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Dear Eluned

## **WELSH GOVERNMENT INVESTMENT IN ROATH BASIN**

On 16 June 2014, you wrote asking me to examine claims made by the former First Minister – Rhodri Morgan – that the Welsh Government had spent £10 million on road improvements in Cardiff Bay to enable BBC Wales to build a new headquarters building at the Roath Basin site adjacent to the BBC's 'Drama Village'. Media coverage at the time of your letter had quoted Mr Morgan's assertion that the decision by BBC Wales to instead locate its new headquarters in the centre of Cardiff was contrary to indications he had been given by a former BBC official – Nigel Walker – that, when required, the new headquarters would indeed be located at Roath Lock.

I am writing now to advise you of the outcome of work that Wales Audit Office staff have undertaken on my behalf to consider these issues. Wales Audit Office staff have reviewed relevant documentary evidence and they have discussed this matter with Welsh Government officials. They have also sought confirmation of certain factual matters from the BBC. However, they have not sought to discuss the details of this matter with current or former BBC officials, or with the former First Minister.

I should emphasise that my audit powers give me no right of access to the BBC. The BBC Trust appoints its own auditor, currently Ernst and Young, and while the National Audit Office (NAO) does conduct value for money studies of the BBC's use of licence fee income, these are underpinned by the provisions – specifically clause 79 – of the July 2006 'Broadcasting Agreement', as amended in September 2011, between the Secretary of State for Culture Media & Sport and the BBC. There is no wider statutory basis for the National Audit Office's value for money work at the BBC. The National Audit Office carried out a study of the BBC's property strategy in 2014 and the BBC Trust has recently [published](#) the findings from that work. The report includes references to the BBC's estate in Wales, but the NAO did not examine the details of the deal to locate the

new BBC Wales headquarters in central Cardiff. The BBC has confirmed that the Roath Basin site was included in a previous longer shortlist of potential sites for its new headquarters but did not make the final shortlist of three sites, one of which was in the Cardiff Bay area.

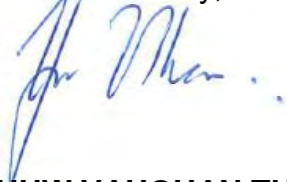
Wales Audit Office staff have confirmed that, on 7 December 2009, the Welsh Government's Cabinet Committee on Budget and Performance approved a £10 million package of investment in Roath Basin, not all of which related specifically to improved access. The Welsh Government has, in fact, since spent £11.9 million in total as part of its package of investment in Roath Basin, having approved up to a further £2 million of funding in March 2011 to cover increased costs arising from unexpected town planning obligations.

The Welsh Government's investment was part and parcel of changes to a development agreement for Roath Basin that the Welsh Government had entered into in 2007 with Igloo Regeneration, and was clearly related to the development of the drama village. Wales Audit Office staff have seen no evidence to suggest that the Welsh Government's decision to invest in Roath Basin was based upon any formal agreement that the BBC would locate its headquarters there, although the BBC had negotiated an option to do so. That option agreement, and some of the background to the Welsh Government's investment, was outlined in March 2010 in an independent report – [The Heart of Digital Wales: a review of creative industries for the Welsh Assembly Government](#). That report had called upon the Welsh Government to seek to secure Roath Basin as the site for the new BBC headquarters, pointing to the potential economic benefits that could result, well in excess of the benefits forecast from the drama village alone.

I have annexed to this letter some further details about these matters. Taking into account the findings of the preliminary review undertaken by Wales Audit Office staff, I do not intend to take forward any further audit work regarding the role that the location of the BBC headquarters played in the Welsh Government's original investment decision. However, please let me know if you would like to discuss this matter with me or with Wales Audit Office staff. While I have set out, for context, some additional factual information about the overall development agreement that the Welsh Government has entered into for Roath Basin, I have not sought to form a view at this stage about the overall value for money of that arrangement.

I am copying this letter to Darren Millar AM who, in his capacity as Chair of the Public Accounts Committee, has also raised this matter with me.

