

APPENDIX A1: Further essential background / detail on the proposal

BRISTOL ARENA: DECISION TO ENTER INTO BUILDING CONTRACT

PURPOSE OF REPORT

This paper has been prepared to appraise the Mayor and Cabinet of the progress and status of the Bristol Arena project, value for money (VfM) review and Arena car parking study. The paper seeks approval for the Council to enter into a construction contract with Buckingham Group Contracting Limited (BGCL) and also identifies the alternative options available to the Council for the existing procurement.

1 DECISIONS REQUIRED TO ENABLE THIS PROPOSAL TO PROCEED

Should a decision be made not to accept the recommendation to pursue an alternative scheme, but continue with the proposal to build an arena at Temple Island, cabinet asked to approve the following:

To authorise the Strategic Director for Growth and Regeneration in consultation with the Deputy Mayor and Monitoring or Section 151 Officer to:-

- 1.1. Negotiate and agree terms of, and enter into, an NEC3 ECC building contract for the construction of the Bristol Arena;
- 1.2. Vary the Target Cost pain/gain share contract approach, if further work demonstrates this is to be beneficial to the council;
2. To allocate the approved budget required for the Arena project of up to £156.86m (which includes the Target Cost of £119m) to deliver the project as outlined in this report, to be financed from prudential borrowing and capital contributions;

2 THE PROJECT

2.1 Cabinet should note that this paper and the majority of the appendices are related to the Arena project at Temple Island.

Background

- 2.2 Cabinet approved a funding package of £91m in January 2014 to realise the economic, social and cultural benefits detailed within the Bristol Arena Outline Business Case. A cost increase of £4m was reported to cabinet in October 2015. In March 2016 Cabinet approved an additional £28m to reflect additional infrastructure to be included within the Arena construction contract. The project budget details are provided in paragraph 4.1 of this report.
- 2.3 A summary of the key Bristol Arena project milestones are detailed below:
 - a) Appointment of Arena Island Limited (a consortium of Live Nation and SMG) as the future Bristol Arena Operator;

- b) An RIBA Stage 4 Technical Design completed by the design team led by Populous, with sub consultants, including Feilden Clegg Bradley Architects and BuroHappold Engineering;
- c) Detailed planning consent granted for the Bristol Arena to be built on the Temple Island site in Bristol's Temple Quarter;
- d) Appointment of Buckingham Group (BGCL) as preferred Building Contractor for the Bristol Arena project under a second Pre-Construction Services Agreement (PCSA);
- e) Construction of the £5m RIF funded St Phillips footbridge, to provide the pedestrian flow requirements of the Bristol Arena project;

January 2018 Cabinet

- 2.4 The purpose of the report was to update Cabinet on progress in resolving the outstanding issues, summarising the work done since the last visit to Cabinet in April 2017. Below are the recommendations with the position as set out in January 2018:

Recommendation 1 - Approve award of the Pre Construction Services Agreement (PCSA) to Buckingham Group (BGCL) in order to firm up current costings. The initial 20-week period for the PCSA is now complete. The Buckingham Group have presented a Target Cost for the Council's consideration. Further work is required to review and verify details of Buckingham's latest proposal, including risk apportionment and value engineering. The Council is continuing discussions with Buckingham.

Recommendation 2 - Authorise the Strategic Director for Place to undertake all negotiations and sign off the PCSA Contract. The PCSA contract has been signed with Buckingham, and to reduce the weekly spend incurred by the Council during the review period, the contract with Buckingham was suspended in November 2017 so that the Value for Money (VfM) study could be concluded, the Target Cost reviewed and other outstanding issues resolved. The PCSA office has been closed for the time being. The PCSA allows for a suspension of up to six months. The Council can recommence the PCSA once the outstanding issues have been resolved.

Recommendation 3 - Ensure that the PCSA progress takes full advantage of value engineering options under the current project. The Contractor's latest proposal includes the potential for cost savings as a result of value engineering and these are being considered in terms of viability and deliverability and where achievable, are being incorporated within the Target Cost. The parameters of the Value Engineering exercise are to retain the integrity of the "core scheme", maintaining the Council's requirements regarding capacity, configuration, and size and retaining the existing planning permission and agreements in place with the Operator, Arena Island Limited (SMG/Live Nation). Discussions are being held with them to confirm their position.

Recommendation 4 - Commission an independent Value for Money review to inform the economic case for any investment in the project. Following a Tender exercise, KPMG were awarded the contract to undertake the VfM review. The report is in the process of being finalised. To ensure the assessment reflects a wider choice of contracting options, this is being expanded to take in the location, design and the possibility of private financing as part of a thorough assessment of options and this will be incorporated into the next arena Cabinet report.

Recommendation 5 - To undertake further indicative work as to what type, size and shape of arena could be procured should a new procurement be required. Terms of Reference have been

prepared and should this work still be required following receipt of the VfM review, it will be formally commissioned.

Recommendation 6 - To request that the Strategic Director for Place return to Cabinet following the conclusion of the PCSA, VfM Study and the review of options in order for Cabinet to take a view on how to proceed. This report to January Cabinet is a progress report only, pending a return to Cabinet in April 2018.

Recommendation 7 - To approve Enabling Works and the pre-ordering of work/materials where there is clear benefit in doing so, prior to the main contract being signed. The April 2017 Cabinet approved Enabling Works should the Council wish to initiate works where there was a clear benefit in doing so. To date £30,000 has been incurred on the production of a site remediation strategy, which demonstrated that cost savings could be achieved by an alternative approach.

3.5 Two recommendations related to car parking were not supported by the April 2017 Cabinet:

Recommendation 8: To approve the allocation of £500,000 from the existing allocation to the scheme to finance further work on the proposed car park at 1-9 Bath Road.

Recommendation 9: To return to Cabinet with options on the provision of a car park following the work referred to above.

Recommendations 8 and 9 as set out in the report were not endorsed and were to be reviewed in a fresh look at the travel plan with a further report to cabinet as soon as possible. The Project Team has commissioned consultants to produce a report on car parking, which is in draft form, but needs further work on deliverability of options and opportunity cost. The final report will assist the Council in making some strategic decisions, including whether to take forward the site at 1-9 Bath Road.

3 THE BUDGET POSITION

3.1 The funding package has been assembled via a number of sources and this, along with a cost summary, is set out in Exempt Appendix J1 and in the Financial Appendix G. Appendix J1 is exempt as the Council has risk contingencies that are commercially sensitive included within its client side cost total.

3.2 In addition to the above funding, the Council has committed the land required for the development of the Arena to the project. The development costs within the KPMG Value for Money Report, include a £12.5m opportunity cost, based on a high level land valuation representing what value could be achieved if the Council sold the site for an alternative development.

