

CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD

CABINET MEETING:

October 2021

JAMES STREET REGENERATION, CARDIFF.

INVESTMENT & DEVELOPMENT (COUNCILLOR GOODWAY)

AGENDA ITEM:

PORTFOLIO: BUSINESS & INVESTMENT

Appendices 4 to 9 of this report are not for publication as they contain exempt information of the description contained in paragraphs 14 of part 4 and paragraph 21 of part 5 of Schedule 12A of the Local Government Act 1972.

Reason for this Report

1. To seek authority to dispose of a collection of buildings known as Merchant's Place/Cory's Buildings situated on the corner of James Street and Bute Street, Butetown.
2. To seek authority to appropriate Council owned land at James Street, Butetown, to the Housing Revenue Account.

Background

3. The regeneration of Cardiff Bay has been a core Council priority for a number of decades. The political administration remains committed to the on-going regeneration of the Bay and to restoring and upgrading the remaining heritage assets that require investment as confirmed in their strategic policy vision document *Capital Ambition* which includes a commitment to "writing a new chapter in Cardiff Bay's regeneration story".
4. A report was presented to Cabinet in November 2018 outlining a strategic plan to secure investment into the city's heritage buildings. In March 2020, Cabinet provided authority for the Council to assemble a development site at James Street (see **Appendix 1**) to bring an area of land that had remained vacant and largely derelict for circa 30 years back into effective use.
5. In November 2020, Cabinet provided authority for the Council to acquire a collection of buildings known as Merchant Place/Cory's Buildings on the corner of James Street and Bute Street (see **Appendix 1**). These buildings have been vacant and in decline for over 20 years and given

their prime location in the heart of Cardiff Bay, this was a strategic acquisition to complement the Council's regeneration proposals for Atlantic Wharf and the remainder of the Bay area.

6. In February 2021, the Council commenced a soft market exercise to seek development proposals for both sites. A comprehensive marketing brochure was prepared for each site (see **Appendices 2 & 3**), together with a data room to assist with the detailed surveys undertaken for the sites over many years.

Issues

7. Whilst Cardiff Bay has been transformed from its derelict state following the decline of the Coal and Steel industries, there remains several small pockets of dereliction that have required Council intervention to unlock development either through the provision of repayable loan finance or through the Council proactively assembling land into development sites.
8. The Council is committed to securing the future of the city's heritage buildings and has intervened in recent years to bring a number of buildings back into effective use including most recently the former Cardiff Bay Train Station on Bute Street. Although Cardiff Bay has some of the best examples of historic buildings in the city there are relatively few compared to other cities. This means the preservation of such buildings is even more important for Cardiff. Such buildings have often presented significant challenges for the private sector to overcome which has left buildings vacant and in decline.
9. The Council's interventions are primarily aimed at stimulating the private sector to deliver investment to reclaim derelict land and/or regenerate declining buildings. The Council's investment is always on the basis that it will seek to recover the initial outlay required to unlock a site for development. The Council's intervention seeks to simplify opportunities and provide confidence to the market with a view to accelerating the investment required to bring property back into effective use.
10. Cardiff Bay is framed as the city's focal point for leisure and tourism activity. The Council's Economic Regeneration Strategy sets out two strategic regeneration priorities: Metro Central, which involves the regeneration of the area around Cardiff Central Station for office-led mixed use development, and Atlantic Wharf, Cardiff Bay, for leisure-led regeneration centred around a new indoor arena. Securing investment to promote the continued development of leisure and tourism activity in Cardiff Bay remains a core priority.

Merchant Place/Cory's Buildings

11. Following the Cabinet Decision in November 2020, the Council agreed terms to acquire Merchant Place/Cory's Buildings in January 2021. The collection of historic buildings have been vacant for over 20 years and given the prime location in the heart of Cardiff Bay coupled with the

Council's commitment, this was a strategic acquisition to complement proposals at Atlantic Wharf and the remainder of the Bay area.

