



Temple Island Arena: Value for Money Assessment

**KPMG report for Bristol
City Council**

June 2018



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1 About this study

1.1 History of Temple Island Arena project

Bristol is the only UK core city that does not have a major arena¹. In 2013, Bristol City Council (“BCC”) commissioned a study that would assess the feasibility of the construction of an arena in the City². This study found that there was strong support for an arena, as well as:

- a strong market in Bristol for an arena;
- interest from major operators in leasing an arena; and
- a requirement for public sector funding for the project.

BCC purchased a site (the former Diesel Depot site and the Post Office Sorting Depot site) to house the Arena in 2015. The site, named Temple Island, is part of the Bristol Temple Quarter Enterprise Zone (BTQEZ), located close to Bristol Temple Meads train station.

The proposed Arena has been designed to have a 12,000 (10,000 seated) capacity and it is proposed that it will be situated on the Temple Island site. As a result of a procurement exercise the Arena is expected to be rented and operated over a 25 year period by SMG and Live Nation (“the Arena Operator”), who have formed a joint venture specifically for the Temple Island Arena following a BCC led procurement process.

In 2016, after submitting a business case to the West of England Local Enterprise Partnership (“LEP”), BCC was granted £53.0m in funding for the proposed Arena project to be paid over an 18 year period commencing on the opening of the Arena. This is supplemented by £25.9m of investment to develop the Arena from BCC itself.

If the Arena is taken forward as currently planned, initial enabling works are expected to commence in 2018 and construction works will begin in 2019, with the intention of the Arena opening in 2021.

Since the LEP funding was granted, a number of key events have taken place:

- a new contractor for the construction of the Arena, Buckingham Group, has been appointed by BCC;
- a Target cost for the project has now been identified, and the total project cost exceeds the approved budget for the project;
- the University of Bristol has purchased a portion of the Temple Island site and the former Post Office Sorting Depot site in the BTQEZ where a new campus and student residences will be located; and
- YTL Developments Limited (“YTL”), an infrastructure conglomerate, has come forward with a competing proposition to build a privately financed arena in the Brabazon Hangar in Filton, 5 miles from Bristol City Centre, therefore not requiring the same degree of public funding support.

¹ Davis Langdon and IPW... (2013) Bristol Arena Outline Business Case: Final Report November 2013.

² Davis Langdon and IPW... (2013) Bristol Arena Outline Business Case: Final Report November 2013.

1.2 Scope of work

KPMG was commissioned by BCC to undertake a Value for Money (“VfM”) review of the proposed Temple Island Arena. The study is intended to provide an evidence base for BCC to allow it to make future decisions on the investment in line with its duty of best value.

In this context, Value for Money relates to the achievement of both economy and efficiency (i.e. delivering the benefits which were the justification for the investment at the outset and meeting these objectives at a proportionate cost).

Our study covers the following main areas:

- A review of the strategic case for the Arena on the Temple Island site, including:
 - identification of the stated objectives for the Arena;
 - an assessment of the current validity of those objectives and their compatibility with the overall vision and priorities of BCC and the BTQEZ; and
 - a review of the extent to which the objectives warrant the allocation of public funding on both an initial and ongoing basis and the scope for alternative approaches to achieving these objectives on a more efficient and/or effective basis.
- A review and assessment of the strength of the economic case for the Arena on the Temple Island site, based on an appraisal methodology that is consistent with the principles set out in the HM Treasury Green Book. This includes:
 - a review of the estimation of the Gross Value Added (GVA) and employment impacts through the construction and operational phases of the Arena, in direct, indirect and induced terms;
 - a review of the evidence in relation to the wider impacts that could be realised in terms of catalysed development going forward;
 - a review of evidence in relation to any social impacts that could potentially be realised through any commitments given by the Arena Operator and developer; and
 - identification of gaps in the evidence base.
- Commentary on the Benefit Cost Ratio (BCR), including taking account of the full socio-economic impact of the project and the impacts that are not direct or easily valued. A review of the environmental impacts is not included within the scope of KPMG’s work.
- A review of the main contractual arrangements and an assessment of the key commercial and contractual risks and opportunities.
- A review and analysis of the projected financial forecasts of the Arena project, including: a review of the identified level and trend of costs, various funding mechanisms, the impact of the project on BCC’s revenue and capital account; and consideration of alternative financing options.
- Specification of potential performance indicators that may be used by BCC to better monitor the performance of the Arena development and the achievement of the overarching outputs and outcomes against specified milestones.

Our analysis draws upon data and information provided to us by BCC and other stakeholders, including:

- Buckingham Group Contracting Limited; (“Buckingham” or “BGCL”)
- the Arena Operator;
- the University of Bristol,
- BCC’s cost consultants, Aecom;

- the Homes & Communities Agency (HCA)³;
- Destination Bristol; and
- key personnel at BCC involved in the Arena project and the BTQEZ.

Additionally, we sourced data and information from a number of external public sources. This includes official statistics published by the Office for National Statistics (ONS), data from the HCA and existing research, analysis and economic literature from a range of sources.

1.3 Structure of this report

Our report is structured over two documents.

- a) This Report: Provides a commentary of the key findings of our review; and
- b) The Background Document: Contains commercially sensitive information not for publication.

Sections 2, 3, 4 and 5 of this Report highlight our headline findings and recommendations.

We note that subsequent to our initial findings and recommendations, BCC commissioned KPMG to produce assessments of alternative propositions, both for an arena in Filton at the Brabazon Hangar and also an alternative mixed use commercial and residential scheme at Temple Island. Our assessment of those propositions is contained in our reports entitled 'Assessment of alternative plans for an arena in Bristol' and 'Assessment of alternative development plans for the Temple Island site'.

³The HCA became Homes England in January 2018.

2 Headline findings

KPMG's headline findings are set out below. Section 4 sets out these points in further detail.

- **We estimate the Project has a positive BCR, although lower than the 2016 estimate:** Over a 25 year period there is an estimated BCR of 3.2:1. This suggests a strong economic case for the Arena at Temple Island.
- **We estimate the Arena could yield net additional economic output and employment:** In net terms, the direct, indirect and induced impact of the operation of the Arena, wider spending of attendees and catalytic development could generate Net Present Value (NPV) GVA of approximately £387.1m and up to 660 Full Time Equivalent (FTE) jobs in the West of England over 25 years.
- **We note that positive social impacts may also arise from enhancing Bristol's cultural offer:** The Arena will fill an existing gap in Bristol's cultural offering, and would regenerate a currently derelict site in Bristol. The Arena could have widespread benefits in terms of improving the standard of living in Bristol, improving access to culture and arts and improving community cohesion. Social impacts are also linked to the developer's Employment and Skills Plan⁴ (targets to be finalised) and any community engagement activities the Arena Operator chooses to put in place⁵.
- **We note the strategic case has weakened since the Outline and Full Business Cases were drafted:** Since the Full Business Case ("FBC") for the Arena was put forward, BCC has further developed its strategic plans for the City and BTQEZ, and wider public priorities have changed. Furthermore, the University of Bristol's purchase of the remainder of the Temple Island site and the Post Office Sorting Depot site has weakened the likely catalytic impacts of the Arena and, therefore, the strategic case of the project. The strategic rationale for public sector intervention would also be weakened if YTL's private sector led and financed proposition for an arena proves deliverable and would generate a similar or better BCR.
- **We note that the projected development cost exceeds BCC approved budget:** BCC has received a Target Cost estimate from Buckingham of £122.1m that, once added to BCC's own costs of £34.2m⁶, give a total estimated cost (excluding land contribution and car parking) to develop the Arena of £156.3m, exceeding the approved budget of £123.5m⁷ by £32.8m. Buckingham has been appointed following a two stage tender process, meaning the actual cost may differ from the Target Cost as subcontractor packages are agreed. The risk of actual cost differing from Target Cost is shared between BCC and Buckingham, although BCC has made prudent contingency allowances for BCC risk that follows professional advice. The risk sharing mechanism is described further in the Background document.
- **We note that significant public funding support is needed to deliver the Arena:** The total development cost of the Arena is estimated at £188.6m, comprising the £156.3m set out above, £16.2m to develop the required car parking facilities for the Arena, a valuation of the land contributed of £12.5m and interest during construction of £3.6m. This will be met by BCC funding contributions of £38.4m (including the land contributed) and net operating cash flow during construction of £5.2m with the remaining £145.0m met through borrowing from the Public Works Loan Board ("PWLB"). The LEP will meet the costs of interest and repayment of £53.0m of the

⁴ Buckingham Group Contracting Limited (2017) Employment and Skills Plan (ESP) for Bristol Arena.(revised March 2018)

⁵ We note that there are no contractual obligations on the Arena Operator, at present, to deliver such activities.

