



Cabinet Member for Economy & Strategy

Special Cabinet - 29 November 2018

Swansea Central Phase 1 Project Update and FPR7

Purpose:	To provide an update on Phase 1 of the Swansea Central scheme and to seek budget authorisation to proceed with delivery in accordance with Financial Procedures Rules.
Policy Framework:	Swansea Local Development Plan: Deposit Plan, Swansea Unitary Development Plan (2008), Swansea Central Area Regeneration Framework (2016)(SCARF), Corporate Priority Creating a Vibrant and Viable City and Economy
Consultation:	Finance, Legal, Access to Services.
Recommendation(s):	Cabinet are recommended to: <ol style="list-style-type: none">1. Approve an additional budget of £3m to allow the detailed design to progress so that the project can achieve cost certainty.2. Note that the current overall forecast budget figure is £130m.3. Grant delegated powers to the leader, deputy leader and Section 151 Officer for a further £6.9m to continue with enabling works prior to the main contract start, once further certainty over funding and affordability is achieved.4. Approve the necessary additional revenue resources required to progress the scheme and confirm the capitalisation of appropriate officers working on the scheme wherever possible to fund delivery.
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Introduction

- 1.1 This report builds on previous cabinet reports of 15th June 2017 and 16th March 2017 and 18th August 2016 and 17th March 2017 and July 2018.
- 1.2 Swansea Central Phase 1 is the key project within the Council's Corporate Plan objective to transform and create a vibrant and viable City & Economy. The project design is also fully compatible with Welsh Government's adopted policies and best practice on place making, economic regeneration, and reflects the objectives identified in the Well-being of Future Generations Act, A prosperous Wales and other relevant guidance.
- 1.3 Despite this ambition and the improvements across the city, Swansea and especially the city centre, has declined. The key reasons for undertaking this project are:-
 - Addressing a lack in footfall in the city centre.
 - Encouraging living and working in the city
 - Creating a major new Leisure Destination for the city.
 - Delivering new Conference Facilities
 - Bringing significant Public Realm enhancements
 - Improved connectivity between the City and the bay
 - Uncompromising design quality to drive up design ambition in Swansea.
 - Implementation of the Digital Strategy
 - Major Qualitative improvement in city parking facilities
 - Creating jobs and increasing GDV
 - Acting as Catalyst for future city-wide development
 - Stimulating private sector investment in the city.
- 1.4 The council undertook a Retail capacity Study through The Strategic Insight Company which concluded that due to economic and viability issues the private sector will not invest in major regeneration projects in Swansea at this time. In addition the report clearly set out the overwhelming need for change, however Swansea has a major opportunity with an identified £158m trading gap of spend that is leaking out of Swansea that could claw back spend lost to other areas through successful regeneration. Therefore doing nothing is not an option as Swansea's decline would inevitably continue.
- 1.5 The combination of investing capital in skills and infrastructure is the only way to avoid this spiral of decline The Digital Village and Digital Square projects are therefore the capital priorities required to deliver a step change in the city and avoid the spiral of decline for the city.
- 1.6 The Swansea Central Phase 1 project will deliver a 3500 capacity arena with digital facade, 'digital square', car parking, coastal parkland, commercial units, residential units, and pedestrian bridge connecting the development from the to the south of Oystermouth road and is set to create significant economic benefits of circa £11.9m net GVA per annum for the city and create 380 net FTE new jobs, excluding construction jobs, as well as improving Swansea's future prospects for growth. This investment will provide the catalyst and momentum to inspire confidence in the City's future and will help lever

future private sector investment as part of Swansea Central Phase 2 and longer term additional income for the council which will help offset borrowing. Computer generated Images of the completed scheme are attached at Appendix A.

- 1.7 Significant progress has been made on this project and the fundamental milestones of a planning consent, an anchor in terms of ATG as an operator and a contractor are in place. The final element is funding and this report would provide the financial resources to get to a fixed price construction contract and provide the funding for further early works once key parameters are in place.
- 1.8 The overall scheme will deliver income from car parks, housing, restaurants and shops which will not only deliver a long term income stream for the council which will help repay borrowing, and will also catalyse other investment which will drive further economic investment in the city.

2.0 Policy Position Swansea Central Phase 1

- 2.1 The policy background that influences future economic growth is the **Swansea Central Area Regeneration Framework** (February 2016). The aim of the Regeneration Framework is to make Swansea's Central Area an attractive destination for people to live, work and visit to create footfall through the creation of a vibrant mix of leisure, cultural, retail, office and residential uses. Swansea is identified within the Framework as the economic driver for the Swansea Bay City Region, with the Central Area providing the 'public face' of Swansea and offering significant potential to create and stimulate further economic growth.
- 2.2 The Framework states that Swansea is not currently meeting its potential: *"it suffers from a small resident population; a limited number of jobs; poor quality office accommodation which delivers low rents; low footfall; a limited retail offer with significant vacant floorspace; and the lack of major attractions to make it a destination"*. This has led to perceptions of the Central Area as being tired and dated. However, the Regeneration Framework also outlines the significant potential of the Central Area, particularly in terms of providing a platform for growth in key sectors such as creative industries, professional business services and ICT. Growth in these sectors, both in terms of GVA and new jobs, is further supported by the Regional Economic Regeneration Strategy for Swansea Bay which included economic forecasting work. The city centre is identified as a key location to support growth in these sectors and the resulting agglomeration benefits that accrue. Recent Centre for Cities research also supports this approach to diversifying city centres and unlocking their potential. The recent decline of the retail sector means that the traditional retail scheme is not deliverable and Swansea must consider the key elements of a new retail/leisure scheme including local retailers and restaurants to utilise the catalytic effect of the Phase 1 project.
- 2.3 To achieve the vision for the Swansea Central Area of creating *"a mixed-use location with a strong retail, commercial and leisure heart supported by a vibrant resident population"*, the framework sets out a number of strategic

