

# Decision Pathway – Report Template

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**PURPOSE:** Key decision

**MEETING:** Cabinet

**DATE:** 04 September 2018

<b>TITLE</b>	Bristol Arena		
<b>Ward(s)</b>	Windmill Hill and City wide		
<b>Author:</b> Stuart Woods / Nigel Greenhalgh	<b>Job title:</b> Arena Project Director / Arena Consultant		
<b>Cabinet lead:</b> Mayor	<b>Executive Director lead:</b> Colin Molton		
<b>Proposal origin:</b> <i>BCC Staff</i>			
<b>Decision maker:</b> Cabinet Member Councillor Craig Cheney, Deputy Mayor - Finance, Governance and Performance <b>Decision forum:</b> <i>Cabinet</i>			
<b>Timescales:</b> Cabinet 4 <sup>th</sup> September.			
<b>Purpose of Report:</b>			
<p>To set out an assessment of the relative merits of the existing Arena scheme as compared to potential alternative uses of the Temple Island site such as a mixed use development including hotel and conference facilities.</p> <p>This has been informed by a range of information including the Value for Money (VfM) Studies produced by KPMG, exploratory work undertaken by BCC including the Social Value impact and a review of the relative merits of the Arena and the possible alternative uses for the site.</p> <p>The assessment set out in this report has also been informed by the outputs and comments from the three OSM sessions on 18<sup>th</sup>, 20<sup>th</sup> and 22<sup>nd</sup> June 2018.</p>			
<b>Evidence Base:</b>			
<ul style="list-style-type: none"> <li>• Bristol is the only core city without an Arena. Neither does it have a major bespoke conference venue.</li> <li>• Developments of cultural assets, such as arenas, normally require public sector intervention and funding, because in general the returns realised are not sufficient for them to be funded by private sector investment.</li> <li>• For the purposes of the assessment contained in this report economic and social value assessments have been used to help to identify, understand and quantify the indicative economic and social benefits likely to be generated by the Arena scheme as compared to potential alternative use schemes on Temple Island. Reference to Appendix I.</li> <li>• The current Arena proposals for Temple Island were developed at a time when there was no alternative proposal for the Temple Island site or for the delivery of a private sector funded Arena for Bristol.</li> <li>• This changed when the University of Bristol (UoB) purchased the Cattle Market Site and part of the Temple Island site, for the development of a post graduate university campus.</li> <li>• This changed further in 2017 when YTL, a Malaysian developer with an investment grade rating, put forward an alternative proposal to fund and deliver a 16,000 capacity Arena within the Brabazon Hangar at Filton.</li> </ul>			

This will require public sector funding to deliver infrastructure works which is estimated to be between £10m and £20m with the information presently available.

- The Temple Island proposal for a 12,000 capacity Arena would require public sector investment of £173m (which includes investment in car parking) and BCC would bear the development risk alongside the contractor.
- The KPMG Value for Money (VfM) reports (Appendix I) show that of the two propositions, the alternative BCC scheme at Temple Island provides better value for money in economic terms, based on the information provided to them. The alternative BCC mixed use scheme creates an estimated 2,101 jobs against 660 for the Arena and an economic net present value NPV of £837.2m against £282.6m for the Arena.
- KPMG reports that the two proposals are at different stages of maturity, based on the information provided to them, in terms of their development and carry different levels of risk in terms of deliverability. KPMG notes that the alternative BCC scheme at Temple Island are at an early stage in development planning and hence are not comparable from a deliverability perspective to the Temple Island Arena plans.
- It is the Council's view that this increased level of economic impact and job creation, for the alternative scheme, would clearly have a greater impact on the vitality of the City Centre. The jobs associated with the alternative proposals for a mixed use scheme at Temple Island are more likely to be of a regular nature than the employment patterns typically associated with entertainment venues which require increased staffing when events are being staged.
- The soft market testing has demonstrated that there is interest from the private sector to develop the Temple Island site and that the delivery of a conference facility, with the associated break-out and exhibition space, and 4 or 5\* hotel could be included within the scheme. There is further work to be undertaken before all the risks and benefits are understood and a deal agreed with a private sector partner.

