

**UPDATE ON CENTRAL SQUARE AND THE BUS INTERCHANGE**

**REPORT OF DIRECTOR OF ECONOMIC DEVELOPMENT**

**AGENDA ITEM: 1**

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**PORTFOLIO: LEADER (ECONOMIC DEVELOPMENT AND PARTNERSHIPS), TRANSPORT, PLANNING AND SUSTAINABILITY (COUNCILLOR RAMESH PATEL)**

*Appendices 2, 3, 5 and 6 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 Central Square regeneration scheme.
2. To provide Cabinet with details of the final draft plans for Building 4 at Central Square which incorporates the new Bus Interchange in advance of the plans entering the public domain as part of a new statutory pre-planning community consultation process that will commence in October before a planning application can be submitted to the Local Planning Authority.
3. To update Cabinet on work undertaken to review funding options for delivery of the Bus Interchange and to seek authority to progress a Detailed Business Case.
4. To gain authority to underwrite the second phase of design costs relating to the preparation of a planning application in accordance with the Cabinet Decision taken in March 2016.

**Background**

5. The Central Square regeneration scheme is progressing at an unprecedented pace. Over 620,000 sq ft of Grade A\* office accommodation is now either built or under construction. This represents one of the fastest programmes of commercial development in the UK regional market. This progress has been fuelled by one of the largest commercial property deals in the UK (outside of London) between Rightacres and Legal & General. The masterplan at Appendix 1 illustrates the buildings currently being brought forward. In terms of those

built or under construction: Building One is almost fully occupied; Building Two has secured planning permission, is pre-let and funded, and is now under-construction; Building 3, the BBC Cymru Headquarter building, is under construction and is progressing on programme with the building frame now starting to emerge out of the ground.

6. In addition to the above, Building 4, which incorporates the new Bus Interchange facility, and which totals a further 280,000 sq ft of mixed-use development, will be submitted for consideration by the Local Planning Authority in November.
7. In December 2015 a report was presented to Cabinet to outline proposals for the Bus Interchange and authority was delegated to consider detailed funding options with a view to a further report being presented back to Cabinet with a final recommendation once the developer had submitted a final proposal to the Council. In March 2016 a further update was presented to Cabinet and authority was delegated to agree the terms of a Pre-Planning Agreement with Rightacres for the production of design plans in advance of a future recommendation to Cabinet regarding the funding package. As part of this, authority was provided to underwrite the first phase of design costs, with the second phase subject to a further Cabinet decision.

## **Issues**

### *Current Scheme Design*

8. Preparation of the detailed design and planning application has progressed significantly in recent months, following numerous revisions and refinements to meet the expectations of key stakeholders and to ensure a commercially resilient scheme. Detailed design works are still on-going, but the key design principles of the scheme are now resolved (see Appendix 1).
9. In summary, the development runs north to south from Wood St to Saunders Road on the current site of Marland House and the Wood St NCP Car Park. It consists of a ground-floor drive-in/reverse-out bus interchange with 14 stands; a modern 'airport-lounge' style concourse; a 600+ space cycle hub; and circa 10,000 sq ft of retail space. Above the bus station will be 220 car parking spaces (initially let to the BBC) and an area reserved to enable a direct pedestrian link at first-floor level into the modernised Central Train Station. Above the car parking level will be 120,000 sq ft (gross) of Grade A\* offices at the Saunders Road end, and a further 120,000 sq ft (gross) of residential/hotel at the Wood Street end.
10. The ground floor bus interchange will benefit from two main entrances at either end of the concourse: the primary entrance will face the existing Central Train Station and Central Square; the other entrance will be directly off Wood Street. Following consultation, the concourse has been designed to be completely linear north to south to cater for a variety of users with varying levels of ability. A wayfinding scheme will be developed by Foster & Partners to meet accessibility needs.

