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SUPPLEMENTARY PAPERS

Committee	ECONOMY & CULTURE SCRUTINY COMMITTEE
Date and Time of Meeting	THURSDAY, 8 NOVEMBER 2018, 4.30 PM
Venue	COMMITTEE ROOM 4 - COUNTY HALL
Membership	Councillor Howells (Chair) Councillors Henshaw, Gordon, Gavin Hill-John, Parkhill, Robson, Sattar, Simmons and Stubbs

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

5 Securing Investment into Council-Owned Heritage Buildings (Pages 3 - 142)

Appendices 1, 2 and 3 of 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.

To receive the report to Cabinet and to scrutinise the proposed way forward.

Davina Fiore

Director Governance & Legal Services

Date: Friday, 2 November 2018

Contact: Andrea Redmond, 02920 872434, a.redmond@cardiff.gov.uk

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**CYNGOR CAERDYDD
CARDIFF COUNCIL**

ECONOMY & CULTURE SCRUTINY COMMITTEE

8 NOVEMBER 2018

**SECURING THE FUTURE OF CARDIFF'S HERITAGE BUILDINGS: PRE-
DECISION SCRUTINY**

Appendices 1, 2 and 3 of the Cabinet Report are not for publication as they contain exempt information of the description contained in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972.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 the Report

1. To give Members background information to aid the scrutiny of the draft report to Cabinet regarding securing the future of Cardiff's heritage buildings, which is due to be considered by Cabinet at their meeting on 15 November 2018.
2. Members should note that **Appendices 1, 2 and 3** of the Cabinet report 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.

Scope of Scrutiny

3. At their meeting on 15 November 2018, the Cabinet will consider a report that outlines the general condition, maintenance backlog and operating cost of the Council's portfolio of heritage buildings. The report also seeks authority to explore a range of new operational approaches to protect their long-term future prior to the Cabinet considering building specific proposals at a later date.

4. During this scrutiny, Members have the opportunity to explore:
 - i) The proposed approach for securing the future of Cardiff's heritage buildings;
 - ii) Whether there are any risks to the Council;
 - iii) The timeline and next steps for securing the future of Cardiff's heritage buildings;
 - iv) The recommendations to Cabinet.

Structure of the meeting

5. The Chair will move that this item be considered in two parts: an open session, where Members will be able to ask questions on the issues and papers that are in the public domain; and a closed session, where members of the public will be excluded, where Members can ask questions that pertain to **Appendices 1, 2 and 3**.
6. Members will hear from Councillor Russell Goodway (Cabinet Member – Investment and Development), Councillor Peter Bradbury (Cabinet Member – Leisure & Culture) and Neil Hanratty (Director of Economic Development). There will be a presentation taking Members through the proposals and recommendations to Cabinet, followed by Members questions.
7. 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

8. The report to Cabinet covers the following heritage buildings:
 - i) Cardiff Castle
 - ii) City Hall
 - iii) Mansion House
 - iv) New Theatre
 - v) St David's Hall
 - vi) Old Library
 - vii) Norwegian Church.

9. Capital Ambition, which outlines the political administration's vision for the city, includes a commitment to *"Bring forward a business-led strategy designed to address the backlog in maintenance of the city's most historic buildings and equipping them with the technology required to enable us to find new uses which will contribute to the delivery of the Council's economic development agenda."*
10. Subsequently, *Delivering Capital Ambition, Cardiff's Corporate Plan 2018-21*, includes a commitment to develop a business plan to protect the city's historic assets by the end of 2018.
11. The Council's Budget Strategy noted that the Council's Corporate Land and Property Management Plan approved by Cabinet in February 2018 set out the approach to managing the Council's property assets. The Budget Strategy notes that it is clear that within this financial climate of reducing revenue resources, all necessary actions must be taken to reduce capital expenditure and operating costs.