Operator Revised offer

3.3 The Arena Operator tabled a revised financial offer in December 2017, which the Council has provisionally accepted (subject to cabinet approval). This improves the overall financial position on the project and is included in Appendix J1. The operator stated that an offer of £55m had been made. The offer included increased rental, capital, and a proposal for additional rent post Year 25. Although the council was unable to recognise and reconcile this figure, the key financial benefits are reflected

in the KPMG VfM study. The council has not agreed to extend duration of the lease with the operator.

- 3.4 At OSM the operator further improved this position by offering to reinstate the council's profit share provisions in the Agreement for Lease, which the council had previously given up in February 2018. Further work with the operator enabled the potential benefits of these profit share clauses to be modelled as potentially realising up to £4m during the life of the contract. However, as this offer relates to future profit share provisions which cannot be relied upon with any certainty, no income is included in the KPMG report or in the Council's financial model for the project. This approach has been consistent throughout the project.

4 THE CONSTRUCTION CONTRACT AND TARGET COST

- 4.1 This section introduces and summarises the status of the Arena construction contract procurement and presents the Target Cost offer from BGCL.

Construction Contract

- 4.2 The procurement process for the Bristol Arena project is known as two-stage procurement. The first stage was completed when a single preferred contractor was selected from an initial group of five tendering contractors. In the second stage the selected contractor enters the Pre-Construction Services Agreement (PCSA) with the Council and both parties seek to agree a Target Cost for the design and construction of the project.
- 4.3 The Bristol Arena construction contract is an NEC3 ECC Option C Target Cost contract. This contract was selected by the Council as it promotes collaborative working between client and contractor. This is achieved through prescribed management processes that encourage the prompt resolution of issues and a payment mechanism that incentivises common objectives through the sharing of contract outturn cost risk through the "Pain/Gain" payment mechanism. NEC3 contracts are endorsed as best practice in procurement for public use by the UK Government, Crown Commercial Service.
- 4.4 At the end of the project when the Actual Cost of the works is known, the difference between the Target Cost and Actual Cost is divided between the Contractor and the Council using a "Pain/Gain" share. The Council sets aside a contingency to accommodate the cost of any project changes. The size of this contingency will be determined by the risk for the Council associated with the project and the level the Target Cost is set at. The "Pain/Gain" share is set out in the table below and was previously shared with Cabinet in October 2015.

Final Cost Position (Target Price = 100%)	Contractor Share	Employer Share
80% or Less	0% Saving to Contractor	100% Saving to Employer
Over 80% to 90%	25% Saving to Contractor	75% Saving to Employer
Over 90% to 100%	50% Saving to Contractor	50% Saving to Employer
100% to 110%	50% Pain to Contractor	50% Pain to Employer
Over 110% to 120%	75% Pain to Contractor	25% Pain to Employer
Over 120%	100% Pain to Contractor	0% Pain to Employer

4.5 The Pain/Gain mechanism means that if the Actual Cost at the end of the project is greater than the Target Cost, then both parties share that cost. On the other hand, if the Actual cost is less than the Target Cost, then both parties share the savings. The following table includes a set of sensitivities related to the Target Cost of £119m and how they would affect the Council and the Contractor.

% of Target Cost	77.50%	87.50%	100%	112.50%	122.50%
Final construction Cost (£'000)	£92,225,000	£104,125,000	£119,000,000	£133,875,000	£145,775,000
Pain/Gain Share (£'000)	£26,775,000	£14,875,000	£0	£14,875,000	£26,775,000
Buckingham ('000)	£9,668,750	£6,693,750	£0	£8,181,250	£17,850,000

BCC ('000)	£17,106,250	£8,181,250	£0	£6,693,750	£ 8,925,000
Total Payable to BGCL	£101,893,750	£110,818,750	£119,000,000	£125,693,750	£127,925,000

In the case that the Actual Cost exceeds the Target Cost, the Council has set aside a contingency towards this. This is covered in Appendix J1 as it is commercially sensitive. In the Event that the Actual Cost is less than the Target Cost, the Council receives a share of the “gain”, for example in the table above for an Actual Cost of £104m the Council would gain £8,181,000. In addition to this it would not have had to use its contingency set aside for the “pain” element of the contract.

Target Cost

- 4.6 The working relationship between the Council and BGCL has been positive and the initial Target Costs were delivered to the Council in accordance with the PCSA timeline by 20th October 2017.
- 4.7 During the PCSA, BGCL produced two Target Costs for the Arena:
- 1) A Target Cost for the current RIBA Stage 4 Design completed by Populous (£146m) ; and
 - 2) An alternative Target Cost for a value engineered design that delivered the fundamental technical, commercial and statutory requirements of the Arena project, but at lesser cost (£122m).
- 4.8 The alternative Target Cost was then developed during November 2017 and the cost is significantly lower; it satisfies the Council's original requirements in 2013 (see 5.10) for the project however the cost of the project still exceeds the available budget (see Appendix J1).
- 4.9 The Council set out their requirements for the Value Engineering of the current RIBA Stage 4 Arena design in a Value Engineering Brief. For the purposes of this paper, the definition of Value Engineering includes scope reduction and removal. This document ensured key elements of the project were preserved during this cost reduction exercise. The value engineering proposals were required to:
- Maintain the size, shape and 12,000 audience capacity of the Arena;
 - Preserve the existing Arena Operator AfL (Agreement for Lease) and shared BCC / Operator business case;
 - Comply with the existing planning consent, subject to minor changes permitted in accordance with the Town and Country Planning Act 1990 Section 73 process;

- To maintain OJEU compliance (rules governing the current main contractor procurement);
 - Ensure efficiency in both the construction and operation of the Arena; and
 - To ensure all statutory, safety and BCC policy requirements are adhered to.
- 4.10 In response to the Council's Value Engineering Brief, BGCL have reviewed the current project design and sought to achieve significant cost savings through three main value engineering strategies. The strategies addressed the main elements of the Arena where costs could be reduced without compromising the building operation, business case or appearance. These are:
- 1) Re-engineering the Arena external walls, known as the building envelope and façade, whilst maintaining the exterior appearance and performance;
 - 2) Re-designing the Arena Mechanical and Electrical (M&E) systems including the ventilation system to simplify the heating and cooling equipment; and
 - 3) Replacing the building's architectural concrete frame with a more efficient steel frame, reducing construction durations through increased off site fabrication.
- 4.11 In addition to these three main proposals, BGCL identified numerous other alternative materials and products that would meet the Arena performance requirements, but at lesser cost. The compromise in many cases is the aesthetics of the finishes, whilst maintaining durability and quality. One of the impacts of this is the reduction of the BREEAM rating from Excellent to Very Good, and discussions have taken place with the Planning Authority relating to this.
- 4.12 The BGCL Target Cost for the scheme is based on the incorporation of all the proposed value engineering design change proposals. This Target Cost represents the best outcome achievable from this contractor procurement process, whilst working within the Council's Value Engineering Brief.
- 4.13 BGCL believe that the Target Cost can be reduced by a further £8m, and should the project proceed, this will be explored with them. BGCL stated at the OSM meeting that a saving of 5% to 10% was possible. Post OSM, the council and Buckingham have been in discussions over the Target Cost. BCC feel that only £3m of the £8m savings proposed by Buckingham are achievable and consistent with council's objectives and planning. Therefore the council and Buckingham have provisionally agreed a Target Cost of £119m (previously £122m, refer to 4.7) subject to cabinet approval. This has the effect of increasing the surplus on the project after 25 years from £1.3m to £6.55m.
- 4.14 The project team, which includes AECOM as cost consultants, confirms that the provisions set aside in the BGCL Target Cost for risk, inflation and variations to the contract are appropriate for a project of this size and complexity on this site. The AECOM tender report (Exempt Appendix J2) confirms that the project can be delivered within the proposed Target Cost. Albeit low, there is a cost risk to the project if the full savings of the value engineering proposal are not realised and therefore that the cost reduction process is prolonged.
- 4.15 This risk will be mitigated through the following measures:

- Setting a realistic Target Cost with sufficient risk contingency;
 - Development of a complete and robust package of design and works (specification) information prior to entering into the construction contract;
 - Ensuring acceptance and sign off of design information by the Arena Operator prior to entering into the construction contract; and
 - Utilising the services of suitably experienced cost consultants, technical advisors, contract managers and solicitors to support the construction contracting process.
- 4.16 The PCSA can be recommenced on notice from the Council should it wish to continue with the project. Further information is supplied in the Legal appendix.
- 4.17 Should BGCL terminate the PCSA, any replacement contractor would have to be secured through a new procurement process.
- 4.18 Enabling Works that the Council may wish to undertake prior to entering into the main construction contract are included in Appendix I. Cabinet approved this in April 2017. These Enabling Works will be required to meet the 2021 target date for opening the Arena.
- 4.19 The construction contract is made up of the following main elements:
- a) Arena building including furniture, fixtures and equipment (FF&E);
 - b) A service yard to the rear of the Arena;
 - c) Public steps and lift to the west and plaza to the north of the Arena;
 - d) Access roads from the newly constructed Brock's Bridge;
 - e) Public access routes from the A4 Bath Road, including the Southern Access bridge over the railway line for pedestrians and cycles and a widened pavement as far south as the Three Lamps Junction;
 - f) Permanent disabled car parking (50 spaces) and cycle parking on Arena Island;
 - g) All utility service connections, drainage and associated infrastructure;
 - h) Remedial works to the Arena Island perimeter structures including the A4 and River Avon retaining structures and walls; and
 - i) Upgrading and remedial works to the A4 access road to the south west of the site for emergency use.
- 4.20 The construction of the Arena will require offsite construction depots, due to the transfer of part of the Arena Island site to University of Bristol for their new Campus development. This transfer is forecast to take place at the end of 2018, so the land would not be available for use during any of the construction works. The following depot sites are proposed as part of this Cabinet Paper, subject to relevant licences and agreements:
- Former Pest Control Depot plot, this site owned by Homes England, located beside Brock's Bridge is presently being used under licence as the depot for the Construction of the St Phillips footbridge; it is proposed that this licence would be extended to cover the construction of the Arena.
 - A council owned site (for further details please see Exempt Appendix J1)

The Contractor has included costs for the change of compound location from Temple Island to these sites in the Target Cost. There may be costs to the council as a result of the change of site compound, yet to be identified.

- 4.21 The Council's direct costs sit outside of the construction contract but are part of the overall project cost and are set out below (figures can be found in Exempt Appendix J1 and the KPMG unredacted background paper):
- a) The Arena design fees incurred prior to the construction contact (pre-novation);
 - b) Project development costs including the costs associated with the purchase of the Arena Island Site from Homes England, Council's project management and wider consultant project team, studies and reports;
 - c) A water utility connection infrastructure charge;
 - d) The cost of "loose" furniture, fittings and equipment (FF&E) not in the construction contract, but part of the Agreement for Lease with the Arena Operator;
 - e) Community Infrastructure Levy (CIL) payment;
 - f) Transport capital and revenue costs to meet to the requirements of the Arena planning application;
 - g) The 2016 PCSA with Bouygues UK Limited;
 - h) The council's own risk contingencies;
 - i) Interest during construction.
- 4.22 The Council's supply of the land, which has a high level estimated value of £12.5m, has not been included within the direct costs, as this value is an opportunity cost, rather than a direct cost that the Council would need to pay. The actual costs of the purchase of the site that the Arena will be developed on are included as part of the direct costs outlined above.

Verification of the revised scheme

- 4.23 It should be noted that the current proposal maintains the flexibility required by the council in terms of its ability to host a wide number of activities in a variety of seating and standing configurations. In addition the bowl is designed so that the arena can operate in a 5,000 capacity mode.
- 4.24 A number of work streams were carried out prior to cabinet to ensure that the re-designed scheme was robust and deliverable. These include:
- Verification by AECOM of the Value Engineering proposals to ensure they are realistic and that risk and contingencies are addressed sufficiently.
 - Operator support - A workshop took place on 23rd February 2018, attended by the Arena operator, to review the proposed changes to the scheme. The objective was to ensure that the design meets the Facilities Requirements set out in the Agreement for Lease. Overall the operator is supportive, though further detail is required in a number of areas before formal sign off can be achieved. The development of design and works information will be required to provide the level of detail required for the operator to provide the sign off required by BCC prior to entering the Building Contract. A four month period has been allowed in the project programme for this process.

- Planning Authority endorsement - a workshop was organised to review the impact the revised design would have on the existing detailed planning permission. The Planning Consultants to the project have led this process in consultation with the Planning Authority. The view is that amendments can be managed through condition discharge and a Section 73 process, which maintains the existing planning permission.

Social Value outputs

4.25 The Council is agreeing with BGCL an Employment and Skills plan, which details their commitments for working in collaboration with Bristol City Council, On Site Bristol and Job Centre Plus, to maximise recruitment and training opportunities to achieve the following outcomes:

- Recruitment of local people within the Bristol and West of England geographic areas.
- Implementation of the BGCL “Buy Local – use Local” Policy to ensure that local suppliers are engaged in the Arena construction and supported to develop their workforce via the recruitment of apprentices / graduates and general training for all.
- Targeted recruitment for the long-term unemployed and young people ‘Not in Education, Employment or Training’ (NEET) through Job Centre Plus and Onsite Bristol.
- Training and apprenticeships for local people, with a focus on training to increase their opportunity for long-term employment.
- Graduate placements offered for new job starts.
- To offer work experience placements during the construction of Bristol Arena.
- To arrange educational visits for local educational establishments.
- Undertake activities, events or contacts to support job and training opportunities for Care Leavers and young people in care.
- Undertake activities, events or contacts to support job and training opportunities for Individuals from groups traditionally underrepresented in the construction sector e.g. women, people from BME communities, people with learning difficulties and/or disabilities.