11. The majority of bus services will access and egress the 14 bus stands via an entrance off Wood Street with a smaller number of services also accessing via Saunders Road. The Saunders Road entrance will provide the primary access and egress on event days. Great Western Lane will be dedicated to bus use except for service vehicles needing to access the rear of properties on Lower St Mary Street and vehicles needing to access the electricity sub-station (which will remain in situ). The bus bays provided are a minimum of 3.5m in width and have been subject to detailed tracking tests. In addition to computer modelling the Council will also undertake a full scale (real-life) model to ensure bus manoeuvrability around the forecourt and bays has been fully tested. Consultation with bus operators has been positive and is on-going.
12. The 220 car parking spaces will be accessed via an entrance off Saunders Road and is spread across one full floor (undercover) and one half floor (external).
13. Above the concourse and car park levels will be two further uses in two separate development blocks. The first use is commercial office accommodation comprising 120,000 sq ft that will extend five stories above the car park level. Pedestrian access to the offices will be via an entrance off Saunders Road. The second block provisionally consists of 199 units of private rental sector apartments that will extend eight stories above the car park level. Pedestrian access to the residential development will be via an entrance off Wood Street. There is however potential for the Wood Street block of development to be hotel use or a mixture of hotel/residential. The final scheme will depend on commercial deliverability.
14. The Cycle Hub will provide 600+ cycle spaces (internal and external) and is located at the Saunders Road end of the development on the ground floor level. The operation/management of the cycle hub is currently being reviewed and will be informed by a precedent study.
15. In addition to all of the above, the Building 4 development will extend the boundary of the public realm improvements being delivered as part of the Central Square regeneration scheme to include significant improvements to the Saunders Road area, as illustrated in Appendix 1.

#### *Planning Design Costs*

16. Since March significant progress has been made in the preparation of the detailed planning application for Building 4 incorporating the Bus Interchange. A formal application will be submitted to the Local Planning Authority in November 2016. This will be preceded by a four week statutory pre-planning community consultation period that is anticipated to commence from the beginning of October 2016.
17. Rightacres has, at risk, proceeded to fund the preparation of the planning application over and above the phase one cost underwritten by the Cabinet decision in March. The Council now needs to underwrite the

second phase of costs to enable the design scheme to be completed. The Cabinet Decision in March agreed to phase the underwriting of costs to provide the Council with time to eliminate a number of risks and to test affordability, to minimise the risk of costs becoming abortive.

18. The Council has commissioned independent consultants to review funding options and to provide a high level view of affordability. Confidential Appendix 2 confirms that the development is in principle considered affordable and deliverable. The report is based on estimated costs of the development and estimated income that could reasonably be expected to be generated. It also sets out the key risks in taking the scheme forward.
19. Confidential Appendix 3 presents the Pre-Planning Agreement with Rightacres which includes the design cost to be underwritten by the Council to enable the design scheme to be finalised and a planning application submitted.

### *Delivery*

20. In addition to design works the Council and Rightacres have been working to ensure the development site for Building 4 (incorporating the Bus Interchange) is ready for development once the scheme has been considered by the Local Planning Authority. To that end all existing leases at Marland House have now been terminated and all tenants relocated. In some cases this has required the Council and Rightacres to negotiate the termination of agreements in advance of their end dates at and this has taken some time to conclude.
21. Demolition of the Marland House has been underway since June 2016. The first phase soft-strip has been completed including the careful removal of asbestos. The second phase physical demolition began on the 12 September 2016 and will continue for approximately 10 weeks. Once the planning application for Building 4 and the Bus Interchange has been submitted the Council will provide formal notice to NCP of our intention to redevelop the site. The demolition of the Wood Street NCP Car Park would then commence shortly after the demolition of Marland House.
22. A range of stakeholder engagement has continued over the last 6 months with organisations such as Welsh Government, bus operators, utility companies, representative groups and local businesses. A further round of consultation will take place in October as part of the new statutory pre-planning process which has recently been introduced through the Planning (Wales) Act 2015. The Council will also put in place additional engagement arrangements for the general public in Central Square including specific initiatives to encourage youth engagement. This will also take place throughout October to coincide with the pre-planning community consultation process to ensure the widest range of stakeholders have the opportunity to influence the final plans.

23. One of the key risk reported to Cabinet in March related to the acquisition of Network Rail owned land at Saunders Road. An agreement has been reached with Network Rail and lawyers have been instructed to draw up a contract based on the Heads of Terms presented in Appendix 4. Rightacres have also reached an agreement in principle with Arriva Trains Wales regarding the relocation of existing car parking spaces. A formal Station Change Procedure has now been initiated to enable the land transaction to be finalised (see Appendix 4). The Council has also been working very positively with Network Rail to ensure Building 4 is designed to enable seamless integration with a modernised Central Train Station in due course.
24. Plans are also being progressed ahead of schedule for the area of land immediately north of Wood Street (the St David's House and former Western Mail press site). This site has been proposed for development by Rightacres in response to significant local market interest in accommodation and a formal proposal is expected in due course. Outline plans for the site are being designed by leading architects Gensler.

