

CARDIFF CENTRAL TRANSPORT INTERCHANGE

**REPORT OF DIRECTOR OF ECONOMIC DEVELOPMENT
AGENDA**

ITEM: 7

**PORTFOLIO: TRANSPORT, PLANNING AND SUSTAINABILITY
(COUNCILLOR RAMESH PATEL)**

Appendices 1-3 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 provide Cabinet with a further update on the Central Transport Interchange project and to seek to progress to the next stage of the project pending a more detailed report to Cabinet in May regarding the commercial options for funding and carrying out the development works.
2. To authorise the completion of a Pre Planning Agreement upon the terms set out in this report.

Background

3. On the 3 December 2015 a report was presented to Cabinet to provide an update on the Central Square regeneration scheme and to outline proposals for the delivery of the new Central Transport Interchange building, including an indicative construction programme and estimated costs for the bus station element. The report gave delegated powers to officers to consider detailed funding options and to come back to Cabinet with a final recommendation once the developer had submitted its proposals to the Council.
4. Since December significant progress has been made on both the broader Central Square regeneration scheme and on preparing for the delivery of the Central Transport Interchange building. In terms of Central Square, Building No1 has now been completed and will be occupied from 14th March 2016. The construction of the BBC HQ building has progressed. The site is currently being excavated to prepare for the construction of the sub-structure and the accommodation of underground parking. The developer has now secured significant interest in Building No2 and as such has commissioned Foster & Partners to

prepare detailed designs to enable the discharge of reserved matters which will be submitted in March. A contractor has also been appointed with a view to progressing the development at the same time as the delivery of the BBC HQ. Design works on the public realm scheme have also progressed and it is intended that the Council will enter into a fixed price contract with the developer for the delivery of the public realm scheme, details of which will also be reported to Cabinet in May.

5. In terms of the Interchange building, since December, significant progress and investment has been made to ensure the project continues to move forward in line with the delivery programme. Recent activity includes:

- Submission of a planning application for the demolition of the Wood Street NCP Car Park and Marland House. This has subsequently been approved.
- The main contractor for the construction of the Interchange development has been procured through a tender process with four national construction companies and Sir Robert McAlpine has been appointed. Work has progressed on designing a preferred construction methodology in collaboration with Foster + Partners and Arup. This has informed the development of detailed cost estimates and appraisals for the construction of the building.
- The developer has appointed Foster + Partners to prepare a detailed planning application for submission in June 2016.
- The developer has appointed Aecom to undertake a Transport Impact Assessment to support the submission of the planning application in June. Further to this Aecom has also been appointed by the Council to update the City Centre Transport Strategy to ensure the bus interchange development links seamlessly with the wider transport requirements for the city centre. Aecom has been appointed by the Council to provide specific transport expertise as part of the process of developing the detailed design for the bus station element of the Interchange building.
- Negotiations for the termination of tenancies at Marland House have progressed. The Council has assisted tenants that have required to be relocated and will now be in a position to deliver vacant possession at the end of March. This will enable demolition of Marland House to commence towards the end of April.
- Engagement with stakeholders has continued on a regular basis. This will be stepped-up over coming months to ensure broad input into the detailed design of the scheme that is being prepared for submission to planning.

Issues

6. The programme for construction of the new Central Transport Interchange is dictated by the termination of the existing Marland House tenancies, demolition of Marland House and the Wood Street NCP Car Park and completion of detailed design works to enable submission of a detailed planning application. Together these represent a major pre-development cost.
7. The next step in the process for the delivery of the Central Transport Interchange is for the Council to enter into a Pre Planning Agreement with the developer in advance of agreeing a heads of terms funding package. A report on options for funding the development will be presented to Cabinet in May. Confidential Appendix 1 summarises the key information that is being compiled to enable a decision in May.

Pre Planning Agreement

8. The developer of Central Square holds an option to take a lease of the Marland House site and is prepared to pre-fund the design, planning, tenancy and demolition costs which need to be progressed prior to final approval of the main funding package for the Interchange. This will keep the project on programme. However the developer is at risk in incurring these costs in advance of the Council formally agreeing to the funding package. Accordingly, the developer has offered the Council the opportunity to enter into a Pre Planning Agreement whereby the developer will deal with the tenant, design, planning and demolition issues. Those costs will form part of the development appraisal which is due for approval in May. The Pre Planning Agreement commits the Council to underwrite certain agreed costs to enable work on the full planning application to be progressed in advance of agreeing the funding package. The terms of the Pre Planning Agreement are set out in confidential Appendix 2 and are subject to the specified maximum figure.
9. In order to mitigate the risk to the Council of entering into a Pre Planning Agreement before an in principle funding approach is agreed, the pre planning costs have been divided into two stages. The first stage will provide for the submission of a hybrid planning application in June providing detailed design for excavation and sub-structure and seeking outline consent for the super-structure. The second phase will deal with the discharge of detailed conditions relating to the super-structure. The Cabinet is therefore, at this time, only being asked to provide approval for the first stage of costs as outlined in Appendix 2. The second stage of pre planning costs will then be considered as part of the broader decision to be taken on the funding approach and associated affordability implications by Cabinet in May.
10. In terms of funding the new interchange building, the Council is exploring a number of approaches that not only seek to reduce the overall cost to the Council, but also seek to enable delivery of a comprehensive scheme that meets the Council's planning and place-making aspirations for Central Square. The Council has allocated adequate funds to deliver a

stand-alone bus station on the site in its capital programme. However, this would mean the bus station bearing the whole costs associated with the assembly of the site. Therefore, in order to minimise the overall cost of the new bus interchange, and to realise the maximum possible return for the investment made in land, the Council has developed a mixed use scheme including offices and retail. A mixed use scheme has a headline cost far in excess of the capital costs previously estimated for the delivery of a stand-alone bus station. However, a mixed use scheme has the potential to make a significant contribution towards the affordability of delivering a new bus interchange through rental income.

