

Decision Pathway – Report



PURPOSE: Key decision

MEETING: Cabinet

DATE: 24 January 2023

TITLE	Bristol Beacon – Update on inflation, opening date and new funding decision		
Ward(s)	Central Ward directly (the whole city, region and nationally operationally)		
Author: James Anderson John Smith	Job title: Head of Capital Projects Director: Economy of Place		
Cabinet lead: Mayor	Executive Director lead: Stephen Peacock – Chief Executive		
Proposal origin: BCC Staff			
Decision maker: Mayor Decision forum: Cabinet			
Purpose of Report:			
<ol style="list-style-type: none"> 1. To update Cabinet on impact of inflation and compensation events that have caused project delay 2. To present options available to cabinet to respond to these issues 3. To set out changes in the contractual relationship with the Bristol Music Trust and the need to secure ongoing commercial and cultural benefits for Bristol citizens 4. To authorise all necessary actions/negotiations to give effect to the proposals. 			
Evidence Base:			
<ol style="list-style-type: none"> 1. The Bristol Beacon (formerly Colston Hall) transformation project is a city decision that has been supported by multiple administrations since 2003. The Grade 2 listed building is a Bristol City Council owned freehold asset, operated since 2011 by Bristol Music Trust (BMT) under a peppercorn lease. It has a capacity of more than 2,000 and hosts a programme of pop, jazz, world and classical music as well as stand-up comedy. The building sits on a constrained site and has suffered from a lack of maintenance and modernisation with no major refurbishment for 60 years. 2. BMT is an arm’s length trust established to manage events at Bristol Beacon and granted a lease and responsibility for day-to-day maintenance. The project funding envelope consists of a number of different grants from partners including the Arts Council (ACE), Heritage Lottery Fund, and WECA. As the freehold owner of the building Bristol City Council agreed to be the accountable body for the overall project with ultimate responsibility to underwrite costs of development and ultimate funder of last resort including funding risk and construction risk. 3. In March 2021, a Cabinet paper (link in background documents section) articulated significant challenges faced by the project in the fabric of the building that impacted time and cost. The decision was made by Cabinet to secure the benefits associated with the scheme and increase the budget for the transformation to £106.9m. 4. The project was subject to an external audit published in June 2021. The report noted that the Council had ensured there was a strong client-side management capacity in place as soon as the emerging issues had been identified and escalated and that it was no longer a significant weakness. The nature of the project in a listed, poor-quality structure and the volatile economic and geopolitical context has meant that despite being well resourced and managed, the project has continued to encounter significant challenges. 			

5. External Influences & Structural Challenges – Inflation and External Influences Impact (appendix A1) & Building Structure (appendix A2)

Since the February 2021 Cabinet paper, the project has gained significant momentum and made great strides towards completion but has faced further pressures and continued challenges. The impact of inflation and external influences (appendix A1) on the budget has been significant and the complex and flawed fabric of the building has continued to cause problems (appendix A2) negatively effecting time and cost. Appendices A1 and A2 provide detail around the nature and quantum of the challenges faced since the last Cabinet paper. The consequence of these issues are:

- a. The loss of 17 weeks resulting in a practical completion date at the end of August 2023 with an opening period though the Autumn of 2023 with a full commercial opening on 30 November 2023.
- b. An increase in cost of £25m resulting in a total budget required of £131.9m.

6. Options (appendix A3)

To come to a recommendation and help support a decision, an options assessment has been developed to consider available choices and what impact they would have. Appendix A3 considers completing the project, temporarily pausing the project and stopping the project with an option to restart in the future. The assessment demonstrates that whatever option is chosen there is a significant requirement for additional budget. The report is clear that due to unprecedented volatility and uncertainty in the construction sector the estimates to pause and stop have a very high level of uncertainty and risk.

- a. Complete the project with full opening Autumn 2023 – Total cost of £131.9m.
- b. Pause the scheme and restart in 12 months - £165m total estimated cost to complete. Opening by August 2025.
- c. Stop the scheme – Total estimated cost to cease work and make the building safe £12.5m. With an assumed opening in 2027 the estimated cost to complete is approx. £200m.

