

## 1. Overview

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- 1.1 this proposal seeks approval to progress the Bristol Beacon capital project to completion with a revised budget envelope of £106.9m an overall increase of £58.1m from the original £48.8m budget envelope (based on external costing consultant report) agreed at June 2017 and May 2018 cabinet meetings.
- 1.2 The original £48.8m approval given to the project includes £10m Council's own capital funded by prudential borrowing and £5m underwriting facility towards the project, the latter to be recovered from Bristol Music Trust (BMT, the charitable operator) over their business planning period. The remaining £33.8m were funded from government grant including grants from WECA, ACE, Central Government and NHLF, and charitable and private funds channelled through BMT.
- 1.3 WECA funding within the original £48.8m funding was £5m. A further £3.4m inflationary funding uplift was also approved by WECA in June 2020. Furthermore, recognising the impact of the pandemic on the project an additional funding of £2.9m was recently approved by WECA in January 2021 further supporting project delivery. This brings total WECA funding to £11.3m to the project.
- 1.4 The level of the public funding and subsidy reflects the nature of the project on this public asset. This proposal focuses purely on the completion of the capital project. Following the agreement on the capital investment BMT will review their future business plan in conjunction with the council.
- 1.5 The total actual cost incurred on Bristol Beacon capital project up to 31 January 2021 was c£32m, according to the project team and contractors, this represents c25% completion on build and c80% on design. This illustrates significant slippages as the close date originally set for the main construction contract was autumn last year (September 2020). The project had encountered significant issues, delays and suffered from large size difficulties and cost overrun since last project approval, which had been exacerbated by the on-going pandemic.
- 1.6 A detailed review had been carried out by the project team in conjunction with incumbent external cost consultants and contractors to review the progress to date and to re-baseline the project scope in order to define and understand the revised project costs and duration. This process had resulted in the revised project forecast and proposed envelope of spend to be revised to £106.9m. Taking into account additional external funding confirmed, the current funding gap on the project is £44.5m. The anticipated reopening date is now set to be October 2023.

## 2. Project Funding Position

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- 2.1 The table below illustrates the changes in funding structure, cost envelope and additional funding gap since the original cabinet approval in 2017 and subsequently in 2018. Under this revised proposal, if the funding gap of £44.5m were to be funded by the Council, the total contribution from the Council to the project would change from £15m (including £5m underwriting facility to BMT) to £59.5m (including the underwriting facility), an increase of 300% contribution and an overall percentage share increase from 31% to 56%, moving the Council to the majority funder position.

Source of funds	2017 & 2018 Original Fundraising Target £000	Changes £000	Current Fundraising Target £000	Pledged To Date £000	Balance to Raise £000	Risk Rating
Arts Council England (ACE)	10,000	0	10,000	10,000	0	Green
Central Government via ACE	5,000	180	5,180	5,180	0	Green
WECA Funding	5,000	0	5,000	5,000	0	Green
WECA Funding for Inflation	0	3,405	3,405	3,405	0	Green
National Lottery Heritage Funding	4,800	-50	4,750	4,750	0	Green
Trust & Foundations	3,000	146	3,146	1,729	1,417	Amber
Naming Rights	3,300	-1,450	1,850	350	1,500	Amber
Corporates	500	250	750	233	518	Amber
Individual & Events	2,200	924	3,124	2,096	1,028	Amber
Bristol City Council (Borrowing)	10,000	0	10,000	10,000	0	Green
BCC provision of underwriting Facility to BMT (Borrowing)	5,000	0	5,000	5,000	0	Green
<b>Total Confirmed Up To July 2020 (BMT Report)</b>	<b>48,800</b>	<b>3,405</b>	<b>52,205</b>	<b>47,743</b>	<b>4,462</b>	
Arts Council Kickstart Funding	0	6,201	6,201	6,201	0	Green
Organ Campaign	0	1,100	1,100	250	850	Amber
WECA LGF Funding	0	2,930	2,930	2,930	0	Green
<b>Total Confirmed Ind. New Funding</b>	<b>48,800</b>	<b>13,636</b>	<b>62,436</b>	<b>57,124</b>	<b>5,312</b>	
<b>Cost Envelope</b>	<b>48,800</b>	<b>58,100</b>	<b>106,900</b>			
Proposed Council's Resources (incl. Underwriting Facility)	15,000	44,464	59,464			
Other funding Source	33,800	13,636	47,436			
<b>Total Funding</b>	<b>48,800</b>	<b>58,100</b>	<b>106,900</b>			

2.2 The project cost and cash implications to the Councils are also dependent upon BMT's ability in raising charitable funds on time and on target. [REDACTED]

2.3 BMT's fund raising obligations will continue until all targets are achieved, which will require BMT to continue their fund-raising efforts, if necessary, beyond the project completion phase, in order to meet any forward funding repayment commitments. This would include the repayment of the previously approved £5m underwriting facility provided by the Council to BMT.

