

CABINET – 01 03 2016 EXECUTIVE SUMMARY OF AGENDA ITEM 8

Report title: ARENA ISLAND AND CATTLE MARKET ROAD DEVELOPMENT

Wards affected: Lawrence Hill, Windmill Hill and City Wide

Strategic Director: Barra Mac Ruairí, Strategic Director for Place

Report Author: Stuart Woods, Arena Project Director

RECOMMENDATION for the Mayor's approval:

1. To make provision for borrowing in the Capital Programme of up to £28m to pay for the cost of the Arena Island development, to be funded from the development of the Cattle Market Road site and Community Infrastructure Levy (CIL).
2. To make provision in the Council's Capital Programme to take forward the demolition of the former Royal Mail sorting office and prepare the site for redevelopment.
3. To approve the allocation of £8m of strategic Community Infrastructure Levy towards the development of infrastructure on Arena Island.
4. To approve the construction and funding of two further projects:
 - a. A walkway from the A4 Bath Road on to the Arena steps; and
 - b. A car park at 1-9 Bath Road as a self-funding development and included in the sums above subject to a further Cabinet report.
5. To approve the proposed arrangements regarding rates (as part of the commercial agreement finalised with the Arena operator).
6. To note progress being made on the Arena project regarding the building contract and the award of the pre-construction services agreement (PCSA) as part of the two-stage process previously agreed.

Key background / detail:

a. Purpose of report: This report brings forward proposals for the opening up of land to the east side of Bristol Temple Meads Station in readiness for development. It covers:

b. Key details:

- The development of the rest of the Arena Island site and requests

approval for funds to be set aside to fund the capital infrastructure as part of the Arena building contract.

- Two further projects are being taken forward for construction and Cabinet approval is being sought for these.
- The resolution of one outstanding item in reaching financial close with the Arena operator.
- The selection of Bouygues UK as the Principal Contractor and the entering into a pre-construction services agreement (PCSA) with that bidder.

AGENDA ITEM 8**BRISTOL CITY COUNCIL
CABINET
1st March 2016**

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Strategic Director: Barra Mac Ruairí, Strategic Director for Place

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- The development of the rest of the Arena Island site and requests approval for funds to be set aside to fund the capital infrastructure as part of the Arena building contract.
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The proposal:

Arena Island Building Contract Value

1. When the Arena project was approved in January 2014 Bristol City Council did not own the site and the assumption was that only half of the site would be used by the council. The Cabinet approval and consequent budgeting approach was therefore to see the Arena as a stand-alone project being delivered separately from the rest of Arena Island. This facilitated project delivery by ensuring that the commercial structure of the project was independent of the rest of the site in terms of financing and procurement.
2. A number of Arena Island infrastructure items have been included in the Arena building contract to enable them to be built the same time as the Arena. The items are currently outside of the budget approved by Cabinet for the Arena project. They are however important elements that provide quality public spaces and access routes through the site, opening up the rest of the site for development. They are pre-requisites for the development of Arena Island leading through to Cattle Market Road and their inclusion in the works will help secure economies of

scale. Proposals for improvements to the A4 walkway were developed following public consultation.

3. These items were detailed in the October 2015 Cabinet paper and are set out more comprehensively in **Table 1** (*the full list is included as Appendix 1 and illustrated in Appendix 2*). **The figures in Table 1 have been rounded up and so differ slightly from those in Appendix 1.**

TABLE 1 - Arena Island elements of the building contract outside of Arena approved sum (based on the successful tenderer's submission)

Item	Indicative Cost (£)
A4 Bath Road podium access from site	3,900,000
Remediation and enabling works (Currently estimated at £7.5m)	2,500,000
A4 to Arena Island walkway southern access	3,600,000
Arena Island infrastructure (including plaza, elements of the temporary and disabled car parking, contractor fees and profit, contingencies, services and utilities, other infrastructure including service roads but not St Philips bridge which is funded by RIF)	15,000,000
Cattle Market Road site clearing and enabling	1,000,000
Community Infrastructure Levy (CIL)	1,500,000
Photo-voltaic panels on roof - contingency	500,000
TOTAL	28,000,000

4. There are a number of cost areas that will be firmed up as the project and the design develop. One such area is that of enabling works and site remediation. There is currently a figure of £7.5m for this in the cost plan however based on current evidence the view of the project team is that this will be considerably lower, no more than £2.5m. This is the figure that is being used for costing purposes.
5. The proposed funding package is set out in **Table 2**.

