



Assessment of alternative development plans for the Temple Island site

**KPMG report for Bristol City
Council**

June 2018



Important notice

This document has been prepared by KPMG LLP (“KPMG”) solely for Bristol City Council in accordance with specific terms of reference (“terms of reference”) agreed between Bristol City Council (“the Beneficiary”), and KPMG. KPMG LLP wishes all parties to be aware that KPMG’s work for the Addressee was performed to meet specific terms of reference agreed between the Addressee and KPMG and that there were particular features determined for the purposes of the engagement.

KPMG does not provide any assurance as to the appropriateness or accuracy of sources of information relied upon and KPMG does not accept any responsibility for the underlying data used in this report. For this report the Client has not engaged KPMG to perform an assurance engagement conducted in accordance with any generally accepted assurance standards and consequently no assurance opinion is expressed.

This document has not been designed to be of benefit to anyone except the Beneficiary. In preparing this document we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiary. The document should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire rights against KPMG LLP (other than the Beneficiary) for any purpose or in any context. Any party other than the Beneficiary that obtains access to this document or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through the Beneficiary’s Publication Scheme or otherwise) and chooses to rely on this document (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this document to any party other than Bristol City Council.

In particular, and without limiting the general statement above, since we have prepared this Report for the benefit of the Beneficiary alone, this Report has not been prepared for the benefit of any other local authority nor for any other person or organisation who might have an interest in the matters discussed in this Report, including for example those who work in the local government sector or those who provide goods or services to those who operate in the local government sector.

Without prejudice to any rights that the Client may have, subject to and in accordance with the terms of engagement agreed between the Client and KPMG, no person is permitted to copy, reproduce or disclose the whole or any part of this report unless required to do so by law or by a competent regulatory authority.

This document is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than Bristol City Council) for any purpose or in any context. Any party other than Bristol City Council that obtains access to this document or a copy and chooses to rely on this document (or any part of it) does so at its own risk.

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

Contents

1	Executive summary	4
1.1	About the study	4
1.2	Key findings: The strategic case for the alternative development proposals	4
1.3	Key findings: Financial and deliverability risks and commercial readiness of the alternative development of Temple Island	5
1.4	Key findings: The economic assessment of the proposed alternative development of Temple Island and Value for Money	6
1.5	Summary conclusions	7
2	About the study	9
2.1	Development proposals for the Temple Island site	9
2.2	Scope of work	9
3	The strategic case for the alternative development of Temple Island	11
3.1	Overview of the proposals, timings and funding requirements	11
3.2	Delivery of BCC's key objectives for Bristol	12
3.3	Rationale for public intervention	16
4	Financial and Commercial assessment of the alternative development of the Temple Island site	17
5	Economic assessment of the alternative development of the Temple Island site	18
5.1	Our approach to assessing the potential economic impacts	18
5.2	Potential economic impacts associated with the construction of the Temple Island development	19
5.3	Potential economic impacts associated with the ongoing operation of the Temple Island development	22
5.4	Business rates generated through the Temple Island development	26
5.5	Wider impacts associated with the development	26
6	Value for money assessment	28
6.1	Summary of the economic impacts	28

6.2	Value for money assessment of the proposed alternative development of the Temple Island site	28
6.3	Comparative assessment of the proposals for an arena and the alternative developments on the Temple Island site	29

1 Executive summary

1.1 About the study

Bristol City Council (BCC) has developed plans, and secured £53.0m of funding from the West of England Local Enterprise Partnership (LEP) for a proposed 12,000 (10,000 seated) capacity arena to be situated on the former Diesel Depot site within the Bristol Temple Quarter Enterprise Zone (BTQEZ), located close to Bristol Temple Meads train station (referred to as either “Arena Island” or “Temple Island”).

KPMG was appointed by Bristol City Council (BCC) in 2017 to perform a Value for Money assessment of proposals to develop an arena at Temple Island. During the course of this review BCC informed KPMG of alternative proposals to provide an arena elsewhere and the use the Temple Island site for mixed use development comprising of residential, office and retail space and options for including a conference centre and hotel space.

This report provides a review of the alternative development proposals for the Temple Island site. The KPMG review covers the following main areas:

- A comparative assessment of the strategic case for the alternative Temple Island development versus the current plans for an arena at Temple Island
- Identification, and assessment, of the key financial and deliverability risks of the alternative development proposal and the extent of commercial readiness of the alternative Temple Island development
- An assessment of the strength of the economic case for the proposed alternative Temple Island development, including consideration of ‘additionality’
- Comparison of the levels of public investment required for the alternative Temple Island development compared to the arena at Temple Island

Further details of these alternative proposals, including the size of developments, mix of uses, timelines and funding requirements, and the scope of KPMG’s study are set out in Section 2.2 of this report.

Our study is based on information and data made available to KPMG by BCC in the period up to 11 May 2018, as well as various sources of external data, such as from the Office of National Statistics (ONS). A list of the information and data provided to us is set out in Section 2.2.

It should be noted that as the alternative development proposals for the Temple Island site are still in relatively early stages of planning, there was limited data and information available. As a result, we have only been able to conduct a high level review based on the available information. As the plans progress, it will be important to revisit the assessment and the findings and conclusions may change.

1.2 Key findings: The strategic case for the alternative development proposals

We have considered the extent to which the proposed alternative development on Temple Island could deliver the key stated objectives of BCC for the Temple Island site, the BTQEZ and for Bristol as a whole.

We consider that the developments could contribute towards the achievement of specific key commitments set out by BCC in its Corporate Strategy (2018-2023)¹. In particular, as we assess in detail in Section 3.2, it could contribute toward the following commitments:

- the delivery of new housing, including affordable housing, in Bristol, albeit over a longer timeframe than the 2020 target period currently set out by BCC;
- the development of a diverse economy that offers opportunity to all and makes quality work experience and apprenticeships available to every young person, linked to the creation of new employment space and associated jobs. However, the delivery of work experience and apprenticeships will depend on occupants of the development providing these opportunities.
- reducing social and economic isolation and helping connect people to people, people to jobs and people to opportunity, also linked to provision of new employment space and job creation, increased economic activity in Bristol, and opening up access to the site.

Due to the early stage of the development of the proposals, the achievement of these objectives has a significant degree of uncertainty. We note that BCC could consider how certain obligations could be put in place to secure the delivery of the objectives, for example, linked to granting planning permission or as part of developer contracts.

There is a strategic rationale for some degree of public sector funding to bring forward the alternative development of Temple Island, on the basis of market failure. The Temple Island site has been derelict for over 15 years. In addition, there are potential wider benefits that would be generated with the development of the site (as assessed in our economic impact analysis in Section 5).

1.3 Key findings: Financial and deliverability risks and commercial readiness of the alternative development of Temple Island

Following professional advice, BCC has stated to KPMG a reasonable degree of confidence² in the deliverability of the alternative proposition at Temple Island, despite being at an early stage. A developer led mixed use scheme is a common approach to city centre development and offers a lower risk alternative for BCC than developing an arena on the site.

BCC's plans for the site are based on professional advice received to outline the potential options available to it at the land at Temple Island in the event the Arena did not proceed. The Council's financial forecasts underpinning our analysis are based on a net cost to the Council from the development of up to £25.6m, being a repurposing of the same capital allocation set aside for the Temple Island arena proposal on the same site. We note that initial analysis by professional advisers, informed by current information and market conditions, suggests that in contrast to the plans potentially costing BCC £25.6m, BCC could receive a significant return from the scheme (whether through land sale, overage or otherwise). BCC's current forecasts therefore appear prudent, although given the early stage in solution development this is perhaps sensible.

¹ Bristol City Council (2018) Corporate Strategy 2018-2023.