Targets for inclusion in the Employment and Skills Plan are being developed with BGCL, whose commitments include:

No.	BGCL Commitment
1	Minimum of 50% of the labour force from West of England
2	Minimum of 25% of the labour force from Bristol (BS1 to BS16)
3	48 Construction apprenticeships
4	50 work placements
5	10 graduate placements offered for new job starts
6	250 person weeks of construction training
7	3 Engagement events or initiatives per month of construction covering: <ul style="list-style-type: none"> • Pupil interactions with Arena Construction • Job and training opportunities for Care Leavers and young people in care.

	<ul style="list-style-type: none"> • Recruitment for the long-term unemployed and young people Not in Education, Employment or Training' (NEET) • Job and training opportunities for Individuals from groups traditionally underrepresented in the construction sector e.g. women, people from BME communities, people with learning difficulties and/or disabilities
8	1 Supply chain training/support initiative per month of construction.

The measures will be incorporated as obligations within the NEC3 Building Contract and detailed in full within in the Employment and Skills Plan submitted for discharge of condition 16 of planning permission 15/06069/F, which states “a scheme for an employment and skills programme shall be submitted to and approved by the Local Planning Authority.”

- 4.26 At OSM BGCL put forward a Social Value offer to the council, which officers have cross-reference against the employment and skills plan to ensure all the benefits are captured. The Social Value offer is the same as that in the Employment and Skills Plan, however it provides more of a detailed breakdown of the Social Value elements than are currently set out in the Employment and Skills Plan.

Construction Contract - Next Steps from 4th September 2018

- 4.27 Up until 4th September (cabinet decision) the Project Team on the Temple Island project has been unable to commit to project delivery pending the outcome of this Cabinet paper. It has been possible though to plan ahead. In order to progress with the scheme, prior to signing the main building contract a number of work streams will need to be progressed, as set out below:
- a) Council to approve the alteration of the current Arena RIBA Stage 4 Technical Design in line with the BGCL Value Engineering proposals to take forward the Project outlined in the £119m Target Cost;
 - b) Confirm or secure the range of funding sources necessary to close the affordability gap on the project;
 - c) Lift the PCSA suspension to resume the PCSA works, negotiate the Target Cost for the alternative value engineered scheme and proceed to contract close on the construction contract;
 - d) Continue to review the extent of the Value Engineering and risk allocations with a view to improving the Target Cost position;
 - e) Carry out Enabling Works where advantageous to do so;
 - f) Continue to review the opportunities for savings and economies across the project;
 - g) Submit planning condition discharge applications and if required a Section 73 application under the Town and Country Planning Act 1990, to the planning authority to make necessary but non fundamental changes to the consented Arena design;
 - h) Contract Management and Resourcing - A resources plan has been prepared and costed for the next stage of the project and is ready for implementation. It includes proposals for the contract management of the building contract by a consultant team. This cost is included in the overall project cost;
 - i) Design Development approach - The contractor is proposing changes to the design team, which the Project Team have accepted in principle subject to the changes being on a like for like basis, with no change to the protections provided to the

Council and Operator. A limited amount of design work will be done before contract close, and the project team will agree with the contractor robust Works Information to preserve the quality of the design going forward;

- j) Arisings - To achieve sustainability and cost benefits the project proposes to utilise 10,000m³ of inert crushed concrete from the former post office sorting building on Cattle Market Road (CMR) demolition works for fill and creation of the piling mat on the Arena Island site. In addition, to use 7000m³ of material excavated from the Arena works as fill for the basement on the CMR site. The contractor included these assumptions within their Target Cost offer, and any alteration of this position could result in cost and vehicle movement increases for the project;
- k) The Council entered a Framework Asset Protection Agreement with Network Rail, under which approvals for the construction phase of the project will be managed. In addition an Overbridge Agreement is required with Network Rail to build the A4 Southern Access over the railway line at the rear of the site. Network Rail has provided a Business Clearance Certificate and Letter of Comfort whilst the Overbridge Agreement is secured;
- l) Agreement for Lease - a Deed of Variation to the Agreement for Lease with the Operator will be necessary to update some of the milestones to reflect the revised programme and improved financial offer from the Operator.

Potential Contract Revision

- 4.28 Sections 4.1 to 4.6 of this paper describe the council's approach to the type of Building Contract and use of the NEC 3 Option C Target Cost. The Contractor procurement has now been progressing for over two years, and during that time the project has developed and the economic environment has changed. The council is reviewing whether or not the pain/gain mechanism could be altered to de-risk the project, whilst avoiding procurement risk. Discussions are taking place with Buckingham Group.

5 VALUE FOR MONEY (VfM) STUDY FOR AN ARENA AT TEMPLE QUARTER

- 5.1 KPMG were appointed in September 2017 to undertake a VfM study for the Bristol Arena project.
- 5.2 The Executive Summary of KPMG's report is included as Appendix I. The KPMG Background Report has been included as an exempt Appendix (J3), due to containing commercially sensitive information, including from the Agreement for Lease with Arena Island Limited and Target Cost information from BGCL. The key findings are still relevant as an evidence base for a Cabinet decision on the project.

Key findings

- 5.3 The key findings are set out in the KPMG Summary Report (Appendix I). It should be noted that these conclusions should not be viewed in isolation. The full KPMG VfM reports should be viewed in full 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 into account when interpreting the results. ***Please also note that the KPMG VfM study has not been updated to reflect the reduced Target Cost of £119m. The information set out in***

this section will differ from that elsewhere in this report related to Target and Capital Cost.