Previous Scrutiny

12. This Committee undertook an in-depth inquiry into *'Alternative Operating Models for Leisure and Cultural Venues'* over 2014/16; this included New Theatre and St David's Hall. The Inquiry adopted a flexible approach to working, contributing to on-going policy development work and providing a critique to inform pre-decision scrutiny of this area.
13. The final Inquiry report led to the following comments by Councillor Peter Bradbury (Cabinet Member with responsibility for Leisure and Cultural Venues)

The Leader, other Cabinet Members, the Director and I found the Inquiry report to be a first class, in-depth analysis, which was used to guide the Cabinet decision made on 15 May 2014. The thoroughness of the Scrutiny process gave confidence to Cabinet that the complexities and nuances of this topic had been considered in detail.'

Way Forward

14. Councillor Russell Goodway (Cabinet Member – Investment and Development) and Councillor Peter Bradbury (Cabinet Member – Leisure & Culture) will be invited to make a statement. Neil Hanratty (Director of Economic Development) will attend to give a presentation and answer Members' questions on the proposals for securing investment into Council owned heritage buildings.

15. All Members are reminded of the need to maintain confidentiality with regard to the information provided in **Appendices 1, 2 and 3**. Members will be invited to agree the meeting go into closed session to enable discussion of this information.

Legal Implications

16. 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

17. 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.

RECOMMENDATION

The Committee is recommended to:

- i) Consider the information in this report and the information presented at the meeting;
- ii) Determine whether they would like to make any comments, observations or recommendations to the Cabinet on this matter in time for its meeting on 15 November 2018; and
- iii) Decide the way forward for any future scrutiny of the issues discussed.

DAVINA FIORE

Director of Governance & Legal Services

2 November 2018

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CABINET MEETING: 15 NOVEMBER 2018

SECURING THE FUTURE OF CARDIFF'S HERITAGE BUILDINGS

INVESTMENT & DEVELOPMENT (COUNCILLOR RUSSELL GOODWAY)

AGENDA ITEM:

Appendices 1 - 3 are not for publication as they contain exempt information of the description contained in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972.

Reason for this Report

1. To update Cabinet on the general condition, maintenance backlog and operating cost of the Council's portfolio of heritage buildings.
2. In support of the Council's resolute commitment to retain ownership of its heritage assets, to seek authority to explore a range of new operational approaches to protect their long term future prior to the Cabinet considering building specific proposals at a later date.

Background

3. Cardiff Council has a number of significant heritage assets which are predominantly public buildings. As a result of significant maintenance liabilities and high operating costs there are sizable and increasing cost implications to the Council in operating and maintaining these buildings. The age of the buildings and often their listed status means the cost of addressing the maintenance backlog is difficult to predict and manage. Restrictions due to the layout and design of the buildings also restricts their use as public assets. Subsequently the city's historic assets are becoming a growing financial liability for the Council.
4. There is also a growing public safety implication of maintaining these buildings as they are generally open to the public. Consequently, as the maintenance back-log increases, the risk to public safety also increases.
5. Confidential Appendix 1 lists the current operational costs relating to each of these assets. They have a combined known estimated maintenance backlog (of works that need to be undertaken at least within the next 5 years) of over £23m. The full modernisation cost of these buildings would be significantly higher. Their declining condition

contributes to a combined subsidy from the Council of circa £2.3m per annum.

6. Nonetheless, it is clear heritage buildings are an important part of the city's infrastructure and make an outstanding contribution to the quality of place enjoyed in the city. As such, the Council recognises its responsibility to ensure that the historical assets under its custodianship are well maintained and looked after in order to encourage assets in private ownership to be equally well maintained. The city has faced criticism over the years regarding its attitude towards historic assets particularly in regard to the sweeping changes that were necessary to transform Cardiff Bay. This has led to comments from pre-eminent members of the business and property sector questioning '*how the Council can expect the private sector to invest in historical assets if it is not prepared to do so itself*'.
7. Despite the current financial situation the Council remains focused on protecting all buildings that contribute to the city's heritage, be they in public ownership or otherwise, and will continue to work closely with the external bodies to secure the investment that can make a difference. This approach has been clearly demonstrated in recent years. The most notable is the on-going investment to protect and restore the most important historical asset in the city, Cardiff Castle. The Council has also played an important role in attracting investment into the Coal Exchange, Llanrumney Hall, Cardiff Market and Insole Court. Work will shortly start on the abandoned Bute Street Station building and the Cory's Building/Merchant Place in Cardiff Bay and the Council is also working closely with Rightacres Property Ltd and CADW, as part of the Central Quay proposals, to ensure the heritage buildings that form part of the old brewery site are retained and form an integral part of that development moving forward.
8. Much of the recent success has been through working in partnership with the private sector. Given the pressure on public resources, it is becoming increasingly clear that if the Council is to secure the future of its own historic assets, new approaches need to be considered involving the private sector. The Council remains absolutely committed to retaining ownership of all of its heritage assets. However, sustainable uses need to be identified that maximise the heritage value and character of the buildings. Simply using these buildings for general public service use, or 'business as usual' is no longer a realistic or sensible way to secure their long-term future.
9. There is a need therefore, on a case by case basis, to consider the future operating model of each of the Council's heritage assets to fully reflect their value and potential. *Capital Ambition*, which outlines the political administration's vision for the city, includes a commitment to "Bring forward a business-led strategy designed to address the backlog in maintenance of the city's most historic buildings and equipping them with the technology required to enable us to find new uses which will contribute to the delivery of the Council's economic development agenda."