7. Project Timescales (appendix 4)

The timeline presented in appendix 4 is for the whole project through to opening in Autumn 2023. It includes the construction programme and includes the wider commissioning, testing and preparation work required to prepare the building for full commercial opening. This programme is challenging but all stakeholders are content to recommend it as deliverable. High level programmes for alternative options can be seen in Appendix 3 Options Report. The timelines for options 2 & 3 have been made using assumptions on key dates and processes. As a result, they should be treated with caution, changes in key dates are highly likely due to numerous external factors.

8. Sector & Financial Review (appendix A5)

The Sector & Financial Review conducted by Ernst & Young (appendix A5) consider the value of the project in the context of its increased budget requirement and the current economic climate. The review supports option 1 as the better route to project completion, with the better overall value for money and positive cultural and economic impact to the Council and citizens. However, remaining risk should be closely monitored and planned for. There remain significant positive economic impacts associated with the investment despite the impact of Covid. In 2017 as part of the base business case KPMG was commissioned to undertake an Economic Impact Assessment on the proposed plans for the hall. The report concluded that a restored hall would generate a significant economic impact. The direct, indirect and induced economic contribution generated by Bristol Beacon could reach between £324.6m and £412m over a full 20-year period (an annual average GVA of up to £20.6m).

- a. £253.7 million potentially generated in the Bristol economy
- b. £9.6 million potentially generated in the wider South West economy
- c. £149.2 million potentially generated in the wider UK economy

The impact of Covid has been significant in recent years but the 20-year assessment period of the 2017 report provides a duration that should see many of its findings retain validity.

9. **Bristol Music Trust**

Bristol City Council has provided significant annual financial support to BMT since 2011 under an Entrustment Agreement totalling over £10.2m to date. Whilst the restoration project is underway, support has been designed to enable BMT to continue its artistic programme, creative learning and community outreach programme and support for creative activity in the city. In 2018 the Council's initial capital contribution to the refurbishment of Bristol Beacon was estimated at £10m out of a total budget of £49m (20%). In March 2021, Cabinet approved an increased council investment to a total of £59m out of £106.9m (55%). This report **seeks** Cabinet approval of a further £24.9m which would take the council's total investment in the refurbished building to £83.9m (63%).

10. With a total estimated cost of £131.9m the project is now significantly altered from the original approved scheme. In view of the Council's wider financial challenges - which have led to proposals for substantial cuts across all services (including the wider culture sector) - consideration will need to be given to explore the wider potential for investment return to the council from the Bristol Beacon. Accordingly, the Entrustment Agreement and Collaboration Agreement, which no longer reflect the current financial context, will need to be reviewed to ensure that the city and its citizens receive the maximum benefit from the city's significant financial investment in the building.
11. The Council has informed BMT that from the date of full commercial opening of the Bristol Beacon it will no longer provide revenue support. To provide confidence that that the current operating arrangements can deliver the best outcome for citizens, both culturally and financially, the Council will also undertake market testing over the next six months to assess the ongoing value of the refurbished building.
12. The lease arrangement for the Bristol Beacon will be considered and updated in any new arrangement with the Bristol Music Trust.

Cabinet Member / Officer Recommendations:

1. Approves the incorporation of additional capital to the Bristol Beacon Transformation Project of £25m from Bristol City Council's own capital programme and resources funded by Prudential Borrowing (proposed to be released from capital programme contingency) with a total project cost of £131.9m. BCC total contribution will be £83.9m
2. Authorises the Executive Director for Growth & Regeneration in consultation with Cabinet Member Finance, Governance and Performance, Section 151 officer and the Monitoring officer to take all steps required to enter into any contracts required and negotiate and agree any changes to existing contract terms (including those above a value of £500k) to give effect to the above including:
 - a. Enter contracts for professional services required to complete the construction and renovation project
 - b. Amend the construction contract and issue appropriate instructions and notifications
3. To acknowledge that the project has changed fundamentally from its initial business case and that the future operation must set out to provide a revenue stream to Bristol city council to reflect the substantial investment in the asset. As a step towards that, authorise the Executive Director Growth and Regeneration to take all steps required to negotiate changes to the Entrustment Agreement and Collaboration Agreement with BMT to ensure that;
 - a. There is no financial contribution from BCC to BMT
 - b. future leasing arrangements with BMT will include revenue to the council
4. In parallel with a renegotiation of a lease with BMT, Bristol City Council will undergo market testing to identify alternative operational models to ensure that as well as protecting the cultural impact of Bristol Beacon, the council receives value for money for its investment.