### 3. Project Costing Position

3.1 [REDACTED]

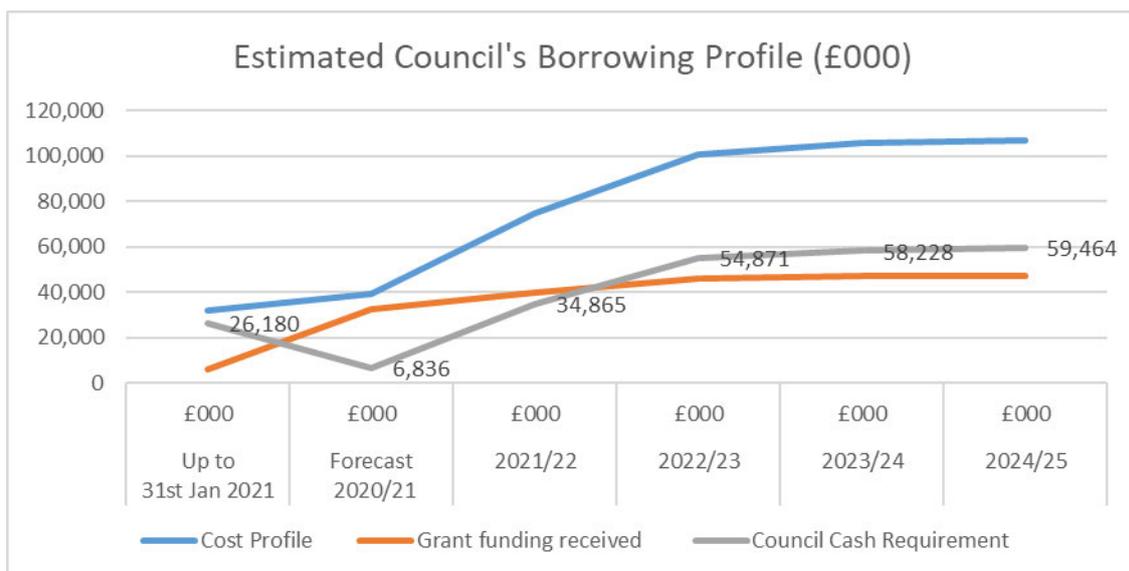
[REDACTED]

3.2 [REDACTED]

3.3 As at 31 January 2021 the council had incurred £32m expenditure on the project which is partly offset by £5.9m external grant funding. The table below illustrate the forecast phasing based on the capital spend under cost consultant report, the forecast fundraising cash profile provided by BMT and the impact on Council's borrowing requirement upon project completion.

Source of funds	Forecast					Total
	2020/21	2021/22	2022/23	2023/24	2024/25	
	£000	£000	£000	£000	£000	£000
Arts Council England (ACE)	4,377	2,500	2,643	480	0	10,000
Central Government via ACE	2,353	1,000	1,568	259	0	5,180
WECA Funding	5,000				0	5,000
WECA Funding for Inflation	3,405				0	3,405
National Lottery Heritage Funding	3,874	400	238	238	0	4,750
Trust & Foundations	1,829	500	500	317	0	3,146
Naming Rights	350	1,500			0	1,850
Corporates	433	200	100	17	0	750
Individual & Events	1,758	672	500	194	0	3,124
Bristol City Council (Borrowing)						
BCC provision of underwriting Facility to BMT (Borrowing)						0
<b>Total Confirmed Up To July 2020 (BMT Report)</b>	<b>23,379</b>	<b>6,772</b>	<b>5,549</b>	<b>1,505</b>	<b>0</b>	<b>37,205</b>
Arts Council Kickstart Funding	6,201					6,201
Organ Campaign	250	400	350	100	0	1,100
WECA LGF Funding	2,930					2,930
<b>Total Confirmed Incl. New Funding</b>	<b>32,760</b>	<b>7,172</b>	<b>5,899</b>	<b>1,605</b>	<b>0</b>	<b>47,436</b>
<b>Cost Envelope</b>	<b>39,596</b>	<b>35,201</b>	<b>25,905</b>	<b>4,961</b>	<b>1,236</b>	<b>106,900</b>
<b>Proposed Council's Resources (incl. Underwriting Facility)</b>	<b>6,836</b>	<b>28,029</b>	<b>20,006</b>	<b>3,356</b>	<b>1,236</b>	<b>59,464</b>

3.4 The chart below illustrates the Council's cumulative borrowing requirement based on estimated project costing profile and grant funding receipts which the Council will invoice BMT for. Please note any delay in grant funding receipts would mean additional cashflow requirement to complete the build project albeit temporary.