² Based on discussions held with BCC

1.4 Key findings: The economic assessment of the proposed alternative development of Temple Island and Value for Money

KPMG assessed the potential economic impacts associated with the potential mixed use developments of residential, office and retail space on the Temple Island site, drawing on the development plans emerging from BCC's initial "land use optioneering exercise". Due to the early stage of planning, limited information and data were available from BCC to assess the economic impacts. Therefore, a high level appraisal approach was adopted and the results of our analysis are indicative only.

Our approach to assessing the potential economic impacts associated with the Temple Island development has been conducted in accordance with the principles set out in the HM Treasury Green Book³. Specifically, we assess the potential additional direct, indirect and induced economic impacts⁴ of the proposed development in terms of Gross Value Added (GVA) and Full Time Equivalent (FTE) employment, both for the construction and ongoing operation of the development. BCC also provided initial estimates of the business rate income expected to be generated by the site. We note that the estimates of potential business rates are based on a high level assessment and are subject to further analysis by BCC.

A summary of the estimated net GVA impacts (in Net Present Value (NPV) terms), net employment (in FTE terms⁵) and BCC estimated business rate income is shown in Figure 1 below⁶.

Figure 1: Net GVA (in NPV terms), employment (in FTEs) and business rate income associated with the proposed alternative development of Temple Island, on an annual basis and over 25 years

		25 years		
		Net GVA	Net employment	Business rates
West of England	Construction	£59.6m	75	-
	Operation	£875.3m	2,026	£22.1m
	Total	£935.0m	2,101	£22.1m
Bristol	Construction	£56.5m	71	-
	Operation	£861.9m	2,003	£22.1m
	Total	£918.4m	2,074	£22.1m

Source: KPMG analysis

Based on the quantified economic impacts and the expected level of public sector contribution of £38.1m; comprising of public funding of up to £25.6m that could be available as an investment to bring the development forward, and the contribution of the land (valued at £12.5m⁷). We estimate that the proposed alternative development of the Temple Island site, excluding any construction impacts and taking into account the possible £38.1m of public contribution, could yield a BCR of 23.0:1 and NPV of GVA of £837.2m across the West of England over a 25 year period.

³ HM Treasury (2018) The Green Book: Central Government Guidance on Appraisal and Evaluation.

⁴ Direct economic impacts are the first round effect where the demand creates economic activity. Indirect impacts are the effects generated through the activity and output supported in the UK based supply chain as a result of procurement of inputs of goods and services (both for construction and ongoing operations). Induced impacts are multiplier effects that arise in the UK economy as a result of direct employees and employees in the UK supply chain spending a proportion of their wages in the UK. This spending generates additional economic activity for those businesses from which these employees buy goods and services and in these businesses' own wider supply chains.

⁵ This adjusts part time or temporary staff into an annual full-time equivalent based on the proportion of full-time hours worked over a year.

⁶ We have presented our analysis in net terms, meaning that our analysis of GVA and employment take into account the 'additionality' of impacts. We have adjusted our GVA and employment estimates for leakage and displacement. Our assumptions of additionality are set out in Section 5 below.

⁷ The current estimate of land value are based on a high level assessment undertaken by third party advisors for BCC. A full Red Book evaluation of the potential land value has not been undertaken, therefore the £12.5m should be viewed as an initial estimate and is subject to change. We note that this is a conservative estimate and at the lower end of range of potential values estimates presented by BCC third party advisors.

It should be noted that our quantitative assessment excludes a range of impacts that it was not possible to assess at this stage due to either a lack of data and information or as they were outside the scope of our study. Specifically, the analysis does not take account of:

- any wider social impacts that the development may deliver;
- any catalytic impacts that may arise (assessed qualitatively based on views provided by BCC);
- the potential impacts generated through the sale or letting of residential units developed on the site; and
- any spending related impacts that may arise if a conference centre is developed that results in increased visitors to Bristol.

These impacts have the potential to increase the economic impact and resultant Value for Money (VfM) of the proposed alternative development of the Temple Island site. In addition, the VfM of the proposed alternative development of the Temple Island site would change if there is any public sector contribution beyond the £25.6m of possible public sector funding identified, say for example if required to support the delivery of a conference centre on the site.

Full details of our analytical approach and the detailed results are set out in Section 5 of the report.

1.5 Summary conclusions

The alternative development plan for Temple Island is still in relatively early stages of planning resulting in only the limited data and information set out above being made available to us for the purposes of our study. This is not unusual for a project at this stage of development, however, as a result we have only conducted a high level review of the proposals for the site and our assessment can be viewed as indicative only and should be noted when comparing the proposition against the assessment of the Temple Island arena.

Potential for wider objectives of BCC to be met through the alternative developments proposed for Temple Island: The alternative development at Temple Island has the potential to contribute towards the wider objectives of BCC, for example housing and economic and social connectivity. In addition, the alternative development at Temple Island has the potential to meet BCC's specific objectives for the Temple Island site and contribute towards the BTQEZ employment targets.

Potential for higher economic impact of the alternative developments on Temple Island compared to an arena: Based on the scope of our quantitative analysis, we have estimated that the construction and the operation of the Temple Island development could generate £935.0m in net GVA (in NPV terms) and 2,101 FTE jobs in the West of England over 25 years. This net GVA is £343.9m higher than the net GVA estimated for the Temple Island Arena.

Lower public sector funding requirements, although uncertainty attached to this: At present, BCC has stated to KPMG that the development would be brought forward by the private sector. No new public sector funding would be required to bring this forward, although up to £25.6m of existing public sector funding allocations specifically linked to the Temple Island site could be available if required, depending on the outcome of BCC's commercial negotiations with potential private sector developers. We consider that further work will need to be undertaken by BCC to assess whether the development plans would be commercially viable for the private sector to deliver and to confirm the required level of public sector funding. We note that a mixed use scheme is a common approach to city centre development and offers a reduced risk to BCC than developing an arena on the site, albeit the proposals are at an earlier stage of development.

Comparatively higher VfM metrics of the alternative developments on Temple Island compared to an arena: Based on the scope of quantified economic impacts, we estimate that the alternative development proposals could deliver a BCR of 23.0:1 and economic NPV of £837.2m over a 25 year

period. This compares to an estimated BCR of 3.2:1 and economic NPV of £282.6m for the Temple Island arena over a 25 year period. In purely economic terms the alternative Temple Island development would be preferred over an arena on the site.

Figure 2: Comparison of the value for money metrics for the Temple Island Arena and the alternative mixed-use development, over 25 years

	Temple Island Arena	Alternative Temple Island development
Total net GVA (in NPV terms) ⁸	£489.1m	£875.3m
Capital costs/ public sector contribution	£172.5	£38.1m
BCR	3.2:1	23.0: 1
NPV	£282.6m	£837.2

Source: KPMG analysis.

⁸ This is the net GVA associated with the operation of the alternative development for Temple Island. GVA generated through construction is temporary and should not be included in the value for money assessment.

2 About the study

2.1 Development proposals for the Temple Island site

An arena for Bristol

Bristol is the only UK core city that does not have a major arena⁹.

Bristol City Council (BCC) has developed plans, and secured £53.0m of funding from the West of England Local Enterprise Partnership (LEP) for a proposed 12,000 (10,000 seated) capacity arena to be situated on the former Diesel Depot site within the BTQEZ, located close to Bristol Temple Meads train station (referred to as either “Arena Island” or “Temple Island”).

In August 2017, KPMG was commissioned by BCC to undertake a VfM review of this proposed Temple Island Arena project. The study was intended to help provide an evidence base for BCC to allow it to make future decisions on the investment in line with its duty of best value.

Details of the scope of this study and KPMG’s findings are set out in KPMG’s Temple Island Arena VfM study and Appendices.

Alternative development plans for the Temple Island site

BCC has initiated work to consider the potential uses for the Temple Island site should a decision be made not to locate an arena on this site.