#### **Temple Island Arena (see Appendix A1):**

- After several previous attempts to deliver an Arena in the city, the project is now well advanced. The project benefits from an approved budget of £123.5m, a site in the Council's ownership, a technical design (RIBA Stage 4), and detailed planning permission. A 25 year operational agreement with an operator, Arena Island Limited (AIL) and a Pre-Construction Services Agreement (PCSA) with a Contractor, Buckingham Group Contracting Limited (BGCL), are in place.
- The initial Target Cost presented to the Council in October 2017 combined with the Council's own costs was significantly over the project budget.
- Following this, in November 2017 BGCL presented a revised offer based on value engineering and assessing the risk profile of the project. The officers and the consultant team believe that this proposal is deliverable but the design will need considerable value engineering to achieve the revised Target Cost, whilst at the same time retaining the existing planning permission and operator requirements.
- Following the OSMB (Overview and Scrutiny Management Board) meetings in June further discussions have taken place with the contractor. The Council and BGCL have agreed that a Target Cost of £119m may be achievable, which is a reduction of £3m on the previous Target Cost. This change is subsequent to the KPMG VfM reports, which have not been refreshed, and has therefore accounted for as a separate exercise in this report.
- The latest total project cost, which includes the revised Target Cost, exceeds the approved budget. The total project cost is now £173m, or £157m without the capital sums set aside for car parking. The total cost of £157m includes the Target Cost, the Council's client side or "direct" costs, the Council's risk contingencies, and the cost of capitalised borrowing during construction. As the Council's risk contingencies are commercially sensitive, the full detail of this is presented in exempt Appendix J1.
- If a decision was taken to proceed with the project, the proposed programme is now a start on site date in 2019 with the Arena opening in 2021.
- The agreements with the Contractor and Operator have been extended, whilst the Council reviews its options.
- Should an arena at Temple Island be preferred, further car parking would need to be identified within close

proximity. An initial study on additional sites, including 1-9 Bath Road and Portwall Lane, is complete and this work will be taken forward if the Temple Island Arena proceeds (though no decision on the Portwall Lane site has been agreed). In addition, the Council's transport department will be carrying out an upgrade to the Temple Gate car park as part of its works programme, and this will supply part of the provision required.

- The KPMG estimates for employment and economic NPV, for the Temple Island Arena, provides justification for the use of public money at a lower than commercial rate of return. However, it must be noted that the project exceeds the allocated budget and relies heavily on Council borrowing.
- Both the Council's project team and the contractor agree that following a decision on the project, it will take 5 or 6 months before the building contract can be signed, followed shortly after by a start on site. Some enabling works could take place prior to contract signature depending on the Council's appetite for risk.
- As reported at OSMB, the Arena operator (AIL) made an improved offer to the Council in December 2017, and this has been incorporated into the VfM reports. The Operator further improved this offer in June 2018. Details of this are set out in Appendix A1. It should be noted that these changes do not impact on the cash flow as they are based on the future performance of the Arena.

#### **Alternative Temple Island Scheme (see Appendix A2):**

- BCC developed an indicative scheme of development which is planning policy compliant and the KPMG VfM report is based on this scheme.
- The scheme content comprises around 65,000 sqm and is made up of the following uses:
  - 460 residential units; and
  - 26,000 sqm of mixed use commercial floor-space, which could include office, retail and hotel space, as well as a conference centre and business incubation space.
- During the OSMB hearings, the level of detail and supporting information for the alternative scheme was questioned. Since then the project team has carried out additional "soft market testing" with Legal and General (L&G), who had previously expressed a desire to work with the Council on this site, to further develop an alternative scheme.
- Preliminary work suggests that the L&G scheme could deliver increased density of around about 100,000 sqm of development with a significant portion of residential accommodation incorporating a policy compliant level of affordable housing, conference centre and hotel as well as office and retail space.
- The current status of the design points to a development mix as set out below, but these will be further refined and finalised during the development of the scheme:
  - Office 23,000 sqm
  - Retail 2,500 sqm
  - Residential 50,000 sqm
  - Conference centre 10,000 sqm
  - Hotel 16,000 sqm
- However, it should be noted that these proposals are not the subject of this paper or the VfM report, as the scheme content would naturally change during a development process.
- There is still work to be carried out to optimise the development opportunities, to understand the economic benefits and costs and finalise a deal with a private sector partner, and this is to be expected at this stage of development.
- As an example, evidence suggests that the provision of a conference centre and hotel facility increases the number of bed nights and spend, when compared to an arena. It has been calculated that a conference centre could produce up to 30% more bed nights than an arena. This will be part of the detailed work to be carried out to demonstrate the extent that the alternative scheme would improve the economic benefit for the city.
- The alternative scheme focusses on the development of a vibrant and dynamic mixed use development at the heart of Temple Quarter. The scheme complements the UoB's existing proposals for student residential development on the northern portion of the site.
- The proximity of the site to the UoB's proposed new Enterprise Campus and the developing commercial and