- 5.4 KPMG estimates the Project has a positive BCR, although lower than the 2016 estimate: Over a 25 year period there is an estimated BCR of 3.2:1. This suggests a strong economic case for the Arena at Temple Island.
- 5.5 KPMG estimates the Arena could yield net additional economic output and employment: In net terms, the direct, indirect and induced impact of the operation of the Arena, wider spending of attendees and catalytic development could generate Net Present Value (NPV) GVA of approximately £387.1m and up to 660 Full Time Equivalent (FTE) jobs in the West of England over 25 years.
- 5.6 KPMG notes that positive social impacts may also arise from enhancing Bristol's cultural offer: The Arena will fill an existing gap in Bristol's cultural offering, and would regenerate a currently derelict site in Bristol. The Arena could have widespread benefits in terms of improving the standard of living in Bristol, improving access to culture and arts and improving community cohesion. Social impacts are also linked to the developer's Employment and Skills Plan¹ (targets to be finalised) and any community engagement activities the Arena Operator chooses to put in place².
- 5.7 KPMG notes the strategic case has weakened since the Outline and Full Business Cases were drafted: Since the Full Business Case ("FBC") for the Arena was put forward, BCC has further developed its strategic plans for the City and BTQEZ, and wider public priorities have changed. Furthermore, the University of Bristol's purchase of the remainder of the Temple Island site and the Post Office Sorting Depot site has weakened the likely catalytic impacts of the Arena and, therefore, the strategic case of the project. The strategic rationale for public sector intervention would also be weakened if YTL's private sector led and financed proposition for an arena proves deliverable and would generate a similar or better BCR.
- 5.8 KPMG notes that the projected development cost exceeds BCC approved budget: BCC has received a Target Cost estimate from Buckingham of £122.1m that, once added to BCC's own costs of £34.2m³, give a total estimated cost (excluding land contribution and car parking) to develop the Arena of £156.3m, exceeding the approved budget of £123.5m⁴ by £32.8m. Buckingham has been appointed following a two stage tender process, meaning the actual cost may differ from the Target Cost as subcontractor packages are agreed. The risk of actual cost differing from Target Cost is shared between BCC and Buckingham, although BCC has made prudent contingency allowances for BCC risk that follows professional advice. The risk sharing mechanism is described further in KPMG's Background document report.

¹ Buckingham Group Contracting Limited (2017) Employment and Skills Plan (ESP) for Bristol Arena.(revised March 2018)

² KPMG note that there are no contractual obligations on the Arena Operator, at present, to deliver such activities.

³ BCC costs include client side, project management costs, and risk contingencies. These are costs are set out in further detail in the confidential Background Document.

⁴ Previous BCC budgets for the Arena did not take account of anticipated car parking costs

5.9 KPMG notes that significant public funding support is needed to deliver the Arena: The total development cost of the Arena is estimated at £188.6m, comprising the £156.3m set out above, £16.2m to develop the required car parking facilities for the Arena, a valuation of the land contributed of £12.5m and interest during construction of £3.6m. This will be met by BCC funding contributions of £38.4m (including the land contributed) and net operating cash flow during construction of £5.2m with the remaining £145.0m met through borrowing from the Public Works Loan Board (“PWLB”). The LEP will meet the costs of interest and repayment of £53.0m of the PWLB loans (£65.6m over an 18 year period⁵) with interest and repayment of the remaining £92.0m met from net income from the Arena and car parks. After taking into account the BCC and LEP funding contributions that do not require repayment, the Arena will make a positive financial return, before financing costs, of 2.82% nominal over 25 years in nominal terms. KPMG states that this level of nominal financial return is lower than its estimate of what a commercial investor would require for an investment of this risk (KPMG use a proxy estimate of 6.20%) and below the HM Treasury Green Book threshold for public sector investment appraisal of 5.57% (3.50% real rate adjusted for BCC’s 2.00% inflation assumption). Before any public sector funding contributions the Arena is estimated to deliver a financial return of -0.67% over 25 years. This willingness to invest at a sub-commercial return represents direct financial support. KPMG calculate the value of this support in NPV terms as £36.9m using HM Treasury Green Book rates and £42.1m using KPMG’s estimate of a project specific rate of return of 6.2%⁶.

Figure 1: Estimate of public funding support

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

Source: BCC, KPMG analysis

5.10 KPMG notes that arenas in the UK typically require public subsidy and are not independently profitable at commercial rates of return.

5.11 KPMG notes there is no ongoing revenue cost for the Council: The financial return from the Arena of 2.82% over 25 years, after taking into account the committed LEP funding of £53.0m⁷ and £38.4m of earmarked BCC capital and land contributions, is marginally more than BCC’s assumed long term cost of borrowing under PWLB of 2.80%. This means that the annual operating surpluses from the Arena can meet the cost of the interest and repayment of PWLB debt over 25 years, generating an additional operating surplus of £1.3m in nominal terms over 25 years under current forecasts. With appropriate profiling of debt repayments, there is no ongoing

⁵ The £65.6m LEP contribution comprises funding support of £53.0m plus meeting £12.6m of interest costs due to the contribution being provided over an 18 year period.

⁶ Further detail on the basis for the KPMG estimate of project specific rate of return is contained within the Background Document.

⁷ LEP funding comprised of £53m in agreed funding, plus associated interest costs associated with PWLB loans, estimated at £12.6m per BCC financial forecasts. Total assumed funding is therefore £65.6m

revenue cost for the Council⁸. KPMG note there is very little contingency, margin or profit for BCC. Should gilt rates increase prior to executing the PWLB debt, or additional BCC costs be incurred, an operating deficit could arise.

5.12 KPMG concludes that key risks are backed off to subcontractors but risk for BCC remains: The contractual structure backs off key construction and operating risks to subcontractors, mitigating the Council's risk. In KPMG's view the key commercial risks to BCC are as follows:

- Design risk: KPMG note that the Buckingham Target Cost estimate follows a value engineering exercise to reduce construction cost. This has led to design changes meaning that there is currently no detailed design that matches the revised Buckingham offer. This suggests a greater degree of risk in the Target Cost number than KPMG would ordinarily anticipate at this stage of a project.
- Income and operating risk post year 25: The Arena will be leased to Arena Island Limited ('AIL'), a joint venture between SMG Europe Holdings Ltd and Live Nation UK Ltd for 25 years post completion, with AIL taking the risk of income, operating and maintaining the Arena for that period. £59.5m of PWLB debt (net of MRP reserves) is estimated to still be outstanding at the end of the AIL contract, which would either need to be repaid through sale of the Arena or ongoing income from that point. BCC's estimate of market value of the asset at year 26 is 111% of the debt outstanding. These levels of loan to value are high compared to KPMG's estimate of what a commercial investor would require and given the high level of uncertainty of forecasting 25 years into the future. The future valuation of the Arena is calculated based on the present value of future net income from the asset. This is a reasonable approach, but KPMG note that a valuation of the Arena in 25 years is highly sensitive to changes in operating assumptions over that period.
- Counterparty risk: KPMG state that the passing of financial risk to Buckingham Group and AIL relies on the credit standing of those counterparties relative to their obligations. KPMG has reviewed the financial positions of both parties in the Background Document based on information available from the latest published annual accounts.
- Buckingham is a medium sized UK based contractor, with over £400m in turnover, £62.5m of cash and limited borrowing based on its 2016 audited accounts. This is a reasonable balance sheet position for a company of this size. KPMG understands from BCC that Buckingham continued to grow in 2017, with its audited figures for 2017, due to be released shortly, expected to show increases in both its revenues, profit before tax and cash position. Given the challenges in the UK construction market, the role of the BCC project team in monitoring construction performance and spend takes greater importance.