#### Cardiff Central Station

25. Cardiff Central Train Station sits at the heart of a £1billion regeneration zone that aims to create a new modern gateway to the capital city and to Wales. Progressing the modernisation of Central Train Station in tandem with the surrounding regeneration is a major priority for the Council and its local partners.
26. To this end, Network Rail has begun to explore high level options for dealing with the predicted growth in passengers numbers which are anticipated to exceed the station's capacity by 2024. There is now an urgent requirement to secure Department for Transport funding of up to £5m to progress feasibility works to ensure proposals for the station redevelopment are at an adequately mature stage to enable a bid for development funding in Control Period 6 (2019-2024).
27. Preliminary discussions have taken place between officers of the Council, Welsh Government, Network Rail and the Department for Transport with a view to securing the funding required to take forward the required feasibility work. A further meeting is planned for October. In addition, the Leader of the Council has met separately with the Chief Executive of Network Rail, the Secretary of State for Wales, and the First Minister of Wales to present the case for Cardiff Central Station and to ensure the modernisation of the station is being afforded the highest priority by the Department for Transport and Network Rail.

#### Funding Options

28. The Cabinet meeting in December 2015 provided authority to consider funding options for the delivery of the Bus Interchange. This has been an iterative process that has matured as the detailed design and commercial composition of the scheme has progressed.

29. In particular, the mixed use composition of the scheme has changed over the last 6 months to reflect market conditions and to address significant issues that have arisen as the detailed design has progressed. In particular, the original intention was to develop an underground car park. This was reviewed once the costs and the implications on the construction programme were understood. This decision alone led to a comprehensive redesign of the scheme.
30. Over the last 6 months the market conditions for property development have also been volatile. This has led the Council and Rightacres to consider a range of uses for the commercial space above the Bus Interchange to ensure the development is commercially resilient. The design scheme has been adapted to provide flexible space above the Bus Interchange that is capable of fairly easy adaptation to accommodate a range of residential and commercial uses.
31. The Council has appointed external consultants to review the various funding options available to deliver Building 4 including the Bus Interchange. This work has considered a range of high level funding options and is presented as Confidential Appendix 2. This work has also been supported by independent cost estimates and an independent assessment of the commercial income likely to be generated by the scheme.
32. In order to determine the preferred financial approach the Council needs to proceed to a Detailed Business Case. This will take the form of a 5 Case Green Book Appraisal and will consider in detail the pros and cons and financial implications of the key options identified in Confidential Appendix 2. The Detailed Business Case will be based on a final proposal for the delivery of the scheme from Rightacres. This proposal will have financial implications for the Council. The Detailed Business Case will appraise the developer proposal and will consider alternative funding approaches that may represent better value for money for the Council. The exercise will provide a recommendation for a preferred way forward including an assurance that the preferred approach is affordable and represents value for money. This work will take account of the current capital resources that may be available to reduce the requirement for borrowing; the cost, term and preferred source of any borrowing; the income that can be generated to offset the cost of borrowing; and all of the associated risks and mitigations.
33. The Council will also need to be satisfied that its proposed financial approach does not constitute State Aid and can satisfy the Market Economy Operator Principle, i.e. that the Council is not intentionally or unintentionally providing economic advantage to third parties through its investment and that in acting commercially it is undertaking investment risk that the private sector would be prepared to take.
34. Rightacres has submitted an initial draft Development Agreement to the Council that is summarised in Confidential Appendix 5. This will be negotiated alongside the development of a Detailed Business Case and

will be reported back to Cabinet for approval in parallel with a decision on the preferred funding approach.

