

Cabinet

Supplementary Information



Date: Tuesday, 4 February 2020

Time: 4.00 pm

Venue: City Hall, College Green, Bristol, BS1 5TR

Distribution:

Councillors: Mayor Marvin Rees, Nicola Beech, Craig Cheney, Asher Craig, Kye Dudd, Helen Godwin, Helen Holland, Anna Keen, Paul Smith and Steve Pearce

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Date: Tuesday, 28 January 2020



Supplementary Agenda

15. Temple Island - scheme content and development agreement

Extension of Public Questions deadline for this item.

(Pages 3 - 272)

Please note: the deadline for public forum questions on this item only is now
5pm, Thursday 30th January 2020.





Decision Pathway – Report

PURPOSE: Key decision

MEETING: Cabinet

DATE: 04 February 2020

TITLE	Temple Island – conditional disposal of land interest to L&G and associated office building lease		
Ward(s)	Windmill Hill and Lawrence Hill		
Author: Colin Molton	Job title: Executive Director, Growth & Regeneration.		
Cabinet lead: Cllr Cheney	Executive Director lead: Stephen Peacock		
Proposal origin: <i>BCC Staff</i>			
Decision maker: Cabinet Member Decision forum: <i>Cabinet</i>			
<p>Purpose of Report: At the 2nd July 2019 Cabinet meeting, Cabinet received an update on proposals for Temple Island re-development and the proposed disposal of land to Legal and General. Approval was given, in principle, to the conditional disposal of the Temple Island site to L&G on a long leasehold basis – in a way which demonstrates best consideration – and to the Council entering in to an Agreement for Lease relating to an office building not exceeding 100,000 sq ft to be constructed on the Temple Island site through a first phase of works. Cabinet further approved a project budget of up to £0.5m to support the development of proposals for the Temple Island site. This report provides a further update on progress with L&G on Temple Island project within the context of the wider growth and regeneration plans for Bristol and seeks approval to (i) enter in to all necessary legal documentation to take the project forward (ii) for funding to continue progression of the scheme (including on site investigations), and (iii) for the development and submission of funding applications to WECA to support enabling works.</p>			
<p>Evidence Base:</p> <p>Bristol is a world leading city with a strong vision for the future. The city is leading the way in delivering innovative new housing solutions and is seeking to ensure that the city is more inclusive, well connected, sustainable and successful for everyone who lives, works and studies in Bristol.</p> <p>Regionally, the city has been working in close partnership with both neighbouring authorities and with partners within the wider region; forming the Western Gateway partnership which will be focused on creating a cross-border economic partnership to the benefit of its citizens and businesses.</p> <p>Looking across the city, several physical regeneration projects and programmes are progressing which support this ambitious agenda including those within the Temple Quarter; Bedminster and Hengrove. Between these major projects, development will be delivered which will create new homes for existing and future residents; deliver new workspace to support economic growth in the city, and; deliver modern-fit for purpose transport infrastructure which will support sustainable, efficient and cost-effective local and regional travel.</p> <p>At the same time, the city is continuing to look forward and to innovate; development at Frome Gateway, Western Harbour and proposals for a new Mass Rapid Transit for the system are all demonstrating how the city intends to grow in a more sustainable and inclusive manner and account for the needs of future generations, as well as existing residents and businesses. The Mass Rapid Transit will see connections from key hubs, enabling the movement of significant numbers of people between key destinations within the city – including Temple Meads.</p> <p>In the Temple Quarter; proposals plan to build on the success of projects such as the Engine Shed and on the growth delivered through the Enterprise Zone. The city now has an opportunity to capitalise on emerging opportunities and BCC, working in close partnership with other public sector bodies including Network Rail, WECA and Homes England, is actively seeking to facilitate the development of a new city quarter within Temple Quarter; somewhere that realises the Mayor’s Vision of a “new city quarter</p>			

that is welcoming to all – to live, work, study, enjoy leisure time and build on Bristol’s strengths as a world class city”

Indeed, significant progress is already being made;

- The completion of the roadworks at Temple Gate, although completing later than anticipated, have paved the way for further development at Temple Gate – facilitating the development of significant amounts of office space adjacent to 100 Temple Street on land reclaimed from the highway and facilitating the delivery of Engine Shed 2
- The City Council and its partners (Network Rail, West of England Combined Authority and Homes England) are progressing Masterplanning work for the Temple Quarter which will set the Vision for the Temple Quarter moving forwards and support future investment in to key projects, including;
 - Temple Meads railway station; investment in a new City Gateway formed by a new northern entrance to Temple Meads with an enhanced concourse and arrival facilities;
 - Investment in public realm and retail in and around the station; delivering a significantly improved passenger experience and delivering much needed facilities for residents, commuters and workers alike;
 - Investment in supporting infrastructure, including a new dispersed transport interchange delivering fit for purpose facilities for taxis, buses, cyclists and accommodating the operational requirements of the railway.
- The University of Bristol is preparing its reserved matters planning application for its new Temple Quarter Enterprise Campus adjacent to Temple Meads, having recently secured its reserved matters consent for new student residences on Temple Island, and, integrated with the University’s plans for its new Temple Quarter campus, and;
- The partners’ have also worked with the University of Bristol to develop proposals for a new Eastern Entrance to Temple Meads which will deliver an improved accessibility and connectivity to Temple Meads; opening up the east of Temple Meads for redevelopment and supporting longer term development aspirations for this area of the city.

Moving forwards; the Vision for the regeneration of St Philips Marsh, informed by a significant evidence base and extensive community engagement undertaken through the course of the masterplan commission, is for the delivery of an inclusive and sustainable city ‘innovation quarter’ – delivering new homes alongside new and retained employment spaces which cater for a wide range of Bristol’s businesses and which build on Bristol’s collaborative and creative nature. Public and open spaces will create opportunities to play, collaborate and dwell and community and retail facilities will facilitate opportunities for community activities.

Bristol is on the cusp of a significant phase of new and exciting development and Temple Quarter is poised to lead the way. Key projects are now moving forwards at pace, further developments are in the pipeline and key stakeholders are committed to making significant and generational change focused on the station and its surroundings.

The Temple Island site sits within the heart of the Temple Quarter and is a key gateway site; an arrival gateway; a link between the north and south of the city, and; a link between the east and west. With so much happening within the Temple Quarter, it is therefore imperative that complementary plans for the site can be brought forwards in a timely way so that the city can take full benefit from the scale and quality of development within the area; for example by ensuring that sufficient new office accommodation exists within this highly accessible and sustainable location to cater for demand from occupiers looking for high quality accommodation in close proximity to the enhanced station and the University’s new Enterprise Campus.

The Vision for the site is to create a new landmark mixed-use development for the city and one which demonstrates the city’s aspirations for the wider Temple Quarter; it has the potential to become a demonstrator for the city’s new innovation quarter in terms of what can be delivered and a catalyst for further development; delivering new homes, new employment space, a new hotel and conference facility, high quality public realm and opportunities for local retailers to create a new ‘go-to’ destinations.

Bristol’s bold ambition has been seized on by L&G and the Vision for Temple Island is something which L&G share and are keen to be involved in. L&G’s commitment to the city is demonstrated by the Strategic Partnership which has been formed between BCC and Legal and General. This Partnership also has scope to exist beyond the Temple Quarter and to cover other L&G assets within the City, allowing BCC and L&G to discuss plans and proposals for developments in Bristol in order to ensure that the city is able to realise wider benefits from development within the city.

Development of proposals:

Since the last Cabinet decision in July 2019, the City Council has been continuing to work with L&G to refine proposals for the Temple Island site. Discussions have progressed on the basis set out within the July paper and agreement has been reached substantially on the terms set out within the July paper. The only substantial changes are that;

- the Temple Island site is now to be drawn down in two phases by L&G;
- both parties will seek to work together in order to progress proposals for parking provision to serve the development, and;
- BCC will cap its contribution to enabling works required to prepare the Temple Island site for development.

In terms of the phasing of development;

- The first phase will focus on the delivery of the two office buildings and the first four residential blocks, including the substantial amount of public realm.
- The second phase will relate to the delivery of the final residential block and the hotel and conference facility.

The two stage process of land draw down will allow L&G a right of pre-emption for 5 years, starting on the date of the unconditional leasehold period of Phase 1, to draw down a 250 year lease of the Phase 2 land.

This change will give further time for Legal and General to seek to secure a hotel and conference facility operator and work with the operator to deliver a robust proposal for the design and operation of the facility. Further soft market testing undertaken by L&G since July has confirmed strengthened operator interest from a number of operators in a hotel and conference facility on Temple Island. This is very encouraging, and no public sector investment in the hotel or conference facility is currently expected.

The phasing will allow the site for the hotel and conference facility to be framed by the development of the completed phase 1, meaning that it is not trying to operate within a construction site. It has the added advantage of being able to support the new University Campus which will be completed by that time, and benefit from increased values accruing from the development of phase 1 by L & G, and the added confidence that will bring.

This phased approach to development of the site also has wider benefits in allowing other projects' to utilise the Phase 2 land to support the progression of other key projects within the Temple Quarter, including the new Eastern Entrance for Temple Meads and the University's Temple Quarter Enterprise Campus site. This will ensure that several key projects across the Temple Quarter are able to progress concurrently, to the benefit of the city.

In terms of the parking provision to service the site; through the Temple Quarter master planning commission, the partners' have been seeking to resolve the future of parking provision within the Temple Quarter in order to realise joint aims and unlock the potential of the wider Temple Quarter area. This work will continue and the partners will engage with L&G as proposals for a car park progress.

It is the partners' intention that any future parking within the Temple Quarter is mindful of the need to encourage the reduction of private vehicle usage wherever possible. Any new car park is therefore expected to include significant amounts of cycle parking, whilst BCC will also work with L&G to minimise car parking provision associated with the Temple Island scheme.

In terms of the enabling works to be undertaken by BCC; the works are broadly consistent with those set out in Appendix A of the July 2019 Cabinet paper. BCC will be responsible for progressing enabling works within timescales to be fully agreed between the parties.

Up to £32m of funding has been identified by BCC within the EDF (Economic Development Fund) to support the development of the Temple Island project and supporting infrastructure or developments on other land holdings and funding may also be available from other sources to supplement or replace this, dependent upon the outcome of funding bids.

The level of capital receipt to be received from L&G/the long leasehold disposal will only be determined at the point at which certainty is secured through the planning process in the form of a consented outline/hybrid scheme. This will ensure that the Council is able to demonstrate compliance with S.233 Town and Country Planning Act 1995 (the land being held for planning purposes). This also means that the Local Planning Authority (and Scrutiny) can work through the planning process to achieve the highest quality scheme, realising the wider objectives of the Council.

A copy of the draft Heads of Terms relating to the proposed transaction are contained within exempt Appendix I. The Council has continued to seek legal advice through the development of proposals with L&G and will ensure compliance with state aid and procurement regulations as the scheme progresses.

As part of the due diligence undertaken in preparing proposals for Temple Island, KPMG is undertaking a comparison of the current proposals for the Temple Island site against those originally established through the September 2018 Cabinet decision. Initial analysis suggests that subject to the proposed scheme being delivered and operating in line with BCCs current expectations the benefit: cost ratio of the scheme would be 27.9:1, a slight improvement on the estimated BCR of the scheme featuring in the 2018 cabinet paper, which stood at 23.0:1.

L&G are currently in pre-application discussions with the LPA and, subject to Cabinet approval, L&G will continue discussions with the Local Planning Authority (LPA) with a view to a planning application being submitted for the mixed use scheme, once the parties have finalised a contractual position, during 2020.

The risk profile under this proposed arrangement has not materially changed from the July position – although agreement to formally cap BCC's exposure to enabling works costs and undertake valuations at the point that planning certainty is achieved should provide additional comfort to BCC in terms of its exposure to risk.

Cabinet Member Recommendations:**That cabinet:**

1. Approve the Council entering into conditional agreements and an agreement for lease with Legal & General, based on the principles set out in the Heads of Terms contained within the exempt Appendix I,
2. Authorise the Executive Director for Growth and Regeneration, in consultation with the Deputy Mayor Finance Governance and Performance, the S.151 Officer, and Director of Legal Services to finalise the terms and conclude all necessary legal agreements between the parties.
3. Approve the allocation of £2m to the G&R Directorate to support the development of the project in line with the financial Appendix G – including further site investigation and scheme development work, whilst funding is sought to deliver the full extent of enabling works.
4. Approve the repurposing of EDF funding as per Appendix G, and the development and submission of funding applications of up to £32m to WoE LEP to enable BCC to implement enabling works to support the delivery of the Temple Island mixed use scheme and subject to Joint Committee approve and acceptance of the award incorporated into the council's capital programme.

That Cabinet notes:

5. The proposed Memorandum of Understanding between the Council and L&G (at Appendix A.2) to support broader joint working within the TQEZ.
6. Officers will keep the G&R scrutiny Commission informed and updated regarding the progress of the overall scheme.

Corporate Strategy alignment:

The proposals align with a number of corporate priorities, including:

- Develop a diverse economy that offers opportunity to all;
- Deliver 2,000 homes, of which 800 are affordable, built in Bristol each year by 2020;
- Develop an inclusive economy that offers opportunity to all and makes quality work experience and apprenticeships available to every young person, and;
- Reduce social and economic isolation and help to connect people to people, people to jobs and people to opportunities.

City Benefits:

Significant city benefits are anticipated to accrue through the redevelopment of the Temple Island site. The latest KPMG VfM report notes that over 1,500 jobs and up to 500 homes would be created through the redevelopment of the Temple Island site as a mixed use scheme.

Consultation Details:

Proposals have been developed and discussed with the Deputy Mayor Finance Governance and Performance.

Revenue Cost	£	Source of Revenue Funding	<i>Insert specific service budget</i>
Capital Cost	£32m	Source of Capital Funding	<i>Grant funding – EDF</i>
One off cost <input checked="" type="checkbox"/>	Ongoing cost <input type="checkbox"/>	Saving Proposal <input type="checkbox"/>	Income generation proposal <input type="checkbox"/>

Required information to be completed by Financial/Legal/ICT/ HR partners:

1. Finance Advice: Detailed financial advice can be found in Appendix G.

Finance Business Partner: Denise Murray, 27th January 2020

2. Legal Advice:

Where land is held for planning purposes (as here) the Council may dispose of it to such person, in such manner and subject to such conditions as appear to the Council to be expedient in order to secure the best use of that land and any buildings or works which are to be carried out on it (whether by themselves or by any other person), or to secure the carrying out of any works appearing to the Council to be needed for the proper planning of the area. Disposal must be at the best consideration, or

otherwise secure Secretary of State consent. The expectation is that the disposal will be at market value and an independent professional valuation is being obtained to support this.

As cabinet is aware, external legal advice has been taken throughout the process to ensure that the proposals do not offend the public procurement regime. This advice has been made available to cabinet members and members of the call in sub-committee. Concerns were nonetheless raised in some quarters over the potential procurement risk, notwithstanding the advice received. Accordingly, once the heads of terms were in a near final stage, an Opinion was obtained from a leading QC specialising in procurement law.

In summary the advice is that the proposed arrangements would not amount to a works contract or a works concession, because there is no positive legal works obligation being imposed on L&G and that therefore the arrangements, as currently proposed, fall outside the scope of the Public Contracts Regulations 2015. Furthermore no procurement obligation otherwise arises. He also advises that there is nothing he has seen which suggests that the arrangements involve the Council in improperly seeking to avoid the procurement regulations or that the arrangements are a sham. Accordingly the procurement risk is viewed as being low. Counsel does however recommend that the Council consider publishing a voluntary ex ante transparency notice (VEAT) as a protective measure, and consideration is being given to this.

Counsel's advice also addressed briefly the issue of state aid in connection with the proposed disposal by way of long lease etc. It recognises that whilst, as things stand, there should not be an issue, this will depend on the finalisation of the valuation exercise. The advice recognises meeting the Councils obligations to achieve best consideration (required under S233 Town and Country Planning Act 1990) will also assist in addressing any state aid issue (which also requires disposal on market terms). As detailed elsewhere in the report the expectation is that the disposal will be at market value and independent professional advice is being obtained on this, together with a site valuation.

Legal advice has also been obtained from the Councils external Solicitors on whether there are any state aid issues associated with the proposal for the carrying out of enabling works on the site. The advice received to date is that the current approach on the delivery of such works should be state aid compliant as the works that BCC will fund are capable of being regarded as 'public infrastructure' (under principles established in various EU Commission decisions). With regard to the L&G funded works, provided BCC receives market value for the site once those costs have been factored in, there should be no state aid issues; again this will be addressed in the valuation. State aid will be kept under review for the duration of the project.

Legal Team Leader: Eric Andrews, Team Leader, Legal Services, 10 January 2020

3. Implications on IT: There are no identifiable IT implications arising from this report

IT Team Leader: Simon Oliver 22/01/2020

4. HR Advice: No specific HR issues are foreseen. Oversight of the project is expected to continue under the Head of Regeneration with input from Finance, Property and Legal colleagues. Additional staff resource will be required to support the project as it progresses and moves in to a delivery phase, and this staff resource may be drawn from external consultancy organisations. Any new posts/consultants would be funded from within the project as part of the capital cost of the scheme.

HR Partner: Celia Williams, 18/12/2019

Background Documents:

July 2019 Cabinet Report (which can be accessed via the following weblink:

<https://democracy.bristol.gov.uk/mgChooseDocPack.aspx?ID=3685>)

Legal Advice from Counsel and Solicitors. (This is exempt from disclosure by virtue Local Government Act 1972 Schedule 12A part 1, para 5 - Legal Professional Privilege)

EDM Sign-off	Stephen Peacock	27 January 2020
Cabinet Member sign-off	CLlr Craig Cheney	27 January 2020
For Key Decisions - Mayor's Office sign-off		27 January 2020

Appendix A – Further essential background / detail on the proposal	YES
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A.1 KPMG VfM report (redacted)	
A.2 Draft memorandum of understanding between BCC and L&G	
A.3 CBRE letter (redacted)	
Appendix B – Details of consultation carried out - internal and external	NO
Appendix C – Summary of any engagement with scrutiny	NO
Appendix D – Risk assessment	YES
Appendix E – Equalities screening / impact assessment of proposal	YES
Appendix F – Eco-impact screening/ impact assessment of proposal	YES
Appendix G – Financial Advice	YES
Appendix H – Legal Advice	NO
Appendix I – Exempt Information I.1 Counsel's Advice I.2 KPMG VfM Report (unredacted) I.3 Heads of Terms Principles & Background I.4 Finance Appendix (unredacted) I.5 CBRE letter (unredacted)	YES
Appendix J – HR advice	NO
Appendix K – ICT	NO



Value for Money assessment of the proposed Temple Island development

KPMG report for Bristol City Council

27 January 2020



Important notice

This Report has been prepared by KPMG LLP (“KPMG”) on the basis set out in our Engagement Consultancy Agreement with Bristol City Council (“the Beneficiary” or “the Client”) dated 7 November 2019 (the “Services Contract”), and should be read in conjunction with the Services Contract.

This Report is for the Beneficiary’s internal use only.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the Services Contract. KPMG does not provide any assurance as to the appropriateness or accuracy of sources of information relied upon and KPMG does not accept any responsibility for the underlying data used in this report. For this report the Client has not engaged KPMG to perform an assurance engagement conducted in accordance with any generally accepted assurance standards and consequently no assurance opinion is expressed.

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In particular, and without limiting the general statement above, since we have prepared this Report for the benefit of the Beneficiary alone, this Report has not been prepared for the benefit of any other local authority nor for any other person or organisation who might have an interest in the matters discussed in this Report, including for example those who work in the local government sector or those who provide goods or services to those who operate in the local government sector. Without prejudice to any rights that the Client may have, subject to and in accordance with the terms of engagement agreed between the Client and KPMG, no person is permitted to copy, reproduce or disclose the whole or any part of this report unless required to do so by law or by a competent regulatory authority.

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The opinions and conclusions expressed in this Report are those of KPMG and do not necessarily align with those of Bristol City Council.



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1 Executive summary

1.1 About the study

In September 2018 Bristol City Council's Cabinet made a decision to pursue proposals for a mixed use development on Temple Island, comprising residential, office and retail space, plus a proposed conference centre and hotel. Temple Island is a long-standing vacant site located on the edge of Bristol city centre, within the Bristol Temple Quarter Enterprise Zone (BTQEZ) and in close proximity to Temple Meads Station and the University of Bristol's new Temple Quarter Enterprise Campus development. The latest available details for the proposed Temple Island development are set out in Section 3.2 of this report.

Bristol City Council ("BCC" or "the Council") has developed the plans for the site, including entering in to discussions with Legal & General ("L&G") in relation to an arrangement with the Council in order to bring forward the regeneration of the Temple Island site.

To inform a forthcoming Council Cabinet decision in relation to the plans and entering in to Heads of Terms (HoTs) for the development agreement with L&G, BCC has commissioned KPMG to undertake an independent study reviewing the value for money (VFM) of the current Temple Island development plans. This follows KPMG VFM reviews, conducted in 2017-2018, of proposals for developments on the Temple Island site as they stood at that time (both the previously proposed Temple Island arena and the alternative mixed-use development proposals)¹.

The scope of our VFM review was determined by BCC (see Section 2.2 of our report for further details of the scope) and has been conducted in line with the principles contained in HM Treasury's Green Book². It focuses on the strategic, economic, commercial and financial cases for the BCC proposed development only, and does not include an appraisal of different options for the Temple Island site or alternative projects in which the public sector funding could be invested.

Our assessment draws on information provided to us by BCC, both in the form of written documentation and orally in meetings, in the period up to 17 January 2020 and relevant external sources of information, including official statistics published by the Office for National Statistics (ONS) and data and guidance from Homes England³ (HE). We have not verified the reliability or accuracy of any information obtained in the course of our work, other than where agreed in our Contract with BCC and where stated in this report.

Our key findings are summarised below. Please note that this Executive Summary should be read in conjunction with the full KPMG report.

1.2 Key findings: The strategic case for the Temple Island development proposals

As part of our assessment of the strategic case, we have considered the strategic fit of the proposed developments on Temple Island, specifically the extent to which they could contribute towards the

¹ KPMG produced the following relevant reports: Temple Island Arena: Value for Money Assessment – Background document (June 2018); Temple Island Arena: Value for Money Assessment – Background document (June 2018); Assessment of alternative development plans for the Temple Island site (June 2018)

² HM Treasury (2018) The Green Book: Central Government Guidance on Appraisal and Evaluation.

³ Formerly the Homes and Communities Agency (HCA).



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achievement of BCC's stated objectives for the Temple Island site, the BTQEZ, Bristol city and the West of England as a whole.

Similar to our 2018 assessment of the alternative development plans for the Temple Island site, we consider that the latest proposed developments could contribute towards the achievement of specific key commitments set out by BCC in its Corporate Strategy (2018-2023)⁴ as well as the objectives for the BTEQZ and the 2019 West of England Local Industrial Strategy⁵ (WELIS). In particular, as we assess in detail in Section 3, it could contribute toward the following aims:

- the delivery of new housing, including affordable housing, in Bristol, albeit over a longer timeframe than the 2020 target period currently detailed in the BCC Corporate Strategy;
- the development of a diverse economy, linked to the creation of new employment space and associated jobs. We note that there is no evidence at present that it would also contribute toward the BCC aim of making quality work experience and apprenticeships available to every young person, however, as this will depend on the occupants of the development providing these opportunities;
- reducing social and economic isolation and helping connect people to people, people to jobs, and people to opportunity, also linked to the provision of new employment space and job creation, increased economic activity in Bristol, and opening up access to the site;
- fostering innovation, through the types of businesses that BCC envisages occupying the office developments on the site and through the collaboration that it considers the site will promote, across occupiers of different sizes of the commercial developments and with the adjacent facilities, including the University's Enterprise Campus, Engine Shed and Bristol's science incubator – Unit DX; and
- the BTQEZ vision⁶ of the zone becoming a new city quarter, providing opportunities for work, study, housing and leisure for the local population, through the development providing employment opportunities and residential dwellings, as well as attracting additional visitors to the site for the conference centre and hotel facilities.

It should be noted, however, that the achievement of these objectives will need to be kept under review as the plans for the Temple Island development progress.

As detailed in Section 3.4 of our report, we consider that there remains a strategic rationale for some degree of public sector funding to bring forward the development of Temple Island, on the basis of market failure, specifically the positive externalities in the form of economic benefits for the city and region if the development proceeds (as assessed in the economic case analysis set out in Section 5.1). The Temple Island site has remained derelict and vacant for over 20 years and there is evidence to suggest that enabling work is required to bring forward commercial development.

1.3 Key findings: The commercial case for the Temple Island development proposals

KPMG has reviewed the Heads of Terms between BCC and L&G⁷ for the land transaction at Temple Island and associated commercial and financial information. .

⁴ Bristol City Council (2018) Corporate Strategy 2018 – 2023. Available at: <https://www.bristol.gov.uk/policies-plans-strategies/corporate-strategy>

⁵ West of England Local Industrial Strategy, HM Government (2019)

⁶ <https://www.bristoltemplequarter.com/about/vision/>

⁷ A further revised Heads of Terms Principles & Background (9 January 2020)



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The land will be transacted across two phases.

Phase 1 consists of:

- 500 residential units across three blocks (on plots 1-3 and plot 4 if required subject to massing and detailed design);
- Two office buildings of net internal area of 100,000 sq. ft. and 80,000 sq. ft., also on separate plots (plots 6 & 7).

Phase 2 of the project will consist of:

- Another residential block (on plot 5);
- A conference centre and a hotel or any other use as may be mutually agreed (on plots 8-10).

The transaction is a conditional sale of a long leasehold interest with a leaseback of part of the site, whereby: BCC undertakes enabling works totalling £32m which BCC intends to fund through grant funding, L&G obtains outline planning permission, BCC grants a 250 year long leasehold interest in the Phase 1 site, L&G delivers a residential and office scheme, and BCC leases back one of the office buildings, which it intends to sublet to a commercial occupier.

BCC will receive land premiums for each plot, subject to a valuation mechanism, rental income (profit rent) from the office building, and is entitled to purchase the office building for £1 after 40 years.

L&G is also required to obtain outline planning permission for a Phase 2 element of the scheme, and it has a right during a 5 year period to draw down a 250 year lease on the Phase 2 land.

Some of the key issues we have identified are:

- There is no minimum land value protection for the agreed land premium. BCC has indicated such a provision is not required as the regeneration and strategic objectives are paramount and outweigh the need to secure a minimum land value.
- BCC has taken appropriate advice on from the net initial yield [REDACTED] from CBRE who conclude the pricing of the lease is appropriate given the low levels of developer profit being charged by L&G, the specific circumstances of the wider development and local market conditions.
- Pre-emption rights to L&G for Phase 2 development could potentially affect the larger scheme should there be a delay/inability of L&G to take up the development.
- Under certain conditions, BCC will be liable to reimburse L&G for a failure to obtain planning consent, which seems to be beyond BCC's control.
- Scope and risk allocation for enabling works and the associated funding risks which is important to finalise to crystallise BCC's costs.
- Other key areas that remain to be fully resolved include the functioning and funding of the estate management company, termination provisions and associated claims for cost and the cost of finance applied to the BCC office lease.

These issues are set out in detail Section 4 of our report.



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The scheme has the potential to unlock a significant regeneration opportunity and generate financial returns to BCC, subject to positive conclusion of the ongoing commercial negotiations between the parties and the achievement of BCC's expectations for the office building, for example in terms of occupancy rates and rental income.

1.4 Key findings: The financial case for the Temple Island development proposals

BCC's financial transactions fall into the following three categories:

1. Obligation to complete enabling works

- a. BCC will undertake part of the agreed enabling works at the Temple Island site with a cost estimated at c£32m including allowance for risk and inflation. BCC expects to recover these costs in full through Economic Development Fund (EDF) funding.

Figure 1: BCC's financial transactions

	Year							Total
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	
COSTS								
Sub Total	██████	██████	██████	██████	██████	██████	█	██████
Inflation	█	██████	██████	██████	██████	██████	█	██████
Total Costs	██████	██████	██████	██████	██████	██████	█	£31,784,129

Source: BCC

2. Commitment to office building

- a. BCC will also enter into a financial obligation to lease a Grade A 100,000 sqft office building. The lease liability is estimated at ██████ per annum (gross), indexed at RPI, payable to L&G. This Council has taken advice from CBRE, property advisors, regarding the net initial yield used to calculate this rental who have concluded it is appropriate.⁸
- b. Based on CBRE's advice BCC intends to sublease the office building at an estimated ██████ per annum, resulting in a profit rent of ██████ per annum

3. Desire to get best value for land

- a. BCC are looking to secure an off market land transaction, that is to be underpinned by a Section 233 Red Book Valuation. As a local authority, BCC is obligated to demonstrate and achieve 'best consideration' for the land premium.
- b. As part of the land agreement, BCC will benefit from a profit share arrangement for Office 2 (Plot 7). For developing the building, L&G will accrue an annual ██████ with the remaining balance to be equally shared between BCC and L&G

There are still a number of unknowns that may affect the Temple Island land value and therefore BCC's ability to demonstrate best value/ consideration. We have identified the following key issues:

⁸ Email from CBRE to BCC dated 13 January 2020 (12.54pm)



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- Should the transaction progress, BCC will need to engage Homes England to agree the overage payable on the existing title.
- As part of agreeing a land premium, BCC are yet to consider a suitable overage to carry with the proceeding title that may result in an uplift share additional value payable to BCC.
- The land premium will be underpinned by a Section 233 RICS Valuation. In October 2019, CBRE produced a land value comparison document, to which detailed a substantial difference in land value between BCC and L&G. BCC has since advised CBRE and Avison Young (L&G property advisors) have agreed a land premium [REDACTED] for the Temple Island site.⁹ There is still a risk of divergence of opinion between the respective advisors. Having said that, agreement now is a good indication that principles are aligned.

These issues could impact on the overall assessment of 'best consideration' of the Temple Island site. Full details are set out in Section 4.1 of our report.

1.5 Key findings: The economic case for the Temple Island development proposals

We have assessed the potential economic impacts associated with the proposed mixed use development on the Temple Island site, drawing on the development plans and broader information provided by BCC, including floorspace estimates, estimated construction costs and estimated visitor numbers/ attendees for the conference facility. We also used publicly available data produced by HE¹⁰ and the ONS in our analysis. Full details of sources used are referenced through the report and set out in Appendix 1.

Our analysis focuses on the potential economic impacts associated with:

- the construction of the proposed development;
- the ongoing operation of the proposed commercial development on the site (including the office and retail space, the hotel and the conference centre), split by phase; and
- the potential impacts related to the spending of increased visitors to Bristol associated with the conference centre and hotel facility¹¹.

