Bristol City Council

Project Beacon Sector and Financial Review

Building a better working world

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Tel: +44 20 7951 2000
Fax +44 20 7951 1345

ey.com

Sarah Chodkiewicz
Bristol City Council
City Hall
PO Box 3399
Bristol
BS1 9NE

16 January 2023

Dear Sarah,

Project Beacon Sector and Financial review

In accordance with the terms and conditions set out in the Project Initiation Document dated 9th December 2022 and MCF3 Call off Schedule, this report ('the Report') sets out a sector and financial review for The Colston Hall (renamed 'Bristol Beacon') Phase 2 project.

We previously sent you a draft version of this report on 11th January 2023 for factual accuracy. Minor amendments have been made to the report comments provided by BCC, however these did not result in any material changes to our analysis or resultant conclusions.

Purpose of our report and restrictions on its use

The report is prepared on the specific instructions of BCC solely for the purpose set out in the report and should not be relied upon for any other purpose. It should not be relied upon by any other party. Because others may seek to use it for different purposes, this report should not be quoted, referred to or shown to any other parties, unless so required by court order or a regulatory authority, without our prior consent in writing. In carrying out our work and preparing our report, we have worked solely on the instructions of BCC and for its reporting purposes.

Our report may not have considered issues relevant to any third parties. Any such use third parties may choose to make of this report is entirely at their own risk and we shall have no responsibility whatsoever in relation to any such use. This report should not be provided to any third party without our prior approval and any third party should recognise in writing that we assume no responsibility or liability whatsoever to them in respect of the contents of our deliverables.

Scope of our work

Our work in connection with this assignment is of a different nature to that of an audit. Our report to you is based on inquiries of, and information received from, management. Where relevant, reference has been included to the source of information provided to us. We have not sought to validate or verify the accuracy of the data or the information and explanations provided by management. We have also not conducted any stakeholder consultation to inform this report (e.g., with local businesses or visitors to the city). The economic analysis conducted has utilised the latest forecast information available, however the economic climate remains uncertain.

We understand that the Colston Hall Phase 2 project has gone through multiple previous rounds of Cabinet approvals for both the original project budget as well as subsequent increases to the project budget. This report has not sought to assess or comment upon the appropriateness of these prior approvals or budget amounts.

We also recognise that approvals for the capital investment have not been made from the perspective or expectation of financial project returns alone, but have also considered the wider social and economic impacts that the project might bring. Our analysis has therefore been undertaken on a forward-looking basis to consider procedural or governance type improvements that could help to bolster the council's return from a social and economic benefit perspective along with a forward looking assessment of the sector and economic environment in which the asset will be operating.

Activities may have taken place since the date of conversations with the market that are not reflected in this report. Where reference to market activity is made, it should be noted that past performance is not indicative of future activity within the context of The Colston Hall Phase 2 project.

If you would like to clarify any aspect of this report or discuss other related matters then please do not hesitate to contact me.

Yours sincerely

Sarah Phillips
Partner
Ernst & Young LLP

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1. Executive summary

1.1 Introduction and purpose

Bristol Beacon is a concert hall in Bristol City. It is owned by Bristol City Council ('the Council' or 'BCC') and operated by Bristol Music Trust ('BMT') which was established in 2011 as an independent trust to operate the venue. The venue has suffered from a lack of maintenance and modernisation with no major refurbishment to the existing building for the last 60 years.[1] BCC is currently undertaking a long-term capital refurbishment of the Bristol Beacon ('the Project') to modernise the venue and put the city on a level with other major world cities which have concert halls among their key competitive assets. In light of escalating project delivery costs for the Project, now estimated at approximately £131 million, severe impacts on the sector as a result of COVID-19, and a challenging macroenvironment in the UK, the council wishes to review and understand the current benefits of the investment.

This report assesses the current economic environment and context against which the refurbishment is being delivered, reviews the financial viability of the project in light of the latest cost increase estimates, identifies commercial risks and opportunities pertaining to the project, and draws conclusions regarding the attractiveness of the investment to BCC.

To capture our analysis, the report has been structured into three key sections:

1. **Sector Analysis** – This section examines both the current UK macroenvironment and a more focused look into the UK Arts and entertainment sector[2], to identify emerging trends that may pose challenges or risks to the Project viability. It also considers competition in the sector (both locally and nationally) and the Bristol Beacon's value to the city, as well as an assessment of the implications of the emerging economic or sector trends on BMT's Business Plan assumptions.

2. **Financial Analysis of the Project from the perspective of BCC** – This section assesses the viability of the Project to BCC as funder, Landlord and service commissioner from a purely financial perspective. This includes a Net Present Value analysis conducted on BCC's cashflows related to the project, and assessment of ongoing revenue implications of the asset to BCC.

3. **Governance and operating model assessment** – This section examines the current governance arrangements between BCC and BMT in relation to project delivery and ongoing operations, including potential risks and opportunities to improve the structure moving forward. It also examines a number of different operating models we have looked at that may be considered by councils for council owned theatre venues.

Our findings and conclusions from the analysis are presented below.

We understand that the Colston Hall Phase 2 project has gone through multiple previous rounds of Cabinet approvals for both the original project budget as well as subsequent increases to the project budget. We have not sought to assess or comment upon the appropriateness of these prior approvals or budget amounts.

We also recognise that approvals for the capital investment have not been made from the perspective or expectation of financial project returns alone, but have also considered the wider social and economic impacts that the project might bring. Our analysis has therefore been undertaken on a forward-looking basis to consider procedural or governance type improvements

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1 Cabinet Decision Paper – 1 May 2018

2 The Arts, Entertainment and Recreation sector has been analysed based on the SIC Industrial Classification *'Level R: Arts. Entertainment and Recreation'*. Economic analysis has been conducted at this classification level.

that could help to bolster the council's return from a social and economic benefit perspective along with a forward-looking assessment of the sector and economic environment in which the asset will be operating.

1.2 Summary of findings

The table below summarises the key findings of our analysis and conclusions regarding whether the Bristol Beacon still represents an attractive investment to BCC.

Table 1 - Key findings

Key Findings	
Report section	**Key findings**
Sector analysis	**This investment in Bristol Beacon is predicated on a sector which was severely impacted by COVID-19 and economic output has not yet returned to pre pandemic levels.** This could indicate a permanent structural shift caused by lower footfall in the City Centre and emerging entertainment technologies. Such technologies could impact demand at the theatre in the long-term should consumers continue to reject in-person events in favour of streaming services in their own home.
	The shorter-term economic climate also represents a challenge for the venue, with high inflation likely to impact future construction work and the cost-of-living crisis challenging future sales income at the venue. Bristol Beacon's cost base is likely to be impacted by persisting inflation in 2023, with staff, premises and construction costs most likely to be affected. The cost-of-living crisis, resultant from high inflation, is likely to squeeze spending on luxury items threatening consumer demand for entertainment and consequently Bristol Beacon's income.
	Nevertheless, Bristol Beacon remains an important cultural and strategic asset within the local economy and is the largest cultural events arena in the city centre. If the Bristol Beacon can withstand the challenges faced in the forecast short-term economic volatility and continue to attract significant cultural events to the venue, it can make a significant economic contribution to the region, helping to make the region a more attractive place to visit, live and do business in. To achieve this BMT will have to develop a unique selling point, and effectively segment their audience to ensure events held attract and expand their consumer base, and align to the wider socio-economic objectives of the venue. This will include applying subsidy to events that enable access and encourage attendance from vulnerable parts of the population, rather than events that bolster attendance from parts of the community that don't require subsidy. The development of a distinct offering will be particularly critical with YTL opening in 2024.
	As a major events venue in the city centre, the Bristol Beacon offers a reciprocal benefit to help attract visitors to the city centre, delivering wider benefits to the local economy. There are indirect and induced economic benefits associated with activity at the Bristol Beacon, which can help stimulate economic output in the region.

Financial review	**The project generates a significantly negative NPV under the current commercial arrangements between BCC and BMT and based on assumptions made on financial projections. While amendments to the commercial operating model may help to some degree, it will not achieve a breakeven NPV.**
	A report provided by BCC and prepared by an independent technical advisor concluded that current cost estimates (including contingencies) appear sufficient to complete the Project. We did not observe anything that appears to have been fundamentally missed as part of the assessment and therefore have no reason to disagree with the conclusions. However, given the challenging environment and time left to completion, we believe a number of risks remain to the Council. These could be driven by further delays to the project schedule, or unknown risks including further unexpected inflation driving upwards movements in raw material and labour costs. Increases to costs would further worsen the financial returns of the Project to BCC.
	However, the Council recognises the project is designed to generate wider social impacts, rather than a purely financial return. These might include direct educational benefits, indirect benefits such as increased spending in local shops and restaurants from increase footfall, as well as potential induced benefits resulting from higher incomes in the local vicinity leading to higher general spending levels.
	The estimated cost of pausing or terminating the Project is also higher than the estimated cost to complete it. With potential for reputational issues if the Council changes tact with the Project at this late stage, proceeding to completion with additional funding appears to be the preferrable option. However, changing circumstances or poor performance of the venue in the future could change this.
Governance and operating model review	**BCC does not currently have a formal framework in place to monitor and appraise the social impacts generated by this Project.** This may make it difficult for BCC to gain comfort that the significantly negative NPV can be justified by social impacts.
	The Council is exposed to underperformance from BMT against their business plan and should therefore have in place mechanisms that allow it to gain better visibility and management of their performance. The current governance structure between BCC and BMT prescribes an open book policy. However, this primarily relates to supporting calculation of annual compensation payments and preparation of Annual Entrusted Services Accounts.
	The proposed new lease term will range between 30 to 32 years. The draft form of the new lease currently does not contain a break clause. It also does not contain mechanisms for terminating the lease based on sustained underperformance of BMT in operating the Bristol Beacon.

1.3 Recommendations

On the basis of the findings noted above, we have identified the following recommendations.