## **Transport Issues**

35. In addition to the above, an important aspect of the Detailed Business Case will be the consideration of options for managing the day to day operation of the Bus Interchange element of the building. This might involve a third party operating the facility and it is therefore proposed in this report to delegate authority to officers in consultation with relevant Members to put in place a procurement process if that is (in due course) deemed to be required.
36. The Detailed Business Case will also need to consider in detail costs and funding arrangements associated with the technical fit-out the Bus Interchange. It is estimated that fit out works will cost in the region of £7-9m. The Cabinet Member for Transport, Planning and Sustainability has opened up discussions with relevant Ministers to unlock funding from Welsh Government towards fit-out costs which is an area of assistance Welsh Government has provided to other major bus interchange schemes in recent years.
37. A further issue that will need to be resolved through the business planning process relates to the way in which the Bus Interchange will interact with the surrounding road network and the costs of works that will be required. Work to inform the modelling and design of the road network surrounding the Bus Interchange has begun based on patronage surveys and previously collated data.
38. The Bus Interchange is a fundamental part of the design of Building 4 and will form a core part of the consultation process that will take place across the month of October. It is the Council's intention to re-engage with a range of stakeholders to ensure the public transport aspects of the scheme meet aspirations. In particular the Council is keen to engage the youth of Cardiff in the proposals to ensure the design of the facility provide a safe and welcoming environment that will encourage future generations to utilise public transport. The Council will also try to ensure engagement takes place within residential communities as well as the city-centre by providing information to bus operators that can be distributed on their services and information that can be delivered through the Council's network of Community Hubs.

## **Future Generations & Wellbeing**

39. The development of Central Square and the Bus Interchange will contribute significantly to all of the national 'Well-being' goals. In particular, improving accessibility by public transport and promoting a shift from car use will enable people across the city-region to access economic opportunities within the city centre whilst also reducing pressures on other areas of the transport system through arresting the rate of growth of private transport traffic. The broader development also aims to support a more competitive city-centre economy by building on

the continued regeneration of the city centre and making it easier for everyone across the city and city-region to access an area with the greatest concentration of employment in Wales. A full impact study relating to the goals of the Future Generations and Wellbeing Act will be submitted as part of the planning application process.

### **Reasons for Recommendations**

40. To provide Cabinet with an update on progress with the Central Square regeneration scheme.
41. To provide Cabinet with an update on the latest designs for the Central Transport Interchange before the scheme is submitted to the Local Planning Authority.
42. To provide Cabinet with an update on work undertaken to review funding options for the Central Transport Interchange and to seek authority to progress a Detailed Business Case.
43. To gain authority to underwrite the second phase of design costs in accordance with the Cabinet Decision taken in March 2016.

### **Financial Implications**

44. The existing capital programme includes an allocation of £20 million for the 'Delivery of Central Square development including a new Integrated Transport Hub', which is to be fully funded by capital receipts and s106 contributions associated with Central Square. In addition, £3.715 million of the Central Square Public Realm budget is reliant on resources generated at Central Square.
45. The attached report provides details of the current scheme design being progressed and seeks approval to underwrite the second phase of design costs, with a view to a planning application being submitted by mid-November. In addition to underwriting phase 1 design costs, the council's development partner has incurred a range of costs associated with tenant relocation and commencing demolition of Marland House. The costs incurred to-date coupled with future costs associated with the acquisition of Saunders Road car park and the demolition of NCP all constitute pre-development costs, which will form part of the overall development appraisal associated with the proposal being progressed at this time.
46. The final funding solution identified will need to cover the council's share of the final development appraisal approved by the council and the developer. In addition, the council will need to understand the costs associated with the 'interchange fit-out' and the operating arrangements that compliment a modern, state of the art public facility.
47. An element of the final funding solution will be through the receipt commercial income generated by the overall scheme. The focus should be in ensuring that maximum commercial returns are delivered in order to



support the amount of debt payments required for the scheme. In the event of non-commercial activities occupying space in the interchange then a clear understanding of the cost foregone needs to be included in the final business case.

