

Cabinet

Supplementary Information



Date: Tuesday, 24 January 2023

Time: 4.00 pm

Venue: The Council Chamber - City Hall, College Green, Bristol, BS1 5TR

11. Bristol Beacon Update

(Pages 2 - 143)

Issued by: Sam Wilcock, Democratic Services
City Hall, Bristol, BS1 9NE

E-mail: democratic.services@bristol.gov.uk

Date: Tuesday, 17 January 2023



Bristol Beacon – Impact of external influences including inflation on the project cost

Revised 4 January 2023

This report has been prepared to summarise the effect that the unprecedented global situation has had on the predicted outturn cost of the Bristol Beacon project following agreement of the Deed of Variation with Willmott Dixon in March 2021 and the resetting of the project budget at this point in time.

The report has concentrated on both the effects of inflation which has significantly impacted the overall cost movement on the project but also the supply chain difficulties which have been experienced with both deliveries of materials and labour shortages which have led to compensation events under the building contract which give cost entitlement to the contractor.

We have at the conclusion of the report categorised the overall movement of the project costs into six categories which demonstrate the significant effect of inflationary movements but highlight that the discovery of further problems with the existing structure and the resulting delays that these caused has been the most significant factor in the overall cost increase of the project.

Inflationary movement

Under the form of Contract being utilised for the works the contractor (Willmott Dixon) is responsible for the risk of inflationary cost increases on the elements of works for which a fixed price is agreed.

However if there are variations to the contract or provisional items within the budget the contractor is able to be recompensed for the actual cost incurred and therefore recovers the effects of inflation.

Inflation rates within construction vary from the normal “Retail Price Index” and are a product of both actual material and labour cost increases but also overall market buoyancy so when there is a high volume of projects contractors are able to include higher levels of profit within their bids.

All major cost consultants (Quantity Surveyors) such as AECOM make predictions on overall year on year tender price movements but independently summaries of movement and future predictions are made by the BCIS (Building Cost Information Services) who are a subsidiary of the Royal Institution of Chartered Surveyors.

At the time of negotiating the DOV with Willmott Dixon the anticipated duration of the remaining works was approximately 2 years. This covered the period from April 2021 through to completion in April 2023. As noted above the Contractor took on board the risk on the fixed elements of work during that period however within the DOV sum was an element of “provisional priced work” valued at £5.7m. The cost estimates of the expected cost of this element of work were made by AECOM and included allowance for the industry expected inflationary movement during the period of the works.

The Predicted and actual inflationary movements published by the BCIS were as follows:

- View at Spring 2021 – to April 2023 = **6.91%**
- Revised view September 2023 for period from Spring 21 to April 23 = **22.27%**

This view factors in actual inflation experienced during this period calculated by a review of materials costs and benchmarking of tender price movements across the UK.

- Therefore the movement over predicted was 15.36%

The current overall increase in the Willmott Dixon element of the works is £10,203,000

In addition to this £5,700,000 worth of provisional sum items have been let.

This is a combined value of £15,903,000

All of the costs include for inflation.

By inference the amount of excess inflation included within the predicted construction cost is 15.36% of £15,903,000

The cost increase in the Willmott Dixon element of the budget is equivalent to £2,442,000.

The inflationary costs similarly have impacted the risk items on WD, additional fees, professional costs and other direct appointments and contracts included under the headings for both BCC and Bristol Music Trust Direct costs. For simplicity these have been calculated as 15.36% of the additional sums expended.

Finally as the project is requesting additional funding an application has been recommended for additional risk and contingency provision. By reference to the above issues the sum calculated is by inference 15.36% larger than it would have been otherwise.

Therefore the proportion of increased costs expended and requested on the Bristol Beacon project due to inflation is:

| | |
|---|-------------------|
| Willmott Dixon Construction Contract element plus risk allowances | £2,442,000 |
| Bristol City Council Direct Costs (Fees and services etc.) | £908,000 |
| BMT Direct Costs | £64,000 |
| Proportion of additional Risk & Contingencies | <u>£506,000</u> |
| Total value of excess inflation | £3,920,000 |

Related Supply Chain delays and other market conditions

In addition to the direct inflationary costs increases suffered by the project which were not anticipated at time of DoV the Global situation has also had other impacts which have led to increased costs within the project which were not foreseen. As a value these are less substantial but have manifested themselves in needing to find alternative materials due to global shortages, expending money on storage costs in order to secure materials for the project and hence avoid delays to completion.

The total additional costs attributable to these items is estimated at **£676,000**.

Existing structure and Fabric issues not foreseen at the time of the DoV and resultant prolongation costs

Although inflation and the global economy issues have caused substantial movement on costs on the project the key driver for cost increases have been discoveries over and above that envisaged on the existing fabric and structure.

The key reasons for these increases are discussed in Appendix 2.

Due to the amount of change resulting from the existing structure and fabric it was also not possible to deliver the project by the contractual completion date of 18 April 2023 and the Contractor has been granted additional time to complete the works. This also entitles the contractor to additional costs for prolongation, Similarly this also necessitates extending the duration of the consultants and professional services teams and hence incurs substantial additional costs.

Additional costs against these categories are estimated at:

Structure and Fabric issues: **£2,661,000**

Prolongation costs: **£5,004,000**

Compressed programme

As a result of the delays and the necessity to re-open the building as near to 28 September 2023 as possible a number of mitigation measures have been put in place to give greater certainty over completion.

The costs of these measures are currently estimated at **£1,658,000**.

The overall movement against the above categories is tabulated in the table below:

| <i>Bristol Beacon Proposed Revised Budget and Reasons for movement in cost 4 January '23</i> | DOV Apr 21 | <i>Option 1</i> | <i>Movement from DoV Apr '21</i> | <i>Reasons for movement since DoV</i> | | | | | | |
|---|--------------|------------------------|----------------------------------|--|---|--|---|--|---|------------|
| | DOV position | 30 Sept '23 opening | | Existing structure and fabric issues not foreseen at time of DoV | Prolongation costs - EoT - resulting from existing structure issues | Compressed programme & operational start up cost (mitigation of delay) | Inflation costs over above allowed at time of DoV | Other External Factors - Market Conditions, Supply Chain | Other variations previously intended to be set against risk and contingency | Total |
| Total including risk allowances to pre-opening end Nov '23 | 106,900,000 | 131,895,000 | 24,995,000 | 2,661,000 | 10,174,000 | 1,658,000 | 3,920,000 | 676,000 | 5,906,000 | 24,995,000 |

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Bristol Beacon



Appendix 2

Technical Report

John Betty

Project Director

30 November 2022

Version C



Post DoV Impact of Delays on Construction Programme

1. Introduction

This Appendix describes the issues which have impacted the Bristol Beacon construction programme since the execution of the DoV in April 2021 and which have, to date, resulted in the contract Completion date moving from April 2023 to August 2023.

This Appendix summarises the chronology of events and their impact on the programme and also provides technical details and commentary from the Structural designers.

2. Project Manager’s Summary

Since execution of the DoV in April 2021 numerous problems relating to the existing building structure (“discovery items”) have required rectification. As the risk in such items was retained as Employer’s Risk at DoV, the associated works have been instructed to the Contractor.

Three significant discovery items in particular have impacted the programme, summarised in the table below:

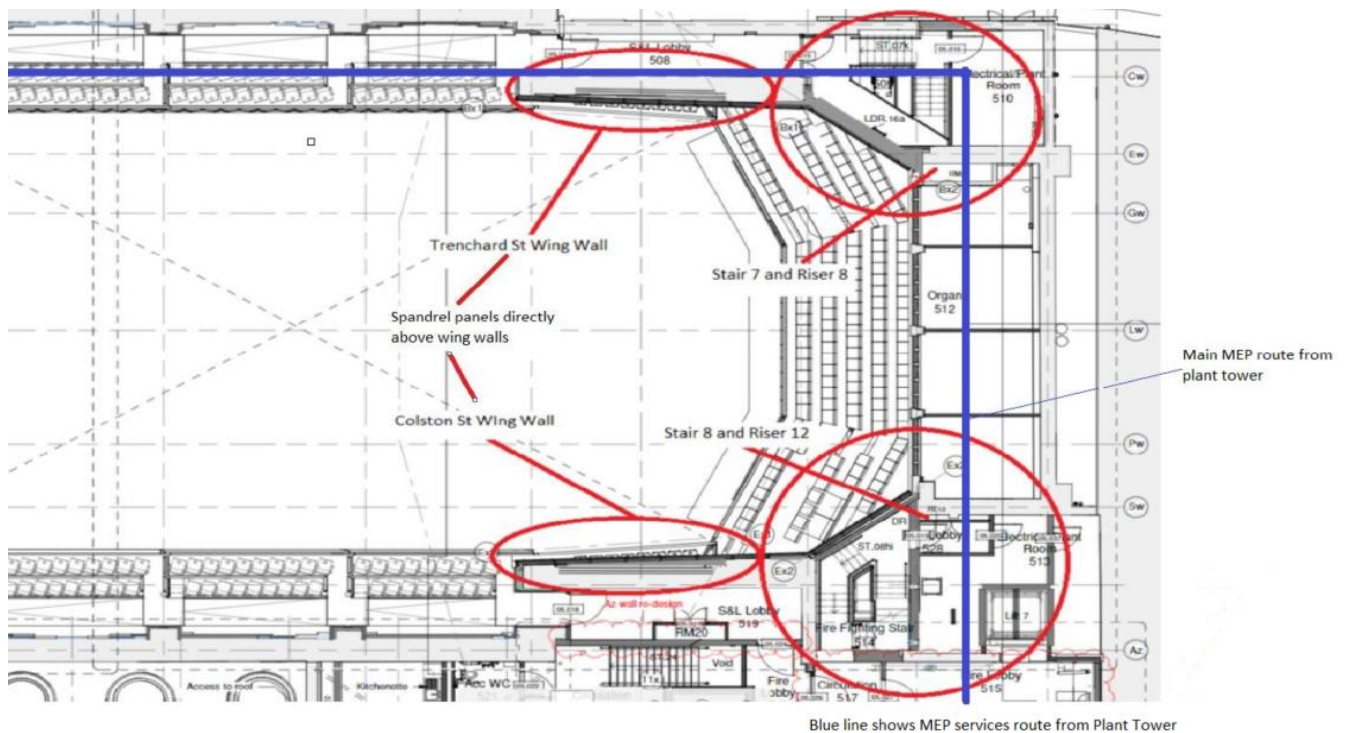
| | Element | Event / delay | Known risk at DoV | Impact on critical path |
|---|---|--|--|---|
| 1 | Wing walls steel frames | <p>Detailing of bolting connections / fabrication details post-DoV</p> <p>Poor condition of masonry condition at base of south pier became apparent following demolition / cutting operations in preparation for steel frame</p> <p>Void under north wing wall was not apparent from building surveys and was discovered during advanced stages of demolition / preparation for wing wall steels</p> | <p>Wing wall steel ‘goal post’ frame drawings were issued at DoV, however the Contractor was not prepared to price this new information at that point</p> <p>Existing condition was not apparent from building surveys. Unknown until masonry pier was cut back in preparation for steel beam</p> <p>Refer to Structural Engineers’ Wing Wall Steelwork commentary section below</p> | <p>Delay to installation of stage end roof trusses and “practically watertight” milestone</p> <p>Consequential impact on riser construction and electrical (bus bar and cable) installation</p> |
| 2 | Spandrel panel high level over wing walls | <p>Spandrel panels located at high level could not be saw cut during removal as required by demolition design. Alternative support, hand demolition and re-build was required</p> | <p>Make-up and condition of spandrel panels was not known to Employer’s design team or Contractor. No intrusive surveys on spandrel panels had been</p> | <p>Delay to installation of roof trusses and “practically watertight” milestone</p> <p>Consequential impact on riser construction</p> |

| | | | | |
|---|--|--|--|--|
| | | | undertaken prior to discovery Refer to Structural Engineers' Spandrel Panels commentary section below | and electrical (bus bar and cable) installation |
| 3 | Stair 7 existing structure condition and padstones | Additional steels required to support construction of demolition and reconstruction of stair 7 | Not apparent until the extensive demolition required for remodelling of stair 7. Issues discovered at high level were previously inaccessible Refer to Structural Engineers' Stair 7 commentary section below | Delay to completion of roof trusses and "practically watertight" milestone Consequential impact on riser 8 construction and electrical (bus bar) and containment installation Impact on start of electrical wiring from plant tower through key risers |

The discovery items described above had a particularly large impact on the critical path for the programme agreed at DoV due to the following reasons: -

- Steelwork Requirement – All 3 elements required large amounts of additional bespoke steelwork to precise measurements. Due to them being discovery items, the Contractor was not able to book predetermined fabrication spots and was at the mercy of the availability of both material and fabrication of their supply chain, which was under huge pressure at the time
- Location of Discoveries – All 3 elements (particularly on the Trenchard St side) prevented the completion of riser RE08, which is one of the main electrical services 'arteries' from the plant tower through to the rest of the building and vital to completion. Discovery at the foyer end of the building would have had much less of a significant impact
- Point in Programme – At point of discovery the Contractor was nearing the completion of the roof structure and these elements prevented the achievement of the "practically watertight" milestone.

These events resulted in the change from DoV programme Completion in April 2023 to the current forecast Completion in August 2023.



In addition to the main discovery events identified in the table above, the structural engineers' wider building perspective in Section 5 below highlights a number of significant structural issues discovered within the building which also required rectification.

These events resulted in an unusually high number of Project Manager's Instructions being issued to the Contractor and, although not all of them were on the critical path, this sheer volume of additional work impacted on the progress of the construction.

3. Chronology Relating to Delay Events 1-3 and Contract Notifications

| | |
|------------|--|
| 20/04/2021 | Compensation Event instructed to the Contractor with associated drawings: amendments to wing wall strengthening steelwork |
| 05/05/2021 | Compensation Events instructed to the Contractor with associated drawings. North wing wall masonry support - As discussed and agreed on site on the 04/05/21, the Contractor was instructed to price and proceed with the works outlined in SK-S-2129 - which details the additional masonry required to support the steel frame |
| 02/06/2021 | Discovery of loose material at the base of wing wall masonry piers. Following the Contractor's discovery, site visit by the structural designer |
| 27/06/2021 | Compensation Event instructed to the Contractor. Northern wing wall flue remedial solution |
| 14/07/2021 | First wing wall re-designed steel section arrives on site |

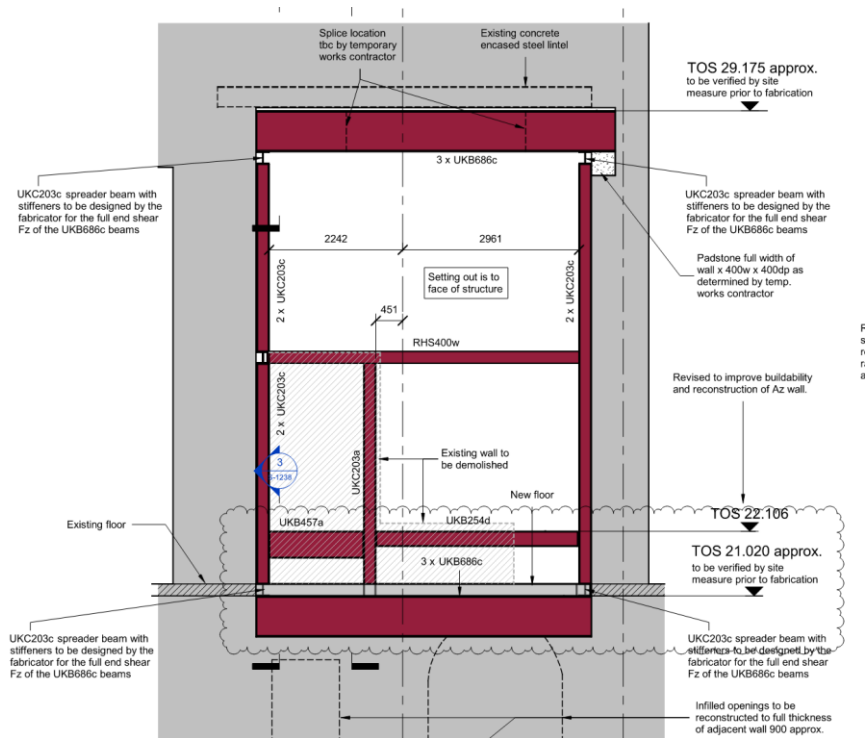
| | |
|------------|--|
| 04/08/2021 | Early Warning Notice issued by the Contractor relating to spandrel panel discovery. The Contractor noted the presence of two masonry panels and, as a result, the proposed vertical saw cut to the supporting columns could not proceed because it would have lead to an unsafe condition. |
| 08/09/2021 | Compensation Event instructed to the Contractor. Southern wing wall spandrel panel bracketry |
| 10/09/2021 | Compensation Event instructed to the Contractor. Northern wing wall spandrel panel bracketry |
| 04/03/2022 | Early Warning Notice issued by the Contractor relating to stair 7 padstones in which the Contractor noted concerns regarding structural stability of existing masonry directly below the main roof truss on a significant load path. Works could not progress until works to achieve permanent stability in adjacent structure had been completed. |
| 17/03/2022 | Compensation Event instructed steelwork to resolve Stair 7 high level pads without existing masonry support |
| 11/05/2022 | Compensation Event instructed Stair 7 amendments to interface with existing masonry at junction of GLs 06x and Cw |

4. Structural Engineers' perspective on delay events

The information noted below provides details of the ongoing discovery items and further increased costs and programme prolongation associated with structural issues discovered since the Deed of Variation in February 2022.

4.1 Wing Wall Steelwork

The structural designer's drawing DR-S-1238 which provides elevations of both Trenchard St and Colston St Walls and associated sections 1267. 1238 was last issued as Rev C04 on 21/08/20 and the structural elements shown therein are what has been built.



Extract from DR-S-1238

The new Wing Wall steelwork frames support a significant load of masonry above and also supports the new roof trusses over the stage. The existing openings had to be enlarged, both horizontally and vertically. The main construction issues were related to the complex temporary works (as explained in the next section).

During cutting back of the masonry to install the steelwork, the Contractor identified what it considered was a weaker band of random stone masonry below stage level on the Colston St side. The Contractor had concerns about this rubbly masonry as it was located directly underneath a highly loaded pier. Whilst ultimately remedial works to this rubbly material were not required, checks had to be made.

An additional splice connection in the steelwork was also introduced to facilitate installation of the steelwork.

On the Trenchard St side, the cutting of the masonry arches to form the opening for the stage lift revealed the bottom of a previously unknown flue. In particular, the vertical route of the flue was not known but it was considered likely to pass underneath a highly stressed, masonry pier of the Wing Wall. It was therefore considered important to trace the flue and grout it up to ensure the support to the existing pier was sound and adequate. Tracing the flue proved difficult due the presence of a large cobble blocking the tracing rods at a bend. Attempts to dislodge the cobble were unsuccessful. Horizontal cores to locate the flue/dislodge cobble were drilled but were unsuccessful. A series of vertical small pilot holes were drilled around the base of the masonry pier and water was poured down each one. One pilot hole was found to connect with the flue. This allowed the flue to be pressure grouted so as to ensure all voids under the masonry pier were fully filled.

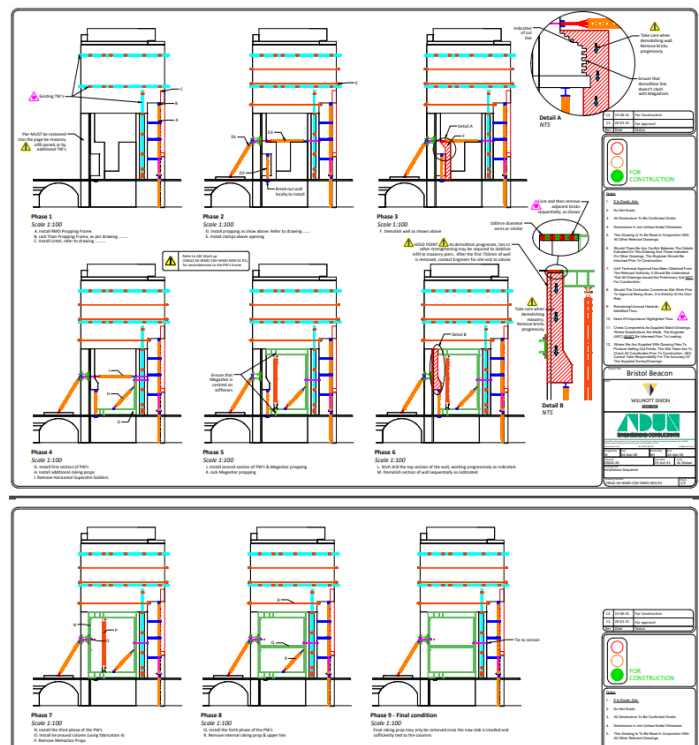
4.1.1 Temporary works perspective

The initial proposal was to incorporate two columns per side within the required aperture, meaning that, when the loads were applied, each column had to withstand a factored axial loading of 1200kN x 2 (240 Tons). This was a significant design challenge and for it to be successful the sequence of works was paramount.

Due to the slender nature of the columns and incoming steelwork the points of connection required significant strengthening and this was achieved with heavy wrap around plated bracketry placed at three levels per side.

In order to avoid collapse whilst carrying out these works a strict methodology had to be followed. However, when the works began on the Trenchard St side, the chimney flue was discovered. Works could not continue until the investigation and subsequent remediation works to the flue were carried out.

The drawing below illustrates the complexity of the Contractor's construction sequence for the revised wing wall steelwork installation (including temporary works).



4.2 Wing Wall Spandrel Panels

On the Trenchard St side, access had been difficult due to the extensive temporary works and rebuilding of the masonry around Stair 7. Once access was afforded in July 2021, it was observed that the lintels supporting a spandrel panel of masonry between the wing wall pier and the external walls were corroded. Access also allowed the Contractor to review its methodology and sequence and it was observed that the masonry panel obstructed the cutting of the masonry back to the correct line. The spandrel panel tied the masonry pier to the external wall and its removal required temporary works to replace the restraint which would be lost when the panel was removed.

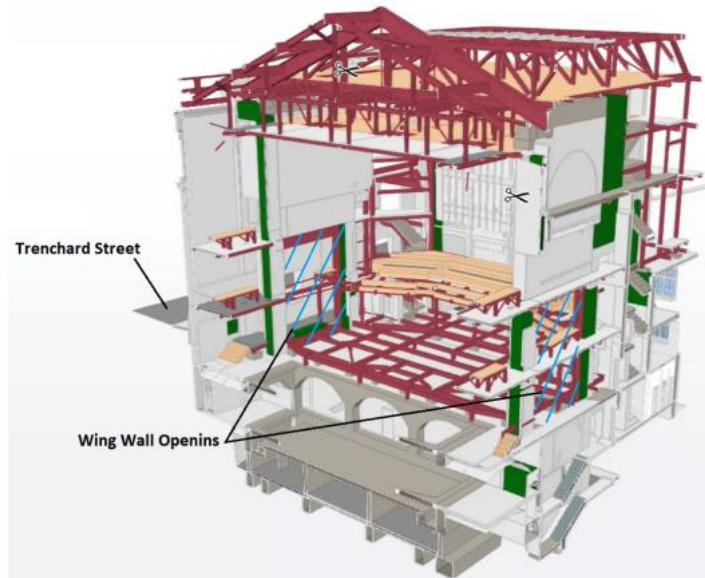
Whilst lintels on the Colston St side were found to be in reasonable condition, the spandrel panel once again clashed with the cut line for the enlarged opening and a similar detail to the Trenchard St side was adopted which resulted in the temporary removal of the spandrel panel and the need for temporary works to maintain restraint.

4.2.1 Temporary works perspective

To accord with the Architect's design intent, two openings through the spandrel were required to pass from the side balconies to back of house. The associated demolition cut was required directly to the rear of the Masonry Columns referred to above.

With the intricacy of adjacent Wing Wall works and the safety issues surrounding anything directly attached thereto, a normal demolition could not be considered.

To achieve the end goal, a revised design required steelwork to be wall mounted within an existing aperture below and to provide lateral restraint to the rear of the Wing Wall Column, before the required opening was formed.

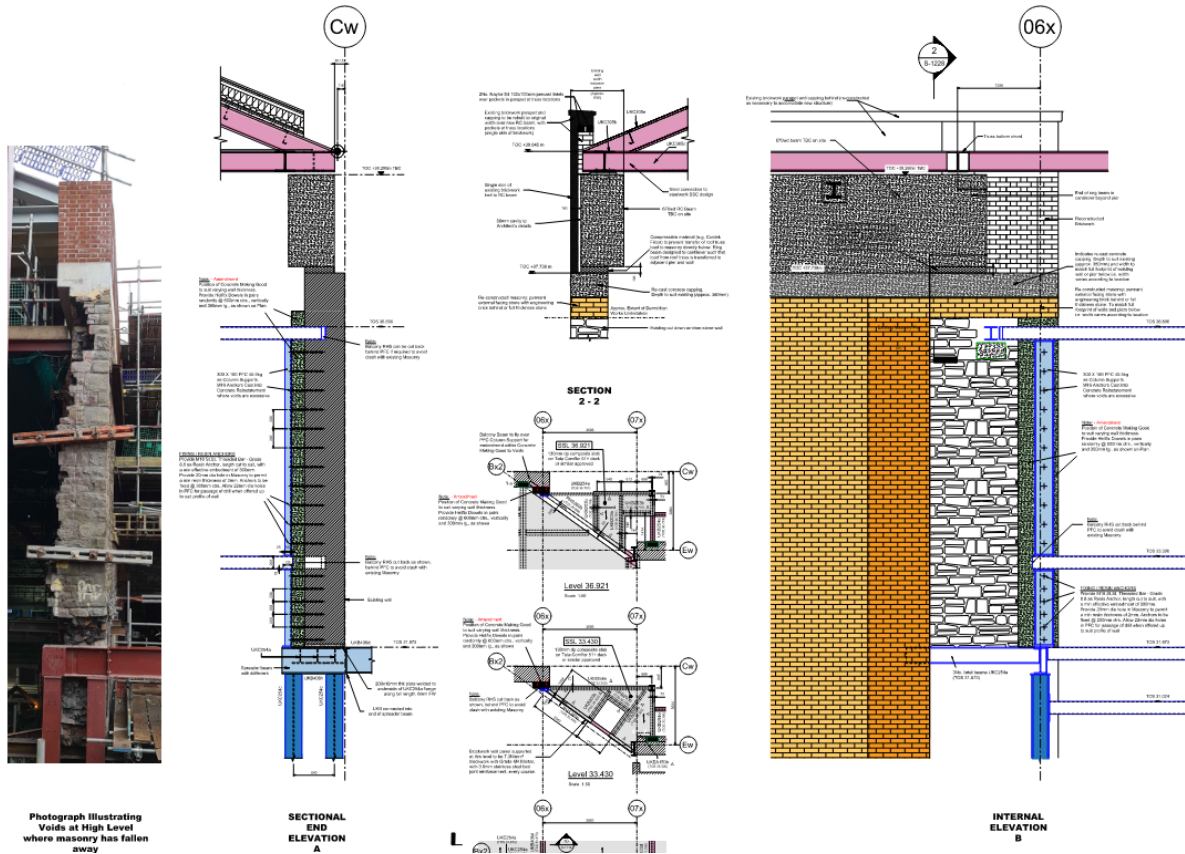


4.3 Stair 7

The main alterations to Stair 7 are associated with an Early Warning Notice, issued on 04/03/22, which stated *“While attempting to form the padstone at GL Aw/06x on level 6, it became apparent that the existing stone, rubble infilled wall, was unstable. To avoid collapse we immediately removed the unstable elements. Following completion of the padstone and concrete of steel this element will require rebuilding by specialist due to the conservation element of this façade”*.

