



County Hall
Cardiff
CF10 4UW
Tel: (029) 2087 2000

Neuadd y Sir
Caerdydd
CF10 4UW
Ffôn: (029) 2087 2000

AGENDA

Committee	JOINT SCRUTINY COMMITTEE
Date and Time of Meeting	WEDNESDAY, 13 SEPTEMBER 2017, 5.30 PM
Venue	FERRIER HALL - CITY HALL
Membership	Councillor Howells (Chairperson) Councillors Ebrahim, Gordon, Gavin Hill-John, Philippa Hill-John, Owen Jones, Lancaster, Lay, Mackie, Owen, Parkhill, Patel, Robson, Sattar, Stubbs, Wong and Wood

Time
approx.

Appendices 2, 3, 4, 5 and 6 to Appendix A 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. 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.

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|---|--|---------|
| 1 | Appointment of Chairperson | 5.30 pm |
| | Committee Members to nominate a Chairperson for the meeting. | |
| 2 | Apologies for Absence | |
| | To receive apologies for absence. | |
| 3 | Declarations of Interest | 5.35 pm |
| | To be made at the start of the agenda item in question, in accordance with the Members' Code of Conduct. | |
| 4 | Minutes (Pages 1 - 6) | |
| | To approve the minutes of the Joint Environment and Economy & | |

Culture Scrutiny Committee held on 18 July 2017.

- 5 FUNDING OF THE NEW BUS TRANSPORT INTERCHANGE - Consideration of Called In Cabinet Decision CAB/17/11; report of the Director for Economic Development (Pages 7 - 62)** 5.40 pm
- a) Principal Scrutiny Officer to explain the Call-in process to Members. 5.40pm
 - b) Councillor Neil McEvoy to explain the reasons for calling in this decision. 5.45pm
 - c) Members' questions and answer session. 5.55pm
 - d) Cllr Russell Goodway, Cabinet Member for Investment and Development, to respond to the reasons for calling in the decision. Neil Hanratty, Director of Economic Development, John Worrall, Head of Major Projects, and Geoff Shimell, Legal Services - Property and Development, will attend to support him. 6.10pm
 - e) Members' questions and answer session. 6.20pm
 - f) Witnesses who have expressed an interest in making a statement on the proposals to be invited to make a statement to the Committee. 6.35pm
 - g) Members' questions and answer session. 6.45pm
- 6 Consideration of Written Statements** 7.00 pm
- a) Members will consider any further written evidence that is circulated at the meeting.
- 7 Summing Up**
- a) Councillor Neil McEvoy will be provided with the opportunity to sum up. 7.10pm
 - b) Members' questions and answer session. 7.20pm
 - c) Cllr Russell Goodway, Neil Hanratty, John Worrall and Geoff Shimell will be provided with the opportunity to readdress the Committee on the matters raised by the witnesses and presented in the written statements. 7.30pm
- 8 Way Forward** 7.40 pm
- Chair to seek Committee's views regarding whether to refer the matter to the Cabinet or not;
 - Chair to seek Committee's views regarding what, if any, comments, observations or recommendations the Committee wish to send to the Cabinet.

Davina Fiore

Director Governance & Legal Services

Date: Thursday, 7 September 2017

Contact: A.Redmond@cardiff.gov.uk 02920872434

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JOINT SCRUTINY COMMITTEE

18 JULY 2017

Present: County Councillor Howells (Chairperson)
 County Councillors Ebrahim, Gordon, Gavin Hill-John,
 Philippa Hill-John, Howells, Owen Jones, Lancaster, Lay,
 Parkhill, Patel, Robson, Sattar, Wong and Wood

1 : CHAIRPERSON

RESOLVED – That Councillor Nigel Howells be appointed as Chairperson for the meeting.

2 : APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Mackie, Owen and Stubbs.

3 : DECLARATIONS OF INTEREST

The following declarations of interest were made in accordance with the Members Code of Conduct:

Councillor Patel	Item 4	Prejudicial Interest Former Cabinet Member with responsibility for planning and transportation issues
		Councillor Patel withdrew from the meeting.
Councillor Lay	Item 4	Personal Interest Non-Executive Director of Cardiff Bus Family member employed by Cardiff Bus
Councillor Robson	Item 4	Personal Interest Non-Executive Director of Cardiff Bus Party involved is a former family friend
Councillor Hill-John	Item 4	Personal Interest Non-Executive Director of Cardiff Bus

4 : DELIVERING THE BUS INTERCHANGE

Appendices 2, 3, 4, 5 and 7 to Appendix A of this report were 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.

The Committee received a report and Members were asked to consider pre-decision scrutiny of the Cabinet report entitled 'Funding the New Bus Transport Interchange'. Members were asked to note that Appendices 2, 3, 4, 5 and 7 to Appendix A of the

report were exempt from publication. Members were requested to confine any questions relating to these appendices to the closed session of the meeting.

Members were advised that the Cabinet are to consider a report and recommendations regarding the financing of the Central Square Transport Interchange on 27 July 2017. Members were asked to explore the financial assumptions in the report; any risks to the Council; the timeline for delivery of the transport interchange and the recommendations to the Cabinet. The transport interchange received planning permission on 1 March 2017 and, therefore, the design of the building and associated area has already been agreed and is not within the scope of the scrutiny at this time.

The Central Square Regeneration Scheme set out to deliver a new, high-quality, mixed-use urban gateway to the capital city and a modernised central transport hub. The scheme aims to deliver over 1 million sq ft of office-led mixed use development, with the potential to accommodate 10,000 jobs.

The Cabinet in September 2013 gave authority to officers, in partnership with Rightacres Property Co Ltd, as the adjacent landowner, to acquire a number of long leasehold interests at Central Square. Subsequently, in May 2014 permission was given to obtain a long leasehold interest in the Wood Street NCP Car Park, and this was followed by the demolition of the Council-owned Marland House building. Officers have worked in partnership with Rightacres Property Co Ltd and Legal and General Pension Fund to progress the scheme.

The planning permission granted for the Transport Interchange site permitted a mixed-use development covering 250,000 sq ft including a new bus interchange. The development was designed by Foster and Partners and included:

- 120,000 sq ft of Grade A office space
- 195 private rented sector retail units
- A bus interchange
- 10,000 sq ft of retail space

Negotiations for a funding proposal for the delivery of a new bus interchange were on the basis that the project would be delivered 'within the financial envelope of existing capital allocations', consisting of capital receipts obtained from the sale of land and/or long lease options, and Section 106 planning developer contributions.

The Cabinet recently set out their vision for Cardiff in the 'Capital Ambition' document, which reaffirmed the Cabinet's commitment to deliver a new transport interchange.