Although alternative use plans for the Temple Island site have not yet been fully developed, BCC has undertaken an initial “land use optioneering exercise” to consider and develop potential options for the site. The initial options for the Temple Island site include mixed use developments of residential, office and retail space. Options for including conference and hotel space on the site are also being developed. The initial plans provided to KPMG by BCC indicate that the site could be developed to accommodate approximately:

- 460 residential units; and
- 26,000 sq m of mixed use commercial floorspace, which could include office, retail and hotel space, as well as a conference centre and business incubation space.

As we detail further in Section 4, we understand from BCC that it is anticipated that all development would be brought forward by the private sector. As a result, it is assumed that no new public sector investment would be required for the development of the site. However existing public sector funding allocations specifically linked to the Temple Island site could be made available, if required. These allocations total £25.6m. As noted in Section 4, BCC’s professional advisors believe the site could yield a substantial return for the Council.

2.2 Scope of work

To supplement our VfM review of the proposed arena on the Temple Island site, KPMG was commissioned by BCC to undertake a review focusing on a VfM assessment of an alternative use of the Temple Island site. In particular, our study covers the following main areas:

⁹ Dav is Langdon and IPW... (2013) Bristol Arena Outline Business Case: Final Report November 2013.

- a comparative assessment of the strategic case for the alternative Temple Island development versus the current plans for an arena at Temple Island;
- identification, and assessment, of the key financial and deliverability risks of the alternative development proposal and the extent of commercial readiness of the alternative Temple Island development;
- an assessment of the strength of the economic case for the proposed alternative Temple Island development, including consideration of 'additionality'; and
- a comparison of the levels of public investment required for the alternative Temple Island development compared to the arena at Temple Island.

Our work draws on information and data provided to us by BCC, both in the form of written documents and orally in meetings in the period up to 11 May 2018. Specifically we were provided with the following information:

- the proposed number of residential units and floorspace that could be developed on the Temple Island site;
- the estimated level of employment that could be generated through the alternative development of Temple Island;
- the estimated cost of constructing the alternative development on the Temple Island site;
- evidence of the market demand for the proposed developments; and
- qualitative information on the potential wider developments that may be catalysed through the proposed development on Temple Island.

The alternative development plan for Temple Island is still in relatively early stages of planning resulting in only the limited data and information set out above being made available to us for the purposes of our study. This is not unusual for a project at this stage of development, however, as a result we have only conducted a high level review of the proposals for the site and our assessment can be viewed as indicative only.

As plans progress and additional information becomes available, the underlying data and information our analysis is based upon is likely to change. Therefore, our analysis would need to be revisited and our findings may change as a result.

Additional to the data provided by BCC, 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 Homes and Communities Agency (HCA¹⁰) and existing research, analysis and economic literature from a range of sources.

¹⁰ Homes and Communities Agency is now Homes England

3 The strategic case for the alternative development of Temple Island

3.1 Overview of the proposals, timings and funding requirements

In order to assess the strategic case for an alternative development on the Temple Island site, it is important to first establish the scale of development, types of use, the timeframe over which this is expected to be brought forward and the public sector costs associated with this. Building on the overview presented in Section 2.1, we detail below our current understanding in each of these areas.

If a decision is made by BCC to not proceed with the proposed development of an arena on the Temple Island site, this would leave the site proposed for the Temple Island site vacant and available to pursue alternative development plans. As detailed in Section 2.1, BCC has undertaken an initial "land use optioneering exercise" to consider and develop potential options for the site in the event that the Arena project is not taken forward on the site. This includes the possible mix, scale and density of the developments that could come forward.

The initial options for the Temple Island site include mixed use developments of residential, office and retail space. In addition, options for including conference and hotel space on the site are being considered.

If the proposed development were pursued, BCC has indicated to KPMG that it would target the commercial development on the site to businesses in the creative and digital sectors as well as financial and professional services. This is because it considers that these sectors will benefit from close proximity to the new University of Bristol campus, as well as Temple Meads Station.

BCC is exploring options for the commercial development to be taken up by a mix of large multinational corporations and smaller, creative businesses. Smaller businesses would also have access to the proposed dedicated space for commercial incubator space, which BCC has indicated will focus on creative and digital businesses and seek to support businesses in the early stages of development and growth.

BCC has indicated to KPMG that, if the proposed developments were taken forward, it expects development to come forward from 2022, with all developments completed by 2025. These are initial estimates of the timing of the development. As the development is still in the early stages of planning there is some uncertainty around the delivery timetable and a full, in-depth assessment of the market demand and development appetite for a commercial development of this type and scale has not yet been undertaken. When this study is undertaken, and as plans for the development progress, the delivery timetable may shift.

BCC has stated to KPMG that it considers that no further public sector funding will be used for the development on Temple Island, and it is intended that the development would be brought forward by the private sector. However, we understand that existing public sector funding allocations specifically linked to the Temple Island site, such as the CIL funding, could be available. In our assessment, we have assumed that the £25.6m of BCC capital contribution to the Temple Island Arena scheme are repurposed to this alternative development, to be used as a contribution towards a conference centre, land remediation, abnormals or otherwise.

Details of the public sector funding that could be linked to the Temple Island site are set out below:

- £15.9m of net sales proceeds from Cattle Market Road site to the University of Bristol;
- £1.8m of Transport Capital Funding; and
- £8m of CIL.

Any alternative scheme will also be expected to deliver funding to the Council through CIL funding and S106 payments. The amounts of income generated will depend upon the scheme delivered, but CIL payments generated through commercial uses on the site could be considerable. These funds could then be available for investment in other community infrastructure projects within Bristol. In addition to this, additional business rates, Council tax and New Homes Bonus income could be expected to be delivered through the proposed alternative development of Temple Island. We have assessed the potential level of business rates that could be generated through the scheme in Section 5.4 below.

As detailed in Section 4, further work will need to be undertaken by BCC to assess whether the development plans would be commercially viable for the private sector to deliver and whether the funding outlined above will be required and if further funding is needed to bring forward the development.

3.2 Delivery of BCC’s key objectives for Bristol

As part of our assessment of the strategic case for the alternative proposed development at Temple Island, we have considered how this proposal may affect the opportunity for BCC to deliver its key objectives, for example, in terms of housing and employment growth. To do this, we have considered the extent to which the proposed alternative development on Temple Island could deliver the key stated objectives of BCC for the Temple Island site, the BTQEZ and for Bristol as a whole.

3.2.1 BCC’s objectives for the Bristol Arena

In the Full Business Case (FBC)¹¹ submitted to the West of England LEP as part of the application for the Economic Development Fund (EDF) funding for the Temple Island Arena, BCC set out a number of objectives for the Arena. The objectives for the Temple Island Arena were not solely associated with an arena but also encompass objectives more broadly related to the Temple Island site. Specifically, these objectives were for the arena to:

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

BCC’s initial plans for the Temple Island development will have an element of external public space, as well as retail space and a limited provision of cultural facilities. However, under current plans, the retail and leisure offering on the site will be relatively modest, with the majority of the development being focused on commercial office space and residential uses. By nature, these types of developments do not typically lend themselves to a “destination experience”.

However, a conference centre and hotel development are being considered on the site. These developments could make the site more of a “destination” – drawing visitors, both from Bristol and outside of Bristol, to the site for events. We consider that, based on current plans for the Temple Island site, it could be possible to create a “destination experience” if developed and managed with this objective in mind. However, this destination experience would be of a different nature to what could be created by locating an arena on the site. Furthermore, as it is intended that the alternative

¹¹ Bristol City Council (2016) Bristol Arena Full Business Case

development of Temple Island would be brought forward by the private sector, BCC would need to work with the private developer(s) to ensure that this objective is met.

The proposed Temple Island site development could assist in making the BTQEZ more accessible and drive improvement in permeability to the south of Temple Meads Station and to the south of Bristol. Current plans for the development on Temple Island include improved pedestrian access to the Temple Meads Station complex from the site. This would improve the permeability between the site and station. BCC has informed KPMG that it considers that the development would likely open up access to the south of the Temple Island site and may influence the development of sites to the east in particular sites on the other side of the River Avon.