A visit to site concluded that the wall required stabilising by the addition of steelwork, bolted into the face of the masonry. Works to this area were stopped and temporary measures were put in place to ensure the temporary stability of the wall until the permanent steelwork strengthening details were issued, fabricated and installed.

The review of the Contractor’s structural engineer’s structural proposals issued on 15/03/22, was subsequently re-badged and issued to the PMO on 16/03/22 as the structural designer’s drawing S-1641C01. S-1641C02 was issued on 13/05/22 and included minor amendments – including concrete making good to the inside face of the wall.



Photograph Illustrating Voids at High Level where masonry has fallen away

4.3.1 Temporary works perspective

The use of non-percussive machinery was paramount for these works in order to avoid further damage to the existing structure. This particularly applied to Stair Core 7 at high level and where works joined with the opposite side of the Stage-End Wing Wall Masonry Column. A triple beam connection was required from Stair 7 to the masonry above the wing wall steels and this could not be installed until stability had been gained below.

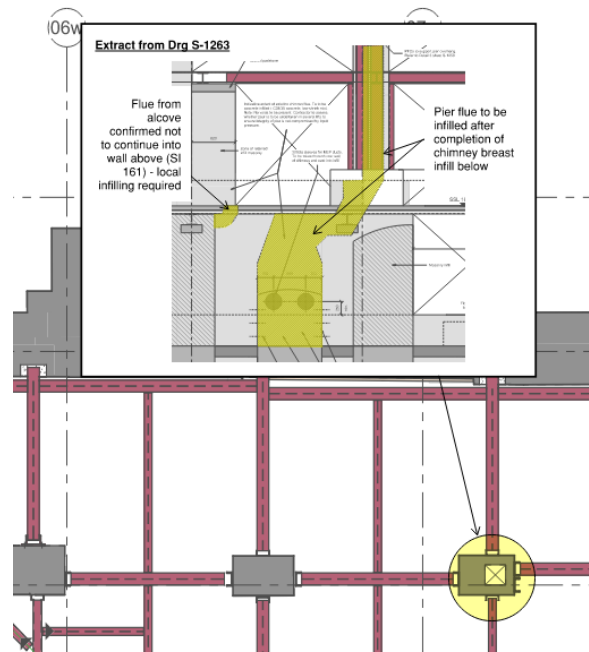
5. Structural Engineer's wider building perspective

5.1 Discovery Items

The following structural items were unknown at the time of the February 2021 DoV but their discovery required that remedial works be undertaken to the existing structure. The list is not exhaustive but is typical of the type of structural intervention required.

- Defects in the existing structure, hidden behind finishes, continued to be discovered as the finishes were removed and/or as access was provided, including various cracks and defects in existing masonry walls. Also, Hall 2 roof rot was only discovered when a subcontractor started undertaking plaster repairs. The discovery of soft plaster led to investigation/opening up which identified further timber rot even though none had previously been observed.
- Defects in the existing structure only became visible when new works were undertaken, such as when walls were cut back to form new openings or padstones were formed, revealing defects

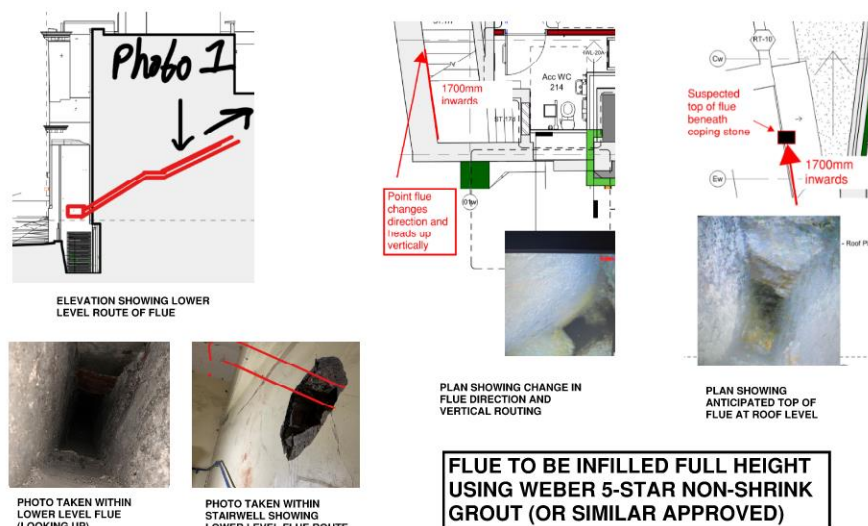
and flues, e.g., Various flue infills: Sk-S-2044 (Hall 2, 16/04/22), Sk-S-2045 (Lantern, 16/04/22), Sk-S-2160 (Restaurant Pier, 02/11/21), SK-S-2176 (toilet block, 18/05/22).



Extract from Sk-S-2044

5.1.1 Horizontal Chimney Flue

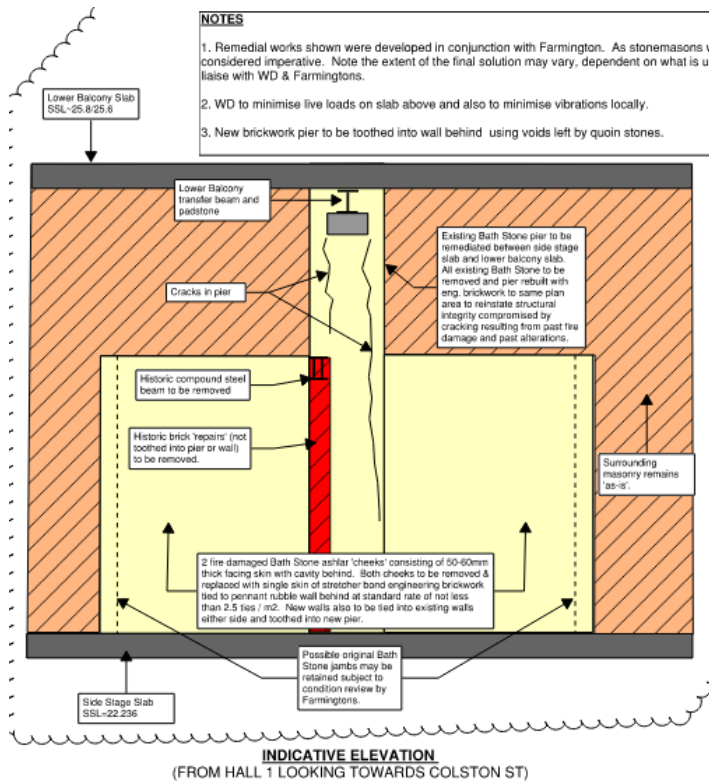
The existing horizontal chimney flue structure was not as expected and this impacted on the new structure, requiring further checks and/or design changes, e.g., an almost horizontal flue in the toilet block was discovered that required grouting up to stabilise the wall. SK-S-2176, issued 18/05/22.



Extract from Sk-S-2176

5.1.2 Deterioration of Structure

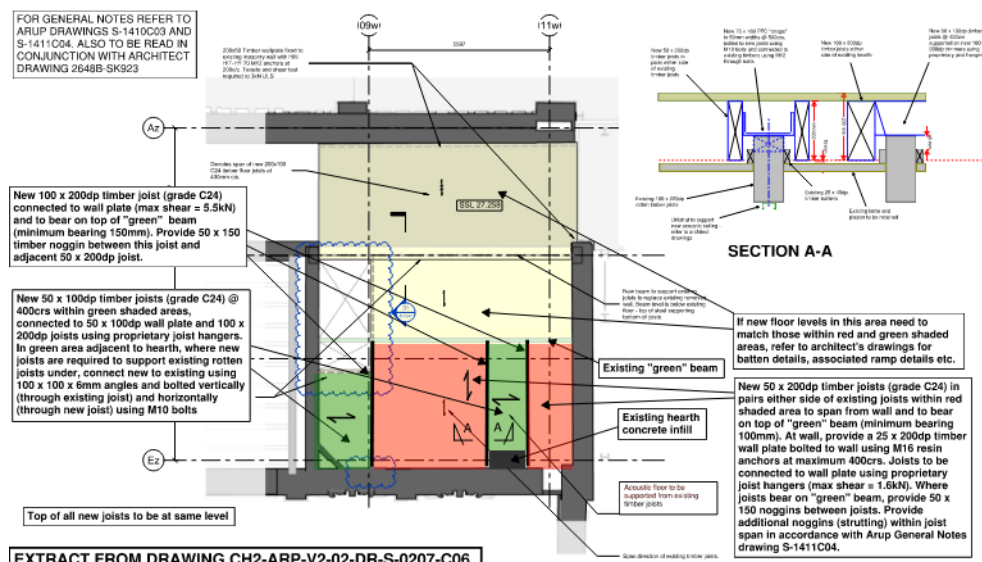
Sudden and/or unexpected deterioration of the structure, e.g., Hall 1 Bath Stone masonry suddenly cracked under a padstone. The Contractor's specialist subcontractor's assessment was that the stone was weakened in the 1947 fire but had only cracked when the new load was applied to it. See SK-S-2158, issued 07/10/21.



Extract from Sk-S-2158

5.1.3 Water Penetration

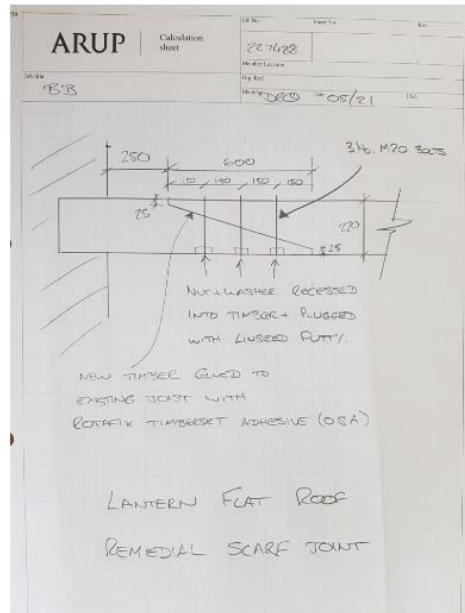
The structure has suffered ongoing deterioration due the prolonged time during which the roofs have been off, permitting rainwater to continue to permeate into the existing structure. This has contributed to further rot in timber elements and corrosion to steel elements e.g., caretaker's flat timber floor: removal of floorboards revealed rotten structural timbers, requiring replacement of the timber floor in this area. Sk-S-2163. 12/01/22



Extract from Sk-S-2163

5.1.4 Changes to Construction Sequence

In some areas the originally intended construction sequence was very specific. When defects were discovered, like for like replacement was not feasible as other surrounding structures prevented access. This necessitated more complicated remedial works (e.g., replacing flat roof timbers either side of Lantern where both ends were built into walls). SK-S2139 issued 16/06/21



CROSS SECTION OF SCARF DETAIL TO REPLACE ROTTEN JOIST ENDS

PHOTO OF TYPICAL -120 x 220 JOIST END TO BE REMEDIATED

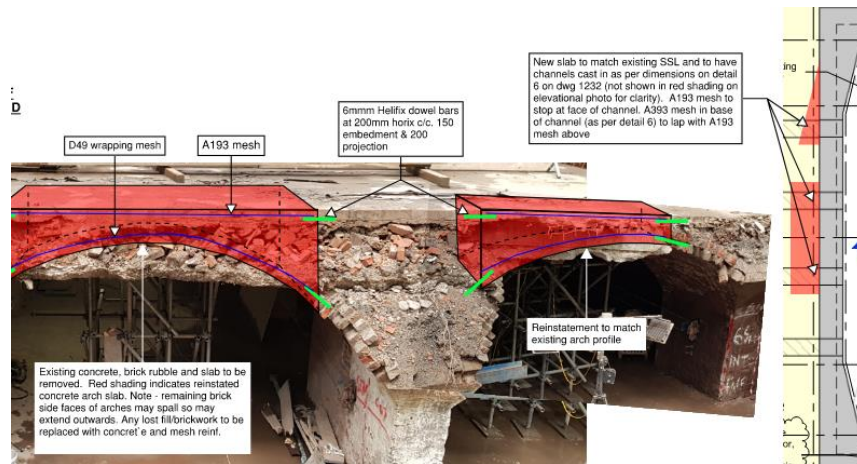
Extract from Sk-S-2139

5.1.5 Original Surveys of Limited Nature

The original LIDAR survey of the existing building, which was used as the basis of all design work, was undertaken while finishes were still in place. Subsequent removal of finishes revealed previously unknown structure which either clashed with the new works or was in poor condition, e.g., existing steel around Stair 7 and almost all of the masonry defects

5.1.6 Poor Historic Repairs

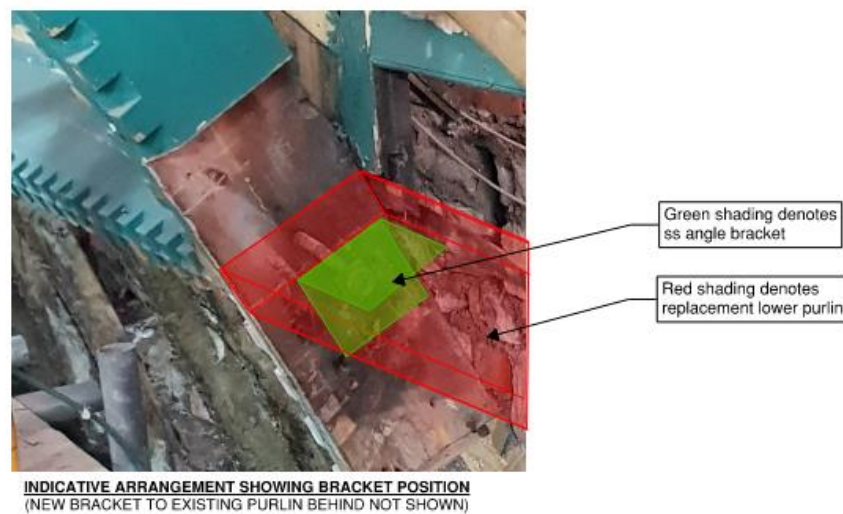
Historic 'covered up and poorly executed' repairs or alterations continued to be found, e.g., Hall 1 Stage level where the cutting of masonry vaults to create a void for the lift revealed poor fill around concrete openings and under existing slabs. SK-S-2131 issued 14/05/21.



Extract from Sk-S-2131

5.1.7 Defects to Key Structural Elements

Some defects have been found in highly stressed structural elements with the result that investigations to determine the extent, severity and repairs had to be carried out slowly and carefully to avoid undermining/damaging remaining existing structure. This often required temporary propping and frequent adaptation of existing scaffolding and or access towers e.g., wing walls (See below) and ongoing complexity of Lantern roof repairs SK-S-2128 issued 26/04/21.



Extract from Sk-S-2128

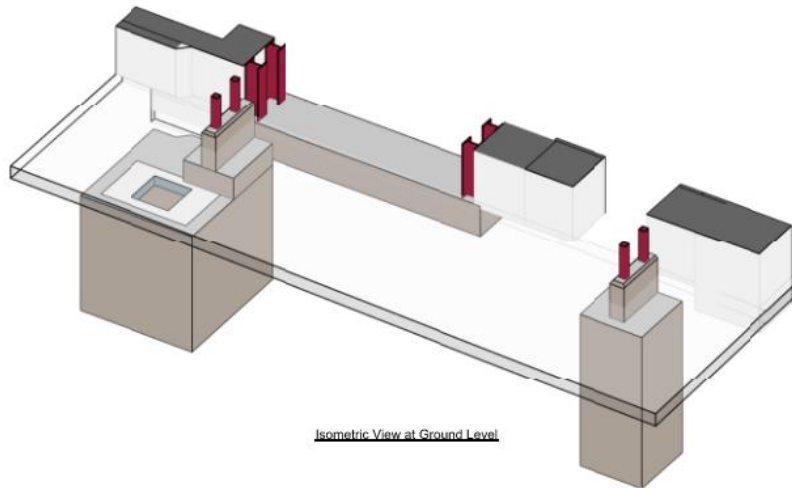
5.1.8 Discovery Item Summary

In summary, the Resident Engineer (RE) role finished in late 2021. However, in 2022 the structural designer has been requested to undertake approximately 20 site visits to review newly discovery items (effectively extending the RE role). Also, since the DOV was instructed at the end of Feb 2021, newly discovery items have resulted in the need for the structural designer to issue approximately 75 construction sketches.

5.2 Unforeseen Poor Ground Conditions

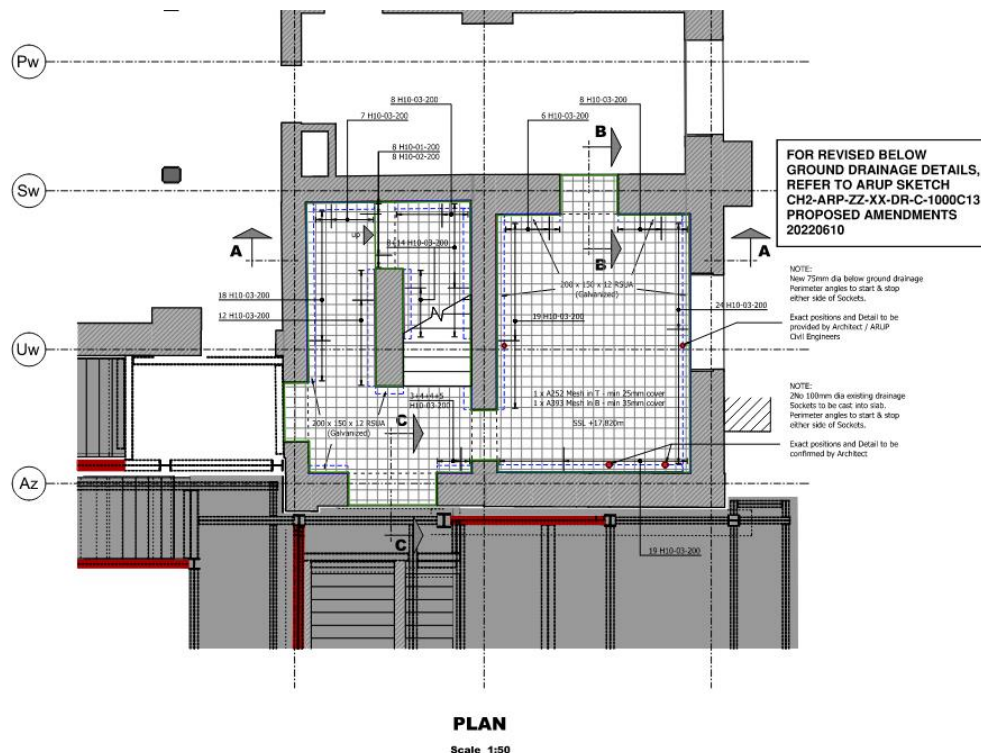
The profile/level of the quartzitic sandstone (a hard and competent rock which the foundations 'sit' on) is very erratic, resulting in areas of competent material at shallow depth which then suddenly and unexpectedly become areas of poor (soft) ground (consisting of silts and clays). This makes ground conditions in any one area extremely difficult to predict. For example:

- Piling required for the restaurant entrance portal foundation to the Colston St side. Quartzitic sandstone was found nearby at shallow depth but excavation directly under the portal column failed to find it approximately 3.5m below ground level. Further excavation risked undermining Hall 2 foundations. See DR-S-1277 and 1278 issued 25/11/21.



Extract from DR-S-1277

- Replacing a ground bearing slab which had significant voids underneath it, involved installing a suspended slab on new shelf angles. See Sk-S-2178 issued 13/06/22



Extract from Sk-S-2178

Bristol Beacon



Appendix 3

Options Appraisal

John Betty
Project Director
4 January 2023

Revision 4 – Final Draft for Cabinet



1.0 Introduction

For reasons detailed elsewhere the Bristol Beacon Project has identified that it will exceed the agreed funding authority established following the BCC Cabinet Decision on the 9 March 2021, and the subsequent Deed of Variation signed with contractor Wilmott Dixon on the 29 April 2021.

To address the current potential difficulties in funding the Bristol Beacon Project, there are three primary options available to Bristol City Council (“BCC” and the “Employer”), namely:

- Option 1: obtain additional funding before the current funding runs out and proceed with the Bristol Beacon Project without disruption or delay,
- Option 2A: suspend the works (in accordance with a negotiated agreement with the Contractor if possible) until sufficient additional funding has been obtained to complete the works, or
- Option 2B: terminate the Contractor’s obligation to Provide the Works and re-engage the current Contractor or re-tender the works when sufficient additional funding has been obtained to complete the works.

A secondary option was investigated to identify if value engineering the project and/or a reduction in scope could make a significant impact in the budget short fall. Through detailed discussions and workshops with the design team and contractor it was demonstrated that the available opportunities for cost savings were small in comparison to the scale of the funding gap. In addition they would cause significant delays, carry large preliminary costs and professional costs in redesign. It was demonstrated that any savings gained would be made negligible by these costs. It was also shown that there would be a significant detrimental effect on the commercial and cultural opportunities the building can provide. As such this secondary option to value engineer was discounted.

Option 1 is considered to be the least disruptive and damaging to the interests of all of the parties. Accordingly, at a briefing on 16th September 2022 the PMO team were tasked with exploring the two scenarios (Options 2A and 2B) in which the project would be ‘Mothballed’. The Bristol City Council, Programme Management advisory team (“PMO”) have used a similar methodology in this review as that used at in the 1st Deed of Variation.

Table 1 of this Briefing Paper considers the contractual mechanics and impacts associated with Options 2A and 2B, which have together been colloquially referred to as the “Mothball” options.

Option 2B makes clear the cost of stopping and terminating contracts. It is assumed that any decision as to the future of the building should the project not be restarted would be the subject of a separate process and decision.

Table 2 of this Briefing Paper provides an assessment of the implications of all three Options.

2.0 Programme Update for Option 1

The option to refinance the project and complete it to the current programme and contractual obligations is predicated on a series of key measures.

At the time of the Deed of Variation signed in April 2021, the programme anticipated that Wilmott Dixon would achieve completion of their contractual obligations by the 18th April 2023, providing access to Bristol Music Trust to begin their mobilisation period. At that time it was anticipated that BMT would require 22 weeks to prepare their operations ready to open at the end of September 2023.

For reasons described elsewhere, Wilmott Dixon will be entitled to and awarded an extension of time to their programme of 17 weeks, with an updated completion date of the 14 August 2023.

The PMO team have been working closely with BMT / Wilmott Dixon and other stakeholders over the course of the last several weeks to determine whether or not there is an opportunity to overlap the BMT mobilisation activities with the Wilmott Dixon contract to target the retention of the planned BMT opening date of the end of September 2023.

The outcome of that review and workstream is that the PMO with BMT and Wilmott Dixon, have identified an opportunity to integrate the completion of the Contract works with BMT integration and mobilisation activities. The programme overlap is identified below in figure 1.

To ensure that the integration proposal is contractually embedded into the Wilmott Dixon programme, a second Deed of Variation has been prepared that addresses the substantive outstanding matters relating to the completion of the Construction Contract, and BMT integration plan.

The PMO team have also worked with BMT and stakeholders to mitigate the commercial risk associated with the commencement of events post opening. Recognising that it will be prudent to create contingency to the date at the end of September 2023 which is the target date by which it is hoped that events may be held in the new facilities. A strategy has been agreed with BMT, that they will not make any contractual commitments to commercial events and activities prior to the end of November 2023, that could have any commercial or reputational consequences if further events delay the opening between those two dates. The Option 1 cost model, includes a contingency allowance for this scenario.

Deed of Variation 2

Working with external legal advisors, Burges Salmon, the PMO team and Wilmott Dixon agreement has been reached and a 2nd Deed of Variation Agreement has been prepared to address the following critical issues:

1. Agreement to the BMT Integration Programme, with a set of defined key and access dates to meet the requirements of BMT and their contractors / suppliers. Each key date has a specifically defined set of conditions to secure the date, and these are agreed between the parties.
2. Clarification on the intent of the parties to work together to achieve the proposed integration plan, and in particular, clarifying expectation on collaboration, training, commissioning, and engagement.
3. Further clarifying design responsibility as it relates to the internal fabric of the building and transferring more clearly that responsibility to the Contractor.
4. Clarification of the Works Information as it relates to matters that have evolved since the previous Deed of Variation.
5. Further deals with subcontractor warranties, bonds and such like as they relate to the current Contract, and in particular to align with funder requirements.
6. Updating and clarifying Provisional Sum requirements.

The 2nd Deed of Variation, provides clarity for the parties in terms of cost, variations, responsibilities, programme, access and BMT integration, and removes substantive risk going forwards towards the completion of the current Contract.

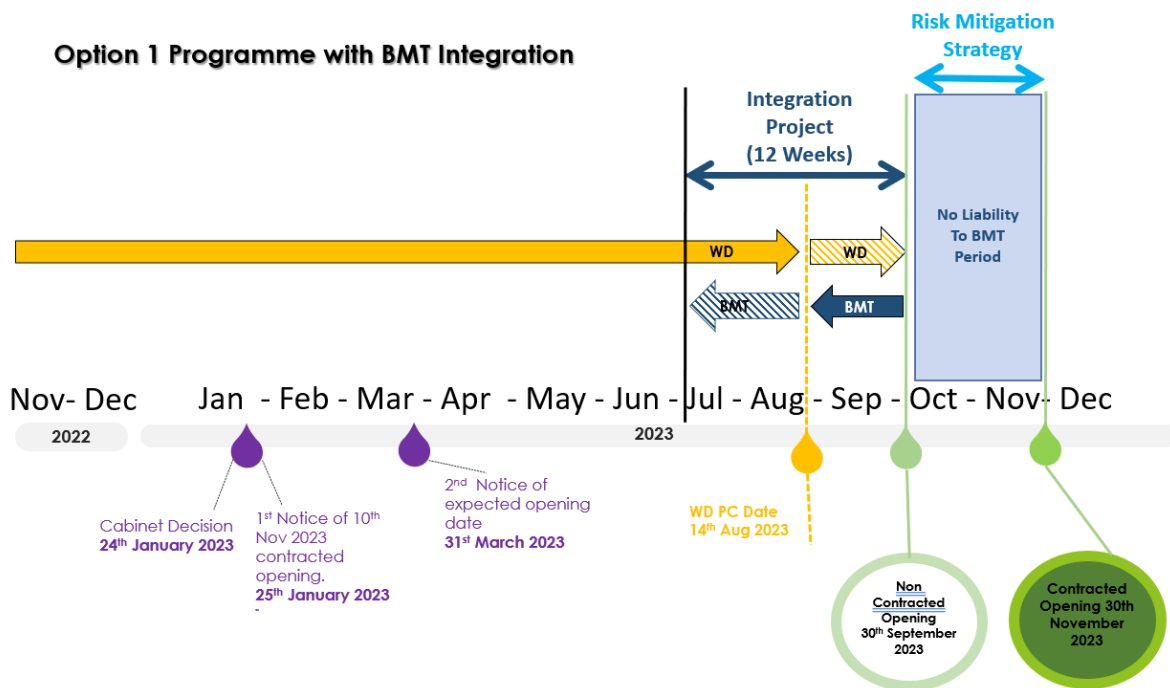


Figure 1

3.0 Programme Implications for Option 2A / 2B

This report presents a series of programme assumptions that have been used to determine the implications on Options 2A and 2B as noted in the summary below and identified in Figure 2.