⁶ BCC costs include client side, project management costs, and risk contingencies. These are costs are set out in further detail in the confidential Background Document.

⁷ Previous BCC budgets for the Arena did not take account of anticipated car parking costs

PWLB loans (£65.6m over an 18 year period⁸) with interest and repayment of the remaining £92.0m met from net income from the Arena and car parks. After taking into account the BCC and LEP funding contributions that do not require repayment, the Arena will make a positive financial return, before financing costs, of 2.82% nominal over 25 years in nominal terms.

- This level of nominal financial return is lower than our estimate of what a commercial investor would require for an investment of this risk (KPMG use a proxy estimate of 6.20%) and below the HM Treasury Green Book threshold for public sector investment appraisal of 5.57% (3.50% real rate adjusted for BCC's 2.00% inflation assumption). Before any public sector funding contributions the Arena is estimated to deliver a financial return of -0.67% over 25 years. This willingness to invest at a sub-commercial return represents direct financial support. KPMG calculate the value of this support in NPV terms as £36.9m using HM Treasury Green Book rates and £42.1m using KPMG's estimate of a project specific rate of return⁹ of 6.2%.

Figure 1: Estimate of public funding support

£m	Total (nominal)	NPV (Project)	NPV (HMT)
LEP funding support	65.6	29.7	32.0
BCC contributions	38.4	31.3	31.9
Total direct funding support	104.0	61.0	63.9
Value of sub-market investment return		42.1	36.9
Total value of public financial support		103.1	100.8

Source: BCC, KPMG analysis

- We note that arenas in the UK typically require public subsidy and are not independently profitable at commercial rates of return.
- **We note there is no ongoing revenue cost for the Council:** The financial return from the Arena of 2.82% over 25 years, after taking into account the committed LEP funding of £53.0m¹⁰ and £38.4m of earmarked BCC capital and land contributions, is marginally more than BCC's assumed long term cost of borrowing under PWLB of 2.80%. This means that the annual operating surpluses from the Arena can meet the cost of the interest and repayment of PWLB debt over 25 years, generating an additional operating surplus of £1.3m in nominal terms over 25 years under current forecasts. With appropriate profiling of debt repayments, there is no ongoing revenue cost for the Council¹¹. We note there is very little contingency, margin or profit for BCC. Should gilt rates increase prior to executing the PWLB debt, or additional BCC costs be incurred, an operating deficit could arise.
- **We conclude that key risks are backed off to subcontractors but risk for BCC remains:** The contractual structure backs off key construction and operating risks to subcontractors, mitigating the Council's risk. In our view the key commercial risks to BCC are as follows:
 - **Design risk:** We note that the Buckingham Target Cost estimate follows a value engineering exercise to reduce construction cost. This has led to design changes meaning that there is currently no detailed design that matches the revised Buckingham offer. This suggests a greater degree of risk in the Target Cost number than we would ordinarily anticipate at this stage of a project.
 - **Income and operating risk post year 25:** The Arena will be leased to Arena Island Limited ('AIL'), a joint venture between SMG Europe Holdings Ltd and Live Nation UK Ltd for 25 years

⁸ The £65.6m LEP contribution comprises funding support of £53.0m plus meeting £12.6m of interest costs due to the contribution being provided over an 18 year period.

⁹ Further detail on the basis for the KPMG estimate of project specific rate of return is contained within the Background Document.

¹⁰ LEP funding comprised of £53m in agreed funding, plus associated interest costs associated with PWLB loans, estimated at £12.6m per BCC financial forecasts. Total assumed funding is therefore £65.6m

¹¹ We note that in the financial model that BCC provided to KPMG, the repayment profile of the PWLB loan is shown such that there is a small funding shortfall in years 1-14 and 20-25 of the Arena's operation. Our conclusion is based on the fact that this doesn't have to be the case, if PWLB repayments are sculpted around the receipt of cash from the LEP and Arena Operator. The actual repayment profile of PWLB loans should be considered as part of BCC's overall treasury management strategy and not on a stand-alone project basis.

post completion, with AIL taking the risk of income, operating and maintaining the Arena for that period. £59.5m of PWLB debt (net of MRP reserves) is estimated to still be outstanding at the end of the AIL contract, which would either need to be repaid through sale of the Arena or ongoing income from that point. BCC's estimate of market value of the asset at year 26 is 111% of the debt outstanding. These levels of loan to value are high compared to KPMG's estimate of what a commercial investor would require and given the high level of uncertainty of forecasting 25 years into the future. The future valuation of the Arena is calculated based on the present value of future net income from the asset. This is a reasonable approach, but we note that a valuation of the Arena in 25 years is highly sensitive to changes in operating assumptions over that period.

- **Counterparty risk:** The passing of financial risk to Buckingham Group and AIL rely on the credit standing of those counterparties relative to their obligations. We have reviewed the financial positions of both parties in the Background Document based on information available from the latest published annual accounts.
 - Buckingham is a medium sized UK based contractor, with over £400m in turnover, £62.5m of cash and limited borrowing based on its 2016 audited accounts. This is a reasonable balance sheet position for a company of this size. We understand from BCC that Buckingham continued to grow in 2017, with its audited figures for 2017, due to be released shortly, expected to show increases in both its revenues, profit before tax and cash position. Given the challenges in the UK construction market, the role of the BCC project team in monitoring construction performance and spend takes greater importance.
 - AIL is a joint venture between SMG and Live Nation. SMG and Live Nation are two market leading companies in the live entertainment industry, with Live Nation being listed on the NYSE and having a Moody's credit rating of Ba3. Whilst this is not investment grade, overall we consider the risks associated with the operator income as being low or at least mitigated to the extent reasonably deliverable.
- **We note Aecom's work that concludes that BCC has taken a reasonable approach to assessing the construction cost and risk of the project, albeit the nature of the contract with a pain gain share mechanism means there is still the potential for cost overruns:** Aecom's view is that the build can be achieved within the Target Cost envelope of £122.1m, recommending a further client side contingency of £4-5m to cover any BCC risks under the contract. BCC has provided additional contingency beyond the recommended Aecom level, suggesting a degree of prudence. BCC's maximum potential exposure under the pain/gain share mechanism is £9.15m.
- **We conclude that the link to wider City vision could be further developed to strengthen the case for the Arena and its proposed location:** Looking at the benefits of any major infrastructure or public sector capital project in isolation has limitations, as the economic and social strength of a place relies as much on how different projects complement and reinforce each other as part of an overall vision and plan providing a package of public interventions towards an overall aim. In this case, the Arena's role as part of a wider City Plan and vision for development could be strengthened.

3 Financial Overview

We set out in Figure 2 below the Arena project cash flow, as per BCC's financial projections for the Arena and associated car parking requirements.

Figure 2: BCC Project cash flow statement¹²

£m	Total	Construct ion			Operations			Residua l value debt repayment
		Years 1-5	Years 6-10	Years 11-15	Years 16-20	Years 21-25		
Operating cash flows								
Operating rent and car parking income*	90.8	-	14.7	16.2	18.0	19.9	22.0	0.0
Asset value at year 25	66.0	-	-	-	-	-	-	66.0
Total operating cash flows	156.8	0.0	14.7	16.2	18.0	19.9	22.0	66.0
Project capital expenditure								
Arena capital expenditure**	(167.3)	(167.3)	-	-	-	-	-	-
Project cash flows	(10.5)	(167.3)	14.7	16.2	18.0	19.9	22.0	66.0
Revenue and capital contributions								
LEP funding	65.6	-	20.7	18.8	16.9	9.2	0	-
Project cash flows after LEP contribution	55.1	(167.3)	35.4	35.0	34.9	29.1	22.0	66.0
Total BCC capital contributions	25.9	25.9	0.0	0.0	0.0	0.0	0.0	0.0
Pre PWLB financing cash flows	81.0	(141.4)	35.4	35.0	34.9	29.1	22.0	66.0
Financing								
PWLB interest expense	(85.3)	(3.6)	(19.8)	(18.1)	(16.3)	(14.4)	(13.2)	-
Interest income	5.6	-	0.1	0.5	1.1	1.7	2.2	-
Net interest expense	(79.7)	(3.6)	(19.7)	(17.5)	(15.2)	(12.7)	(11.0)	-
Net PWLB debt drawdown	145.0	145.0	0.0	0.0	0.0	0.0	0.0	0.0
PWLB debt repayment over years 1-25	(55.8)	-	(12.1)	(12.7)	(13.4)	(10.9)	(6.8)	-
Residual value repayment	(89.2)	-	-	-	-	-	-	-89.2
Total debt drawdown and repayment	-	145.0	(12.1)	(12.7)	(13.4)	(10.9)	(6.8)	(89.2)
Transfers (to)/from MRP reserve	-	-	(4.4)	(5.1)	(5.8)	(6.7)	(7.7)	29.7
Surplus / (deficit)	1.3	-	(0.8)	(0.3)	0.5	(1.1)	(3.5)	6.5

*Includes arena and car parking income, and operating costs

** Includes car parking, contingencies, arena build cost, net operating cash flow during construction and BCC internal costs

Source: BCC cash flow forecast - 18th May 2018

The project cash flows from the Arena and associated car parking generate a loss of £10.5m. Once the income over an 18 year period from the LEP of £65.6m is taken into account the project generates a surplus of £55.1m. This represents the return to BCC.