The draft Cabinet report entitled 'Funding the New Transport Interchange' was appended to the report as Appendix A. The Cabinet report set out the current position, the key funding challenges remaining and details of the developers funding proposal. In summary, Members were advised that the original Cabinet decision limited the potential of capital receipts that could be generated from what would otherwise be a prime development site and added costs to the construction of the overall development scheme.

The developer has submitted a proposal to the Council setting out a financial framework for delivering the Bus Interchange development based on a market driven

solution. The developer proposes to secure a student accommodation scheme at the Wood Street end of the development to replace the consented scheme for Private Residential Sector (PRS) units. The developer will continue to pursue an office scheme for the Saunders Road end of the development but will only commence development of the scheme once over 50% of the office area is let. In the event that office tenants are not secured within a reasonable timescale, the developer proposes to extend student accommodation across the whole of the building. Any change of use or changes to design will require a further planning application.

The Developer's Proposal also suggests that the Council completes the full land assembly by acquiring the remaining Saunders Road Car Park site from Network Rail. The developer would then pay a premium to the Council (which will include a share of the pre-development costs) to acquire a long leasehold interest in the whole site, with the Council retaining the freehold interest. The Council would then lease back the bus station element of the building for a peppercorn rent based on payment of an up-front premium equating to the cost of construction of the bus station element. The Developers Proposal establishes a financial envelope for delivery of the bus station which is broadly in line with the resources available to the Council and the capital programme allocation. Members were asked to note that the timing of delivery of a bus station facility remains dependent on securing appropriate tenants for the building.

The developer's proposal also confirms that there is no contribution required from the Council towards the provision of car parking spaces and that the developer will be able to deliver the anticipated contribution towards the broader Central Square public realm improvement scheme as well as the specific extension of the scheme around the Interchange building.

The costs provided for the construction of the bus station element at this stage are subject to independent review by an external cost consultant. The technical fit-out has been excluded from the proposal. Further work is required to confirm the exact extent of internal fit-out that is included in the developer's proposals. The Council has made a bid to Welsh Government for a contribution towards these costs and the costs of highways improvements. The Council's financial strategy is reliant on a contribution being realised from Welsh Government, as set out in Confidential Appendix 3.

The Chairperson welcomed Councillor Russell Goodway, Cabinet Member for Investment and Development and Neil Hanratty, Corporate Director, to the meeting. Councillor Goodway made a brief statement. He thanked the Committee for the invitation to attend. Members were advised that the new administration is committed to delivering a new bus station as part of the wider transportation interchange project – moreover, it is the top priority in terms of his portfolio.

The Committee received a presentation providing Members with the background to the consented scheme to date, the commercial elements of the scheme, funding proposals and challenges.

Following the presentation, the Chairperson invited Members to comment, seek clarification or raise questions on the information received. Those discussions are summarised as follows:

- The Committee asked whether the proposal to secure student accommodation as part of the development was demand driven. The Cabinet Member confirmed that the proposal was demand driven. The Cabinet Member also considered that if student accommodation had formed part of the proposals from the outset then it was likely a greater capital receipt would have been realised.
- Members were advised that the parking element of the scheme will provide private car parking spaces. These spaces will not be made available to members of the public. In order to demolish the NCP car park it was necessary to enter into an agreement with a leaseholder to provide private car parking spaces as part of the redevelopment of the site.
- Officers considered that the student accommodation market within the city was robust. Less than 30% of the student population live in purpose built student accommodation – compared to approximately 60% in Leeds, Liverpool and other core cities.
- Members asked whether any expressions of interest have been received regarding the office space provision. Officers stated that this remains a challenge; whilst the central location of the building is a positive, it may be more difficult to lease a building above a bus station and the developer will require agreements that secure the lease of at least 50% of the office space available.
- Members were advised that whilst the cost of the acquisition of the site was known, some costs were less obvious, such as the cost of building over a bus station. The Cabinet Member commented that if progress was to be made that expectations have to be managed. Allowing a market driven approach will speed up the delivery of a new bus station.
- Concerns were expressed that a number of student accommodation schemes have already been approved and these are currently under construction. A Member considered that the authority should recognise this risk. Furthermore, the Member felt that student accommodation is usually let by wealthy or overseas students and numbers of these are said to be declining. The Cabinet Member accepted the risk regarding student accommodation. However, there was a larger risk to delaying the decision on the development on this site.
- A Member asked whether consideration had been given to providing just a bus station on the site. The Cabinet Member asked how such a scheme could be funded if no capital receipts were provided from developers. The Cabinet Member stated that it was his aspiration and ambition to provide a state of the art facility and one of the best bus stations in the country.
- Members questioned whether the demand for student accommodation was greater than the demand for other types of development, such as a hotel. Officers stated that only 'budget' hotels would be prepared to sign up to a lease agreement as part of such a development.

The meeting went into closed session to discuss information contained in Appendices 2, 3, 4, 5 and 7 of Appendix A to the report which were exempt from publication because they contain information of the kind described in paragraph 16 of Part 4 of Schedule 12A to the Local Government Act 1972.

AGREED – That the Chairperson, on behalf of the Joint Committee, writes to Cabinet Member to convey the Joint Scrutiny Committee’s observations.

The meeting terminated at 6.00 pm

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**CYNGOR CAERDYDD
CARDIFF COUNCIL**

**JOINT COMMITTEE OF ECONOMY & CULTURE SCRUTINY COMMITTEE AND
ENVIRONMENTAL SCRUTINY COMMITTEE**

13 SEPTEMBER 2017

**CALL IN CABINET DECISION CAB/17/11 - FUNDING THE NEW BUS
TRANSPORT INTERCHANGE**

Appendices 2, 3, 4, 5 and 6 to Appendix A 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. It is viewed that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Purpose of Report

1. To provide Committee Members with background information on: the Council's Call- In procedure; the decision being called-in at this meeting; and the scope, process and structure of Call-In scrutiny.

Call-In Procedure

2. The Council's Constitution contains a Call-In Procedure which provides that any non-Cabinet Member may call-in a decision of which notice has been given, by writing to the Operational Manager of Scrutiny Services within the Call-In Period (within seven clear working days after publication of the decision). The Operational Manager shall then notify the Cabinet Business Office and call a meeting of the relevant Scrutiny Committee, where possible after consultation with the Chairperson of the Committee, and in any case within five clear working days of the decision to call-in.

3. Cabinet Decisions, for purposes of the Call-In Procedure, are those made by the Cabinet, a Committee of the Cabinet, the Leader, a Cabinet Member, the Chief Executive or a Corporate Director (or other post holder/s within the same tier of management or responsibility).

