

DISPOSAL OF LAND AT CENTRAL SQUARE

REPORT OF THE DIRECTOR OF ECONOMIC DEVELOPMENT

AGENDA ITEM: 4

**PORTFOLIO: ECONOMIC DEVELOPMENT AND PARTNERSHIPS
(COUNCILLOR PHIL BALE, LEADER OF THE COUNCIL)**

Appendices 2, 3, 4 and 5 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 progress with the Central Square regeneration scheme.
2. To seek authority to grant a lease to enable the development of circa 270,000 sq ft of Grade A* offices north of Wood St together with associated public realm improvements.

Background

3. The Central Square regeneration scheme has become synonymous with Cardiff's recent economic success and growing reputation as *one of Europe's most liveable capital cities*. The project has been delivered at an unprecedented rate and is well on-track to deliver over 1 million sq ft of high quality office-led mixed use development with the potential to accommodate up to 10,000 jobs. The project has been delivered in partnership between the City Council, local development company Rightacres Property Co Ltd and Legal & General Pensions Ltd.
4. The 2017-19 Corporate Plan includes key objectives relating to the redevelopment of Central Square and the modernisation of Cardiff Central Bus Station:
 - Facilitate jobs growth by working with partners to deliver 300,000 sq ft of office accommodation with Central Square by March 2019.

- Work with developers, transport operators and businesses to deliver a new Central Transport Interchange in Central Square on agreed programme.
5. The strategy for the Central Square development has been to deliver a high quality mixed use urban gateway to the capital city and a modern central transport hub. At the Cabinet meeting of 12 September 2013 authority was granted by Cabinet for officers to work with local property development company Rightacres Property Co Ltd as adjacent land owner to acquire a number of long leasehold interests at Central Square. At the Cabinet meeting on 15 May 2014 further authority was granted to acquire the long leasehold interest in the Wood Street NCP Car Park site.

Progress

6. The Central Square regeneration scheme is now close to being fully committed. 500,000 sq ft is already either built or under construction; 250,000 sq ft was approved by the Local Planning Authority on 1st March 2017 of a mixed use development including a new bus interchange and the site is currently being prepared for development; a further circa 270,000 sq ft has recently been announced (subject to contract) by the Government Property Unit (GPU) as the preferred location for a new regional headquarters building for HM Revenue & Customs (HMRC).
7. If the GPU sign a lease for the HMRC building (in due course), only 2 sites will remain across the whole of the regeneration area. One of these sites will be optioned to the GPU for a period 2 years as a possible location for the second phase of their Government Hub project. The final site is being set aside as a new public square to enhance and extend the overall public realm delivery for the Central Square regeneration scheme.

Building One

8. Building No 1 Central Square provides 130,000 sq ft of Grade A* offices on Rightacres Property Co Ltd's own freehold site, marked A on the attached plan at Appendix 1. The building was progressed as a speculative development by Rightacres Property Co Ltd and is now fully let to Blake Morgan, Hodge Bank, s3 Advertising, eSpark, MotoNovo, accommodating over 1000 jobs.

BBC Cymru Wales Headquarters

9. A second development on the land marked B on the attached plan is currently under construction and due for completion in April 2018. The building will deliver a further 150,000 sq ft of Grade A* office accommodation in a Fosters + Partners designed building and has been let to BBC Cymru Wales as their new headquarters building. Over 1200 BBC staff will be relocated to the site from their current HQ site in Llandaff which will subsequently close and be redeveloped for housing.

Building Two

10. A third development, known as No 2, marked as C on the attached plan and also design by Foster + Partners, is currently under construction. The building was initially approved as a 120,000 sq ft Grade A* office development, however, a further extension to the size of the building was approved by the Local Planning Authority on the 8th February 2017 that will extend the building to 150,000 sq ft. No2 is due for completion in April 2018 and is fully let to Hugh James and Cardiff University (School of Journalism) and will accommodate 1200 jobs.

Interchange Building

11. The fourth building in Central Square is known as the Interchange Building and is marked as D on the attached plan. On the 1st March 2017 the Local Planning Authority approved a Foster + Partners designed mixed use development comprising of 120,000 sq ft of Grade A* offices; 195 Private Rented Sector (PRS) residential units; a new bus interchange; and circa 10,000 sq ft of ancillary retail space.
12. The site is currently being prepared for development by Rightacres Property Company Ltd. The former Marland House building has been demolished, and the demolition of the Wood St NCP Car Park has commenced and is due to be completed by June 2017.
13. The Council is currently negotiating a funding proposal with Rightacres Property Co Ltd for delivery of the new bus interchange aspect of the mixed-use development. The Council is seeking to secure delivery of the bus interchange within the financial envelope of existing capital allocations and intends to conclude these negotiations in time to enable the construction to commence immediately following completion of demolition and site preparation works. Approval of the funding package for the bus interchange aspect will require a further Cabinet decision.
14. The Council remains committed to delivering integration between the new Interchange Building and Cardiff Central Station including securing funds to enable the modernisation of the train station itself. The Leader of the Council wrote to the Secretary of State for Transport in February to ensure that UK Government fully understands the urgent need for long awaited investment in the capital city's mainline railway station.