10. Subsequently, *Delivering Capital Ambition, Cardiff's Corporate Plan 2018-21*, includes a commitment to develop a business plan to protect the city's historic assets by the end of 2018.
11. The Council's Budget Strategy noted that the Council's Corporate Land and Property Management Plan approved by Cabinet in February 2018 set out the approach to managing the Council's property assets. The Budget Strategy notes that it is clear that within this financial climate of reducing revenue resources, all necessary actions must be taken to reduce capital expenditure and operating costs.

Issues

12. The Council's publicly owned heritage buildings have an ever growing maintenance back-log. The £23m quoted in paragraph 5 above is for works classified as 'urgent' in that they will need to be undertaken at the very latest within the next 5 years. Failure to address this backlog will not only lead to increasing costs, but also increase the risk of health and safety incidents relating to a lack of building maintenance. In addition, this raises further operational risks, where the closure of a building can lead to both a reduction in service delivery as well as reduced income. The main areas of operational cost relate to St David's Hall, City Hall, New Theatre and the Old Library. It is estimated that just to retain the status quo, ensuring that the buildings are safe for public use, an increased revenue budget of circa £1.2m per annum will be needed to fund required works. This would take the overall cost of operating the Council's heritage buildings to circa £3.5m per annum.

Investment Strategy

Castle

13. Cardiff Castle is a medieval castle and Victorian gothic revival mansion and represents the most important and iconic of all of the city's historic assets. It is owned and operated by Cardiff Council, and has been subject to significant investment over recent years from a variety of funding sources. The very nature of the building however requires on-going investment in its up-keep and at present the building has a maintenance backlog.
14. The operation of the facility currently delivers a surplus (see Confidential Appendix 1), however the Council carries the risk in the event of any losses being sustained. The Council's Cabinet has already provided authority to explore the provision of additional attractions to further enhance the visitor experience, in what is already one of the primary visitor attractions in Wales. The Council is currently in the process of introducing two new attractions which are scheduled to be operational by the summer of 2019: the Black Tower Tales, in partnership with Unusual Expo; and the Dr Who Film Tours and Exhibition, in partnership with BBC Worldwide. It is important to ensure that the Council seeks to minimize any further risks associated with the introduction of these activities.

15. It is clear that there is further scope to broaden the appeal and interest of the castle particularly to local residents, to further attract footfall and increase secondary spend to help generate further surpluses that can assist with the long term maintenance needs.
16. Cabinet is asked to note the surplus income generated by the Castle and to consider the potential of crystallising these surpluses whilst at the same time minimizing the Council's financial exposure in order to invest any future surpluses over current targets to be ring-fenced to establish a dedicated maintenance budget for the asset.