TABLE 2 - Arena Island Funding

Item	Estimated Cost (£m)
Arena Island building contract infrastructure	26.0
CIL	1.5
Cost of car park 1-9 Bath Road	0
Photo-voltaics on Arena roof - contingency	0.5
TOTAL	28
Funded by:	Estimated Income (£m)
Cattle Market Road site development	15.9
CIL	8.0
Revolving Infrastructure Fund	0.5
Part fund from Transport Mitigation Allocation (£5m)	2.6
Income from temporary uses of Cattle Market Road	1
Car park 1-9 Bath Road (Income)	0
Optimism Bias Reserve	0
TOTAL	28

Funding Proposal

6. In 2015 the council acquired the Arena Island site, including 1-9 Bath Road and also the former Royal Mail sorting office site on Cattle Market Road. Ownership of the Arena Island site by the council as well as the Cattle Market Road site provides a significant opportunity for these sites to be taken forward within a strategic context, using the Arena project as a catalyst for development.
7. This report now proposes how to fund these works. In July 2015 officers commissioned a development appraisal of the remainder of Arena Island, including 1-9 Bath Road and Cattle Market Road to ascertain the potential levels of development value these sites might realise.
8. The development appraisal was concluded in December 2015. The appraisal looked at low, medium and high densities reflecting different amounts of development on the sites. These areas comprise mixed use developments with a combination of office, public realm, residential and commercial space. Each scenario resulted in estimates of the development floor space that could be achieved. These are set out in **Table 3**.

TABLE 3 - Development Scenarios (Gross external areas)

Site	Low (m²)	Medium (m²)	High (m²)
1-9 Bath Road	4,200	6,600	9,000
Arena Island	18,970	24,200	33,550
Cattle Market Road	28,365	39,525	51,590

9. It should be noted that the outline planning application for the future development of Arena Island as submitted in November 2015 is based on an area of 19,000m², which aligns it with the “low” development estimate in the development appraisal. The application areas are 1,400m² for shops and restaurants, 8,200m² for commercial and 9,400m² for residential (80 units). Block height is between 6 and 8 storeys. This Cabinet paper assumes that this “low” density development scenario will be exceeded by a high level development as detailed above.
10. As for Cattle Market Road, the latest version of the spatial framework (out to consultation in March) estimates a development area which lies between the middle and high scenarios above.
11. The development appraisal then looks at the values of the sites and their “residual” market value. This is a “snapshot” of the value of the sites today once all the currently known costs of development have been taken into account and assumes the site is developed and built out. There will need to be some further work to ensure that the infrastructure costed as part of the Arena build contract is not double counted in the development appraisal scenario. Clearly these scenarios are estimated and there are a number of variants and sensitivities that can affect the result and be run at future stages. The “residual” market value of these sites at this stage is set out in **Table 4**.

TABLE 4 - “Residual Market Value”

Site	Low (£m)	Medium (£m)	High (£m)
1-9 Bath Road	negative	0.09	0.18
Arena Island	0.1	0.4	1.30
Cattle Market Road	6.9	8.8	14.6
Sub-total	7.0	9.29	16.08
Reduction for 1-9 Bath Road	negative	negative	(0.18)
Total available	7.0	9.29	15.90

12. The development of Cattle Market Road is the main area of “residual” value from the three sites. The development and funding of Arena Island and its infrastructure can be linked with the development potential of Cattle Market Road as a means of funding the infrastructure. The development figure for 1-9 Bath Road has been deducted as it is proposed that the site will now be the location for a car park. It is assumed high densities will be driven from Arena Island, above those set out in the outline planning application.
13. In undertaking the development appraisal, property consultants appointed by the council have advised that private rented residential development, known as PRS (private rented sector), with complementary employment space may derive higher values than those quoted above in the case of Arena Island. Officers will explore this option further to consider the practicalities of such development. However this will be set against the need to raise business rates within the Enterprise Zone.
14. The above values have taken account of the costs of making sites ready for development, including the demolition of the former Royal Mail sorting office. A figure of £1m has been included in **Table 2** for the clearing of the site in addition to an allowance within the JLL report. An estimate of £1m income from temporary uses such as compound use, and commercial rentals has also been included. The building materials post demolition may be recyclable.
15. The proposal for Cabinet is therefore to approve the ring fencing of benefits realised from Arena Island and Cattle Market Road to fund the Arena Island elements of the building contract.
16. Provision should be made within the Council’s Capital Programme to take forward the demolition of the former Royal Mail depot and prepare the site for redevelopment. Funds to establish the budget and instruct

the works will be required by March 2016 in order to demolish the building during 2016 and to coordinate the site enabling works with adjacent projects. It is recommended that a budget capped at £2m be allocated for this project for this stage (based on a separate technical feasibility study), which would be refunded from revenue from temporary uses. An element of cost for demolition work has already been factored into the development appraisal reported above. Further work will follow on the cash flow impact and impact on the Medium Term Financial Plan (MTFP).

17. It is also proposed to allocate £2.6m of the £5m allocated for transport mitigation to the A4 southern walkway project.
18. It is proposed to allocate the next £8m of Strategic CIL to Arena Island infrastructure. The Council's Regulation 123 list was amended in August 2015 to include "Infrastructure schemes in the Bristol Temple Quarter Enterprise Zone".
19. The proposed allocation satisfies the Regulation 123 list criteria. It is also in accordance with Government's intention that CIL should be applied to infrastructure that supports development identified in the Local Plan, as it specifically supports the development identified in Bristol Central Action Plan (BCAP) Policy 35: Bristol Temple Quarter. It is anticipated that the next £8m of strategic CIL will be available in the 2018/19 financial year.

