

# SWANSEA CITY & WATERFRONT DIGITAL DISTRICT Full Business Case



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# SWANSEA CITY & WATERFRONT DIGITAL DISTRICT FULL BUSINESS CASE

## 1. Executive summary

### 1.1 Introduction

The Outline Business Case (OBC) for the Swansea City and Waterfront Digital District programme was approved in 2017 and secured approval to invest £174.2m, including £50m of City Deal funding in a number of ambitious and transformational projects in the city. These developments will facilitate the growth of higher added value activities (particularly tech businesses) in Swansea, for the benefit of the wider Swansea Bay City Region. The programme is anticipated to deliver 1,281 jobs, generate £39.9m private sector investment and contribute Gross Value Added of £669.8m to the regional economy.

This updated business case for the programme reflects the significant progress made since approval and updates to Full Business Case (FBC) status for two out of three of the constituent projects as follows:

- The Digital Square and Arena project is now at FBC level with construction completed on site and the facility operational.
- Digital Village (71-72 Kingsway) is also at FBC stage, having secured a planning consent and procured a construction contractor with construction commencing in November 2021.
- Innovation Matrix has now received planning, subject to successful S106 agreements.

This update has been prepared using the agreed standards and format for business cases, as set out in the Green Book Supplementary Guidance 5 Case Model and Better Business Case guidance. The update revisits each of the five dimensions of the business case to demonstrate the strategic alignment, case for change, value for money, viability, affordability and delivery arrangements for the programme. A summary of the key changes is included at the beginning of each of the following 5 business case sections.

- the **strategic case** section. This sets out the case for change, together with the supporting investment objectives for the scheme. Updated information on strategic alignment, refined investment objectives and updated risks and dependencies
- the **economic case** section. This demonstrates that the organisation has selected the most economically advantageous offer, which best meets the existing and future needs of the service and optimises value for money (VFM). The economic case has been updated with the procurement information for Digital Village, Digital Square and Arena, with Innovation Matrix information to follow, demonstrating the VFM for the chosen option and confirming the updated costs, benefits and risks, confirming the procurement strategy, route

and evaluation criteria that were followed and demonstrating that the option offering best public value has been chosen.

- the **commercial case** section. This sets out the content of the proposed deal. The commercial case has been updated with the choice of service providers, negotiated deals and the contractual arrangements for the procurements.
- the **financial case** section, which confirms funding arrangements, affordability and the effect on the balance sheet of the organisation. This section has been updated with the current cost and funding details to demonstrate the affordability of each of the project elements.
- the **management case** section which details the plans for the successful delivery of the scheme to cost, time and quality. The management case has been updated with further detail on the delivery and management arrangements for the programme including current governance arrangements, benefit realisation, monitoring and reporting, change and programme assurance.

## 1.2 Strategic case.

The Strategic Case demonstrates the current alignment of the Swansea City and Waterfront Digital District programme with national, regional and local strategies and policies, as well as other current or planned programmes, while making a compelling case for change via the constituent projects.

### 1.2.1 *The strategic context*

The organisations making the case for investment in the scheme are Swansea Council and University of Wales Trinity Saint David.

The strategic alignment of the Digital District programme has been reviewed. It remains aligned with, and will help to deliver, local, regional and national policies and strategies including:

#### **Local:**

- The well-being objectives of Swansea Council, as set out in the Corporate Plan 2017-22, in particular “Transforming our Economy & Infrastructure
- University of Wales Trinity Saint David Transformation Strategy
- Swansea Central Area Regeneration Framework (SCARF), .

#### **Regional:**

- Swansea Bay City Region Economic Regeneration Strategy
- The South West Wales Regional Economic Delivery Plan 2022-2030 updates and re-focusses the SBCR Economic Regeneration Strategy
- Regional Economic Framework 2021 (REF) for South West Wales

## **Wales:**

- Wellbeing of Future Generations (Wales) Act 2015
- Welsh Government's Prosperity for All strategy
- Welsh Government's Economic Action Plan

## **UK:**

- UK Industrial Strategy.2017
- Build Back Better: Our plan for growth 2021
- Levelling Up White Paper 2022
- Digital Strategy 2017

The programme also links with and contributes to other funding initiatives including:

- WG Targeted Regeneration Investment Programme
- WG Building for the Future Project
- European Regional Development Fund
- Government Transforming Towns programme
- UK Government Levelling Up and Shared Prosperity Fund initiatives.

The Swansea City and Waterfront Digital District is one of the nine headline programmes of the Swansea Bay City Deal under the theme of Economic Acceleration. The programme supports the City Deal aim of raising productivity levels by facilitating the growth of higher value activities. Establishing Swansea as a vibrant regional capital is one of the aims of the Internet Coast City Deal proposal. Developing a TechHub led commercial district to encourage graduate retention and provide space for new companies to grow and expand is one of the projects listed under the Internet of Economic Acceleration theme.

### *1.2.2 The case for change*

The investment objectives for this programme are as follows:

- Investment Objective 1: To create incubation and co-working areas for start-ups and micro businesses, with high levels of curation and access to University expertise to maximise survival rates.
  - Outcomes for objective 1 include: To create over 459 net FTE jobs and drive start-up, micro and SME growth in the region through accommodation and support addressing industry needs
- Investment Objective 2: To create 115,000 sq ft of flexible and affordable accommodation in the city centre to support the growth of technology-based businesses (and other higher added value activities) by 2023
  - Outcomes for objective 2 include: To create over 500 net FTE jobs and act as a catalyst for new private sector led development and refurbishment of further properties on the Kingsway to create a new Central Business District in Swansea City Centre.

- Investment Objective 3: To create the vibrant environment, leisure and lifestyle offer (including events space) in the city centre by 2022 that attracts and retains technology-based businesses and skilled workers for the benefit of the wider region.
  - Outcomes for objective 3 include: To create over 450 net FTE jobs and provide a 3,500 capacity high tech facility that will 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 Swansea Bay City Region suffers from a number of overarching economic issues, as outlined in the region's Economic Regeneration Strategy: including low productivity, low average wage levels, small business base (which isn't growing quickly enough), skills deficits and high levels of economic inactivity. While both Swansea University and University of Wales Trinity Saint David are expanding and increasing the potential pool of graduate labour available within the region, there are issues with graduate retention, linked to the lack of well paid, graduate employment opportunities in the region. It is imperative that the region improves its economic performance and creates higher skilled, higher paid employment opportunities for its people.

Within Swansea, significant investments undertaken and planned by both universities are increasing the city's capacity for knowledge and innovation-based research, the graduate pipeline, collaboration with business, and the creation of spin-out businesses. In addition, there is also a burgeoning technology sector in the city, with many new enterprises emerging to commercialise research and expertise in areas such as digital media, Life Sciences and ICT. There is significant potential to develop this growing technology sector to support high value economic activity. This is evidenced by the growing cluster of activity across the city, which is only restrained by the availability of an appropriate environment to realise its potential.

However, as outlined in the Swansea Central Area Regeneration Framework, Swansea City Centre has poor quality, dated office accommodation which doesn't meet the needs of modern-day occupiers. Swansea is not an established location for the office sector, and therefore has no scale of stock, and particularly no office stock of quality. In addition, the city centre offer is perceived as tired, dated and in decline with an average offer. As such, the City Centre doesn't currently have the modern, flexible and affordable commercial floorspace, city living or leisure and lifestyle offer needed to capitalise on potential opportunities and is losing businesses (and graduates) as companies move elsewhere.

The main business needs and issues that the programme will address are:

- Lack of Commercial Space for Start-Ups and Growing Businesses
- Lack of Private Sector Led Commercial Development in the City Centre
- Inadequate Leisure Offer and Lack of Events Space

The potential scope and service requirements of the programme are:

Service Requirements	Business Scope and Key Service Requirements
Core	<ul style="list-style-type: none"> <li>• Creates new floorspace for start-ups and microbusinesses</li> <li>• Creates grow on space for local businesses</li> <li>• Provides events space to meet the needs of local businesses</li> <li>• Supports the growth of higher added value activities</li> <li>• Is located within the City Centre/ SA1 Swansea Waterfront Area to contribute to the regeneration of Swansea City Centre</li> <li>• Actively managed/ curated to provide support to growing businesses</li> </ul>
Desirable	<ul style="list-style-type: none"> <li>• Arena to provide dedicated large-scale events space</li> <li>• Access to academic expertise for growing businesses</li> </ul>
Optional	<ul style="list-style-type: none"> <li>• Enhanced retail and leisure offer</li> </ul>

The main benefits, risks, constraints and dependencies are shown below:

#### Benefits:

- Increased availability of fit-for-purpose commercial floorspace
- Increased number of employees
- More supportive, conducive environment where start-up technology businesses can thrive
- Enables small businesses to develop efficiencies and specialisms, become more competitive and strengthen their market position
- Contribute to increase in local GVA and employment opportunities
- Generation of revenue income to Swansea Council and UWTSD
- Creation of training and apprenticeship opportunities
- Raise the profile of Swansea City Centre as a business location
- Catalyst for private sector investment
- Availability of events space and conference facilities
- More attractive environment & leisure offer to attract and retain skilled employees
- Improvements to leisure offer

#### Risks:

- The commercial floor space and other facilities do not meet the needs of start-ups and tech-based businesses
- Funding not secured – without public sector funding the proposals would not be implemented
- Insufficient internal capacity to project manage and deliver the developments
- Unexpected rise in construction costs
- Delays in construction and delivery programme



- Unable to secure tenants to occupy the buildings
- Project is property driven and the wider economic needs to support business creation and growth are not achieved
- Unforeseen economic / external factors
- Low initial demand and/or lower than expected growth
- Covid-19
- Failure to collaborate effectively with partners
- Wider regeneration scheme does not progress leading to loss of supportive infrastructure
- Poor transport infrastructure (external) leads to loss of attractiveness for schemes
- Failure to obtain relevant approvals
- Failure of target markets to grow

#### Constraints:

- Construction Timeline
- Level of available funding
- Any conditions attached to the planning consents
- National growth in target industries
- Local tenancy demand from targeted industries
- The availability and timing of public funding

#### Dependencies:

- Skills development, to support the new employment opportunities created, through the City Deal skills & talent initiative.
- Securing planning consent for the developments. In place for Arena, 71/72 Kingsway and Innovation Precinct.
- ATG lease requires the delivery of the new footbridge and car park (not part of City Deal project but included in wider project and construction contract).
- Ample / appropriate transport solutions to service the developments.
- University continues to generate a pipeline of graduate start ups
- Securing tenants for Digital Village and Digital Square.
- The University and the Council have the capacity and capabilities to curate/ manage the Innovation Matrix & Innovation Precinct and Digital Village.
- Future private sector investment in the City Centre is dependent on the catalytic effect of the Digital District programme.
- Delivery of external digital infrastructure, to meet the requirements of occupiers, and to network the three developments with Swansea University and University of Wales Trinity Saint David.

### **1.3 Economic case**

The updated economic case consists of two parts:

Part 1. Revisit the OBC Options – the OBC options are reviewed and confirmed.

Part 2. Detail the procurement process and evaluation of the Best and Final Offer (BAFO) - the procurement processes undertaken to date are detailed and the chosen service provider identified in respect of the procurements to date.

The Critical Success Factors for the programme are:

- **Strategic Fit:** Strategic fit with Swansea Bay City Region Economic Regeneration Strategy and Swansea Central Area Strategic Framework
- **Business Needs:** Satisfies all the Investment Objectives
- **Benefits Optimisation:** Optimises job creation and GVA growth
- **Potential Achievability:** Meets the requirements of tech businesses and other stakeholders in Swansea and is sustainable. CCS and UWTSD must have the management capacity, skills and vision to deliver the programme, or aware of the need to recruit assistance where necessary
- **Supply Side Capability and Capacity:** Sufficient established and reputable construction firms bid for work to ensure both competition and value for money in new building delivery
- **Potential Affordability:** The required capital investment can be met by combining CCS/ UWTSD own funds with other public and/ or private sector funding
- **Deliverability:** Programme can be delivered within 5 years

### Part 1. Revisit the OBC Options

The following shortlist was developed at OBC stage:

- option 1 – the do nothing, do minimum or status quo
- option 2 – the reference project or outline Public Sector Comparator (PSC) based on totality of the preferred choices within each of the above categories
- option 3 – the reference project or outline PSC (more ambitious option) based on the more ambitious possible options within each of the above categories
- option 4 – the reference project or outline PSC (less ambitious option) based on the less ambitious options within each of the above categories.

The Economic Case details changes to the programme since the approval of the OBC and updates the preferred option as shown below:

Category	OBC	FBC
Scope	Incubation, grow on and Digital Square and Arena	Incubation, grow on and Digital Square and Arena
Service Solution	Digital Village (100,000sq ft), UWTSD Innovation Matrix (28,000 sq ft) & Innovation Precinct (64,000 sq ft), 3,500 capacity Digital Arena, Digital Square and Hotel	Digital Village (115,000sq ft), UWTSD Innovation Matrix (34,000 sq ft) & Innovation Precinct (64,600 sq ft), 3,500 capacity Digital Arena, Digital Square and Hotel
Service Delivery	Innovation Matrix & Innovation Precinct: UWTSD, Digital Village and Digital Square &	Innovation Matrix & Innovation Precinct: UWTSD, Digital Village and Digital Square &

	Arena: CCS (with private sector hotel development)	Arena: CCS (with private sector hotel development)
Implementation	Completion by 2023 – 2027	Completion by 2023 – 2027
Funding	Public capital led, leveraging in private sector	Public capital led, leveraging in private sector

Updated economic appraisal information is provided for Digital Arena and Square and Digital Village projects.

The appraisal confirms that the Preferred Option remains Option 2 as this is most likely to achieve the Investment Objectives and was ranked first in the benefits and risk appraisals and second in the economic appraisal. Whilst the More Ambitious Option scored highest in the economic appraisal in terms of financial benefits, the additional costs are not affordable and the demand and delivery risks associated with this Option have resulted in it being discounted.

Evaluation Results	Option 1 Do Minimum	Option 2 Reference Project	Option 3 More Ambitious	Option 4 Less Ambitious
Economic appraisals	4	2	1	3
Benefits appraisal	4	1	1	3
Risk appraisal	4	1	3	2
<b>Overall ranking</b>	<b>4</b>	<b>1</b>	<b>2</b>	<b>3</b>

The updated Economic Case has demonstrated that the preferred option in the approved OBC remains valid. Changes to the specific elements of the preferred option have been detailed and economic, benefits and risk appraisals have been revisited and the option rankings confirmed.

## **Part 2. Detail the procurement process and evaluation of the Best and Final Offer (BAFO)**

This updated version of the business case details the procurement strategy, route and evaluation criteria that were in the procurement processes for the following project elements:

- Digital Square and Arena
- Digital Arena operator
- Hotel Developer
- Digital Village (71-72 Kingsway)

It is recognised that Better Business Case guidance requires that an economic appraisal is undertaken for the potential service providers. This has not been carried

out as there have been several procurements undertaken for the individual project elements that have been subject to specific evaluation and assessment criteria to identify the service provider offering best use of public money in delivery.

The procurement processes for the individual projects have been detailed and the selection of each of the preferred service providers offering best public value for money demonstrated.

### Digital Arena Procurement Process

The Digital Square & Arena forms part of the wider Swansea Central Phase 1 development. The process for the procurement of a contractor to deliver the whole Phase 1 scheme has been detailed and Buckingham construction company selected as the service provider.

Under the OJEU process, a competitive dialogue procurement exercise was undertaken by Swansea Council to secure an operator for the Digital Arena. Following the initial Pre-Qualification Stage, four bidders were invited to participate in a single-stage Competitive Dialogue process. Two of these bidders withdrew from the competition during the process, leaving two competitors to submit final tenders. Following assessment of the bids, Ambassador Theatre Group Limited (ATG) were appointed as the preferred operator.

For the hotel, which forms part of the Digital Square & Arena, the Council through Rivington Land appointed Jones Lang LaSalle Hotel Agency Team to formally procure a developer and operator. This process has been completed with Cairns being appointed as preferred developer.

### Digital Village Procurement Process

For the Digital Village (71-72 Kingsway), tenders were issued to contractors included within Lot 6 of the Southwest Wales Regional Contractors Framework (SWWRFCF).

Following the first tender stage, the tenders returned were all deemed to be non-compliant with Swansea Council's Contract Procurement Rules (CPR). A value engineering exercise was undertaken and tenders re-issued under the SWWRFCF. Following a detailed tender evaluation process, Bouygues was identified as the preferred contractor to construct the project. The contract was awarded on approval of the budget at Cabinet in May 2021. Subsequently the contract was signed, and work commenced in November 2021.

### Innovation Matrix Procurement Process

Details of procurement process for the Innovation Matrix are being finalised and will be added to the FBC once completed and signed off.

## **1.4 Commercial case**

### *1.4.1 Agreed products and services*

In developing the FBC the commercial case dimension has been revisited and updated to reflect the negotiated deals and their financial consequences over the lifespan of the contracts and services. This section sets out the negotiated arrangements for the following project elements:

- The construction and operation of a 3,500 capacity Digital Arena in Swansea City Centre with podium level public realm, commercial units in the public realm, a cutting-edge Digital Square around the arena, and a new hotel, to revitalise the environment, leisure and lifestyle offer in the city centre and provide events space for tech businesses.
- The construction and operation of a new Digital Village on the Kingsway in Swansea City Centre that will provide 115,000 sq. ft. of new office accommodation for growing technology-based businesses.
- The construction of a 34,000 sq. ft. Innovation Matrix and 64,600sq ft. Innovation Precinct at University of Wales Trinity Saint David Swansea Waterfront development to provide incubation space and co-working areas for start-ups and small businesses.

#### *1.4.2 Agreed Delivery Timescales*

The programme is being delivered to the following timescales:

##### Digital Square & Arena

The Digital Square and Arena project is now completed and the facility is fully operational. The contractor Buckingham produced a detailed programme for the works and whilst there were some delays due to Covid-19, these were minimised, the construction site remained open and works progressed. The Council signed an Agreement for Lease with the selected operator Ambassador Theatre Group in January 2018 with the 30 year lease agreement signed in October 2021. The original procurement process for the hotel development was completed in May 2018. Discussions are currently progressing with Visit Wales over the funding of proposal.

The project was undertaken to the following timescales:

	<u>Finish Dates</u>
Outline planning consent granted	June 17
End of Design Stage 2	Nov 17
Arena Operator Contract Signed (Agreement for Lease)	Jan 18
Hotel procurement	May 18
Contractor Procurement	July 18
Arena Operator Lease Agreement	Oct 21
Construction complete	Jan 22
Arena Opening (phased)	Mar 22

## Digital Village

The Digital Village project has been procured and is currently underway. The project is programmed for delivery to the following timescales with completion scheduled for October 2023:

	<u>Finish Dates</u>
Detailed Design	Aug 20
Planning Submission	Mar 20
Tender and Contractor Procurement	May 21
Enabling infrastructure works	Sep 21
Construction	Jul 23
Fit Out	Aug 23
Completion and Occupation	Oct 23

## Innovation Matrix

	<u>Finish Dates</u>
Planning Submission	Q2 22
Detailed Design	July 22
Tender and Contractor Procurement	July 22
Construction	TBA
Construction Completion	Nov 23
Completion and Occupation	Dec 23

## Innovation Precinct

	<u>Finish Dates</u>
Planning Submission	Mar 23
Detailed Design	June 23
Tender and Contractor Procurement	Oct 23
Construction	Sept 24
Construction Completion	Oct 25
Completion and Occupation	Dec 25

### *1.4.3 Agreed risk allocation and charging mechanism*

Overall allocation of service risks in the design, build and operational phases of the programme will be as follows. These are unchanged from the risk allocation within the approved OBC.

Risk Category	Potential allocation		
	Public	Private	Shared
1. Design risk			X
2. Construction and development risk			X
3. Transition and implementation risk			X
4. Availability and performance risk			X

5. Operating risk			X
6. Variability of revenue risks			X
7. Termination risks	X		
8. Technology and obsolescence risks			X
9. Control risks			X
10. Residual value risks	X		
11. Financing risks	X		
12. Legislative risks	X		
13. Other project risks	X		

### Digital Square and Arena

Swansea Council procured the contractor on the basis of a fixed price.

Under the SEWSCAP framework, appointed contractors are required to take account of and actively participate in environmental, social and economic impacts to delivery within the community and surrounding areas.

The operator lease agreement was finalised in October 2021 with ATG imposes obligations to maintain and insure the Digital Arena for the duration of the 30 year lease. Main terms of the lease are:

- Term of the lease – 30 year lease, commencing 25<sup>th</sup> February 2022
- Tenant responsibilities for insuring and repairing
- Joint Operations Management Plan
- Profit Sharing arrangements
- Option for Tenant to extend and renew the lease

The council is responsible for the LED façade.

### Digital Village

Swansea Council procured the contractor on the basis of a fixed price. Contractual allocation of risk. For construction contract.

The Digital Village office occupiers will be required to pay a service charge towards maintenance and repairs.

To minimise the lettings risk the project sponsors have in place dedicated in-house teams to actively promote and work with intended occupiers both to secure lettings and understand the level of demand in the commercial market. This team is supported by external property letting specialists.

The Digital Village will be let on a mix of tenancies to create a mix of occupiers with the larger occupiers on longer tenancies and the smaller businesses on shorter tenancies.

### Innovation Matrix and Precinct

Details to be provided by UWTSD once details once the contract has been agreed.

Overall allocation of service risks in the design, build and operational phases of the programme will be as follows. These are unchanged from the risk allocation within the approved OBC.

Each of the project elements include social benefit clauses as part of the delivery of the main construction contract. These are being regularly monitored and reported and include the following areas:

- Targeted recruitment and training
- Supply Chain initiatives
- Contributions to Education
- Community Initiatives

## 1.5 Financial Case

The Financial Case demonstrates the affordability of the procured contracts within the total programme costs.

The financial information shown below includes the procured construction costs and associated project costs and fees in the development and delivery of each project element. The current investment breakdown presented in the table below is based on forecasted investment as of 30 June 2022.

<b>Expenditure</b>	<b>Year 1 2018/19 (£m)</b>	<b>Year 2 2019/20 (£m)</b>	<b>Year 3 2020/21 (£m)</b>	<b>Year 4 2021/22 (£m)</b>	<b>Year 5 2022/23 (£m)</b>	<b>Year 6 2023/24 (£m)</b>	<b>Year 7 2024/25 (£m)</b>	<b>Year 8 2025/26 (£m)</b>	<b>Year 9 2026/27 (£m)</b>	<b>Year 10 2027/28 (£m)</b>	<b>Total (£m)</b>
Capital	£ 6.03	£ 10.04	£ 31.82	£ 19.27	£ 15.91	£ 39.03	£ 21.54	£ 20.32	£ 5.95	£ 1.25	£ 171.15
Revenue	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -
<b>Total</b>	<b>£ 6.03</b>	<b>£ 10.04</b>	<b>£ 31.82</b>	<b>£ 19.27</b>	<b>£ 15.91</b>	<b>£ 39.03</b>	<b>£ 21.54</b>	<b>£ 20.32</b>	<b>£ 5.95</b>	<b>£ 1.25</b>	<b>£ 171.15</b>
<b>Funding</b>											
Swansea Bay City Deal Grant	£ -	£ -	£ 11.43	£ 11.42	£ 4.57	£ 9.52	£ 8.82	£ 4.24	£ -	£ -	£ 50.00
Public Sector	£ 6.03	£ 10.04	£ 20.37	£ 7.85	£ 11.34	£ 20.93	£ 2.89	£ 1.80	£ -	£ -	£ 81.25
Private Sector	£ -	£ -	£ 0.02	£ -	£ -	£ 8.58	£ 9.83	£ 14.29	£ 5.95	£ 1.25	£ 39.90
<b>Total</b>	<b>£ 6.03</b>	<b>£ 10.04</b>	<b>£ 31.82</b>	<b>£ 19.27</b>	<b>£ 15.91</b>	<b>£ 39.03</b>	<b>£ 21.54</b>	<b>£ 20.32</b>	<b>£ 5.95</b>	<b>£ 1.25</b>	<b>£ 171.15</b>

The original budget for the programme as detailed in the OBC totalled £174.67m.

The table below shows the project level funding breakdown:

<b>Project</b>	<b>Swansea Bay City Deal Grant</b>	<b>Public Sector</b>	<b>Private Sector</b>	<b>Total</b>
Innovation Matrix	13.44	11.07	8.90	33.41
Digital Village	13.71	29.83	5.00	48.54
Digital Square	22.85	40.36	26.00	89.20
<b>Total</b>	<b>50.00</b>	<b>81.25</b>	<b>39.90</b>	<b>171.15</b>

The income and expenditure summary for the programme is shown in the table below.



Expenditure	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Capital Expenditure	6.03	10.04	31.82	19.27	15.91	39.03	21.54	20.32
Revenue Expenditure	-	-	-	-	-	-	-	-
<b>Total</b>			<b>31.82</b>	<b>19.27</b>	<b>15.91</b>	<b>39.03</b>	<b>21.54</b>	<b>20.32</b>
<b>Funding</b>								
City Deal	-	-	-	15.99	4.79	4.79	4.79	4.79
Public Sector	6.03	10.04	20.37	7.85	11.34	20.93	2.89	1.80
Private Sector	-	-	0.02	-	-	8.58	9.83	14.29
<b>Total</b>	<b>6.03</b>	<b>10.04</b>	<b>20.39</b>	<b>23.84</b>	<b>16.13</b>	<b>34.29</b>	<b>17.51</b>	<b>20.87</b>

Expenditure	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Total
	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	
Capital Expenditure	5.95	1.25	-	-	-	-	-	171.15
Revenue Expenditure	-	-	-	-	-	-	-	-
<b>Total</b>	<b>5.95</b>	<b>1.25</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>155.08</b>
<b>Funding</b>								
City Deal	4.79	4.79	1.12	1.04	1.04	1.04	1.04	50.00
Public Sector	-	-	-	-	-	-	-	81.25
Private Sector	5.95	1.25	-	-	-	-	-	39.90
<b>Total</b>	<b>10.73</b>	<b>6.04</b>	<b>1.12</b>	<b>1.04</b>	<b>1.04</b>	<b>1.04</b>	<b>1.04</b>	<b>171.15</b>

A funding agreement is in place between the Council and Carmarthenshire council as lead City Deal body and in addition Swansea Council and the University Board of Governors have signified their agreement to their respective level of funding required.

The proposed expenditure on the Digital District programme will be capitalised on the balance sheets of Swansea Council and University of Wales Trinity Saint David.