It is assumed that, following the January 2023 Cabinet meeting, if a decision is made to proceed with either Option 2A or 2B, then the PMO will work with all parties, including the Contractor to bring works on site to a stop as quickly as possible. There are mechanisms within the Contract to allow Bristol City Council to do that, and those matters are discussed later in the report.

The PMO team have made an initial assessment with the Contractor, and it is anticipated that it will take in the order of 4 months to bring the Contract to a stop and to leave the building in such a way that it is safe during the period through which it is ‘mothballed’.

Under the scenario of Option 2A, whereby the Contract remains with Wilmott Dixon, but has been stopped, it is expected that the Contractor will retain control of the site until such time as the building contract is resumed. As will be discussed later, there is a risk to Bristol City Council under the terms of the Contract, because Wilmott Dixon have a unilateral right to terminate the Contract if the Contract Administrator does not instruct the resumption of the works within 13 weeks of a ‘stop notice’ being issued, on behalf of Bristol City Council. To preserve the intention of option 2A, essentially to retain the ability to remobilise the existing Contractor at a future time to suit Bristol City Council, it will be necessary to execute a further Deed of Variation, which will need to be negotiated between the parties. These discussions have not commenced between BCC and the Contractor.

The programme for both options 2A and 2B, assume that any decision to resume or re-procure the Contract will not be made until after a new council administration is in place in May 2024, and that a period of 5 months is required by the new administration to arrange for appropriate governance prior to issuing instructions to move forwards.

| Line Of Enquiry | Option 2A – Negotiated Suspension/Pause | Option 2B – Termination and restart |
|--|--|---|
| Description/ Definition of Option | A negotiated SUSPENSION of the works (Wilmott Dixon instructed in accordance with the Contract to Stop, and then remobilised at a later date) | Wilmott Dixon contract would be TERMINATED , and remaining works would reprocured & retendered at a later date, with BCC to control the site until such time as it is completed under a new construction contract. |
| Assumptions | Based on an estimated timeline of: - A cabinet decision in January 2023 - A notice to resume the project made in November 2024 | Based on an estimated timeline of: - A cabinet decision in January 2023 - A notice to resume and re-procure the project made in November 2024 |

| | | |
|--|---|--|
| | <ul style="list-style-type: none"> - PC: Circa Dec 25 - 12 Week BMT Opening Period - Opening Date Circa Mar 26 | <ul style="list-style-type: none"> - PC: Circa Apr 27 - 12 Week BMT Opening Period - Opening Date Circa July 27 |
|--|---|--|

Option 2A / 2B Programme Assessment

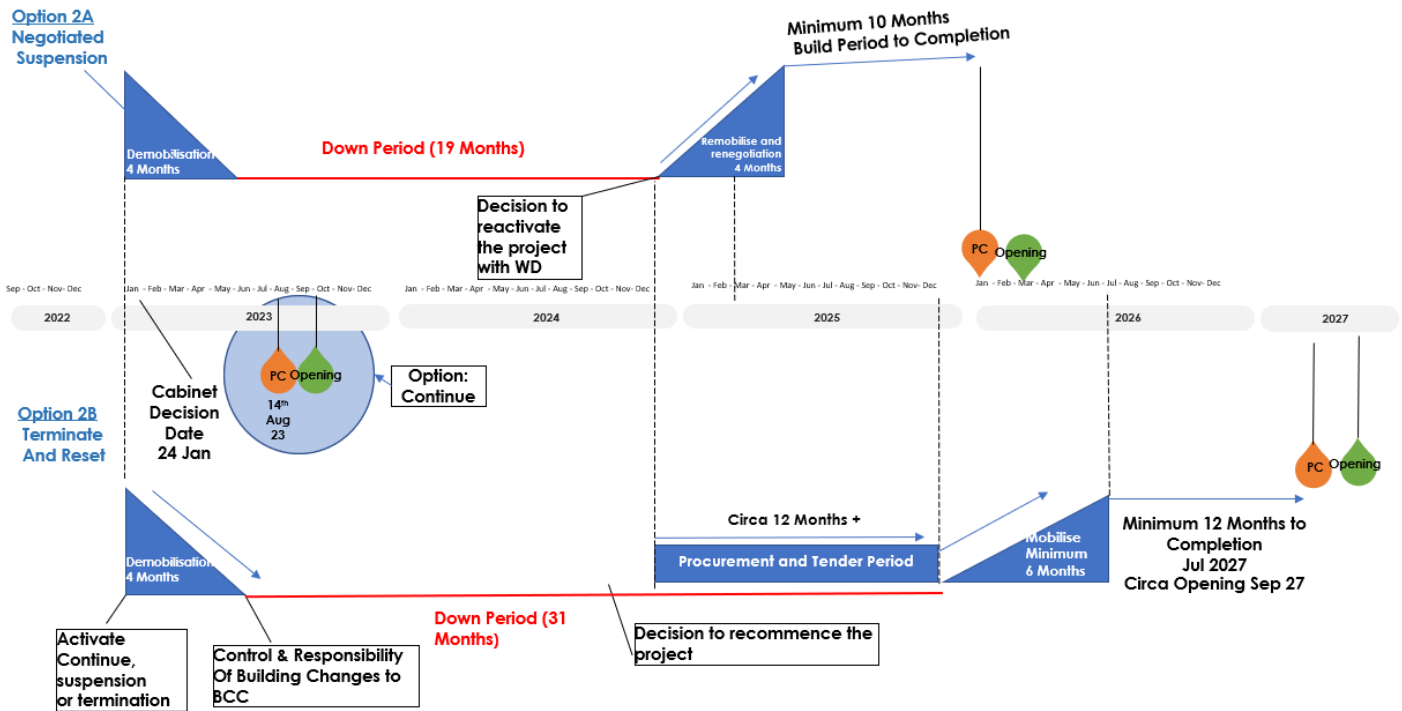


Figure 2

4.0 Wilmott Dixon Contract

With reference to the options associated to either suspend or terminate the Wilmott Dixon Contract it is necessary to assess the implications with regards to the existing Contract. The section below assesses the implications for options 2A and 2B to determine options available, and implications to Bristol City Council and associated stakeholders.

Table 1.

| Line Of Enquiry (WD CONTRACT) | Option 2A – Suspension | Option 2B – Termination |
|--|---|---|
| Does the contract allow for a suspension/termination? | <p>Yes. The PM may instruct the Contractor to stop work and may subsequently instruct that the work be restarted. However, in the absence of agreement to extend the period, if work is not restarted within 13 weeks, the Contractor may terminate its further obligations.</p> <p>In the context of the Programme assumptions, it is apparent that the 'stop work' period will be significantly longer than the 13 week period and accordingly it would be a recommendation that to avoid Wilmott Dixon undertaking a unilateral termination, a specific legal agreement with Wilmott Dixon should be agreed that covers their involvement during the extended 'stop work' period and associated remobilisation and completion.</p> | <p>Yes. The NEC 3 allows the Employer to terminate the Contractor's obligation to Provide the Works for any reason.</p> |
| Clause Procedure | <p>Clause 34.1 enables the PM to instruct that work be stopped.</p> | <p>Clause 90.2 allows the Employer to terminate for any reason.</p> |

| | | |
|---|--|---|
| | <p>Clause 60.1(4) makes this a compensation event (“CE”).</p> <p>Clause 61.2 can be used to request a quotation prior to issuing the instruction but it will be impossible for the Contractor to provide a quotation unless the period of suspension is known.</p> <p>Clause 61.6 enables the PM to introduce an “assumption” regarding the period of suspension which will enable the Contractor to provide a quotation. If the assumption turns out to be incorrect, clause 60.1(17) enables it to be corrected, resulting in a separate CE.</p> <p>Clause 91.6 enables the Contractor to terminate if work is stopped for more than 13 weeks – unless otherwise agreed.</p> | <p>The clause 90.2 Termination Table provides that this would be a termination for “A reason other than R1-R21”.</p> <p>Accordingly, procedures P1 and P2 would apply and the Contractor would be entitled to payment of amounts A1, A2 and A4.</p> <p>P1: the Employer may complete the works using its own materials.</p> <p>P2: the Employer may require the Contractor to assign to the Employer all relevant subcontracts and supply contracts.</p> <p>A1: payment for the value of work done to date plus materials already delivered or for which the Contractor is committed to pay.</p> <p>A2: payment for removing equipment.</p> <p>A4: damages for lost Fee on works which will NOT be completed.</p> |
| <p>Time Implication & Impact</p> | <p>The delay to Completion and additional cost incurred by the Contractor would be assessed in accordance with clause 63.</p> <p>Accordingly, WD would be granted an extension of time (“EOT”) and the Prices would be increased to address the additional cost incurred as a result of the period of demobilisation,</p> | <p>Completion will be achieved significantly later as a result of the need to retender or negotiate terms with a contractor to complete works (Circa 12 months).</p> <p>The construction period would be significantly longer due to the need for familiarisation and investigation of previous works by any replacement</p> |

| | | |
|---|--|---|
| | remobilisation and renegotiation. | Contractor. (Circa 12 Months). |
| Cost Implication & Impact | <p>Controlled Process</p> <p>Quote will be submitted including all fair and reasonable costs.</p> <p>All cost liability is Employer's including costs of stopping, maintenance, security, heating, any restart cost and inflation to recommencement at a future date.</p> <p>Any initial quotation based on an assumed period of suspension is likely to be revised when the work is restarted because it will only be at that point in time that the true period of suspension will be known.</p> <p>Legal Costs</p> <p>The Employer would be responsible for its own legal costs incurred in documenting the negotiated terms of the suspension and, in the event of disputes with Third Parties, potentially liable for its opponents' legal costs also.</p> | <p>Uncontrolled liability</p> <p>Initially, the Employer would be liable for the above amounts A1, A2 and A4 from the Contractor (WD) and equivalent costs and compensation which WD would be liable to pay to all sub-contractors.</p> <p>Subsequently, the Employer would be liable for the cost of maintenance, insurance, security, procurement, and restart costs, all likely to be incurred at the inflated rates applicable to the period of delay.</p> <p>Legal Costs</p> <p>The Employer would be responsible for its own legal costs incurred in documenting the termination and, in the event of disputes with the Contractor or Third Parties, potentially liable for its opponents' legal costs also.</p> |
| Quality Implication & Impact | The Contractor would remain responsible for all protection of the building, albeit all at the Employer's cost | The Employer would be responsible for arranging all protection for the building at its own cost. |
| Liabilities & Responsibilities | <p>Activities in the suspension period (WD Responsibility at BCC Cost)</p> <p>Operational</p> | <p>Activities in the suspension period (BCC Responsibility at BCC Cost)</p> <p>Security</p> |

| | | |
|--|---|---|
| | <p>Maintenance of plant</p> <p>Security</p> <p>Presence on site</p> <p>Protection of external fabric</p> <p>Site accommodation</p> <p>Temporary heating/venting</p> <p>Temporary internal drainage</p> <p>Dilapidation survey</p> <p>CCTV</p> <p>Hoarding</p> <p>Extended warranties</p> <p>Signage</p> <p>Out of hours services</p> <p>Access and ingress provision</p> <p>Additional fire protection</p> <p>Installation of fire extinguishers and alarms</p> <p>Revised internal security plans</p> <p>Redundant materials storage or removal</p> <p>Drainage survey & cleaning upon restarting the work</p> <p>Ongoing Traffic Management</p> <p>Other Liabilities</p> <p>Losses for Special Construction Products ("SCP") (% of remaining value)</p> <p>Termination</p> <p>Loss & Expense claims from third parties</p> <p>Retainer or additional consultants' fees</p> | <p>Presence on site</p> <p>Protection of external fabric</p> <p>Temporary heating/ venting</p> <p>Temporary internal drainage</p> <p>Dilapidation survey</p> <p>CCTV</p> <p>Hoarding</p> <p>Loss of Warranties</p> <p>Signage</p> <p>Out of hours services</p> <p>Access and ingress provision</p> <p>Additional fire protection</p> <p>Installation of fire extinguishers and alarms</p> <p>Revised internal security plans</p> <p>Redundant materials storage or removal</p> <p>Drainage survey & cleaning upon restarting the works</p> <p>Testing and Inspection of completed partially completed and temporary facilities.</p> <p>Ongoing Traffic Management</p> <p>Other Liabilities</p> <p>Losses for SCP (% of remaining value)</p> <p>Termination</p> <p>Loss & Expense claims from third parties</p> <p>Retainer or additional consultants' fees</p> |
|--|---|---|

| | | |
|--|--|--|
| | Remobilisation Council rates Liability for the later performance of unfinished works Defects liability period extension Retention release Conservation Party Wall / Neighbours | Fees for new procurement and retendering activities Radically different procurement route Council rates Liability for the later performance of unfinished works Defects liability period extension Retention release Conservation Party Wall / Neighbours |
|--|--|--|

5.0 Whole Project Impact

This section considers the impact of all three options on the following key criteria:

1. Impact on Opening
2. BMT Legal, Finance and Delivery
3. BCC, PMO and Consultant
4. Quality, Continuity and Compatibility Issues
5. Third Party and External Funding
6. Reputational Matters
7. Regulatory Matters
8. Environmental Issues
9. UK and World Affairs

Table 2.

| Impact Assessment | Continue | 'Mothball' | |
|--|--|--|--|
| | Option 1 Continue to Completion on current contract | Option 2A Negotiated pause/suspension | Option 2B Terminate and restart via negotiation with new tenders |
| 1. Impact on Opening | <ul style="list-style-type: none"> -Programme has some risk of overrun -BMT's capacity to deliver their operation plan on time -Effectiveness of the integration project -Ability of WD to maintain their programme against the pressures of the national economic climate | <p>Opening Date:</p> <ul style="list-style-type: none"> -PC: Circa Dec 2025 -12 Week BMT Opening Period -Opening Date Circa Mar 2026 -Integration Project -BMT Funding -BCC Funding | <p>Opening Date:</p> <ul style="list-style-type: none"> -PC: Circa Apr 2027 -12 Week BMT Opening Period -Opening Date Circa July 2027 -Integration Project -BMT Funding -BCC Funding |
| Confidence RAG | | | |
| 2. BMT Legal, Finance and Delivery Implications | <ul style="list-style-type: none"> -Programme has some risk of overrun -Mitigation measures to manage the commercial and reputational risk associated with late opening could be necessary. | <ul style="list-style-type: none"> -Threatens the existence of the organisation in both Capital and Revenue unless the council intervenes to support. -Leases BMT would continue to operate the foyer under the conditions of the existing lease until the project was | <ul style="list-style-type: none"> Threaten the existence of the organisation in both Capital and Revenue unless the council intervenes to support. (Same as option a but for a longer period of time) -Leases No impact. BMT would continue to operate the foyer under the conditions |

| | | | |
|---|--|---|---|
| | Additional contingency has been included within the updated total project cost to provide mitigation for BMT costs in the event of further delay to the Contract | completed and ready to handover. -Collaboration Agreement Failure to agree delay with BMT beforehand could amount to a material breach of contract on which BMT could seek legal recourse. BCC would be liable to cover BMT costs associated with a delayed completion date. Entrustment Agreement BCC provides BMT with revenue funding. BCC would be liable to cover BMT costs associated with a delayed completion date. | of the existing lease until the project was completed and ready to handover. Collaboration Agreement Failure to agree delay with BMT beforehand could amount to a material breach of contract on which BMT could seek legal recourse. BCC would be liable to cover BMT costs associated with a delayed completion date. Entrustment Agreement BCC provides BMT with revenue funding. BCC would be liable to cover BMT costs associated with a delayed completion date |
| Confidence RAG | | | |
| 3.Consultant, BCC, PMO Implications | -Managing existing contracts and renegotiating fees for extensions | -Fees required to cover Demobilisation and Remobilise -Down Period -Keep the consultants in contract and have them on a nominal sum / retainer -15% of fees for Consultants -25%BCC/PMO Fees | -Fees required to cover - Demobilisation -Down Period -Termination of consultant appointments -Fees for procurement, re tender an due diligence. -Radically different procurement route. -15% of fees for Consultants -50%BCC/PMO Fees |
| Confidence RAG | | | |
| 4.Quality, Continuity and Compatibility Implications | -Require ongoing management and NEC Supervision | -Some degradation of unfinished construction works -Loss of knowledge/experience of the site within the current WD team. (Potential new WD Team as and when existing WD team members are allocated to other jobs?) -WD Supply chain disruption -Consultant team disruption -Risk loss of staff & continuity benefits -Retains the current WD D&B contractual obligation / responsibility | -Significant degradation of unfinished construction works -Incompatibility -Loss of knowledge & potential new main contractor and supply chain -High risk of ill-informed future decisions new contractor and subcontractors -Loss of design knowledge and design models (Resurveying the whole building) -Loss of the WD D&B contractual obligation/ |

| | | | |
|--|---|--|--|
| | | | responsibility which would revert to the client. |
| Confidence RAG | | | |
| 5.Third Party Contracts, Agreements and Funding | <p>-Funding BMT related funders are expected to accept the proposed revised opening timetable, and this is managed by BMT.</p> <p>-Party Wall Cost of repair and remedial works may increase. Obligation to complete party wall works.</p> <p>-Third Parties No further changes expected</p> | <p>-Funding Without prior approval the principal funders WECA, ACE, HLF could recover the funding they have paid to date or may withdraw future payments. Circa £39M at risk. Other funders could withdraw their pledges and the further funding which is due to be paid under existing arrangements could be re allocated to other projects. Circa £9M at risk.</p> <p>-Party Wall -Damaged relationships with adjoining owners.</p> <p>-Third Parties Organ: Harrison & Harrison would not be able to install the organ. A delay would incur inflationary costs associated with installation and Voicing. Storage of organ off site at additional cost.</p> | <p>-Funding Without prior approval the principal funders WECA,ACE,HLF could recover the funding they have paid to date or may withdraw future payments. Circa £39M at risk. Other funders could withdraw their pledges and the further funding which is due to be paid under existing arrangements could be re allocated to other projects. Circa £9M at risk.</p> <p>-Party Wall -Party wall surveyors moved to be more adversarial and increased risk of a potential enforcement position</p> <p>-Third Parties Organ: Harrison & Harrison would not be able to install the organ. A delay would incur inflationary costs associated with installation and Voicing. Storage of organ off site at additional cost.</p> |
| | | | |
| 6.Reputational Implications | Negative media and press attention due to increased cost and time Distraction of management and resource onto any FOI Requests | Negative media and press attention due to increased cost and time Distraction of management and resource onto any FOI Requests | Negative media and press attention due to increased cost and time Distraction of management and resource onto any FOI Requests |

| | | | |
|----------------------------------|---|--|---|
| Confidence RAG | | | |
| 7.Regulatory Implications | <p>Planning Conditions Obligations to close/comply with planning conditions to continue</p> <p>Listed Building/Heritage Nonspecific nature of the requirement</p> <p>Building Control Interpretation of regulations</p> <p>Ground Conditions Potential Utility Diversions associated with HMV</p> | <p>Planning Conditions Obligations to close/comply with planning conditions would continue No obligation to complete works within a defined timeframe</p> <p>Listed Building/Heritage Degradation of unfinished construction works</p> <p>Building Control Changes to regulations that would apply to an extended completion date</p> <p>Ground Conditions Potential Utility Diversions associated with HMV</p> <p>Insurances</p> | <p>Planning Conditions No obligation to complete works within a defined timeframe</p> <p>Listed Building/Heritage Some risk of enforcement action if extended termination threatens fabric of listed building (ML)</p> <p>Changes to regulations that would apply to an extended completion date</p> <p>Building Control Changes to regulations that would apply to an extended completion date</p> <p>Insurances</p> |
| Confidence RAG | | | |
| 8.Surrounding Environment | Measures in place to continue | <p>Public Perception Traffic Management to continue -Retain Site Compound and ownership of the site WD would continue with site Security (WD to keep responsibility)</p> | <p>Public Perception Traffic Management /Suspend TRO and reinstate the highway? Site compound would be removed by WD Security would be removed by WD and picked up by BCC (BCC take on responsibility)</p> |
| Confidence RAG | | | |
| 9.UK and World Economy | <p>Good control over the controllable but high risk on the uncontrollable elements of the national financial situation. WD supply chain under significant pressure. Material shortages</p> | <p>Prices influenced by inflation pressures Future public spending cuts Local residents and businesses objecting to continued disruption Remove existing highways closures and reinstate in the future</p> | <p>Prices influenced by inflation pressures Future public spending cuts Local residents and businesses objecting to continued disruption Remove existing highways closures and reinstate in the future</p> |
| Confidence RAG | | | |

6.0 Cost Assessment

The PMO team have undertaken a review of the likely costs associated with Options 2A and 2B to provide an order of magnitude of the possible costs to Bristol City Council if either of these two options are selected. In preparing the likely impact to the project, the PMO team have also engaged with Wilmott Dixon to seek their views and have obtained their inputs into both the cost headings and likely quantum. The PMO team have also made an assessment of the overall budget that is recommended that Bristol City Council make provision for, to deliver the Contract and with an identified risk and contingency.

The costs identified below in Table 3 do not include the risk of needing to repay BMT funders, and in making any decision to pursue either Option 2A or 2B, Bristol City Council should also consider the additional financial burden to having to repay grant funding and any associated legal costs attributable to themselves and BMT.

The cost estimate for the three options is based on the programme assumptions identified earlier in the report, and an assessment for future inflation has been included.

The cost estimate also includes allowances which have been assessed as being required for both options, and these headings and the details are included in table 3 below.

The assessment demonstrates that whichever Option is chosen there is a significant requirement for additional budget. It is clear that due to unprecedented volatility and uncertainty in the construction sector the estimates for Options 2A and 2B carry a high level of uncertainty and risk.

- a. Option 1 – Complete the project as planned - £131.9m total anticipated cost to complete and an anticipated opening between end of September to end of November 2023.
- b. Option 2A - Pause the scheme and restart in October 2024 - £165.5m total anticipated cost to complete. Opening by March 2026. (Includes anticipated costs to pause of £4m, and a running cost of £9m)
- c. Option 2B - Stop the scheme – £203.5m total anticipated cost to complete. The assumed programme to commence re-procurement in October 2024 and an opening by September 2027. Total cost to stop anticipated at £12.5m and anticipated running costs of £12m.