Decision being Called-In - CAB/17/11

4. At the Cabinet Meeting on 27 July 2017, the Cabinet resolved that:
 - 1) *The developer be allowed to maximise capital receipts for the commercial floor space within the Bus Interchange development by allowing end use to be driven by market demand.*
 - 2) *Authority be delegated to the Director of Economic Development in consultation with the Cabinet Member for Investment & Development and the Cabinet Member for Finance, Modernisation and Performance, the Section 151 Officer and the Monitoring Officer to:*
 - *Negotiate and conclude a final agreement with the developer subject to the financial envelope outlined in Appendix 3 for the delivery of the Bus Interchange project and appropriate external advice.*
 - *Settle outstanding design, planning and site preparation costs as outlined in Confidential Appendix 2 subject to independent verification of costs.*
 - *Acquire the Saunders Road Car Park site owned by Network Rail to complete the land assembly as outlined in this report, subject to independent valuation.*
 - 3) *Budget be brought forward from the approved 2018/19 Capital Programme into 2017/18 budget to meet the pre planning and land assembly costs outlined in the report.*
5. This Cabinet Decision, known as CAB/17/11 was published on the 28 July 2017 in the Register of Cabinet Decisions, with a proposed implementation date of 8 August 2017. The reason provided in the Register of Cabinet Decisions for taking this Decision was:

- *“To seek in-principle agreement from Cabinet to the proposed funding proposal from the developer for delivery of the Bus Interchange development and to secure delegated authority to conclude arrangements to deliver the development within the Council’s financial envelope including settling outstanding design, planning and site preparation costs”.*
6. The cabinet report and appendices for this item are attached at **Appendix A**. Members should note that **Appendices 2, 3, 4, 5 and 6** of the report at **Appendix A** are exempt from publication. Members are requested to keep this information confidential, in line with their responsibilities as set out in the Members Code of Conduct and the Cardiff Undertaking for Councillors. The meeting will go into closed session to enable discussion on this information.
7. A copy of the relevant section of the Register of Cabinet Decisions, setting out the decision and reasons for this decision, is attached to this report at **Appendix B**.

Reasons given for Calling-In Decision CAB/17/11

8. During the Call-In period after the Cabinet meeting of the 27 July 2017, a non-executive councillor submitted a request to call-in the Cabinet Decision CAB/17/11. The reasons set out by the non-executive councillor for calling in the decision are:
- *“I believe the decision to allow end use of the interchange to be driven by commercial demand needs to be reviewed. If the decision is allowed to stand it could lead to all office space from the development being lost, with student flats instead”.*
 - *“The interchange is within the Central Cardiff Enterprise Zone. The purpose of the Enterprise Zone is to create the 'best possible conditions' for business to thrive. Student flats are inconsistent with this aim as they do not constitute business or enterprise”.*

- *“The interchange is also a key part of the South Wales Metro scheme. The Metro aims to create an integrated public transport network. The interchange is at the heart of that network. Most train journeys in south Wales will end just outside the interchange at Cardiff Central rail station. And almost every bus journey on the Cardiff and Vale bus network will end at the bus interchange”.*
- *“It is, therefore, essential that the interchange building provides long term accommodation for job creating businesses, rather than accommodation for a temporary student population. What the interchange building and the people of south Wales need is a large bus station with high-paid office jobs, where they can seamlessly move from public transport to their place of work”.*
- *“If the decision to build 100% student accommodation goes ahead then millions of pounds will have been spent demolishing a bus station and a car park in order to build an even smaller bus station and a car park; but with some student flats on top. This would be a complete waste of an area that has the potential to develop excellent, and integrated, public transport, connected not only to the rest of south Wales, but to the world’s largest financial capital in London”.*
- *“The bus station and the high quality office space must be the priority for this development. It seems that car parking for the BBC and the needs of the developer have now overtaken the need of the city to have high-paid, quality jobs”.*
- *“An Enterprise Zone is a place for encouraging enterprise. That means jobs and an integrated, modern public transport network”.*
- *“The Cabinet’s decision on the 27 July to allow end use to be driven by market demand, potentially leading to students flats, would be a real mistake that would discourage enterprise and jeopardise the South Wales Metro project”.*

9. The Call-In request has been deemed valid and hence a Scrutiny Committee meeting has been convened to undertake the Call-In.

Scope of Scrutiny

10. The role of Scrutiny Committees calling-in a decision is:
 - To test the merits of the decision;
 - To consider the process by which the decision has been formulated;
 - To make recommendations (to support the decision, change aspects of the decision or to invite the decision making body to reconsider);
 - To suggest further steps before a decision is made.

11. The scope of this scrutiny is limited to exploring the reasons for the call-in listed in paragraph 8 and the role of scrutiny listed in paragraph 10. If questions are judged as probing areas not within the remit of the call-in, the Chair will deem it necessary to disallow the line of inquiry.

Process for Scrutiny

12. The Committee needs to consider this call-In in accordance with the requirements of the Call-In Procedure, as set out in the Constitution. Under the Call-In Procedure, the relevant Scrutiny Committee may consider the called-in decision itself, or decide to refer the issue to the Council for scrutiny, if the matter is of general significance and importance to the Council as a whole. A Council meeting to consider this issue must take place within 10 clear working days of such a referral, unless otherwise agreed between the Leader and the Chairperson of the relevant Scrutiny Committee.

13. If the Scrutiny Committee chooses to consider the Decision, it may refer the Decision back to the decision maker for reconsideration, setting out in writing the nature of its concerns. The decision maker shall then reconsider the matter before adopting a final decision or formally deferring the matter for further consideration. The relevant Scrutiny Committee or Council as appropriate would be advised of the outcome at its next meeting.

14. If following a Call-In, the matter is not referred back to the decision maker, the decision shall take effect on the date of the relevant Scrutiny Committee or

Council meeting which considers the issue, or the expiry of the Scrutiny Period or the Council Scrutiny Period as appropriate, whichever is the later.

Structure of scrutiny

15. To assist Members, Councillor Russell Goodway, (Cabinet Member Investment and Development), Neil Hanratty, (Director of Economic Development), John Worrall, (Head of Major Projects) and Geoff Shimell (Legal Services – Property and Development) have been invited to respond to the Call-In and answer Committee Members questions.
16. In addition, Councillor Neil McEvoy, who has called in the decision, has been invited to give evidence to the Committee. If any written statements are provided for the meeting, a section has been allocated within the agenda for their consideration. It is at the Chair's discretion to allow other witnesses to address the Committee.
17. All Members are reminded of the need to maintain confidentiality with regard to the information provided in **Appendices 2, 3, 4, 5 and 6 of Appendix A**. The meeting will go into closed session to enable discussion of this information.
18. At the Chair's request, a Cardiff Council solicitor will attend to provide constitutional advice to Committee Members, if this proves necessary.