## 1.6 Management case

The Management Case demonstrates that robust arrangements are in place for the delivery, monitoring and evaluation of the programme and that delivery is being managed in accordance with best practice, subjected to independent assurance and that the necessary arrangements are in place for change management, benefits realisation and risk management.

### 1.6.1 Programme management arrangements

The Council is adhering to its established processes of reporting and corporate procedure rules in the engagement of contractors or works. Delivery Teams are in place for each scheme and team members are ensuring review of the overall aims and objectives. Team members review and discuss the various Highlight Reports and scrutinise the reported decisions required, risks and issues being reported by the project managers and work stream leads, in order to deliver a concise, coordinated monthly report to the Regeneration Project Board, and each organisation's internal reporting structures.

University of Wales Trinity Saint David will manage the projects in accordance with PRINCE 2 methodology.

In order to retain the monthly reporting the delivery teams ensure the collation of the following key documents which will assist the day-to-day running of a successful programme;

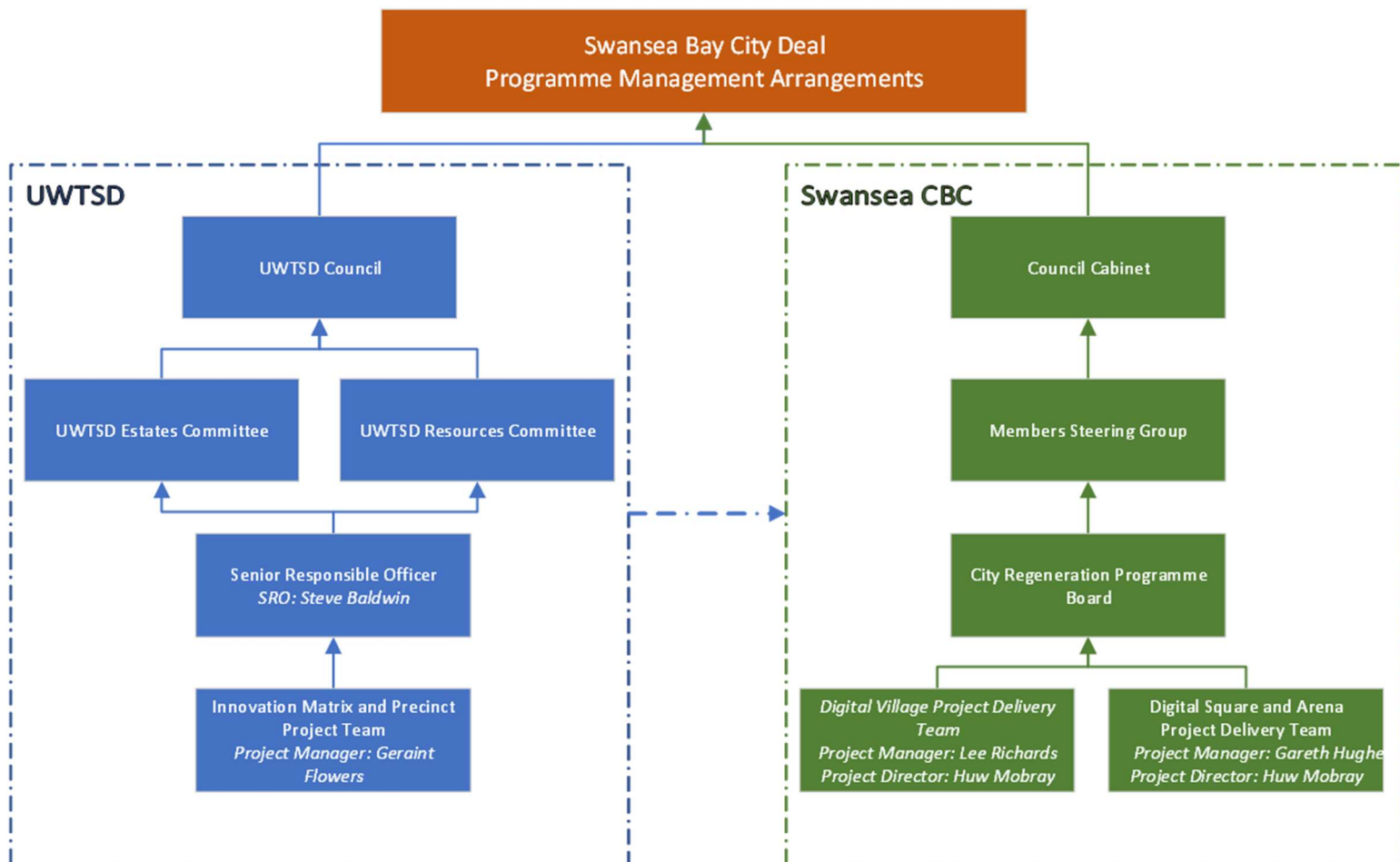
- Programme Plan/Timeline.
- Risk, Issue, Actions, Dependencies (RAID) Tracker
- Benefits Tracker
- Stakeholder and communication plan.
- Financial monitoring plan.

Delivery of the Beyond Bricks and Mortar – Community Benefits is led by the Council’s existing Beyond Bricks and Mortar team.

### 1.6.2 Programme Governance Structure

The programme and has robust and effective governance in place to ensure the successful management and delivery of each of the project elements.

The overall governance structure is shown below:



The Regeneration Project Board is the authority that provides overall direction to and management of the Digital District Project. Specifically, the Board will manage the commitment of personnel, money and equipment to complete the aims and objectives of the Digital Arena and Digital Village project in line with the strategic aims of City Deal Programme. The UWTSD projects have their own governance structure and feed milestones and decisions into the Regeneration Board.

Project Management reporting to the Regeneration Project Board will be conducted on a monthly cycle on the basis of exception to allow the Project Board to determine progress over the term of the project against the key milestones as outlined in the project plan.

Monitoring and reporting arrangements include:

- Monthly highlight reports
- Quarterly monitoring reports
- Annual reports
- Benefits realisation plan – continually updated and reported quarterly
- Integrated Assurance and Approval Plan (IAAP)
- Covid-19 Impact Assessment
- Construction Costs Impact Assessment
- Financial Monitoring
- Milestone evaluations as agreed with the Portfolio Management Office

Robust arrangements are also in place for:

- Benefits realisation
- Risk Management
- Change Control
- Assurance Arrangements
- Evaluation

## 2. Strategic Case

The Strategic Case demonstrates the current alignment of the Swansea City and Waterfront Digital District programme with national, regional and local strategies and policies, as well as other current or planned programmes, while making a compelling case for change via the constituent projects. The Strategic Case is presented in two parts, as follows:

**The Strategic Context:** Explains the background and context of the programme and describes the organisations leading on the delivery of the programme. It includes a review of the relevant strategies and policies to demonstrate strategic fit at UK, Welsh and regional levels.

**Case for Change:** Demonstrates the investment objectives and rationale for the programme and describes the main benefits, risks, constraints and dependencies.

This updated version of the business case reflects the development of significant elements of the programme to FBC status and includes the following main changes:

- Policy and Strategy Alignment – Aligned demonstrated with Levelling Up White Paper and Plan for Growth. Alignment also updated with WG Regional Economic Framework and Town Centre First approach and updated Regional Economic Development Plan.
- Refined and SMART Investment Objectives
- Updated contextual information relating to the Existing Arrangements
- Updated Business Need section incorporating current demand information
- Main Benefits, Risks, Constraints and Dependencies reviewed and updated

## **Part A: the strategic context**

### **2.1 Organisational overview**

The organisations making the case for investment in the scheme are Swansea Council and University of Wales Trinity Saint David.

Swansea Council has a track record in delivering large scale regeneration projects, having been involved directly and indirectly in the management and delivery of regeneration programmes and projects since it was formed in 1996 after local government reorganisation. Projects funded and delivered by the Council have included construction of the Liberty Stadium for Swansea City Football Club & Ospreys Rugby Club, and a new £32m 'LC' Leisure Centre in the city centre.

Joint ventures have been progressed with Welsh Government (and formerly WDA) to deliver the Swansea Vale Mixed Use Development and Felindre Strategic Business Park. Over £120m of projects were facilitated during the EU Objective 1 2000-2006 programme including landmark schemes such as the National Waterfront Museum (£28m total cost). During the EU Convergence 2007-2013 period, a series of large-scale initiatives were delivered including the Quadrant Bus Station (£10m) and Waterfront City, which invested circa £30m in a range of improvements to the fabric of the City Centre including major public realm and property façade improvements.

University of Wales Trinity Saint David (UWTSD) is a dynamic and ambitious institution, originally formed from a merger between University of Wales, Lampeter and Trinity University College in 2010. The University comprises seven faculties and annually trains a full-time student cohort of over 10,000 in subjects as diverse as automotive engineering, fine and applied arts and film and media.

These courses are delivered from three campuses in Swansea, Lampeter and Carmarthen, alongside a dedicated Wales International Academy of Voice located in Cardiff. In 2012, the University opened its first non-Welsh campus in London to deliver MBA programmes to a primarily international student base and maintains extensive relationships with overseas learners.

However, the University is still firmly rooted in Wales and is dedicated to the provision of innovative and first-rate education, upskilling the local population and providing opportunities for all to engage in further and higher education. To meet this aim, UWTSD became one of the first dual sector universities in Wales, bringing further education providers such as Coleg Sir Gâr and Coleg Ceredigion into the Group. This has facilitated the creation of links within the wider community of education providers dramatically and has enabled an increasing number of Welsh students to attain the highest levels of education qualification available.

Recognising its position as a major influencer in its areas of operation, UWTSD is committed to stimulating the economic development of Wales overall. The University has long recognised the capabilities that Higher Education Institutions have to stimulate sustainable economic and social growth and that these objectives are inextricably linked and mutually reinforcing. To this end, the University has already established extensive relationships with industry, business and enterprise through the development of bespoke training and accreditation services, along with direct involvement in R&D. Key to this is the creation and development of SMEs, who are essential to sustained, economic growth. By harnessing the business experience of the University, its considerable academic ability and its capability for innovation, SMEs will be nurtured and supported from their inception as a start-up right through to their development into a large-scale employer.

In furtherance of this goal, the University has commenced a major £100m+ transformation project to bring its operational capabilities up to the standards demanded by its ambitions. This multi-part strategy will place the University at the heart of public/private education and economic collaboration in the Swansea Bay region and will drive large scale education-led regeneration. The University has the focus and appetite to deliver major regional changes to the Swansea Bay area and to bring its significant influence to bear.

### **2.3 Business strategies**

The Digital District programme remains aligned with, and will help to deliver, local, regional and national policies and strategies including:

#### **Local:**

- The well-being objectives of Swansea Council, as set out in the Corporate Plan 2017-22, in particular “Transforming our Economy & Infrastructure – so that Swansea has a thriving mixed use City Centre and a local economy that will support the prosperity of our citizens”.
- University of Wales Trinity Saint David Transformation Strategy, which is based on creating multi-skilled communities by developing a replicating commercial skills pipeline focused on SME growth and startups, student entrepreneurship and employability. The University’s strategic intent and direction focuses on knowledge transfer, skills development and enrichment, employability and sustainable economic regeneration. The University considers its current and future contribution to Wales, and its own longer-term sustainability, within the context of education and knowledge as symbiotic enablers of transformational change both for individuals and the wider economy. Quite simply: economic growth stimulates demand for education; education stimulates economic growth.
- Swansea Central Area Regeneration Framework (SCARF), which has a vision to create a mixed-use location with a strong retail, commercial and leisure heart supported by a vibrant resident population. The Central area must have a vibrant mix of leisure, cultural, retail office and residential uses all delivered in a legible way, with quality buildings and public spaces with a sense of place, which promotes local culture and differentiates Swansea from other cities. The SCARF, and the supporting Swansea Retail Capacity Study (Strategic Insight 2013), highlights that there are not enough people living and working in the City Centre,

which limits footfall and spend and has a negative impact on the viability of businesses. The Digital District programme will directly address this issue by attracting more people into the city centre for employment, leisure and to live.

- The Digital District programme also complements developments within Swansea University, for example the Institute of Life Science, Computational Foundry and the Centre for Innovation & Entrepreneurship in Law’s new LegalTech initiative, by providing grow-on space for any businesses looking to expand out of the University, and conference and events space in the Digital Arena.

**Regional:**

- The vision of the Swansea Bay City Region Economic Regeneration Strategy to raise productivity to 90% of the UK average, by facilitating the growth of higher value activities. This Strategy provides the overarching strategic framework for the SBCD Portfolio. Under Strategic Aim 4: Knowledge Economy & Innovation, the Economic Regeneration Strategy highlights the need to support growth sectors and provide pro-actively managed grow on space for high growth firms through business incubation and innovation centres. The Digital Village, Innovation Matrix & Innovation Precinct directly respond to this need.
- The South West Wales Regional Economic Delivery Plan 2022-2030 updates and re-focusses the SBCR Economic Regeneration Strategy and provides an ambitious route map for the development of the regional economy to 2030. The Swansea City and Waterfront Digital District will directly contribute to the Ambitions and Missions set out in the Economic Delivery Plan.
- The Regional Economic Framework 2021 (REF) for South West Wales sets out the Welsh Government approach to economic development for the region and supports a more regionally-focused model of economic development, in accordance with the Welsh Government’s Programme for Government. and a commitment to progress the Economic Resilience and Reconstruction Mission for Wales. The REF outlines the approach that the Welsh Government will take with the key stakeholders in the region to work collectively to develop and realise the ambitions for economic growth. The Swansea City and Waterfront Digital District will contribute directly to a strengthening of the city and regional economy building resilience and accelerating recovery.

**Wales:**

At the Welsh level, the Digital District programme will help deliver on the seven goals of the Wellbeing of Future Generations (Wales) Act 2015, as set out below:

Goals	Digital District Alignment with goal
A prosperous Wales	<ul style="list-style-type: none"> <li>• Generating highly skilled, sustainable and well paid employment opportunities for Swansea bay residents</li> <li>• Growing higher added value technology based activities in the region, to raise productivity levels and drive economic growth.</li> <li>• Supporting the growth of low carbon technology based business sectors</li> </ul>

	<ul style="list-style-type: none"> <li>• Low carbon strategies at heart of the new developments to reduce energy use and promote resource efficiency, with an aspiration for BREEAM Excellent rated buildings.</li> <li>• Local sourcing through application of Swansea Council Beyond Bricks &amp; Mortar policy</li> </ul>
A resilient Wales	<ul style="list-style-type: none"> <li>• Minimising the impact of the developments on ecological systems: extensive environmental and ecological assessments are being undertaken to inform the design and build of the developments.</li> </ul>
A healthier Wales	<ul style="list-style-type: none"> <li>• New green spaces and high quality public realm will contribute to a healthy urban environment that supports health, recreation and wellbeing.</li> <li>• Creating secure and sustainable employment opportunities, including training and employment opportunities for workless individuals through Beyond Bricks &amp; Mortar social benefit clauses in contracts</li> </ul>
A more equal Wales	<ul style="list-style-type: none"> <li>• Reducing regional differences by contributing to an improvement in economic performance and employment opportunities in the Swansea Bay City region, which lags behind Southeast Wales (and also the UK)</li> <li>• Utilising social benefit clauses to create employment and training opportunities for workless individuals</li> </ul>
A Wales of cohesive communities	<ul style="list-style-type: none"> <li>• Supports the growth of a collaborative and cohesive technology based business community in Swansea, that will provide employment opportunities for local people</li> <li>• Revitalisation of a run-down part of the City Centre (Kingsway) to create a new connected living and working environment</li> <li>• Improves the attractiveness and viability of Swansea City Centre, supporting the growth of local businesses and increasing employment opportunities for local people.</li> </ul>
A Wales of vibrant culture and thriving Welsh language	<ul style="list-style-type: none"> <li>• The new digital arena will offer a broad programme of events that will add to the leisure and cultural offer in the city, and encourage wider participation in the arts, particularly digitally focused activities.</li> </ul>
A globally responsible Wales	<ul style="list-style-type: none"> <li>• The programme will be delivered in a globally responsible way through, for example, responsible and (where possible) local sourcing of key materials, and a focus on reduced energy consumption and resource efficiency.</li> </ul>

- The programme also supports the Welsh Government's Prosperity for All strategy, and in particular, the Prosperous and Secure theme by generating new secure and sustainable employment opportunities and creating the right environment in Swansea for technology based businesses to grow and thrive. In line with the actions in Prosperity for All, application of Swansea Council's Beyond Bricks and Mortar approach will promote local sourcing of goods and services to maximise spend in the local economy, and co-location of start-up and growing businesses with UWTSD academic expertise, will stimulate research and innovation, to drive economic growth. Low carbon strategies will be at the heart of the design and build



of the new developments, to cut energy use and contribute to a low carbon economy in Wales.

- In the same way, the programme supports the aspirations and objectives of the Welsh Government's Economic Action Plan, particularly by growing higher added value technology activities to raise productivity and drive regional growth (helping to tackle regional inequalities). Delivering modern and connected infrastructure (new floorspace and conference / events space) will enable businesses to grow and raise the profile of Swansea nationally and internationally as a location for technology businesses.

#### **UK:**

- At the UK level the Digital District programme directly contributes to the Industrial Strategy's focus on raising productivity and creating good new jobs, by encouraging the growth of high value added activities, and creation of highly skilled jobs in Swansea Bay. It contributes to the five foundations of productivity, and the aspirations set out in the Industrial Strategy.
- The programme contributes to Build Back Better: Our plan for growth 2021 and to the 3 pillars of growth of Infrastructure, Skills and Innovation. The programme will provide first class facilities to promote business growth (particularly in the tech sectors) and innovation and will support the development of new skills and opportunities within the region.
- The programme will also contribute to the levelling up agenda as set out in the Levelling Up White Paper 2022 and to its 12 missions and 4 objectives of the strategy particularly Objective 1 - Boost productivity, pay, jobs and living standards by growing the private sector, especially in those places where they are lagging and Objective 3 - Restore a sense of community, local pride and belonging, especially in those places where they have been lost and Objective 4 - Empower local leaders and communities, especially in those places lacking local agency
- In addition, the Digital District programme supports the new UK Digital Strategy 2017 which has an ambition to create a world-leading digital economy, overcoming barriers to growth and innovation and creating more of the high-skilled, high-paid jobs of the future. One of the seven strands within the Strategy focuses on "*Making the UK the best place to start and grow a digital business*". This includes an emphasis on supporting and growing new businesses and growing digital clusters across the UK. The Digital District programme directly responds to this, by facilitating the creation and expansion of innovative technology-based businesses in Swansea Bay.

#### **Links with other Funding Initiatives:**

- WG Targeted Regeneration Investment Programme - Swansea City Centre is included as one of the target areas. A Property Enhancement Development Grant Scheme (that will upgrade commercial premises) and a Sustainable Living Grant scheme (that will create new housing units) will help to revitalise vacant commercial units in the city centre (including Kingsway in close proximity to the Digital Village) and help to improve the attractiveness and vibrancy of the city centre as a location for technology businesses.

- WG Building for the Future Project - Swansea has a prioritised list of vacant buildings which includes Kings Building and Orchard House on the Kingsway. Similarly, bringing these buildings back into use would enhance the physical environment in the city centre and complement the Digital District schemes.
- European Regional Development Fund – investment has been provided through Priority 4.4 for infrastructure improvements on The Kingsway to enable the Digital Village scheme – *this specifically contributes to significant environmental improvements within The Kingsway (which has been completed) demolition of two properties on Oxford Street to facilitate the new pedestrian link between the bus station and the development at 71/72 The Kingsway, a contribution to the additional floor which exceeds the original commercial floorspace outputs at 71/72 The Kingsway, and to facilitate the refurbishment of the adjacent former Barclays building to bring back commercial space within an existing building.*
- The programme also makes a significant direct contribution the Welsh Government Transforming Towns programme which is focused on measures to increase footfall by making sure the public sector locates services in town centre locations. The programme supports major city and town centre regeneration programmes across the region, generating investment, creating jobs, improving the environment and promoting healthy and vibrant town centres.
- The programme will synergise and provided added value to the projects and initiatives being developed and delivered through the Levelling Up and Shared Prosperity Fund initiatives.

## 2.4 Swansea Bay City Deal

The Swansea Bay City Region spans across four local authority areas with a combined population of approximately 698,000 people. The City Region published an economic regeneration strategy in 2013 with a common vision to enhance the long-term prospects of the region's economy, businesses and communities. The strategy co-ordinates collective action and identifies routes and initiatives to respond to the structural challenges that are holding back the SBCR economy. This strategy has now been updated with information from the South West Wales Regional Economic Delivery Plan that sets out the ambitions to develop a resilient, broad based and sustainable economy to 2030.

The creation of the SBCR in July 2013 was based on evidence that shows City Regions of more than 500,000 people are in a better combined position than individual local authority areas to stimulate economic growth through attracting investment and generating high-value job opportunities. The population has grown by just over 1.1% (7,651) over the last five years and is expected to grow by a further 1.1% (7,850) over the next five years from 2020.

The Swansea Bay City Deal (SBCD) is part of the SBCR strategy and portfolio. It is a partnership of eight regional organisations made up of local authorities, universities and health boards that aims to accelerate economic and social advancement through regional infrastructure and investment funds. The SBCD partners are:

- Carmarthenshire County Council
- City and County of Swansea Council
- Neath Port Talbot Council
- Pembrokeshire County Council
- Swansea University
- University of Wales Trinity Saint David
- Hywel Dda University Health Board
- Swansea Bay University Health Board

The main outcomes of the SBCD are to create jobs, generate investment and contribute to raising regional GVA.

The Swansea City and Waterfront Digital District is one of the nine headline programmes of the SBCD under the theme of Economic Acceleration.

Lead Organisation	Programme / Project	Strategic theme
Carmarthenshire County Council	Yr Egin	Economic Acceleration
	Skills & Talent	Economic Acceleration
	Digital Infrastructure	Economic Acceleration
	Pentre Awel (LS &WB Village)	Life Science & Well-being
City and County of Swansea Council	Swansea Waterfront	Economic Acceleration
	SBCD Campuses Project	Life Science & Well-being
Neath Port Talbot Council	Homes as Power Stations	Energy
	Supporting Innovation and Low Carbon Growth	Smart Manufacturing
Pembrokeshire County Council	Pembroke Dock Marine	Energy

The Swansea City and Waterfront Digital District proposal supports the City Deal aim of raising productivity levels by facilitating the growth of higher value activities. Establishing Swansea as a vibrant regional capital is one of the aims of the Internet Coast City Deal proposal. Developing a TechHub led commercial district to encourage graduate retention and provide space for new companies to grow and expand is one of the projects listed under the Internet of Economic Acceleration theme in the Internet Coast proposal document.

The UWTSD SA1 Swansea Waterfront programme is referenced in the Swansea Bay City Deal as a key programme of the Internet of Economic Acceleration – *transforming the Swansea docklands into the flagship knowledge led SA1 waterfront development.*

Using the transformational powers of next generation digital technologies delivered through the SBCD Digital Infrastructure regional programme and supported by a programme of tailored skills development through the SBCD Skills & Talent regional initiative, the City Deal will accelerate the region’s innovation, technological and commercialisation capabilities to support the establishment and growth of local innovation businesses and inward investors. These strands of innovation, skills and digital infrastructure create synergies across the four themes of the SBCD.

Together, the eleven SBCD projects will establish the region as a lead innovator in developing and commercialising solutions to some of the most pressing challenges in the fields of life science and well-being, energy, and smart manufacturing through digital innovations and a programme of skills which is tailored to business needs.

Each thematic project has been developed to integrate with existing cluster strengths and infrastructure, supporting development of next generation services and products.

The vision of the Swansea Bay City Deal is to create a region that is innovative, outward-looking and capable of positive change. In achieving this, the region will become a hub for creating a skilled and talented workforce that is capable of generating and benefitting from the proposed growth the City Deal will bring.

### *Link with the Regional Digital Infrastructure Programme*

A strong Digital economy is at the heart of the SBCD plan. The Regional Digital Infrastructure programme within SBCD aims to achieve this. This includes working with key projects, of which Swansea City and Waterfront Digital District is one of the most important components.

The SBCD Digital Infrastructure programme has the objective of providing the SBCD region with excellent digital connectivity, support for innovation, adoption and public services to drive regional economic growth, digital social inclusion and inward investment. The region will develop a thriving digital economy which meets the needs of businesses and consumers.

The Digital District programme has worked closely with the Digital Infrastructure programme on a common plan. This has included the installation of duct capable of supporting full fibre in areas of redevelopment, the provision of fibre access points for future third party access, digital services strategy and planning. There has also been work on reducing the barriers to 3<sup>rd</sup> party operators, including reviewing StreetWorks. The Digital programme working with the City authorities has taken steps to encourage 5G deployment in the City at an early stage.

### *Link with the Regional Skills and Talent Programme*

The Digital District programme is closely engaged with the Skills & Talent programme which is leading on the development of skills across all the other 8 projects that make up the SBCD. The Skills and Talent programme has already identified a number of key skills required within the Swansea area to meet the demands of the Digital District programme which include more basic coding skills training within schools to cyber security and higher level programming and digital technology training. A Skills Barometer has been completed and a Skills Solution Group established to map and identify existing and future skill needs.

## ***Part B: the case for change***

### **2.5 Investment objectives**

The investment objectives for this programme are as follows:

- Investment Objective 1: To create incubation and co-working areas for start-ups and micro businesses, with high levels of curation and access to University expertise to maximise survival rates.
  - Outcomes for objective 1 include: To create 459 net FTE jobs and drive start-up, micro and SME growth in the region through accommodation and support addressing industry needs
- Investment Objective 2: To create 115,000 sq ft of flexible and affordable accommodation in the city centre to support the growth of technology-based businesses (and other higher added value activities) by 2023
  - Outcomes for objective 2 include: To create 500 net FTE jobs and act as a catalyst for new private sector led development and refurbishment of further properties on the Kingsway to create a new Central Business District in Swansea City Centre.
- Investment Objective 3: To create the vibrant environment, leisure and lifestyle offer (including events space) in the city centre by 2022 that attracts and retains technology-based businesses and skilled workers for the benefit of the wider region.
  - Outcomes for objective 3 include: To create 450 net FTE jobs and provide a 3,500 capacity high tech facility that will 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

### **2.6 Existing arrangements**

Economic development within the region is headed up by the regional economic development/regeneration directors of the four local authorities, who in turn engage with many local, regional and national stakeholders and sponsors to identify, prioritise and deliver regional economic development initiatives. This co-ordinated, evidence-based and consultative approach led to the creation of the Swansea Bay City Region Economic Regeneration Strategy 2013-2030. This Strategy was revisited in 2021 with the South West Wales Regional Economic Delivery Plan providing an analysis of recent economic performance across the region and a strategic approach to unlock the region's potential and ensure that economic growth is resilient, sustainable and inclusive.