It should also be noted that BCC could elect to use part or all of the £25.6m of potential funding, or of any capital receipt of the land realised through the delivery of the alternative scheme on Temple Island to invest in or support other schemes (within the Temple Quarter or wider BCC area). These investments could contribute towards the delivery of BCC objectives for the arena on Temple Island. Therefore, any objectives that are not met through the alternative development at Temple Island could potentially be met through other schemes. We note, however, that KPMG has not been provided with any evidence of what these schemes could be or the potential outcomes of schemes, nor is it within the scope of this report to examine them.

3.2.2 Overview of BCC's key stated objectives for Bristol

BCC's Corporate Strategy (2018-2023) ("the Strategy") sets out the key strategic priorities and vision for the City over the next five years. It sets out BCC's "contribution to the city as part of the One City Plan and is [its] main strategic document. It informs everything the council does and how [it] plans for the future"¹².

The Strategy has four themes, as stated below:

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

Within these themes, the Strategy sets out a number of key commitments. We have identified three key commitments which are relevant to the Temple Island site. In Figure 3 below, we have set these commitments, as well as our assessment of the extent to which these objectives may be met by the proposed alternative development on Temple Island.

¹² Bristol City Council (2018) Corporate Strategy 2018-2023.

Figure 3: KPMG assessment of the extent to which the proposed development of Temple Island may meet BCC key commitments

BCC Commitment	KPMG assessment
<p>Make sure that 2,000 homes – 800 affordable – are built in Bristol each year by 2020</p>	<p>Initial analysis suggests that the Temple Island site development could feature approximately 460 residential units. Based on the initial plans, it is expected that this housing will come forward from 2022 onwards. This means that it will not contribute toward achieving BCC's 2020 housing target, but it will increase housing availability in the period after this.</p> <p>Current development proposals will aspire to ensure that 30% of all residential units built will be affordable. This would support BCC's affordable home target, although after the 2020 period. We also understand that BCC will seek to ensure that housing proposals are compliant with Policy BSC17 of the Core Strategy¹³ which states that at least 30% of housing be affordable (within the Bristol South area, which is where the Temple Island site lies).</p> <p>In addition, BCC has indicated to KPMG that some of the residential units may be appropriate for retirement living.</p>
<p>Develop a diverse economy that offers opportunity to all and makes quality work experience and apprenticeships available to every young person</p>	<p>The proposed Temple Island development will include a large offering of office and commercial floorspace, creating new employment space in the city. BCC has indicated to KPMG that it is envisaged that this office development would be aimed at firms in the financial and professional services, and the creative and digital sectors. These sectors are two of the West of England LEP's priority sectors as set out in its Strategic Economic Plan (SEP)¹⁴. As we detail in Section 6, our analysis suggests that this development would also generate additional economic activity and employment.</p> <p>As the proposals are still in the early stages, at present there are no specific plans of how the development may offer opportunity to all and provide quality work experience and apprenticeships to young people. As plans for the development progress and businesses begin to register interest in the office space, there may be a clearer view as to how this objective may be delivered. BCC could consider how certain obligations could be put in place to secure the delivery of the objectives, for example, linked to granting planning permission or as part of developer contracts.</p>
<p>Reduce social and economic isolation and help connect people to people, people to jobs and people to opportunity</p>	<p>The plans for the site development include a large offering of office and commercial space. BCC has estimated that there will be employment of 1,804 direct gross FTEs on the site. To the extent to which this will support additional employment in Bristol, rather than displacing employment from other parts of the area, the development will provide increased employment opportunities for the local population. This could reduce economic isolation and inequality, however, it will depend on the types of jobs created and the skill levels required. If these jobs are filled by those from lower income and/or more disadvantaged population groups the creation of the new</p>

¹³ Bristol City Council (2011) Bristol Development Framework: Core Strategy.

¹⁴ West of England Local Enterprise Partnership (2014) West of England Strategic Economic Plan 2015-2030.

employment space could help to reduce social and economic inequality and work towards the BCC inclusive growth agenda.

Any work experience placements or apprenticeships offered by firms located on the developed site may also help to connect people to jobs and opportunity. The extent to which these opportunities will be provided is unclear at this stage, given the early stage of the development proposals.

We also understand that BCC consider that the proposed Temple Island development could complement measures already taken or proposed to improve access between Temple Island and Temple Meads Station, as well as access to the city centre from the south of the site. This will improve connectivity for those living in South Bristol. We understand from BCC that South Bristol is one of the relatively more deprived areas of Bristol, therefore it is possible that this improved connectivity may contribute, to some extent, to reducing social and economic isolation for this area by improving access to the city centre and employment spaces.

Source: Bristol City Council (2018) Corporate Strategy 2018-2023.

3.2.3 Objectives of the Bristol Temple Quarter Enterprise Zone

The Temple Island site is located within the boundaries of the BTQEZ.

BCC envisages the BTQEZ becoming a new city quarter, with the aim of providing opportunities for work, study, housing and leisure for the local population, as well as increasing access to the city centre and Temple Meads Station¹⁵.

One of the key aims of the BTQEZ is to attract 22,000 jobs over its lifespan¹⁶. The proposed alternative development of Temple Island would contribute towards this aim by generating an estimated 1,804 gross direct jobs (in FTE terms).

In addition, BCC has stated that it aims to focus the Temple Island commercial development on the creative and digital sectors and the financial and professional services sectors. This will be complimentary to the BTQEZ, which focuses on the following key sectors¹⁷:

- creative and digital;
- high tech;
- low carbon; and
- professional services.

The alignment between the focus of the BTQEZ and the target sectors for the commercial development of the Temple Island site, may increase the attractiveness of the site to relevant businesses and help to create synergies through the complementarities between occupants of the developments.

¹⁵ <https://www.bristoltemplequarter.com/about/vision/>

¹⁶ <https://www.bristoltemplequarter.com/portfolio-items/skills-and-training/>

¹⁷ <https://www.bristoltemplequarter.com/about/useful-resources/>

3.3 Rationale for public intervention

As part of the assessment of the strategic case we have also considered the rationale for public sector intervention to bring forward the alternative development of the Temple Island site compared to developing an arena on this site.

We note that BCC's alternative development plans for the Temple Island site envisage that the proposed developments would be brought forward, and funded, by private sector developers. However, BCC has indicated to us that in the instance that public sector funding is required to support the development of Temple Island and/or increase the economic return, it envisages the public sector funding grants, totalling £25.6m, currently in place for the Temple Island Arena and directly associated with the Temple Island site could be made available, for example for land remediation works. BCC could also contribute the value of the land receipt towards the scheme. BCC's advisors have indicated that the Council could expect to benefit from a substantial return from this site, however BCC has not modelled any income from the development given the early stage of its plans. Further details are provided in Section 4.

The public sector grants that could be made available total £25.6m and, therefore, if used would represent a lower level of public sector funding to develop the site for alternative use compared to developing an arena on the site. If deliverable, and shown to contribute towards BCC's objectives (albeit contributing to different objectives to some extent) and a similar or higher benefit cost ratio (BCR), a private sector led proposition for the development of the Temple Island site weakens the strategic rationale for public sector intervention to develop an arena on Temple Island.

In terms of the economic benefits associated with the alternative development of Temple Island we have estimated the potential GVA and employment impacts and business rate income it could deliver in Section 5. We also note that one of the key arguments for public sector intervention to bring forward an arena on the Temple Island site, put forward in the FBC, was that it will act as a catalyst for the development of the wider area. We consider that this rationale applies to an alternative development on the site. We also assess the potential catalytic impacts of the alternative development in Section 5.5. Although it is not possible to quantify these impacts at this stage due to a lack of detailed evidence, there are indications that wider development could be catalysed in the surrounding area.