12. In February 2021, the Council began a soft market testing exercise to seek offers from the market. Independent agents were appointed to manage the process. 37 legal packs were downloaded from a variety of interested parties to bring forward schemes including hotels, residential, education and mixed use. Several viewings of the buildings were undertaken.
13. A significant number of offers came forward through the marketing process with a variety of uses and opportunities. Given the volume of interest and variety in offers the Council's agents advised to invite second bids to firm up on detail and to establish a framework for fair comparison and assessment. A scoring matrix was included as part of the marketing material with the aim of guiding interested parties on the level of detail required and the key considerations that were important to the Council, so that offers could be channelled and similar detail supplied by all parties.
14. The Council's key considerations were to recoup its initial investment and to deliver a mixed use scheme which contributed to the Council's strategy for the area. 4 such bids were received.
15. The soft market testing exercise was undertaken jointly with the James Street site (detailed later in this report). Despite clear guidance not to specifically link the Merchant Place/Cory's building opportunity to the James Street site opportunity, a number of developers required both sites to deliver their proposals.
16. Following further consideration, the Council decided to remove the James Street site from the market and will instead bring forward a proposal to develop the James Street site for Council housing. Details of this scheme will be presented to Cabinet at a later date. As a result of this internal consideration, the anticipated timescales for the disposal of Merchant Place/Cory's Building has been impacted by a few months.
17. The Council's appointed agents have prepared an independent report reviewing each bid and providing professional opinion on the recommended Preferred Bidder. The report is attached as **Confidential Appendix 4**.
18. A formal offer letter has been received from the Preferred Bidder which is attached as **Confidential Appendix 5**. Heads of Terms have been agreed in principle set-out in **Confidential Appendix 6**.
19. The Preferred Bidder is Dukes Education, owners of the Cardiff 6th Form College currently based on Newport Road with residential accommodation based in the Unite Student block on Adam Street. The college attracts students from all over the world and provides an intense residential based education package aimed at helping students gain access to the world's top 100 universities. Around one fifth of places are allocated to students from Cardiff and the surrounding area, most of which are provided by the college's scholarship scheme and 100% subsidised.

20. Dukes Education has been seeking alternative premises in Cardiff for a number of years. They currently lease office space on Newport Road for their teaching accommodation and lease space at the Unite Student block on Adam Street for their residential accommodation. The company would prefer to own their own premises and to co-locate their teaching accommodation with their residential accommodation. The company has been unable to find a suitable location in Cardiff, despite extensive consideration, and has begun to consider options in Oxford, the base of their administrative HQ.
21. Their proposal for the Merchant's Place/Cory's building will see the historic buildings totally reclaimed and upgraded for use as teaching accommodation with ground floor activity including a coffee shop. The site to the rear of the buildings off Docks Lane will be developed to provide a proportion of the required residential accommodation. A second site has also been secured on Pierhead Street to deliver the remaining residential accommodation.
22. The bid from Dukes Education is regarded by the Council's independent agents as the best bid. The proposal provides the most confidence of the heritage buildings being fully refurbished, and the Council fully recovering the capital expended in acquiring the site. The proposal provides a vibrant scheme attracting a significant number of young people to the area. Dukes Education is a well funded organisation backed by a number of high profile pension funds. They will deliver a self-funded, owner-occupied scheme, minimising development risk, particularly risk relating to the attraction of finance and tenants. Initial drawings for the Dukes Education proposal are attached as **Confidential Appendix 7**.

James Street

23. The James Street development site is made up of 3 separate parcels of land as illustrated by the plan attached at **Appendix 1**. The whole site is now under the Council's control. The substantive part of the site is an area of derelict land consisting of circa 0.5 acres fronting James Street and Adelaide Street. The second parcel is Mandalay House, a circa 2,000 sq ft, two-storey office building fronting Royal Stuart Lane, adjacent to the Council owned Royal Stuart and Douglas Workshops. The third parcel is the existing Western Power Sub Station. The Sub Station is now subject to an agreement between the Council and Western Power that will enable a new Sub Station to be re-provided in an alternative location as part of the final development scheme. Once the final scheme is agreed, the new Sub Station will be commissioned by Western Power. The Council will then provide a long-term lease to Western Power. Once the new Sub Station is operational, Western Power will dispose of their freehold interest in the existing Sub Station to the Council.
24. The James Street site benefits from a strategic location in close proximity to Mount Stuart Square and the Coal Exchange as well as Cardiff Bay's key visitor attractions at the Inner Harbour and the proposed new Atlantic Wharf development. The site also sits immediately adjacent to Mount

Stuart Primary School. Given the derelict state of the site over a number of decades, it has become a significant blight on the local community and environment.