The Arena

20. The Arena cost plan and programme are indicative. Now that the building contractor has been selected (covered later in this report), the project team can work with them towards greater programme and cost certainty. The October 2015 Cabinet paper reported an estimated total cost of £95m and explained that, now that the building contractor has been appointed, they will work with the project team to agree a target cost for the project, which if agreed will be included in the building contract.
21. The Arena Cabinet approval in December 2014 included a project "Optimism Bias" contingency of 13%. This equates to approximately £9m. In order to use "optimism bias" to part fund the Arena, Cabinet approval would be required.
22. The Arena will have photo-voltaic panels on its roof. This was anticipated to be cost neutral and therefore was excluded from the Arena cost plan. However it may be that the anticipated grant funding alone is not

sufficient to fund this element of the project and therefore a contingency has been included.

New Capital Projects

Car park at 1-9 Bath Road

23. The Arena project has from the outset provided a combination of operator and disabled spaces on the Arena Island site, on the understanding that once the rest of Arena Island is developed out, the operator spaces will be relocated to an appropriate location in proximity to the Arena.
24. The council acquired 1-9 Bath Road from the HCA (Homes and Communities Agency) in spring 2015 as part of the Arena Island site acquisition. Officers have explored the potential this site has for a car park of up to 480 spaces and up to 8 storeys high. This relocation of car parking would be acceptable to the Arena operator. The feasibility work has shown that if the council were to prudentially borrow the capital to build the car park, the project would payback via revenue streams within 13-17 years.
25. The car park will be a public car park and the preferred option is for it to be operated by council car parking services. The operator would be allocated their agreed number of spaces on event days only, approximately 50% of the available space.
26. The proposal therefore is to proceed with the delivery of a public car park, operated by the council, on 1-9 Bath Road. Further work is underway to advance this. At a point in 2016 there will be sufficient certainty over the deliverability of this project to enable the design development of the temporary spaces on Arena Island to be halted as these will no longer be required. This will save abortive costs and enable the area to be used for other short term uses pending the development of that site.
27. The delivery of a car park near the city centre is contrary to council policy on parking, which discourages city centre and BTQEZ car parking. Officers are currently examining the feasibility of a capacity neutral car park space exchange in the central area.

Funding proposal

28. Based on an initial feasibility study the car park proposed for 1-9 Bath Road will be cost neutral subject to further development, however

approval is sought from Cabinet to make allowances in the MTFP to prudentially fund the project development costs and capital build. Approval to proceed with this project will be subject to a further Cabinet report.

A4 Southern Access walkway

29. The Arena design includes access from the site up on to the A4. This is an important part of the project as it makes the site accessible and permeable. It is accepted however that the A4 Bath Road is a poor quality environment for pedestrians and cyclists and options for improving this are limited.
30. The proposal is to develop a walkway alongside the A4 and across the railway line at the south of the site, which will improve pedestrian access to site.
31. Feasibility work has been completed on an A4 southern access cycle route down on to the site. This work is not being taken forward due to the change in grade as a cost effective engineering solution cannot be found. The current design is being future-proofed should future funding streams from central Government become available.

Funding proposal

32. Cabinet is asked to approve part of the capital funding of the A4 southern access walkway from the £5m transport mitigation allocation, which is part of the Arena budget.

Operator Financial Close - Commercial Agreement

33. The council has selected a consortium of Live Nation and SMG (operating through an SPV, known as Arena Island Limited) as Preferred Bidder to operate the Arena as outlined in previous Cabinet papers. At its December 2014 meeting Cabinet authorised the Strategic Director to procure the operator and settle terms, within specified tolerances.
34. One commercial issue has arisen, which falls outside those tolerances. This concerns the rateable value of the Arena.
35. The rateable value of the Arena, which determines the annual rates liability to be paid, is set by the Valuation Office Agency (VOA). For the Bristol Arena operator Invitation to Tender (ITT) procurement in June 2013, an estimated rateable value and rental was set for bid purposes

after discussion with the VOA. This was based on the “tone” or general direction of rates relating to arenas built recently in the UK.