⁸ KPMG note that in the financial model that BCC provided, the repayment profile of the PWLB loan is shown such that there is a small funding shortfall in years 1-14 and 20-25 of the Arena's operation. KPMG's conclusion is based on the fact that this doesn't have to be the case, if PWLB repayments are sculpted around the receipt of cash from the LEP and Arena Operator. The actual repayment profile of PWLB loans should be considered as part of BCC's overall treasury management strategy and not on a stand-alone project basis.

- AIL is a joint venture between SMG and Live Nation. SMG and Live Nation are two market leading companies in the live entertainment industry, with Live Nation being listed on the NYSE and having a Moody's credit rating of Ba3. Whilst this is not investment grade, overall we consider the risks associated with the operator income as being low or at least mitigated to the extent reasonably deliverable.

- 5.13 KPMG notes that Aecom's work concludes that BCC has taken a reasonable approach to assessing the construction cost and risk of the project, albeit the nature of the contract with a pain gain share mechanism means there is still the potential for cost overruns: Aecom's view is that the build can be achieved within the Target Cost envelope of £122.1m, recommending a further client side contingency of £4-5m to cover any BCC risks under the contract. BCC has provided additional contingency beyond the recommended Aecom level, suggesting a degree of prudence. BCC's maximum potential exposure under the pain/gain share mechanism is £9.15m.
- 5.14 KPMG conclude that the link to wider City vision could be further developed to strengthen the case for the Arena and its proposed location: Looking at the benefits of any major infrastructure or public sector capital project in isolation has limitations, as the economic and social strength of a place relies as much on how different projects complement and reinforce each other as part of an overall vision and plan providing a package of public interventions towards an overall aim. In this case, the Arena's role as part of a wider City Plan and vision for development could be strengthened.

Car Parking

- 5.15 The Council is required to provide 200 car parking spaces for use by Arena Island Limited (the appointed Bristol Arena Operator) as a facility requirement of the Agreement for Lease. Planning consent was secured for these spaces to be temporarily located on the Arena Island site; however following the sale of this portion of land in 2017, an alternative location for these spaces is required.
- 5.16 An options appraisal for the Bristol Temple Quarter Enterprise Zone (BTQEZ), produced by Arup in November 2013, demonstrated that 1-9 Bath Road (known as 'the Kwik Fit site') was the most suitable site for a new car park. To date, only initial feasibility studies have been carried out.
- 5.17 Following the 4th April 2017 Cabinet, Council officers were asked to explore whether additional car parking in the city was needed as part of the Transport Assessment for the Arena project. A study was therefore commissioned to look at this as well as any potential synergies with the Council's city-wide car parking strategy, which was due for review. The report would also inform the approach to be taken on 1-9 Bath Road. The parking strategy is not due to commence until 2019 due to other pressures and the need to agree the Bristol Transport Strategy (BTS) first as the parking strategy will be a sub-section of the BTS.
- 5.18 The high level business cases included taking into account the costs of capital, borrowing, construction and operation and land purchase. The consultant study by CH2M looked at three potential extra parking options, after a review of several previous related studies. The possible scenarios were reviewed looking at sites

within a 20 minutes' walk from the Arena. The Temple Gate car park is being upgraded as part of the council's planned maintenance programme, with 250 additional spaces available through changes to the use of the existing car park. The potential options took this growth into account.

- 5.19 Overall, the report demonstrates that building additional car parking can bring positive benefits to support the Bristol Arena project (which varies according to the option selected) in terms of providing parking solutions for Arena users. It should be noted that car park income cannot be used to directly fund the Arena. It can be used to fund transport expenditure. So in this case it could fund the build costs of the car parks and the other transport infrastructure being built by the Arena (e.g. the A4 Southern Access etc.). Any other income would be used to pay off other transport debts (most likely Metrobus) removing debts from the Council's portfolio. The report does not recommend an increased level of car parking fees for any new car parks, and to be clear it should be noted that there is no intention to raise car parking fees so as to increase revenue. Any income is incidental to the proper application of the relevant policies and can be used for transport purposes.
- 5.20 The report does confirm that the optimum position for the Council would be to take forward a 500 space car park within an appropriate distance of the Arena together with a new car park at 1-9 Bath Road (the latter would remove the need to locate Arena corporate package users at Temple Gate). Officers will take forward further feasibility work related to this project before returning to Cabinet with a worked up proposal. One option is to build on the existing car park at Portwall Lane, though no decision has yet been made and other opportunities may also arise.

The Site at 1-9 Bath Road

- 5.21 The Council's intention to build a car park (of up to 500 spaces) was set out in the March 2016 Cabinet paper, and is shown in the latest update of the Spatial Framework. This project will need to be financed separately from the Arena project and not delivered via the Arena main construction contract.
- 5.22 Feasibility studies for 1-9 Bath Road are complete and show that a 500 space car park could be delivered on the site with payback expected within 20 years. There could be an opportunity to partner with stakeholders in terms of capital funding, delivery, or allocation of spaces via permits. The current view is that it would not be possible to make this car park available to the public on Arena event days. The current proposal is to lease 300 spaces to Network Rail (and provide the operator their 200 spaces as per the Agreement for Lease), which presents opportunities to reduce allocated car park space in and around the station, meaning more high value development can be built there.
- 5.23 The car park needs to be open on day 1 of Arena opening in (2021). The car park does not have planning permission and formal Cabinet approval will be sought for the project when it is sufficiently developed.

- 5.24 The delivery of a car park near the city centre is contrary to Council planning policy on parking, which discourages city centre and BTQEZ car parking, and this would need to be reconciled with the requirement to provide car parking for the Arena.
- 5.25 An option would be to sell the site to a private developer who would then build and operate the car park. This would reduce the initial capital outlay for the project from the Council, but make it very unlikely that the Council would then operate the car park. It could make it more difficult for the Council to control the build project (which has to be ready when the Arena opens), and the Council would have less influence over how the car park is used and risk not meeting its obligations to the Operator. This option has not yet been discounted.
- 5.26 If the Arena project is supported at this Cabinet, further feasibility work will be carried out to develop the project further. One option could be a smaller scale car park of only 200 spaces which would require a lower level of capital funding and risk (but little or no rental income), but meet its obligations to the Operator. If the Arena project is not supported, further consideration will need to be given on whether to take the site forward. A car park could still be the outcome of this consideration.

Car Parking Finances

- 5.27 An estimated £16.2m would be required to finance the capital construction of the two car parks. This is an indicative figure based on initial estimates. High level financial modelling has taken place for the two projects, taking into account the capital required to build the car parks, interest payments, delivery and operational costs etc over 25 years. No residual value has been allocated to them at that point. The additional work at Temple Gate will be funded separately from this project.
- 5.28 There are a number of different ways of financing, procuring, building and operating car parks and the best way to achieve this needs further consideration. Depending on the delivery route, the full capital sums may not be needed. A further report to cabinet will follow including recommendations for the delivery model.
- 5.29 Under these proposals the council could retain control of car park operation and pricing and enhance the existing car parking offer available to Arena users. It would also provide capacity for future growth in or near to Temple Quarter.