Specifically we assess the potential direct, indirect and induced economic impacts¹² of the proposed development in terms of Gross Value Added (GVA) and Full Time Equivalent (FTE)¹³ employment, both for the construction and ongoing operation of the development. KPMG has also undertaken a high level assessment of business rate income expected to be generated by the site, based on data and information provided by BCC.

⁹ Email from CBRE to BCC dated 14 January 2020 (12.18pm)

¹⁰ Homes England, formerly the Homes and Community Agency (HCA).

¹¹ We note that while the residential developments would also generate economic impacts through the residents' additional spending with local businesses, resulting from the increase in the local population, HE guidance states that where a development is mixed use this additional spending should not be captured separately. It considers that only the economic output (GVA and employment) associated with the commercial aspects of the development should be estimated and not impacts from any residential aspects, to avoid the double counting of impacts in the analysis.

¹² Direct economic impacts are the first round effect where the demand creates economic activity. Indirect impacts are the effects generated through the activity and output supported in the UK based supply chain as a result of procurement of inputs of goods and services (both for construction and ongoing operations). Induced impacts are multiplier effects that arise in the UK economy as a result of direct employees and employees in the UK supply chain spending a proportion of their wages in the UK. This spending generates additional economic activity for those businesses from which these employees buy goods and services and in these businesses' own wider supply chains.

¹³ This adjusts part time or temporary staff into an annual full-time equivalent based on the proportion of full-time hours worked over a year.



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Our analysis is conducted in line with the HM Treasury Green Book principles, including taking account of additionality, applying optimism bias and presenting our net economic impact results in Net Present Value (NPV) terms in 2020 prices, applying a social time preference rate (STPR) discount rate of 3.5%.

A summary of the estimated net GVA impacts (in Net Present Value (NPV) terms), net employment (in FTE terms) and BCC estimated business rate income is shown in Figure 2 below¹⁴.

Figure 2: Net GVA (in NPV terms), employment (in FTEs) and business rate income associated with the proposed alternative development of Temple Island, on an annual basis and over 25 years

		25 year totals		
		Net GVA	Net employment	Business rates
West of England (including Bristol)	Phase 1 - Operation	£616.1m	1,182	£14.7m
	Phase 2 - Operation	£137.0m	274	£6.3m
	Phase 2 - Visitor spending	£24.7m	59	-
	Total¹⁵			£21.0m
Bristol	Phase 1 - Operation	£606.8m	1,168	£14.7m
	Phase 2 - Operation	£135.0m	271	£6.3m
	Phase 2 - Visitor spending	£24.3m	59	-
	Total¹⁶			£21.0m

Source: KPMG analysis

It should be noted that there remains some degree of uncertainty attached to our economic impact estimates given the current stage of the development plans and the extent to which detailed information and data was available to us from BCC. In particular, there is greater uncertainty attached to the Phase 2 developments given that Phase 2 is conditional on the completion of Phase 1 and on further agreement between BCC and L&G. If any of the assumptions made in our analysis change and/ or more detailed information and evidence becomes available, it would be advisable for BCC to consider whether the analysis of net impacts can be updated to reflect the latest position.

It should also be noted that our quantitative economic impact analysis excludes a range of impacts that it was not possible to assess at this stage due to either a lack of data and information needed to be able to robustly estimate them, or due to their assessment being outside the scope of our study. Specifically, the analysis does not take account of:

- construction impacts associated with Phase 2 of the development;
- the potential impacts generated through the sale or letting of residential units developed on the site; and

¹⁴ We have presented our analysis in net terms, meaning that our analysis of GVA and employment take into account the 'additionality' of impacts. We have adjusted our GVA and employment estimates for leakage and displacement. Our assumptions of additionality are set out in Section 4.1 below.

¹⁵ Values may not sum to the reported total due to rounding.

¹⁶ Ibid.



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- any wider economic impacts that may arise, in terms of developments catalysed through the Temple Island site regeneration, (assessed qualitatively in our study based on views provided by BCC).

As detailed in Section 7 of our report, these impacts have the potential to increase the economic impact and resultant VFM of the proposed development of the Temple Island site, both through the GVA that would be generated through the economic activity associated with these factors and through the additional employment that would be created.

In addition, our study does not assess any wider social and environmental impacts that the development may generate. We suggest that BCC assesses these impacts as the scheme advances. Full details of our analytical approach and the detailed results are set out in Section 5.1 of the report.

1.6 Summary conclusions: The overall value for money of the Temple Island development proposals

Economic VFM

To assess the VFM of the project in economic terms, we have used the following core measures of VFM:

- The economic net present public value (NPPV)¹⁷ of the project
- The public sector contribution to costs
- The net benefit to public sector cost ratio (BCR)
- The public sector cost per job¹⁸

Given that, by nature, construction impacts are temporary and are generated over a relatively short time frame, these impacts are often excluded from the assessment of VFM. We have adopted this approach and excluded these impacts from our estimates of the economic NPV of the project, BCR and cost per job estimates.

The results of our assessment of the economic VFM of the project are summarised in Figure 3 below.

Figure 3: Estimated NPPV, public sector contribution to costs, BCR and public sector cost per job of the proposed development

25 year totals	
Values in NPV terms	
Total Net Benefits	£801.2m
Total Public Sector Costs ¹⁹	£32.0m
NPPV	£772.5m
BCR	27.9:1

¹⁷ The NPPV is defined as the Present Value of net benefits less the Present Value of net costs

¹⁸ According to guidance from Homes England (Calculating Cost per job: Best Practice Note, 2015, 3rd Edition) the cost per job should be estimated as the total gross public sector expenditure against the total net additional jobs (excluding any construction jobs).

¹⁹ The total estimated public cost for the Temple Island redevelopment is £32.0m. However this cost estimate includes an estimate for inflation. HM Treasury Green Book guidance states that inflation should not be accounted for when estimating the value for money of a project in NPV terms. For the purposes of estimating the BCR, we have therefore excluded inflation from the total public cost estimate and use a figure of £28.8m.



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BCR – Phase 1 only	22.0:1
Public sector cost per job	£18,975

Source: KPMG analysis

The high and positive BCR indicates that the net economic benefits of the scheme are expected to considerably outweigh the public sector cost of bringing it forward. And the positive NPPV indicates that there is expected to be an overall gain in public value as a result of the proposed development.

Achievement of these returns on the public sector spending, however, depends on the development proceeding as planned, including in terms of scale and type of development, mix of uses, timing of the development and occupancy rates achieved. It also depends on the assumptions made in our analysis holding, for example in terms of additionality.

Sensitivity analysis has been conducted to test the robustness of the economic VFM metrics to such issues. The results of this analysis, set out in Section 7.1.2, suggests that the proposed development would continue to deliver VFM if a number of key assumptions were to change. For example, all else being equal, net benefits would need to fall by 96.4%, net public sector costs would need to increase twenty-sevenfold, or overall additionality factors²⁰ would need to increase by 54.8%, for the BCR to fall to 1:1 (i.e. for the benefits to be no greater than the public sector costs).

Wider factors affecting the VFM of the proposed development

We note that a VFM assessment extends beyond the economic measures of VFM. The strategic, financial and commercial cases for the proposals also need to be taken in to account to reflect wider aspects of the project, including the rationale for intervention and strategic fit, affordability, deliverability and the expected level of risk.

A number of key issues have been identified in relation to the commercial and financial cases for the proposed development. These also should be considered when assessing the VFM of the scheme. Specifically, there are still a number of key commercial terms that are yet to be finalised between BCC and L&G, which can influence public sector costs / revenues and hence impact VFM:

- **Planning and termination.** [REDACTED] BCC may need to impose a cap to mitigate its financial exposure to this risk.
- **Cost of enabling works.** We understand BCC is finalising the scope and cost allocation for enabling works. We recommend that a cap is agreed for these costs as well as for potential termination costs (as highlighted above) to mitigate the risk of public sector cost increase impacting VFM.
- **Overage.** [REDACTED] BCC may wish to consider including a form of overage. [REDACTED]
An overage arrangement could contribute positively to public sector revenues from the transaction.
- **Level of land premium.** As noted in the commercial analysis, a fully defined plot valuation mechanism with an agreed base plot value would provide greater certainty to BCC of [REDACTED]

²⁰ The overall additionality factor combines the additionality levels assumed for deadweight, displacement and leakage.



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[REDACTED] adversely impacting VFM.

- **Profit rent levels.** Should rental income achieved from sub tenants of office 1 be lower than anticipated, this would adversely impact public sector revenue from the transaction, impacting VFM.

Comparison of the VFM of the proposed development to VFM benchmarks

There is no publicly available detailed HM Treasury guidance on BCR thresholds for public sector spending, including on capital infrastructure projects, and what level of BCR could be considered as providing good VFM. Instead, the VFM of a project/ proposal is generally assessed relative to the alternative projects/ proposals in which the public funding could be invested.

As noted above, conducting an assessment of different options for the Temple Island site was not part of our scope of work. Nor were we asked to assess different ways in which the public sector funding could be spent. Therefore, when considering the VFM of the Temple Island proposed development, we advise that BCC should consider the relative BCR of this scheme to any alternatives that could be brought forward with the funding.

In terms of assessing the absolute level of the VFM metrics for the proposed Temple Island scheme, we note that the Department for Transport (DFT) published a Value for Money Framework in 2015, setting out "high-level guidance on the Department's approach to considering value for money in decision-making about new proposals"²¹. As the proposed Temple Island development does not have significant transport spending associated with it, the DFT VFM categorisation would not be directly applicable. However, it can be noted that if it was used, the scheme proposed by BCC would be classified as delivering very high VFM.

In terms of the public sector cost per job, our analysis suggests that this would be an estimated £18,975. Home England (formerly Homes and Communities agency) produced guidance in 2015 on the best practice approach to estimating the cost per job²². This guidance includes cost per job benchmarks, based on historic evaluation evidence. Our analysis indicates that the Temple Island development would deliver an estimated public sector cost per net job that is substantially lower than HE's "low" classification of gross cost per net additional job. This is in line with it having a very high BCR (as per DFT benchmarks) and being a scheme aimed at regeneration including development of commercial space for job creation.

Comparison to 2018 VFM assessment of the proposed Temple Island scheme

As well as assessing the absolute value of the VFM metrics for the proposed Temple Island, in Section 7.2.2, we have also compared these to the VFM metrics estimated for the scheme in 2018 when the proposed development was at an earlier stage of planning.

Our current assessment indicates that the quantified economic VFM of the scheme has increased since 2018, from an estimated BCR of 23.0:1 to a BCR of 27.9:1 (over a 25 year period). However, the quantified NPPV of the scheme has decreased from an estimated £837.2m to £772.5m (over the 25 year period).

The changes to the VFM metrics between the 2018 assessment and 2019 assessment are driven by a number of changes to inputs to our analysis and to the proposed scheme, including a decrease in the estimated net public sector costs and changes to the phasing and timing over which the developed floorspace is planned to be brought forward. Our 2019 assessment also includes an estimate of the

²¹ Department for Transport, Value for Money Framework (2015). Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/630704/value-for-money-framework.pdf.

²² HCA (2015) Calculating cost per job: Best practice note.



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impacts from visitor spending, which were unquantified in the 2018 assessment due to a lack of data and information at that time.

Achieving VFM

As part of the scope of work, we were asked by BCC to identify, where appropriate, any actions BCC might seek to undertake to maintain or improve the VFM that can be obtained from the scheme, including further and future assessments of its VFM. This assessment is set out in Section 7.3 of our report and throughout other sections of the report we highlight key factors affecting the costs and benefits of the proposed scheme and where there is a need for BCC to take actions to keep these under review or to maximise VFM.

In particular, we note that achievement of the estimated returns on the public sector spending depends on the development proceeding as planned, including in terms of scale and type of development, mix of uses, timing of the development, occupancy rates achieved and the estimated public sector costs and revenues (from business rates and rental income). It is also predicated on the deliverability of the scheme and the resolution of the key issues noted above in relation to the commercial and financial cases.

If, as the development plans for Temple Island progress, more data and information becomes available, or the inputs used in our assessment differ substantially from those provided to KPMG by BCC in the period up to 17 January 2020, we recommend that the VFM assessment is revisited as the conclusions may differ from those set out in this report.



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2 About the study

2.1 Development proposals for the Temple Island site

The Temple Island site is located on the edge of Bristol city centre, in close proximity to Temple Meads Station and the University of Bristol's new Temple Quarter Enterprise Campus development. It sits within the Bristol Temple Quarter Enterprise Zone (BTQEZ).

Having once being home to a diesel train depot, the site has remained vacant for over 20 years.

Various development proposals have been put forward for the site over the time it has been vacant, including the plans for a public arena which were taken to an advanced stage by Bristol City Council ("BCC" or "the Council"). However, following consideration of the changing circumstances surrounding the arena development plans²³, in September 2018 BCC's Cabinet decided to halt the plans for an arena on Temple Island and proceed with an alternative development on its remaining landholdings on the site.

The Cabinet's decision was also informed by consideration of the value for money (VFM) of the arena, both in absolute terms and in comparison to an alternative development that could be brought forward on the Temple Island site. KPMG conducted these VFM reviews²⁴, including the assessment of the alternative use plans for the Temple Island site, as developed by BCC as at June 2018. The assessment found that the alternative use plans had the potential to deliver good value for money (with a benefit to cost ratio (BCR) of approximately 23.0:1 and economic NPV of £837.2m over a 25 year period²⁵). However, the KPMG review noted that the plans were at a very early stage and further work would need to be undertaken by BCC to assess whether the development plans would be commercially viable for the private sector to deliver and to confirm the required level of public sector funding.

Since the initial VFM reviews and the Cabinet decision to proceed with an alternative development on Temple Island, BCC has moved forward with the scheme. In particular BCC has progressed discussions with Legal & General (L&G) in relation to entering an arrangement with the Council in order to bring forward the regeneration of the Temple Island site.

When issuing the Invitation to Tender for this new VFM assessment, BCC indicated in its tender documents that it considered the discussions to be "well advanced" and the proposed HoTs for the development agreement with L&G would be taken to a forthcoming Cabinet Meeting.

Details of the proposed development are included in Section 3.2.

2.2 Scope of work

To inform any Council Cabinet decision in relation the HoTs and whether to continue to pursue the proposed development plans for the Temple Island site and enter in to an agreement with L&G, BCC considered that the VFM case for the proposals needed to be examined. In BCC's view this would

²³ The changed circumstances specifically included proposals by a private developer to take forward an arena on a site in north Bristol, the sale of part of the Temple Island site to the University of Bristol for student residences, and the costs of the proposal which had increased significantly.

²⁴ KPMG produced the following relevant reports: Temple Island Arena: Value for Money Assessment – Background document (June 2018); Temple Island Arena: Value for Money Assessment – Background document (June 2018); Assessment of alternative development plans for the Temple Island site (June 2018).

²⁵ These figures are in NPV terms (based on applying a 3.5% discount rate) and at the West of England level. They exclude any construction impacts, wider social impacts, catalytic impacts, impacts generated through the sale or letting of residential units, any spending associated with visitors to a potential conference centre and hotel that were to be included in the Temple Island development plan.



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provide a review of whether the benefits of the scheme represent good value for taxpayers and residents of Bristol and to identify whether there are any measures could be taken to ensure that VFM is maximised.

Therefore, KPMG was commissioned, through a competitive tendering process, to produce an independent updated VFM assessment of BCC's proposals for development of the remainder of its landholdings on Temple Island. The tender documentation stipulated that this should be carried out in line with principles contained in HM Treasury's Green Book.²⁶

In particular our study covers the following main areas:

- Identification of the economic outputs of the development and an assessment of the associated quantitative and qualitative impacts.
- A review and assessment of the strategic, economic, financial and commercial cases for the development and the likely VFM to the public purse to be obtained from the scheme.
- Identification, where appropriate, of any actions BCC might seek to undertake to maintain or improve the VFM that can be obtained from the scheme, including further and future assessments of its value for money.
- Identification of where further information will be required before a full, detailed and HM Treasury Green Book compliant assessment of the scheme can be made.
- An assessment of the likely impacts of the scheme in comparison to available benchmarks for similar schemes nationally and the previous assessment of the potential VFM of this scheme carried out by KPMG in 2018.

Our work draws on information provided to us by BCC, both in the form of written documentation and orally in meetings in the period up to 17 January 2020. Specifically we were provided with the following information - at the date shown in brackets:

- A suite of appraisals provided for commercial and residential sites featuring in Phase I of the development (11 November 2019);
- A timeline showing the phasing of Phase 1 of the development (11 November 2019);
- The Heads of Terms Principles & Background of the development (11 November 2019);
- A draft of the Project Strategy Review for the development produced by AECOM (11 November 2019);
- A draft of the Temple Island vision (15 November 2019);
- A strategic case for the hotel and conference centre of Phase 2 (15 November 2019);
- An draft employment land study for BCC produced by JLL (18 November 2019);
- A review of Business Rates carried out by Amion Consulting (18 November 2019);

²⁶ HM Treasury (2018) The Green Book: Central Government Guidance on Appraisal and Evaluation.



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- Reviews of the Bristol office market by Market Monitor, JLL, Lambert Smith Hampton and Savills (18 November 2019);
- Additional details on vacancy and projected occupation uptake (20 November 2019);
- Additional details on the breakdown of the residential blocks (20 November 2019);
- Additional information on housing provision (20 November 2019);
- The assumptions to make with respect to office space occupancy rates (20 November 2019);
- An excel file on the costs of the development (22 November 2019);
- The Contract for the Sale of Freehold Land Subject to Leases (28 November 2019);
- An Overage calculation excel file (28 November 2019);
- Temple Island Risk Register (28 November 2019);
- A revised Temple Island Master Programme (28 November 2019);
- The assumptions to make with respect to and business rates calculations, hotel availability, hotel size and conference centre capacity (28 November 2019);
- A Temple Island Master Cash Flow excel file (28 November 2019);
- Commentary on the Phase 2 development quanta (29 November 2019);
- An appraisals comparison schedule (10 December 2019);
- Estimations of office space rent profits (10 December 2019);
- A Temple Island Cost Summary Note (13 December 2019);
- The Temple Island Project Budget profile (13 December 2019);
- Land value estimations (13 December 2019);
- A capital programme (13 December 2019);
- A draft agreement forming the basis of the EDF (13 December 2019);
- EDF fund scheme allocations (13 December 2019);
- A draft of advice for the development from BCC Legal Services (8 January 2020);
- Legal opinion of the development from Womble Bond Dickinson LLP (8 January 2020);
- Revised Heads of Terms Principles & Background (8 January 2020);
- A further revised Heads of Terms Principles & Background (9 January 2020);



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- Temple Island Risk Register (9 January 2019);
- Email from CBRE to BCC dated 13 January 2020 (12.54pm) (14 January 2020);
- Email from CBRE to BCC dated 14 January 2020 (12.18pm), (14 January 2020);
- Revised Temple Island Spending Profile (17 January 2020).

Additionally, for the purposes of our study we sourced data and information from a number of external public sources. This includes official statistics published by the Office for National Statistics (ONS), data and guidance from Homes England²⁷ (HE) and existing research, reports, analysis, business cases and economic literature from a range of sources. References to the materials used to compile our report can be found throughout the document.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than where agreed in our Contract with BCC and where stated in this report.

²⁷ Formerly the Homes and Communities Agency (HCA).



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3 Strategic case assessment for the proposed Temple Island development

3.1 Our approach to assessing the strategic case

As detailed in the HM Treasury Guide to Developing the Project Business Case (2018)²⁸, the purpose of the strategic dimension of the business case is to make the case for change and to demonstrate how it provides strategic fit.

In particular, the strategic case should:

- provide the context for the project and its objectives and demonstrate that the project has a good fit with the wider objectives of the local area and aligns to existing strategic priorities, visions and plans;
- detail the rationale for intervention, with any market failure arguments clearly articulated to determine the extent to which there is a need for the public sector to intervene in the market and what would happen in the absence of this intervention; and
- set out a clear understanding of the drivers and objectives for the spending proposal, including the expected outcomes and identify the key strategic dependencies, constraints and risks. To develop the strategic case it is also important that there is a clear understanding of the existing arrangements (i.e. the Business As Usual (BAU) situation), the potential scope of the project and the potential benefits, risks, constraints and dependencies associated with the proposal.

While a business case for the Temple Island proposed developments has not been developed by BCC at this stage, to assess the strategic case we have reviewed the documentation provided to us by BCC that specifically relates to the requirements for the strategic case. We set out our assessment of the strength of the strategic case, based on this this review, in the remainder of this section.

3.2 Overview of proposals, timings and funding requirements

3.2.1 Details of the proposed development

As noted above, when assessing the strategic case for a new development, it is important to consider both the existing arrangements (in this case the developments, or lack thereof, on the Temple Island site) and the proposed scope of the project in terms of the scale of the development, the expected types of use, the timeframe over which the development is expected to be brought forward and the public sector costs associated with the development.

According to the Temple Island vision document prepared by BCC, “the geographical and physical constraints of the site have presented [the opportunity to] facilitate the development of a campus-type development on the island whereby a well-balanced range of uses will support its own defined and

²⁸ Guide to developing the Project Business Case, HM Treasury (2018). Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/749086/Project_Business_Case_2018.pdf.

inclusive community”. The development will also “[be] located within a short walk of the city centre and ideally located for access to Bristol Temple Meads station”.²⁹

It is proposed that the Temple Island site development will be a mixed use development of residential, office and retail space. In addition, it is intended that the site will include a 1,250 person capacity conference centre and 4- or 5-star hotel. Sections 3.2.2 and 6.3 provide greater detail of the floorspace and units related to the residential and the commercial aspects of the development, respectively.

From the documentation reviewed as part of our study, we understand that the Temple Island site plans include the development of the following buildings in two phases. Subject to the completion of Phase 1, development options for Phase 2 will be brought forward and agreed between BCC and L&G. Phase 2 is dependent on the completion of Phase 1 and the future agreement of the parties involved (BCC and L&G), with L&G benefiting from a right of first refusal – further details of the conditions relating to Phase 2 being brought forward, and associated risks, are included in Section 3.2.

Figure 4 provides a provisional graphic visualisation of the development issued by AECOM in its Project Strategy Review of Temple Island³⁰.

Figure 4: Graphic visualisation of Temple Island development and its phasing delineation



Source: Bristol City Council: Temple Island Project Strategy Review (2019)
Notes: Please note the graphic visualisation is provisional.

The development of the Temple Island site will be one of a number of new developments coming forward in the local area. In addition to the mixed use development proposed, the University of Bristol

²⁹ Temple Island vision – draft 15 Nov 2019 (2019).

³⁰ Bristol City Council: Temple Island Project Strategy Review, AECOM (2019).

will be developing a new campus on a proportion of the Temple Island site and an adjacent site. The new campus will include student accommodation as well as a Quantum Technologies Innovation Centre (QTIC), a research and innovation facility with a focus on “the development of quantum devices for highly secure communications, new sensors for environmental monitoring, simulators to design new materials and ultra-powerful computers”³¹.

As stated in the development’s HoTs for the proposed Temple Island development, Phase 1 focuses on “deliver[ing] homes and jobs for Bristol, creating significant and positive social value”.

The BCC Temple Island vision document, indicates that the Phase 1 residential development on the Temple Island site will consist of a range of 1, 2 and 3 bed flats, delivered as a mix of “[...] affordable homes, private sale flats and a large proportion of private rental sector (PRS) flats”³².

The split of Phase I residential units by size for the development have not yet been set, however, L&G advised that for a 240 unit Built-to-Rent (BTR) residential block, it would expect the following proportions of size of apartments:

- 10% - Studio apartments
- 50% - 1 bed apartments
- 35% - 2 bed apartments
- 5% - 3 bed apartments

Equivalent details for the residential block planned for Phase 2 are not yet available.

The HoTs for the Temple Island development specifies that L&G are to target 40% affordable housing on the site and “are to deliver a minimum of a policy compliant level of affordable housing with the exception that the specific levels of social rent and shared ownership can be agreed with the Council’s Housing Team”.³³ Thus at a minimum level, the development will need to be compliant with Policy BSC17 of the Core Strategy which states that at least 30% of housing should be affordable (within the Bristol South area, which is where the Temple Island site lies)³⁴.

It is intended that the residential units of Phase 1 will be delivered in three blocks. However, the HoTs state that it is possible that a fourth block of residential units will be added if the proposed three blocks in Phase 1 do not provide sufficient affordable housing units to meet the 40% target specified in the HoTs. Phase 2 plans currently include the delivery of one residential block, however as the construction plans for Phase 2 are less advanced and there are uncertainties associated with them (see Section 4 for more details), at present there is no information about the expected number of housing units, or the share of these that will be affordable housing.

Phase 1 of the proposed development also includes two office blocks. Within the Temple Island vision document, BCC has indicated that the commercial office space is intended to be targeted at businesses in the financial and professional services and creative and digital sectors. In particular, within its vision document, BCC has stated that it considers that the Temple Island site will offer an opportunity for firms in these sectors to relocate head-office functions. It is envisaged by BCC that the firms will be attracted to the site by the proximity to Temple Meads station and the University of Bristol (UoB) and the “campus feel” of the site. In order to realise the economic impacts associated with the development it is important that there is market appetite for the commercial space planned for the site. We understand that BCC has commissioned an Office Market Review from CBRE which will assess the likely market appetite for the proposed commercial developments. This Review was not available

³¹ <https://www.bristol.ac.uk/temple-quarter-campus/qtic/>.

³² Temple Island Vision – draft of 15 Nov 2019, Bristol City Council (2019).

³³ The Heads of Terms Principles of the development (received 11th November 2019).

³⁴ Bristol City Council (2011) Bristol Development Framework: Core Strategy.



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to KPMG at the time this report was produced, therefore we have been unable to assess this evidence. BCC should consider this when it is available to ensure that the proposed development will best meet market requirements.

BCC intends to take ownership of one of the commercial blocks as part of the agreement with L&G. It will then lease the office space to businesses, providing BCC with some ongoing rental revenue. Details of this aspect of the agreement are included in Section 4.1.³⁵

The Temple Island vision document also states there will be a “modest retail offer” on the site - with most units between 500 and 1,500 sq ft, although a couple of larger units of up to 5,000 sq ft will exist. BCC has indicated that the retail offer will be focused on local, independent businesses, as well as a larger restaurant and a convenience store. It intends that the retailers on site will be curated to support the other uses on the site and add value to those uses, reducing the risk of these retailers competing with the retail centre of the city.

The Temple Island vision document also refers to the proposed 4- or 5-star hotel, with 250 keys (rooms). Within the vision document, BCC states that it envisages that the hotel will be utilised by the local businesses on site, as well as catering for visitors to Bristol. BCC’s vision is for the hotel to include a ‘sky-bar’ at the top of the building which will offer panoramic views over the city.

The hotel will be allied to a proposed new conference centre. It is currently intended that the proposed conference facility will be capable of supporting events for 1,250 people, as well as providing exhibition space.

It should be noted that the hotel (including sky-bar) and conference centre are within Phase 2. As such, there remains some uncertainty attached to these plans given that Phase 2 is conditional on the completion of Phase 1 and on further agreement between BCC and L&G.

While L&G will develop the Temple Island site, this is dependent upon BCC first undertaking a series of works, including land remediation, utilities reinforcement and roads/highway works, including access to Bath Road. As a result, public sector funding from BCC is required to bring the overall development forward, as explained in Section 3.4.

3.2.2 Anticipated development timelines

BCC anticipates that Phase 1 construction will begin in May 2021 and be completed by July 2024 and that Phase 2 construction will begin in January 2028, running until December 2029. Figure 5 sets out BCC’s anticipated timelines at the time of writing for the construction of each aspect of the proposed Temple Island development.

Figure 5: anticipated start and end dates for construction

Phase	Plot	Block	Floorspace (sq ft)/units*	Expected commencement data for construction	Expected completion data for construction
Phase 1	1	Residential block 1	96,850/138	March 2023	February 2025
	2	Residential block 2	71,603/102	March 2023	February 2025
	3	Residential block 3	62,305/89	March 2023	February 2025

³⁵ The Heads of Terms Principles of the development (received 11th November 2019)



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	4	Residential block 4 (provisional)	49,685/71	Unknown	Unknown
	6	Office block A	105,817/11	December 2021	July 2023
	7	Office block B	73,901/9	September 2022	May 2024
Phase 2	5	Residential block 5	Unknown	January 2028	December 2029
	8, 9, 10	Conference centre and hotel	283,091/NA	January 2028	December 2029

Source: BCC Residential and Commercial space appraisals, Temple Island Revised Master Programme, Hotel and conference centre business case, Temple Island Heads of Terms Principles
Notes: * We notice there are different figures for residential unit numbers for Phase I in the Heads of Terms Principles and in the BCC Residential appraisals. Apart from this table, all references to residential units will take the values in the Heads of Terms Principles. Unit numbers do not enter any part of the analysis of economic impacts associated with the Temple Island development.

Specifically, in a summary of the enabling works and associated costs, BCC has specified that it will undertake the following enabling works:

- Southern Access Improvements [REDACTED]
- A4 retaining wall and bridge [REDACTED]
- A4 slip Road and Plot 12 improvements [REDACTED]
- Works to address residual contamination [REDACTED]
- Infrastructure utility upgrades to serve development [REDACTED]
- Utilities Reinforcement [REDACTED]
- Structural Fill [REDACTED]
- Network Rail [REDACTED]

The works and costs are based on work undertaken by AECOM for BCC, however, details of these may change as the plans for the Temple Island site advance. Therefore, the case will need to be reassessed should the current cost estimates be revised. It should be noted that our understanding of the development is informed by documentation received by BCC up to 13 December 2019.

BCC has informed KPMG that it intends to cap its total liability with regard to the enabling works to £32m. It is anticipated that the enabling works will be funded through a mix of public sector grants, however the exact composition of public sector funding has not yet been confirmed.

[REDACTED]

3.3 Delivery of BCC’s and WECA’s objectives for Bristol and the wider area

As part of our assessment of the strategic case, we have considered the strategic fit of the proposed developments on Temple Island, specifically how they could contribute towards the achievement of BCC’s stated objectives for the Temple Island site, the BTQEZ, Bristol city and the West of England as a whole.



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3.3.1 Original BCC objectives for the proposed development

The Temple Island was previously intended to house a public arena for Bristol (the “Temple Island Arena”). However, as explained in Section 2.2 the Council Cabinet decided to take forward alternative development plans for the site rather than this arena.

At present BCC has not formally set out in any public documents its detailed objectives for the Temple Island site, although the Temple Island vision document provided to KPMG by BCC broadly sets out what BCC expects of the proposed Temple Island development. It does not include SMART objectives³⁶ for the proposed development as would be expected to be included in the strategic case of a Full Business Case (FBC).

As BCC has not documented its revised set of objectives for its landholding at Temple Island, we have assessed the strategic fit of the proposed development against the relevant stated objectives for the previously proposed development on the site.

