



Bristol Arena
Value for
Money
Assessment:
Summary
conclusions

**KPMG report for Bristol
City Council**

June 2018

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1 An Arena in Bristol: Value for Money review

1.1 Scope of work

KPMG was commissioned by Bristol City Council (“BCC”) to undertake a value for money review of the Bristol Arena project. The study is intended to provide an evidence base for BCC to allow it to make future decisions on the investment in line with its duty of best value.

KPMG’s initial scope was to review the proposed Arena at Temple Island (the “Temple Island Arena”). During the course of our review this scope has been extended to consider alternative proposals for an arena at the Brabazon Hangar in Filton (the “Filton Arena”) brought forward by YTL Developments UK (“YTL”) acting as developer and alternative plans for a mixed use residential and commercial development at Temple Island. The full scope of our review, including its limitations, are set out in the body of three reports provided to BCC each covering one of the developments¹. This document summarises the key findings of our reports and should not be read in isolation of our full reports.

BCC is faced with multiple decisions that are separate but heavily interdependent:

1. Does BCC proceed with an arena at the Temple Island Site or pursue an alternative mixed use development for that site?
2. If an alternative arena site to Temple Island does not have certainty of being developed within a reasonable time period, how does this impact the decision for the Temple Island site?
3. If an alternative mixed use development is pursued, is the Filton Arena development sufficiently attractive to warrant working on an exclusive basis with YTL for six months to further refine proposals?

We have summarised the key conclusions from our three reports in the following section.

1.2 Value for Money conclusions

Below we set out the key value for money conclusions from our three reports. We highlight that the analysis completed on the Filton Arena and the alternative mixed use development at Temple Island is high level as both options are at earlier stages of development than the plans for the Temple Island Arena. It will be important for BCC to continue the necessary due diligence and assessments to ensure a sound cohesive economic development plan to support the decisions they wish to undertake. However, the key points from each of our reports that we would like to highlight are as follows:

- In net terms, the direct, indirect and induced impact of the operation of the Temple Island Arena, wider spending of attendees and catalytic development could generate Net Present Value (NPV) of Gross Value Added (GVA) of approximately £387.1m and up to 660 Full Time Equivalent (FTE) jobs in the West of England over 25 years. This provides justification for the use of public money for a lower than commercial rate of return.
- The social and economic case for an arena in Bristol is clear and well made, enhancing economic output and having a positive cultural impact. However, the strategic case for the arena at the Temple Island site has been weakened since the FBC was submitted. The changes to the strategic plans for the City, as well as BTQEZ and the University of Bristol’s purchase and

¹ Temple Island Arena: Value for Money Assessment, Assessment of alternative plans for an arena in Bristol, and Assessment of alternative development plans for the Temple Island site.

development of the remainder of the Temple Island site and the Post Office sorting depot site, has weakened the likely catalytic impacts of the Arena being located on this site.

- The projected capital cost of the Arena is materially higher than the approved budget to date, at £156.3m versus £123.5m (an 18% increase or £32.8m). KPMG note that the Arena would be one of the most expensive Arena's in the UK in terms of cost per square metre based on benchmarking information prepared for BCC by Aecom.
- The Arena will be entirely publicly funded with a mix of BCC capital contribution (£25.9m), the opportunity cost of the land for the site (estimated value at £12.5m) and a further loan (of £145.0m) obtained by BCC. £53m of the loans and associated interest costs are repaid through funding from the LEP provided over 18 years. The remaining BCC loan is serviced from lease payments from the Arena operator to BCC and car parking income. Current financial forecasts show that returns are broadly sufficient to service the additional PWLB loan and make repayments to a level where the residual value of the Arena debt at year 25 is marginally higher than the estimated debt outstanding. Whilst appropriate construction cost contingencies have been made and the contractual structures mitigate risk to the extent that is commercially reasonable, the level of financial return does not represent a commercial rate of return for the residual risks being taken.
- The competing development plans for the Temple Island site through mixed use development have the potential to deliver a materially higher economic benefit to the City. The mixed use development proposals can be expected to deliver GVA of £875.3m (in NPV terms) and deliver 2,026 full time equivalent jobs. Combined with the lower requirement for public funding, this means a BCR for the competing plans of 23.0:1 versus 3.2:1 for the Temple Island Arena.
- The alternative plans for Temple Island also contribute towards the strategic aims of the City, although not necessarily the same ones as the Arena development. Specifically they would contribute towards the delivery of new housing, including affordable housing; 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 spaces and associated jobs; and reducing social and economic isolation and helping connect people to people, people to jobs and people to opportunity.
- Importantly, the mixed use development proposals are at an early stage in development planning and hence are not comparable from a deliverability perspective to the Temple Island Arena plans. Whilst sensible steps have been taken with professional advice from external third parties, this does not compare to tendered contractual positions for the Temple Island Arena. This creates a higher degree of deliverability risk, although this is not unusual for a project at this stage in development.
- Should a decision be taken not to proceed with the Temple Island Arena, BCC has the option to pursue a proposal for a privately funded and owned Filton Arena, being brought forward by YTL Group. YTL's development proposals are in their infancy so it is not possible to conclude on their deliverability. Significant risk remains as to the commercial and technical deliverability because of the early stage of development. It is noted that commercial return from the Filton Arena itself is not the primary objective for YTL, as they stand to benefit from the location of the Filton Arena to surrounding housing development that they are planning and associated transport links that would be put in place. This helps but does not fully mitigate the commercial deliverability risk
- The 16,000 seater Filton Arena would not require any direct public funding, however subject to approval and the reallocation of the LEP funding, £53m could be used to fund transport upgrades. Providing this repurposing of the LEP funding is permitted, there should be no cost to BCC. BCC may wish to take a minority equity stake (subject to agreement with YTL) in the Filton Arena to exert a greater degree of control and influence over operations.

- Based on employment and attendee projections provided by YTL, which are not at a sufficiently advanced stage in development to be ready for detailed due diligence, economic and employment impact of the Filton Arena will exceed that of the Temple Island Arena. There is a reasonable degree of caveat on those projections because of their stage in development. Apart from location specific impacts, the strategic benefits of the Temple Island Arena would transfer to Filton. Because of location, there would be some leakage of economic benefit outside of Bristol, but retained in the West of England area.

In summary, BCC's decision to proceed with the Arena balances relative priorities of generating the best economic and employment value from the Temple Island site; meeting different strategic and public priorities and propensity to invest a material amount of public funding into an Arena with some risk. The Filton Arena plans give an opportunity to deliver an arena in Bristol if alternative plans for Temple Island are pursued, although given the infancy of development plans there remains a higher degree of deliverability risk in those proposals.

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