CONSULTATION AND SCRUTINY INPUT

- 6 A written update was submitted to OSMB on 7th December 2017, with agreement to return to OSMB on 22nd January 2018.
- 7 On the 22nd January 2018, the Overview and Scrutiny Management Board considered a report detailing the progress made against the recommendations in the previous report to Cabinet in April 2017. (This was an update item only; no decisions were to be taken at the

Cabinet meeting on 23rd January 2018.) The minutes of this OSMB meeting are available here <https://democracy.bristol.gov.uk/ieListDocuments.aspx?Cid=165&Mid=2984&Ver=4>

- 8 On the 8th March 2018, OSMB were provided with a further update report focussing on the KPMG 'Value for Money' report and a briefing from BCC Planning Officers relating to the 'Sequential Test' to be applied to any alternative project proposal. The minutes of this OSMB meeting are available here

<https://democracy.bristol.gov.uk/ieListDocuments.aspx?Cid=165&Mid=2756&Ver=4>

- 8.1 On the 12th April 2018, a report (for information only) was presented to OSMB with the following recommendation:

"That the Board notes that OSMB has requested the value for money report be available for the Board as soon as is possible to enable meaningful scrutiny activity on the pending decision on the arena".

On 11th June 2018, OSMB members were issued with the KPMG Value for Money final reports as commissioned by BCC as follows:

- VfM Studies summary
- VfM Study of the Temple Island Arena
- VfM Study of the Temple Island Arena background papers – Redacted - (members were also allowed access to a hard copy of the unredacted version, which is commercially sensitive)
- VfM Study of the Temple Island Alternative Development
- VfM Study for Filton Arena report

Meetings were held on the 18th, 20th and 22nd June when OSMB members had the opportunity to discuss the reports with the authors in detail. OSMB produced their conclusions in the form of a report on 25th June 2018 which is attached as Appendix C.

Internal consultation

- 8.2 This report was reviewed by the Corporate Leadership Board on 20th March 2018 and again on 29th May 2018. The Mayor is portfolio holder for the project and has been involved throughout the process.

External consultation

- 8.3 No external consultation has taken place, however there has been opportunity for comments and questions to be submitted in advance of Scrutiny, Full Council and Cabinet meetings. All consultation required has taken place as part of previous cabinet decisions.

9 RISK MANAGEMENT AND ASSESSMENT

9.1 Risk on the project is managed via a number of risk registers. The general risk register (Redacted) for the project is included as Appendix D. In addition health and safety risks are captured in another register and construction risks are managed via the contractor's NEC risk register. The Project Team reviews the general risk register monthly and a risk workshop has taken place every six months up until this year.

9.2 Figure 1 outlines the 4 Red risks on the project team's risk register associated with the present status of the project;

FIGURE 1
The risks associated with going ahead with the Bristol Arena project:

No.	RISK Threat to achievement of the key objectives of the report	INHERENT RISK (Before controls)		RISK CONTROL MEASURES Mitigation (i.e. controls) and Evaluation (i.e. effectiveness of	CURRENT RISK (After controls)		RISK OWNER
		Probability	Impact		Probability	Impact	
		1	Risk 306: the council does not fund the project and an alternative scheme for Temple Island is approved by Cabinet instead of the Arena.		VERY HIGH	VERY HIGH	
2	Risk 279: Cost implications of programme delay due to extended BCC decision making periods.	VERY HIGH	VERY HIGH	Continue to escalate the consequence of delay via the internal governance route (Project Board / Corporate Leadership Board meetings). Ensure we present comprehensive reports to the Board to detail and update on the project status.	MEDIUM	HIGH	PROJECT DIRECTOR
3	Risk 313: Planning Permission-detailed planning permission expires in April 2019. A fresh planning application would be	HIGH	HIGH	Escalate risk to Project Board (August 2018). Engage with contractor to discharge pre-commencement conditions post cabinet	MEDIUM	HIGH	PROJECT DIRECTOR

	required if the relevant pre-commencement conditions are not discharged and a material start on site achieved prior to this date.			meeting on 4.09.18			
4	Risk 285: Risk that the Buckingham led VE does not achieve sufficient cost reduction to meet the budget position agreed at September cabinet (if the project is approved)	MEDIUM	VERY HIGH	Ensure the VE design is suitably developed to enable Operator to accept and 'sign off' without caveat prior to target setting and BCC/Operator requirements are 'back to back' with Buckingham scope. Delegate cost decision making to BCC Project Director with full Project Board confidence and availability to resolve any internal BCC cost / design challenges. Widen the scope of cost reduction items if it looks like targets will not be met.	LOW	VERY HIGH	PROJECT DIRECTOR

Risk Management Approach

- 9.3 The BGCL Target Cost has a contract risk register, which allocates a £10m sum to cover all the project risks, split between Employer and Contractor risks. The Project Team (and its consultants) considers this sum sufficient for this stage of the project. The amount forms part of the Target Cost. The council will work with the contractor to reduce this risk allocation to the benefit of both parties.
- 9.4 In addition to this, an allocation has been made to cover exposure to the council from the Pain/Gain share mechanism in the contract. This is commercially sensitive and included in Appendix J1. Please note that there is a possibility that a gain share outcome will be achieved where the Council would benefit from the contract coming in under the target sum and as well as not utilising this Pain/Gain Mechanism contingency would benefit from a share in gain achieved (See Section 4).
- 9.5 Finally, the council will also need to provide a sum of money to cover any changes to the contract or contractor claims during the construction period. AECOM briefed the Project Board on this in March 2018, and the Board agreed an appropriate sum, which has been included in the VfM Study report and also the financial model for the project. KPMG's assessment of BCC contingency allowances concluded that 'BCC has

provided additional contingency beyond the recommended Aecom level, suggesting a degree of prudence'. As per 9.4 above, the amount remains commercially sensitive and as such is included in Exempt Appendix J1.

- 9.6 Cabinet should note the total combined risk allocations mentioned in 9.3, 9.4, and 9.5 as a proportion of the Target Cost for the project given its status and the work in tendering to date carried out by the contractor.