objectives. As with the City Region Economic Strategy, these are closely aligned with the Swansea City Regeneration Programme and include: building a competitive economy, supporting the development of existing and new sectors; creating a high quality regional shopping centre, with leisure and mixed uses, and a high quality environment; establishing a destination city that will attract new residents, businesses, investment and visitors; and affirming Swansea's role as a major UK regional city, which has a strong cultural identity and heritage reflected in its Central Area. These objectives, and up to date market intelligence, will inform the production of the development masterplan for Swansea Central 2, which will be used to secure significant private sector mixed use investment in the city centre. The council has approved a budget of £850k to work up the scheme to a point the site can be marketed to secure a private sector delivery/investment partner.

3. City Deal

- 3.1 The council approved the submission of a city deal bid with this specific project at its cornerstone which was determined to be the most appropriate intervention to regenerate, catalyse further regeneration and halt the decline of the city and surrounding region. Core to this was the creation of the digital arena. A number of projects were considered including major retail led scheme however the retail market at that time was significantly weakening and advice from Cushman Wakefield identified that such a scheme was not deliverable in the current economic climate. The independent economic analysis carried out by market leading economists, The Amion Consulting report demonstrated that the arena project would generate significant economic benefits and create further occupier and investment demand for a phase 2 mixed use project to include leisure, retail and other uses. It is envisaged that the resulting uplift in GVA created by phase 1 will make phase 2 significantly more attractive to private developers and investors, however, viability can only be determined following a procurement exercise and gap funding may still be required from Welsh Government given the market failure that exists in the regional economy.

- 3.2 The Swansea Bay City Region has signed a City Deal with both Welsh and UK governments. The proposals put forward by Swansea aim to facilitate the growth of higher value activities particularly in Tech businesses through office development with a digital theme and an indoor Arena for music, comedy and conferencing, all to increase footfall and encourage more living and working in the city centre in line with the recommendations of SCARF. This builds on the city's two universities and growing technology capability within the City. The CCS project objectives are: -
 - a. To create 100,000 sq. ft. of tech-offices at Kingsway – Digital Village.
 - b. A digital arena, hotel and public realm at Swansea Central - Digital Square.

- 3.3 The Council approval of the city deal was based on the draft and now advanced five case business model, which has been submitted to UK and Welsh Governments and has received significant scrutiny particularly around the need to demonstrate the overall economic benefits generated by the project. This deal, which intervenes to address market failure, is now in the process of being

finalised with both UK and Welsh Governments. The business plan has been reviewed by Cushman & Wakefield as a critical friend to confirm the deliverability of the scheme, and the validity of the commercial assumptions.

- 3.4 Digital smart city technologies are key in looking towards the future. There is a cross cutting City Deal Digital project and officers are working with the City Deal Digital project team to ensure Swansea benefits from this project. Whilst this project is currently undeveloped, it is likely to include the creation of a 5G test bed and additional investment in digital infrastructure via the Local Full Fibre Network funding programme.
- 3.5 It should be noted that whilst the Council has the ability to borrow money, there are a number of competing priorities including the 21st Century Schools programme. If the Council is to borrow for projects then there must be prioritisation of capital spend, and sufficient headroom created in terms of revenue savings to pay for increased capital financing costs and all risks must be managed in line with the Council's fiduciary duty always set a balanced budget.
- 3.6 To deliver the project the council must continue in its role of developer in order to ensure the project is given the best possible chance of being delivered and resources must be focused on priorities.

4. The Need for an Arena

- 4.1 Both technology based businesses and the University have highlighted a need for a digitally enabled conference and events space in the City Centre. Swansea University have identified a need for conference space for medical technology conferences as there is currently no space of sufficient size in the region. Discussions with Tech companies identified the need for a digitally enabled conference, exhibition and events space for 700 people plus a display floor, which does not exist in Swansea, to bring international technology conferences to the city. Events and seminars are fundamental to the day to day business of tech industries, and the ability to bring serious investors and entrepreneurs to talk in a top class digital environment will give Swansea's technology based businesses a major advantage. Tech businesses run major international events, such as the world renowned South by South West in Austin, Texas which brings together interactive media, film and music conferences and festivals which has a significant impact on the local economy. Having a digital arena would enable Swansea to host international technology conferences and events, and raise the profile of the City, Region and Country.

5. Digital Square - Arena Project

- 5.1 To widen the leisure/ entertainment offer in Swansea, and meet the demand for conference and events space the council's development manager Rivington Land and specialist Arena advisers IPW have undertaken a full feasibility study on the Arena, including analysis of competitors, which concluded that there is a gap in the market for this type of facility in Swansea. Market testing with arena operators through the procurement process for an

operator concluded that 3,500 capacity was the optimum for the arena in Swansea.