36. Arenas in the UK operate on different commercial models. Some are run by the local authority, others via a trust, and some with an operator paying an annual rent to the landlord.
37. Going forward there is evidence that the way in which the VOA will calculate the rateable value for arenas in the future will be based on open market rentals, i.e. the annual rent payable by the operator under the lease. This is because more and more arena projects are being delivered via the operator rental approach.
38. The VOA cannot confirm this approach at this stage. It is likely though that after 2017 arena rateable values across the country will be calculated on a market rental basis.
39. Under the proposed contract with the operator any increase in rates is a standard operator risk. However, the operator sees this future review of the way in which rateable values are calculated as something which is beyond the standard market risk they would expect to take and is not provided for in their tender submission and have therefore sought to negotiate this issue with the council.
40. The Strategic Director for Place has spoken to the head of the VOA in relation to this issue. The SRO (Senior Responsible Officer, Director of Economy) and Arena Project Director have met with colleagues within the council’s rating team and written to the VOA.
41. There is a significant difference between the original estimate of rateable value at tender stage and the potential increase post 2017 via market rental assessment. After several negotiation meetings with the operator, officers and the operator have agreed to split the risk difference over 25 years. If arena rateable values were assessed on a market rental basis this would have an overall cost impact of approximately £16m over the 25 year contract period. The worst case risk to the council is likely to sit at £8m. This is a risk that would affect all arenas in England and a “one off” commercial agreement to enable the rateable value to be rebased at the review, after which any further increases are at the operator’s risk.
42. The figure of £8m (modelled at £260k per annum) is considered a worst case scenario. It should be noted that this is a financial risk that may or may not materialise and the exposure to the council could be less. It is unlikely that this figure will be higher as the VOA future estimate for

Bristol will almost certainly be based on the operator rental upon which the council's share has been calculated.

43. The VOA review is projected to take place in 2017. If there is a change to the way in which rateable value is calculated that worsens the position set out in the ITT evaluation, then the operator will appeal against that review. There will be transformational relief during 5 years. Depending on the success of the appeal the rateable value may become manageable by the operator.
44. If the approach outlined above is unsuccessful, the risk exposure for the council and operator could be up to £16m, in which case provisions will be made in the Agreement for Lease and/or Lease for this cost to be shared. This would involve a one off recalibration of the rental after which point rates would once again become a standard operator commercial risk.
45. It should be noted that in the autumn statement there is new Government policy relating to councils keeping 100% of business rates and having the ability to reduce business rates; this will not impact on the issue unless all Bristol business rates are reduced or the council receives an increased income and can choose to spend this on the Arena. Currently there are no details on the impact of this policy on the council.
46. This potential cost to the project is at this stage a **risk** rather than an **issue** and therefore is not in the existing cost plan. Notwithstanding the arrangement proposed with the operator, the impact of the arrangement does not change the fact that their tender submission remains the most economically advantageous for the council.

Funding proposal

47. If the VOA does impose a business rate increase, and an appeal is unsuccessful, a 50/50 split would be required with the operator. This would be a budget revenue pressure.

Building Contractor Selection and Planning Applications

Building Contractor Selection

48. Adopting a two stage approach to the building contract, as set out in the project initiation document presented to Cabinet in January 2014, the Invitation to Tender (ITT) was issued to the five shortlisted companies on

30th October 2015, with tenders submitted on 18th December 2015. The two stage procurement process is initially for a PCSA by which the council will work with the successful tenderer to deliver specified services and agree the target cost for the project, before signing the building contract itself. Following completion of this second stage, there will be another paper to Cabinet in the summer, reporting on the outcome of stage two when approval will be sought to proceed to enter into the building contract on the basis of the agreed target sum.

49. During January the bid submissions were assessed for compliance including the removal of any qualifications from bids. They were then fully evaluated by a council team with consultant support. The evaluation criteria were based on a 30% price and 70% quality split and approved by both the Arena Island Project Board and Executive Board.
50. The Project Board agreed the tender report on 27th January 2016 recommending that Bouygues UK is appointed as the building contractor to the project. Bouygues UK are now setting up a PCSA office near to the Arena site, and the contract team element of the council project team will join them to ensure a collaborative approach. The objective is now to work through the PCSA programme so as to agree the target cost for the project and enable Bouygues UK to start on site.
51. Design development is still managed by the council up until agreement of the target cost and building contract signature, at which point the design team will novate across to the building contractor, who then takes full responsibility for design.
52. Cabinet approval will be needed at the end of the PCSA period when the target cost is agreed.

Planning Applications

53. Two planning applications were submitted on 27th November 2015.
 - i) The **full application proposal** for the Arena project comprises the following:
 - Indoor arena with a capacity of up to 12,000 persons;
 - Public access from new vehicular and pedestrian bridge on Cattle Market Road (currently under construction), new pedestrian bridge to Albert Road (to come forward under Bristol City Council RIF projects), and a new pedestrian access from Bath Road;

- Creation of public plaza in front of the Arena, including landscaping;
- Retention and enhancement of riverside ecological buffer;
- Temporary surface level car parking (200 spaces) for a period of 3 years post opening;
- Permanent disabled car parking (45 spaces);
- Permanent cycle parking provision (252 spaces).

ii) The **outline application proposal** comprises the following:

- Up to 19,000m² of mixed use development, including retail (Use Classes A1/A2/A3/A4), leisure (D2), offices (Use Class B1), residential dwellings (Use Class C3), a hotel (Use Class C1), and student accommodation;
- Affordable housing provision (30%);
- New hard and soft landscaping, including new informal space;
- Pedestrian and cycle links to join up with the public spaces and routes created under the full planning application.

