

CABINET MEETING: 20 MAY 2021

CANAL QUARTER REGENERATION

INVESTMENT & DEVELOPMENT (CLLR RUSSELL GOODWAY)

AGENDA ITEM: 8

Appendices 3 to 4 of this report are not for publication as they contain exempt information of the description contained in paragraphs 14, 16 and 21 of Schedule 12A of the Local Government Act 1972.

Reason for this Report

1. To outline a development strategy for the eastern quadrant of the city centre referred to in this report as the Canal Quarter to make the most of opportunities arising from the re-opening of the Canal along Churchill Way and the potential re-purposing of the Motorpoint Arena if as expected the new Cardiff Indoor Arena project in Cardiff Bay proceeds.
2. To seek authority to agree an 'Option Agreement' between the Council and Live Nation (Music) UK Limited regarding the Motorpoint Arena site to facilitate strategic consideration of the future usage and development of the facility.

Background

3. In the aftermath of the COVID-19 pandemic the Council and its partners will be required to develop strategies, initiatives and projects to support local economic recovery. Given the concentration of office, retail and leisure accommodation, it is likely that the city centre will experience the greatest long-term impact of the pandemic and therefore concentration of effort and resources will be required to rebuild a sustainable economic future for the area.
4. The Council has set out a City Recovery and Renewal Strategy presented to Cabinet at this same meeting. The Strategy includes a mission to '*Reimagine the City Centre*' aimed at supporting existing businesses to grow and become more productive. The strategy seeks to accelerate the completion of central business zone to support continued jobs growth and to improve the public realm and public spaces to ensure the city centre is rediscovered as a destination in its own right. It is proposed that the Council takes a more direct role in managing the future of the city centre to reflect the needs of residents, workers, businesses and visitors including making the city centre safe, clean, welcoming and attractive for everyone.

5. Welsh Government's recently published National Development Framework – Future Wales – promotes the importance of sustainable development and encourages high density mixed use development in urban centres. It states: *“The growth and regeneration of towns and cities should positively contribute towards building sustainable places that support active and healthy lives, with urban neighbourhoods that are compact and walkable”*. Policy 36 also states: *“Planning authorities should plan growth and regeneration to maximise the opportunities arising from better regional connectivity, including identifying opportunities for higher density, mixed-use and car-free development around new and improved metro stations.”*
6. The eastern part of the city centre had already been identified as the next part of the city centre requiring attention, well before the pandemic struck. Queen Street station is primed to become an even more important gateway into the city centre as a result of the South Wales Metro project. Major regeneration has transformed Cardiff city centre over recent years most notably the St David's 2 development and more recently the comprehensive remodelling of Central Square. This has limited the opportunities for future expansion north of the main railway line mainly to the eastern area of the city centre adjacent to Queen Street station.
7. Cardiff Queen Street station is the second busiest train station in the whole of Wales and the primary rail connection point to the South East Wales Valleys communities. The area between the train station and the St David's 2 development has substantial capacity for new development and significant existing character that can be optimised to create a new and unique part of the city centre.
8. The Council has already begun to bring forward investment through its City Centre East Transport Strategy. Following a public consultation engagement exercise in 2020 as part of Keep Cardiff Moving (Cardiff Centre East), a City Centre East Transport Scheme has now been developed to a detailed proposal. Part of this strategy includes the restoration of a section of Dock Feeder canal located within Churchill Way. This is for the purposes of developing a welcoming green public realm area with vibrant planting including a range of all year flora, trees and rain gardens with an amphitheatre style seating arrangement. This will provide the opportunity for outdoor seating amongst the planting with waterway views with the potential for bridges and cantilever platforms over the canal. A key aspiration is to continue the re-opening of the Dock Feeder Canal along Churchill Way, which has led to the emergence of the 'Canal Quarter' as the regeneration brand for the area.
9. Building on the City Centre East Transport Strategy the Council has prepared a draft development framework for the eastern area of the city centre covering Churchill Way, Bridge Street, David Street, Charles Street, Tredegar Street, Gilford Crescent and Barrack Lane as illustrated by the site plan attached at Appendix 1 and set out below in this report. It is the Council's intention to consult on the framework with key stakeholders and local residents and businesses alongside the work that will be brought forward over the coming months on the City Recovery Strategy.