- 5.2 Once developed, an arena's overall benefit to the city will be very significant, as a key attractor, and 'anchor occupier', and this should feed in to enhanced demand, and hence rental value and investment yields, for commercial leisure occupiers, and indeed other city center uses. It also creates a need for hotels and restaurants, to meet the requirements of business and entertainment tourism linked to the Arena. The hotel development has been extensively marketed by agents JLL with the benefit of gap funding from Visit Wales in order to attract a 4* hotel offer for a 50 year plus lease. Significant interest has been shown and final Bids are awaited from developers and associated hotel operators the shortlisted parties which will result in significant private sector investment. Discussions are also underway with transport providers to ensure adequate public transport and park & ride provision.
- 5.3 A report by Arena specialist IPW analysed the need for an arena and the optimum size of an arena in Swansea. Their report identified that the operational viability and demand for an arena in Swansea was positive however the delivery of an arena would require public centre support. IPW identified that the appropriate capacity was 3000. During the OJEU procurement process all bidders identified their requirements for a 3500 capacity arena and therefore the council responded to the market and increased the aimed capacity to 3500.
- 5.4 The Digital Arena will provide a high tech facility that would be capable of holding major digital events, including worldwide computer gaming competitions and other digital and data driven events, alongside more traditional live theatre and concert events. The arena will be located within a new cutting edge Digital Square in Swansea City Centre to create a distinctive and unique destination. The Digital Arena will provide the digitally enabled conference and events space required by Swansea's tech businesses and Universities, and help revitalise the environment and leisure offer of Swansea city center to attract and retain people and businesses in the City Centre. A hotel will also form part of the development, to meet the requirements of business and entertainment tourism linked to the Arena.
- 5.4 The Arena includes the following key modes and facilities:
- 3,500 capacity mode for a seated and standing entertainment event
 - 2,200 capacity mode for a fully seated entertainment or large business event
 - 750 capacity auditorium for medium conferences and business events
 - 1,450sqm of exhibition space on the arena event floor
 - Additional complementary exhibition space available on concourses
 - A variety of meeting rooms
 - Foyer space and foyer café.

- 5.5 It can be seen from the mix of facilities above, that the Arena will be capable of hosting small, medium and large-scale events through its combination of meeting rooms, ancillary spaces, exhibition areas and auditorium options. It will also be capable of accommodating both formal and informal meetings and networking usage and which we expect to be particularly suitable for the local tech companies, for example through the use of the foyer café.
- 5.6 A critical and attractive feature for local tech companies will be the digital capabilities of the Arena spaces, including dense WIFI coverage and innovative digital features. From our analysis of demand, we are confident that the digital infrastructure will encourage usage by tech companies and make it a natural home for digital innovation and creative thinking linked to the Digital Village.
- 5.7 The Digital Square Arena proposals have been developed in consultation with local tech businesses and Swansea's Universities to meet their needs for new floorspace and conference & events space.

6. ATG

- 6.1 An OJEU procurement process recommended the appointment of ATG the world's leading theatre group to run and manage the operation of the arena. A legal contract has now been signed and ATG will enter into a 30 year FRI lease once the arena construction is completed. ATG are now fully involved in the design process are bringing their knowledge and experience to bear on the arena layout and operational needs.

7. Arena's as drivers of wider city center regeneration

- 7.1 Entertainment venues such as Petco Park in San Diego and Staples Centre, among other venues in the USA, have been credited as the catalysts for regeneration projects in their cities, attracting investment including new hotels, bars and restaurants, revitalising their surrounding neighborhood's/ districts and reshaping public perception. The Swansea Arena will provide a unique regional offer that has the potential to act as a catalyst for regeneration in the city and region.
- 7.2 UK cities have started to see similar benefits from arenas and performance venues as regeneration drivers and anchors with the potential to attract 250,000+ people per annum. This footfall means new demand for hotel rooms, complementary entertainment and dining, and acts as a business attractor. This has recently been seen in Hull where the council have funded a 3500 capacity arena.
- 7.3 In a number of UK cities, arenas have stimulated major city centre regeneration. I would particularly highlight the following examples, as the two recently delivered arenas in England.
- 7.4 Leeds, capacity 13,500 and therefore is significantly larger than the proposed Swansea arena plays host to a variety of high profile concerts, shows, corporate and sporting events has stimulated significant regeneration of what

is now the Arena Quarter (<https://arenaquarter.com/>) in Leeds city center. This was developed by the council in conjunction with commercial partners.

- 7.5 In the period running up to the Arena's opening, the northern side of the Merrion Centre was completely transformed into a food and leisure hub and the new Ibis Styles Leeds City Centre Arena Hotel was delivered as part of the transformation.
- 7.6 Arena & Convention Centre Liverpool attracts over 600,000 visits annually, hosts a range of entertainment and conference/ exhibition events in its 10,000 capacity arena, 1,250 capacity conference space. It forms part of a landmark regeneration project on the Liverpool waterfront, alongside the historic Albert Dock and the World Heritage site at Pier Head. While the venue has enabled the city to become one of the UK's major conference destinations, it has also levered in a significant amount of private capital for residential, hotels, including a Pullman 5*, serviced apartments, restaurants and other developments anchored by this key development.

8. Arena economic impact

- 8.1 In addition to their potential ability to stimulate wider regeneration, the economic benefit that can be derived from arena/ conference and performance events extends from direct and indirect spending by visitors to encouraging return visits, from knowledge transfer to businesses and enhanced national/ international profile, and from job creation to overall city positivity and perceptions.
- 8.2 Several UK cities have sought to quantify the impact that new arenas and conference venues have on the local and regional economy. Examples of these projections include:
- ACC Liverpool (10,000 capacity main venue): Annual economic impact of £204m (2016/17); Total impact since opening (2008) now c. £1.5bn
 - First direct Arena, Leeds (13,500): Annual economic impact of £25m+
 - Motorpoint Arena, Nottingham (10,000): Annual economic impact of c. £45m
 - Bradford Odeon (4,000): Annual economic impact (projected) of c. £9m.
 - Hull Performance Venue (3,500): Annual net additional impact (projected) £13.7m GVA
- 8.3 In addition to these direct impacts, we also consider there to be a number of additional potential benefits for cities, including their ability to place themselves in global conversations through hosting conferences/ exhibitions and some of the softer effects of creating an appealing overall leisure offer that both attracts and retains businesses and a high-quality workforce.
- 8.4 The number of events per annum at the Digital Arena has been based on information received from the preferred operator, while average attendance per event has been taken directly from the IPW feasibility study (2016), as summarised in Table 5.1.