The analysis of the regional economy found that in the years leading up to the Covid-19 pandemic, the economy performed strongly in generating new jobs and by 2019 there were 322,000 jobs in the region, an increase of 20,000 from 2013. However, there is still 'spare capacity' in the labour market. Although the 'jobs density' (the number of jobs per working age resident) has grown steadily, it is still lower than the UK and Wales averages.

There have been steady improvements in the economic activity rate over the past 15 years at a faster pace than in the rest of the UK. However, South West Wales' economic activity rate still falls behind the UK average (and slightly behind the Wales average). The analysis also highlighted that there still remained a large and persistent productivity gap with the UK overall and structural weaknesses in the economy.

The newly established South West Wales Corporate Joint Committee will exercise the following functions as specified in the regulations:

- strategic development planning
- regional transport planning
- economic wellbeing powers

The CJC will therefore have a central role going forward for economic development / regeneration programmes and initiatives including oversight and delivery of the SWW Economic Delivery Plan.

Within this context, University of Wales Trinity Saint David (UWTSD) has a track record of producing graduate start-ups, with the highest level of recorded graduate start-ups in Wales with 95 new graduate start-ups in the 2014-15 financial year, 234 such companies surviving 3 years or more and in total currently 420 active firms. In response to demand, the University has opened up the top floor of its Business School as a small scale pilot for the Innovation Matrix. This is building up the curation approach in anticipation of the Innovation Matrix coming on stream.

UWTSD is developing a new campus on 23 acres at SA1 Swansea Waterfront, that will lead to an estimated total investment of c£388m. The University has commenced construction of Phase 1, a new Campus centred on its Faculty of Architecture, Computing and Engineering and has planned spend of £88M and has already committed investment of £63M. UWTSD owns the two Technium buildings in SA1, both of which are fully occupied.

The South Wales Report 2016 by Jones Lang LaSalle highlighted that there is only 10,000 sq. ft. of good quality office space currently available within the vicinity of Swansea City Centre (at Langdon House in SA1 Swansea Waterfront). There is currently no private sector led office floor space being developed in Swansea City Centre. Coastal Housing Group (a Not-For-Profit Organisation) has created some new office space as part of its Urban Village Development, although this was not progressed on a commercial basis, and the floor space is now fully let.

The Swansea Central Area Regeneration Framework (SCARF) has identified the requirement for a new business district in the city centre, and a team of multidisciplinary consultants, led by Parsons Brinkerhoff, has identified the Kingsway as having the greatest potential to deliver this. The Council, with the support of the Welsh Government, has acquired and demolished the former Oceana nightclub on the Kingsway, and has also assembled the remainder of the site for an employment led development. In addition, the Council has received approval for an ERDF bid to secure funding to provide the enabling infrastructure for this.

Swansea has established a base leisure offer, in its Wind Street area (which has just had a £3m investment), which was led by the Council and Welsh Government. This is very popular as a destination for the younger, student demographic, however the leisure offer also needs to cater for the older and more affluent sectors of the catchment.

The SCARF baseline review highlights that there is additional scope for further leisure development, across all sub sectors of leisure, given the size of the catchment and role of Swansea as a regional centre. The Council has appointed Urban Splash to manage the regeneration of the St Davids former shopping centre site to create a regionally significant office hub, restaurant and retail/commercial units.

## **2.7 Business needs**

The Swansea Bay City Region suffers from a number of overarching economic issues, as outlined in the region's Economic Regeneration Strategy: including low productivity, low average wage levels, small business base (which isn't growing quickly enough), skills deficits and high levels of economic inactivity. While both Swansea University and University of Wales Trinity Saint David are expanding and increasing the potential pool of graduate labour available within the region, there are issues with graduate retention, linked to the lack of well paid, graduate employment opportunities in the region. It is imperative that the region improves its economic performance and creates higher skilled, higher paid employment opportunities for its people.

Within Swansea, significant investments undertaken and planned by both universities are increasing the city's capacity for knowledge and innovation-based research, the graduate pipeline, collaboration with business, and the creation of spin-out businesses. In addition, there is also a burgeoning technology sector in the city, with many new enterprises emerging to commercialise research and expertise in areas such as digital media, Life Sciences and ICT. There is significant potential to develop this growing technology sector to support high value economic activity. This is evidenced by the growing cluster of activity across the city, which is only restrained by the availability of an appropriate environment to realise its potential.

However, as outlined in the Swansea Central Area Regeneration Framework, Swansea City Centre has poor quality, dated office accommodation which doesn't meet the needs of modern-day occupiers. Swansea is not an established location for the office sector, and therefore has no scale of stock, and particularly no office stock of quality. In addition, the city centre offer is perceived as tired, dated and in decline with an average offer. As such, the City Centre doesn't currently have the modern, flexible and affordable commercial floorspace, city living or leisure and lifestyle offer needed to capitalise on potential opportunities and is losing businesses (and graduates) as companies move elsewhere.

### **Lack of Commercial Space for Start-Ups and Growing Businesses**

The lack of quality floorspace is recognised in the Jones Lang LaSalle South Wales Report 2018, which outlines that the challenge for both Swansea and Newport is to develop new high quality office space within their city centres. Chris Sutton, lead director at JLL's Cardiff office has commented: *"Whether it's warehouses or offices, Grade A space attracts Grade A occupiers - bringing high quality jobs and investment. And it doesn't have to be a major PLC - increasingly niche, small start-ups in everything from tech and digital to life sciences and engineering are looking for first class space to deliver quality of life and attract the right staff."* The South Wales Report goes on to identify that the lack of grade A floorspace in both Swansea and Newport city centres is a



weakness that must be addressed in order to attract both footloose enquiries and retain existing occupiers.

As indicated in the letter of support in Appendix A, Swansea has an active requirement for new office space in the city centre, and there is currently no suitable space available to meet this need. There are some very successful technology businesses in the city with growth plans that will see them outgrow their existing premises in the next couple of years, with no alternative provision available in the city centre. As part of the Review Report on the Outline Design and Delivery of the Digital Village (October 2018, led by 00 consultancy), the professional team have spoken to tech businesses in Swansea such as Veeqo, Wolfestone and PISYS who are looking to expand in the city. As a result, the consultants are recommending that the 115,000 sq ft of floorspace in the Digital Village should be constructed in one phase/ one building as they consider there to be sufficient demand to justify this. A copy of the Review Report has been included in Appendix H as background information to accompany the business case.

In addition, discussions with Swansea University have ascertained that further growth of the University is now constrained by a lack of floor space, and there is a need for grow on space for companies based within the Institute of Life Science and R&D activities of multinationals linked to the Computational Foundry. In addition, the Digital Village will act as a flagship to promote the technology sector in Swansea, raising the profile of Swansea as a location for technology-based businesses and helping to attract new businesses to Swansea.

All incubation centres (Techniums, Institute of Life Science) are fully occupied, and there are examples of companies (such as OSTC and Luminar LED Lighting) that have expanded within the Technium facilities in SA1 as no suitable alternative floorspace is available for them in their desired City Centre location. This is constraining the growth of these businesses and limiting the ability of the Techniums to accommodate new start-up businesses (which was their intended role). Consequently, there is also a current lack of incubation space for start-up businesses and graduates in Swansea.

However, good quality floorspace and shared facilities will not ensure the survival and growth of graduate start-ups and microbusinesses alone. To enable these small/ start-up businesses to become sustainable will require extensive support and curation services, including provision of external expertise, training resources, mentoring and access to finance. Locating incubation space within the UWTSO SA1 Swansea Waterfront new development would enable the University to put in place a dedicated resource team and provide access to its wider research expertise to support the businesses and foster innovation partnerships.

Covid 19 is impacting thinking on office requirements however the office developments in this business case offer a range of additional facilities and high quality accommodation not currently available in Swansea. The impact of Covid-19 has witnessed a shift towards home working, however, there remains a need for teams to come together for collaboration and knowledge transfer purposes, and for community building and social interaction.

Project designers have responded to this new challenge. For example, the 71/72 The Kingsway project design will assist with managing the impact of Covid-19 through its wide-open design with high ceilings and openable windows which will enable fresh air exchange. It also has two circulation cores between levels, flexible floorplan allowing

for one-way routes if required and anti-bacterial touch-free lift controls and anti-microbial ironmongery is prescribed. The project will also create a new outdoor public space.

We are in regular contact with market experts and occupiers to continually assess the changing economic context and demand levels. Feedback from market agents and prospective occupiers indicate growing demand for modern, flexible, collaboration focused office space in Swansea. This demand appears not to be heavily impacted by the Covid-19 situation, evidenced by recent market commentary and the ongoing significant interest in the Digital Village (71/72 The Kingsway).

Whilst there is some vacant office space, much of this is dated, of poor quality and mainly small scale, which does not meet occupier requirements, therefore leading to low take up levels. A report completed by Cushman & Wakefield stated, “there is currently no Grade A offices available in the City centre”, and “due to the lack of availability in the City centre and SA1, current activity in Swansea is more focussed on the out-of-town market as opposed to the City centre which is unlike the majority of UK markets where the city centre dominates”.

This shortage of large high-quality spaces is further highlighted by previous speculative enquiries received by the Council, such as one for circa 25,000 sq ft of grade A office space, however there is nothing in the city centre of this size or quality. The empty office space in Swansea is therefore often a result of the existing offices not meeting changing occupier requirements, rather than a lack of demand.

Prior to the pandemic there was a gap in the supply of commercial floor space in the city centre. The Local Development Plan Growth Assessment (under the City Deal Growth Scenario) indicates a need for approximately 516,668 sq ft/48,000sqm of office floor space. Additionally, as we emerge from the pandemic, many office workplaces will require additional flexible office space to facilitate social distancing.

The new developments such as 71-72 Kingsway will deliver a wide range of meeting and collaboration facilities and flexible workspace. The new offices will provide environments that promote well-being through maximising natural light, ventilation and air quality and safeguard occupiers using ‘no-touch’ technology, selection of anti-viral materials and well-designed circulation routes and large floors plates to enable effective social distancing. Flexibility and adaptability are core design principles of the proposed office developments; thus, the buildings can respond to changing market demands and ways of working.

Attracting people to live and work in the city centre is crucial to Swansea’s economic recovery post Covid-19 and its long-term sustainability as a vibrant and diverse destination. The delivery of office space that meets occupiers’ requirements is foundational in attracting businesses to Swansea and retaining existing business and talent.

The commercial strategy for 71/72 The Kingsway has been developed in consultation with local stakeholders and Swansea’s Universities to meet their needs for new floor space and conference & events space. It will also act as a catalyst for new private sector led development and refurbishment of further properties in the city centre to create a new business offer in Swansea City Centre.

The building will incorporate a proportion of flexible workspace (coworking & serviced offices) to attract small and growing companies (c. 23% NIA), which will sit alongside

more traditional leased space on the upper floors (51%). This combination of highly flexible and managed space in the lower floors, alongside larger space on a traditional leased basis will help transform the occupier profile away from support centres toward the tech focussed, high growth businesses Swansea is hoping to attract.

Discussions are taking place with a potential operator for the flex space and Heads of Terms are due to be agreed (Oct 2022).

JLL and Avison Young have been appointed to act as joint marketing agents and a marketing brochure has been agreed.

Further work is being carried out on the management of the building to establish likely service charge costs.

### **Evidence of demand and key sectors targeted for Innovation Matrix / Innovation Precinct**

The Innovation Matrix and Innovation Precinct will together deliver 8,589 sq m Gross Internal Area (GIA) of new incubation business space to address the shortage of suitable accommodation available to micro businesses and SMEs in the region and respond to the significant demand from this sector which at present is not being captured. The original ideas for both facilities were developed from the University's current activities working with both small to medium sized R&D companies and developing and mentoring its own graduates to startup businesses.

Regarding the Innovation Matrix, the objective is to create an interactive, co-located environment where micro businesses and start-ups can flourish in a supportive incubation environment, with high-levels of curation, common infrastructure and support services all new businesses will need to access. Innovation Matrix will offer a number of bespoke facilities including a co-working community hub, i-Lab innovation workspaces, graduate start-up studios, a Makerspace (flexible workshops), together with meeting and project rooms, a café/kitchen and a small coffee/retail outlet.

The intended type of occupiers for the Innovation Matrix are start-up or micro companies who by definition would be in the very early stages of their development. Therefore, many of the eventual occupiers may not be in existence at the present time or would be highly unlikely to appear on any estate agent demand list due to their individual space requirement which would be insignificant.

However, the University is extremely confident of the level of demand that Innovation Matrix would attract because it is already working with and mentoring a high number of start-ups. The University has the highest level of recorded graduate start-ups in Wales - on average c.95 new graduate start-ups each year with 234 such companies surviving 3 years or more and in total currently 420 active firms. The University is ranked third in the UK amongst HE Institutions for the creation of graduate start-up businesses. It has a dedicated department for developing entrepreneurialism - the International Institute for Creative Entrepreneurial Development and offers entrepreneurship as a module to all students. It operates a number of collaborations with businesses, one example being the MSc in Trading and Financial Markets degree it runs in conjunction with OSTC, the leading Proprietary Trading company based in the Technium 2 building in SA1.

Therefore, as many of the companies expected to locate in Innovation Matrix will be graduate start-ups from within the University's own student intake benefitting from the

proximity and access to both University and private sector partners' support it is confident there is more than sufficient demand to justify the levels of floor-space proposed in the Innovation Matrix.

With regard to demand for the Innovation Matrix, the University is the owner of the two Technium buildings in SA1, Swansea. These buildings are both fully occupied by a range of technology companies with a significant waiting list of companies seeking expansion space or investing new into the Swansea Bay region. The University is already working in research partnerships with several of its existing Technium tenants.

The University has demand from 7 existing occupiers of its Technium buildings in SA1 totaling c.4,500 sq m. In the strictest of confidence these companies are Lumishore, Quicklink, Sureview, Yamago, S8080, New Directions and Zeal. All of these requirements come from the growth of existing businesses who wish to remain in the region and for whom no suitable alternative floor-space exists. The University's commercial services team also have 22 active discussions with commercial partners discussing a range of potential development opportunities.

In addition, the University is considering co-locating its Centre for Advanced Batch Manufacturing (CBM), currently located in the Ethos building in SA1, with the Innovation Precinct. CBM is an industry focused advanced research, new product development, and batch manufacturing facility delivered via an experienced development team, utilising state-of-the-art technology platform's which includes 3D printing, scanning and low volume manufacturing. CBM has grown considerably and has now exceeded the capability of its existing facilities. This would provide a key, advanced technology-based sector leader supporting the targeted sectors of the programme and seeking to address the innovation, productivity and skills deficit, identified by Welsh and UK Governments as inhibitors to sustainability and growth. The Centre would provide critical development support and opportunities both to the occupiers of Innovation Matrix /Innovation Precinct/Digital Village and to the region as a whole. The Centre would also attract major potential investors, contributing significantly to creating a holistic infrastructure to underpin long-term economic sustainability in the region, and beyond.

The SMEs that will be accommodated in both Innovation Matrix and Innovation Precinct will be selected to fully align with the strategic vision of both the University and the Digital District as a whole, with technology and digital industry sectors being brought into the development as a priority together with the engineering, advance manufacturing, professional services and creative sectors.

### **Lack of Private Sector Led Commercial Development in the City Centre**

Despite there being unmet local demand, there is currently no private sector led office floor space being developed in Swansea City Centre. Private sector commercial property developers will not currently commit to developing projects in Swansea due to the high-risk level, low rents and poor environment, and consequently new floor space will not be created without significant public sector intervention. Swansea Council advertised two city centre sites as redevelopment opportunities, but no private sector developers were willing to invest financially in either scheme. This has been compounded by Covid-19 with private sector unlikely to invest, without significant grant support, until rents grow, and the economy recovers from Covid-19.

Public sector intervention for the provision of commercial accommodation for high growth potential SMEs is therefore required now more than ever to support the recovery

of the economy and support existing businesses after Covid-19 due to a lack of development viability and a poor environment in Swansea City Centre, on the basis of both economic market failure and financial market failure.

Economic market failure is evidenced by the loss of SME's to London or nearby cities such as Cardiff or Bristol, alongside statistics such as the fact that 76% of businesses in the City Region failed to recruit in the last quarter due to a lack of skilled workforce (Harry Lloyd-Davis, South Wales Chamber of Commerce).

Financial market failure i.e. access to finance, is demonstrated by the inability for the private sector to invest currently due to the lack of development viability and subsequently the inability to fund development. Office rental levels need to be in excess of £20 per sq ft. at a minimum to ensure that development is viable. If development does not breach a sufficient viability threshold, say 15%-20% profit on cost, neither private sector developers, investors or funders will commence development without either gap funding from an alternative source at acceptable interest rates, for example the public sector, or a significant de-risking of the scheme in question (for example achieving a material pre-let, which is very rarely realised in the SME business market).

Commercial space will not be constructed by the private sector unless the public sector intervenes.

This can be evidenced by both looking at current rental evidence in the city centre and also recent developer propositions to the Council. There is limited quality office stock in Swansea City Centre and prime headline rents have remained unchanged since 2012 at £13.50 per Sq ft., therefore this is clear evidence that viable office development would not be supported.

Cushman & Wakefield has advised that the value of the completed Digital Village office development would only be £10 sq. ft. compared with the development cost for the buildings of circa £25sq. ft. and there would be no incentive for private developers to deliver this space without the availability of significant gap funding. Alongside this, recent commercial development proposals to the Council, such as Hacer Development's plans for the former Woolworths building on Oxford Street for mixed-use development, have been put forward however stating that the delivery of their project requires grant aid from the public sector due to a lack of viability.

The improvement of office accommodation provision, through providing quality, flexible office accommodation is required in order to reverse this market failure. This needs to meet the requirements of modern business needs, with an initial focus on provision for grow on space for small businesses and start-ups. Improving the supply of good quality office stock will have a catalytic effect and improve demand for space in the city centre, subsequently improving values. This will then create an attractive and viable environment for private sector development and investment, which will hopefully enable further quality schemes of scale to come forward and break the 'vicious circle'. Alongside opening up investment opportunities and raising confidence in development opportunities, the improved image of the area can serve to attract businesses and therefore employees who bring with them both skills required by businesses, and also spending power.

The low rental values and associated project viability issues in Swansea are a consequence of a number of factors:

- The establishment of Swansea Enterprise Zone in the 1980s with its capital allowances led to significant investment and the creation of a considerable volume of office floor-space in the lower Swansea Valley (outside the City Centre), much of which is now outdated, that has depressed rental values in the City:
- The local economy is dominated by low value economic activities, as evidenced by the low productivity levels compared to the rest of the UK. As such, any occupier demand has tended to be for lower skilled, lower value employment, which has meant that rental levels which could afford to be paid, and needed to be paid, have been low, and not at a level sufficient to achieve a viable project.
- Swansea's status as a second-tier regional city also impacts on project viability, as the private sector considers investment in Swansea to be riskier than a similar investment in a primary regional city with greater critical mass of services and users.

These factors have created a 'vicious circle' of ongoing lack of viability, which will only be 'broken' by a scheme of sufficient scale that is based on 'skilled employment', and in emerging/growth business areas. This has been compounded by the current economy due to Covid-19.

We believe the Digital District proposal can support economic recovery from Covid-19 and work towards these requirements. It would also act as a catalyst to redefine Swansea as an established/accepted office location in those employment areas seen to be growth sectors for the future. It would create momentum to attract other occupiers to join those established by the Digital Village, and the 'vicious circle' would be broken i.e.:

- Greater demand from similar emerging/growth occupiers;
- Occupiers expand, and become more profitable, and hence over time can afford to pay higher rent;
- Other occupiers are attracted to the location, as they see it as an established business environment, and want to work with/ for those companies investing there;
- Demand increases and rental values rise further;
- This all feeds in to enhanced views of future demand and rental growth prospects, which improves investment yields, which in turn increases value again.

Immediate intervention is needed as there is evidence of unmet demand for commercial floor space amongst technology-based businesses at present, which is constraining business growth and leading to the loss of businesses from Swansea. This issue will become more pronounced as digital connectivity in the region improves, catalysing business growth.

### **Inadequate Leisure Offer and Lack of Events Space**

Additionally, the city centre needs immediate investment to create the wider environment and cutting-edge digital technology and connectivity needed to retain and attract businesses and skilled labour. The retail and leisure offer is currently failing and the city centre is underperforming as a regional centre. Retail developments are now intrinsically linked to leisure, to provide the wider offer that consumers are looking for. Swansea has a base leisure offer in Wind Street. However, the city needs to deliver an overall commercial leisure offer, across all 'sub sectors of leisure', and link this to both an improved retail offer and a significant entertainment offer, to provide both residents and visitors with the quality and extent of such 'holistic' uses which are now considered essential for a successful, vibrant and viable city. These uses all need to be incorporated

within a physical environment of real quality to meet the expectations of businesses and consumers.

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. Recent 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) so they are able 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 Southwest 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.

To widen the leisure/ entertainment offer in Swansea, and meet the demand for conference and events space, Rivington Land identified a requirement for an arena in Swansea. This has an overall cost far greater than its associated capital value, and hence couldn't be developed without public sector support. 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 centre uses. It also creates a need for a hotel, to meet the requirements of business and entertainment tourism linked to the Arena.

## 2.8 Potential business scope and key service requirements

This section describes the potential scope for the programme in relation to the above business needs and any changes since submission of the OBC.

Service Requirements	Business Scope and Key Service Requirements
Core	<ul style="list-style-type: none"> <li>• Creates new floorspace for start-ups and microbusinesses</li> <li>• Creates grow on space for local businesses</li> <li>• Provides events space to meet the needs of local businesses</li> <li>• Supports the growth of higher added value activities</li> <li>• Is located within the City Centre/ SA1 Swansea Waterfront Area to contribute to the regeneration of Swansea City Centre</li> <li>• Actively managed/ curated to provide support to growing businesses</li> </ul>
Desirable	<ul style="list-style-type: none"> <li>• Arena to provide dedicated large-scale events space</li> </ul>

	<ul style="list-style-type: none"><li>• Access to academic expertise for growing businesses</li></ul>
Optional	<ul style="list-style-type: none"><li>• Enhanced retail and leisure offer</li></ul>

## 2.9 Main benefits criteria

This section describes the main outcomes and benefits associated with the implementation of the potential scope in relation to business needs.

Satisfying the potential scope for this investment will deliver the following high-level strategic and operational benefits. By investment objectives these are as follows:

Table 2: investment objectives and benefits (overleaf)



Investment Objectives	Main benefits criteria by stakeholder group
<p>Investment objective 1: To create incubation and co-working areas for start-ups and micro businesses, with high levels of curation and access to University expertise to maximise survival rates.</p>	<p><b>Start-ups/ Microbusinesses</b></p> <p><u>Quantitative</u></p> <ul style="list-style-type: none"> <li>• <i>Increased availability of fit-for-purpose commercial floorspace</i></li> <li>• <i>Increased number of employees</i></li> </ul> <p><u>Qualitative</u></p> <ul style="list-style-type: none"> <li>• <i>More supportive, conducive environment where start-up technology businesses can thrive</i></li> <li>• <i>Enables small businesses to develop efficiencies and specialisms, become more competitive and strengthen their market position</i></li> </ul> <p><b>University</b></p> <p><u>Cash releasing (£s)</u></p> <ul style="list-style-type: none"> <li>• <i>Net income</i></li> </ul> <p><u>Non cash releasing (£s)</u></p> <ul style="list-style-type: none"> <li>• <i>Contribute to increase in local GVA and employment opportunities</i></li> </ul> <p><u>Quantitative</u></p> <ul style="list-style-type: none"> <li>• <i>Training and apprenticeship opportunities created</i></li> <li>• <i>Increase in number of graduate start-ups</i></li> </ul>

Investment objective 2:  
To create 115,000 sq ft of flexible and affordable accommodation in the city centre to support the growth of technology based businesses (and other higher added value activities) by 2023.

### **Technology Based Businesses**

#### Quantitative

- *Increased availability of fit-for-purpose commercial floorspace*
- *Increased number of employees*

#### Qualitative

- *More supportive, conducive environment for technology-based businesses to grow*
- *Co-location of high value businesses and highly skilled people which facilitates innovation, commercialisation of activities and knowledge exchange*

#### **Swansea Council**

##### Cash releasing (£s)

- *Net income*

##### Non cash releasing (£s)

- *Contribute to increase in local GVA and employment opportunities*

#### Quantitative

- *Creation of training and apprenticeship opportunities*

#### Qualitative

- *Raise the profile of Swansea City Centre as a business location*
- *Catalyst for private sector investment*

Investment objective 3: To create the vibrant environment, leisure and lifestyle offer (including events space) in the city centre by 2022 that attracts and retains technology-based businesses and skilled workers for the benefit of the wider region.

### **Technology Based Businesses**

#### Quantitative

- *Availability of events space and conference facilities*

#### Qualitative

- *More attractive environment & leisure offer to attract and retain skilled employees*

### **Swansea Council**

#### Cash releasing (£s)

- *Net Income*

#### Non cash releasing (£s)

- *Contribute to increase in local GVA and employment opportunities*

#### Quantitative

- *Creation of training and apprenticeship opportunities*

#### Qualitative

- *Improvements to leisure offer*
- *Raise the profile of Swansea City Centre as a business location*
- *Catalyst for private sector investment*

### **Other benefits for delivery of the whole arena project for Swansea**

The City Deal with the Arena is a significant public sector intervention to help redress the market failure within key sectors of the Welsh, regional and local economy and will help support the City's recovery after Covid-19. The Arena project is not 'the prize' for Swansea, it starts to drive footfall and increase city centre spend but the fundamental benefit is the catalytic effect on private sector investment into further schemes to deliver the next stages of regeneration.

The UK wide PR for the City Deal and especially the Swansea projects have raised the understanding and profile of the Arena project which has already stimulated UK and international interest in Swansea evidenced by the response to the phase 2 launch through DIT at Mipim and the PIN notice issued to market test the appetite of private sector partners to invest in the next stages of regenerating Swansea. Urban Splash have now been appointed by Swansea Council as a long-term development partner for the next phases of regeneration for Swansea. Urban Splash have confirmed that the only reason they bid for Swansea is because they could see the Arena project being delivered through the City Deal and the ambition of the council.