City Hall

17. City Hall is one of the most iconic buildings in Cardiff, sitting at the gateway to Cathays Park and the historic Civic Centre. It became operational as the home of the local authority in 1906. The building is still partially used by the Council for offices but it is increasingly unsuitable for modern office occupation. The building has a significant maintenance backlog set out in Confidential Appendix 1.
18. Whilst the Council operates a successful weddings and conference business out of the building, which generates a net income, the current running cost of the building significantly exceeds this amount and results in the operating deficit set out in Confidential Appendix 1.
19. The maintenance situation at City Hall is becoming an increasingly pressing issue. There is a need to invest in the building's mechanical and electrical (M&E) infrastructure to enable the proper on-going management of the building, particularly given its use as a wedding and events venue where bookings are made well in advance.
20. The Council is currently considering its core office requirements and is considering a new core office building that will accommodate all (non-geography specific) office based staff into a single more cost-effective new building. This would entirely remove the requirement for Council staff to be based at City Hall. It is therefore essential that the Council considers all potential options for the long term use of City Hall to provide a sustainable future for the building. Whilst the Council will always retain the freehold interest, external advisors have been appointed to review potential uses of the building including the implications of transferring the long-term liability to a new occupier. An initial summary of this work is attached as Confidential Appendix 2. There are a number of potential options ranging from commercial uses, which would fund the maintenance backlog and modernisation, through to a combination of small office uses and ancillary conference facilities which may require the Council to retain a proportion of the on-going liability and to fund a substantial investment.
21. Cabinet is asked to provide authority for the development of a detailed options appraisal setting out full financial implications to be presented back to a future meeting of Cabinet by April 2019.

Mansion House

22. The Mansion House is the former official residence of the Lord Mayor of Cardiff. The building is owned and operated by the Council as a meetings venue as part of its '*Cardiff Collection*'. Whilst the ground floor of the building has been relatively well preserved, the upper floors have fallen into an unusable state of disrepair requiring substantial investment to bring them back into effective use. The current estimated maintenance backlog for the property is set out in Confidential Appendix 1.
23. At present the building is not being used to its full potential, and as such is operating at a deficit also set out in Confidential Appendix 1. The nature of the building suggests it has significant potential to be used as a boutique hotel offering 15-20 rooms. A concept scheme for its conversion is attached as Confidential Appendix 3.
24. Cabinet is asked to provide authority for officers to consider the most appropriate operating model to attract investment and reduce the Council's on-going liability, whilst maintaining Council use and improving public access, and to return with a detailed options appraisal to a future meeting of Cabinet by April 2019.

New Theatre

25. The New Theatre is now over 110 years old and is in need of investment. Whilst essential maintenance works have been undertaken by the Council to ensure the building remains compliant and is able to be open to the public, there is a growing maintenance backlog including high priority works as set out in Confidential Appendix 1. At present the operation of the theatre requires a subsidy from the Council also set out in Confidential Appendix 1 and therefore the operation of the building cannot contribute towards its maintenance.
26. In 2015/16 the Council undertook a public procurement exercise to identify an external operator in an attempt to eliminate the operational subsidy and secure investment in the building. Following detailed assessment, the Council decided to retain the operation of the building in-house, as the benefit of externalisation through that process was marginal. Since then the Council has been exploring alternative approaches which may result in less control over programming and content than was the case through the competitive dialogue process.
27. Cabinet is requested to provide authority for officers to explore the potential to rent the building to a theatre operator without subsidy. The Council will need to consider the appropriate procurement approach and any implications on staff, although this is expected to be less of an issue following the recent restructure of employees across St David's Hall and New Theatre which will enable current staff to be retained by the Council. In addition to the removal of subsidy there may be potential to secure a small rental income which could be ring-fenced to assist with on-going maintenance issues.

St David's Hall

28. Whilst St David's Hall is not necessarily regarded as a heritage asset, it is nonetheless an important public building in the same category as the New Theatre and facing very similar issues. The building is in need of significant investment with a substantial maintenance backlog for essential works (see Confidential Appendix 1), and a much bigger financial cost associated with the comprehensive modernisation of the facility. Furthermore, the Council currently provides a substantial subsidy towards the operation of the building, meaning there is very little potential under the current arrangements for the operation of the building to fund its long term up-keep.
29. St David's Hall was also part of the competitive dialogue exercise that took place in 2015/16 where the Council decided to retain an in-house provision. At that time Cabinet also agreed to a phased review of St David's Hall to reduce costs which began with a major restructure of staff and will lead on to detailed consideration of development opportunities to release capital for investment. A key issue relates to the ground floor of the building which currently provides very limited support to the commercial success of the venue.
30. Cabinet is asked to provide authority for officers to develop a detailed modernisation proposal including the potential to improve the ground floor offer and to return to Cabinet in due course with a business case including options to secure investment.