Table 5.1: Events and projected attendance (per annum)

	Forecast number of events per annum	Average attendance per event	Total forecast attendance
Concerts and other shows	155	1,373	212,800
Exhibitions	6	1,080	6,480
Conferences and banquets	24	346	8,300
Total*	185	-	227,580

8.5 Assumptions regarding the origin and type of visitors (day or staying) have been used to provide a profile of the overall number of visitors projected for the Arena each year. For concerts and other shows it is assumed that 80% of visitors will come to Swansea just for the day, while the remaining 20% will stay overnight. In relation to exhibitions, conferences and banquets, the split is 60% and 40% staying. This is consistent with other research for the conference market. The increased number of overnight stays will provide new business opportunities and improved profitability to existing hotels and B&Bs in the area, adding to the vibrancy of the City.

8.6 These assumptions have been based on a range of sources, including Swansea visitor data and conference and arena related tourism research. **Table 5.2: Profile of visitors**

Day – no. of visitors	Staying – no. of visitors	Day – % of visitors	Staying – % of visitors
Concerts and other shows	175,560	37,240	82%
Exhibitions	3,888	2,592	60%
Conferences & banquets	4,980	3,320	60%
Total	184,428	43,152	81%

8.7 Constructions phase impacts

8.8 The Council has significant experience in maximising social benefits from construction projects via its Beyond Bricks & Mortar team that are fully engaged in this project. In addition, the regional skills project, which is one of the eleven city deal projects, is also advising on labour market opportunities. This links to the Welsh Government's Well-being of Future Generations Act requirements, which have been comprehensively addressed during the planning process of the project. It has been estimated that the proposed development could involve approximately £72 million of construction related expenditure. Based on average turnover to job benchmarks from business population data for Wales, this expenditure would support 831 person years of construction related employment (the equivalent of 831 people being employed on a full-time basis for 12 months). On the basis of the standard

convention that each permanent job equates to ten person years of temporary employment, this would be equal to 83 FTE jobs. After adjusting for deadweight, displacement and multiplier effects (see Appendix A for a breakdown of the additionally assumptions applied to each project), it is estimated that Swansea Central Phase 1 would support the creation of 798 net additional person years of construction employment in Swansea. Based on Census origin destination data, some 558 of these person years of employment would be taken-up by Swansea residents.

- 8.9 The total net additional GVA impact associated with the construction phase, derived from the estimates of net additional employment, would amount to approximately £35.4 million within the Swansea economy. The project would also be expected to deliver an estimated 3,905 net additional person weeks of construction related training targeted at the long term unemployed and economically inactive.

Table 5.3: Construction phase impacts

	Swansea	City Region	Wales
Gross employment (person years)	831	831	831
Net additional employment (person years) – workplace based	798	756	665
Net additional employment (person years) – resident based	558	680	631
Net additional GVA (cumulative)*	£35.4m	£33.6m	£29.5m
Net additional person weeks of training**	3,905	4,755	4,412

8.10 Operational phase impacts – employment and GVA

- 8.11 A number of assumptions have been made about a potential staffing structure for the Digital Arena, which suggests direct on-site employment associated with the operation of the facility of 33 FTE jobs. The hotel would be expected to generate a further 75 FTE jobs on-site, based on employment density benchmarks. In addition, there would be an estimated £15.4 million of off-site visitor and operator/event organiser expenditure per annum in the local economy, supporting the creation of 311 FTE jobs. This brings the total gross employment impact in Swansea to some 419 FTE jobs. As with the construction phase, adjustments have been made for deadweight, leakage, displacement and multiplier effects to calculate the net additional

impact – in total, the project is City and County of Swansea Economic Impact Assessment of Swansea City Centre Regeneration Programme Final Report September 2017. The Council’s Beyond Bricks & Mortar team would ensure that local people have full access to the opportunities created by the investment.

- 8.12 projected to create 469 net additional FTE jobs, of which 375 FTE jobs would be taken-up by Swansea residents. This would drive a net additional GVA impact of approximately £11.9 million per annum within the local Swansea economy.

Table 5.4: Operational phase impacts – employment and GVA

Swansea	City Region	Wales	
Gross employment (FTE jobs)*	419	453	488
Net additional employment (FTE jobs) – workplace based	469	365	82
Net additional employment (FTE jobs) – resident based	375	347	82
Net additional GVA per annum**	£11.9m	£9.1m	£2.2m

9. Project Update

- 9.1 The project has continued to progress in line with programme since the last Cabinet report in June 2018 which approved an additional £5,535,393 of funding towards Stage 4 of the project (detailed design and ‘Early Works’). This takes the overall approved budget to date to £14,618,000
- 9.2 The ‘Early Works’ which include highway improvement works to Wellington Street in preparation for the main build have now commenced on site. The work is being carried out by a framework contractor, outside the main contract. Work will be carried out until end October and will re-commence in January.
- 9.3 Following a procurement process, Ambassador Theatre Group have entered into an agreement with the Council to sign a 30 year lease to manage and operate the Arena.
- 9.4 A procurement exercise has been undertaken and a tender evaluation panel recommended selecting Buckingham as the main building contractor, the evaluation was based on a cost plan prepared by the council’s consultant team. Over the next six months, the project team will work through Stage 4 detailed designs with the contractor to establish

fixed costs for the project under a PCSA period until April 2019. There will also be a start on site in May 2019 and completion in Q4 2020. This will be followed by six months commissioning of the arena by ATG with a staged opening.