Alongside two expanding Universities and noting the recent introduction of 660 student beds in the city centre in the last 4 years with a further 1,860 now under construction, the Kingsway public realm project, Wind Street public realm project and Digital Village, Castle Square and Civic Centre redevelopment are

transforming the centre of the city. There are also the 'Copperworks', 'Skyline' and the Dragon Energy Island that are progressing.

This amalgam of regeneration projects, especially when promoted nationally is putting Swansea firmly on the map of places where people and companies want to consider as a place to invest and locate.

Swansea Central Phase 1 in particular will generate an increase in visitors to the city (refer to ATG Business Plan in Section 2.8) who will, however arriving, be met with a city that is transforming itself into a very modern place.

Event days in particular, will see an increase in footfall and so expenditure. The 'evening' economy will be improved, with not just extended hours of business for retail and particularly A3, but family dining and the Hotel with the aim of boosting 'tourism'.

The coastal park which has been developed will add a further 'USP' to the scheme. It will support the Arena – providing additional outdoor event spaces, whilst adding to the overall attractiveness of the scheme and providing vital inner-city green space to support city-living and working. It will provide local residents such as Victoria Quay with such space as does not currently exist.

With Phase 2 potentially including an office Hub and up to 200 further residential units, the park provides the platform for this to be delivered. The park and the green walls to the car park support the Councils commitment to GI and meeting the aims of the Future Generations Act. Making the city centre a nicer place, and once again - changing perceptions.

The scheme is designed to be an 'enabler' for the Phase 2 scheme. The arena will generate significant footfall and demand for further F&B and leisure uses. Phase 1 will demolish Llys Dewi Sant and St David's carpark to create a cleared site for phase 2 to progress as quickly as possible. A MSCP will be built adjacent to the phase 2 site. This is in addition to highways works and service diversions assist in preparing the way for Phase 2.

Entertainment venues such as the Bonus Arena, Hull; the Echo Arena, Liverpool and the First Direct Arena, Leeds along with examples that are further afield, such as Petco Park in San Diego and Staples Centre, Los Angeles 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 neighbourhood's/ districts and reshaping public perception.

Once developed, an arena's overall benefit to the city should be significant, as a key attractor, and 'anchor occupier'. This should generate occupier demand, and consequently rental value and investment yields, for commercial leisure occupiers and other city centre uses, particularly in the role of 'catalyst'. It also creates a need for hotels and restaurants, to meet the requirements of business and entertainment tourism linked to the Arena.

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.

## **2.10 Main risks**

The main business and service risks (design, build and operational over the lifespan of the scheme) associated with the scope for this programme are shown below, together with their counter measures.

As the scheme combines three distinct projects, a full risk tracker has been completed for each individual element to ensure that the specific risks for each are identified. The risks shown below are the main risk that are common to the projects. As elements of the programme have moved into delivery and operational phases, the likelihood and impact of the risks listed has diminished.

**Table 3: main risks and counter measures (overleaf)**

Main Risk	Counter Measures
The commercial floor space and other facilities do not meet the needs of start-ups and tech-based businesses	Swansea Council and the University have extensive experience in stakeholder management in terms of requirements and have consulted with members of the targeted industries to establish needs. The programme will continue to liaise with members of the industry to ensure that the evolving programme delivers on key requirements at every stage, and will continuously monitor and proactively engage with the industry to ensure that needs are appropriately met in the operational phase on an ongoing basis
Funding not secured – without public sector funding the proposals would not be implemented	The programme funding scheme has been intentionally developed to provide a robust and secure funding mechanism for both the University and Swansea Council. The programme will work closely with the Swansea Bay City Deal to secure required grant funding and adequate time and resource has been allocated to develop a successful bid.
Insufficient internal capacity to programme manage and deliver the developments	Both Swansea Council and the University have put in place an identified team to deliver the programme. This team has extensive experience in terms of project management and has adequate capacity to deliver the programme. The needs of the programme will be continuously and proactively appraised and, if necessary, additional resource and skills will be obtained.
Unexpected rise in construction costs	The arena and 71/72 projects have both procured contractors and fixed price construction projects have been secured. The programme is working extensively with third party experts to constantly refine project costs and to ensure that the possibility of sudden rises in construction costs is minimised and that build quality and finishes will be as specified. The programme has adequate and reasonable contingency built into the funding scheme to mitigate unexpected rises on the Arena and 71/72 Kingsway the council worked extensively during procurement to develop a shared-risk basis with the principal contractor.
Delays in construction and delivery programme	Funding secured through City Deal and delivery using recognised project management tools will enable the developments to be delivered on time and help realise the current (and future additional) private sector interest in securing occupancy in the Digital District. The programme will also proactively monitor construction progress and will work extensively with the principal contractor to minimise any disruption to the programme.

<p>Unable to secure tenants to occupy the buildings</p>	<p>Both Swansea Council and the University has extensive experience in working with partners to deliver the widest possible benefits to the scheme. The programme is proactively engaging with potential occupiers to secure tenants and ensure maximal occupancy. This is coupled with market research indicating that there is sufficient demand for the projects, as well as extensive early interest indications from several organisations. The programme will develop a 'curation' team closer to the operational phase to ensure that occupation rates are maximised</p>
<p>Project is property driven and the wider economic needs to support business creation and growth are not achieved</p>	<p>The programmes key focus is on the delivery of the wider goals of business creation, economic growth and support. In line with this focus, the schemes are being developed in consultation with a wide range of public and private sector partners to understand demand in the market. The schemes are also designed to meet the current and future needs of an innovative business community and both Swansea Council and the University will continue to work to ensure stakeholder focus on the wider benefits of the programme.</p>
<p>Unforeseen economic / external factors</p>	<p>Both the University and Swansea Council have a robust and proactive risk management process that will anticipate any sudden or unforeseen changes in external and economic factors. Risks will be continuously identified and monitored, and appropriate mitigation put in place to minimise any disruption to the programme through existing established governance arrangements.</p>
<p>Low initial demand and/or lower than expected growth</p>	<p>The programme is working extensively with potential tenants and occupiers to ensure that initial demand is sufficient. In addition, the curation team will be focused primarily on supporting growth within the schemes and successfully managing the success of the operational phase. Both the University and Swansea Council will also allocate sufficient resource to ensure that any period of lower-than-expected demand is successfully bridged.</p>
<p>Covid-19</p>	<p>Covid-19 has caused significant economic uncertainty however we have worked on mitigation measures to ensure the programme is still fit for purpose in a post Covid-19 world and that the projects programme impact is minimised. There is a risk of impact on outputs but again mitigation is being considered wherever possible.</p>

<p>Failure to collaborate effectively with partners</p>	<p>The programme has worked extensively and proactively with partners to develop the schemes and will continue to collaborate in an open and practical way to ensure the programme's success. Further key stakeholder engagement will be undertaken to ensure a successful relationship with partners and adequate time and resource will be provided to ensure effective collaboration where required.</p>
<p>Wider regeneration scheme does not progress leading to loss of supportive infrastructure</p>	<p>The programme is proactively monitoring the progress of wider regeneration schemes within Swansea and the surrounding area to ensure their success. The supporting infrastructure for the Digital Village is being put in place through the ERDF Kingsway Digital Village: project which is fully funded and now complete . The supporting infrastructure for the Digital Square &amp; Arena (pedestrian bridge and car park) is being funded by the Council and will be delivered in parallel to the Digital Arena through a single construction contract for the whole Swansea Central Phase 1 development (which includes the Digital Square &amp; Arena).</p> <p>The programme partners will monitor these schemes and will work to develop mitigation in the case of failure, as has happened in the case of the main contractor on the Kingsway Employment Hub (Dawnus) who entered administration in March 2019. A new contractor has been appointed and works are now complete</p>
<p>Poor transport infrastructure (external) leads to loss of attractiveness for schemes</p>	<p>Both Swansea Council and the University will continue to work extensively with the relevant agencies to ensure that transport infrastructure is adequate for the programme's success. Where possible, the schemes will also investigate ways that they can assist in better transport management within their individual bounds to help mitigate against this risk.</p>
<p>Failure to obtain relevant approvals</p>	<p>All approval processes for the programme will be identified and approvals will be applied for with sufficient time to prevent project timeline impacts. Both Swansea Council and the University's existing dedicated team and organisation structure will further mitigate this risk. In addition, expert advice will be sought to ensure that all required approvals are captured.</p> <p>All approvals for the Arena, Digital Village are in place and the Innovation Precinct has now secured a planning consent.</p>



Failure of target markets to grow	All of the identified industries in the schemes are expected to grow substantially and the programme itself has been specifically designed to assist in this growth. Swansea Council and the University will work extensively with partners and tenants to ensure that this growth is managed correctly and will develop a curation team to assist in this area.
Issue: Hotel - Viability needs public sector support	The impact of Covid has driven down hotel values and sources of grant and loan are currently being explored.

## 2.11 Constraints

The programme is subject to following constraints:

- **Construction Timeline** - Construction of the Digital Arena needs to be completed by March 2022 to meet the conditions of the Legal Agreement signed with the Arena Operator (ATG), Achieved.
- **Level of available funding** – The programme will be limited by the amount of funding available. As a result, capital costs should be within funding limits to ensure the success of the programme. Achieved
- **Any conditions attached to the planning consents** – The programme will be constrained by any conditional planning consents received and must carefully work within these limits. Achieved
- **National growth in target industries** – The key outcomes of the programme are constrained by the national capacity for growth of the target industries for Digital District.
- **Local tenancy demand from targeted industries** – Whereas the programme will be engaging and delivering start-ups for tenancy within the scheme, the programme will be constrained by the local demand and appetite of the target industries for tenancy
- **The availability and timing of public funding** – In terms of scale and timing of delivery, the programme will be constrained by public funding requirements and timescales. Adequate care should be given to ensuring that public funding is delivered when required to the programme. Achieved.

## 2.12 Dependencies

The programme is subject to following dependencies that will be carefully monitored and managed throughout the lifespan of the scheme:

- Skills development, to support the new employment opportunities created, through the City Deal skills & talent initiative.
- Securing planning consent for the developments. In place for Arena, 71/72 Kingsway and Innovation Precinct.

- ATG lease requires the delivery of the new footbridge and car park (not part of City Deal project but included in wider project and construction contract). Achieved
- Ample / appropriate transport solutions to service the developments. Discussions ongoing with operators.
- University continues to generate a pipeline of graduate start ups
- Securing tenants for Digital Village and Digital Square.
- The University and the Council have the capacity and capabilities to curate/ manage the Innovation Matrix & Innovation Precinct and Digital Village.
- Future private sector investment in the City Centre is dependent on the catalytic effect of the Digital District programme. Update Sept 2021: Urban Splash appointed by the Council and other private sector developers on site catalysed by City Deal.
- Delivery of external digital infrastructure, to meet the requirements of occupiers, and to network the three developments with Swansea University and University of Wales Trinity Saint David, through the City Deal Digital Infrastructure programme. It is imperative that the right full fibre network is created to ensure it can deliver the required speeds to support the Digital District programme, plus future proofing the city. The broadband speed is fundamental for creating the right resolution and refresh rates for the proposed LED façade on the Digital Arena, and ongoing broadcast including streaming across the city centre to the region and beyond.

### **3. The Economic Case**

#### **3.1 Introduction**

The purpose of this updated economic case is to demonstrate that the recommended procurement options continue to offer better public value. The OBC identified and appraised a range of realistic and potential options and identified a preferred way forward. An economic appraisal was then undertaken of a reduced number of possible options and a preferred option chosen and subsequently approved. In accordance with Better Business Case guidance, the Economic Case consists of two main actions:

#### Part 1. Revisit the OBC options

The purpose of this action is to evidence that the preferred option remains the same as that identified at the OBC stage. Changes to the preferred option since OBC approval are documented and assessed against the other shortlist options in terms of value for money, benefits and risk. The ranking and choice of the preferred option will be confirmed.

#### Part 2. Detail the procurement process and evaluation of the Best and Final Offer (BAFO)

The purpose of this action is to evidence that the recommended service provider offers the 'most economically advantageous offer' in relation to other service providers, and that the option is offering best public value. The procurement processes undertaken to date are detailed and the chosen service provider identified.

The following procurement processes are detailed in this Section:

- Digital Square and Arena
- Digital Arena operator
- Hotel Development
- Digital Village (71-72 Kingsway)
- Innovation Matrix

The main changes in this updated Economic Case are listed below:

- Details of changes to the project elements provided since the approval of the OBC
- Updated employment impact information for Digital Village project
- Option rankings for economic, benefits and risk appraisals revisited and OBC option confirmed
- Procurement processes detailed for Digital Square and Arena (including construction contract, operator and hotel development; Digital Village construction contract)
- Confirmation of best value for public money in the selection and appointment of the service providers

### **3.2 Critical success factors**

The critical success factors (CSFs) shown within the approved OBC were as follows:

**Strategic Fit:** Strategic fit with Swansea Bay City Region Economic Regeneration Strategy and Swansea Central Area Strategic Framework

**Business Needs:** Satisfies all the Investment Objectives

**Benefits Optimisation:** Optimises job creation and GVA growth

**Potential Achievability:** Meets the requirements of tech businesses and other stakeholders in Swansea and is sustainable. CCS and UWTSD must have the management capacity, skills and vision to deliver the programme, or aware of the need to recruit assistance where necessary

**Supply Side Capability and Capacity:** Sufficient established and reputable construction firms bid for work to ensure both competition and value for money in new building delivery

**Potential Affordability:** The required capital investment can be met by combining CCS/ UWTSD own funds with other public and/ or private sector funding

**Deliverability:** Programme can be delivered within 5 years

## **Part 1 – Revisiting the OBC Options**

### **3.3 The long-listed options**

Within the OBC the preferred way forward was selected through the identification of a long-list of options for the potential scope of the scheme as follows:

Option 1 - Do Nothing	Option 2 - Do Minimum	Option 3	Option 4	Option 5	Option 6 - Maximum
No interventions in the City Centre	CCS provides enabling infrastructure, and one pilot building, and relies on private sector for remaining development	New office space on Kingsway	Option 3 linked with UWTSD incubation space	Option 4 plus Digital Square & Arena	Option 5 & Swansea Central Phase 2 retail/leisure development

A SWOT analysis on how well each option met the primary objectives and the critical success factors for the scheme was undertaken which concluded,

- Option 1 (Do nothing) – this is not a realistic option as new floor-space is needed to support the growth of tech businesses, the city centre is underperforming as an employment, retail and leisure destination and intervention is needed to arrest the decline. Option discounted.
- Option 2 (Do Minimum) – this is a low-cost option as the project sponsors would only be required to provide the enabling infrastructure for the private sector to carry out development. This is unachievable as private sector development is unviable in Swansea at this point in time, due to economic market failure and financial market failure as outlined in the strategic case. Current rental values (around £6-14 sq. ft.) are considered by the private sector to be insufficient to achieve acceptable returns on development. However, this option was included in the shortlist as a baseline for the minimum level of intervention.
- Option 3 (New office space) – New office space on the Kingsway alone would broadly meet the needs of tech businesses for grow on space in the city centre. This could also provide space for some start-up businesses although this would not necessarily be tailored specifically to their needs. There would be limited scope for any events space within the development, and no enhancement to the leisure offer created. This does not sufficiently meet all investment objectives and is therefore discounted.
- Option 4 (office & incubation space) – New office plus incubation space would support the growth of tech businesses in Swansea from start-up onwards and bring in the expertise of UWTSD to support start-ups. There is the potential for some small-scale event space within Kingsway development, but no significant revitalisation of leisure & lifestyle offer in city centre. This offers a partial solution and taken forward to the shortlist.

- Option 5 (office, incubation and digital square & arena) – This is the preferred option, offering the incubation and grow on space needed, along with large scale events space that tech businesses have requested. A new Arena and Digital Square would enhance the leisure/ lifestyle offer in Swansea. Carried forward to shortlist.
- Option 6 (Maximum) – This would create the required incubation and grow on space and significantly revitalise the leisure and retail offer in the city centre. This would be extremely challenging to achieve in the timescale and to fund, but would deliver the maximum impact. Carried forward to shortlist as the maximum option.

Table 4: long list – summary of inclusions, exclusions and possible options

Options	Finding
<b>1.0 Scoping</b>	
1.1 Do nothing	Option discounted
1.2 Minimum scope	Carried forward to shortlist as baseline option
1.3 Intermediate scope	Options 4 and 5 carried forward to shortlist
1.4 Maximum scope	Carried forward to shortlist
<b>2.0 Service solutions</b>	
2.1 Prepare infrastructure only	Does not provide necessary floor-space to support company formation and growth
2.2 Develop floor-space to meet demand	Essential to achieving desired economic regeneration
<b>3.0 Service delivery</b>	
3.1 In house	Feasible (available capacity and resources)
3.2 Outsource to private sector developer	Unlikely due to market conditions and evidence, as low rental values make private sector development unviable
3.3 Strategic partnership	Possible with financial subsidy support
<b>4.0 Implementation</b>	
4.2 Big bang	Possible but likely to create over-supply in short term
4.3 Phased	More attractive and would allow intended occupiers to take up space as they grow.
<b>5.0 Funding</b>	
5.1 Private funding	Not feasible without high level of subsidy (and probably beyond state aid limits)
5.2 Public funding	Affordable with City Deal support

### Preferred way forward

It was decided to take forward Option 2 (Do Minimum), Option 4 (Office and Incubation Space), Option 5 (office, incubation and digital square & arena) and Option 6 (Maximum)

### 3.4 Short-listed options

The short-listed options shown within the OBC were as follows:

- option 1 – the do nothing, do minimum or status quo
- option 2 – the reference programme or outline Public Sector Comparator (PSC) based on totality of the preferred choices within each of the above categories

- option 3 – the reference programme or outline PSC (more ambitious option) based on the more ambitious possible options within each of the above categories
- option 4 – the reference programme or outline PSC (less ambitious option) based on the less ambitious options within each of the above categories.

### **Option 1 - Do minimum** (Long-List Option 2)

Scope – CCS enabling infrastructure and refurbishment of one building as a pilot scheme only followed by private sector development

Service Solution – Complete Kingsway infrastructure scheme, advertise development sites.

Service Delivery – CCS with private sector developers

Implementation – within 18 months (completion of enabling infrastructure)

Funding – public (infrastructure) & private sector (developments)

### **Option 2 - Reference programme** (Long-List Option 5)

Scope – Incubation, grow on and Digital Square and Arena

Service Solution – 100,000sq ft Digital Village, UWTSD Innovation Matrix & Innovation Precinct, 3,500 capacity Digital Arena, Digital Square and Hotel

Service Delivery – Innovation Matrix & Innovation Precinct: UWTSD, Digital Village and Digital Square & Arena: CCS (with private sector hotel development)

Implementation – Completion by 2023 – 2027 for Innovation Precinct

Funding – Public capital led, leveraging in private sector

### **Option 3 - More Ambitious** (Long-list Option 6)

Scope – Incubation, grow on, Digital Square & Arena & retail/leisure

Service Solution – Reference programme + delivery of Swansea Central Phase 2 (Retail/ Leisure units, restaurants, residential, university accommodation)

Service Delivery – Innovation Matrix & Innovation Precinct: UWTSD. Digital Village, Digital Square & Arena, Swansea Central Phase 2: CCS

Implementation – schemes completed by 2023 – 2027 for Innovation Precinct

Funding – Public capital led, leveraging in private sector

### **Option 4 - Less Ambitious** – (Long-List Option 4)

Scope – Dedicated incubation and grow on space only

Service Solution – Digital Village, UWTSD Innovation Matrix & Innovation Precinct

Service Delivery – CCS & UWTSD

Implementation – by 2027

Funding – Public finance

### **Preferred option**

The preferred and agreed option at OBC stage was to proceed with Option 2 – the Reference programme.

### **3.5 Review of Preferred Option**

The preferred option consists of the original constituent projects as outlined in the OBC namely:

- Innovation Matrix (previously named Box Village) and Innovation Precinct
- Digital Square and Arena (and including hotel development)
- Digital Village (71-72 Kingsway)

Since the approval of the OBC, there have been changes to the detail of the projects. These changes have been approved / notified through the established SBCD change process.

### **Innovation Matrix**

- A change request was approved for the Innovation Matrix scheme in June 2021 for the reallocation of £5.716m of existing City Deal funding from the Innovation Precinct to the Innovation Matrix to enable the commencement of the Innovation Matrix. The reallocation covers the change from the Box Village proposal to the Innovation Matrix proposal with a higher quality, slightly larger space that will allow for greater flexibility and use from tenants. The reallocation also covers a shortfall in project funding due to the envisaged private sector contribution not being realised. The change has no implications for the realisation of the economic benefits of the project.

### **Digital Village (71-72 Kingsway)**

- A change notification has been submitted notifying that the timescale for completion of the project has changed from the original business case date of December 2022 to October 2023. This is as a result of the need to re-issue procurement due to non compliant bids which caused a delay to the process. There is no change to the project benefits as stated in the business case as they will be realised within the City Deal timeline. Milestone completion date for Digital Arena has also changed from October 2021 to March 2022. There were no impacts to this change as the Arena opened on time and in line with scheduled events.
- An additional floor was added to the development proposal after taking market feedback into account at design phase, taking the footprint from 100,000sq ft to 115,000sq ft.
- ERDF funding of £500k has been provided to contribute towards the additional floorspace.
- Full business case costings have been confirmed post procurement. Full cost now at £48,540,125 (from original £49,648,253).
- Letting Strategy has been adjusted due to the pandemic and changing market requirements. Consultants Cushman & Wakefield have advised that they are anticipating a transition to a workplace ecosystem consisting of the office, the home and third spaces where flexible workspace can play a part. There is no impact to benefits in the business case due to this change at this point in time. As lettings progress we confirm whether the output linked to private sector fit out is deliverable.
- Risks have been updated to include covid impacts and construction price and delays. Mitigation includes design and letting strategy flexibility. The council have entered into a fixed price contract for construction and will work with the contractor to identify any savings that can be made to support delivery of the project.

An assessment of the current programme elements against the original preferred option in the OBC is shown below:

<b>Category</b>	<b>OBC</b>	<b>FBC</b>
Scope	Incubation, grow on and Digital Square and Arena	Incubation, grow on and Digital Square and Arena
Service Solution	Digital Village (100,000sq ft), UWTSD Innovation Matrix (28,000 sq ft) & Innovation Precinct (64,000 sq ft), 3,500 capacity Digital Arena, Digital Square and Hotel	Digital Village (115,000sq ft), UWTSD Innovation Matrix (34,000 sq ft) & Innovation Precinct (64,600 sq ft), 3,500 capacity Digital Arena, Digital Square and Hotel
Service Delivery	Innovation Matrix & Innovation Precinct: UWTSD, Digital Village and Digital Square & Arena: CCS (with private sector hotel development)	Innovation Matrix & Innovation Precinct: UWTSD, Digital Village and Digital Square & Arena: CCS (with private sector hotel development)
Implementation	Completion by 2023 – 2027	Completion by 2023 – 2027
Funding	Public capital led, leveraging in private sector	Public capital led, leveraging in private sector

### **3.5 Economic appraisal of short list options**

The approach to the economic impact assessment within the OBC was developed in line with best practice guidance, including the HM Treasury’s Green Book (*Appraisal and Evaluation in Central Government*) and the Homes and Communities Agency’s (HCA’s) Additionality Guide. The approach has also had regard to the HM Treasury’s supplementary Green Book guidance on *Public Sector Business Cases: Using the Five Case Model* and the Department for Communities and Local Government’s (DCLG’s) appraisal guide.

The assessment of economic benefits incorporated an analysis of the expected quantifiable outputs and outcomes, including:

- temporary jobs and GVA created through the construction phase;
- new permanent employment opportunities and GVA generated through the operational phase of each project;
- broader job creation as a result of increase expenditure and economic activity in the local economy;
- attraction of new households and household expenditure;
- additional business rates income and Council Tax; and
- public sector cost savings from bringing more people into work.

In addition to the above economic benefits, the assessment also considered the wider, less easily quantifiable benefits that would be expected to be generated by each of the component projects, such as improvements to the City Centre offer and image of the local area.

The assessment sought to estimate both the gross and net additional impact of each Digital District scheme, at the Swansea and City Region level, in line with appraisal guidance. Consequently, consideration was given to who is likely to secure the benefits



generated, the level of activity that might be displaced by each scheme and the possible multiplier effects that could be realised. Assumptions were also formed as to what would be expected to happen should each scheme not go ahead (the reference case). The Arena project advancing to FBC meant that a revised Amion report on the benefits of the final scheme was commissioned in 2019.

The outcome of the assessment of economic benefits are included in Appendix ? and can be summarised in tables below:

### Innovation Matrix and Innovation Precinct

<b>Construction phase impacts</b>			
	<b>Swansea</b>	<b>City Region</b>	<b>Wales</b>
Gross employment (person years)	239	239	239
Net additional employment (person years) – workplace based	229	217	191
Net additional employment (person years) – resident based	161	196	182
Net additional GVA (cumulative)*	£10.1m	£9.6m	£8.4m

\*The net additional GVA impact is derived from the estimate of net additional workplace based employment, as GVA is a workplace based measure and therefore does not take account of where those employed live.

<b>Operational phase impacts – employment and GVA</b>			
	<b>Swansea</b>	<b>City Region</b>	<b>Wales</b>
Gross employment (FTE jobs)	489	489	489
Net additional employment (FTE jobs) – workplace based	470	459	343
Net additional employment (FTE jobs) – resident based	329	413	343
Net additional GVA per annum*	£28.8m	£28.1m	£21.0m

\*The net additional GVA impact is derived from the estimate of net additional workplace based employment, as GVA is a workplace based measure and therefore does not take account of where those employed live.

<b>Operational phase impacts – fiscal benefits</b>			
	<b>Swansea</b>	<b>City Region</b>	<b>Wales</b>
Business rates per annum	£0.3m	£0.3m	£0.3m
Public sector cost savings	£0.3m	£0.4m	£0.3m

### Digital Village

The following tables show the estimated economic impact of the Digital Village in the local, regional and Welsh economy. The figures are based on the revised economic appraisal undertaken by Amion in 2019. Any changes to the estimates included in the approved OBC are shown in red for comparison.

**Construction Phase Impacts** - the total net additional GVA impact within the Swansea economy that would be generated during the construction phase would amount to approximately £16.0 million, with construction of the Digital Village also providing the opportunity to deliver an estimated 1,789 net additional person weeks of training targeted at the long term unemployed and economically inactive. There are no changes to the construction phase impacts from the approved OBC.