Yours sincerely,



**HUW VAUGHAN THOMAS**  
**AUDITOR GENERAL FOR WALES**

*Enc: Annex A: Welsh Government Investment in Roath Basin – Briefing Paper*

*cc Mr Darren Millar AM, Chair of Public Accounts Committee*

### WELSH GOVERNMENT INVESTMENT IN ROATH BASIN – BRIEFING PAPER

1. The Roath Basin site is home to the BBC Wales drama production centre – the ‘Drama Village’. This 176, 510 square foot facility comprises a number of studios and produces BBC Wales made dramas which to date have included Casualty, Pobol y Cwm, Doctor Who, Upstairs Downstairs and the children’s production Wizards vs Aliens. The Drama Village opened in 2011. Also located at the site is a 32,000 square foot office block originally known as the Digital Media Centre, but now known as GloWorks.
2. In 2003, the Welsh Government developed a ‘master plan’ for the derelict former dockworks at the Roath Basin site, with the aim of providing one million square feet of commercial property for use by media and life sciences focussed businesses, together with just over 1,010 residential properties and waterfront walkways. The ambition was for completion by 2020, The Welsh Government undertook an open competitive process to select a private sector partner to support its delivery of the masterplan and, on 20 August 2007, signed a ‘development agreement’ with [Igloo Regeneration](#)<sup>1</sup>. At that time, the Welsh Government envisaged that Igloo Regeneration would build and sell the first 500 residential apartments and use the capital receipts to fund the initial infrastructure work.
3. Within a short time of the development agreement being agreed, a number of factors meant that the master plan and the proposed mechanism for funding the infrastructure work was no longer feasible. In particular:
  - plans for a life sciences technium on the site fell through; and
  - the recession and the subsequent downturn in the housing market created an oversupply of residential apartments, casting doubt on the prospect that Igloo Regeneration would be able to fund the infrastructure work through the development and sale of the proposed apartments<sup>2</sup>.
4. At around the same time, the BBC entered the property market looking for a site either for a stand-alone drama production facility or a site to accommodate both drama production and a new headquarters building. Representatives acting on behalf of the BBC approached the Welsh Government to identify if there was any scope for the Welsh Government to support elements of the BBC’s plans. The Welsh Government told the BBC that State Aid rules would restrict the nature of any investment it could make, but that it was willing to explore how it could help the BBC develop its drama production facilities in Wales.

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<sup>1</sup> The Igloo Regeneration Fund describes itself as ‘a partnership of pension, life and charity funds managed by Aviva Investors, which invests in sustainable urban regeneration across the UK’.

<sup>2</sup> The Welsh Government had expected to lever in around £250 million of private investment from Igloo Regeneration between 2012 and 2020. While Welsh Government officials are working with Igloo Regeneration to identify a way to take forward the residential element of the development agreement, this is still not deemed commercially viable at present.

5. We understand that, in early 2009, the BBC's Finance Committee rejected the idea of constructing both a new drama village and a headquarters on a single site in Wales at that point in time on cost grounds, and taking into account the organisational and resource demands of other major commitments to developments in Salford, London and its preparation for the 2012 Olympics. However, the Finance Committee supported the idea of BBC Wales looking for a site for a new drama production unit for the production of a range of programmes, or a stand-alone unit to produce *Casualty*. The Welsh Government decided that it would not offer any support for a stand-alone facility to produce '*Casualty*'. The Welsh Government's view was that only a drama village producing a range of programmes would act as a catalyst for the expansion of the creative industries sector in Wales, something that remains a key Welsh Government objective<sup>3</sup>.
6. In June 2009, BBC Wales selected Roath Basin as its preferred option for a drama village. There was then a period of negotiation between BBC Wales and Igloo Regeneration, and Welsh Government officials intervened to help broker an agreement. These negotiations included discussions about the prospect of agreeing a time-limited option to develop a new headquarters on the site.
7. On 14 December 2009, the then Deputy First Minister agreed plans in relation to the development of the drama village and changes to the original development agreement with Igloo Regeneration which would mean that<sup>4</sup>:
  - The Welsh Government would sign a 25 year lease with Igloo Regeneration for the drama village and GloWorks, with Igloo Regeneration then taking forward the construction of these premises. The total rent payable for both properties was estimated at £2.1 million per annum. Under the terms of the 2007 development agreement, the final rental payments can only be confirmed once the construction costs of the two buildings are finalised. Those final construction costs and the implications for the amount of rent payable are still to be agreed, although negotiations are underway.
  - The Welsh Government would agree a 20 year sub-lease with the BBC for the drama village under which the BBC is committed to an annual rental payment to the Welsh Government of £1.35 million. The sub-lease gives the BBC the option to exercise a break clause after 10 years (on giving 12 months' notice and a penalty payment of two years rent) and also at year 15 (on giving 12 months' notice and a penalty payment of one year's rent)'.  - The Welsh Government would invest what was expected at the time to be £10 million in capital works, comprising:
    - £1.5 million to 'fit out' GloWorks; and