25. Following the acquisition, the Council has cleared the site and hoarded the entire site in order to improve the general appearance of the immediate area. A planning application is being prepared for the demolition of the remaining structures and the relocation of the Sub Station.
26. In February 2021, the Council jointly marketed the development site alongside Merchants Place/Cory's Buildings. At the same time the Council's Housing department undertook feasibility work to determine if the site was suitable for the delivery of council housing.
27. Capital Ambition sets out the Council's target of delivering at least 1,000 new council homes by 2022 and to have a development programme capable of delivering over 2,000 new council homes in the longer term.
28. The housing need is increasing year on year and there are currently around 8,000 people on the housing waiting list. The most recent Local Housing Market Assessment indicated that 2,024 new affordable homes are required each year to meet the current demand. However, on average over the last 5 years the social housing sector has delivered around 250 new homes each year in Cardiff. This represents a significant gap between demand and supply.
29. The Council's programme can also directly target specific housing need, provide more accessible homes and promote downsizing and deliver more specialist properties or adapted properties. These type of properties are in high demand but are not currently being delivered in volume through more traditional delivery routes.
30. Specifically, the James Street site developed as new council housing can provide homes suitable for inter-generational, family housing within the ward of Butetown. This is a unique housing need identified for the Ward. Such a development would provide suitable and adaptable accommodation for larger, extended families delivering accommodation that provides for older family members who wish to live with their extended families. The site is well located close to local facilities and parkland and the development would provide a private communal garden.
31. The indicative scheme prepared by Economic Development for the soft market testing of the James Street site is being adapted by Housing and Communities to deliver the required council housing scheme. A high-level financial feasible has been undertaken using the indicative scheme and estimated build costs which has shown the scheme to be viable for delivery through the council house build programme. The proposal therefore is to appropriate the James Street site into the Housing Revenue Account (HRA) in order that a council led redevelopment of the site can be delivered.

32. In order to accelerate the regeneration of the site, a series of enabling works have been prepared to take place over the next few months. It is proposed that these works will progress as planned in advance of a detailed planning application for with the proposed scheme and the costs will be recovered into the General Fund. A full schedule of works already undertaken alongside the proposed works to be undertaken is attached as **Confidential Appendix 8**.
33. Initial feedback from the Local Planning Authority on the proposed development scheme requires the ground floor frontages along James Street and Adelaide Street to have active frontages with a commercial interest. Economic Development has committed to continue to work with Housing and Communities to develop a solution to enable delivery of the required ground floor uses.
34. An external valuation of the whole development site is attached as **Confidential Appendix 9**. A commensurate accounting transaction will take place between the Housing Revenue Account and the General Fund accordingly. In addition, the transaction will address the reasonable costs already incurred by Economic Development in preparing the site for development, as well as the programmed costs set out in **Confidential Appendix 8**.

Reason for Recommendations

35. To enable the regeneration of James Street by protecting and refurbishing the iconic Merchant Place/Cory's Buildings and redeveloping derelict land to deliver new Council housing.

Financial Implications

36. The report identifies the freehold disposal of Merchant Place/Cory's Building and the appropriation of the James Street development site into the Housing Revenue Account.
37. In terms of Merchant Place/Cory's Building, any revenue implications will need to be managed within the existing Economic Development revenue budget, including any short-term rental income losses as a result of the disposal. However, the disposal would also result in removal of any holding costs and maintenance liabilities, support wider economic regeneration, and allow re-investment in an alternative asset to secure a longer-term equivalent income stream.
38. The initial acquisition costs of Merchant Place were funded from three different sources: balance of £1.7m for Economic Development Initiatives included in the current Capital Programme, an earmarked receipt held from the sale of the Medicentre for reinvestment, £1.28 million, with the balance met from disposal receipts already received as part of the Council's Investment Property Strategy.
39. Any proceeds from the disposal of the site would be earmarked and available for further re-investment in Economic Development initiatives or

for re-investment as part of the Councils Investment Property Strategy. The disposal process adopted should aim to secure best value for the site as recommended by valuation advice.