Table 3.

| | Option 1 | | Option 2A | | Option 2B | |
|--|---|----------------------------|--|----------------------------|---|----------------------------|
| | Proceed with full scheme to current programme | Cost | Negotiated Pause/suspension | Cost | Terminate and Restart | Cost |
| Base cost of all options | Total emerging cost | £m £131.9 | | £m £131.9 | | £m £131.9 |
| 1. Impact On Opening | | £0.0 | -Inflationary effect on Contract and Consultants -Closing down project - WD cost -Closing down project - Fees and PMO -Ongoing inspections, fire alarm measures -Ongoing maintenance and security during suspension - WD Cost -Ongoing inspections during suspension - fees -Inspections etc prior to re-start Remobilisation | £9.5 | -Inflationary effect on Contract and Consultants -Cost premium on Termination contractor -Closing down project - WD cost -Closing down project - Fees and PMO -Ongoing inspections, fire alarm measures -Ongoing maintenance and security during suspension - BCC Cost -Ongoing inspections during suspension - fees -Inspections etc prior to re-start Remobilisation -Loss of profit and Contractor Claims | £23.0 |
| 2. BMT Legal, Finance and Delivery Implications | | £0.0 | BMT ongoing costs to new opening dates Legal Fees Warranties | £4.5 | BMT ongoing costs to new opening dates Legal Fees Warranties | £7.5 |
| 3. Consultant, BCC, PMO Implications | | £0.0 | Prolongation costs of non WD | £5.0 | Prolongation costs Re-tendering process under Termination | £14.5 |
| 4. Quality, Continuity and Compatibility Implications | | £0.0 | Degradation of unfinished works Maintenance Testing and inspection Insurance requirements | £4.2 | Degradation of unfinished works Maintenance Testing and inspection Insurance requirements | £6.5 |
| | Option 1 - Proceed with full scheme to current programme | Cost | Option 2A Negotiated Pause/suspension | Cost | Option 2B Terminate and Restart | Cost |
| 5. Third Party Contracts, | | £0.0 | Funding risk | £0.2 | Funding risk Party Wall risks - further fees degradation | £0.2 |

| | | | | | | |
|---|--|--------------------------|---|--------------------------|---|--------------------------|
| Agreements and Funding | | | Party Wall risks - further fees degradation | | | |
| 6.Reputational Implications | | £0.0 | PR and management resources | £0.2 | PR and management resources | £0.4 |
| 7.Regulatory Implications | | £0.0 | Planning conditions Listed building enforcement risk Alterations to comply Building Control requirements change | £0.2 | Planning conditions Listed building enforcement risk Alterations to comply Building Control requirements change | £1.1 |
| 8.Surrounding Environment | | £0.0 | Ongoing traffic management Compensation of neighbours Hoarding maintenance | £0.3 | Ongoing traffic management Compensation of neighbours Hoarding maintenance | £0.4 |
| 9.UK and World Economy | | £0.0 | Effect considered under risk | Inc | Effect considered under risk | Inc |
| 10.Additional Risk and Contingency | | £0.0 | | £9.5 | | £18.0 |
| Total Estimate | | £131.9 (circa) | | £165.5 (circa) | | £203.5 (circa) |

Option 1 - Assessment of Risk

| Ref | Risk | Mitigation | Responsibility |
|-----|--|--|----------------|
| 1 | Integration of BMT programme with Wilmott Dixon works. | The 2 nd Deed of Variation makes express provisions for the overlap of the BMT integration programme with the Wilmott Dixon works. | WD/ BMT |
| 2 | Delivery of the compressed main contract programme by 14 th August 2023, ie site coordination, logistics, integration of specialists and commissioning. | The main contractor have appointed an external lean methodologies consultant, BBI Services, to support coordination and integration of key packages, to maximise site efficiency and effectiveness, to improve flow and productivity, and reducing risk of abortive works. | WD |
| 3 | Mechanical and Electrical Package Completion. | MEP is a critical subcontract package and runs through the critical path to completion. The PMO and contractor team are working together to convene thematic workshops focussing on commissioning, testing, and training, and integration with other systems. Coordination with the existing building systems is also a risk, and the team are undertaking appropriate inspections and preparatory works well ahead of works taking place to minimise risks. | WD |
| 4 | Insolvency of key subcontractors. | The main contractor undertakes regular reviews of the financial status of key sub-contractors to monitor risks. The PMO have supported the main contractor in advance purchase of key equipment and vesting this with BCC ahead of requiring on site, further helping to reduce risk. | WD |
| 5 | Commissioning and regulatory approval of life safety / building evacuation systems. | Critical to opening of the facility to the public. The main contractor, with their key sub consultants, the design team and BMT have a focussed working group to test the design and prepare for commissioning and regulatory approval. This activity remains high on the risk register and will be | WD / PMO / BMT |

| | | | |
|---|---|---|---------------------------|
| | | monitored carefully through to completion. | |
| 6 | Design Status. | <p>The PMO provide design management support, with the aim of supporting the main contractor with design coordination, package procurement, assurance and review.</p> <p>This role acts as an interface between the retained Technical Advisory team and the main contractor.</p> <p>The PMO created a Package Responsibility Schedule which is used to manage contractor interface on design. The 2nd DOV deals with further clarification on design associated with the building fabric, which is transferred substantively to the main contractor. The team are working to a Design Charter, which confirms the working principles between the primary role holders, thus further mitigating design risk.</p> | WD / PMO / TA (Designers) |
| 7 | Programme Contingency – BMT Opening Date. | The current Option 1 programme identifies the target opening date of the 30 September 2023. As a result of the current pressures on programme, and the introduction of the integration programme concept, the PMO have identified a ‘shock absorber’ BMT programme contingency, which essentially sees agreement that BMT will not book events until the end of November 2023, that could have a commercial liability in the event of an unplanned delay to the main contract, or the BMT integration and mobilisation programme. The 8 week programme buffer, includes associated cost allowances within the forecast completion costs. | PMO / BCC / BMT |
| 8 | Fabric Risk. | The design risk for external fabric has remained with BCC through the contract, and this was further clarified in the 1 st DOV with the Inner / Outer Box concept. As the works to the external box fabric are substantively complete, there are | WD |

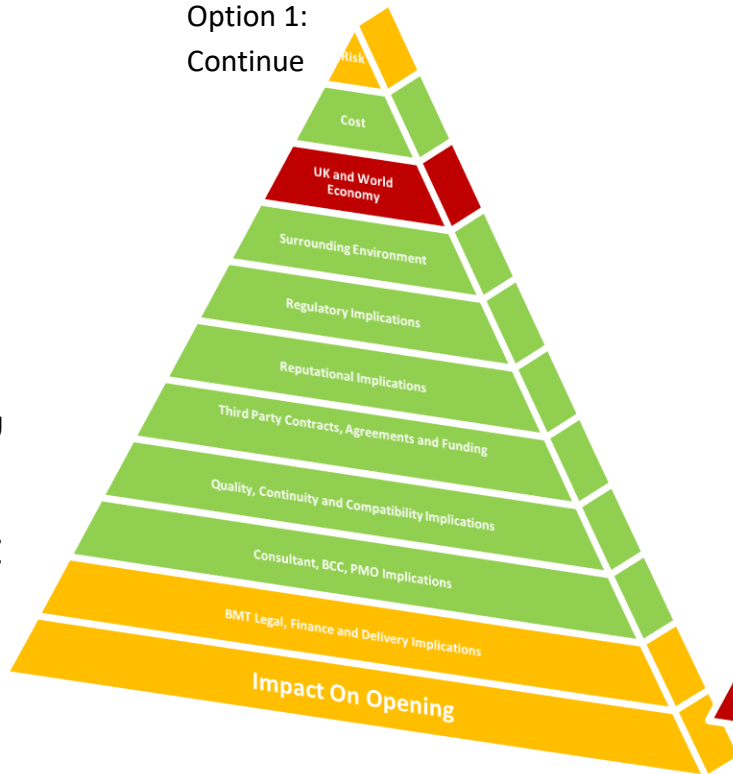
| | | | |
|----|--|--|-----------|
| | | some residual risks relating to design, and the ownership of these are substantively passed to the main contractor through the 2 nd Deed of Variation | |
| 9 | Integration of BMT Operations. | As noted through the integration programme, additional resources have been allocated to the project to support the integration of the BMT mobilisation operations into the main Contract. In addition, and alongside the regular engagement between the PMO and BMT, the project has scheduled and budgeted additional resources to support BMT with a 'soft landings' approach, that is designed to further minimise risk to the integration and opening mobilisation works | BMT / PMO |
| 10 | Works Information, and scope definition. | The 2 nd Deed of Variation incorporates updates to the Works Information to provide clarity on the remaining scope of the works and the new obligations of the main contractor. | WD / PMO |
| 11 | External Factors / Inflation Risk. | The PMO team have defined an updated contingency budget against the risk register, to support the requested budget to complete the project. Further mitigating measures include further risk transfer to the main contractor through the 2 nd Deed of Variation, and BCC commission of an assurance review through the Strategic Delivery Partner (reported elsewhere) | PMO / BCC |

Options Confidence Rating

The overall risk ratings and associated certainty of outcomes assessed for the three options is illustrated in the images below.

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Option 1:
Continue



Overall Confidence Rating: 90-95%
(Time:85% (Assuming Shock Absorber)
(Cost:95%)
Overall RAG: **GREEN**

Option 2A: Negotiated
Pause/Suspension



Overall Confidence Rating:
55%
(Time: 60%)
(Cost: 50%)
Overall RAG: **RED**

Option 2B: Terminate and Re-
procure



Overall Confidence Rating:
30%
(Time: 40%)
(Cost: 20%)
Overall RAG: **RED**

7.0 Potential Impact on BMT Grant Funding ref Options 2A and 2B

The implications and potential impact on funding through the BMT grants, gifts, and donations is assessed elsewhere, and in making a decision to proceed with either Option 2A or 2B, Bristol City Council will need to consider those amounts in addition to the cost implications identified above.

8.0 Project Options Summary

Option 1 – Fund the main Contract

The PMO team have secured a robust programme for the construction works together with a viable commercial position which has delivered agreement with Wilmott Dixon on Compensation Events, Extension of Time Claims, and associated matters, and these are documented within the 2nd Deed of Variation.

The contract is in a more stable state than has previously been the case but is still not without risk.

As a result the PMO considers that Option 1, continuing with the project is the most predictable option, albeit there will remain risks associated with time pressures; however, this option does further mitigate against the influences of the external economic environment and the global market.

Option 2A – Suspension of main Contract

The low levels of predictability and certainty associated with Option 2A (Suspension) would give rise to an extended EOT for Wilmott Dixon involving demobilisation, maintaining the building and a remobilisation. This option retains the contractual status quo and therefore is more predictable than option 2B however it still contains many variables and complexities.

Although Wilmott Dixon have been consulted this option still contains many assumptions involving a myriad of variables. It will also be necessary to negotiate a further Deed of Variation with Wilmott Dixon to remove their right to terminate the contract in the event that the suspension continues for more than 13 weeks, and there will be further risks associated with this.

Option 2B- Terminate the main Contract and Reprocure, Retender, Recontract

The extremely low levels of predictability and certainty associated with Option 2B (Terminate) are driven by the volatility of the current market together with the high level of complexity of the technical, contractual and regulatory/managerial issues. There is a significant shift in liability, and Bristol City Council will take direct responsibility of all the issues associated with managing, securing and keeping safe the existing part completed building until such time that a new contractor is appointed.

There is also a significant risk that the construction market and potential supply chain will not respond favourably to a requirement to take on responsibility for completing works that have been partly constructed by another contractor. It may not be possible to secure a new contractor at a future date at a price that would ordinarily be considered commercially acceptable.

Summary

Under either Option 2A or 2B, the future cost risk to Bristol City Council, BMT and their funding partners will be extremely high. There is significant volatility in the construction markets, and the future costs are very unpredictable. There are several factors associated with both Option 2A or 2B that should be taken into account.

Firstly, under either option it will be necessary to instruct the PMO and professional team to plan and design the works necessary to 'mothball' the project, and the necessary works will then need to be instructed to the main contractor.

Secondly, under option 2A, to protect BCC against the main contractor unilaterally terminating the Contract, it will be necessary to negotiate and agree a voluntary Deed of Variation in which the main contractor waives its right to terminate if the works have not been restarted within 13 weeks and agrees to remain under contract until such time as BCC are ready to instruct a remobilisation.

Finally, in the event that a decision is made to pursue Option 2B, it should be noted that BCC will be responsible for the security, operation, and maintenance of the building until such time as a decision is made to appoint a new contractor to complete the works. It is likely to be very difficult to find a suitable contractor and design team to complete the works at an economic cost, and to obtain appropriate warranties, etc, that protect BCC, BMT and their partners in a satisfactory way. Option 2B will be fraught with difficulty. It should be considered to be the least preferable option.



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Bristol City Council

Project Beacon Sector and Financial Review



Sarah Chodkiewicz
Bristol City Council
City Hall
PO Box 3399
Bristol
BS1 9NE

16 January 2023

Dear Sarah,

Project Beacon Sector and Financial review

In accordance with the terms and conditions set out in the Project Initiation Document dated 9th December 2022 and MCF3 Call off Schedule, this report ('the Report') sets out a sector and financial review for The Colston Hall (renamed 'Bristol Beacon') Phase 2 project.

We previously sent you a draft version of this report on 11th January 2023 for factual accuracy. Minor amendments have been made to the report comments provided by BCC, however these did not result in any material changes to our analysis or resultant conclusions.

Purpose of our report and restrictions on its use

The report is prepared on the specific instructions of BCC solely for the purpose set out in the report and should not be relied upon for any other purpose. It should not be relied upon by any other party. Because others may seek to use it for different purposes, this report should not be quoted, referred to or shown to any other parties, unless so required by court order or a regulatory authority, without our prior consent in writing. In carrying out our work and preparing our report, we have worked solely on the instructions of BCC and for its reporting purposes.

Our report may not have considered issues relevant to any third parties. Any such use third parties may choose to make of this report is entirely at their own risk and we shall have no responsibility whatsoever in relation to any such use. This report should not be provided to any third party without our prior approval and any third party should recognise in writing that we assume no responsibility or liability whatsoever to them in respect of the contents of our deliverables.

Scope of our work

Our work in connection with this assignment is of a different nature to that of an audit. Our report to you is based on inquiries of, and information received from, management. Where relevant, reference has been included to the source of information provided to us. We have not sought to validate or verify the accuracy of the data or the information and explanations provided by management. We have also not conducted any stakeholder consultation to inform this report (e.g., with local businesses or visitors to the city). The economic analysis conducted has utilised the latest forecast information available, however the economic climate remains uncertain.

We understand that the Colston Hall Phase 2 project has gone through multiple previous rounds of Cabinet approvals for both the original project budget as well as subsequent increases to the project budget. This report has not sought to assess or comment upon the appropriateness of these prior approvals or budget amounts.

We also recognise that approvals for the capital investment have not been made from the perspective or expectation of financial project returns alone, but have also considered the wider social and economic impacts that the project might bring. Our analysis has therefore been undertaken on a forward-looking basis to consider procedural or governance type improvements that could help to bolster the council's return from a social and economic benefit perspective along with a forward looking assessment of the sector and economic environment in which the asset will be operating.

Activities may have taken place since the date of conversations with the market that are not reflected in this report. Where reference to market activity is made, it should be noted that past performance is not indicative of future activity within the context of The Colston Hall Phase 2 project.

If you would like to clarify any aspect of this report or discuss other related matters then please do not hesitate to contact me.

Yours sincerely



Sarah Phillips
Partner
Ernst & Young LLP

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1. Executive summary

1.1 Introduction and purpose

Bristol Beacon is a concert hall in Bristol City. It is owned by Bristol City Council ('the Council' or 'BCC') and operated by Bristol Music Trust ('BMT') which was established in 2011 as an independent trust to operate the venue. The venue has suffered from a lack of maintenance and modernisation with no major refurbishment to the existing building for the last 60 years.¹ BCC is currently undertaking a long-term capital refurbishment of the Bristol Beacon ('the Project') to modernise the venue and put the city on a level with other major world cities which have concert halls among their key competitive assets. In light of escalating project delivery costs for the Project, now estimated at approximately £131 million, severe impacts on the sector as a result of COVID-19, and a challenging macroenvironment in the UK, the council wishes to review and understand the current benefits of the investment.

This report assesses the current economic environment and context against which the refurbishment is being delivered, reviews the financial viability of the project in light of the latest cost increase estimates, identifies commercial risks and opportunities pertaining to the project, and draws conclusions regarding the attractiveness of the investment to BCC.

To capture our analysis, the report has been structured into three key sections:

- 1. Sector Analysis** - This section examines both the current UK macroenvironment and a more focused look into the UK Arts and entertainment sector², to identify emerging trends that may pose challenges or risks to the Project viability. It also considers competition in the sector (both locally and nationally) and the Bristol Beacon's value to the city, as well as an assessment of the implications of the emerging economic or sector trends on BMT's Business Plan assumptions.
- 2. Financial Analysis of the Project from the perspective of BCC** - This section assesses the viability of the Project to BCC as funder, Landlord and service commissioner from a purely financial perspective. This includes a Net Present Value analysis conducted on BCC's cashflows related to the project, and assessment of ongoing revenue implications of the asset to BCC.
- 3. Governance and operating model assessment** - This section examines the current governance arrangements between BCC and BMT in relation to project delivery and ongoing operations, including potential risks and opportunities to improve the structure moving forward. It also examines a number of different operating models we have looked at that may be considered by councils for council owned theatre venues.

Our findings and conclusions from the analysis are presented below.

We understand that the Colston Hall Phase 2 project has gone through multiple previous rounds of Cabinet approvals for both the original project budget as well as subsequent increases to the project budget. We have not sought to assess or comment upon the appropriateness of these prior approvals or budget amounts.

We also recognise that approvals for the capital investment have not been made from the perspective or expectation of financial project returns alone, but have also considered the wider social and economic impacts that the project might bring. Our analysis has therefore been undertaken on a forward-looking basis to consider procedural or governance type improvements

¹ Cabinet Decision Paper - 1 May 2018

² The Arts, Entertainment and Recreation sector has been analysed based on the SIC Industrial Classification 'Level R: Arts, Entertainment and Recreation'. Economic analysis has been conducted at this classification level.

that could help to bolster the council's return from a social and economic benefit perspective along with a forward-looking assessment of the sector and economic environment in which the asset will be operating.

1.2 Summary of findings

The table below summarises the key findings of our analysis and conclusions regarding whether the Bristol Beacon still represents an attractive investment to BCC.

Table 1 - Key findings

| Key Findings | |
|-----------------|--|
| Report section | Key findings |
| Sector analysis | <p>This investment in Bristol Beacon is predicated on a sector which was severely impacted by COVID-19 and economic output has not yet returned to pre pandemic levels. This could indicate a permanent structural shift caused by lower footfall in the City Centre and emerging entertainment technologies. Such technologies could impact demand at the theatre in the long-term should consumers continue to reject in-person events in favour of streaming services in their own home.</p> <p>The shorter-term economic climate also represents a challenge for the venue, with high inflation likely to impact future construction work and the cost-of-living crisis challenging future sales income at the venue. Bristol Beacon's cost base is likely to be impacted by persisting inflation in 2023, with staff, premises and construction costs most likely to be affected. The cost-of-living crisis, resultant from high inflation, is likely to squeeze spending on luxury items threatening consumer demand for entertainment and consequently Bristol Beacon's income.</p> <p>Nevertheless, Bristol Beacon remains an important cultural and strategic asset within the local economy and is the largest cultural events arena in the city centre. If the Bristol Beacon can withstand the challenges faced in the forecast short-term economic volatility and continue to attract significant cultural events to the venue, it can make a significant economic contribution to the region, helping to make the region a more attractive place to visit, live and do business in. To achieve this BMT will have to develop a unique selling point, and effectively segment their audience to ensure events held attract and expand their consumer base, and align to the wider socio-economic objectives of the venue. This will include applying subsidy to events that enable access and encourage attendance from vulnerable parts of the population, rather than events that bolster attendance from parts of the community that don't require subsidy. The development of a distinct offering will be particularly critical with YTL opening in 2024.</p> <p>As a major events venue in the city centre, the Bristol Beacon offers a reciprocal benefit to help attract visitors to the city centre, delivering wider benefits to the local economy. There are indirect and induced economic benefits associated with activity at the Bristol Beacon, which can help stimulate economic output in the region.</p> |

| | |
|---|---|
| <p>Financial review</p> | <p>The project generates a significantly negative NPV under the current commercial arrangements between BCC and BMT and based on assumptions made on financial projections. While amendments to the commercial operating model may help to some degree, it will not achieve a breakeven NPV.</p> <p>A report provided by BCC and prepared by an independent technical advisor concluded that current cost estimates (including contingencies) appear sufficient to complete the Project. We did not observe anything that appears to have been fundamentally missed as part of the assessment and therefore have no reason to disagree with the conclusions. However, given the challenging environment and time left to completion, we believe a number of risks remain to the Council. These could be driven by further delays to the project schedule, or unknown risks including further unexpected inflation driving upwards movements in raw material and labour costs. Increases to costs would further worsen the financial returns of the Project to BCC.</p> <p>However, the Council recognises the project is designed to generate wider social impacts, rather than a purely financial return. These might include direct educational benefits, indirect benefits such as increased spending in local shops and restaurants from increase footfall, as well as potential induced benefits resulting from higher incomes in the local vicinity leading to higher general spending levels.</p> <p>The estimated cost of pausing or terminating the Project is also higher than the estimated cost to complete it. With potential for reputational issues if the Council changes tact with the Project at this late stage, proceeding to completion with additional funding appears to be the preferable option. However, changing circumstances or poor performance of the venue in the future could change this.</p> |
| <p>Governance and operating model review</p> | <p>BCC does not currently have a formal framework in place to monitor and appraise the social impacts generated by this Project. This may make it difficult for BCC to gain comfort that the significantly negative NPV can be justified by social impacts.</p> <p>The Council is exposed to underperformance from BMT against their business plan and should therefore have in place mechanisms that allow it to gain better visibility and management of their performance. The current governance structure between BCC and BMT prescribes an open book policy. However, this primarily relates to supporting calculation of annual compensation payments and preparation of Annual Entrusted Services Accounts.</p> <p>The proposed new lease term will range between 30 to 32 years. The draft form of the new lease currently does not contain a break clause. It also does not contain mechanisms for terminating the lease based on sustained underperformance of BMT in operating the Bristol Beacon.</p> |

1.3 Recommendations

On the basis of the findings noted above, we have identified the following recommendations.

Table 2 - Recommendations

| | Recommendations |
|----------|--|
| 1 | BCC should consider developing and formalising a framework for this Project to define, monitor and appraise the social impacts that they expect this Project to achieve. This will provide greater reassurance to the Council that the significantly negative NPV is justified through wider social / other impacts. We understand that BCC has such frameworks in place with other contracted companies, however one is not currently in place with BMT or in relation to this Project. |
| 2 | While we have not identified any substantive concerns with the existing project governance structure and do not perceive any material changes required, we recognise the need for a continued focus on project governance in the months ahead and recommend renewed stringency towards all procedures to avoid degradation of governance in this critical time. This should include a strong focus on ongoing development phase costs and plans so that potential issues can be identified early, and ensuring BCC has the information required for proactively identifying risks, appropriate mitigations and promptly implementing solutions adopted. While this recommendation is specific to this Project, the principles are important and applicable to any capital project undertaken by BCC as part of its capital programme. |
| 3 | BCC should review its open book policies with BMT and seek to put in place an appropriate mechanism between the finance teams of both BCC and BMT that gives regular and ongoing insight into financial performance and risks associated with BMT's business plan. Given the potentially high level of financial exposure BCC has from BMT and the venue's performance (including through BMT's programming and pricing model), especially in the current UK and sector environment, this higher level of transparency will not only provide greater assurance but may also provide opportunities for a more collaborative approach to risk identification and mitigation, and to drive better financial performance. This process should be led by the finance functions of both BCC and BMT to provide objective and accurate reporting. The current BMT business plan runs to 2023 and, for the reasons stated above, BCC should actively participate in the development of subsequent iterations of the plan. |
| 4 | In light of the significantly negative NPV, it is recommended that BCC and BMT consider undertaking detailed financial analysis to identify potential commercial levers to help improve the financial return of the project. These kinds of levers might include operating model amendments (that allow income share to BCC) and operational opportunities such as live streaming and broadcasting of Bristol Beacon performances to wider audiences, or streaming of other venue performances to Bristol Beacon. |
| 5 | Given the lengthy term of the proposed new lease, BCC should seek legal advice on the inclusion of a break clause within the new lease agreement. BCC also has significant exposure to BMT's financial performance in operating the Bristol Beacon. BCC should therefore also seek legal advice on including mechanisms for terminating the lease based on BMT's sustained underperformance. |

Recommendations

6

While completing the Project with additional funding appears to be more cost effective than pausing or terminating the Project at this time, BCC should identify options and develop an action plan should further issues with the Project emerge, or if the performance of the venue once operational does not meet expectations. These terms might include a plan to revitalise performance, or options for alternative uses of the asset. Not only will this provide an immediately actionable plan should it be required, but it may also act as an incentive to BMT to ensure the venue remains financially viable. Per our understanding, the Service Level Agreement is under renegotiation. BCC might consider including these terms within the amended agreement.

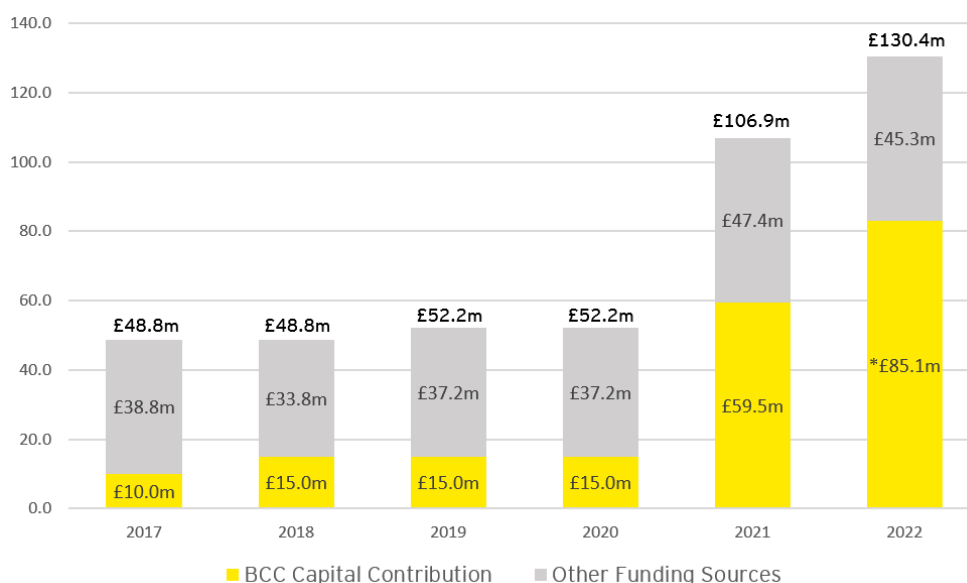
2. Introduction

2.1 Background and context

Bristol Beacon is a concert hall in Bristol City. It is owned by Bristol City Council ('BCC') and operated by Bristol Music Trust ('BMT'). The Bristol Beacon has suffered from a lack of maintenance and modernisation with no major refurbishment to the existing building for the last 60 years, and it required upgrades to make it an internationally recognised first class music events venue.³ It was determined that this upgrade would occur in 2 phases, the first of which was the upgrade of the Foyer (Phase 1) which was completed in 2009. The second (larger) phase, which relates to undertaking significant refurbishments of the remainder of the Bristol Beacon, is referred to as The Colston Hall Phase 2 project (the 'Project'). The venue will be modernised to 21st Century standards, and the capacity will be increased through development of previously unused spaces.

Since the Project was initially approved on 1st May 2018, the anticipated capital costs, including BCC's capital contribution, have increased substantially. The table below shows this increase from original estimate to the latest cost estimates provided by BCC.

Figure 1 - Increases in the Project cost envelope and BCC's capital contribution



*All of £23.5m additional funding requirement identified in 2022 is assumed to be covered by the Council's capital contribution

The macro-economic environment has also changed significantly over this period due to global events including the COVID-19 pandemic.

In light of these cost increases and changing circumstances, BCC wishes to review and understand the current benefits of the project to the council and Bristol City.

2.2 Purpose of this report

The purpose of this report is to provide support to BCC in evaluating whether the costs associated with the project are justified by its expected benefits. In doing so, it is essential to assess the current economic environment and context against which the Project is being delivered. It is also necessary to review the financial viability of the project taking into consideration the latest cost increase

³ Cabinet Decision Paper - 1 May 2018

estimates. Additionally, the report will seek to identify commercial risks and opportunities pertaining to the project and draw conclusions regarding the attractiveness of the investment to BCC.

2.3 Scope of report and limitations

To capture our analysis, the report has been structured into three key sections:

1. Sector Analysis - This section examines both the current UK macroenvironment and takes a more focused look into the UK Arts and entertainment sector, to identify any emerging trends that may pose challenges or risks to the Project. It also considers competition in the sector (both locally and nationally) and the Bristol Beacon's value to the city, as well as provides an assessment of the implications of the emerging economic or sector trends on BMT's Business Plan assumptions.
2. Financial Review of the Project from the perspective of BCC - This section assesses the value of the Project to BCC from a purely financial perspective. This includes a Net Present Value analysis conducted on BCC's cashflows related to the project, and assessment of ongoing revenue implications of the project to BCC.
3. Governance and operating model assessment - This section examines the current governance arrangements between BCC and BMT in relation to the project, including potential risks and opportunities to potentially improve the structure moving forward. It also examines a number of different operating models we have looked at that may be considered by councils for council owned theatre venues.

Our conclusions, informed by the analysis in the three sections above, are presented in the Executive Summary.

In completing the sector analysis, we have examined the potential impacts of the current economic environment on the Project and have considered the wider social and economic benefits that might be derived from the Project. However, we have not undertaken a detailed Economic Impact Assessment that seeks to quantify the wider social or economic impacts or Gross Value Added ('GVA') generated by the Project.

Our financial review has relied on financial information provided by BCC and BMT. We have not sought to verify or validate any of the information provided.

We understand that the Colston Hall Phase 2 project has gone through multiple previous rounds of Cabinet approvals for both the original project budget as well as subsequent increases to the project budget. We have not sought to assess or comment upon the appropriateness of these prior approvals or budget amounts.

We also recognise that approvals for the capital investment have not been made from the perspective or expectation of financial project returns alone, but have also considered the wider social and economic impacts that the project might bring. Our analysis has therefore been undertaken on a forward-looking basis to consider procedural or governance type improvements that could help to bolster the council's return from a social and economic benefit perspective along with a forward-looking assessment of the sector and economic environment in which the asset will be operating.

3. Sector Analysis

Within this section, we have considered macroeconomic forecasts at both the national and regional level to help frame key challenges that the Cultural and Events sector may face in the short to medium term.