Old Library

31. The Old Library is a listed building owned by the Council situated in the heart of the city centre. The primary areas of the building are currently occupied by the Council funded Cardiff Story Museum and a commercial lease to Virgin Money. The upper floors are currently partially occupied by the Welsh Language Centre. The building has benefitted from a comprehensive up-grade in recent years through grants from various sources including the Heritage Lottery Fund for the Cardiff Story Museum and Welsh Government in support of the Welsh Language Centre. Nonetheless, the age of the building necessitates an on-going maintenance requirement and the backlog is substantial as set out in Confidential Appendix 1.
32. A more pressing issue in regard to the Old Library is the operating deficit. This is largely due to the poor quality rental income derived from the existing tenant base. The building occupies a prime city centre location and has the potential to generate a surplus income.
33. Cabinet is asked to provide authority for officers to work with the existing tenants to secure a more sustainable financial future for the building where the costs of operating the building are fully covered by rental income and service charges.

Norwegian Church

34. The Norwegian Church occupies a prime location in Cardiff Bay and has become an iconic building on the Cardiff waterfront. At present, the building is not maximising its commercial potential to the extent that it currently requires a subsidy from the Council to operate as a café. In the current budgetary climate this is not sustainable, and given its prime location is also not necessary. To meet its full potential the building requires investment both in the fabric of the building and its immediate surrounds.
35. The Council is currently in the process of securing the freehold ownership of the site and the surrounding Britannia Park area with a view to establishing a vibrant Cardiff Bay waterfront offer.
36. Whilst being mindful of the current Trust arrangements, Cabinet is asked to provide authority for officers to explore the potential to attract a commercial tenant that will invest in the building and the adjacent area to remove the maintenance backlog and operating subsidy.

Reason for Recommendation

37. To secure the long-term future of the city's heritage assets by considering as appropriate uses that provide a balance of private investment whilst maintaining public use and access.

Financial Implications

38. This report sets out the approaches in respect to Cardiff's heritage buildings that Cabinet would like to fully explore prior to giving approval at a future date. Previous Budget Strategy reports have outlined that the Council does not have a sustainable asset base and this report is to be considered within this context. Any costs associated with the preferred solution for each heritage building will need to be considered and identified as part of the 2019/20 Budget and the Medium Term Financial Plan approved in February 2019.
39. Consideration will need to be given for each option attached to each asset and be risk assessed in respect to affordability, deliverability and value for money. Where, a partnership / investment / disposal approach is identified then the appropriate evidence is required to demonstrate the optimum solution for the Council in respect to each heritage asset. This will include the understanding of any restrictions in respect to listed buildings, trust status or financial covenants in respect to grants. The impact (if any) on the Council's VAT position will need to be determined prior to any final proposal being put forward.

Legal Implications

40. The Council has an obligation to ensure value for money in its management of public assets. Further detailed legal advice will be required as proposals for these buildings are worked up.

RECOMMENDATIONS

Cabinet is recommended to:

- (i) Delegate authority to the Director of Economic Development in consultation with the Cabinet Member for Investment and Development and relevant officers to explore the various approaches set out in this report and to return to future meetings of Cabinet for final decisions on each opportunity.
- (ii) Delegate authority to the Director of Economic Development in consultation with the Cabinet Member for Investment and Development and relevant officers to secure a tenant for the Norwegian Church subject to any issues relating to the its current Trust status being appropriately resolved.

SENIOR RESPONSIBLE OFFICER	NEIL HANRATTY Director Of Economic Development
	6 November 2018

The following confidential appendices are attached:

- Confidential Appendix 1: Heritage Buildings Financial Overview
- Confidential Appendix 2: City Hall Initial Options Appraisal
- Confidential Appendix 3: Mansion House Proposal

By virtue of paragraph(s) 14, 21 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

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