- 9.5 RIBA Stage 3 design work is being finalized and the Reserved Matters Planning consent was approved on October 2nd for Phase 1 which provides a detailed planning approval for Phase 1. The planning consent was secured under the new Welsh Planning act and therefore significant consultation has been undertaken on the scheme together with consideration of all the themes of the Future Generations and Wellbeing Act. It is clear that this project is a once in a generation opportunity to improve inward investment, impact on wider regional economic activity including private sector hotel development and the subsequent delivery of Swansea central phase 2.
- 9.6 There are a number of issues that have impacted on the current budget cost that are set out in this report. A budget review has been undertaken to ensure that as accurate a budget cost as possible at this time can be presented in this report for approval. However the final cost figure will not be known until April/May 2019.
- 9.7 Procurement of a developer and operator for the proposed hotel and a purchaser for the residential elements of the scheme continue. A Visit Wales grant is being pursued aiming to ensure a 4* full service hotel can be delivered.
- 9.8 The scheme will deliver 944 new car parking spaces on site across the two new multi-story car parks plus 300 extra park and ride spaces at Fabian Way. Accounting for the removal of the 340 temporary car parking spaces at St Mary's, which is part of the development footprint, then the net number of spaces remains unchanged and provides sufficient capacity and future proofing for the Swansea Central Phase 2 development. The development of the car-parks will be phased including keeping St David's MSCP open until the new North MSCP is constructed to maximize the number of available spaces at any time. However, there will be a limited time during the construction period when car parking spaces will be reduced until both new car parks are completed and operational, temporarily affecting car parking income.
- 9.9 There are currently 275 trees on the Swansea Central Phase 1 site. The development has been designed to retain as many of these trees as possible meaning that 75 of them will remain in situ. At the end of the development, there will be a net increase in the number of trees with at least 250 on site and 54 of the existing trees being translocated to an alternative suitable site. Every effort has been made to retain trees wherever possible within the scheme. Where trees are to be removed a conscious effort has been made to replace on at least a one to one basis and in turn increase the bio diversity of Swansea City Centre including a new coastal parkland, a significant new city center park to enhance the city center offer and to encourage city center living and support connecting the city to the sea. If the scheme was reduced in size and capacity to retain an even greater number of trees then ATG would withdraw and the scheme would fail as they require an arena of sufficient critical mass to

operate profitability. In addition a new planning application would be required.

- 9.10 A £6.2m loan to support the project has been agreed with Welsh Government at 0% interest fully repayable over 20 years. £5.5m has been received with the remaining balance being drawn down this financial year. Other sources of public sector funding are awaited, including £22m City Deal; £2.4 Active Travel Grant application made; gap funding from Visit Wales to support for the hotel development. In addition, the sale of residential land will generate a capital receipt.

10. Project Budget Requirements

- 10.1 The council has authorised budget of £14,618,000 to date which covers expenditure up to the end of RIBA Stage 4.
- 10.2 Stage 4 will run from October 2018 until April 2019. During this time, the project team will work with the Contractor to prepare detailed designs for construction and establish a final fee and capital budget cost for RIBA Stage 5 (construction) which can then be reported to committee.
- 10.3 As the scheme design has evolved the sequence of works has had to be amended and the following main works need to be brought forward to enable the construction works to start on site. The key issues that have affected the budget are
- Works to the Revetment Wall
 - Utilities orders / Diversions
 - Design work for Bridge
 - Digital consultant
 - Wayfinding
 - Church Hall relocation Costs
 - Loges
 - Tesco Rights of Light Compensation
 - Contractor Programme
- 10.4 The current programme is start on site for main works contract on 24th May 2019 with PC during the first or second week in December 2020. However, to achieve this early enabling work must start on site at the end of January 2019. The cost of these early works is an additional £3m for design to get to a fixed price in April/May plus further early works of £6.9m which includes, ordering piling rigs, work to stabilise the revetment wall, ordering sub stations to enable service diversions. These are not additional costs. On the assumption that the recommendations are agreed the likely implication is a delay to the enabling works resulting in a knock on effect on the overall programme of 2-4 months.
- 10.5 In light of paragraph 11.3 a budget cost review has been undertaken by the council's cost consultants. The previously reported scheme cost of £124,709,571 was a budgetary figure based on Stage 2 design. The cost review has led to a current cost of £129,795,000. This increase is due largely to increase in cost of security elements of the scheme following the Manchester Arena incident and unforeseen works required to stabilize the Revetment Wall.

This revised budget includes contingency and is being further reviewed throughout Stage 4 detailed design with advice from the contractor aiming to achieve savings utilising the most efficient and cost effective methods of construction to get back to as close to the £124.7m original budget figure as possible.

- 10.6. A further report will therefore be brought to cabinet in April/May seeking approval to the remainder of the firmed up budgets required for the scheme to proceed.
- 10.7 The capital costs include a contingency of c. 7.5% of the adjusted construction cost which is recommended at this stage of the design process taking into account the remaining risks.
- 10.8 In order to offset the amount of capital the council are required to find there are financial contributions which are being progressed including the City Deal which will potentially provide £22.4m towards the capital cost. Additionally a sale of the residential element of the scheme will create a capital receipt. Also a grant application is being prepared towards the cost of the bridge which could further reduce the council's capital contribution if successful. Again the outcome of this element will be reported back to committee. Until these are secured predominantly all financing will remain unsupported borrowing.