Therefore, if some degree of public sector funding to bring forward the development of Temple Island is required, there is likely to be a strategic rationale for intervention on market failure grounds given the positive externalities that would be associated with the development of the site. However, this would need to be reassessed when funding requirements are clear, and considered as part of a wider value for money assessment of the proposals at the stage at which more details and evidence is available.

In terms of the deliverability of the Temple Island scheme we note that due to the early stage of the project there remain uncertainties. BCC should consider the viability of the proposed mixed use development on the site when considering the deliverability of the proposed Temple Island scheme. Additionally, BCC has indicated to KPMG that it recognises the need to consider a number of additional "technical factors" in relation to planning, including: assessing the environmental impact; noise and vibration; air quality; sustainability; ecology; flooding and contamination. These issues are not assessed with the scope of KPMG's work. We understand from BCC that work has already been undertaken to consider these factors.

We note that the well-connected location of the Temple Island site within the BTQEZ and its proximity to Temple Meads Station means that the site may become increasingly attractive to private investors in the future. As other developments, including the University of Bristol plans, progress, we consider that the need for public sector funding to support the development of the Temple Island site should be kept under review as proposals proceed.

4 Financial and commercial assessment of the alternative development of the Temple Island site

Whilst the work to develop an alternative use for the Temple Island site is at a very early stage, BCC commissioned third party advisors to outline the potential options available to it. Since that time BCC has then further developed these options internally.

BCC currently intends to appoint one or more private sector developers to construct the entire site, which will likely lead to the most intensive development, for example a greater number of homes and a significantly greater commercial area. This a common strategy adopted by many local authorities to leverage private sector expertise and reduce the financial risk to BCC.

Development of a mixed use commercial and residential space has potentially lower construction risk than the arena option due to a more standardised construction and greater comparative benchmarks. However, given the infancy of development plans, significant estimate risk remains.

The Council's financial forecasts underpinning our analysis are based on a net cost to the Council from the development of £25.6m, being a repurposing of the same capital allocation set aside for the arena proposals on the same site. BCC has indicated that it may choose to spend some of this on preliminary works and abnormals to de-risk the site for potential developers but that any decision would depend on the outcome of future commercial negotiations, and there may be no financial investment required by BCC at all. We note that professional advice secured by BCC suggests that in contrast to the plans costing the Council £25.6m, BCC could receive a significant return from the scheme (whether through land sale, overage or otherwise). BCC's current forecasts therefore appear prudent, although given the early stage in solution development this is perhaps sensible.

Overall we note that BCC have a reasonable degree of confidence in the deliverability of the alternative proposition at Temple Island, despite being at an early stage. A developer led mixed use scheme is a common approach to city centre development and offers a reduced risk to BCC than developing an arena on the site. BCC's early stage proposal is based on independent third party analysis highlighting BCC have taken appropriate advice in reaching this stage of development. BCC may be able to negotiate using less than the £25.6m committed to the site as part of the Temple Island Arena development or recover much of this through future land agreements.

5 Economic assessment of the alternative development of the Temple Island site

5.1 Our approach to assessing the potential economic impacts

As part of the scope of this report we were asked by BCC to assess the strength of the economic case for the alternative development proposals for Temple Island.

Our approach to assessing the potential economic impacts associated with the Temple Island development has been conducted in accordance with the principles set out in the HM Treasury Green Book¹⁸. Specifically, we assess the potential additional direct, indirect and induced economic impacts¹⁹ of the proposed development in terms of GVA and FTE employment.

Our analysis draws upon floorspace and employment estimates provided to us by BCC, estimated construction costs from BCC and publicly available data produced by the HCA and ONS.

Our analysis focuses on the potential economic impacts associated with:

- the construction of the proposed alternative development; and
- the ongoing operation of the proposed commercial development on the site²⁰.

We have been unable to quantitatively assess all of the potential economic impacts that could be generated through the proposed alternative development. The following aspects have not been included in our quantitative economic impact analysis:

- The potential revenue, and associated economic impacts, associated with the sale and/ or letting of residential developments. Further additional GVA may be generated through revenue raised from the sale or letting of the residential properties. We have not been able to factor these associated economic impacts in to our analysis at this stage due to lack of information on the likely mix of 1,2 and 3 bed residential properties that will be developed and on the potential market value of those residential developments over the appraisal period.
- Any additional economic impacts that may be associated with visitor spending in the local economy if a conference centre is located on the site. If the availability of these facilities were to increase the number of visitor to Bristol, there could be wider spending impacts associated with this, for example linked to hotel stays, retail and food and beverage purchases. Due to uncertainty over the development plans for a conference centre and a lack of associated data and information, we were unable to quantify these potential impacts.

¹⁸ HM Treasury (2018) The Green Book: Central Government Guidance on Appraisal and Evaluation.

¹⁹ Direct economic impacts are the first round effect where the demand creates economic activity. Indirect impacts are the effects generated through the activity and output supported in the UK based supply chain as a result of procurement of inputs of goods and services (both for construction and ongoing operations). Induced impacts are multiplier effects that arise in the UK economy as a result of direct employees and employees in the UK supply chain spending a proportion of their wages in the UK. This spending generates additional economic activity for those businesses from which these employees buy goods and services and in these businesses' own wider supply chains.

²⁰ We note that while the residential developments would also generate economic impacts through the residents' additional spending with local businesses, resulting from the increase in the local population, HCA guidance states that where a development is mixed use this additional spending should not be captured separately. It considers that only the economic output (GVA and employment) associated with the commercial aspects of the development should be estimated and not impacts from any residential aspects, to avoid the double counting of impacts in the analysis.

- Any wider developments on adjacent sites that may be catalysed as a result of the development of the Temple Island site. BCC has stated that it considers that the development of Temple Island would likely encourage the development of adjacent sites. However, which sites and the potential scale, type and timing of any catalysed development have not yet been identified. We have therefore been unable to quantify the potential impact. Section 5.4 below sets out any wider impacts in greater detail.

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

- Displacement: the extent to which the project could offset economic activity elsewhere.
- Leakage: the extent to which impacts are generated outside of the spatial area which it is intended to benefit. We have assessed the potential economic impact of the alternative development of the Temple Island site at three levels; the UK level; the West of England level and the Bristol level. When referring to impacts at the Bristol level, we have used the UK Government definition of a sub-region²¹, this is equivalent to the area of Bristol covered by BCC.

In addition to displacement and leakage, the HM Treasury Green Book²² recommends that an economic impact assessment consider the deadweight of a project. Deadweight refers to the outcomes which would have occurred without the project being brought forward. The deadweight of the alternative Temple Island development would be the construction and operation of the arena on the site, the costs and benefits of which have been assessed in our Temple Island arena report. Rather than deduct the economic impacts associated with the Temple Island Arena to represent the deadweight, we consider that the relative net economic impacts should be compared.

The net economic impacts are presented in our analysis in Net Present Value (NPV) terms over a 25 year appraisal period, applying a social time preference rate (STPR) discount rate of 3.5%, based on the HM Treasury Green Book guidance.

We understand from BCC that the land use optioneering exercise is still ongoing and BCC is continuing to explore the potential use(s) of the Temple Island site. We have based our analysis on the most up to date information provided to us by BCC as at 11 May 2018. As noted in Section 2.2, due to the early stage of the plans, the data and information available to us was limited.

Given this, a high level appraisal approach was adopted. Therefore, the analysis should be viewed as indicative only, and is predicated on the deliverability of the scheme and the achievement of BCC's projections in terms of developed floorspace and the associated employment.

If the alternative development plans for Temple Island progress and as more data and information becomes available we recommend that the analysis is revisited and a more detailed assessment conducted.

5.2 Potential economic impacts associated with the construction of the Temple Island development

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

²¹ A sub-region is defined as any spatial area that covers the very local (e.g. 5 miles) through to the local authority district.

²² HM Treasury (2018) The Green Book: Central Government Guidance on Appraisal and Evaluation.