Corporate Strategy alignment:

Directly supports the Key Commitment Keep Bristol a leading cultural city, helping make culture, sport and play accessible to all.

City Benefits:

1. Improves the cultural offering of the city and music industry leading to economic growth.
2. Improves music education to circa 90% of children in the City.
3. Establishes the national SEND music centre.
4. Music also supports improved mental health. <http://www.nature.com/search?q=music+and+mental+health+>
5. Support BMT in reducing its financial reliance on the use of public funds

Consultation Details:

All key stakeholders have been consulted on Bristol Beacons Phase II as part of the RIBA 3 design development including but not limited to;

- Bristol Music Trust - Christmas Steps Arts Quarter
- Arts Council England - MP House of Commons
- Historic England - Bristol Cultural Development Partnership
- The Victorian Society - Twentieth Century Society

Background Documents:

Cabinet Paper June 2017

<https://democracy.bristol.gov.uk/documents/b8314/Colston%20Hall%20Phase%202%20Cabinet%20Report%2019th-Jun-2017%2017.00%20Cabinet.pdf?T=9>

Cabinet Paper May 2018

<https://democracy.bristol.gov.uk/documents/s21414/2018%2004%2023%20Colston%20Hall%20Decision%20pathway.pdf>

Cabinet Paper July 2020

<https://democracy.bristol.gov.uk/documents/s50616/20%2007%2014%20Colston%20Hall%20Decision%20Pathway%20July%202020%20Cabinet%20-%20Clean.pdf>

Cabinet Paper March 2021

<https://democracy.bristol.gov.uk/ieListDocuments.aspx?Cid=135&Mid=8405>

Revenue Cost	£0	Source of Revenue Funding	N/A
Capital Cost	£24.995m	Source of Capital Funding	Public Works and Loans Board loan
One off cost <input checked="" type="checkbox"/>	Ongoing cost <input type="checkbox"/>	Saving Proposal <input type="checkbox"/>	Income generation proposal <input type="checkbox"/>

Required information to be completed by Financial/Legal/ICT/ HR partners:**1. Finance Advice:****Overview**

This proposal seeks approval to progress the Bristol Beacon capital project to completion with an upwardly revised budget envelope of £131.9m, an increase since the last decision in March 2021 of £25m.

The original project budget was set at £48.8m, which included £10m of the Council's own capital, funded by prudential borrowing and £5m underwriting facility towards the project, with the remaining £33.8m sourced from government grant including WECA, ACE, Central Government and NHLF as well as charitable and private funds raised through BMT.

The March 2021 decision raised the envelope to £106.9m, predominantly supported by Council borrowing, with the

split between Council and Other funding sources standing at £59.5m Council: £47.4m Other.

This decision will take the total capital envelope up to £131.9m, with the increase supported by Council borrowing resulting in a refreshed split of funding sources being £58.1m Council: £45.3m Other.

The additional council borrowing funded through Public Works and Loans Board loan would be repayable over 50 years and represents an additional ongoing revenue pressure to the Council of £2.3m per year. This is accommodated within the borrowing headroom planned for within the Council's budget and is undertaken based on this not presenting a project seeking solely commercial return, but that social and economic return are key drivers, this is supported by the NPV assessment undertaken as part of the Value for Money report (below).

The report also recommends, given the fundamental change from the opening business case and the level of investment that the Council is now undertaking in the asset, that a more commercial approach to the use of the asset is taken moving forward to ensure that alongside the social value benefits there are at least reduced cost impacts to the Council. This reflects the current financial context of the Council and is targeted to enable the Council to ensure that the city receives the maximum benefit from the investment.

Specifically, the recommendation outlines:

1. removal of financial subsidy to BMT following the opening, this has been reflected in savings targets outlined as part of the budget paper elsewhere in this Cabinet given that the Council has now informed BMT of the approach.
2. reviewing the lease arrangements with BMT, and
3. in order to provide confidence that the operating arrangements deliver the best outcome, market testing will be undertaken to assess the commercial potential of the asset and inform decisions around the operating model. This may enable a financial return to the Council moving forward, however this has not yet been built into the financial planning or budget as further work is required to outline what this would look like and the level of return that is possible.