Previous Scrutiny

19. Members are reminded that they undertook pre-decision scrutiny of this item at a special meeting of the Joint Committee on 18th July 2017 and explored the wider issues to do with this item at that meeting. The papers for the meeting, including details of other related scrutiny, is available at:
<http://cardiff.moderngov.co.uk/ieListDocuments.aspx?CId=171&MId=3109&LL=L=0>

20. Following the meeting, the Chair, Councillor Howells, wrote to Councillor Goodway, Cabinet Member (Investment and Development); the letter and response received are attached at **Appendix 8 of Appendix A**.

Legal Implications

21. 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

22. 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 consider Cabinet Decision CAB/17/11 in accordance with the Call-In Procedure.

DAVINA FIORE

Director of Governance & Legal Services

7 September 2017

FUNDING THE NEW BUS TRANSPORT INTERCHANGE

REPORT OF THE DIRECTOR OF ECONOMIC DEVELOPMENT

AGENDA ITEM: 10

**PORTFOLIO: INVESTMENT & DEVELOPMENT (COUNCILLOR RUSSELL
GOODWAY)**

Appendices 2, 3, 4, 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 report the commitment of the new Council administration to the delivery of a new bus interchange on the former Marland House/Wood St NCP Car Park site at Central Square and to outline the challenges which need to be addressed to facilitate its construction.
2. To seek the new Cabinet's 'in-principle' agreement to a revised funding strategy required to facilitate the delivery of the bus Interchange and to request that delegated authority be given to the Director of Economic Development in consultation with the Cabinet Member for Investment & Development to enter into appropriate contractual agreements with the developer to secure a start on site at the earliest possible date.
3. To secure Cabinet authority to address and deal with all outstanding pre-development costs relating to a new Bus Interchange development including design, planning and site preparation costs.

Background

4. The new Administration has set out its policy priorities in the Vision Statement "Capital Ambition" which, amongst other things, prioritises:
 - The delivery of a new business district and gateway to Wales to the north and south of Cardiff Central Station.
 - Delivering a new transport interchange which will be at the heart of the Cardiff Metro.

5. Furthermore, the Administration has confirmed support for the 2013 proposal to redevelop Central Square and to provide a suitable state-of-the-art bus station facility, on a suitable site, that will equip the city with the modern transport interchange befitting our nation's capital.
6. Initially, it was envisaged that the bus interchange would be located on land south of Cardiff Central Station as part of the emerging proposals for the Cardiff Metro. However, on 15 May 2014, Cabinet decided to locate the new facility on the site of Marland House, which as a consequence, required the Council to acquire the long leasehold interest in the Wood Street NCP Car Park. This decision confirmed the earlier decision to:
 - Facilitate jobs growth by working with partners to deliver 300,000 sq ft of office accommodation within Central Square by March 2019.
 - In partnership with developers, transport operators and businesses deliver a new Central Transport Interchange
7. In total, the Central Square development will deliver over 1 million sq ft of high quality office-led mixed use development and is anticipated to accommodate up to 10,000 jobs. The regeneration scheme has been delivered through a public-private partnership between Cardiff Council and local development company Rightacres Property Ltd with funding provided by Legal & General Pensions Ltd. This agreement committed the Council to acquiring the leasehold interests in Marland House and St David's House on Central Square along with the site of the former Thomson House on Havelock Street.
8. The project now needs to progress to the next phase following the completion of 1 Central Square and with 2 Central Square and the BBC Wales building currently under construction. Plans for the development of the land north of Wood Street will accommodate a major new grade A* office development comprising 265,000 sq ft in phase 1, accommodating circa 3000 jobs. Negotiations between the developer and a potential occupier are at an advanced stage and it is hoped to conclude matters in the near future. The scheme will also include a substantial new public square on Wood Street.

Current Position

9. The Council and the developer have over time made substantial investments in bringing forward the Bus Interchange project. The project was initiated through a WELTAG public consultation exercise which established the key design criteria for the new facility. Following a competition, world leading architects Foster + Partners were appointed by the developer to produce a scheme, and subsequently to prepare a planning application.
10. On 3 December 2015 and 16 March 2016 Cabinet provided authority for the Council to enter into a Pre Planning Agreement (PPA) with Rightacres Property Ltd relating to design and site preparation costs necessary to

bring forward delivery of the Bus Interchange in accordance with the Council's programme.

11. The agreement essentially provided an underwriting of costs up to an agreed cap to enable the developer to incur costs and progress the development in advance of having in place an agreed funding package with the Council. This acknowledged that costs would be reimbursed in the event that no agreement was in place by 30 June 2017. At its meeting on 28 September 2016 Cabinet agreed for the cap to be increased to cover additional design costs relating to the preparation of a planning application for the development.
12. Planning consent was granted on 1 March 2017, subject to the completion of a Section 106 Agreement. The scheme comprises of a Bus Interchange, including a cycle hub and ancillary retail units on the ground floor; 225 car parking spaces and an interchange lounge on the first floor (to provide a potential future link to the Central Train Station); a Private Rented Sector (PRS) development of 195 units on the Wood Street elevation; and 120,000 sq ft of grade A* offices at the Saunders Road end of the development. An illustration of the scheme is provided at Appendix 1.
11. Site preparation works were concluded in June 2017. These primarily included the relocation of businesses from Marland House; the demolition of Marland House; and the demolition of the Wood St NCP Car Park. Details of the costs associated with design, planning and site preparation are provided in Confidential Appendix 2.
12. The Council has recently reimbursed the developer for costs expended up to the value of the agreed cap. The developer has incurred further costs relating to design, planning and site preparation at risk and the Council is now required to settle these costs. The cost incurred by the Council for land assembly and design, planning and site preparation will be apportioned against each key element of the development in the final development appraisal as outlined in Confidential Appendix 3.
13. An allocation of £20 million has been included in the Council's Capital Programme for the delivery of the Bus Station element of the Bus Interchange building. This is dependent on securing capital receipts to this value from the sale of leasehold interests in the council owned land holdings within the Central Square development. Details of the costs of land assembly for the Bus Interchange building and the associated capital receipts are provided in Confidential Appendix 4.

Key Funding Challenges

14. It has become increasingly apparent that the Council's decision to deliver the new Bus Interchange project on the site of the former Marland House and Wood Street NCP Car Park has created significant funding challenges. In particular the decision has created a significant land premium for the development; it has limited the potential of capital receipts that can be generated from what would otherwise be a prime development

site; and has added costs to the construction of the overall development scheme. Whilst the developer remains committed to delivering a solution, these issues have created a very difficult financial equation to resolve.