residential communities around the Temple Quay area would enhance the offer of this new quarter of the city. It would act as both a catalyst for future redevelopment to the east of the station and a fitting gateway to this area of the city.

- A proposed mixed use scheme could make the site a 24/7 destination with improved permeability through to future development areas.
- It is proposed that the work could start on site in 2020, subject to planning consent.

### VfM Summary

Following a review of the VfM reports the main points and figures are summarised below. These are for the West of England and are totals over a 25 year appraisal period, based on the alternative scheme:

	Temple Island Arena	Alternative development at Temple Island (based on the BCC scheme)
Benefits Cost Ratio (BCR*)	3.2:1	23.0:1
Net Present Value (NPV*)	£282.6m	£837.2m
Employment (in net FTE terms)	660	2,101
Housing	0	460

These figures should not be viewed in isolation as due to the varying degrees of information available to KPMG for each proposition, the figures are not comparable on a like-for-like basis. Each of the KPMG reports need to be reviewed in full in order to understand the scope of analysis (including what impacts have or have not been captured in the value for money assessment) and caveats and assumptions to the analysis which must be taken in to account when interpreting the results. Furthermore, KPMG notes that a VfM assessment extends beyond consideration of a BCR. The financial and commercial cases for the proposals also need to be taken into account – details of which are included in the VfM reports.

\*see Appendix G – Financial Advice

### There are now two potential questions that need to be asked for the Temple Island site:

#### 1. Is the proposed Arena on Temple Island affordable:

- The proposed Arena at Temple Island has the benefit of existing planning permission and a revised Target Cost offer based on a tender process. However, the total project cost still substantially exceeds the approved budget.
- If the decision is made to build the Arena, there will clearly be pressure on available budgets to deliver other Council priorities and decisions will need to be made on the capital programme.

#### 2. What is the best use of the Temple Island site:

- It is understood that the level of detail and supporting information for the alternative scheme is not at the same level as for the existing Arena proposal. Therefore, the two schemes are not directly comparable.
- However, the high level information available on the alternative scheme demonstrates that the possible benefits (economic, financial and social) are so compelling that the development possibilities should be pursued.
- Having regard to the findings of the VfM reports specifically for the economic benefits, it is apparent that the Council’s alternative scheme on Temple Island, subject to deliverability, is significantly better value for money in economic and cost terms than the proposed Temple Island Arena.
- If an alternative mixed use scheme is supported at Temple Island, then the Council investment saved

could be used to promote other targeted schemes.

**Recommendation:**

Based on the information contained within these reports and due to the scale of potential benefits of an alternative scheme on Temple Island, which has been prepared and soft market tested by the Council, proceed with the alternative scheme.

It is recommended that:

1. The Council resolves not to progress further with the proposed Arena on Temple Island and to take all steps necessary and incidental to the cessation of that project.
2. The Council continues to work with partners to develop an alternative mixed use scheme for the Temple Island site, with a view to bringing a worked up proposal(s) back to cabinet in due course. Ideally, any proposal should include the following uses:
  - a. Conference Centre and 4 or 5\* hotel facility;
  - b. Commercial space with the supporting retail offer;
  - c. Residential units, including a policy compliant level of affordable housing.
3. The Council develops a business case for the re-allocation to other projects of the £53m Economic Development Fund (EDF) money earmarked for the Arena project. Such business case to be submitted for approval to the West of England Local Enterprise Partnership at the earliest opportunity.