11. Financial Implications

- 11.1 The current cabinet approval for work up costs and Wellington Street works is £14,618,000 up to and including RIBA Stage 4 of the project. The total project cost currently estimated at £129,795,000 for fees, contingency and construction however this will be reviewed through the Stage 4 design process which we are now entering with engagement with the contractor. Once affirmed a further report will be brought to approve the final scheme cost.
- 11.2 Subject to UK and Welsh Government approval (sign off awaited) £22.4m of the scheme cost will be funded by the City Deal, thereby reducing the Council's net contribution by this figure. The Council's contribution could be further reduced by the capital receipt received from the disposal of the residential element. Grant applications are also being submitted which if approved could further reduce the Council's contribution.
- 11.3 The Arena is being let for a 30 year period to Ambassador Theatre Group who will be responsible for FRI terms of the arena itself. The residential and retail elements of the scheme will be let on similar terms. However, the remainder of the development including the car parks, bridge, coastal parkland, digital square, public realm areas and events programme will require an annual maintenance and a management revenue budget. The final budget cost of this is yet to be established and an accurate estimate will be determined over the course of the coming months as the detailed design progresses. However initial indications show that the likely revenue income from ATG and for the increased returns from the car park offer would offset any ongoing revenue "running" costs and sinking funds for maintenance. Confirmation of

this will have to be provided in the final FPR report prior to main scheme commencement.

- 11.4 On this basis that would leave a public sector subsidy for the overall scheme to meet the capital financing costs broadly as follows:

Indicative capital financing subsidy at current pool loan rates and current MRP

	18-19	19-20	20-21	21-22	22-23*
	£m	£m	£m	£m	£m
Total financing	0.176	2.058	7.108	10.332	10.332
City Deal Grant	0	-1.5	-1.5	-1.5	-1.5
Loan Repay	0	0	0	0.3	0.3
Local subsidy	0.176	0.558	5.608	9.132	9.132

*Ongoing cost – note this should reduce following Council’s review of the MRP policy in December and once new borrowing is undertaken the overall pool rate cost of borrowing will also reduce. Figures are expected to reduce by around 25%.

- 11.5 A public sector overall subsidy is wholly to be expected. The very nature of a City Deal and a co-investment in wider spillover benefits by the UK and Welsh Governments, and local authorities to pump prime future direct and indirect private sector investment in the City is because of existing market failure: without it there would be insufficient a case to proceed. The wider public sector, as well as Council, must take a lead to stimulate regeneration. That decision in principle has already been taken, with unanimous Council approval of the City Deal.
- 11.6 This is the third interim report on the scheme and spending commitments are having to be made before any revenue certainty, before any capital financing revenue certainty, overall affordability certainty and before any City Deal grant certainty.
- 11.7 The sums proposed on an interim basis are very substantial and thus financial risk increases at each stage of approval. The Section 151 Officer therefore has to stress test for the unlikely “worst case scenario”.
- 11.8 In extremis, if for any reason schemes could not progress and all spend to date, plus now sought, was deemed ultimately abortive capital costs to be written off to revenue, it would exceed the totality of General Fund Reserves and clearly breach the Council’s fiduciary duty. That is one of several reasons why the capital equalisation reserve was established by Council on top – predominantly to smooth future costs of the whole scheme when it fully progresses – but also to provide “insurance” in the worst case scenario. It is intended that the capital equalisation reserve is actually used to offset some of the future costs as shown in the capital financing table above, even further.

- 11.9 The Section 151 Officer is required to determine a source of funding for the scheme as it is not in the existing capital programme. This is almost exclusively unsupported capital borrowing at present with the promise of some future offset from City Deal grant, capital receipts and some limited future net revenue income streams. There may be opportunity to reduce unsupported borrowing assumptions if future capital grants are received or additional capital receipts generated. The total amount envisaged over two years is substantial and is, for example, more than 50% of the entire value of unsupported borrowing undertaken by ALL Welsh local authorities in 2017-18. The level of ongoing risk and magnitude of the decision is therefore very substantial and must be fully borne in kind when making any decision to proceed.
- 11.10 Any capital spending within the envisaged affordability envelope in the medium term is predicated on creating the necessary headroom to increase overall capital financing costs by approximately 50% and making all current and planned future revenue savings to achieve that headroom. Deviation from that plan will limit the ability to finance the future capital ambition. There is already substantial current adverse deviation from the revenue planning assumptions in the current year of over £8m per annum, as reported to Cabinet, most of which will roll forward as a future pressure into 2019-20.
- 11.11 The current planning assumption is that in agreeing these step phases all necessary action will be taken at officer and member and Cabinet level to assure and ensure no material deviation from revenue savings plans in the current and all future years to enable capital to proceed in stepwise fashion as requested.
- 11.12 Whilst neither the Section 151 officer or Cabinet may bind or fetter future decision of Council, the decision to proceed “locks in” yet more spend that must be ultimately financed. Given the outlook for public finances over the longer term, where real term cuts remain the order of the day, failure to fully offset that locked in spend with other savings would itself increase the likelihood of the section 151 Officer forming an opinion that future resources could fall short of future expenditure.
- 11.13 The Section 151 Officer also has to form a view as to the reasonableness and value for money of the proposals’ in discharging his fiduciary duty to council taxpayers. The proposed level of local public subsidy is very substantial but less than the envisaged economic benefits set out in the report and on that basis it can be considered justified. The financial cost to the Council of supporting this scheme’s financing costs over other revenue spending is a matter of policy decision by Cabinet today and Council in future budget decisions.
- 11.14 Equally the Section 151 Officer is mindful that the scheme is progressing though a UK and Welsh Government five case business model assessment process and if deemed satisfactory to national and sub national governments from a value for money point of view then it should also be the case for the local authority.