Table 2 - Recommendations

	Recommendations
1	**BCC should consider developing and formalising a framework for this Project to define, monitor and appraise the social impacts that they expect this Project to achieve.** This will provide greater reassurance to the Council that the significantly negative NPV is justified through wider social / other impacts. We understand that BCC has such frameworks in place with other contracted companies, however one is not currently in place with BMT or in relation to this Project.
2	**While we have not identified any substantive concerns with the existing project governance structure and do not perceive any material changes required, we recognise the need for a continued focus on project governance in the months ahead and recommend renewed stringency towards all procedures to avoid degradation of governance in this critical time.** This should include a strong focus on ongoing development phase costs and plans so that potential issues can be identified early, and ensuring BCC has the information required for proactively identifying risks, appropriate mitigations and promptly implementing solutions adopted. While this recommendation is specific to this Project, the principles are important and applicable to any capital project undertaken by BCC as part of its capital programme.
3	**BCC should review its open book policies with BMT and seek to put in place an appropriate mechanism between the finance teams of both BCC and BMT that gives regular and ongoing insight into financial performance and risks associated with BMT's business plan.** Given the potentially high level of financial exposure BCC has from BMT and the venue's performance (including through BMT's programming and pricing model), especially in the current UK and sector environment, this higher level of transparency will not only provide greater assurance but may also provide opportunities for a more collaborative approach to risk identification and mitigation, and to drive better financial performance. This process should be led by the finance functions of both BCC and BMT to provide objective and accurate reporting. The current BMT business plan runs to 2023 and, for the reasons stated above, BCC should actively participate in the development of subsequent iterations of the plan.
4	**In light of the significantly negative NPV, it is recommended that BCC and BMT consider undertaking detailed financial analysis to identify potential commercial levers to help improve the financial return of the project.** These kinds of levers might include operating model amendments (that allow income share to BCC) and operational opportunities such as live streaming and broadcasting of Bristol Beacon performances to wider audiences, or streaming of other venue performances to Bristol Beacon.
5	**Given the lengthy term of the proposed new lease, BCC should seek legal advice on the inclusion of a break clause within the new lease agreement. BCC also has significant exposure to BMT's financial performance in operating the Bristol Beacon. BCC should therefore also seek legal advice on including mechanisms for terminating the lease based on BMT's sustained underperformance.**

	Recommendations
6	**While completing the Project with additional funding appears to be more cost effective than pausing or terminating the Project at this time, BCC should identify options and develop an action plan should further issues with the Project emerge, or if the performance of the venue once operational does not meet expectations.** These terms might include a plan to revitalise performance, or options for alternative uses of the asset. Not only will this provide an immediately actionable plan should it be required, but it may also act as an incentive to BMT to ensure the venue remains financially viable. Per our understanding, the Service Level Agreement is under renegotiation. BCC might consider including these terms within the amended agreement.

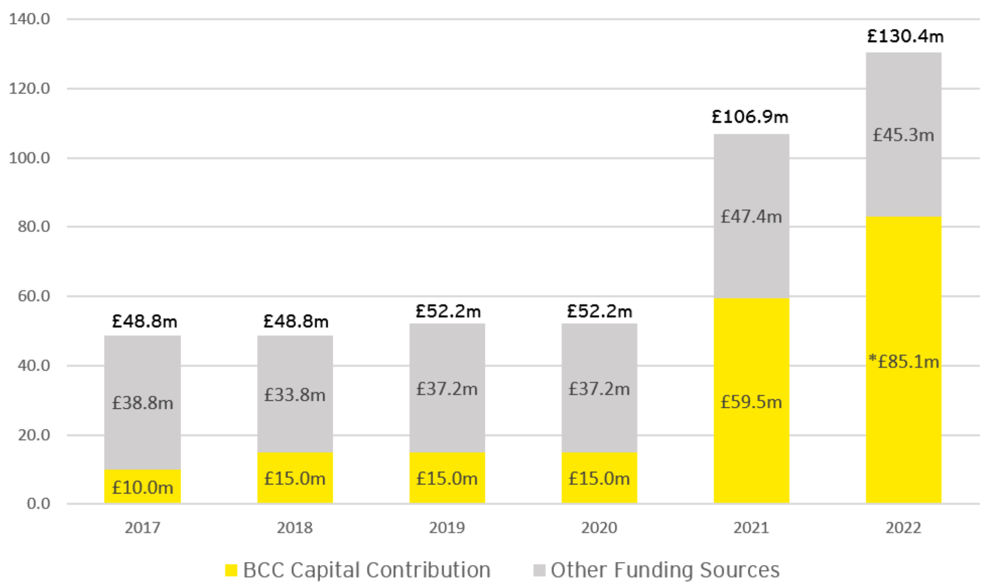
2. Introduction

2.1 Background and context

Bristol Beacon is a concert hall in Bristol City. It is owned by Bristol City Council ('BCC') and operated by Bristol Music Trust ('BMT'). The Bristol Beacon has suffered from a lack of maintenance and modernisation with no major refurbishment to the existing building for the last 60 years, and it required upgrades to make it an internationally recognised first class music events venue.[3] It was determined that this upgrade would occur in 2 phases, the first of which was the upgrade of the Foyer (Phase 1) which was completed in 2009. The second (larger) phase, which relates to undertaking significant refurbishments of the remainder of the Bristol Beacon, is referred to as The Colston Hall Phase 2 project (the 'Project'). The venue will be modernised to 21st Century standards, and the capacity will be increased through development of previously unused spaces.

Since the Project was initially approved on 1st May 2018, the anticipated capital costs, including BCC's capital contribution, have increased substantially. The table below shows this increase from original estimate to the latest cost estimates provided by BCC.

Figure 1 - Increases in the Project cost envelope and BCC's capital contribution



**All of £23.5m additional funding requirement identified in 2022 is assumed to be covered by the Council's capital contribution*

The macro-economic environment has also changed significantly over this period due to global events including the COVID-19 pandemic.

In light of these cost increases and changing circumstances, BCC wishes to review and understand the current benefits of the project to the council and Bristol City.

2.2 Purpose of this report

The purpose of this report is to provide support to BCC in evaluating whether the costs associated with the project are justified by its expected benefits. In doing so, it is essential to assess the current economic environment and context against which the Project is being delivered. It is also necessary to review the financial viability of the project taking into consideration the latest cost increase

[3] Cabinet Decision Paper – 1 May 2018

estimates. Additionally, the report will seek to identify commercial risks and opportunities pertaining to the project and draw conclusions regarding the attractiveness of the investment to BCC.

2.3 Scope of report and limitations

To capture our analysis, the report has been structured into three key sections:

1. Sector Analysis – This section examines both the current UK macroenvironment and takes a more focused look into the UK Arts and entertainment sector, to identify any emerging trends that may pose challenges or risks to the Project. It also considers competition in the sector (both locally and nationally) and the Bristol Beacon's value to the city, as well as provides an assessment of the implications of the emerging economic or sector trends on BMT's Business Plan assumptions.

2. Financial Review of the Project from the perspective of BCC – This section assesses the value of the Project to BCC from a purely financial perspective. This includes a Net Present Value analysis conducted on BCC's cashflows related to the project, and assessment of ongoing revenue implications of the project to BCC.

3. Governance and operating model assessment – This section examines the current governance arrangements between BCC and BMT in relation to the project, including potential risks and opportunities to potentially improve the structure moving forward. It also examines a number of different operating models we have looked at that may be considered by councils for council owned theatre venues.

Our conclusions, informed by the analysis in the three sections above, are presented in the Executive Summary.

In completing the sector analysis, we have examined the potential impacts of the current economic environment on the Project and have considered the wider social and economic benefits that might be derived from the Project. However, we have not undertaken a detailed Economic Impact Assessment that seeks to quantify the wider social or economic impacts or Gross Value Added ('GVA') generated by the Project.

Our financial review has relied on financial information provided by BCC and BMT. We have not sought to verify or validate any of the information provided.

We understand that the Colston Hall Phase 2 project has gone through multiple previous rounds of Cabinet approvals for both the original project budget as well as subsequent increases to the project budget. We have not sought to assess or comment upon the appropriateness of these prior approvals or budget amounts.

We also recognise that approvals for the capital investment have not been made from the perspective or expectation of financial project returns alone, but have also considered the wider social and economic impacts that the project might bring. Our analysis has therefore been undertaken on a forward-looking basis to consider procedural or governance type improvements that could help to bolster the council's return from a social and economic benefit perspective along with a forward-looking assessment of the sector and economic environment in which the asset will be operating.

3. Sector Analysis

Within this section, we have considered macroeconomic forecasts at both the national and regional level to help frame key challenges that the Cultural and Events sector may face in the short to medium term.

3.1 Overview of Macroenvironment in the UK

Table 3: Key findings about the macroeconomic environment of the UK

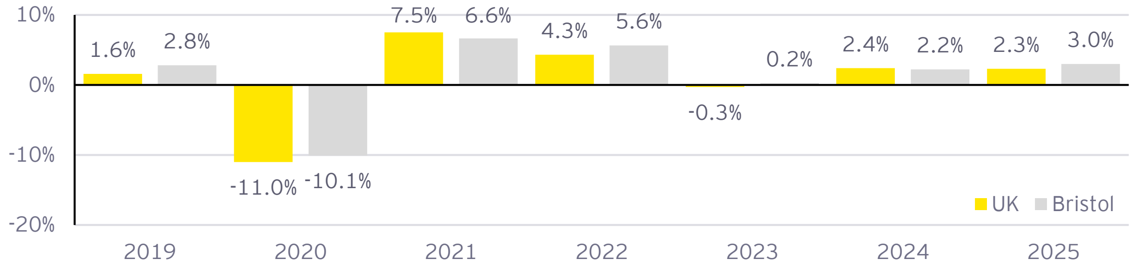
	Key Findings
1	**Low consumer confidence is set to dampen demand in the Cultural and Events Sector.** Forecasts of a national recession are set to dampen consumer sentiment and whilst Bristol is forecast to narrowly avoid recession, a marginal growth rate (0.2%) presents a demand challenge to the Cultural and Events Sector.
2	**The cost-of-living crisis presents an accute challenge to areas of discretionary spend.** Household disposable incomes are being squeezed as a result of the cost-of-living crisis. This poses a significant threat to the Culture and Events sector which constitutes discretionary spend in household budgets, likely to be deprioritised against spend on essential goods.
3	**Weakened consumer sentiment presents a threat to revenue generation for Bristol Beacon.** Consumer expenditure is not expected to recover to pre-pandemic levels until 2025, this weakened demand, will continue to challenge revenue forecasts at Bristol Beacon, following what has already been a difficult period within the sector.

The UK is forecast to dip into recession during the 22/23 winter, this projected fall in economic output and consequently reduction in consumer confidence will negatively impact demand in the Cultural and Events Sector.