10. In November 2020, Cabinet approved the appointment of a consortium led by Live Nation as the preferred bidder for the new Cardiff Indoor Arena project in Cardiff Bay. The procurement process remains on-going and is expected to result in a Development Agreement for delivery of a new arena being agreed in July of this year. Live Nation currently operates the Motorpoint Arena located in the heart of the Canal Quarter identified as Site 2 on the plan attached at Appendix 1. The Motorpoint Arena adjoins land that has been cleared of development and is currently used for low value surface car parking. If the new arena project progresses as expected, Live Nation will need to reconsider the use of the Motorpoint Arena, including the possibility of a comprehensive regeneration of the site in collaboration with adjoining landowners.

Issues

11. The COVID-19 pandemic has had a major impact on the local economy and is set to leave a lasting legacy, felt mostly in the city centre. There is therefore a need to identify and progress city centre projects to support post-pandemic recovery and to reaffirm the city centre as a place where people want to meet, work, visit, shop and/or take part in cultural activities.
12. The Canal Quarter area is made up of numerous landowners and interests and therefore the Council will necessarily have a significant leadership role in bringing together a co-ordinated development strategy that makes the most of the opportunity for the benefit of the city as a whole. As such, the Council has embarked on the preparation of a draft strategy as a means of initiating discussions and co-ordinating activities and interests.
13. The Indoor Arena project in Cardiff Bay presents an opportunity to rethink the current use of the Motorpoint Arena, which constitutes 2.6 acres within a compact urban environment. Initial discussions have taken place between Live Nation and the adjacent landowners to put in place a joined up regeneration plan. The future of the Motorpoint Arena will be a significant consideration in the Canal Quarter regeneration whether it is retained and repurposed or demolished and redeveloped.
14. The South Wales Metro project will significantly increase the frequency of services running from the valleys through Queen Street station. This will cement Queen Street station's role as a key gateway into the city centre and will accelerate the need to consider improvements to the area as more and more people use the area as their primary route into the city centre.
15. The Council is progressing the first phase of investment in opening up the Canal along Churchill Way. The vision is to continue to re-open up the canal right along Churchill Way and to connect through to the dock feeder south of Tyndall Street. This will require significant capital investment and will therefore need to be funded in part through contributions from surrounding development.
16. Concurrently the Council is also seeking to engage views about the future development plans for the city in the Greener, Fairer, Stronger: Draft City Recovery and Renewal Strategy that is being presented to the May Cabinet meeting. The draft strategy recognises the need to develop the city-centre in

a post-COVID economy that provides a wider range of spaces and uses within the city centre, developing the location as a destination in its own right.

Canal Quarter Development Framework

17. The Canal Quarter Development Framework is attached as Appendix 2. The framework sets out an exciting collection of character areas and development opportunities that together have the potential to establish the east of the city centre as the next growth zone of the city centre.
18. The 'Canal Quarter' area represents around a quarter of the city centre and has the potential to develop into a new destination in its own right, characterised by a re-engagement with the city's historic waterways, as the old canal areas are revealed.
19. The development framework sets out an ambition for the delivery of a high density mixed use development, based on sustainability and place-making principles, as set out in the Future Wales strategy, driven by high quality design and seeking to establish a great place to live, work and visit. The framework seeks to attract both large-scale corporate investments and smaller-scale independent developments that encourage vibrancy and authenticity through new cultural venues including space for performance and music, both indoors and outdoors.
20. The centrepiece of the strategy is a significant new public square providing additional high quality public space within the city centre. The square will be designed to maximise the potential of green infrastructure, and will be capable of accommodating a variety of events within the city centre. This will be unique for Cardiff, having lacked such a space within the city centre, and will be a key part of the city's event staging infrastructure.
21. The east of the city centre has been home to a number of music venues of all sizes. As part of the Sound Diplomacy Music Study it was recognised that there is a need to ensure that as the city develops it does so in a way that allocates spaces for musicians and industry professionals. Whilst it would not be appropriate to allocate overly specific use classes in this framework, it is intended through the framework to deliver new space for both indoor and outdoor performance.
22. Whilst the framework does not have planning status, it proposes a number of key design/development principles that set out the Council's ambitions for the area, as follows:
 - The east of the city centre is an important gateway that is set to become even more important as the South Wales Metro project is delivered, increasing footfall to the city centre from the south east Wales valleys communities and presenting an opportunity for a major upgrade in public realm.
 - The area surrounding and including the Motorpoint Arena could provide a major opportunity for high density urban development if the arena site is redeveloped.