3.1 Overview of Macroeconomy in the UK

Table 3: Key findings about the macroeconomic environment of the UK

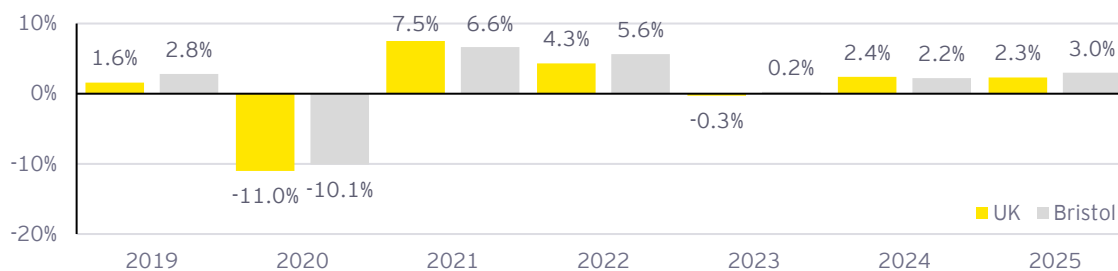
| | Key Findings |
|----------|--|
| 1 | Low consumer confidence is set to dampen demand in the Cultural and Events Sector. Forecasts of a national recession are set to dampen consumer sentiment and whilst Bristol is forecast to narrowly avoid recession, a marginal growth rate (0.2%) presents a demand challenge to the Cultural and Events Sector. |
| 2 | The cost-of-living crisis presents an acute challenge to areas of discretionary spend. Household disposable incomes are being squeezed as a result of the cost-of-living crisis. This poses a significant threat to the Culture and Events sector which constitutes discretionary spend in household budgets, likely to be deprioritised against spend on essential goods. |
| 3 | Weakened consumer sentiment presents a threat to revenue generation for Bristol Beacon. Consumer expenditure is not expected to recover to pre-pandemic levels until 2025, this weakened demand, will continue to challenge revenue forecasts at Bristol Beacon, following what has already been a difficult period within the sector. |

The UK is forecast to dip into recession during the 22/23 winter, this projected fall in economic output and consequently reduction in consumer confidence will negatively impact demand in the Cultural and Events Sector.

The EY Item club has forecast that the UK economy will enter a recession this winter, with GDP forecast to fall until mid-2023. The decline is forecast to be shallow; GDP is projected to contract 0.3% during 2023 and growth is forecast to return in 2024. However, this follows a turbulent economic period with UK GDP already operating below pre-pandemic levels. Bristol is forecast to be more resilient to the economic downturn, with marginal economic growth of 0.2% forecast for 2023. Bristol GDP is also expected to have recovered to pre-pandemic levels during 2022. However, forecast growth is founded upon gains in Professional, Scientific and Technology and Education sectors rather than Cultural Sectors. Regardless of local projections, the national outlook presents a challenging business environment and negative wealth effects look set to dampen consumer confidence throughout the country⁴. This presents a demand challenge for Bristol Beacon as consumers cut back on discretionary spending.

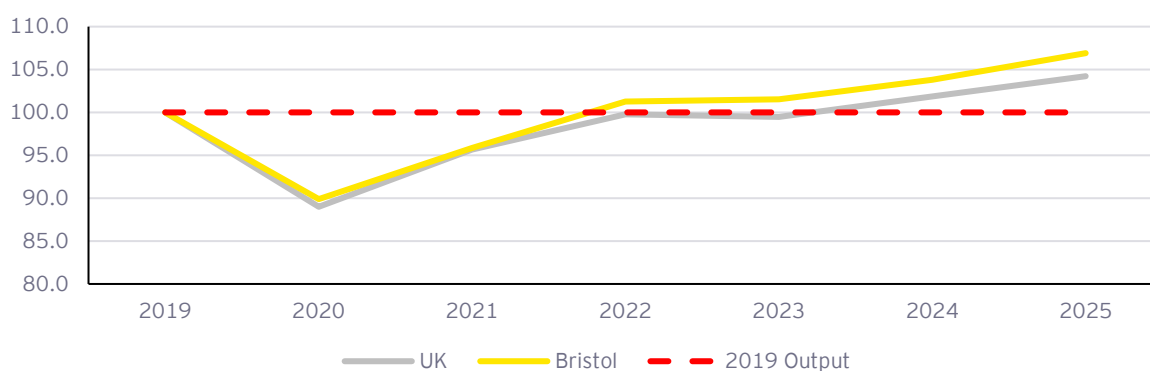
⁴ Oxford Economics (2022). *UK: Shallow recession to be followed by weak recovery.*
<https://my.oxfordeconomics.com/chapters/29eB1d39650F478b84325e/UKShallowrecessionto?isSearchWithin=True&pdfViewMode=&SearchTerms=consumer>

Figure 2 - GDP Growth 2019 to 2025



Source: EY Item Club

Figure 3 - Indexed GDP 2019 to 2025 (2019=100)



Source: EY Item Club

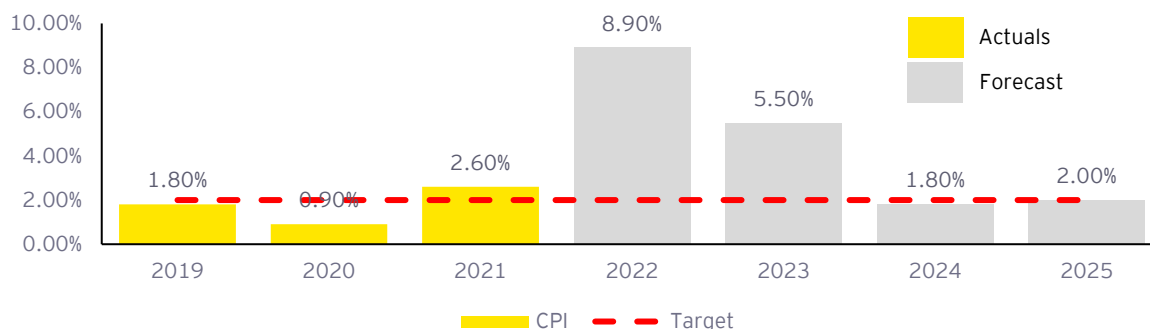
The cost-of-living crisis is driving the forecast recession in 2023, with higher prices reducing real income levels across the country, and consequently squeezing out available household discretionary spend.

Forecast declines in UK output and employment are largely being driven by the cost-of-living crisis. Record levels of inflation are squeezing household incomes and resulting in a decline in discretionary consumer spending. CPI inflation reached a 40-year high of 11.1% in the 12-months to October 2022 and is forecast to persist into 2023, albeit at a lower rate of 5.5%. As Households face increases in essential costs such as household bills and food, this poses a significant threat to the Cultural and Events sector which constitutes discretionary spend.

The challenges of high inflation are not isolated to consumer goods and rising prices will also likely impact the cost of any capital investment the Council is making related to the Bristol Beacon. UK construction PMI⁵ fell from 53.2 to 50.4 in November (suggesting reduced expectations for construction activity). According to S&P, this reflects industry sentiment that increased cost burdens and tight supply conditions are driving reduced demand for investment. There are also reports that challenges in transport and logistic sectors have resulted in longer lead times, which highlights the risk of construction delays for Bristol Beacon. The outlook for the theatre is challenging as it must balance rising costs related to rising capital investment, against weakened consumer demand in the face of high inflation.

⁵ Construction PMI above 50 reflects expectations for growth in construction activity. S&P Global (December 2022). 'Construction growth slips to a three-month low. Business expectations weakest since May 2020.' <https://www.pmi.spglobal.com/Public/Home/PressRelease/d6c047e84a89436cae8fef309f357cf4>

Figure 4 - Inflation Forecast - 2019 to 2025

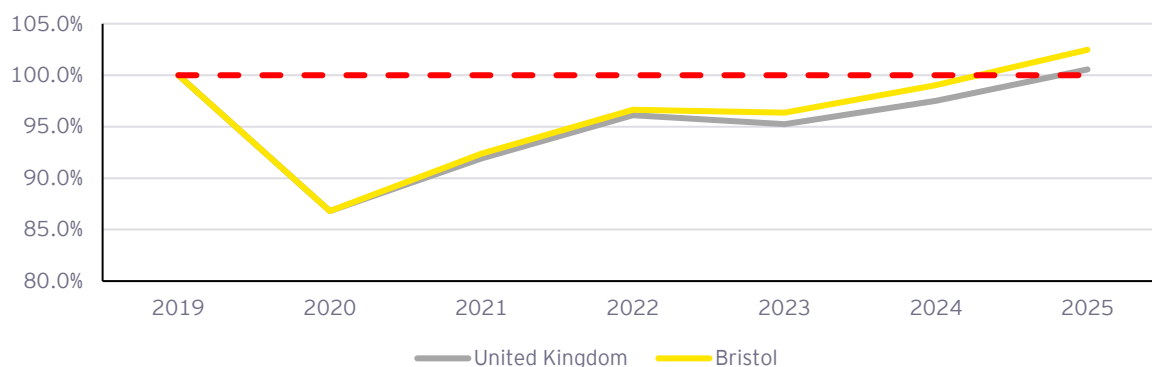


Source: EY Item Club

Consumer expenditure is not forecast to return to 2019 levels until 2025, presenting a persistent challenge for Bristol Beacon.

High levels of inflation limit the spending power of households, resulting in reduced spend on non-essential items. A national real term decline of -0.7% in consumer expenditure is expected in 2023, although this contraction is expected to be less severe in Bristol at -0.02%. Consumer expenditure is already lower than pre-pandemic levels, as outlined in Figure 4. In the Cultural and Events sector, the main impact of weak consumer expenditure is reduced revenues generated from ticket sales. The challenge this presents is exacerbated for Bristol Beacon given that it follows several years of hardship for the Cultural and Events industry, including COVID related closures.

Figure 5 - Indexed Real Consumer Expenditure - 2019 to 2025 (2019=100) (2019 prices)



Source: Oxford Economics

3.2 Overview of UK Arts and Entertainment Sector

3.2.1 Context

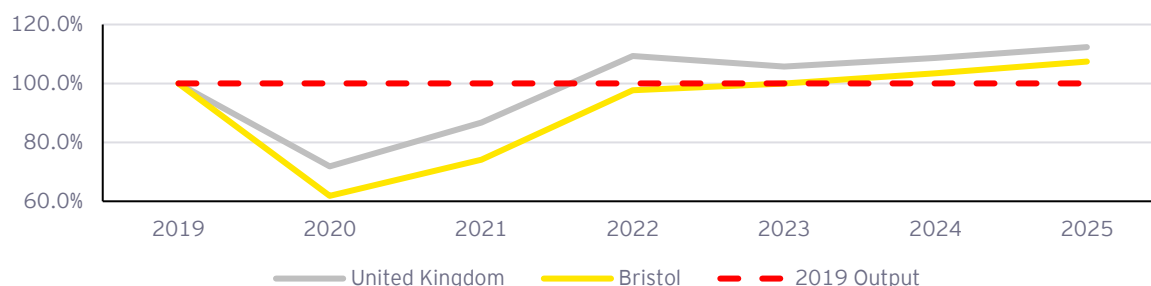
Table 4: Key findings about the Arts and Entertainment sector of the UK

| | Key findings |
|----------|--|
| 1 | Bristol's Arts and Entertainment sector was severely impacted by the pandemic The decline in output of the Arts, Entertainment and Recreation sector was more severe in Bristol than the UK, suffering a 38% decline in 2020. As a result, the sector is still operating below 2019 levels of output. |
| 2 | The cost-of-living crisis is prolonging the period of stress for the sector A contraction of the UK's Art, Entertainment and Recreation sector is forecast during 2023. Expectations are more optimistic for Bristol, with 2.3% growth forecast next year, although this reflects recovery to 2019 levels rather than expansion. |
| 3 | Consumer behaviour has shifted, with fewer people attending retail and recreation facilities in person Footfall data demonstrating that activity at Bristol's retail and recreation facilities was 19% below pre-pandemic levels in October 2022 indicating a more permanent shift in consumer behaviour, with fewer consumers attending facilities in person. |
| 4 | A tight labour market presents a challenge to staffing in the sector Since the pandemic, Creative Arts and Entertainment sector employment has declined by 20% in Bristol, from 1,250 in 2019 to 1,000 in 2020. |

The impact of the pandemic on the Arts, Entertainment and Recreation sector was more severe in Bristol than the UK as a whole.

The Covid-19 pandemic presented a significant economic challenge for the Arts, Entertainment and Recreation⁶ sector; one which was significantly more pronounced in Bristol compared to the UK as a whole. Within Bristol, sector output levels fell by 38% in 2020, compared with a reduction of 28% for the UK. Consequently, recovery to pre-pandemic output levels has been slower in Bristol, with output expected to be 2.3% lower than pre-pandemic levels by the end of 2023. This highlights the heightened challenge that Bristol Beacon faces in the context of the local economic environment.

Figure 6 - Indexed GVA - Arts, Entertainment and Recreation - 2019 to 2025



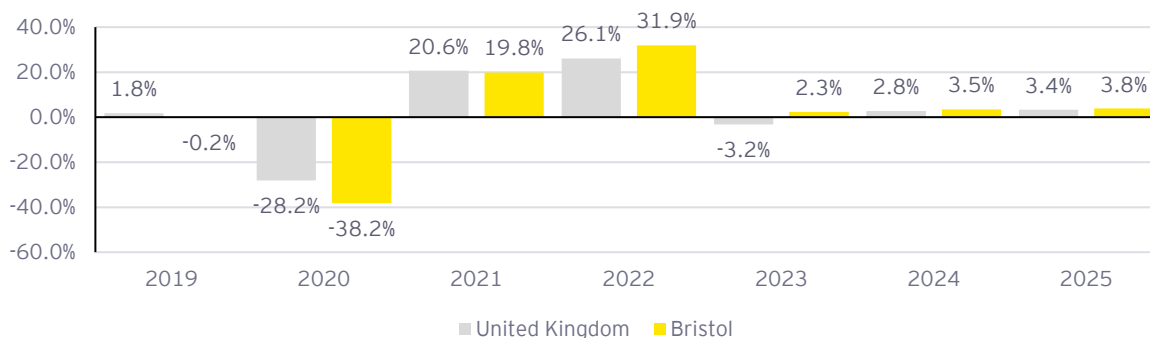
Source: Oxford Economics

⁶ Due to data limitations, forecast output cannot be isolated for the Theatre sector. Creative, arts and entertainment activities is a sub-sector of the Arts, Entertainment and Recreation sector, providing a good proxy for the economic performance of the theatre industry.

The UK's Arts, Entertainment and Recreation sector is forecast to decline during 2023 as a result of the cost-of living crisis.

In light of the cost-of-living crisis, activity in the Arts, Entertainment and Recreation sector is forecast to decline at a national level in 2023 by -3.2%. At a local level, Bristol grows at a stronger rate of 2.3% next year however this is reflective of continued recovery to pre-pandemic levels, a threshold already achieved nationally. This illustrates the economic context Bristol Beacon operates within is mixed; forecast to weather the cost-of-living crisis better than the national picture in 2023, however still significantly underperforming UK indexed growth since 2019.

Figure 7 - Arts, Entertainment and Recreation GVA Forecast 2019 to 2025

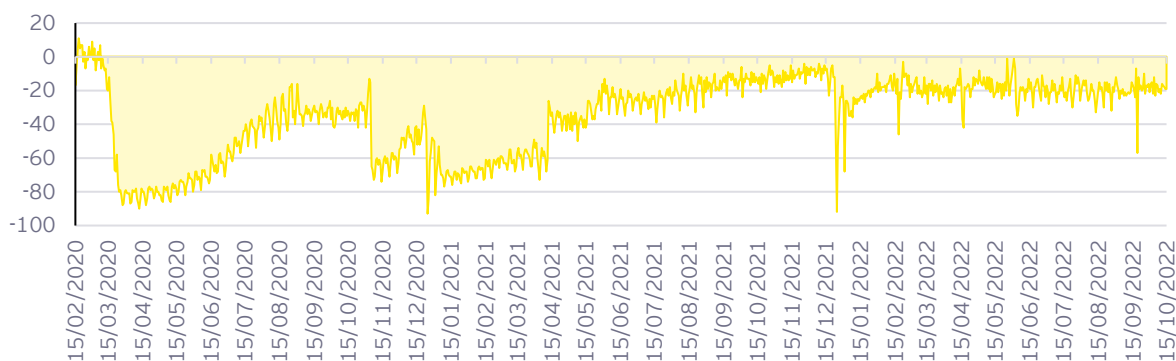


Source: Oxford Economics

Footfall data demonstrates that Bristol's recreation sector has not yet recovered, with activity at retail and recreation facilities 19% below pre-pandemic levels as at October 2022*.

The Google Covid-19 Community Report demonstrates footfall in Bristol's retail and recreation facilities remains significantly below pre-pandemic levels. This highlights that despite the easing of social distancing measures consumers have not returned to behaviours pre-pandemic with footfall persistently 20% lower than February 2020.

Figure 8 - Google Covid-19 Community Report - Retail and Recreation Sites - Bristol**



Source: Google Mobility Report

*Google mobility data estimated visitations at key sites up until the 15th October 2022 to help identify mobility trends following the Covid-19 pandemic.

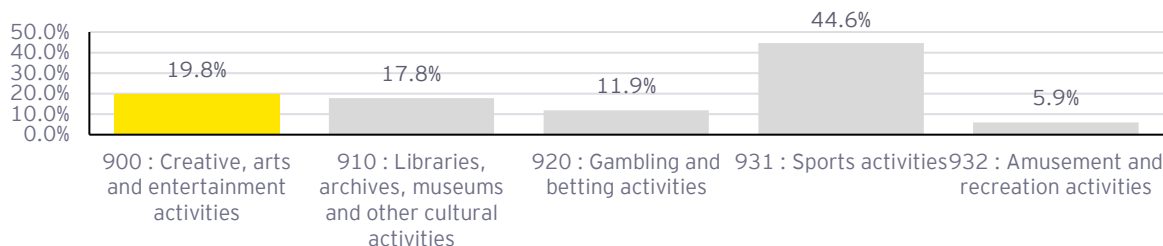
**The baseline is the median value, for the corresponding day of the week, during the five-week period 3 Jan - 6 Feb 2020

Bristol Beacon accounts for approximately 1 in 17 jobs in Bristol's Creative Arts sector

As demonstrated below in 2021, employment in Creative Arts and Entertainment Activities represented 19.8% of employment within the Arts, Entertainment and Recreation Industry. As of 2021 there were 1,000 employees in Bristol's Creative Arts sector. Prior to expansion Bristol

Beacon employed over 60 people, constituting around 1 in 17 local Creative Arts employees; it is a significant institution for employment in the sector.

Figure 9 - Arts, Entertainment and Recreation Employment Breakdown by sub sector - SIC Level 3 Code - 2021



Source: Business Register and Employment Survey

3.2.2 Sector Trends

Table 5: Key trends in the theatre sector

| Key trends | |
|------------|--|
| 1 | <p>Changes in consumer behaviour</p> <p>Theatre sector revenues are threatened by both a long term shift away from in-person event attendance as well as a movement towards new technologies and offerings.</p> |
| 2 | <p>Staffing challenges</p> <p>Since the pandemic, Arts and Entertainment employment has declined in Bristol. This echoes a national trend of staffing challenges due to a tight labour market, driven partly by a lack of applicants from EU countries.</p> |
| 3 | <p>Uncertainty over public funding poses a further threat to income</p> <p>Aside from losses in revenue, income generated from public private grants is at risk in the face of government cuts and recessionary concerns</p> |

A reduction in in-person attendance and a shift to new technologies threatens theatre sector revenue

There has been a permanent shift in consumer behaviour following the pandemic with an increased uptake of online offerings in Theatre and adjacent sectors. Several theatres adopted digital solutions for the recording and streaming of performances to ensure that audiences could still access them whilst at home. In some cases, performances could be streamed free of charge, enhancing accessibility to the arts. The theatre sector now competes with new offerings and technologies such as virtual reality, e-gaming and streaming entertainment. Global revenues from virtual reality are projected to double between 2022 and 2025, whilst increases of 30% and 13% are forecast for video streaming and video game revenues⁷.

High labour market tightness is driving staffing challenges, particularly in theatre bars and cafes

Since the pandemic, Arts and Entertainment employment has declined by 20% in Bristol, from 1,250 in 2019 to 1,000 in 2021. Whilst the decline in sector employment may partially reflect venue closures and lower audience attendance, it also corresponds with staffing challenges that are being experienced in many sectors. The record number of job vacancies at a national level are indicative of a tight labour market with low levels of unemployment. A lack of applicants from EU countries post

⁷ PWC (2022). *Global Entertainment & Media Outlook 2022*. <https://www.pwc.com/gx/en/industries/tmt/media/outlook.html>

Brexit has contributed to this challenge⁸. The problem this poses to businesses varies between sectors, as demonstrated by an ONS survey from September 2021. Whilst 7% of survey respondents from the Arts and Recreation sector found that vacancies were more difficult to fill, this figure rose to 30% for the Hospitality sector. For Bristol Beacon this indicates recruitment issues could be more pronounced in the café and bar, compared to event production roles.

Many venues are threatened with closure following the withdrawal of public funding

In addition to concerns regarding revenue generated from ticket sales due to the cost-of-living crisis, theatres in the UK are faced with a decline in both public and private funding. Many theatre venues require substantial investment for the upkeep of land and buildings, particularly those located in old or listed properties. In November 2022, the Arts Council England announced cuts to Arts to several theatres and opera houses⁹. Some organisations, such as the Watermill Theatre in Berkshire face an uncertain future having lost 100% of Arts Council funding whilst still recovering from the effects of the pandemic.

3.2.3 Competition in the Arts and Entertainment sector

Bristol Beacon's closest competitors are other concert halls, theatres, cinemas and event hire spaces in Bristol. We have conducted a case study review of selected competitors from Bristol as summarized in Figure 1 below and have reviewed major cultural event space in comparator cities, to help contextualise the relative importance of Bristol Beacon for the Arts, Entertainment and Recreation sector.

3.2.4 Immediate competition

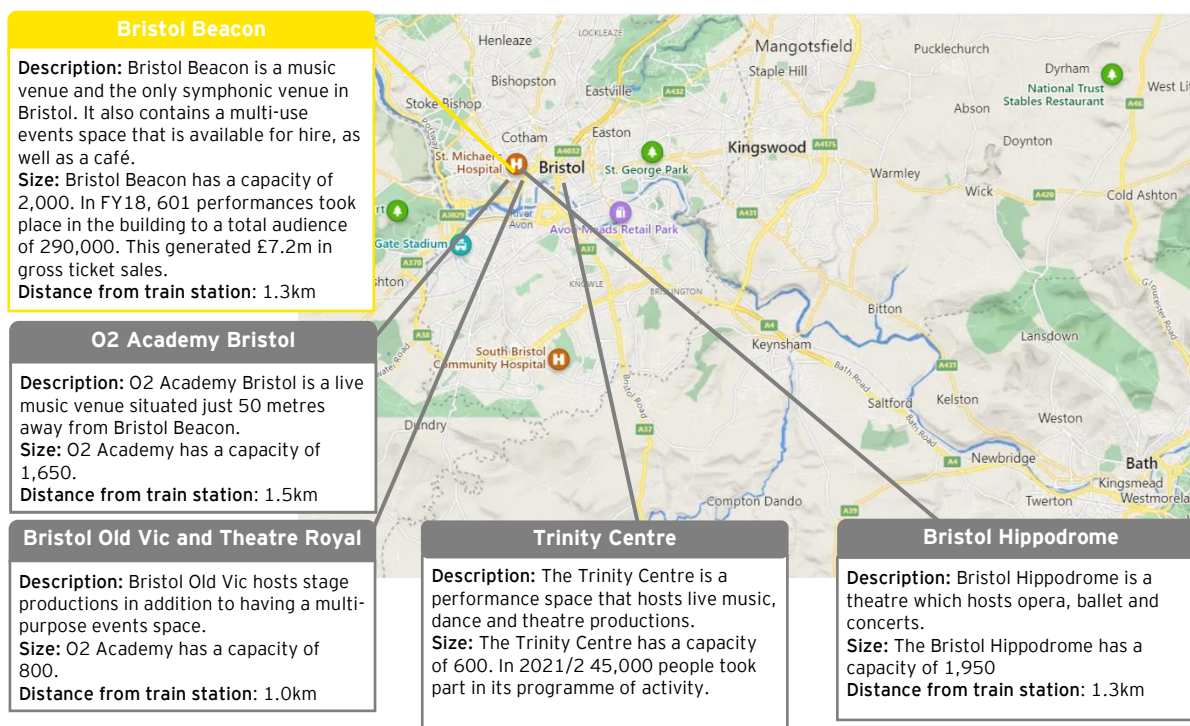
While there are other theatres and music venues in the local area, Bristol Beacon represents a significant part of the Arts and Entertainment sector within the region. As outlined below, Bristol Beacon has the largest capacity of its nearest current competitors based in the city centre. Capacity of a venue is an important component when attracting leading productions, artists and events to the region, as venues with larger hosting capacity have a greater commercial pull for event organisers. To ensure that Bristol continues to attract such events to the region, it is therefore important to have venues that offer commercially viable revenues for organisers. It is noted that the Bristol YLT arena is scheduled to open in 2024, which will have capacity to host events of 17,000. Given the size and location of the venue it is likely to programme different kinds of events and therefore target a slightly different audience to that of Bristol Beacon. However it still represents a challenge to demand at Bristol Beacon and it will be important for the Council to understand the unique selling points offered by Bristol Beacon compared to this venue. In developing a unique selling point, BMT will need to effectively segment their audience to ensure events held attract and expand their consumer base, and align to the wider socio-economic objectives of the venue. This will include applying subsidy to events that enable access and encourage attendance from vulnerable parts of the population, rather than events that bolster attendance from parts of the community that don't require subsidy.

During 2018 Bristol Beacon hosted 601 performances at the building to a total audience of 290,000. Based on the capacity requirements and current schedules of other venues within in the city centre, it is unlikely that the venues could subsume this demand were Bristol Beacon to cease operating. The importance of Bristol Beacon to the city centres cultural sector is therefore significant, with it attracting a large number of performances across the year, helping to develop the cultural ecosystem within the region.

⁸ ONS (2021). Hospitality businesses are most likely to be struggling to fill vacancies. <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/hospitalitybusinessesaremostlikelytobestrugglingtofillvacancies/2021-09-16>

⁹ Guardian (November 2022). *Arts Council funding: organisations head into the unknown amid cuts*. <https://www.theguardian.com/culture/2022/nov/10/arts-council-funding-organisations-head-into-the-unknown-amid-cuts>

Figure 10 - Mapping of Bristol Beacon and local competitors



3.2.5 City comparators

As demonstrated in Table 6, other neighbouring and major cities in the UK all have a number of theatres and musical venues that offer substantial capacity to cater for cultural events within the city. Across all of these city comparators, each city has a venue with at least capacity of 2,000. In the absence of the Bristol Beacon, Bristol would not have a venue that meets this capacity. This highlights that it is a common and important feature for a city to have a venue that can host significant cultural events in the city.

