KPMG

Value for Money assessment of the proposed Temple Island development

KPMG report for Bristol City Council

27 January 2020

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1 Executive summary

1.1 About the study

In September 2018 Bristol City Council's Cabinet made a decision to pursue proposals for a mixed use development on Temple Island, comprising residential, office and retail space, plus a proposed conference centre and hotel. Temple Island is a long-standing vacant site located on the edge of Bristol city centre, within the Bristol Temple Quarter Enterprise Zone (BTQEZ) and in close proximity to Temple Meads Station and the University of Bristol's new Temple Quarter Enterprise Campus development. The latest available details for the proposed Temple Island development are set out in Section 3.2 of this report.

Bristol City Council ("BCC" or "the Council") has developed the plans for the site, including entering in to discussions with Legal & General ("L&G") in relation to an arrangement with the Council in order to bring forward the regeneration of the Temple Island site.

To inform a forthcoming Council Cabinet decision in relation to the plans and entering in to Heads of Terms (HoTs) for the development agreement with L&G, BCC has commissioned KPMG to undertake an independent study reviewing the value for money (VFM) of the current Temple Island development plans. This follows KPMG VFM reviews, conducted in 2017-2018, of proposals for developments on the Temple Island site as they stood at that time (both the previously proposed Temple Island arena and the alternative mixed-use development proposals)[1].

The scope of our VFM review was determined by BCC (see Section 2.2 of our report for further details of the scope) and has been conducted in line with the principles contained in HM Treasury's Green Book[2]. It focuses on the strategic, economic, commercial and financial cases for the BCC proposed development only, and does not include an appraisal of different options for the Temple Island site or alternative projects in which the public sector funding could be invested.

Our assessment draws on information provided to us by BCC, both in the form of written documentation and orally in meetings, in the period up to 17 January 2020 and relevant external sources of information, including official statistics published by the Office for National Statistics (ONS) and data and guidance from Homes England[3] (HE). We have not verified the reliability or accuracy of any information obtained in the course of our work, other than where agreed in our Contract with BCC and where stated in this report.

Our key findings are summarised below. Please note that this Executive Summary should be read in conjunction with the full KPMG report.

1.2 Key findings: The strategic case for the Temple Island development proposals

As part of our assessment of the strategic case, we have considered the strategic fit of the proposed developments on Temple Island, specifically the extent to which they could contribute towards the

[1] KPMG produced the following relevant reports: Temple Island Arena: Value for Money Assessment – Background document (June 2018); Temple Island Arena: Value for Money Assessment – Background document (June 2018); Assessment of alternative development plans for the Temple Island site (June 2018)
[2] HM Treasury (2018) The Green Book: Central Government Guidance on Appraisal and Evaluation.
[3] Formerly the Homes and Communi ies Agency (HCA).

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achievement of BCC's stated objectives for the Temple Island site, the BTQEZ, Bristol city and the West of England as a whole.

Similar to our 2018 assessment of the alternative development plans for the Temple Island site, we consider that the latest proposed developments could contribute towards the achievement of specific key commitments set out by BCC in its Corporate Strategy (2018-2023)[4] as well as the objectives for the BTEQZ and the 2019 West of England Local Industrial Strategy[5] (WELIS). In particular, as we assess in detail in Section 3, it could contribute toward the following aims:

— the delivery of new housing, including affordable housing, in Bristol, albeit over a longer timeframe than the 2020 target period currently detailed in the BCC Corporate Strategy;

— the development of a diverse economy, linked to the creation of new employment space and associated jobs. We note that there is no evidence at present that it would also contribute toward the BCC aim of making quality work experience and apprenticeships available to every young person, however, as this will depend on the occupants of the development providing these opportunities;

— reducing social and economic isolation and helping connect people to people, people to jobs, and people to opportunity, also linked to the provision of new employment space and job creation, increased economic activity in Bristol, and opening up access to the site;

— fostering innovation, through the types of businesses that BCC envisages occupying the office developments on the site and through the collaboration that it considers the site will promote, across occupiers of different sizes of the commercial developments and with the adjacent facilities, including the University's Enterprise Campus, Engine Shed and Bristol's science incubator – Unit DX; and

— the BTQEZ vision6 of the zone becoming a new city quarter, providing opportunities for work, study, housing and leisure for the local population, through the development providing employment opportunities and residential dwellings, as well as attracting additional visitors to the site for the conference centre and hotel facilities.

It should be noted, however, that the achievement of these objectives will need to be kept under review as the plans for the Temple Island development progress.

As detailed in Section 3.4 of our report, we consider that there remains a strategic rationale for some degree of public sector funding to bring forward the development of Temple Island, on the basis of market failure, specifically the positive externalities in the form of economic benefits for the city and region if the development proceeds (as assessed in the economic case analysis set out in Section 5.1). The Temple Island site has remained derelict and vacant for over 20 years and there is evidence to suggest that enabling work is required to bring forward commercial development.

1.3 Key findings: The commercial case for the Temple Island development proposals

KPMG has reviewed the Heads of Terms between BCC and L&G[7] for the land transaction at Temple Island and associated commercial and financial information. .

[4] Bristol City Council (2018) Corporate Strategy 2018 – 2023. Available at: https://www.bristol.gov.uk/policies-plans-strategies/corporate-strategy
[5] West of England Local Industrial Strategy, HM Government (2019)
[6] https://www.bristoltemplequarter.com/about/vision/
7 A further revised Heads of Terms Principles & Background (9 January 2020)

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The land will be transacted across two phases.

Phase 1 consists of:

— 500 residential units across three blocks (on plots 1-3 and plot 4 if required subject to massing and detailed design);

— Two office buildings of net internal area of 100,000 sq. ft. and 80,000 sq. ft., also on separate plots (plots 6 & 7).

Phase 2 of the project will consist of:

— Another residential block (on plot 5);

— A conference centre and a hotel or any other use as may be mutually agreed (on plots 8-10).

The transaction is a conditional sale of a long leasehold interest with a leaseback of part of the site, whereby: BCC undertakes enabling works totalling £32m which BCC intends to fund through grant funding, L&G obtains outline planning permission, BCC grants a 250 year long leasehold interest in the Phase 1 site, L&G delivers a residential and office scheme, and BCC leases back one of the office buildings, which it intends to sublet to a commercial occupier.

BCC will receive land premiums for each plot, subject to a valuation mechanism, rental income (profit rent) from the office building, and is entitled to purchase the office building for £1 after 40 years.

L&G is also required to obtain outline planning permission for a Phase 2 element of the scheme, and it has a right during a 5 year period to draw down a 250 year lease on the Phase 2 land.

Some of the key issues we have identified are:

— There is no minimum land value protection for the agreed land premium. BCC has indicated such a provision is not required as the regeneration and strategic objectives are paramount and outweigh the need to secure a minimum land value.

— BCC has taken appropriate advice on from the net initial yield [redacted] from CBRE who conclude the pricing of the lease is appropriate given the low levels of developer profit being charged by L&G, the specific circumstances of the wider development and local market conditions.

— Pre-emption rights to L&G for Phase 2 development could potentially affect the larger scheme should there be a delay/inability of L&G to take up the development.

— Under certain conditions, BCC will be liable to reimburse L&G for a failure to obtain planning consent, which seems to be beyond BCC's control.

— Scope and risk allocation for enabling works and the associated funding risks which is important to finalise to crystallise BCC's costs.

— Other key areas that remain to be fully resolved include the functioning and funding of the estate management company, termination provisions and associated claims for cost and the cost of finance applied to the BCC office lease.

These issues are set out in detail Section 4 of our report.

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The scheme has the potential to unlock a significant regeneration opportunity and generate financial returns to BCC, subject to positive conclusion of the ongoing commercial negotiations between the parties and the achievement of BCC's expectations for the office building, for example in terms of occupancy rates and rental income.

1.4 Key findings: The financial case for the Temple Island development proposals

BCC's financial transactions fall into the following three categories:

1. **Obligation to complete enabling works**

    a. BCC will undertake part of the agreed enabling works at the Temple Island site with a cost estimated at c£32m including allowance for risk and inflation. BCC expects to recover these costs in full through Economic Development Fund (EDF) funding.

Figure 1: BCC's financial transactions

	Year							
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Total
COSTS								
Sub Total	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Inflation	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Total Costs	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	**£31,784,129**

Source: BCC

2. **Commitment to office building**

    a. BCC will also enter into a financial obligation to lease a Grade A 100,000 sqft office building. The lease liability is estimated at [redacted] per annum (gross), indexed at RPI, payable to L&G. This Council has taken advice from CBRE, property advisors, regarding the net initial yield used to calculate this rental who have concluded it is appropriate.8

    b. Based on CBRE's advice BCC intends to sublease the office building at an estimated [redacted] per annum, resulting in a profit rent of [redacted] per annum

3. **Desire to get best value for land**

    a. BCC are looking to secure an off market land transaction, that is to be underpinned by a Section 233 Red Book Valuation. As a local authority, BCC is obligated to demonstrate and achieve 'best consideration' for the land premium.

    b. As part of the land agreement, BCC will benefit from a profit share arrangement for Office 2 (Plot 7). For developing the building, L&G will accrue an annual [redacted] with the remaining balance to be equally shared between BCC and L&G

There are still a number of unknowns that may affect the Temple Island land value and therefore BCC's ability to demonstrate best value/ consideration. We have identified the following key issues:

8 Email from CBRE to BCC dated 13 January 2020 (12.54pm)

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— Should the transaction progress, BCC will need to engage Homes England to agree the overage payable on the existing title.

— As part of agreeing a land premium, BCC are yet to consider a suitable overage to carry with the proceeding title that may result in an uplift share additional value payable to BCC.

— The land premium will be underpinned by a Section 233 RICS Valuation. In October 2019, CBRE produced a land value comparison document, to which detailed a substantial difference in land value between BCC and L&G. BCC has since advised CBRE and Avison Young (L&G property advisors) have agreed a land premium [redacted] for the Temple Island site.[9] There is still a risk of divergence of opinion between the respective advisors. Having said that, agreement now is a good indication that principles are aligned.

These issues could impact on the overall assessment of 'best consideration' of the Temple Island site. Full details are set out in Section 4.1 of our report.

1.5 Key findings: The economic case for the Temple Island development proposals

We have assessed the potential economic impacts associated with the proposed mixed use development on the Temple Island site, drawing on the development plans and broader information provided by BCC, including floorspace estimates, estimated construction costs and estimated visitor numbers/ attendees for the conference facility. We also used publicly available data produced by HE[10] and the ONS in our analysis. Full details of sources used are referenced through the report and set out in Appendix 1.

Our analysis focuses on the potential economic impacts associated with:

— the construction of the proposed development;

— the ongoing operation of the proposed commercial development on the site (including the office and retail space, the hotel and the conference centre), split by phase; and

— the potential impacts related to the spending of increased visitors to Bristol associated with the conference centre and hotel facility[11].

Specifically we assess the potential direct, indirect and induced economic impacts[12] of the proposed development in terms of Gross Value Added (GVA) and Full Time Equivalent (FTE)[13] employment, both for the construction and ongoing operation of the development. KPMG has also undertaken a high level assessment of business rate income expected to be generated by the site, based on data and information provided by BCC.

[9] Email from CBRE to BCC dated 14 January 2020 (12.18pm)
[10] Homes England, formerly the Homes and Community Agency (HCA).
[11] We note that while the residential developments would also generate economic impacts through the residents' additional spending with local businesses, resulting from the increase in the local population, HE guidance states that where a development is mixed use this additional spending should not be captured separately. It considers that only the economic output (GVA and employment) associated with the commercial aspects of the development should be estimated and not impacts from any residential aspects, to avoid the double counting of impacts in the analysis.
[12] Direct economic impacts are the first round effect where the demand creates economic activity. Indirect impacts are the effects generated through the activity and output supported in the UK based supply chain as a result of procurement of inputs of goods and services (both for construction and ongoing operations). Induced impacts are mul iplier effects that arise in the UK economy as a result of direct employees and employees in the UK supply chain spending a proportion of their wages in the UK. This spending generates additional economic activity for those businesses from which these employees buy goods and services and in these businesses' own wider supply chains.
[13] This adjusts part time or temporary staff into an annual full-time equivalent based on the proportion of full-time hours worked over a year.

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Our analysis is conducted in line with the HM Treasury Green Book principles, including taking account of additionality, applying optimism bias and presenting our net economic impact results in Net Present Value (NPV) terms in 2020 prices, applying a social time preference rate (STPR) discount rate of 3.5%.

A summary of the estimated net GVA impacts (in Net Present Value (NPV) terms), net employment (in FTE terms) and BCC estimated business rate income is shown in Figure 2 below[14].

Figure 2: Net GVA (in NPV terms), employment (in FTEs) and business rate income associated with the proposed alternative development of Temple Island, on an annual basis and over 25 years

		25 year totals		
		Net GVA	**Net employment**	**Business rates**
West of England *(including Bristol)*	[redacted]	[redacted]	[redacted]	[redacted]
	Phase 1 - Operation	£616.1m	1,182	£14.7m
	Phase 2 - Operation	£137.0m	274	£6.3m
	Phase 2 - Visitor spending	£24.7m	59	-
	Total[15]	[redacted]	[redacted]	**£21.0m**
Bristol	[redacted]	[redacted]	[redacted]	-
	Phase 1 - Operation	£606.8m	1,168	£14.7m
	Phase 2 - Operation	£135.0m	271	£6.3m
	Phase 2 – Visitor spending	£24.3m	59	-
	Total[16]	[redacted]	[redacted]	**£21.0m**

Source: KPMG analysis

It should be noted that there remains some degree of uncertainty attached to our economic impact estimates given the current stage of the development plans and the extent to which detailed information and data was available to us from BCC. In particular, there is greater uncertainty attached to the Phase 2 developments given that Phase 2 is conditional on the completion of Phase 1 and on further agreement between BCC and L&G. If any of the assumptions made in our analysis change and/ or more detailed information and evidence becomes available, it would be advisable for BCC to consider whether the analysis of net impacts can be updated to reflect the latest position.

It should also be noted that our quantitative economic impact analysis excludes a range of impacts that it was not possible to assess at this stage due to either a lack of data and information needed to be able to robustly estimate them, or due to their assessment being outside the scope of our study. Specifically, the analysis does not take account of:

— construction impacts associated with Phase 2 of the development;

— the potential impacts generated through the sale or letting of residential units developed on the site; and

[14] We have presented our analysis in net terms, meaning that our analysis of GVA and employment take into account the 'additionality' of impacts. We have adjusted our GVA and employment estimates for leakage and displacement. Our assumptions of additionality are set out in Section 4.1 below.
[15] Values may not sum to the reported total due to rounding.
[16] Ibid.

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— any wider economic impacts that may arise, in terms of developments catalysed through the Temple Island site regeneration, (assessed qualitatively in our study based on views provided by BCC).

As detailed in Section 7 of our report, these impacts have the potential to increase the economic impact and resultant VFM of the proposed development of the Temple Island site, both through the GVA that would be generated through the economic activity associated with these factors and through the additional employment that would be created.

In addition, our study does not assess any wider social and environmental impacts that the development may generate. We suggest that BCC assesses these impacts as the scheme advances. Full details of our analytical approach and the detailed results are set out in Section 5.1 of the report.

1.6 Summary conclusions: The overall value for money of the Temple Island development proposals

Economic VFM

To assess the VFM of the project in economic terms, we have used the following core measures of VFM:

— The economic net present public value (NPPV)[17] of the project

— The public sector contribution to costs

— The net benefit to public sector cost ratio (BCR)

— The public sector cost per job[18]

Given that, by nature, construction impacts are temporary and are generated over a relatively short time frame, these impacts are often excluded from the assessment of VFM. We have adopted this approach and excluded these impacts from our estimates of the economic NPV of the project, BCR and cost per job estimates.

The results of our assessment of the economic VFM of the project are summarised in Figure 3 below.

Figure 3: Estimated NPPV, public sector contribution to costs, BCR and public sector cost per job of the proposed development

	25 year totals Values in NPV terms
Total Net Benefits	£801.2m
Total Public Sector Costs[19]	£32.0m
NPPV	£772.5m
BCR	27.9:1

[17] The NPPV is defined as the Present Value of net benefits less the Present Value of net costs
[18] According to guidance from Homes England (Calculating Cost per job: Best Practice Note, 2015, 3rd Edition) the cost per job should be es imated as the total gross public sector expenditure against the total net additional jobs (excluding any construction jobs).
[19] The total estimated public cost for the Temple Island redevelopment is £32.0m. However this cost estimate includes an estimate for inflation. HM Treasury Green Book guidance states that inflation should be not be accounted for when estimating the value for money of a project in NPV terms. For the purposes of es imating the BCR, we have therefore excluded inflation from the total public cost estimate and use a figure of £28.8m.

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BCR – Phase 1 only	22.0:1
Public sector cost per job	£18,975

Source: KPMG analysis

The high and positive BCR indicates that the net economic benefits of the scheme are expected to considerably outweigh the public sector cost of bringing it forward. And the positive NPPV indicates that there is expected to be an overall gain in public value as a result of the proposed development.

Achievement of these returns on the public sector spending, however, depends on the development proceeding as planned, including in terms of scale and type of development, mix of uses, timing of the development and occupancy rates achieved. It also depends on the assumptions made in our analysis holding, for example in terms of additionality.

Sensitivity analysis has been conducted to test the robustness of the economic VFM metrics to such issues. The results of this analysis, set out in Section 7.1.2, suggests that the proposed development would continue to deliver VFM if a number of key assumptions were to change. For example, all else being equal, net benefits would need to fall by 96.4%, net public sector costs would need to increase twenty-sevenfold, or overall additionality factors[20] would need to increase by 54.8%, for the BCR to fall to 1:1 (i.e. for the benefits to be no greater than the public sector costs).

Wider factors affecting the VFM of the proposed development

We note that a VFM assessment extends beyond the economic measures of VFM. The strategic, financial and commercial cases for the proposals also need to be taken in to account to reflect wider aspects of the project, including the rationale for intervention and strategic fit, affordability, deliverability and the expected level of risk.

A number of key issues have been identified in relation to the commercial and financial cases for the proposed development. These also should be considered when assessing the VFM of the scheme. Specifically, there are still a number of key commercial terms that are yet to be finalised between BCC and L&G, which can influence public sector costs / revenues and hence impact VFM:

— **Planning and termination.** [redacted] BCC may need to impose a cap to mitigate its financial exposure to this risk.

— **Cost of enabling works.** We understand BCC is finalising the scope and cost allocation for enabling works. We recommend that a cap is agreed for these costs as well as for potential termination costs (as highlighted above) to mitigate the risk of public sector cost increase impacting VFM.

— **Overage.** [redacted] BCC may wish to consider including a form of overage. [redacted] An overage arrangement could contribute positively to public sector revenues from the transaction.

— **Level of land premium.** As noted in the commercial analysis, a fully defined plot valuation mechanism with an agreed base plot value would provide greater certainty to BCC of [redacted]

[20] The overall additionality factor combines the additionality levels assumed for deadweight, displacement and leakage.

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[redacted] adversely impacting VFM.

— **Profit rent levels.** Should rental income achieved from sub tenants of office 1 be lower than anticipated, this would adversely impact public sector revenue from the transaction, impacting VFM.

Comparison of the VFM of the proposed development to VFM benchmarks

There is no publicly available detailed HM Treasury guidance on BCR thresholds for public sector spending, including on capital infrastructure projects, and what level of BCR could be considered as providing good VFM. Instead, the VFM of a project/ proposal is generally assessed relative to the alternative projects/ proposals in which the public funding could be invested.

As noted above, conducting an assessment of different options for the Temple Island site was not part of our scope of work. Nor were we asked to assess different ways in which the public sector funding could be spent. Therefore, when considering the VFM of the Temple Island proposed development, we advise that BCC should consider the relative BCR of this scheme to any alternatives that could be brought forward with the funding.

In terms of assessing the absolute level of the VFM metrics for the proposed Temple Island scheme, we note that the Department for Transport (DFT) published a Value for Money Framework in 2015, setting out "high-level guidance on the Department's approach to considering value for money in decision-making about new proposals"[21]. As the proposed Temple Island development does not have significant transport spending associated with it, the DFT VFM categorisation would not be directly applicable. However, it can be noted that if it was used, the scheme proposed by BCC would be classified as delivering very high VFM.

In terms of the public sector cost per job, our analysis suggests that this would be an estimated £18,975. Home England (formerly Homes and Communities agency) produced guidance in 2015 on the best practice approach to estimating the cost per job[22]. This guidance includes cost per job benchmarks, based on historic evaluation evidence. Our analysis indicates that the Temple Island development would deliver an estimated public sector cost per net job that is substantially lower than HE's "low" classification of gross cost per net additional job. This is in line with it having a very high BCR (as per DFT benchmarks) and being a scheme aimed at regeneration including development of commercial space for job creation.

Comparison to 2018 VFM assessment of the proposed Temple Island scheme

As well as assessing the absolute value of the VFM metrics for the proposed Temple Island, in Section 7.2.2, we have also compared these to the VFM metrics estimated for the scheme in 2018 when the proposed development was at an earlier stage of planning.

Our current assessment indicates that the quantified economic VFM of the scheme has increased since 2018, from an estimated BCR of 23.0:1 to a BCR of 27.9:1 (over a 25 year period). However, the quantified NPPV of the scheme has decreased from an estimated £837.2m to £772.5m (over the 25 year period).