**Corporate Strategy Alignment:**

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

**City Benefits – (See VfM reports and Appendices)**

**Consultation Details: None**

<b>Revenue Cost</b>	<b>(See VfM reports and Appendices)</b>	<b>Source of Revenue Funding</b>	<b>(See VfM reports and Appendices)</b>
<b>Capital Cost</b>	<b>(See VfM reports and Appendices)</b>	<b>Source of Capital Funding</b>	<b>(See VfM reports and Appendices)</b>
One off cost <input type="checkbox"/> Ongoing cost <input type="checkbox"/>		Saving Proposal <input type="checkbox"/> Income generation proposal <input type="checkbox"/>	

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

**1. Finance Advice:** Please refer to Appendix G for the financial commentary associated with this report.

**Chief Finance officer: Denise Murray**

**2. Legal Advice:**

- Cabinet will appreciate that the Council has a number of contracts in place in support of the Arena project, (eg an agreement for lease with the proposed operator, a pre-construction services agreement with the building contractor, appointments for the design team) and will be mindful of the parties’ respective rights and obligations under each of these. In the event that the outcome of cabinet deliberations is that the project cannot proceed, (whether immediately or following any further action or review) these will need to be brought to a satisfactory close having due regard to the specific terms of each contract, which will include dealing with any outstanding fees or other payments which may be due. Exempt Appendix J4 identifies some further particular legal issues to be considered in contemplating any decision not to proceed.

- In respect of an alternative development on this site, consideration will need to be given to any potential procurement issues in connection with the selection of a suitable partner and in achieving best value. Any such proposal will likely require a comprehensive development agreement which one can anticipate will take some time to negotiate.

**Legal Team Leader: Eric Andrews, Solicitor, Team Leader - Corporate & Governance, Legal Services.**

**3. Implications on ICT:** There may be some IT Implications in the event of this initiative proceeding, including IT fit-out of a project team, and these would be addressed as part of any project. However, there are no direct or immediate implications in this submission.

**ICT Team Leader: Ian Gale, Business Change and ICT, Service Manager – Date 23.08.18**

**4. HR Advice:** Resources are in place to contract manage the construction of an arena. If the decision is taken not to proceed with the construction then resource will be redeployed to other project work.

**HR Partner: James Brereton, G & R HR Business Partner - Date: 21.08.18**

<b>EDM Sign-off</b>	Colin Molton, Executive Director Growth and Regeneration	23.08.18
<b>Cabinet Member sign-off</b>	Cllr Craig Cheney	24.08.18

	Temple Island Arena	Alternative scheme on Temple Island
<b>Appendix A1 – Further essential background / detail on the Arena on Temple Island proposal</b>	YES	n/a
<b>Appendix A2 – Further essential background / detail on the Arena in the Brabazon hanger and the alternative scheme at Temple Island proposal</b>	n/a	YES
<b>Appendix B – Details of consultation carried out - internal and external</b>	Only Internal Consultation for both schemes	
<b>Appendix C – Summary of any engagement with scrutiny</b>	YES	YES
<b>Appendix D – Risk assessment</b>	YES	High-Level risk register in Appendix A2
<b>Appendix E – Equalities screening / impact assessment of proposal</b>	YES (E)	YES (E1)
<b>Appendix F – Eco-impact screening/ impact assessment of proposal</b>	YES (F and F1)	YES (F2)
<b>Appendix G – Financial Advice</b>	YES	
<b>Appendix H – Legal Advice</b>	Not Used	
<b>Appendix I – Combined Background papers</b>		
<ol style="list-style-type: none"> <li>1) KPMG VfM Study – Summary Report</li> <li>2) KPMG VfM Study – Arena at Temple Island</li> <li>3) KPMG VfM Study – Temple Island Arena Background report (redacted)</li> <li>4) KPMG VfM Study-Temple Island Alternative scheme</li> <li>5) Temple Island Arena- Scope of Enabling works pre contract</li> <li>6) Social Value calculator</li> </ol>		
<b>Appendix J</b>		
Exempt and not for publication by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act		

1972 (Information relating to the financial or business affairs of any particular person (including the authority holding that information))' and 5 (Information in respect of which a claim for legal professional privilege could be maintained in legal proceedings').

**J1-Finance Appendix**

**J2-AECOM Target Cost Tender Report v0.5**

**J3-KPMG Temple Island Arena Background report (Unredacted)**

**J4-Legal Comments exempt**