- 11.15 The Section 151 Officer would remind however, that the respective contributions are significantly different in scale (the Council is putting in the majority of financing and takes all the risks – the UK and Welsh Government contribution is a potentially fixed sum, the Council's is not yet fixed, given capital cost certainty has not been reached, nor interest rate certainty, nor ongoing revenue cost certainty, nor ongoing overall affordability certainty (future budget decisions)).
- 11.16 This interim report does significantly help move the scheme along to the last developmental stage and at the point of the future final report we should have capital cost certainty, an ability to lock in at known interest rates, a more fully developed revenue business case, a budget and medium term financial plan agreed by Council, including the savings to afford the financial borrowing envelope in full, an agreed UK and Welsh Government business case, an offer of City Deal funding with known terms and conditions and flowing grant payments. All of which would then significantly and substantially de-risk the project from the current position, where this Council is delivering on its strategy for regeneration and necessarily leading and shaping from the front, and thus currently taking 100% of the risk.
- 11.17 The Section 151 Officer is satisfied, on balance, that it is reasonable to progress to the next stage, accepting the attendant risks, as part of the Council's strategic, place shaping and community leadership roles in regeneration for the City. Effectively it means Council leads on the pump priming of the wider pump priming from City Deal and elsewhere to drive the longer term economic benefits envisaged and halt the otherwise inevitable economic decline presented in the report.
- 11.18 This project is about the public sector intervening in its city due to market failure to stop further decline, put Swansea on the map and look to stimulate further private sector investment in the future.

12 Legal Implications

- 12.1 The Council will continue to work with their development partner Rivington Land throughout the project. The Council's framework contractor is being used to deliver the 'Early Works' which have already commenced on site.
- 12.2 The Council will need to ensure that at all times it complies with its Contract Procedure Rules and European procurement legislation as appropriate together with the terms and conditions of any offer of grant funding.
- 12.3 The Council will need to ensure that appropriate documentation is in place to protect its interests including warranties, bonds and appropriate forms of contract security. Arrangements should be in place to ensure good governance of the project; to monitor relationships between the Council and its external advisers, consultants and contractors; to manage risk and to monitor outcomes.

13. Resources and Capitalisation

- 13.1 The Swansea Central phase 1 scheme provides an opportunity to capitalise the salaries of the staff who are working on this scheme. The staff currently working on this scheme will need to time record their hours on the scheme to clearly record the time spent on the scheme. The staff resource will vary as the scheme progresses and the estimated potential for capitalisation is set out below.
- 13.2 It is in the council's interest to capitalise the time spent by staff which can then be utilised to support scheme delivery.

Grade	Time spent on scheme	Salary	Cost	On cost at 36.5%	Total to be capitalised p.a.
Grade 12	45%	£50,631	£22,784	£8,316	£31,100
Grade 11	90%	£45,669	£38,818	£16,669	£55,487
Grade 10	50%	£40,858	£20,429	£17,833	£38,262
Grade 10	90%	£40,858	£36,772	£13,421	£50,193
Grade 9	50%	£36,153	£18,076	£6,597	£27,673
Total core funded posts					£202,715
Grade 8	90%	£31,401	£28,260	£10,314	£38,574
Grade 8	35%	£31,401	£10,990	£4,011	£15,001
Grade 10 (H)	40%	£40,858	£16,343	£5,965	£22,308
Total non-core					£75,883
Total core and non-core funded					£278,598

- 13.3 The City Deal project is being administered by Carmarthenshire County Council who have established a regional office. In order to finance the regional approach to managing the city deal each council has agreed to fund £50k p.a. towards the costs. This funding has been agreed for 2016/17, 2017/18 and 2018/19 but needs including in future revenue budgets. Costs to date have been funded from the Contingency Fund. In addition £450,000 of officer costs were provided for in revenue in 2017-18 also funded by the Contingency Fund. Going forward as set out in this report, officer costs will be capitalised wherever practicable and reasonable

14. Benefits

- 14.1 Swansea Central Phase 1 will contribute towards addressing the Council's Corporate Priority of creating a vibrant and viable city and economy.
- 14.2 Swansea recognises the need to claw back the identified trading gap of £158m currently being lost to other areas outside of the city. This project once delivered

will have a fundamental impact in addressing this by creating a step change for Swansea as a city acting as a catalyst for other projects and private sector investment.

- 14.3 Swansea Central Phase 1 will create significant economic benefits for the city, £11.8m per annum during its operation and the creation of 500 jobs. In addition the arena will stimulate demand for Swansea Central Phase 2 and has a significant link with other projects such as the Digital Village on the Kingsway. It will increase investor confidence in Swansea and stimulate private sector development on other sites in Swansea. It will also support existing businesses through increasing footfall and add to the already strong cultural assets of the city, providing jobs and growth for future generations.
- 14.4 The scheme creates a new park which has been developed in line with the Future Generations Act themes and will help create the environment to stimulate people being able to live and work in the city
- 14.5 The scheme will create a national PR interest which will raise the profile of Swansea on a national basis and help catalyse future private sector investment.