The changes to the VFM metrics between the 2018 assessment and 2019 assessment are driven by a number of changes to inputs to our analysis and to the proposed scheme, including a decrease in the estimated net public sector costs and changes to the phasing and timing over which the developed floorspace is planned to be brought forward. Our 2019 assessment also includes an estimate of the

[21] Department for Transport, Value for Money Framework (2015). Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/630704/value-for-money-framework.pdf.
[22] HCA (2015) Calculating cost per job: Best practice note.

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impacts from visitor spending, which were unquantified in the 2018 assessment due to a lack of data and information at that time.

Achieving VFM

As part of the scope of work, we were asked by BCC to identify, where appropriate, any actions BCC might seek to undertake to maintain or improve the VFM that can be obtained from the scheme, including further and future assessments of its VFM. This assessment is set out in Section 7.3 of our report and throughout other sections of the report we highlight key factors affecting the costs and benefits of the proposed scheme and where there is a need for BCC to take actions to keep these under review or to maximise VFM.

In particular, we note that achievement of the estimated returns on the public sector spending depends on the development proceeding as planned, including in terms of scale and type of development, mix of uses, timing of the development, occupancy rates achieved and the estimated public sector costs and revenues (from business rates and rental income). It is also predicated on the deliverability of the scheme and the resolution of the key issues noted above in relation to the commercial and financial cases.

If, as the development plans for Temple Island progress, more data and information becomes available, or the inputs used in our assessment differ substantially from those provided to KPMG by BCC in the period up to 17 January 2020, we recommend that the VFM assessment is revisited as the conclusions may differ from those set out in this report.

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2 About the study

2.1 Development proposals for the Temple Island site

The Temple Island site is located on the edge of Bristol city centre, in close proximity to Temple Meads Station and the University of Bristol's new Temple Quarter Enterprise Campus development. It sits within the Bristol Temple Quarter Enterprise Zone (BTQEZ).

Having once being home to a diesel train depot, the site has remained vacant for over 20 years.

Various development proposals have been put forward for the site over the time it has been vacant, including the plans for a public arena which were taken to an advanced stage by Bristol City Council ("BCC" or "the Council"). However, following consideration of the changing circumstances surrounding the arena development plans[23], in September 2018 BCC's Cabinet decided to halt the plans for an arena on Temple Island and proceed with an alternative development on its remaining landholdings on the site.

The Cabinet's decision was also informed by consideration of the value for money (VFM) of the arena, both in absolute terms and in comparison to an alternative development that could be brought forward on the Temple Island site. KPMG conducted these VFM reviews[24], including the assessment of the alternative use plans for the Temple Island site, as developed by BCC as at June 2018. The assessment found that the alternative use plans had the potential to deliver good value for money (with a benefit to cost ratio (BCR) of approximately 23.0:1 and economic NPV of £837.2m over a 25 year period[25]). However, the KPMG review noted that the plans were at a very early stage and further work would need to be undertaken by BCC to assess whether the development plans would be commercially viable for the private sector to deliver and to confirm the required level of public sector funding.

Since the initial VFM reviews and the Cabinet decision to proceed with an alternative development on Temple Island, BCC has moved forward with the scheme. In particular BCC has progressed discussions with Legal & General (L&G) in relation to entering an arrangement with the Council in order to bring forward the regeneration of the Temple Island site.

When issuing the Invitation to Tender for this new VFM assessment, BCC indicated in its tender documents that it considered the discussions to be "well advanced" and the proposed HoTs for the development agreement with L&G would be taken to a forthcoming Cabinet Meeting.

Details of the proposed development are included in Section 3.2.

2.2 Scope of work

To inform any Council Cabinet decision in relation the HoTs and whether to continue to pursue the proposed development plans for the Temple Island site and enter in to an agreement with L&G, BCC considered that the VFM case for the proposals needed to be examined. In BCC's view this would

[23] The changed circumstances specifically included proposals by a private developer to take forward an arena on a site in north Bristol, the sale of part of the Temple Island site to the University of Bristol for student residences, and the costs of the proposal which had increased significantly.
[24] KPMG produced the following relevant reports: Temple Island Arena: Value for Money Assessment – Background document (June 2018); Temple Island Arena: Value for Money Assessment – Background document (June 2018); Assessment of alternative development plans for the Temple Island site (June 2018).
[25] These figures are in NPV terms (based on applying a 3.5% discount rate) and at the West of England level. They exclude any construction impacts, wider social impacts, catalytic impacts, impacts generated hrough the sale or letting of residential units, any spending associated with visitors to a potential conference centre and hotel that were to be included in the Temple Island development plan.

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provide a review of whether the benefits of the scheme represent good value for taxpayers and residents of Bristol and to identify whether there are any measures could be taken to ensure that VFM is maximised.

Therefore, KPMG was commissioned, through a competitive tendering process, to produce an independent updated VFM assessment of BCC's proposals for development of the remainder of its landholdings on Temple Island. The tender documentation stipulated that this should be carried out in line with principles contained in HM Treasury's Green Book.[26]

In particular our study covers the following main areas:

— Identification of the economic outputs of the development and an assessment of the associated quantitative and qualitative impacts.

— A review and assessment of the strategic, economic, financial and commercial cases for the development and the likely VFM to the public purse to be obtained from the scheme.

— Identification, where appropriate, of any actions BCC might seek to undertake to maintain or improve the VFM that can be obtained from the scheme, including further and future assessments of its value for money.

— Identification of where further information will be required before a full, detailed and HM Treasury Green Book compliant assessment of the scheme can be made.

— An assessment of the likely impacts of the scheme in comparison to available benchmarks for similar schemes nationally and the previous assessment of the potential VFM of this scheme carried out by KPMG in 2018.

Our work draws on information provided to us by BCC, both in the form of written documentation and orally in meetings in the period up to 17 January 2020. Specifically we were provided with the following information - at the date shown in brackets:

— A suite of appraisals provided for commercial and residential sites featuring in Phase I of the development (11 November 2019);

— A timeline showing the phasing of Phase 1 of the development (11 November 2019);

— The Heads of Terms Principles & Background of the development (11 November 2019);

— A draft of the Project Strategy Review for the development produced by AECOM (11 November 2019);

— A draft of the Temple Island vision (15 November 2019);

— A strategic case for the hotel and conference centre of Phase 2 (15 November 2019);

— An draft employment land study for BCC produced by JLL (18 November 2019);

— A review of Business Rates carried out by Amion Consulting (18 November 2019);

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

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— Reviews of the Bristol office market by Market Monitor, JLL, Lambert Smith Hampton and Savills (18 November 2019);

— Additional details on vacancy and projected occupation uptake (20 November 2019);

— Additional details on the breakdown of the residential blocks (20 November 2019);

— Additional information on housing provision (20 November 2019);

— The assumptions to make with respect to office space occupancy rates (20 November 2019);

— An excel file on the costs of the development (22 November 2019);

— The Contract for the Sale of Freehold Land Subject to Leases (28 November 2019);

— An Overage calculation excel file (28 November 2019);

— Temple Island Risk Register (28 November 2019);

— A revised Temple Island Master Programme (28 November 2019);

— The assumptions to make with respect to and business rates calculations, hotel availability, hotel size and conference centre capacity (28 November 2019);

— A Temple Island Master Cash Flow excel file (28 November 2019);

— Commentary on the Phase 2 development quanta (29 November 2019);

— An appraisals comparison schedule (10 December 2019);

— Estimations of office space rent profits (10 December 2019);

— A Temple Island Cost Summary Note (13 December 2019);

— The Temple Island Project Budget profile (13 December 2019);

— Land value estimations (13 December 2019);

— A capital programme (13 December 2019);

— A draft agreement forming the basis of the EDF (13 December 2019);

— EDF fund scheme allocations (13 December 2019);

— A draft of advice for the development from BCC Legal Services (8 January 2020);

— Legal opinion of the development from Womble Bond Dickinson LLP (8 January 2020);

— Revised Heads of Terms Principles & Background (8 January 2020);

— A further revised Heads of Terms Principles & Background (9 January 2020);

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— Temple Island Risk Register (9 January 2019);

— Email from CBRE to BCC dated 13 January 2020 (12.54pm) (14 January 2020);

— Email from CBRE to BCC dated 14 January 2020 (12.18pm), (14 January 2020);

— Revised Temple Island Spending Profile (17 January 2020).

Additionally, for the purposes of our study we sourced data and information from a number of external public sources. This includes official statistics published by the Office for National Statistics (ONS), data and guidance from Homes England[27] (HE) and existing research, reports, analysis, business cases and economic literature from a range of sources. References to the materials used to compile our report can be found throughout the document.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than where agreed in our Contract with BCC and where stated in this report.

[27] Formerly the Homes and Communities Agency (HCA).

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3 Strategic case assessment for the proposed Temple Island development

3.1 Our approach to assessing the strategic case

As detailed in the HM Treasury Guide to Developing the Project Business Case (2018)[28], the purpose of the strategic dimension of the business case is to make the case for change and to demonstrate how it provides strategic fit.

In particular, the strategic case should:

— provide the context for the project and its objectives and demonstrate that the project has a good fit with the wider objectives of the local area and aligns to existing strategic priorities, visions and plans;

— detail the rationale for intervention, with any market failure arguments clearly articulated to determine the extent to which there is a need for the public sector to intervene in the market and what would happen in the absence of this intervention; and

— set out a clear understanding of the drivers and objectives for the spending proposal, including the expected outcomes and identify the key strategic dependencies, constraints and risks. To develop the strategic case it is also important that there is a clear understanding of the existing arrangements (i.e. the Business As Usual (BAU) situation), the potential scope of the project and the potential benefits, risks, constraints and dependencies associated with the proposal.

While a business case for the Temple Island proposed developments has not been developed by BCC at this stage, to assess the strategic case we have reviewed the documentation provided to us by BCC that specifically relates to the requirements for the strategic case. We set out our assessment of the strength of the strategic case, based on this this review, in the remainder of this section.

3.2 Overview of proposals, timings and funding requirements

3.2.1 Details of the proposed development

As noted above, when assessing the strategic case for a new development, it is important to consider both the existing arrangements (in this case the developments, or lack thereof, on the Temple Island site) and the proposed scope of the project in terms of the scale of the development, the expected types of use, the timeframe over which the development is expected to be brought forward and the public sector costs associated with the development.

According to the Temple Island vision document prepared by BCC, “the geographical and physical constraints of the site have presented [the opportunity to] facilitate the development of a campus-type development on the island whereby a well-balanced range of uses will support its own defined and

[28] Guide to developing the Project Business Case, HM Treasury (2018). Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/749086/Project_Business_Case_2018.pdf).

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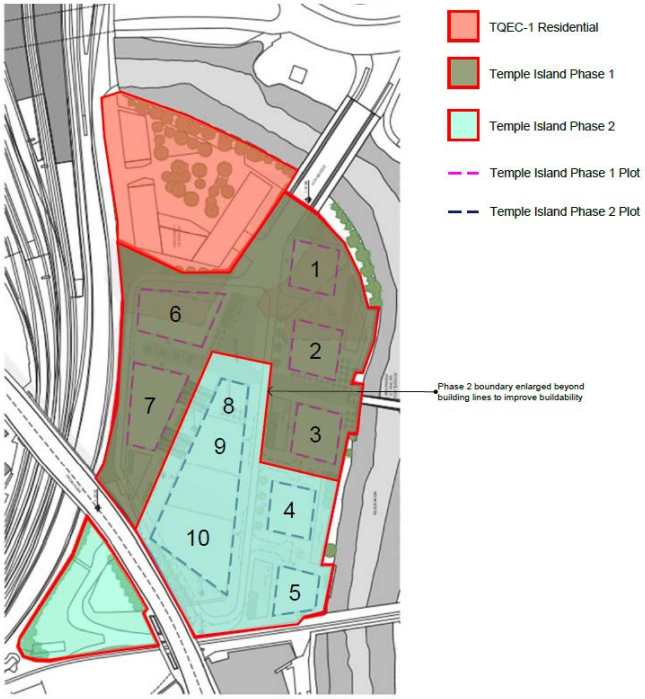
inclusive community". The development will also "[be] located within a short walk of the city centre and ideally located for access to Bristol Temple Meads station".[29]

It is proposed that the Temple Island site development will be a mixed use development of residential, office and retail space. In addition, it is intended that the site will include a 1,250 person capacity conference centre and 4- or 5-star hotel. Sections 3.2.2 and 6.3 provide greater detail of the floorspace and units related to the residential and the commercial aspects of the development, respectively.

From the documentation reviewed as part of our study, we understand that the Temple Island site plans include the development of the following buildings in two phases. Subject to the completion of Phase 1, development options for Phase 2 will be brought forward and agreed between BCC and L&G. Phase 2 is dependent on the completion of Phase 1 and the future agreement of the parties involved (BCC and L&G), with L&G benefiting from a right of first refusal – further details of the conditions relating to Phase 2 being brought forward, and associated risks, are included in Section 3.2.

Figure 4 provides a provisional graphic visualisation of the development issued by AECOM in its Project Strategy Review of Temple Island[30].

Figure 4: Graphic visualisation of Temple Island development and its phasing delineation



Source: Bristol City Council: Temple Island Project Strategy Review (2019)
Notes: Please note the graphic visualisation is provisional.

The development of the Temple Island site will be one of a number of new developments coming forward in the local area. In addition to the mixed use development proposed, the University of Bristol

[29] Temple Island vision – draft 15 Nov 2019 (2019).
[30] Bristol City Council: Temple Island Project Strategy Review, AECOM (2019).

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will be developing a new campus on a proportion of the Temple Island site and an adjacent site. The new campus will include student accommodation as well as a Quantum Technologies Innovation Centre (QTIC), a research and innovation facility with a focus on "the development of quantum devices for highly secure communications, new sensors for environmental monitoring, simulators to design new materials and ultra-powerful computers"[31].

As stated in the development's HoTs for the proposed Temple Island development, Phase 1 focuses on "deliver[ing] homes and jobs for Bristol, creating significant and positive social value".

The BCC Temple Island vision document, indicates that the Phase 1 residential development on the Temple Island site will consist of a range of 1, 2 and 3 bed flats, delivered as a mix of "[…] affordable homes, private sale flats and a large proportion of private rental sector (PRS) flats"[32].

The split of Phase I residential units by size for the development have not yet been set, however, L&G advised that for a 240 unit Built-to-Rent (BTR) residential block, it would expect the following proportions of size of apartments:

— 10% - Studio apartments

— 50% - 1 bed apartments

— 35% - 2 bed apartments

— 5% - 3 bed apartments

Equivalent details for the residential block planned for Phase 2 are not yet available.

The HoTs for the Temple Island development specifies that L&G are to target 40% affordable housing on the site and "are to deliver a minimum of a policy compliant level of affordable housing with the exception that the specific levels of social rent and shared ownership can be agreed with the Council's Housing Team".[33] Thus at a minimum level, the development will need to be compliant with Policy BSC17 of the Core Strategy which states that at least 30% of housing should be affordable (within the Bristol South area, which is where the Temple Island site lies)[34].

It is intended that the residential units of Phase 1 will be delivered in three blocks. However, the HoTs state that it is possible that a fourth block of residential units will be added if the proposed three blocks in Phase 1 do not provide sufficient affordable housing units to meet the 40% target specified in the HoTs. Phase 2 plans currently include the delivery of one residential block, however as the construction plans for Phase 2 are less advanced and there are uncertainties associated with them (see Section 4 for more details), at present there is no information about the expected number of housing units, or the share of these that will be affordable housing.

Phase 1 of the proposed development also includes two office blocks. Within the Temple Island vision document, BCC has indicated that the commercial office space is intended to be targeted at businesses in the financial and professional services and creative and digital sectors. In particular, within its vision document, BCC has stated that it considers that the Temple Island site will offer an opportunity for firms in these sectors to relocate head-office functions. It is envisaged by BCC that the firms will be attracted to the site by the proximity to Temple Meads station and the University of Bristol (UoB) and the "campus feel" of the site. In order to realise the economic impacts associated with the development it is important that there is market appetite for the commercial space planned for the site. We understand that BCC has commissioned an Office Market Review from CBRE which will assess the likely market appetite for the proposed commercial developments. This Review was not available

[31] https://www.bristol.ac.uk/temple-quarter-campus/qtic/.
[32] Temple Island Vision – draft of 15 Nov 2019, Bristol City Council (2019).
[33] The Heads of Terms Principles of the development (received 11th November 2019).
[34] Bristol City Council (2011) Bristol Development Framework: Core Strategy.

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to KPMG at the time this report was produced, therefore we have been unable to assess this evidence. BCC should consider this when it is available to ensure that the proposed development will best meet market requirements.

BCC intends to take ownership of one of the commercial blocks as part of the agreement with L&G. It will then lease the office space to businesses, providing BCC with some ongoing rental revenue. Details of this aspect of the agreement are included in Section 4.1.[35]

The Temple Island vision document also states there will be a "modest retail offer" on the site - with most units between 500 and 1,500 sq ft, although a couple of larger units of up to 5,000 sq ft will exist. BCC has indicated that the retail offer will be focused on local, independent businesses, as well as a larger restaurant and a convenience store. It intends that the retailers on site will be curated to support the other uses on the site and add value to those uses, reducing the risk of these retailers competing with the retail centre of the city.

The Temple Island vision document also refers to the proposed 4- or 5-star hotel, with 250 keys (rooms). Within the vision document, BCC states that it envisages that the hotel will be utilised by the local businesses on site, as well as catering for visitors to Bristol. BCC's vision is for the hotel to include a 'sky-bar' at the top of the building which will offer panoramic views over the city.

The hotel will be allied to a proposed new conference centre. It is currently intended that the proposed conference facility will be capable of supporting events for 1,250 people, as well as providing exhibition space.

It should be noted that the hotel (including sky-bar) and conference centre are within Phase 2. As such, there remains some uncertainty attached to these plans given that Phase 2 is conditional on the completion of Phase 1 and on further agreement between BCC and L&G.

While L&G will develop the Temple Island site, this is dependent upon BCC first undertaking a series of works, including land remediation, utilities reinforcement and roads/highway works, including access to Bath Road. As a result, public sector funding from BCC is required to bring the overall development forward, as explained in Section 3.4.

3.2.2 Anticipated development timelines

BCC anticipates that Phase 1 construction will begin in May 2021 and be completed by July 2024 and that Phase 2 construction will begin in January 2028, running until December 2029. Figure 5 sets out BCC's anticipated timelines at the time of writing for the construction of each aspect of the proposed Temple Island development.

Figure 5: anticipated start and end dates for construction

Phase	Plot	Block	Floorspace (sq ft)/units*	Expected commencement data for construction	Expected completion data for construction
Phase 1	1	Residential block 1	96,850/138	March 2023	February 2025
	2	Residential block 2	71,603/102	March 2023	February 2025
	3	Residential block 3	62,305/89	March 2023	February 2025

[35] The Heads of Terms Principles of the development (received 11th November 2019)

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	4	Residential block 4 (provisional)	49,685/71	Unknown	Unknown
	6	Office block A	105,817/11	December 2021	July 2023
	7	Office block B	73,901/9	September 2022	May 2024
Phase 2	5	Residential block 5	Unknown	January 2028	December 2029
	8, 9, 10	Conference centre and hotel	283,091/NA	January 2028	December 2029

Source: BCC Residential and Commercial space appraisals, Temple Island Revised Master Programme, Hotel and conference centre business case, Temple Island Heads of Terms Principles
Notes: * We notice there are different figures for residential unit numbers for Phase I in the Heads of Terms Principles and in he BCC Residential appraisals. Apart from this table, all references to residential units will take the values in the Heads of Terms Principles. Unit numbers do not enter any part of the analysis of economic impacts associated with the Temple Island development.

Specifically, in a summary of the enabling works and associated costs, BCC has specified that it will undertake the following enabling works:

— Southern Access Improvements [redacted]

— A4 retaining wall and bridge [redacted]

— A4 slip Road and Plot 12 improvements [redacted]

— Works to address residual contamination [redacted]

— Infrastructure utility upgrades to serve development [redacted]

— Utilities Reinforcement [redacted]

— Structural Fill [redacted]

— Network Rail [redacted]

The works and costs are based on work undertaken by AECOM for BCC, however, details of these may change as the plans for the Temple Island site advance. Therefore, the case will need to be reassessed should the current cost estimates be revised. It should be noted that our understanding of the development is informed by documentation received by BCC up to 13 December 2019.

BCC has informed KPMG that it intends to cap its total liability with regard to the enabling works to £32m. It is anticipated that the enabling works will be funded through a mix of public sector grants, however the exact composition of public sector funding has not yet been confirmed.

[redacted]

3.3 Delivery of BCC's and WECA's objectives for Bristol and the wider area

As part of our assessment of the strategic case, we have considered the strategic fit of the proposed developments on Temple Island, specifically how they could contribute towards the achievement of BCC's stated objectives for the Temple Island site, the BTQEZ, Bristol city and the West of England as a whole.

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3.3.1 Original BCC objectives for the proposed development

The Temple Island was previously intended to house a public arena for Bristol (the "Temple Island Arena). However, as explained in Section 2.2 the Council Cabinet decided to take forward alternative development plans for the site rather than this arena.

At present BCC has not formally set out in any public documents its detailed objectives for the Temple Island site, although the Temple Island vision document provided to KPMG by BCC broadly sets out what BCC expects of the proposed Temple Island development. It does not include SMART objectives[36] for the proposed development as would be expected to be included in the strategic case of a Full Business Case (FBC).

As BCC has not documented its revised set of objectives for its landholding at Temple Island, we have assessed the strategic fit of the proposed development against the relevant stated objectives for the previously proposed development on the site.