After BCC's own capital contributions of £38.4m, including land of £12.5m and the borrowing costs associated with the PWLB lending are factored in the Arena delivers a small nominal terms surplus of £1.3m in BCC's own financial projections. BCC's projections show a small cash deficit from years 1-9

¹² Cash flows excludes the land contribution of £12.5m as this is not a cash item

and 19 to 24. However, if debt repayments are sculpted more closely to cash generated it is possible for the Arena to generate a small cash surplus in every year and meet debt repayments.

Figure 3: Sources and Uses of funds during construction

Sources	£m	Uses	£m
Capital Funding	15.9	Buckingham Target Cost	122.1
Transport Contribution	1.8	BCC Costs ¹³	50.4
CIL	8.0	Interest During Construction	3.6
Net operating cash flow during construction period	5.2	Temple Island Value	12.5
BCC Revenue Contribution	0.3		
Land Contributed	12.5		
Borrowing			
PWLB	145.0		
Total	188.6		188.6

Source: BCC financial projects 18th May 2018; KPMG analysis

We note that after BCC contributions of £25.9m and the land contribution valued at £12.5m the Arena delivers a return marginally above BCC's assumed borrowing costs of 2.80%.

Figure 4: Arena returns

	Nominal IRR	Nominal IRR (excl. sunk costs)
Project cash flows before public contributions	-0.67%	-0.33%
Project cash flows including LEP contribution	1.28%	1.74%
Project cash flows including LEP and BCC capital contributions	2.82%	3.50%

Source: BCC financial projections 18th May 2018; KPMG analysis

¹³ BCC Costs include car parking construction, risk contingencies and client side costs. These costs are set out in further detail in the Background Document.

4 Value for Money overview

4.1 Review of the strategic case

4.1.1 Summary of the stated objectives of the Arena

As a public-sector led and funded project, the Arena needs to be considered in the context of the wider public priorities, and whether the Arena is the best use of public money in terms of delivering public benefit.

As part of our review, we considered BCC's stated objectives for the Arena and their current validity and compatibility with the overall vision and priorities of BCC and the BTQEZ.

A vision for the Arena project was set out in the 2012 feasibility study¹⁴ and restated in the Outline Business Case (OBC) for the Arena, dated November 2013¹⁵:

"The delivery of an arena for Bristol on the Temple Quarter site, acting as a major catalyst and economic driver for the new Enterprise Zone. The Arena should be commercially driven, delivered quickly and on budget, and be sustainable at no on-going revenue cost to the Council and its partners."

This OBC also detailed key objectives for the project, stating that these were the factors against which success of the project would be determined. The objectives were expressed in relation to two aspects of the Arena; the experience and the building. The objectives broadly set out the desired public perception, capacity and functionality of the Temple Island Arena.

The FBC¹⁶, submitted to the West of England LEP in April 2016, also largely re-stated these objectives, with some minor changes in relation to the functionality of the Arena and the surrounding infrastructure, such as parking.

4.1.2 Summary assessment of the existing strategic case for the Arena and current validity of the stated objectives

Since the FBC for the Arena was put forward in 2016, BCC has further developed its strategic plans for the City and BTQEZ and wider public priorities have changed, partly in light of budgetary constraints. For example, housing, social and economic equality and social care are key priorities identified by BCC in its Corporate Strategy¹⁷ which, largely, the Arena project will not address¹⁸. However, we note that the Arena could contribute towards BCC's commitment to *"keep Bristol a leading cultural city, helping make culture, sport and play accessible to all"*¹⁹.

For the purposes of our assessment KPMG considered the strategic case put forward in the 2016 FBC, as this is the most recent version of the strategic case and therefore the most relevant for consideration as part of our review. The stated objectives have been set out and assessed in the Background document.

¹⁴ Davis Langdon, An AECOM Company and IPW... (2012) Bristol Arena Stage 1 Feasibility Report.

¹⁵ Davis Langdon, An AECOM Company and IPW... (2013) Bristol Arena Outline Business Case: Final Report November 2012.

¹⁶ Bristol City Council (2016) Bristol Arena Full Business Case.

¹⁷ Bristol City Council (2017) Corporate Strategy 2018-2023. Draft for consultation, November 2017.

¹⁸ The economic and social impacts associated with the Arena are assessed as part of our VfM review, although impacts on inequality have not been previously assessed, therefore do not form part of our assessment.

¹⁹ Bristol City Council (2017) Corporate Strategy 2018-2023.

The key ways in which the strategic case for the Arena has changed since the FBC and the key factors affecting the validity of the stated objectives are:

- **There is likely to be less potential for the Arena to catalyse the BTQEZ going forward:** The stakeholders at BCC and Destination Bristol consulted during the course of our review suggested that plans to locate the Arena on the Temple Island site may have already helped to catalyse development in the BTQEZ, by giving developers the confidence to invest in the zone. The wider catalytic impact of the Arena going forward may be more limited as other developments such as the University of Bristol campus and the Temple Meads Station re-development are likely to have a greater influence in attracting businesses to the BTQEZ than the Arena. Reduced availability of sites adjacent to the Arena was also considered to limit the scope for additional new development in the immediate vicinity.
- **The Arena could benefit the local communities and deliver ongoing social benefits, depending on the level of the Operator's engagement with the local community:** Although the Arena will be a publicly owned asset, it will be operated privately. The degree to which public benefits arise will depend on the Arena Operator. At present, the Arena Operator has put forward examples of community engagement activities it has delivered at other arenas but we have seen no formal plans presented for community programmes in Bristol and there are no contractual obligations on the operator to provide these²⁰.

The Arena will deliver employment opportunities in Bristol through both the construction and operational phases. The contractor, Buckingham, has contractually committed to use local labour, including delivering apprenticeships and engaging with local education establishments²¹. The Arena Operator has stated that it aims to recruit 20% of its workforce from the local area²². This increased employment and economic activity is likely to benefit the City as a whole.

Furthermore, during our consultation with stakeholders it was noted that the Arena could improve access to the south of Bristol, through wider infrastructure associated with the Arena such as the Southern Access footpath and cycle link. We have been told by BCC that these areas directly south of the Temple Island site are relatively deprived and therefore improved access to the City centre, key economic zones and transport facilities may improve quality of life for the residents in these areas.

- **Although the Arena could contribute toward the growth and future development of the LEP priority economic sectors²³, its impact may be limited:** The Arena will fill a gap in Bristol's cultural infrastructure. The UK Government Culture White Paper suggests that culture can be an important factor in the level of quality of life within an area. Section 4.4.4 summarises the social benefits that may arise from the Arena. Destination Bristol noted to KPMG as part of the stakeholder engagement that the Arena could increase the attractiveness of the BTQEZ as a potential location for firms, especially those in the creative and digital media sectors. However, it is unlikely that the Arena alone will be a key factor in a firm's location decision.

The Background Document sets out in greater detail our review and assessment of the existing strategic case for the Arena as presented in the FBC.

4.1.3 Summary assessment of the case for public intervention

In reviewing the strategic case for the Arena, it is important to assess the rationale for public intervention and how the validity of this rationale may have changed over time. This includes examining what the market failure may be and/or any externalities that may be present in the market.

²⁰ We understand from BCC that when tendering for an Arena Operator and agreeing contractual terms a decision was made not to place contractual obligations on an operator to provide community engagement activities but instead to maximise operator rental income.

²¹ In Buckingham Group Contracting (2017) Quality Commitment Question No.2 Employment and Training, Buckingham has committed to "aim to have" 75% of its workforce from the West of England, with 50% from Bristol.

²² As set out in the Draft Local Impact report compiled by Arena Island Ltd. and shared with KPMG by BCC.