However, any impacts will be generated for a limited time only - over the construction period. At present, information provided by BCC indicates that the construction of the alternative developments will be phased over a 6 year period, with all developments being brought forward by 2025.

To inform our estimates of the construction impacts BCC has provided us with cost estimates for residential and commercial developments, on a per square foot basis. We have applied these estimates to BCC data on the proposed amount of developed floorspace in order to estimate the total cost of construction. We estimate the total construction cost of the proposed Temple Island development to be £81.0m.

5.2.1 Gross GVA impacts associated with the construction of the Temple Island development

We have estimated the direct GVA associated with the construction of the development by applying the relevant GVA to output ratio for the construction industry to the overall estimated cost of construction. Indirect and induced GVA has been estimated by applying the Type I and Type II GVA multipliers²³ to the estimated direct GVA.

Overall, we estimate that £74.3m would be generated in gross GVA²⁴ over the construction period.

Figure 4 below sets out our gross GVA estimates split by direct, indirect and induced impacts.

Figure 4: Gross GVA associated with the construction of the alternative Temple Island development

	Direct	Indirect	Induced	Total
Gross GVA	£32.9m	£30.1m	£11.3m	£74.3m

Source: KPMG analysis

5.2.2 Gross employment impacts associated with the construction of the Temple Island development

In addition to GVA, the construction of the development will also generate employment for the duration of the construction period.

We have estimated the potential level of direct employment associated with construction based on the estimated direct GVA and the average GVA per FTE for the construction industry. Indirect and induced employment have been estimated by applying the industry Type I and Type II employment multipliers²⁵ to the estimated direct employment.

We estimate that 927 gross FTE temporary jobs would be generated through the construction of the alternative Temple Island development, over the construction period.

We have adjusted our employment estimates to be in permanent terms, by assuming that one permanent FTE job is over a 10 year period. Based on this approach, we estimate that 93 gross permanent FTE jobs would be generated through construction.

²³ Office for National Statistics (2017) 2013 Input-Output Analytical Tables: Multipliers and effects (product) and Scottish Government (2017) Input-Output Tables 1998-2014.

²⁴ Gross GVA has not been adjusted for additionality and is presented in nominal terms.

²⁵ Office for National Statistics (2017) 2013 Input-Output Analytical Tables: Multipliers and effects (product) and Scottish Government (2017) Input-Output Tables 1998-2014.

Figure 5: Gross employment (in FTE terms) associated with the construction of the alternative Temple Island development

	Direct	Indirect	Induced	Total
Gross employment	43	38	11	93

Source: KPMG analysis

5.2.3 Consideration of additionality and net economic impacts

As set out in Section 5.1 above, we have considered the additionality of any economic impacts associated with the construction of the alternative Temple Island development.

We have set out our assessment of the estimated level of additionality associated with the construction in Figure 6 below.

Figure 6: Additionality assumptions associated with the construction of the proposed alternative development on Temple Island

Additionality factor	Estimated level	KPMG assessment
Deadweight	-	The potential deadweight associated with the proposed development of the Temple Island site relates to the construction impacts that could be generated if alternative developments were to come forward. We note that at present there are two competing uses for the site – the arena development and the proposed development detailed in this report. Therefore, in our analysis, rather than deduct the economic impacts associated with the arena to represent the deadweight, we consider that the relative net economic impacts should be compared.
Displacement	10%	The construction activity is expected to take place over a relatively long time period and as a result we consider that there will be relatively low levels of displacement from other major construction projects across the West of England and the UK. Therefore, in line with our analysis of the displacement associated with the arena on the Temple Island site, we assume a low level of displacement in our analysis at 10%.
Leakage	17.5% for indirect and induced impacts at a West of England level.	Due to the location of the Temple Island development, construction will be undertaken in Bristol and as a result, we would expect that the direct impacts of construction to be retained in Bristol and the West of England. We have therefore assumed a zero level of leakage associated with direct construction impacts.
	25% for indirect and induced impacts at a Bristol level.	Through the supply chain, however, there will be a level of leakage associated with the indirect and induced impacts. It is unlikely that all of the building materials and other resources required in the construction will be sourced from Bristol or the West of England. Taking the factors that will affect the likely leakage of both direct and indirect impacts of construction into account, at the West of England level we assumed a low to medium leakage rate for the construction impacts of 17.5% for indirect and induced impacts. At a Bristol level, we have assumed a medium level of leakage of 25%. These rates are based on the levels detailed in the HCA additionality guidance ²⁶

Source: KPMG analysis

²⁶ HCA (2014) Additionality Guidance. 4th Edition.

By applying the additionality assumptions set out in Figure 6 above we have estimated the net GVA and employment associated with the construction of the proposed alternative development on Temple Island. Our estimates of net GVA for the total construction period are set out in Figure 7 below.

It should be noted our estimates of net impacts are based on current information, and assumptions of additionality levels. As plans progress, and more detailed information and evidence becomes available, it would be possible to more accurately estimate the net impacts associated with the construction of the proposed alternative development on Temple Island. Therefore, we may have over- or under-estimated the potential economic impacts associated with the construction of the development at Temple Island.

Figure 7: Net GVA associated with the construction of the alternative Temple Island development

	Direct	Indirect	Induced	Total
Net GVA				
<i>In the West of England (including Bristol)</i>	£29.6m	£21.8m	£8.2m	£59.6m
<i>In Bristol</i>	£29.6m	£19.6m	£7.3m	£56.5m
Net employment (in FTE terms)				
<i>In the West of England (including Bristol)</i>	39	28	8	75
<i>In Bristol</i>	39	25	7	71

Source: KPMG analysis

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

5.3.1 Gross employment impacts associated with the Temple Island development

The operation of the businesses located in the commercial developments on the Temple Island site will generate ongoing economic impacts directly, as well as indirectly through spending with suppliers and in induced terms through employees' spending of wages within the economy.

BCC has provided KPMG with estimates of the direct employment it has forecast, over time, which could be generated as a result of the proposed development of the Temple Island site.

We understand that BCC has estimated this direct employment by applying the relevant HCA employment densities to the net internal area floorspace dedicated to different uses²⁷. The direct employment estimates take into account the occupancy rate of the developments²⁸. KPMG has not validated BCC's estimates of the direct employment associated with the Temple Island site development although we consider that the high level appraisal approach adopted by BCC is appropriate and reasonable given the level of information available at the early stages of the project.

BCC's direct employment estimates increase over time based on the phasing of the development coming forward. In year 1, BCC has estimated that 143 gross FTEs could be generated through the development of the Temple Island site, rising to 1,804 gross FTEs by year 6.

Using BCC's estimates of direct employment, we have estimated the wider employment that could be generated through the Temple Island site, in indirect and induced terms. Indirect and induced

²⁷ BCC have converted gross floorspace to net internal floorspace by applying a factor of 0.8.

²⁸ BCC has applied occupancy rates ranging from 50% to 100%.

employment have been estimated by applying the relevant Type I and Type II employment²⁹ multipliers to BCC's direct employment estimates.

Figure 8 below sets out the direct, indirect and induced employment estimates and the phasing of this employment over time. Overall, we estimate that the Temple Island development could generate up to 2,737 gross FTEs from year 6 of operation onwards.

Figure 8: Gross employment in FTE terms associated with the development of Temple Island

	Year					
	1	2	3	4	5	6 onwards
Direct	143	464	668	954	1,429	1,804
Indirect	57	187	270	388	585	740
Induced	16	51	74	104	154	194
Total³⁰	216	703	1,013	1,446	2,168	2,737

Source: KPMG analysis

5.3.2 Gross GVA impacts associated with the Temple Island development

GVA will be generated through the operation of the businesses that occupy the Temple Island development.

At present there is no forecast financial information linked to these commercial developments. Therefore, we have only been able to conduct a high level appraisal of the potential GVA impacts based on the direct employment estimates provided to us by BCC. We have applied the relevant level of GVA per FTE, sourced from the ONS, to the direct employment estimates to derive the direct GVA. We estimate that the gross direct GVA associated with the Temple Island development in year 1 could be £4.7m, rising to £54.2m in year 6.