<b>Construction phase impacts</b>			
	<b>Swansea</b>	<b>City Region</b>	<b>Wales</b>
Gross employment (person years)	377	377	377
Net additional employment (person years) – workplace based	362	343	302
Net additional employment (person years) – resident based	253	309	287
Net additional GVA (cumulative)*	£16.0m	£15.2m	£13.4m

\*The net additional GVA impact is derived from the estimate of net additional workplace based employment, as GVA is a workplace based measure and therefore does not take account of where those employed live.

**Operational Phase Impacts – Employment and GVA** - the direct employment impact associated with the Kingsway Digital Village scheme has been calculated by applying a composite employment density benchmark for small business workspace, sourced from the HCA employment density guide. An allowance has also been made for businesses within the Digital Village expanding and relocating to other parts of the City Centre, freeing up space in the facility for new firms to start-up, innovate and grow. The impact of the proposal has been modelled over a 10-year period. The original OBC estimate of 534 gross FTE jobs has been increased to 603 with the additional floorspace to the development.

<b>Operational phase impacts – employment and GVA</b>			
	<b>Swansea</b>	<b>City Region</b>	<b>Wales</b>
Gross employment (FTE jobs)	603 <i>534</i>	603 <i>534</i>	603 <i>534</i>
Net additional employment (FTE jobs) – workplace based	579 <i>512</i>	565 <i>500</i>	422 <i>373</i>
Net additional employment (FTE jobs) – resident based	405 <i>359</i>	509 <i>450</i>	422 <i>373</i>
Net additional GVA per annum*	£32.6m	£31.9m	£23.8m

\*The net additional GVA impact is derived from the estimate of net additional workplace based employment, as GVA is a workplace based measure and therefore does not take account of where those employed live.

<b>Operational phase impacts – fiscal benefits</b>			
	<b>Swansea</b>	<b>City Region</b>	<b>Wales</b>
Business rates per annum	£0.5m	£0.5m	£0.5m
Public sector cost savings	£0.4m	£0.5m	£0.4m

Based on ratios of workforce jobs to FTE jobs derived from Experian local market data for Swansea, the number of actual gross jobs that will be created as a result of the development of the Digital Village is estimated to total 603 (full-time and part-time). Of

these, it is expected that some 579 jobs will be net additional, of which 405 will be taken-up by Swansea residents. The conversion of FTEs to actual job estimates has given regard to the sectors in which employment is expected to be created – for example, there is likely to be less part-time employment in ICT and professional service sectors than compared with retail, food and accommodation sectors.

## Digital Square and Arena

Once the Arena project design was finalised and tendered, the outputs for this element were reviewed by specialists Amion to ensure the benefits reflect accurately what is being delivered on site. The table shows the impacts for the final scheme and compared with the estimated impact presented in the 2017 OBC outputs. It is important to note that the added GVA increased significantly from £11.1m p.a. to £17.1m annually which is a significant uplift on the original assessment.

Construction phase			
	Swansea	City Region	Wales
Construction investment	£123m <i>£72m</i>	£123m <i>£72m</i>	£123m <i>£72m</i>
Gross employment (person years)	1,314 <i>831</i>	1,314 <i>831</i>	1,314 <i>831</i>
Net additional employment (person years) – workplace based	1,262 <i>798</i>	1,196 <i>756</i>	1,051 <i>665</i>
Net additional GVA (cumulative)*	£73.3m <i>£35.4m</i>	£69.5m <i>£33.6m</i>	£61.1m <i>£29.5m</i>

Operational phase – Employment and GVA			
	Swansea	City Region	Wales
Gross employment (FTE jobs)	620 <i>419</i>	620 <i>453</i>	620 <i>488</i>
Net additional employment (FTE jobs) – workplace based	469 <i>593</i>	507 <i>365</i>	387 <i>82</i>
Net additional GVA per annum*	£17.1m <i>£11.9m</i>	£14.5 <i>£9.1m</i>	£11.1m <i>£2.2m</i>
New households	33 <i>0</i>	33 <i>0</i>	33 <i>0</i>
Additional household spend retained (per annum)	£0.334m <i>0</i>	£0.401m <i>0</i>	£0.601m <i>0</i>

Operational phase impacts – fiscal benefits			
	Swansea	City Region	Wales
Business rates per annum	£0.279m <i>£0.5m</i>	£0.279m <i>£0.5m</i>	£0.279m <i>£0.5m</i>
Council Tax revenues per annum	£0.035m <i>£0</i>	£0.035m <i>£0</i>	£0.035m <i>£0</i>

### Key Points

**Construction employment** has increased as a result of the construction costs in Phase 1 increasing from £72m to £123m. This excludes professional fees but includes a provisional sum of £20m for the hotel.

**GVA from this temporary construction employment** has also increased as a result of higher construction expenditure but also as a result of using a higher GVA per FTE ratio which was specific to construction in Swansea and sourced from Experian (Sept 2018).

**Operational employment** has increased for a number of reasons: The ATG business plan assumes 58 FTE jobs on-site compared to 33 assumed in 2017. Whilst the same multipliers

have been used, indirect and induced employment is naturally higher as a result of a higher base.

The ATG forecast for the number of visits to the arena is higher than assumed in 2017 with a slightly different mix of events. This results in greater levels of off-site visitor

For each of the impacts set out above, the sources and assumptions underlying their use is explained as follows. These assumptions have been reviewed and are unchanged from the OBC.

### **Construction jobs**

The total construction spends associated with each scheme has been used as the basis for calculating the number of temporary construction jobs generated through the proposals. Labour coefficients sourced from guidance produced by the HCA<sup>1</sup> have been being applied to the construction spend figures to derive an estimate of the gross number of person years of employment supported during the construction phase.

### **Operational jobs**

The main approach applied to estimate the number of direct operational jobs has been to use employment density benchmarks, sourced from the HCA's employment densities guide, to calculate the jobs generated through the occupation of the new commercial floor-space provided under each scheme. The use of employment densities provides an estimate of the number of full-time equivalent (FTE) jobs created. For schemes, such as the Innovation Matrix & Innovation Precinct, where estimates of direct jobs have already been calculated based on scheme specific information, this data has been reviewed and cross-checked against benchmarks to test for reasonableness.

### **Broader job creation**

As well as the direct jobs supported through the construction and operational phases of each scheme, there is also the potential for further job creation either through the attraction of visitors to Swansea and resulting 'off-site' expenditure or through enabling business growth by providing incubation space for start-up and small businesses.

For the Digital Square & Arena, which is expected to attract additional visitors to Swansea, an analysis has been undertaken of the likely number of visitors, visitor origin and spend in the local economy. The estimate of visitor expenditure has then been converted into an employment impact, based principally on analysis developed by Caledonian Economics for the Tourism Alliance and VisitBritain, which identified that an increase in tourism revenue of circa £50,000 will support one new job.

In terms of modelling the effect of business growth as the result of new start-up and incubation space in the Digital Village, Innovation Matrix & Innovation Precinct, assumptions have been applied relating to business survival and growth rates. This has been informed by ONS business demography statistics along with evaluation evidence from business innovation and incubation centres, including the research carried out by Oxford Innovation relating to its innovation centres.<sup>2</sup> In order to establish the base level of employment for both the Digital Village and Innovation Matrix Innovation Precinct, an employment density of 20 sq m per FTE job has been assumed in line with the Homes England's Employment Densities Guide. Full occupancy is not assumed until year 3 of operation for each facility. The persistence and growth of benefits have then been

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<sup>2</sup> Oxford Innovation (2014), *Business Survival and Growth Research Findings*

estimated based on ONS yearly survival rates (with an average 85% survival rate per year over the appraisal period) and an assumed rate of growth (3% per annum) once businesses move on to grow-on space.

### **Gross Value Added**

The GVA generated has been calculated either by using average GVA per FTE job figures for relevant sectors in Swansea, sourced from Experian local market forecasts, or by applying Welsh average turnover to GVA ratios from the Office for National Statistics (ONS) Annual Business Survey. The estimated GVA impact for each scheme has been calculated in terms of both a per annum figure and a cumulative total, based on estimates of persistence from evaluation evidence.

The Digital District programme is estimated to create an additional £69.1m of GVA per annum in Swansea Bay City Region once completed and will deliver an estimated 1,324 net additional full time equivalent jobs in Swansea Bay.

### **Update from Buckingham Jan 2022:**

- More than 3,200 workers inducted on Copr Bay phase one site, including Swansea Arena, since the start of construction back in 2019. More than 76.3% of the workforce has been from Wales
- Businesses in the Swansea Bay City Region have benefitted from over £34.6 million worth of work thanks to the construction of Copr Bay phase one

### **Indirect and induced multiplier effects**

Alongside directly supporting the creation of new jobs, the proposed developments will also lead to additional employment opportunities (and GVA) through supply chain expenditure (indirect effects) and employee spend on goods and services (induced effects) within Swansea and the wider City Region. In order to take into account both the indirect and induced effects associated with each scheme, a composite multiplier has been applied at the local, regional and national levels.

### **Net additional impact**

In determining the net additional impact, the key issue to be addressed is the additionality of the schemes under consideration – in other words, the extent to which activity takes place at all, on a larger scale, earlier or within a specific designated area or target group as a result of the intervention. In order to assess the additionality of the proposals, the OBC considered the following factors for each scheme:

- deadweight – outputs which would have occurred without the scheme.
- displacement – the proportion of scheme outputs accounted for by reduced outputs elsewhere in the target area. Displacement may occur in both the factor and product markets;
- leakage – the proportion of outputs that benefit those outside of the scheme's target area or group;
- multiplier effects – further economic activity associated with additional local income and local supplier purchases (as discussed above); and

The deadweight, displacement, leakage and multiplier effect assumptions for each project and the justification for the figures used are outlined below. The same assumptions have been applied for the Digital Village and Innovation Matrix and Innovation Precinct projects given the similar nature of the scheme proposals. The assumptions in the approved OBC have been reviewed and remain valid.

## Digital Square and Arena

- Deadweight – in the absence of public sector support, the proposed programme would not represent a viable opportunity for the private sector. The development of arenas typically requires significant public sector subsidy, and it is unrealistic to expect that the programme would proceed in any form without some level of funding support. Therefore, it is reasonable to conclude that deadweight would be zero, both in terms of the construction phase and operational phase.
- Displacement – there is the potential that the proposed development will lead to some displacement of construction activity. However, it is not expected that this displacement will be significant in the local area, given that the programme represents one of the major key development opportunities in the City Region and there is spare capacity in the local economy. A displacement rate of 30% for construction related employment is therefore deemed to be appropriate. For the operational phase, in adjusting for displacement, an assumption has been made to discount all visitors who live in the impact area (City Region) since in the absence of the Arena local residents might simply spend the same amount but at other existing leisure, cultural and entertainment venues. This results in a displacement rate of 42%, which is considered to be a prudent assumption as in reality the Arena is likely to help retain local tourism spend.
- Leakage – an analysis of Census origin destination data has been undertaken to determine the general level of employment leakage from within the City Region (7%). Census data in terms of distance travelled to work for the retail, food and accommodation sectors has also been reviewed. This shows that people working in these sectors tend to travel shorter distances to work than the overall average. This is to be expected given the higher proportion of part-time work in these sectors and the typically lower wage levels. For the purposes of the assessment, a leakage rate of 5% at the City Region level has therefore been applied in terms operational jobs created as a result of the Digital Square and Arena project (the majority of which will be within the retail, food and accommodation sectors). For construction phase employment, a higher leakage rate of 10% has been applied.
- Multiplier effects – in determining an appropriate multiplier, reference has been made to input-output data for Wales and additionality guidance (specifically, Homes England's Additionality Guide). In the input-output tables for Wales, published by the Welsh Economy Research Unit, a composite multiplier of 1.62 is identified for the construction sector, 1.54 for hotels, bars and restaurants, and 1.53 for the recreation sector. The Homes England Additionality Guide identifies a sub-regional composite multiplier benchmark of 1.46 for physical regeneration projects. With regard to the operational phase impacts, given the nature of activity associated with the programme, it is expected that a significant proportion of the multiplier effects will be retained within the City Region. A composite multiplier of 1.4 has therefore been applied. In terms of the construction phase, a City Region level multiplier of 1.3 has

been used, on the basis that a higher proportion of construction related supply chain expenditure will be spent outside of the City Region economy.

#### Digital Village and Innovation Matrix & Innovation Precinct

- Deadweight – as set out within the business case, Swansea suffers from a lack of project viability, linked to the low rental values of office space in the city. Current rental values of around £6-14 sq. ft. are considered by the private sector to be insufficient to achieve acceptable returns on development, making private sector led developments unviable. This means that there would be no incentive for private developers to deliver the type of space proposed without the availability of significant gap funding. Given these market conditions, it is reasonable to assume that neither the Digital Village project or the Innovation Matrix & Innovation Precinct project would proceed without the proposed City Deal investment. It is therefore again reasonable to assume zero deadweight.
- Displacement – while inevitably the proposed developments will displace some activity from other competing developments in the City Region, it is expected that the level of displacement will be low. There is a current, well recognised lack of suitable incubation and grow-on space for businesses in the City Region and demand for quality office space is currently being unmet. In addition, both the Digital Village and Innovation Matrix and Innovation Precinct projects would help to stimulate economic growth in the local and sub-regional economy and complement development elsewhere, helping to attract additional investment and businesses. On balance, a displacement rate of 25% at the City Region level is considered to be appropriate.
- Leakage – as with the Digital Square and Arena project, Census origin destination data has been analysed to determine an appropriate level of employment leakage. The overall leakage rate for the City Region is 7%, but it is recognised that the type of employment created through the Digital Village and Innovation Matrix and Innovation Precinct projects could lead to a higher proportion of jobs being taken up by non-local residents, given the higher skills requirements within the professional business service and ICT sectors. Taking these factors into account, a leakage rate of 10% has been applied to the operational phase employment impacts (construction related leakage is again assumed to be 10% at the City Region level).
- Multiplier effects – the input-output tables for Wales identify a composite multiplier of 1.37 for the professional services sector. The other relevant benchmark is again the sub-regional composite multiplier of 1.46 for physical regeneration projects, set out within the Homes England Additionality Guide. Taking into account the nature of indirect and induced activity likely to be associated with the Digital Village and Innovation Matrix and Innovation Precinct projects, a multiplier of 1.25 has been applied at the City Region level. This is considered to be a prudent assumption given the potential for spill-over effects associated with both projects and possible agglomeration benefits.

#### **Business rates**

The delivery of new commercial accommodation will result in an increase in business rates within Swansea. The analysis of business rates has been informed by benchmarks for rateable values, derived from the Valuation Office Agency website and remain valid for this version of the business case. For standard commercial uses (including retail, food and drink, office and hotel floorspace), comparable evidence has been used for existing hereditaments within Swansea. For other uses (notably the proposed arena), a wider review of existing facilities across the UK has been undertaken.

Appropriate adjustments have been applied to allow for the chargeable area (on a gross or net basis) and risk associated with reliefs and non-payments (of between 10% and 90% depending on the nature of the use). The business rates income has been calculated through applying the Uniform Business Rate for 2017/18 of 0.49.

*Please note: In accordance with Treasury Guidance, no account has been taken of additional business rates income in calculating the Cash Releasing Benefits in the attached Cost Benefit Analysis spread-sheets.*

### **Public sector cost savings**

As with the construction phase of each scheme, the jobs created through the operational phase will help to bring currently unemployed or inactive people back into employment. Estimates as to the likely extent of this impact for each scheme has been informed by an analysis of the skills profile of the jobs created, compared to those unemployed in Swansea, as well as ONS labour market flows data. The fiscal savings that will be generated by workless claimants entering work have been based on the Unit Cost Database developed by New Economy, HMT and the Public Sector Transformation Network in 2015. The savings principally relate to reduced DWP benefit payments, as well as some health care cost savings.

*Please note: Again, in accordance with Treasury Guidance, no account has been taken of public sector cost savings in calculating the Cash Releasing Benefits in the attached Cost Benefit Analysis spread-sheets.*

Table 5: main benefits

<b>Type</b>	<b>Direct to Organisation(s)</b>	<b>Indirect to Organisation(s)</b>
Quantitative (or quantifiable)	Rental Income	-
Cash releasing		Increased business rates. Reductions in public sector spending
	<b><i>The above are accounted for in the financial case appraisals</i></b>	<b><i>The above are not accounted for in the financial case appraisals</i></b>
Non-cash releasing	Increases in local GVA and employment opportunities for citizens.	Increases in GVA and job creation.
	<b><i>All of the above are accounted for in the economic case appraisals</i></b>	<b><i>All of the above are accounted for in the economic case appraisals</i></b>



Qualitative (or non-quantifiable)	More supportive , conducive environment for business, improved leisure offer, raise profile as a business location, catalyst for private sector investment.	Enables small businesses to develop efficiencies and specialisms.
	<b>Subject to weighting and scoring – see below</b>	<b>Subject to weighting and scoring – see below</b>

### 3.5.3 Estimating costs

The estimated programme costs in the approved OBC and the current costs are provided in the tables below.

#### Digital District estimated cost profile – approved OBC

	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £	TOTAL £
City Deal input	5,625,845	9,332,185	15,714,777	14,602,423	4,724,769	50,000,000
Private Sector	237,735	3,497,883	13,267,948	19,838,941	3,128,491	39,970,999
Public Sector	11,860,667	16,812,312	29,640,452	23,465,847	2,923,007	84,702,285
<b>Total Costs</b>	<b>17,724,247</b>	<b>29,642,381</b>	<b>58,623,179</b>	<b>57,907,213</b>	<b>10,776,270</b>	<b>174,673,284</b>

#### Digital District current cost profile

Expenditure	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
	2018/19 (£m)	2019/20 (£m)	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)	2026/27 (£m)	2027/28 (£m)	
Capital	£ 6.03	£ 10.04	£ 31.82	£ 19.27	£ 15.91	£ 39.03	£ 21.54	£ 20.32	£ 5.95	£ 1.25	£ 171.15
Revenue	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -
<b>Total</b>	<b>£ 6.03</b>	<b>£ 10.04</b>	<b>£ 31.82</b>	<b>£ 19.27</b>	<b>£ 15.91</b>	<b>£ 39.03</b>	<b>£ 21.54</b>	<b>£ 20.32</b>	<b>£ 5.95</b>	<b>£ 1.25</b>	<b>£ 171.15</b>
<b>Funding</b>											
Swansea Bay City Deal Grant	£ -	£ -	£ 11.43	£ 11.42	£ 4.57	£ 9.52	£ 8.82	£ 4.24	£ -	£ -	£ 50.00
Public Sector	£ 6.03	£ 10.04	£ 20.37	£ 7.85	£ 11.34	£ 20.93	£ 2.89	£ 1.80	£ -	£ -	£ 81.25
Private Sector	£ -	£ -	£ 0.02	£ -	£ -	£ 8.58	£ 9.83	£ 14.29	£ 5.95	£ 1.25	£ 39.90
<b>Total</b>	<b>£ 6.03</b>	<b>£ 10.04</b>	<b>£ 31.82</b>	<b>£ 19.27</b>	<b>£ 15.91</b>	<b>£ 39.03</b>	<b>£ 21.54</b>	<b>£ 20.32</b>	<b>£ 5.95</b>	<b>£ 1.25</b>	<b>£ 171.15</b>

#### Description, sources and assumptions

The capital costs associated with the OBC Preferred Option were provided by external cost consultants based on the project construction designs and using market costings drawn from recent construction project pricing. The 'attributable' costs falling to the public sector were based on advice from external specialist property consultants who have estimated the anticipated private sector investment that could be leveraged based on the capital value of the projects on completion.

These latest cost information for the current version of the business case includes actual costs for the Digital Square and Arena project and latest cost estimates for Digital Village which is currently in delivery.

Innovation Matrix/Precinct do not have any costs at present.

Further detailed financial information on each project element is contained within the Financial Case.

### 3.5.4 Net present cost findings

Cost Benefit Analysis appraisals over a 15 year period for were undertaken for each shortlist option within the OBC and are attached at Appendix C. There has been no further update of the cost benefit analysis with this current business case as the assumptions underlying the costs and benefits for each of the shortlist options have not deviated significantly from the original appraisal.

In the CBA spreadsheet as presented in the OBC, 'construction jobs created' and 'construction benefits' rows are populated with the net construction jobs and construction phase GVA figures for Swansea Bay City Region from the Economic Impact Assessment of Swansea City Centre Regeneration Programme (Appendix B).

The 'other jobs created' and 'other jobs benefits' are populated with the operational phase net additional employment and GVA figures for Swansea Bay City Region from the Economic Impact Assessment Report. The operational employment and GVA impacts associated with the Digital Square and Arena project are expected to be realised in 2022.

The operational benefits of the Digital Village project are forecast to begin in 2023 and then be spread over the appraisal period, due to the ongoing start-up and growth of new firms. A similar profile has been modelled for the Innovation Matrix and Innovation Precinct project, although the Innovation Matrix element is expected to be complete a couple of years earlier, with the operational benefits starting to be generated in 2024. As outlined above, the economic impact assessment has taken account of displacement, and therefore all job totals are the new jobs that will be created in Swansea Bay City Region as a result of these three schemes.

The short-listed options have been risk-adjusted to account for the cost of risk retained (in £s) by the public sector under each option. The following table summarises the key results of the economic appraisals for each option. Revenue costs have been shown as a single net revenue figure as Cash Releasing Benefits. In addition to the individual construction cost contingencies already included in the Capital figure for each scheme, an allowance for optimism bias of 10% of all costs has also been made for each short-listed option to account for those risks not reflected. The extent of optimism bias has been derived through consideration of the level of remaining risk and potential for mitigation – with reference made to the upper bound optimism bias for 'standard building projects' in supplementary guidance to the HM Treasury's Green Book.'

Table 6: key results of the economic appraisals for each option (All Public Sector Costs) over a 15-year appraisal period

	Undiscounted (£)	Net Present Cost (Value) (£)
<b>Option 1 – Do Minimum</b>		
Capital	12,723,000	12,500,347
Revenue (Inc. in Cash Releasing Benefits)	-	-
Risk retained		
Optimism bias (10%)	1,273,000	1,250,035
<b>Total costs</b>	<b>13,996,000</b>	<b>13,750,382</b>

<b>Less</b> cash releasing benefits	0	0
Costs net cash savings	<b>13,996,000</b>	<b>13,750,382</b>
Non-cash releasing benefits	81,594,140	62,863,701
<b>Total</b>	<b>67,598,140</b>	<b>49,113,319</b>
	Undiscounted (£)	Net Present Cost (Value) (£)
<b>Option 2 – Reference/Preferred</b>		
Capital	134,702,285	125,793,244
Revenue (Inc. in Cash Releasing Benefits)	-	-
Risk retained Optimism bias (10%)	13,470,229	12,579,325
Total costs	148,172,514	138,372,569
<b>Less</b> cash releasing benefits	12,126,460	8,758,877
Costs net cash savings	<b>136,046,054</b>	<b>129,613,692</b>
Non-cash releasing benefits	728,234,896	537,122,618
<b>Total</b>	<b>592,188,842</b>	<b>407,508,926</b>
	Undiscounted (£)	Net Present Cost (Value) (£)
<b>Option 3 – More Ambitious</b>		
Capital	241,402,284	225,436,239
Revenue (Inc. in Cash Releasing Benefits)	-	-
Risk retained Optimism bias (10%)	24,140,228	22,543,624
Total costs	265,542,512	247,979,863
<b>Less</b> cash releasing benefits	43,426,584	31,802,036
Costs net cash savings	<b>222,115,928</b>	<b>216,177,827</b>
Non-cash releasing benefits	1,005,134,895	747,049,318
<b>Total</b>	<b>783,018,967</b>	<b>530,871,491</b>
	Undiscounted (£)	Net Present Cost (Value) (£)
<b>Option 4 – Less Ambitious</b>		
Capital	66,414,812	62,225,462
Revenue (Inc. in Cash Releasing Benefits)	-	-
Risk retained Optimism bias (10%)	6,641,481	6,222,546
Total costs	73,056,293	68,448,008
<b>Less</b> cash releasing benefits	12,031,536	8,701,800
Costs net cash savings	<b>61,024,757</b>	<b>59,746,208</b>
Non-cash releasing benefits	585,086,038	424,379,906
<b>Total</b>	<b>524,061,281</b>	<b>364,633,699</b>

### 3.5.5 Option ranking

The option ranking of the shortlist options are summarised and in Table 7 below. As the assumptions underlying the costs and benefits for each of the shortlist options have not deviated significantly from the original appraisal then the rankings remain the same as detailed in the OBC with Option 2 being confirmed as the approved option.

Table 7: Summary of results

Option	Description	Ranking				
		NPV (£s)	Cash benefit	Non cash benefit	Cost net cash savings	Costs net all savings
<b>1</b>	Do Minimum	<b>4</b>	4	4	1	<b>1</b>
<b>2</b>	Reference Programme	<b>2</b>	2	2	3	<b>3</b>
<b>3</b>	More Ambitious	<b>1</b>	1	1	4	<b>4</b>
<b>4</b>	Less Ambitious	<b>3</b>	3	3	2	<b>2</b>

### 3.5.6 Option appraisal conclusions

Option 3, the more ambitious option, has the highest net present value, and is the high cost/ high benefit option. However the high capital cost of this scheme is unaffordable, and it is undeliverable due to the challenging conditions within the retail and leisure market at the current time. The additional benefits accruing from this option are insufficient to justify the higher level of risk associated with it.

Whilst option 1, do minimum, is the lowest cost option the benefits delivered are very limited and it will not generate the step change in the city centre, and local economy, that is desired.

Option 2, the reference programme is a higher cost/ higher benefit option than option 3, the less ambitious scheme. The additional cost of option 2 is affordable, and the higher benefits that accrue from option 2 are considered to be worth paying for. In addition to the GVA benefits highlighted in the CBA, a further non-market benefit can be attributed to the Digital Arena proposals. DCMS research has shown that there is a wellbeing benefit to those attending cultural events, estimated to be approximately £47 per visit in addition to any price paid to participate such as an entrance fee. It is forecast that the Arena could attract approximately 213,000 visits each year to concerts and other shows. This would equate to a total wellbeing value per annum of around £10 million.

Moreover, the Arena proposals form a key component of the wider city centre regeneration programme. Once developed, it will act as a key attractor and anchor occupier and this should feed into enhanced demand, and hence rental value and investment yields, for commercial, retail and leisure occupiers, which will make it viable to lever in investment from the private sector for the Phase 2 retail and leisure scheme.