In the original FBC[37] submitted to the West of England LEP as part of the application for EDF funding for the Temple Island Arena, BCC set out a number of objectives. These objectives were not solely associated with an arena but also encompass objectives more broadly related to the Temple Island site. Specifically, these objectives for the arena site development were for it to:

— have a public realm interface with the rest of the site, which encourages visitors and creates a "destination" experience for "Arena Island"; and
— assist in making the BTQEZ more accessible and drive improvements [in] permeability to the south of Temple Meads station.

We have considered how the latest proposals for the Temple Island site may contribute toward the achievement of these objectives.

In terms of having a public realm interface and encouraging visitors to the site, the development plans include aspects of public realm improvements and consideration has been taken by BCC of how this development will interface with the wider site and complement the uses of those developments. In addition, the construction of a conference centre and a hotel in Phase 2 is intended to encourage visitors to Temple Island. An assessment provided by BCC[38], suggests that these are expected to cater to both the local population and, to a larger extent, to visitors from outside of the Bristol area. [redacted] allowing Bristol to tap into the market for large events market that is currently inaccessible to the city due to capacity constraints. The hotel will be strategically – and potentially physically - connected to the new conference centre. The hotel is planned to be of an upscale "HQ" type, serving as the designated base of operations for the conference centre events.

It is BCC's view that the new "smart look" of the conference centre and hotel as well as their capacity are enough for the Temple Island site to have the traits of a "destination" experience site. This could be furthered if a 'sky bar' is included at the top of the hotel, which may have the potential attract both visitors and the local population to the site[39].

In terms of the objective for the development to assist in making the BTQEZ more accessible, together with the redevelopment plans for Temple Meads station (see Section 3.2.4 for further details), there is the opportunity for BCC to identify the best measures to make the site and the BTQEZ more

[36] SMART objectives are objectives that are Specific, Measurable, Achievable, Realistic, and Timely
[37] Bristol City Council (2016) Bristol Arena Full Business Case
[38] Hotel and Conference centre – extract from IPW report for BCC 14 June 2019 (2019)
[39] We note that there is some uncertainty attached to Phase 2 of the development. See Section 3.2 for more details. Therefore, these aspects of the development could potentially alter.

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accessible and fulfil the objectives of the Sustainable Urban Mobility Plan for BTQEZ[40]. For example, as part of the enabling works for the Temple Island site, BCC will make improvements to the surrounding public highway to improve pedestrian and road access to the site.[41] The planned eastern entrance to Bristol Temple Meads station offers the potential to provide direct access from the BTQEZ to the station. However, we note that [redacted] Further, as part of the development of the Temple Island site, there will be improvements to the surrounding roads, including Bath Road, and pedestrian routes, which are intended to improve accessibility.

3.3.2 BCC objectives for Bristol city

In 2018, BCC set out its objectives for the city within its Corporate Strategy (2018-2023) ("the Strategy")[42].

The Strategy sets out the key strategic priorities and vision for the city up to 2023. The Strategy has four themes, as stated below:

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

Within each of the themes, the Strategy sets out a number of key commitments which will contribute towards the achievement of the overarching theme objective. We have identified the key commitments that are relevant to the proposed Temple Island development, assessing the extent to which these objectives may be met by the proposed development.

The June 2018 KPMG report on the "Alternative Temple Island development" assessed the development proposal as available at that time against these objectives. Our updated assessment based on the latest plans for the development of the Temple Island site is set out in Figure 6 below.

Figure 6: KPMG assessment of the extent to which the proposed development of the Temple Island site may meet BCC key commitments

Strategy theme	BCC commitment	KPMG assessment
Fair and Inclusive	Make sure that 2,000 homes – 800 affordable – are built in Bristol each year by 2020	The HoTs indicate that the Temple Island site development could feature approximately 500 residential units that will gradually become available from 2023 onwards. This means that it will not contribute toward achieving BCC's 2020

[40] Bristol City Council, Bristol Temple Quarter Enterprise Zone, Sustainable Urban Mobility Plan (2016)
[41] Bristol City Council: Temple Island cost summary note
[42] Bristol City Council (2018) Corporate Strategy 2018 – 2023. Available at: https://www.bristol.gov.uk/policies-plans-strategies/corporate-strategy

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		housing target, but it will increase housing availability in the period after this. We understand that under Policy BSC17 of the Core Strategy at least 30% of new housing has to be affordable (within the Bristol South area, which is where the Temple Island site lies).[43] The HoTs state that L&G has a target that 40% of the residential units built on the Temple Island site will be affordable.[44] Thus exceeding the requirement set by BCC for this specific area. If delivered, this would support BCC's affordable home target stated in the Strategy, although after the 2020 period. However, as noted in Section 3.2 it is unclear whether the 40% target for affordable housing will delivered through the initial three apartment blocks proposed. In the instance that the target is not met in the three apartment blocks, L&G has stated that it will build a fourth apartment block to meet the target[45] in Phase 2. We have previously noted the greater uncertainties relating to Phase 2, which also means there would be more risk and uncertainty around the delivery of these residential units and the timing for meeting the affordable housing target would be extended. BCC has now included the action of "Determining the scope of the Temple Quarter to deliver additional new homes" in the BCC 2019/20 business plan[46].
Fair and Inclusive	Develop a diverse economy that offers opportunity to all and makes quality work experience and apprenticeships available to every young person	The current plans for the Temple Island development include 13,357 square metres of net floorspace for commercial enterprises, with a particular focus on providing units for the professional and financial services and creative and digital sectors. The latter two sectors are considered priority sectors by West of England LEP, as documented in its Strategic Economic Plan (SEP)[47]. As we detail in Sections 6.2 and 6.3, our analysis suggests that this development would also generate additional economic activity and employment in Bristol and more widely in the West of England, through indirect and induced spending. We have not seen any specific plans of how the development may offer opportunity to all and if it will provide quality work experience and apprenticeships to young people. As plans for the development progress and businesses begin to register interest in office space, there may be a clearer view as to how this objective may be delivered. BCC could also consider if certain obligations could be put in place, for example as part of tenancy/ rental agreements, to secure the delivery of the objectives. However, at present there are no obligations in place or have we seen any evidence that BCC is exploring this possibility. As a result there is no certainty that this objective will be delivered through the Temple Island development.

[43] Bristol City Council (2011) Bristol Development Framework: Core Strategy.
[44] Heads of Terms Principles, Bristol City Council (2019).
[45] Heads of Terms Principles, Bristol City Council (2019).
[46] Bristol City Council, 2019/2020 Business Plan.
[47] West of England Local Enterprise Partnership (2014) West of England Strategic Economic Plan 2015-2030.

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Well connected	Reduce social and economic isolation and help connect people to people, people to jobs and people to opportunity	As detailed in Section 6.7, we estimate that the proposed development of Temple Island site, will create 1,501 direct full-time jobs (across Phase 1 and Phase 2 when the buildings are operational). To the extent to which these will be new jobs rather than displacing employment from other parts of the area, the local population will benefit from increased employment opportunities. We have assessed the level of displacement of economic activity from other areas of Bristol and the West of England in Sections 6.2 and 6.3. Taking into account additionality, we estimate that the proposed development of the Temple Island site could create 1,061 direct net jobs in the West of England. The Temple Island site is strategically placed in close proximity to the Temple Meads station and with easy access to the city centre. As part of the Temple Meads station renovation, a new eastern entrance connecting the station and the Temple Quarter will be developed. This will improve access to the Temple Island site, better enabling people and businesses to access the station and transport to the rest of the South West and the UK. Further, based on conversations with BCC, it is BCC's view that the redevelopment of the Temple Island site will help to open up access to the rest of the city for the south of Bristol. It is thought that this will help to catalyse the redevelopment of sites and regeneration of the wider area to the south of the river. The importance of the Temple Island site in helping to improve connections and reduce isolation is also understood by WECA. In its 2019/2020 Business Plan, WECA states its objective of delivering "Better links to reduce congestion and connect people". To reach this objective, WECA has committed to "[…] work with the Network Rail, BCC, HE and the University of Bristol to produce a masterplan for the redevelopment of […] Temple Quarter"[48].

Source: KPMG analysis of Bristol City Council (2018) Corporate Strategy 2018 – 2023.

3.3.3 The West of England Industrial Strategy

We have also assessed the extent to which the proposed development of the Temple Island site may contribute towards broader objectives for the West of England region. The 2019 West of England Local Industrial Strategy[49] (WELIS) developed by WECA and the West of England LEP specifically mentions Temple Quarter and how it is one of the largest urban regeneration projects in the UK. The WELIS identifies a number of priorities for the West of England, some of which are relevant for the appraisal of the Temple Island development. Figure 7 below sets out the relevant priorities, a brief description of the priority and our assessment of how the proposed Temple Island development may contribute towards the achievement of these priorities.

[48] West of England Combined Authority, Business Plan 2019-2020 (2019).
[49] West of England Local Industrial Strategy, HM Government (2019).

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Figure 7: KPMG assessment of the extent to which the proposed development of the Temple Island site may contribute towards WELIS priorities

West of England priorities	Description	KPMG assessment
Cross-sectoral innovation	Fostering cross-sectoral innovation from research through to commercialisation.	As highlighted in the WELIS, the Temple Quarter development is "home to rapidly growing clusters of small and start-up businesses, particularly in the creative, digital and high-tech sectors". The location of businesses in these sectors on the Temple Island site would strategically fit well with wider developments and the QTIC and UoB, facilitating research, creating knowledge transfers and exchanging talent. While the scale of collaboration and innovation supported by the Temple Island development is likely to depend on the specific occupants and any synergies that can be created. Measures put in place to support it will also be important. We note that it is BCC's vision (as stated in its vision document for the Temple Island development) that the site fosters collaboration and innovation. This is across occupiers of different sizes of commercial developments and with the adjacent facilities, including the University's Enterprise Campus, Engine Shed and Bristol's science incubator – Unit DX. The conditions for collaboration are therefore likely to be in place.
Inclusive Growth	Ensuring that growth is inclusive, with a focus on opportunities for employment and progression for all.	The creation of new employment opportunities at the Temple Island site and the associated economic activity will support growth in the region. However, at present we have seen no evidence that the development will have any specific targets regarding employment or inclusive growth. BCC may want to explore the possibility of putting in place employment or inclusivity targets or requirements for delivery partners in the future as the plans develop further. It may also be able to consider how best to contribute toward this goal through the commercial block that BCC retains ownership of.
Innovation in infrastructure delivery	Capitalising on the region's innovative strengths to deliver the infrastructure necessary for future growth.	The proposed development of the Temple Island site will provide additional infrastructure for the city and its construction is intended to use the region's skills in

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construction, design and manufacturing technologies.

At present, Bristol does not have a large conference centre facility for use by local businesses. The proposed conference centre facility has been designed to meet this need and will become a key part of Bristol's business infrastructure.

Similarly, according to BCC, the proposed hotel development will "complement market supply well", in a market with a "limited pipeline of new hotels planned" [redacted][50]. This could help to grow the local visitor economy.

The development of the Temple Island site will also facilitate improvements to the surrounding transport infrastructure. As part of the proposed enabling works, BCC will undertake works to the local roads surrounding the Temple Island site.

Source: KPMG analysis of West of England Local Industrial Strategy, HM Government (2019)

3.3.4 Objectives for the Bristol Temple Quarter Enterprise Zone

The Temple Island site is located within the BTQEZ. As stated in the BTQEZ vision statement, BCC envisages the BTQEZ becoming a new city quarter, with the aim of providing opportunities for work, study, housing and leisure for the local population, as well as increasing access to the city centre and Temple Meads Station[51].

One of the aims in the BTQEZ vision is to attract 22,000 jobs over its lifespan. Over 3,000 jobs have been created since 2012 and our analysis suggests that the proposed Temple Island site development would contribute toward this overall job creation aim. We estimate that the proposed developments may add an estimated 1,061 direct jobs in net FTE terms (1,501 direct jobs in gross FTE terms) within the BTQEZ.

In addition, BCC has stated that it aims to focus the Temple Island commercial development on the creative and digital sectors and the financial and professional services sectors[52]. This will be complimentary to the BTQEZ, which focuses on the following key sectors:

— creative and digital;

— high tech;

— low carbon; and

[50] Hotel and conference centre, extract from IPW Report for Amion 14 June 2019 (2019).
[51] https://www.bristoltemplequarter.com/about/vision/.
[52] Temple Island Vision – draft of 15 Nov 2019, Bristol City Council (2019).

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— professional services.

The alignment between the focus of the BTQEZ and the target sectors for the commercial development of the Temple Island site, may help to create synergies through the complementarities between occupants of the developments and increase the attractiveness of the site to relevant businesses. Another factor that has the potential to add to the attractiveness of the site is the redevelopment of the Temple Meads station. Redevelopment plans include:

— the opening of an Eastern entrance connecting the station to the Temple Island site and UoB's new campus and QTIC development

— plans to develop a new "Northern gateway" entrance to the station in order to improve north-south-east connectivity across the site and support plans for development of adjacent sites; and

— signalling upgrades, the redoubling of the line between Temple Meads and Bristol Parkway and an increase in services to and from London Paddington.[53]

Following the redevelopment, passenger usage at Temple Meads station is projected to rise from 11m to 22m by the end of the next decade.[54]

The station redevelopment and the development of the Temple Island site will complement and support each other, with the attractiveness of the site to commercial and residential occupants likely being enhanced by the station improvements and increasing footfall to the area, and the Temple Island development and the employment and housing opportunities it creates potentially increasing the need for the station improvements.

3.4 Rationale for public sector intervention

A key consideration for the strategic case for the proposed Temple Island development is whether there is a clear rationale for public sector intervention to bring the development forward and the strength of this case.

As explained in KPMG's 2018 VFM assessments, in general, there are two main reasons why the public sector may want to intervene in a market:

1) There may be a market failure, where the market does not provide an efficient solution to a problem. In the case of market failures, it may be that no one comes forward with a good or service, or that the market provides an insufficient quantity of goods or services.
2) Public intervention may be required where a market is efficient but inequitable.

The rationale for public sector intervention to bring forward development of the Temple Island site is largely unchanged from when this was assessed by KPMG in 2018. It is based on the presence of a market failure, specifically that there are positive externalities associated with the development of the site. As analysed in Sections 6.2 and 6.3 of this report, the development of the Temple Island site will contribute towards wider benefits for the City and the region, including generating economic activity in the form of GVA and employment plus the delivery of housing.

As we explain below, there is evidence to suggest that the private sector would not bring these developments forward alone, therefore these positive impacts (externalities) would not be generated, at least to the same level and same timeframes, without public sector support, i.e. the market would not provide the most efficient solution without intervention.

[53] 2019-24 Control Period 6 Western Strategic Business Plan, National Rail (2018).
[54] https://www.bristoltemplequarter.com/portfolio-items/temple-meads-redevelopment/.

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The Temple Island site has remained vacant and undeveloped for over 20 years. No private investor has previously come forward with proposals for the development of the Temple Island site without a need for public sector funding. For example, although it was previously proposed that the site be developed to house a public arena, this development would be led and funded by the public sector.

One of the key reasons for the lack of private sector development of the Temple Island site is that the site requires remediation works to be undertaken onsite, as well as some works to ensure that the site is accessible. For the proposed Temple Island development being considered at present, the estimated cost to BCC for these works is £32.0m. To carry out these works requires upfront cost and risk which may impact the commercial viability of developments on the site. As a result, private investors' incentives to develop the site have been constrained and the Council funding of these works has been a requirement when negotiating any redevelopment deal. It is these remediation works that BCC is proposing to fund in order to facilitate the development of the Temple Island site by L&G.

There is no evidence that, as a derelict brownfield site requiring remediation, that a private sector developer would bring forward the development of the site without public sector support. Further, we note that planned developments on the site and surrounding area, such as the UoB expansion and some developments in the BTQEZ, have been supported by public sector funding.

As part of the Temple Island development, BCC has decided to take on the headlease for the first commercial block developed in Phase 1. KPMG understands from discussions with BCC that its rationale for taking up the head lease for Office 1 of 100,000 sq. ft. is to underpin viability of the scheme, to secure an income stream, to develop a strong business case for Office 2 and encourage L&G to take forward wider development. It has indicated that it considers that this may help bring other commercial tenants to the site, bringing forward economic activity faster.

Given the well-connected location of the Temple Island site within the BTQEZ and its proximity to Temple Meads station, the site may become increasingly attractive to private investors in the future as other developments progress. However, the timeframe over which this may occur is unknown and the rationale for intervention remains at present despite the progression of the University's plans for development on the broader Temple Island site and business case approval for the QTIC.

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4 Commercial case assessment for the proposed Temple Island development

4.1 Introduction to commercial assessment

This commercial assessment summarises the intended transaction, identifying key issues arising based on KPMG's understanding and review of documentation provided by BCC. The documents reviewed are listed in Appendix 1.

The key issues identified are then addressed in turn noting their potential impact, proposed mitigation arrangements, and any recommendations for further work.

4.2 Proposed contract with Legal & General

4.2.1 Commercial Structure

KPMG understands that BCC has freehold title to the entire land parcel on which the Temple Island project is proposed to be developed. Homes England has certain rights to overage.

BCC advises that when Homes England transferred / sold the land to BCC there were 2 restrictions on title which were documented. The first was an overage provision for the benefit of Homes England and the second was an option, with time limits, that Homes England could exercise if they so wished if BCC has not brought redevelopment forward by the end of the time limits.

BCC is of the view that [redacted] but KPMG has not been provided with evidence to underpin this assumption.

BCC will retain the freehold of the Temple Island land, and will grant 250-year leases to L&G for Phases 1 and 2 of the development.

Phase 1 of the project will consist of:

— 500 residential units across three blocks (on plots 1-3 and plot 4 if required subject to massing and detailed design);

— Two office buildings of net internal area of 100,000 sq. ft. and 80,000 sq. ft., also on separate plots (plots 6 & 7).

Phase 2 of the project will consist of:

— Another residential block (on plot 5);

— A conference centre and a hotel or any other use as may be mutually agreed (on plots 8-10).

BCC and L&G intend to exchange on a conditional agreement for the development of Phase 1 in February 2020. The conditional agreement sets out responsibilities for both parties. [redacted]

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Upon satisfaction of all conditions precedent to Phase 1, L&G will pay an agreed sum for the combined value of each individual phase 1 plot. The valuation will be determined by the respective advisers of the parties subject to an agreed methodology. The **plot valuation methodology** is addressed as **Key Issue 1** in Section 4.3.

4.2.2 Impact on land ownership and use

The Phase 1 and Phase 2 lease terms allow L&G to freely assign the 250-year leases of the entire Phase 1 and Phase 2 sites (i.e. all plots comprised in the Phase), as well as to under-lease elements for 250 years less 1 week term. The land can however be used only for the development identified in the planning application – for both Phase 1 and Phase 2.

L&G will develop the Grade A Office 1 building with target Net Internal Area (NIA) of 100,000 sq. ft. and sub-lease it back to BCC for a term of 250 years less 1 week (or the remaining term of the 250 years less one week as appropriate). Under this under-lease, BCC shall pay rent for 40 years after which it may purchase the long lease for Office 1 at £1.

The agreement grants a pre-emption right (right of first refusal) to L&G which, if exercised, will give L&G the right to draw down plots from Phase 2 at a price to be computed by applying principles similar to Phase 1. The lease terms will also be similar to Phase 1 (with suitable modifications reflecting the use and delivery model where appropriate). This calculation would be undertaken prior to the exercise of such right and the payment would be made on the date of draw down.

The pre-emption right will be available to L&G for five years from the date of commencement of Phase 1 lease. This right terminates in the event L&G is not able to obtain satisfactory planning consent for Phase 2 plan. The current drafting of the HoTs is ambiguous and **Phase 2 drawdown** is addressed as **Key Issue 2** in Section 4.3.

4.2.3 Planning permission process

L&G will be responsible for the entire planning permission process and this forms a condition precedent to Phase 1.

Following the exchange of conditional agreement in February 2020, L&G will develop an outline planning application for the Temple Island Masterplan and subsequently a detailed plan for each individual plot under Phase 1 for planning consent.

L&G shall also obtain all other necessary approvals for the development and enter into an agreed form of building contract for Office 1 such that practical completion is achieved within 30 months of commencement.

The outline planning permission for the Temple Island Masterplan must also cover Phase 2 development.

[redacted] **Planning risk** [redacted] addressed as **Key Issue 3** in Section 4.3.

4.2.4 BCC's responsibilities

BCC has three major responsibilities:

i. Secure the necessary funding for the site remediation for Phase 1 and Phase 2 before the development work for Phase 1 starts;

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ii. Undertake site remediation works in relation to Phase 1 and Phase 2; and

iii. Development and funding of enabling infrastructure for Phase 1 such as services and utilities.

KPMG understands that BCC intends to cap its contribution to enabling works at £32m. BCC also does not plan to fund costs that are part of L&G's scope unless there is a material change in the deal structure or State Aid considerations that make such additional funding feasible.

BCC expects to fulfil its funding commitment of approximately £32m through EDF grants, and expect this to be sufficient for its scope of BCC works. The works have been provisionally costed and itemised, and contingency of [redacted] and a risk allowance of [redacted] applied.

BCC's scope includes improvements to access to the A4, residual decontamination works, utilities upgrade/reinforcement, site remediation and Network Rail interface. BCC and L&G have agreed to review future car parking requirements, identify a potential solution and possible funding routes, and to include this in future legal documentation.