The EY Item club has forecast that the UK economy will enter a recession this winter, with GDP forecast to fall until mid-2023. The decline is forecast to be shallow; GDP is projected to contract 0.3% during 2023 and growth is forecast to return in 2024. However, this follows a turbulent economic period with UK GDP already operating below pre-pandemic levels. Bristol is forecast to be more resilient to the economic downturn, with marginal economic growth of 0.2% forecast for 2023. Bristol GDP is also expected to have recovered to pre-pandemic levels during 2022. However, forecast growth is founded upon gains in Professional, Scientific and Technology and Education sectors rather than Cultural Sectors. Regardless of local projections, the national outlook presents a challenging business environment and negative wealth effects look set to dampen consumer confidence throughout the country[4]. This presents a demand challenge for Bristol Beacon as consumers cut back on discretionary spending.

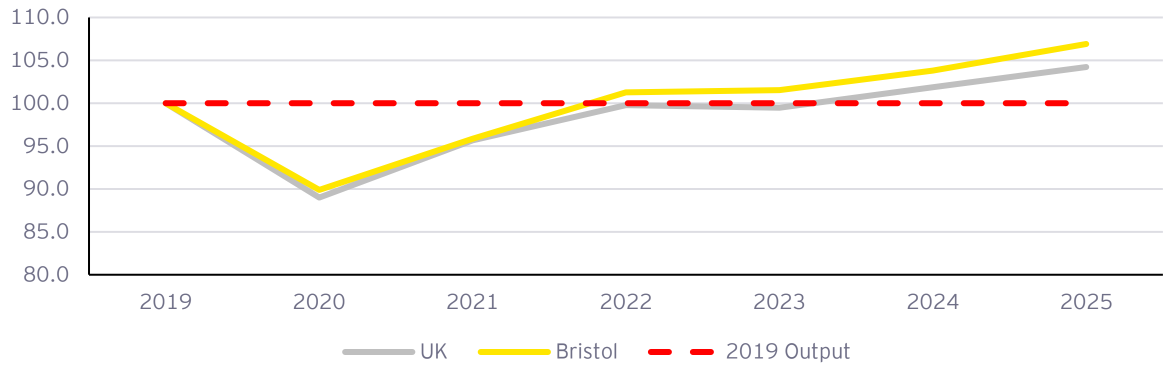
[4] Oxford Economics (2022). *UK: Shallow recession to be followed by weak recovery.* https://my.oxfordeconomics.com/chapters/29eB1d39650F478b84325e/UKShallowrecessionto?isSearchWithin=True&pdfViewMode=&SearchTerms=consumer

Figure 2 - GDP Growth 2019 to 2025



Source: EY Item Club

Figure 3 - Indexed GDP 2019 to 2025 (2019=100)



Source: EY Item Club

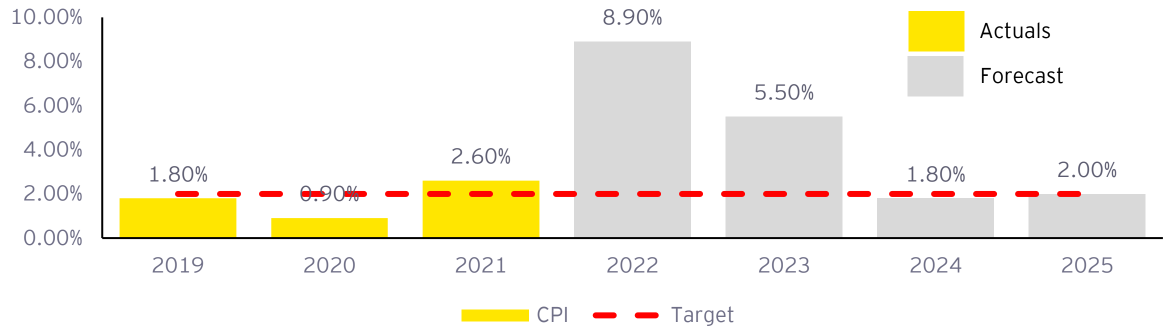
The cost-of-living crisis is driving the forecast recession in 2023, with higher prices reducing real income levels across the country, and consequently squeezing out available household discretionary spend.

Forecast declines in UK output and employment are largely being driven by the cost-of-living crisis. Record levels of inflation are squeezing household incomes and resulting in a decline in discretionary consumer spending. CPI inflation reached a 40-year high of 11.1% in the 12-months to October 2022 and is forecast to persist into 2023, albeit at a lower rate of 5.5%. As Households face increases in essential costs such as household bills and food, this poses a significant threat to the Cultural and Events sector which constitutes discretionary spend.

The challenges of high inflation are not isolated to consumer goods and rising prices will also likely impact the cost of any capital investment the Council is making related to the Bristol Beacon. UK construction PMI[5] fell from 53.2 to 50.4 in November (suggesting reduced expectations for construction activity). According to S&P, this reflects industry sentiment that increased cost burdens and tight supply conditions are driving reduced demand for investment. There are also reports that challenges in transport and logistic sectors have resulted in longer lead times, which highlights the risk of construction delays for Bristol Beacon. The outlook for the theatre is challenging as it must balance rising costs related to rising capital investment, against weakened consumer demand in the face of high inflation.

[5] Construction PMI above 50 reflects expectations for growth in construction activity. S&P Global (December 2022). '*Construction growth slips to a three-month low. Business expectations weakest since May 2020.*' *https://www.pmi.spglobal.com/Public/Home/PressRelease/d6c047e84a89436cae8fef309f357cf4*

Figure 4 - Inflation Forecast – 2019 to 2025

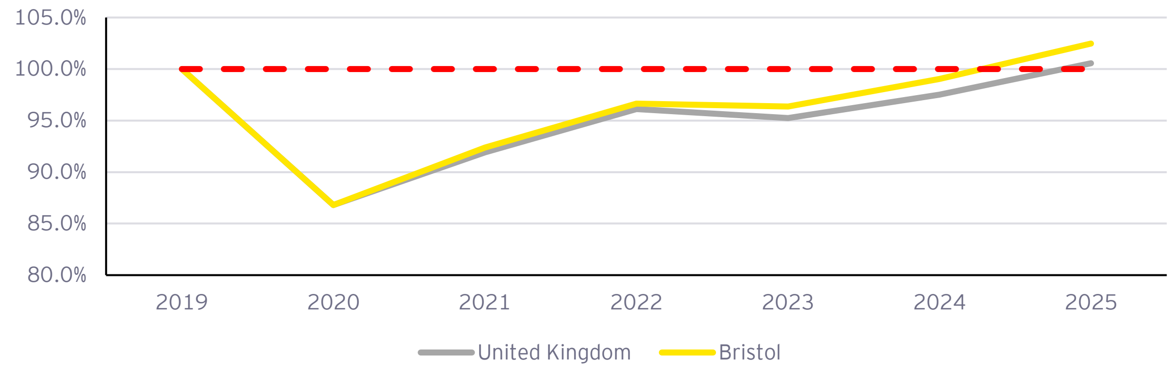


Source: EY Item Club

Consumer expenditure is not forecast to return to 2019 levels until 2025, presenting a persistent challenge for Bristol Beacon.

High levels of inflation limit the spending power of households, resulting in reduced spend on non-essential items. A national real term decline of -0.7% in consumer expenditure is expected in 2023, although this contraction is expected to be less severe in Bristol at -0.02%. Consumer expenditure is already lower than pre-pandemic levels, as outlined in Figure 4. In the Cultural and Events sector, the main impact of weak consumer expenditure is reduced revenues generated from ticket sales. The challenge this presents is exacerbated for Bristol Beacon given that it follows several years of hardship for the Cultural and Events industry, including COVID related closures.

Figure 5 - Indexed Real Consumer Expenditure – 2019 to 2025 (2019=100) (2019 prices)



Source: Oxford Economics

3.2 Overview of UK Arts and Entertainment Sector

3.2.1 Context

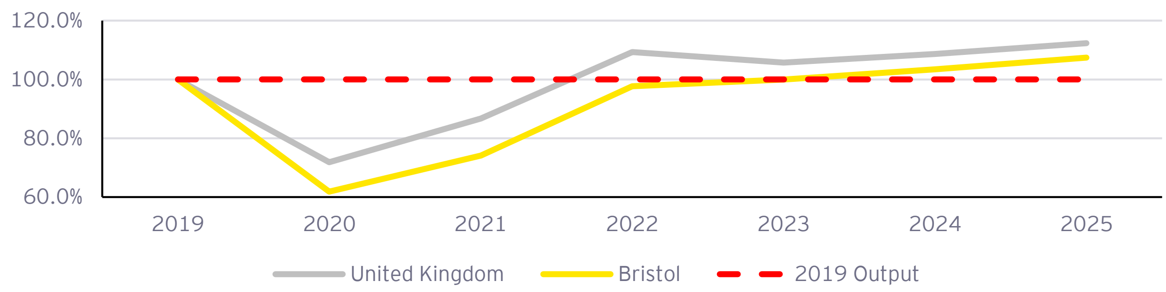
Table 4: Key findings about the Arts and Entertainment sector of the UK

	Key findings
1	**Bristol's Arts and Entertainment sector was severely impacted by the pandemic** The decline in output of the Arts, Entertainment and Recreation sector was more severe in Bristol than the UK, suffering a 38% decline in 2020. As a result, the sector is still operating below 2019 levels of output.
2	**The cost-of-living crisis is prolonging the period of stress for the sector** A contraction of the UK's Art, Entertainment and Recreation sector is forecast during 2023. Expectations are more optimistic for Bristol, with 2.3% growth forecast next year, although this reflects recovery to 2019 levels rather than expansion.
3	**Consumer behaviour has shifted, with fewer people attending retail and recreation facilities in person** Footfall data demonstrating that activity at Bristol's retail and recreation facilities was 19% below pre-pandemic levels in October 2022 indicating a more permanent shift in consumer behaviour, with fewer consumers attending facilities in person.
4	**A tight labour market presents a challenge to staffing in the sector** Since the pandemic, Creative Arts and Entertainment sector employment has declined by 20% in Bristol, from 1,250 in 2019 to 1,000 in 2020.

The impact of the pandemic on the Arts, Entertainment and Recreation sector was more severe in Bristol than the UK as a whole.

The Covid-19 pandemic presented a significant economic challenge for the Arts, Entertainment and Recreation[6] sector; one which was significantly more pronounced in Bristol compared to the UK as a whole. Within Bristol, sector output levels fell by 38% in 2020, compared with a reduction of 28% for the UK. Consequently, recovery to pre-pandemic output levels has been slower in Bristol, with output expected to be 2.3% lower than pre-pandemic levels by the end of 2023. This highlights the heightened challenge that Bristol Beacon faces in the context of the local economic environment.