Land North of Wood Street

15. This report is primarily concerned with progressing proposals for the development of Council owned land north of Wood St. On the 30 November 2016, following a detailed procurement process, the Government Property Unit (GPU) announced on behalf of the Secretary of State for Communities and Local Government that the preferred relocation site for the regional headquarters of HMRC was within the Central Square regeneration scheme. Following the relocation of BBC Cymru Wales to Central Square, the announcement by Central Government is another major step forward in the city's regeneration plans.

16. The proposed development for HMRC would deliver a further 270,000 sq ft of Grade A* office development at Central Square, marked E on the attached plan. The development is proposed as part of the UK Government's One Estate Strategy and would represent the first phase of the GPU's Government Hub proposal for Cardiff. The building is being designed by leading architects Gensler and would accommodate circa 3500 civil service jobs (see Appendix 5).
17. Negotiations regarding a lease are on-going between Rightacres Property Co Ltd and the GPU and are anticipated to be concluded in April 2017 with a view to a start by the end of 2017. The scheme designed by Gensler was presented to the Design Commission Wales on 28th February and a formal Pre-Application process has now begun with the Local Planning Authority.
18. As part of the current negotiations the GPU wish to secure an option over the adjacent site marked F on the attached plan as a potential site for future expansion. Site F is the last remaining plot in the Central Square regeneration scheme and has the potential to deliver up to a further 300,000 sq ft of additional office space.
19. To secure phase one of the GPU project and to remain in the running for any potential further phases, it is proposed that the area marked G on the attached plan is set aside to provide a major new area of public realm fronting Wood St and the rear of the BBC Cymru Wales HQ. This means that along with the new route being created from Central Square through to the Principality Stadium, which will open up a view of the stadium from Central Square, over one third of the land north of Wood Street will be utilised to provide additional high quality city centre public realm.
20. It is the Council's intention to dispose of the whole of the site north of Wood St to Rightacres Property Co Ltd on a long lease. The area marked G will provide for the new area of public realm. The additional public realm costs associated with delivering this new public square, over and above the Section 106 developer contributions, will be fully funded by Rightacres Property Co Ltd. The Council is in discussion with Rightacres regarding putting in place an appropriate management regime for the new public space. It is intended to enter into an agreement regarding maintenance arrangements and to protect its use for public amenity and events.
21. Once a formal decision is taken by the GPU on the future of the HMRC offices, the Council will engage with the current owners of HMRC's existing premises in Llanishen to understand and assist with the plan for the property going forward in line with the Cardiff LDP.

Public Realm Improvements

22. At the Cabinet meeting of December 2015 authority was delegated to officers in consultation with relevant Members to progress with public realm and associated enabling works in Central Square, to support

delivery of the BBC HQ building and the new Central Transport Interchange. The Cabinet decision provided authority for spend within an agreed financial envelope made up from capital receipts and Section 106 developer contributions.

23. Some of the preliminary site enabling works have already been completed in line with the Masterplan Agreement and phased delivery of surrounding development. The Council is now negotiating a Guaranteed Maximum Price (GMP) contract with Rightacres Property Co Ltd for completion of the whole of the public realm and associated enabling works south of Wood St, within the scope of the authority granted by the December 2015 Cabinet report. An Officer Decision Report will be published in due course to provide the relevant authority for the contract to be signed and for the works to be completed.

Issues

24. The development for HMRC requires legal contracts to be put in place between: the Council as freeholder; Rightacres Property Co Ltd as the developer; Legal & General Pensions Limited as head lessee/funder; and the Secretary of State for Communities and Local Government as sub-tenant/occupier. Given that the HMRC wishes to be in full occupation of the building by 1 April 2019, construction is required to start in September 2017 at the latest.
25. The HMRC development site is marked E on the attached site plan. An option is also required whereby HMRC may opt for an extended building on the land marked F on the plan.
26. In order for Rightacres Property Co Ltd to be in a position to proceed with Legal & General and HMRC, Rightacres and the Council need to enter into an agreement:
 - to lease the site of the HMRC development to Rightacres' funder, Legal & General.
 - for Rightacres to carry out demolition works at St David's House and to carry out public realm improvements associated with the redevelopment on the land marked G on the site plan.