3.5 The proposal seeks approval to increase the Council's funding contribution to the project from £15m (previously approved including underwriting facility) to £59.5m (including underwriting facility), a net increase

of £44.5m to project completion, to be funded by allocating contingencies set aside for the capital programme. The current contingency for the Council's capital programme over the next 5 years is set at £60m against a £908m overall programme with appropriate revenue budget provision for borrowing costs and MRP. It is proposed under this report that £44.464m capital from this pot (74%) would be allocated to Bristol Beacon. This will reduce the programme contingency to £15.536m (26% for 5 years) therefore reducing the headroom for any other project risks in the Council's capital programme or the development of any new propositions without impacting the programme.

- 3.6 The table below illustrate the additional revenue impact for the proposal is c£1.3m per annum for 50 years as a result of an additional £44.5m capital investment, this brings the total revenue cost to £1.7m for the £59.5m capital contribution from the Council for the overall project.

Impact on the Council	Revenue p.a. £000	Continue Revenue Cu. £000	Capital £000
<i>*Based on asset life of 50 years and average interest rate on borrowing at 1.5%</i>			
<b>Project Expenditure</b>			
Grant Spend to Date	-	-	5,886
Council Funds Spend to Date	-	-	26,180
Spend to Go	-	-	74,834
<b>Total Project Expenditure (Based on Aecom Report)</b>	-	-	<b>106,900</b>
<i>Off which:</i>			
External funding			47,436
<i>Previously Approved Council Funds (incl. underwriting Facility)</i>			15,000
<i>Funding Gap (Additional Cash / Borrowing required)</i>			44,464
Proposed Council Cash or Borrowing Requirement			59,464
<b>Total Project Expenditure</b>			<b>106,900</b>
<b>Ongoing Budgetary Impact</b>			
<i>Capital financing cost for original £15m p.a. (over 50 years)</i>	129	6,429	-
<i>Principal Repayment / MRP p.a. for original £15m (over 50 years)</i>	300	15,000	-
<b>Approved Borrowing Cost (£15m Previously Approved )</b>	<b>429</b>	<b>21,429</b>	-
Additional capital Financing Cost p.a. (over 50 years)	381	19,057	-
Additional Principal Repayment / MRP p.a. (over 50 years)	889	44,464	-
<b>Additional Borrowing Cost (Funding Gap)</b>	<b>1,270</b>	<b>63,521</b>	-
<b>Subtotal Additional Borrowing Cost</b>	<b>1,270</b>	<b>63,521</b>	-
<b>Project Total Borrowing Cost</b>	<b>1,699</b>	<b>84,949</b>	-
Illustrative BMT repayment for £5m underwriting facility (over 25 years)	- 256	- 6,403	-
<b>Total Impact</b>	<b>1,443</b>	<b>78,547</b>	-

- 3.7 It is important to note that the revenue borrowing cost implication illustrated above is based on the PWLB rate at 1.5% over 50 years. If this rate increases by 1% the additional revenue cost would increase by £0.4m p.a. for the next 50 years.
- 3.8 Furthermore, please note, under the ACE grant agreement the Council is currently required to maintain its revenue commitments to BMT at levels at £1.026m p.a. until reopening, which will then be reduced to £526k p.a. from reopening until previously defined date of March 2022. The revised timeline of the project will trigger a review of this agreement, new date is yet to be formally set and the agreement between BMT and the Council for repayment of underwriting facility will also need to be reviewed following this decision.

## 4. Risk Considerations

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- 4.1 There are still areas of uncertainties where the risks would remain with the council.
- 4.2 The medium-term impact of the prolonged pandemic may have a lasting impact on the economy. This may at the same time be exacerbated by the impact of Brexit. This could manifest itself under the impact on supply chain reliability and cost certainty going forward. At this stage, new contracts are still to be formally entered into and the deed of variation needs to detail risk transfers and where the liabilities lies for the known-unknowns and there after the unknown-unknowns.
- 4.3 [REDACTED]
- 4.4 [REDACTED]
- 4.5 [REDACTED]
- 4.6 [REDACTED]

## 5. Other Options Explored

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- 5.1 In light of the significant scale of additional cost proposed, two other options had also been considered by the project team to either abandon project immediately (Stop) or only to complete works, so the building becomes watertight (Pause) both for a decision at a later data. It is worth noting that these costs had not undergone as detailed reviews by the project team and cost consultants as the Continue option. However, reviews indicate significant costs and liabilities as a result of contract termination.
- 5.2 The table below illustrates the estimates under the external cost consultant report for the two alternative options considered:

Aecom Report	Stop (£m)	Pause (£m)
Project Cost	47.510	54.360
Abortive Cost incl. Termination	13.570	13.020
Risk and Opps	5.600	5.350
<b>Estimated Total Expenditure</b>	<b>66.680</b>	<b>72.730</b>

5.3 In addition to the above costs, the two options could also trigger grant funding clawbacks (depending on the use of building under future decision), the table below illustrates funding to be returned to grant funding bodies under grant conditions (please note the total £12.9m is based on actual receipt of cash in the Councils).