Figure 6 - Indexed GVA - Arts, Entertainment and Recreation - 2019 to 2025



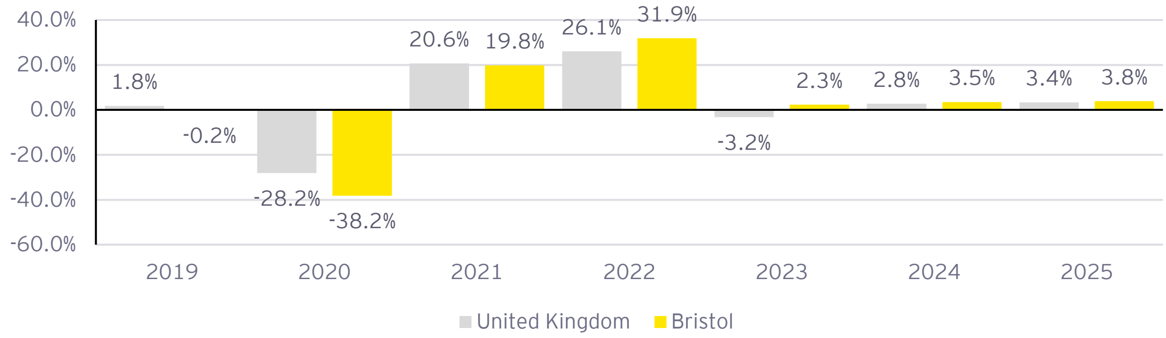
Source: Oxford Economics

[6] Due to data limitations, forecast output cannot be isolated for the Theatre sector. Creative, arts and entertainment activities is a sub-sector of the Arts, Entertainment and Recreation sector, providing a good proxy for the economic performance of the theatre industry.

The UK's Arts, Entertainment and Recreation sector is forecast to decline during 2023 as a result of the cost-of living crisis.

In light of the cost-of-living crisis, activity in the Arts, Entertainment and Recreation sector is forecast to decline at a national level in 2023 by -3.2%. At a local level, Bristol grows at a stronger rate of 2.3% next year however this is reflective of continued recovery to pre-pandemic levels, a threshold already achieved nationally. This illustrates the economic context Bristol Beacon operates within is mixed; forecast to weather the cost-of-living crisis better than the national picture in 2023, however still significantly underperforming UK indexed growth since 2019.

Figure 7 - Arts, Entertainment and Recreation GVA Forecast 2019 to 2025

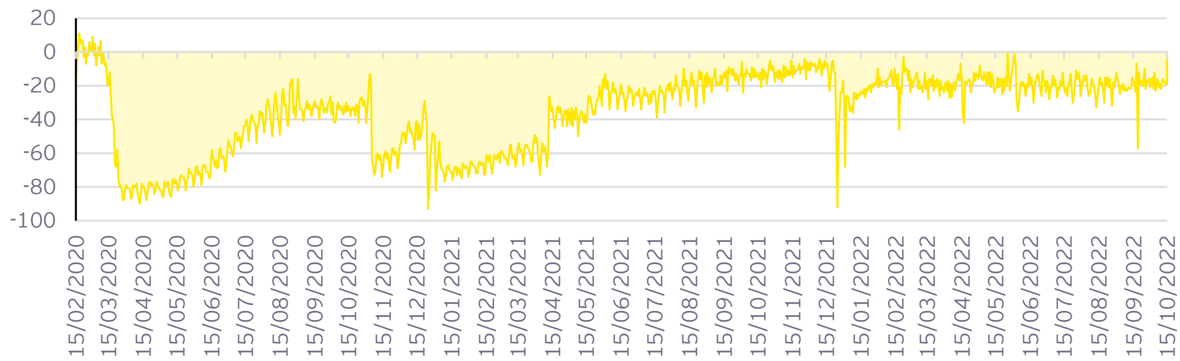


Source: Oxford Economics

Footfall data demonstrates that Bristol's recreation sector has not yet recovered, with activity at retail and recreation facilities 19% below pre-pandemic levels as at October 2022*.

The Google Covid-19 Community Report demonstrates footfall in Bristol's retail and recreation facilities remains significantly below pre-pandemic levels. This highlights that despite the easing of social distancing measures consumers have not returned to behaviours pre-pandemic with footfall persistently 20% lower than February 2020.

*Figure 8 - Google Covid-19 Community Report – Retail and Recreation Sites – Bristol***



Source: Google Mobility Report

**Google mobility data estimated visitations at key sites up until the 15th October 2022 to help identify mobility trends following the Covid-19 pandemic.*

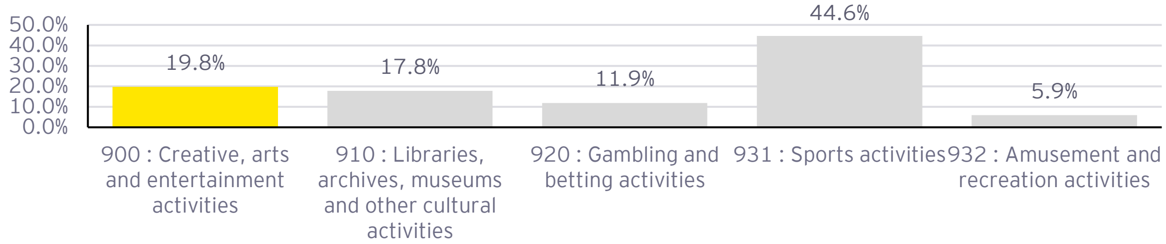
***The baseline is the median value, for the corresponding day of the week, during the five-week period 3 Jan – 6 Feb 2020*

Bristol Beacon accounts for approximately 1 in 17 jobs in Bristol's Creative Arts sector

As demonstrated below in 2021, employment in Creative Arts and Entertainment Activities represented 19.8% of employment within the Arts, Entertainment and Recreation Industry. As of 2021 there were 1,000 employees in Bristol's Creative Arts sector. Prior to expansion Bristol

Beacon employed over 60 people, constituting around 1 in 17 local Creative Arts employees; it is a significant institution for employment in the sector.

Figure 9 - Arts, Entertainment and Recreation Employment Breakdown by sub sector – SIC Level 3 Code - 2021



Source: Business Register and Employment Survey

3.2.2 Sector Trends

Table 5: Key trends in the theatre sector

	Key trends
1	**Changes in consumer behaviour** Theatre sector revenues are threatened by both a long term shift away from in-person event attendance as well as a movement towards new technologies and offerings.
2	**Staffing challenges** Since the pandemic, Arts and Entertainment employment has declined in Bristol. This echoes a national trend of staffing challenges due to a tight labour market, driven partly by a lack of applicants from EU countries.
3	**Uncertainty over public funding poses a further threat to income** Aside from losses in revenue, income generated from public private grants is at risk in the face of government cuts and recessionary concerns

A reduction in in-person attendance and a shift to new technologies threatens theatre sector revenue

There has been a permanent shift in consumer behaviour following the pandemic with an increased uptake of online offerings in Theatre and adjacent sectors. Several theatres adopted digital solutions for the recording and streaming of performances to ensure that audiences could still access them whilst at home. In some cases, performances could be streamed free of charge, enhancing accessibility to the arts. The theatre sector now competes with new offerings and technologies such as virtual reality, e-gaming and streaming entertainment. Global revenues from virtual reality are projected to double between 2022 and 2025, whilst increases of 30% and 13% are forecast for video streaming and video game revenues[7].

High labour market tightness is driving staffing challenges, particularly in theatre bars and cafes

Since the pandemic, Arts and Entertainment employment has declined by 20% in Bristol, from 1,250 in 2019 to 1,000 in 2021. Whilst the decline in sector employment may partially reflect venue closures and lower audience attendance, it also corresponds with staffing challenges that are being experienced in many sectors. The record number of job vacancies at a national level are indicative of a tight labour market with low levels of unemployment. A lack of applicants from EU countries post

[7] PWC (2022). *Global Entertainment & Media Outlook 2022.* https://www.pwc.com/gx/en/industries/tmt/media/outlook.html

Brexit has contributed to this challenge[8]. The problem this poses to businesses varies between sectors, as demonstrated by an ONS survey from September 2021. Whilst 7% of survey respondents from the Arts and Recreation sector found that vacancies were more difficult to fill, this figure rose to 30% for the Hospitality sector. For Bristol Beacon this indicates recruitment issues could be more pronounced in the café and bar, compared to event production roles.

Many venues are threatened with closure following the withdrawal of public funding

In addition to concerns regarding revenue generated from ticket sales due to the cost-of-living crisis, theatres in the UK are faced with a decline in both public and private funding. Many theatre venues require substantial investment for the upkeep of land and buildings, particularly those located in old or listed properties. In November 2022, the Arts Council England announced cuts to Arts to several theatres and opera houses[9]. Some organisations, such as the Watermill Theatre in Berkshire face an uncertain future having lost 100% of Arts Council funding whilst still recovering from the effects of the pandemic.

3.2.3 Competition in the Arts and Entertainment sector

Bristol Beacon's closest competitors are other concert halls, theatres, cinemas and event hire spaces in Bristol. We have conducted a case study review of selected competitors from Bristol as summarized in Figure 1 below and have reviewed major cultural event space in comparator cities, to help contextualise the relative importance of Bristol Beacon for the Arts, Entertainment and Recreation sector.

3.2.4 Immediate competition

While there are other theatres and music venues in the local area, Bristol Beacon represents a significant part of the Arts and Entertainment sector within the region. As outlined below, Bristol Beacon has the largest capacity of its nearest current competitors based in the city centre. Capacity of a venue is an important component when attracting leading productions, artists and events to the region, as venues with larger hosting capacity have a greater commercial pull for event organisers. To ensure that Bristol continues to attract such events to the region, it is therefore important to have venues that offer commercially viable revenues for organisers. It is noted that the Bristol YLT arena is scheduled to open in 2024, which will have capacity to host events of 17,000. Given the size and location of the venue it is likely to programme different kinds of events and therefore target a slightly different audience to that of Bristol Beacon. However it still represents a challenge to demand at Bristol Beacon and it will be important for the Council to understand the unique selling points offered by Bristol Beacon compared to this venue. In developing a unique selling point, BMT will need to effectively segment their audience to ensure events held attract and expand their consumer base, and align to the wider socio-economic objectives of the venue. This will include applying subsidy to events that enable access and encourage attendance from vulnerable parts of the population, rather than events that bolster attendance from parts of the community that don't require subsidy.