15. At the outset it was the intention to recover all of the costs of land assembly through capital receipts generated from within the development site. This aspiration took account of the fact that the purchase price of existing buildings such as St David's House and Marland House was in excess of the value of the plots as development sites, but reflected the realistic assumption that through a comprehensive regeneration scheme and major investment in public realm improvements across the entire site, an uplift in land value would be achieved to off-set the premium required to purchase buildings. This has largely been achieved. However, the specific costs associated with the purchase the Wood Street NCP Car Park has placed a major burden on the Bus Interchange development (Confidential Appendix 4).
16. In addition to the specific costs outlined above, the Wood St NCP Car Park was also the subject of existing parking leases that needed to be resolved in order to enable demolition of the building. This has meant that the development proposal for the new Interchange building also needs to incorporate 225 car parking spaces. The nature of the site and the mix of uses within the development has made the provision of this car parking expensive to deliver. In particular, ground floor bus station limits the number of columns that can be used in construction to minimise the obstruction of bus movements. This dramatically increases the cost per space of providing car parking. The cost of land, and the cost of car parking has made the financial equation extremely difficult to resolve.
17. Furthermore, the agreement with the developer established in 2013 assumed a market driven development designed to allow market demand to drive end use on plots across the scheme's masterplan. However, as the scheme developed, the Council's aspirations for the building has effectively created constraints on the developer that have prevented the pursuit of high yielding opportunities involving student accommodation and budget hotels. In order to expedite the development it is recommended that Cabinet reverts to the original approach and allows the developer to pursue market driven opportunities.
18. It is the norm for any developer of office buildings to wait to secure tenants for some if not all of the building before committing to a construction contract. This approach mitigates risk, and provides the developer with a clear understanding of the value of the building before incurring significant costs. This is because the value of office buildings relates to the strength of covenant of the tenant(s) and the terms upon which they are secured. The Cabinet's preference has, until recently, been for the space above the Bus Interchange building to be predominantly offices, which has meant that until a proportion of the space is let, the development has been unable to proceed.

Funding Proposal

19. The developer has now submitted a proposal to the Council setting out a financial framework for delivering the Bus Interchange development based on a market driven solution outlined in Confidential Appendix 5. The developer is proposing to take advantage of current market opportunities to maximise the value of the development and to maximise the capital receipts payable to the Council. In particular, the developer is seeking to secure a student accommodation scheme at the Wood Street end of the development to replace the consented scheme for Private Residential Sector (PRS) units. The developer will continue to pursue an office scheme for the Saunders Road end of the development but will only commence development of the scheme once over 50% of the office area is let. In terms of potential office occupiers, the Council and Rightacres have been pursuing a number of live enquiries which have the potential to be secured over the next few months. In the event that office tenants are not secured within a reasonable timescale, the developer is proposing to extend student accommodation across the whole of the building. It is understood that any change of use or changes to design will require a further planning application.
20. The Developer's Proposal suggests that the Council completes the full land assembly by acquiring the remaining Saunders Road Car Park site from Network Rail. The developer would then pay a premium to the Council (which will including a share of the pre-development costs) to acquire a long leasehold interest in the whole site, with the Council retaining the freehold interest. The Council would then lease back the bus station element of the building for a peppercorn rent based on payment of an up-front premium equating to the cost of construction of the bus station element. The Developer's Proposal establishes a financial envelope for delivery of the bus station which is more or less in line with the resources available to the Council and the capital programme allocation. Confidential Appendix 3 explains the Councils affordability envelope. However, it must be noted that the timing of delivery of a bus station facility remains dependent on securing appropriate tenants for the building.
21. In addition to the above, Cabinet should note that the developer's proposal also confirms there is no contribution required from the Council towards the provision of car parking spaces. The developer will also be able to deliver the anticipated contribution towards the broader Central Square public realm improvement scheme as well as the specific extension of the scheme around the Interchange building (see Appendix 7).
22. The costs provided for the construction of the bus station element at this stage are high level and subject to independent review by an external cost consultant. Whilst technical fit-out has been excluded from the proposal, further work is required to confirm the exact extent of internal fit-out that is included in the developer's proposals. In regard to technical fit-out costs, the Council has made a bid to Welsh Government for a contribution towards these costs and the costs of highways improvements that will need to be made to the road network in the area surrounding the bus station to improve access for buses and pedestrians. The Council's

financial strategy is reliant on a contribution being realised from Welsh Government, as set out in Confidential Appendix 3.

Scrutiny Consideration

23. This report was considered at a joint meeting of the Economy & Culture and Environmental Scrutiny Committees on 18 July. The letter from the Chair is attached at Appendix 8.

Reason for the Report

24. To seek in-principle agreement from Cabinet to the proposed funding proposal from the developer for delivery of the Bus Interchange development and to secure delegated authority to conclude arrangements to deliver the development within the Council's financial envelope including settling outstanding design, planning and site preparation costs.

Financial Implications

25. 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, £3.739 million of the Central Square Public Realm budget is currently reliant on resources generated at Central Square.
26. The Central Square developments are being progressed on the basis that schemes are fully self-financing from land and s106 receipts 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.
27. In March 2016, Cabinet authorised the completion of a pre-planning agreement. This committed the Council to underwriting costs incurred by the contractor up to a specified maximum figure for the first phase of works. In September 2016, an additional Cabinet authorisation was received to include the second phase of works, and therefore increasing the specified maximum figure that the Council will underwrite. On 5th July, the Director of Economic Development exercised the delegated responsibility granted in these Cabinet reports to make payment to the contractor for the specified maximum figure for these phases of works.
28. The details of these costs are contained within commercially confidential appendices to this report. An additional set of financial implications have therefore been set out in confidential Appendix 6, which should be considered in conjunction with this report.
29. The attached report provides details of recent progress on the Interchange development including current high level proposals submitted by the developer. The report confirms that the developer has been paid for pre-development work up to the cap previously agreed by Cabinet in September 2016. The Developer has though continued to incur additional

costs on these activities, at his own risk, to values over and above the previously agreed cap. The developer is now expecting the Council to reimburse these additional costs and the attached Cabinet report is seeking authority to make this additional payment to the developer relating to design, planning and site preparation. The payment of this additional sum will take Interchange expenditure above its approved Capital budget for 2017/18 and will require budget to be brought forward from 2018/19. The element of these pre-development costs that relate to the Commercial elements of the scheme will be subsequently passed back to the developer.