- The re-opening and extension of the Canal through the area presents an opportunity to create a new and unique character area in the city centre and in Wales.
- The re-provision of a significant city centre public square to provide a new space at a similar scale to the space that was temporarily made available as a meanwhile use during the redevelopment of St David's 2 and become much loved by the city.
- Significant opportunities to improve active travel and public transport routes and for greening the city centre.
- The network of tight streets including Bridge Street, David Street, Charles Street, Tredegar Street, Gilford Crescent and Barrack Lane can be curated to create a set of vibrant new character areas in the city centre.

Council Assets

23. The Council has significant freehold land ownership in the area, including the freehold land ownership of the Motorpoint Arena.
24. The Motorpoint Arena, originally known as the Cardiff International Arena was designed as an exhibition centre, but due to tenant and market requirements with the evolving entertainment industry evolved into a venue for live entertainment hosting in excess of 500,000 visits per annum.
25. The Motorpoint Arena building is occupied under a lease of 137 years, which commenced in July 1994. The original lease was granted to Brent Walker (the developer) who subsequently assigned the lease to The Ambassador Theatre Group who later assigned to Live Nation (Music) UK Limited who are the current tenants.
26. The asset is currently managed internally within the Council's Investment Estate and delivers a significant ground rent.
27. The existing lease expires in December 2131 providing security of approximately 110 years.
28. As outlined above, Live Nation UK has recently been successful in bidding as part of a consortium to operate the new 15,000 capacity Indoor Arena proposed to be developed in Cardiff Bay. They are currently at the Preferred Bidder stage of the procurement process. The target is to complete the procurement process by the autumn of 2021.
29. Live Nation UK has requested that the Council grant an 'Option Agreement' to provide comfort for them to invest in a detailed appraisal to consider the future of the Motorpoint Arena post COVID-19 and in the context of a potential new Indoor Arena being delivered in Cardiff Bay. The Option Agreement would be drawn down in the event that significant investment was required to repurpose or redevelop the site. Live Nation remain keen to retain a city centre presence and would like to establish their Academy product in Cardiff. This could

potentially form part of a new plan for use of the Motorpoint Arena building or be could be accommodated as part of a redevelopment plan for the site. They are also considering alternative sites across the city centre.

30. Heads of Terms for the proposed Option Agreement are attached at Confidential Appendix 3.
31. The Option Agreement would extend the existing agreement to 250 years in line with surrounding leases such as the St David's 2 development to provide an investment class asset allowing for the full range of potential development uses.
32. The Council has taken independent property advice set-out in Confidential Appendix 4.
33. If Live Nation chooses to call on the Option Agreement, a further report will need to be presented to Cabinet to approve the final terms of the lease, including any premium forthcoming and to agree uses.

Scrutiny Consideration

34. The Economy and Culture Scrutiny Committee considered this issue on 11 May 2021. The letter from the Chair will be circulated once received.

Reasons for Recommendation

35. To set out a strategy for the regeneration of the eastern part of the city centre.

Financial Implications

36. This report is seeking Cabinet approval of the draft Canal Quarter Development Framework. Whilst approval in principal is being sought at this stage for the overall masterplan, any future decisions will need to be as part of a business case led approach with more detailed individual scheme proposals to be brought to Cabinet for approval where required to do so including more detailed financial implications, if any to the Council.
37. The report requests Cabinet agree to an option agreement in principle in relation to the existing Motorpoint Arena site. Given the strategic importance and value connected to the site, any definitive decision to the current lease and future use of the site will need to be subject to a future Cabinet decision and more detailed financial implications including the impact of any options and changes in covenants.
38. The Council generates revenue income from the investment estate as part of the Council's budget to support the delivery of services. In accordance with the Cabinet recommendation in November 2015 as part of an investment property strategy, any proceeds from the disposal of the investment estate are ring-fenced to meet the objectives set out in the report in the form of capital receipts.
39. Where disposal results in a loss of revenue income, it is essential that any funds are re-invested to generate at least equivalent return in order to avoid

an adverse impact on the Strategic Estates Revenue budget. Any decisions regarding the investment estate should be based on a robust business case and due diligence including consideration of the criteria for re-investment such as affordability, future risks to affordability and any maximum exposure and strength of covenant assessment. The Council will need to be mindful of any potential restrictions on re-investment in commercial property not lined to regeneration and any reporting requirements on the risk and performance of investment property.