Having a significant cultural events space is therefore an important component of Bristol's local economy, as it helps to develop a sense of place, making the region an attractive place to live, visit, and invest in. Visitors to the venue help to support the local economy by increasing footfall in the City Centre and consequently increasing consumer spend in the surrounding area. The spend effects of visitation to the Bristol Beacon and Bristol Beacon's spend in its supply chain create both indirect and induced economic benefits, stimulating economic output in the region. Additionally, having an important cultural venue helps to deliver wider social and economic benefits within a city, by helping to underpin its reputation for creativity, live performance and business innovation. A thriving and dynamic cultural hub can therefore be important in developing a sense of pride and place for a region.

Table 6: Theatres in other neighboring and major cities (This list is not exhaustive and has been collated to demonstrate examples of facilities in other comparable and major cities).

| City | Metric | Theatre | | | | |
|------------|-----------|--------------------|------------------|--------------------------|------------------------|------------------------|
| Cardiff | Name: | Montorpoint Arena | St David's Hall | Wales Millennium Theatre | The Tramshed | New Theatre |
| | Capacity: | 7,500 | 2,000 | 1,900 | 1,700 | 1,500 |
| Bath | Name: | The Forum | The Guildhall | Theatre Royal | The Rondo | The Egg |
| | Capacity: | 2,000 | 1,000 | 1,000 | 300 | 200 |
| Exeter | Name: | Great Hall | Exeter Cathedral | Exeter Phoenix | Northcott Theatre | Barnfield Theatre |
| | Capacity: | 2,000 | 1,200 | 1,000 | 600 | 250 |
| Manchester | Name: | Manchester Academy | The Apollo | Palace Theatre | Manchester Opera House | Royal Exchange Theatre |
| | Capacity: | 5,100 | 3,500 | 2,900 | 2,600 | 760 |
| Birmingham | Name: | O2 Academy | Symphony Hall | Birmingham Hippodrome | The Old Rep | The Crescent Theatre |
| | Capacity: | 3,000 | 2,300 | 1,700 | 550 | 250 |

3.2.6 Implications on Bristol Beacon Business Case assumptions

The assumptions driving Bristol Beacon's financial business case are assessed in the context of the macroeconomic environment in 7 below. This review has been based upon the updates to the 2019-23 business case, which were provided for 2022.

We have used a RAG system going from red (higher) to green (lower) to indicate the perceived risk level to the business case assumptions.

Table 7: Assessment of business case assumptions in the context of macroeconomic and sector trends

| Assumption | Assessment | RAG |
|------------------|--|-----|
| Phase 2 timeline | In BMT's business plan which was published in 2019, the target for completion of the Project was the 2021/22 financial year. In its revised business plan estimates, this deadline has been delayed until Autumn 2023. This is understandable due to delays in the construction sector pertaining to COVID-19 and subsequent challenges relating to transport and staffing. It may be possible that the current deadline of Autumn 2023 may not be met, which would cause downward pressure on box office revenues due to prolonged closure. | Red |

| Assumption | Assessment | RAG |
|--------------------|---|-------|
| Phase 2 cost | The initial £52m cost of the Project from 2019 has been revised to approximately £131m given COVID-19 delays and cost inflation. In the construction sector, output prices increased by 18.4% between January 2019 and September 2022 ¹⁰ . Ongoing uncertainty presents a risk that the refurbishment budget may need to be increased, which could generate a funding challenge for the Project. | Red |
| Average attendance | BMT assumes that attendance (%) falls slightly from 68% to 62% for Hall 1 and increases from 66% to 67% for Hall 2 following refurbishment despite increase in capacity and the opening of Hall 3. These are pre-pandemic assumptions which are now optimistic given the shift in consumer behaviour following the pandemic. Footfall and in-person attendance at recreation facilities has fallen as more consumers choose to stay at home and consume alternative means of entertainment. This concern is echoed by Bristol Beacon's local competitors, which cite attracting sufficient audience members as a substantial threat to financial performance. | Amber |
| Event income | An 87% increase to £1.3m in Event income is forecast in Bristol Beacon's most recent business plan estimates. The multi-use events space is available to hire for conferences, weddings and private parties. With businesses facing an uncertain economic outlook, spend related to external events and conferences is likely to diminish. However, pent up demand related to weddings has the potential to offset some of this lost income. | Amber |
| Trading income | A 106% in trading income is forecast, with income expected to increase to £1.4m. Although an increase in ticket prices is plausible in light of improvements to the quality of Bristol Beacon's offering and CPI inflation, the current squeeze on disposable incomes may prevent this rise in box office incomes from being achieved. This challenge comes as audience members cut back on discretionary spend. | Amber |
| Staff costs | A 50% increase to £2.7m in staff costs is forecast following the refurbishment according to Bristol Beacon's latest estimate. This is an increase on the 2019 business case estimate which was overly optimistic given upwards pressure on the living wage driven by high CPI inflation. The forecast assumes 5% inflation during 2023/24 followed by a fall to 3% thereafter, which is broadly in line with estimates from economic forecaster Oxford Economics. However, given persisting uncertainty in the market it is possible that staff costs could inflate further, squeezing profit margins. | Amber |
| Premises costs | Bristol Beacon projects a 21% increase in premises costs following refurbishment, an increase from its initial business case estimate in 2019. In light of the energy crisis that is currently prevailing, it is reasonable that this estimate has increased. There is limited support for businesses, which is threatening the commercial viability of many organisations. This places pressure on Bristol Beacon's profitability and ability to return value on investment. | Amber |

¹⁰ ONS (2022). *Construction output prices*.
<https://www.ons.gov.uk/businessindustryandtrade/constructionindustry/datasets/interimconstructionoutputriceindices>

4. Financial Review

In this section, we assess the potential financial returns and implications of the Project to the council. This includes both capital viability analysis as well as assessment of the ongoing revenue implications of the asset to BCC as funder and Landlord.

In undertaking this review, we have examined three scenarios:

- ▶ **Scenario 1** - Current commercial arrangements
- ▶ **Scenario 2** - Upside scenario
- ▶ **Scenario 3** - Downside scenario

These scenarios are outlined in greater detail below. Scenarios 2 and 3 are both indicative and cumulative upon assumptions under Scenario 1, and were agreed with BCC for the purpose of this analysis.

4.1 Scenario 1 - Current commercial arrangements

4.1.1 Overview of scenario

Scenario 1 examines the financial returns to BCC under the current commercial arrangements between BCC and BMT in relation to the project. The key commercial arrangements relevant to our financial review are summarised below (note - further information on the arrangements between BMT and BCC are provided in Section 5). We understand that the terms of the key agreement documents between BCC and BMT are currently under negotiation at the time of writing this report and are subject to change. The commercial arrangements assumed in this scenario primarily reflect those outlined in the various agreements except where specifically stated.

Lease period

When BMT was established in 2011, the venue was leased from BCC to BMT under the terms of a lease agreement dated 28th April 2011 for a term expiring in 2036. Due to the required works of the project, an Agreement for Surrender and Regrant of Lease for Colston Hall ('AFS') was signed between BCC and BMT in December 2019 allowing BCC to occupy the relevant parts of the venue during the refurbishment period, and on completion of the works, granting a new lease to BMT for the ongoing lease of the refurbished venue. Under the terms of the AFS, the new lease period is stated as 30 years from the completion of the works and opening of the venue. However, we understand that BCC and BMT are in the process of amending certain lease terms, and as part of this review BMT have requested an extension of the lease period to 32 years. We have therefore assumed a lease period of 32 years for the purpose of our NPV analysis to reflect this latest position.

Capital funding

At the time the Collaboration Agreement ('CA') was signed in 2019, the Project's total estimated capital cost was £52 million. Per the original terms of the agreement, BMT was responsible for fundraising £42 million of this total, with the remaining £10 million of capital committed by BCC. BCC was also liable for any increase in the cost of the project over and above the total cost estimate.

The total project cost estimate subsequently increased to £106.9 in March 2021 and was approved by the Cabinet. At this time, the total committed capital from BCC increased to £54.5 million, BMT's fundraising commitment increased to £52.4 million, and BCC remained liable for any further cost increases.

The latest cost estimate for the project as of January 2023 is approximately £130.4 million which represents a total cost increase of £23.5 million. The total BMT fundraising commitment is expected

to increase to £52.8m¹¹, so it is therefore assumed that BCC's capital commitment will increase to a total of £77.6 million to cover the remaining cost increases.

According to a financial advice document provided by BCC¹², it is assumed that the full capital commitment will be funded through a Public Works and Loans Board ('PWLB') loan, repayable over 50 years with a 1.5% interest rate.

Underwriting Facility

In addition to its initial capital commitment of £10m in 2019, BCC also committed to fund any shortfall in BMT fundraising so that ongoing payments for works could be made as needed. This was committed through an underwriting facility up to a maximum of £5 million, which was increased to £12 million in March 2021.

As per the CA, interest of 3% per annum will be payable on the total amount of underwriting facility payments made. Per the repayment terms, there will be a three-year repayment holiday following opening of the venue (assumed to be 2021 in the CA), during which time no interest or principal is required to be repaid. Following this three-year period, the full amount of the principal plus interest will be repayable in equal annual instalments over the remaining lifetime of the re-granted lease.

Based on discussions with BMT, it is understood that the latest estimate for the BMT fundraising gap is approximately £6.9 million. This figure has therefore been assumed as a capital cost to BCC in our analysis. It is also understood that the latest estimate for the opening date of the venue is 1st December 2023. For the purpose of this scenario, we have assumed that the three-year repayment holiday will continue to apply from the new opening date.

On the basis of this information, we have assumed equal annual repayments of £359,591 between 2027/28 and 2055/56 for this NPV analysis.

Ongoing revenue support

Per the terms of the Entrustment Agreement ('EA'), BCC shall pay compensation to the Trust for the provision of the Entrusted Services outlined in the agreement. The amount payable by BCC to BMT is set out in the Service Level Agreement ('SLA') and was established at £1,026,000 per annum. Per the BMT Deed of Variation No 3 16.02.2022 ('DoV 3'), the annual payment amount would remain at £1,026,000 until 2022/23, and then step down gradually to £226,000 in 2029/30 where it will remain until the final year of payment in 2036/37.

Based on discussions with BCC and BMT, we understand that the payments are currently under review and may be ceased earlier than planned. For the purpose of this scenario, we have therefore reflected the latest Business Plan assumptions from BMT which align to the DoV 3 payment amounts in 2022/23 (£1,026,000) and 2023/24 (£776,000), thereafter reducing to zero from 2024/25 onwards.

4.1.2 Capital viability analysis

In this analysis, we will evaluate the indicative capital viability under the current commercial arrangements by developing a Net Present Value ('NPV') estimate for the BCC's capital investment. NPV analysis sets out an indicative value for the overall gain or loss of an investment in today's term (or that of any alternative year determined as the base year of the investment period) and it is frequently used as a key metric to guide investment decisions. If the present value of an investment

¹¹ As outlined in cost estimate provided by BMT

¹² Appendix G - Financial Advice

is positive, the investment can be considered financially feasible. A negative present value indicates that the investment will see a net loss and thus is not considered viable from a financial perspective.

According to the affordability principles set out in BCC's Capital Strategy 2023/24 to 2032/33, all council capital projects should achieve a positive NPV. The only exceptions to this are Environmental and Social Impact projects.

In calculating the NPV, all future cash flows must be adjusted under the basis of the 'Time Value of Money', which assumes future cash flows are worth less than cash flows available today. To do so, we apply a compound discount rate, usually derived from the interest rate or rate of return that the investor expects to receive if the future funds were to be available and invested today, as a proxy to discount future cash flows. In this analysis, we have set the discount rate at 3.5%, which aligns with the general guideline from the 2022 Green Book.

For this analysis we have calculated an NPV of BCC's capital investment over a 32-year payback period following the opening of the venue (expected 1st December 2023), reflecting the anticipated re-granted lease period from 2023/24 (Year 0) to 2055/56 (Year 32). The NPV calculation takes into account BCC's upfront financing of the Project's development cost, the on-going revenue subsidy paid to BMT and repayments by BMT of the underwriting facility.

For the purpose of this analysis, the following assumptions have been made as agreed with BCC:

- ▶ Total capital commitment of £84.5 million (including £77.6 million committed capital and £6.9 million underwriting facility), funded through a PWLB loan repayable over 50 years at 1.5% interest (as per BCC assumptions)
- ▶ All of BCC's upfront capital contribution is incurred in 2023 as phasing of the capital injection will not directionally change the result of the analysis
- ▶ The final revenue subsidy payment will be paid in 2023/24 of £776,000. Note - revenue subsidy payments made by the Council prior to 2023 are not retrospectively included in the NPV calculation.

Table 8 - NPV under the current commercial arrangements

| Period | 0 | 1 | 2 | 3 | 4 | 31 | 32 |
|------------------------------------|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| April - March | *2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2054/55 | 2055/56 |
| BCC Capital Contribution | -84,500,000 | | | | | | |
| PWLB Borrowing | | - | - | - | - | - | - |
| Costs to BCC | -2,217,163 | 2,217,163 | 2,217,163 | 2,217,163 | 2,217,163 | 2,217,163 | 2,217,163 |
| BCC Revenue Subsidy | -776,000 | | | | | | |
| Repayment on Underwriting Facility | | | | | 359,591 | 359,591 | 359,591 |
| BCC's Share of Project Surplus | | | | | | | |
| BCC Net Profit / Loss | -87,493,163 | 2,217,163 | 2,217,163 | 2,217,163 | 1,857,571 | 1,857,571 | 1,857,571 |
| NPV | 119,731,773 | | | | | | |

* The analysis assumes 4-months operation in 2023/24 based on the latest estimate of the venue opening date on 1st December 2023

As shown in Table 8, under the current commercial arrangements between BCC and BMT, the estimated NPV of the project is estimated to be -£119.7 million which represents a significant financial loss on investment and primarily reflects BCC's capital outlay position.

4.1.3 Ongoing revenue implications

As outlined in section 3.1.1, the only three ongoing revenue implications in relation to the project include the revenue subsidy from BCC to BMT, the repayment of the underwriting facility from BMT to BCC, and the financing costs associated with BCC's capital commitment.

As the ongoing revenue subsidy is expected to cease after 2024/25, this leaves BCC's financing costs and BMT's annual underwriting repayment as the sole ongoing revenue impacts to BCC from the Project's operation.

We note that for BCC's financing costs, we have used the assumptions taken from BCC's analysis. However the latest PWLB fixed rate loan interest rates for a period of 50 years have been published as 4.97% as at 9 January 2023. Ongoing financing costs to BCC may therefore be significantly higher than those assumed in the NPV calculation, thereby giving a highly negative ongoing revenue implication.

Based on the latest discussion with BCC and BMT around ceasing the ongoing revenue support earlier than planned, we understand that termination of the revenue subsidy may limit BMT's ability to meet ongoing debt repayment obligations. This would also lead to a further negative revenue implication. Should BMT and BCC agree on alternative loan repayment terms following the revenue subsidy negotiation, the ongoing revenue impacts to BCC would need to be revisited.

4.2 Scenario 2 - Upside Scenario

4.2.1 Overview of scenario

Scenario 2 explores a hypothetical scenario in which BCC is able to benefit from additional income from the venue through a revenue share arrangement with BMT that shares any operating surplus of the venue with BCC. All other commercial arrangements remain the same as under Scenario 1.

4.2.2 Capital viability analysis

For the purpose of this scenario, we have used the expected operating surplus / (deficit) from the 25-year cash flow forecast of the Collaboration Agreement Appendix 7 - BMT 25-year Cash Flow Option 0 document as an illustrative cashflow. As the 25-year cashflow forecast was developed in 2019, we understand that some of the assumptions may be out of date. However, they are a useful indication of the expected level of long-term income that the venue is expected to generate and we don't believe that updated assumptions will have a material impact on the outcome of the analysis. We have applied a 2% inflation rate to the future cashflows, and have rolled forward the final year of the 25 year forecast for the remaining years of the lease period.

This NPV analysis uses the same assumptions as under Scenario 1 for the lease period, capital outlay, revenue subsidy payment, underwriting facility amount and repayment terms, and discount rate. We have also assumed that 100% of any operating surplus is shared with BCC.

Table 9 - NPV under revenue sharing of forecasted operating surplus

| Period | 0 | 1 | 2 | 3 | 4 | 31 | 32 |
|------------------------------------|--------------|------------|------------|------------|------------|------------|------------|
| April - March | *2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2054/55 | 2055/56 |
| BCC Capital Contribution | -84,500,000 | | | | | | |
| PWLB Borrowing Costs to BCC | -2,217,163 | -2,217,163 | -2,217,163 | -2,217,163 | -2,217,163 | -2,217,163 | -2,217,163 |
| BCC Revenue Subsidy | -776,000 | - | - | - | - | - | - |
| Repayment on Underwriting Facility | - | - | - | - | 359,591 | 359,591 | 359,591 |
| BCC's Share of Project Surplus | - | 30,736 | 179,572 | - | - | 1,065,024 | 1,086,325 |
| BCC Net Profit / Loss | -87,493,163 | -2,186,426 | -2,037,591 | -2,217,163 | -1,857,571 | -792,547 | -771,247 |
| NPV | -113,053,174 | | | | | | |

* The analysis assumes 4-month operation in 2023/24 based on the latest estimate of the venue opening date on 1st December 2023

As shown in the table, in this upside scenario the NPV is -£113.1 million. While this is an improvement on the current commercial arrangements, it still represents a significant financial loss.

To explore further what level of annual income from the revenue share arrangement would be required in order for the project to become financially viable to BCC, we back-calculated the annual income that would achieve a breakeven NPV of zero. For the purpose of this calculation, we assumed a constant level of annual income every year, indexed at 2% per annum (as taken from 2022 Green Book guidance).

The calculation showed that the annual income share level required for BCC to achieve a breakeven NPV is equivalent to approximately £4.9 million in 2024/25 prices. As per the Appendix 7 25-year cashflow, the maximum level of annual income reached during the 25-year period is of £840,000 in year 25 (i.e., 2042/43). This would suggest that achieving an annual revenue share to BCC of £4.9 million in 2024/25 (increasing to approximately £9.1 million in 2055/56) appears to be an unrealistic outcome under the current commercial arrangements of the venue. Therefore, achieving a positive financial return on investment for this project might not be possible for BCC.

However, if commercial levers can be identified by BCC or BMT to increase the operating surplus of the venue, the negative NPV under a revenue sharing arrangement could be improved. An additional sub-scenario has been run to calculate the NPV if the future operating surpluses are improved by 50% (keeping other assumptions the same). This results in an NPV of -£109.7 million.

4.2.3 Ongoing revenue implications

Under a scenario where BCC is able to share in any operating surplus of the venue, there would be a positive ongoing revenue impact to BCC, which could be used to help offset the initial capital contribution towards the project and the ongoing financing costs or contribute to BCC's revenue budget.

4.3 Scenario 3 - Downside scenario

4.3.1 Overview of scenario

Scenario 3 explores a hypothetical scenario in which the income generated by the venue falls short of expectation, leading to BMT requiring further ongoing revenue support from BCC in order to keep the venue running.

4.3.2 Capital viability analysis

The NPV analysis for this scenario uses the same assumptions as under Scenario 1 for the lease period, capital outlay, underwriting facility amount and repayment terms, and discount rate.

The only difference to Scenario 1 is that the revenue subsidy payment continues past 2023/24 to 2036/37 (in line with the terms set out in the DoV 3) to illustrate ongoing revenue support required to cover further operating deficits in the medium term.

Table 10 - NPV under initial revenue subsidy payment schedule

| Period | 0 | 1 | 2 | 3 | 4 | 31 | 32 |
|------------------------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| April - March | *2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2054/55 | 2055/56 |
| BCC Capital Contribution | -84,500,000 | | | | | | |
| PWLB Borrowing Costs to BCC | -2,217,163 | -2,217,163 | -2,217,163 | -2,217,163 | -2,217,163 | -2,217,163 | -2,217,163 |
| BCC Revenue Subsidy | -776,000 | -525,520 | -501,000 | -476,000 | -450,000 | - | - |
| Repayment on Underwriting Facility | - | - | - | - | 359,591 | 359,591 | 359,591 |
| BCC's Share of Project Surplus | - | - | - | - | - | - | - |
| BCC Net Profit / Loss | -87,493,163 | -2,742,683 | -2,718,163 | -2,693,163 | -2,307,571 | -1,857,571 | -1,857,571 |
| NPV | -123,077,442 | | | | | | |

Due to the ongoing revenue subsidy payments and no additional income share received from the venue, the NPV in this scenario is £-123.1 million which is more negative than under Scenario 1. Any additional revenue support that has to be provided by BCC to BMT will further decrease the financial viability of the project.

As noted in Section 2, the macroeconomic environment in the UK and sector specific trends in the arts and entertainment sector may pose challenges to Bristol Beacon due to low consumer confidence and sentiment as a result of the UK recession, the cost-of-living crisis, shifting consumer behaviour with fewer people attending retail and recreation facilities, and a challenging labour market. In light of these circumstances, scenario 3 is not considered an unrealistic situation. If performance of the venue is lower than anticipated and BMT cannot cover its expenditure, BCC may be required to provide further revenue support. It is therefore very important for BMT to pursue all commercial levers and optimise its offering to the public to mitigate this risk to as great a degree as possible. This would include optimising its programming and pricing model (to drive commercial returns whilst also attracting low income and vulnerable groups), as both of these will have a material impact on the performance of the venue in what is a competitive market.

4.3.3 Ongoing revenue implications

Under a downside scenario such as this where BCC has to provide ongoing financial support to cover the operational costs of the venue, there will be negative impacts on BCC's revenue budget. These impacts could vary year on year if the venue's performance fluctuates, or macro and micro-economic factors change.

4.4 Draft Bristol Beacon Assurance Report review

The analysis above has been undertaken on the assumptions that the latest cost estimate of approximately £131 million will not be further breached. As noted in section 4.1.1, BCC remains liable for any further cost increases above what is currently estimated and so there may be risk of additional BCC funds being required. If this is the case, the financial returns of the Project will worsen.

The independent assurance report commissioned by BCC from a technical advisor concluded that the latest cost estimates (including contingencies) of the Project Delivery Team should be sufficient to complete the Project. However, the report also states that the risk of cost and programme overrun remains high.¹³

On review of the assurance report, we don't observe anything that appears to have been fundamentally missed as part of the assessment and therefore have no reason to disagree with the conclusions. We also agree that given there is nearly a whole year of construction still planned, and the economic environment is likely to remain challenging during that time, the risk of further cost increases occurring is high, and therefore BCC is at risk of needing to commit more funds. This could include unforeseen risks including further unexpected inflation that might emerge given the unprecedented economic climate, or even contractor collapse in a more severe scenario.

4.5 Other options for the Project

In addition to completing the Project with additional funding, two other options available to BCC could be to pause or terminate the Project. Given the significant level of spend to date and cost of existing contracts and repaying conditional grants, the costs of these options have been estimated at £164 million to pause the contract, and £202 million to terminate the Project completely.¹⁴ The

¹³ Bristol Beacon Assurance Report - December 2022

¹⁴ Draft Bristol Beacon Assurance Report

estimated costs of both of these options greatly exceed the current cost estimate to complete the Project with additional funding.

Consideration must also be given to public opinion surrounding the options and potential reputational issues that BCC may face if a change of approach is taken, given the already substantial amount spent on the Project. It therefore appears that continuing with the Project to completion with additional funding is the best option available to the council.

However, whilst this may represent the best option at this time, BCC may wish to consider developing a mitigation strategy with potential options in case further issues arise regarding the Project development, or performance of the venue does not meet expectations once the venue is operational. These options could include the possible change of operator, or even change of use of the venue. Having a clear strategy in place should the scenario arise will not only give BCC an immediately actionable plan which could save time and costs at the time, but also act as an incentive to BMT to ensure the venue remains viable.

4.6 Conclusions of the financial review

The analysis undertaken with respect to the three scenarios above indicate that from a purely financial perspective, the project is not a net positive investment to BCC. Under current commercial arrangements, the project will not generate a return on investment, and even with additional income received through an income sharing arrangement with BMT, the project is very unlikely to breakeven. It is also feasible that in light of the macroeconomic environment and emerging sector trends, further ongoing revenue support might be required from BCC to support BMT to cover operating costs of the venue, and there is also risk that BCC may be required to commit more capital funds to the Project. Despite these factors, completion of the Project remains more cost effective to the Council than pausing or terminating it.

If the council can accept that the project will generate a significantly negative NPV, and wishes to proceed under the current commercial arrangements, it must be satisfied that the project will generate sufficient wider social impacts in order to justify the investment. As outlined in the 2017 Colston Hall Economic Impact Assessment - Executive Summary, these benefits could include direct, indirect, induced and wider spill over Gross Value Added ('GVA') and employment impacts. Appropriate governance structures must also be put in place to ensure these impacts are tracked and reported to give comfort to BCC that the intended benefits are in fact being achieved. The current governance structures are examined in more detail in section 5. Given BCC's exposure to underperformance of BMT, the council may also wish to monitor the ongoing financial performance and business plan of BMT to gain comfort that all commercial opportunities are being maximised.

If the significant financial loss under the current commercial arrangements is not acceptable to BCC, the council may wish to undertake detailed financial analysis or explore new operating models to identify potential commercial levers that could help to generate and provide increased income to BCC from the venue. This could help to erode the negative NPV to levels that are more acceptable to the council. A high-level overview of potential alternative operating models is provided in section 5 for the council's consideration.

5. Governance and operating model review

Within this section we have considered the risks and opportunities relating to the governance arrangements between BCC and BMT. We have also identified different operating models that can be adopted for the operations of the Bristol Beacon.

5.1 Governance risks and opportunities

5.1.1 Existing governance arrangements

The overarching governance relationship between BCC and BMT is defined by a combination of BMT's Articles of Association and the EA¹⁵ executed between the parties. The Articles give BCC the capacity to appoint up to 2 (out of a maximum of 12) Trustees/Board members with the caveat that BCC cannot appoint up to 20% of the BMT Board to ensure independence. While this does not give BCC control over BMT, it does provide it a degree of oversight of BMT's activities. The EA requires BMT to provide transparency in relation to costs and expenses incurred in achieving its stated objectives within the EA¹⁶. It also gives BCC the capacity to review all BMT's financial records in accordance with an open book accounting policy¹⁷. This appears to be completed on an annual basis, with Annual Entrusted Services Accounts prepared by BMT for submission to the council. The governance relationship is therefore one of review, rather than direction or approval.

The project-specific governance relationship relating to the Project is defined by the Collaboration Agreement ('CA') entered into by the parties and its accompanying schedules. In compliance with these general principles, the CA (in Schedule 1¹⁸) established the Colston Hall Phase 2 Project Board (PB) which has overall responsibility for the project. The PB is currently comprised of 5 members from BCC and 2 members from BMT who are all senior members of their respective organisations or specialists. Due to the PB governance structure, BCC effectively has control over the project delivery. The PB has responsibility for change control. It is required to approve changes which impact cost (ranging between £300k to £1m above which BCC Cabinet approval is required), time (altering critical path, key project milestones and project end date) and scope¹⁹. We note that the Growth and Regeneration Scrutiny Commission (GRSC)²⁰ of the BCC also provides scrutiny of this project. The GRSC, however, meets at irregular intervals (ranging from 1 month to 6 months) and the Bristol Beacon is not a standing point on its agenda. The result of this is that the project has only been discussed twice in the past 2 years.