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<sup>3</sup> See *Economic Renewal: a new direction*, Welsh Government, July 2010.

<sup>4</sup> In December 2009, Ieuan Wyn Jones held the posts of Deputy First Minister and Minister for Economy and Transport. It was as the Minister for Economy and Transport that he agreed the changes to the Development Agreement with Igloo Regeneration.

- £8.5 million of infrastructure work to: decontaminate a section of land; bring utilities on-site; and to provide vehicle and pedestrian access, installing a road through the site from the Queensgate roundabout to the Norwegian Church next to the Outer Roath Basin Lock and upgrading the Roath Basin Inner Lock Swing Bridge and the Outer Roath Basin Lock bridge. The original development agreement anticipated that Igloo Regeneration would use capital receipts to fund this work (paragraph 2).
  - The original development agreement would be amended, such that Igloo Regeneration would no longer have to pay, at the end of the agreement in 2026, the anticipated sum of £2.5 million<sup>5</sup> for the first phase of land due for release with any remaining land to have been sold for the nominal sum of £1. Instead, all land would be paid at the prevailing open market value relative to each phase of building works. However, even when assuming planning consent for the development and completion of the infrastructure works that the Welsh Government was committing to fund, professional advice at the time indicated that the value of the land on which GloWorks and the drama village was located was nil or nominal. On that basis, the Welsh Government still sold that land for £1. The professional advice that the Welsh Government obtained suggested that, over 10 to 15 years, land receipts could exceed the facilitating investment.
  - The Welsh Government's lease arrangement with Igloo Regeneration would entitle Igloo Regeneration to only a 6.3 per cent rate of return, compared to the 12.5 per cent rate of return permitted in the original development agreement.
8. On 15 January 2010, the Welsh Government and Igloo Regeneration signed a 'deed of variation' to the original 2007 development agreement, to reflect the changes listed above. On 15 January 2010, the Welsh Government, Igloo Regeneration, and BBC Wales, signed an agreement that confirmed a near four-year option (until 31 December 2013) for the BBC to require that Igloo Regeneration develop on the site a new headquarters to cover approximately 150,000 square feet that would be leased by the BBC.
9. The Welsh Government had sought funding for its investment in infrastructure work at Roath Basin from the UK Government's Strategic Investment Fund (SIF). Ultimately, the UK Government, through the Department for Trade and Industry, decided instead to provide SIF funding for the High Performance Computer Network in Wales<sup>6</sup>. While they were seeking SIF funding from the UK Government, Welsh Government officials also submitted a bid for funding from the Welsh Government's Strategic Capital investment Fund (SCIF) for the full £10 million package of work. On 7 December 2009, the Welsh Government's

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<sup>5</sup> The figure of £2.5 million comprised costs incurred by the Welsh Government to the point at which it signed the development agreement in August 2007.

<sup>6</sup> High Performance Computing Wales is a collaboration between the Welsh Government, Welsh universities and Fujitsu. It describes itself as giving 'businesses and researchers access to world-class, secure and easy to use high performance computing technology'



Cabinet Committee on Budget and Performance had approved that bid<sup>7</sup>. The Welsh Government's Cabinet Secretary has confirmed that, as First Minister, Mr Rhodri Morgan attended the Cabinet Committee meeting on 7 December 2009.