### 3.6 Qualitative benefits appraisal

The qualitative benefits associated with each of the short-listed options have been appraised in the OBC using the methodology outlined below. The methodology, assumptions and scoring have been revisited in this updated businesses case. There are no changes to the scoring or ranking of the options

#### 3.6.1 Methodology

The qualitative benefits appraisal was undertaken by:

1. identifying the benefits criteria relating to each of investment objectives
2. weighting the relative importance (in %s) of each benefit criterion in relation to each investment objective
3. scoring each of the short-listed options against the benefit criteria on a scale of 0 to 9
4. deriving a weighted benefits score for each option.

#### 3.6.2 Qualitative benefits criteria

The benefits criteria were weighted equally for each of the updated investment objectives, as all three investment objectives are considered to be of equal importance in addressing the business needs as outlined in the strategic case.

Table 8: qualitative benefits criteria

Investment Objectives	Qualitative Benefits	Weight
To create incubation and co-working areas for start-ups and micro businesses, with high levels of curation and access to University expertise to maximise survival rates.	<p>More supportive, conducive environment where start up technology based businesses can thrive.</p> <p>Enables small businesses to develop greater efficiencies and specialisms, become more competitive and strengthen their market positions.</p>	33.3%
To create 115,000 sq ft of flexible and affordable accommodation in the city centre to support the growth of technology based businesses (and other higher added value activities) by 2023.	<p>More supportive, conducive environment for technology-based businesses to grow</p> <p>Co-location of high value businesses and highly skilled people which facilitates innovation, commercialisation of activities and knowledge exchange</p> <p>Raises the profile of Swansea City Centre as a business location</p> <p>Catalyst for private sector investment</p>	33.3%
To create the vibrant environment, leisure and lifestyle offer (including events space) in the city	<p>More attractive environment and leisure offer to attract and retain skilled workers</p> <p>Improvements to the leisure offer</p>	33.3%

Investment Objectives	Qualitative Benefits	Weight
centre by 2021 that attracts and retains technology-based businesses and skilled workers for the benefit of the wider region.	<p>Raises the profile of Swansea City Centre as a business location</p> <p>Catalyst for private sector investment</p>	

### 3.6.3 Qualitative benefits scoring

Benefits scores were allocated on a range of 0-9 for each option and agreed by discussion by the workshop participants to confirm that the scores were fair and reasonable.

### 3.6.4 Analysis of key results

The results of the benefits appraisal are shown in the table that follows.

Table 9: benefits appraisal results

Benefit Criteria and Weight	Option – Do Minimum		Option 2 – Preferred Reference		Option 3 – More Ambitious		Option 4 – Less Ambitious	
	R	W	R	W	R	W	R	W
Raw (R) weighted (W) scores								
To create incubation and co-working areas for start-ups and micro businesses, with high levels of curation and access to University expertise to maximise survival rates.	1	0.33	8	2.64	8	2.64	6	1.98
To create 115,000 sq ft of flexible and affordable accommodation in the city centre to support the growth of technology based businesses (and other higher added value activities) by 2023.	2	0.66	8	2.64	8	2.64	7	2.31
To create the vibrant environment, leisure and lifestyle offer (including events space) in the city centre by 2022 that	1.5	0.50	8	2.64	8	2.64	3.5	1.16

attracts and retains technology based businesses and skilled workers for the benefit of the wider region.								
<b>Total</b>	4.5	1.49	24	7.92	24	7.92	16.5	5.45
<b>Rank</b>	<b>4</b>		<b>1</b>		<b>1</b>		<b>3</b>	

The key considerations that influenced the scores achieved by the various options were as follows:

✓ **option 1 – Do Minimum**

This option ranks 4<sup>th</sup>. It would provide very little of the benefits available from the other 3 Options and would fail to achieve any of the Investment Objectives.

✓ **option 2 – Preferred Option**

This option ranks 1<sup>st</sup> equal. It would achieve all of the Investment Objectives and could be delivered in a reasonable timescale using land and resources entirely within the control of the programme sponsors.

✓ **option 3 – More Ambitious**

This option ranks 1<sup>st</sup> equal. It would achieve all of the Investment Objectives and potentially greater overall financial return than the Preferred Option. However overall this is cancelled out by the unaffordable levels of funding required and demand risk associated with achieving the necessary higher levels of occupation.

✓ **option 4 – Less Ambitious**

This option ranks 3<sup>rd</sup>. It would only achieve two of the Investment Objectives and therefore achieve significantly less benefits.

### 3.7 Risk appraisal – unquantifiables

*Note: all the quantifiable risks should be measured (in £s) and included in the cost of risk retained for each option. There should be little need for the use of optimism bias at this stage.*

*All risks should be accounted for in the attached risk register.*

*The assessment of the non-financial risks should be recorded as shown below.*

A workshop was held at the UWTSD SA1 Marketing Suite, Swansea on 31<sup>st</sup> July 2017 to evaluate the risks associated with each option.

#### 3.7.1 Methodology

Risk appraisal was undertaken for the approved OBC and involved the following distinct elements:

- identifying all the possible business and service risks associated with each option
- assessing the impact and probability for each option
- calculating a risk score.

### 3.7.2 Risk scores

The workshop assigned the risk scores shown in the following table on the basis of participants' judgements and assessments of previous procurements. A more detailed assessment of the individual risks is shown in the risk register.

The range of scales used to quantify risk for both impact and probability was as follows:

- ✓ low equals 1
- ✓ medium equals 3
- ✓ high equals 5.

Table 10: summary of the risk appraisal results

Summary of Risk Appraisal Results (Pr = probability)	Risk category no.	Impact	Option 1 Do Minimum		Option 2 – Preferred Option Reference		Option 3 – More Ambitious		Option 4 – Less Ambitious	
			Pr.	Tot.	Pr.	Tot.	Pr.	Tot.	Pr.	Tot.
Facilities don't meet the needs of start-ups and tech based businesses	1	3	4	12	1.5	4.5	1.5	4.5	2	6
Funding not secured	2	5	4	20	3	15	5	25	3	15
Planning Consents	3	5	2	10	1	5	2	10	1	5
Insufficient internal capacity to project manage and deliver the developments	4	4	1.5	6	2.5	10	4	16	2.5	10
Digital technology available	5	4	2.5	10	2	8	2	8	2	8
Adequate Transport Access	6	4	3	12	3	12	3	12	3	12
Timing – if projects are not delivered in the appropriate timescales then occupiers could go elsewhere	7	3	4.5	13.5	2	6	4	12	2.5	7.5
Unable to secure tenants to occupy the buildings	8	4	3.5	14	2.5	10	3.5	14	2.5	10
Adequate support facilities for businesses	9	2	4	8	3	6	3	6	3	6
Adequate new start-ups	10	4	3	12	3	12	3	12	3	12
Engaged Community	11	2	4	8	3	6	3	6	3	6
Businesses get involved	12	4	3.5	14	3	12	3	12	3	12
<b>Total</b>				139.5		106.5		137.5		109.5
<b>Rank</b>				4		1		3		2

## Results



The key considerations that influenced the scores achieved by the various options were as follows:

✓ **option 1 – Do Minimum**

This option ranks 4<sup>th</sup>. It would provide much fewer cash and wider benefits than any of the other 3 options. Because of commercial viability the risk is extremely high that the private sector un-aided would not deliver either the commercial floor-space or hands-on curation support required to achieve the benefits achievable for the other 3 Options.

✓ **option 2 – Preferred Option**

This option ranks 1<sup>st</sup>. It is most likely to achieve the Investment Objectives at acceptable levels of risk. This Option would ensure that the necessary commercial floor-space to achieve the Investment Objectives was created together with the dedicated support that could be provided by the programme sponsors.

✓ **option 3 – More Ambitious**

This option ranks 3<sup>rd</sup> and at marginally less risk than the Do Minimum Option. Despite the larger cash and GVA benefits this Option could provide, this could only be achieved at unacceptable levels of risk due to the extremely large capital investment required and the demand and delivery risks associated with it.

✓ **option 4 – Less Ambitious**

This option ranks 2<sup>nd</sup> and scored very close to the Preferred Option. Whilst this Option would result in a lower cost exposure than the Preferred Option, the exclusion of the Digital Square and Arena elements would fail to address the third Investment Objective at all.

The scoring of the risk appraisal has been revisited in this updated businesses case and there are no changes to the option rankings from the approved OBC.

### 3.8 The preferred option – selected supplier

The results of investment appraisal are unchanged from the approved OBC and are as follows:

Table 11: summary of overall results

<b>Evaluation Results</b>	<b>Option 1 Do Minimum</b>	<b>Option 2 Preferred Reference</b>	<b>Option 3 More Ambitious</b>	<b>Option 4 Less Ambitious</b>
Economic appraisals	4	2	1	3
Benefits appraisal	4	1	1	3
Risk appraisal	4	1	3	2
<b>Overall Ranking</b>	<b>4</b>	<b>1</b>	<b>2</b>	<b>3</b>

Conclusions:

### Option 1 – Do Minimum

This option ranks 4<sup>th</sup> overall, and whilst the lowest cost option is unlikely to achieve any impact in delivering the Investment Objectives. Delivery of the required floor-space would be entirely dependent on the private sector deciding to undertake development which is highly unlikely at current viability levels.

### Option 2 – Reference Programme/Preferred Option

This option ranks 1<sup>st</sup> overall, as it is ranked first in the Benefits and Risk appraisals and second in the Economic appraisal. It remains the Preferred Option. It can be expected to achieve all of the Investment Objectives at lower cost and risk than the More Ambitious Option.

### Option 3 – More Ambitious

This option ranks 2<sup>nd</sup> overall. Whilst it could achieve all the Investment Objectives and potentially achieve significantly more net benefits than Option 2, it involves very significantly higher cost and risk than the Preferred Option. The additional £100M+ of capital cost is unaffordable at the present time and the demand risk involved for such a large scheme is considered unacceptable. Alongside this increased cost and risk is the issue of city centre capacity to cope with such a significant amount of development all being undertaken at the same time, in terms of infrastructure capacity and maintaining a functioning city centre for both residents and visitors. In terms of resourcing there may also be issues surrounding the procurement of quality contractors and professional teams to deliver such a number of projects. The Council has been advised by Rivington Land and Cushman & Wakefield to follow a phased approach to the whole Swansea Central Retail & Leisure scheme with Phase 1 being the Digital Square & Arena - which is deliverable subject to funding and an Arena operator being selected - and then follow this with the Phase 2 retail/ leisure scheme. Undertaking a phased approach (rather than completion of both Swansea Central phases 1 & 2 by 2021 as is being considered under this more ambitious option), would provide the opportunity to lever in investment from the private sector for the Phase 2 retail & leisure scheme as a later phase of development, with the initial phases (i.e. the reference programme) acting as a catalyst to drive values of future phases.

The scale of physical improvements needed to create the overall sense of environment required by these occupiers reinforces the need for initial public sector support to make it viable. However, the critical mass of the reference programme should mean that it will quickly generate additional commercial occupier demand, and at rents which should ensure that development by the private sector is viable. Once developed, the overall benefit of the Arena 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, retail and leisure occupiers alongside other city centre uses.

As a result of this, Swansea Central Phase 2 (retail & leisure scheme) will now follow on as a later phase of development after the Digital District programme. This decision has since been validated by the current challenging conditions in the retail market which is making it increasingly difficult to deliver traditional retail led schemes.

### Option 4 – Less Ambitious

This option ranks 3<sup>rd</sup> overall. Whilst achieving many of the objectives for growing and retaining start-ups and SME's within the region, it would completely fail to address the 3<sup>rd</sup> Investment Objective of creating a vibrant environment, leisure and lifestyle offer (including events space) in the city centre. Consequently, whilst this Option requires less

capital investment than the Preferred Option, it would not achieve all of the required outcomes.

### 3.9 Sensitivity analysis

The methods used in the approved OBC were:

- a) 'switching values'
- b) scenario planning/ analysis ('what if ') by altering the values of the 'uncertain' costs and benefits to observe the effect on the overall ranking of options.

#### 3.9.1 Results of switching values

Table 12 shows the values (in %s) at which the preferred option would change in the overall ranking of options.

Table 12: changes (%) required to equate with the preferred option

<b>Change in Costs (%)</b>	<b>Option 1</b>	<b>Option 2 Preferred Option</b>	<b>Option 3 More Ambitious</b>	<b>Option 4 Less Ambitious</b>
Capital costs	1058.68%	0	-55.80%	202.82%
Current costs	-	-	-	-
Total costs	1058.68%	0	-55.80%	202.82%
Cash releasing benefits	-	0	-71.99%	1.41%
Non cash-releasing benefits	-	-	-	-
NPV/C	835.39%	0	-30.05%	11.69%

#### 3.9.2 Key observations

The assessment of switching values shows that the economic benefits under the alternative options would have to increase considerably, compared to the preferred option, in order to change the overall ranking of options. The magnitude of change required is such that Option 2 can be identified as the preferred option with a high degree of confidence. The current information indicates that there has been no significant change in the relative costs and benefits of the options and there is no change to the overall ranking of the options.

#### 3.9.3 Results of scenario planning

The table below summarises the results associated with increasing costs and the time taken to deliver the programme benefits, as well reducing overall benefits, as set out within the Cost Benefit Analysis at Appendix C. The variances made to costs, timings and benefits are as follows:

- ✓ 20% increase in costs
- ✓ 1-year delay in benefits

✓ 40% reduction in benefits

Table 13: summary of results from scenario planning (All Public Sector Costs)

NET PRESENT VALUE (15-YEAR APPRAISAL)	OPTION 1	OPTION 2	OPTION 3	OPTION 4
<b>BASE</b>	£49,113,319	£407,508,927	£530,871,490	£364,633,699
Increasing costs by 20%	£46,363,242	£379,834,413	£481,275,518	£350,944,097
1-year delay in benefits	£45,469,694	£364,816,560	£473,317,647	£327,494,252
Reducing benefits by 40%	£23,967,838	£189,156,329	£219,330,949	£191,401,016

### 3.9.4 Key observations

The results of scenario planning demonstrate the Preferred Option 2 retains similar proportionate increased benefits over the Less Ambitious Option 4 under all scenarios except when benefits are reduced by 40%. Whilst the More Ambitious Option 3 has potentially greater returns than the Preferred Option, this difference decreases rapidly as costs increase and benefits are decreased, confirming the high-risk analysis of this Option.

### 3.10 Preferred option

The Preferred Option remains Option 2 as this is most likely to achieve the Investment Objectives and was ranked first in the benefits and risk appraisals and second in the economic appraisal. Whilst the More Ambitious Option scored highest in the economic appraisal in terms of financial benefits, the additional costs (£106M) are not currently affordable and the demand and delivery risks associated with this Option have resulted in it being discounted.

### 3.11 Economic Impact of Preferred Option at UK Level

In order to be compliant with the Green Book, additional analysis was undertaken by Amion Consulting to assess the economic impact of the preferred option at the UK level, focusing on productivity impacts. In line with the Green Book, the national level wage premium analysis excludes multiplier effects.

In order to take into account, the productivity impacts associated with the proposed City deal developments, an assessment has been undertaken of the GVA uplift that will be generated (not the total GVA impact). This has been based on an analysis of the employment impact associated with each project and, specifically, the type of jobs created, with reference made to Welsh Government Priority Sector Statistics to determine how the GVA per job (productivity) compares to the average for Wales.

The employment impact associated with the City Deal developments can broadly be separated into three sectors: financial and professional services, ICT and retail/tourism. The GVA uplift analysis has focused on the number of jobs created within the financial

and professional services sector and the ICT sector only – the jobs created within the retail and tourism sectors will be important locally and indirectly support wider productivity growth but have been excluded for the purposes of this assessment.

According to Welsh Government Priority Sector Statistics, the average GVA per person in employment estimates for the financial and professional and ICT sectors and the overall average for Wales are as follows:

- Financial and professional services – £93,000
- ICT – £84,700
- Wales average – £38,200

The GVA uplift (the difference between the sector GVA per person in employment and Wales average) has been applied to the estimates of employment created in each sector as a result of the City Deal developments. This has then been adjusted to reflect the productivity differential between Wales as a whole and Swansea (using ONS sub-regional productivity data).

Overall, once each project is complete and the employment effects fully realised, the productivity impact is estimated to be approximately £49 million per annum. Based on the profile of employment creation for each project and assuming the benefits persist over the 15-year period, the cumulatively productivity benefit would amount to £344 million (discounted at 3.5%). This compares to the estimated £537 million of non-cash releasing (local GVA) benefits set out within the Full Business Case.

As identified in Appendix B, by enabling high value businesses, along with highly qualified people, to cluster together, collaborate with each other as well as with academia, innovate and commercialise activity, the City Deal proposals will enhance the productivity benefits associated with each project. The creation of such an environment will help businesses to develop greater efficiencies and specialisms, become more competitive and strengthen their market positions.

It is also important to note that in addition to the productivity benefits associated with the City Deal proposals, there will be a range of other 'Green Book compliant' benefits generated through the implementation of each project. For example, there will be important distributional benefits from the creation of accessible employment opportunities for local residents and the attraction of new investment to the City Region. A key goal of the UK Government is to help rebalance activity from London and the Southeast, with a clear focus on redistributing growth. The City Deal proposals form an important component of strategies to ensure growth within the UK is inclusive.

The Green Book also highlights the need to consider the potential wellbeing benefits and other non-market impacts that could be generated as a result of a given intervention. In relation to the City Deal proposals this would include the amenity benefits associated with redeveloping parts of the City Centre, which have suffered from under-investment, along with the social value attached to bringing people back into employment.

A further non-market benefit can be attributed to the Digital Arena proposals. DCMS research has shown that there is a wellbeing benefit to those attending cultural events, estimated to be approximately £47 per visit in addition to any price paid to participate such as an entrance fee. It is forecast that the Arena could attract approximately 213,000 visits each year to concerts and other shows. This would equate to a total wellbeing value per annum of around £10 million.

## **Part 2 - Procurement process and evaluation of the Best and Final Offer (BAFO)**

### **3.12 Procurement Process**

This updated version of the business case details the procurement strategy, route and evaluation criteria that were in the procurement processes for the follow project elements:

- Digital Square and Arena
- Digital Arena operator
- Hotel Developer
- Digital Village (71-72 Kingsway)
- Innovation Matrix

It is recognised that Better Business Case guidance requires that an economic appraisal is undertaken for the potential service providers. This has not been carried out as there have been several procurements undertaken for the individual project elements that have been subject to specific evaluation and assessment criteria to identify the service provider offering best use of public money in delivery.

### **3.13 Digital Square & Arena Procurement**

#### **Construction Partner Procurement**

The procurement of a construction partner for the Digital Square and Arena was undertaken by Swansea Council in accordance with the OJEU compliant process outlined in the approved OBC. Under the OJEU process, a competitive dialogue procurement exercise has been undertaken by Swansea Council which followed the following process.

A procurement strategy report was prepared by the Council's project manager (28<sup>th</sup> February 2017) and by the Council which recommended a Two Stage Design and Build procurement approach.

A Pre-Qualification process was issued on 12<sup>th</sup> December 2017 based on the advice of AECOM and Rivington, 9 Pre-Qualification Questionnaires were received, and these were assessed to shortlist 5 parties, reducing the number of tenderers from nine to five and subsequently reduced to three that met all the ITT criteria, financial checks and capacity availability requirements, namely:

- Bouygues (UK) Limited
- Buckingham Group Contracting Limited
- Willmott Dixon Construction Limited

The ITT was issued on 22<sup>nd</sup> March 2018 based on based on the Stage 2 design information (reflecting the Value Engineering 3 design and scope). Tenders were returned on 18<sup>th</sup> May 2018.

Tenderers were required to submit bona fide tenders on the following criteria:

- Fixed lump sum for Pre-Construction Services Agreement (PCSA), including design fees
- Fixed lump sum for the Construction Stage Preliminaries, including design fees
- A fixed percentage for Overheads and Profit
- A fixed percentage for Risk on sub-contract tendered / untendered packages
- A fixed programme for the Phase 1 works
- Technical, construction, design and management proposals
- Priced cost plan for the measured works (non-binding at Stage 1)

As part of the ITT, tenderers were able to submit two alternatives for design teams (Option 1 and Option 2). Option 1 was for novation of the client's architect, landscape architect and structural engineer whereas Option 2 allowed the contractor to provide any alternative they felt would benefit the project.

Following the submission of the tenders, a tender clarification process was carried out which involved clarification meetings and tender query and responses whereby all contractors were provided the same information to ensure transparency and conducted in a way that did not put any tenderer at a disadvantage.

To ensure the team were complying with OJEU process rules, the Council's procurement and legal expertise was sought throughout. Tenderers were contacted via the eTender Wales portal (managed by the Council) and clarification meetings were attended by the Council, minutes and submitted to the Council to confirm what was discussed.

Any issues that could potentially affect the award criteria or could potentially change the original tender requirements were discussed and a final strategy was agreed before progressing. This was the case regarding contract conditions, whereby a revised contract amendment document was agreed with the Council and issued to all tenderers to ensure fair competition. Upon review, to avoid any confusion on this point, the Council's procurement officer produced a detailed note that was uploaded to the portal.

All three tenderers confirmed a preference for Option 2 (with Bouygues declining to tender Option 1 altogether) citing the benefits of their existing design team relationships and proposed design team experience as benefits to the project, particularly in a demanding programme. Buckingham and Willmott Dixon also included elements of novation within their Option 2 which meant Option 1 was not significantly different from the contractor's own proposals. For these reasons Option 1 was discounted by the panel.

The Tender Evaluation Panel convened on 16<sup>th</sup> July 2018 to undertake an initial scoring session, which was subject to further clarification responses from the tenderers. Once all final clarifications were received, a final scoring session was held to update the initial scoring (30<sup>th</sup> July 2018).

The table below shows the final results of the scoring against the tender award criteria, which was set at:

- Commercial 40%

- Technical 60%

Section	Maximum Score			
	Bouygues	Buckingham	Willmott Dixon	Dixon
Commercial Scores	40	26.96	32.79	29.38
Technical Scores	60	48.80	46.40	46.00
<b>Total Score</b>	<b>100</b>	<b>75.76</b>	<b>79.19</b>	<b>75.38</b>
<b>Ranking</b>		<b>2</b>	<b>1</b>	<b>3</b>
Variance (vs 1 <sup>st</sup> Place)		-3.43	-	-3.81

Buckingham Group achieved the highest overall score based on the award criteria and is the Most Economically Advantageous Tender (MEAT) submission.

Commercially, Buckingham Group's submission following clarifications is the most competitive for fixed lump sum tender items. Buckingham's figure was lower than Willmott Dixon by **£3.2m** and **£6.9m** lower than Bouygues. With regards to the overheads and profit margin to be applied to the construction stage preliminaries and measured works, whilst Buckingham has the highest percentage of 7.8% compared to Willmott Dixon (6.9%) and Bouygues (5.25%), they would still achieve the lowest overall total cost by **£3.5m** against Willmott Dixon and **£4.7m** against Bouygues

Scoring was based on normalised tender submissions where the final commercial amounts were adjusted based on clarification responses and where design fees were excluded (deemed to be funded by the employer)

If normalisation was excluded, Buckingham would lead by approximately 3.62% from Willmott Dixon and 6.16% from Bouygues, however that would not be a like-for-like comparison.

The table below provides the overall summary of the commercial submissions and normalised tenders.

Item PTE	Bouygues		Buckingham		Willmott Dixon	
	Submission	Normalised	Submission	Normalised	Submission	Normalised

### 1<sup>st</sup> Stage Tender – Fixed Lump Sums

PCSA Total	2,692,800	2,552,585	3,070,854	1,377,588	2,913,824	848,219	2,072,794
Construction	13,386,046	13,680,49	15,547,123	7,206,016	8,767,166	11,116,37	12,850,570
OH&P (%)	5.00%	5.25%	5.25%	7.80%	7.80%	6.90%	6.90%

### 2<sup>nd</sup> Stage Tender – To be fixed during 2<sup>nd</sup> Stage

Measured Works	83,406,000	74,280,07	79,639,023	59,664,69	73,400,296	74,264,89	86,683,779
OH&P (£)	4,839,602	4,617,930	4,997,273	5,215,916	6,409,062	5,891,30	6,867,870
Risk	Excluded	N/A	N/A	N/A	N/A	N/A	N/A
<b>Indicative Total*</b>	<b>104,324,44</b>	<b>95,131,07</b>	<b>103,254,27</b>	<b>73,464,21</b>	<b>91,490,348</b>	<b>92,120,79</b>	<b>108,475,01</b>

\*Indicative Total Subject to 2<sup>nd</sup> Stage



The following summarises the Commercial Scoring results evaluated as per the ITT methodology:

Section	Maximum	Bouygues	Buckingham	Wilmot Dixon
<b>Commercial Scoring</b>				
Pre-Construction Services	12	8.10	8.54	12.00
Preliminaries / General Conditions / Design Fees	16	9.02	16.00	10.92
Overheads and Profit	4	4.00	2.69	3.04
Construction Risk / Design	2	0.00	2.00	0.00
Cost Plan Pricing	6	5.84	3.56	3.42
<b>Commercial Scoring Total</b>	<b>40</b>	<b>26.96</b>	<b>32.79</b>	<b>29.38</b>

The following summarises the Technical Scoring results as evaluated by the tender scoring panel:

Section	Maximum	Bouygues	Buckingham	Wilmot Dixon
<b>Technical Scoring</b>				
Management Structure and	12	9.60	9.60	9.60
Design Management / Contractor's Design Team	10	7.60	6.80	6.00
Programme & Phasing	12	9.60	10.80	9.60
Construction Methodology and	12	9.60	9.60	9.60
Risk Management / Health and	6	6.00	4.80	4.80
Local Engagement (BBM)	4	3.20	2.40	3.20
Sustainability	4	3.20	2.40	3.20
<b>Technical Scoring Total</b>	<b>60</b>	<b>48.80</b>	<b>46.40</b>	<b>46.00</b>

All three tenderers produced very good technical responses and are reflected in the overall scores above which indicate a spread variance of 2.80%.

### Bouygues

Overall the team structure appears suitable however there was some concern regarding continuity of Bouygues staff between PCSA and construction stage. The Bouygues personnel also lacked specific venue experience.

Bouygues' proposed design team was felt to have limited venue experience and there was little information provided on the actual individuals that would be working on the project. The extent of involvement of the Boyes Rees Managing Director was also unclear.

Bouygues submitted the longest programme at 106 weeks.

Bouygues approach to risk management, sustainability and BBM was strong and well considered.

### Buckingham

The Buckingham team structure was also suitable and has strong senior management who it was felt would manage the project effectively and the company has good

experience of venues and in particular Bristol Arena. It was confirmed that their Senior Management would remain closely involved in the project. However there were some concerns over how they would integrate their proposed teams and existing consultants.