The Strategic Advisory Group ('SAG') acts on behalf of the BMT to support in providing assurance to stakeholders of the ability of the project to achieve its objectives. The SAG provides close project monitoring and challenge, as well as compliance with funding requirements, escalating issues to the PB in a timely manner. The CA also defines thresholds for approval of expenditure as well as the framework for making changes to the programme/project.

Many UK institutions provide guidelines for best practice project governance, which include but are not limited to:

¹⁵ This includes all variations to the Entrustment Agreement including the Deeds of Variation / Service Level Agreements

¹⁶ Clause 3.4 of the Entrustment Agreement

¹⁷ Clauses 7 and 8 of the Entrustment Agreement

¹⁸ Collaboration Agreement: Bristol Beacon - Phase 2 Schedule 1 Project Execution Plan (PEP)

¹⁹ Section 7 of Schedule 1 PEP

²⁰ The role of the Growth and Regeneration Scrutiny Commission is the overview and scrutiny of matters relating to the Growth and Regeneration Directorate

- ▶ involving senior managers and stakeholders;
- ▶ assigning ownership and accountability for project governance to a group of experienced resources;
- ▶ designing governance at the program and project levels; and
- ▶ providing transparency through reporting and avenues for review.

Based on our review, it appears that the existing project governance structures between BCC and BMT generally align to the principles that we would expect to see. However, it is noted that in the December 2022 Board Risk Register provided by BCC, a risk has been noted regarding potential degradation of governance. It is important that in the challenging circumstances against which the Project is set, all governance processes and procedures are strictly adhered to maximise the Project outcomes.

5.1.2 Governance relating to Construction

The construction stage of project relates to all the activities that contribute to the development of Phase 2.

BCC appointed the main contractor, Willmott Dixon, to undertake the refurbishments. We understand that they were selected based on prior experience in delivering projects relating to the delivery of creative arts spaces. It is important to note that delivery risk sits solely with BCC, not the contractor. BCC also controls the PB which is responsible for driving, leading and co-ordinating the project as a whole in accordance with the Facilities Requirements and agreed project objectives. The PB holds monthly meetings to perform these functions and the documentation we have been provided suggests the PB is kept regularly updated on progress.

We have not identified any substantive concerns with the existing project governance structure and do not perceive any material changes required. We do, however, recognise the importance of a continued focus on project governance in the months ahead and recommend renewed stringency towards all procedures to avoid degradation of governance in this critical time. There should be a strong focus on ongoing development phase costs and plans so that potential issues can be identified early. The BCC should also ensure it has the information required for proactively identifying risks, appropriate mitigations and promptly implementing solutions adopted. Further actions that the BCC can take to enhance governance include:

1. Ensure an extensive risk register is maintained (and risks optimally allocated to the respective parties), and all actions required to mitigate delays, cost increases and other adverse incidents are taken expeditiously.
2. SAG and PB to ensure enhanced oversight of the programme/project and ensure greater challenge is made to changes to the programme/project - accompanied with appropriate documentation of the challenge and responses thereto.
3. Enhance the reporting requirements for all project teams reporting to the PB, coupled with enhanced review of proposed change to the programme/project plan.
4. Ensure all the necessary agreements to accommodate delays which, according to the risk register, seem certain to occur to minimise liabilities that could arise from non-compliance with obligations under the existing agreements.
5. Ensure there are necessary contingencies put in place (particularly with respect to time/delay and cost) that facilitate adherence to the project plan.

5.1.3 Governance relating to Delivery

The delivery stage of the relationship between BCC and BMT relates to BMT operating the Bristol Beacon, and any other services arising from the Entrustment Agreement.

Based on our understanding and the current business plan provided by BMT, BMT will likely continue to require BCC's financial support (either through grants or writing off loans/underwriting facility). This is because BMT's ability to repay the underwriting facility provided by BCC is dependent on continued financial support from BCC. This creates exposure for BCC to the operational risks and/or underperformance of BMT. This exposure creates scope for BCC to request greater visibility and management of BMT's operations and performance (beyond the 2 Trustees/Board members per BMT's Articles of Association). This could be in the form of frequent periodic updates on the business plan(s), review and sign-off on changes to the existing business plan, updates on status of operations and monthly financial reports. This would not impact independence as it can be structured akin to commercial arrangements between Funder and Borrower which gives the Funder a degree of control over activities of the Borrower. The current BMT business plan runs to 2023 and, for the foregoing reasons, BCC should actively participate in the development of subsequent iterations of the plan.

As discussed in evaluating the financial review of the project, the project will generate a significantly negative NPV. However, there are likely to be non-financial or social benefits which arise from the project. As per BCC's Capital Strategy, only projects that are designated as Social or Environmental Impact Projects can proceed if they have a negative NPV. If BCC wished to designate this Project a Social Impact Project, it would be important that the social impacts (including those detailed in the EA) are sufficiently defined. Coupled with defining the social impacts, metrics for assessing compliance should be detailed to enable BCC to effectively monitor BMT's performance in achieving the desired social impact KPIs. This can form part of the factors considered in decisions as to whether to continue providing financial support to BMT. We understand that while BCC does have such frameworks in place with other contracted companies and access to a Social Value Portal that can assist in developing such a tool, there is currently not a defined framework in place for assessing and monitoring social impact of this Project. It would therefore be necessary to create such a framework as well as assign appropriate resources for its implementation.

The EA provides BCC access to BMT's financial records via open book accounting policy. This access is primarily related to supporting the calculation of annual compensation payments and preparation of Annual Entrusted Services Accounts. Discussions with BCC management, however, suggest this access has not been effectively utilised. BCC can also seek to expand the purpose of this access to closely monitor the activities of BMT. This would be beneficial in facilitating closer collaboration between BCC and BMT. This would give BCC the capacity to identify opportunities which can be exploited by the parties to enhance the commercialisation and social value of the Bristol Beacon.

As detailed in section 4.1.1, the lease term will range between 30 to 32 years based on the latest discussion between BCC and BMT. We have not identified a break clause within the proposed new lease²¹ that would enable BCC to terminate the lease for reasons other than damage. As renegotiations are ongoing between BCC and BMT about the final structure of the new lease, BCC should consider obtaining legal advice regarding the inclusion of a break clause within the lease as well as mechanisms for terminating the lease based on sustained underperformance of BMT in operating the Bristol Beacon.

5.2 Operating model

5.2.1 Existing operating model

Bristol Beacon is owned by BCC and operated by BMT. BMT was established in 2011 as an independent charitable body and was engaged by BCC under the terms of the EA (varied periodically) to manage and operate Bristol Beacon and provide cultural, educational and heritage conservation services. A trading subsidiary BMT Enterprises Ltd was incorporated to manage commercial activities for the benefit of the charity.

This model of establishing an independent trust to lease and operate a council owned venue has

²¹ Proposed new lease contained in Annex A to the Agreement for Surrender and Regrant

become a popular model for local authorities. However, it does relinquish control of the venue operations from the council, as well as ongoing revenue.

5.2.2 Operating model options for BCC consideration

In this section we explore at a high level a selection of other operating models that may be considered as alternatives to the Trust approach. It is important to note that there are likely to be programme and grant implications associated with any changes to the operating model.

Table 11 - Operating model options

| Model | Description | Considerations |
|--|---|--|
| Outsourcing to a commercial theatre specialist | <p>Operations are outsourced to an experienced commercial theatre operator who can apply their expertise and generate economies of scale through the operation of a portfolio of theatre companies.</p> <p>There are different specific agreements that can be established between the council and operator (e.g. management agreement only, or management plus lease agreement) which will depend on the extent to which the local authority wishes to continue to have control over the building and the services provided.</p> | <ul style="list-style-type: none"> ▶ This is typically only possible for venues of a certain minimum size/capacity to be commercially attractive to an operator. ▶ The council will need to carefully consider what degree of control (building and/or operations) it wishes to outsource. ▶ The experience and expertise of an established theatre operator can help to drive better service and operations ▶ Leasing the venue to a private sector operator at market rate will generate a much higher return than a peppercorn rent to a trust. ▶ Community sentiment towards the venue may change (both positively or negatively) if it is seen as a commercial rather than charitable venue. |
| Joint Venture | <p>Under this model, a local authority will typically enter an equal partnership with a private investor. The council will transfer its property assets into a joint venture vehicle, and the private partner will match the value of the asset with a loan note. The joint assets can be used as collateral for financing regeneration or redevelopment projects. All profits from the venue are then split equally by the two partners.</p> | <ul style="list-style-type: none"> ▶ A JV arrangement would typically be set up in advance of the start of a redevelopment, and can also take a long time to procure and establish, which represents a timing issue for BCC. ▶ This can be a way to attract private sector finance for capital investment. ▶ It can also gain access to expertise of private sector for operating the venue. ▶ It also provides the council with ongoing revenue from the venue. ▶ As a 50/50 partner, the council may face issues with the partner if agreement cannot be made on how to run the venue. ▶ A partner would likely only be attracted by a viable proposal |

| Model | Description | Considerations |
|---------------------------------|---|--|
| Sale of asset | Another option to the council is the sale of the asset to a private sector party. This removes all responsibility of the council with respect to the venue's operations or maintenance. | <ul style="list-style-type: none"> ▶ There is a high risk of loss of theatre provision and social / cultural endeavours as the private sector party will have rights to use the venue as they desire. ▶ Restrictive covenants can be put in place although these are imperfect and may not guarantee use as desired by the council. |
| Sale and leaseback | Rather than a straight sale of the asset, the council could enter into a sale and leaseback arrangement, whereby the asset is sold to a private party and leased back to the council under a lease agreement. The lease agreement would allocate responsibilities (including maintenance) between the council and private party as desired. | <ul style="list-style-type: none"> ▶ This option would generate significant upfront cash for the council from the sale proceeds. However, the terms of the lease rental would likely be at market rate which could be an ongoing high expense for the council to cover. ▶ There is limited certainty over the long-term future of the asset after the lease period. |
| Income strip | This is similar to a sale and leaseback, however the council sells the asset but retains the right to repurchase it at the end of the lease for a nominal amount (e.g. £1). The investor obtains their return via lease payments which would be index linked, but has no exposure to the value of the underlying asset. | <ul style="list-style-type: none"> ▶ This allows the council to have the construction costs funded by a third party whilst also retaining a degree of certainty over the long-term future ownership of the asset. ▶ The rent payments may be a more attractive financing option than loan finance. ▶ This can be more favourable to the council from an optics perspective. |
| Community asset transfer | Local authorities can consider transferring the theatre to community volunteers to operate under a community asset transfer arrangement. An example of this was the recent transfer of the Mission Theatre in Bath to the Next Stage Theatre Company under a 99 year lease. | <ul style="list-style-type: none"> ▶ As non-professional theatre operators, a volunteer operated theatre company may not have the resources or expertise to run a venue to a high standard. ▶ The council must be satisfied that the group have a business plan and a governance structure to operate the venue safely and sustainably. |
| Co-location of council services | One means of improving the commercial value of a venue to the council is for the council to combine the theatre front of house spaces with other council services to save money on other venue space. | <ul style="list-style-type: none"> ▶ There may be an opportunity cost of not using the space for a more commercial activity such as refreshments or shops (which could be run by the council or a commercial operator). |

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BRISTOL BEACON ASSURANCE REPORT

Due Diligence Report
For Bristol City Council

JANUARY 2023

| Revision | Date | Prepared by | Checked by | Description |
|----------|------------|-------------|------------|---|
| Draft | 15/12/2022 | MG, JW, KA | PM | Draft issued ahead of meeting held on 16/12/2022 |
| Rev.01 | 05/01/2023 | MG, JW | PM | Changes post meeting on 19/12/2022 to reflect contingency movements and new documents ref.089 and 090 |

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APPENDICES

APPENDIX A

Commercial Analysis

APPENDIX B

Monte Carlo Risk Assessment

APPENDIX C

Documentation

1 EXECUTIVE SUMMARY

Arcadis (UK) Ltd, on instruction from the Client, has prepared this assurance report focused on the agreed key areas of specific client relevance; our findings are captured within this report.

We have reviewed the cost, programme, and risks for the option to complete the project with additional funding (Option 1) and we have reviewed the teams' assessments for the options to pause or terminate the project (Options 2A/2B). We have highlighted in each section of this report where there was a comprehensive assessment provided by the Delivery Team, where there was limited information and/or where we have received no information and where we feel that further development of the information or assessments is needed.

Whilst we have only had the benefit of a very short period to carry out our review, during which time many documents have been amended and revised, **we are of the opinion that entering into DoV2 and completing the project with Wilmott Dixon in line with Option 1 is an appropriate way to secure the best financial and time related conclusion to the project.**

Following a review of the information we recommend the following matters should be given further consideration.

- Further analysis of the programme for Option 1 could be undertaken to have a more accurate assessment of the floats and likely delays. We have suggested a further review of the costs and contingencies considering this programme assessment once it has been carried out. We have not undertaken a cost or programme assessment ourselves as we recommend that this is produced by the Delivery Team who are closer to the project details.
- Our review of the cost estimate currently presented and our Monte Carlo assessment of the project risks for Option 1 suggest that the additional funding requested should be sufficient to complete the project. However, the risk of cost and programme overrun remains high for all the options considered.
- Confirmation that DoV2 negotiations have been concluded and an agreement has been reached with the Main Contractor. We have produced this report on the assumption that the DoV2 agreement will be closed on the draft Terms and Conditions that we have been sent.
- Once the Delivery Team have a satisfactory completion of DoV2 programme from the Main Contractor, they should consider undertaking a forensic programme review, to assess the risk to its delivery, by thorough detailed interrogation of the software using critical path analysis (including assessment of float, activity precedence, etc). We are not aware this has been commissioned or undertaken.
- Likewise, it may be appropriate, for a detailed risk assessment to be undertaken of the remaining Client-side risks both in the delivery of the Building Contract and in the activities to deliver the BMT works prior to opening; the output being a Client-side risk management plan through to project opening.
- Most of the additional funding applied for is a risk allowance or contingency cost. Whilst we are unsighted on the Client's approval processes, or authority levels for instructions. We anticipate that the Client's team will have a process to approve/reject expenditure of the updated budget and to ensure that any unused funding is transferred back to the Client upon successful completion of the project.

[REDACTED]

[REDACTED]



2 INTRODUCTION

2.1 Background & Contents

Arcadis (UK) Limited (ARC) has been engaged to undertake an assurance report for the Bristol City Council (BCC/the Client) on the three options that are being proposed to the Cabinet to complete the project. The project known as the Bristol Beacon is a refurbishment project of an existing theatre located in the centre of Bristol.

The project is in a situation where additional funding will be sought via a Cabinet Request to complete the project. The three options that the team will present to cabinet are broadly as follows:

- Option 1 – Provide additional funding and run the Contract through to completion.
- Option 2A – Pause the Contract and resume under a new administration from Autumn 2024.
- Option 2B – Determine the current Contract and reprocure at a future time.

ARC was instructed by the Client on 17th November 2022 to carry out a high-level due diligence in the following areas as identified in the Project Plan:

- i. Robustness of the identified costs and contingencies
- ii. Robustness of the Risk Register
- iii. Robustness of the Programme for Option 1, and assessment of programme implications for Options 2A & 2B
- iv. Assessment of the Contract requirements to deliver the 3 options
- v. Assessment of the robustness of design and links to Risk Register and Contingencies
- vi. Commentary on the proposed interface methodology for interfacing the completion of the Wilmott Dixon Contract and the Operational requirements of Bristol Music Trust.
- vii. ~~Risk Impact of Bristol Music Trust funding and grant contracts, i.e. Arts Council, West of England Combined Authority, etc.~~ this section is now excluded from this report.
- viii. Monte Carlo risk assessment

An initial review of the documentation provided in a shared folder by the Delivery Team was carried out and initial questions raised. Further clarifications to questions were received through liaison between the Arcadis and the Consultants Team.

2.2 Due Diligence Limitations

- This report should not be wholly relied upon to inform a strategic decision but indicates progress made in the time available on the areas that the client has instructed. The client should take advice on legal, management and other matters not covered in this report to complete their own due diligence.
- We have limited our analysis to the documents shared with us and listed in Appendix C.
- Furthermore, we have not engaged with any stakeholders from the Main Contractor or Subcontractors (or any other external stakeholders) in the preparation of this report unless specifically stated.
- It should be noted that ARC have not engaged in any market testing exercises and have not received any quotations specific to the project. Our review and comments of the commercial information received from Aecom is based on our broad experience delivering complex construction projects of a similar nature to the Bristol Beacon. This report is aimed to provide an indicative assessment for the scheme's construction costs and commentary on the allowances made for fees and other soft costs.

- Any legal document reviewed and commented upon in the context of the report has been achieved by means of a high-level review and does not constitute an opinion as to the legal enforceability of the terms set out therein.
- We have not been asked review the planning consent and associated documents and, as such, have not reported on any costs in relation to planning. We advise that the costs associated with planning will be identified by others and reported separately.
- We have not been asked review or comment on Value for Money (VfM) of the contracts and variations and, as such, have excluded this from the scope of this report and we understand that VfM will be covered by others and reported separately.
- A key caveat of this report is the limited time available to conduct a wide ranging technical and commercial due diligence analysis and that given the evolving nature of the documents shared in the project folder we have reviewed the latest versions of these documents available to us at the time. As directed, we have limited our commentary to the key areas of interest identified above.

3 REVIEW

3.1 Robustness of the identified costs and contingencies

The additional funding required for Option 1 was estimated at £25M (total project cost of £131.9M) by the Cost Consultant. This includes the £500k to account for the additional allowance for programme mitigation measures. The overspend for Options 2A & 2B has been estimated in the region of £58.6M (total of £165.5M) and £96.6m (total of £203.5M) respectively.

3.1.1 Cost Review

The cost estimate and breakdown produced by Aecom in the document ref. 089 provides a comprehensive calculation of the costs with a total estimated cost of £131,895,000 for Option 1. We have further interrogated the detail of each cost allowance and we believe that there is a total of [REDACTED] Contingency and Risk Allowances [REDACTED] and a total of £113.8M of Construction Costs and Fees; as shown in table 01;

(table 01 omitted as costs are confidential)

Table 01 – Summary of costs included in Option1 assessment aligned to programme

We have reviewed the detail of the £113.8M of Construction Costs and Fees and assuming DoV2 is agreed as anticipated, most of these are fixed costs which give the Client a high certainty. We understand from our meeting with the Cost Consultant that the DoV2 is being agreed in the region of [REDACTED] and this would include [REDACTED] of (Defined) Provisional Sums and [REDACTED] of (Undefined) Provisional Sums which carry higher cost risk for the client should these result in any delay to the project. We have commented on the Risk and Contingency levels in the next section.

The latest cost estimate for Options 2A & 2B we have received, document ref. 090, shows the estimated costs for the three options side by side. These are very high-level cost estimates for Options 2A and 2B and given the current market conditions, the cost certainty of these estimates would be very difficult to achieve, therefore there is a level of uncertainty in the estimates that needs to be understood by the Client. We have analysed the cost allowances for each heading, and we feel that these cover the key costs that can be anticipated for both scenarios 2A & 2B. We note that the base cost used for all options includes £4.7m for the risk allowance to extend the completion date from mid-August 23 to the end of November and the £500k 'Assurance' allowance, we think that these allowances should not be applied to Options 2A & 2B. If removed, the estimate of the overspend for Options 2A & 2B would be reduced to £53.4M (total of £160.3M) and £91.4m (total of £198.3M) respectively.

In summary, given the high-level nature of both Options 2A & 2B, the build-up and cost analysis produced by the Cost Consultants are, in our view, reasonable judgments and would reflect the type of additional costs likely to be incurred under these scenarios.

3.1.2 Contingency Overview

In carrying out our review of the contingency allowances, we have analysed the nature of the provisions.

We have broken the Contingency (or Risk Allowances) down under four key headings as follows;

- i) **Design Development Risks estimate:**
 - a. Main Contractor's Risks such as MEP detailed design
 - b. Client Risks such as detailed design of the 'Foyer Works'
- ii) **Construction Risks estimate:**
 - a. Main Contractor's Risks such as subcontractors' or suppliers' delays
 - b. Client Risks such as difference in firm costs vs. provisional sums allowed in the contract
- iii) **Employer Change Risks estimate:**
 - a. All are Client risks such as changes requested by BMT, but we understand that these are very unlikely at this stage of the project
- iv) **Employer Other Risks estimate**
 - a. All are Client risks such as additional market inflation resulting on higher professional fees or higher interest rates

For each of the above sections there will be a construction cost allowance plus a soft costs allowance where there may be additional time needed from the consultants' team or a potential project delay. Part of the risks in sections i) and ii) above have been transferred to the Main Contractor by the Building Contract and its Deed(s) of Variation(s); some risks, however, are still sitting with the Client. In regard to the risks that are sitting with the Main Contractor, there is still the need for a Risk Allowance where these risks could materialise as an overall project delay, given that the delay damages in the contract are stated at a certain level [REDACTED] and the costs for the Client would be higher.

We have allocated each of the Contingency and Risk Allowances estimated by the Cost Consultant against these headings, the detail of this is included in Appendix A. Table 02 shows a summary of these costs;

(table 02 omitted as costs are confidential)

Table 02 – Summary of Contingency and Risk Allowances for Option1 aligned standard headings

Following the issue of our initial analysis to the project team a meeting was held on Monday, 19th December 2022 to review our analysis. During the meeting Aecom tabled their interpretation which showed a total contingency of [REDACTED]. Following some further analysis and post meeting discussions, we are of the opinion that the sum of [REDACTED] included within the budget is representative of a contingency and risk allowance. This includes the additional sum of £500k for programme mitigation measures.

The Contingency for Design Development and Construction Risks sitting with the Client is [REDACTED] and the Contingency for Design Development and Construction Risks sitting with the Main Contractor is [REDACTED] contingency allocated (costs to the Client for a potential delay). There is [REDACTED] for Employer Change Risks, which we understand the team anticipates these will be minimal and [REDACTED] for Employer Other Risks. [REDACTED]

And there is c. [REDACTED] for BCC, BMT and Consultants' fees.

We recommend that once the DoV2 agreement has been finalised the Cost Consultants, Aecom, check that enough Contingency has been allowed for the Design Development and Construction risks remaining with the Client (after DoV2), such as the acoustic performance, water ingress or the design of the undefined Provisional Sums. Similarly, we would ask Aecom to check the overall delay assessed

by the Delivery Team (recommended in Section 3.3 of this report) and to realign the prolongation related Risk Allowances to this programme assessment.

Overall, we believe that Contingency and Risk for Option 1 has been well considered and the allowances included are an appropriate reflection of the potential remaining project risks. However, should the Main Contractor incur exceptional delays, there is the potential for a shortfall. [REDACTED]
[REDACTED]. This is also linked to our recommendation that a more detailed assessment of the appropriate float periods within the construction programme.

3.2 Robustness of the Risk Register

We have reviewed the Project Joint Risk Register, document ref. 010, and considered this for our Monte Carlo Risk Assessment.

3.2.1 Risk Overview

Refer to Section 3.7.2.

3.3 Robustness of the Programme for Option 1, and assessment of programme implications for Options 2A & 2B

The Delivery Team have shared a number of programmes with us, the key versions are summarised in table 03;

| Title | Date of programme | Completion date | Reference | Issued by | Status | PM Comment |
|---|-------------------|-----------------|----------------------------------|------------------------------------|-------------|---|
| DoV programme | 02/02/2021 | 18/04/2023 | Rev Vd | WD | Superseded | Accepted as part of DoV |
| Last accepted programme | 28/01/2022 | 30/06/2023 | Rev Wg | WD | Accepted | No CE yet implemented to deal with cost impact of change |
| Initial WD programme showing completion Aug '23 | 30/06/2022 | 14/08/2023 | Rev Wk | WD | Submitted | Used as 'baseline' to compare subsequent changes whilst WD retain Completion on 14/08/23. |
| Latest programme formally submitted | 11/11/2022 | 14/08/2023 | Rev Wn2 | WD | Submitted | Close to acceptance but requires revision to align dates with BMT integration programme |
| Commissioning sub-programme | 23/09/2022 | 14/08/2023 | File name reference date 23-9-22 | WD (author; Cardiff Commissioning) | Information | Aligns with WD programme Wn2 for pre-requisites of commissioning and Completion date |

Table 03 – Summary of Main Contractor’s relevant programmes provided by ARC PM.

Where we refer to the Main Contractor’s programme throughout this report we are referring to Rev Wn2. We are not aware of any Project Manager assessment of this programme, as to its likelihood of its success.

3.3.1 Option 1 Programme Review

The Overall Project Programme for Option 1 has a number of key areas that could delay the overall completion date, these should be reviewed by the Delivery Team and assessed individually. The current risks that we have identified are summarised as follows;

- Design development taking longer than originally planned
- Changes in design or scope instructed due to issues discovered on site
- Delay in ordering some equipment and supplies, anticipated delays on receipt dates
- Delay in Client approvals of the Main Contractor’s design proposals
- Commissioning programme currently compressed could take longer than planned
- Acoustic testing programme currently compressed could take longer than planned
- BMT Integration programme currently compressed could take longer than planned
- Other currently unforeseen issues that could cause delay to the construction, such as weather conditions or water ingress

We understand from the draft DoV2 information that we have reviewed that most of the first two items and the delay caused by these have been covered in the new completion date of mid-August. However, the Project Manager’s view expressed in the November Board report, document ref. 018, suggests that there has been an unsustainable level of compression to the Main Contractor’s programme which increases the risk of any of the other items materialising on a delay to the overall completion date.



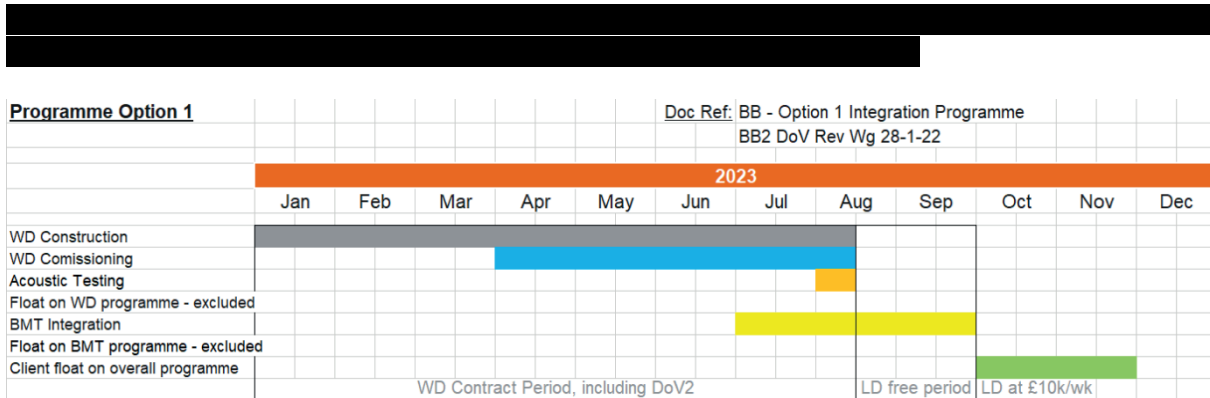


Image 01 – High level diagram of proposed programme for Option 1.

