

Avonmouth Severnside Enterprise Area Infrastructure Phase 2

1. The full business case (Appendix A) for this project was produced in July 2018 and it estimated the present value of economic benefits of this scheme are £3.9bn net GVA over 20 years. This was based on a construction stage impact of £59.7m, operational stage impact (safeguarding existing activities) £40.7m and (unlocking/safeguarding future/recent development impact £2.8bn.
2. The scheme is a joint implementation project between Bristol City Council (BCC), South Gloucestershire Council (SGC) and the Environment Agency (EA), with South Gloucester Council acting as Accountable Body. Both BCC & SGC will be contributing £31.95m each from borrowing repaid via the EDF rates pool (It is anticipated that the repayments will happen after each stage is completed, which is expected to be annually), while DEFRA indicates that it will be providing £36.6m from two different funding sources the Local Levy Fund and Flood Defence Grant in Aid (The latter coming on stream in 2021, although a “letter of comfort” has been received from the EA. Note that £4m from the Local Levy fund has been confirmed.
3. The ASEA Flood Relief Scheme (Phase 2) is included in the Council’s capital programme, as approved by Full Council on the 20th February 2019. This reflects the total Council contribution, funded entirely through the Economic Development Fund, and timing of expenditure assumed during the budget process. Approval to the scheme will now require a reprofiling of the phasing of expenditure over the current medium term financial planning period. This is set out in table 1 below;

Table 1- Reprofiling of approved capital programme

GR03 - Economy Development – ASEA 2 Flood Defences	2019/20	2020/21	2021/22	2022/23	2023/24	Total
	£000	£000	£000	£000	£000	£000
Approved Capital Programme (Feb 2019)	4,731	4,469	5,289	4,444	13,018	31,951
Revised Spend Profile	2,589	12,608	11,006	4,967	781	31,951
Capital Financing - Economic Development Fund (EDF)	- 2,589	- 12,608	- 11,006	- 4,967	- 781	- 31,951

4. The confirmed project funding envelope (subject to this Cabinet approval) will be the total EDF funding of £63.9m from BCC & SGC, and the confirmed DEFRA local levy grant of £4m, totalling £67.9m. This is to cover the design and build and maintenance costs plus all contingencies. The funding for most of this scheme was originally anticipated to be later in the overall EDF programme, with £11.9m from 2020/21, £10m from 2028/29, and a further £10m from available from 2032/33. Table 2 shows the indicative reprofiling of the £84.95m EDF funding originally allocated to the Temple Arena and ASEA schemes. If the recommendations in this report are approved, to finance the scheme will require bringing forward the £20m assumed to be later in the programme. For this to happen, £20m from the Council’s flagship release scheme (Temple Island Arena) must be reprofiled back in the Enterprise Area programme accordingly so that the net impact from overall EDF financing is neutral.

Original EDF Profile											
Scheme	Note	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2028/29	2032/33	TOTAL PE Allocation
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Flagship Release - Arena		53.000									53.000
Avonmouth/Severnside Flood Mitigation	2			5.000	4.150				10.000	10.000	29.150
Avonmouth/Severnside Ecology	2	1.400		1.400							2.800
		54.400	0.000	6.400	4.150	0.000	0.000	0.000	10.000	10.000	84.950
"Proposed" - New EDF profile											
Scheme	Note	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2028/29	2032/33	TOTAL PE Allocation
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Avonmouth/Severnside Ecology & Flood Mitigation Development costs	Reprofiled	0.118	2.471	12.608	11.006	4.967	0.781				31.950
Reprofiled Temple Arena/ASEA £20m	Reprofiled		0.860	4.495	14.026	11.302	0.317	2.000	10.000	10.000	53.000
		0.118	3.331	17.103	25.032	16.268	1.098	2.000	10.000	10.000	84.950

- The ASEA scheme estimated contract costs (which are still subject to contract award) are included in Appendix J. Given the current value of the contract compared to the funding being requested, the EA funding provides sufficient contingency budget. That said it is worth noting that the nature of the contract is a "target cost contract" and that the contractor will be aiming to deliver the project at a lower cost in order to benefit in gain share resulting from efficiencies.
- The project currently has programme entry approval in the West of England LEP Economic Development Fund, but in its original phasing and repayment profile. This report seeks approval to bring the scheme forward by substituting this scheme's profile in part with the Temple Arena scheme profile. Schemes funded by the EDF programme are expected to facilitate the generation of sufficient business rates uplift within a pre-specified period to ensure repayment of borrowing undertaken by the local authority.
- At this stage it is not confirmed when EDF payments will accrue, based on agreed trigger points. There will therefore be an up-front borrowing cost of financing the project. Current financial modelling assumptions, based on an annual reimbursement, indicate that over the period of the project that these will be minimal. However there is a risk that if an alternative mechanism is determined then costs to the Council, over the period of the project could be between £200k and £1.6m (the latter if based on reimbursement commencing from practical completion.) However these costs are likely to be recouped over the borrowing period.
- A detailed financial appraisal of Business rate uplift over the past 5 years was submitted to the WoE Joint Committee and Investment Panel on 28th September 2018. The West of England Business Rates Pooling Board met on 20th December 2018 to assess the growth of the EDF from pooled business rates and its overall capacity to repay the current and future profiled schemes in the programme, and it would appear that the pool is delivering the expected business rates uplift.
- An extract from the financial appraisal identified the following financial position and projections below:

Table 1

	5 years	10 years
	to	to
	2018/19	2023/24
BCC EDF Scheme's Actual/projected costs (Borrowing)	3.471	80.280
Business Rates Uplift (Pessimistic Case):		
Avonmouth	30.353	67.507

Temple Qtrs	6.317	30.507
Filton	0.006	0.084
	36.676	98.098

The projected spend from the EDF programme to the end of 2018/19 is £3.47m against the originally estimated spend of £64.25m. However, business rates uplift is expected to total £36.7m for the first 5 years of the programme. Likewise over the 10 years to 2023/24 the expected borrowing is £80.3m and the anticipated business rates uplift is estimated as £98.1m.

- 10.** The above suggests that the pool should have the capacity to fund the ASEA and other schemes identified within the EDF programme (provided the current trend continues).
- 11.** The recent tender evaluations have provided estimated costs for the scheme. Details have been provided in Appendix J. Cabinet is also being asked to approve the procurement route adopted.
- 12.** Recommendation 2 is for approval of up to £31.95m as the Council's contribution towards the overall scheme. Overall joint funding approved is £67.9m. Whilst at this stage it is anticipated that the main scheme can be contained within the overall sum, there are financial risks of cost overruns, and in the absence as yet of confirmed funding from Defra of the Flood Relief Grant, those risks remain jointly with the constituent authorities. Given this it is vital that effective mitigations and robust contract management arrangements are put in place to ensure it is contained within the approved project sum.