Cost Options Analysis

The revised capital envelope has been developed by the project team, reflecting pressures attributed to technical challenges during construction and inflationary pressures. This can be seen in appendix 3.

The recommended option costs have been detailed alongside an options analysis carried out to cover 3 options in total:

1. continue with increased envelope (£131.9m total forecast completion costs) – [Recommended Option]
 - 2A. suspension of the works with the existing contractor (£165.5m total forecast completion costs), and
 - 2B. termination of the current scheme and later re-procurement (£203.5m total forecast completion costs).

Their report outlines the confidence, with consideration to the risks to the outcomes on each of the options, with option 1 being identified as the route that has significantly greater assurance around certainty on both cost and delivery timescales.

There are risks attached to each of the options outlined in this report, including with options 2A & B the potential repayment requirement of grant funding provided in the first phase of the programme. A detailed log of the risks under option 1 is identified, which highlights that there remains to both costs and milestone time scales.

The report recommends the progression of option 1 to uplift the budget to enable completion of the project as currently planned, which is the least risk, least cost option.

Cost Options Assurance

This cost and options assessment has been reviewed by the Capital Strategic Partner, who have provided an assurance report. This can be seen in appendix 6.

This assessment undertaken for this report has resulted in the cost envelope increasing contingency levels above the initial assessment to provide and mitigate for any future delays.

The report concludes providing an overall assurance that the while the cost estimates and contingencies incorporated in the options paper are less certainty for the options 2A & 2B, with less definition of costs, programme, risk, building contract implications, deliverability and assessment of whole project impact, there is no reason to disagree with the overview assessment and that the option 1 has been well considered.

The report does highlight a number of recommendations, which includes detailed risk assessment, review of programme floats and delays and overall contingency to be cross-checked against the Monte Carlo P90 results from their review. In addition there is a recommendation to undertake a forensic programme review.

Value for Money

Given the recommendation to increase the funding for the project to enable completion and the size of the overall Council interest in the completion of the asset, a value for money assessment has been commissioned from our Strategic Partner Ernst Young. This can be seen in appendix 5.

This review has focused on three key areas to address the overall question of whether the investment for the Council remains a solid investment:

- Sector Analysis – to assess the value of the project to the city as well as an overview of the implications of the emerging economic / industry sector trends.
- Financial Analysis of the Project – a purely financial assessment of the viability of the Project to the Council.
- Governance and operating model assessment – considering the current governance arrangements between the Council and BMT, the risks and opportunities and options for alternative operating models.

Section 1.2 of the report outlines the findings from this review, which in summary outline:

Sector Analysis

- The entertainment and theatre sector has not yet returned to pre-pandemic economic outputs, with technological developments having the potential to impact demand in the longer term.
- The current economic climate challenges represent a risk to the project and the income potential from the running of the asset.
- That the asset remains important in terms of culture and economic contribution to the region, although given the competition across the sector, particularly with the opening of YTL in 2024, that BMT will need to develop a unique selling point to differentiate it's offering.
- That the asset delivers wider benefits to the local economy, helping to attract visitors to the city centre.

Financial Review

(Noting that this assessment was completed prior to the increase in contingency built in following the final assurance report so the figures do differ slightly, although this is immaterial to the conclusions of the report).

- The project generates a negative Net Present Value (NPV) under the current commercial arrangement between the Council and BMT and even with amendments this is not likely to achieve a breakeven position.
- That review of the draft assurance report provided (appendix 6), outlining that the current cost estimates (including contingencies) appear sufficient to complete the project, did not highlight any fundamental

omissions and there was no reason to disagree with the conclusions provided. However, that there are a number of risks remaining, particularly around further delay to the schedule and unknown risks such as further unexpected inflation.

- While the financial return when assessed independently is not favourable to the Council, there is recognition that there are wider social impacts, such as education benefit and indirect benefit of increased spending in local shops and restaurants from increase in footfall.
- That the estimated cost of pausing or terminating the project is higher than the estimated cost to complete and has potential for reputational impact to the Council.

Governance and Operating Model Review

- That there is currently no formal framework in place to monitor and appraise the social impacts generated by the project, which can make it challenging to assure that the negative NPV is justified in terms of investment.
- That the Council is exposed to underperformance from BMT and should implement improved visibility and management of BMTs performance.
- That the draft from of the new lease currently does not contain a break clause, or any mechanism for terminating the lease on the basis of underperformance of BMT in operating the site.