²³ The priority sectors are: advanced engineering and aerospace; creative and digital; high-tech; low carbon and professional services.

In the case of the Temple Island Arena, the strategic rationale for public sector investment in the scheme, as set out in the 2016 FBC, is centred on three main points:

1. It is rare for arena projects to be brought forward by the private sector;
2. The benefits gained from the Arena will mostly be public benefits and as a result, the project is not seen as commercially viable for private investors; and
3. The Arena is expected to act as a catalyst for the development of the wider area. The Temple Island site, on which the Arena is proposed to be located, is a derelict brownfield site which has been vacant for over 15 years with little to no private interest. Therefore, there is evidence that the private sector has not been forthcoming in delivering any developments on the site.

There is some evidence to suggest that arena projects are generally not brought forward by the private sector. Of the three most recent arena projects²⁴ in the UK, only one has been primarily private sector led, although it should be noted that this project was the refurbishment of the Sheffield Motorpoint Arena, which was a comparably much smaller project than that of the Temple Island Arena project. In all other cases, the projects have been championed and majority funded by the public sector and there are examples of where private sector proposals have not proceeded (e.g. the Leeds Arena).

We note that investment by the public sector in cultural assets, such as arenas, often reflects the wider benefits (positive externalities) that can be realised. These are benefits to the wider economy and society beyond those that would be realised by private developers. Where the social returns are higher than the private returns this can provide a further rationale for public sector intervention. These economic and social impacts are assessed in Section 4.4.

In the case of Temple Island Arena, we note that no private investor had previously come forward with proposals for funding the development of an arena on the Temple Island site. The development of the Arena would involve high levels of upfront investment. This is unlikely to be attractive to most private sector organisations or be regarded as commercially viable given the level of risk and returns from the project.

The Temple Island site is a derelict brownfield site, requiring remediation. Planned developments on the site and surrounding area, such as the University of Bristol development and some developments in the Enterprise Zone, have been backed by public sector funding. However, given the well-connected location of the Temple Island site within the BTQEZ and its proximity to Temple Meads Station, the site may become increasingly attractive to private investors in the future as other developments progress. Some element of public sector intervention may still be required, however. The potential alternative use of the Temple Island site, and the extent to which it may require public intervention is reviewed in our report, Assessment of alternative development plans for the Temple Island site.

Since the FBC was submitted, a private sector led proposition for an arena in Bristol has been brought forward by YTL. Its proposition is for an arena to be developed by YTL in the Brabazon Hangar in Filton, Bristol. If deliverable and shown to deliver a similar BCR, this private sector led proposition weakens the strategic rationale for public sector intervention of the proposed Arena project on Arena Island site.

4.2 Review of the commercial case

KPMG has reviewed the commercial structure of the Project and the arrangements in place with Buckingham Group Contracting Limited to construct the facility and Arena Island Limited ('AIL'), a joint venture between SMG Europe Holdings Ltd and Live Nation UK Ltd, who will operate the Arena for an initial period of 25 years.

²⁴ Includes Leeds Arena in 2013, SSE Hydro Arena in Glasgow in 2013 and the refurbishment of Sheffield Motorpoint Arena in 2010.

We set out below the key considerations from BCC arising from our review of the commercial structure:

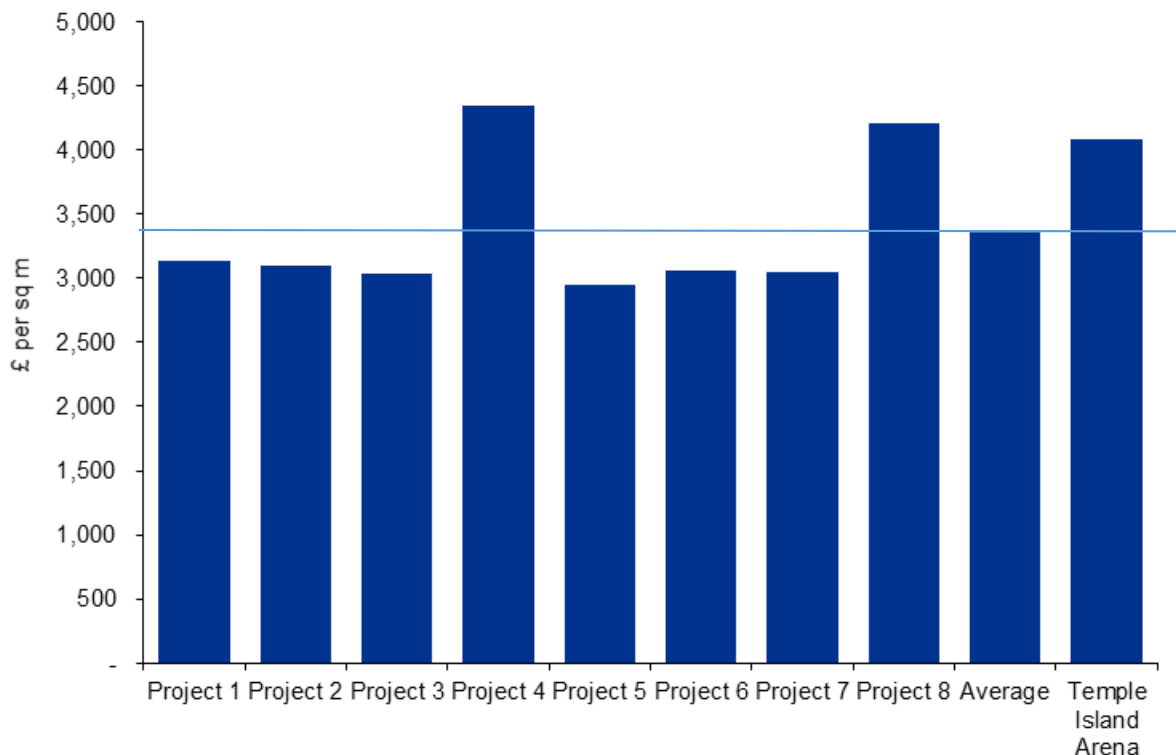
4.2.1 Construction phase

Target Cost exceeds BCC approved budget due, in part, to the BCC specification for the Arena- Buckingham's latest Target Cost Offer is in line with Aecom's July 2017 cost estimate.

However, the Target Cost, when combined with BCC's own costs and contingencies, gives a total of £156.3m, £32.8m greater than the approved budget of £123.5m, albeit we note that the approved budget does not include associated car parking costs nor considered the car parking income that pays for the debt service associated with the car parks over time.

We note that Aecom's report to BCC benchmarked the cost of delivering the Bristol Arena against other recently development arenas in the UK and found that the Bristol Arena was in the top quartile on a £/ sq m basis, at c.£4,087/ sq m, 21.4% more than the UK average. This is driven by variety of reasons including site specific constraints due to location, the high quality specification for the design of the building, which was procured by a design competition, reflecting the desire, as stated in the FBC, for Bristol to have an "iconic" arena and tender apathy amongst local contractors due to ongoing public debate around the Arena, suggesting lower levels of competition and hence lower value for money.

Figure 5: Aecom Temple Island Arena cost benchmarking on a £/ sq m basis



Source: Aecom

Reasonable approach to cost estimate – BCC has elected to use a Target Cost setting approach with its chosen contractor, Buckingham. A feature of this approach is that any savings or overruns against the Target Cost are split between Buckingham and BCC, known as the pain gain share mechanism, which is set out in further detail in the Background Document to this report. As a result

there is the potential for the construction cost to exceed the agreed Target Cost. There is also a risk of overruns relating to elements of the project where the risk is retained by BCC.

Aecom has recommended a contingency of £4m - £5m. BCC has gone further than this in its assumptions, as set out in detail in the Background Document, indicating that it has been prudent in its projections. Aecom's view is that the Arena can be delivered within the Target Cost envelope, noting that the Target Cost "has been substantially market tested and once the project regains traction further buying gains are expected from the supply chain"²⁵.

Detailed design is still in development: Due to their initial bid being significantly over budget, Buckingham has undertaken a value engineering exercise on the design to bring construction cost down closer to the initial budget and within Aecom's cost estimate. This has culminated in the current Target Cost.

This value engineering exercise has led to design changes that have not been fully developed. Specifically, Aecom note in their Tender Report that there is "*currently no design that matches the revised BGCL offer and the pain share risk remains due to the NEC Option C Contract*". For further detail, please refer to the Aecom report.

The design of the Arena will be of critical concern to the operator, with Aecom noting that whilst the suggested design changes will not fundamentally change the operator position or business model, further consultation is needed with them.