11. The developer has now provided the Council with a proposal in relation to the interchange development, including potential options in relation to retail and office elements, as well as the interchange itself. Appraisals have been received and these are currently being reviewed by the Council's advisers in regard to projected costs, values and expected commercial income streams.

Reason for Recommendation

12. To request delegated authority to enter into a Pre-Planning Agreement which will enable the Interchange project to remain on programme.

Financial Implications

13. The attached report provides a further update on the Central Transport Interchange and seeks authority to progress tenant relocation, demolition, design and planning via a Pre-Planning Agreement with the developer. As matters contained in Appendix 1 and Appendix 2 are commercially confidential, an additional set of confidential Financial Implications have been set-out at Appendix 3, which should be considered in conjunction with the report.
14. The 2016-17 Capital Programme presented to Council in February included 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 directly reliant on resources generated from the Marland House/NCP car park sites (plots 9-12). However, in previous reports Cabinet were advised that the actual level of receipts and s106 contributions realised will be very much dependent on the proposal and related development appraisal brought forward for consideration.
15. The developer has now provided the council with a proposal in relation to the Marland House/NCP car park sites and these are being reviewed by the Council's financial and commercial advisors. Should the proposals brought forward by the developer either result in lower receipts than previously anticipated or be reliant on an alternative funding strategy, then the resulting budgetary implications will need to be fully considered as part of any decision to proceed. The strategy for managing any

shortfall arising against the public realm budget would also need to be understood.

16. Where the proposed funding solution is reliant on future commercial income streams, then these 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, SDLT and wider taxation issues will also need to be factored into the overall affordability assessment.
17. The report seeks to delegate authority to conclude details of a phased Pre Planning Agreement as set in Appendices 1 and 2, subject to a specified maximum figure for the first phase, to the 30th June. In the event the Council becomes liable for the costs associated with the Pre Planning Agreement, these costs may become abortive and will need to be written-off to the Council's revenue account. The resulting budgetary implications will need to be managed within existing resources. In-light of the financial climate the council finds itself in, the challenges associated with accommodating a significant sum should not be underestimated.
18. Due to pre-agreed deadlines it is necessary for the council to fund an element of statutory compensation costs in advance of entering into the Pre-Planning Agreement. These sums can be initially met from the Cardiff Enterprise Zone earmarked reserve set-up to cover management and holding costs associated with buildings acquired as part of the redevelopment of Central Square. In the event that the Pre Planning Agreement is enforced, the design costs will be warranted to the council and could be used as part of an alternative proposal. Similarly, the council would still need to vacate existing tenants from Marland House in order to preserve the value of its asset and maximise its potential as part of any alternative scheme that may be brought forward.
19. It anticipated that the full financial implications of the developer's proposal will be reported to Cabinet in May as part of the next phase of key decisions required (as set-out in Appendix 1). The budget implications arising will need to be factored into the wider Capital Programme for future years, which is being progressed on the basis that any commitments relating to the interchange development are self-funded.

Legal Implications

20. 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. In disposing of property, the Council has a specific duty to secure the best consideration reasonably obtainable, whether in cash or otherwise, pursuant to section 123 of the Local Government Act 1972.
21. The Council's Procedure Rules for the acquisition or disposal of interests in property provide that the Council's decision makers will have proper

regard to professional advice from a qualified valuer at all relevant stages during the process. The intention is that due probity and accountability can be demonstrated and value for money achieved. Value for money also has to be demonstrated in regard to the cost of carrying out of works.

22. In the case of commercial properties, disposal and acquisition prices are impacted upon by considerations such as achievable rental income, service charges and holding costs, the costs and values of redevelopment, funding costs, the tenanting of new accommodation and the cost obtaining vacant possession from sitting tenants. In the current economic climate, this kind of consideration can impact significantly upon residual valuations for the premiums attached to the granting and taking of commercial leases, and upon the viable level of Section 106 contributions.

RECOMMENDATION

Cabinet is recommended to delegate authority to the Director of Economic Development, in consultation with the Leader of the Council, the Cabinet Member for Corporate Services and Performance, the Cabinet Member for Transport, Planning and Sustainability, the Corporate Director Resources and the Interim Monitoring Officer to settle the terms of a phased Pre-Planning Agreement in accordance with paragraph 9 of this report and the proposal set out in Appendices 1 and 2 with a view to preserving the indicative timetable for the new Interchange building in advance of the recommendation to Cabinet in May 2016 regarding the funding package.

Neil Hanratty

Director

15 March 2016

The following appendices are attached:

Appendix 1: (Confidential) Summary of the Proposed Pre-planning Agreement for the new Transport Interchange

Appendix 2: (Confidential) Pre Planning Indicative Costs and Proposed Phased Cost Cap

Appendix 3: (Confidential) Financial Implications