54. These applications are supported by work that looks at public realm management, ensuring that Arena Island is a “place” rather than merely an assembly of buildings and developments.
55. The two planning applications will be determined on 2nd March 2016 by Development Control Committee (“A”) the day after Cabinet meets to discuss this paper.

Consultation and Scrutiny Input

a) Internal consultation:

56. Regular briefings are held with the Mayor and Deputy Mayor. A programme of scrutiny by Overall Scrutiny Management (OSM) has been agreed with the Chair of OSM. Two Arena sessions with OSM were held in June and October 2015. Due to the pre-election period there will be no revisit to OSM until after 6th May 2016. During the pre-planning consultation for the Arena and Arena Island, briefings were held for Cabinet, Party Groups Leaders and local members. Further member briefings were held following consultation in December to communicate changes to the plans for the Arena and Arena Island.

b) External consultation:

57. There are strong governance links via the Bristol Temple Quarter Enterprise Zone (BTQEZ) programme with stakeholders such as Network Rail and the Homes and Communities Agency (HCA). The Local Enterprise Partnership (LEP) is a key funder. As part of the planning application Network Rail, HCA, First Great Western, Highways England, Historic England and regulatory bodies have all been consulted.
58. Public engagement took place in January 2015 during the design competition to appoint the design team. This was followed by a pre-planning consultation in September and October 2015 prior to the planning applications being submitted. It was delivered through a mix of face-to-face briefings, public exhibitions, staffed drop-in sessions and meetings supported by a proactive publicity and awareness raising programme including postcards, media, social media, online information and other supporting publicity. All the public engagement events and notifications directed people to view the pre-planning proposals online or at a number of meetings including those with Neighbourhood Partnerships.
59. Whilst the responses collated show that there is widespread support for the Arena project (86%), there were a number of concerns related principally to transport (car parking and transport links) and operation (congestion and noise). A number of changes were made to the plans following consultation and further public consultation meetings were held to communicate these changes. The council as developer will continue to communicate changes during the planning application process and beyond, up until the Arena opens in 2018.
60. The council project team has relied on professional advice from property, financial, legal, and cost consultants in the development of the Arena and Arena Island project.

Other Options Considered

61. Cabinet could choose not to commit the additional funding for the additional works and proceed with an arena project in its original form. To do this would not achieve the objectives and advantages outlined elsewhere in this report, however the money would be available to spend elsewhere.
62. Red risks are reported monthly to the Project Board via the Highlight

Report as well as a quarterly review of the whole risk register. The generic risk register is supported by design development and building contract risk logs being developed. There is a six-monthly workshop on risk mitigation looking at the whole project. There are a number of design and cost gateways through which the project must pass through with Project Board approval in order to be able to continue.

Risk Management / Assessment

63. All construction projects carry with them a number of standard construction project risks and the Arena is no exception. These include among others: tender price inflation, delay to programme, change in scope, failure to deliver quality and procurement challenges. The key risks are set out in **Table 5**.

TABLE 5 - Key risks associated with the implementation of the Arena decision

No.	RISK Threat to achievement of the key objectives of the report	INHERENT RISK (Before controls)		RISK CONTROL MEASURES Mitigation (i.e. controls) and Evaluation (i.e. effectiveness of mitigation).	CURRENT RISK (After controls)		RISK OWNER
		Impact	Probability		Impact	Probability	
1	Arena Island infrastructure costs not currently funded or approved, significant funding shortfall for Arena Island development.	High	High	Ensure cost plan for Arena clearly separates arena costs from those needed to develop Arena Island. Take forward outcomes of development appraisal for Arena Island to Cabinet to seek funding support (this Cabinet paper).	High	Low	Project Team
2	Arena programme is unrealistic leading to further delays and cost increases.	High	High	Ensure team is sufficiently resourced, report impact of challenging programme to Project Board, seek to include float in programme. Obtain building contractor build programme when appointed. Speed up council decision making processes. Explore areas of programme where time could be saved.	High	Med	Project Team
3	Building contractor cannot deliver the design within the cost plan (Currently designing to BREEAM 'Excellent' as opposed to 'Very Good' in the cost plan).	High	Med	Do not make changes to the brief. Update cost plan regularly. Value engineer scheme at Gateways where necessary. Use optimism bias if required and approved.	Med	Med	Project Team
4	Unable to agree target cost with contractor during PCSA period.	High	Med	Agree strategy for getting the target cost agreed within the time frame and ensure this work stream is adequately resourced. Have contingency plan prepared.	Med	Med	Project Team
5	Arena Island development projections may not reach targets leaving a shortfall in the future.	High	Med	Initiate further work following appraisal and ensure all are aware of the development outputs Cattle Market Road need to produce to finance Arena Island.	Med	Med	Project Board
6	Rates Risk.	High	Med	Operator concerned at future potential change in the way rateable values for arenas will be fixed. Identify impact on the project, seek support from SLT for strategic direction, negotiate with operator and get Cabinet approval.	Low	Low	Project Team and Board
7	Change in political leadership in the May 2016 elections leads to review or cancellation of the project.	Med	Med	Proceed with project until advised otherwise by Project Board.	Med	Low	Project Board
8	City Deal income projections do not materialise.	Med	Low	Modelling shows this is unlikely. In the very unlikely event that they were delayed this may have an impact on the servicing of the debt.	Low	Low	Project Board