30. The Interchange is due to be fully funded by capital receipts and s106 contributions associated with Central Square. However, these capital receipts will not be realised in advance of these pre-development payments being made. This represents a short term funding issue for the council with revenue expenditure implications either through short term borrowing costs or reducing income from Treasury activities.
31. The financial implications of incorporating the car park in the development are highlighted in the report in terms of reducing the commercial value from the site and the additional expenditure from the engineering solution required to incorporate the car park on the first floor.
32. The report recommends reverting to a market driven approach for the commercial space within the development. Maximising development value will minimise, but not eliminate, the funding required from the Council to deliver the new Bus Transport Interchange.
33. The current development proposal is conditional on securing sufficient tenants to fill the commercial space. Although the developer is confident of finding tenants there is a risk of a delay to the development if sufficient tenants are not found to cross this threshold. If this delay were to materialise, this could result in the scheme needing to be redesigned which could have a detrimental impact on the delivery, timeliness and costs of the scheme.
34. At this stage the construction costs included in the proposal are high level assessments which brings the risk that costs could increase as more detailed proposals are developed. With the financing sources for the Interchange being largely fixed this would present funding implications that would need to be addressed if the proposal was to proceed.
35. The Developer's Proposal suggests that the Council completes the full land assembly by acquiring the remaining Saunders Road Car Park site from Network Rail. Although a price has been agreed with Network Rail for the land in Saunders Road, this land has yet to be acquired which brings with it associated risks.
36. The report acknowledges that technical fit-out and junction improvement costs will be required but are outside of the scope of this development. The expectation is that the Council will rely on Welsh Government contributions to fund these works but this funding is not currently

confirmed which exposes the Council to the financial risk that it will need to step-in and fill any fit-out funding gap. The lifecycle costs of the council operating the bus station will also need to be considered alongside the more detailed development proposals that will subsequently follow.

37. Given the specialist nature of this development the Council will need to engage the Professional Advisors to ensure that the proposals presented by the developer are deliverable and represent VFM. Adequate budget to engage these advisors will need to be identified.

Legal Implications

38. The Council is required to be mindful of its fiduciary duty to its Council taxpayers and to ensure value from money in regard to its land acquisitions and disposals. The Council's Procedure Rules for the Acquisition and Disposal of Land require the advice of a professional valuer to be taken at all stages. The intention is to ensure that due probity and accountability can be demonstrated at all times and value for money achieved. Similarly the Council will be required to ensure value for money in regard to the delivery of public infrastructure, fit-out and operating arrangements and will require detailed cost consultants' advice in those regards. The appendices to the report provide relevant information for consideration at this stage. More detailed information will need to be considered in advance of the exercise of delegated powers.
39. Changing market conditions impact on the saleability and rental income from commercial premises. If disposals are not achieved promptly then holding costs can occur alongside an inability to service project funding. Value for money is an essential element in demonstrating that the Council is not providing unlawful State Aid to developers, funders, occupiers and operators and that it is complying with its fiduciary duty to the local taxpayers.

RECOMMENDATIONS

The Cabinet is recommended to:

- (1) Allow the developer to maximise capital receipts for the commercial floor space within the Bus Interchange development by allowing end use to be driven by market demand.
- (2) 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 a final agreement with the developer subject to the financial envelope outlined in Appendix 3 for the delivery of the Bus Interchange project and appropriate external advice.

- (ii) Settle outstanding design, planning and site preparation costs as outlined in Confidential Appendix 2 subject to independent verification of costs.
 - (iii) Acquire the Saunders Road Car Park site owned by Network Rail to complete the land assembly as outlined in this report, subject to independent valuation.
- (3) agree that budget be brought forward from the approved 2018/19 Capital programme into 2017/18 budget to meet the pre planning and land assembly costs outlined in the report.

NEIL HANRATTY

Director

21 July 2017

The following appendices are attached:

Appendix 1:	Illustration of Consented Scheme
Confidential Appendix 2:	Design, planning and site preparation costs
Confidential Appendix 3:	Bus Interchange Financial Strategy
Confidential Appendix 4:	Bus Interchange Land Acquisition and Disposal
Confidential Appendix 5:	Developers Proposal
Confidential Appendix 6:	Confidential Financial Implications
Appendix 7:	Plan of Central Square Public Realm Scheme
Appendix 8	Letter from the Joint Economy & Culture and Environmental Scrutiny Committee

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Appendix 1: Illustration of Consented Scheme

- 14 Bus Stands
- 225 Car Parking spaces
- 195 PRS Units
- 120,000 sq ft Offices
- 10,000 sq ft Retail