In the original FBC³⁷ submitted to the West of England LEP as part of the application for EDF funding for the Temple Island Arena, BCC set out a number of objectives. These objectives were not solely associated with an arena but also encompass objectives more broadly related to the Temple Island site. Specifically, these objectives for the arena site development were for it to:

- have a public realm interface with the rest of the site, which encourages visitors and creates a “destination” experience for “Arena Island”; and
- assist in making the BTQEZ more accessible and drive improvements [in] permeability to the south of Temple Meads station.

We have considered how the latest proposals for the Temple Island site may contribute toward the achievement of these objectives.

In terms of having a public realm interface and encouraging visitors to the site, the development plans include aspects of public realm improvements and consideration has been taken by BCC of how this development will interface with the wider site and complement the uses of those developments. In addition, the construction of a conference centre and a hotel in Phase 2 is intended to encourage visitors to Temple Island. An assessment provided by BCC³⁸, suggests that these are expected to cater to both the local population and, to a larger extent, to visitors from outside of the Bristol area.

allowing Bristol to tap into the market for large events market that is currently inaccessible to the city due to capacity constraints. The hotel will be strategically – and potentially physically - connected to the new conference centre. The hotel is planned to be of an upscale “HQ” type, serving as the designated base of operations for the conference centre events.

It is BCC’s view that the new “smart look” of the conference centre and hotel as well as their capacity are enough for the Temple Island site to have the traits of a “destination” experience site. This could be furthered if a ‘sky bar’ is included at the top of the hotel, which may have the potential attract both visitors and the local population to the site³⁹.

In terms of the objective for the development to assist in making the BTQEZ more accessible, together with the redevelopment plans for Temple Meads station (see Section 3.2.4 for further details), there is the opportunity for BCC to identify the best measures to make the site and the BTQEZ more

³⁶ SMART objectives are objectives that are Specific, Measurable, Achievable, Realistic, and Timely

³⁷ Bristol City Council (2016) Bristol Arena Full Business Case

³⁸ Hotel and Conference centre – extract from IPW report for BCC 14 June 2019 (2019)

³⁹ We note that there is some uncertainty attached to Phase 2 of the development. See Section 3.2 for more details. Therefore, these aspects of the development could potentially alter.



accessible and fulfil the objectives of the Sustainable Urban Mobility Plan for BTQEZ⁴⁰. For example, as part of the enabling works for the Temple Island site, BCC will make improvements to the surrounding public highway to improve pedestrian and road access to the site.⁴¹ The planned eastern entrance to Bristol Temple Meads station offers the potential to provide direct access from the BTQEZ to the station. However, we note that [REDACTED]

[REDACTED] Further, as part of the development of the Temple Island site, there will be improvements to the surrounding roads, including Bath Road, and pedestrian routes, which are intended to improve accessibility.

3.3.2 BCC objectives for Bristol city

In 2018, BCC set out its objectives for the city within its Corporate Strategy (2018-2023) (“the Strategy”)⁴².

The Strategy sets out the key strategic priorities and vision for the city up to 2023. The Strategy has four themes, as stated below:

- “Empowering and caring: Working with partners to empower communities and individuals, increase independence, support those who need it and give children the best possible start in life.
- Fair and inclusive: Improving economic and social equality, pursuing economic growth which includes everyone and making sure people have access to good quality learning, decent jobs and homes they can afford.
- Well-connected: Taking bold and innovative steps to make Bristol a joined up city, linking up people with jobs and with each other.
- Wellbeing: Creating healthier and more resilient communities where life expectancy is not determined by wealth or background.”

Within each of the themes, the Strategy sets out a number of key commitments which will contribute towards the achievement of the overarching theme objective. We have identified the key commitments that are relevant to the proposed Temple Island development, assessing the extent to which these objectives may be met by the proposed development.

The June 2018 KPMG report on the “Alternative Temple Island development” assessed the development proposal as available at that time against these objectives. Our updated assessment based on the latest plans for the development of the Temple Island site is set out in Figure 6 below.

Figure 6: KPMG assessment of the extent to which the proposed development of the Temple Island site may meet BCC key commitments

Strategy theme	BCC commitment	KPMG assessment
Fair and Inclusive	Make sure that 2,000 homes – 800 affordable – are built in Bristol each year by 2020	The HoTs indicate that the Temple Island site development could feature approximately 500 residential units that will gradually become available from 2023 onwards. This means that it will not contribute toward achieving BCC’s 2020

⁴⁰ Bristol City Council, Bristol Temple Quarter Enterprise Zone, Sustainable Urban Mobility Plan (2016)

⁴¹ Bristol City Council: Temple Island cost summary note

⁴² Bristol City Council (2018) Corporate Strategy 2018 – 2023. Available at: <https://www.bristol.gov.uk/policies-plans-strategies/corporate-strategy>



housing target, but it will increase housing availability in the period after this.

We understand that under Policy BSC17 of the Core Strategy at least 30% of new housing has to be affordable (within the Bristol South area, which is where the Temple Island site lies).⁴³ The HoTs state that L&G has a target that 40% of the residential units built on the Temple Island site will be affordable.⁴⁴ Thus exceeding the requirement set by BCC for this specific area.

If delivered, this would support BCC's affordable home target stated in the Strategy, although after the 2020 period. However, as noted in Section 3.2 it is unclear whether the 40% target for affordable housing will be delivered through the initial three apartment blocks proposed. In the instance that the target is not met in the three apartment blocks, L&G has stated that it will build a fourth apartment block to meet the target⁴⁵ in Phase 2. We have previously noted the greater uncertainties relating to Phase 2, which also means there would be more risk and uncertainty around the delivery of these residential units and the timing for meeting the affordable housing target would be extended.

BCC has now included the action of "Determining the scope of the Temple Quarter to deliver additional new homes" in the BCC 2019/20 business plan⁴⁶.

Fair and Inclusive

Develop a diverse economy that offers opportunity to all and makes quality work experience and apprenticeships available to every young person

The current plans for the Temple Island development include 13,357 square metres of net floorspace for commercial enterprises, with a particular focus on providing units for the professional and financial services and creative and digital sectors. The latter two sectors are considered priority sectors by West of England LEP, as documented in its Strategic Economic Plan (SEP)⁴⁷. As we detail in Sections 6.2 and 6.3, our analysis suggests that this development would also generate additional economic activity and employment in Bristol and more widely in the West of England, through indirect and induced spending.

We have not seen any specific plans of how the development may offer opportunity to all and if it will provide quality work experience and apprenticeships to young people. As plans for the development progress and businesses begin to register interest in office space, there may be a clearer view as to how this objective may be delivered. BCC could also consider if certain obligations could be put in place, for example as part of tenancy/ rental agreements, to secure the delivery of the objectives. However, at present there are no obligations in place or have we seen any evidence that BCC is exploring this possibility. As a result there is no certainty that this objective will be delivered through the Temple Island development.

⁴³ Bristol City Council (2011) Bristol Development Framework: Core Strategy.

⁴⁴ Heads of Terms Principles, Bristol City Council (2019).

⁴⁵ Heads of Terms Principles, Bristol City Council (2019).

⁴⁶ Bristol City Council, 2019/2020 Business Plan.

⁴⁷ West of England Local Enterprise Partnership (2014) West of England Strategic Economic Plan 2015-2030.



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Well connected

Reduce social and economic isolation and help connect people to people, people to jobs and people to opportunity

As detailed in Section 6.7, we estimate that the proposed development of Temple Island site, will create 1,501 direct full-time jobs (across Phase 1 and Phase 2 when the buildings are operational). To the extent to which these will be new jobs rather than displacing employment from other parts of the area, the local population will benefit from increased employment opportunities. We have assessed the level of displacement of economic activity from other areas of Bristol and the West of England in Sections 6.2 and 6.3. Taking into account additionality, we estimate that the proposed development of the Temple Island site could create 1,061 direct net jobs in the West of England.

The Temple Island site is strategically placed in close proximity to the Temple Meads station and with easy access to the city centre. As part of the Temple Meads station renovation, a new eastern entrance connecting the station and the Temple Quarter will be developed. This will improve access to the Temple Island site, better enabling people and businesses to access the station and transport to the rest of the South West and the UK.

Further, based on conversations with BCC, it is BCC's view that the redevelopment of the Temple Island site will help to open up access to the rest of the city for the south of Bristol. It is thought that this will help to catalyse the redevelopment of sites and regeneration of the wider area to the south of the river.

The importance of the Temple Island site in helping to improve connections and reduce isolation is also understood by WECA. In its 2019/2020 Business Plan, WECA states its objective of delivering "Better links to reduce congestion and connect people". To reach this objective, WECA has committed to "[...] work with the Network Rail, BCC, HE and the University of Bristol to produce a masterplan for the redevelopment of [...] Temple Quarter"⁴⁸.

Source: KPMG analysis of Bristol City Council (2018) Corporate Strategy 2018 – 2023.

3.3.3 The West of England Industrial Strategy

We have also assessed the extent to which the proposed development of the Temple Island site may contribute towards broader objectives for the West of England region. The 2019 West of England Local Industrial Strategy⁴⁹ (WELIS) developed by WECA and the West of England LEP specifically mentions Temple Quarter and how it is one of the largest urban regeneration projects in the UK. The WELIS identifies a number of priorities for the West of England, some of which are relevant for the appraisal of the Temple Island development. Figure 7 below sets out the relevant priorities, a brief description of the priority and our assessment of how the proposed Temple Island development may contribute towards the achievement of these priorities.

⁴⁸ West of England Combined Authority, Business Plan 2019-2020 (2019).

⁴⁹ West of England Local Industrial Strategy, HM Government (2019).



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Figure 7: KPMG assessment of the extent to which the proposed development of the Temple Island site may contribute towards WELIS priorities

West of England priorities	Description	KPMG assessment
Cross-sectoral innovation	Fostering cross-sectoral innovation from research through to commercialisation.	<p>As highlighted in the WELIS, the Temple Quarter development is “home to rapidly growing clusters of small and start-up businesses, particularly in the creative, digital and high-tech sectors”. The location of businesses in these sectors on the Temple Island site would strategically fit well with wider developments and the QTIC and UoB, facilitating research, creating knowledge transfers and exchanging talent.</p> <p>While the scale of collaboration and innovation supported by the Temple Island development is likely to depend on the specific occupants and any synergies that can be created. Measures put in place to support it will also be important. We note that it is BCC’s vision (as stated in its vision document for the Temple Island development) that the site fosters collaboration and innovation. This is across occupiers of different sizes of commercial developments and with the adjacent facilities, including the University’s Enterprise Campus, Engine Shed and Bristol’s science incubator – Unit DX. The conditions for collaboration are therefore likely to be in place.</p>
Inclusive Growth	Ensuring that growth is inclusive, with a focus on opportunities for employment and progression for all.	The creation of new employment opportunities at the Temple Island site and the associated economic activity will support growth in the region. However, at present we have seen no evidence that the development will have any specific targets regarding employment or inclusive growth. BCC may want to explore the possibility of putting in place employment or inclusivity targets or requirements for delivery partners in the future as the plans develop further. It may also be able to consider how best to contribute toward this goal through the commercial block that BCC retains ownership of.
Innovation in infrastructure delivery	Capitalising on the region’s innovative strengths to deliver the infrastructure necessary for future growth.	The proposed development of the Temple Island site will provide additional infrastructure for the city and its construction is intended to use the region’s skills in



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construction, design and manufacturing technologies.

At present, Bristol does not have a large conference centre facility for use by local businesses. The proposed conference centre facility has been designed to meet this need and will become a key part of Bristol's business infrastructure.

Similarly, according to BCC, the proposed hotel development will "complement market supply well", in a market with a "limited pipeline of new hotels planned"

⁵⁰. This could help to grow the local visitor economy.

The development of the Temple Island site will also facilitate improvements to the surrounding transport infrastructure. As part of the proposed enabling works, BCC will undertake works to the local roads surrounding the Temple Island site.

Source: KPMG analysis of West of England Local Industrial Strategy, HM Government (2019)

3.3.4 Objectives for the Bristol Temple Quarter Enterprise Zone

The Temple Island site is located within the BTQEZ. As stated in the BTQEZ vision statement, BCC envisages the BTQEZ becoming a new city quarter, with the aim of providing opportunities for work, study, housing and leisure for the local population, as well as increasing access to the city centre and Temple Meads Station⁵¹.

One of the aims in the BTQEZ vision is to attract 22,000 jobs over its lifespan. Over 3,000 jobs have been created since 2012 and our analysis suggests that the proposed Temple Island site development would contribute toward this overall job creation aim. We estimate that the proposed developments may add an estimated 1,061 direct jobs in net FTE terms (1,501 direct jobs in gross FTE terms) within the BTQEZ.

In addition, BCC has stated that it aims to focus the Temple Island commercial development on the creative and digital sectors and the financial and professional services sectors⁵². This will be complimentary to the BTQEZ, which focuses on the following key sectors:

- creative and digital;
- high tech;
- low carbon; and

⁵⁰ Hotel and conference centre, extract from IPW Report for Amion 14 June 2019 (2019).

⁵¹ <https://www.bristoltemplequarter.com/about/vision/>.

⁵² Temple Island Vision – draft of 15 Nov 2019, Bristol City Council (2019).



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- professional services.

The alignment between the focus of the BTQEZ and the target sectors for the commercial development of the Temple Island site, may help to create synergies through the complementarities between occupants of the developments and increase the attractiveness of the site to relevant businesses. Another factor that has the potential to add to the attractiveness of the site is the redevelopment of the Temple Meads station. Redevelopment plans include:

- the opening of an Eastern entrance connecting the station to the Temple Island site and UoB's new campus and QTIC development
- plans to develop a new “Northern gateway” entrance to the station in order to improve north-south-east connectivity across the site and support plans for development of adjacent sites; and
- signalling upgrades, the redoubling of the line between Temple Meads and Bristol Parkway and an increase in services to and from London Paddington.⁵³

Following the redevelopment, passenger usage at Temple Meads station is projected to rise from 11m to 22m by the end of the next decade.⁵⁴

The station redevelopment and the development of the Temple Island site will complement and support each other, with the attractiveness of the site to commercial and residential occupants likely being enhanced by the station improvements and increasing footfall to the area, and the Temple Island development and the employment and housing opportunities it creates potentially increasing the need for the station improvements.

3.4 Rationale for public sector intervention

A key consideration for the strategic case for the proposed Temple Island development is whether there is a clear rationale for public sector intervention to bring the development forward and the strength of this case.

As explained in KPMG's 2018 VFM assessments, in general, there are two main reasons why the public sector may want to intervene in a market:

- 1) There may be a market failure, where the market does not provide an efficient solution to a problem. In the case of market failures, it may be that no one comes forward with a good or service, or that the market provides an insufficient quantity of goods or services.
- 2) Public intervention may be required where a market is efficient but inequitable.

The rationale for public sector intervention to bring forward development of the Temple Island site is largely unchanged from when this was assessed by KPMG in 2018. It is based on the presence of a market failure, specifically that there are positive externalities associated with the development of the site. As analysed in Sections 6.2 and 6.3 of this report, the development of the Temple Island site will contribute towards wider benefits for the City and the region, including generating economic activity in the form of GVA and employment plus the delivery of housing.

As we explain below, there is evidence to suggest that the private sector would not bring these developments forward alone, therefore these positive impacts (externalities) would not be generated, at least to the same level and same timeframes, without public sector support, i.e. the market would not provide the most efficient solution without intervention.

⁵³ 2019-24 Control Period 6 Western Strategic Business Plan, National Rail (2018).

⁵⁴ <https://www.bristoltemplequarter.com/portfolio-items/temple-meads-redevelopment/>.



The Temple Island site has remained vacant and undeveloped for over 20 years. No private investor has previously come forward with proposals for the development of the Temple Island site without a need for public sector funding. For example, although it was previously proposed that the site be developed to house a public arena, this development would be led and funded by the public sector.

One of the key reasons for the lack of private sector development of the Temple Island site is that the site requires remediation works to be undertaken onsite, as well as some works to ensure that the site is accessible. For the proposed Temple Island development being considered at present, the estimated cost to BCC for these works is £32.0m. To carry out these works requires upfront cost and risk which may impact the commercial viability of developments on the site. As a result, private investors' incentives to develop the site have been constrained and the Council funding of these works has been a requirement when negotiating any redevelopment deal. It is these remediation works that BCC is proposing to fund in order to facilitate the development of the Temple Island site by L&G.

There is no evidence that, as a derelict brownfield site requiring remediation, that a private sector developer would bring forward the development of the site without public sector support. Further, we note that planned developments on the site and surrounding area, such as the UoB expansion and some developments in the BTQEZ, have been supported by public sector funding.

As part of the Temple Island development, BCC has decided to take on the headlease for the first commercial block developed in Phase 1. KPMG understands from discussions with BCC that its rationale for taking up the head lease for Office 1 of 100,000 sq. ft. is to underpin viability of the scheme, to secure an income stream, to develop a strong business case for Office 2 and encourage L&G to take forward wider development. It has indicated that it considers that this may help bring other commercial tenants to the site, bringing forward economic activity faster.

Given the well-connected location of the Temple Island site within the BTQEZ and its proximity to Temple Meads station, the site may become increasingly attractive to private investors in the future as other developments progress. However, the timeframe over which this may occur is unknown and the rationale for intervention remains at present despite the progression of the University's plans for development on the broader Temple Island site and business case approval for the QTIC.



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4 Commercial case assessment for the proposed Temple Island development

4.1 Introduction to commercial assessment

This commercial assessment summarises the intended transaction, identifying key issues arising based on KPMG's understanding and review of documentation provided by BCC. The documents reviewed are listed in Appendix 1.

The key issues identified are then addressed in turn noting their potential impact, proposed mitigation arrangements, and any recommendations for further work.

4.2 Proposed contract with Legal & General

4.2.1 Commercial Structure

KPMG understands that BCC has freehold title to the entire land parcel on which the Temple Island project is proposed to be developed. Homes England has certain rights to overage.

BCC advises that when Homes England transferred / sold the land to BCC there were 2 restrictions on title which were documented. The first was an overage provision for the benefit of Homes England and the second was an option, with time limits, that Homes England could exercise if they so wished if BCC has not brought redevelopment forward by the end of the time limits.

BCC is of the view that [REDACTED] but KPMG has not been provided with evidence to underpin this assumption.

BCC will retain the freehold of the Temple Island land, and will grant 250-year leases to L&G for Phases 1 and 2 of the development.

Phase 1 of the project will consist of:

- 500 residential units across three blocks (on plots 1-3 and plot 4 if required subject to massing and detailed design);
- Two office buildings of net internal area of 100,000 sq. ft. and 80,000 sq. ft., also on separate plots (plots 6 & 7).

Phase 2 of the project will consist of:

- Another residential block (on plot 5);
- A conference centre and a hotel or any other use as may be mutually agreed (on plots 8-10).

BCC and L&G intend to exchange on a conditional agreement for the development of Phase 1 in February 2020. The conditional agreement sets out responsibilities for both parties. [REDACTED]



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Upon satisfaction of all conditions precedent to Phase 1, L&G will pay an agreed sum for the combined value of each individual phase 1 plot. The valuation will be determined by the respective advisers of the parties subject to an agreed methodology. The **plot valuation methodology** is addressed as **Key Issue 1** in Section 4.3.

4.2.2 Impact on land ownership and use

The Phase 1 and Phase 2 lease terms allow L&G to freely assign the 250-year leases of the entire Phase 1 and Phase 2 sites (i.e. all plots comprised in the Phase), as well as to under-lease elements for 250 years less 1 week term. The land can however be used only for the development identified in the planning application – for both Phase 1 and Phase 2.

L&G will develop the Grade A Office 1 building with target Net Internal Area (NIA) of 100,000 sq. ft. and sub-lease it back to BCC for a term of 250 years less 1 week (or the remaining term of the 250 years less one week as appropriate). Under this under-lease, BCC shall pay rent for 40 years after which it may purchase the long lease for Office 1 at £1.

The agreement grants a pre-emption right (right of first refusal) to L&G which, if exercised, will give L&G the right to draw down plots from Phase 2 at a price to be computed by applying principles similar to Phase 1. The lease terms will also be similar to Phase 1 (with suitable modifications reflecting the use and delivery model where appropriate). This calculation would be undertaken prior to the exercise of such right and the payment would be made on the date of draw down.

The pre-emption right will be available to L&G for five years from the date of commencement of Phase 1 lease. This right terminates in the event L&G is not able to obtain satisfactory planning consent for Phase 2 plan. The current drafting of the HoTs is ambiguous and **Phase 2 drawdown** is addressed as **Key Issue 2** in Section 4.3.

4.2.3 Planning permission process

L&G will be responsible for the entire planning permission process and this forms a condition precedent to Phase 1.

Following the exchange of conditional agreement in February 2020, L&G will develop an outline planning application for the Temple Island Masterplan and subsequently a detailed plan for each individual plot under Phase 1 for planning consent.

L&G shall also obtain all other necessary approvals for the development and enter into an agreed form of building contract for Office 1 such that practical completion is achieved within 30 months of commencement.

The outline planning permission for the Temple Island Masterplan must also cover Phase 2 development.

[REDACTED] Planning risk [REDACTED]
[REDACTED] addressed as **Key Issue 3** in Section 4.3.

4.2.4 BCC's responsibilities

BCC has three major responsibilities:

- i. Secure the necessary funding for the site remediation for Phase 1 and Phase 2 before the development work for Phase 1 starts;



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- ii. Undertake site remediation works in relation to Phase 1 and Phase 2; and
- iii. Development and funding of enabling infrastructure for Phase 1 such as services and utilities.

KPMG understands that BCC intends to cap its contribution to enabling works at £32m. BCC also does not plan to fund costs that are part of L&G's scope unless there is a material change in the deal structure or State Aid considerations that make such additional funding feasible.

BCC expects to fulfil its funding commitment of approximately £32m through EDF grants, and expect this to be sufficient for its scope of BCC works. The works have been provisionally costed and itemised, and contingency of [REDACTED] and a risk allowance of [REDACTED] applied.

BCC's scope includes improvements to access to the A4, residual decontamination works, utilities upgrade/reinforcement, site remediation and Network Rail interface. BCC and L&G have agreed to review future car parking requirements, identify a potential solution and possible funding routes, and to include this in future legal documentation.

The enabling works are a condition precedent to the transaction, so the robustness of the cost estimates, sufficiency of risk contingencies applied, ability to fund the expected cost and ability to absorb cost and time overruns are critical risk issues for BCC to consider. These are discussed further as follows: **Ability to secure funding for the BCC enabling works** is addressed as **Key Issue 4**, and **cost and risk in relation to enabling works** is addressed as **Key Issue 5** in Section 4.3.

In addition to the above responsibilities, BCC shall also [REDACTED] **Homes England** [REDACTED] is addressed as **Key Issue 6** in Section 4.3.

4.2.5 Delivery model

BCC must enter into an agreement for lease with L&G for Office 1 as a condition precedent to Phase 1 commencement.

After this and all other conditions precedent for Phase 1 are satisfied, L&G will pay to BCC an agreed price for the combined value of each individual plot under Phase 1.

L&G will develop Office 1 and lease it to BCC with a commencing rent based on [REDACTED] funding yield, after an initial three-year rent-free period. The rent is therefore set at [REDACTED] of gross development costs. The rent will be calculated on an agreed date once a satisfactory construction contract has been tendered and definitive appraisal agreed. We understand L&G will work with BCC to agree an indicative development appraisal based on known market-based costs to finalise the starting rent prior to contract signature. Until this starting rent is frozen, other increases to gross development costs would increase the rent, subject to the appraisal to be mutually agreed. [REDACTED]

KPMG understands that BCC intends to sublease the office accommodation with the intention of making a profit on the rent paid. No tenant is currently in place. We understand from BCC that preliminary studies have indicated that the BCC as the head leaseholder will be able to achieve a profit rent. However, KPMG has not reviewed these studies.

Additionally, KPMG has not reviewed the agreement for lease, but we anticipate that the lease would be on a FRI (full repairing and insuring) basis so allowance for maintenance will need to be made to the extent it cannot be passed to the eventual occupier, as well as for residual head tenant responsibilities.



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[REDACTED]

The residential component of Phase 1 envisages 500 units, 40% of which are targeted for affordable housing in accordance with BCC's policies.

[REDACTED] Suitable arrangements for validating that the costs are reasonable will need to be agreed.

Issues in relation to the proposed **terms of the Office 1 lease** including the cost of finance and subletting risk are addressed as **Key Issue 7** in Section 4.3.

4.2.6 Estate Management Company

We understand from BCC that the public realm will be managed by an estate management company to be jointly formed by BCC and L&G.

BCC has clarified that it is its expectation that such operations and maintenance (O&M) costs will be borne by L&G and there will be no commercial obligation on BCC apart from the service charge it will have to pay in relation to Office 1, which would be passed through to the occupiers of Office 1.

It is expected that the lease holders of each plot will own a percentage of the estate management company – relating to the phase/amount of developed area and pay a reasonable service charge related to the O&M for that area.

The **estate management arrangements** are addressed as **Key Issue 8** in Section 4.3.

4.2.7 Procurement approach

Procurement of Legal and General as developer

KPMG understands that BCC has separately obtained legal advice in regard to appointment of L&G and that this notes that the duty to obtain best consideration is satisfied by the arrangement for plot valuation although as noted elsewhere in the report further refinement is required in this aspect of the transaction to ensure it is fit for purpose.

BCC has received legal advice that a competitive procurement process is not required for this project given that, in the counsel's opinion the proposed arrangement between BCC and L&G would not amount to a works contract or works concession because of the absence of positive legal works obligations. The opinion also notes that the position is not certain and a VEAT notice could be used to mitigate the risk, however the HoTs will need to be sufficiently developed to allow publishing of such a notice. We understand that BCC will be seeking further legal advice on this as the deal progresses.

Procurement of BCC infrastructure

We understand that BCC will procure its scope of enabling works directly in line with public procurement requirements.



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4.3 Key issues identified

We have reviewed the risk register received from BCC on 28 November 2019 alongside the HoTs. Below is our high-level analysis of the key commercial risks to BCC arising from the proposed agreement with L&G.

4.3.1 Key issue 1 – Plot valuation mechanism

The HoTs make brief reference to independent market valuation principles, but also elsewhere make reference to grounds for modification of land premium payable based on other factors. The HoTs envisage that Phase 1 plot valuations would be carried out by the respective advisers of BCC and L&G as on date of the conditional agreement exchange which can be updated for any changes to the scheme arising out of planning consent.

KPMG often see precedent in similar deal structures for a minimum base plot value to be agreed below which valuation cannot fall. This would provide protection to the Council that they have the ability to halt or pause the deal if there is an unexpected market downturn that reduces expected receipts beyond an agreed tolerance from current values. We have discussed this with BCC who have indicated they do not believe such a provision is required as the regeneration and strategic objectives are strong that ultimately these outweigh the need to secure minimum land value.

KPMG understands that BCC and its property and legal advisors are addressing this in ongoing negotiations with L&G in relation to the legal drafting, in order to improve the risk profile to BCC.

4.3.2 Key issue 2 – Phase 2 drawdown

L&G is required to obtain outline planning permission from the outset for Phases 1 and 2. It then benefits from a right (but not an obligation) to draw down the Phase 2 land at a value to be agreed. This pre-emption right is available for five years from the date of the unconditional leasehold period of Phase 1.

BCC may wish to ensure that the five-year right does not frustrate BCC's ability to deliver elements of Phase 2 as we note that there is no cost to L&G for not exercising this option. Should L&G choose not to exercise its pre-emption right, BCC should ensure that the contract provides for the intellectual property developed for Phase 2 to be made available and for BCC to be able to curtail the L&G pre-emption right in certain circumstances.

The risk register notes that due to [REDACTED]

[REDACTED]
land valuations

[REDACTED] This could have a significant impact on the Phase 2

4.3.3 Key issue 3 – Planning risk [REDACTED]

KPMG understands that in the event [REDACTED]

[REDACTED]
be addressed given the financial impact on BCC

[REDACTED] This will need to



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BCC as landowner and not an equity partner in the developer has no control over the quality of the L&G planning application process, and BCC's decision-making process as a planning authority is entirely separate from its role as landowner. Accordingly, BCC may wish to consider its exposure to this planning risk.

4.3.4 Key issue 4 – Enabling works (ability to secure funding)

KPMG understands that BCC intends to cap its contribution to enabling works at £32m.

Subject to the valuation mechanism adopted, whilst BCC will not directly fund costs that are part of L&G's scope, it may be exposed to such costs through lower land value payments as well as refund of L&G's development costs in the event of planning failure.

Whilst BCC expects to fulfil its funding commitment of approximately £32m through EDF grants and expects this to be sufficient, in the event that it is unable to secure such funds from these or alternative sources, and therefore not deliver the works, it could potentially trigger termination and become liable for L&G costs. BCC should look to cap its exposure to all costs including enabling works and failure to achieve planning.

KPMG understands that BCC will clarify the source, timing and availability of funding, and any contingency plans for alternative sources, at the earliest possible opportunity.

4.3.5 Key issue 5 – Enabling works (cost and risk)

The enabling works for which BCC is responsible include decontamination works, southern access improvement works, A4 retaining wall and bridge construction, A4 slip road / plot 12 improvements, utilities reinforcement, structural fill and Network Rail interface. The estimated cost of these works is £32m.

We understand the reason for BCC choosing to deliver these works is to ensure that it does not pay a risk premium to a developer as well as to underpin viability overall.

Linked to key issue 4 above, the nature of the enabling works makes them difficult to cost accurately. BCC will therefore need to satisfy itself that the £32m capped figure incorporates sufficient contingency for all reasonable eventualities. In the event that the cap is exceeded KPMG's assumption is that BCC would remain liable for the works as scoped and would need to obtain additional funding. The detailed scope of responsibilities and risks will need to be codified and incorporated into the agreement prior to signature, and KPMG understands that BCC and its advisors are in the process of undertaking this work. Where possible enabling works should be contracted at the time the agreement is made with L&G.

4.3.6 Key issue 6 – [REDACTED] Homes England [REDACTED]

Homes England benefits from certain historic options and restrictions over the land. The HoTs provide that BCC shall [REDACTED]

[REDACTED] This is a key value driver for the Temple Island scheme [REDACTED], and therefore needs to be addressed as a priority.



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KPMG understands that the above issue is being addressed by BCC and its advisors, and that BCC is of the view that [REDACTED] although no evidence or correspondence supporting this assumption has been provided to us as part of this review.

4.3.7 Key issue 7 – Terms of Office 1 lease

KPMG understands that BCC's rationale for taking up the head lease for Office 1 of 100,000 sq. ft. is to underpin viability of the scheme, to secure an income stream, and to develop a strong business case for Office 2.