Indirect and induced impacts have been estimated by applying the relevant Type I and Type II GVA multipliers³¹ to the direct GVA estimates. We have estimated that the development could generate between £2.4m to £28.7m in indirect GVA and a further £1.2m to £14.5m in induced GVA.

Figure 9 below sets out the estimates of gross GVA per annum over time.

Figure 9: Gross GVA impacts per annum generated through the Temple Island development

	Year					
	1	2	3	4	5	6 onwards
Direct	£4.7m	£14.7m	£21.0m	£29.5m	£43.3m	£54.2m
Indirect	£2.4m	£7.7m	£11.0m	£15.5m	£22.9m	£28.7m
Induced	£1.2m	£3.9m	£5.5m	£7.8m	£11.6m	£14.5m
Total³²	£8.3m	£26.3m	£37.6m	£52.8m	£77.8m	£97.4m

Source: KPMG analysis

5.3.3 Consideration of additionality and net impacts

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

²⁹ The multipliers applied are for SIC code 47: 'Retail trade, except of motor vehicles and motorcycles' and SIC code 70: 'Activities of head offices; management consultancy activities'.

³⁰ Totals may not add up due to rounding errors.

³¹ Office for National Statistics (2017) 2013 Input-Output Analytical Tables: Multipliers and effects (product) and Scottish Government (2017) Input-Output Tables 1998-2014.

³² Totals may not add up due to rounding errors.

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

We have considered the potential additionality of the development of the Temple Island site for mixed use purposes. Figure 10 below sets out our assessment of the additionality factors to apply in our analysis.

Figure 10: Assessment of the additionality of the operation of the proposed alternative development plans for Temple Island

Additionality factor	Estimated level	KPMG assessment
Deadweight	-	<p>The potential deadweight associated with the proposed development of the Temple Island site relates to the economic impacts that could be generated if alternative developments were to come forward. We note that at present there are two competing uses for the site – the arena development and the proposed development detailed in this report. Therefore, in our analysis, rather than deduct the economic impacts associated with the arena to represent the deadweight, we consider that the relative net economic impacts should be compared. This comparison is included in our overall VfM assessment detailed in Section 6.</p>
Displacement	20%	<p>Professional advisors for BCC have conducted an initial assessment of the potential for the commercial development on Temple Island to displace current or future activity in Bristol. A number of other developments currently coming forward across Bristol have been identified. However, in comparison to these other developments, Temple Island is still in the early stages of planning.</p> <p>BCC is of the view that a number of these other schemes may come forward in advance of any development at Temple Island. The developments remaining i.e. those that have not been taken forward by that time, are those which may give rise to some form of displacement. The level of displacement will depend on the nature of the offer of each to the market and demand for space at the time. We consider it reasonable to assume that there will be some level of displacement. BCC should consider an over-arching economic development strategy and plan to assess such impact.</p> <p>With regards to the modest retail offer on the site, BCC envisages that the space would likely be occupied by a mix of local, independent businesses and business chains. BCC has stated that any retail offer will be carefully chosen to ensure that it supports the wider site. Furthermore, BCC has stated that it intends to manage the retail offer on the site to ensure that any retail offering on the site does not directly compete with retail businesses in the city centre. Furthermore, the retail offer on the site is relatively small, and would therefore unlikely result in a high level of displacement from the city centre.</p> <p>If BCC is successful in delivering these plans and mitigating the extent to which the development on the Temple Island site would directly compete with other developments across Bristol (both for occupants and resident and visitor spending) it may be reasonable to assume that there would be a low level of displacement.</p> <p>There is a high degree of uncertainty of the plans for an alternative development at Temple Island and the potential for it to displace existing (and future) office and retail developments within Bristol and the West of England. Given the uncertainties we have assumed a</p>

		<p>medium level of displacement of 20%, based on HCA additionality guidance³³.</p> <p>We consider that it will be important to keep the expected levels of displacement under review as the plans progress as there is a high degree of uncertainty at this stage as it is highly dependent on who will occupy the developments.</p>
Leakage	<p>17.5% at a West of England level</p> <p>20% at a Bristol level</p>	<p>Given that the direct economic impacts will be generated by the proposed commercial and retail developments on the Temple Island site these direct impacts will be retained within Bristol.</p> <p>However, it is likely that the supply chains to support the direct activity, as well as the spending of direct and indirect employees, will span across the West of England and the wider UK economy.</p> <p>The level of leakage from the Bristol and the West of England areas will depend on the extent to which the businesses that occupy the commercial space on the Temple Island site source from the local region. If the businesses have predominantly local supply chains the level of leakage will be low. However, if the occupying businesses source a high proportion of their supply chains from outside of the West of England region, there will be a high level of leakage of economic impacts outside of the region. As we currently do not know which businesses will occupy the commercial space on the site, nor do we have any evidence as to the nature of their supply chains we are unable to accurately assess the level of leakage associated with the development.</p> <p>Given a lack of detail on this at this stage, we consider it reasonable to assume, a low to medium level of leakage (17.5%) at the West of England level and a medium level of leakage (20%) at a Bristol level. These leakage rates are sourced from the HCA Additionality Guide³⁴.</p> <p>We consider that it will be important to keep the expected levels of leakage under review as the plans progress</p>

Source: KPMG analysis

Taking into account the estimated additionality factors set out in Figure 10 we have estimated the net economic impacts associated with the proposed alternative use of the Temple Island site. It should be noted our estimates of net impacts associated with the ongoing operation of the proposed alternative development of Temple Island are based on current information, and assumptions of additionality levels. As plans progress, and more detailed information and evidence becomes available, it would be possible to more accurately estimate the ongoing net impacts associated with the alternative development of Temple Island. Therefore, we may have over- or under-estimated the potential ongoing economic impacts.

In net terms, we estimate that the proposed developments on Temple Island could generate between £6.0m and £70.4m in net GVA per annum in the West of England.

In total, over a 25 year period, the Temple Island development could generate £875.3m in net GVA (in NPV terms) and 2,026 net FTE jobs in the West of England.

³³ HCA (2014) Additionality guidance: 4th Edition.

³⁴ HCA (2014) Additionality guidance: 4th Edition.

Figure 11: Net GVA and employment (in FTE terms) associated with the operation of Temple Island in the West of England and Bristol

	Net GVA		Net employment (in FTE terms)	
	West of England	Bristol	West of England	Bristol
Year 1	£6.0m	£5.9m	160	158
Year 2	£19.0m	£18.7m	520	514
Year 3	£27.2m	£26.8m	750	741
Year 4	£38.2m	£37.6m	1,071	1,059
Year 5	£56.2m	£55.3m	1,605	1,586
Year 6 onwards	£70.4m	£69.3m	2,026	2,003
25 years (in NPV terms)	£875.3m	£861.9m	2,026	2,003

Source: KPMG analysis

5.4 Business rates generated through the Temple Island development

The proposed alternative developments on Temple Island will generate business rates income for BCC. Any business rates income would be split with 50% going to BCC and 50% going into the West of England EDF pool.

Based on the current planned floorspace, and the type of developments planned on the site, BCC have estimated that it could expect up to £2.2m per annum to be generated in business rates.

Using the business rates income estimates provided to us by BCC, we have estimated that over the 25 year appraisal period £22.1m in business rates, in NPV terms, could be generated with £11.1m being received by BCC.

These estimates are based upon a high level appraisal of the potential business rates income that could be generated through the alternative development of the Temple Island site. Any changes to the current plans for the site would likely impact the level of business rates that could be expected from the development. Therefore, if the plans for Temple Island progress, this analysis should be revisited when more data and information becomes available.

5.5 Wider impacts associated with the development

We consulted with BCC to understand what, if any, wider impacts might be catalysed through the proposed alternative development of Temple Island.