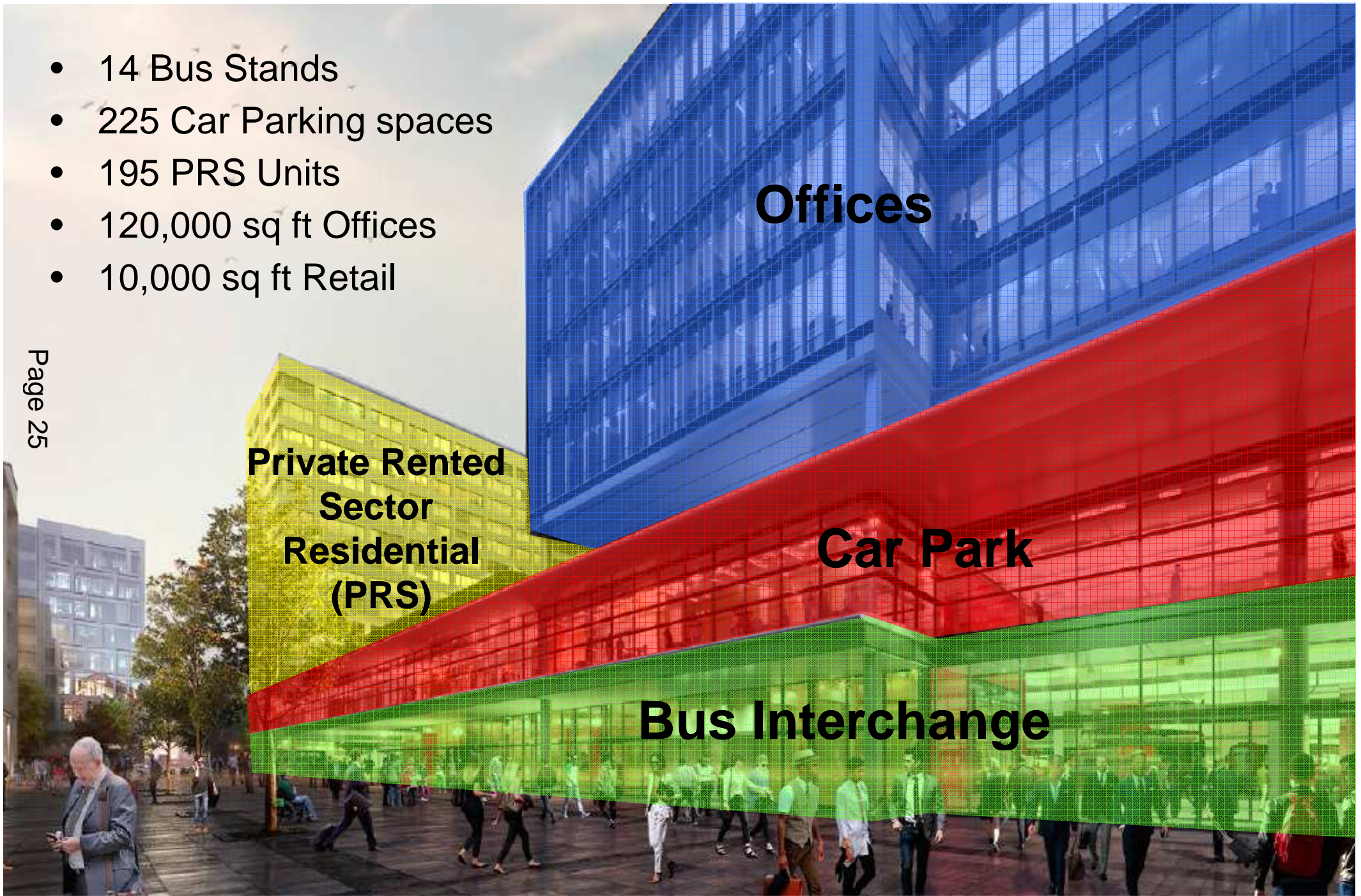
Page 25

**Private Rented
Sector
Residential
(PRS)**

Offices

Car Park

Bus Interchange



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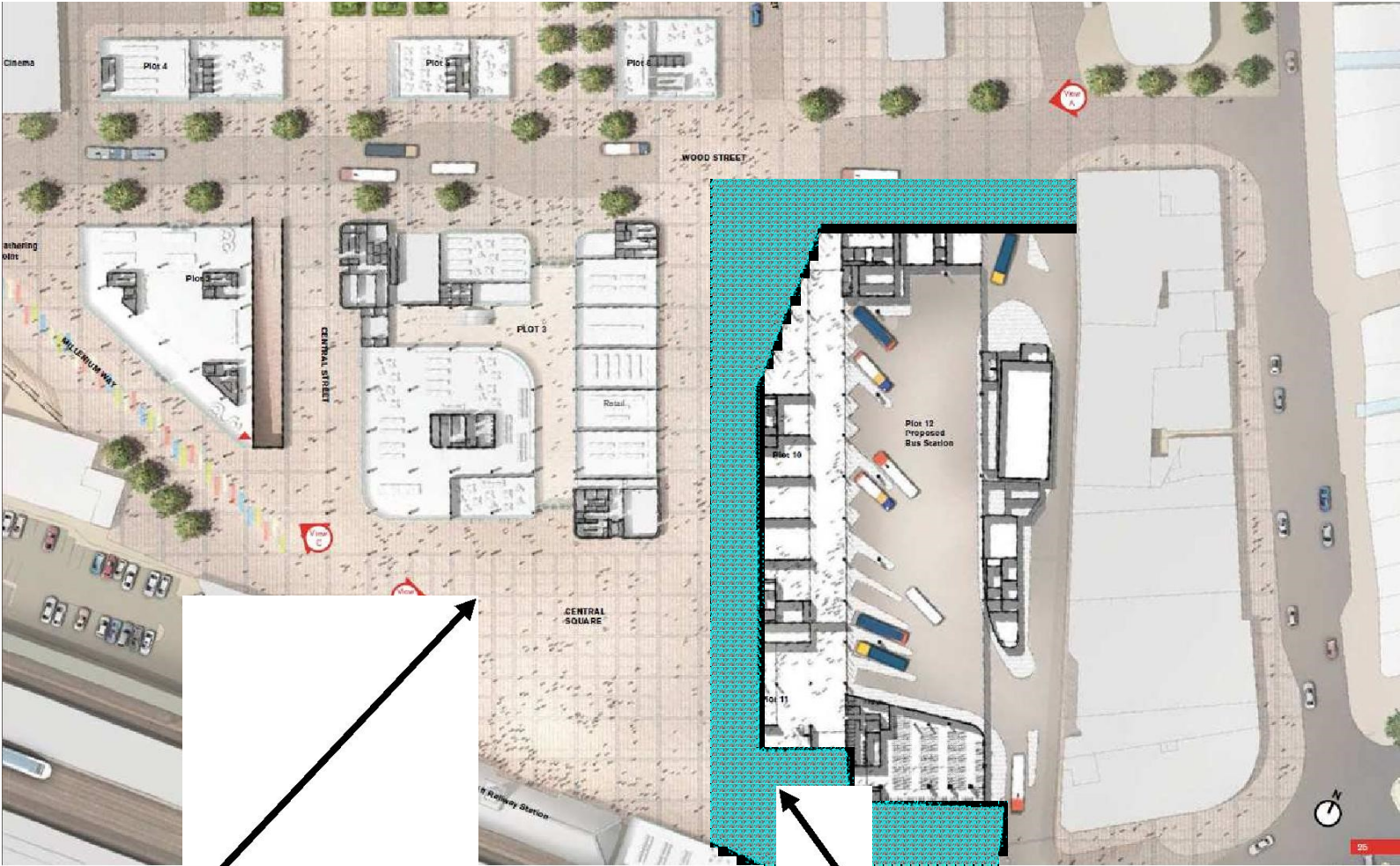
By virtue of paragraph(s) 14, 21 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

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Appendix 7

Public Realm Scheme



Central Square Public Realm Scheme

Indicative Bus Interchange Public Realm Area

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My Ref: T: Scrutiny/Correspondence/Cllr NH



County Hall
Cardiff,
CF10 4UW
Tel: (029) 2087 2087

Neuadd y Sir
Caerdydd,
CF10 4UW
Ffôn: (029) 2087 2088

Date: 19 July 2017

Councillor Russell Goodway
Cabinet Member, Investment and Development
Cardiff Council,
County Hall
Cardiff
CF10 4UW

Dear Councillor Goodway,

Joint Economy & Culture and Environmental Scrutiny Committee: 18 July 2017

On behalf of both the Economy & Culture and Environmental Scrutiny Committees, please accept our thanks for attending our meeting for pre-decision scrutiny of the report to Cabinet titled 'Funding the New Bus Transport Interchange'. Members wish also to pass on their thanks to Neil Hanratty for his attendance and presentation. Members have asked that I pass on the following comments and observations from their discussion at the Way Forward.

Members share the wish to see a high quality bus transport interchange in place as soon as possible and understand the need for this to be achieved within the agreed financial envelope. Having considered the evidence presented regarding market demand for student accommodation in Cardiff, Members support the proposal to move from private rented sector accommodation to student accommodation. Members are pleased to hear that there are ongoing discussions regarding the office space and hope these are successful. However, Members are supportive of a market driven approach for this space as well, subject to further planning application, if required.

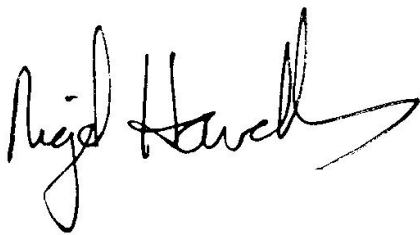
With regard to the second recommendation to Cabinet to delegate authority, Members support this, on the understanding that the usual due diligence checks would apply to ensure robust financial modelling and consideration of legal advice. Members support the appointment of external cost consultants and professional

advisors to ensure that the Council achieves value for money. Members also recognise the usefulness in acquiring the Saunders Road car park site.

