

CENTRAL BUS STATION PROJECT UPDATE

LEADER (COUNCILLOR HUW THOMAS)

AGENDA ITEM: 1

DIRECTOR OF ECONOMIC DEVELOPMENT

Appendices 2 - 8 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 seek authority to enter into appropriate arrangements to deliver the bus station component of the new Cardiff Central Transport Interchange in order to facilitate a start on site early in 2018 based on a commercially driven funding solution;
2. To seek approval for a new mixed-use scheme comprising 110,000 sq ft of prime Grade A* office space above the bus station secured via a proposed joint venture agreement with Welsh Government and the Council's development partner, Rightacres Property Ltd, in order to attract a major inward investment opportunity.
3. To seek delegated authority to conclude legal arrangements to secure delivery of the new Bus Station element with the aim of starting work early in 2018.
4. To seek authority to settle the final pre-development costs relating to the Bus Station element including design, planning and site preparation costs.

Background

5. Cabinet, at its meeting in July 2017 confirmed its commitment to deliver the new Central Bus Station project and to secure the earliest possible start date. The report, however, highlighted a number of funding challenges to the extent that the resulting financial burden prevented early delivery of the development, including:
 - The significant land assembly costs associated with the choice of location north of Central train station;

- The cost of providing car parking on the first floor above the bus station due to unexpired leases in the former NCP car park;
 - Limitations placed by the previous Administration on the developer in respect of the permitted mix of commercial uses of the space above the bus station together with the absence of a prospective tenant for the proposed office space.
6. At that meeting, Cabinet resolved to allow the developer to maximise the commercial potential of the development and delegated authority to officers in consultation with relevant Cabinet Members to review the scheme and the associated funding model. This report presents a new mixed use scheme for the bus station development and a new funding model that provides the potential for the bus station to be delivered on a fully commercial basis, i.e. with the Council's costs incurred to date recovered and with no further funding required from the Council. The proposed new approach will also enable a start on site early in 2018.

Issues

7. The Cabinet proposal was the subject of pre-decision scrutiny by a joint meeting of the Economy & Culture Scrutiny Committee and the Environmental Scrutiny Committee prior to the July Cabinet meeting. Nonetheless, the decision was subsequently "called in" and the joint committee was reconvened to consider the "call in" in September 2017. The call-in challenged the proposal on the basis that the inclusion of an element of student accommodation was not an appropriate contribution to the commercial-mix above the bus station. The Scrutiny Committee, although sympathetic to this challenge, confirmed that the priority needed to be the early commencement of the development to secure the Bus Station at the earliest opportunity. Whilst signalling its support for the Cabinet decision, the Committee requested that, in the interim, every effort be made to secure a tenant to allow the space to be retained as offices.
8. A comprehensive review of the consented scheme has subsequently been undertaken. This has considered a number of alternative uses, including student accommodation, a hotel and an increase in the number of residential units together with a review of the way in which the car parking element is designed. The ground floor bus station and retail elements have remained substantially unchanged.
9. Foster & Partners have been retained to further develop the scheme, including changes in its design, resulting in a new proposal comprising 110,000 sq ft of Grade A* office space, 400 residential units and 250 car parking spaces. Appendix 1, attached, provides images of the new bus station scheme.
10. The July Cabinet report referred to interest from a potential inward investor for the office space which is being pursued by Welsh Government. Welsh Government has indicated that it is eager to retain the office element of the scheme in order to maximise the opportunity of securing this investment. The Cabinet Member for Investment & Development and the Chief

Executive have recently held meetings in London with the potential investor to gauge the seriousness of their interest in Cardiff and to understand their decision making timescales. However, it is clear that whilst this location is extremely attractive to this particular investor, the investor's timescales do not currently match the Cabinet's aspirations to make an early start on the delivery of the bus station element of the central transport interchange.