TABLE 6 - The risks associated with not implementing the Arena decision

No.	RISK Threat to achievement of the key objectives of the report	INHERENT RISK (Before controls)		RISK CONTROL MEASURES Mitigation (i.e. controls) and Evaluation (i.e. effectiveness of mitigation).	CURRENT RISK (After controls)		RISK OWNER
		Impact	Probability		Impact	Probability	
1	Abortive costs.	High	Med	Council will have incurred abortive project development costs.	High	Med	Project Board
2	Cultural development in the city is hampered by a lack of cultural assets.	Med	High	Seek to develop other cultural assets, or accept this risk.	Med	Med	Project Board
3	Economic benefits are reduced or not delivered.	Med	High	Find alternative ways of producing these benefits in the BTQEZ.	Med	Med	Project Board
4	Profile of the city is not enhanced.	Med	Med	Promote the city in other ways or accept this risk.	Med	Med	Project Board

Public sector equality duties

64. A full report will follow in the next Cabinet paper on the Arena, which will report on the appointment of the building contractor for the building contract.

Eco Impact Assessment

65. A full report will follow in the next Cabinet paper on the Arena, which will report on the appointment of the building contractor for the building contract.

Resource and legal implications

Finance

Finance Summary

66. The Arena construction project plus Arena Island development faces funding challenges due to the cost of developing Arena Island.
67. The gross cost of developing Arena Island is estimated to be £28m over and above the cost of the Arena construction.
68. These additional costs may be mitigated in part by the development

value of Arena Island, Cattle Market Road and 1-9 Bath Road in addition, plus the application of CIL.

69. The project also faces additional financial risks from the impact of sharing potential net increases in business rates with the Arena operator and the challenge of providing the minimum number of parking spaces required by the operator in line with the Agreement for Lease.
70. The overall financial impact on the council is yet to be finalised, however, an early review of funding sources and estimated timings for receipt of value from development suggests that there will be an impact upon the MTFP.

Arena Island

71. The intention to purchase Arena Island was reported to Cabinet on 2nd December 2014 and was achieved during March 2015. This cost was brought forwards from the predicted purchase date of 2017 and the cost of funding this purchase will need to be added to the MTFP as recorded in that report
72. The Arena construction project is not a development that exists in isolation and the development of Arena Island will need to proceed alongside the building of the Arena itself to gain maximum value economically and financially from the development.
73. In conjunction with AECOM, an estimation of the costs associated with developing Arena Island has been made periodically and forms the basis of costs outlined in this report. These costs include a number of items required for the Arena and Arena Island to function as set out earlier in this paper and also as Appendix 1.
74. The latest updated estimate of the cost of the Arena Island development provided by AECOM is £28m and separate from the Arena project. Future costs of public realm management are not included.

Funding the Arena Island Development

75. A development appraisal has been carried out for the council to provide indicative development values for the Arena Island site outside of the Arena footprint, Cattle Market Road site and 1 – 9 Bath Road. A number of scenarios were modelled for the council which set out the potential development value for each site.

76. Using the high development density estimation, the value that may be realisable by the council is up to £16m. This development value is not guaranteed and would be at risk from market conditions.
77. Whilst development value will clearly be available from these sites, without additional work there is currently no clear view of how and when this value will be realised. Unless the development value was received at or near practical completion of the Arena Island development, there will be an impact upon the council's MTFP in order to fund the Arena Island development ahead of receipt of development income. The precise impact would depend on the treasury management strategy applied, and additional modelling will be necessary once proposals for realising development value are more certain.

Community Infrastructure Levy (CIL)

78. It is proposed that £8m of CIL would be applied to the project. This amount is expected to be received from 2018, around the time of practical completion. The precise impact of CIL on project finances will need to be assessed in association with council planning so that the timing of CIL receipts can be estimated and the impact on council cash flow requirements can be gauged.

Business Rates Increases

79. The operator's business case used a cost of business rates based on the current methodology used by the VOA. The VOA has indicated that there may be a change to the methodology in calculating business rates resulting in a material increase in cost to the operator. A proposal to share the cost of this increase with the operator is covered elsewhere in this report.