Since BCC does not intend to occupy Office 1, it therefore bears market risk of ability to sublet the building for a rent in excess of the underlying rent payable by BCC for 40 years. BCC's ability to secure a long-term pre-let for Office 1 is an important mitigating factor for this risk. The actual rents realised by BCC from its tenants would be subject to market conditions, and any adverse movement in commercial rents could have a financial impact on BCC.

BCC has advised that its adviser CBRE has undertaken preliminary studies of the office market space [REDACTED]. The positive view of these studies, provides comfort as to the ability to sublet Office 1.

[REDACTED]

BCC should ensure that the intended transfer of construction risk to L&G is fully reflected in the lease documentation, notably ensuring that no lease payments are due in the event of delay to construction completion.

[REDACTED]

[REDACTED]



[REDACTED]

By undertaking a lease and leaseback transaction the project incurs 5% SDLT charge on the development value of the office building which will be charged back to BCC through the lease rental. Whilst market norm and unavoidable under such a structure, incurring SDLT for the construction of a building on land currently owned by BCC is a structural inefficiency.

From a strict application of the HMT Green Book perspective this inefficiency should be ignored as it is a cash flow to Government.

4.3.8 Key issue 8 – Profit share for Office 2

[REDACTED]

[REDACTED]

4.3.9 Key issue 9 – Estate management arrangements

The public realm will be managed by an estate management company to be jointly formed by BCC and L&G. We understand that the estate management regime will be agreed between the parties by way of a non-binding agreement separate from the lease and other project agreements. Whilst the cost sharing principles are yet to be finalised, the non-binding nature of the proposed agreement could be a cause for potential disagreements in future.

BCC has clarified its expectation that such O&M costs will be borne by L&G and there will be no commercial obligation on BCC. The detail of the workings of the estate management regime and service charge regime requires further development ahead of contract signature. In particular the service charge levied will impact BCC directly as occupier of Office 1.

4.3.10 Other observations

Affordable Housing

- Under the current proposal, L&G is to target 40% affordable housing and must deliver a minimum of policy compliant level.
- L&G would seek to develop a plan that is compliant with the council's policy but also meets their investment returns criteria. It would presumably seek to minimise the impact of affordable housing on its returns by optimising the affordable housing mix, i.e. maximise that affordable housing component(s) that has least negative impact on its expected commercial returns which may or may not be acceptable to the council's housing team, leading to a potentially difficult and protracted negotiation.
- We understand that the parties have agreed the affordable housing structure comprising [REDACTED] shared ownership [REDACTED] social rent and [REDACTED] discounted market rent (with the rent on the DMR homes being [REDACTED] of open market rents).



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4.4 Conclusions and recommendations

We have highlighted several key issues in our analysis including:

- L&G was not appointed through a competitive process although there is agreement on a 'best consideration' process for valuing the land for the proposed project. BCC is constrained by this position in its ability to specify elements of the scheme and BCC should continue to ensure appropriate legal advice is taken on this point to support this route;
- BCC should address and refine its exposure to planning risk (under certain circumstances) where BCC would be [REDACTED] We recommend that BCC consider refining these terms to improve BCC's risk exposure and deliver greater economic benefit;
- BCC should ensure cost and risk associated with enabling works is fully defined as the programme progresses to remain within BCC expectations for these works.



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5 Financial case assessment for the proposed Temple Island development

5.1 Introduction

5.1.1 Purpose of financial case

The principal purpose of a financial case is to determine the affordability and funding ability of the preferred option. This section:

- sets out BCC's financial objectives for the transaction;
- details key financial considerations affecting value and affordability;
- considers transaction affordability and sources of funding for the costs associated with BCC's involvement over the whole life of the project;
- details BCC's spend and funding profile.

5.1.2 Financial objectives for the transaction

KPMG understands BCC's financial objectives for the transaction to be as follows:

- BCC will fund its share of agreed site enabling works through grant funding, at no direct cost to the Council
- BCC will enter into a 40 year lease for Office 1 (Plot 6) with L&G. The Council will then sublet Office 1 to third party occupier(s). It is estimated the sublease income will be sufficient to meet BCC's lease obligation and generate a profit rent. In addition, BCC will have the option to purchase the title to Office 1 at the end of the 40 year period for £1
- For Office 2 (Plot 7), following a deduction of [REDACTED] to L&G, BCC will be entitled to a [REDACTED] share of the rental income
- Upon drawdown of Phase 1, BCC will look to secure 'best value' land premium capital receipt for Temple Island. The Council's working assumption is the land premium will satisfy a 'best consideration' test via Section 233 valuation.

If these objectives are borne out, the financial impact to BCC would be positive. Therefore, the ultimate affordability or otherwise of the transaction depends on the degree of risk associated with the above and the extent to which downside scenarios materialise.

5.1.3 Elements impacting affordability

The elements which will determine the affordability of the transaction are:



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- the capital receipt payable to BCC by L&G for the site, specifically Phase 1, and the risks associated with the level of this payment;
- BCC's ability to secure grant funding to undertake £32m of enabling works across the whole Temple Island site;
- the opportunity cost to securing the sale leaseback of Office 1 (Plot 6) for a 40 year commitment. This includes payment of rent, service charge and maintenance obligations incurred;
- the level of expected revenues to BCC from subletting Office 1, and the risk associated with these revenues
- the level of revenue expected to BCC from the [REDACTED] rent share of Office 2, minus the priority return to L&G.
- any overage payable to Homes England for the sale of Temple Island and how this is structured as a repayment to the Temple Island Enterprise Zone.

5.2 Key financial considerations

KPMG has identified a number of financial considerations, which could have a significant impact on the overall developable value of Temple Island, land premium payable to BCC, and the affordability profile of the project.

5.2.1 Land premium

The Council has opted to secure an off-market land deal with Legal and General Investment Management. As a local authority, BCC has an obligation to achieve 'best value' on its land disposals/ transactions.

Section 123 of the Local Government Act 1972 provides guidance as to how local authorities can achieve best consideration. General practice would suggest testing the land in the open market, either through private treaty or undergoing a procurement process. As detailed in section 4.2.7, BCC has sought legal counsel to ensure due process is undertaken which has concluded that further legal advice will be required.

KPMG suggests that BCC should request that L&G provides Phase 1 development appraisal sensitivities. Such sensitivity analysis will enable BCC to test changes to assumptions such as sales values, rents, yields constructions costs, profit etc. and understand their impact on BCC returns..

Upon satisfying pre-conditions, BCC will benefit from the land value uplift delivered by undertaking the enabling works and L&G obtaining planning permission. The pre-conditions are as follows:

- Outline planning permission for Temple Island masterplan obtained (Phase 1 and 2)
- BCC confirming funding for enabling works
- Full planning permission obtained and construction contract secured for Office 1
- BCC entering into the unconditional Agreement for Lease for Office 1
- Full planning permission obtained for Plot 7 (Office 2) and Plots 1,2,3 and 4 if required by L&G (Residential blocks 1,2,3 and 4)



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We understand the HoTs are yet to be finalised, however, as it stands the pre-conditions carry risk factors that may affect the land value payable to BCC.

5.2.2 Inclusion of Phase 1 overage

BCC and L&G have not yet agreed overage arrangements. Given the land type and structure of the transaction, KPMG would expect to see a sale or use/development overage to carry with the title.

[REDACTED]

KPMG would recommend [REDACTED]

5.2.3 Development Appraisals

5.2.3.1 Affordable housing

For Phase 1, the Heads of Terms state L&G will target 40% affordable housing and deliver a minimum of policy compliant affordable housing with the exception that the specific levels of social rent and shared ownership can be agreed with BCC's Housing Team.

As far as KPMG is aware, there has been no impact assessment of the affordable housing mix. The key risk is the tenure apportionment for the affordable housing, as each element varies in value, for example intermediate housing, affordable rent, shared ownership and social rent. Therefore, the tenure mix will have an overall impact on the gross development value, and subsequently the residual land value payable to BCC.

The affordable housing development appraisal, undertaken by CBRE, does not define the proposed tenure mix, [REDACTED]. This may distort values across the appraisal. We would recommend revisiting this to reflect the proposed mix.

5.2.4 L&G securing planning permission for Temple Island

5.2.4.1 'Reasonable planning consent'

The terms and obligations surrounding the planning pre-condition definitions are yet to be defined. As we understand it, L&G are leading on securing the outline planning permission for the masterplan and various full planning permissions for the site, with support from BCC to deliver a policy compliant redevelopment scheme.

We have assumed BCC and L&G have a working agreement and understanding of a development scheme that fully optimises the land use and value. The Heads of Terms are not specific on [REDACTED]

[REDACTED]. Therefore, the key risks affecting value are [REDACTED] however none of these risks have been quantified.

Key Risk 1 - Planning

In the event L&G fails to secure outline planning for the Temple Island masterplan, the conditional contract may fall through at which point BCC could be obligated to refund reasonable costs relating to the securing of planning permission to L&G, in return for IP associated with it and relevant warranties.



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The current draft Heads of Terms state [REDACTED]

Key Risk 2 – Land Value

Failure to secure planning on the Temple Island site, may have a negative effect on the future land value. Therefore, it is important BCC works alongside L&G to secure the site masterplan and subsequent planning consents.

5.2.5 Funding for the enabling works

The Council must secure grant funding to carry out the enabling works. BCC intends to cap its capital costs for enabling works at £32m for Temple Island and that these costs will be met from EDF grant.

KPMG understands that the enabling works would generally be needed for any use on the site and that as a strategic city centre site, the enabling works are considered beneficial and should proceed subject to availability of funding regardless of whether the deal with L&G is concluded.

5.2.6 Overage Agreement to Homes England

The Temple Island title carries an overage provision between Homes and Communities Agency (now Homes England) and BCC, dated 26th March 2015. Any overage payable will need to be agreed between the two entities before progressing with the transaction.

The overage states 'any overage due to either the Agency or the Council under the cause may be utilised by the Council as capital investment to support projects within the Enterprise Zone.' Therefore, BCC may have access to additional funds to further facilitate the project at Temple Island, such as using the funds for supporting infrastructure works.

5.2.7 BCC's office lease

The Council will enter into a 40 year lease agreement for a 100,000sqft (NIA) Grade A office building. During the period, BCC will be obligated to pay a rent portion of the estimated market rent and service charge to L&G and the Temple Island Management Company respectively. At the end of the period, BCC will have the option to purchase the building for £1.

KPMG understands that BCC intends to pre-let Office 1 to one or more occupiers. BCC's working assumption is that the sublease income will exceed the BCC rent obligation to L&G, and that a profit rent will be generated for BCC. The Council will carry void, letting and market risk on this element of the transaction. At worst, income from subleases will be lower than the BCC rent obligation requiring BCC to meet its obligation from other sources. The Council must ensure any sub lease agreement reflects the head lease event dates i.e. rent reviews.

5.2.7.1 Office 1 - Funding yield

The Heads of Terms state the Agreement for Lease on Office 1 will have a commencing rent based on [REDACTED] yield.



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The plot mix for Phase 2 includes a residential block, conference centre and hotel (or other use as agreed viable by both parties). The conference centre and hotel are high risk viability uses. These may be especially difficult in assessing the scheme viability for Phase 2 in isolation to Phase 1.

As drafted, L&G has the right and not an obligation to drawdown Phase 2 within the five year period. KPMG understand that if L&G fail to deliver Phase 2, BCC will be able to sell the land with the benefit of enabling works and planning consent.

5.2.9 Summary of land value drivers

We have identified other risk factors that may affect the land value;

- Access to Temple Island from A4 is a critical driver to the success of the Temple Island development. [REDACTED]
- The cost of funding Office 1 for which BCC is taking up the head lease is a key value driver for BCC as any reduction in the funding yield will have a positive impact on the profitability of Office 1 lease for BCC.
- The pre-emption right held with L&G has a significant impact in the development of Phase 2. Should L&G use up its five year period before choosing not to exercise its right, it could potentially delay the timescales of Phase 2 and also incur additional costs for BCC to identify alternative developers/uses.
- The termination provisions seem to indicate that BCC is committing to underwrite the planning consent for L&G. In our opinion, BCC should negotiate to make this clause more specific so that such a provision is applicable only under force majeure events.

5.3 Financial Analysis

5.3.1 Temple Island spend and funding profile

BCC has modelled the following spend profile and correlating funding options:

Figure 9: Temple Island Spend and Funding Profile

	Year							Total
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	
COSTS								
Design, Fess & PM	[REDACTED]							
Construction	[REDACTED]							
Risk	[REDACTED]							
Sub Total	[REDACTED]							
Inflation	[REDACTED]							
Total Costs	[REDACTED]	£31,784,129						



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FUNDING

EDF

Drawdown

£31,784,129

Source: Bristol City Council

Therefore, BCC's total costs for Temple Island, including cost of feasibility pre-programme is £31.784m, capped at £32.0m.

BCC has identified the EDF as its main source of funding for the project. BCC has noted that some has already been committed, but funded from the Capital Investment Reserve Pending Programme entry in BCC Capital programme and award of EDF funding.

5.3.2 Affordability

The spend and funding schedule demonstrates BCC's ability to fund the Temple Island enabling works project, subject to securing EDF funding and short-term borrowing.

We note BCC's financial planning for the project and ability to afford (fund) the project. There is a reasonable scope to deliver the enabling works as contracted, in order to unlock the Temple Island developable value of [REDACTED] (subject to valuation and contract). Additional to the capital receipt, the affordability of the scheme is also offset by BCC's financial participation in the development income from Office 1 and 2, with estimated minimum annual income of [REDACTED] (Office 1).

5.4 Conclusions and recommendations

We recommend addressing the following issues to limit BCC's risk exposure:

- Engaging Homes England to confirm overage release
- Underpinning the S233 Valuation principles. Ensuring the cost and value assumptions are aligned to safeguard the residual land value at Temple Island.
- Refining definitions in the Heads of Terms, especially terms which expose BCC to costs, such as L&G's ability to recoup planning fees. This will have an effect on BCC's overall spend/cost profile
- Inclusion of an overage provision in the agreement with L&G to ensure BCC satisfy future 'best consideration' of the land
- Further analysis and refinement of the terms currently agreed for Office 1 to see whether these can be improved upon.



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6 Economic assessment of the proposed development of the Temple Island site

6.1 Our approach to assessing the economic case

Within a HM Treasury Green Book compliant business case, the economic appraisal is intended to inform the identification of the proposal that delivers best public value to society, based on a cost benefit analysis (CBA) or cost effectiveness analysis (CEA). This requires identification and appraisal of the range of potential impacts associated with proposed options relative to what would have taken place in the absence of intervention.

The HM Treasury Green Book highlights that “economic appraisal is based on the principles of welfare economics – that is, how the government can improve social welfare or wellbeing, referred to in the Green Book as social value”⁵⁷. In the case of this VFM review, BCC asked KPMG to identify the economic outputs of the development and assess these qualitative and quantitative impacts. This means that our analysis focuses on economic measures of impact. It should be noted that any additional impacts (positive or negative), for example social and environmental impacts, have not been assessed as part of this review, although they would affect the overall level of costs and benefits of the proposals and hence the VFM of the development scheme.

It should also be noted that within the scope of our review we were not asked to appraise different options for the development of the Temple Island site, or different projects/ proposals in which the public funding could be invested. As part of business case development based on HM Treasury Green Book guidance, it would generally be the case that the economic case appraises a short list of options to identify the preferred way forward, based on the relative NPPV and BCR of the different options, as well as wider considerations such as affordability and deliverability.

As this options appraisal was not part of our scope of work for BCC, our economic case assessment in this report looks only at the development scheme proposed by BCC for the Temple Island site rather than any variants of this (e.g. in terms of mix of uses) or alternative uses of the site and/ or funding.

Our approach to assessing the potential economic impacts associated with the BCC proposed Temple Island development has been conducted in accordance with the principles set out in the HM Treasury Green Book⁵⁸. Specifically, we assess the potential net additional direct, indirect and induced economic impacts of the proposed development in terms of economic output, measured by GVA⁵⁹, and employment, measured in Full-Time equivalent (FTE) terms⁶⁰.

Direct economic impacts are the first round effects where demand creates economic activity. Indirect impacts are the effects generated through the activity and output supported in the UK based supply chain as a result of procurement of inputs of goods and services (both for construction and ongoing operations). Induced impacts are multiplier effects that arise in the UK economy as a result of direct employees and employees in the UK supply chain spending a proportion of their wages in the UK.

⁵⁷ HM Treasury (2018) The Green Book: Central Government Guidance on Appraisal and Evaluation.

⁵⁸ HM Treasury (2018) The Green Book: Central Government Guidance on Appraisal and Evaluation.

⁵⁹ GVA is a measure of the economic value of the goods and services produced at an individual company, industry or sector level, net of intermediate consumption (e.g. the goods and services that are used in the production process). It estimates the difference between the value of goods and services produced and the cost of inputs, such as unprocessed materials, used to create those goods and services. A nation's gross domestic product (GDP) includes the sum of the GVA of all economic agents in the economy.

⁶⁰ In our analysis we report employment in full-time equivalent (FTE) terms. This adjusts part time or temporary staff into an annual full-time equivalent based on the proportion of full-time hours worked over a year.



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This spending generates additional economic activity for those businesses from which these employees buy goods and services and in these businesses' own wider supply chains.

Our analysis draws on the data and information relating to the proposed development provided to us by BCC, including floorspace estimates, estimated construction costs and estimated visitor numbers/ attendees for the conference facility. We also used publicly available data produced by HE⁶¹ and the ONS in our analysis. Full details of sources used are referenced through the report and set out in Appendix 1.

Our analysis focuses on the potential economic impacts associated with:

- the construction of the proposed development; and
- the ongoing operation of the proposed commercial development on the site (including the office and retail space, the hotel and the conference centre), split by phase, including the potential impact of increased visitors to Bristol associated with the conference centre facility⁶².

Due to a lack of available data and information at this stage, we have been unable to quantitatively assess all of the potential economic impacts that could be generated through the proposed Temple Island development. The following aspects have not been included in our quantitative analysis:

- The economic impacts associated with the construction of Phase 2 of development.
 - As Phase 2 of the development is dependent on Phase 1 being completed and the detailed planning for this has not fully advanced, the potential construction costs associated with Phase 2 have not been estimated. We have therefore been unable to estimate the potential economic impacts that would be generated through the construction of Phase 2 of the Temple Island development.
- Any wider developments on adjacent sites that may be catalysed as a result of the development of the Temple Island site.
 - BCC has stated orally to KPMG that it considers that the development of Temple Island could encourage the development of adjacent undeveloped sites. However, which sites and the potential scale, type and timing of any catalysed development have not yet been identified and there is some uncertainty associated with this. We have therefore been unable to quantify the potential impact. Section 6.5 below sets out our qualitative assessment of potential wider impacts associated with catalysed development.

In line with the HM Treasury Green Book, we have assessed the additionality of the proposed development i.e. the economic activity that is additional to the local economy and would not arise in the absence of the project being brought forward. This includes an assessment of:

- Deadweight: the extent to which the outcomes would have occurred without the project being brought forward.
- Displacement: the extent to which the project could offset economic activity elsewhere.

⁶¹ Homes England, formerly the Homes and Community Agency (HCA)

⁶² We note that while the residential developments would also generate economic impacts through the residents' additional spending with local businesses, resulting from the increase in the local population, HCA guidance states that where a development is mixed use this additional spending should not be captured separately. It considers that only the economic output (GVA and employment) associated with the commercial aspects of the development should be estimated and not impacts from any residential aspects, to avoid the double counting of impacts in the analysis.



- Leakage: the extent to which impacts are generated outside of the spatial area which it is intended to benefit. We have assessed the potential economic impact of the development of the Temple Island site at three levels; the UK level; the West of England level and the Bristol level. When referring to impacts at the Bristol level, we have used the UK Government definition of a sub-region. This is equivalent to the area of Bristol covered by BCC.

In addition, we have discounted our net economic benefit estimates (both GVA and employment impacts) for optimism bias. As defined in the HM Treasury Green Book, optimism bias is the proven tendency for appraisers to be over-optimistic about costs and benefits. In line with best practice and the HM Treasury Green Book, we have assumed an optimism bias discount of 10%.

The construction impacts are captured only for the years in which construction takes place as they would not persist beyond this. We then estimate the economic impacts for 25 years from the year Phase 1 of the development becomes operational in 2023, through to 2047. While the useful life of the developments will extend beyond this appraisal period (and hence the analysis would underestimate the overall economic contribution of the scheme over its full life), this timescale has been used so that the results are directly comparable to previous assessments of the economic impacts and VFM of proposed developments on the site.

The net economic impacts we estimate are presented in our analysis in Net Present Value (NPV) terms in 2020 prices, applying a social time preference rate (STPR) discount rate of 3.5%, based on the HM Treasury Green Book guidance.

Our analysis has relied upon data and information provided to us by BCC as of 13 December 2019. We note, however, that the plans for the Temple Island site are being developed and agreed with L&G. Therefore, the analysis should be viewed as indicative only, and is predicated on the deliverability of the scheme and the achievement of BCC's projections in terms of developed floorspace, use, occupancy, and timescales for construction and completion.

If as the development plans for Temple Island progress more data and information become available we recommend that the analysis is revisited and the economic impact and overall VFM assessments are updated accordingly.

6.2 Potential economic impacts associated with the construction of Phase 1 of the Temple Island development

The construction of the proposed developments on the Temple Island site will directly generate economic activity. It will also generate indirect economic impacts through the supply chain, e.g. through the purchase of construction materials, as well as induced impacts associated with employees' spending wages in the wider economy.

However, any impacts will be generated for a limited time only - over the construction period. At present, information provided by BCC indicates that the construction of the developments will be spread over two phases:

- Phase 1: running from 2021 to 2025; and
- Phase 2: running from 2028 to 2029.

To inform our estimates of the construction impacts BCC has provided us with cost estimates for the construction of the residential and commercial developments, on both a per square foot basis and a total basis. BCC estimates these construction costs to be [REDACTED] for Phase 1. As we note above in Section 6.1, we have not been provided with construction cost estimates for Phase 2



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of the development. We have therefore been unable to estimate the economic impacts associated with this phase of construction.

In advance of construction commencing, enabling works will be undertaken by BCC. Over the period this work is underway this activity will have GVA and employment associated with it. These impacts are not included in our economic impact assessment of the proposed development, however, as BCC has indicated that the works would need to be undertaken in any case.

6.2.1 Gross GVA impacts associated with the construction of Phase 1 of the Temple Island development

We have estimated the direct GVA associated with the construction of the development by applying the relevant GVA to output ratio sourced from the ONS for the construction industry to the overall estimated cost of construction⁶³. Indirect and induced GVA has been estimated by applying Type I and Type II GVA multipliers⁶⁴ to the estimated direct GVA⁶⁵.

Overall, we estimate that [REDACTED] would be generated in gross GVA⁶⁶ through the construction of Phase 1 of the development, over the period 2021 to 2024.

Figure 10 below sets out our gross GVA estimates split by direct, indirect and induced impacts

Figure 10: Gross GVA (in nominal terms) associated with the construction of Phase 1 of the Temple Island development

	Direct	Indirect	Induced	Total
Phase 1 Gross GVA	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: KPMG analysis

6.2.2 Gross employment impacts associated with the construction of Phase 1 of the Temple Island development

The construction of the development will also have employment associated with it for the duration of the construction period, potentially creating some permanent jobs.

We have estimated the potential level of direct employment associated with construction based on the direct GVA (as estimated in Section 6.2.1) and the average GVA per FTE for the construction industry sourced from the ONS⁶⁷. Indirect and induced employment have been estimated by applying the industry Type I and Type II employment multipliers⁶⁸ to the estimated direct employment.

We estimate that 1,163 gross FTE temporary jobs would be generated through the construction of the Temple Island development, over the construction period in Phase 1 from 2021 to 2024.

We have adjusted our employment estimates to be in permanent terms, using the standard economic appraisal assumption that 10 person-years of employment is equivalent to one permanent FTE job.

⁶³ Ratio used is relevant to SIC 41: Construction of buildings. Ratio is sourced from Office for National Statistics (2019) Input-output supply and use tables 2017.

⁶⁴ Type I multipliers capture the direct and indirect effects. Type II multipliers also include the induced impacts.

⁶⁵ Multipliers used are relevant for SIC 41: Construction of buildings. Multipliers are sourced from: ONS 2015 Input-Output Analytical Tables, Multipliers and effects. Available at: <https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/datasets/ukinputoutputanalyticaltablesdetailled>; and Scottish Government Type I & Type II, output, income, employment and GVA multipliers Scotland 1998-2016 (SIC 2007 basis). Available at: <https://www2.gov.scot/Topics/Statistics/Browse/Economy/Input-Output/Downloads/IO1998-2015L1>.

⁶⁶ Gross GVA has not been adjusted for additionality and is presented in nominal terms.

⁶⁷ Input-output supply and use tables, ONS 2015 Input-Output Analytical Tables, Multipliers and effects. Available at:

<https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/datasets/inputoutputsupplyandusetables>

⁶⁸ Scottish Government Type I & Type II, output, income, employment and GVA multipliers Scotland 1998-2016 (SIC 2007 basis). Available at: <https://www2.gov.scot/Topics/Statistics/Browse/Economy/Input-Output/Downloads/IO1998-2015L1>.



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Based on this approach, we estimate that 116 gross permanent FTE jobs would be generated through construction of Phase 1 of the Temple Island development.

Figure 11 below sets out our gross employment estimates for Phase 1, split by direct, indirect and induced impacts. These are adjusted to be in permanent FTE terms.

Figure 11: Gross employment (in permanent FTE terms) associated with the construction of Phase 1 of the proposed Temple Island development



Source: KPMG analysis

6.2.3 Consideration of additionality and net economic impacts

As set out in Section 6.1 above, we have considered the additionality of any economic impacts in order to estimate the net economic impacts of the proposals.

We have set out our assessment of the estimated level of additionality associated with the construction of the proposed Temple Island development in Figure 12 below.

Figure 12: Assessment of the additionality of the construction of Phase 1 of the proposed Temple Island development

Additionality factor	Estimated level	KPMG assessment
Deadweight	-	<p>As there are presently no competing proposals for the development of the Temple Island site, and as we consider that there is a clear rationale for public sector intervention to bring forward a development on the site, we consider that the counterfactual would be that without the BCC support, development of the site would not be brought forward in the near future.</p> <p>It may be that some alternative proposal requiring a potentially different level of public support may be brought forward at some point over the 25 year appraisal period if the current proposed development did not proceed. The location of the site within the BTQEZ, the close proximity to the Temple Meads station and the wider redevelopment of the surrounding area means that the site is unlikely to continue to remain vacant over the long-term (although we note that it has already been vacant for a considerable period of time).</p> <p>However, what an alternative development proposition for the site might be, potential timelines for this and whether any public sector funding would be required to deliver it is unclear. As a result, for the purposes of our analysis we have assumed there is no deadweight associated with the public sector funding of the proposed Temple Island development. Therefore, the gross construction impacts are not adjusted for any deadweight.</p>
Displacement	10%	The construction activity is expected to take place over a reasonably prolonged period (approximately 3 and a half years for Phase 1, with Phase 2 to be developed thereafter). L&G has developed the plans for the Phase 1 construction.



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The latest ONS construction output statistical bulletin⁶⁹ indicates that while UK construction output increased slightly in Quarter 3 2019, compared with the previous quarter, and since the start of 2017 the industry has experienced a slightly positive trend in growth, this is “markedly slower growth” compared to the period prior to 2017. This suggests that there is capacity for the sector to expand further to meet demand.

As a result of these factors, we consider that the Temple Island development would have very limited levels of displacement from other major construction projects across the UK. Local market conditions may affect this though.

Therefore, we have assumed a very low level of displacement in our analysis at 10%, based on the HE Additionality Guide.⁷⁰

It should be noted that this assessment could change if new, currently unplanned developments – especially those of a large nature – were to be brought forward in Bristol and the wider West of England area over the same time period that would significantly increase demand for the construction industry. It could also change if there were any supply-side shocks significantly affecting the availability of construction workers. We suggest monitoring this at frequent stages in the period leading up to the start of the construction and throughout the phases of construction of the development to determine if displacement may be higher.

Leakage	17.5% for indirect and induced impacts at a West of England level.	Due to the location of the Temple Island development, the direct construction activity will be undertaken in Bristol and as a result, we would expect the direct impacts of construction to be retained in Bristol and the West of England.
	25% for indirect and induced impacts at a Bristol level.	Through the supply chain, there will be a level of leakage of economic activity and employment outside of the Bristol and West of England area given that construction suppliers, and the suppliers through the rest of their supply chains will be spread across the UK and to some extent internationally. To reflect these supply chains and the associated leakage of impacts, at the West of England level we assumed a low to medium leakage rate for the construction impacts of 17.5% and a medium level of leakage of 25% at the Bristol level, which are applied to the gross indirect impacts. These rates are based on the levels detailed in the HE additionality guidance. ⁷¹
		The same levels of leakage are assumed for the induced impacts given that the location of wage spending of indirect employees is likely to also to be spread across the UK, similar to the supply chain spending. ⁷²
		It should be noted that the leakage rates adopted in our analysis may overestimate the levels given that evidence set out in BEIS guidance ⁷³ suggests a mean leakage level for ‘regeneration through physical infrastructure’ projects of 14.1% and 10.4% at a sub-regional ⁷⁴ and regional level respectively. ⁷⁵

⁶⁹ ONS Construction output statistical bulletin September 2019. Available at <https://www.ons.gov.uk/businessindustryandtrade/constructionindustry/bulletins/constructionoutputingreatbritain/september2019>

⁷⁰ Homes England, Additionality Guide (2014)

⁷¹ Homes England, Additionality Guide (2014)

⁷² We note that wider supply chains may also be international. The UK level economic multipliers used in the analysis already take account of leakage of impacts outside the UK. Therefore, this is not adjusted for in our additionality assessment.

⁷³ Formerly the Department for Business Innovation & Skills (BIS).

⁷⁴ A sub-region is defined as any spatial area that covers the very local (e.g. 5 miles) through to the local authority district.

⁷⁵ BIS (2009) BIS Occasional Paper No. 1: Research to improve the assessment of additionality.



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Source: KPMG analysis

By applying the additionality assumptions set out above to the gross impacts we have estimated the net GVA and employment associated with the construction of the proposed alternative development on Temple Island. Our estimates of net impacts for the total construction period are set out in Figure 13 below.

Figure 13: Net GVA impacts associated with the construction of Phase 1 of the proposed Temple Island development

	Direct	Indirect	Induced	Total
Net GVA				
<i>In the West of England (including Bristol)</i>	■	■	■	■
<i>In Bristol</i>	■	■	■	■
Net employment (in permanent FTE terms)				
<i>In the West of England (including Bristol)</i>	■	■	■	■
<i>In Bristol</i>	■	■	■	■

Source: KPMG analysis

It should be noted our estimates of net impacts are based on current information, and our assumptions of additionality. As plans progress, and if any of the assumptions change and/ or more detailed information and evidence becomes available, similar to the assessment of gross impacts, it would be advisable for BCC to consider whether the analysis of net impacts can be updated to reflect the latest position.