Due to the early stages of the project and the limited information currently available, BCC have not yet been able to identify the potential scale, type and timings of any catalysed developments driven by the Temple Island site. We have therefore, been unable to assess the potential wider impacts quantitatively. However, in this section we have assessed the wider impacts qualitatively based on information provided to us by BCC.

BCC has stated to KPMG that it considers that the proposed higher density residential and commercial development on Temple Island will have a transformational impact on the perception of the surrounding area, and will generate interest in the area, increasing the likelihood of additional developments coming forward.

In particular, BCC has suggested that the Temple Island development could catalyse further development on the sites surrounding Temple Meads Station. It considers that as the new residential developments on Temple Island will increase the local population living in the area, this will result in increased spending in the local area, in particular with retail businesses such as food stores. This increase in spending would have a knock-on effect, benefitting local businesses and BCC considers that this may result in new businesses being attracted to the area. As the planned retail offering on the

Temple Island site is relatively small, it is BCC's view that further modest retail developments surrounding the Temple Meads station could come forward.

In addition, BCC considers it reasonable to assume that if the demand for office space is greater than the increased supply offered by the Temple Island site development, the surplus demand could "spill-out" to adjacent sites, catalysing further employment space development around Temple Meads and in the wider city centre.

From discussion with BCC, we understand that interest has already been expressed in the redevelopment of adjacent sites based on the expectation of development on the Temple Island site.

As the Temple Island site is currently unused and has been for a number of years, we consider that it is appropriate to conclude that the regeneration of the site in to mixed-use development would likely generate positive spillover effects in the surrounding area.

However, there is considerable uncertainty at this stage about the scale and scope of any catalytic impacts.

It is important to note that the level of potential economic impacts generated through any catalysed developments will be largely dependent on the type and nature of development that is brought forward. Typically, residential developments generate a lower level of economic activity in the long-run when compared to commercial developments. Residential developments will generate temporary GVA through construction and when sold, and some ongoing low-level economic activity associated with the spending of residents. Commercial developments tend to generate more value added for the local economy through businesses direct activities, supply chains and employment on an on-going basis. Higher intensity employment commercial development, such as offices and working spaces for start-ups, tend to generate higher levels of economic activity than other types of developments, such as retail and leisure businesses.

If the proposed alternative development of Temple Island is taken forward, it will be important for the potential economic impact of any catalysed developments to be assessed quantitatively, as and when the required information becomes available.

6 Value for money assessment

6.1 Summary of the economic impacts

In Section 5 above we have assessed, adopting a high level appraisal approach, the potential economic impacts associated with the proposed alternative development of the Temple Island site. The results of our analysis are summarised in Figure 12 below.

Based on the scope of our quantitative analysis, we have estimated that the Temple Island development could generate £935.0m in net GVA (in NPV terms) and 2,101 FTE jobs in the West of England over 25 years.

Figure 12: Net GVA (in NPV terms), employment (in FTEs) and business rate income associated with the proposed alternative development of Temple Island over 25 years

		25 years		
		Net GVA	Net employment	Business rates
West of England	Construction	£59.6m	75	-
	Operation	£875.3m	2,026	£22.1m
	Total	£935.0m	2,101	£22.1m
Bristol	Construction	£56.5m	71	-
	Operation	£861.9m	2,003	£22.1m
	Total	£918.4m	2,074	£22.1m

Source: KPMG analysis

6.2 Value for money assessment of the proposed alternative development of the Temple Island site

Using the estimates of the potential economic impacts that could be generated through the proposed development, we have estimated the associated economic NPV. We have also estimated the BCR associated with the Temple Island development proposals. There are a number of assumptions and caveats linked to this, as detailed below, that should be considered when interpreting the results.

Given that, by nature, construction impacts are temporary and are generated over a short time frame, these impacts are often excluded from the assessment of VfM. Therefore, in our economic NPV and BCR estimates we do not take account of construction related economic impacts.

We note that a VfM assessment extends beyond consideration of the BCR. The financial and commercial cases for the proposals also need to be taken in to account including other aspects of the project, such as affordability, deliverability and the expected level of risk.

For our assessment of the VfM metrics (the NPV and BCR) for the Temple Island developments we have assessed the potential economic benefits of the Temple Island site against the £25.6m of public sector funding that could be made available, if required, for the development (see Section 4 for further details) and the £12.5m of capital receipt from the sale of the land (which represents the opportunity cost of the alternative development). The current estimate of land value are based on a high level assessment undertaken by third party advisors for BCC. A full Red Book evaluation of the potential land value has not been undertaken, therefore the £12.5m should be viewed as an initial estimate and is subject to change. We note that this is a conservative estimate and at the lower end of range of potential values estimates presented by BCC third party advisors.

The results of our analysis are set out in Figure 13 below.

Figure 13: Value for money assessment of the proposed alternative development of the Temple Island site over a 25 year appraisal period

	25 years
Total net GVA (in NPV terms)	£875.3m
Public sector contribution	£38.1m
BCR	23.0: 1
NPV	£837.2m

Source: KPMG analysis

We estimate that the proposed alternative development of the Temple Island site, excluding any construction impacts, could yield:

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

This assessment also excludes a range of impacts that it was not possible to assess at this stage due to a lack of data and information or as they were outside the scope of our study. Specifically, the analysis does not take account of:

- any wider social impacts that the development may deliver;
- any catalytic impacts that may arise (assessed qualitatively in Section 5.4);
- the potential impacts generated through the sale or letting of residential units developed on the site; and
- any spending related impacts that may arise if a conference centre and hotel is developed that results in increased visitors to Bristol.

These impacts have the potential to increase the VfM of the proposed alternative development of the Temple Island site.

However, the development plans for the Temple Island site are also only in the early stages and there remains delivery risk and uncertainty about the exact development that may come forward and over what timeframe. Additionally, the level of public sector spending that may be required to bring forward the developments is not clear.

Therefore, this analysis is indicative only and we consider that the VfM of the Temple Island site should be reassessed once the plans have progressed further and more data and information is available to conduct a detailed assessment of factors including the level of costs, commercial and financial arrangements and potential economic impacts.

6.3 Comparative assessment of the proposals for an Arena and the alternative developments on the Temple Island site

When making public spending decision it is helpful to consider the relative VfM that could be achieved through alternative schemes. Therefore, we have compared the economic NPV and BCR for the two competing development proposals for the Temple Island site – the Temple Island Arena and the alternative mixed use development.

The same caveats and assumptions associated with the alternative Temple Island development assessment (detailed above) and for the Temple Island Arena (as detailed in our Temple Island Arena VfM report) apply to this comparison.

Figure 14 below sets out the key VfM indicators associated with the two development proposals over a 25 year period.

Figure 14: Comparison of the value for money metrics for the Temple Island Arena and the alternative mixed-use development, over 25 years

	Temple Island Arena	Alternative Temple Island development
Total net GVA (in NPV terms)	£387.1m	£875.3m
Capital costs/ public sector capital contribution	£148.0m	£38.1m
BCR	3.2:1	23.0: 1
NPV	£282.6m	£837.2m

Source: KPMG analysis

The analysis suggests that the economic NPV of the Temple Island Arena project is comparatively lower than the economic NPV of the alternative Temple Island development. This suggests that, based on the evidence currently available to inform the assessment, in cost and economic terms, the alternative Temple Island development proposals present better value for money and would generate higher economic impacts.

However, it should be noted that there is considerable difference in the stage of development of the plans for the propositions and the details on which the assessments are based. In comparison to the alternative development proposals for Temple Island, the Temple Island Arena is a well-developed project and as a result could be considered, at this point in time, to be more deliverable.

www.kpmg.com

© 2018 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

For full details of our professional regulation please refer to ‘Regulatory Information’ at www.kpmg.com/uk

The KPMG name and logo are registered trademarks or trademarks of KPMG International Cooperative.