15. Risks

- 15.1 Due to the financial viability the private sector will not invest in major regeneration projects in Swansea, therefore public sector intervention is critical if this project is to be delivered. Therefore Councils in similar cities around the country are investing or planning to invest in their cities to secure their future and stop decline. There is a risk that in doing nothing Swansea will decline further and the corporate priority of creating a vibrant and viable city and economy will not be met.
- 15.2 There is a risk of the accuracy of overall scheme costs as they are based on the current level of available design information and associated costs estimated by a Quantity surveyor. To address this the council is now engaging with the selected contractor to refine the costs during Stage 4 as part of the PCSA period over the coming six months. A further report will be brought once the final contract sum is estimated in April/May 2019.
- 15.3 The council needs to comply with its obligations to ATG in the agreement otherwise they could withdraw, resulting in the loss of the essential expertise required to successfully run the venue. This expertise is not available in house.
- 15.4 There are other risks which could impact the project. These include the arena operator responding to design evolution in a timely manner and the right to light claim process.
- 15.5 It is not recommended to commence Stage 4 / PCSA until all tier 1 appointments are agreed with the council and sub consultants.
- 15.6 There is a risk that as we are still in procurement that the Hotel and Residential elements of the scheme could be delayed or these elements not proceed.

- 15.7 A level of contingency needs to be retained going in to RIBA Stage 4. It is recommended that 7.5% contingency is retained to mitigate against risk which is included in the budget figures.
- 15.8 When the project substantially starts on site the management and audit governance in order to expend the total project cost expenditure will be critical. A property qualifies resource needs to join the team to undertake this role as it is essential that contracted payments are made on time.
- 15.9 There is a risk that the Council does not have sufficient resources to complete the scheme given the spending commitment is being sought ahead of the necessary budget savings needed to facilitate headroom for the scheme to proceed. Should this point of insufficient resources ever be reached a Section 114(3) notice would be inevitable and the reputational and financial consequences catastrophic.

16.0 **Equality and Engagement Implications**

- 16.1 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
 - Advance equality of opportunity between people who share a protected characteristic and those who do not.
 - Foster good relations between people who share a protected characteristic and those who do not.

Our Equality Impact Assessment process ensures that we have paid due regard to the above.

An Equality Impact Assessment has been opened and is attached as an appendix.

- 16.2 Ongoing monitoring will be undertaken to ensure that the needs of groups identified in the EIA are fully considered throughout the project and particularly on completion of detailed design, prior to implementation.
- 16.3 A communication plan has been developed to ensure engagement with stakeholders at key points throughout the project by utilizing project website, target e-mails, letters, press release and social media. A series of consultation events have been held inviting groups and general public to view and feedback on the scheme. Engagement and activities with youth groups and schools also being undertaken to encourage youth participation.

Background Papers: None

Appendices:

Appendix A - Scheme Images

Appendix B - EIA

Appendix A: Scheme Images

Swansea Central Phase 1



Arena



Digital Square



Coastal Park

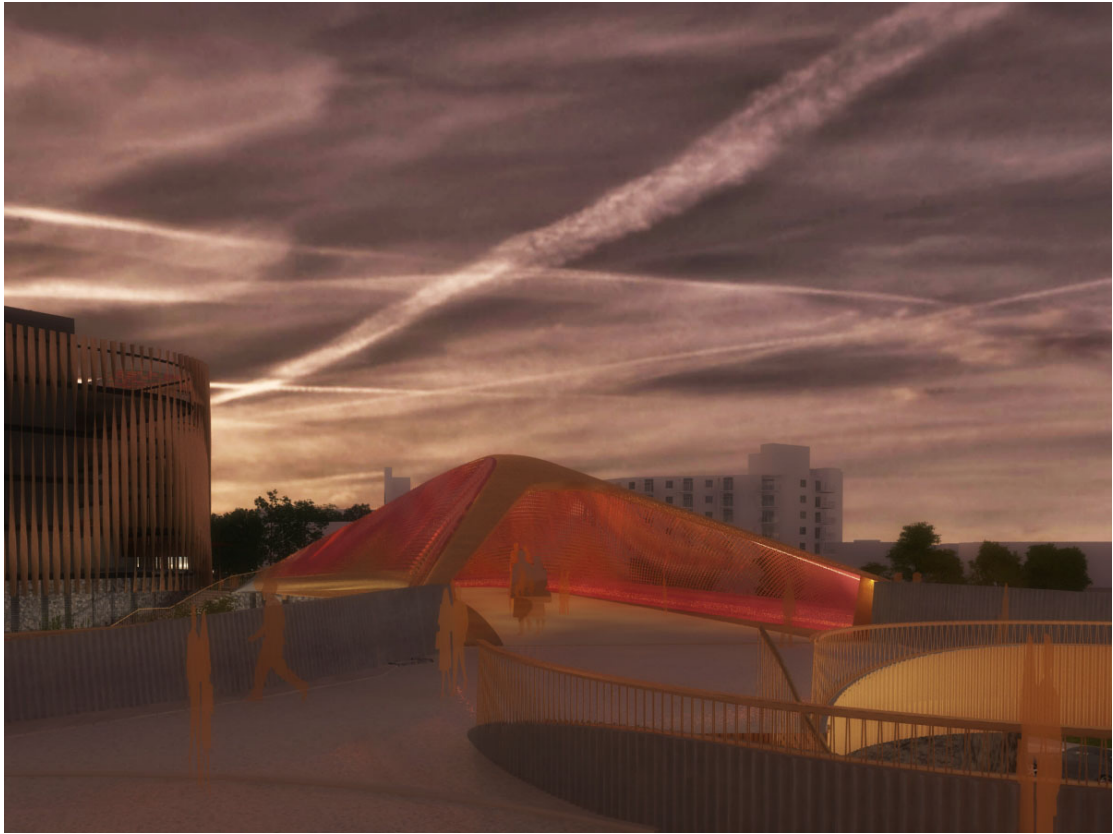


Coastal Park



Bridge





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