During 2018 Bristol Beacon hosted 601 performances at the building to a total audience of 290,000. Based on the capacity requirements and current schedules of other venues within in the city centre, it is unlikely that the venues could subsume this demand were Bristol Beacon to cease operating. The importance of Bristol Beacon to the city centres cultural sector is therefore significant, with it attracting a large number of performances across the year, helping to develop the cultural ecosystem within the region.

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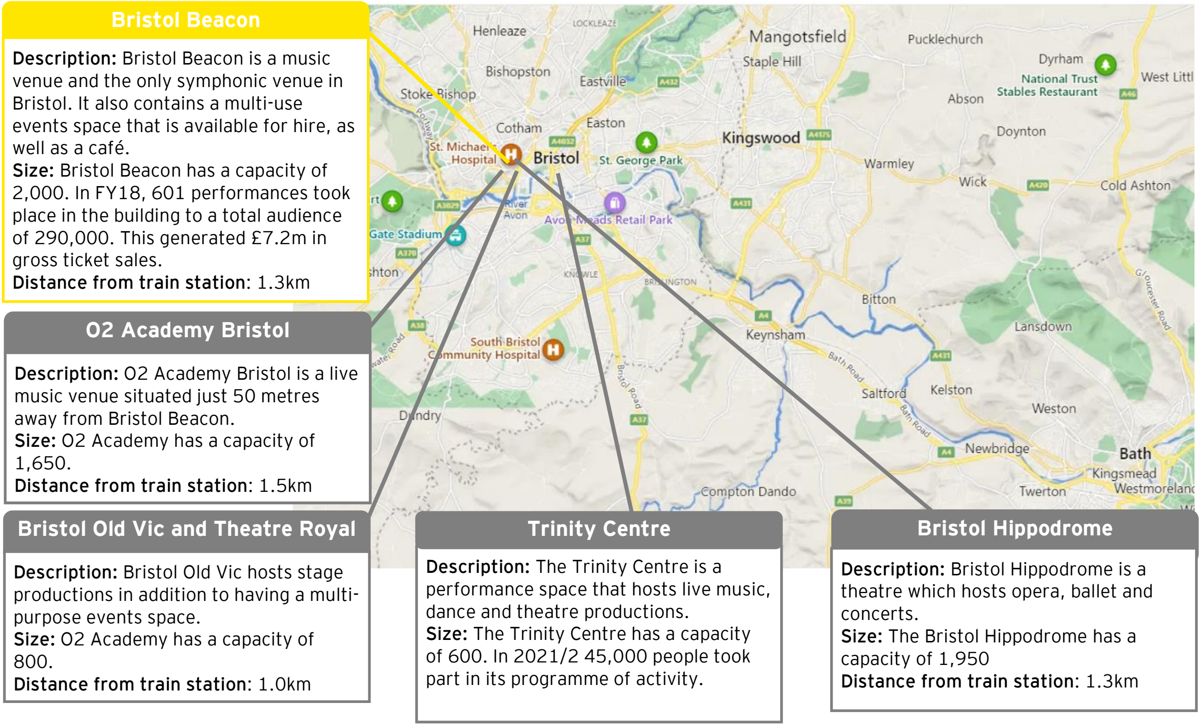
8 ONS (2021). Hospitality businesses are most likely to be struggling to fill vacancies. https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/hospitalitybusinessesaremostlikelytobestrugglingtofillvacancies/2021-09-16

9 Guardian (November 2022). *Arts Council funding: organisations head into the unknown amid cuts.* *https://www.theguardian.com/culture/2022/nov/10/arts-council-funding-organisations-head-into-the-unknown-amid-cuts*

Figure 10 - Mapping of Bristol Beacon and local competitors



3.2.5 City comparators

As demonstrated in Table 6, other neighbouring and major cities in the UK all have a number of theatres and musical venues that offer substantial capacity to cater for cultural events within the city. Across all of these city comparators, each city has a venue with at least capacity of 2,000. In the absence of the Bristol Beacon, Bristol would not have a venue that meets this capacity. This highlights that it is a common and important feature for a city to have a venue that can host significant cultural events in the city.

Having a significant cultural events space is therefore an important component of Bristol's local economy, as it helps to develop a sense of place, making the region an attractive place to live, visit, and invest in. Visitors to the venue help to support the local economy by increasing footfall in the City Centre and consequently increasing consumer spend in the surrounding area. The spend effects of visitation to the Bristol Beacon and Bristol Beacon's spend in its supply chain create both indirect and induced economic benefits, stimulating economic output in the region. Additionally, having an important cultural venue helps to deliver wider social and economic benefits within a city, by helping to underpin its reputation for creativity, live performance and business innovation. A thriving and dynamic cultural hub can therefore be important in developing a sense of pride and place for a region.

Table 6: Theatres in other neighboring and major cities (This list is not exhaustive and has been collated to demonstrate examples of facilities in other comparable and major cities).

City	Metric	Theatre				
Cardiff	Name:	Montorpoint Arena	St David's Hall	Wales Millennium Theatre	The Tramshed	New Theatre
	Capacity:	7,500	2,000	1,900	1,700	1,500
Bath	Name:	The Forum	The Guildhall	Theatre Royal	The Rondo	The Egg
	Capacity:	2,000	1,000	1,000	300	200
Exeter	Name:	Great Hall	Exeter Cathedral	Exeter Phoenix	Northcott Theatre	Barnfield Theatre
	Capacity:	2,000	1,200	1,000	600	250
Manchester	Name:	Manchester Academy	The Apollo	Palace Theatre	Manchester Opera House	Royal Exchange Theatre
	Capacity:	5,100	3,500	2,900	2,600	760
Birmingham	Name:	O2 Academy	Symphony Hall	Birmingham Hippodrome	The Old Rep	The Crescent Theatre
	Capacity:	3,000	2,300	1,700	550	250

3.2.6 Implications on Bristol Beacon Business Case assumptions

The assumptions driving Bristol Beacon's financial business case are assessed in the context of the macroeconomic environment in 7 below. This review has been based upon the updates to the 2019-23 business case, which were provided for 2022.

We have used a RAG system going from red (higher) to green (lower) to indicate the perceived risk level to the business case assumptions.

Table 7: Assessment of business case assumptions in the context of macroeconomic and sector trends

Assumption	Assessment	RAG
Phase 2 timeline	In BMT's business plan which was published in 2019, the target for completion of the Project was the 2021/22 financial year. In its revised business plan estimates, this deadline has been delayed until Autumn 2023. This is understandable due to delays in the construction sector pertaining to COVID-19 and subsequent challenges relating to transport and staffing. It may be possible that the current deadline of Autumn 2023 may not be met, which would cause downward pressure on box office revenues due to prolonged closure.	Red

Assumption	Assessment	RAG
Phase 2 cost	The initial £52m cost of the Project from 2019 has been revised to approximately £131m given COVID-19 delays and cost inflation. In the construction sector, output prices increased by 18.4% between January 2019 and September 2022[10]. Ongoing uncertainty presents a risk that the refurbishment budget may need to be increased, which could generate a funding challenge for the Project.	Red
Average attendance	BMT assumes that attendance (%) falls slightly from 68% to 62% for Hall 1 and increases from 66% to 67% for Hall 2 following refurbishment despite increase in capacity and the opening of Hall 3. These are pre-pandemic assumptions which are now optimistic given the shift in consumer behaviour following the pandemic. Footfall and in-person attendance at recreation facilities has fallen as more consumers choose to stay at home and consume alternative means of entertainment. This concern is echoed by Bristol Beacon's local competitors, which cite attracting sufficient audience members as a substantial threat to financial performance.	Amber
Event income	An 87% increase to £1.3m in Event income is forecast in Bristol Beacon's most recent business plan estimates. The multi-use events space is available to hire for conferences, weddings and private parties. With businesses facing an uncertain economic outlook, spend related to external events and conferences is likely to diminish. However, pent up demand related to weddings has the potential to offset some of this lost income.	Amber
Trading income	A 106% in trading income is forecast, with income expected to increase to £1.4m Although an increase in ticket prices is plausible in light of improvements to the quality of Bristol Beacon's offering and CPI inflation, the current squeeze on disposable incomes may prevent this rise in box office incomes from being achieved. This challenge comes as audience members cut back on discretionary spend.	Amber
Staff costs	A 50% increase to £2.7m in staff costs is forecast following the refurbishment according to Bristol Beacon's latest estimate. This is an increase on the 2019 business case estimate which was overly optimistic given upwards pressure on the living wage driven by high CPI inflation. The forecast assumes 5% inflation during 2023/24 followed by a fall to 3% thereafter, which is broadly in line with estimates from economic forecaster Oxford Economics. However, given persisting uncertainty in the market it is possible that staff costs could inflate further, squeezing profit margins.	Amber
Premises costs	Bristol Beacon projects a 21% increase in premises costs following refurbishment, an increase from its initial business case estimate in 2019. In light of the energy crisis that is currently prevailing, it is reasonable that this estimate has increased. There is limited support for businesses, which is threatening the commercial viability of many organisations. This places pressure on Bristol Beacon's profitability and ability to return value on investment.	Amber

[10] ONS (2022). *Construction output prices.* https://www.ons.gov.uk/businessindustryandtrade/constructionindustry/datasets/interimconstructionoutputpriceindices

4. Financial Review

In this section, we assess the potential financial returns and implications of the Project to the council. This includes both capital viability analysis as well as assessment of the ongoing revenue implications of the asset to BCC as funder and Landlord.

In undertaking this review, we have examined three scenarios:

- **Scenario 1 -** Current commercial arrangements
- **Scenario 2 -** Upside scenario
- **Scenario 3 -** Downside scenario

These scenarios are outlined in greater detail below. Scenarios 2 and 3 are both indicative and cumulative upon assumptions under Scenario 1, and were agreed with BCC for the purpose of this analysis.

4.1 Scenario 1 – Current commercial arrangements

4.1.1 Overview of scenario

Scenario 1 examines the financial returns to BCC under the current commercial arrangements between BCC and BMT in relation to the project. The key commercial arrangements relevant to our financial review are summarised below (note – further information on the arrangements between BMT and BCC are provided in Section 5). We understand that the terms of the key agreement documents between BCC and BMT are currently under negotiation at the time of writing this report and are subject to change. The commercial arrangements assumed in this scenario primarily reflect those outlined in the various agreements except where specifically stated.