We feel that the Client should hold a series of floats for the key activities that could impact the critical path. We would recommend that the Delivery Team looks to assess appropriate programme floats for the headings listed above, they would then assess how each of these are independent or concurrent and what the overall impact to the anticipated completion date would be, an example is shown below.

(image 2 omitted as delay views should be confidential)

Image 02 – High level diagram of programme for Option 1 showing floats and delays.



Once this exercise has been completed, it would be sensible to consider what the overall Client float is and to sense check if it is a reasonable overall float.

The cashflow prepared by Aecom on the 15/08/22, document ref. 073, showed the anticipated expenditure for the Construction costs from Valuation 39 (Aug 2022) to the mid-August 2023 PC date, when compared against the actual Valuations No. 40-42 shown in the November Cost Report, document ref. 022, it shows a shortfall of [redacted] to Valuation No. 42. The shortfall identified in the November cost report is [redacted]. Either [redacted] of shortfall at a high-level this indicates a likely delay to the construction programme.

Moreover, the cashflow dated 15/08/22, showed the highest anticipated monthly spend in Valuation [redacted] Which, in our experience will be a challenge, given the lower productivity over the Christmas period. If this trend continued, the shortfall by the end of the year could be in the order [redacted]

We are aware that a DoV2 is being negotiated between the Client and Main Contractor, as a means of delivering Option 1, and that the Main Contractor is preparing an updated Programme for completion of their contract works, latest ref 'Rev Wn2'. This is intended to underpin the content of DoV2. We are not aware of any Project Manager assessment of this programme, as to its likelihood of its success.

Once the Delivery Team have a satisfactory completion programme from the Main Contractor, they should consider undertaking a forensic programme review, to assess the risk to its delivery, by thorough detailed interrogation of the software using critical path analysis (including assessment of float, activity precedence, etc). We understand this is intended to take place early in 2023.

Likewise, it may be appropriate, for a detailed risk assessment to be undertaken of the remaining Client-side risks both in the delivery of the Building Contract and in the activities to deliver the BMT works prior to opening; the output being a Client-side risk management plan through to project opening. This process has commenced, evidenced in the Options Appraisal Report dated 02/12/22 prepared by the Delivery Team, document ref. 050, pages 20 to 23.

Such a study will aid an assessment of the cost, programme and quality risks remaining. Such risks may include:-

- a. Client-side design yet to be completed
- b. Client decisions on samples, benchmarks and mock-ups yet to be presented by the Contractor
- c. Provisional sums yet to be instructed
- d. 'Discovery' in the existing building yet to be uncovered
- e. Instructions yet to be issued to the Main Contractor before PC
- f. Client contingencies yet to be spent/instructed
- g. Other Client decisions yet to be made that could affect the Main Contractor's progress
- h. Full integration of the completion of the Contractor's building works with the occupation programme and activities of the BMT

It may also be appropriate to undertake an overview of the deliverability of the Main Contractor-side risks. These may include:-

- i. Contractor-side design yet to be completed
- ii. Work packages and materials yet to be procured
- iii. Assessment of risks areas with labour supply difficulties

An assessment should be made of the remaining scope for Client generated change and its possible impact of completion of the Project. This should include a robust assessment of the plans for the integration of the BMT fit out and soft and hard opening plans.

We are aware that the BMT integration period is being reduced (in agreement with them) from 22 weeks to 12 weeks, we have received a detailed programme showing the integration of the completion of the Main Contractor's building works with the BMT's works /activities. We understand that this has been reviewed by the Delivery Team and that it has been agreed with the Main Contractor. This is essential for giving confidence with any projected opening date.

The remaining design activity needs to be integrated into the remaining procurement and construction activities in the completion programme. We are not aware this has been undertaken and reviewed by the Delivery Team.

3.3.2 Options 2A & 2B Programme overview

Regarding Programme Options 2A & 2B, we have read the Options Appraisal Report dated 02/12/22 prepared by the Delivery Team, document ref. 050. Options 2A & 2B have not been defined in anywhere near as much detail as Option 1, in terms of either cost or programme, but the Options Appraisal Report appears to include an overview of relevant considerations for these two options, including costs, project programme, risk, building contract implications, deliverability and an assessment of whole project impact: all with a comparator with Option 1. Accordingly, we have no reason to disagree with the overview assessment made by the Delivery Team on the overall programme effects of delaying the project works as intended by Options 2A & 2B. It should be noted that due to the much lesser detailed appraisal of Options 2A & 2B, the risk of their delivery, is much high than in Option 1.

Options Appraisal Report dated 02/12/22, document ref. 050, includes a statement in Section 8.0 Summary, 'As a result the PMO considers that Option 1, continuing with the project is the most predictable option, albeit there will remain risks associated with time pressures; however, this option does further mitigate against the influences of the external economic environment and the global market.' We have no reason to disagree.

3.4 Assessment of the Contract requirements to deliver the 3 options

3.4.1 Option 1 - DoV2

We are aware that a DoV2 is being negotiated between the Client and Main Contractor, as a means of delivering Option 1. We understand it is intended that this will clarify a number of previously contentious issues between the parties and give greater certainty of the delivery of the Building Contract works. The Delivery Team rightly recognise however that there will still be significant Client-side risks, both with the delivery of the Building Contract works and with the integration of the BMT works (some of which will be undertaken during the Building Contract period and the remainder after practical completion).

We understand from the draft documents that we have reviewed and conversations with the team that DoV2 will;

- Resolve any outstanding Client/Main Contractor interpretation of the responsibilities for design Inside Box/Outside Box.
- Resolve any outstanding Client/Main Contractor interpretation for MEP design responsibility and particularly between design stage 4a, 4b and 4c.
- Cover all Compensation Events, Early Warnings and EoTs commercially to the agreement date.
- Include provisions for the BMT integration requirements.

We would recommend that the delivery team ensures the above are clarified and resolved for the DoV2 agreement. Similarly, a strategy should be agreed to manage the remaining Client-side risks, such as acoustic performance, water ingress, Foyer integration or MEP access and maintenance requirements.

Whilst we have only had the benefit of a very short period to carry out our review, during which time many documents have been amended and revised, we are of the opinion that entering into DoV2 is an appropriate way to secure the best financial and time related conclusion to the project.

3.4.2 Options 2A & 2B

We have reviewed Section 1 of Project Mothball - Contract review, document ref. 04, prepared by the Delivery Team which sets out the contractual mechanisms to deal with the Suspension and/or Termination for options 2A and 2B respectively. We understand that for Option 2A a pause would have to be negotiated with the Main Contractor as it would exceed the period of suspension allowed under the current Building Contract (and its Deed of Variation).

We understand that DoV2 negotiations have not yet been concluded. If the DoV2 was to be finalised before the Cabinet outcome is known, it may be prudent to incorporate the amended suspension clause into the DoV2 negotiations.

3.5 Assessment of the robustness of design and links to Risk Register and Contingencies

The draft Design Assurance Report (P4 22-12-07), document ref. 074, prepared by the Delivery Team, makes some encouraging comments (particularly Section 3) regarding design progress in the period, and outlines improvements in the working arrangements with the Main Contractor to complete the design activities, particularly using the Design Charter.

The report is in draft and the Exec Summary yet to be written, hopefully it will include a Project Manager assessment of the risk of design and site inspection activities affecting site progress to completion.

3.5.1 Design Overview

The following observations are made concerning the draft Design Assurance Report (P4 22-12-07), document ref. 074;

- **Some Client risk may remain regarding: -**
 - a. Building Control changing decisions on previously submitted information
 - b. Clarification on remaining planning submission and conditions

The report concludes that the design information production is nearing completion and there are mechanisms in place to complete the design of the outstanding items.

- **Some additional design may be required regarding: -**
 - a. The 'outer box' or Building Shell
 - b. Foyer integration
 - c. MEP access and maintenance requirements
 - d. The pavement /road works outside the boundary

3.6 Commentary on the proposed interface methodology for interfacing the completion of the Wilmott Dixon Contract and the Operational requirements of Bristol Music Trust.

We have received the BMT Opening Plan, document ref. 088, which is a detailed programme showing the integration of the completion of the Main Contractor's building works with the BMT's works/activities. It is a comprehensive plan with detailed activities showing the demarcation between BMT and the Main Contractor. The BMT integration period is being reduced (in agreement with them) from 22 weeks to 12 weeks therefore this 12-week period is critical for giving confidence with any projected opening date.

We understand that this has been reviewed by the Delivery Team and that it has been agreed with the Main Contractor. We would like to highlight that with all the activities planned around the Main Contractor's PC date, it would be very disruptive for BMT and their planned activities if an anticipated completion date cannot be achieved. BMT may not be able to reschedule some of these activities with short notice, e.g. the works for the Organ installation.

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3.7 Monte Carlo risk assessment

3.7.1 Methodology

Monte Carlo Analysis is a risk management technique design to conduct a quantitative analysis of risks of any specific project.

This mathematical technique was developed to analyse on any specific project the level of either cost or programme risk, if a project has a specific this risk occurs, how will it affect the schedule or the cost of the project?

Contingent risk is an assessment of, and allowance for, unmeasured items. These may include items such as weather, geotechnical problems, political issues, design/owner requirements and other similar unknowns. These risks have a probability of less than 100% chance of occurring.

As such, the risk needs to be allowed for in the contingency in a probabilistic manner.

That is the cost x likelihood of occurrence (probability %).

To ascertain the appropriate risk allowance, the risks and costs are viewed as a normalised cumulative cost probability, where all identified risks are simulated over a number of scenarios probabilistically to ascertain the normal distribution of risk costs and as such give a specific level of confidence in the overall level of costs that may be incurred. It therefore follows that a P50 evaluation would indicate a 50% level of confidence that the level of costs will not be exceeded, whereas a P90 evaluation indicates a 90% level of confidence that the costs will not be exceeded.

3.7.2 Risk Review

Specifically in respect of Bristol Beacon, an independent review has been taken of the potential risks and opportunities based upon the current position of the project, the remaining time and cost allowances remaining to complete the project.

The Monte Carlo analysis simulation has been produced following this review with a view to being able to confirm with a level of confidence in the final costs that are likely to be incurred to complete the project with as much certainty as possible.

The review makes and number of assumptions in relation to potential issues which are impossible to ascertain show the overall probability of numerous different events occurring on the Bristol Beacon project together and what the likely impact would be on the entire project financially.

- Force Majeure - Any potential costs and programme impact of any future Force Majeure event is excluded from the analysis.
- Contractors Insurance – That the PMO team are ensuring that the Contractor has adequate insurance cover in place to cover the potential increase in contract value.
- Grant Funding – No allowance has been made in respect of the management or repayment of any grant funding that has been received in respect of the project.

During the review a number of significant risks were identified which require the attention of the PMO team.

- Seat Wagons – These are considered a major risk to the completion of the project as they do not appear to have been ordered and are due for installation in April 2023. These wagons are being manufactured in Spain and consideration needs to be given as to checking on the manufacture at regular intervals to ensure that the delivery dates are met
Consideration also needs to be given in respect of any customs and excise paperwork that would need to be completed in a timely manner so as to avoid import delays.

- Back of House – From the site visit it was evident of the lack of progress in respect of the commencement let alone completion of these rooms which needs attention.
- Gas Installation – It was also noted that the installation of the gas into the building only commenced in November, which means that the building remains unheated with timber panelling already installed in Hall 1 ceiling. Measure may be needed when heat is applied to the building to stop this product changing shape and affecting the acoustics.
- Timber Panelling – It has been noted that the panelling has been manufacture off site and is currently stored, however the same issue as above would also apply to this panelling when it is delivered to site.
- Contractors Progress – From the limited programming information that has been seen together with the current actual cashflows, would indicate that the contractor is behind program and likely falling further behind programme. This raises significant concerns that the contractor's completion date is achievable.
- Further Change – From the analysis above and the review of the contingency budgets within the budget, that a significant amount of further change is still likely from now until completion. This would need to be minimised as on balance any further change will affect the completion of the project,

3.7.3 Monte Carlo Assessment Results

Following on from the review of all the information and based upon the comments above Arcadis has completed its Monte Carlo Assessment.

This assessment has identified **25** specific risks which could affect either the costs of the project directly or have an impact on the completion of the project and thus inversely affect the final costs. Due to the timing of this assessment only 24 risks have been quantified with an update required to the unpriced risk relating to Planning Conditions, for which we are still awaiting the detail

From this assessment together with the review programme and other related issue, there is clearly no float left within the programme to accommodate and further change and therefore there is a high degree of risk left on the project.

The result of this risk is that we now need to have a high level of confidence in the costs and contingencies that we are presenting.

Arcadis' view is that as a result we need to have at least a 90% confidence level that the project will complete within figures that are presented and accordingly we would suggest as a minimum using at least a P90 level assessment in terms of the Monte Carlo assessment.

As can be seen from the Monte Carlo assessment contained within appendix B this would indicate that we would need a total contingency level [REDACTED]. This figure would increase up to [REDACTED] if we wanted a higher level of certainty.

From the cost analysis, it would appear that the current level of contingency contained within the budget for Option 1 is [REDACTED]

From review of the overall budgets the total amount of contingency contained within the overall project coverage would provide us with 90-95% confidence that the overall budget would not be exceeded.

4 RECOMMENDED NEXT STEPS

Arcadis' review was limited to the available data, and we recognise that there will be several unsighted documents, which can influence the conclusions reached in this report in some shape or form. Hence, we recommend that the Delivery Team;

- Assess the Programme floats and likely delays for Option 1 as described in section 3.3.1
- The Cost Consultant, Aecom, reviews their cost assessment for the periods identified in the above programme assessment to confirm these can be covered
- The overall Contingency is compared and crosschecked against the Monte Carlo P90 results in section 3.7 and Appendix B
- Once the Delivery Team have a satisfactory completion of DoV2 programme from the Main Contractor, they should consider undertaking a forensic programme review, to assess the risk to its delivery, by thorough detailed interrogation of the software using critical path analysis (including assessment of float, activity precedence, etc). We understand this has been commissioned and will take place early 2023.
- Consider, if appropriate, for a detailed risk assessment to be undertaken of the remaining Client-side risks both in the delivery of the Building Contract and in the activities to deliver the BMT works prior to opening; the output being a Client-side risk management plan through to project opening.

APPENDIX A

Commercial Analysis

(Appendix A omitted as costs are confidential)

APPENDIX B

Monte Carlo Risk Assessment

APPENDIX C

Documentation

The following documents have been received

BRISTOL BEACON ASSURANCE REPORT - Documentation

05/01/2023

| Reference | Document Title | Dated | Received on | Revision | Comments | Actions |
|-----------|--|------------|-------------|----------|--|---|
| 001 | BB - Design Assurance Report P2 22.11.08 | | 18/11/2022 | | SS by new version | Not to be considered |
| 002 | BB -Project Mothball Report -Final | | 18/11/2022 | | SS by next document | Not to be considered |
| 003 | BB -Project Mothball -Final Draft V2 | | 18/11/2022 | | | Review |
| 004 | BB - Project Mothball - contract review – clean | | 18/11/2022 | | | Review |
| 005 | BB - Project Mothball - contract review – tracked | | 18/11/2022 | | SS by clean version | Not to be considered |
| 006 | WD Summary of Prices for DOV Contract Rev B | | 18/11/2022 | | | Not to be considered |
| 007 | Beacon cost overview final DOV position 31 March 21 | | 18/11/2022 | | | Not to be considered |
| 008 | Appendix B - Bristol Beacon Cost Report Nr RB20 prev 40 Issue to Board V4 | 19/10/2022 | 18/11/2022 | | SS by new version. For reference if needed | Not to be considered |
| 009 | BMT Business Plan First Full year calcs shown | | 18/11/2022 | | | Not to be considered |
| 010 | BB - Whole Project Joint Risk Register - Master - November Board | | 18/11/2022 | | | Review |
| 011 | Bristol Beacon - PEP V11 22.10.04 | | 18/11/2022 | | For reference if needed | Not to be considered |
| 012 | Bristol Beacon- Project Directory V10 25.04.22 | | 18/11/2022 | | For reference if needed | Not to be considered |
| 013 | Arcadis Team Structure - 2022.10.21 | | 18/11/2022 | | For reference if needed | Not to be considered |
| 014 | Mothball back up | 03/10/2022 | 18/11/2022 | | | |
| 015 | Mothball 4 October 22 estimate | 04/10/2022 | 18/11/2022 | | SS by new version, document ref. 075 | Ask Aecom which one to review. Consider for Options 2A/B only |
| | <u>November 2022 Project Board report including:</u> | | | | | |
| 016 | Bristol Beacon - Project Board Meeting Minutes - October 2022 (1) | | 21/11/2022 | | | Review for background informatic |
| 017 | BB -Project Directors Executive Summary Nov 22 - Final | | 21/11/2022 | | | Review for background informatic |
| 018 | BB - Project Board Report - November 2022 | | 21/11/2022 | | | Review for background informatic |
| 019 | BB - Project Board Agenda | | 21/11/2022 | | | Review for background informatic |
| 020 | Bristol Beacon - Project Board Action Tracker October 22 | | 21/11/2022 | | | Review for background informatic |
| 021 | Appendix A - BB - Whole Project Strategic Programme - Nov Board 22 (End Of Oct 22) | | 21/11/2022 | | | Review for background informatic |
| 022 | Appendix B - Bristol Beacon Cost Report Nr RB21 prev 41 Issue to Board Rev B | | 21/11/2022 | | | Review for background informatic |
| 023 | Appendix C - Contractor Report - 11-11-22 (1) | | 21/11/2022 | | | Review for background informatic |
| 024 | Appendix D - WD Summary Programme - End of Oct 22 (1) | | 21/11/2022 | | | Review for background informatic |
| | <u>DoV2</u> | | | | | |
| 025 | WORK_46727321_2_Deed of variation to building contract (BS DRAFT 09.11.22 no sum) | | 21/11/2022 | | SS by new version | Not to be considered |

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BRISTOL BEACON ASSURANCE REPORT - Documentation

05/01/2023

| Reference | Document Title | Dated | Received on | Revision | Comments | Actions |
|---------------------------------|--|-------|-------------|----------|--|----------------------|
| 026 | Package Responsibility Schedule v5 - 22.11.09 | | 21/11/2022 | | | Review |
| 027 | Clarifications - update rev K | | 21/11/2022 | | IMPORTANT | Review |
| 028 | Box in Box_Principles_0.1 - 22.11.09 | | 21/11/2022 | | | Review |
| 029 | Arup Fire Strategy Report: CH2-ARP-ZZ-XX-RP-Z-0001 RevC_Highlight_Issue | | 21/11/2022 | | | Review |
| 030 | ARUP MEP appendices: Appendices A, B, C, D, E, F1, F2, F3, G1, G2, H, J, K, L, M | | 21/11/2022 | | | Review |
| 031 | 2648B_5.3_Building Control Condition Tracker Report_Rev L | | 21/11/2022 | | | Review |
| 032 | 2648B_5.3_Building Control Derogation - Clarification Tracker Report_Rev F | | 21/11/2022 | | | Review |
| 033 | Planning Consent Notices: Application 21-02325-X, LBC Application 21-02296-LA | | 21/11/2022 | | | Review |
| <u>Current DOV2 Proposals</u> | | | | | | |
| 034 | WORK_46727321_5_Deed of variation to building contract (BS DRAFT 17.11.22) | | 21/11/2022 | | SS by new version | Not to be considered |
| 035 | WORK_46891074_1_Redline - DoV 2 09.11.22 vs DoV 2 17.11.22 | | 21/11/2022 | | SS by new version | Not to be considered |
| 036 | BMT briefing for cabinet | | 21/11/2022 | | | Excluded |
| 037 | BB2 DoV Rev Wg 28-1-22 | | 21/11/2022 | | Programme for referenc | Review |
| 038 | Bristol Beacon Programme Rev Wg -28-1-22 | | 21/11/2022 | | Programme for referenc | Review |
| 039 | CE, PMI and EWN Register.xlsx | | 25/11/2022 | | | Review |
| 040 | Extract of materials on and off site end oct 22 | | 29/11/2022 | | | Review |
| 041 | WORK_46727321_7_Deed of variation to building contract (BS DRAFT 24.11.22) | | 29/11/2022 | | Latest DoV2 version | Review |
| 042 | Bristol Beacon Emerging Position and Final Account 161122 | | 29/11/2022 | | IMPORTANT | Review |
| 043 | BB - Strategic Programme - MASTER V1 30.11.22 | | 02/12/2022 | | IMPORTANT | Review |
| 044 | BB - Design Assurance Report P3 22.11.29 | | 02/12/2022 | | SS by new version | |
| 045 | BB - Whole Project Joint Risk Register - Master - November Board1 | | 02/12/2022 | | Received in ref. 010 above, same version | |
| <u>1.Jan 23 -Cabinet Report</u> | | | | | | |
| 046 | Appendix A Bristol Beacon Inflation Impact Rev 22 Nov 22 | | 05/12/2022 | | | Review |
| 047 | Appendix 2 - Technical Issues Report Rev D | | 05/12/2022 | | | Review |
| 048 | Structural Issues since DoV1 - Rev. A | | 05/12/2022 | | | Review |
| 049 | Appendix 3 - BB -Project Mothball -Final Draft V2_tracked PWJ | | 05/12/2022 | | | Review |

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| Reference | Document Title | Dated | Received on | Revision | Comments | Actions |
|-----------|---|-------|-------------|------------|---|----------------------|
| 050 | BB -Project Mothball -Working Draft V2 | | 05/12/2022 | | | Review |
| 051 | BB - Mothball Programme Jan Cabinet (002) | | 05/12/2022 | | | Review |
| 052 | BB - Option 1 Integration Programme | | 05/12/2022 | | | Review |
| 053 | BMT briefing for cabinet | | 05/12/2022 | | Appendix 6 | Excluded |
| 054 | BB - Design Assurance Report P1 | | 05/12/2022 | | | |
| 055 | BB - Design Assurance Report P2 22.11.08 | | 05/12/2022 | | | |
| 056 | BB - Design Assurance Report P3 22.11.29 | | 05/12/2022 | | Received in ref. 044 above, same version | |
| 057 | BB -Project Directors Base Case Proposal | | 05/12/2022 | | | Not to be considered |
| 058 | 2021.03.02 - Reviewable Design Data_Rev_03f.1 | | 05/12/2022 | | | Review |
| 059 | BB - Principal Outstanding Contractor Design Information Rev B | | 05/12/2022 | | Appendices of design assurance report | Review |
| 060 | Package Responsibility Schedule v4 | | 05/12/2022 | | | Review |
| 061 | BB - Leads Comments on Appendices | | 05/12/2022 | | | Not to be considered |
| 062 | BB - Mothball Programme (1) | | 05/12/2022 | | Same version ref. 051 | Not to be considered |
| 063 | Bristol Beacon DoV1 Risks and Contingencies 181122 | | 05/12/2022 | | SS by new version below | Not to be considered |
| 064 | Bristol Beacon DoV2 Risks and Contingencies 021222 | | 05/12/2022 | | | Review |
| 065 | Original NEC3 Contract with WD dated 28th May 2019 | | 02/12/2022 | | Folder including all documents, not listed | Review |
| 066 | DoV1 with WD dated 29th April 2021 | | 02/12/2022 | | | Review |
| 067 | Bristol Beacon Programme Rev Wn2 - 11-11-22 Dov2 | | 06/12/2022 | | DoV2 Programme | Review |
| 068 | Bristol Beacon - Commissionng Sub programme 23-9-22 | | 06/12/2022 | | | |
| 069 | BB - Strategic Programme - MASTER V1 30.11.22 | | | | No linked activities. SS by next document | |
| 070 | BB - Strategic Programme - MASTER 02.12.2022 (IB) | | 07/12/2022 | | No linked activities | |
| 071 | 221114 Bristol Beacon - Lead Report, Metrics & Risk Assessment - Programme (IB) (1) | | | 08/12/2022 | IMPORTANT | Review |
| 072 | 221114 Period metrics for Rev Wn | | | 08/12/2022 | IMPORTANT | Review |
| 073 | Bristol Beacon Project Cashflow V2 150822 | | | 08/12/2022 | IMPORTANT | Review |
| 074 | BB - Design Assurance Report P4 22.12.07 | | | 12/12/2022 | IMPORTANT | Review |
| 075 | Bristol Beacon Emerging Position and Final Account 161122 plus options for presentation | | | 12/12/2022 | IMPORTANT. Partly SS by ref. 089 for Option 1 costs | Review |
| 076 | BB - GC, TQ update | | | 12/12/2022 | | Review |

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|-----------|--|-------|-------------|----------|----------------------------------|----------|
| 077 | Red List - 22.12.06 <u>1.Jan 23 -Cabinet Report (updated draft reports)</u> | | 12/12/2022 | | | Review |
| 078 | Appendix A Bristol Beacon Inflation Impact Rev 7 Dec 22 | | 14/12/2022 | | Conflicts with other information | Excluded |
| 079 | Appendix 2 - Technical Issues Report Rev E | | 14/12/2022 | | | Review |
| 080 | BB Options Summary - Mayor Briefing_12.12.22 | | 14/12/2022 | | | Review |
| 081 | DOV 2 Clarifications 13 December 2022 | | 14/12/2022 | | Received too late | Excluded |
| 082 | WORK_46727321_9_Deed of variation to building contract (BS DRAFT 13.12.22) | | 14/12/2022 | | Received too late | Excluded |
| 083 | WORK_46814132_5_Box in Box_Principles_0.2 (BS DRAFT 13.12.22) | | 14/12/2022 | | Received too late | Excluded |
| 084 | WORK_46883346_3_Package Responsibility Schedule v5 (BS DRAFT 13.12.22) | | 14/12/2022 | | Received too late | Excluded |
| 085 | WORK_47135746_1_Redline DoV - 24.11.22 draft vs 13.12.22 draft | | 14/12/2022 | | Received too late | Excluded |
| 086 | WORK_47136308_1_Redline BiaB Document - 24.11.22 draft vs 13.12.22 draft | | 14/12/2022 | | Received too late | Excluded |
| 087 | WORK_47136722_1_Redline PRS - 24.11.22 draft vs 13.12.22 draft | | 14/12/2022 | | Received too late | Excluded |
| 088 | BMT Opening Plan 07.07.2022 Issue 3 | | 15/12/2022 | | | Review |
| 089 | Proposed Revised Budget version X | | 03/01/2023 | | IMPORTANT | Review |
| 090 | Beacon Appendix 3 options comparison table | | 05/01/2023 | | IMPORTANT | Review |

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Arcadis LLP

80 Fenchurch St
London EC3M 4BY
United Kingdom

T: +44 (0)20 7812 2000

arcadis.com

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