Other Financial Issues for the Arena Island Development Project

80. £2.6m of the previously agreed funding allocated to transport mitigation is now suggested be used for Arena Island works. This has no impact upon the overall cost of the scheme to the council assuming that this money is not required for transport/roads off site.
81. The report also notes that allowance should be made for the cost of demolition of the Cattle Market Road site. The report suggests an amount of £2m to be added in to the MTFP. This cost would be recovered from the development value of this site and would be subject to the same caveats as set out above regarding the timing and phasing of

receipt of development value.

82. Car parking provision is required for the Agreement for Lease with the operator. The present plan is to provide parking on the 1-9 Bath Road site. It is important that car parking provision is available, even on a temporary basis, from practical completion as the operator will require nearby parking as part of customer packages.
83. The proposal for parking on 1-9 Bath Road is expected to be cost neutral, but additional work is required to provide clarity of impact in terms of borrowing, income to be received and any cash flow issues that may impact the MTFP. As noted above this proposal will be the subject of a separate Cabinet report.

Optimism Bias

84. The Cabinet report of 2nd December 2014 included optimism bias of approximately £9m as a reserve to meet risks that have not yet materialised. This is good practice as set out in HM Treasury's "Green Book" guidance on capital project management. The Cabinet report noted:

"The objective is to lower the level of Optimism Bias so that it is reduced to zero when the building contract is signed and the allocated reserve is therefore unused".
85. In order to "use" optimism bias to part fund the Arena Island development, Cabinet approval would be needed and the amount used would also need to be added to the council's MTFP (to be confirmed). However, at present, there does appear to be approximately enough funding across a number of sources to fund the project.
86. Use of optimism bias would have a direct effect upon council resources, requiring the council to borrow without a matching income stream. Such an option should only be considered once all other options have been exhausted.

Overall Conclusion

87. The Arena Island development will require funding of £28m. There is potential to part fund this from the development value of Arena Island, Cattle Market Road and Bath Road.
88. Even if the maximum density development of these proposed sites was

achieved, this still leaves a shortfall for Arena Island, which will need to be covered by a range of other sources of income. It is proposed to part fund the project using CIL.

89. It is important to note that the development of the Arena Island site and related areas is a complex project, which requires additional funding. There are a number of potential income streams and each of these has a measure of risk involved in terms of value and timing. Additional work is required to provide a more accurate view of the project and the short and long term impact upon council funds and its MTFP.
90. As with all property developments, there are no guarantees that the funding sources outlined in this report will cover the required funding as currently estimated. Additional risks regarding cost may occur during the development phase from unforeseen site issues, inflation or delay. It could also be the case that the development will produce greater benefits than those outlined. More work is being carried out to confirm development values. Close scrutiny of project finances will continue to be a priority.
91. The funding required and proposed sources are outlined in **Table 2**.

TABLE 2 - Arena Island Funding

Item	Estimated Cost (£m)
Arena Island building contract infrastructure	26.0
CIL	1.5
Cost of car park 1-9 Bath Road	0
Photo-voltaics on Arena roof - contingency	0.5
TOTAL	28
Funded by:	Estimated Income (£m)
Cattle Market Road site development	15.9
CIL	8.0
Revolving Infrastructure Fund	0.5
Part fund from Transport Mitigation Allocation	2.6
Income from temporary uses of Cattle Market Road	1
Car park 1-9 Bath Road (income)	0
Optimism Bias Reserve	0
TOTAL	28

Advice given by: Mike Allen **Job title:** Finance Business Partner
Date: 05 February 2016

Comments from the Corporate Capital Programme Board (CCPB)

92. There are no comments from the CCPB.

c) Legal implications:

93. The proposed agreement with the operator in connection with rates is a departure from normal practice, however the circumstances giving rise to the issue were not anticipated in the earlier reports, and it clearly has financial implications for the council, (the value of which is above the key decision threshold) and falls outside the scope of the Strategic Director's original authority.

Advice given by: Eric Andrews **Job title:** Senior Solicitor
Date: 13 January 2016

d) Land / property implications:

94. The sale contract between the HCA and the council for the transfer of the Arena Island site and 1-9 Bath Road from the HCA to the council contained provisions requiring minimum levels of output from the development of the remainder of the sites not needed for the Arena itself. The development appraisal had to try and respect the following provisions:

- i. Minimum floor space – 64,200m² of employment floor space (including that provided by the Arena – 24,400);
- ii. Minimum output dwellings – 300 dwellings excluding affordable housing and student units;
- iii. Minimum FTE jobs – 2,789 (including any provided by the Arena);
- iv. No development to take place until 10% of Arena construction cost achieved;
- v. No more than 50% of outputs to be on Cattle Market Road.

In respect to point v) above only the high density scheme scenarios reported are compliant.

95. The residual method of land value appraisal is sensitive to many variables. It provides a snapshot at a moment in time of land receipts based on current information. Future information may change the outcome for better or worse. There can be no guarantee that the current level of land receipts identified will be those achieved. Future consideration of the site uses and densities could be pursued with the intention of increasing viability within the project's parameters.