Lease period

When BMT was established in 2011, the venue was leased from BCC to BMT under the terms of a lease agreement dated 28th April 2011 for a term expiring in 2036. Due to the required works of the project, an Agreement for Surrender and Regrant of Lease for Colston Hall ('AFS') was signed between BCC and BMT in December 2019 allowing BCC to occupy the relevant parts of the venue during the refurbishment period, and on completion of the works, granting a new lease to BMT for the ongoing lease of the refurbished venue. Under the terms of the AFS, the new lease period is stated as 30 years from the completion of the works and opening of the venue. However, we understand that BCC and BMT are in the process of amending certain lease terms, and as part of this review BMT have requested an extension of the lease period to 32 years. We have therefore assumed a lease period of 32 years for the purpose of our NPV analysis to reflect this latest position.

Capital funding

At the time the Collaboration Agreement ('CA') was signed in 2019, the Project's total estimated capital cost was £52 million. Per the original terms of the agreement, BMT was responsible for fundraising £42 million of this total, with the remaining £10 million of capital committed by BCC. BCC was also liable for any increase in the cost of the project over and above the total cost estimate.

The total project cost estimate subsequently increased to £106.9 in March 2021 and was approved by the Cabinet. At this time, the total committed capital from BCC increased to £54.5 million, BMT's fundraising commitment increased to £52.4 million, and BCC remained liable for any further cost increases.

The latest cost estimate for the project as of January 2023 is approximately £130.4 million which represents a total cost increase of £23.5 million. The total BMT fundraising commitment is expected to increase to £52.8m[11], so it is therefore assumed that BCC's capital commitment will increase to a total of £77.6 million to cover the remaining cost increases.

According to a financial advice document provided by BCC[12], it is assumed that the full capital commitment will be funded through a Public Works and Loans Board ('PWLB') loan, repayable over 50 years with a 1.5% interest rate.

Underwriting Facility

In addition to its initial capital commitment of £10m in 2019, BCC also committed to fund any shortfall in BMT fundraising so that ongoing payments for works could be made as needed. This was committed through an underwriting facility up to a maximum of £5 million, which was increased to £12 million in March 2021.

As per the CA, interest of 3% per annum will be payable on the total amount of underwriting facility payments made. Per the repayment terms, there will be a three-year repayment holiday following opening of the venue (assumed to be 2021 in the CA), during which time no interest or principal is required to be repaid. Following this three-year period, the full amount of the principal plus interest will be repayable in equal annual instalments over the remaining lifetime of the re-granted lease.

Based on discussions with BMT, it is understood that the latest estimate for the BMT fundraising gap is approximately £6.9 million. This figure has therefore been assumed as a capital cost to BCC in our analysis. It is also understood that the latest estimate for the opening date of the venue is 1st December 2023. For the purpose of this scenario, we have assumed that the three-year repayment holiday will continue to apply from the new opening date.

On the basis of this information, we have assumed equal annual repayments of £359,591 between 2027/28 and 2055/56 for this NPV analysis.

Ongoing revenue support

Per the terms of the Entrustment Agreement ('EA'), BCC shall pay compensation to the Trust for the provision of the Entrusted Services outlined in the agreement. The amount payable by BCC to BMT is set out in the Service Level Agreement ('SLA') and was established at £1,026,000 per annum. Per the BMT Deed of Variation No 3 16.02.2022 ('DoV 3'), the annual payment amount would remain at £1,026,000 until 2022/23, and then step down gradually to £226,000 in 2029/30 where it will remain until the final year of payment in 2036/37.

Based on discussions with BCC and BMT, we understand that the payments are currently under review and may be ceased earlier than planned. For the purpose of this scenario, we have therefore reflected the latest Business Plan assumptions from BMT which align to the DoV 3 payment amounts in 2022/23 (£1,026,000) and 2023/24 (£776,000), thereafter reducing to zero from 2024/25 onwards.

4.1.2 Capital viability analysis

In this analysis, we will evaluate the indicative capital viability under the current commercial arrangements by developing a Net Present Value ('NPV') estimate for the BCC's capital investment. NPV analysis sets out an indicative value for the overall gain or loss of an investment in today's term (or that of any alternative year determined as the base year of the investment period) and it is frequently used as a key metric to guide investment decisions. If the present value of an investment

[11] As outlined in cost estimate provided by BMT

[12] Appendix G – Financial Advice

is positive, the investment can be considered financially feasible. A negative present value indicates that the investment will see a net loss and thus is not considered viable from a financial perspective.

According to the affordability principles set out in BCC's Capital Strategy 2023/24 to 2032/33, all council capital projects should achieve a positive NPV. The only exceptions to this are Environmental and Social Impact projects.

In calculating the NPV, all future cash flows must be adjusted under the basis of the 'Time Value of Money', which assumes future cash flows are worth less than cash flows available today. To do so, we apply a compound discount rate, usually derived from the interest rate or rate of return that the investor expects to receive if the future funds were to be available and invested today, as a proxy to discount future cash flows. In this analysis, we have set the discount rate at 3.5%, which aligns with the general guideline from the 2022 Green Book.

For this analysis we have calculated an NPV of BCC's capital investment over a 32-year payback period following the opening of the venue (expected 1st December 2023), reflecting the anticipated re-granted lease period from 2023/24 (Year 0) to 2055/56 (Year 32). The NPV calculation takes into account BCC's upfront financing of the Project's development cost, the on-going revenue subsidy paid to BMT and repayments by BMT of the underwriting facility.

For the purpose of this analysis, the following assumptions have been made as agreed with BCC:

- Total capital commitment of £84.5 million (including £77.6 million committed capital and £6.9 million underwriting facility), funded through a PWLB loan repayable over 50 years at 1.5% interest (as per BCC assumptions)

- All of BCC's upfront capital contribution is incurred in 2023 as phasing of the capital injection will not directionally change the result of the analysis

- The final revenue subsidy payment will be paid in 2023/24 of £776,000. Note – revenue subsidy payments made by the Council prior to 2023 are not retrospectively included in the NPV calculation.

Table 8 - NPV under the current commercial arrangements

Period **April - March**	**0** ***2023/24**	**1** **2024/25**	**2** **2025/26**	**3** **2026/27**	**4** **2027/28**	**31** **2054/55**	**32** **2055/56**
BCC Capital Contribution	-84,500,000						
PWLB Borrowing Costs to BCC	-2,217,163	-2,217,163	-2,217,163	-2,217,163	-2,217,163	-2,217,163	-2,217,163
BCC Revenue Subsidy	-776,000	-	-	-	-	-	-
Repayment on Underwriting Facility	-	-	-	-	359,591	359,591	359,591
BCC's Share of Project Surplus	-	-	-	-	-	-	-
BCC Net Profit / Loss	-87,493,163	-2,217,163	-2,217,163	-2,217,163	-1,857,571	-1,857,571	-1,857,571
NPV	-119,731,773						

* *The analysis assumes 4-months operation in 2023/24 based on the latest estimate of the venue opening date on 1st December 2023*

As shown in Table 8, under the current commercial arrangements between BCC and BMT, the estimated NPV of the project is estimated to be -£119.7 million which represents a significant financial loss on investment and primarily reflects BCC's capital outlay position.

4.1.3 Ongoing revenue implications

As outlined in section 3.1.1, the only three ongoing revenue implications in relation to the project include the revenue subsidy from BCC to BMT, the repayment of the underwriting facility from BMT to BCC, and the financing costs associated with BCC's capital commitment.

As the ongoing revenue subsidy is expected to cease after 2024/25, this leaves BCC's financing costs and BMT's annual underwriting repayment as the sole ongoing revenue impacts to BCC from the Project's operation.

We note that for BCC's financing costs, we have used the assumptions taken from BCC's analysis. However the latest PWLB fixed rate loan interest rates for a period of 50 years have been published as 4.97% as at 9 January 2023. Ongoing financing costs to BCC may therefore be significantly higher than those assumed in the NPV calculation, thereby giving a highly negative ongoing revenue implication.

Based on the latest discussion with BCC and BMT around ceasing the ongoing revenue support earlier than planned, we understand that termination of the revenue subsidy may limit BMT's ability to meet ongoing debt repayment obligations. This would also lead to a further negative revenue implication. Should BMT and BCC agree on alternative loan repayment terms following the revenue subsidy negotiation, the ongoing revenue impacts to BCC would need to be revisited.

4.2 Scenario 2 – Upside Scenario

4.2.1 Overview of scenario

Scenario 2 explores a hypothetical scenario in which BCC is able to benefit from additional income from the venue through a revenue share arrangement with BMT that shares any operating surplus of the venue with BCC. All other commercial arrangements remain the same as under Scenario 1.

4.2.2 Capital viability analysis

For the purpose of this scenario, we have used the expected operating surplus / (deficit) from the 25-year cash flow forecast of the Collaboration Agreement Appendix 7 - BMT 25-year Cash Flow Option 0 document as an illustrative cashflow. As the 25-year cashflow forecast was developed in 2019, we understand that some of the assumptions may be out of date. However, they are a useful indication of the expected level of long-term income that the venue is expected to generate and we don't believe that updated assumptions will have a material impact on the outcome of the analysis. We have applied a 2% inflation rate to the future cashflows, and have rolled forward the final year of the 25 year forecast for the remaining years of the lease period.

This NPV analysis uses the same assumptions as under Scenario 1 for the lease period, capital outlay, revenue subsidy payment, underwriting facility amount and repayment terms, and discount rate. We have also assumed that 100% of any operating surplus is shared with BCC.

Table 9 - NPV under revenue sharing of forecasted operating surplus

Period April - March	0 *2023/24	1 2024/25	2 2025/26	3 2026/27	4 2027/28	31 2054/55	32 2055/56
BCC Capital Contribution	-84,500,000						
PWLB Borrowing Costs to BCC	-2,217,163	-2,217,163	-2,217,163	-2,217,163	-2,217,163	-2,217,163	-2,217,163
BCC Revenue Subsidy	-776,000	-	-	-	-	-	-
Repayment on Underwriting Facility	-	-	-	-	359,591	359,591	359,591
BCC's Share of Project Surplus	-	30,736	179,572	-	-	1,065,024	1,086,325
BCC Net Profit / Loss	-87,493,163	-2,186,426	-2,037,591	-2,217,163	-1,857,571	-792,547	-771,247
NPV	-113,053,174						

** The analysis assumes 4-month operation in 2023/24 based on the latest estimate of the venue opening date on 1st December 2023*

As shown in the table, in this upside scenario the NPV is -£113.1 million. While this is an improvement on the current commercial arrangements, it still represents a significant financial loss.