48. The current proposal provides an opportunity for the council to potentially take a greater investment stake in the mix use scheme described in this report. In doing so the council will have the ability to access a range of commercial income streams, which could be used to service part of the debt required to deliver the proposed development. The council's professional advisors have completed an initial high-level review of the proposal and their confidential report is attached at Appendix 2. As matters contained within the appendix are confidential and commercially sensitive, an additional set of Confidential Financial Implications have been set-out at Appendix 6 and should be read in conjunction with this report.
49. Cabinet should note that any proposed funding solution that is reliant on future commercial income streams (in part or whole), will need to be robustly tested to understand the base assumptions, the level of sensitivity inherent within those assumptions and the resultant impact on affordability should changes occur over the life of the funding term. Other matters such as void periods, management costs, VAT, Stamp Duty Land Tax and wider taxation issues will also need to be factored into the overall affordability assessment. Given that the debt repayment period is likely to be in excess of 35 years, then mitigation strategies to address changing economic conditions and/or market requirements will also need to be put in place as part of the design of the development. The report confirms that due consideration has been given to futureproofing the design concept, to the extent which is reasonably practical at this stage of the development.
50. In addition, it should be noted that if the council was to proceed on the basis of the current proposal, then a significant amount of the land value relating to the Marland House/NCP development plots (sites 9-12), is likely to form part of the overall cost of the mixed use scheme. As a result, this land value would not be available to the council as a funding source, as currently assumed within the existing capital programme. In order to provide assurance around the potential value of the remaining Central Square development plots (North of Wood St) the council will need to seek professional valuation advice to inform its decision making around the mixed use scheme.
51. If after considering the full business case, the council decides not to proceed with the current scheme design, then the pre-development costs outlined above may become abortive (in full or part) and will need to be written-off to the council's revenue account. The resulting budgetary implications can be met from a combination of Central Enterprise Zone (CEZ) earmarked reserve and other existing revenue resources. In-light of the challenging financial climate that the council finds itself in, the impact associated with accommodating such a significant sum should not be under estimated.

52. However, all design work will be warranted to the council and will be available for use as part of any alternative proposal. Similarly, in vacating existing tenants and demolishing Marland House the council will be preserving the value of its asset by maximising the site's potential to form part of any alternative scheme that may be brought forward in the future.
53. The full financial implications of the council taking a greater stake in a mix use scheme will be reported back to Cabinet, once the full business case has been prepared and the preferred funding option identified. The Cabinet report will need to fully set out the budget implications of the proposed way forward along with the associated risks and issues. In particular, the acquisition Saunders Road car park (the current design of the building is based on a footprint, which incorporates that area of land) and satisfying the requirements of Market Economy Operator Principle, represent two key risks at this time.
54. Cabinet should note that the existing Central Square developments are being progressed on the basis that schemes are fully self-financing and any deviation from this base assumption could impact on the council's financial resilience strategy and its ability to support other major projects and initiatives being progressed by the council at this time.

### **Legal Implications**

55. In its dealings with property the Council has to be mindful of its fiduciary duty to its Council Tax payers and the need to demonstrate value for money. The Council's decision makers need to have proper regard to cost and valuation advice at all relevant stages of commercial property projects to ensure probity and accountability in terms of value for money. The appendices to the report provide relevant information for consideration.
56. Changing market conditions impact upon the saleability and rental income from commercial premises. If disposals are not achieved then holding costs occur together with an inability to service project funding. If public funding of the development is to be provided then the Council's decision makers will need to be advised by an external expert that the proposed terms of the funding are such that a private investor would be prepared to provide such funding on similar terms. Unless this requirement is satisfied there is a risk of unlawful State Aid and a breach of the Council's fiduciary duty to its local taxpayers.

### **RECOMMENDATIONS**

The Cabinet is recommended to:

1. Note the progress on the Central Square regeneration scheme and the Central Transport Interchange project.

2. Note the design scheme for the Central Transport Interchange presented in Appendix 1 and agree that they will now form the basis of a planning application to be submitted to the Local Planning Authority.
3. Delegate authority to the Director of Economic Development in consultation with the Leader of the Council, the Cabinet Member for Transport, Planning and Sustainability, the Cabinet Member for Corporate Services and Performance, the Chief Executive, the Section 151 Officer, and the Director of Governance and Legal Services to:
  - (i) Undertake a Detailed Business Case as outlined in paragraphs 33 to 35 of this report to establish the preferred funding approach.
  - (ii) If required, to undertake a procurement process to secure an operator for:
    - (a) The Bus Interchange facility.
    - (b) The Cycle Hub facility.
4. Subject to 3(i) above, agree that a further report be considered by Cabinet to approve the preferred funding approach.
5. Agree to underwrite the second phase of design costs in accordance with Confidential Appendix 3.

**NEIL HANRATTY**  
**Director**  
**22 September 2016**

*The following appendices are attached:*

*Appendix 1: Building 4 & Bus Interchange Scheme Design*  
*Confidential Appendix 2: Grant Thornton Funding Options Report*  
*Confidential Appendix 3: Pre-Planning Agreement*  
*Appendix 4: Letter re: Saunders Road site*  
*Confidential Appendix 5: Summary of Development Agreement Proposal*  
*Confidential Appendix 6: Confidential Financial Implications*