Financial strength of Buckingham: We have performed a high level assessment of the financial strength of Buckingham based on publically available information.

Buckingham is a medium sized UK based contractor, with over £400m in turnover, £62.5m of cash and limited borrowing (£2m) as at the time of their last published accounts (31 December 2016). We understand that their accounts for 2017 are expected to show the company grew further in the year, with increases in revenue, profit and available cash. The company is targeting £500m of revenues in 2018, and its annual report identifies specific expertise in sports, leisure and civic building development.

We recommend that BCC project team work closely with Buckingham throughout the construction process to monitor construction performance. It should be noted that BCC's own review of Buckingham's financial strength identified it as a low risk.

4.2.2 Operating phase

Operating income risk over the Arena's useful life: Operator income is underpinned by an index linked contract backed by AIL over the first 25 years of operation, insulating BCC from performance risk on the operation of the venue over that period. Income is also received from car parking provision built as part of the Arena development, based on analysis completed by third part consultants CH2M. Post year 25, BCC has a number of options with regard to the Arena building, including agreeing a new operator agreement, managing in house or selling the Arena. Whilst the income in the first 25 years of the project is considered to have limited risk, the cash flows for the remaining 25 years of the forecast asset's life are subject to greater uncertainty. Asking an operator to take risk now for a period beyond this time is unlikely to generate a value for money offer.

BCC project £59.5m of net PWLB debt relating to the Arena still outstanding at the end of the AIL contract. BCC has estimated a market value of the Arena £66.0m at year 25 in its financial forecasts, which it uses to pay down the outstanding net PWLB debt balance at that point of £59.5m as well as the overdraft that has accrued to that point. BCC's figure of £66.0m is based on expected future rental yields, assuming that rental income will grow from year 26 onwards for the remainder of the Arena's useful economic life of 50 years, allowing for a high level life cycle allowance of £10.0m. Whilst these

²⁵ Aecom Bristol Arena PCSA Target Cost Tender Report v0.3

appear reasonable assumptions, there is inherently a high degree of risk associated with any asset valuation in 25 years' time. As such, we consider that the valuation of £66.0m being just 111% of the debt outstanding at the time is significantly higher risk than a commercial investor would take.

BCC could also elect to retain the Arena post the AIL contract and either operate itself or enter into a new operator agreement. Based on the estimated annual rental income implicit within BCC's market value estimate the net cash inflows are also 111% of debt service required to repay the net PWLB £59.5m over years 26 to 50. Again we consider this taking more risk than a commercial investor would take.

Understandably BCC has not made a decision regarding its strategy for monetising the Arena from year 26-50, however we note that under either scenario, rental or sale, the Arena can fully repay the financing required to develop it over its useful economic life although the levels of contingency in these estimates for year 26 to 50 are low.

We also note that BCC has not assumed a capital value for the car parking assets associated with the Arena at year 25 given the uncertainty of predicting long term car parking income streams and ongoing changes to transport and mobility options for Arena attendees.

Operator financial strength: The Background Document overviews the risk associated with the Operator Agreement. SMG and Live Nation are two market leading companies in the live entertainment industry. Overall we consider the risks associated with the operator income as being low or at least mitigated to the extent reasonably deliverable in the market.

Overall, our review suggests that BCC has a credible offer from Buckingham to build the Arena, and limited financial risk over the first 25 years of its operating period. There is cost exposure under the construction agreement to a degree of construction overruns above the current Target Cost.

4.3 Review of the financial case

4.3.1 Funding and financing strategy

The estimated capital cost of the project is met through a combination of £25.9m of BCC funding contribution and PWLB finance entered into by BCC, in addition to the contribution of the land at Temple Island.

Figure 6: Sources and Uses during construction

Sources		Uses	
Capital Funding	15.9	Buckingham Target Cost	122.1
Transport Contribution	1.8	BCC Costs ²⁶	50.4
CIL	8.0	Interest During Construction	3.6
Net operating cash flow during construction	5.2	Temple Island Value	12.5
BCC Revenue Contribution	0.3 ²⁷		
Temple Island Land Contributed	12.5		
Borrowing			
PWLB	145.0		
Total	188.6		188.6

Source: BCC financial projections, 18th May 2018; KPMG analysis

²⁶ BCC Costs include carparking construction, risk contingencies and client side costs. These costs are set out in further detail in the Background Document.

²⁷ Totals may not appear to sum correctly due to rounding.

£53.0m of the PWLB borrowing will be repaid through secure contributions from the LEP, provided over 18 years, who will also meet the cost of interest on the PWLB loans associated with this amount bringing the total LEP revenue contributions to £65.6m (£53.0m capital, £12.6m interest payments). Combined with the £25.9m of BCC capital contribution, and land contribution of £12.5m, this results in £104m of public funding in total. The remaining PWLB borrowing will be repaid through a combination of income received from the Operator over years 1 to 25 of operation, car parking income and the market value of the Arena post year 25.

BCC is also contributing the land at Temple Island, valued by third party advisors at £12.5m based on alternative use for commercial and residential development, representing the opportunity cost to BCC of this land. If the Arena does not proceed as planned at Temple Island, both the land and the capital contributions could be used to fund other priorities as deemed appropriate by BCC.

4.3.2 Net present value of financial cash flows

Measuring the total BCC investment on a nominal basis does not reflect the true cost of that investment as it ignores the time value of money. We have performed a range of NPV calculations in relation to the direct financial cash flows to BCC from the project to assess the value for money case, before considerations of wider social and economic benefits. In doing so, we have assessed three scenarios:

1. The NPV of direct project cash flows and land opportunity cost only over 25 years before any BCC or wider public sector funding sources and before financing provided by BCC. The project cash flows comprise the cost of developing the Arena plus the net operating income that comes directly from the Arena. This represents the value of the direct financial cash flows to public sector as a whole.
2. The NPV of BCC cash flows and land opportunity cost after LEP contribution. This represents the NPV of BCC cash flows, noting that other public sector organisations (i.e. the LEP) will be bearing some of the project costs.
3. The NPV of BCC cash flows after capital contributions – This includes LEP funding and £38.4m of BCC capital contributions (including the land for the Arena), but before PWLB financing costs. This represents the value of any net cash surpluses, noting that BCC has already made commitments to some of the capital funding.

We calculate this NPV using three different discount rates, each which measure something different.

- a) Using the long term cost of borrowing under PWLB. This provides a measure of the affordability of the scheme given BCC has access to long term borrowing at a rate of 2.80%²⁸.
- b) Using a project specific rate of 6.20%, being a proxy of the market rate that we consider applicable to an investment of this risk profile. This is a better measure of the underlying value or subsidy provided to the project once the risk level of the project is taken into account.
- c) Using the rate suggested by the HM Treasury Green book of 3.5% real, which equates to a nominal rate of 5.57% given the 2% inflation assumption made by BCC.

We illustrate the return (IRR) at each level of cash flow in Figure 7 below.

²⁸ 2.8% being an approximation of current long term gilt rates plus 0.8% available under the concessionary rate of PWLB. In reality, gilt rates move on a day to day basis.

Figure 7: NPV summary – BCC base case

NPV of project cash flows (base case)	Project IRR	PWLB (£m)	Project (£m)	HM Treasury Green Book (£m)
Direct Project cash flows	-0.67%	(79.5)	(103.1)	(100.8)
BCC cash flows (after LEP contribution)	1.28%	(34.4)	(73.4)	(68.8)
BCC cash flows after capital contributions	2.82%	0.4	(42.1)	(36.9)

Source: BCC financial projections 18th May 2018; KPMG analysis

After taking into account the LEP and BCC capital and land contributions but before the cost of PWLB finance is taken into account, the Arena generates an investment return of 2.82%. This is slightly higher than the current long term cost of PWLB borrowing (assumed at 2.80%), resulting in the Arena generating a nominal cash surplus for BCC over the 25 year period. The positive net operating surplus suggests that BCC could sculpt the repayment profile of its PWLB loans associated with the Arena to match income received from it and therefore require no annual revenue support in any year of operation, in the base case. In practice the Arena is one of many financing requirements for BCC, with borrowing considered as part of a broader treasury management and debt strategy based on the prevailing market conditions at the time.

Of the capital costs outlined in the report, £12.2m of the costs have already been incurred (including design fees, professional advice and project team costs), per the BCC financial summary (this excludes the land purchase, fully funded by the HCA grant). If BCC takes the decision not to proceed with the Arena, these costs will not be recovered. Whilst an appraisal of the affordability and value for money of the scheme as a whole is useful and an appropriate measure of whether the project should have been undertaken, when considering the decision on whether to proceed from this point forward or not, these sunk costs should be excluded and only costs impacted by the decision considered. We re-state the NPVs below, excluding these sunk costs.