Lease of HMRC site at Central Square

27. Confidential Appendix 3 provides an independent valuation relating to the head lease of the whole site which is to be granted at market value to Legal & General Pensions Limited as the funder of Rightacres Property Co Ltd to enable delivery of the HMRC headquarters building and potential future expansion, including a new public square. Confidential Appendix 2 sets out the draft Heads of Terms relating to the proposed lease.
28. The receipt for the sale of the whole site north of Wood Street once factored into the overall development appraisal as set out in confidential

Appendix 4 is broadly in line with the original masterplan for the Central Square Regeneration Scheme.

Delivery of public realm improvements

29. Pursuant to the HMRC headquarters development Rightacres Property Co Ltd will be obliged to deliver public realm improvements in the Central Square area. The area of these works is marked G on the attached plan.

Demolition of Council owned buildings

30. The HMRC development requires the demolition of St David's House in whole or part. There is one tenant at St David's House that has a lease which runs beyond the required demolition date. Rightacres Property Co Ltd will either relocate the tenant within the Central Square redevelopment or else accommodate the tenant at St David's House through a partial demolition. Negotiations are progressing in this regard.

Reason for the Report

31. To seek authority to dispose of the Council's leasehold interest in land north of Wood St to enable delivery of a major new Grade A* office headquarters building with potential future expansion for HMRC, including a new public square.

Financial Implications

32. The attached report seeks approval to grant a lease over council land at Central Square, namely land north of Wood Street to accommodate the Head Quarters for HMRC (Phase 1 development marked as Plot E on Appendix 1). In addition, approval is being sought to grant an option over the two final remaining plots (marked F and G) to deliver a further building and a new public square (Phase 2 developments).
33. The council's capital programme includes schemes in relation to Central Square Public Realm and the Central Square Integrated Transport Hub. These are major capital schemes and represent a significant financial commitment to the council. As these schemes are to be fully funded by resources (land receipts and Section 106 developer contributions) generated at Central Square, approval of the above lease (and the option to lease) will provide the council with an element of certainty regarding the envelope of resources available to progress these schemes.
34. In-line with Council's Financial Procedure Rules, the valuation report attached at Appendix 3 confirms that disposal price represents market value/best consideration. Furthermore, the responsibility for St David's House (including relocation of all existing tenants) will transfer to the developer as part of the proposed lease will minimise the impact of holding costs to the council, which would otherwise continue to be incurred until such time as the building is disposed-off or demolished.

35. The delivery of the new public square will represent additional value created at Central Square by the proposed developments. Any additional public realm costs over and above Section 106 contributions will be fully funded by the developer.
36. Confidential Appendix 4 sets out the level of receipts anticipated from the latest masterplan, including an assessment of the level of receipts which may be realised from the interchange site (Site D) which is currently being negotiated. On this basis, the total receipts outlined in the latest masterplan are broadly in line with the original masterplan.

Legal Implications

37. The Council is required to receive the best consideration in money or from the value of works that can reasonably be obtained from its land disposals in accordance with Section 123 of the Local Government Act 1972. The Council's Procedure Rules for the Acquisition of Land require the advice of a professional valuer to be taken. The Council has power to enable social and environmental wellbeing in its area in accordance with its Community Strategy and section 2 of the Local Government Act 2000. The Council's Procedure Rules for the Acquisition or Disposal of Land provide that in dealing with land 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.
38. The Council will be required to ensure value for money in regard to the delivery of the public infrastructure and demolition works which are referred to in this report.

RECOMMENDATIONS

The Cabinet is recommended to:

- (1) Note progress of the Central Square regeneration scheme;
- (2) Agree to the lease of land to deliver the HMRC headquarters building in accordance with the Heads of Terms attached at Appendix 2 of this report; and 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 Section 151 Officer and the Director of Governance and Legal Services to finalise any detailed arrangements and to conclude the lease in accordance with external valuation advice so as to ensure value for money.

NEIL HANRATTY

Director
10 March 2017

The following appendices are attached:

Appendix 1 – Site Plan

Confidential Appendix 2 – Heads of Terms GPU
Confidential Appendix 3 – Independent Valuation: GPU
Confidential Appendix 4 – Projected overall receipts for the Central Sq scheme
Confidential Appendix 5 – Proposed GPU Scheme