The enabling works are a condition precedent to the transaction, so the robustness of the cost estimates, sufficiency of risk contingencies applied, ability to fund the expected cost and ability to absorb cost and time overruns are critical risk issues for BCC to consider. These are discussed further as follows: **Ability to secure funding for the BCC enabling works** is addressed as **Key Issue 4**, and **cost and risk in relation to enabling works** is addressed as **Key Issue 5** in Section 4.3.

In addition to the above responsibilities, BCC shall also [redacted] **Homes England** [redacted] is addressed as **Key Issue 6** in Section 4.3.

4.2.5 Delivery model

BCC must enter into an agreement for lease with L&G for Office 1 as a condition precedent to Phase 1 commencement.

After this and all other conditions precedent for Phase 1 are satisfied, L&G will pay to BCC an agreed price for the combined value of each individual plot under Phase 1.

L&G will develop Office 1 and lease it to BCC with a commencing rent based on [redacted] funding yield, after an initial three-year rent-free period. The rent is therefore set at [redacted] of gross development costs. The rent will be calculated on an agreed date once a satisfactory construction contract has been tendered and definitive appraisal agreed. We understand L&G will work with BCC to agree an indicative development appraisal based on known market-based costs to finalise the starting rent prior to contract signature. Until this starting rent is frozen, other increases to gross development costs would increase the rent, subject to the appraisal to be mutually agreed. [redacted]

KPMG understands that BCC intends to sublease the office accommodation with the intention of making a profit on the rent paid. No tenant is currently in place. We understand from BCC that preliminary studies have indicated that the BCC as the head leaseholder will be able to achieve a profit rent. However, KPMG has not reviewed these studies.

Additionally, KPMG has not reviewed the agreement for lease, but we anticipate that the lease would be on a FRI (full repairing and insuring) basis so allowance for maintenance will need to be made to the extent it cannot be passed to the eventual occupier, as well as for residual head tenant responsibilities.

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[redacted]

The residential component of Phase 1 envisages 500 units, 40% of which are targeted for affordable housing in accordance with BCC's policies.

[redacted] Suitable arrangements for validating that the costs are reasonable will need to be agreed.

Issues in relation to the proposed **terms of the Office 1 lease** including the cost of finance and subletting risk are addressed as **Key Issue 7** in Section 4.3.

4.2.6 Estate Management Company

We understand from BCC that the public realm will be managed by an estate management company to be jointly formed by BCC and L&G.

BCC has clarified that it is its expectation that such operations and maintenance (O&M) costs will be borne by L&G and there will be no commercial obligation on BCC apart from the service charge it will have to pay in relation to Office 1, which would be passed through to the occupiers of Office 1.

It is expected that the lease holders of each plot will own a percentage of the estate management company – relating to the phase/amount of developed area and pay a reasonable service charge related to the O&M for that area.

The **estate management arrangements** are addressed as **Key Issue 8** in Section 4.3.

4.2.7 Procurement approach

Procurement of Legal and General as developer

KPMG understands that BCC has separately obtained legal advice in regard to appointment of L&G and that this notes that the duty to obtain best consideration is satisfied by the arrangement for plot valuation although as noted elsewhere in the report further refinement is required in this aspect of the transaction to ensure it is fit for purpose.

BCC has received legal advice that a competitive procurement process is not required for this project given that, in the counsel's opinion the proposed arrangement between BCC and L&G would not amount to a works contract or works concession because of the absence of positive legal works obligations. The opinion also notes that the position is not certain and a VEAT notice could be used to mitigate the risk, however the HoTs will need to be sufficiently developed to allow publishing of such a notice. We understand that BCC will be seeking further legal advice on this as the deal progresses.

Procurement of BCC infrastructure

We understand that BCC will procure its scope of enabling works directly in line with public procurement requirements.

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4.3 Key issues identified

We have reviewed the risk register received from BCC on 28 November 2019 alongside the HoTs. Below is our high-level analysis of the key commercial risks to BCC arising from the proposed agreement with L&G.

4.3.1 Key issue 1 – Plot valuation mechanism

The HoTs make brief reference to independent market valuation principles, but also elsewhere make reference to grounds for modification of land premium payable based on other factors. The HoTs envisage that Phase 1 plot valuations would be carried out by the respective advisers of BCC and L&G as on date of the conditional agreement exchange which can be updated for any changes to the scheme arising out of planning consent.

KPMG often see precedent in similar deal structures for a minimum base plot value to be agreed below which valuation cannot fall. This would provide protection to the Council that they have the ability to halt or pause the deal if there is an unexpected market downturn that reduces expected receipts beyond an agreed tolerance from current values. We have discussed this with BCC who have indicated they do not believe such a provision is required as the regeneration and strategic objectives are strong that ultimately these outweigh the need to secure minimum land value.

KPMG understands that BCC and its property and legal advisors are addressing this in ongoing negotiations with L&G in relation to the legal drafting, in order to improve the risk profile to BCC.

4.3.2 Key issue 2 – Phase 2 drawdown

L&G is required to obtain outline planning permission from the outset for Phases 1 and 2. It then benefits from a right (but not an obligation) to draw down the Phase 2 land at a value to be agreed. This pre-emption right is available for five years from the date of the unconditional leasehold period of Phase 1.

BCC may wish to ensure that the five-year right does not frustrate BCC's ability to deliver elements of Phase 2 as we note that there is no cost to L&G for not exercising this option. Should L&G choose not to exercise its pre-emption right, BCC should ensure that the contract provides for the intellectual property developed for Phase 2 to be made available and for BCC to be able to curtail the L&G pre-emption right in certain circumstances.

The risk register notes that due to [redacted] This could have a significant impact on the Phase 2 land valuations [redacted]

4.3.3 Key issue 3 – Planning risk [redacted]

KPMG understands that in the event [redacted]

[redacted] This will need to be addressed given the financial impact on BCC [redacted]

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BCC as landowner and not an equity partner in the developer has no control over the quality of the L&G planning application process, and BCC's decision-making process as a planning authority is entirely separate from its role as landowner. Accordingly, BCC may wish to consider its exposure to this planning risk.

4.3.4 Key issue 4 – Enabling works (ability to secure funding)

KPMG understands that BCC intends to cap its contribution to enabling works at £32m.

Subject to the valuation mechanism adopted, whilst BCC will not directly fund costs that are part of L&G's scope, it may be exposed to such costs through lower land value payments as well as refund of L&G's development costs in the event of planning failure.

Whilst BCC expects to fulfil its funding commitment of approximately £32m through EDF grants and expects this to be sufficient, in the event that it is unable to secure such funds from these or alternative sources, and therefore not deliver the works, it could potentially trigger termination and become liable for L&G costs. BCC should look to cap its exposure to all costs including enabling works and failure to achieve planning.

KPMG understands that BCC will clarify the source, timing and availability of funding, and any contingency plans for alternative sources, at the earliest possible opportunity.

4.3.5 Key issue 5 – Enabling works (cost and risk)

The enabling works for which BCC is responsible include decontamination works, southern access improvement works, A4 retaining wall and bridge construction, A4 slip road / plot 12 improvements, utilities reinforcement, structural fill and Network Rail interface. The estimated cost of these works is £32m.

We understand the reason for BCC choosing to deliver these works is to ensure that it does not pay a risk premium to a developer as well as to underpin viability overall.

Linked to key issue 4 above, the nature of the enabling works makes them difficult to cost accurately. BCC will therefore need to satisfy itself that the £32m capped figure incorporates sufficient contingency for all reasonable eventualities. In the event that the cap is exceeded KPMG's assumption is that BCC would remain liable for the works as scoped and would need to obtain additional funding. The detailed scope of responsibilities and risks will need to be codified and incorporated into the agreement prior to signature, and KPMG understands that BCC and its advisors are in the process of undertaking this work. Where possible enabling works should be contracted at the time the agreement is made with L&G.

4.3.6 Key issue 6 – [redacted] Homes England [redacted]

Homes England benefits from certain historic options and restrictions over the land. The HoTs provide that BCC shall [redacted]

[redacted] This is a key value driver for the Temple Island scheme [redacted], and therefore needs to be addressed as a priority.

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KPMG understands that the above issue is being addressed by BCC and its advisors, and that BCC is of the view that [redacted] although no evidence or correspondence supporting this assumption has been provided to us as part of this review.

4.3.7 Key issue 7 – Terms of Office 1 lease

KPMG understands that BCC's rationale for taking up the head lease for Office1 of 100,000 sq. ft. is to underpin viability of the scheme, to secure an income stream, and to develop a strong business case for Office 2.

Since BCC does not intend to occupy Office 1, it therefore bears market risk of ability to sublet the building for a rent in excess of the underlying rent payable by BCC for 40 years. BCC's ability to secure a long-term pre-let for Office 1 is an important mitigating factor for this risk. The actual rents realised by BCC from its tenants would be subject to market conditions, and any adverse movement in commercial rents could have a financial impact on BCC.

BCC has advised that its adviser CBRE has undertaken preliminary studies of the office market space [redacted] The positive view of these studies, provides comfort as to the ability to sublet Office 1.

[redacted]

BCC should ensure that the intended transfer of construction risk to L&G is fully reflected in the lease documentation, notably ensuring that no lease payments are due in the event of delay to construction completion.

[redacted]

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[redacted]

By undertaking a lease and leaseback transaction the project incurs 5% SDLT charge on the development value of the office building which will be charged back to BCC through the lease rental. Whilst market norm and unavoidable under such a structure, incurring SDLT for the construction of a building on land currently owned by BCC is a structural inefficiency.

From a strict application of the HMT Green Book perspective this inefficiency should be ignored as it is a cash flow to Government.

4.3.8 Key issue 8 – Profit share for Office 2

[redacted]

4.3.9 Key issue 9 – Estate management arrangements

The public realm will be managed by an estate management company to be jointly formed by BCC and L&G. We understand that the estate management regime will be agreed between the parties by way of a non-binding agreement separate from the lease and other project agreements. Whilst the cost sharing principles are yet to be finalised, the non-binding nature of the proposed agreement could be a cause for potential disagreements in future.

BCC has clarified its expectation that such O&M costs will be borne by L&G and there will be no commercial obligation on BCC. The detail of the workings of the estate management regime and service charge regime requires further development ahead of contract signature. In particular the service charge levied will impact BCC directly as occupier of Office 1.

4.3.10 Other observations

Affordable Housing

— Under the current proposal, L&G is to target 40% affordable housing and must deliver a minimum of policy compliant level.

— L&G would seek to develop a plan that is compliant with the council's policy but also meets their investment returns criteria. It would presumably seek to minimise the impact of affordable housing on its returns by optimising the affordable housing mix, i.e. maximise that affordable housing component(s) that has least negative impact on its expected commercial returns which may or may not be acceptable to the council's housing team, leading to a potentially difficult and protracted negotiation.

— We understand that the parties have agreed the affordable housing structure comprising [redacted] shared ownership [redacted] social rent and [redacted] discounted market rent (with the rent on the DMR homes being [redacted] of open market rents).

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4.4 Conclusions and recommendations

We have highlighted several key issues in our analysis including:

— L&G was not appointed through a competitive process although there is agreement on a 'best consideration' process for valuing the land for the proposed project. BCC is constrained by this position in its ability to specify elements of the scheme and BCC should continue to ensure appropriate legal advice is taken on this point to support this route;

— BCC should address and refine its exposure to planning risk (under certain circumstances) where BCC would be [redacted] We recommend that BCC consider refining these terms to improve BCC's risk exposure and deliver greater economic benefit;

— BCC should ensure cost and risk associated with enabling works is fully defined as the programme progresses to remain within BCC expectations for these works.

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5 Financial case assessment for the proposed Temple Island development

5.1 Introduction

5.1.1 Purpose of financial case

The principal purpose of a financial case is to determine the affordability and funding ability of the preferred option. This section:

— sets out BCC's financial objectives for the transaction;

— details key financial considerations affecting value and affordability;

— considers transaction affordability and sources of funding for the costs associated with BCC's involvement over the whole life of the project;

— details BCC's spend and funding profile.

5.1.2 Financial objectives for the transaction

KPMG understands BCC's financial objectives for the transaction to be as follows:

— BCC will fund its share of agreed site enabling works through grant funding, at no direct cost to the Council

— BCC will enter into a 40 year lease for Office 1 (Plot 6) with L&G. The Council will then sublet Office 1 to third party occupier(s). It is estimated the sublease income will be sufficient to meet BCC's lease obligation and generate a profit rent. In addition, BCC will have the option to purchase the title to Office 1 at the end of the 40 year period for £1

— For Office 2 (Plot 7), following a deduction of [redacted] to L&G, BCC will be entitled to a [redacted] share of the rental income

— Upon drawdown of Phase 1, BCC will look to secure 'best value' land premium capital receipt for Temple Island. The Council's working assumption is the land premium will satisfy a 'best consideration' test via Section 233 valuation.

If these objectives are borne out, the financial impact to BCC would be positive. Therefore, the ultimate affordability or otherwise of the transaction depends on the degree of risk associated with the above and the extent to which downside scenarios materialise.

5.1.3 Elements impacting affordability

The elements which will determine the affordability of the transaction are:

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— the capital receipt payable to BCC by L&G for the site, specifically Phase 1, and the risks associated with the level of this payment;

— BCC's ability to secure grant funding to undertake £32m of enabling works across the whole Temple Island site;

— the opportunity cost to securing the sale leaseback of Office 1 (Plot 6) for a 40 year commitment. This includes payment of rent, service charge and maintenance obligations incurred;

— the level of expected revenues to BCC from subletting Office 1, and the risk associated with these revenues

— the level of revenue expected to BCC from the [redacted] rent share of Office 2, minus the priority return to L&G.

— any overage payable to Homes England for the sale of Temple Island and how this is structured as a repayment to the Temple Island Enterprise Zone.

5.2 Key financial considerations

KPMG has identified a number of financial considerations, which could have a significant impact on the overall developable value of Temple Island, land premium payable to BCC, and the affordability profile of the project.

5.2.1 Land premium

The Council has opted to secure an off-market land deal with Legal and General Investment Management. As a local authority, BCC has an obligation to achieve 'best value' on its land disposals/ transactions.

Section 123 of the Local Government Act 1972 provides guidance as to how local authorities can achieve best consideration. General practice would suggest testing the land in the open market, either through private treaty or undergoing a procurement process. As detailed in section 4.2.7, BCC has sought legal counsel to ensure due process is undertaken which has concluded that further legal advice will be required.

KPMG suggests that BCC should request that L&G provides Phase 1 development appraisal sensitivities. Such sensitivity analysis will enable BCC to test changes to assumptions such as sales values, rents, yields constructions costs, profit etc. and understand their impact on BCC returns..

Upon satisfying pre-conditions, BCC will benefit from the land value uplift delivered by undertaking the enabling works and L&G obtaining planning permission. The pre-conditions are as follows:

— Outline planning permission for Temple Island masterplan obtained (Phase 1 and 2)

— BCC confirming funding for enabling works

— Full planning permission obtained and construction contract secured for Office 1

— BCC entering into the unconditional Agreement for Lease for Office 1

— Full planning permission obtained for Plot 7 (Office 2) and Plots 1,2,3 and 4 if required by L&G (Residential blocks 1,2,3 and 4)

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We understand the HoTs are yet to be finalised, however, as it stands the pre-conditions carry risk factors that may affect the land value payable to BCC.

5.2.2 Inclusion of Phase 1 overage

BCC and L&G have not yet agreed overage arrangements. Given the land type and structure of the transaction, KPMG would expect to see a sale or use/development overage to carry with the title.

[redacted]

KPMG would recommend [redacted]

5.2.3 Development Appraisals

5.2.3.1 Affordable housing

For Phase 1, the Heads of Terms state L&G will target 40% affordable housing and deliver a minimum of policy compliant affordable housing with the exception that the specific levels of social rent and shared ownership can be agreed with BCC's Housing Team.

As far as KPMG is aware, there has been no impact assessment of the affordable housing mix. The key risk is the tenure apportionment for the affordable housing, as each element varies in value, for example intermediate housing, affordable rent, shared ownership and social rent. Therefore, the tenure mix will have an overall impact on the gross development value, and subsequently the residual land value payable to BCC.

The affordable housing development appraisal, undertaken by CBRE, does not define the proposed tenure mix, [redacted] This may distort values across the appraisal. We would recommend revisiting this to reflect the proposed mix.

5.2.4 L&G securing planning permission for Temple Island

5.2.4.1 'Reasonable planning consent'

The terms and obligations surrounding the planning pre-condition definitions are yet to be defined. As we understand it, L&G are leading on securing the outline planning permission for the masterplan and various full planning permissions for the site, with support from BCC to deliver a policy compliant redevelopment scheme.

We have assumed BCC and L&G have a working agreement and understanding of a development scheme that fully optimises the land use and value. The Heads of Terms are not specific on [redacted]. Therefore, the key risks affecting value are [redacted] however none of these risks have been quantified.

Key Risk 1 - Planning

In the event L&G fails to secure outline planning for the Temple Island masterplan, the conditional contract may fall through at which point BCC could be obligated to refund reasonable costs relating to the securing of planning permission to L&G, in return for IP associated with it and relevant warranties.

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The current draft Heads of Terms state [redacted]

Key Risk 2 – Land Value

Failure to secure planning on the Temple Island site, may have a negative effect on the future land value. Therefore, it is important BCC works alongside L&G to secure the site masterplan and subsequent planning consents.

5.2.5 Funding for the enabling works

The Council must secure grant funding to carry out the enabling works. BCC intends to cap its capital costs for enabling works at £32m for Temple Island and that these costs will be met from EDF grant.

KPMG understands that the enabling works would generally be needed for any use on the site and that as a strategic city centre site, the enabling works are considered beneficial and should proceed subject to availability of funding regardless of whether the deal with L&G is concluded.

5.2.6 Overage Agreement to Homes England

The Temple Island title carries an overage provision between Homes and Communities Agency (now Homes England) and BCC, dated 26th March 2015. Any overage payable will need to be agreed between the two entities before progressing with the transaction.

The overage states 'any overage due to either the Agency or the Council under the cause may be utilised by the Council as capital investment to support projects within the Enterprise Zone.' Therefore, BCC may have access to additional funds to further facilitate the project at Temple Island, such as using the funds for supporting infrastructure works.

5.2.7 BCC's office lease

The Council will enter into a 40 year lease agreement for a 100,000sqft (NIA) Grade A office building. During the period, BCC will be obligated to pay a rent portion of the estimated market rent and service charge to L&G and the Temple Island Management Company respectively. At the end of the period, BCC will have the option to purchase the building for £1.

KPMG understands that BCC intends to pre-let Office 1 to one or more occupiers. BCC's working assumption is that the sublease income will exceed the BCC rent obligation to L&G, and that a profit rent will be generated for BCC. The Council will carry void, letting and market risk on this element of the transaction. At worst, income from subleases will be lower than the BCC rent obligation requiring BCC to meet its obligation from other sources. The Council must ensure any sub lease agreement reflects the head lease event dates i.e. rent reviews.

5.2.7.1 Office 1 - Funding yield

The Heads of Terms state the Agreement for Lease on Office 1 will have a commencing rent based on [redacted] yield.

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5.2.7.2 Office 1 - Rental income

BCC has provided a cash flow, modelling the estimated annual profit rent payable to the Council. The model assumes [redacted]

Figure 8: Annual Rental Income

Calculation	Total (£000)
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	
[redacted]	[redacted]
[redacted]	[redacted]

Source: Bristol City Council

The cash flow assumes the [redacted]

[redacted]

The key risk to BCC is being unable to secure a tenant(s) for the term. The financial risk is BCC will be liable to pay the cost rent to L&G regardless of whether a tenant is in situ or not.

BCC also receives the residual benefit of title to the office building at the end of the 40 year term, which provides an additional significant buffer over the whole period of analysis.

5.2.7.3 Office 2 – Rental income

As part of the land agreement, BCC will benefit from a profit share arrangement for Office 2 (Plot 7). [redacted] PMG have highlighted this as a key issue in the Commercial Case.

5.2.8 Phase 2

The financial impact of Phase 2 is uncertain at this stage and development appraisals have not yet been developed.

[55] The profit rent reflected above represents the gross rental income as operating and non-recoverable costs have not been deducted.
[56] [redacted]

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The plot mix for Phase 2 includes a residential block, conference centre and hotel (or other use as agreed viable by both parties). The conference centre and hotel are high risk viability uses. These may be especially difficult in assessing the scheme viability for Phase 2 in isolation to Phase 1.

As drafted, L&G has the right and not an obligation to drawdown Phase 2 within the five year period. KPMG understand that if L&G fail to deliver Phase 2, BCC will be able to sell the land with the benefit of enabling works and planning consent.

5.2.9 Summary of land value drivers

We have identified other risk factors that may affect the land value;

— Access to Temple Island from A4 is a critical driver to the success of the Temple Island development. [redacted]

— The cost of funding Office 1 for which BCC is taking up the head lease is a key value driver for BCC as any reduction in the funding yield will have a positive impact on the profitability of Office 1 lease for BCC.

— The pre-emption right held with L&G has a significant impact in the development of Phase 2. Should L&G use up its five year period before choosing not to exercise its right, it could potentially delay the timescales of Phase 2 and also incur additional costs for BCC to identify alternative developers/uses.

— The termination provisions seem to indicate that BCC is committing to underwrite the planning consent for L&G. In our opinion, BCC should negotiate to make this clause more specific so that such a provision is applicable only under force majeure events.