11. As such, the Leader of the Council and the Cabinet Member for Investment & Development have had discussions with the Welsh Government Cabinet Secretary for Economy and Transport to discuss potential mechanisms to secure the inward investment project without delaying delivery of the bus station development. Welsh Government has suggested that it would be possible to bring forward the planned joint venture between Welsh Government, the Council and its development partner, Rightacres Property Ltd relating to the delivery of improvements to Cardiff Central Station, as a mechanism for maintaining the office element whilst avoiding further delays to the construction of the bus station. This report sets out proposals to achieve that outcome.

Metro Delivery Partnership

12. As a consequence of those discussions it is now proposed that the Council enters into an appropriate joint venture agreement with Welsh Government and Rightacres Property Ltd to enable early commencement of the bus station development whilst securing the office space for a potential investor. The joint venture is intended to progress the development on a normal commercial basis with the intention that the partners will recover most, if not all, of their investments and potentially realising a positive return. This could result in the project being delivered with all public investment recouped.
13. It is proposed that a Special Purpose Vehicle (SPV) known as 'Metro Delivery Partnership (MDP)' be created and that the Council's investment in the SPV be limited to the costs already incurred by the Council to date, encompassing land assembly, planning and design and other pre-development costs. Confidential Appendix 2 provides a summary of the joint venture proposal and Confidential Appendix 3 sets out draft Heads of Terms for the SPV. A letter from the Welsh Government Cabinet Secretary for Economy and Transport is also attached as Confidential Appendix 4 setting out the Government's support for the proposed agreement, subject to appropriate financial clearances.
14. The proposed financial mechanism allows office use to be retained as part of the mixed use scheme. Welsh Government's involvement will enable the developer to commit to the project in advance of securing a tenant for the office space. It will also enable the proposed offices to be reserved for the potential inward investment enquiry outlined in paragraph 11 above. It is anticipated that a decision will be taken by the inward investor well in advance of the construction works being completed and in the event that the investor chooses not to proceed, the offices can then be marketed to alternative potential occupiers.

15. In addition to the above, the SPV also allows for Transport for Wales to take control of the bus station via an operator lease. This provides a positive solution to the operation of the bus station and creates strong potential for the bus station to be closely integrated into the operation of Cardiff Central train station following conclusion of the Wales and Borders franchise procurement. A lease to Transport for Wales also creates value which helps to make the overall development commercially viable.
16. Cabinet will be aware that the Council has already made a significant investment in land assembly and associated design, planning and pre-development costs which the SPV will regard as the Council's contribution to the joint venture. The intention is for the joint venture partners to ultimately dispose of the asset in order to recover costs and potentially to generate a return on the investment. Confidential Appendices 3 & 4 set out the Council's contribution to the SPV, which reflects expenditure to date.
17. It is proposed that the Metro Delivery Partnership will continue beyond the delivery of the bus station element and will recycle the funds generated as a result of the disposal of the asset to fund the remaining elements of the central transport interchange including the modernisation of Central train station.
18. Since May, the Council has also been engaged in feasibility works with Welsh Government and Rightacres to understand the pragmatic and cost effective interventions that could deliver a fully integrated solution. The project – to be known as 'Metro Central' – will encompass the modernisation of Central Station as well as the delivery of new adjacent facilities through surrounding development. UK Government has been involved in early discussions at political and official level and has emphasised the need for strong local involvement as well as private sector involvement to match any potential UK Government contribution. Further to this, UK Government has included a commitment to invest in Cardiff Central Station in their recent autumn budget statement. An initial feasibility study highlighting a number of proposed interventions is attached as Confidential Appendix 5.
19. In addition to the Feasibility Study, the Council, Welsh Government and Rightacres have already jointly commissioned external advisors to prepare a Strategic Outline Case for investment in Central Station. It is clear that the scale of improvements required to make Central Station safe and fit for purpose for the next period will require a significant contribution from Welsh and UK Governments, and separately from the Joint Committee overseeing the Cardiff Capital Region City Deal. Unlocking rail related investment from UK Government requires a series of submissions to be made through the formal and detailed Governance for Railway Investment Project (GRIP) process. Similarly, any Welsh Government contributions will require submissions through the Welsh Transport Planning and Appraisal Guidance (WelTAG) process. The initial stage for both of these processes is to develop a Strategic Outline Case (SOC). A draft SOC is attached as Confidential Appendix 6. This report seeks authority to submit

the Strategic Outline Case into the City Deal Project Assurance Framework process to register Cardiff Council's intention to seek City Deal funding towards the wholesale Central Transport Interchange project.