Figure 8: NPV summary – BCC base case (excluding sunk costs)²⁹

NPV of project cash flows (excl. sunk costs)	Project IRR	PWLB (£m)	Project (£m)	HMT Green Book (£m)
Direct Project cash flows	-0.33%	(67.3)	(90.9)	(88.6)
BCC cash flows (after LEP contribution)	1.74%	(22.2)	(61.2)	(56.6)
BCC cash flows after capital contributions	3.50%	12.6	(29.9)	(24.7)

Source: BCC financial projections 18th May 2018; KPMG analysis

We set out in the Background Document the key cash and NPV metrics of the key commercial risks identified in the commercial review.

In summary:

- The project has the potential to deliver annual surpluses in every year of operation, with income exceeding debt service costs, with no revenue funding cost in any year.
- To a large extent this surplus is facilitated by capital contributions from BCC (£25.9m during the construction period) and funding support from the LEP (£65.6m over 18 years).
- The Arena is expected to generate a return before public funding contributions or financing of - 0.67%. After public funding contributions this increases to 2.82%. This is materially lower than our

²⁹ We note that BCC finance team is conducting further work to assess the appropriate treatment of the sunk costs, in the event the Arena did not proceed at Temple Island, in respect of the level of spend set against capital and revenue allowances.

estimate of a market return for an investment of this risk profile demonstrating that the Arena is not a commercially viable proposition without public support.

4.4 Review of the economic case

4.4.1 Summary of KPMG's review of the 2016 economic case for the Arena

In 2013 BCC commissioned AMION Consulting ("AMION") to undertake an interim study to assess the potential economic impact of the proposed Arena, in terms of capital expenditure, GVA, employment and key fiscal impacts associated with any uplift in business rates. This was updated in 2016 for the FBC. As part of the scope of this report we have reviewed the economic case for the Arena on the Temple Island site as presented by AMION.

The AMION 2016 economic assessment, analysed the direct impact of the Arena in terms of:

1. the Arena itself;
2. the wider Temple Island site; and
3. adjacent sites in the BTQEZ where development may be catalysed as a result of the Arena.

In addition, the AMION report also considered the indirect impact that the Arena would have on Bristol and the wider South West region in terms of the wider supply chain and visitor expenditure.

Over a 25 year appraisal period, AMION estimated that the Arena, and wider developments it would catalyse, would deliver a net GVA impact of £729.6m against £94.8m of capital costs, with an impact, in NPV³⁰ terms, of £634.8m and a BCR of 7.7:1.

It should be noted that the assessment of the BCR above does not take full account of the additionality of the project. Specifically it does not factor in the deadweight of the project, i.e. what would happen if the Temple Island Arena is not brought forward on the Temple Island site. When factoring in an alternative development scenario for the Temple Island site if the Arena was not to proceed (the reference case)³¹ AMION's estimated BCR fell to 3.4:1.

As part of KPMG's review of the existing economic case for the Arena, we considered the relevance of the assumptions underpinning the AMION analysis, the data inputs and the overall methodology adopted by AMION. We specifically identified a number of areas in which developments affecting the Arena proposal itself, the Temple Island site and wider BTQEZ as well as external data, affect the outputs assumed in the AMION economic assessment and hence economic impacts. In particular:

- **Arena development costs:** The estimated costs of the Arena development have increased and the Operator position refined, impacting any value for money metrics.
- **Wider Temple Island site:** The University of Bristol has purchased 19,158 sq m of the Temple Island site (i.e. the remaining site that would not be use for the Arena development) impacting the potential for further developments to be catalysed in future by the Arena.
- **Adjacent sites in the BTQEZ:** The former Post Office sorting depot site has been purchased by the University of Bristol. This accounts for 11,250 sq m of the 60,700 sq m of the commercial floorspace available on adjacent sites in the BTQEZ. This also impacts the potential for further developments to be catalysed in future by the Arena.

³⁰ Net Present Value refers to the value of the future costs and benefits of a project, policy or intervention that have been discounted to be presented in today's value.

³¹ In order to assess this, the estimated benefits were compared by AMION to a reference case based on the development on the site it is thought would occur if the Arena was not brought forward. It assumed that, in the absence of an Arena, the Arena Island site would be developed for commercial and residential uses. These would be brought forward over a longer time period (from 2021 onwards).

- **External data:** There have been updates to the external data used in the analysis (e.g. ONS economic multipliers and HCA employment densities).

On the basis of the findings of our review and taking into consideration the developments in relation to the Arena that have occurred since the AMION assessment was undertaken, it is our view that the results presented by AMION are no longer valid.

4.4.2 Summary of KPMG's revised economic impact assessment

Given the issues identified through the review of the AMION economic case, in light of developments in relation to the Arena, since the case was prepared, KPMG conducted a revised economic impact assessment to reflect the developments and to address any other wider issues identified in our review.

We have focused our assessment on the costs and economic impacts associated with the proposed Arena going forward and the value for money of any additional funding required for the project. BCC's decision of whether to proceed with the proposed Arena should be made on the basis of the future costs and benefits of the project, therefore we have not included costs or benefits already incurred / generated in relation to the Temple Island Arena project in our analysis.

The Background Document contains in detail the key inputs, methodological approach, assumptions used in our analysis, and reasoning for how this may differ from the approach taken by AMION.

Our revised analysis covers the economic impacts in terms of:

- the construction phase of the Arena;
- the operation of the Arena, including the supply chain (indirect) impacts and induced impacts;
- visitor spending in Bristol; and
- the potential wider developments on adjacent sites that may be catalysed by the Arena.

We have assessed the economic impact over a 25 year period.

Our review of the economic case and revised estimates of the economic impact take into account the additionality of impacts in terms of the displacement of other activity in Bristol and the leakage of benefits outside of the West of England. Our estimates do not, however, take into account the deadweight, i.e. what would happen if the Arena did not come forward on Temple Island. On this basis our analysis, in NPV terms, indicates that:

- The construction of the Arena could generate an estimated £107.3m of temporary GVA and 141 annual FTE jobs (in net terms) over the construction period.
- The operation of the Arena, and the wider spending of Arena attendees linked to their visit, could generate an estimated £387.1m of GVA and 615 FTE jobs (in net terms) over a 25 year period.
- The extent to which the Arena may catalyse wider developments on adjacent sites is diminished as a result of the University of Bristol and Temple Meads Station developments. However, BCC stakeholders have suggested that 2,110 sq m of the remaining adjacent sites may be catalysed by the Arena.³² If these sites are developed, it would generate an additional estimated £2.2m in net

³² We note that it is possible that the plans for the Arena have already facilitated developments across the Temple Quarter by providing developers with the confidence to invest in the site. However, our study is forward looking and has, therefore, not assessed the extent or the scale to which this has occurred.

GVA per year in present value terms from the development of these sites coming forward at a faster pace as result of the Arena.

- Based on BCC’s estimates, £8.8m in business rates could be generated over the 25 year lease period.