Contamination and Remediation

- 9.7 The site has a history of former contaminative land uses including railway yards, engine sheds and a large refuelling depot. The Arena Planning Permission 15/06069/F includes Conditions 12 and 13 which relate to contamination and remediation. The site has been subject to previous remediation to a level designed to be suitable for hard covered mixed-use commercial and residential end-use comprising soil washing (2007 to 2008) and free phase oil recovery by pump and treat (2008 to 2010).
- 9.8 Construction of both the arena and the access and supply road will involve piling through made ground and Tidal Flat Deposits and into the underlying bedrock. Piling has the potential to mobilise residual contamination present in the deeper ground, which was not fully removed from previous pump and treat works. BGCL are required under the building contract to take all reasonable steps to prevent this historic contamination migrating into the River Avon.
- 9.9 For this purpose and discharge of planning conditions 12 and 13, BGCL have appointed Roundhay Environmental Consulting Ltd to prepare a Groundwater Quantitative Risk Assessment and Remediation Strategy for the site.
- 9.10 Proposals include use of CFA piling to cause minimal ground disturbance and creation of a permeable barrier along the river edge consisting of ground injected oxygen release compound to enhance dissolved phase hydrocarbon degradation for the purposes of preventing migration of historic contamination from the Site into the River Avon.
- 9.11 The Council has elected to retain responsibility for the cost risk of any additional remediation measures required if those approved when implemented are not successful in preventing the historic contamination from the site being mobilised into the River Avon. An Employer's Contingency sum has been allowed for this and other risks that sit with BCC under the building contract.
- 9.12 The risk of contractor default is covered in the KPMG report. This is a standard construction risk. The council considers BGCL to be a low financial risk. The council has Bonds to the value of £7m to offer protection in the event of contractor default.

10 OPTIONS APPRAISAL

- 10.1 At this stage there are four options open to the council:

- A. Continue with the project as recommended by this report;
- B. Continue the project, based on a new Contractor procurement;
- C. Continue the project, based on a different scheme on the same site;
- D. Stop the project and proceed with an alternative proposal for Temple Island that does not involve an arena.

Option A: Continue with the project as recommended by this report

10.2 This is the option set out in this paper, to proceed with an Arena at Temple Island.

Option B: Continue the project, based on a new contractor procurement

10.3 The Council could re-procure the current project to seek to and achieve additional cost savings and risk reduction via a competitive tender process. Under this option the Council would need to undertake the value engineering design work without the support of a construction contractor, the Council would also need to review the best form of contract to use prior to re-engaging with the market. Re-procurement would require soft market testing with contractors, creating further delay to the project. There is no evidence that the funding gap could be bridged via a re-procurement. Therefore this option is **not** recommended.

Option C: Continue the project, based on a different scheme on the same site

10.4 The Council could decide to deliver a smaller scale project on the site. This would be problematic if the decision was to try and use the existing procurement exercises (i.e. for the Operator, contractor and design team) to deliver a different project. It is unlikely that the existing procurement exercise for the contractor could be utilised (the OJEU Notice is prescriptive and there is limited scope to deviate from it). If the Council was to start with a fresh brief this would take a number of years to develop and it would be necessary to review the Outline Business Case stage and submit a fresh planning application. It is likely that a large proportion of the approx. £12.5m spend to date would be abortive under this option.

10.5 The size, shape, internal seating / stage configuration, commercial offer and 12,000 capacity of the Arena were all determined through an extensive and thorough research and procurement process including soft market testing with the all the main arena operators. These parameters support the Arena Business Case that was successfully tendered to secure an Operator and a venue capable of attracting world class international entertainment, music and sporting events to Bristol. It is therefore difficult to see the potential benefits of a smaller scale project for Bristol and clearly any reduction in size would lead to a proportionate reduction in rental income revenue. The impact of reduced rental streams, inflation and project development costs would reduce any benefit. This option is therefore **not** recommended.

D. Stop the project and proceed with an alternative proposal for Temple Island that does not involve an arena.

10.6 This proposal is covered separately in Appendix A2.

10.7 The current procurement process to build an Arena at Temple Island would come to an end. The Council would need to close down its existing contractual relationships with the building contractor, operator, design team and wider consultant team. The internal council project team would be disbanded and allocated to other projects. A summary of contract status is provided below and also in Exempt Appendix J4:

- a) The PCSA with BGCL is presently suspended and has been extended twice, now to 18th September 2018. Further detail is supplied in the Legal Appendix.
- b) The condition period in the Agreement for Lease with Arena Island Limited (the Operator) has been extended until 7 October 2018. Further detail is supplied in the Legal Appendix.
- c) There is no financial impact of ending contracts with other consultants, including the Populous-led Bristol Arena Design Team.

10.8 Planning Risk - The current planning permission expires in April 2019 and if the project ends then the planning permission will expire at the beginning of April next year.

10.9 The benefit of a large proportion of the £12.5m of Arena development work already completed would essentially be abortive. The Operator rental generated by the project would be lost. Bristol and the sub-region would lose the opportunity of delivering a key cultural facility and the economic benefits to the city created by this project would not be realised.

10.10 There could be a reputational impact on Bristol City Council.

10.11 This option is **not** recommended if cabinet are to support Option A.

11 FURTHER INFORMATION FROM KEY OFFICERS

Public Sector Equality Duties

11.1 An Equalities Impact Assessment has been carried out previously on the project. A revised EqlA is included as Appendix E.

Eco Impact Assessment

11.2 An Eco Impact Assessment has been carried out previously on the project. A revised EIA is included as Appendix F.

Finance, Resource & Legal Implications

11.3 Financial and Legal comments are provided in separate Appendices.

Land / Property Implications

- 11.4 Whichever of the schemes are approved, the adjacent new Temple Quarter University of Bristol (UoB) Campus will remain a continuing and unaffected project. To ensure UoB's project proceeds both on Cattle Market Road and Arena Island, negotiations are taking place currently with Homes England (HE) and the previous owners of the Cattle Market Road Site. The negotiations with the previous owners have resulted in an in principle settlement, which is currently being legally documented. The negotiations with HE relate to the release of Overage and Options agreements. Negotiations are complete with Homes England and legal documents are being agreed with them. This should result in the completion of acquiring rights of access across the Brock's Bridge, which should then ensure that the Council is in full control of access to Temple Island. The council will adopt the Bridge.
- 11.5 Please refer to Section 4.21 regarding the provision of site compounds for the project.
- 11.6 It is important to confirm to Cabinet that Homes England benefitted from an Option to purchase back the development land earmarked for the Arena on Temple Island if development had not proceeded by a specific date. Through the negotiations with Homes England regarding UoB's proposed development on Arena Island, it has been ascertained and agreed with Homes England, that the longstop date permitting Homes England to buy back the specific area proposed for the Arena development land has now expired. Homes England can therefore not opt to buy back the Arena development land if further delay takes place in the delivery of the Arena or any alternative development. Cabinet are therefore able to consider all recommendations set out in this report without the possibility of Homes England able to exercise their buy back option on the land currently set aside for the Arena development. It is worth noting however that the proposed UoB development land on Arena Island does still have an existing buy back option for the benefit of Homes England which has not yet expired. The Council has negotiated the removal or extension of this option with Homes England to ensure the UoB development can be expedited and legal documentation is nearing completion.

Advice given by: Joe Jeffrey (Service Manager, Property Development)

Date: 21.08.18