Members note the bid to Welsh Government for assistance in meeting technical fit out and highway improvements. Members would like to be kept informed of progress with this bid, in terms of the amount awarded and the uses agreed for the grant funding.

Overall, having considered the evidence presented to the Committee, Members are supportive of the recommendations to Cabinet and look forward to progress being made on the site.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Nigel Howells', with a stylized flourish at the end.

**COUNCILLOR NIGEL HOWELLS
CHAIR, JOINT ECONOMY & CULTURE AND ENVIRONMENTAL SCRUTINY
COMMITTEE**

cc Members of the Economy & Culture and Environmental Scrutiny Committees
Neil Hanratty
Clair James
Cabinet Support Office

County Councillor Russell Goodway
Cabinet Member, Investment & Development

My ref : RVG/Scrutiny

4 August 2017

County Councillor Nigel Howells
Chair, Joint Economy & Culture and
Environmental Scrutiny Committee
County Hall
CARDIFF
CF10 4UW



Dear County Councillor Howells

**FUNDING THE NEW BUS TRANSPORT INTERCHANGE
JOINT ECONOMY & CULTURE AND ENVIRONMENTAL SCRUTINY
COMMITTEE: 18 JULY 2017**

I refer to your letter dated 19 July 2017 in the above connection which was presented to Cabinet at its meeting on 27 July 2017. Cabinet colleagues were grateful for the supportive comments contained in the letter.

Can I thank you for the invitation to attend your meeting and I am grateful that you decided to undertake a pre-decision scrutiny of the changes that the new Administration is proposing in order to facilitate early delivery of the bus station facility. As you know, those proposals were set out in the Cabinet Report "*Funding the New Transport Interchange*".

I trust that your colleagues appreciate the challenges that remain to be overcome but also that the new Administration has chosen to adopt a new spirit of openness and transparency with regard to the bus station proposals and the potential solutions.

I am grateful that the joint committee supports our intention to adopt a market driven approach which will allow the development partners to market the site in a less constrained manner than has hitherto been the case. We will, of course, seek to achieve the best possible return on the council's investment to ensure that we can deliver the best possible facility but also taking account of the timescales we need to work to if we are to deliver the facility in an acceptable timeframe.

I take on board all of the points you make regarding the need to put in place robust arrangements that will ensure proper due diligence and I will ensure that council officials adopt such an approach.

/cont...

T: 07962 251439
Email: r.v.goodway@cardiff.gov.uk

Please reply to:
Cabinet Office, County Hall, Cardiff, CF10 4UW
T: 029 2087 2631

County Councillor Nigel Howells
Chair, Joint Economy & Culture and
Environmental Scrutiny Committee

I note also the joint committees request to be kept informed of progress with regard to the bid to Welsh Government for funding to help finance the fit out costs of the bus station. I guess that the joint committee would equally like to be kept informed of progress with regard to the overall development and of key issues which are likely to emerge as we take it forward. I am eager to respond positively to the joint committee's request. Please can you ask Scrutiny Officers to liaise with the Cabinet Office to explore what arrangements can be put in place to help ensure this happens.

Yours sincerely



RUSSELL GOODWAY
CABINET MEMBER, INVESTMENT & DEVELOPMENT

CITY OF CARDIFF COUNCIL

REGISTER OF CABINET DECISIONS: 17/18 - 2

Decision No.	Minute No.	Decision	Reason	Consultation Undertaken	Dates			Responsibility for implementation after date shown
					Decision Made	Publication	Deadline for call-in	
Page 59		<p>deal with all aspects of the procurement relating to the Non Domestic Building Maintenance Framework, including setting the contract evaluation criteria and the award of contracts.</p> <p>4) authority be delegated to the Director of Economic Development in consultation with the Cabinet Member for Investment and Development, the Section 151 Officer and the Director of Governance and Legal Services, to make the interim contractual arrangements necessary for the continuation of service until the new contracts are in place.</p>						
	CAB/17/11	Min No 19	Funding the New Bus Transport Interchange	To seek in-principle agreement from Cabinet to the	This report was considered at a joint meeting of	27.07.2017	28.07.17	8.08.2017

CITY OF CARDIFF COUNCIL

REGISTER OF CABINET DECISIONS: 17/18 - 2

Decision No.	Minute No.	Decision	Reason	Consultation Undertaken	Dates			Responsibility for implementation after date shown
					Decision Made	Publication	Deadline for call-in	
		<p><i>Appendices 2, 3, 4, 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.</i></p> <p>RESOLVED: that</p> <p>(1) the developer be allowed to maximise capital receipts for the commercial floor space within the Bus Interchange development by allowing end use to be driven by market demand.</p> <p>(2) authority be delegated to the Director of Economic Development in consultation with the Cabinet Member for Investment & Development and the</p>	<p>proposed funding proposal from the developer for delivery of the Bus Interchange development and to secure delegated authority to conclude arrangements to deliver the development within the Council's financial envelope including settling outstanding design, planning and site preparation costs.</p>	<p>the Economy & Culture and Environmental Scrutiny Committees on 18 July. The letter from the Chair is attached at Appendix 8.</p>				Development

CITY OF CARDIFF COUNCIL

REGISTER OF CABINET DECISIONS: 17/18 - 2

Decision No.	Minute No.	Decision	Reason	Consultation Undertaken	Dates			Responsibility for implementation after date shown
					Decision Made	Publication	Deadline for call-in	
		<p>Cabinet Member for Finance, Modernisation and Performance, the Section 151 Officer and the Monitoring Officer to:</p> <p>(i) Negotiate and conclude a final agreement with the developer subject to the financial envelope outlined in Appendix 3 for the delivery of the Bus Interchange project and appropriate external advice.</p> <p>(ii) Settle outstanding design, planning and site preparation costs as outlined in Confidential Appendix 2 subject to independent verification of costs.</p>						

CITY OF CARDIFF COUNCIL

REGISTER OF CABINET DECISIONS: 17/18 - 2

Decision No.	Minute No.	Decision	Reason	Consultation Undertaken	Dates			Responsibility for implementation after date shown
					Decision Made	Publication	Deadline for call-in	
Page 62		(iii) Acquire the Saunders Road Car Park site owned by Network Rail to complete the land assembly as outlined in this report, subject to independent valuation. (3) budget be brought forward from the approved 2018/19 Capital programme into 2017/18 budget to meet the pre planning and land assembly costs outlined in the report.						

Prepared by Cabinet Office:	28 July 2017
Submitted to Chief Executive for signature:	28 July 2017

Approved for Publication *Paul Orders*.....
 Chief Executive

Date28/07/2017.....