Advice given by: Jan Reichel **Job title:** Principal Project Officer

Date: 13 January 2016

e) Human resources implications:

96. HR comments will form part of the Target Cost Cabinet paper in the summer.

Advice given by: Mark Williams **Job title:** People Business Partner

Date: 16 February 2016

APPENDICES

Appendix 1

Arena Island Building Contract Cost Plan Summary (excluding Arena building)

Appendix 2

Plan showing location of building contract items

Access to information (background papers): None listed

APPENDIX 1

COST PLAN SUMMARY- BCC AMENDED EXTRACT FROM AECOM COST PLAN

1.0 SITE REMEDIATION AND ENABLING WORKS (MID POINT TAKEN)			TOTAL
Site Remediation and Enabling Works			£5,142,280
Main Contractor's Preliminaries Estimate	@	14.0%	£719,919
Main Contractor's Overheads and Profit Estimate	@	9.18%	£205,177
Works Cost Estimate			£6,067,376
Project/Design Team Fees	@	8%	£485,390
Other Development/Project Costs Estimate	@	5%	£327,638
Base Cost Estimate			£6,880,404
Risk Allowances Estimate	@	5%	£344,020
Cost Limit (excluding inflation)			£7,224,424
Tender Period Inflation - BCIS TPI 1Q15: 270 to 2Q16: 280		1.037	£267,304
Con Period Inflation BCIS Gen Build Cost Index		1.001	£7,492
SUB TOTAL SITE REMEDIATION AND ENABLING WORKS (MID-POINT TAKEN)			£7,499,220
BCC PROJECT TEAM ESTIMATE OF RISK REDUCTION IN TOTAL BASED ON CURRENT INFORMATION			(5,000,000)
SUB TOTAL			£2,500,000
Site Remediation And Enabling Works (2,499,220) rounded up			£2,500,000

2.0 ARENA ISLAND INFRASTRUCTURE				TOTAL
Plaza				£1,954,933
Temporary Car Park				£1,531,165
Disabled Car Park				£866,864
RIF Access Road				£476,437
Service Road				£381,804
Works to Service/Emergency Access from Bath Road				£362,432
Site/Street Furniture and Equipment				£985,000
External Drainage				£637,762
External Services				£1,995,109
Main Contractor's Preliminaries Estimate	@	14.0%		£1,286,811
Main Contractor's Overheads and Profit Estimate	@	9.18%		£366,741
Works Cost Estimate				£10,845,058
Project/Design Team Fees	@	10%		£1,084,506
Other Development/Project Costs Estimate	@	5%		£596,478
Base Cost Estimate				£12,526,042
Risk Allowances Estimate	@	10%		£1,252,604
Cost Limit (excluding inflation)				£13,778,646
Tender Period Inflation - BCIS TPI 4Q15: 274 to 2Q16: 280			1.022	£303,130
Con Period Inflation BCIS Gen Build Cost Index			1.043	£605,516
SUB TOTAL Arena Island				£14,687,292

3.0 BATH ROAD PEDESTRIAN ACCESS				TOTAL
Bath Road Pedestrian Access				£1,460,000
Add for A4 Bath Road Access Structure and Foundations				£1,010,400
Main Contractor's Preliminaries Estimate	@	14.0%		£345,856
Main Contractor's Overheads and Profit Estimate	@	9.18%		£98,569
Works Cost Estimate				£2,914,825
Project/Design Team Fees	@	12%		£349,779
Other Development/Project Costs Estimate	@	5%		£163,230
Base Cost Estimate				£3,427,834
Risk Allowances Estimate	@	5%		£171,392
Cost Limit (excluding inflation)				£3,599,226
Tender Period Inflation - BCIS TPI 4Q15: 274 to 2Q16: 280			1.022	£79,183
Con Period Inflation BCIS Gen Build Cost Index			1.043	£158,172
SUB TOTAL Bath Road Access				£3,836,581

4.0 A4 SOUTHERN ACCESS WALKWAY	TOTAL
SUB TOTAL A4 Southern Access Walkway	£3,600,000
5.0 PHOTO-VOLTAIC PANELS	TOTAL
SUB TOTAL Photo-Voltaic Panels (Provisional Quantity)- Estimate 990,000 Minus Grant Funding Tbc	£500,000
	3,600 m2 @ £275/m²
6.0 CATTLE MARKET ROAD SITE CLEARING AND ENABLING	TOTAL
SUB TOTAL Cattle Market Road site clearing and enabling	£1,000,000
7.0 COMMUNITY INFRASTRUCTURE LEVY	TOTAL
SUB TOTAL Community Infrastructure Levy	£1,500,000
TOTAL	£27,623,000

APPENDIX 2

PLAN SHOWING LOCATION OF BUILDING CONTRACT ITEMS