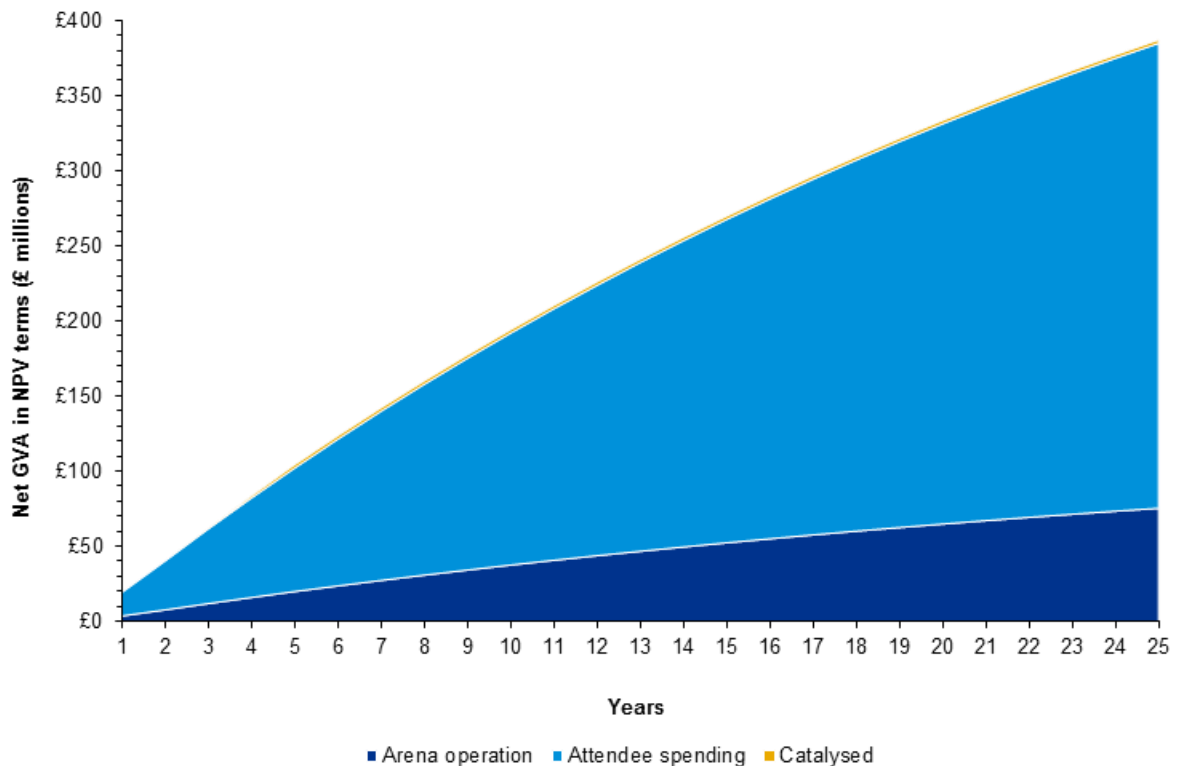
Figure 9: Net GVA and employment, in NPV terms, over 25 years³³

		25 year
GVA	Arena operation	£75.4m
	Attendee spending	£309.5m
	Catalysed development	£2.2m
	Total	£387.1m
Employment	Arena operation	210
	Attendee spending	405
	Catalysed development	46
	Total	660

Source: KPMG analysis

It is expected that the economic impact will increase on a year-on-year basis for the first 3 years as the Arena Operator “ramps up” activity. Figure 10 below sets out the cumulative net economic impact in NPV terms over the first 25 years of operation.

Figure 10: Cumulative net GVA impacts (in NPV terms) associated with Arena over 25 years



Source: KPMG analysis

³³ Totals may not sum due to rounding.

4.4.3 Summary of KPMG’s review of AMION’s assessment of social impacts associated with the Arena

In addition to the economic impacts, we have also reviewed the assessment of potential social impacts which could be generated through the construction and operation of the Temple Island Arena.

In its 2016 review, AMION set out a number of possible wider benefits that could arise through the Arena development. The social impacts identified by AMION were centred on five core themes:³⁴

1. perception, image and city profile;
2. local business impacts;
3. attraction of visitors;
4. quality of life; and
5. capacity and skills.

We note that AMION’s assessment of the wider social benefits was wholly qualitative and did not attempt to monetise any of the benefits. Furthermore AMION’s assessment of social impacts does not reference or provide detailed evidence to support its findings and did not indicate the specific activities that would, beside the construction of the Arena, create the outcomes it presented. Given this, we consider that there remain significant gaps in the evidence base in relation to potential social impacts of the Arena and insufficient evidence from the AMION assessment to understand the full socio-economic impacts of the proposed development.

4.4.4 Summary of KPMG’s social impact assessment

Given the gaps identified in the existing assessment of potential social impacts of the Arena, KPMG reviewed available evidence in this area, drawing on the proposals and agreements with the Arena contractor and operator, views expressed in stakeholder interviews and wider evidence from relevant academic studies and broader literature.

Our assessment considers social impacts arising through: the construction of the Arena; the general operation and activities of the Arena; and the broader cultural impact.

Our approach to assessing the social impact of the Arena draws on guidance set out in the SROI Network’s ‘A guide to Social Return on Investment’³⁵. This includes adopting an “impact mapping” approach to identify, for both the contractor and operator, the main inputs and activities (for example donations and access to facilities); the associated outputs and outcomes; and resultant the socio-economic impacts for the beneficiaries and the wider community.

Summary of social impacts generated through the construction of the Arena

We have considered the social impacts that may be generated through the inputs and activities of the contractor; Buckingham, both leading up to and during the construction of the Arena.

We found that:

- In terms of the planned inputs and activities we found that Buckingham is collaborating with BCC and other local stakeholders, such as Job Centre Plus, to finalise targets in a number of areas including recruitment of local people within a specific radius; training and apprenticeships for local people, and the estimated project expenditure within the local community through the donation of

³⁴ AMION consulting (2016) Bristol Arena –Economic Appraisal – Revised Draft

³⁵ Cabinet Office, 2012. ‘A guide to Social Return on Investment’. See:

https://www.bond.org.uk/data/files/Cabinet_office_A_guide_to_Social_Return_on_Investment.pdf

staff and management time, direct cash investment and gifts in kind³⁶. We understand that the employment, skills and community targets form binding contractual undertakings.

- These activities are likely to contribute toward positive social outcomes and impacts, for example, increased employment, increased wages and reduced likelihood of entering into unemployment³⁷.
- However, the scale of outcomes and impacts is dependent on the finalised targets that will be set for each of the inputs and activities as well as the nature of community support activities and the specific community initiatives engaged with.

Given that the targets have not been finalised and that the Buckingham Employment and Skills Plan is still in development, it is not possible to quantify the potential impacts at this stage.

Our assessment also considers the broader social impacts associated with the construction of the Arena. We note that the proposed Arena would contribute toward the regeneration of a large brownfield site in the Temple Meads Quarter of Bristol. The impacts associated with this are linked to the revitalisation of the area public realm improvements and transformation of the site to create safe public spaces and pathways. While the economic impacts associated with this are captured in the analysis, linked to economic use of the site and the attraction of visitors, the wider social impacts are less tangible and not possible to assess in monetary terms.

Summary of social impacts generated through the operation and activities of the Arena

The main inputs and activities associated with the operation of the Arena, that may generate social impacts are linked to the staging of events as well as broader community engagement activities the Arena Operator may undertake.

We found that:

- The Arena Operator has estimated that the Arena will host approximately 600,000 attendees per year. As a proportion of these attendees will be from outside of the Bristol area, and possibly outside of the West of England, there could be wider impacts associated with the Arena attracting increased visitors to Bristol and raising the profile of the City. The impacts arising from the spending of these visitors in the local area is captured in our economic case analysis.
- The Arena will deliver an enhanced corporate hospitality offering in Bristol a venue suitable for events such as awards ceremonies. In stakeholder interviews with BCC and Destination Bristol it was suggested that this could yield socio-economic impacts through raising the profile of Bristol both nationally and internationally and attracting more visitors to Bristol.
- As part of its bid for the contract, the Arena Operator as, submitted a number of examples of how it could engage with the local community. The operator proposed a multi-faceted approach to community engagement which could involve³⁸: providing direct financial support for local projects; mutual fundraising; resident only events and priority tickets; and the fostering of local arts and enterprises.
- If the example community engagement activities suggested by the operator are put in place in Bristol, it is possible that they will generate social impacts, for example, in terms of helping to improve community cohesion, social inclusion and could create social value. However, it will depend on factors including the specific activities undertaken, the number of individuals participating/ benefitting and the projects supported. No evidence was available in relation to the specific outcomes and impacts achieved in other locations where similar initiatives have been implemented by the operator. In agreement with the Operator, community activities not promoted

³⁶ Buckingham Group Contracting Limited (2017) Employment and Skills Plan (ESP) for Bristol Arena (revised March 2018).

³⁷ Our analysis of the economic impacts captures the GVA and employment associated with construction of the Arena. This analysis provides a quantitative assessment of the potential impact of the policies concerning the recruitment of local people and the use of local suppliers.

³⁸ SMG and Live Nation (2016) Appendix E Approach Statements.

by the Operator can take place at the Arena, however, these activities may have to be funded by other parties.

In terms of the scale of social impacts that could be realised, the lack of detail about the activities and availability of evidence means that it is not possible to quantify and monetise them. We note that to the extent to which there are broader improvements to the visitor economy, e.g. from repeat visits to Bristol or through the enhanced profile of the City, additional socio-economic impacts could be realised. At this stage, a lack of evidence means that it is not possible to forecast the potential change in visitor numbers (beyond Arena attendees) arising from the Arena's operation. We also note that at this stage the Arena Operator is not contractually committed to undertake community engagement activities and no details of specific activities, or targets, have been agreed informally. We understand from BCC that when tendering for an Arena Operator and agreeing contractual terms a decision was made not to place contractual obligations on an operator to provide community engagement activities but instead to maximise operator rental income.