5.3 Financial Analysis

5.3.1 Temple Island spend and funding profile

BCC has modelled the following spend profile and correlating funding options:

Figure 9: Temple Island Spend and Funding Profile

	Year							
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Total
COSTS								
Design, Fess & PM	[redacted]							
Construction								
Risk								
Sub Total								
Inflation								
Total Costs								**£31,784,129**

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FUNDING	
EDF Drawdown	[redacted] £31,784,129

Source: Bristol City Council

[redacted] Therefore, BCC's total costs for Temple Island, including cost of feasibility pre-programme is £31.784m, capped at £32.0m.

BCC has identified the EDF as its main source of funding for the project. BCC has noted that some has already been committed, but funded from the Capital Investment Reserve Pending Programme entry in BCC Capital programme and award of EDF funding.

5.3.2 Affordability

The spend and funding schedule demonstrates BCC's ability to fund the Temple Island enabling works project, subject to securing EDF funding and short-term borrowing.

We note BCC's financial planning for the project and ability to afford (fund) the project. There is a reasonable scope to deliver the enabling works as contracted, in order to unlock the Temple Island developable value of [redacted] (subject to valuation and contract). Additional to the capital receipt, the affordability of the scheme is also offset by BCC's financial participation in the development income from Office 1 and 2, with estimated minimum annual income of [redacted] (Office 1).

5.4 Conclusions and recommendations

We recommend addressing the following issues to limit BCC's risk exposure:

— Engaging Homes England to confirm overage release

— Underpinning the S233 Valuation principles. Ensuring the cost and value assumptions are aligned to safeguard the residual land value at Temple Island.

— Refining definitions in the Heads of Terms, especially terms which expose BCC to costs, such as L&G's ability to recoup planning fees. This will have an effect on BCC's overall spend/cost profile

— Inclusion of an overage provision in the agreement with L&G to ensure BCC satisfy future 'best consideration' of the land

— Further analysis and refinement of the terms currently agreed for Office 1 to see whether these can be improved upon.

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6 Economic assessment of the proposed development of the Temple Island site

6.1 Our approach to assessing the economic case

Within a HM Treasury Green Book compliant business case, the economic appraisal is intended to inform the identification of the proposal that delivers best public value to society, based on a cost benefit analysis (CBA) or cost effectiveness analysis (CEA). This requires identification and appraisal of the range of potential impacts associated with proposed options relative to what would have taken place in the absence of intervention.

The HM Treasury Green Book highlights that "economic appraisal is based on the principles of welfare economics – that is, how the government can improve social welfare or wellbeing, referred to in the Green Book as social value"[57]. In the case of this VFM review, BCC asked KPMG to identify the economic outputs of the development and assess these qualitative and quantitative impacts. This means that our analysis focuses on economic measures of impact. It should be noted that any additional impacts (positive or negative), for example social and environmental impacts, have not been assessed as part of this review, although they would affect the overall level of costs and benefits of the proposals and hence the VFM of the development scheme.

It should also be noted that within the scope of our review we were not asked to appraise different options for the development of the Temple Island site, or different projects/ proposals in which the public funding could be invested. As part of business case development based on HM Treasury Green Book guidance, it would generally be the case that the economic case appraises a short list of options to identify the preferred way forward, based on the relative NPPV and BCR of the different options, as well as wider considerations such as affordability and deliverability.

As this options appraisal was not part of our scope of work for BCC, our economic case assessment in this report looks only at the development scheme proposed by BCC for the Temple Island site rather than any variants of this (e.g. in terms of mix of uses) or alternative uses of the site and/ or funding.

Our approach to assessing the potential economic impacts associated with the BCC proposed Temple Island development has been conducted in accordance with the principles set out in the HM Treasury Green Book[58]. Specifically, we assess the potential net additional direct, indirect and induced economic impacts of the proposed development in terms of economic output, measured by GVA[59], and employment, measured in Full-Time equivalent (FTE) terms[60].

Direct economic impacts are the first round effects where demand creates economic activity. Indirect impacts are the effects generated through the activity and output supported in the UK based supply chain as a result of procurement of inputs of goods and services (both for construction and ongoing operations). Induced impacts are multiplier effects that arise in the UK economy as a result of direct employees and employees in the UK supply chain spending a proportion of their wages in the UK.

[57] HM Treasury (2018) The Green Book: Central Government Guidance on Appraisal and Evaluation.
[58] HM Treasury (2018) The Green Book: Central Government Guidance on Appraisal and Evaluation.
[59] GVA is a measure of the economic value of the goods and services produced at an individual company, industry or sector level, net of intermediate consumption (e.g. the goods and services that are used in the produc ion process). It estimates the difference between the value of goods and services produced and the cost of inputs, such as unprocessed materials, used to create those goods and services. A nation's gross domestic product (GDP) includes the sum of the GVA of all economic agents in the economy.
[60] In our analysis we report employment in full-time equivalent (FTE) terms. This adjusts part time or temporary staff into an annual full-time equivalent based on the proportion of full-time hours worked over a year.

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This spending generates additional economic activity for those businesses from which these employees buy goods and services and in these businesses' own wider supply chains.

Our analysis draws on the data and information relating to the proposed development provided to us by BCC, including floorspace estimates, estimated construction costs and estimated visitor numbers/ attendees for the conference facility. We also used publicly available data produced by HE[61] and the ONS in our analysis. Full details of sources used are referenced through the report and set out in Appendix 1.

Our analysis focuses on the potential economic impacts associated with:

— the construction of the proposed development; and

— the ongoing operation of the proposed commercial development on the site (including the office and retail space, the hotel and the conference centre), split by phase, including the potential impact of increased visitors to Bristol associated with the conference centre facility[62].

Due to a lack of available data and information at this stage, we have been unable to quantitatively assess all of the potential economic impacts that could be generated through the proposed Temple Island development. The following aspects have not been included in our quantitative analysis:

— The economic impacts associated with the construction of Phase 2 of development.
  - As Phase 2 of the development is dependent on Phase 1 being completed and the detailed planning for this has not fully advanced, the potential construction costs associated with Phase 2 have not been estimated. We have therefore been unable to estimate the potential economic impacts that would be generated through the construction of Phase 2 of the Temple Island development.
— Any wider developments on adjacent sites that may be catalysed as a result of the development of the Temple Island site.
  - BCC has stated orally to KPMG that it considers that the development of Temple Island could encourage the development of adjacent undeveloped sites. However, which sites and the potential scale, type and timing of any catalysed development have not yet been identified and there is some uncertainty associated with this. We have therefore been unable to quantify the potential impact. Section 6.5 below sets out our qualitative assessment of potential wider impacts associated with catalysed development.

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

— Deadweight: the extent to which the outcomes would have occurred without the project being brought forward.

— Displacement: the extent to which the project could offset economic activity elsewhere.

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

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

In addition, we have discounted our net economic benefit estimates (both GVA and employment impacts) for optimism bias. As defined in the HM Treasury Green Book, optimism bias is the proven tendency for appraisers to be over-optimistic about costs and benefits. In line with best practice and the HM Treasury Green Book, we have assumed an optimism bias discount of 10%.

The construction impacts are captured only for the years in which construction takes place as they would not persist beyond this. We then estimate the economic impacts for 25 years from the year Phase 1 of the development becomes operational in 2023, through to 2047. While the useful life of the developments will extend beyond this appraisal period (and hence the analysis would underestimate the overall economic contribution of the scheme over its full life), this timescale has been used so that the results are directly comparable to previous assessments of the economic impacts and VFM of proposed developments on the site.

The net economic impacts we estimate are presented in our analysis in Net Present Value (NPV) terms in 2020 prices, applying a social time preference rate (STPR) discount rate of 3.5%, based on the HM Treasury Green Book guidance.

Our analysis has relied upon data and information provided to us by BCC as of 13 December 2019. We note, however, that the plans for the Temple Island site are being developed and agreed with L&G. Therefore, the analysis should be viewed as indicative only, and is predicated on the deliverability of the scheme and the achievement of BCC's projections in terms of developed floorspace, use, occupancy, and timescales for construction and completion.

If as the development plans for Temple Island progress more data and information become available we recommend that the analysis is revisited and the economic impact and overall VFM assessments are updated accordingly.

6.2 Potential economic impacts associated with the construction of Phase 1 of the Temple Island development

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

However, any impacts will be generated for a limited time only - over the construction period. At present, information provided by BCC indicates that the construction of the developments will be spread over two phases:

— Phase 1: running from 2021 to 2025; and

— Phase 2: running from 2028 to 2029.

To inform our estimates of the construction impacts BCC has provided us with cost estimates for the construction of the residential and commercial developments, on both a per square foot basis and a total basis. BCC estimates these construction costs to be [redacted] for Phase 1. As we note above in Section 6.1, we have not been provided with construction cost estimates for Phase 2

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of the development. We have therefore been unable to estimate the economic impacts associated with this phase of construction.

In advance of construction commencing, enabling works will be undertaken by BCC. Over the period this work is underway this activity will have GVA and employment associated with it. These impacts are not included in our economic impact assessment of the proposed development, however, as BCC has indicated that the works would need to be undertaken in any case.

6.2.1 Gross GVA impacts associated with the construction of Phase 1 of the Temple Island development

We have estimated the direct GVA associated with the construction of the development by applying the relevant GVA to output ratio sourced from the ONS for the construction industry to the overall estimated cost of construction[63]. Indirect and induced GVA has been estimated by applying Type I and Type II GVA multipliers[64] to the estimated direct GVA[65].

Overall, we estimate that [redacted] would be generated in gross GVA[66] through the construction of Phase 1 of the development, over the period 2021 to 2024.

Figure 10 below sets out our gross GVA estimates split by direct, indirect and induced impacts

Figure 10: Gross GVA (in nominal terms) associated with the construction of Phase 1 of the Temple Island development

	Direct	Indirect	Induced	Total
Phase 1 Gross GVA	[redacted]	[redacted]	[redacted]	[redacted]

Source: KPMG analysis

6.2.2 Gross employment impacts associated with the construction of Phase 1 of the Temple Island development

The construction of the development will also have employment associated with it for the duration of the construction period, potentially creating some permanent jobs.

We have estimated the potential level of direct employment associated with construction based on the direct GVA (as estimated in Section 6.2.1) and the average GVA per FTE for the construction industry sourced from the ONS[67]. Indirect and induced employment have been estimated by applying the industry Type I and Type II employment multipliers[68] to the estimated direct employment.

We estimate that 1,163 gross FTE temporary jobs would be generated through the construction of the Temple Island development, over the construction period in Phase 1 from 2021 to 2024.

We have adjusted our employment estimates to be in permanent terms, using the standard economic appraisal assumption that 10 person-years of employment is equivalent to one permanent FTE job.

[63] Ratio used is relevant to SIC 41: Construction of buildings. Ratio is sourced from Office for National Sta is ics (2019) Input-output supply and use tables 2017.
[64] Type I multipliers capture the direct and indirect effects. Type II multipliers also include the induced impacts.
[65] Multipliers used are relevant for SIC 41: Construction of buildings. Multipliers are sourced from: ONS 2015 Input-Output Analytical Tables, Multipliers and effects. Available at: https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/datasets/ukinputoutputanalyticaltablesdetailed; and Scottish Government Type I & Type II, output, income, employment and GVA multipliers Scotland 1998-2016 (SIC 2007 basis). Available at: https://www2.gov.scot/Topics/Statistics/Browse/Economy/Input-Output/Downloads/IO1998-2015L1.
[66] Gross GVA has not been adjusted for additionality and is presented in nominal terms.
[67] Input-output supply and use tables, ONS 2015 Input-Output Analytical Tables, Multipliers and effects. Available at: https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/datasets/inputoutputsupplyandusetables
[68] Scottish Government Type I & Type II, output, income, employment and GVA multipliers Sco land 1998-2016 (SIC 2007 basis). Available at: https://www2.gov.scot/Topics/Statistics/Browse/Economy/Input-Output/Downloads/IO1998-2015L1.

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Based on this approach, we estimate that 116 gross permanent FTE jobs would be generated through construction of Phase 1 of the Temple Island development.

Figure 11 below sets out our gross employment estimates for Phase 1, split by direct, indirect and induced impacts. These are adjusted to be in permanent FTE terms.

Figure 11: Gross employment (in permanent FTE terms) associated with the construction of Phase 1 of the proposed Temple Island development

	Direct	Indirect	Induced	Total
Phase 1 Gross employment	[redacted]	[redacted]	[redacted]	[redacted]

Source: KPMG analysis

6.2.3 Consideration of additionality and net economic impacts

As set out in Section 6.1 above, we have considered the additionality of any economic impacts in order to estimate the net economic impacts of the proposals.

We have set out our assessment of the estimated level of additionality associated with the construction of the proposed Temple Island development in Figure 12 below.

Figure 12: Assessment of the additionality of the construction of Phase 1 of the proposed Temple Island development

Additionality factor	Estimated level	KPMG assessment
Deadweight	-	As there are presently no competing proposals for the development of the Temple Island site, and as we consider that there is a clear rationale for public sector intervention to bring forward a development on the site, we consider that the counterfactual would be that without the BCC support, development of the site would not be brought forward in the near future. It may be that some alternative proposal requiring a potentially different level of public support may be brought forward at some point over the 25 year appraisal period if the current proposed development did not proceed. The location of the site within the BTQEZ, the close proximity to the Temple Meads station and the wider redevelopment of the surrounding area means that the site is unlikely to continue to remain vacant over the long-term (although we note that it has already been vacant for a considerable period of time). However, what an alternative development proposition for the site might be, potential timelines for this and whether any public sector funding would be required to deliver it is unclear. As a result, for the purposes of our analysis we have assumed there is no deadweight associated with the public sector funding of the proposed Temple Island development. Therefore, the gross construction impacts are not adjusted for any deadweight.
Displacement	10%	The construction activity is expected to take place over a reasonably prolonged period (approximately 3 and a half years for Phase 1, with Phase 2 to be developed thereafter). L&G has developed the plans for the Phase 1 construction.

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		The latest ONS construction output statistical bulletin[69] indicates that while UK construction output increased slightly in Quarter 3 2019, compared with the previous quarter, and since the start of 2017 the industry has experienced a slightly positive trend in growth, this is "markedly slower growth" compared to the period prior to 2017. This suggests that there is capacity for the sector to expand further to meet demand. As a result of these factors, we consider that the Temple Island development would have very limited levels of displacement from other major construction projects across the UK. Local market conditions may affect this though. Therefore, we have assumed a very low level of displacement in our analysis at 10%, based on the HE Additionality Guide. [70] It should be noted that this assessment could change if new, currently unplanned developments – especially those of a large nature – were to be brought forward in Bristol and the wider West of England area over the same time period that would significantly increase demand for the construction industry. It could also change if there were any supply-side shocks significantly affecting the availability of construction workers. We suggest monitoring this at frequent stages in the period leading up to the start of the construction and throughout the phases of construction of the development to determine if displacement may be higher.
Leakage	17.5% for indirect and induced impacts at a West of England level. 25% for indirect and induced impacts at a Bristol level.	Due to the location of the Temple Island development, the direct construction activity will be undertaken in Bristol and as a result, we would expect the direct impacts of construction to be retained in Bristol and the West of England. Through the supply chain, there will be a level of leakage of economic activity and employment outside of the Bristol and West of England area given that construction suppliers, and the suppliers through the rest of their supply chains will be spread across the UK and to some extent internationally. To reflect these supply chains and the associated leakage of impacts, at the West of England level we assumed a low to medium leakage rate for the construction impacts of 17.5% and a medium level of leakage of 25% at the Bristol level, which are applied to the gross indirect impacts. These rates are based on the levels detailed in the HE additionality guidance.[71] The same levels of leakage are assumed for the induced impacts given that the location of wage spending of indirect employees is likely to also to be spread across the UK, similar to the supply chain spending.[72] It should be noted that the leakage rates adopted in our analysis may overestimate the levels given that evidence set out in BEIS guidance[73] suggests a mean leakage level for 'regeneration through physical infrastructure' projects of 14.1% and 10.4% at a sub-regional[74] and regional level respectively.[75]

[69] ONS Construction output statistical bulletin September 2019. Available at https://www.ons gov.uk/businessindustryandtrade/constructionindustry/bulletins/constructionoutputingreatbritain/september2019
[70] Homes England, Additionality Guide (2014)
[71] Homes England, Additionality Guide (2014)
[72] We note that wider supply chains may also be international. The UK level economic multipliers used it he analysis already take account of leakage of impacts outside the UK. Therefore, this is not adjusted for in our additionality assessment.
[73] Formerly the Department for Business Innovation & Skills (BIS).
[74] A sub-region is defined as any spatial area that covers the very local (e.g. 5 miles) through to the local authority district.
[75] BIS (2009) BIS Occasional Paper No. 1: Research to improve the assessment of additionality.

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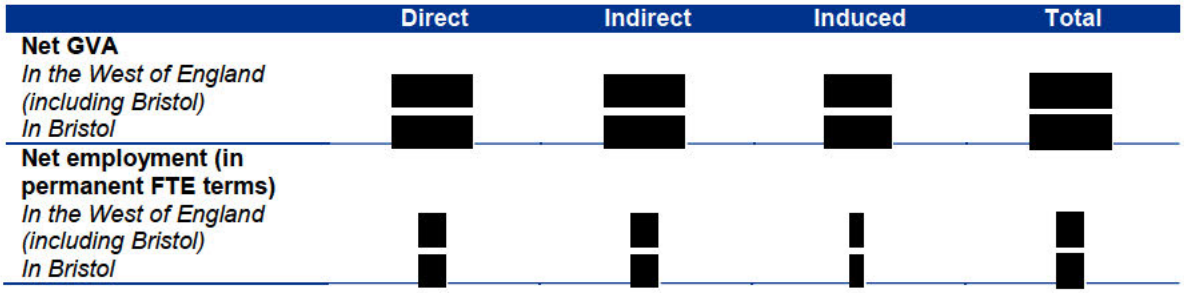
Source: KPMG analysis

By applying the additionality assumptions set out above to the gross impacts we have estimated the net GVA and employment associated with the construction of the proposed alternative development on Temple Island. Our estimates of net impacts for the total construction period are set out in Figure 13 below.

Figure 13: Net GVA impacts associated with the construction of Phase 1 of the proposed Temple Island development



Source: KPMG analysis

It should be noted our estimates of net impacts are based on current information, and our assumptions of additionality. As plans progress, and if any of the assumptions change and/ or more detailed information and evidence becomes available, similar to the assessment of gross impacts, it would be advisable for BCC to consider whether the analysis of net impacts can be updated to reflect the latest position.

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

Our quantitative analysis of the economic impacts associated with the ongoing operation of the proposed commercial development on the site (including the office and retail space, the hotel and the conference centre) is set out below.

We also separately assess in Section 6.3.2, the potential economic impacts associated with the spending of increased visitors to Bristol associated with the conference centre facility and hotel.

We note that while the residential developments would also generate economic impacts through the residents' additional spending with local businesses, resulting from the increase in the local population, HE guidance states that where a development is mixed use this additional spending should not be captured separately[76]. It considers that only the economic output (GVA and employment) associated with the commercial aspects of the development should be estimated and not impacts from any residential aspects, to avoid the double counting of impacts in the analysis.

[76] Homes England, Additionality Guide. Fourth edi ion (2014)

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6.3.1 The potential economic impacts associated with the proposed commercial, conference centre and hotel developments on the Temple Island site

6.3.1.1 Gross employment impacts

When the developments are constructed and occupied the ongoing activity that will take place at the site will generate economic activity. For example, the operation of the businesses located in the commercial developments on the Temple Island site will generate economic impacts directly, as well as indirectly through spending with suppliers and in induced terms through direct and indirect employees' spending of wages within the economy.

BCC has provided KPMG with estimates of the proposed floorspace allocated to commercial use (13,357 net sq m) and to the conference facility (10,300 sq m) for the Temple Island development. At present BCC plans that the commercial floorspace will consist of retail space on the ground floor and office space on all other floors. BCC has also provided KPMG with estimates of the number of room keys for the proposed hotel (250).

To estimate the economic impacts associated with the commercial developments and the conference centre, we have estimated the employment associated with the developments based on using the floorspace estimates and applying the relevant HE employment densities to the net internal area floorspace dedicated to different uses[77]. The direct employment estimates take into account the expected occupancy rate of the developments, as provided by BCC. These are presented in more detail in Section 6.1.

The direct employment estimates associated with the hotel have been estimated by applying the HCA employment densities to the hotel's number of beds (which BCC assume to be the same as the number of room keys). The hotel is assumed to be fully operational upon completion, although the employment densities applied will reflect that hotels do not operate at full occupancy throughout the year.

Overall direct employment estimates are the sum of the direct employment generated by the commercial floorspace, the conference centre and the hotel.

Direct employment estimates increase over time based on the phasing of the development coming forward and when specific elements of the development are constructed and then become operational:

— Phase 1: Our analysis indicates that in year 2023 (the first – incomplete - year of operation), an estimated 72 gross direct FTE jobs are expected to be supported through the operations of the development of the Temple Island site, rising to 1,174 gross direct FTE jobs by year 2027. All of the commercial floorspace proposed will be brought forward in Phase 1 of the Temple Island development.

— Phase 2: Through the further development of the hotel and conference centre, which are expected by BCC to become operational in 2030, an additional 272 gross direct FTE jobs will be created from year 2031 – the first full year of Phase 2 operations.

Based on the estimates of direct employment, we have also estimated the wider indirect and induced employment that could be generated through the ongoing economic activity at the Temple Island site. Indirect and induced employment have been estimated by applying the relevant Type I and Type II

[77] Ibid.

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employment multipliers to direct employment estimates. These are presented in more detail in Appendix 1.