40. The VAT implications of this proposal and any impact this may have must be carefully considered ahead of this decision being brought back to Cabinet, in particular any impact future development proposals could have on the Council's partial exemption position. For the Heads of Terms, the financial advice is that the Council should include an option to tax in order to prevent adverse taxation implications when future detailed terms and end use of the site is known.
41. To support the regeneration of the area, the Council is undertaking transport and public realm improvements, which subject to tenders are assumed to be met from Welsh Government and other external grant as well as the Council's own Capital Programme in respect to the Canal.

Legal Implications

42. Council has general power to acquire the existing lease by surrender and dispose of land by further lease pursuant to powers contained under s.120 and s.123 of the Local Government Act 1972. The Council must ensure that any sums paid represent best value and the terms of any lease, including payment of rent are the best terms reasonably obtainable. The Council's Acquisition and Disposal of Land Procedure Rules require advice to be obtained from the Council's Valuer as to the terms of the surrender and regrant.

Equalities & Welsh Language

43. In considering this matter the decision maker must have regard to the Council's duties under the Equality Act 2010 (including specific Welsh public sector duties) . Pursuant to these legal duties Councils must, in making decisions, have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. Protected characteristics are: (a) Age, (b) Gender reassignment(c) Sex (d) Race – including ethnic or national origin, colour or nationality, (e) Disability, (f) Pregnancy and maternity, (g) Marriage and civil partnership, (h)Sexual orientation (i)Religion or belief –including lack of belief.
44. The decision maker should be mindful of the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards.

The Well-being of Future Generations (Wales) Act 2015

45. The Well-Being of Future Generations (Wales) Act 2015 ('the Act') places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales - a Wales that is prosperous, resilient, healthier, more equal,

has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible. In discharging its duties under the Act, the Council has set and published well being objectives designed to maximise its contribution to achieving the national well being goals. The well being objectives are set out in Cardiff's Corporate Plan 2020 -23.

46. When exercising its functions, the Council is required to take all reasonable steps to meet its well being objectives. This means that the decision makers should consider how the proposed decision will contribute towards meeting the well being objectives and must be satisfied that all reasonable steps have been taken to meet those objectives.
47. The well being duty also requires the Council to act in accordance with a 'sustainable development principle'. This principle requires the Council to act in a way which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:
 - Look to the long term
 - Focus on prevention by understanding the root causes of problems
 - Deliver an integrated approach to achieving the 7 national well-being goals
 - Work in collaboration with others to find shared sustainable solutions
 - Involve people from all sections of the community in the decisions which affect them

The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the Welsh Ministers, which is accessible on line using the link below: <http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en>

48. Policy and Budget Framework . The decision maker must be satisfied that the proposal is within the Policy and Budget Framework, if it is not then the matter must be referred to Council.

Property Implications

49. The Estates Department has worked closely with the Major Projects team to consider the proposal and the property implications for the Council's Investment estate.
50. Any agreed reduction in rental income resulting from a surrender under the Option Agreement could be replaced by reinvesting the capital receipt into alternative property investments, in line with the wider Investment Property strategy. Should the tenant opt for a new long lease of the premises, any agreed deferred rent will be fully repaid to the Council at the end of the deferred rent period. There would therefore be a short-term stay in the income receivable.

51. Further negotiations or valuations required to deliver on the Option Agreement should be carried out in accordance with the Council's Asset Management process and in consultation with Strategic Estates and relevant service areas.

HR Implications

52. There are no HR implications arising from this report and its recommendations.

RECOMMENDATIONS

Cabinet is recommended to:

- 1) Approve the Canal Quarter Development Framework as set out in Appendix 2 for consultation.
- 2) Approve in principle the Option Agreement set out in Confidential Appendix 3 and delegate Authority to the Director of Economic Development in consultation with the Cabinet Member for Investment and Development, the Section 151 Officer and the Legal Officer to complete an agreement and in the event that the Option Agreement is exercised a further report will be presented back to Cabinet for approval.

SENIOR RESPONSIBLE OFFICER	Neil Hanratty Director of Economic Development
	14 May 2021

The following appendices are attached:

Appendix 1 - Site Plan
Confidential Appendix 2 - Masterplan Framework
Confidential Appendix 3 - Heads of Terms
Confidential Appendix 4 - Independent Valuation