40. As part of the original purchase of Merchant Place/Cory's Building, the Council chose to opt to tax the site to minimise any impact on the Council's partial exemption position. Therefore, any disposal must charge VAT in accordance with the process set out by HMRC.
41. The report also proposes the appropriation of James Street development site to the HRA for the purpose of developing new affordable council housing to let at social rent levels. Any decision to appropriate the site should be based on a valuation demonstrating best value for the site as well as an indication of the total costs of both the site acquisition and an estimate of total development costs. An initial housing viability assessment to support decision making is included as part of the report and will need to be updated as part of the due diligence process set out by the HRA in respect to housing developments. (See Confidential Appendix 8 and 9)
42. Funding to acquire and develop the site can be re-prioritised from within the overall 5 year capital programme approved as part of the HRA budget setting proposals in March 2021.
43. The certified value of the appropriation has been agreed by a qualified valuer employed by the authority. The appropriation does not result in any cash transfer between the General Fund and the HRA, but a transfer of debt (CFR) which is an accounting transaction.
44. Following the appropriation, the HRA will incur interest and will need to make prudent repayment of debt.
45. The responsibility for the land appropriated will transfer to the Housing Revenue Account who will be responsible for all subsequent capital and revenue costs, benefits and risk in relation to the property transferred. On appropriating the land the HRA will be responsible for the holding costs of the site until development proceeds.
46. The report proposes that any development may include a commercial element. Whereas part of any development other commercial or community uses are proposed, any due diligence needs to include consideration of the ability to use HRA funds to pay for and operate such facilities, the approved budget framework in place for such facilities and the VAT impact on the council. These items need to be considered at an early stage of any development work.

Legal Implications (including Equality Impact Assessment where appropriate)

47. The Council has power to appropriate land for any of its statutory functions where that land is no longer required for the purpose for which it is currently held pursuant to section 122 of the Local Government Act

1972. It is proposed in this case that the land at James Street will be appropriated to the HRA to be used for Housing purposes.

- 48. Section 123 of the Local Government Act 1972 gives power to the Council to dispose of land and is required to obtain the best consideration reasonably attainable.
- 49. The Council's Disposal and Acquisition of Land Procedure Rules requires the decision maker to have regard to advice from a qualified valuer, to ensure value for money.

Equalities & Welsh Language

- 50. 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.
- 51. When taking strategic decisions, the Council also has a statutory duty to have due regard to the need to reduce inequalities of outcome resulting from socio-economic disadvantage ('the Socio-Economic Duty' imposed under section 1 of the Equality Act 2010). In considering this, the Council must take into account the statutory guidance issued by the Welsh Ministers ([WG42004 A More Equal Wales The Socio-economic Duty Equality Act 2010 \(gov.wales\)](#)) and must be able to demonstrate how it has discharged its duty.
- 52. An Equalities Impact Assessment aims to identify the equalities implications of the proposed decision, including inequalities arising from socio-economic disadvantage, and due regard should be given to the outcomes of the Equalities Impact Assessment.
- 53. 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

- 54. 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 wellbeing objectives are set out in Cardiff's Corporate Plan 2020 -23.

55. When exercising its functions, the Council is required to take all reasonable steps to meet its wellbeing objectives. This means that the decision makers should consider how the proposed decision will contribute towards meeting the wellbeing objectives and must be satisfied that all reasonable steps have been taken to meet those objectives.
56. The wellbeing 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>

Policy and Budget Framework

57. 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.

RECOMMENDATIONS

Cabinet is recommended to:

- (i) Delegate authority to the Director of Economic Development, in consultation with the Cabinet Member for Investment & Development, the Section 151 Officer and the Legal Officer to:
 - a) Conclude the disposal of the property known as Merchants Place/Cory's Building marked red on the site plan attached at Appendix 1 to the Preferred Bidder set out in this report and in line with the Heads of Terms set out in Confidential Appendix 6.
 - b) Appropriate land at James Street marked blue on the plan attached as Appendix 1 to the Housing Revenue Account in line with the valuation attached at Confidential Appendix 9.

NEIL HANRATTY
DIRECTOR OF ECONOMIC DEVELOPMENT

The following appendices are attached:

- Appendix 1 - Site Plan
- Appendix 2 - Marketing Brochure (Merchants Place)
- Appendix 3 - Marketing Brochure (James Street)
- Confidential Appendix 4 - Surveyors Recommendation Report (Merchants Place)
- Confidential Appendix 5 - Offer letter (Merchants Place)
- Confidential Appendix 6 - Proposed Heads of Terms (Merchants Place)
- Confidential Appendix 7 - Scheme proposals (Merchants Place)
- Confidential Appendix 8 - Enabling Works (James Street)
- Confidential Appendix 9 - Market Value Report (James Street)

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