Figure 14 below sets out the direct, indirect and induced employment estimates and the phasing of this employment over time based on the BCC development plans. Overall, for Phase 1 we estimate that the Temple Island development could generate up to 1,826 gross FTE jobs from 2027 and 2,237 total gross FTE jobs once Phase 2 is fully operational.

Figure 14: Gross employment in annual FTE terms from the proposed commercial and hotel and conference centre developments

	2023	2024	2025	2026	2027	2028	2029	2030	2031 onwards
Phase 1									
Direct	72	398	783	1,071	1,174	1,174	1,174	1,174	1,174
Indirect	30	162	319	436	479	479	479	479	479
Induced	11	59	116	158	173	173	173	173	173
Phase I Total[78]	**113**	**618**	**1,218**	**1,665**	**1,826**	**1,826**	**1,826**	**1,826**	**1,826**
Phase 2									
Direct	-	-	-	-	-	-	-	136	272
Indirect	-	-	-	-	-	-	-	52	104
Induced	-	-	-	-	-	-	-	18	35
Phase II Total[79]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**205**	**411**
Combined[80] (Phase 1 + Phase 2)	**113**	**618**	**1,218**	**1,665**	**1,826**	**1,826**	**1,826**	**2,032**	**2,237**

Source: KPMG analysis
Notes: Estimates increase as facilities become operational over time. The maximum is the employment generated in year 2031, which is expected to be maintained through to 2047.

6.3.1.2 Gross GVA impacts

The economic activity taking place on the Temple Island site after the developments become operational means that there will be economic output generated on an ongoing basis while the buildings remain occupied. This GVA will be generated through the operation of the businesses that occupy the Temple Island development, including the hotel and conference centre facilities.

At present there are no forecasts relating to the likely financial performance of the occupants of the commercial developments. Such information is unlikely to be available to BCC before any occupants are identified and contracts are put in place. Therefore, rather than being able to use firm level financial information to estimate more precisely the potential levels of economic output in terms of GVA of the occupants, we have conducted the appraisal using a more high level approach drawing on official national statistics for the relevant sectors in which the occupants for the developments expected by BCC operate. Such data reflects UK average firm performance in the sector.

Using the direct employment estimates set out in Section 6.3.1.1, we have estimated the direct GVA associated with this employment by applying the relevant sector level of GVA per FTE, sourced from the ONS[81]. We estimate that the gross annual direct GVA associated with the Temple Island

[78] Values may not sum to the reported total due to rounding.
[79] bid.
[80] Ibid.
[81] Multipliers used are relevant for SICs: 47: Retail trade, except of motor vehicles and motorcycles, 70: Activities of head offices; management consultancy activities, 55: Accommodation, 82: Office administrative, office support and other business support activities (which includes

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development in year 2023 could be £4.4m, rising to £71.8m in 2027. The gross GVA generated across 25 years, from year 2023 to 2047 could be £2,043.8m.

Indirect and induced GVA impacts have been estimated by applying the relevant Type I and Type II GVA multipliers to the direct GVA estimates[82]. Multipliers are presented in more detail in Appendix 1. We have estimated that the development could generate £1.3m in 2023, rising to £20.8m in 2027 in indirect GVA. Phase 2 could add another £6.2m in indirect GVA once it is fully operational. Induced GVA impacts are likely to be £0.6m in 2023, rising to £9.8m in 2027. Phase 2 is expected to add another £3.4m in induced GVA once it is fully operational.

Figure 15 below sets out the estimates of gross GVA per annum over time.

Figure 15: Gross GVA (in nominal terms) impacts generated through the operation of the proposed commercial, hotel and conference centre developments by phase

	2023	2024	2025	2026	2027	2028	2029	2030	2031 onwards
Phase 1									
Direct	£2.5m	£13.9	£27.5m	£37.6m	£41.2m	£41.2m	£41.2m	£41.2m	£41.2m
Indirect	£1.3m	£7.0m	£13.8m	£18.9m	£20.8m	£20.8m	£20.8m	£20.8m	£20.8m
Induced	£0.6m	£3.3m	£6.5m	£8.9m	£9.8m	£9.8m	£9.8m	£9.8m	£9.8m
Phase I Total[83]	**£4.4m**	**£24.3m**	**£47.8m**	**£65.4m**	**£71.8m**	**£71.8m**	**£71.8m**	**£71.8m**	**£71.8m**
Phase 2									
Direct	-	-	-	-	-	-	-	£6.4m	£12.9m
Indirect	-	-	-	-	-	-	-	£3.1m	£6.2m
Induced	-	-	-	-	-	-	-	£1.7m	£3.4m
Phase II Total[84]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**£11.3m**	**£22.5m**
Combined[85] (Phase 1 + Phase 2)	**£4.4m**	**£24.3m**	**£47.8m**	**£65.4m**	**£71.8m**	**£71.8m**	**£71.8m**	**£83.1m**	**£94.3m**

Source: KPMG analysis

6.3.1.3 Consideration of additionality and net impacts

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

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

We have considered the potential additionality associated with the ongoing operation of the Temple Island development and the appropriate additionality factors to apply in the analysis to estimate net impacts. Figure 16 below sets out our assessment.

Organisa ion of conventions and trade shows). Multipliers are sourced from: Input-output supply and use tables, ONS. Available at: https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/datasets/inputoutputsupplyandusetables

82 Scottish Government Type I & Type II, output, income, employment and GVA multipliers Scotland 1998-2016 (SIC 2007 basis). Available at: https://www2.gov.scot/Topics/Statistics/Browse/Economy/Input-Output/Downloads/IO1998-2015L1.

83 Values may not sum to the reported total due to rounding.

84 bid.

85 Ibid.

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Figure 16: Assessment of the additionality of the operation the proposed commercial, hotel and conference centre developments

Additionality factor	Estimated level	KPMG assessment
Deadweight	-	As explained in Figure 12, based on the current lack of competing proposals for the site, the likelihood of a need for public sector funding to also bring a different proposal forward (if and when it were to emerge if the current plans do not proceed), and uncertainty over what any alternative would be (including in terms of nature and scale, timing and funding requirements), for the purposes of our analysis we have assumed there is no deadweight associated with the public sector funding of the proposed Temple Island development. Therefore, similar to the gross construction impacts, the gross impacts associated with the ongoing operation of the proposed Temple Island developments are not adjusted for any deadweight.
Displacement		We have considered the displacement that may be associated with the operation of the proposed commercial floorspace (both office and retail floorspace), the proposed conference centre and hotel developments. This displacement would reflect the extent to which any activity (economic output and employment) on this site reduces activity elsewhere in the economy. In the context of this economic appraisal, we consider potential displacement at the West of England level. We would expect there to be different levels of displacement associated with each of the different uses of buildings within the proposed development, therefore we have assessed each in turn below.
	20%	**Commercial office space** To assess the extent to which the proposed commercial office space will displace other economic activity, we have first considered the supply and demand for office space within Bristol. A draft report prepared by JLL for BCC[86] found that [redacted] Displacement is likely to be higher at the West of England level than the Bristol level given that business may choose to relocate from the wider region to Bristol city centre, especially as the JLL report highlights that office occupiers are increasingly preferring central

[86] JLL, Employment Land Study – draft report for Bristol City Council (2019). The final draft is currently being finalised.
[87] We note that the increased availability of office space in the Bristol areas following the development of office blocks on the Temple Island site may, to some extent, push down the rental prices. Such price changes are not captured in our analysis as, due to a lack of data, we do not include economic impacts associated with any rental income from the developments.

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	locations that are easily accessible. Overall, however, we consider that there would be a relatively low level of displacement (based on the HE Additionality Guide[88] benchmark figures) for the ongoing operation of the commercial office developments.
50%	**Retail floorspace** With regards to the modest retail offer on the site, BCC envisages that the space would likely be occupied by a mix of local, independent businesses and business chains. Within its vision document, BCC has stated that any retail offer will be carefully chosen with the aim of it supporting the wider site, e.g. providing the retail offer that residents and businesses on the site may need. Furthermore, BCC has stated that it intends to curate the retail offer such that it adds value to, and supports, the wider developments on the site, rather than directly compete with retail businesses in the city centre. Despite the objectives of BCC for the retail offer on the proposed Temple Island site, we consider that it would be appropriate to apply a medium level of displacement of economic activity associated with it in our analysis, given recent trends in retail sector performance including a reduction in new store openings and high levels of store closures. PwC reports that in the South West of England, (which covers the Bristol area) in 2018 there was a net change of -205 store openings/closures.[89]
20%	**Conference centre** BCC has identified a market gap in the delivery of quality, large-scale conference venues in the local area.[90] [redacted] While we consider that displacement at the Bristol level is likely to be limited, it is likely to be higher at the West of England level, given the way in which the new Temple Island conference centre would compete with other facilities in this wider area. Overall, however, we consider a 20% displacement level to be reasonable to assume. This aligns to a low level of displacement in the HE guidance.
20%	**Hotel** Similar to the events market, through the Temple Island development, BCC expects the new hotel development to be able to capitalise on the high demand for hotel rooms in the Bristol area. The proposed hotel will be an upscale "HQ" type of hotel, strategically –and potentially physically - linked to the planned conference centre. A report commissioned by BCC[92] found that there are no 5-star hotels situated within a 1.5 mile radius of Temple Island and only two 4-star hotels in the area, with the majority of

[88] Homes England, Additionality Guide (2014).
[89] https://www.pwc.co.uk/press-room/press-releases/High-street-exits-remain-at-historic-high-as-openings-slump-to-lowest-levels-on-record.html
[90] IPW report for BCC (2019). The optimum facility for Bristol
[91] Ibid.
[92] Ibid.

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		room supply dating from pre-2000. The report also notes that there are a number of hotel developments being planned [redacted] The evidence also suggests there is insufficient capacity to meet demand for the quality of hotel planned for the Temple Island site, particularly as the Bristol tourist market grows over time. Hotel capacity is also constrained in other local cities, such as Bath. Due to these factors, we have applied a low level of displacement in our analysis to reflect the view that although there may be some degree of displacement from existing hotel provision in the local area, this is likely to be limited.
Leakage	17.5% at a West of England level 20% at a Bristol level	Given that economic activity will take place on the Temple Island site, the direct economic impacts will be retained in the Bristol economy, without leakage. However, indirect and induced economic impacts will leak out of the local area to some extent, reflecting the national supply chains (both direct suppliers and those through the wider supply chains) for the businesses locating on the site The level of leakage from the Bristol and the West of England areas will depend to some extent on the degree to which the businesses that occupy the commercial space on the Temple Island site source from the local region. If the businesses have predominantly local supply chains the level of leakage will be relatively low, although wider supply chains (their suppliers' suppliers and so on) will span across the West of England and UK more widely[93]. However, if the occupying businesses source a high proportion of their supply chains from outside of the West of England region, there will be a relatively higher level of leakage of economic impacts outside of the region. As we currently do not know which businesses will occupy the commercial space on the site, nor do we have any evidence as to the nature of their supply chains we consider it reasonable to assume, a low to medium level of leakage (17.5%) at the West of England level and a medium level of leakage (20%) at a Bristol level. These leakage rates are sourced from the HE Additionality Guide[94]. It should be noted that the leakage rates adopted in our analysis may overestimate the levels given that evidence set out in BEIS guidance[95] suggests a mean leakage level for 'regeneration through physical infrastructure' projects of 14.1% and 10.4% at a sub-regional[96] and regional respectively[97].

Source: KPMG analysis

Taking into account the estimated additionality factors set out in Figure 16 we have estimated the net economic impacts associated with the proposed development of the Temple Island site. It should be noted our estimates of net impacts associated with the ongoing operation of the proposed

[93] We note that wider supply chains may also be international. The UK level economic multipliers used it he analysis already take account of leakage of impacts outside the UK. Therefore, this is not adjusted for in our additionality assessment.
[94] Homes England, Additionality Guide (2014).
[95] Formerly the Department for Business Innovation & Skills (BIS).
[96] A sub-region is defined as any spatial area that covers the very local (e.g. 5 miles) through to the local authority district.
[97] BIS (2009) BIS Occasional Paper No. 1: Research to improve the assessment of additionality.

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development of Temple Island are based on current information, and assumptions of additionality levels.

In net terms, we estimate that the proposed developments on Temple Island could generate:

— between £2.5m and £35.6m in net GVA per annum (in NPV terms) in the West of England from the commercial developments in Phase 1 of the Temple Island development; and

— an additional £5.2m to £10.1m in net GVA per annum in the West of England is generated through the conference centre and hotel as part of Phase 2 of the Temple Island development.

In total, over a 25 year period, the Temple Island development could generate £753.2m in net GVA (in NPV terms); of which £616.1m is generated through the Phase 1 developments and £137.0m is generated through the Phase 2 developments. Furthermore, the Temple Island development could generate a total of 1,456 net FTE jobs in the West of England; of which 1,182 would be generated through Phase 1 and 274 through Phase 2.

Figure 17: Net GVA and employment (in FTE terms) associated with the operation of the proposed commercial, hotel and conference centre developments by Phase

	Net GVA		Net employment (in FTE terms)	
	West of England	Bristol	West of England	Bristol
Phase 1 25 years (in NPV terms)	£616.1m	£606.8m	1,182	1,168
Phase 2 25 years (in NPV terms)	£137.0m	£135.0m	274	271
Combined 25 years (in NPV terms)	£753.2m	£741.8m	1,456	1,439

Source: KPMG analysis

It should be noted that our assessment of the net impacts and additionality is based on the current plans for the Temple Island site and the current demand and supply for office space, conference venues and hotels rooms in the area. Given this, and the degree of uncertainty relating to the potential for it to displace existing (and future) office and retail developments within Bristol and the West of England, and the extent to which economic benefits will be retained in the local area, we consider it important to keep the expected levels of additionality under review. If any of the assumptions change and/ or more detailed information and evidence becomes available, it would be advisable for BCC to consider whether the analysis of net impacts can be updated to reflect the latest position.

In Section 7.1.2, we also include a sensitivity analysis which assesses the impact on the overall value for money of the scheme if the overall additionality factors are increased, as well as impact of changes to other key inputs to the analysis.

6.3.2 The potential economic impacts associated with spending of additional visitors to Bristol

With the proposed development of a hotel and conference centre in Phase 2 of the Temple Island development plans, the availability of these facilities means that there are likely to be additional visitors to Bristol, both to attend conferences and to visit the city more generally, accommodated by the additional high quality hotel capacity. To the extent to which new visitors come to Bristol and spend more widely in the local economy (outside of the conference centre and hotel themselves) there will be additional economic impacts, not captured in the analysis included in earlier sections of this report.

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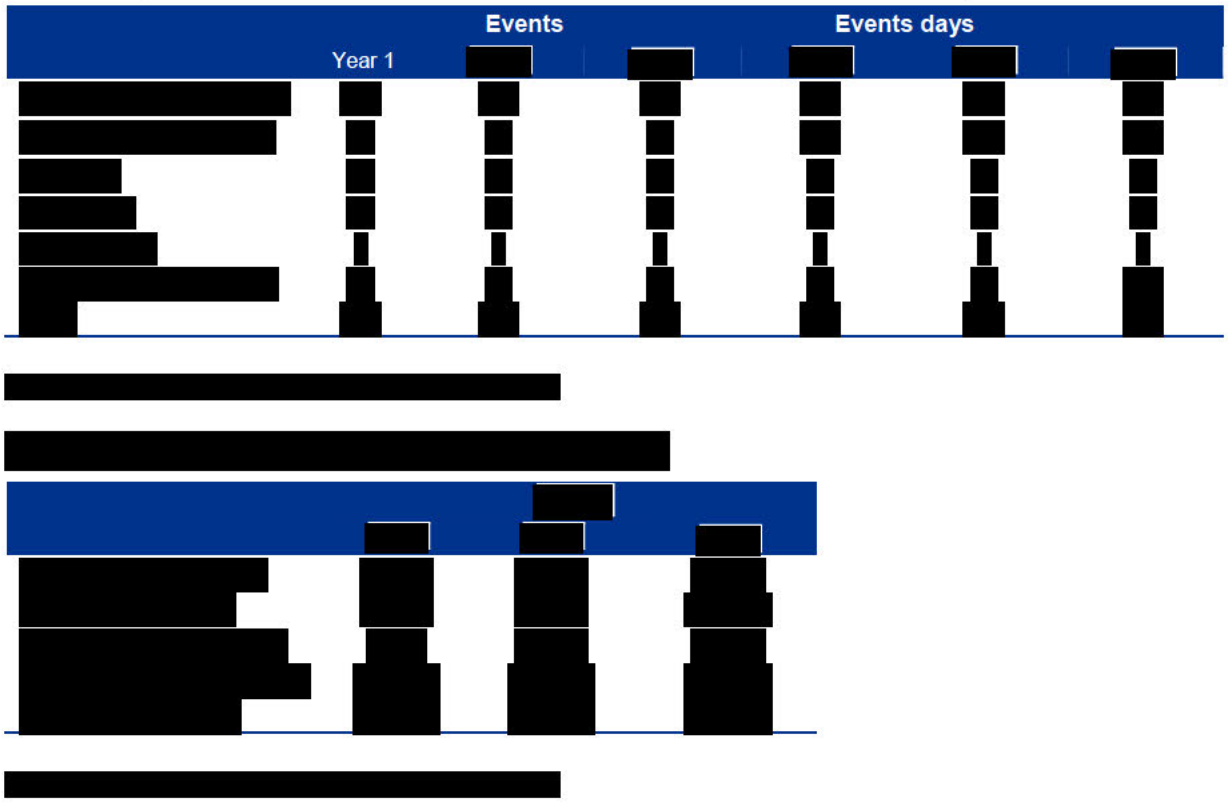
We estimate these potential impacts below, based on the information currently available from BCC in relation to these facilities and expected visitor numbers and agreed assumptions for the analysis.

6.3.2.1 Gross GVA and employment impacts associated with delegate spending

BCC has provided KPMG with details of the proposed conference facility and the initial business plan to support this prepared by IPW[98]. This includes annual estimates of the number of delegates for the proposed conference centre when it becomes operational.

The IPW report indicates tha [redacted]



Details were not available from BCC on expected number of hotel guests. Therefore, for the purposes of our analysis, we have estimated the potential number of overnight guests at the hotel. The hotel is proposed to have 250 rooms. Assuming all of these rooms are for 2 people, the maximum capacity

[98] IPW report for BCC (2019). The optimum facility for Bristol.

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would be 500 people per night, and 182,500 per annum (assuming 365 days opening). Or if each room were to only be occupied by a single person this would be 91,250.

However, it is unlikely that the hotel would operate at full occupancy throughout the year. Data from Destination Bristol indicates that average upscale hotel occupancy in Bristol in 2018 was 79.2%[99]. If the proposed Temple Island hotel were to operate at this same level of occupancy it would accommodate between [redacted] and [redacted] guests per annum – depending on whether rooms are occupied by one or two guests.

In terms of the potential number of hotel visitors, [redacted]. Based on assumptions agreed with BCC[100], Figure 20 sets out the proportions used for the analysis.

Figure 20: Number of visitors at the new hotel by visitor type

	Year	
	2030	2031 onwards
Conference delegates	[redacted]	[redacted]
Other visitors	[redacted]	[redacted]
Total visitors	[redacted]	[redacted]

[redacted]

Each of the conference delegates and additional hotel guests may also spend in the wider Bristol area while staying.

Destination Bristol and Visit Britain capture data on average spend of visitors to the city (both day visitors and overnight visitors). This captures different types of spend associated with their visit, for example on retail, food and drink, travel and entertainment.

While this spend profile of average visitors to Bristol is likely to reflect well the spending of the non-conference delegate hotel guests (and therefore this is used in our analysis), the spend profile of conference delegates is likely to be different. For the purposes of our analysis, we have assumed that they would not spend on entertainment and retail as part of their visit.

Taking the spending figures, by area of spend, for the different types of visitors to Bristol that may stay at the proposed new Temple Island hotel, we have estimated the direct GVA associated with this by applying the relevant GVA to output ratio for the sector in which spending occurs to total estimated visitor spending by sector[101].

The associated indirect and induced GVA has been estimated by applying the Type I and Type II GVA multipliers to these estimated direct GVA figures, by sector[102].

[99] This information has been provided via email by Visit Bristol. Please contact Visit Bristol for more information.

[100] [redacted]

[101] Multipliers used are relevant for SICs: 47: Retail trade, except of motor vehicles and motorcycles, 49.1: Passenger Rail Transport, 55: Accommodation, 56: Food and Beverage service activities, 90: Creative, arts and entertainment activities. Multipliers are sourced from: Input-output supply and use tables, ONS. Available at: https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/datasets/inputoutputsupplyandusetables

[102] Scottish Government Type I & Type II, output, income, employment and GVA multipliers Scotland 1998-2016 (SIC 2007 basis). Available at: https://www2.gov.scot/Topics/Statistics/Browse/Economy/Input-Output/Downloads/IO1998-2015L1.

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Overall, we estimate that £72.0m of gross GVA would be generated by Temple Island hotel and conference centre visitor spending over the period 2029 (when it is assumed the conference centre and hotel become operational) to 2047 (the final year of our appraisal period).

There will also be employment associated with this economic activity. This has been estimated by applying the average GVA per FTE, by sector of spending, to the estimated direct GVA[103]. The associated indirect and induced employment has been estimated by applying the sector-specific Type I and Type II employment multipliers to the estimated direct employment[104].

On this basis we estimate that 90 gross FTE jobs could be generated by visitor spending over the appraisal period.

Figure 21 below sets out our estimates of gross GVA and employment associated with estimated delegate spending, split by direct, indirect and induced impacts.