Project	Funding Body	£m
Current Project	ACE	2.515
Current Project	NHLF	1.371
Current Project	WECA	2.000
Previous Project	ACE	7.000
<b>Total Funds to be Returned</b>		<b>12.886</b>

5.4 Taking into account the above, the table below illustrates the indicative the revenue and capital impact of these options based on the capital cost envelope estimated under the cost consultant report:

Impact on the Council	Stop			Pause		
	Revenue p a. £000	Revenue Cu. £000	Capital £000	Revenue p.a. £000	Revenue Cu. £000	Capital £000
<b>Project Expenditure</b>						
Grant Spend to Date	-	-	5,886	-	-	5,886
Council Funds Spend to Date	-	-	26,180	-	-	26,180
Spend to Go	-	-	34,614	-	-	40,664
<b>Total Project Expenditure (Based on Aecom Report)</b>	-	-	<b>66,680</b>	-	-	<b>72,730</b>
<b>Ongoing Budgetary Impact (Build Project Incl. MRP Reversion)</b>	<i>*Based on asset life of 50 years and average interest rate on borrowing at 1.5%</i>					
Capital financing cost for original £15m p.a. (over 50 years)	129	6,429	-	129	6,429	-
Principal Repayment / MRP p.a. for original £15m (over 50 years)	300	15,000	-	300	15,000	-
<b>Approved Borrowing Cost (£15m Previously Approved )</b>	<b>429</b>	<b>21,429</b>	-	<b>429</b>	<b>21,429</b>	-
Additional capital Financing Cost p a. (over 50 years)	393	19,627	-	444	22,220	-
Additional Principal Repayment / MRP p a. (over 50 years)	916	45,794	-	1,037	51,844	-
Additional Borrowing Cost (Funding Gap)	1,308	65,421	-	1,481	74,064	-
Grant Payback Capital financing cost p.a. (over 50 years)	110	5,523	-	110	5,523	-
Grant Payback Principal Repayment / MRP p.a.(over 50years)	258	12,886	-	258	12,886	-
Grant Funding Reversion (If Sum Borrowed)	368	18,409	-	368	18,409	-
<b>Subtotal Additional Borrowing Cost</b>	<b>1,677</b>	<b>83,829</b>	-	<b>1,849</b>	<b>92,472</b>	-
<b>Project Total Borrowing Cost</b>	<b>2,105</b>	<b>105,258</b>	-	<b>2,278</b>	<b>113,901</b>	-
Illustrative BMT repayment for £5m underwriting facility (over 25 years)	-	-	-	-	-	-
Annual Maintenance, Additional Insurance/Security etc. (over 10 years)	616	6,160	-	181	1,810	-
<b>Total Impact</b>	<b>2,721</b>	<b>111,418</b>	-	<b>2,459</b>	<b>115,711</b>	-
MRP Reversion (If Asset Life under revaluation <50 years, e.g. 10)	6,605	22,444	-	7,079	24,613	-
<b>Revised Total Incl. MRP Reversion</b>	<b>9,326</b>	<b>88,974</b>	-	<b>9,538</b>	<b>91,098</b>	-

5.5 As shown above, options for Stop and Pause are estimated to be £66.7m and £72.7m respectively which are over a third less costly than the continue to completion option on the capital sum. However, in addition to a list of operational reasons and legal liability that may persist under these options, taking into account the following, they would result in higher revenue cost per annum in comparison to the proposed option e.g. for the next 10 years:

- Asset life may be significantly reduced upon completion, a statutory revenue reversion of the borrowing costs already incurred and going forward would in this case be triggered, unless it is immediately sold, this would result in additional revenue impact over the revised shortened asset life

- (e.g. under the illustrated examples this could be between £6.6m to £7m p.a. for the next 10 years).
- Due to the inability to utilise any grant funding to complete the work the net capital funding gap that covered by Councils borrowing will be higher (£66.7m and £72.7m respectively) and net revenue impact will incur accordingly.
  - Due to the condition of the assets under these options, additional revenue cost for security and maintenance provisions (£0.6m p.a. and £0.2m p.a. respectively) would be required on an ongoing basis whilst no further decisions are made.
  - A historic grant funding clawback (£7m) may also be triggered if change of use incurs, further due diligence required, this claw back is included in the analysis above for illustrative purpose only.

5.6 For all scenarios a revaluation would be required upon completion, any potential write-offs (or increases) in value will be adjusted through the 2023/24 accounts under capital adjustment accounts.

*THIS ADVICE IS BASED ON PROJECT COSTING UNDER EXTERNAL CONSULTANT REPORTS: APPENDIX A2, A2b and I3*