To explore further what level of annual income from the revenue share arrangement would be required in order for the project to become financially viable to BCC, we back-calculated the annual income that would achieve a breakeven NPV of zero. For the purpose of this calculation, we assumed a constant level of annual income every year, indexed at 2% per annum (as taken from 2022 Green Book guidance).

The calculation showed that the annual income share level required for BCC to achieve a breakeven NPV is equivalent to approximately £4.9 million in 2024/25 prices. As per the Appendix 7 25-year cashflow, the maximum level of annual income reached during the 25-year period is of £840,000 in year 25 (i.e., 2042/43). This would suggest that achieving an annual revenue share to BCC of £4.9 million in 2024/25 (increasing to approximately £9.1 million in 2055/56) appears to be an unrealistic outcome under the current commercial arrangements of the venue. Therefore, achieving a positive financial return on investment for this project might not be possible for BCC.

However, if commercial levers can be identified by BCC or BMT to increase the operating surplus of the venue, the negative NPV under a revenue sharing arrangement could be improved. An additional sub-scenario has been run to calculate the NPV if the future operating surpluses are improved by 50% (keeping other assumptions the same). This results in an NPV of -£109.7 million.

4.2.3 Ongoing revenue implications

Under a scenario where BCC is able to share in any operating surplus of the venue, there would be a positive ongoing revenue impact to BCC, which could be used to help offset the initial capital contribution towards the project and the ongoing financing costs or contribute to BCC's revenue budget.

4.3 Scenario 3 – Downside scenario

4.3.1 Overview of scenario

Scenario 3 explores a hypothetical scenario in which the income generated by the venue falls short of expectation, leading to BMT requiring further ongoing revenue support from BCC in order to keep the venue running.

4.3.2 Capital viability analysis

The NPV analysis for this scenario uses the same assumptions as under Scenario 1 for the lease period, capital outlay, underwriting facility amount and repayment terms, and discount rate.

The only difference to Scenario 1 is that the revenue subsidy payment continues past 2023/24 to 2036/37 (in line with the terms set out in the DoV 3) to illustrate ongoing revenue support required to cover further operating deficits in the medium term.

Table 10 - NPV under initial revenue subsidy payment schedule

Period **April - March**	**0** ***2023/24**	**1** **2024/25**	**2** **2025/26**	**3** **2026/27**	**4** **2027/28**	**31** **2054/55**	**32** **2055/56**
BCC Capital Contribution	-84,500,000						
PWLB Borrowing Costs to BCC	-2,217,163	-2,217,163	-2,217,163	-2,217,163	-2,217,163	-2,217,163	-2,217,163
BCC Revenue Subsidy	-776,000	-525,520	-501,000	-476,000	-450,000	-	-
Repayment on Underwriting Facility	-	-	-	-	359,591	359,591	359,591
BCC's Share of Project Surplus	-	-	-	-	-	-	-
BCC Net Profit / Loss	**-87,493,163**	**-2,742,683**	**-2,718,163**	**-2,693,163**	**-2,307,571**	**-1,857,571**	**-1,857,571**
NPV	**-123,077,442**						

Due to the ongoing revenue subsidy payments and no additional income share received from the venue, the NPV in this scenario is £-123.1 million which is more negative than under Scenario 1. Any additional revenue support that has to be provided by BCC to BMT will further decrease the financial viability of the project.

As noted in Section 2, the macroeconomic environment in the UK and sector specific trends in the arts and entertainment sector may pose challenges to Bristol Beacon due to low consumer confidence and sentiment as a result of the UK recession, the cost-of-living crisis, shifting consumer behaviour with fewer people attending retail and recreation facilities, and a challenging labour market. In light of these circumstances, scenario 3 is not considered an unrealistic situation. If performance of the venue is lower than anticipated and BMT cannot cover its expenditure, BCC may be required to provide further revenue support. It is therefore very important for BMT to pursue all commercial levers and optimise its offering to the public to mitigate this risk to as great a degree as possible. This would include optimising its programming and pricing model (to drive commercial returns whilst also attracting low income and vulnerable groups), as both of these will have a material impact on the performance of the venue in what is a competitive market.

4.3.3 Ongoing revenue implications

Under a downside scenario such as this where BCC has to provide ongoing financial support to cover the operational costs of the venue, there will be negative impacts on BCC's revenue budget. These impacts could vary year on year if the venue's performance fluctuates, or macro and micro-economic factors change.

4.4 Draft Bristol Beacon Assurance Report review

The analysis above has been undertaken on the assumptions that the latest cost estimate of approximately £131 million will not be further breached. As noted in section 4.1.1, BCC remains liable for any further cost increases above what is currently estimated and so there may be risk of additional BCC funds being required. If this is the case, the financial returns of the Project will worsen.

The independent assurance report commissioned by BCC from a technical advisor concluded that the latest cost estimates (including contingencies) of the Project Delivery Team should be sufficient to complete the Project. However, the report also states that the risk of cost and programme overrun remains high.[13]

On review of the assurance report, we don't observe anything that appears to have been fundamentally missed as part of the assessment and therefore have no reason to disagree with the conclusions. We also agree that given there is nearly a whole year of construction still planned, and the economic environment is likely to remain challenging during that time, the risk of further cost increases occurring is high, and therefore BCC is at risk of needing to commit more funds. This could include unforeseen risks including further unexpected inflation that might emerge given the unprecedented economic climate, or even contractor collapse in a more severe scenario.

4.5 Other options for the Project

In addition to completing the Project with additional funding, two other options available to BCC could be to pause or terminate the Project. Given the significant level of spend to date and cost of existing contracts and repaying conditional grants, the costs of these options have been estimated at £164 million to pause the contract, and £202 million to terminate the Project completely.[14] The

[13] Bristol Beacon Assurance Report – December 2022

[14] Draft Bristol Beacon Assurance Report

estimated costs of both of these options greatly exceed the current cost estimate to complete the Project with additional funding.

Consideration must also be given to public opinion surrounding the options and potential reputational issues that BCC may face if a change of approach is taken, given the already substantial amount spent on the Project. It therefore appears that continuing with the Project to completion with additional funding is the best option available to the council.

However, whilst this may represent the best option at this time, BCC may wish to consider developing a mitigation strategy with potential options in case further issues arise regarding the Project development, or performance of the venue does not meet expectations once the venue is operational. These options could include the possible change of operator, or even change of use of the venue. Having a clear strategy in place should the scenario arise will not only give BCC an immediately actionable plan which could save time and costs at the time, but also act as an incentive to BMT to ensure the venue remains viable.

4.6 Conclusions of the financial review

The analysis undertaken with respect to the three scenarios above indicate that from a purely financial perspective, the project is not a net positive investment to BCC. Under current commercial arrangements, the project will not generate a return on investment, and even with additional income received through an income sharing arrangement with BMT, the project is very unlikely to breakeven. It is also feasible that in light of the macroeconomic environment and emerging sector trends, further ongoing revenue support might be required from BCC to support BMT to cover operating costs of the venue, and there is also risk that BCC may be required to commit more capital funds to the Project. Despite these factors, completion of the Project remains more cost effective to the Council than pausing or terminating it.

If the council can accept that the project will generate a significantly negative NPV, and wishes to proceed under the current commercial arrangements, it must be satisfied that the project will generate sufficient wider social impacts in order to justify the investment. As outlined in the 2017 Colston Hall Economic Impact Assessment – Executive Summary, these benefits could include direct, indirect, induced and wider spill over Gross Value Added ('GVA') and employment impacts. Appropriate governance structures must also be put in place to ensure these impacts are tracked and reported to give comfort to BCC that the intended benefits are in fact being achieved. The current governance structures are examined in more detail in section 5. Given BCC's exposure to underperformance of BMT, the council may also wish to monitor the ongoing financial performance and business plan of BMT to gain comfort that all commercial opportunities are being maximised.

If the significant financial loss under the current commercial arrangements is not acceptable to BCC, the council may wish to undertake detailed financial analysis or explore new operating models to identify potential commercial levers that could help to generate and provide increased income to BCC from the venue. This could help to erode the negative NPV to levels that are more acceptable to the council. A high-level overview of potential alternative operating models is provided in section 5 for the council's consideration.

5. Governance and operating model review

Within this section we have considered the risks and opportunities relating to the governance arrangements between BCC and BMT. We have also identified different operating models that can be adopted for the operations of the Bristol Beacon.

5.1 Governance risks and opportunities

5.1.1 Existing governance arrangements

The overarching governance relationship between BCC and BMT is defined by a combination of BMT's Articles of Association and the EA[15] executed between the parties. The Articles give BCC the capacity to appoint up to 2 (out of a maximum of 12) Trustees/Board members with the caveat that BCC cannot appoint up to 20% of the BMT Board to ensure independence. While this does not give BCC control over BMT, it does provide it a degree of oversight of BMT's activities. The EA requires BMT to provide transparency in relation to costs and expenses incurred in achieving its stated objectives within the EA[16]. It also gives BCC the capacity to review all BMT's financial records in accordance with an open book accounting policy[17]. This appears to be completed on an annual basis, with Annual Entrusted Services Accounts prepared by BMT for submission to the council. The governance relationship is therefore one of review, rather than direction or approval.

The project-specific governance relationship relating to the Project is defined by the Collaboration Agreement ('CA') entered into by the parties and its accompanying schedules. In compliance with these general principles, the CA (in Schedule 1[18]) established the Colston Hall Phase 2 Project Board (PB) which has overall responsibility for the project. The PB is currently comprised of 5 members from BCC and 2 members from BMT who are all senior members of their respective organisations or specialists. Due to the PB governance structure, BCC effectively has control over the project delivery. The PB has responsibility for change control. It is required to approve changes which impact cost (ranging between £300k to £1m above which BCC Cabinet approval is required), time (altering critical path, key project milestones and project end date) and scope[19]. We note that the Growth and Regeneration Scrutiny Commission (GRSC)[20] of the BCC also provides scrutiny of this project. The GRSC, however, meets at irregular intervals (ranging from 1 month to 6 months) and the Bristol Beacon is not a standing point on its agenda. The result of this is that the project has only been discussed twice in the past 2 years.

The Strategic Advisory Group ('SAG') acts on behalf of the BMT to support in providing assurance to stakeholders of the ability of the project to achieve its objectives. The SAG provides close project monitoring and challenge, as well as compliance with funding requirements, escalating issues to the PB in a timely manner. The CA also defines thresholds for approval of expenditure as well as the framework for making changes to the programme/project.