Figure 21: Gross GVA (in nominal terms) and employment associated with potential visitor spending

	2023	2024	2025	2026	2027	2028	2029	2030	2031 onwards
Gross GVA									
Direct	-	-	-	-	-	-	-	£1.1m	£2.1m
Indirect	-	-	-	-	-	-	-	£0.7m	£1.5m
Induced	-	-	-	-	-	-	-	£0.3m	£0.5m
Total[105]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**£2.1m**	**£4.1m**
Gross employment (FTE terms)									
Direct	-	-	-	-	-	-	-	27	55
Indirect	-	-	-	-	-	-	-	14	28
Induced	-	-	-	-	-	-	-	4	8
Total[106]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**45**	**90**

Source: KPMG analysis

6.3.2.2 Consideration of additionality

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

Figure 22 below sets out our assessment of the additionality factors to apply in the analysis of the estimated impacts arising from Temple Island hotel and conference centre visitor spending in Bristol.

[103] Multipliers used are relevant for SICs: 47: Retail trade, except of motor vehicles and motorcycles, 49.1: Passenger Rail Transport, 55: Accommodation, 56: Food and Beverage service activities, 90: Creative, arts and entertainment activities. Multipliers are sourced from: Input-output supply and use tables, ONS. Available at: https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/datasets/inputoutputsupplyandusetables

[104] Scottish Government Type I & Type II, output, income, employment and GVA multipliers Scotland 1998-2016 (SIC 2007 basis). Available at: https://www2.gov.scot/Topics/Statistics/Browse/Economy/Input-Output/Downloads/IO1998-2015L1.

[105] Values may not sum to the reported total due to rounding.

[106] Ibid

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Figure 22: Assessment of the additionality of the economic impacts arising from visitor spending

Additionality factor	Estimated level	KPMG assessment
Deadweight	-	In line with our assumptions that there would not be deadweight associated with the ongoing operation of the conference centre (see Figure 16 for the explanation of this assumption), our analysis also assume no deadweight associated with conference delegate spending.
Displacement	20%	The level of displacement associated with conference centre delegate spending and other hotel guest spending will depend to a large extent on whether they would have visited Bristol in any case if the new facilities were not developed and whether their level of spending when visiting would differ. In line with our assessment of the displacement associated with the ongoing operation of the conference centre and hotel (see Figure 16), we consider that the visitor spending would have similarly low levels of displacement associated with it as these are likely to often be delegates that otherwise wouldn't be attending a conference in Bristol or the West of England region or visiting the area for an overnight stay in the case of non-conference delegate hotel guests.
Leakage	17.5% at a West of England level 20% at a Bristol level	The level of leakage related to conference delegate spending will be dependent upon where the spending of conference delegates takes place, as well as the location of the wider supply chains that service that spending. We consider that visitor spending is likely to be primarily focused in Bristol, but that some of the spending (e g. on transport) and the economic activity associated with the wider supply chains servicing spending are likely to be in a broader geographic area[107]. Therefore, we consider it reasonable to assume, a low to medium level of leakage (17.5%) at the West of England level and a medium level of leakage (20%) at a Bristol level. These leakage rates are benchmark figures sourced from the HE Additionality Guide[108]. It should be noted that the leakage rates adopted in our analysis may overestimate the levels given that evidence set out in BEIS guidance[109] suggests a mean leakage level for 'regeneration through physical infrastructure' projects of 14.1% and 10.4% at a sub-regional[110] and regional respectively[111].

Source: KPMG analysis

Taking into account the estimated additionality factors set out in Figure 22 we have estimated the net economic impacts associated with delegate spending. It should be noted our estimates of net impacts associated with delegate spending are based on current information, and assumptions of additionality levels. As plans progress, and more detailed information and evidence becomes available, particular around the expected number and type of hotel guests, it may be possible to more accurately estimate the ongoing net impacts associated with visitor spending.

[107] We note that wider supply chains may also be international. The UK level economic multipliers used it the analysis already take account of leakage of impacts outside the UK. Therefore, this is not adjusted for in our additionality assessment.
[108] Homes England, Additionality Guide (2014)
[109] Formerly the Department for Business Innovation & Skills (BIS).
[110] A sub-region is defined as any spatial area that covers the very local (e g. 5 miles) through to the local authority district.
[111] BIS (2009) BIS Occasional Paper No. 1: Research to improve the assessment of additionality.

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Applying these additionality factors, we estimate that, in net terms, the additional visitor spending in the local economy could generate between £0.9m and £1.8m in net GVA per annum in the West of England. In total, between 2023 and 2047, this additional visitor spending could generate £24.7m in net GVA (in NPV terms) and 59 net FTE jobs in the West of England.

Figure 23: Net GVA and employment (in FTE terms) associated with the operation of Temple Island in the West of England and Bristol

	Net GVA		Net employment (in FTE terms)	
	West of England	Bristol	West of England	Bristol
Total net impact from 2023 to 2047 (in NPV terms)	£24.7m	£24.3m	59	59

Source: KPMG analysis of BCC data

Similar to the wider analysis included in this report, these estimates are based on a number of assumptions, including the proposed Phase 2 development coming forward, and to the timeframe estimated by BCC, as well as the projections for number of conference delegates and hotel visitors and their estimated average spending. The additionality factors are also based on our assessment of the information currently available. Should any of these factors change, our analysis will need to be revisited and revised accordingly.

6.4 Business rates

The proposed development on Temple Island will generate business rates income for BCC. BCC has informed us that any business rates income from occupants of the Temple Island developments would be split between the West of England Economic Development Fund (EDF) pool (50%), BCC (49%) and the Fire Authority (1%).

The level of business rates generated will be dependent upon the level of occupied floorspace and the types of development on site. Using data and information provided by BCC, we have estimated that in Phase 1, the Temple Island site could generate from £0.2m to £0.9m per annum (in NPV terms) for Phase 1. This analysis suggests that up to an additional £0.4m per annum would be generated through the Phase 2 developments.

Using these annual business rates income estimates, we have estimated that over the 25 year appraisal period £21.0m in business rates, in NPV terms, could be generated through Phase 1 and Phase 2 developments. Of which, we estimate £10.3m would be retained by BCC.

Figure 24 illustrates how business rates are expected to be generated over time.

Figure 24: Total business rates associated with the operations of the Temple Island development (in NPV terms)

	Total (25 year NPV)
Phase 1	£14.7m
Phase 2	£6.3m
Total Temple Island development (Phase 1 + Phase 2)	**£21.0m**

Source: KPMG analysis of BCC information on Business rates

These estimates are based upon a high level appraisal of the potential business rates income that could be generated through the development of the Temple Island site. Any changes to the current plans for the site would likely impact the level of business rate income for BCC that would be associated with the development. Therefore, should the development plans change and/or when

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firmer details of the development and occupants are available, we suggest that this analysis is revisited.

6.5 Rents from lease

In addition to the economic impacts set out in Sections 6.2 to 6.4, BCC also expects to receive revenue from the leasing of the office space it will take up the head lease for. BCC expects rents from lease of this space to be [redacted] over the period 2023 to 2047. This figure is net of rent costs but does not factor in any other costs such as those related to maintenance. BCC has not yet estimated these costs but it will be important to factor these in to the analysis when detail becomes available.

6.6 Wider economic impacts

In addition to the GVA and employment economic impacts associated with the construction and ongoing operation of the proposed developments (as assessed in Sections 6.2 and 6.3 above), there may be wider economic impacts generated through the development of the Temple Island site, including impacts associated with any additional developments that development of this site may help to catalyse.

We understand from BCC that it considers the development of the Temple Island site, which will transform its longstanding vacant and derelict state, will enhance the general perception of the surrounding areas. It considers that this will help to generate business and developers interest in the area and potentially help to catalyse further development on the sites adjacent to Temple Island and across the river from the site.

As the Temple Island site is currently unused and has been for a number of years, we consider it is appropriate to conclude that the regeneration of the site into a mixed-use development as proposed, would likely generate positive spillover effects in the local area. However, the extent to which wider development in the local areas can be attributed to the proposed development of the Temple Island site considered in this study as opposed to other developments adjacent to this site, such as the UoB plans, QTIC and the station redevelopment is unclear. They are all likely to play a contributory role.

We also note that the level of potential economic impacts generated through any catalysed development will be dependent on the type and nature of the development brought forward. Generally, residential developments will generate economic activity in the short-run through construction and when sold, and some low-level ongoing economic activity associated with the spending of residents. On the other hand, commercial developments will typically generate greater economic impacts in the local economy through businesses direct activities, employment and supply chains. It will be important for the potential economic impact of any catalysed development to be assessed quantitatively, as and when the required information becomes available, and the specific role of the Temple island development in bringing such development should also be assessed in detail at that stage.

6.7 Summary of the economic assessment of the proposed development of the Temple Island site

Sections 6.2 to 6.6 above set out our assessment of the gross and net economic impacts that may be generated through the proposed development of the Temple Island site, specifically the potential economic impacts associated with:

— the construction of the proposed development[112]; and

[112] The construction impacts are captured only for he years in which construction takes place as they would not persist beyond this.

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— the ongoing operation of the proposed commercial development on the site (including the office and retail space, the hotel and the conference centre), split by phase, including the potential impact of increased visitors to Bristol associated with the conference centre facility[113].

This assessment has relied upon data and information provided to us by BCC as of 13 December 2019 and covers a 25 year appraisal period from the year Phase 1 of the development becomes operational in 2023, through to 2047.

The results of our analysis are summarised below.

Figure 25 shows the estimated gross GVA and employment estimates from 2023 to 2047 associated with each phase for the West of England and Bristol.

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

	Gross GVA	25 year totals Gross employment	Business rates
[redacted]	[redacted]	[redacted]	-
Phase 1 - Operation	£1,649.6m	1,826	£23.3m
Phase 2 - Operation	£394.2m	411	£6.9m
Phase 2 - Visitor spending	£72.0m	90	-
Total[114]	[redacted]	[redacted]	**£30.3m**

Source: KPMG analysis

Figure 26 shows the estimated net GVA and employment estimates from 2023 to 2047 associated with each phase for the West of England and Bristol, factoring in the estimated additionality of the proposed development (i.e. the economic activity that is additional to the local economy and would not arise in the absence of the project being brought forward) and applying a STPR discount rate of 3.5%, based on the HM Treasury Green Book guidance.

Figure 26: Net GVA (in NPV terms), employment (in FTEs) and business rate income associated with the proposed alternative development of Temple Island, on an annual basis and over 25 years

		25 year totals		
		Net GVA	Net employment	Business rates
[redacted]	[redacted]	[redacted]	[redacted]	-
West of England *(including Bristol)*	Phase 1 - Operation	£616.1m	1,182	£14.7m
	Phase 2 - Operation	£137.0m	274	£6.3m
	Phase 2 - Visitor spending	£24.7m	59	-
	Total[115]	[redacted]	[redacted]	**£21.0m**

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

[114] Values may not sum to the reported total due to rounding.
[115] Values may not sum to the reported total due to rounding.

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	[redacted]	[redacted]	[redacted]	-
	Phase 1 - Operation	£606.8m	1,168	£14.7m
Bristol	Phase 2 - Operation	£135.0m	271	£6.3m
	Phase 2 – Visitor spending	£24.3m	59	-
	Total[116]	[redacted]	[redacted]	**£21.0m**

Source: KPMG analysis

It should be noted that there remains some degree of uncertainty attached to our economic impact estimates given the current stage of the development plans and the extent to which detailed information and data was available to us from BCC. In particular, there is greater uncertainty attached to the Phase 2 developments given that Phase 2 is conditional on the completion of Phase 1 and on further agreement between BCC and L&G. If any of the assumptions made in our analysis change and/ or more detailed information and evidence becomes available, it would be advisable for BCC to consider whether the analysis of both gross and net impacts can be updated to reflect the latest position.

It should also be noted that our quantitative economic impact analysis excludes a range of impacts that it was not possible to assess at this stage due to either a lack of data and information that would be needed to be able to robustly estimate them, or due to their assessment being outside the scope of our study. Specifically, the analysis does not take account of:

— construction impacts associated with Phase 2 of the development;

— the potential impacts generated through the sale or letting of residential units developed on the site;

— any wider economic impacts that may arise, in terms of developments catalysed through the Temple Island site regeneration, (assessed qualitatively in our study based on views provided by BCC); and

— any wider social and environmental impacts that the development may deliver.

These factors have the potential to affect the economic impact of the proposed development of the Temple Island site as explained in further detail in Section 7.

[116] Ibid.

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7 Value for money assessment

7.1 VFM of the proposed Temple Island development

7.1.1 Economic VFM

In Section 5.1 above, we have assessed the potential economic impacts associated with the proposed Temple Island development. These impacts are summarised in Section 6.7.

The estimates of potential economic impacts that could be generated through the proposed development are presented in NPV terms over the 25 year appraisal period, adopting a 3.5% discount rate and factoring optimism bias[117]. There are a number of assumptions adopted in our analysis and caveats to note, as summarised further below, that should be considered when interpreting the results and reaching a conclusion on the VFM of the project.

To assess the VFM of the project in economic terms, we have used the following core measures of VFM:

— The economic net present public value (NPPV)[118] of the project

— The public sector contribution to costs[119]

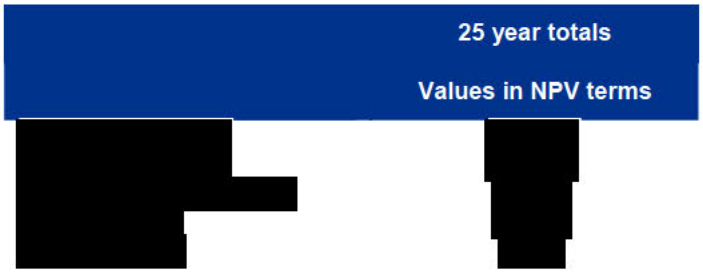
— The net benefit to public sector cost ratio (BCR)

— The public sector cost per job[120]

Given that, by nature, construction impacts are temporary and are generated over a relatively short time frame, these impacts are often excluded from the assessment of VFM. We have adopted this approach and excluded these impacts from our estimates of the economic NPV of the project, BCR and cost per job estimates.

The results of our assessment of the economic VFM of the project are summarised in Figure 27 below.

Figure 27: Estimated NPPV, public sector contribution to costs, BCR and public sector cost per job of the proposed development



[117] The rates used are in line with those recommended in the HM Treasury Green Book.
[118] The NPPV is defined as the Present Value of net benefits less the Present Value of net costs
[119] HM Treasury Green Book guidance states that inflation should not be included in estimation of the BCR and NPPV of a project. The estimated public sector costs (£32.0m) accounts for infla ion associated with future spending. For the purposes of estimating the BCR and NPPV we have excluded inflation from the total public sector contribution to costs.
[120] According to guidance from Homes England (Calculating Cost per job: Best Practice Note, 2015, 3rd Edition) the cost per job should be es imated as the total gross public sector expenditure against the total net additional jobs (excluding any construction jobs)

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Total Net Benefits[121]	**£801.2m**
Total Public Sector Costs[122]	**£32.0m**
NPPV	**£772.5m**
BCR	**27.9:1**
BCR – Phase 1 only	**22.0:1**
Public sector cost per job	**£18,975**

Source: KPMG analysis

The assessment of the economic VFM, as presented in Figure 27 above, only takes account of the economic impacts that it has been possible to quantify with the scope of our study. It excludes a range of impacts that it was not possible to quantify at this stage, either due to a lack of data and information that would be needed to be able to robustly estimate them, or due to their assessment being outside of the scope of this study. Specifically, the analysis does not take account of:

— the potential impacts generated through the sale or letting of residential units developed on the site;

— any wider economic impacts that may arise, in terms of developments catalysed through the Temple Island site regeneration, (assessed qualitatively in Section 5.1 based on views provided by BCC); and

— any wider social and environmental impacts that the development may deliver.

We note that the HM Treasury Green Book recommends that where costs or benefits cannot be quantified, they should be included within an appraisal and presented alongside the NPV and BCR. We consider that the non-monetised impacts set out above have the potential to increase the economic impact and resultant VFM of the proposed development of the Temple Island site. Impacts from the sale or letting of residential units and from any catalysed developments are likely to be positive. And while the scale of social impacts and environmental impacts has not been assessed at this stage, we note that in line with our assessment of the strategic case for the development proposals there could be the potential to generate positive social impacts, for example through job creation, improved access and provision of affordable housing. Environmental impacts would likely offset this to some degree, however. The social and environmental impacts of the scheme would need to be assessed in detail to determine their likely effect on the overall VFM of the proposed development. We suggest that BCC assesses these impacts as the scheme advances.

Based on the quantified economic impacts only, we estimate that the proposed Temple Island development, if it proceeds as planned, could yield, over the 25 year period 2023 to 2047:

— a BCR of 27.9:1;

— an economic NPPV of £772.5m; and

— a cost per job of £18,975.

The high and positive BCR indicates that the net economic benefits of the scheme are expected to considerably outweigh the public sector cost of bringing it forward. Similarly, the positive NPPV

[121] Values may not sum to the reported total due to rounding.
[122] The total estimated public cost for the Temple Island redevelopment is £32.0m. However this cost estimate includes an estimate for inflation. HM Treasury Green Book guidance states that inflation should be not be accounted for when estimating the value for money of a project in NPV terms. For the purposes of es imating the BCR, we have therefore excluded inflation from the total public cost estimate and use a figure of £28.8m.

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indicates that there is expected to be an overall gain in public value as a result of the proposed development.

Achievement of these returns on the public sector spending, however, depends on the development proceeding as planned, including in terms of scale and type of development, mix of uses, timing of the development and occupancy rates achieved. It also depends on the assumptions made in our analysis holding, for example in terms of additionality. Sensitivity analysis has been conducted to test the robustness of the economic VFM metrics to such issues, as detailed in the following Section.

7.1.2 Sensitivity analysis

In order to test the robustness of the economic VFM assessment, checks have been conducted to look at the sensitivity of the public sector net BCR to variations in the assumptions of the analysis and key features of the proposed scheme.

Given the large number of assumptions underpinning our analysis of different types of costs and benefits, we have not conducted sensitivity analysis at an individual assumption level. Rather we look at sensitivities in relation to the scale of the overall costs and benefits and the key features of the scheme where there is the greatest uncertainty. It should also be noted that each of the sensitivity tests are conducted in turn to provide an indication of how the BCR may change. It may be that a combination of factors may change when the scheme is delivered, for example, the costs may increase as well as delivery timings changing. Due to the high number of possible variations of changes these potential combinations have not been tested.

The sensitivity analysis specifically aims to test:

1. the degree to which the BCR is sensitive to deviations in the overall levels of public sector costs and net benefits from those estimated in the central case analysis[123];
2. the degree to which the BCR is sensitive to increases in the overall additionality factors applied in the analysis (i.e. decreases in the extent to which the benefits are additional to the economy);
3. the degree to which the BCR is sensitive to changes in delivery timing; and
4. the assumptions under which the BCRs would fall below 1:1 (i.e. the point at which costs would start to exceed net benefits).

In addition to these sensitivity tests, given the higher level of uncertainty around Phase 2 of the development, explained previously in the report, we have also estimated the BCR on the basis of this not going ahead. The results of this test are presented in Section 7.1.1 and demonstrate that if Phase 2 does not go ahead, the proposal is expected to achieve a BCR of 22.0:1.

Figure 28 summarises the results of the sensitivity tests conducted and the resultant BCRs. These results are explained in more detail below.

Figure 28: Sensitivity test results

Sensitivities	Change implemented	Net GVA	25 year totals Net public sector costs	BCR
Deviation in public sector costs	BCC costs increased by 20%	£801.2m	£34.5m	**23.2:1**
Deviation in net benefits	Net benefits decreased by 20%	£641.0m	£28.8m	**22.3:1**

[123] Note that the central case analysis already factors in op imism bias adjustments on the estimation of benefits and the public sector costs include a risk contingency.

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Changes in additionality levels	Additionality levels raised by 20% for each phase	£504.0m	£28.8.0m	**17.5:1**
Changes in delivery timing	Time delivery shifted by two years in the future	£700.8m	£28.8m	**24.4:1**
Costs increase to the level that they equal benefits	Costs increased 27-fold to match benefits	£801.2m	£801.2m	**1:1**
Benefits decease to the level that they equal costs	Benefits decreased by 96.4% to match costs	£28.8m	£28.8m	**1:1**

Source: KPMG analysis

Sensitivity of the BCR to deviations in costs and benefits

We consider the sensitivity of the BCR to variations in overall public sector costs and net economic benefits, with the results as reported below. The variation levels used are indicative only to demonstrate the impact on the BCRs.

— **Reduced benefits:** we test the sensitivity of the BCR to reductions in the estimated level of overall benefits. This sensitivity analysis shows that if benefits were to decrease by 20%, all else being equal, the BCR of the proposed development would be 22.3:1. Net benefits would need to fall by 96.4% for the BCR to fall to 1:1 (i.e. for the benefits to be no greater than the public sector costs).

— **Increased costs:** we test sensitivity of the BCR to rises in the estimated level of overall costs to BCC. This sensitivity analysis shows that if net public sector costs were to increase by 20%, all else being equal, the BCR of the proposed development would be 23.2:1. Net public sector costs would need to increase twenty-sevenfold for the BCR to fall to 1:1 (i.e. for the benefits to be no greater than the public sector costs).

Sensitivity of the BCR to increases in the overall additionality factors applied in the analysis

We also test the sensitivity of the BCR to increases in the overall additionality factors applied in the analysis (i.e. reflecting if the levels of displacement, deadweight and/ or leakage are higher than assumed in our central case analysis). A change in the additionality factors may occur for a number of reasons. Examples of what may cause the levels of displacement, deadweight and/or leakage to be higher are set out below. This should not be considered an exhaustive list:

— The retail occupants of the Temple Island development may displace a larger amount of economic activity from nearby areas than assumed.