Overall the report outlines that the preferred option in terms of project progression would appear to align to the proposals in this report, but goes on to make recommendations including:

- Consider developing and formalising a framework for this project to define, monitor and appraise the social impacts expected.
- Recognising the need for continued focus on project governance, recommendation to maintain rigour in governance, including cost management and proactively identifying risks and mitigations.
- Review open book policies with BMT and put in place appropriate financial oversight into performance and risks associated with BMT's business plan. (This would equally apply to any other operating arrangement agreed moving forward).
- Consider undertaking BMT in conjunction with the Council undertake detailed financial analysis to identify potential commercial levers to improve financial return and renew agreements in place.
- While completion as outlined in the option 1 is seen to be the more cost effective proposal, that the Council should outline an action plan to address further issues during the project completion period and of venue performance once operational. This could be incorporated into the revised SLA in development.

Closing

It is the view of the finance team that the option 1 represents the better route to project completion, with the better overall value for money and reputational impact to the Council at this time. However, that risk still remains in terms of both milestone achievement and price risk, which while considered as part of the contingency levels incorporated should be closely monitored and planned for.

Given the level of investment in the asset that the Council has made it is imperative that a good value return is obtained moving forward, both in terms of social, economic and financial, although noting that the latter is unlikely to result in a solely financially beneficial return based on the NPV assessments undertaken.

There are key recommendations from both the assurance and value for money reports commissioned to be considered.

Head of Financial Management / Deputy s151 Officer: Sarah Chodkiewicz 15/01/2023

2. Legal Advice:

A further Deed of Variation (No 2) to the Main contract will be required to give effect to the above - with the intention of removing any uncertainties in the construction contract and to eliminate so far as possible, any currently unresolved issues between BCC and the Contractor. The Collaboration Agreement between the Council and the

Bristol Music Trust will require substantial amendment once agreement in principle to the proposed changes in the relationship between BMT and BCC has been settled. (Until a new arrangement between the parties has been agreed, the terms of the original agreements continue to operate (including payments against the Entrustment Agreement)).

In addition, the structure of the revised arrangements will need to ensure continued compliance with both public procurement regulations and the new public subsidy regime.

Legal Team Leader: Eric Andrews, Legal Services; 11/01/23

There are no implications on IT regarding this activity

IT Team Leader:

Alex Simpson – Senior Solution Architect

4. HR Advice: There are no HR implications evident

HR Partner: Celia Williams - HR Business Partner – Growth and Regeneration

EDM Sign-off	Stephen Peacock, Chief Executive	16 January 2023
Cabinet Member sign-off	Mayor's Office	16 January 2023
For Key Decisions - Mayor's Office sign-off	Mayor's Office	19 December 2022

Appendix A – Further essential background / detail on the proposal <ol style="list-style-type: none"> 1. Impact of Inflation 2. Issues with the structure of the Bristol Beacon 3. Options Paper – Complete, Pause & Stop with the option to restart 4. Programme – Recommended Option 5. Sector & Financial Review 6. Options Paper - Due Diligence (Technical Assurance Report) 	YES
Appendix B – Details of consultation carried out - internal and external	NO
Appendix C – Summary of any engagement with scrutiny Scrutiny was engaged on the 11th January 23'. Cabinet papers were presented. The session was closed due to the commercially sensitive nature of the discussion.	NO
Appendix D – Risk assessment A full risk assessment has been carried out in A5 & a Monte Carlo simulation in A6	NO
Appendix E – Equalities screening / impact assessment of proposal As there has been no material change to the scope of the proposal since the previous Cabinet decision an update document has not been provided. The previous document can be found at: https://democracy.bristol.gov.uk/documents/s58259/Appendix%20E%20-%20EqIA%20Bristol%20Beacon%20refurbishment%20FINAL.pdf	NO
Appendix F – Eco-impact screening/ impact assessment of proposal	NO
Appendix G – Financial Advice	NO
Appendix H – Legal Advice	NO
Appendix I – Exempt Information <ol style="list-style-type: none"> 1. Bristol Beacon External Impacts and Inflation Impact 2. Bristol Beacon - Options Review 	Yes

Appendix J – HR advice	NO
Appendix K – ICT	NO
Appendix L – Procurement	NO