Buckingham's proposed design team consisting of AFL / ACME was considered to have a good balance between retaining current team experience and the specialist knowledge of AFL on venue buildings. AFL is the architect on Hull venue and also has other similar type of buildings experience. In addition Buckingham's proposal to bring in another structural engineer who has good and specific experience in car park design (Hill Cannon) was considered beneficial.

Buckingham had the shortest construction programme (79 weeks) which on review was felt achievable. Buckingham's approach to risk management was strong, however lacked detail on BBM and sustainability.

### Willmott Dixon

The Willmott Dixon team structure was very good. There was some concern regarding the lack of continuity of the PCSA lead into the construction period as well as integration of design teams.

The Willmott Dixon design team (consisting of Stride Treglown and Keppie) raised some concern as Stride Treglown lead architect put forward did not have any venue building experience. It was not clear how this would work with Keppie, who do have some venue building experience but are based in Scotland and how they would service the project from there.

Willmott Dixon submitted the second shortest construction programme with 102 weeks.

Willmott Dixon's approach to risk management, sustainability and BBM was strong and well considered.

### Conclusion

Technically, Buckingham Group's submission had the strongest team, with venue experience, the shortest deliverable programme (subject to a Pre-Start enabling works package) and experienced design team to deliver the project.

Although they were the lowest scoring, this was only by a margin of 2.53% and was largely due to their BBM and Sustainability tender submissions, which were average.

With regards to the contract conditions, Buckingham's bid accepts all the proposed terms. Willmott Dixon confirmed they would not accept clause 1.18 (amendments to relevant events) thereby putting themselves in a non-compliant tender position. Subsequent to this Willmott Dixon withdrew from the tender process (3<sup>rd</sup> August 2018). Bouygues similarly refused to accept a number of JCT contract clause amendments, which the Council have confirmed would be unacceptable.

As contract conditions do not form part of the tender assessment criteria, both parties have still been included within this document for comparison within this scoring document. However, in line with the Council clarification note (Appendix 11.10.iv), the Council experts have noted that both Bouygues and Willmott Dixon are non-compliant.

Based on the tenders evaluated by the Tender Evaluation Panel, Buckingham Group

achieved the highest score against the award criteria and were selected. The building contract was entered into between the Council and Buckingham on 26 November 2019.

### **Arena Operator Procurement**

Swansea council was advised on the arena initial business case and operator procurement by specialist arena advisers IPW. The Council was seeking to transfer the operation risk of the Arena to a third-party operator. IPW recommended a competitive dialogue procurement process to select an operator. This procurement process was outlined in the approved OBC.

The Council's objectives for the procurement process and Operator Agreement are to:

- secure an Arena operator with the experience and track record to deliver quality management and operation of the Swansea Arena
- maximise the level of risk transfer from the Council to the operating partner
- maximise the operational sustainability of the Arena and any form of payment/guarantees to the Council for the Arena
- ensure that the Arena will achieve a varied and balanced programme of events that will appeal to the public
- complement and support the efforts of existing and planned future facilities and partners in delivering a quality destination in Swansea
- promote activity and vibrancy in and around the Arena
- offers innovative approaches in so far that they meet the Council's requirements.

Following an initial Pre-Qualification Stage, the Council invited four bidders to participate in a single-stage Competitive Dialogue process for the operation of the Arena.

- AEG Presents (AEG)
- Ambassador Theatre Group Limited (ATG)
- HQ Theatres & Hospitality (HQ)
- The National Exhibition Centre Limited (NEC)

HQ withdrew from the procurement process prior to the first dialogue meeting. AEG participated in the majority of the dialogue stage of the process, withdrawing towards the end of the dialogue stage. This left two bidders who were invited to submit final tenders, ATG and NEC.

Throughout the dialogue process, the Council's bid team has discussed bidder's operational, financial, commercial, legal and technical proposals in detail and bidders have shared their proposals at regular intervals.

The Final Tenders were assessed against evaluation criteria and a Preferred Bidder ATG and a Reserve NEC were identified.

The council entered into an Agreement for Lease with ATG and the 30-year lease to operate the building was granted on completion of the construction contract in October 2021.

### **Hotel Procurement – COMMERCIALLY AND BUSINESS SENSITIVE**

The hotel forms part of the Digital Square & Arena and was identified in the OBC as being private sector funded. The Council appointed hotel specialists Jones Lang LaSalle (JLL) to secure a hotel developer and operator. The initial marketing exercise generated interest from hotel developers and operators, but the private sector would only fund a 3\* hotel. With the support of Visit Wales to provide gap funding to raise the standard to a 4\* hotel, the opportunity was re-marketed.

The Hotel was marketed on the basis of a simple land sale. JLL have comprehensively covered the hotel development market. Coverage has been via the Official Journal of the European Union PIN notices, issued by Swansea Council, and two separate brochure marketing exercises undertaken by JLL to the identified target hotel operator, brand and site purchase database. Feedback from the hotel development market as a result of the above marketing process was consistently that the hotel site sale would deliver nominal or zero land value.

Following the culmination of the above marketing process, in July 2019, four parties submitted proposals for the site. All four parties were shortlisted and JLL approached them to request final bids on the basis of a sale of the site together with the opportunity of potential grant funding from Visit Wales. The parties approached were as follows;

- Vastint
- Legacy Hotels
- Cairn Hotels
- Bricks Capital

The documents provided to these parties comprised the key proposed transaction terms and the Final Stage Tender Response Proforma, which set out the scoring criteria on a number of measures in addition to site price and hotel brand and was to be the basis upon which “best consideration” would be assessed. Electronic links to additional files comprising site plans and site specification documents were provided to all bidders shortly thereafter.

Bids were received from all four parties in September 2019. The bid from Bricks Capital was received after the deadline, on 20 September.

Following receipt of the final stage bids the offers received were reviewed and it was determined that further clarification was required in respect of the bids from Vastint, Cairn Hotels and Legacy Hotels/Percor Capital. The bid from Bricks Capital was deemed non-compliant as it was received after the bid deadline.

A meeting (“the clarification meeting”) was arranged at Swansea City Council’s offices to take place on 25 October 2019. In advance of the meeting the three remaining parties were each sent a letter setting out points of required clarification specifically in respect of their bids. All parties were issued parameters ‘plans’ information in pdf and CAD format. These were issued for the bidders to show how their proposal conformed to the outline permission (in plan terms).

On 25 October, representatives of Swansea City Council (Huw Mowbray and Lee Richards), Rivington Land (David Lewis and Spencer Winter) and JLL (Graham Craggs) met with and received presentations from Vastint, Cairn Hotels and Percor Capital/Legacy Hotels. A summary of the three final bidders' responses against each of the scoring criteria, setting out both their initial responses and feedback following the clarification meeting is attached hereto.

A overview of each of the final bidders is provided below:

***Vastint Hospitality*** are a wholly owned subsidiary of Interogo Holding AG, a substantial international investor and are the owner of IKEA. Group turnover is in the order €40 billion and the closing value of cash accounts in 2018 was EUR 1.7 billion.

Vastint Hospitality are a long-term investor and developer of hospitality real estate with a multinational remit. In the last 5 years Vastint Hospitality have acquired in excess of 50 hotel sites principally for development of the Moxy Hotel by Marriott brand but also for Marriott Courtyard. Approximately a third of these are open and trading, a third in construction and a third in planning or pre-construction phases. **Cairn Hotel Group** are a family-owned hospitality business that started in the 1950s and acquired its first hotel in the 1970s. The group owns and operates 33 hotels throughout the UK. These hotels range from unbranded properties to Hilton and IHG branded hotels and their portfolio includes the recently refurbished 4\* St Georges Hotel on Regent Street London (now branded as the first Treehouse Hotel in Europe). Their accounts show EBITDA of £16,138,000 in 2018 up from £11,245,000 in 2017. In the 2018 accounts, turnover was reported as £94 million and net asset value as £150 million with a loan to value ratio of 45%.

**Percor Capital** is a full-service property company with experience in development, investment and asset management of commercial property. The company is run by its shareholders and Directors, Jean-Pierre Permutt and Robert Corlett who have personal experience in high value commercial property transactions. Percor recently completed the redevelopment of a site in Dundee, Scotland to provide a four-star 102 key Hotel Indigo and an 85 key Staybridge Suites (aparthotel). Accounts provided for the company CSAM Limited show a small operating loss in 2018. Percor's operating partner is Legacy Hotels. Legacy, who were formed in 2005 are an experienced hotel developer and manager and one of the UK's leading third-party management companies operating a diverse portfolio of 20 branded and unbranded assets and having a pipeline of a further 5 hotels.

### **Scoring and Recommendation**

Following the clarification meeting the three bids were each scored according to the circulated tender response proforma by Rivington Land and JLL, with Swansea City Council as observer.

Whilst Vastint scored particularly well in relation to their track record and corporate financial strength, Cairn Hotels' are also a well-respected and established hospitality business with a strong balance sheet.

Cairn's financial offer was considered stronger with stated overage provisions, and they also provided a superior bid in relation to hotel design.

Notably, taking account of Swansea City Council's ambition to achieve the best quality hotel possible, Cairn also scored well in respect of Hotel Brand, Facilities and Operation.

Following the clarification meeting it was understood that Percor/Legacy's bid was predicated on the basis of an alternative funding structure, namely an income strip, which following consideration, was determined to be unacceptable to the Council. It was understood from Percor that, in the event their alternative bid 4 was not acceptable, they would withdraw. Percors' bid was scored on the basis of their offer received on 19 September.

On the basis of the scoring above and particularly having regard to Swansea City Council's quality aspirations, the recommendation was for the Council to proceed with the offer received from Cairn Hotels.

Whilst Cairn's bid is conditional upon Visit Wales grant funding it is clear from their bid and clarification that they have engaged with Visit Wales and have a clear understanding of the parameters of any potential funding. Notwithstanding that all bids received culminated in nil pricing attached to the land, this is in line with our advice. It follows an extensive marketing campaign which led to the tender criteria and these final bids and in the light of that JLL consider that the Cairn offer reflects the best consideration for the site.

Cairns were appointed as preferred developer. During work up of the scheme, Covid and Lockdowns had a major impact on the hotel sector. There is therefore requirement for £8m grant and loan to enable the project to proceed as currently private sector funding for hotel schemes is not available. This is due to the cost of build being significantly higher than the day one value of the asset when it opens for business.

### **3.14 Digital Village (71-72 Kingsway) Procurement**

The procurement of a construction partner for the Digital Village (71-72 Kingsway) was undertaken by Swansea Council through the South West Wales Regional Construction Framework (SWWRCF) in accordance with the process outlined in the approved OBC.

Following an initial procurement exercise during the summer/autumn 2020, all returned tenders were deemed to be non-compliant with the Council's Contract Procedure Rules (CPR) and contract award could not be made due to the clarifications contained within each submission. These were predominantly in relation to the Contract terms and conditions. As well as this, all tenders returned were all over the pre-tender estimate. As there was an issue of non-compliance, the CPRs and Public Contract Regulations 2015 state that a new tendering exercise needed to be undertaken.

Due to all the tender returns in the first stage coming in over the pre-tender estimate, the design team took the opportunity to undertake a Value Engineering exercise prior to the tender being reissued.

Subsequently tenders were re-issued December 2020. Following the issue of Tender 2, one of the contractors withdrew from the tender process, with the other four contractors on the SWWRCF confirming their intention to submit a return. On receipt of the returned tenders, as part of the evaluation process, they were checked, and passed for compliance with the Contract Procurement Rules.

Further to undertaking a quality evaluation initially, in accordance with the published evaluation process methodology, the commercial envelope was opened, and a number of clarifications were sought from bidders. On completion of the clarification process, it was concluded that all four contractors who submitted a return was deemed to be compliant.

Following a detailed tender evaluation process, a preferred contractor was identified to construct the project for:

- Option (A) - the value of £33,689,962 to construct 71 / 72 The Kingsway and undertake a refurbishment of the former Barclays Bank, subject to the published terms and conditions.

The contract award to Bouygues UK was ratified in May 2021 Cabinet. The Cabinet also approved the project Business Plan (informed by Cushman and Wakefield) and full

project funding. This highlighted the prospective recommended anchor tenants/flex space operator subject to T&Cs being agreed once commencement on site is achieved. Swansea Council and Bouygues UK exchanged contracts and works commenced in November 2021 for August 2023 completion.

It should be noted that a sum of £1.1m for the refurbishment of the former Barclays Bank at 69/70 The Kingsway is included as a Provisional Sum, with the intention to issue the contractor with the full design package for pricing. Subject to costs being within budget it is proposed that these works will be instructed as a Compensation Event, should this action be instructed.

In addition, the project sum for 71/72 should include for:

- an additional construction contingency of £3.4m to be set aside by Swansea Council for any post contract changes or issues encountered on site, given the scale and complexity of the project;
- a sum of £1.4m be set aside as an incentive for occupation for fit-out as highlighted in Section 2, table 1 of the 71-72 Business Case.
- in addition to the existing £2.4m commitment on professional fees through to delivery, there is a requirement for an additional sum of £611k to be set-aside to cover design fees and supervision fees arising from re-procurement actions, value engineering and addition of an extra floor, increasing the overall professional fee cost to circa £3,195,000.
- capitalisation of staff costs of £432k are included.

It should be noted that the Hacer Development has had approval to commence works in an adjacent site adjacent to 71 / 72 The Kingsway since the bids were submitted. The contractor's Option B submission included for a sum of £500k to be set-aside for a shared compound areas with Hacer, however that potential risk cost has been partially-mitigated by the identification of an additional site for the preferred contractor. In this respect, whilst this risk should be noted in progressing Option A (which does not contain this provision),

The Digital Village enabling infrastructure works (reconfiguration of highways and public realm) is being funded through the ERDF Kingsway Digital Village: Employment Hub project, which received ERDF approval in November 2017. The procurement process was completed in March 2018, with Dawnus appointed as the main contractor and construction work commencing in April 2018. After Dawnus entered administration in March 2019, the Council employed completed replacement contractor and works have now completed.

### **3.15 Innovation Matrix & Innovation Precinct Procurement**

Details of procurement process for the Innovation Matrix is being finalized and will be added to the FBC once completed and signed off.

### **3.16 Summary and Conclusions**

This updated Economic Case has demonstrated that the preferred option in the approved OBC remains valid. Changes to the specific elements of the preferred option



have been detailed and economic, benefits and risk appraisals have been revisited and the option rankings confirmed.

The procurement processes for the individual projects have been detailed and the selection of each of the preferred service providers offering best public value for money demonstrated.

## 4. THE COMMERCIAL CASE

### 4.1 Introduction

In developing the FBC, the commercial case dimension has been revisited and updated to reflect the negotiated deals and their financial consequences over the lifespan of the contracts and services. This section sets out the negotiated arrangements for the following project elements:

- The construction and operation of a 3,500 capacity Digital Arena in Swansea City Centre with podium level public realm, commercial units in the public realm, a cutting-edge Digital Square around the arena, and a new hotel, to revitalise the environment, leisure and lifestyle offer in the city centre and provide events space for tech businesses.
- The construction and operation of a new Digital Village on the Kingsway in Swansea City Centre that will provide 115,000 sq. ft. of new office accommodation for growing technology-based businesses.
- The construction of a 34,000 sq. ft. Innovation Matrix and 64,600sq ft. Innovation Precinct at University of Wales Trinity Saint David Swansea Waterfront development to provide incubation space and co-working areas for start-ups and small businesses.

The main changes in this updated Commercial Case are listed below:

- Updated details of required service outputs
- Updated delivery status and timelines for all project elements
- Details of allocation of risk across construction and operational contracts
- Confirmation of agreed and proposed payment arrangements
- Key contractual arrangements, including social benefit outputs

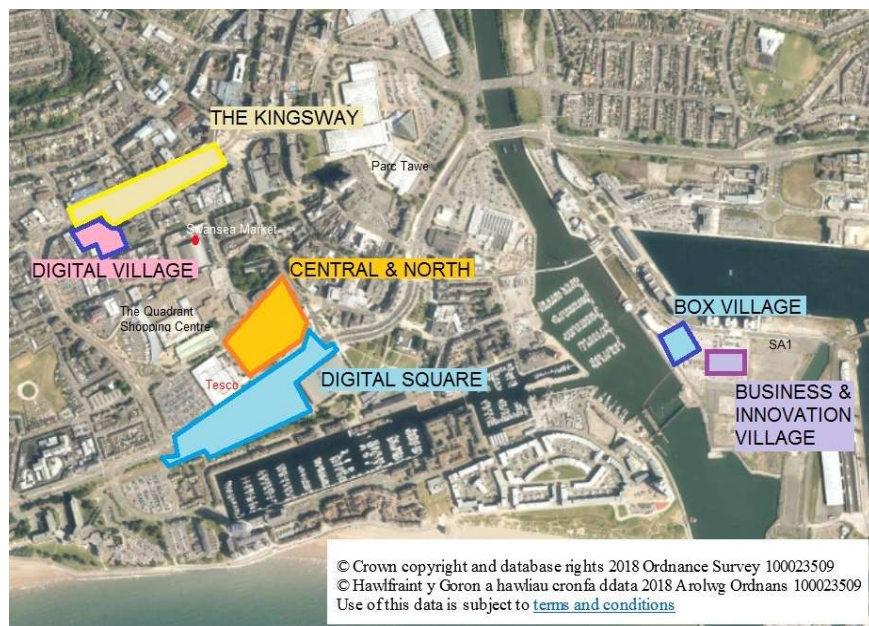
There is significant demand identified from occupiers for incubation and grow-on, tech related office space in Swansea (even after Covid-19) but at present private sector commercial property developers will not commit to developing projects in Swansea due to the lack of viability caused by low rental levels, high risk level and poor environment, and therefore these projects will stagnate and not proceed without significant public sector intervention.

Similarly, the Arena has an overall cost far higher than its associated capital value, and hence wouldn't be developed by the private sector. The only feasible option therefore to address this impasse is for the programme sponsors to undertake direct delivery of all three schemes. The business plan has been reviewed by Cushman & Wakefield as a critical friend to confirm the viability of the schemes, and the validity of the commercial assumptions.

The programme sponsors are already in possession of the required landholdings to deliver the three schemes. Planning consent was obtained for the Digital Square and

Arena, as part of the wider Swansea Central scheme, and for the Digital Village. A full planning application has been worked up for Innovation Matrix, and was submitted in Q2 2022.

Image 1: location of the Digital District schemes:



## 4.2 SBCD Procurement Principles

The Swansea Bay City Deal Procurement Principles have been put in place for project teams that are developing and delivering projects as part of the Swansea Bay City Deal. The Principles set out how the SBCD expects project teams to take a fresh look at the way works, goods and services are specified and procured so that the maximum economic, social and environmental benefit to the region can be achieved from the process. The Principles look beyond the initial construction phase and also apply to the operational service of the assets when built. The programme has and will align with these principles in the procurement of each of the project elements.

## 4.3 Service Streams and Outputs

### Digital Square & Arena

The Digital Arena will provide a 3,500-capacity 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 on the South side of Oystermouth Road 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 centre 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.

IPW, specialist Arena advisers, undertook 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 size for the arena in Swansea.

The Arena has been designed to accommodate a wide range of event types and sizes and 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
- c1,450sqm of exhibition space on the arena event floor
- additional complementary exhibition space available on concourses
- a variety of meeting rooms including: 8 x 25-person capacity (with capability to combine 3 to form 75-person capacity), 1 x 50-person capacity and 1 x 200 capacity
- further potential to utilise other spaces, such as green room, production rooms and crew spaces
- foyer space and foyer café.

Given its mix of facilities, 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, which will be particularly suitable for local tech companies, for example through the use of the foyer café.

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. The digital infrastructure will make it a natural home for digital innovation and creative thinking. The Arena will have a digitalised façade – the first of its kind in the UK, which will advertise shows, concerts, exhibitions and other events.

The Digital Square & Arena sits within the wider Swansea Central Phase 1 scheme which comprises in total:

- Digital Square & Arena – part of the City Deal Digital District programme and will be delivered by Swansea Council
- Hotel development to support the Arena – forms part of the city deal project and will be delivered by the private sector
- 354 space multi storey car park on the South side of Oystermouth Road with a coastal park on the roof – excluded from the city deal project, will be funded and delivered by Swansea Council
- Wide attractive pedestrian bridge over Oystermouth Road - excluded from the city deal project, will be funded and delivered by Swansea Council.
- 640 space multi storey car park with 33 DQR compliant residential units with a retail unit on the Ground floor on the North side of Oystermouth Road, this is excluded from the city deal project and will be funded and delivered by Swansea Council.

With the exception of the hotel, all elements above will be delivered by Swansea Council as a single programme of work (Swansea Central Phase 1) over the same time period. A single construction contract has been awarded for the whole of the Swansea Central Phase 1 scheme.

## 4.4 Delivery Timescales

### Digital Square & Arena

The Digital Square and Arena project is now completed and the facility is fully operational. The contractor Buckingham produced a detailed programme for the works and whilst there were some delays due to Covid-19, these were minimised, the construction site remained open and works progressed. The Council signed an Agreement for Lease with the selected operator Ambassador Theatre Group in January 2018 with the 30 year lease agreement signed in October 2021. The original procurement process for the hotel development was completed in May 2018. Discussions are currently progressing with Visit Wales over the funding of proposal.

The project was undertaken to the following timescales:

	<u>Finish Dates</u>
Outline planning consent granted	June 17
End of Design Stage 2	Nov 17
Arena Operator Contract Signed (Agreement for Lease)	Jan 18
Hotel procurement	May 18
Contractor Procurement	July 18
Arena Operator Lease Agreement	Oct 21
Construction complete	Jan 22
Arena Opening (phased)	Mar 22

### Digital Village

The Digital Village project has been procured and is currently underway. The project is programmed for delivery to the following timescales with completion scheduled for October 2023:

	<u>Finish Dates</u>
Detailed Design	Aug 20
Planning Submission	Mar 20
Tender and Contractor Procurement	May 21
Enabling infrastructure works	Sep 21
Construction	Jul 23
Fit Out	Aug 23
Completion and Occupation	Oct 23

### Innovation Matrix

	<u>Finish Dates</u>
Planning Submission	Q2 22
Detailed Design	July 22
Tender and Contractor Procurement	July 22
Construction	TBA
Construction Completion	Nov 23
Completion and Occupation	Dec 23

Innovation Precinct

Planning Submission  
Detailed Design  
Tender and Contractor Procurement  
Construction  
Construction Completion  
Completion and Occupation

Finish Dates

Mar 23  
June 23  
Oct 23  
Sept 24  
Oct 25  
Dec 25

Image: Digital Arena, viewed from pedestrian bridge over Oystermouth Road



Image of construction Digital Square June 2020

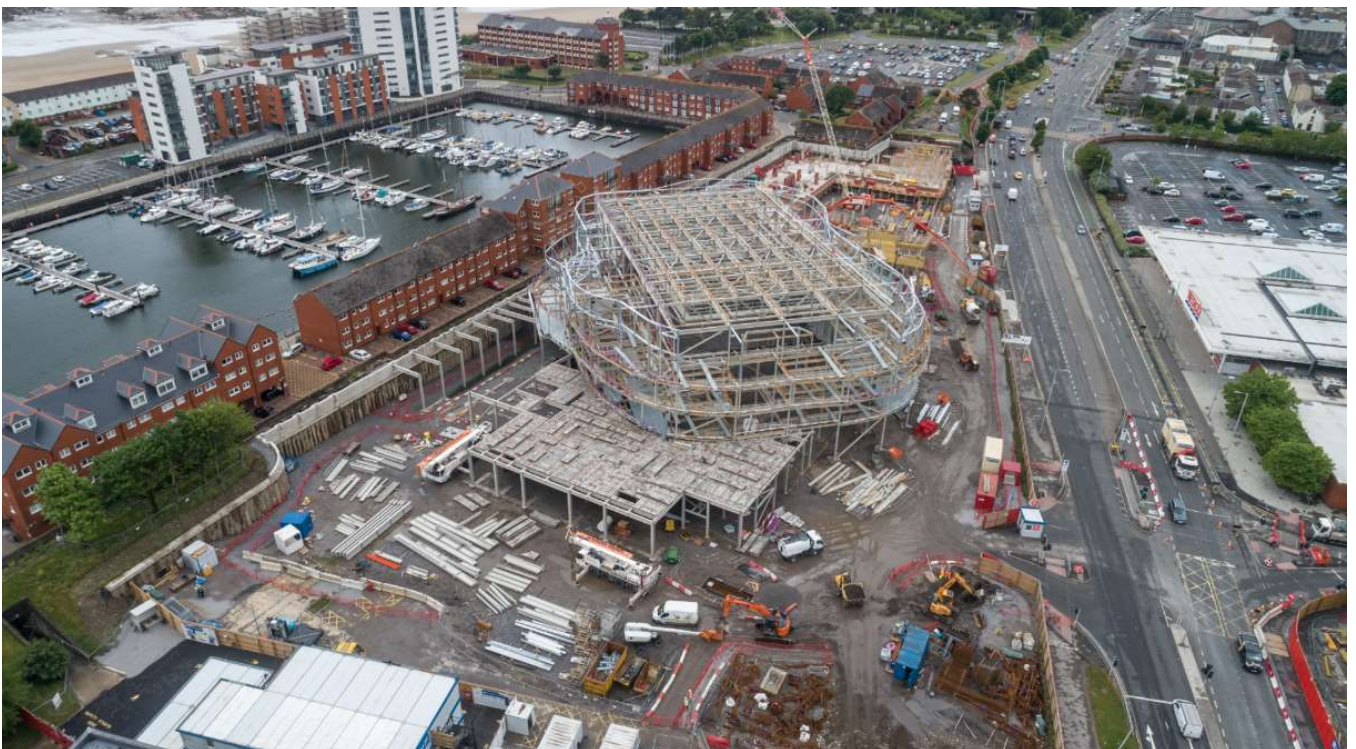


Image of completed Digital Square March 2022



Image of construction 71-72 Kingsway



#### 4.5 Allocation of Risk

The general principle applied to the allocation of risk for each of the projects is that risk is passed to 'the party best able to manage them', subject to value for money.

The principal financial risks retained by the programme sponsors are construction cost increases and failure to secure sufficient lettings to achieve the projected net rental income.

##### Digital Square and Arena

Swansea Council procured the contractor on the basis of a fixed price.

Under the SEWSCAP framework, appointed contractors are required to take account of and actively participate in environmental, social and economic impacts to delivery within the community and surrounding areas.