10. The minutes of the Cabinet Committee meeting on 7 December 2009 record that: 'The funding of the Media Capital and Roath Basin Regeneration project was dependent upon the BBC agreeing to locate its new Cardiff drama studios in Roath Basin'. Wales Audit Office staff have not seen the full set of minutes for this meeting, but Welsh Government officials have confirmed that this is the only reference to the funding decision. This and other documentary evidence reinforces the key relationship between the Welsh Government investment and the decision by the BBC to commit to the drama village in Roath Basin. There appears to have been no secret about the fact that the BBC was investigating the possibility of an option to locate its new headquarters at Roath Basin. For example:
  - The Welsh Government's bid document for SCIF funding refers to the BBC having reached an in principle agreement for that option, although the option is not mentioned in the paper that went to the Cabinet Committee. The paper for the Cabinet Committee focuses on the link with the proposed development of the drama village.
  - The submission to the Deputy First Minister that informed his decision to approve the £10 million Welsh Government investment on 14 December 2009 stated that the risk of the BBC pulling out of the drama village before the full 20 year period of its lease elapsed would be reduced should the BBC decide to exercise its option also to locate its headquarters in Roath Basin.
11. In March 2011, Ieuan Wynn Jones, the then Deputy First Minister, approved a further £2 million of funding for the project, due to 'increased infrastructure costs arising from unexpected town planning obligations'. Welsh Government officials told us that the single largest component of the additional work required was 'Variable Messaging Signage to direct traffic to the relevant site entrance depending on whether the Inner Lock Swing Bridge accessing the site is open or not. Under a further deed of variation, the additional investment reduced the rental liabilities of the Welsh Government by £126,000 per annum. The total cost of the additional infrastructure was £4.5 million. At the time the work was completed, Igloo Regeneration met the £2.5 million balance. The extent to which that £2.5 million is an eligible cost for the purpose of calculating rent (paragraph 7) is part of ongoing negotiations.
12. Also in 2011, Igloo Regeneration sold on the drama village and GloWorks to British Steel Pension Trustees. This sale will generate an overage payment of

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<sup>7</sup> In 2008, the Welsh Government established for a period of three years the Strategic Capital Investment Panel, comprising six independent experts, to advise it on allocating its Strategic Capital Investment Fund. Final decisions about the allocation of the funding fell to the Cabinet Committee. The Panel did not initially recommend funding the project, but subject to further work developing the project the Cabinet Committee reconsidered the project under the second tranche of SCIF funding.

£3.75 million. The Welsh Government has agreed with Igloo Regeneration, and through it with British Steel Pension Trustees, that this overage payment should be converted from a cash payment to a rent reduction. Under a further deed of variation, the overage reduced the rental liabilities of the Welsh Government by £178,850 per annum. The Welsh Government took this decision because of the revenue risk it is carrying, given that it had agreed a longer lease with Igloo Regeneration than it had agreed with the BBC.

13. In entering into the lease agreement with Igloo Regeneration, the Welsh Government acknowledged at the time that these arrangements exposed it to a potential liability of around £760,000 because it did not, at that time, have any tenants for GloWorks. The Welsh Government also acknowledged the risk that BBC Wales could exercise its break clause, albeit with penalty payments, potentially leaving the Welsh Government without a sub-tenant to help meet the total costs of its rental agreement. As of July 2014, GloWorks had two tenants, both creative sector industries, and the building was 80 per cent occupied.
14. It is not possible at this time to put a value on the Welsh Government's liabilities, should it not achieve full occupancy of GloWorks. As stated above, the final rental costs are determined by the final construction costs, which have not as yet been agreed between the Welsh Government and Igloo Regeneration. As at August 2011, the Welsh Government was estimating that the final annual rent for the two buildings will be below the initial forecast of £2.1 million.
15. Pending agreement of the final rent with Igloo Regeneration and British Steel Pension Trustees, to date the Welsh Government has received rental income of £4,393,459 and made payments of £4,326,192. These figures do not include any payments for GloWorks, nor do they include any income from that building as the current tenants have the benefit of a initial commercial rent free period.