— The commercial business occupiers of the Temple Island development may have supply chains that reach outside of the West of England to a greater extent than assumed in the analysis. This would mean that economic leakage levels would be higher.

— Alternative development plans could be brought forward for the site if the current scheme were not to proceed, potentially needing different levels of public sector funding. This would affect the level of deadweight associated with the proposed scheme.

— The time needed to complete either, or both, phases of the development might be underestimated. This would mean that benefits would be generated later.

As an indication of how the BCR would be affected by changes to the levels of additionality, the overall additionality factors (which combine the additionality levels assumed for deadweight, displacement

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and leakage) have been increased by 20%. If this were the case the BCR for the proposed development would be 17.5:1. Overall additionality factors would need to increase by 54.8% for the BCR to fall to 1:1.

Sensitivity of the BCR to changes in delivery timing

We test the sensitivity of the BCR to changes in the delivery timing of the proposed Temple Island development. Specifically, we assess the BCR if the overall development (both Phase 1 and Phase 2) were to be delayed by two years. This can be thought of as shifting the entire timeframe set out in Figure 5 by two years in the future. If this were the case, the BCR of the proposed development would fall to 24.4:1.

7.1.3 Wider factors affecting the VFM of the proposed development

We note that a VFM assessment extends beyond the economic measures of VFM. The strategic, financial and commercial cases for the proposals also need to be taken in to account to reflect wider aspects of the project, including the rationale for intervention and strategic fit, affordability, deliverability and the expected level of risk.

A number of key issues have been identified in relation to the commercial and financial cases for the proposed development. These also should be considered when assessing the VFM of the scheme. Specifically, as detailed in the financial and commercial cases, there are still a number of key commercial terms that are yet to be finalised between BCC and L&G, which can influence public sector costs / revenues and hence impact VFM:

— **Planning and termination.** [redacted] BCC may need to impose a cap to mitigate its financial exposure to this risk.

— **Cost of enabling works.** We understand BCC is finalising the scope and cost allocation for enabling works. We recommend that a cap is agreed for these costs as well as for potential termination costs (as highlighted above) to mitigate the risk of public sector cost increase impacting VFM.

— **Overage.** [redacted] BCC may wish to consider including a form of overage. [redacted] An overage arrangement could contribute positively to public sector revenues from the transaction.

— **Level of land premium.** As noted in the commercial analysis, a fully defined plot valuation mechanism with an agreed base plot value would provide greater certainty to BCC of [redacted], there is a risk [redacted] adversely impacting VFM.

— **Profit rent levels.** Should rental income achieved from sub tenants of office 1 be lower than anticipated, this would adversely impact public sector revenue from the transaction, impacting VFM.

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7.2 Comparative assessment of the VFM of the proposed Temple Island development

7.2.1 Comparison of the VFM of the proposed development to VFM benchmarks

As part of business case development based on HM Treasury Green Book guidance, the economic case appraises a short list of options to identify the preferred way forward. This identification of the preferred option is generally based on the relative NPPV and BCR of the different options, as well as considering affordability and deliverability.

There is no publicly available detailed HM Treasury guidance on BCR thresholds for public sector spending, including on capital infrastructure projects, and what level of BCR could be considered as providing VFM. Instead, as noted above, VFM is generally assessed relative to the alternative schemes in which the public funding could be invested.

However, conducting an assessment of different options for the Temple Island site was not part of our scope of work. Nor were we asked to assess different ways in which the public sector funding could be spent. Therefore, when considering the VFM of the Temple Island proposed development, we advise that BCC should consider the relative BCR of this scheme to any alternatives that could be brought forward with the funding.

In terms of assessing the absolute level of the VFM metrics for the proposed Temple Island scheme, we note that the Department for Transport (DFT) published a VFM Framework in 2015, setting out "high-level guidance on the Department's approach to considering value for money in decision-making about new proposals"[124]. The assessment of VFM for transport interventions is based on developed approaches both for economic appraisal (as set out in the HM Treasury Green Book) as well as specific approaches for transport appraisal (as set out in the Department's Transport Analysis Guidance, WebTAG[125]). Within the DFT VFM Framework, VFM categories are assigned to proposals with significant transport budget implications. The six VFM categories used are set out in Figure 29 below.

Figure 29: Department for Transport's Box 5.1 Standard Categories (Transport cost outlays exceed revenues or cost savings)

VfM category	Implied by…*
Very High	BCR greater than or equal to 4
High	BCR between 2 and 4
Medium	BCR between 1.5 and 2
Low	BCR between 1 and 1.5
Poor	BCR between 0 and 1
Very Poor	BCR less than or equal to 0

Source: Department for Transport, Transport Analysis Guidance (2018)
Notes: * Relevant indicative monetised and/or non-monetised impacts must also be considered and may result in a final value for money category different to that which is implied solely by the BCR.

[124] Department for Transport, Value for Money Framework (2015). Accessible at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/630704/value-for-money-framework.pdf.
[125] Department for Transport, Transport Analysis Guidance (2018)

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As the proposed Temple Island development does not have significant transport spending associated with it, the DFT VFM categorisation would not be directly applicable. However, it can be noted that if it was used, the scheme proposed by BCC would be classified as delivering very high VFM.

For the Temple Island development to be classified below "low" or "poor" VFM, it would have to reach a BCR of below 1.5:1. The sensitivity analysis set out in Section 7.1.2 indicates that very significant deviations from the assumptions used for our analysis would be needed for this to be the case.

In terms of the public sector cost per job, our analysis suggests that this would be an estimated £18,975.

Home England (formerly Homes and Communities agency) produced updated guidance in 2015 on the best practice approach to estimating the cost per job[126]. This guidance includes cost per job benchmarks, based on historic evaluation evidence. These benchmark levels are included in Figure 30 below, with the third column including KPMG estimates inflating the cost values to 2020 prices.

Figure 30: Cost per job benchmarks – evaluation evidence

	Gross cost per net additional job in 2015 prices	KPMG estimated gross cost per net additional job in 2020 prices	HE's indicative description
Low	£28,700	£31,682	Projects with a key focus on job creation (such as the development of employment space), high private sector investment, low remediation costs or targeted at a small local area with low deadweight and displacement
Mid-point	£39,850	£43,990	
High	£51,000	£56,299	Projects with wider objectives (such as cross-cutting regeneration or where the end use is for a specialist purpose), low private sector investment, high remediation costs or targeted at a wide spatial area with high deadweight and displacement

Source: Homes England, Calculating Cost per Job (2015)
Notes: Gross cost per net additional job figures have been translated into 2020 prices by using inflation data from the ONS up to Q3 2019 and from the Office for Budget Responsibility (OBR) from Q3 2019 onwards. The sources for the inflation data are the following:

— ONS, Inflation and price indices, Consumer price inflation ime series, CPIH Index 00: All items 2015=100, released on 13 November 2019. Available at: https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l522/mm23
— OBR, The Economy Forecast, Inflation, CPI Inflation, released on 4 April 2019. Available at: https://obr.uk/forecasts-in-depth/the-economy-forecast/inflation/

The Temple Island development achieves an estimated public sector cost per net job that is substantially lower than HE's "low" classification of gross cost per net additional job. This is in line with it having a very high BCR (as per DFT benchmarks) and being a scheme aimed at regeneration including development of commercial space for job creation.

[126] HCA (2015) Calculating cost per job: Best practice note

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7.2.2 Comparison to 2018 VFM assessment of the proposed Temple Island scheme

As well as assessing the absolute value of the VFM metrics for the proposed Temple Island, we have also compared these to the VFM metrics estimated for the scheme in 2018 when the proposed development was at an earlier stage of planning.

Based on the proposed scheme in 2018, KPMG estimated that the proposed development of the Temple Island site, excluding any construction impacts, could yield:

— a BCR of 23.0:1 over a 25 year period; and

— an economic NPV of £837.2m over a 25 year period[127].

Similar to our 2019 assessment, the 2018 analysis excluded a range of impacts that it was not possible to assess at that stage, either due to a lack of data and information that would be needed to be able to robustly estimate them, or due to their assessment being outside the scope of our study, specifically:

— any wider social impacts that the development may deliver;

— any catalytic impacts that may arise;

— the potential impacts generated through the sale or letting of residential units developed on the site; and

— any operational economic impacts and visitor spending related impacts that may arise if a conference centre and hotel were to developed that results in increased visitors to Bristol.

It should be noted that the latest 2019 analysis of the scheme includes the last set of economic impacts in the bullet points above, although similarly also excludes the first three areas of impact. The 2019 analysis also reflects changes to the proposed scheme itself and inputs to the analysis which affect the level of estimated economic impacts. The key differences are set out in Figure 31 below. These should not be considered an exhaustive list.

Figure 31: Key differences affecting the economic impact and VFM metrics reported in KPMG's 2019 and 2018 assessments of the proposed Temple Island development

Change	Estimated values	KPMG considerations	Effect on BCR
Decrease in net public sector costs	**2018:** £38.1m **2019:** £32.0m	With respect to the NPPV, the difference in net public sector costs is small compared to the overall level of estimated benefits of £801.2m. However, the lower public sector costs affects the estimation of the BCR, when benefits are *divided* by costs, more noticeably. Dividing estimated benefits by a lower level of net public sector costs leads to the BCR being higher.	BCR rises

[127] KPMG, Assessment of alternative development plans for the Temple Island site (June 2018)

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Addition of impacts from visitor spending	**2018:** Not quantified **2019:** £24.7m net GVA	The 2018 analysis did not include impacts of additional visitor spending due to the plans being at a very early stage and key information not being available. By adding GVA impacts associated with visitor spending in the 2019 analysis, overall net benefits increase.	BCR rises
Delivery timing/ phasing	**2018:** No phasing **2019:** Two phases	The 2018 assessment was not based on the same phasing of completion of the developments (i.e. timing of when the floorspace is brought forward). In particular, all buildings (including those that currently are part of Phase 2) were planned to roll out sequentially and not in two separate phases. Due to the later timing of some floorspace being developed, the associated economic impacts over the 25 years are lower, due to fewer years in which the impacts are generated, as well as a greater effect of discounting in later years.	BCR falls
Use of floorspace	**2018:** All floorspace assumed to be residential or office/ retail **2019:** Non-residential floorspace includes hotel and conference centre space	While the amount of developed floorspace proposed in 2019 is similar as in 2018, further details on the mix of use of the non-residential floorspace are now available from BCC. While for analysis purposes, in 2018 BCC assumed that all the non-residential floorspace would be retail/ office space. However, the information provided for our 2019 assessment includes details of the floorsapce now assigned to the conference centre and hotel. The GVA and employment associated with this use of the space differs from if it were retail/office space.	BCR rises

Source: KPMG analysis and KPMG Assessment of alternative development plans for the Temple Island site (June 2018)

7.3 Achieving VFM

As part of the scope of work, we were asked by BCC to identify, where appropriate, any actions BCC might seek to undertake to maintain or improve the VFM that can be obtained from the scheme, including further and future assessments of its VFM.

As explained above, and demonstrated through the sensitivity analysis, the VFM of the proposals is determined by a number of factors. From an economic perspective, the VFM metrics are affected by:

— the level and timing of the realisation of net economic benefits;

— the level and timing of public sector costs being incurred; and

— the number of net additional jobs created.

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From a wider perspective, an assessment of the VFM should also take account of the rationale for intervention and strategic fit, affordability, deliverability and the expected level of risk.

BCC may have some scope to influence some of these factors, as explained below.

The main drivers of the level of economic benefits and number of net additional jobs that could be generated by the proposed Temple Island development are:

— the amount of floorspace developed and the use it is put to (commercial, residential etc);

— the timeframe within which the buildings are developed and become occupied;

— the ongoing occupancy rates for the developed floorspace;

— the type of businesses that occupy the commercial space, including their industry sector classification, productivity and innovation levels; and

— the additionality of the economic activity generated through the development, including the extent to which impacts can be retained in Bristol and the West of England and the extent to which economic activity is new and does not displace existing activity.

BCC has a role to play in determining the amount of floorspace developed, its use and the timeframe over which the development will take place. To the extent to which it can mitigate any risks around these factors, particularly the timing and certainty over Phase 2 of the proposed development, it will help to ensure that the estimated economic benefits will be generated.

In terms of occupancy, both occupancy rates and the type of businesses that use the commercial space, BCC has provided its assessment of these to inform the economic impact analysis. As previously explained, BCC envisages that the businesses occupying the space will be in the financial and professional services and creative and digital sectors. While the design and location of the developments may help to drive this, BCC may have limited influence over the letting of the completed commercial space (other than for the one building BCC will take up the head lease for). To the extent to which BCC can take actions to achieve ongoing high occupancy rates for the commercial developments from high productivity businesses, the VFM of the development could be enhanced.

The mix of businesses occupying the site is also likely to affect levels of additionality. Displacement impacts would be reduced if the businesses occupying the site are creating new jobs in the area, rather than moving jobs and economic activity from another part of the region. Equally, the more that the conference centre and hotel attracts individuals who otherwise would not be in Bristol or the West of England, the greater the level of new economic impacts and the VFM of the development is maintained or enhanced. BCC may want to consider working with Destination Bristol as well as the hotel and conference centre operators to help to achieve this.

As the sector classification of the business influences the level of economic impacts associated with the development (through the average economic output per employee for that sector), if the business mix were to change this would affect the level of economic impacts.

In terms of the public sector costs associated with the scheme and their impact on the VFM of the proposed development, in the commercial and financial cases we have highlighted a number of issues for BCC to consider when taking forward the scheme. As summarised above in Section 7.1.3, there are still a number of key commercial terms that are yet to be finalised between BCC and L&G, which can influence public sector costs / revenues and hence impact VFM. Resolving these issues satisfactorily will be important to achieving VFM from the scheme.

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Appendix 1

A1.1 Files received from BCC

Our work draws on information provided to us by BCC, both in the form of written documentation and orally in meetings in the period up to 13 December 2019. Specifically we were provided with the following information - at the date shown in brackets:

— A suite of appraisals provided for commercial and residential sites featuring in Phase I of the development (11 November 2019);

— A timeline showing the phasing of Phase 1 of the development (11 November 2019);

— The Heads of Terms Principles & Background of the development (11 November 2019) – Heads of Terms Principles hereafter;

— A draft of the Project Strategy Review for the development produced by AECOM (11 November 2019);

— A draft of the Temple Island vision (15 November 2019);

— A strategic business plan for the hotel and conference centre of Phase 2 (15 November 2019);

— A draft employment land study of BCC (18 November 2019);

— A review of Business Rates carried out by Amion Consulting (18 November 2019);

— Reviews of the Bristol office market by Market Monitor, JLL, Lambert Smith Hampton and Savills (18 November 2019);

— Additional details on vacancy and projected occupation uptake (20 November 2019);

— Additional details on the breakdown of the residential blocks (20 November 2019);

— Additional information on housing provision (20 November 2019);

— The assumptions to make with respect to office space occupancy rates (20 November 2019);

— An excel file on the costs of the development (22 November 2019);

— The Contract for the Sale of Freehold Land Subject to Leases (28 November 2019);

— An overage calculation excel file (28 November 2019);

— Temple Island Risk Register (28 November 2019);

— A revised Temple Island Master Programme (28 November 2019);

— The assumptions to make with respect to and business rates calculations, hotel availability, hotel size and conference centre capacity (28 November 2019);

— A Temple Island Master Cash Flow excel file (28 November 2019);

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— Commentary on the Phase 2 development quanta (29 November 2019);

— An appraisals comparison schedule (10 December 2019);

— Estimations of office space rent profits (10 December 2019);

— A Temple Island Cost Summary Note (13 December 2019);

— The Temple Island Project Budget profile (13 December 2019);

— Land value estimations (13 December 2019);

— A capital programme (13 December 2019);

— A draft agreement with the EDF (13 December 2019);

— EDF fund scheme allocations (13 December 2019).

— A draft of advice for the development from BCC Legal Services (8 January 2020);

— Legal opinion of the development from Womble Bond Dickinson LLP (8 January 2020);

— Revised Heads of Terms Principles & Background (8 January 2020);

— A further revised Heads of Terms Principles & Background (9 January 2020);

— Temple Island Risk Register (9 January 2019);

— Email from CBRE to BCC dated 13 January 2020 (12.54pm) (14 January 2020);

— Email from CBRE to BCC dated 14 January 2020 (12.18pm), (14 January 2020);

— Revised Temple Island Spending Profile (17 January 2020).

A1.2 Other information sources

In addition to the information provided to us by BCC, we have used a number of sources to carry out and inform our analysis. These sources are listed below – in order of reference throughout the report.

— Temple Island Arena: Value for Money Assessment – Background document (June 2018);

— Assessment of alternative development plans for the Temple Island site (June 2018);

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

— Bristol City Council (2018) Corporate Strategy 2018 – 2023. Available at: https://www.bristol.gov.uk/policies-plans-strategies/corporate-strategy;

— West of England Local Industrial Strategy, HM Government (2019);

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— The Temple Quarter website's Vision page. Available at: https://www.bristoltemplequarter.com/about/vision/ ;

— Guide to developing the Project Business Case, HM Treasury (2018). Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/749086/Project_Business_Case_2018.pdf;

— University of Bristol's webpage on its campus at Temple Quarter. Available at: https://www.bristol.ac.uk/temple-quarter-campus/qtic/;

— Bristol City Council (2011) Bristol Development Framework: Core Strategy;

— Bristol City Council (2016) Bristol Arena Full Business Case;

— Bristol City Council, Bristol Temple Quarter Enterprise Zone, Sustainable Urban Mobility Plan (2016);

— Bristol City Council, 2019/2020 Business Plan;

— West of England Local Enterprise Partnership (2014) West of England Strategic Economic Plan 2015-2030;

— West of England Combined Authority, Business Plan 2019-2020 (2019);

— 2019-24 Control Period 6 Western Strategic Business Plan, National Rail (2018);

— Information on the Temple Meads station redevelopment. Available at: https://www.bristoltemplequarter.com/portfolio-items/temple-meads-redevelopment/;

— Bristol City Council Medium Term Financial Plan 2017/18 – 2021/22;

— Office for National Statistics (2019) Input-output supply and use tables 2017;

— 2015 Input-Output Analytical Tables, Multipliers and effects. Available at: https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/datasets/ukinputoutputanalyticaltablesdetailed;

— Scottish Government Type I & Type II, output, income, employment and GVA multipliers Scotland 1998-2016 (SIC 2007 basis). Available at: https://www2.gov.scot/Topics/Statistics/Browse/Economy/Input-Output/Downloads/IO1998-2015L1;

— ONS Construction output statistical bulletin September 2019. Available at: https://www.ons.gov.uk/businessindustryandtrade/constructionindustry/bulletins/constructionoutputingreatbritain/september2019;

— BIS (2009) BIS Occasional Paper No. 1: Research to improve the assessment of additionality;

— PwC UK web page on High Street retailers. Available at: https://www.pwc.co.uk/press-room/press-releases/High-street-exits-remain-at-historic-high-as-openings-slump-to-lowest-levels-on-record.html;

— Data received from Visit Bristol. Please contact Visit Bristol for more details.

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A1.3 Occupancy Rates

For buildings allocated to office space and retail, BCC have provided the following occupancy rates to be applied to GVA, employment and business rates estimates:

— First year of operation: 25% occupancy

— Second year of operation: 63.3% occupancy

— Third year of operations and onwards: 100% occupancy

A1.4 Business Rates

BCC has provided KPMG with Business Rates on a per square metre basis. To compute the share of the Business Rates received by BCC in Section 6.4, BCC has provided the following breakdown:

— West of England Economic Development Fund: 50%

— Fire Authority: 1%

— BCC: 49%

A1.5 Multipliers

In estimating GVA and employment, a number of multipliers have been used. The following table lists all multipliers used throughout this report.

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Figure 32: Multipliers and ratios used throughout the report

	From spending to GVA					From GVA to employment			
Component	SIC code	GVA/spending (output) ratio	GVA multiplier	Type I multiplier	Type II multiplier	GVA per FTE	Employment multiplier	Type I multiplier	Type II multiplier
Construction	41	38%	2.04	1.67	2.03	£83,705	1.97	1.60	1.85
Office space	70	51%	1.41	1.17	1.32	£45,510	1.50	1.217	1.40
Retail	47	62%	1.37	1.13	1.27	£34,408	1.53	1.22	1.48
Conference	82	54%	1.45	1.14	1.26	£ 40,565	1.46	1.20	1.47
Hotel	55	55%	1.30	1.11	1.25	£53,061	1.52	1.16	1.42
Food & Drink	56	51%	1.52	1.19	1.47	£27,536	1.26	1.09	1.20
Travel	49	36%	2.14	1.61	2.08	£83,909	3.05	1.51	1.83

Source: The data presented are from two sources:

- GVA/spending ratio, GVA multipliers and Employment multipliers are from: ONS 2015 Input-Output Analytical Tables, Mul ipliers and effects. Available at: https://www.ons.gov.uk/economy/nationalaccounts/supplyandusetables/datasets/ukinputoutputanalyticaltablesdetailed);
- Type I and Type II multipliers are from: Scottish Government Type I & Type II, output, income, employment and GVA multipliers Sco land 1998-2016 (SIC 2007 basis). Available at: https://www2.gov.scot/Topics/Statis ics/Browse/Economy/Input-Output/Downloads/IO1998-2015L1).

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