6.3 Potential economic impacts associated with the ongoing operation of the Temple Island development

Our quantitative analysis of the economic impacts associated with the ongoing operation of the proposed commercial development on the site (including the office and retail space, the hotel and the conference centre) is set out below.

We also separately assess in Section 6.3.2, the potential economic impacts associated with the spending of increased visitors to Bristol associated with the conference centre facility and hotel.

We note that while the residential developments would also generate economic impacts through the residents' additional spending with local businesses, resulting from the increase in the local population, HE guidance states that where a development is mixed use this additional spending should not be captured separately⁷⁶. It considers that only the economic output (GVA and employment) associated with the commercial aspects of the development should be estimated and not impacts from any residential aspects, to avoid the double counting of impacts in the analysis.

⁷⁶ Homes England, Additionality Guide. Fourth edition (2014)



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6.3.1 The potential economic impacts associated with the proposed commercial, conference centre and hotel developments on the Temple Island site

6.3.1.1 Gross employment impacts

When the developments are constructed and occupied the ongoing activity that will take place at the site will generate economic activity. For example, the operation of the businesses located in the commercial developments on the Temple Island site will generate economic impacts directly, as well as indirectly through spending with suppliers and in induced terms through direct and indirect employees' spending of wages within the economy.

BCC has provided KPMG with estimates of the proposed floorspace allocated to commercial use (13,357 net sq m) and to the conference facility (10,300 sq m) for the Temple Island development. At present BCC plans that the commercial floorspace will consist of retail space on the ground floor and office space on all other floors. BCC has also provided KPMG with estimates of the number of room keys for the proposed hotel (250).

To estimate the economic impacts associated with the commercial developments and the conference centre, we have estimated the employment associated with the developments based on using the floorspace estimates and applying the relevant HE employment densities to the net internal area floorspace dedicated to different uses⁷⁷. The direct employment estimates take into account the expected occupancy rate of the developments, as provided by BCC. These are presented in more detail in Section 6.1.

The direct employment estimates associated with the hotel have been estimated by applying the HCA employment densities to the hotel's number of beds (which BCC assume to be the same as the number of room keys). The hotel is assumed to be fully operational upon completion, although the employment densities applied will reflect that hotels do not operate at full occupancy throughout the year.

Overall direct employment estimates are the sum of the direct employment generated by the commercial floorspace, the conference centre and the hotel.

Direct employment estimates increase over time based on the phasing of the development coming forward and when specific elements of the development are constructed and then become operational:

- Phase 1: Our analysis indicates that in year 2023 (the first – incomplete - year of operation), an estimated 72 gross direct FTE jobs are expected to be supported through the operations of the development of the Temple Island site, rising to 1,174 gross direct FTE jobs by year 2027. All of the commercial floorspace proposed will be brought forward in Phase 1 of the Temple Island development.
- Phase 2: Through the further development of the hotel and conference centre, which are expected by BCC to become operational in 2030, an additional 272 gross direct FTE jobs will be created from year 2031 – the first full year of Phase 2 operations.

Based on the estimates of direct employment, we have also estimated the wider indirect and induced employment that could be generated through the ongoing economic activity at the Temple Island site. Indirect and induced employment have been estimated by applying the relevant Type I and Type II

⁷⁷ Ibid.



employment multipliers to direct employment estimates. These are presented in more detail in Appendix 1.

Figure 14 below sets out the direct, indirect and induced employment estimates and the phasing of this employment over time based on the BCC development plans. Overall, for Phase 1 we estimate that the Temple Island development could generate up to 1,826 gross FTE jobs from 2027 and 2,237 total gross FTE jobs once Phase 2 is fully operational.

Figure 14: Gross employment in annual FTE terms from the proposed commercial and hotel and conference centre developments

	2023	2024	2025	2026	2027	2028	2029	2030	2031 onwards
Phase 1									
Direct	72	398	783	1,071	1,174	1,174	1,174	1,174	1,174
Indirect	30	162	319	436	479	479	479	479	479
Induced	11	59	116	158	173	173	173	173	173
Phase I Total⁷⁸	113	618	1,218	1,665	1,826	1,826	1,826	1,826	1,826
Phase 2									
Direct	-	-	-	-	-	-	-	136	272
Indirect	-	-	-	-	-	-	-	52	104
Induced	-	-	-	-	-	-	-	18	35
Phase II Total⁷⁹	-	-	-	-	-	-	-	205	411
Combined⁸⁰ (Phase 1 + Phase 2)	113	618	1,218	1,665	1,826	1,826	1,826	2,032	2,237

Source: KPMG analysis

Notes: Estimates increase as facilities become operational over time. The maximum is the employment generated in year 2031, which is expected to be maintained through to 2047.

6.3.1.2 Gross GVA impacts

The economic activity taking place on the Temple Island site after the developments become operational means that there will be economic output generated on an ongoing basis while the buildings remain occupied. This GVA will be generated through the operation of the businesses that occupy the Temple Island development, including the hotel and conference centre facilities.

At present there are no forecasts relating to the likely financial performance of the occupants of the commercial developments. Such information is unlikely to be available to BCC before any occupants are identified and contracts are put in place. Therefore, rather than being able to use firm level financial information to estimate more precisely the potential levels of economic output in terms of GVA of the occupants, we have conducted the appraisal using a more high level approach drawing on official national statistics for the relevant sectors in which the occupants for the developments expected by BCC operate. Such data reflects UK average firm performance in the sector.

Using the direct employment estimates set out in Section 6.3.1.1, we have estimated the direct GVA associated with this employment by applying the relevant sector level of GVA per FTE, sourced from the ONS⁸¹. We estimate that the gross annual direct GVA associated with the Temple Island

⁷⁸ Values may not sum to the reported total due to rounding.

⁷⁹ Ibid.

⁸⁰ Ibid.

⁸¹ Multipliers used are relevant for SICs: 47: Retail trade, except of motor vehicles and motorcycles, 70: Activities of head offices; management consultancy activities, 55: Accommodation, 82: Office administrative, office support and other business support activities (which includes



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development in year 2023 could be £4.4m, rising to £71.8m in 2027. The gross GVA generated across 25 years, from year 2023 to 2047 could be £2,043.8m.

Indirect and induced GVA impacts have been estimated by applying the relevant Type I and Type II GVA multipliers to the direct GVA estimates⁸². Multipliers are presented in more detail in Appendix 1. We have estimated that the development could generate £1.3m in 2023, rising to £20.8m in 2027 in indirect GVA. Phase 2 could add another £6.2m in indirect GVA once it is fully operational. Induced GVA impacts are likely to be £0.6m in 2023, rising to £9.8m in 2027. Phase 2 is expected to add another £3.4m in induced GVA once it is fully operational.

Figure 15 below sets out the estimates of gross GVA per annum over time.

Figure 15: Gross GVA (in nominal terms) impacts generated through the operation of the proposed commercial, hotel and conference centre developments by phase

	2023	2024	2025	2026	2027	2028	2029	2030	2031 onwards
Phase 1									
Direct	£2.5m	£13.9	£27.5m	£37.6m	£41.2m	£41.2m	£41.2m	£41.2m	£41.2m
Indirect	£1.3m	£7.0m	£13.8m	£18.9m	£20.8m	£20.8m	£20.8m	£20.8m	£20.8m
Induced	£0.6m	£3.3m	£6.5m	£8.9m	£9.8m	£9.8m	£9.8m	£9.8m	£9.8m
Phase I Total⁸³	£4.4m	£24.3m	£47.8m	£65.4m	£71.8m	£71.8m	£71.8m	£71.8m	£71.8m
Phase 2									
Direct	-	-	-	-	-	-	-	£6.4m	£12.9m
Indirect	-	-	-	-	-	-	-	£3.1m	£6.2m
Induced	-	-	-	-	-	-	-	£1.7m	£3.4m
Phase II Total⁸⁴	-	-	-	-	-	-	-	£11.3m	£22.5m
Combined⁸⁵ (Phase 1 + Phase 2)	£4.4m	£24.3m	£47.8m	£65.4m	£71.8m	£71.8m	£71.8m	£83.1m	£94.3m

Source: KPMG analysis

6.3.1.3 Consideration of additionality and net impacts

The analysis detailed above presents the economic impacts in gross terms. In line with HM Treasury's Green Book, it is important to assess the additionality of the ongoing economic impacts of the project in order to determine the potential net impacts.

We have assessed the additionality of the economic impacts associated with the operation of the proposed Temple Island mixed use developments to estimate the level of ongoing net employment and GVA.

We have considered the potential additionality associated with the ongoing operation of the Temple Island development and the appropriate additionality factors to apply in the analysis to estimate net impacts. Figure 16 below sets out our assessment.

Organisation of conventions and trade shows). Multipliers are sourced from: Input-output supply and use tables, ONS. Available at:

<https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/datasets/inputoutputsupplyandusetables>

⁸² Scottish Government Type I & Type II, output, income, employment and GVA multipliers Scotland 1998-2016 (SIC 2007 basis). Available at: <https://www2.gov.scot/Topics/Statistics/Browse/Economy/Input-Output/Downloads/IO1998-2015L1>.

⁸³ Values may not sum to the reported total due to rounding.

⁸⁴ Ibid.

⁸⁵ Ibid.



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Figure 16: Assessment of the additionality of the operation the proposed commercial, hotel and conference centre developments

Additionality factor	Estimated level	KPMG assessment
Deadweight	-	<p>As explained in Figure 12, based on the current lack of competing proposals for the site, the likelihood of a need for public sector funding to also bring a different proposal forward (if and when it were to emerge if the current plans do not proceed), and uncertainty over what any alternative would be (including in terms of nature and scale, timing and funding requirements), for the purposes of our analysis we have assumed there is no deadweight associated with the public sector funding of the proposed Temple Island development.</p> <p>Therefore, similar to the gross construction impacts, the gross impacts associated with the ongoing operation of the proposed Temple Island developments are not adjusted for any deadweight.</p>
Displacement		<p>We have considered the displacement that may be associated with the operation of the proposed commercial floorspace (both office and retail floorspace), the proposed conference centre and hotel developments. This displacement would reflect the extent to which any activity (economic output and employment) on this site reduces activity elsewhere in the economy. In the context of this economic appraisal, we consider potential displacement at the West of England level.</p> <p>We would expect there to be different levels of displacement associated with each of the different uses of buildings within the proposed development, therefore we have assessed each in turn below.</p>
	20%	<p>Commercial office space</p> <p>To assess the extent to which the proposed commercial office space will displace other economic activity, we have first considered the supply and demand for office space within Bristol. A draft report prepared by JLL for BCC⁸⁶ found that</p> <div data-bbox="683 1288 1428 1713" style="background-color: black; width: 100%; height: 150px; margin: 10px 0;"> </div> <p>Displacement is likely to be higher at the West of England level than the Bristol level given that business may choose to relocate from the wider region to Bristol city centre, especially as the JLL report highlights that office occupiers are increasingly preferring central</p>

⁸⁶ JLL, Employment Land Study – draft report for Bristol City Council (2019). The final draft is currently being finalised.

⁸⁷ We note that the increased availability of office space in the Bristol areas following the development of office blocks on the Temple Island site may, to some extent, push down the rental prices. Such price changes are not captured in our analysis as, due to a lack of data, we do not include economic impacts associated with any rental income from the developments.



locations that are easily accessible. Overall, however, we consider that there would be a relatively low level of displacement (based on the HE Additionality Guide⁸⁸ benchmark figures) for the ongoing operation of the commercial office developments.

50%

Retail floorspace

With regards to the modest retail offer on the site, BCC envisages that the space would likely be occupied by a mix of local, independent businesses and business chains. Within its vision document, BCC has stated that any retail offer will be carefully chosen with the aim of it supporting the wider site, e.g. providing the retail offer that residents and businesses on the site may need. Furthermore, BCC has stated that it intends to curate the retail offer such that it adds value to, and supports, the wider developments on the site, rather than directly compete with retail businesses in the city centre.

Despite the objectives of BCC for the retail offer on the proposed Temple Island site, we consider that it would be appropriate to apply a medium level of displacement of economic activity associated with it in our analysis, given recent trends in retail sector performance including a reduction in new store openings and high levels of store closures. PwC reports that in the South West of England, (which covers the Bristol area) in 2018 there was a net change of -205 store openings/closures.⁸⁹

20%

Conference centre

BCC has identified a market gap in the delivery of quality, large-scale conference venues in the local area.⁹⁰

[REDACTED]

While we consider that displacement at the Bristol level is likely to be limited, it is likely to be higher at the West of England level, given the way in which the new Temple Island conference centre would compete with other facilities in this wider area. Overall, however, we consider a 20% displacement level to be reasonable to assume. This aligns to a low level of displacement in the HE guidance.

20%

Hotel

Similar to the events market, through the Temple Island development, BCC expects the new hotel development to be able to capitalise on the high demand for hotel rooms in the Bristol area. The proposed hotel will be an upscale "HQ" type of hotel, strategically –and potentially physically - linked to the planned conference centre. A report commissioned by BCC⁹² found that there are no 5-star hotels situated within a 1.5 mile radius of Temple Island and only two 4-star hotels in the area, with the majority of

⁸⁸ Homes England, Additionality Guide (2014).

⁸⁹ <https://www.pwc.co.uk/press-room/press-releases/High-street-exits-remain-at-historic-high-as-openings-slump-to-lowest-levels-on-record.html>

⁹⁰ IPW report for BCC (2019). The optimum facility for Bristol

⁹¹ Ibid.

⁹² Ibid.



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room supply dating from pre-2000. The report also notes that there are a number of hotel developments being planned [REDACTED]

The evidence also suggests there is insufficient capacity to meet demand for the quality of hotel planned for the Temple Island site, particularly as the Bristol tourist market grows over time. Hotel capacity is also constrained in other local cities, such as Bath.

Due to these factors, we have applied a low level of displacement in our analysis to reflect the view that although there may be some degree of displacement from existing hotel provision in the local area, this is likely to be limited.

Leakage	17.5% at a West of England level	Given that economic activity will take place on the Temple Island site, the direct economic impacts will be retained in the Bristol economy, without leakage.
	20% at a Bristol level	However, indirect and induced economic impacts will leak out of the local area to some extent, reflecting the national supply chains (both direct suppliers and those through the wider supply chains) for the businesses locating on the site

The level of leakage from the Bristol and the West of England areas will depend to some extent on the degree to which the businesses that occupy the commercial space on the Temple Island site source from the local region. If the businesses have predominantly local supply chains the level of leakage will be relatively low, although wider supply chains (their suppliers' suppliers and so on) will span across the West of England and UK more widely⁹³. However, if the occupying businesses source a high proportion of their supply chains from outside of the West of England region, there will be a relatively higher level of leakage of economic impacts outside of the region. As we currently do not know which businesses will occupy the commercial space on the site, nor do we have any evidence as to the nature of their supply chains we consider it reasonable to assume, a low to medium level of leakage (17.5%) at the West of England level and a medium level of leakage (20%) at a Bristol level. These leakage rates are sourced from the HE Additionality Guide⁹⁴.

It should be noted that the leakage rates adopted in our analysis may overestimate the levels given that evidence set out in BEIS guidance⁹⁵ suggests a mean leakage level for 'regeneration through physical infrastructure' projects of 14.1% and 10.4% at a sub-regional⁹⁶ and regional respectively⁹⁷.

Source: KPMG analysis

Taking into account the estimated additionality factors set out in Figure 16 we have estimated the net economic impacts associated with the proposed development of the Temple Island site. It should be noted our estimates of net impacts associated with the ongoing operation of the proposed

⁹³ We note that wider supply chains may also be international. The UK level economic multipliers used in the analysis already take account of leakage of impacts outside the UK. Therefore, this is not adjusted for in our additionality assessment.

⁹⁴ Homes England, Additionality Guide (2014).

⁹⁵ Formerly the Department for Business Innovation & Skills (BIS).

⁹⁶ A sub-region is defined as any spatial area that covers the very local (e.g. 5 miles) through to the local authority district.

⁹⁷ BIS (2009) BIS Occasional Paper No. 1: Research to improve the assessment of additionality.



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development of Temple Island are based on current information, and assumptions of additionality levels.

In net terms, we estimate that the proposed developments on Temple Island could generate:

- between £2.5m and £35.6m in net GVA per annum (in NPV terms) in the West of England from the commercial developments in Phase 1 of the Temple Island development; and
- an additional £5.2m to £10.1m in net GVA per annum in the West of England is generated through the conference centre and hotel as part of Phase 2 of the Temple Island development.

In total, over a 25 year period, the Temple Island development could generate £753.2m in net GVA (in NPV terms); of which £616.1m is generated through the Phase 1 developments and £137.0m is generated through the Phase 2 developments. Furthermore, the Temple Island development could generate a total of 1,456 net FTE jobs in the West of England; of which 1,182 would be generated through Phase 1 and 274 through Phase 2.

Figure 17: Net GVA and employment (in FTE terms) associated with the operation of the proposed commercial, hotel and conference centre developments by Phase

	Net GVA		Net employment (in FTE terms)	
	West of England	Bristol	West of England	Bristol
Phase 1 25 years (in NPV terms)	£616.1m	£606.8m	1,182	1,168
Phase 2 25 years (in NPV terms)	£137.0m	£135.0m	274	271
Combined 25 years (in NPV terms)	£753.2m	£741.8m	1,456	1,439

Source: KPMG analysis

It should be noted that our assessment of the net impacts and additionality is based on the current plans for the Temple Island site and the current demand and supply for office space, conference venues and hotels rooms in the area. Given this, and the degree of uncertainty relating to the potential for it to displace existing (and future) office and retail developments within Bristol and the West of England, and the extent to which economic benefits will be retained in the local area, we consider it important to keep the expected levels of additionality under review. If any of the assumptions change and/ or more detailed information and evidence becomes available, it would be advisable for BCC to consider whether the analysis of net impacts can be updated to reflect the latest position.

In Section 7.1.2, we also include a sensitivity analysis which assesses the impact on the overall value for money of the scheme if the overall additionality factors are increased, as well as impact of changes to other key inputs to the analysis.

6.3.2 The potential economic impacts associated with spending of additional visitors to Bristol

With the proposed development of a hotel and conference centre in Phase 2 of the Temple Island development plans, the availability of these facilities means that there are likely to be additional visitors to Bristol, both to attend conferences and to visit the city more generally, accommodated by the additional high quality hotel capacity. To the extent to which new visitors come to Bristol and spend more widely in the local economy (outside of the conference centre and hotel themselves) there will be additional economic impacts, not captured in the analysis included in earlier sections of this report.



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We estimate these potential impacts below, based on the information currently available from BCC in relation to these facilities and expected visitor numbers and agreed assumptions for the analysis.

6.3.2.1 Gross GVA and employment impacts associated with delegate spending

BCC has provided KPMG with details of the proposed conference facility and the initial business plan to support this prepared by IPW⁹⁸. This includes annual estimates of the number of delegates for the proposed conference centre when it becomes operational.

The IPW report indicates that [REDACTED]

[REDACTED]

[REDACTED]

	Year 1	Events		Events days		
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

[REDACTED]

	Year 1	Events	Events days
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

Details were not available from BCC on expected number of hotel guests. Therefore, for the purposes of our analysis, we have estimated the potential number of overnight guests at the hotel. The hotel is proposed to have 250 rooms. Assuming all of these rooms are for 2 people, the maximum capacity

⁹⁸ IPW report for BCC (2019). The optimum facility for Bristol.



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would be 500 people per night, and 182,500 per annum (assuming 365 days opening). Or if each room were to only be occupied by a single person this would be 91,250.

However, it is unlikely that the hotel would operate at full occupancy throughout the year. Data from Destination Bristol indicates that average upscale hotel occupancy in Bristol in 2018 was 79.2%⁹⁹. If the proposed Temple Island hotel were to operate at this same level of occupancy it would accommodate between [REDACTED] and [REDACTED] guests per annum – depending on whether rooms are occupied by one or two guests.

In terms of the potential number of hotel visitors, [REDACTED]. Based on assumptions agreed with BCC¹⁰⁰, Figure 20 sets out the proportions used for the analysis.

Figure 20: Number of visitors at the new hotel by visitor type

	Year	
	2030	2031 onwards
Conference delegates	[REDACTED]	[REDACTED]
Other visitors	[REDACTED]	[REDACTED]
Total visitors	[REDACTED]	[REDACTED]

Each of the conference delegates and additional hotel guests may also spend in the wider Bristol area while staying.

Destination Bristol and Visit Britain capture data on average spend of visitors to the city (both day visitors and overnight visitors). This captures different types of spend associated with their visit, for example on retail, food and drink, travel and entertainment.

While this spend profile of average visitors to Bristol is likely to reflect well the spending of the non-conference delegate hotel guests (and therefore this is used in our analysis), the spend profile of conference delegates is likely to be different. For the purposes of our analysis, we have assumed that they would not spend on entertainment and retail as part of their visit.

Taking the spending figures, by area of spend, for the different types of visitors to Bristol that may stay at the proposed new Temple Island hotel, we have estimated the direct GVA associated with this by applying the relevant GVA to output ratio for the sector in which spending occurs to total estimated visitor spending by sector¹⁰¹.

The associated indirect and induced GVA has been estimated by applying the Type I and Type II GVA multipliers to these estimated direct GVA figures, by sector¹⁰².

⁹⁹ This information has been provided via email by Visit Bristol. Please contact Visit Bristol for more information.

¹⁰⁰ [REDACTED]

¹⁰¹ Multipliers used are relevant for SICs: 47: Retail trade, except of motor vehicles and motorcycles, 49.1: Passenger Rail Transport, 55: Accommodation, 56: Food and Beverage service activities, 90: Creative, arts and entertainment activities. Multipliers are sourced from: Input-output supply and use tables, ONS. Available at: <https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/datasets/inputoutputsupplyandusetables>

¹⁰² Scottish Government Type I & Type II, output, income, employment and GVA multipliers Scotland 1998-2016 (SIC 2007 basis). Available at: <https://www2.gov.scot/Topics/Statistics/Browse/Economy/Input-Output/Downloads/IO1998-2015L1>.



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Overall, we estimate that £72.0m of gross GVA would be generated by Temple Island hotel and conference centre visitor spending over the period 2029 (when it is assumed the conference centre and hotel become operational) to 2047 (the final year of our appraisal period).

There will also be employment associated with this economic activity. This has been estimated by applying the average GVA per FTE, by sector of spending, to the estimated direct GVA¹⁰³. The associated indirect and induced employment has been estimated by applying the sector-specific Type I and Type II employment multipliers to the estimated direct employment¹⁰⁴.

On this basis we estimate that 90 gross FTE jobs could be generated by visitor spending over the appraisal period.

Figure 21 below sets out our estimates of gross GVA and employment associated with estimated delegate spending, split by direct, indirect and induced impacts.

Figure 21: Gross GVA (in nominal terms) and employment associated with potential visitor spending

	2023	2024	2025	2026	2027	2028	2029	2030	2031 onwards
Gross GVA									
Direct	-	-	-	-	-	-	-	£1.1m	£2.1m
Indirect	-	-	-	-	-	-	-	£0.7m	£1.5m
Induced	-	-	-	-	-	-	-	£0.3m	£0.5m
Total¹⁰⁵	-	-	-	-	-	-	-	£2.1m	£4.1m
Gross employment (FTE terms)									
Direct	-	-	-	-	-	-	-	27	55
Indirect	-	-	-	-	-	-	-	14	28
Induced	-	-	-	-	-	-	-	4	8
Total¹⁰⁶	-	-	-	-	-	-	-	45	90

Source: KPMG analysis

6.3.2.2 Consideration of additionality

The analysis detailed above presents the economic impacts in gross terms. In line with HM Treasury's Green Book, it is important to assess the additionality of the economic impacts.

Figure 22 below sets out our assessment of the additionality factors to apply in the analysis of the estimated impacts arising from Temple Island hotel and conference centre visitor spending in Bristol.

¹⁰³ Multipliers used are relevant for SICs: 47: Retail trade, except of motor vehicles and motorcycles, 49.1: Passenger Rail Transport, 55: Accommodation, 56: Food and Beverage service activities, 90: Creative, arts and entertainment activities. Multipliers are sourced from: Input-output supply and use tables, ONS. Available at: <https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/datasets/inputoutputsupplyandusetables>

¹⁰⁴ Scottish Government Type I & Type II, output, income, employment and GVA multipliers Scotland 1998-2016 (SIC 2007 basis). Available at: <https://www2.gov.scot/Topics/Statistics/Browse/Economy/Input-Output/Downloads/IO1998-2015L1>.

¹⁰⁵ Values may not sum to the reported total due to rounding.

¹⁰⁶ Ibid



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Figure 22: Assessment of the additionality of the economic impacts arising from visitor spending

Additionality factor	Estimated level	KPMG assessment
Deadweight	-	In line with our assumptions that there would not be deadweight associated with the ongoing operation of the conference centre (see Figure 16 for the explanation of this assumption), our analysis also assume no deadweight associated with conference delegate spending.
Displacement	20%	<p>The level of displacement associated with conference centre delegate spending and other hotel guest spending will depend to a large extent on whether they would have visited Bristol in any case if the new facilities were not developed and whether their level of spending when visiting would differ.</p> <p>In line with our assessment of the displacement associated with the ongoing operation of the conference centre and hotel (see Figure 16), we consider that the visitor spending would have similarly low levels of displacement associated with it as these are likely to often be delegates that otherwise wouldn't be attending a conference in Bristol or the West of England region or visiting the area for an overnight stay in the case of non-conference delegate hotel guests.</p>
Leakage	<p>17.5% at a West of England level</p> <p>20% at a Bristol level</p>	<p>The level of leakage related to conference delegate spending will be dependent upon where the spending of conference delegates takes place, as well as the location of the wider supply chains that service that spending.</p> <p>We consider that visitor spending is likely to be primarily focused in Bristol, but that some of the spending (e.g. on transport) and the economic activity associated with the wider supply chains servicing spending are likely to be in a broader geographic area¹⁰⁷. Therefore, we consider it reasonable to assume, a low to medium level of leakage (17.5%) at the West of England level and a medium level of leakage (20%) at a Bristol level. These leakage rates are benchmark figures sourced from the HE Additionality Guide¹⁰⁸.</p> <p>It should be noted that the leakage rates adopted in our analysis may overestimate the levels given that evidence set out in BEIS guidance¹⁰⁹ suggests a mean leakage level for 'regeneration through physical infrastructure' projects of 14.1% and 10.4% at a sub-regional¹¹⁰ and regional respectively¹¹¹.</p>

Source: KPMG analysis

Taking into account the estimated additionality factors set out in Figure 22 we have estimated the net economic impacts associated with delegate spending. It should be noted our estimates of net impacts associated with delegate spending are based on current information, and assumptions of additionality levels. As plans progress, and more detailed information and evidence becomes available, particularly around the expected number and type of hotel guests, it may be possible to more accurately estimate the ongoing net impacts associated with visitor spending.

¹⁰⁷ We note that wider supply chains may also be international. The UK level economic multipliers used in the analysis already take account of leakage of impacts outside the UK. Therefore, this is not adjusted for in our additionality assessment.

¹⁰⁸ Homes England, Additionality Guide (2014)

¹⁰⁹ Formerly the Department for Business Innovation & Skills (BIS).

¹¹⁰ A sub-region is defined as any spatial area that covers the very local (e.g. 5 miles) through to the local authority district.

¹¹¹ BIS (2009) BIS Occasional Paper No. 1: Research to improve the assessment of additionality.



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Applying these additionality factors, we estimate that, in net terms, the additional visitor spending in the local economy could generate between £0.9m and £1.8m in net GVA per annum in the West of England. In total, between 2023 and 2047, this additional visitor spending could generate £24.7m in net GVA (in NPV terms) and 59 net FTE jobs in the West of England.

Figure 23: Net GVA and employment (in FTE terms) associated with the operation of Temple Island in the West of England and Bristol

	Net GVA		Net employment (in FTE terms)	
	West of England	Bristol	West of England	Bristol
Total net impact from 2023 to 2047 (in NPV terms)	£24.7m	£24.3m	59	59

Source: KPMG analysis of BCC data

Similar to the wider analysis included in this report, these estimates are based on a number of assumptions, including the proposed Phase 2 development coming forward, and to the timeframe estimated by BCC, as well as the projections for number of conference delegates and hotel visitors and their estimated average spending. The additionality factors are also based on our assessment of the information currently available. Should any of these factors change, our analysis will need to be revisited and revised accordingly.

6.4 Business rates

The proposed development on Temple Island will generate business rates income for BCC. BCC has informed us that any business rates income from occupants of the Temple Island developments would be split between the West of England Economic Development Fund (EDF) pool (50%), BCC (49%) and the Fire Authority (1%).

The level of business rates generated will be dependent upon the level of occupied floorspace and the types of development on site. Using data and information provided by BCC, we have estimated that in Phase 1, the Temple Island site could generate from £0.2m to £0.9m per annum (in NPV terms) for Phase 1. This analysis suggests that up to an additional £0.4m per annum would be generated through the Phase 2 developments.

Using these annual business rates income estimates, we have estimated that over the 25 year appraisal period £21.0m in business rates, in NPV terms, could be generated through Phase 1 and Phase 2 developments. Of which, we estimate £10.3m would be retained by BCC.

Figure 24 illustrates how business rates are expected to be generated over time.

Figure 24: Total business rates associated with the operations of the Temple Island development (in NPV terms)

	Total (25 year NPV)
Phase 1	£14.7m
Phase 2	£6.3m
Total Temple Island development (Phase 1 + Phase 2)	£21.0m

Source: KPMG analysis of BCC information on Business rates

These estimates are based upon a high level appraisal of the potential business rates income that could be generated through the development of the Temple Island site. Any changes to the current plans for the site would likely impact the level of business rate income for BCC that would be associated with the development. Therefore, should the development plans change and/or when



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firmer details of the development and occupants are available, we suggest that this analysis is revisited.

6.5 Rents from lease

In addition to the economic impacts set out in Sections 6.2 to 6.4, BCC also expects to receive revenue from the leasing of the office space it will take up the head lease for. BCC expects rents from lease of this space to be [REDACTED] over the period 2023 to 2047. This figure is net of rent costs but does not factor in any other costs such as those related to maintenance. BCC has not yet estimated these costs but it will be important to factor these in to the analysis when detail becomes available.

6.6 Wider economic impacts

In addition to the GVA and employment economic impacts associated with the construction and ongoing operation of the proposed developments (as assessed in Sections 6.2 and 6.3 above), there may be wider economic impacts generated through the development of the Temple Island site, including impacts associated with any additional developments that development of this site may help to catalyse.