Delivery Timetable

20. In recent weeks, intensive work has been undertaken to develop and agree a new commercially driven scheme and to progress arrangements for the proposed new funding model and delivery approach. Subject to Cabinet approval, it is intended to finalise the legal agreements between the parties in Q1 of 2018.
21. In regard to the timescales for delivering the bus station development itself, it is acknowledged that a new planning application will need to be submitted to reflect the changes outlined in paragraph 10. However, given that the ground floor of the proposed new development complies with the extant planning consent, it is anticipated that works can commence on site as soon as the formal legal agreements are in place and in advance of any new planning application being determined. It is anticipated that construction will take up to 24 months to complete.

Final Pre-Development Costs

22. Over the past 2 years the Council has underwritten design and pre-development costs incurred by the developer to enable the project to move forward in accordance with the Council's programme. The July Cabinet report provided authority to settle outstanding design, planning and site preparation costs in-line with an agreed cap. This was further to decisions taken on 3 December 2015 and 16 March 2016 where Cabinet provided authority for the Council to enter into a Pre Planning Agreement (PPA) with Rightacres Property Ltd.
23. The Council has recently reimbursed the developer for costs expended up to the value of the agreed cap approved in July. However, in finalising the account, the developer has now identified an element of additional costs incurred at risk. These costs are set out in Confidential Appendix 7 and the Council is now asked to settle these costs. As outlined above in this report, the settlement of these costs will be the final costs incurred by the Council on the bus station development and it is the intention that all costs incurred to date, including those set out in Confidential Appendix 7, will be recovered through the Metro Delivery Partnership agreement.

Reason for the Report

24. To seek authority to enter into appropriate arrangements to deliver the bus station component of the new Cardiff Central Transport Interchange in order to facilitate a start on site early in 2018 based on a commercially driven funding solution.

Financial Implications

25. The financial implications are set out in confidential appendix 8

Legal Implications

26. 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.
27. Properties can be disposed of on deferred payment terms provided that there is a legal framework which ensures payment of market value. 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 tenanting 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.
28. 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 recoup its land acquisition costs and expenditure on pre-development costs will be dependent on surpluses being achieved in respect of the offices when let, the retail and any return from the bus station.
29. 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) Note the substantial progress made in recent months on the Central Bus Station project and agree the proposed mixed-use scheme.
- (2) Agree in principle to the proposed new funding model involving Welsh Government and Rightacres Property Ltd as set out in attached Confidential Appendices 2 & 3.
- (3) 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:
 - (i) Negotiate and conclude all aspects of a final contractual agreement 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 presented in Confidential Appendix 3.
 - (ii) Settle the final account with Rightacres Property Ltd for pre-development costs as outlined in Confidential Appendix 7.
- (4) Delegate authority to the Chief Executive, in consultation with the Leader of the Council to submit the Strategic Outline Case (SOC) attached as Confidential Appendix 6 to the City Deal project assurance framework process to start the process of securing a contribution from City Deal towards the costs of upgrading Cardiff Central train station.

NEIL HANRATTY
DIRECTOR OF ECONOMIC DEVELOPMENT
14 December 2017

The following appendices are attached:

Appendix 1:	Images of Proposed New Scheme
Confidential Appendix 2:	Metro Delivery Partnership proposal summary
Confidential Appendix 3:	Metro Delivery Partnership Draft Heads of Terms
Confidential Appendix 4:	Letter from the Cabinet Secretary for Economy and Transport
Confidential Appendix 5:	Draft Cardiff Central Station Feasibility Study
Confidential Appendix 6:	Draft Strategic Outline Case (SOC)
Confidential Appendix 7:	Final Pre-Development costs
Confidential Appendix 8:	Confidential Financial Implications