Summary of the social cultural impacts of an Arena

We also assessed the extent to which evidence suggests that an arena could have the potential to have a positive impact on the overall cultural offering of Bristol to the benefit of the local communities.

We found that:

- Evidence suggests that culture has both an intrinsic and social value and that engaging and participating in cultural activities can increase overall satisfaction and have a positive impact on personal wellbeing³⁹. Furthermore, engaging in culture can have wider social benefits in terms of health, education and community. Many studies have shown that the arts can have a positive impact on a person's health, both physical and mental wellbeing^{40,41}.
- Links between arts and culture⁴² and community outcomes have also been identified empirically in some studies. Participation in arts and culture has been found to have a positive relationship with social capital. It has been found that those who participate in arts-related activities have greater social interaction, self-esteem and more well-developed social relationships and networks. Furthermore, studies have found that cultural participation can contribute to community cohesion, civic pride and increase social inclusion, overall making communities safer and stronger⁴³.
- It is also thought that participation in arts and culture can improve the educational attainment of children and young people. It has been found that participation in arts activities can be linked to improvements in young people's cognitive abilities and transferable skills⁴⁴. Other studies have found that engaging with arts and culture from a young age is associated with higher academic attainment and greater skills proficiency⁴⁵. In the long-term participation in arts and cultural activities can increase the likelihood of a young person entering further and higher education.⁴⁶

An arena will provide local communities and individuals access to a wider variety of cultural events than currently available in Bristol, including live music acts, musicals and theatre, family events and conferences and exhibitions. This access could promote the large range of positive benefits noted above that people and communities can experience as result of engaging with cultural activities.

³⁹ Department for Culture Media & Sport (2014) Quantifying and Valuing the Wellbeing Impacts of Culture and Sport.

⁴⁰ Taylor et al (2015) A review of the Social Impacts of Culture and Sport

⁴¹ Staricoff, R.L. (2004) Arts in Health: a review of medical literature.

⁴² Culture has been broadly defined, and includes activities registered on the Taking Part list which defines activities for the National Survey of Culture, Leisure and Sport. Engagement in culture is defined as attendance at cultural events/ sites. These include attending a heritage site, attending an arts event and attending a museum, library or archive.

⁴³ National Statistics (2009) People and culture in Scotland: Results from the Scottish Household Survey Culture and Sport Module 2007/2008.

⁴⁴ Newman et al (2010) Understanding the impact of engagement in culture and sport, a systematic review of the learning impacts for young people. CASE, DCMS.

⁴⁵ Newman et al (2010) Understanding the impact of engagement in culture and sport, a systematic review of the learning impacts for young people. CASE, DCMS and Vaughn et al (2011) Bridging the Gap in School Achievement through the Arts.

⁴⁶ Department for Culture, Media & Sport (2015) Further analysis to value the health and educational benefits of sports and culture.

However, we note that a range of these broader social impacts could be realised, in part dependent on the nature of arts and culture events staged at the Arena as well as the audiences reached.

4.5 Value for Money conclusions

Value for Money is at its core, an assessment of the optimal use of resources to achieve the intended outcomes. When undertaking a VfM assessment, the National Audit Office (NAO) uses three main criteria^{47,48}:

- economy – minimising the cost or quantity of required resources;
- efficiency – in the flow from inputs to the resulting outputs; and
- effectiveness – ensuring the actual results from public spending are as intended.

The BCR provides an indication of the total value for money that the Arena project would deliver. Using cost information provided by BCC and our updated analysis of the economic impacts associated with the Arena, we have estimated the economic impacts associated with the Arena, in NPV terms and the resultant BCR:

- Over a 25 year appraisal period, we estimate the economic NPV of the Arena is £282.6m, with a BCR of 3.2:1.

Our BCR and economic NPV estimates only capture the economic benefits from the ongoing operation of the Arena.

In addition, there are likely to be a range of social impacts associated with the Arena development through the construction and operational phases. While there is insufficient information available at present in terms of the outputs that could be delivered, and uncertainties about their realisation given the lack of contractual obligations on the Arena Operator, it is important that they are considered as part of the overall BCR of the project. Any positive social impacts that arise would improve the estimated BCR and economic NPV values and therefore, the value for money of the project.

In net terms, the direct, indirect and induced impact of the operation of the Temple Island Arena, wider spending of attendees and catalytic development could generate Net Present Value (NPV) of Gross Value Added (GVA) of approximately £387.1m and up to 660 Full Time Equivalent (FTE) jobs in the West of England over 25 years. This provides justification for the use of public money for a lower than commercial rate of return.

While the overall BCR of the Arena project is positive over 25 years, to better understand Value for Money it is helpful to compare this against benchmarks and against alternative schemes to understand whether benefits against costs are being maximised.

In terms of other benchmarks against which the estimated BCR for the proposed Arena can be assessed, we are not aware of any detailed estimates for similar schemes. Furthermore, there is no government guidance about expected levels of the BCR for such capital developments, although the WebTAG guidance⁴⁹ details BCR benchmarks for the assessment of the value for money of transport projects. Using these benchmarks, the BCR of the Temple Island Arena would be considered 'High' over a 25 year period. The very different nature of transport schemes should be taken in to account, however, when considering the relevance of these thresholds for value for money.

The VfM assessment of the Arena extends beyond consideration of the BCR. Whilst the upfront cost is greater than the current budget of £123.5m, with appropriate financial structuring, the project income will still meet the costs of the project in every year of operation. Based on current assumptions, the

⁴⁷ <https://www.nao.org.uk/successful-commissioning/general-principles/value-for-money/assessing-value-for-money/>

⁴⁸ In some cases, equity is also considered as a fourth criteria of VfM assessments.

⁴⁹ Department for Transport (2015) Value for Money Framework: Moving Britain Ahead.

project is forecast to deliver a total surplus over the life of the project of £1.3m. There is risk associated with income projected in the later 25 years of the asset's life, given the operator agreement is 25 years long, but our sensitivity analysis indicates this does not materially alter this conclusion. Aecom has indicated that it believes the Target Cost estimate is robust and the risks associated with construction can be managed.

In order to comprehensively assess the value for money and the option to develop the Arena on the Temple Island site, there is a need to better consider:

1. Alternative developments that could be delivered on the Temple Island site and their value for money. This forms the reference case against which the Arena on the existing site should be compared. Any potential alternative developments on the Temple Island site should be assessed to consider the wider strategic and economic development opportunities, including consideration of:
 - an assessment of the strategic case an alternative development at Temple Island, and how this may compare to the strategic case for an arena on Temple Island;
 - the key financial and deliverable risks of the alternative development proposal;
 - the potential economic impact that may be generated through an alternative development; and
 - any public sector investment that may be required to bring forward an alternative development at Temple Island, including an assessment of the overall value for money of any proposed alternatives.
2. The alternative arena proposal for Bristol at Filton brought forward by YTL. An arena at Filton should be assessed in accordance with the five cases model⁵⁰, including consideration of:
 - how this proposal may weaken the rationale for public intervention and funding and the strategic case for the Arena on Temple Island;
 - the extent to which an arena at Filton could achieve BCC's objectives for the Arena, as well as contribute towards wider City and regional objectives;
 - the key financial and deliverability risks for the Arena at Filton, including consideration of the commercial readiness of the proposal; and
 - an assessment of the potential economic case of the Filton Arena, and how this may compare against the Arena at Temple Island.

While these assessments do not form part of the scope of this report, they are being considered within KPMG's others reports to BCC.

⁵⁰ HM Treasury (2013) Public sector business cases: Using the five case model. Green Book supplementary guidance on delivering public value from spending proposals.

5 Recommendations

Whilst the strategic and economic case for an arena is well established, given the changes since the business case was approved we recommend the following additional steps are taken before a decision to proceed with the Arena is made:

1. A review is undertaken of the alternative proposal of an arena in the Brabazon Hangar, including its ability to provide comparable social and economic benefit and its commercial deliverability. This review has now been completed and our findings are provided in our report entitled 'Assessment of alternative plans for an arena in Bristol'.
2. Given the changing use of the wider Temple Island site and competing development plans for the site, in part catalysed by the intended development of a portion of the site by the University of Bristol, the potential alternative uses of the Temple Island site should be fully explored so that the Value for Money conclusion fully reflects the opportunity cost of using the site for an arena. This review has now been completed and our findings are provided in our report entitled 'Assessment of alternative development plans for the Temple Island site.'
3. The links between the Arena, its location and a wider City plan for infrastructure development and need is further strengthened.

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