We understand from BCC that it considers the development of the Temple Island site, which will transform its longstanding vacant and derelict state, will enhance the general perception of the surrounding areas. It considers that this will help to generate business and developers interest in the area and potentially help to catalyse further development on the sites adjacent to Temple Island and across the river from the site.

As the Temple Island site is currently unused and has been for a number of years, we consider it is appropriate to conclude that the regeneration of the site into a mixed-use development as proposed, would likely generate positive spillover effects in the local area. However, the extent to which wider development in the local areas can be attributed to the proposed development of the Temple Island site considered in this study as opposed to other developments adjacent to this site, such as the UoB plans, QTIC and the station redevelopment is unclear. They are all likely to play a contributory role.

We also note that the level of potential economic impacts generated through any catalysed development will be dependent on the type and nature of the development brought forward. Generally, residential developments will generate economic activity in the short-run through construction and when sold, and some low-level ongoing economic activity associated with the spending of residents. On the other hand, commercial developments will typically generate greater economic impacts in the local economy through businesses direct activities, employment and supply chains. It will be important for the potential economic impact of any catalysed development to be assessed quantitatively, as and when the required information becomes available, and the specific role of the Temple island development in bringing such development should also be assessed in detail at that stage.

6.7 Summary of the economic assessment of the proposed development of the Temple Island site

Sections 6.2 to 6.6 above set out our assessment of the gross and net economic impacts that may be generated through the proposed development of the Temple Island site, specifically the potential economic impacts associated with:

- the construction of the proposed development¹¹²; and

¹¹² The construction impacts are captured only for the years in which construction takes place as they would not persist beyond this.



- the ongoing operation of the proposed commercial development on the site (including the office and retail space, the hotel and the conference centre), split by phase, including the potential impact of increased visitors to Bristol associated with the conference centre facility¹¹³.

This assessment has relied upon data and information provided to us by BCC as of 13 December 2019 and covers a 25 year appraisal period from the year Phase 1 of the development becomes operational in 2023, through to 2047.

The results of our analysis are summarised below.

Figure 25 shows the estimated gross GVA and employment estimates from 2023 to 2047 associated with each phase for the West of England and Bristol.

Figure 25: Gross GVA (in nominal terms), employment (in FTEs) and business rate income associated with the proposed alternative development of Temple Island, over 25 years

	Gross GVA	25 year totals Gross employment	Business rates
Phase 1 - Operation	£1,649.6m	1,826	£23.3m
Phase 2 - Operation	£394.2m	411	£6.9m
Phase 2 - Visitor spending	£72.0m	90	-
Total¹¹⁴			£30.3m

Source: KPMG analysis

Figure 26 shows the estimated net GVA and employment estimates from 2023 to 2047 associated with each phase for the West of England and Bristol, factoring in the estimated additionality of the proposed development (i.e. the economic activity that is additional to the local economy and would not arise in the absence of the project being brought forward) and applying a STPR discount rate of 3.5%, based on the HM Treasury Green Book guidance.

Figure 26: Net GVA (in NPV terms), employment (in FTEs) and business rate income associated with the proposed alternative development of Temple Island, on an annual basis and over 25 years

	Net GVA	25 year totals Net employment	Business rates
West of England (including Bristol)			
Phase 1 - Operation	£616.1m	1,182	£14.7m
Phase 2 - Operation	£137.0m	274	£6.3m
Phase 2 - Visitor spending	£24.7m	59	-
Total¹¹⁵			£21.0m

¹¹³ We note that while the residential developments would also generate economic impacts through the residents' additional spending with local businesses, resulting from the increase in the local population, HCA guidance states that where a development is mixed use this additional spending should not be captured separately. It considers that only the economic output (GVA and employment) associated with the commercial aspects of the development should be estimated and not impacts from any residential aspects, to avoid the double counting of impacts in the analysis.

¹¹⁴ Values may not sum to the reported total due to rounding.

¹¹⁵ Values may not sum to the reported total due to rounding.



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				-
Bristol	Phase 1 - Operation	£606.8m	1,168	£14.7m
	Phase 2 - Operation	£135.0m	271	£6.3m
	Phase 2 – Visitor spending	£24.3m	59	-
	Total¹¹⁶			£21.0m

Source: KPMG analysis

It should be noted that there remains some degree of uncertainty attached to our economic impact estimates given the current stage of the development plans and the extent to which detailed information and data was available to us from BCC. In particular, there is greater uncertainty attached to the Phase 2 developments given that Phase 2 is conditional on the completion of Phase 1 and on further agreement between BCC and L&G. If any of the assumptions made in our analysis change and/ or more detailed information and evidence becomes available, it would be advisable for BCC to consider whether the analysis of both gross and net impacts can be updated to reflect the latest position.

It should also be noted that our quantitative economic impact analysis excludes a range of impacts that it was not possible to assess at this stage due to either a lack of data and information that would be needed to be able to robustly estimate them, or due to their assessment being outside the scope of our study. Specifically, the analysis does not take account of:

- construction impacts associated with Phase 2 of the development;
- the potential impacts generated through the sale or letting of residential units developed on the site;
- any wider economic impacts that may arise, in terms of developments catalysed through the Temple Island site regeneration, (assessed qualitatively in our study based on views provided by BCC); and
- any wider social and environmental impacts that the development may deliver.

These factors have the potential to affect the economic impact of the proposed development of the Temple Island site as explained in further detail in Section 7.

¹¹⁶ Ibid.



7 Value for money assessment

7.1 VFM of the proposed Temple Island development

7.1.1 Economic VFM

In Section 5.1 above, we have assessed the potential economic impacts associated with the proposed Temple Island development. These impacts are summarised in Section 6.7.

The estimates of potential economic impacts that could be generated through the proposed development are presented in NPV terms over the 25 year appraisal period, adopting a 3.5% discount rate and factoring optimism bias¹¹⁷. There are a number of assumptions adopted in our analysis and caveats to note, as summarised further below, that should be considered when interpreting the results and reaching a conclusion on the VFM of the project.

To assess the VFM of the project in economic terms, we have used the following core measures of VFM:

- The economic net present public value (NPPV)¹¹⁸ of the project
- The public sector contribution to costs¹¹⁹
- The net benefit to public sector cost ratio (BCR)
- The public sector cost per job¹²⁰

Given that, by nature, construction impacts are temporary and are generated over a relatively short time frame, these impacts are often excluded from the assessment of VFM. We have adopted this approach and excluded these impacts from our estimates of the economic NPV of the project, BCR and cost per job estimates.

The results of our assessment of the economic VFM of the project are summarised in Figure 27 below.

Figure 27: Estimated NPPV, public sector contribution to costs, BCR and public sector cost per job of the proposed development



¹¹⁷ The rates used are in line with those recommended in the HM Treasury Green Book.

¹¹⁸ The NPPV is defined as the Present Value of net benefits less the Present Value of net costs

¹¹⁹ HM Treasury Green Book guidance states that inflation should not be included in estimation of the BCR and NPPV of a project. The estimated public sector costs (£32.0m) accounts for inflation associated with future spending. For the purposes of estimating the BCR and NPPV we have excluded inflation from the total public sector contribution to costs.

¹²⁰ According to guidance from Homes England (Calculating Cost per job: Best Practice Note, 2015, 3rd Edition) the cost per job should be estimated as the total gross public sector expenditure against the total net additional jobs (excluding any construction jobs)



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Total Net Benefits¹²¹	£801.2m
Total Public Sector Costs¹²²	£32.0m
NPPV	£772.5m
BCR	27.9:1
BCR – Phase 1 only	22.0:1
Public sector cost per job	£18,975

Source: KPMG analysis

The assessment of the economic VFM, as presented in Figure 27 above, only takes account of the economic impacts that it has been possible to quantify with the scope of our study. It excludes a range of impacts that it was not possible to quantify at this stage, either due to a lack of data and information that would be needed to be able to robustly estimate them, or due to their assessment being outside of the scope of this study. Specifically, the analysis does not take account of:

- the potential impacts generated through the sale or letting of residential units developed on the site;
- any wider economic impacts that may arise, in terms of developments catalysed through the Temple Island site regeneration, (assessed qualitatively in Section 5.1 based on views provided by BCC); and
- any wider social and environmental impacts that the development may deliver.

We note that the HM Treasury Green Book recommends that where costs or benefits cannot be quantified, they should be included within an appraisal and presented alongside the NPV and BCR. We consider that the non-monetised impacts set out above have the potential to increase the economic impact and resultant VFM of the proposed development of the Temple Island site. Impacts from the sale or letting of residential units and from any catalysed developments are likely to be positive. And while the scale of social impacts and environmental impacts has not been assessed at this stage, we note that in line with our assessment of the strategic case for the development proposals there could be the potential to generate positive social impacts, for example through job creation, improved access and provision of affordable housing. Environmental impacts would likely offset this to some degree, however. The social and environmental impacts of the scheme would need to be assessed in detail to determine their likely effect on the overall VFM of the proposed development. We suggest that BCC assesses these impacts as the scheme advances.

Based on the quantified economic impacts only, we estimate that the proposed Temple Island development, if it proceeds as planned, could yield, over the 25 year period 2023 to 2047:

- a BCR of 27.9:1;
- an economic NPPV of £772.5m; and
- a cost per job of £18,975.

The high and positive BCR indicates that the net economic benefits of the scheme are expected to considerably outweigh the public sector cost of bringing it forward. Similarly, the positive NPPV

¹²¹ Values may not sum to the reported total due to rounding.

¹²² The total estimated public cost for the Temple Island redevelopment is £32.0m. However this cost estimate includes an estimate for inflation. HM Treasury Green Book guidance states that inflation should not be accounted for when estimating the value for money of a project in NPV terms. For the purposes of estimating the BCR, we have therefore excluded inflation from the total public cost estimate and use a figure of £28.8m.



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indicates that there is expected to be an overall gain in public value as a result of the proposed development.

Achievement of these returns on the public sector spending, however, depends on the development proceeding as planned, including in terms of scale and type of development, mix of uses, timing of the development and occupancy rates achieved. It also depends on the assumptions made in our analysis holding, for example in terms of additionality. Sensitivity analysis has been conducted to test the robustness of the economic VFM metrics to such issues, as detailed in the following Section.

7.1.2 Sensitivity analysis

In order to test the robustness of the economic VFM assessment, checks have been conducted to look at the sensitivity of the public sector net BCR to variations in the assumptions of the analysis and key features of the proposed scheme.

Given the large number of assumptions underpinning our analysis of different types of costs and benefits, we have not conducted sensitivity analysis at an individual assumption level. Rather we look at sensitivities in relation to the scale of the overall costs and benefits and the key features of the scheme where there is the greatest uncertainty. It should also be noted that each of the sensitivity tests are conducted in turn to provide an indication of how the BCR may change. It may be that a combination of factors may change when the scheme is delivered, for example, the costs may increase as well as delivery timings changing. Due to the high number of possible variations of changes these potential combinations have not been tested.

The sensitivity analysis specifically aims to test:

1. the degree to which the BCR is sensitive to deviations in the overall levels of public sector costs and net benefits from those estimated in the central case analysis¹²³;
2. the degree to which the BCR is sensitive to increases in the overall additionality factors applied in the analysis (i.e. decreases in the extent to which the benefits are additional to the economy);
3. the degree to which the BCR is sensitive to changes in delivery timing; and
4. the assumptions under which the BCRs would fall below 1:1 (i.e. the point at which costs would start to exceed net benefits).

In addition to these sensitivity tests, given the higher level of uncertainty around Phase 2 of the development, explained previously in the report, we have also estimated the BCR on the basis of this not going ahead. The results of this test are presented in Section 7.1.1 and demonstrate that if Phase 2 does not go ahead, the proposal is expected to achieve a BCR of 22.0:1.

Figure 28 summarises the results of the sensitivity tests conducted and the resultant BCRs. These results are explained in more detail below.

Figure 28: Sensitivity test results

Sensitivities	Change implemented	Net GVA	25 year totals Net public sector costs	BCR
Deviation in public sector costs	BCC costs increased by 20%	£801.2m	£34.5m	23.2:1
Deviation in net benefits	Net benefits decreased by 20%	£641.0m	£28.8m	22.3:1

¹²³ Note that the central case analysis already factors in optimism bias adjustments on the estimation of benefits and the public sector costs include a risk contingency.



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Changes in additionality levels	Additionality levels raised by 20% for each phase	£504.0m	£28.8.0m	17.5:1
Changes in delivery timing	Time delivery shifted by two years in the future	£700.8m	£28.8m	24.4:1
Costs increase to the level that they equal benefits	Costs increased 27-fold to match benefits	£801.2m	£801.2m	1:1
Benefits decrease to the level that they equal costs	Benefits decreased by 96.4% to match costs	£28.8m	£28.8m	1:1

Source: KPMG analysis

Sensitivity of the BCR to deviations in costs and benefits

We consider the sensitivity of the BCR to variations in overall public sector costs and net economic benefits, with the results as reported below. The variation levels used are indicative only to demonstrate the impact on the BCRs.

- **Reduced benefits:** we test the sensitivity of the BCR to reductions in the estimated level of overall benefits. This sensitivity analysis shows that if benefits were to decrease by 20%, all else being equal, the BCR of the proposed development would be 22.3:1. Net benefits would need to fall by 96.4% for the BCR to fall to 1:1 (i.e. for the benefits to be no greater than the public sector costs).
- **Increased costs:** we test sensitivity of the BCR to rises in the estimated level of overall costs to BCC. This sensitivity analysis shows that if net public sector costs were to increase by 20%, all else being equal, the BCR of the proposed development would be 23.2:1. Net public sector costs would need to increase twenty-sevenfold for the BCR to fall to 1:1 (i.e. for the benefits to be no greater than the public sector costs).

Sensitivity of the BCR to increases in the overall additionality factors applied in the analysis

We also test the sensitivity of the BCR to increases in the overall additionality factors applied in the analysis (i.e. reflecting if the levels of displacement, deadweight and/ or leakage are higher than assumed in our central case analysis). A change in the additionality factors may occur for a number of reasons. Examples of what may cause the levels of displacement, deadweight and/or leakage to be higher are set out below. This should not be considered an exhaustive list:

- The retail occupants of the Temple Island development may displace a larger amount of economic activity from nearby areas than assumed.
- The commercial business occupiers of the Temple Island development may have supply chains that reach outside of the West of England to a greater extent than assumed in the analysis. This would mean that economic leakage levels would be higher.
- Alternative development plans could be brought forward for the site if the current scheme were not to proceed, potentially needing different levels of public sector funding. This would affect the level of deadweight associated with the proposed scheme.
- The time needed to complete either, or both, phases of the development might be underestimated. This would mean that benefits would be generated later.

As an indication of how the BCR would be affected by changes to the levels of additionality, the overall additionality factors (which combine the additionality levels assumed for deadweight, displacement



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and leakage) have been increased by 20%. If this were the case the BCR for the proposed development would be 17.5:1. Overall additionality factors would need to increase by 54.8% for the BCR to fall to 1:1.

Sensitivity of the BCR to changes in delivery timing

We test the sensitivity of the BCR to changes in the delivery timing of the proposed Temple Island development. Specifically, we assess the BCR if the overall development (both Phase 1 and Phase 2) were to be delayed by two years. This can be thought of as shifting the entire timeframe set out in Figure 5 by two years in the future. If this were the case, the BCR of the proposed development would fall to 24.4:1.

7.1.3 Wider factors affecting the VFM of the proposed development

We note that a VFM assessment extends beyond the economic measures of VFM. The strategic, financial and commercial cases for the proposals also need to be taken in to account to reflect wider aspects of the project, including the rationale for intervention and strategic fit, affordability, deliverability and the expected level of risk.

A number of key issues have been identified in relation to the commercial and financial cases for the proposed development. These also should be considered when assessing the VFM of the scheme. Specifically, as detailed in the financial and commercial cases, there are still a number of key commercial terms that are yet to be finalised between BCC and L&G, which can influence public sector costs / revenues and hence impact VFM:

- **Planning and termination.** [REDACTED] BCC may need to impose a cap to mitigate its financial exposure to this risk.
- **Cost of enabling works.** We understand BCC is finalising the scope and cost allocation for enabling works. We recommend that a cap is agreed for these costs as well as for potential termination costs (as highlighted above) to mitigate the risk of public sector cost increase impacting VFM.
- **Overage.** [REDACTED] BCC may wish to consider including a form of overage. [REDACTED]
An overage arrangement could contribute positively to public sector revenues from the transaction.
- **Level of land premium.** As noted in the commercial analysis, a fully defined plot valuation mechanism with an agreed base plot value would provide greater certainty to BCC of [REDACTED], there is a risk [REDACTED] adversely impacting VFM.
- **Profit rent levels.** Should rental income achieved from sub tenants of office 1 be lower than anticipated, this would adversely impact public sector revenue from the transaction, impacting VFM.

7.2 Comparative assessment of the VFM of the proposed Temple Island development

7.2.1 Comparison of the VFM of the proposed development to VFM benchmarks

As part of business case development based on HM Treasury Green Book guidance, the economic case appraises a short list of options to identify the preferred way forward. This identification of the preferred option is generally based on the relative NPPV and BCR of the different options, as well as considering affordability and deliverability.

There is no publicly available detailed HM Treasury guidance on BCR thresholds for public sector spending, including on capital infrastructure projects, and what level of BCR could be considered as providing VFM. Instead, as noted above, VFM is generally assessed relative to the alternative schemes in which the public funding could be invested.

However, conducting an assessment of different options for the Temple Island site was not part of our scope of work. Nor were we asked to assess different ways in which the public sector funding could be spent. Therefore, when considering the VFM of the Temple Island proposed development, we advise that BCC should consider the relative BCR of this scheme to any alternatives that could be brought forward with the funding.

In terms of assessing the absolute level of the VFM metrics for the proposed Temple Island scheme, we note that the Department for Transport (DFT) published a VFM Framework in 2015, setting out “high-level guidance on the Department’s approach to considering value for money in decision-making about new proposals”¹²⁴. The assessment of VFM for transport interventions is based on developed approaches both for economic appraisal (as set out in the HM Treasury Green Book) as well as specific approaches for transport appraisal (as set out in the Department’s Transport Analysis Guidance, WebTAG¹²⁵). Within the DFT VFM Framework, VFM categories are assigned to proposals with significant transport budget implications. The six VFM categories used are set out in Figure 29 below.

Figure 29: Department for Transport’s Box 5.1 Standard Categories (Transport cost outlays exceed revenues or cost savings)

VfM category	Implied by...*
Very High	BCR greater than or equal to 4
High	BCR between 2 and 4
Medium	BCR between 1.5 and 2
Low	BCR between 1 and 1.5
Poor	BCR between 0 and 1
Very Poor	BCR less than or equal to 0

Source: Department for Transport, Transport Analysis Guidance (2018)

Notes: * Relevant indicative monetised and/or non-monetised impacts must also be considered and may result in a final value for money category different to that which is implied solely by the BCR.

¹²⁴ Department for Transport, Value for Money Framework (2015). Accessible at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/630704/value-for-money-framework.pdf.
¹²⁵ Department for Transport, Transport Analysis Guidance (2018)



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As the proposed Temple Island development does not have significant transport spending associated with it, the DFT VFM categorisation would not be directly applicable. However, it can be noted that if it was used, the scheme proposed by BCC would be classified as delivering very high VFM.

For the Temple Island development to be classified below “low” or “poor” VFM, it would have to reach a BCR of below 1.5:1. The sensitivity analysis set out in Section 7.1.2 indicates that very significant deviations from the assumptions used for our analysis would be needed for this to be the case.

In terms of the public sector cost per job, our analysis suggests that this would be an estimated £18,975.

Home England (formerly Homes and Communities agency) produced updated guidance in 2015 on the best practice approach to estimating the cost per job¹²⁶. This guidance includes cost per job benchmarks, based on historic evaluation evidence. These benchmark levels are included in Figure 30 below, with the third column including KPMG estimates inflating the cost values to 2020 prices.

Figure 30: Cost per job benchmarks – evaluation evidence

	Gross cost per net additional job in 2015 prices	KPMG estimated gross cost per net additional job in 2020 prices	HE's indicative description
Low	£28,700	£31,682	Projects with a key focus on job creation (such as the development of employment space), high private sector investment, low remediation costs or targeted at a small local area with low deadweight and displacement
Mid-point	£39,850	£43,990	
High	£51,000	£56,299	Projects with wider objectives (such as cross-cutting regeneration or where the end use is for a specialist purpose), low private sector investment, high remediation costs or targeted at a wide spatial area with high deadweight and displacement

Source: Homes England, Calculating Cost per Job (2015)

Notes: Gross cost per net additional job figures have been translated into 2020 prices by using inflation data from the ONS up to Q3 2019 and from the Office for Budget Responsibility (OBR) from Q3 2019 onwards. The sources for the inflation data are the following:

- ONS, Inflation and price indices, Consumer price inflation time series, CPIH Index 00: All items 2015=100, released on 13 November 2019. Available at: <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/1522/mm23>
- OBR, The Economy Forecast, Inflation, CPI Inflation, released on 4 April 2019. Available at: <https://obr.uk/forecasts-in-depth/the-economy-forecast/inflation/>

The Temple Island development achieves an estimated public sector cost per net job that is substantially lower than HE’s “low” classification of gross cost per net additional job. This is in line with it having a very high BCR (as per DFT benchmarks) and being a scheme aimed at regeneration including development of commercial space for job creation.

¹²⁶ HCA (2015) Calculating cost per job: Best practice note



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7.2.2 Comparison to 2018 VFM assessment of the proposed Temple Island scheme

As well as assessing the absolute value of the VFM metrics for the proposed Temple Island, we have also compared these to the VFM metrics estimated for the scheme in 2018 when the proposed development was at an earlier stage of planning.

Based on the proposed scheme in 2018, KPMG estimated that the proposed development of the Temple Island site, excluding any construction impacts, could yield:

- a BCR of 23.0:1 over a 25 year period; and
- an economic NPV of £837.2m over a 25 year period¹²⁷.

Similar to our 2019 assessment, the 2018 analysis excluded a range of impacts that it was not possible to assess at that stage, either due to a lack of data and information that would be needed to be able to robustly estimate them, or due to their assessment being outside the scope of our study, specifically:

- any wider social impacts that the development may deliver;
- any catalytic impacts that may arise;
- the potential impacts generated through the sale or letting of residential units developed on the site; and
- any operational economic impacts and visitor spending related impacts that may arise if a conference centre and hotel were to developed that results in increased visitors to Bristol.

It should be noted that the latest 2019 analysis of the scheme includes the last set of economic impacts in the bullet points above, although similarly also excludes the first three areas of impact. The 2019 analysis also reflects changes to the proposed scheme itself and inputs to the analysis which affect the level of estimated economic impacts. The key differences are set out in Figure 31 below. These should not be considered an exhaustive list.

Figure 31: Key differences affecting the economic impact and VFM metrics reported in KPMG's 2019 and 2018 assessments of the proposed Temple Island development

Change	Estimated values	KPMG considerations	Effect on BCR
Decrease in net public sector costs	2018: £38.1m 2019: £32.0m	With respect to the NPPV, the difference in net public sector costs is small compared to the overall level of estimated benefits of £801.2m. However, the lower public sector costs affects the estimation of the BCR, when benefits are <i>divided</i> by costs, more noticeably. Dividing estimated benefits by a lower level of net public sector costs leads to the BCR being higher.	BCR rises

¹²⁷ KPMG, Assessment of alternative development plans for the Temple Island site (June 2018)



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Addition of impacts from visitor spending	2018: Not quantified 2019: £24.7m net GVA	The 2018 analysis did not include impacts of additional visitor spending due to the plans being at a very early stage and key information not being available. By adding GVA impacts associated with visitor spending in the 2019 analysis, overall net benefits increase.	BCR rises
Delivery timing/ phasing	2018: No phasing 2019: Two phases	The 2018 assessment was not based on the same phasing of completion of the developments (i.e. timing of when the floorspace is brought forward). In particular, all buildings (including those that currently are part of Phase 2) were planned to roll out sequentially and not in two separate phases. Due to the later timing of some floorspace being developed, the associated economic impacts over the 25 years are lower, due to fewer years in which the impacts are generated, as well as a greater effect of discounting in later years.	BCR falls
Use of floorspace	2018: All floorspace assumed to be residential or office/ retail 2019: Non-residential floorspace includes hotel and conference centre space	While the amount of developed floorspace proposed in 2019 is similar as in 2018, further details on the mix of use of the non-residential floorspace are now available from BCC. While for analysis purposes, in 2018 BCC assumed that all the non-residential floorspace would be retail/ office space. However, the information provided for our 2019 assessment includes details of the floorspace now assigned to the conference centre and hotel. The GVA and employment associated with this use of the space differs from if it were retail/office space.	BCR rises

Source: KPMG analysis and KPMG Assessment of alternative development plans for the Temple Island site (June 2018)

7.3 Achieving VFM

As part of the scope of work, we were asked by BCC to identify, where appropriate, any actions BCC might seek to undertake to maintain or improve the VFM that can be obtained from the scheme, including further and future assessments of its VFM.

As explained above, and demonstrated through the sensitivity analysis, the VFM of the proposals is determined by a number of factors. From an economic perspective, the VFM metrics are affected by:

- the level and timing of the realisation of net economic benefits;
- the level and timing of public sector costs being incurred; and
- the number of net additional jobs created.



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From a wider perspective, an assessment of the VFM should also take account of the rationale for intervention and strategic fit, affordability, deliverability and the expected level of risk.

BCC may have some scope to influence some of these factors, as explained below.

The main drivers of the level of economic benefits and number of net additional jobs that could be generated by the proposed Temple Island development are:

- the amount of floorspace developed and the use it is put to (commercial, residential etc);
- the timeframe within which the buildings are developed and become occupied;
- the ongoing occupancy rates for the developed floorspace;
- the type of businesses that occupy the commercial space, including their industry sector classification, productivity and innovation levels; and
- the additionality of the economic activity generated through the development, including the extent to which impacts can be retained in Bristol and the West of England and the extent to which economic activity is new and does not displace existing activity.

BCC has a role to play in determining the amount of floorspace developed, its use and the timeframe over which the development will take place. To the extent to which it can mitigate any risks around these factors, particularly the timing and certainty over Phase 2 of the proposed development, it will help to ensure that the estimated economic benefits will be generated.

In terms of occupancy, both occupancy rates and the type of businesses that use the commercial space, BCC has provided its assessment of these to inform the economic impact analysis. As previously explained, BCC envisages that the businesses occupying the space will be in the financial and professional services and creative and digital sectors. While the design and location of the developments may help to drive this, BCC may have limited influence over the letting of the completed commercial space (other than for the one building BCC will take up the head lease for). To the extent to which BCC can take actions to achieve ongoing high occupancy rates for the commercial developments from high productivity businesses, the VFM of the development could be enhanced.

The mix of businesses occupying the site is also likely to affect levels of additionality. Displacement impacts would be reduced if the businesses occupying the site are creating new jobs in the area, rather than moving jobs and economic activity from another part of the region. Equally, the more that the conference centre and hotel attracts individuals who otherwise would not be in Bristol or the West of England, the greater the level of new economic impacts and the VFM of the development is maintained or enhanced. BCC may want to consider working with Destination Bristol as well as the hotel and conference centre operators to help to achieve this.

As the sector classification of the business influences the level of economic impacts associated with the development (through the average economic output per employee for that sector), if the business mix were to change this would affect the level of economic impacts.

In terms of the public sector costs associated with the scheme and their impact on the VFM of the proposed development, in the commercial and financial cases we have highlighted a number of issues for BCC to consider when taking forward the scheme. As summarised above in Section 7.1.3, there are still a number of key commercial terms that are yet to be finalised between BCC and L&G, which can influence public sector costs / revenues and hence impact VFM. Resolving these issues satisfactorily will be important to achieving VFM from the scheme.



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Appendix 1

A1.1 Files received from BCC

Our work draws on information provided to us by BCC, both in the form of written documentation and orally in meetings in the period up to 13 December 2019. Specifically we were provided with the following information - at the date shown in brackets:

- A suite of appraisals provided for commercial and residential sites featuring in Phase I of the development (11 November 2019);
- A timeline showing the phasing of Phase 1 of the development (11 November 2019);
- The Heads of Terms Principles & Background of the development (11 November 2019) – Heads of Terms Principles hereafter;
- A draft of the Project Strategy Review for the development produced by AECOM (11 November 2019);
- A draft of the Temple Island vision (15 November 2019);
- A strategic business plan for the hotel and conference centre of Phase 2 (15 November 2019);
- A draft employment land study of BCC (18 November 2019);
- A review of Business Rates carried out by Amion Consulting (18 November 2019);
- Reviews of the Bristol office market by Market Monitor, JLL, Lambert Smith Hampton and Savills (18 November 2019);
- Additional details on vacancy and projected occupation uptake (20 November 2019);
- Additional details on the breakdown of the residential blocks (20 November 2019);
- Additional information on housing provision (20 November 2019);
- The assumptions to make with respect to office space occupancy rates (20 November 2019);
- An excel file on the costs of the development (22 November 2019);
- The Contract for the Sale of Freehold Land Subject to Leases (28 November 2019);
- An overage calculation excel file (28 November 2019);
- Temple Island Risk Register (28 November 2019);
- A revised Temple Island Master Programme (28 November 2019);
- The assumptions to make with respect to and business rates calculations, hotel availability, hotel size and conference centre capacity (28 November 2019);
- A Temple Island Master Cash Flow excel file (28 November 2019);



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- Commentary on the Phase 2 development quanta (29 November 2019);
- An appraisals comparison schedule (10 December 2019);
- Estimations of office space rent profits (10 December 2019);
- A Temple Island Cost Summary Note (13 December 2019);
- The Temple Island Project Budget profile (13 December 2019);
- Land value estimations (13 December 2019);
- A capital programme (13 December 2019);
- A draft agreement with the EDF (13 December 2019);
- EDF fund scheme allocations (13 December 2019).
- A draft of advice for the development from BCC Legal Services (8 January 2020);
- Legal opinion of the development from Womble Bond Dickinson LLP (8 January 2020);
- Revised Heads of Terms Principles & Background (8 January 2020);
- A further revised Heads of Terms Principles & Background (9 January 2020);
- Temple Island Risk Register (9 January 2019);
- Email from CBRE to BCC dated 13 January 2020 (12.54pm) (14 January 2020);
- Email from CBRE to BCC dated 14 January 2020 (12.18pm), (14 January 2020);
- Revised Temple Island Spending Profile (17 January 2020).

A1.2 Other information sources

In addition to the information provided to us by BCC, we have used a number of sources to carry out and inform our analysis. These sources are listed below – in order of reference throughout the report.