Many UK institutions provide guidelines for best practice project governance, which include but are not limited to:

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15 This includes all variations to the Entrustment Agreement including the Deeds of Variation / Service Level Agreements

16 Clause 3.4 of the Entrustment Agreement

17 Clauses 7 and 8 of the Entrustment Agreement

18 Collaboration Agreement: Bristol Beacon – Phase 2 Schedule 1 Project Execution Plan (PEP)

19 Section 7 of Schedule 1 PEP

20 The role of the Growth and Regeneration Scrutiny Commission is the overview and scrutiny of matters relating to the Growth and Regeneration Directorate

- involving senior managers and stakeholders;
- assigning ownership and accountability for project governance to a group of experienced resources;
- designing governance at the program and project levels; and
- providing transparency through reporting and avenues for review.

Based on our review, it appears that the existing project governance structures between BCC and BMT generally align to the principles that we would expect to see. However, it is noted that in the December 2022 Board Risk Register provided by BCC, a risk has been noted regarding potential degradation of governance. It is important that in the challenging circumstances against which the Project is set, all governance processes and procedures are strictly adhered to maximise the Project outcomes.

5.1.2 Governance relating to Construction

The construction stage of project relates to all the activities that contribute to the development of Phase 2.

BCC appointed the main contractor, Willmott Dixon, to undertake the refurbishments. We understand that they were selected based on prior experience in delivering projects relating to the delivery of creative arts spaces. It is important to note that delivery risk sits solely with BCC, not the contractor. BCC also controls the PB which is responsible for driving, leading and co-ordinating the project as a whole in accordance with the Facilities Requirements and agreed project objectives. The PB holds monthly meetings to perform these functions and the documentation we have been provided suggests the PB is kept regularly updated on progress.

We have not identified any substantive concerns with the existing project governance structure and do not perceive any material changes required. We do, however, recognise the importance of a continued focus on project governance in the months ahead and recommend renewed stringency towards all procedures to avoid degradation of governance in this critical time. There should be a strong focus on ongoing development phase costs and plans so that potential issues can be identified early. The BCC should also ensure it has the information required for proactively identifying risks, appropriate mitigations and promptly implementing solutions adopted. Further actions that the BCC can take to enhance governance include:

1. Ensure an extensive risk register is maintained (and risks optimally allocated to the respective parties), and all actions required to mitigate delays, cost increases and other adverse incidents are taken expediently.

2. SAG and PB to ensure enhanced oversight of the programme/project and ensure greater challenge is made to changes to the programme/project – accompanied with appropriate documentation of the challenge and responses thereto.

3. Enhance the reporting requirements for all project teams reporting to the PB, coupled with enhanced review of proposed change to the programme/project plan.

4. Ensure all the necessary agreements to accommodate delays which, according to the risk register, seem certain to occur to minimise liabilities that could arise from non-compliance with obligations under the existing agreements.

5. Ensure there are necessary contingencies put in place (particularly with respect to time/delay and cost) that facilitate adherence to the project plan.

5.1.3 Governance relating to Delivery

The delivery stage of the relationship between BCC and BMT relates to BMT operating the Bristol Beacon, and any other services arising from the Entrustment Agreement.

Based on our understanding and the current business plan provided by BMT, BMT will likely continue to require BCC's financial support (either through grants or writing off loans/underwriting facility). This is because BMT's ability to repay the underwriting facility provided by BCC is dependent on continued financial support from BCC. This creates exposure for BCC to the operational risks and/or underperformance of BMT. This exposure creates scope for BCC to request greater visibility and management of BMT's operations and performance (beyond the 2 Trustees/Board members per BMT's Articles of Association). This could be in the form of frequent periodic updates on the business plan(s), review and sign-off on changes to the existing business plan, updates on status of operations and monthly financial reports. This would not impact independence as it can be structured akin to commercial arrangements between Funder and Borrower which gives the Funder a degree of control over activities of the Borrower. The current BMT business plan runs to 2023 and, for the foregoing reasons, BCC should actively participate in the development of subsequent iterations of the plan.

As discussed in evaluating the financial review of the project, the project will generate a significantly negative NPV. However, there are likely to be non-financial or social benefits which arise from the project. As per BCC's Capital Strategy, only projects that are designated as Social or Environmental Impact Projects can proceed if they have a negative NPV. If BCC wished to designate this Project a Social Impact Project, it would be important that the social impacts (including those detailed in the EA) are sufficiently defined. Coupled with defining the social impacts, metrics for assessing compliance should be detailed to enable BCC to effectively monitor BMT's performance in achieving the desired social impact KPIs. This can form part of the factors considered in decisions as to whether to continue providing financial support to BMT. We understand that while BCC does have such frameworks in place with other contracted companies and access to a Social Value Portal that can assist in developing such a tool, there is currently not a defined framework in place for assessing and monitoring social impact of this Project. It would therefore be necessary to create such a framework as well as assign appropriate resources for its implementation.

The EA provides BCC access to BMT's financial records via open book accounting policy. This access is primarily related to supporting the calculation of annual compensation payments and preparation of Annual Entrusted Services Accounts. Discussions with BCC management, however, suggest this access has not been effectively utilised. BCC can also seek to expand the purpose of this access to closely monitor the activities of BMT. This would be beneficial in facilitating closer collaboration between BCC and BMT. This would give BCC the capacity to identify opportunities which can be exploited by the parties to enhance the commercialisation and social value of the Bristol Beacon.

As detailed in section 4.1.1, the lease term will range between 30 to 32 years based on the latest discussion between BCC and BMT. We have not identified a break clause within the proposed new lease[21] that would enable BCC to terminate the lease for reasons other than damage. As renegotiations are ongoing between BCC and BMT about the final structure of the new lease, BCC should consider obtaining legal advice regarding the inclusion of a break clause within the lease as well as mechanisms for terminating the lease based on sustained underperformance of BMT in operating the Bristol Beacon.

5.2 Operating model

5.2.1 Existing operating model

Bristol Beacon is owned by BCC and operated by BMT. BMT was established in 2011 as an independent charitable body and was engaged by BCC under the terms of the EA (varied periodically) to manage and operate Bristol Beacon and provide cultural, educational and heritage conservation services. A trading subsidiary BMT Enterprises Ltd was incorporated to manage commercial activities for the benefit of the charity.

This model of establishing an independent trust to lease and operate a council owned venue has

[21] Proposed new lease contained in Annex A to the Agreement for Surrender and Regrant

become a popular model for local authorities. However, it does relinquish control of the venue operations from the council, as well as ongoing revenue.

5.2.2 Operating model options for BCC consideration

In this section we explore at a high level a selection of other operating models that may be considered as alternatives to the Trust approach. It is important to note that there are likely to be programme and grant implications associated with any changes to the operating model.

Table 11 - Operating model options

Model	Description	Considerations
Outsourcing to a commercial theatre specialist	Operations are outsourced to an experienced commercial theatre operator who can apply their expertise and generate economies of scale through the operation of a portfolio of theatre companies. There are different specific agreements that can be established between the council and operator (e.g. management agreement only, or management plus lease agreement) which will depend on the extent to which the local authority wishes to continue to have control over the building and the services provided.	▸ This is typically only possible for venues of a certain minimum size/capacity to be commercially attractive to an operator. ▸ The council will need to carefully consider what degree of control (building and/or operations) it wishes to outsource. ▸ The experience and expertise of an established theatre operator can help to drive better service and operations ▸ Leasing the venue to a private sector operator at market rate will generate a much higher return than a peppercorn rent to a trust. ▸ Community sentiment towards the venue may change (both positively or negatively) if it is seen as a commercial rather than charitable venue.
Joint Venture	Under this model, a local authority will typically enter an equal partnership with a private investor. The council will transfer its property assets into a joint venture vehicle, and the private partner will match the value of the asset with a loan note. The joint assets can be used as collateral for financing regeneration or redevelopment projects. All profits from the venue are then split equally by the two partners.	▸ A JV arrangement would typically be set up in advance of the start of a redevelopment, and can also take a long time to procure and establish, which represents a timing issue for BCC. ▸ This can be a way to attract private sector finance for capital investment. ▸ It can also gain access to expertise of private sector for operating the venue. ▸ It also provides the council with ongoing revenue from the venue. ▸ As a 50/50 partner, the council may face issues with the partner if agreement cannot be made on how to run the venue. ▸ A partner would likely only be attracted by a viable proposal

Model	Description	Considerations
Sale of asset	Another option to the council is the sale of the asset to a private sector party. This removes all responsibility of the council with respect to the venue's operations or maintenance.	‣ There is a high risk of loss of theatre provision and social / cultural endeavours as the private sector party will have rights to use the venue as they desire. ‣ Restrictive covenants can be put in place although these are imperfect and may not guarantee use as desired by the council.
Sale and leaseback	Rather than a straight sale of the asset, the council could enter into a sale and leaseback arrangement, whereby the asset is sold to a private party and leased back to the council under a lease agreement. The lease agreement would allocate responsibilities (including maintenance) between the council and private party as desired.	‣ This option would generate significant upfront cash for the council from the sale proceeds. However, the terms of the lease rental would likely be at market rate which could be an ongoing high expense for the council to cover. ‣ There is limited certainty over the long-term future of the asset after the lease period.
Income strip	This is similar to a sale and leaseback, however the council sells the asset but retains the right to repurchase it at the end of the lease for a nominal amount (e.g. £1). The investor obtains their return via lease payments which would be index linked, but has no exposure to the value of the underlying asset.	‣ This allows the council to have the construction costs funded by a third party whilst also retaining a degree of certainty over the long-term future ownership of the asset. ‣ The rent payments may be a more attractive financing option than loan finance. ‣ This can be more favourable to the council from an optics perspective.
Community asset transfer	Local authorities can consider transferring the theatre to community volunteers to operate under a community asset transfer arrangement. An example of this was the recent transfer of the Mission Theatre in Bath to the Next Stage Theatre Company under a 99 year lease.	‣ As non-professional theatre operators, a volunteer operated theatre company may not have the resources or expertise to run a venue to a high standard. ‣ The council must be satisfied that the group have a business plan and a governance structure to operate the venue safely and sustainably.
Co-location of council services	One means of improving the commercial value of a venue to the council is for the council to combine the theatre front of house spaces with other council services to save money on other venue space.	‣ There may be an opportunity cost of not using the space for a more commercial activity such as refreshments or shops (which could be run by the council or a commercial operator).

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