achievable rental incomes, service charges and holding costs, the costs and values of redevelopment, funding costs, the tenancing of new accommodation and the cost of assembling a full site with vacant possession. Fluctuating economic conditions can impact significantly upon premiums and rents attached to the taking of commercial leases and associated funding and upon the viability of section 106 contributions.
27. The developer has a legal option to take a lease of the Marland House site at market value provided that he can show that he has occupiers and funders for the interchange development and that he can complete the development within two years. Residual valuations are dependent upon design, construction, profit returns and funding costs when set against rent and receipts. The Council's ability to fully recoup its land acquisition costs and expenditure on pre-development costs will be dependent on surpluses being achieved.
28. Connected to the question of value for money from the land disposal is the need to ensure that the commercial elements of the proposed interchange do not provide unlawful State Aid to economic entities involved in the development. The Council's proposed investment in the partnership

arrangement with the developer and Welsh Government would be pursuant to its powers under section 12 of the Local Government Act 2003 to invest for any purpose relevant to its functions or for the prudent management of its affairs. Welsh Government and Transport for Wales are understood to be taking detailed valuation and cost advice prior to entering into the proposed legal arrangements. In view of the Council's legal obligations, its decision makers will need to obtain similar satisfactory advice in regard to the Council's position prior to entering into any legally binding arrangements.

RECOMMENDATIONS

The Cabinet is recommended to:

- (1) Approve in principle the Metro Delivery Partnership collaboration agreement as set out in Confidential Appendix 1 and delegate authority to the Director of Economic Development in consultation with the Cabinet Member for Investment & Development and the Cabinet Member for Finance, Modernisation and Performance, the Section 151 Officer and the Monitoring Officer to negotiate and conclude all aspects of a final agreement with Welsh Government and the developer for delivery of the new Central Bus Station.
- (2) Approve the disposal of the leasehold interest in the land marked red and acquisition of the land shown coloured blue in the site plan attached as Appendix 2 to support delivery of the new Central Bus Station on the terms set out in Confidential Appendix 1 and in line with the independent valuation provided at Confidential Appendix 4.

NEIL HANRATTY
DIRECTOR OF ECONOMIC DEVELOPMENT
16 March 2018

The following appendices are attached:

Confidential Appendix 1:	Bus Station Delivery Strategy
Appendix 2:	Site Plan
Confidential Appendix 3:	Collaboration Agreement
Confidential Appendix 4:	Independent Valuation (full report to follow)
Confidential Appendix 5:	Confidential Financial Implications

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Appendix 2: Site Plan



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