- Temple Island Arena: Value for Money Assessment – Background document (June 2018);
- Assessment of alternative development plans for the Temple Island site (June 2018);
- HM Treasury (2018) The Green Book: Central Government Guidance on Appraisal and Evaluation);
- Bristol City Council (2018) Corporate Strategy 2018 – 2023. Available at: <https://www.bristol.gov.uk/policies-plans-strategies/corporate-strategy>;
- West of England Local Industrial Strategy, HM Government (2019);



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- The Temple Quarter website’s Vision page. Available at: <https://www.bristoltemplequarter.com/about/vision/> ;
- Guide to developing the Project Business Case, HM Treasury (2018). Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/749086/Project_Business_Case_2018.pdf;
- University of Bristol’s webpage on its campus at Temple Quarter. Available at: <https://www.bristol.ac.uk/temple-quarter-campus/qtic/>;
- Bristol City Council (2011) Bristol Development Framework: Core Strategy;
- Bristol City Council (2016) Bristol Arena Full Business Case;
- Bristol City Council, Bristol Temple Quarter Enterprise Zone, Sustainable Urban Mobility Plan (2016);
- Bristol City Council, 2019/2020 Business Plan;
- West of England Local Enterprise Partnership (2014) West of England Strategic Economic Plan 2015-2030;
- West of England Combined Authority, Business Plan 2019-2020 (2019);
- 2019-24 Control Period 6 Western Strategic Business Plan, National Rail (2018);
- Information on the Temple Meads station redevelopment. Available at: <https://www.bristoltemplequarter.com/portfolio-items/temple-meads-redevelopment/>;
- Bristol City Council Medium Term Financial Plan 2017/18 – 2021/22;
- Office for National Statistics (2019) Input-output supply and use tables 2017;
- 2015 Input-Output Analytical Tables, Multipliers and effects. Available at: <https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/datasets/ukinputoutputanalyticaltables-detailed>;
- Scottish Government Type I & Type II, output, income, employment and GVA multipliers Scotland 1998-2016 (SIC 2007 basis). Available at: <https://www2.gov.scot/Topics/Statistics/Browse/Economy/Input-Output/Downloads/IO1998-2015L1>;
- ONS Construction output statistical bulletin September 2019. Available at: <https://www.ons.gov.uk/businessindustryandtrade/constructionindustry/bulletins/constructionoutputingreatbritain/september2019>;
- BIS (2009) BIS Occasional Paper No. 1: Research to improve the assessment of additionality;
- PwC UK web page on High Street retailers. Available at: <https://www.pwc.co.uk/press-room/press-releases/High-street-exits-remain-at-historic-high-as-openings-slump-to-lowest-levels-on-record.html>;
- Data received from Visit Bristol. Please contact Visit Bristol for more details.



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A1.3 Occupancy Rates

For buildings allocated to office space and retail, BCC have provided the following occupancy rates to be applied to GVA, employment and business rates estimates:

- First year of operation: 25% occupancy
- Second year of operation: 63.3% occupancy
- Third year of operations and onwards: 100% occupancy

A1.4 Business Rates

BCC has provided KPMG with Business Rates on a per square metre basis. To compute the share of the Business Rates received by BCC in Section 6.4, BCC has provided the following breakdown:

- West of England Economic Development Fund: 50%
- Fire Authority: 1%
- BCC: 49%

A1.5 Multipliers

In estimating GVA and employment, a number of multipliers have been used. The following table lists all multipliers used throughout this report.



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Figure 32: Multipliers and ratios used throughout the report

Component	SIC code	From spending to GVA				From GVA to employment			
		GVA/spending (output) ratio	GVA multiplier	Type I multiplier	Type II multiplier	GVA per FTE	Employment multiplier	Type I multiplier	Type II multiplier
Construction	41	38%	2.04	1.67	2.03	£83,705	1.97	1.60	1.85
Office space	70	51%	1.41	1.17	1.32	£45,510	1.50	1.217	1.40
Retail	47	62%	1.37	1.13	1.27	£34,408	1.53	1.22	1.48
Conference	82	54%	1.45	1.14	1.26	£ 40,565	1.46	1.20	1.47
Hotel	55	55%	1.30	1.11	1.25	£53,061	1.52	1.16	1.42
Food & Drink	56	51%	1.52	1.19	1.47	£27,536	1.26	1.09	1.20
Travel	49	36%	2.14	1.61	2.08	£83,909	3.05	1.51	1.83

Source: The data presented are from two sources:

- GVA/spending ratio, GVA multipliers and Employment multipliers are from: ONS 2015 Input-Output Analytical Tables, Multipliers and effects. Available at: <https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/datasets/ukinputoutputanalyticaltablesdetailled>;
- Type I and Type II multipliers are from: Scottish Government Type I & Type II, output, income, employment and GVA multipliers Scotland 1998-2016 (SIC 2007 basis). Available at: <https://www2.gov.scot/Topics/Statistics/Browse/Economy/Input-Output/Downloads/IO1998-2015L1>.

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Memorandum of Understanding

between

Legal & General (“**L&G**”)

and

Bristol City Council (“**BCC**”)

This memorandum of understanding (“**MOU**”) sets out the terms and understanding between L&G and BCC in relation to the Temple Island scheme (the “Scheme”) and the wider Temple Quarter development activities.

Background

L&G supports the values outlined in BCC’s One City Plan and is keen to work with BCC to achieve their aspirations for the city within the Scheme.

The shared aim between BCC and L&G for the Scheme is to deliver a world class development that has inclusivity, well-being, environmental sustainability, and connectivity at its heart.

Purpose

This MOU seeks to provide a strategic umbrella arrangement under which BCC and L&G can engage in specific and strategic projects and activities within the Scheme and the wider Temple Quarter in order to deliver against an agreed set of objectives and development principles.

L&G will actively support the BCC’s priorities for the city, promoting its goals for:

- **Environmental Sustainability:** this is embedded in the design and investment process at L&G. L&G aspires to create highly sustainable developments and will work closely with BCC’s initiatives, including Bristol Energy, to this end. The ecological emergency necessitates that BCC and L&G work together to reduce the carbon emissions from their shared endeavours wherever possible, including on the Scheme.
- **Inclusive Economic Growth:** the Scheme will provide the city with office space to support local businesses as well as nurture early stage start-ups and encourage learning. The aim is to create a self-sufficient ecosystem in order to retain talent, attract new businesses and harness the creative spirit of Bristol. L&G shares Bristol’s desire to ensure that new developments, including the Scheme, provide new opportunities for training, apprenticeships and jobs – particularly for economically disadvantaged groups in the city.
- **Affordable Housing:** the Scheme will aim to deliver 40% affordable housing across all tenures from social to affordable rent, to meet the needs of all residents and help create a vibrant, mixed community. L&G will offer an accelerated pace of delivery, with that ratio of affordable homes delivered within the first phase of the scheme.
- **Quality Public Realm:** our shared ambition is to create thriving new districts within the city, offering exemplar amenity space, clean air, connectivity, and opportunities for leisure and recreation.
- **Increased Social Value:** L&G will engage with the local community to understand their aspirations for the Scheme. This will be reflected in the design and use of the space. L&G will

also measure, and seek to maximise the social value generated throughout the life of the Scheme.

- **Innovation:** L&G and BCC will explore the utilisation of modern methods of construction.
- **Health and Wellbeing:** L&G will be supportive of BCC's ambitions in this space considering both mental and physical health in Bristol. L&G will incorporate this in the design and schedule of initiatives at the Scheme and in the wider Temple Quarter area (such as opportunities for innovative and dynamic meanwhile uses).

All the values outlined above are interdependent, and will be considered together when making strategic decisions for the Scheme.

In order to achieve the above objectives, L&G and BCC agree to undertake the following activities:

1. work collaboratively to realise the shared objectives above for the Scheme (agreed objectives aligning with those agreed between BCC and its partners undertaking the Temple Quarter master plan commission, as stated above). This will, amongst other things, involve activity to support delivery of the University of Bristol's TQEC; supporting and promoting BCC's (and its partners') plans for investment in Temple Meads (both property and infrastructure); and work to identify and progress further strategic projects that would deliver in line with the agreed objectives. Such projects to include both existing and proposed projects;
2. work under an agreed governance arrangement and meet regularly to report on progress and agree next steps – reporting to a quarterly board/steering group; and
3. facilitate the involvement of other organisations, including those currently involved in the promotion of developments within the Temple Quarter and beyond (such as Homes England; Network Rail; WECA and University of Bristol).

The parties also agree to:

- a) publically announce or confirm a strategic arrangement between BCC and L&G to work collaboratively to realise strategic city ambitions across existing, proposed and future schemes;
- b) share non-confidential consultancy advice obtained by either party and to act in good faith to realise the agreed objectives for the Temple Quarter; and
- c) utilise respective expertise to ensure they provide best value in delivering the objectives of the partnership.

L&G and BCC understand the requirement to be flexible and adaptable, and therefore will commit to be in constant review of the objectives and activities in order to respond to society's changing needs.

Projects

Any projects identified through discussions between the parties will adopt the principles identified in this document in so far as they are applicable. Projects will be progressed on a case by case basis and legal and financial arrangements would reflect the requirements of that specific project.

Existing holdings

L&G's existing holdings total circa £275 million in the Temple Quarter region.

Other information

This MOU shall become effective upon signature by the parties and will remain in effect until modified or terminated by any one of the parties.

Each party is to cover their own costs in participating in the partnership.

It should be noted that by signing this document or by participating in the strategic partnership, L&G and BCC are not committing to any legally binding obligations. It is intended that the parties remain independent of each other and that their collaboration and does not constitute nor authorise the entry into a commitment for or on behalf of each other.

Nothing contained or implied in this MoU shall prejudice or affect the Council rights, powers, duties and obligations in the exercise of its functions as a local authority and/or in any other capacity, nor shall it imply any exclusivity (other than in respect of the Scheme) and all rights, powers, discretions, duties and obligations of the Council under all laws may at all times be fully and effectually exercised as if this MOU had not been made.

(Authorised signatory)
(on behalf of Legal & General)

Date:

(Authorised signatory)
(on behalf of Bristol City Council)

Date:

FAO Colin Molton
Bristol City Council
City Hall
Bristol
BS1 5TR

27 January 2020

Dear Colin,

Phase 1, Temple Island, Bristol

Discussions have been ongoing for Bristol City Council (BCC) to offer a phased sale of the Temple Island site to Legal & General (L&G) which will enable their shared ambition to see delivery of a mixed-use development comprising offices and residential that will combine to create a new community within Temple Quarter and supply new amenities and private / affordable housing to its residents.

CBRE Ltd has been instructed to review and provide our opinion of L&G's proposed purchase price of the above development site ahead of exchange and completion and undertaking a formal valuation report. In the latest set of Heads of Terms dated 8 January 2020, we note that the proposed purchase price for Phase 1 is [REDACTED] subject to contract, detailed costings and scheme design, satisfaction of the conditions precedent and viability, and excluding VAT.

For the purposes of this exercise, we have only been able to review the limited information which has been provided to us by L&G, BCC and Avison Young including:

- Heads of Terms dated 8 January 2020.
- GIA and NIA floor areas as set out in L&G's and Avison Young's latest development appraisals dated 7 January 2020.
- Zaha Hadid's Temple Island Design Presentation dated 13 December 2018.
- Public Realm Infrastructure Costs as provided to us by BCC and undertaken by Currie & Brown dated 26 November 2019.
- Total number of residential units (private and affordable) as confirmed in L&G's and Avison Young's latest development appraisals dated 7 January 2020.

We have not been provided with any technical due diligence such as a technical / ground conditions survey or an environmental report. We have therefore assumed that if a detailed ground survey was undertaken of the property, it would not reveal any significant defects, which might cause us to materially alter our advice. Nonetheless, the parties have agreed that prior to commencement of the first development plot within Phase 1, BCC will secure funding and commence the specified and agreed site remediation works to the whole site (not just Phase 1) together with supporting infrastructure (e.g. services, infrastructure and utilities). A price cap has been agreed between the parties subject to inflation on the total cost of the enabling works of £32

million (to be undertaken by BCC) as detailed in the 'Temple Island Enabling Works' schedule. It is anticipated that this funding will be achieved via grants.

We have been unable to carry out an inspection of the property. We have not been provided with a Report on Title, but we understand that the property is held freehold by BCC, and we have assumed that the property has a good, clean and marketable title without any onerous encumbrances, restrictions, easements or wayleaves.

The parties have agreed that BCC will retain the freehold of Temple Island and grant a single, 250 year lease at a peppercorn rent to L&G for the development plots (numbers 1, 2, 3, 4, 6 & 7) comprising Phase 1 within the masterplan prepared by Zaha Hadid Architects.

The affordable housing units will comprise a mixture of tenures such as shared ownership, social rent and discounted Market Rent.

In reaching agreement on an anticipated premium for the land sale of Phase 1 to L&G, the anticipated premium can only reflect current costs and values of the proposed mixed-use development. To ensure that BCC receives the best consideration reasonably obtainable, it has agreed with L&G that a revaluation will take place in approximately 18 months to 2 years at a point in time when the valuation and its inputs are more certain.

Therefore, the current anticipated premium has had to reflect a number of 'Special Assumptions' including what may be granted during the planning determination process. These Special Assumptions will form part of the formal valuation report that will be prepared in accordance with the RICS Red Book. These Special Assumptions will crystallise once planning consent is granted and subsequently, a formal RICS Red Book valuation will be produced at that time.

[Redacted]

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

[REDACTED]

Based upon the limited information with which we have been provided, and on the assumption that no onerous issues are identified and a sale reflecting normal acquisition fees and SDLT provisions, as well as, the above agreed assumptions, we would confirm that we anticipate that we will be able to support a long leasehold premium of:

[REDACTED] subject to contract, detailed costings and scheme design, satisfaction of the conditions precedent and viability, reflecting the aforementioned Special Assumptions, and excluding VAT.

You will appreciate that CBRE have yet to complete the necessary due diligence to undertake a valuation of the site and therefore should any of the information that we have relied upon prove to be incorrect or if anything onerous is contained within the final due diligence, this could materially impact upon our opinion.

Reliance and Publication

We should emphasise that this letter is not, nor was it intended to be formal valuation advice that complies with the requirements of the RICS Red Book. For the avoidance of doubt, no third party can rely upon this letter or our views currently expressed here, and no part of this letter can be published externally. Bristol City Council should understand the limitation of this exercise and the need for a full due diligence exercise prior to making firm financial commitments.

Yours faithfully

[REDACTED]

Richard Eames BSc (Hons) FRICS IRRV
Executive Director
RICS Registered Valuer
For and on behalf of CBRE Ltd

T: [REDACTED]
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Bristol City Council Equality Impact Assessment Form



Name of proposal	Temple Island – conditional disposal of land interest to L&G and associated office building lease
Directorate and Service Area	Growth & Regeneration – Bristol Temple Quarter
Name of Lead Officer	Colin Molton

Step 1: What is the proposal?

Please explain your proposal in Plain English, avoiding acronyms and jargon. This section should explain how the proposal will impact service users, staff and/or the wider community.

1.1 What is the proposal?

The proposal builds on the July 2019 and seeks to obtain approval for BCC to enter in to Agreements with L&G to support the development and delivery of Temple Island, and to secure funding to support the delivery of key enabling works.

Proposals foresee the delivery of a mixed use scheme, reflective of those outlined in the previous Cabinet report in July 2019. The expectation is that the development will respond to the characteristics of the Temple Quarter (and Bristol), add a further critical mass of development to the east of Temple Meads, delivering enhanced connectivity between the east of the station and the city centre. This assessment considers the anticipated impacts associated with the mixed use development at Temple island. Given the stage of development of the scheme, this review is at a high-level and more consideration to Equalities issues will be given through the formal planning process and scheme development process.

Benefits

The proposed scheme closely aligns with core objectives of the Temple Quarter (including the Enterprise Zone), the City Council and its partners' and will contribute towards the realisation of the Vision for the Temple Quarter.

The development is expected to;

- become a new destination for Bristol residents, businesses and visitors and, over time, will work with other proposed and emerging schemes within the Temple Quarter to create a new quarter for the city and an extension of the existing city centre.
- Deliver new homes for existing and future residents
 - facilitate improved sustainable transport links especially cycle and pedestrian routes.
- The commercial aspects of the scheme (offices and the proposed hotel/conference facility) will generate significant additional spend for the city, and wider region, business activity, increased hotel occupancy and other related spend.
- Offer the council the opportunity to invest in the mixed use scheme to bring forward the delivery of commercial office accommodation within the Temple Quarter Enterprise Zone.

Step 2: What information do we have?

Decisions must be evidence-based, and involve people with protected characteristics that could be affected. Please use this section to demonstrate understanding of who could be affected by the proposal.

2.1 What data or evidence is there which tells us who is, or could be affected?

There will be a considerable amount of economic benefit including construction jobs, and a number of direct and indirect jobs created when the scheme is completed.

It is expected that the mixed use development will deliver a range of accommodation on site and offer facilities to support residents and occupiers of the site, and for the wider community. Such facilities will include retail provision and public realm.

Summary of the Bristol Census 2011 Equalities Statistics

		Gender		Ethnicity			Disability	Sexual orientation
		males	females	White British	non- 'White British'	BME	with a LLTI	Lesbian, Gay or Bisexual
Total population all ages	number	213,400	214,700	333,432	94,802	68,642	71,724	n/a
	denominator	428,100	428,100	428,234	428,234	428,234	428,234	n/a
	Bristol %	49.8	50.2	77.9	22.1	16.0	16.7	n/a
	England and Wales %	49.2	50.8	80.5	19.5	14.0	17.9	6

available at: <http://www.bristol.gov.uk/page/community-and-safety/equalities-data-and-research>

According to the table above, 16% of the Bristol people are Disabled, under the Equality Act 2010, that is defined as ‘...a physical or mental impairment which has a long-term and substantial adverse effect on their ability to carry out normal day-to-day activities’. Taking into consideration that not everyone discloses their disability, the actual number could potentially be higher. Therefore, it is expected there will be significant number of disabled people accessing Temple Island, including people with sensory impairment and long-term health conditions.

The majority of visitors are expected to travel by foot, bicycle or via public transport. The remaining visitors traveling by car would be encouraged to make use existing public parking provision, or new facilities which may be proposed as part of the overall development.

The development is located in the Windmill Hill ward, which is adjacent to the following wards:

- Lawrence Hill
- Southville
- Cabot
- Knowle
- Brislington West

The table below illustrate the characteristics of the population living in the wards listed above:

Ward	Population by sex				Ethnic group				Limiting long-term illness or disability		
	Total usually resident population [1]	Total males	%	Total females	%	White Total	%	Black and Minority Ethnic Group Total	%	People whose day-to-day activities are limited	%
Brislington West	11,355	5,670	49.9	5,685	50.1	10,352	91.2	1,003	8.8	1,774	15.6
Cabot	15,940	8,572	53.8	7,368	46.2	11,741	73.7	4,199	26.3	1,353	8.5
Knowle	11,315	5,608	49.6	5,707	50.4	10,312	91.1	1,003	8.9	2,105	18.6
Lawrence Hill	18,942	10,060	53.1	8,882	46.9	8,493	44.8	10,449	55.2	3,402	18.0
Southville	12,543	6,459	51.5	6,084	48.5	11,353	90.5	1,190	9.5	2,061	16.4
Windmill Hill	13,180	6,614	50.2	6,566	49.8	11,351	86.1	1,829	13.9	1,873	14.2
Bristol	428,234	213,071	49.8	215,163	50.2	359,592	84.0	68,642	16.0	71,724	16.7
England & Wales	56,075,912	27,573,376	49.2	28,502,536	50.8	48,209,395	86.0	7,866,517	14.0	10,048,441	17.9

The table demonstrates that the majority of the Lawrence Hill population are from Black and minority ethnic communities and that there are also a high number of disabled people living in the area. Knowle also has a high proportion of older people. Consultations with these groups will form part of the consultation around proposals for Temple island.

2.2 Who is missing? Are there any gaps in the data?

We have no official data specifying the sexual orientation of the Bristol people. However for this report we will assume that Bristol reflects the national statistics where 6% of the population is LGBT+, all as referred to later in this assessment.

Marriage and civil partnership, Pregnancy and maternity data is missing from this assessment.

2.3 How have we involved, or will we involve, communities and groups that could be affected?

Consultations with these groups will form part of the Planning Process, but it may also be possible for the developer to engage these groups early as part of the design process.

The Council and Developers will consult with equalities groups during the detailed design of new transport schemes, space improvements and developments. Individual transport schemes are required to undertake EQIAs as part of the Council's quality assurance strategy.

Step 3: Who might the proposal impact?

Analysis of impacts on people with protected characteristics must be rigorous. Please demonstrate your analysis of any impacts in this section, referring to all of the equalities groups as defined in the Equality Act 2010.

3.1 Does the proposal have any potentially adverse impacts on people with protected characteristics?

Whilst we have not identified any directly adverse impacts from the proposal at this stage we are aware of issues which we will need to consider further as part of the development/design process:

Age, Marriage and civil partnership, Pregnancy and maternity

No issues identified at this stage however, civil partnerships can be an indicator of same sex marriage and could support LGBT+ data.

Disability

Shared pedestrian/cyclist routes to the Island could be a hazard for people with mobility or sensory impairment. Elevated areas/levels to the Podium and Conference facility could be perceived as excluding for people with mobility impairments and older people. The design will need to account for this and seek to mitigate any impacts through intelligent design.

An influx of people

An influx of people walking to and from the development through the Old Market area, who are potentially unfamiliar with Bristol, could potentially increase the chances of homophobic, bi-phobic and transphobic hate crime as this area is well known as the LGBT+ quarter in Bristol.

Race, religion or belief

An influx of people walking to and from the development through the Lawrence Hill Ward streets, and Old Market who are potentially unfamiliar with Bristol, could potentially increase the chances of racially and faith aggravated hate crime due to the high number of BAME owned business on this high street.

Sex

Womens safety-there may be an increased risk of sexual harassment, assault

or gender based hate crime, speaking with the Womens Commission may be able to support consulting with women any issues they have with the new development.

3.2 Can these impacts be mitigated or justified? If so, how?

The scheme for Temple Island will be developed further – especially as discussions happen through the planning process. As the design develops and wherever viable, access routes to the development will have designated areas to separate cyclists and pedestrians.

Key stakeholders will be engaged as the design develops to provide views in order to prevent criminal activities. Examples of potential mitigating measures to be considered but not limited to are:

- CCTV cameras covering all access routes.
- Cooperation between any Conference Centre operator and police where appropriate on event days.
- Stewarding/marshalling by the operator where required on events days.

Bristol Operations Centre developed for the Bristol City Council as part of their Smart City programme, this connected operations centre is designed to provide integrated, city-wide management. This includes traffic management, monitoring of public spaces, and telecare services in Bristol and would be an important feature in ensuring citizens are safe and are able to access the development. Along with SARI Bristol Hate Crime and Discrimination Services monitors hate crime, crime against women and vulnerable people; the group examine hate crime statistics reported from the community and to the police on a quarterly basis. Any increase in hate crime would be quickly noted and action can be taken to mitigate this (e.g. additional CCTV in Old Market or Lawrence Hill, increased foot patrols, increased publicity for reporting etc. where there is a lack of safety precautions where required)

BCC Overview & Scrutiny Management Board commissioned a working group on the Bristol Night Voice, the group will be consulted further so that considerations on how the issues identified in this equality assessment and in respect of how the development operates can be integrated into a City Centre Night Time Economy Strategy.

Accessibility issues raised during pending planning consultations, consultation and meetings with Bristol Physical Access Chain (BPAC) and others will be considered through the design development and ongoing engagement with

BPAC.

It should also be noted that it is felt that the redevelopment proposals for Temple Island do offer an opportunity to significantly enhance the levels of activity within the Temple Quarter area and offer the opportunity to make improvements to key walking/cycling routes – such as along Cattle Market Road. The opportunity does therefore exist to make significant improvements to the benefits of all residents and groups.

3.3 Does the proposal create any benefits for people with protected characteristics?

Age

During the construction period there will be a number of construction jobs and potential apprenticeship opportunities which would be suitable for young people.

There is a high number of older who live in Bedminster, and would be beneficial for any consultation to target these groups too.

Disability

Early input from Attitude is Everything and BPAC on the design will ensure the best viable disabled-friendly venue possible for Bristol citizens.

Gender reassignment and sexual orientation

Once the development is open, engagement between any Conference Centre operator and the Old Market traders and other groups can ensure that local businesses would benefit from the Conference Centre hosting cultural relevant events.

Marriage and civil partnership, Pregnancy and maternity, Sex (Gender)

n/a

Race, religion or belief

Many of the local businesses in the Lawrence Hill area are owned by BME people. The expected influx of people would increase business in this area.

Religious groups will be able to use the Conference Facility as has previously been done across the country in similar venues. Consideration of prayer rooms with wash facilities could prove faith friendly for example.

Due to the proximity of the venue to Lawrence Hill, the local community could benefit from some of the jobs created during construction and once the venue is open. It may be possible to put some targeted initiatives in place to support the Lawrence Hill community and developer-dialogue with the Black South West Network will be encouraged.

3.4 Can they be maximised? If so, how?

Job fairs will be organised in conjunction with the developer, the LEP, the building contractor and the operator to inform the local community about Temple Island job opportunities including skill development initiatives.

This will involve input from the Council's Temple Quarter team and will also draw on support from BCC officers from within both the Economic Development and Skills teams in order to maximise and promote opportunities.

Step 4: So what?

The Equality Impact Assessment must be able to influence the proposal and decision. This section asks how your understanding of impacts on people with protected characteristics has influenced your proposal, and how the findings of your Equality Impact Assessment can be measured going forward.

4.1 How has the equality impact assessment informed or changed the proposal?

Completing the equality impact assessment has ensured that key groups have been identified. This means that specific engagement can be targeted with these groups during the development of proposals for the Temple Island site and key requirements/issues accounted for.

Consultation processes, undertaken as part of the scheme development and through any formal planning applications, will raise awareness of issues facing equalities groups and those with protected characteristics represented by The Care Forum.

4.2 What actions have been identified going forward?

- Feasibility work looking into infrastructure options, including the viability of designated areas for pedestrian and cyclist, instead of shared spaces, on the new access routes leading to the development.
- Discussions will be facilitated between any Conference Centre operator and the Council, including Safer Bristol, to review city wide initiatives, including safety measures, which could be implemented in the arena.

<ul style="list-style-type: none"> - Job fairs will be organised in conjunction with the developer, the LEP, the Building contractor and the operator to inform the local community about Temple Island job opportunities. 	
<p>4.3 How will the impact of your proposal and actions be measured moving forward?</p>	
<p>In reference to the actions on section 4.2:</p> <ul style="list-style-type: none"> - Suitable infrastructure works will be condition of planning consent. - Discussions between any conference facility operator and the Council will be planned and monitored to ensure to ensure that they both happen and achieve SMART objectives. - The Council and its partners will develop an employment and training strategy which will set out a strategy for maximising employment opportunities. The number of jobs created will be monitored during construction (by the project team, as part of the building contract) and when the Conference Centre is open (by the operator) and the number of employment fayres etc attended will also be monitored <p>It is intended to maintain the key measures outlined in this EqIA. The equalities impact of changes will be reviewed against this EqIA and updated if required. More in depth EqIA's will be developed once more detailed development plans have been agreed.</p>	
<p>Service Director Sign-Off:</p> <p>Nuala Gallagher</p>	<p>Equalities Officer Sign Off:</p> <p><i>Reviewed by Equality and Inclusion Team</i></p>
<p>Date: 11/12/19</p>	<p>Date: 11/12/2019</p>

Eco Impact Checklist

Title of report: Temple Island				
Report author: John Hurlock				
Anticipated date of key decision: 21 st January 2020				
Summary of proposals: The proposal builds on the July 2019 and seeks to obtain approval for BCC to enter in to Agreements with L&G to support the development and delivery of Temple Island, and to secure funding to support the delivery of key enabling works. This assessment considers the anticipated impacts associated with the mixed use development at Temple island. Given the stage of development of the scheme, this review is at a high-level and a more detailed EIA documents will be developed in future as the scheme develops, and discussions continue through the formal planning process.				
Will the proposal impact on...	Yes/ No	+ve or -ve	If Yes... Briefly describe impact	Briefly describe Mitigation measures
Emission of Climate Changing Gases?	Yes	-ve	<p>During construction there will be direct emissions from construction vehicles and indirect emissions through energy consumption and staff travel.</p> <p>During operation: indirect emissions from energy consumption and staff travel, visitor travel, generation of waste to landfill.</p>	<p>A Construction Environment Management Plan (CEMP) is expected to be developed for the project, which will take account of all mitigation measures identified within the Environmental Impact Assessment which will be submitted alongside the Temple Island Planning Submission.</p> <p>The Developer will set out commitments to local employment within a Skills and Employment Plan, The Council will encourage the developer to achieve a high BREEAM standard. This will seek to place the development at an equal or higher than comparable schemes of a similar nature. The assessment includes consideration of construction materials used and the energy efficiency of the building.</p> <p>The site is well connected to the existing public transport network, located next to</p>

Will the proposal impact on...	Yes/ No	+ve or -ve	If Yes...	
			Briefly describe impact	Briefly describe Mitigation measures
				<p>Temple Meads train station and close to bus routes – although opportunities to enhance this connectivity do exist.</p> <p>The scheme will be expected to seek to encourage and maximise use of public transport for staff and visitors to the Development.</p> <p>The site is expected to be connected to Bristol heat network and that the developer will work with BCC in order to realise this objective.</p> <p>A Waste Management Scheme will be submitted in accordance with respective planning condition.</p> <p>Any landscaping measures, including tree and low ground level planting may have some positive benefit for air and built-environment quality.</p>
Bristol's resilience to the effects of climate change?	Y	+ve & -ve	<p>The site's main access route is within flood zone 3.</p> <p>The proposal may increase the risk of flooding through increased impermeable surfaces.</p> <p>The proposal will increase mains water and energy consumption.</p>	<p>A full flood risk assessment will be undertaken for the project. Improvements are currently proposed to the A4 slip road to create an emergency vehicular access and service road; in addition to the main access. This access is located to the south of the site outside of the flood zone.</p> <p>The site is located in the city centre, within cycling and walking distance of many residential areas of Bristol. The design is expected to be developed to maximise water efficiency and minimise energy and resource consumption.</p>

Will the proposal impact on...	Yes/ No	+ve or -ve	If Yes...	
			Briefly describe impact	Briefly describe Mitigation measures
				With its city centre location, the Conference Facility could be included in BCC's civil contingency plans and could therefore be used in a severe public crisis situation.
Consumption of non-renewable resources?	Y	-ve	<p>In the short-term, there is potential for the consumption of fossil fuels and other non-renewable materials arising through the use of energy and materials during the construction works.</p> <p>In the long-term, there will be consumption of fossil fuels for heating and power, and also for travel to and from the site.</p>	<p>Sustainability of building materials will be considered in the design and reflected in the BREEAM assessment. The developer will be encouraged to achieve the very highest environmental standards possible.</p> <p>Reduction in consumption of non-renewable resources through on-site renewable energy generation.</p>
Production, recycling or disposal of waste	Y	-ve	<p>Waste will arise from construction works.</p> <p>Waste will arise from the normal operation of the site.</p>	A Site Waste Management Plan will be prepared to minimise the level of waste produced and maximise the amount of waste that is recycled and diverted from landfill. The plan will be submitted alongside the CEMP under the respective planning condition
The appearance of the city?	Y	+ve	The site is currently derelict / vacant and inaccessible to the public. The proposal will alter the appearance of the city, creating a new destination and public realm on a prominent gateway	A full assessment of the landscape and visual impact of the project will be undertaken as part of the Environmental Impact Assessment submitted alongside the respective planning application.

Will the proposal impact on...	Yes/ No	+ve or -ve	If Yes...	
			Briefly describe impact	Briefly describe Mitigation measures
			site in the city. Improved access and visibility of the river should be facilitated through the proposed development.	
Pollution to land, water, or air?	Y	+ve	The development is located on a brownfield site, previously occupied by a diesel depot. The proposals will help treat residual contamination.	A thorough Remediation Strategy will need to be prepared as part of the development of proposals for the site and agreed with the Environment Agency. Some useful information will exist as a result of the previous proposals for the Arena project – and this will be utilised wherever possible.
		-ve	Activities such as piling have the potential to disturb and create new pathways for the movement of residual contamination. There is a risk of hazardous materials (e.g. fuels or paints) being accidentally released during construction works. Construction works may generate mud, dust and noise. The site is adjacent to a watercourse. Once operational, the site will be connected to the sewage network. An increase in	It is expected that a CEMP will be produced and submitted in accordance with respective planning requirement. The CEMP includes detailed controls and measures for the Control Of Substances Hazardous to Health (COSHH); and for minimising and mitigating the resulting effects of construction activity, such as the generation of mud, dust and noise. During the construction phase the site(s) is expected to be registered to the Considerate Constructors Scheme. Measures for engagement with local community and stakeholders will ensure that any arising issues are quickly identified and dealt with. The site is well connected to the existing public transport network, located next to

Will the proposal impact on...	Yes/ No	+ve or -ve	If Yes...	
			Briefly describe impact	Briefly describe Mitigation measures
			traffic will potentially impact on air quality within the city.	Temple Meads train station and on multiple bus routes.
Wildlife and habitats?	Y	-ve & +ve	<p>The site is derelict and sparsely vegetated. The on-site vegetation will be cleared prior to construction. It is expected that this will be replaced with new planting as an integral part of any redevelopment scheme.</p> <p>Potential for disturbance of protected species: wild birds' nests within and on the site boundaries. No bats were recorded as roosting during the last ecological survey, however there is evidence of foraging activity, which could be impacted by the development.</p>	<p>An ecological survey has been completed for previous proposals, however this will need to be reviewed and updated in line with latest development proposal, as they become available. Retention of habitats and clearance of vegetation will be controlled through respective planning conditions.</p> <p>Landscape designs will be expected to enhance and preserve existing habitats in accordance with BCAP 22. Scrub corridors along the riverbanks will be retained.</p> <p>Works to structures or vegetation which birds use to nest on or in, will be scheduled in line with the Ecological Calendar.</p> <p>Engagement is expected to take place with the BCC Planning Nature Conservation Officer on ecological enhancement and mitigation measures in any forthcoming design</p>
Consulted with: Nicola Hares- Environmental Project Manager.				
Summary of impacts and Mitigation - <u>to go into the main Cabinet/ Council Report</u>				
<p>This proposal will create short term negative impacts from construction, and long term negative impacts from travel to and use of the development. A range of effective mitigation measures are expected to be proposed as part of the scheme development and planning permission process. This will see to address issues relating to construction, energy and travel, and ensure positive impacts will arise from bringing a currently derelict area into the public realm.</p>				

The significant impacts of this proposal are:

Short-term increase in environmental impacts are expected through the consumption of fossil fuels and raw materials in constructing the Development and pollution from potential release of residual contamination into the adjacent watercourse. Longer term, there scheme is expected to generate impacts through the on-going consumption of energy for heat and power, generation of waste and travel to the site. An increase in traffic may reduce air quality within the city.

Significant potential exists for mitigating the negative impacts of this proposal, and also for positive effects.

The proposals will also have positive impacts. The currently inaccessible and derelict site will be opened up and a new destination and public realm created on a prominent gateway site into the city. The Development may also have scope to provide an addition to BCC's civil contingency plans and will provide considerable direct local employment opportunities. Landscape design will preserve and enhance existing habitats and tailored remediation work will reduce contamination and improve the site.

The proposals are also expected to include opportunities for low carbon energy generation via connection to the Bristol heat network and have the scope to contribute towards the City's Carbon Neutral agenda

The proposals include the following measures to mitigate the impacts:

Mitigation measures will be considered throughout the design and planning process and will include a full Environmental Impact Assessment. The planning process will involve thorough consultation with internal BCC teams including transport, planning, contamination, flood risk, economic development and ecology as well as external organisations such as the Environment Agency. This consultation and engagement will be fundamental in shaping the mitigation proposed.

The site is located adjacent to Temple Meads train station and is served by multiple bus routes that link both the north and south of the city. Although scope for improvement of these services exists, this provides for significantly reduced travel impacts, maximising sustainable travel options and reducing reliance on private car use. To further mitigate air pollution and traffic congestion impacts from staff and visitor travel, a Full Travel Plan is anticipated to be developed to support the scheme.

The site is located within walking and cycling distance from numerous residential areas of the city, improving its resilience, making it less vulnerable to disruption from bad weather and accessible via sustainable means of transport from the central, south and northern areas of the city. Staff-travel to the site during construction and operation could be minimised by focusing on opportunities to maximise local employment. This may also offer scope to maximise skills and training opportunities for local residents

To mitigate the potential pollution impacts from residual diesel depot contamination on the site from entering the adjacent watercourse, a comprehensive remediation strategy will be prepared and implemented during the construction phase by the Developer subject to

BCC and Environmental Agency satisfaction. During the construction phase, it is expected that the site will be registered to the Considerate Constructors Scheme and a Construction Environment Management Plan (CEMP) produced to control other potential pollution sources such as noise and dust.

Waste generation would be managed and minimised during construction via the CEMP and during operation by a Waste Management Scheme.

To help mitigate impacts from consumption of non-renewable resources, it is expected that the site will be connected to the Bristol heat network, providing resilience to any future resource scarcity and supporting local energy centres, thus contributing towards Bristol's target to become carbon neutral by 2050.

The net effects of the proposals are: Positive: as negative impacts can be mitigated and the proposals provide multiple opportunities for positive impacts.

Checklist completed by:

Name:	John Hurlock
Dept.:	Growth and Regeneration
Extension:	74179
Date:	5 th December 2019
Verified by Environmental Performance Team	5 th December 2019 – Nicola Hares – Environmental Project Manager

Appendix G: Comments of the Chief Financial Officer

1. Context

- 1.1. The 2nd July 2019 Cabinet approved the Council entering in to a strategic partnership with Legal & General (L&G), to negotiate and agree a non-legally binding Memorandum of Understanding to support the development of proposals for Temple Island (the site). This included the conditional disposal of the site to L&G on a long leasehold basis subject to demonstrating best consideration; and to the Council entering in to an agreement for lease relating to an office building not exceeding 100,000 sq ft through the first phase of works.
- 1.2. The non-binding Heads of Terms (HoTs) has been developed following detailed dialogue and outlines the main aspects of the proposed conditional commercial transaction with L&G, with the intention that Cabinet can give appropriate consideration to the proposition and if endorsed formal contracts will be entered into with the Council and L&G. This will enable both parties to progress with their respective parts of the redevelopment with the security of having a legal agreement in place.

2. The proposition in summary

- 2.1. Below is a summary of the proposition for the site:
 - The Council to enable the site (enabling/infrastructure works) at costs not to exceed £32m (including inflation).
 - L&G to submit application for planning permission to build out development as detailed in the non-binding HoTs.
 - On successful approval of planning permission and the Council completing the enabling works, the Council will dispose of the site to L&G. This will be on a 250 year lease for the 1st Phase of 2 Phases which will give L&G the right but not an obligation to build (subject to a long stop date).
 - **Phase 1**
 - i. 2 Office blocks with the first block leased to the [REDACTED]. The second block will include a profit share element [REDACTED].
 - ii. 4 residential blocks [REDACTED] - targeting 40% affordable housing).
 - The 2nd Phase will be a development opportunity for L&G who will be granted a right of pre-emption (first refusal) to be taken up by L&G at their discretion, when the Council decides to take Phase 2 forward.
 - **Phase 2**
 - i. Hotel & Conference centre
 - ii. Additional residential block (s) (units – to be determined)

- 2.2. The latest version of the HOTS (see Appendix I.3) underpins the proposition outlined in this report and the components have been independently assessed and considered appropriate by our advisors CBRE and a Value for Money (VfM) assessment has been undertaken by KPMG.

3. VfM assessment – summary of results

- 3.1. The KPMG report (see Appendix I.2) needs to be reviewed in full in order to understand the scope of analysis (including what impacts have or have not been captured in the VfM

assessment) and caveats and assumptions to the analysis which must be taken in to account when interpreting the results.

- 3.2. VfM assessments extend beyond the economic measures and consideration of a BCR and whilst this is the focus in this section the strategic, financial, commercial case for the proposals, including the rationale for intervention and risk is covered in depth within the KPMG report.
- 3.3. The VfM economic assessment has been conducted in accordance with the principles set out in the HM Treasury green book and based on a 25 year period utilises a consistent formulation to calculate:
 - The total public sector contribution to costs.
 - The economic net present public value (NPPV) of the project (Present Value of net benefits less the Present Value of net costs).
 - The net benefit to public sector cost ratio (BCR) which reflects the benefits of a project relative to its costs.
 - The public sector cost per job calculated based on the total gross public sector expenditure against the total net additional jobs (excluding any construction jobs).
- 3.4. The outcome of the VFM assessment in economic terms is outlined in the table below.

Table 1

	Phase 1	Phase 2	25 Year Total
Total net GVA (in NPV terms)**	£633.3m	£168.0m	£801.3m
Less Public sector contribution*	£28.8m	-	£28.8m
NPPV	£604.5m	£168.0m	£772.5m
BCR	22.0 : 1		27.9: 1
The public sector cost per job**			£18,975

Note:

*public sector contribution has been adjusted to exclude inflation.

**GVA metric and cost per job excludes short term benefits attributable to the construction phase

- 3.5. Based on the scope of quantified economic impacts, it is estimated that the BCR of 27.9:1 and economic NPPV of £772.5m could be achieved over a 25 year period and should Phase 2 not be progressed a BCR of 22.0:1 and NPPV of £604.5m could be attributed to Phase 1.
- 3.6. KPMG conducted sensitivity analysis on the scale of the overall variation in costs and benefits required to materially impact on the BCR, which indicated that costs would need to increase 27 fold or benefits would need to decrease by 96.4% to erode the benefits to the economy of this proposition.
- 3.7. The social and environmental impacts for Bristol also need to be taken in to account to reflect the wider aspects of the project and further details in this regard are outlined in the Social Value section (9) of this report.

The high and positive BCR for Phase 1 and 2 indicates that subject to the development proceeding as planned, the benefits to the wider economy considerably outweigh the public sector cost of enabling the proposed development.

- 3.8. Further consideration is given to the financial implications for the Council in the remainder of this report.

4. Land disposal for redevelopment

4.1. The nature of the proposition considered has been categorised as a conditional sale of a long leasehold interest for redevelopment and partial leaseback. While L&G are under no obligation to redevelop the site, they have indicated that should they proceed with the development; the land will only be acquired after the Council have enabled the site and L&G have successfully applied and obtained planning permission.

Enabling Works

4.2. The public sector should ideally only intervene when there is a market failure and when intervention will lead to an improvement or greater efficiency. The site has been vacant for over 20 years and was acquired from Homes England in 2015, with an understanding that it was contamination-free. It was identified during previous land investigations that some contamination still exists and the site requires remediation works to be undertaken as well as some works to ensure that the site is accessible. To carry out these works require upfront cost and risk which may impact the commercial viability of private sector developments on the site.

4.3. Given the challenges and constraints on the site public sector intervention is required to enable the development of the area as outlined in this proposition. [REDACTED]

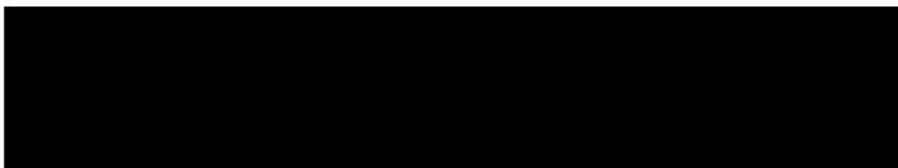
[REDACTED]

[REDACTED] It will be necessary for the Council to facilitate the completion of these works and secure the necessary funding. The Council's liability in relation to the enabling works is capped at £32.0m (subject to inflation) and the legal agreements will outline the obligations of both parties in seeking to ensure that these costs are contained within this cost envelope for example via value engineering. The Council will have no obligation to increase the funding and no provision has been made in this assessment to do so. [REDACTED]

[REDACTED]

4.5. The high level costing is summarised in table 2 below and it should be noted that approx. £0.5m of this expenditure has already been committed at risk.

Table 2



4.6. The works and costs are based on work undertaken by AECOM (Council's technical advisors) however, details of these may change as the plans for the site are progressed and works tendered. The VfM demonstrates that a positive BCR could be delivered from this enabling investment.

4.7. Of the £32m, £2.0m funding will need to be draw down in 2020 at risk, to enable the Council to continue to progress the legal agreements and commence delivery of the Council's obligations prior to receiving formal agreement of the funding source. This is in addition to £0.5m approved by Cabinet in July and is broken down in the Table 3 below. If endorsed this will need to be temporarily funded from the capital contingency, recognising some risk of reversion if this scheme does not proceed and the risks that utilisation of the capital contingency could reduce the flexibility to deal with financial risks associated with other schemes and new pressures that require capital investment during the medium term. The

[REDACTED]

4.13. The actual level of EDF available is dependent on the overall business rate growth across the sub-region's Enterprise Areas and Enterprise Zone, being in line with original modelling assumptions, which is estimated to deliver £500m additional business rates over a period of 25 years (from 2014 until 2039). So far, business rate growth across the sub region has been below original model assumptions (which are underwritten by each unitary authority), as key schemes have not been completed in line with original plans. If this continues into the future, it will see an adverse impact on the level of EDF available for programmes that have not yet received final approval.

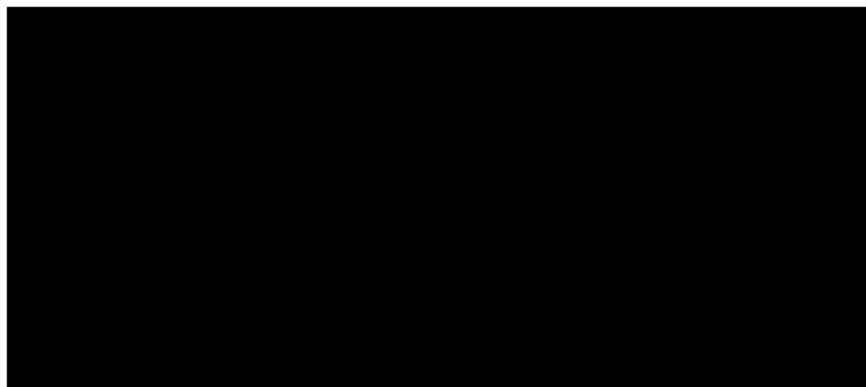
Submission of a new business case to the WOE LEP for decision a by the Joint Committee to approve the substitution of £32.0m to facilitate the enabling works, [REDACTED]

Land Premium

4.14. The premium to be paid for the land will be underpinned by a 'Red Book' valuation once the Phase 1 conditions have been satisfied and providing an opportunity for the Council to benefit from a capital receipt from the disposal of the site. The current estimates of the land valuation received from CBRE indicated a value in alternative use of [REDACTED] (Phase 1 only) after allowing for special purchasing assumptions. This equates to [REDACTED] per acre. The site wide public realm cost of [REDACTED], which are standard residual value deductions result in the indicative net land premium of [REDACTED] for the Phase 1 site. This should be considered guidance only and is not intended as a formal valuation. The actual future land premium when received is expected to contribute to the Council's capital receipt target which underpins the delivery of the Medium Term Financial Plan (MTFP) and as such is not assumed in offsetting any additional costs that may be associated in delivering this specific proposal.

4.15. There have been a limited number of land sales in the area over the last few years but those that we have been made aware of (source: CBRE) are outlined in the table below and are illustrative of the level of land values being realised. As evidenced values north of [REDACTED] per acre has been achieved and the adjacent land for the University of Bristol campus being a case in point. Whilst it is recognised that these are fundamentally different schemes, subject to different economic and environmental conditions and requiring varying degrees of public sector investment; in the absence of market testing they provide a broad comparator prior to the adjustment for the assumptions that the we have taken account of in this scheme.

Table 5



- 4.16. The assumptions that have been made by our property team working in conjunction with CBRE and L&G advisers are outlined in Appendix I.5 CBRE Letter (unredacted). This approach is considered by the lead professionals to deliver better than open market deliverables at the stage prior to planning consent being granted and enabling works being undertaken. Once the above are known, the future (approximately two years' time) valuation in accordance with S233 will then take account of the prevailing market conditions at that date.
- 4.17. The L&G financial model collates the financial input data e.g. development cost, rent payments and funding yield for each of the propositions, which generates a residual land value attributed to land payment (capital receipt) for Phase 1. This methodology contains variable components which could result in a materially different value / cost +/- the figure above and the most significant is L&G's funding yield.

Yield sensitivity - impact on land value

- 4.18. The % Yield assumed in the investment valuation will have a significant impact on the residual land value and the potential capital receipt. Table 6 below provides a demonstration of how lower yield results in a high land value and vice versa and for illustration purposes assumes all other variables remain unchanged.

Table 6



- 4.19. The analysis shows that a subtle change of 0.25% has a significant impact on the residual land value. The variation ranges from [redacted] resulting in indicative residual land values of between [redacted] and [redacted]. It is worth noting that while this analysis has only focused on Office block 1, the yield assumed in Office Block 2 and other Residential blocks are up to [redacted]. Yields depend on many bespoke project issues and this is a large risky non consented project which needs highlighting against those that are far more certain, less risky, smaller and consented. These 'unknown' areas of this proposition could result in valuations for subsequent plots being materially diminished.
- 4.20. If the land valuation is reduced to take account of matters such as L&G building infrastructure that will service Phase 1 and 2 (which brings a higher risk) or a higher than policy compliance level of affordable homes ([redacted]) being offered then the Council should explore further the inclusion of an overage clause in the HOTs / legal agreement securing the rights to a share of any uplift above the agreed values and capture further value through future transactions.
- 4.21. Homes England has an overage provision on the land with rights that flow from the benefits and a time limited option regarding bringing forward the development. Due to the scale of enabling works that will be required on the site, this would create a negative land value and as such no allowance has been made in the model for a payment from the Council in association with this obligation. It is anticipated that this will be resolved prior to grant of lease to L&G, [redacted]
- 4.22. [redacted]

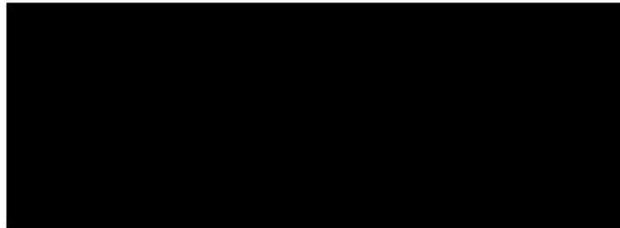
Although the principles upon which the deal is intended to be transacted on are broadly agreed, there are various elements that need further negotiations between now and legal agreements to finalise the deal to which those assigned with delegated authority can sign-off.

5. Phase 1

Office Block 1

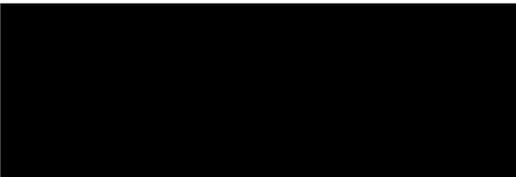
- 5.1. It is anticipated that L&G will take up the opportunity to deliver the office block scheme, as specified in the HOT's and the Council will take on the head lease for the office building, with the intention of subletting it to a commercial occupier. This approach is intended to de-risk the project for L&G and provides proof of concept to incentivise the progression of the residual developments.
- 5.2. No certified build cost / cost estimate or formal cost plans are available from L&G at this stage in the process for office block 1. However following discussions with L&G early indicative development costs have been produced by our valuation consultants CBRE and a draft financial model produced that can generate a target rent for the block, ROI from L &G's target Yield and the Councils potential letting income from the sub lease.
- 5.3. The total development cost for office block 1 as outlined in table 7 below, is estimated to be [REDACTED] (including land acquisition).

Table 7

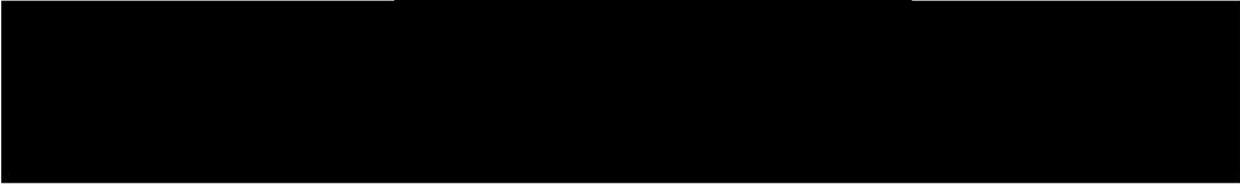


- 5.4. [REDACTED]
- 5.5. The market rent for office block 1 sublease is expected to be [REDACTED] which the council is advised is in line with current prevailing market conditions. Based on a 100,000 sq. ft the potential rental profit for the Council (excluding voids & rent-free periods) is estimated to be [REDACTED] per annum (on a fully let building) at 2020 prices. Assuming voids and rent free periods of up to 12 of the 40 years lease period, the total rent will equal [REDACTED] (before inflation and other revenue expenditure).
- 5.6. Based on the initial yield of [REDACTED] as outlined above, the development Yield% (on Rent) which will be payable by the Council is [REDACTED]. This can be compared to [REDACTED] current external PWLB (the UK Municipal Bonds Agency established to provide an alternative funding vehicle for UK local authorities are expected to have even lower rates) and [REDACTED] capital market rates where the Council to self-fund office block 1 for a period of 40 years. The Council should consider this variant, risk transfer to L&G, delivery skills and capacity when considering the final position.
- 5.7. The table below demonstrates the impact on the residual value calculation for the land, for each £1 by which the rental value were to increase:

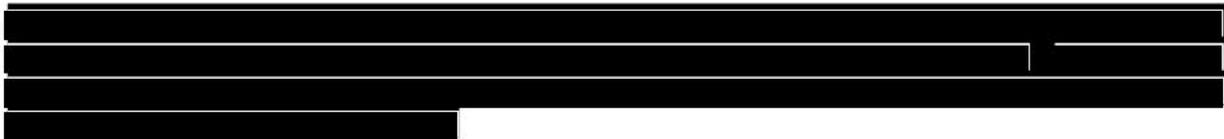
Table 8



5.8.



5.11.

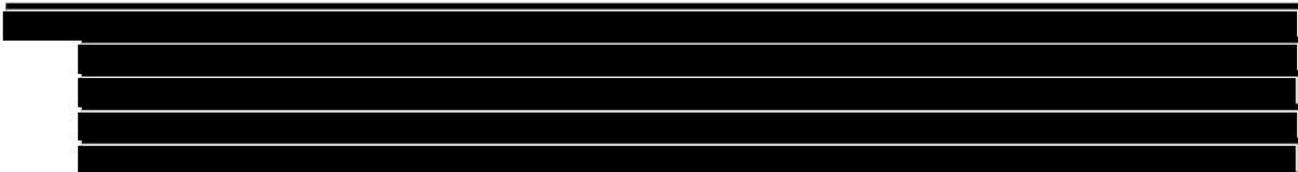


5.12. The approach proposed will render the Council liable for tax and a separate review will need to be undertaken of potential VAT and other tax implications of the scheme. The working assumption previously was that the scheme would not have additional VAT / SDLT implications for the Council however as plans have progressed the position has changed and tax advice will need to be sought prior to concluding the legal agreements.

5.13. Further modelling will continue as the schemes progress to test the sensitivities as these models develop.

Prior to the Legal agreement (Lease agreement) being entered into, we will ensure that the Councils obligations / preconditions are addressed, remain state aid compliant, tax efficient and does not materially change the calculated BCR.

Office Block 2 and Residential Plots



[REDACTED]

- 5.15. Phase 1 is intended to include up to [REDACTED] units, 40% affordable with the exception that the specific levels of social rent and shared ownership can be agreed with the Council's Housing Team.

The maturity of the propositions and the availability of data, presents a challenge in undertaking a detailed financial assessments on Office Block 2 and the Residential units. This will improve over time and as such the proposal should be considered an evolving / iterative proposition, which will be regularly refreshed in line with the development as they progresses through the various stages within this process and should be subject to appropriate technical, legal and financial due diligence in terms of viability, deliverability, affordability, state aid and best consideration

6. Phase 2

- 6.1. [REDACTED]
[REDACTED] Phase 2 will consists of a conference centre, Hotel and another residential block. It is anticipated that this phase will commence within 5 years of Phase 1 and that L&G will work with the Council to develop the remaining land.

[REDACTED]

There is greater uncertainty attached to the Phase 2 development. The Council will work with L&G on timescales to suit both parties, but will retain the right to be free to decide on timing so the Council has more control over when Phase 2 can be brought forward.

7. Council Revenue Funds

- 7.1. As outlined in the VfM review the proposal carries the potential for additional business rates of some £0.840m per annum, £21m over the 25 year period (subject to there being no changes in the business rates reforms) and as part of the pooling arrangement 50% of the business rates generated would be transferred to finance the EDF pool, 49% c.£0.411m / £10.3m (25 years) would be retained by the Council and considered additional base revenue and 1% the Fire Authority.
- 7.2. In addition to the above the scheme also incorporates residential units which subject to occupancy will attract Council Tax. On the assumption that all the dwellings are Band A, are rated for the full financial year with no students, the Band D equivalents have been calculated for new homes. The figure has been reduced by 25% to take into account any discounts, exemptions and Council Tax Support Scheme on new properties and 1.5% loss on collection. It is estimated that the full year effect based on indicative 2020 rates (Bristol

element only) once all units are fully completed would be £0.346m per annum c.£5.3m over the 25 year period in additional base revenue to the Council.

Table 9

Business Rates		Council Tax	
	25 Year Total £m		25 Year Total £m
Phase 1 - Operation	£14.70	Phase 1 - Residential Unit	400
Phase 2 - Operation	£6.30	Phase 2 - Residential Unit	TBC
Total	£21.00	Total	400
		Band D - equivalent	250
NPV Retained @ 49%	£10.29	NPV @ 2020 Rate	£5.25

- 7.3. The scheme also has the potential to deliver additional Community Infrastructure Levy (CIL) which is estimated at £1.9m for Phase 1. It also has potential to generate CIL for phase 2 also additional New Homes Bonus grant (noting the current arrangements are subject to change) which at this stage cannot be quantified.

It is anticipated additional annual base revenue resulting from business rates and council tax of £0.757m (£15.5 over 25 years) will be generated to support the delivery of core services to the development, contribute to the wider sustainability of council services and further CIL of £1.9m to support future infrastructure delivery.

8. Termination Provision

- 8.1. A number of Pre conditions are outlined in the HOTs which have financial implications not fully articulated or costed. Until the point that these pre-conditions are met, there is a possibility that the deal will not progress. Any legal agreement will contain provisions that allow either party to withdraw from this proposition.

[Redacted text block]

[Redacted text block]

9. Social Value

- 9.1. There is a recognition that the social and environmental impact for Bristol also needs to be taken in to account to reflect wider aspects of the project. As a public body it is expected that delivery partners and supply chain seek to promote or improve economic, social and environmental well-being of the area. The Council has a Social Value policy which has adopted the social value definition as set out by the UK Sustainable Procurement Taskforce.

Definition:

“A process whereby organisations meet their needs for good, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not

only to the organisation, but also to society and economy, whilst minimising damage to the environment”

- 9.2. Organisations working in collaboration with the Council and our communities should seek to measure their social value impact in Bristol and report it annually. A new toolkit has been launched to help organisations in identify the priority areas and quantify the positive impact they are having in the city.
- 9.3. We recognise that this proposition may not be sufficiently well developed, to enable the social value offer being made to be clearly articulated and the potential assessed. A joint commitment should be made by the Council and L&G to optimise local social value in not only the enabling works which will be led by the Council but construction and ongoing operation of the development and targeting the generation of Social Value to that which will connect with need and demand in the city. The toolkit can also be used and re-used at a later date to check whether improvements have been made in the Social Value being generated and double counting of economic impacts avoided and / or where identified removed from the analysis.

Consider:

Referencing in the HOTs the Council’s Social Value Policy and recognising the need to measure the additional social value generated via the toolkit. The subsequent legal document should outline the commitment to targeting the generation of social value to that which will connect with need and demand in the city with the impact of the social value being generated annually measured.

10. Risk and Uncertainty

- 10.1. Even with robust assumptions, there will still generally be risks to consider and there will be uncertainty over the range of possible outcomes. A distinction may be drawn between a risk which is measurable and has a known or estimated probability (to which contingencies can then be applied), and an uncertainty which is more vague and of unknown probability. The Council has compiled a register of all known risks. It has also estimated the monetary value of all risks with a Red RAG status (where possible) and these have been used by KPMG in the VFM appraisals (See Appendix)
- 10.2. It is impossible to guarantee precision in BCR calculations given the scale of variable factors and contingencies affecting costs or benefits in the near and long term. Risk adjustments have been carried out on these assessments, although if more accurate information becomes available, this should be refreshed.
- 10.3. Any public sector investment will need to be constrained to public realm infrastructure and avoid incurring any expenditure which could be at risk of not being compliant with State Aid regulations. Current advice received from Legal experts is that the current proposal to fund enabling works is State Aid compliant, although this position is under constant review.
- 10.4. All other financial assumptions remain the same as reflected in the KPMG VFM report appended separately

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