The operator lease agreement was finalised in October 2021 with ATG imposes obligations to maintain and insure the Digital Arena for the duration of the 30 year lease. Main terms of the lease are:

- Term of the lease – 30 year lease, commencing 25<sup>th</sup> February 2022
- Tenant responsibilities for insuring and repairing
- Joint Operations Management Plan
- Profit Sharing arrangements
- Option for Tenant to extend and renew the lease

The council is responsible for the LED facade

There are no break clauses for the Hotel as the investment is coming from the Private Sector.

### Digital Village

Swansea Council procured the contractor on the basis of a fixed price. Contractual allocation of risk. For construction contract.

The Digital Village office occupiers will be required to pay a service charge towards maintenance and repairs.

To minimise the lettings risk the programme sponsors have in place dedicated in-house teams to actively promote and work with intended occupiers both to secure lettings and understand the level of demand in the commercial market. This team is supported by external property letting specialists.

The Digital Village will be let on a mix of tenancies to create a mix of occupiers with the larger occupiers on longer tenancies and the smaller businesses on shorter tenancies. To date our commercial advisors have been Cushman & Wakefield, however more recently JLL and Avison & Young have also been appointed to join the team to assist with marketing and letting the building

The business case originally set out that the Council would look to secure a proportion (c50%) of pre-let space in the Digital Village before committing to build. The recent Covid-19 pandemic has changed the way businesses have looked at the way they secure and occupy property and in the current market occupiers are not looking more than 12 months ahead and therefore won't commit to leasing space until a scheme has started on site.

The Council's advisers, Cushman & Wakefield advised that Swansea Council must be prepared to start construction on site speculatively without a pre-let. Once on site the building is well positioned to capture the returning office demand in a post pandemic world, a preferred operator has been identified together with a prospective tenant, however all have indicated a need to start on site prior to agreeing any deal terms. Once on site, it would then be realistic to target a conditional arrangement with these preferred operators in principle to start building the community and a future agreement to operate the space. The Council therefore needed to commit to the build to give



confidence and any lettings should not be to the detriment of the wider ambitions for the building.

Another reason for not pre-letting too soon, is that C&W are anticipating a transition to a workplace ecosystem consisting of the office, the home and third spaces where flexible workspace can play a part. Occupiers are now looking for flexibility in their office agreements, and the Kingsway is set to offer the most flexible high-quality space in Swansea.

A report was taken to cabinet to appoint a contractor and reported the current letting market position relating to the Covid impacts, tenant responses to marketing and associated risks. Cabinet decided to proceed to build on a speculative basis.

Covid-19 is likely to impact risk transfer on the Digital Village in that the expected level of private sector fit out as the expectation post covid-19 is that tenants will expect a fully fitted out space, this will impact the anticipated private sector input into that project.

### Innovation Matrix and Precinct

Details are to be provided by UWTSD once details once the contract has been agreed.

Overall allocation of service risks in the design, build and operational phases of the programme will be as follows. These are unchanged from the risk allocation within the approved OBC.

Table 14: Risk transfer matrix

Risk Category	Potential allocation		
	Public	Private	Shared
1. Design risk			X
2. Construction and development risk			X
3. Transition and implementation risk			X
4. Availability and performance risk			X
5. Operating risk			X
6. Variability of revenue risks			X
7. Termination risks	X		
8. Technology and obsolescence risks			X
9. Control risks			X
10. Residual value risks	X		
11. Financing risks	X		
12. Legislative risks	X		
13. Other programme risks	X		

## 4.6 Payment Arrangements

The payment mechanism agreed with the service provider with respect to the proposed products and services is as follows:

### Digital Square & Arena

Payment is authorised when the payment process has been followed. The contractor makes a claim on a monthly basis under JCT contract terms which is analysed by the SC professional team.

An OJEU process was run to secure an operator for the arena. The process secured Ambassador Theatre Group on a 30-year lease with responsibility for repairing and operating the arena. Through the OJEU process a rental level of £50k p.a. was bid plus a ticket sales addition plus a profit share above an agreed threshold.

The hotel procurement established a nil capital value for the hotel site on the basis that a 4\* hotel is not currently viable. A WG Visit Wales grant application is being progressed by the appointed developer together with loan requirements

### Digital Village

Payment is authorised when the payment process has been followed. The contractor makes a claim on a monthly basis under JCT contract terms which is analysed by the SC professional team.

The Digital Village will have lease terms and rental levels as recommended by office letting agents in order to secure best consideration.

In order to retain and uphold the vision of the scheme, waiting until closer to PC of the building before entering into firm commitments from a curated mix of smaller tenants will better deliver on this objective and provide the transformative scheme that Swansea needs;

Under current market conditions, the chance of identifying a 'non-contact centre' single occupier for floor plates of 14,000 sq. ft will be limited when compared to the sub 3,000 sq. ft occupier market. A floor plate offering maximum flexibility is likely to provide the best chance of securing occupiers nearer PC of the building - any restrictions on the type of B1 office user permitted to occupy the building will result in extended timescales to achieve full occupancy.

71/72 The Kingsway will be a prominently located best in class office building in Swansea City centre and there are good prospects for getting part of the space committed prior to practical completion. There is currently an encouraging level of occupier demand from indigenous businesses who are well established in Swansea and many of those organisations have lease expires in their existing dated secondary office accommodation. The time is right for many of these businesses to upgrade their accommodation and to relocate to the new prime location of 71/72 Kingsway;

A range of possible scenarios for leasing may be possible that will be shaped by the current market conditions and operator and tenant interest.

### **Lettings Rental Revenue**

- **Flex Tenant** – This will be on c. 23% of the NIA and be operated under a management agreement by the preferred flexible workspace operator. The return is not secured and is based on anticipated revenues (after costs) of running a flexible workspace operation delivering just under a market rent. This return could fluctuate.

- **Traditional Office Tenants** - for a new build high specification office building in Swansea City centre, it is anticipated marketing the office accommodation on a traditional lease basis with a rental range of between £15.00 to £17.00 per sq. ft, with a view to push the Swansea headline rental zone upwards as demand increases and the vacancy in the building diminishes. We have therefore attributed £16.50 per sq. ft. to the traditional accommodation and applied between 9 – 24 months void and rent-free period to each tenant letting.
- **Retail Tenant** – assumed achievable market rent of £15.00 per sq. ft to the retail accommodation and a void/rent free period of between 9 – 15 months for each unit.
- **Shared Lettable Accommodation** – rent for these areas similar to the flex office model, after costs in the region of £12.50 per sq. ft. However, the more attractive/premium areas will generate a higher return and assume a net receivable rent per annum of £16.50 per sq. ft for the Lounge/Meeting Room and £17.50 per sq. ft for the bar.

The above assumptions generate a rental revenue stream for the building when fully occupied of £1,287,208 per annum which equates to £14.78 per sq. ft against a 87,080 sq. ft NIA.

#### Innovation Matrix & Innovation Precinct :

UWTSD will make payments with respect to the proposed products and services in line with the appropriate provisions contained within the NEC 3 form of Contract. This contract is very much seen as “collaborative contract” and as such the payment terms reflect this.

#### **4.7 Contractual Arrangements**

The programme sponsors are acting as direct developers for all elements except the hotel (which forms part of the Digital Square & Arena), proceeding with the developments on land in their existing ownership.

Procurement of building contractors and appropriate design and cost consultants is being managed by the programme sponsors.

#### Digital Square and Arena

The construction services for the arena were procured through a full OJEU Procurement. The council selected Buckingham as the main building contractor. The Council entered into an NEC Pre Contract Services Agreement (PCSA) with Buckingham to finalise scheme design and provide a detailed fix price for building phase 1 for Cabinet to consider. There was a two stage process where the contractor Buckingham took their design to stage 4, and at which point the price was agreed and fixed with the council. The building contract was entered into between the Council and Buckingham on 26 November 2019.

Following a competitive dialogue process for the OJEU compliant procurement of an operator for the Arena, the Agreement for Lease was signed with Ambassador Theatre Group in January 2018 and a 30 year lease agreement signed in October 2021. The lease is subject to the Landlord & Tenant Acts and therefore subject to potential

renewal.

The Hotel is to be disposed on a 250-year lease to Cairns the developer/operator. Heads of Terms are being finalized. The bid from Cairns is conditional upon Visit Wales grant funding. Discussions are currently progressing with Visit Wales.

### Digital Village

For the Digital Village (71-72 Kingsway), tenders were issued to contractors included within Lot 6 of the Southwest Wales Regional Contractors Framework (SWWRFCF). The contract award to Bouygues UK was ratified in May 2021 Cabinet. There was a two stage process NEC contract where the price was agreed and fixed with the council The Cabinet also approved the project Business Plan (informed by Cushman and Wakefield) and full project funding. This highlighted the prospective recommended anchor tenants/flex space operator subject to T&Cs being agreed once commencement on site is achieved. Swansea Council and Bouygues UK exchanged contracts and works commenced in November 2021 for August 2023 completion. The Digital Village will be let on tenancies recommended by letting agents, with the larger occupiers likely to be on longer tenancies than the smaller businesses, as advised by Cushman & Wakefield.

The contract value is £33,689,962 to construct 71 / 72 The Kingsway and undertake a refurbishment of the former Barclays Bank, subject to the published terms and conditions. It should be noted that the project sum includes for:

- a sum of £1.1m for the refurbishment of the former Barclays Bank at 69/70 The Kingsway is included as a Provisional Sum, with the intention to issue the contractor with the full design package for pricing. Subject to costs being within budget it is proposed that these works will be instructed as a Compensation Event, should this action be instructed.
- an additional construction contingency of £3.4m to be set aside by Swansea Council for any post contract changes or issues encountered on site, given the scale and complexity of the project;
- a sum of £1.4m be set aside as an incentive for occupation for fit-out as highlighted in Section 2, table 1 of the 71-72 Business Case.
- in addition to the existing £2.4m commitment on professional fees through to delivery, there is a requirement for an additional sum of £611k to be set-aside to cover design fees and supervision fees arising from re-procurement actions, value engineering and addition of an extra floor, increasing the overall professional fee cost to circa £3,195,000
- capitalisation of staff costs of £432k are included.

The Digital Village enabling infrastructure works (reconfiguration of highways and public realm) is being funded through the ERDF Kingsway Digital Village: Employment Hub project, which received ERDF approval in November 2017. The procurement process was completed in March 2018, with Dawnus appointed as the main contractor and construction work commencing in April 2018. After Dawnus entered administration in March 2019, the Council employed completed replacement contractor and works are now nearing completion.

### Innovation Matrix & Innovation Precinct

A multi-disciplinary consultancy team has been appointed via an OJEU process to develop the designs to RIBA Stage 3 for the Innovation Matrix.

Prior to the commencement of RIBA Stage 4 (and in accordance with ECI principles), tenders will then be invited, as part of a 2-stage process, under the terms and conditions of either the SEWSCAP or SWWRCF Framework Agreements. The contract will be procured from the either SEWSCAP or SWWRCF frameworks which (as well as being supported by Welsh Government) are incredibly robust procurement vehicles and have been used successfully on over £1billion of projects in South Wales.

For University of Wales Trinity Saint David, the construction works will be carried out in accordance with the NEC 3 Engineering and Construction Contract, 2005 edition, Main Option Clause A, Priced Contract with Activity Schedule and will include all standard contract clauses.

#### **4.8 Social Benefit clauses**

Swansea Council and University of Wales Trinity Saint David are committed to maximising Community Benefits as part of their Procurement Strategy for all major contracts. The Council's award winning Beyond Bricks & Mortar approach is being implemented across all three developments. Social benefit clauses have and will be included in legal agreements with developers and contractors, committing the successful contractors to undertake measures that will benefit the community, such as:

- Targeted recruitment and training – giving consideration to the long term unemployed and disadvantaged in our communities when recruiting for new job and training opportunities.
- Supply Chain initiatives – enabling local service suppliers and small and medium enterprises (SMEs) to bid for sub-contract and service supply opportunities, for example by holding Meet The Buyer events;
- Contributions to Education – working with schools and colleges, providing short term work experience, mentoring, career talks etc.;
- Community Initiatives – contributing to community facilities, events, engagement, volunteering, or other services to support community groups.

The Community Benefits process will be managed by the Council's Beyond Bricks & Mortar Team.

#### Digital Square and Arena

The procurement process to appoint a main contractor included a requirement to comply with the Councils beyond Bricks and mortar policy, which looks to include community benefits into all suitable contracts, in particular focussing on targeted recruitment and training (TR&T), a provision of training weeks for local people from disadvantaged groups and encourages the use of local sub-contractors.

The following community benefits under the construction contract with Buckingham were agreed:

- 4325 person weeks of TR&T which will include opportunities for new apprentices, new trainees, jobs for new entrants i.e. the unemployed, economically inactive and NEETs, work tasters and work experience placements.
- A requirement to undertake meaningful engagement with the local suppliers and businesses in the region through Meet the Buyer events and through visibility, where possible, of subcontract opportunities for new suppliers to bid for
- Also, a requirement to provide contributions to education in the form of school engagement, STEM activities and wider community initiatives and community engagement.

The following benefits have been achieved through the delivery of the contract:

### Digital Village

The construction of the Digital Village will provide the opportunity to deliver an estimated 1,789 net additional person weeks of training targeted at the long term unemployed and economically inactive.

### Innovation Matrix and Precinct

Further information on the Social Benefit approach will be provided by UWTSD once details are agreed.

## **4.9 Personnel implications (including TUPE)**

TUPE – the Transfer of Undertakings (Protection of Employment) Regulations 1981 – will not apply to this investment because provision of services will be undertaken directly by staff of the Council and the University with support from external advisors where appropriate.

## **4.10 Accountancy Treatment**

The assets underpinning delivery of service for Digital Village and Digital Square & Arena will be on the balance sheet of Swansea Council.

The assets underpinning delivery of service for Innovation Matrix & Innovation Precinct will be on the balance sheet of the University Group. The buildings will be capitalised and held as a fixed asset either on the University balance sheet or on the balance sheet of a wholly owned subsidiary company.

The programme sponsors will input the match funding indicated in the submission from their own resources and it is intended at this stage these will be treated as an on-balance sheet transaction for accountancy purposes. The Council and the University will own and manage the completed assets and retain revenue income from the activities. To achieve the potential regeneration outcomes identified it is paramount the programme sponsors are able to provide dedicated business support and control the letting policy for the projects to ensure the accommodation remains available for SME and start-up businesses within the targeted sectors.

Following completion of the developments, the programme sponsors may seek to recover some or all of their financial investment through outright disposal or sale and leaseback from private sector organisations subject to this representing good value for money.

## **5.0 The Financial Case**

### **Introduction**

**5.1** The purpose of this section is to set out the financial implications of the contracted solutions and to confirm that the projects and overall programme remain affordable.

The main changes in this updated Financial Case are listed below:

- Updated programme level investment and funding breakdown showing total programme budget at £171.15m
- Updated project level investment and funding breakdowns
- Updated programme level income and expenditure forecast
- Details on City Deal funding flow from Governments to Accountable Body and Lead Authority
- Confirmation of financial monitoring and evaluation arrangements
- Confirmation of accountant treatment of financial transactions

### **5.2 Swansea Waterfront Infrastructure Investment Summary**

The Swansea waterfront programme is split in to following three distinct capital components and funded through a combination of City Deal, public sector and private sector funding.

- The construction and operation of a 3,500 capacity Digital Arena in Swansea City Centre with podium level public realm, commercial units in the public realm, a cutting-edge Digital Square around the arena, and a new hotel
- The construction and operation of a new Digital Village on the Kingsway in Swansea City Centre that will provide 115,000 sq. ft. of new office accommodation for growing technology-based businesses.
- The construction of a 34,000 sq. ft. Innovation Matrix and 64,600sq ft. Innovation Precinct at University of Wales Trinity Saint David Swansea Waterfront development to provide incubation space and co-working areas for start-ups and small businesses.

The financial information shown includes the procured construction costs and associated project costs and fees in the development and delivery of each project element. The current investment breakdown presented in Table 5.1. below is based on forecasted investment as of 30 June 2022:

<b>Expenditure</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 6</b>	<b>Year 7</b>	<b>Year 8</b>	<b>Year 9</b>	<b>Year 10</b>	<b>Total</b>
	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	
	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>
Capital	£ 6.03	£ 10.04	£ 31.82	£ 19.27	£ 15.91	£ 39.03	£ 21.54	£ 20.32	£ 5.95	£ 1.25	£ 171.15
Revenue	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -
<b>Total</b>	<b>£ 6.03</b>	<b>£ 10.04</b>	<b>£ 31.82</b>	<b>£ 19.27</b>	<b>£ 15.91</b>	<b>£ 39.03</b>	<b>£ 21.54</b>	<b>£ 20.32</b>	<b>£ 5.95</b>	<b>£ 1.25</b>	<b>£ 171.15</b>
<b>Funding</b>											
Swansea Bay City Deal Grant	£ -	£ -	£ 11.43	£ 11.42	£ 4.57	£ 9.52	£ 8.82	£ 4.24	£ -	£ -	£ 50.00
Public Sector	£ 6.03	£ 10.04	£ 20.37	£ 7.85	£ 11.34	£ 20.93	£ 2.89	£ 1.80	£ -	£ -	£ 81.25
Private Sector	£ -	£ -	£ 0.02	£ -	£ -	£ 8.58	£ 9.83	£ 14.29	£ 5.95	£ 1.25	£ 39.90
<b>Total</b>	<b>£ 6.03</b>	<b>£ 10.04</b>	<b>£ 31.82</b>	<b>£ 19.27</b>	<b>£ 15.91</b>	<b>£ 39.03</b>	<b>£ 21.54</b>	<b>£ 20.32</b>	<b>£ 5.95</b>	<b>£ 1.25</b>	<b>£ 171.15</b>

Table 5.1. Swansea Waterfront Investment Breakdown

These figures are the current financial investment forecast which the Swansea Waterfront Programme is currently projecting over its 10-year term and are set within the original SBCD Heads of Terms. Funding elements are subject to change as the Programme evolves. On the successful approval of the Programme business case the Accountable body will release Government funding up to the value of the agreed Programme allocation.

It is the aim of the SBCD that all projects will be delivered in a seven-year period in order to maximise the full benefits realisation of the operational schemes during the lifetime of SBCD funding, which is to be released from both the UK and Welsh Governments over a 15-year period.

The overall investment composition comprises of three following investment components:

- The **City Deal investment** component consists of the government grants awarded by UK and Welsh government totalling £50m. City Deal Grant is awarded to projects of the fifteen-year term up to a maximum of the allocated value.
- **Public sector** investment consists of investment from local authorities and other public funded and public service organisations. Public sector investment will also consist of specific Welsh Government and UK government grant funding. Local Authorities may agree that borrowing for a Regional Project should be made by all the Authorities equally or in proportions agreed or that borrowing should be carried out by one Authority on behalf of others if they so agree. The decisions as to whether borrowing on behalf of the programme shall be carried out by one Authority on behalf of the others and the proportions shall be determined by the Authorities as a matter reserved to the Authorities.
- **Private sector** investment includes regional investment from local and national private sector partners.

The OBC investment breakdown is shown below. The breakdown demonstrates that the current capital costs are within the original budget for the programme.



Expenditure	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	
	(£m)	(£m)	(£m)	(£m)	(£m)	(£m)	(£m)	
Capital	£17.72	£29.64	£58.62	£57.91	£10.78	£0.00	£0.00	£174.67
Revenue	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
<b>Total</b>	<b>£17.72</b>	<b>£29.64</b>	<b>£58.62</b>	<b>£57.91</b>	<b>£10.78</b>	<b>£0.00</b>	<b>£0.00</b>	<b>£174.67</b>
Funding								
Swansea Bay City Deal Grant	£5.63	£9.33	£15.72	£14.60	£4.73	£0.00	£0.00	£50.00
Public Sector	£11.86	£16.81	£29.64	£23.47	£2.92	£0.00	£0.00	£84.70
Private Sector	£0.24	£3.50	£13.27	£19.84	£3.13	£0.00	£0.00	£39.97
<b>Total</b>	<b>£17.73</b>	<b>£29.64</b>	<b>£58.62</b>	<b>£57.91</b>	<b>£10.78</b>	<b>£0.00</b>	<b>£0.00</b>	<b>£174.67</b>

Table 4.2. Swansea Waterfront Original Business Case budget

Table 5.3 below shows the project level funding breakdown and is compared with the OBC project funding breakdown in Table 5.4:

Project	Swansea Bay City Deal Grant	Public Sector	Private Sector	Total
Innovation Matrix	13.44	11.07	8.90	33.41
Digital Village	13.71	29.83	5.00	48.54
Digital Square	22.85	40.36	26.00	89.20
<b>Total</b>	<b>50.00</b>	<b>81.25</b>	<b>39.90</b>	<b>171.15</b>

Table 5.3. Swansea Waterfront Project Investment Breakdown

Project	Swansea Bay City Deal Grant	Public Sector	Private Sector	Total
Innovation Matrix	13.44	8.32	8.90	30.66
Digital Village	13.71	30.95	5.00	49.66
Digital Square	22.85	45.44	26.07	94.36
<b>Total</b>	<b>50.00</b>	<b>84.70</b>	<b>39.97</b>	<b>174.67</b>

Digital Square is currently demonstrating an underinvestment of £7m against budget due to the reappropriation of costs across the whole Copr Bay site. Work on final costs is being undertaken and will be reported on in line with the amended programme being agreed with the contractor

A summary of the funding for each of the project elements is shown below with the OBC figure shown in blue:

#### Digital Square and Arena

Funding	£	£
City Deal	22,848,000	22,849,000
City and County of Swansea Council	40,355,265	45,438,000
Hotel Developer	25,000,000	25,071,000
Industry Service Provider	1,000,000	1,000,000
<b>Total</b>	<b>89,203,265</b>	<b>94,358,000</b>

The Swansea Council match funding contribution was approved by Cabinet in October 2019 and is formally included in the Council's capital programme and the Council's contribution to the project will be met through borrowing.

Private sector investment is comprised of:

- £1m investment in fit out of Digital Arena by ATG, the arena operator. This is legally committed through the ATG legal agreement.
- £17m for development of hotel adjacent to Digital Arena: to be provided by private sector developer. Discussions are ongoing with Visit Wales regarding the remaining funding required for this project to proceed.

### Digital Village

Funding	£	£
City Deal	13,711,000	13,710,000
City and County of Swansea Council	29,329,125	30,948,000
WEFO	500,000	
Industry Service Provider - DA	5,000,000	5,000,000
<b>Total</b>	<b>48,540,125</b>	<b>49,658,000</b>

Swansea Council match funding contribution was approved by Cabinet in May 2021

- Full business case costings have been confirmed post procurement. Full cost now at £48,540,125 (from original £49,648,253).
- ERDF funding of £500k has been provided to contribute towards the additional floorspace.

### Innovation Matrix and Precinct

Funding	£	£
City Deal	13,441,000	13,441,000
UWTSD	8,315,558	8,315,000
Financial Investment institution	8,900,000	8,900,000
Funding tbc	2,752,443	-
<b>Total</b>	<b>33,409,001</b>	<b>30,657,000</b>

## 5.3 Revenue Considerations

### Digital Square and Arena

Annual net revenue streams to be received from the Digital Square project annually are set out below,

Item	Income
Arena rent	£50,000
Arena Ticketing*	£46,000
Arena Louges	£41,700
Commercialisation	£10,000
<b>TOTAL</b>	<b>£147,700</b>

\* = Estimate

By Cabinet of October 2019 Swansea Council authorised the budget to be added to the capital programme to complete the Digital Square scheme plus the non city deal elements detailed above.

## 71-72 Kingsway (Digital Village)

Our projected total rental revenue for the fully let building is shown within the appraisal as £1,287,208 per annum, however this rental projection is likely to fluctuate given the uncertain nature of the Swansea office market and moreover the flexible nature in which the Council are looking to offer the building. Under the assumptions that the market reacts to the building's availability in the manner in which we anticipate, we believe it will take circa.2 years for the building to reach its optimum revenue generation.

### Innovation Matrix / Precinct

Details of projected rental revenue to be provided by UWTSD once they are available.

## 5.4 Swansea Waterfront Income and Expenditure Summary

The UK and Welsh Government capital grant contribution to the Swansea Waterfront Programme is awarded over a fifteen-year period and currently forecasted at £50m. With the approval of the OBC by UK and Welsh Government, funding is being released from the portfolio up to a maximum of the agreed grant allocation.

An inherent temporary funding gap is recognised with the funding being released to the Programme over a fifteen-year period. City and County of Swansea as the Programme Lead Authority in partnership with UWTSD are responsible for managing the operational cashflows in respect of the projects, with both organisations contributing to its delivery.

They are also therefore subsequently accountable for managing inherent risks and any funding gaps recognised.

The Programme expenditure profile is presented in Figure 5.5 and Table 5.6 below

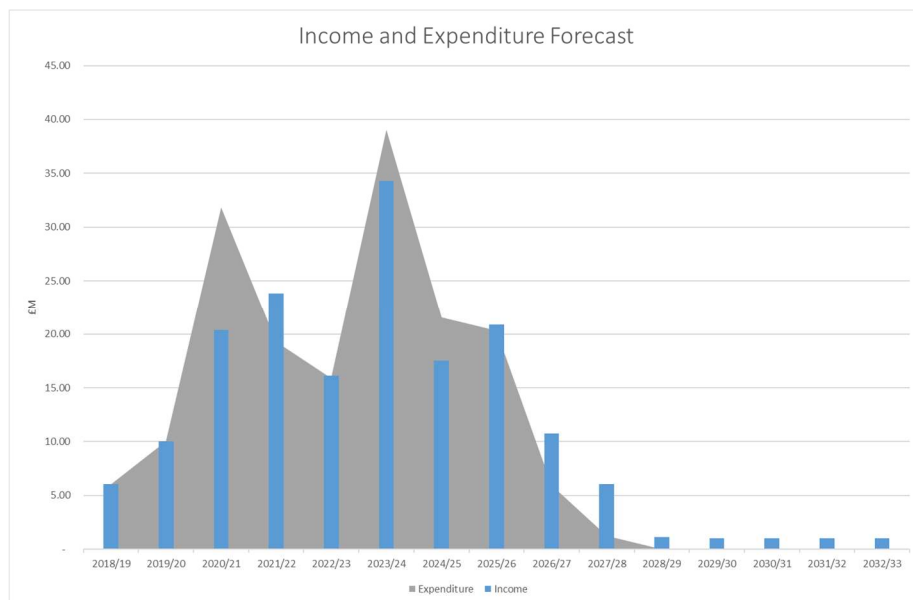


Figure 5.5 Income and Expenditure Forecast

## Income and Expenditure Forecast

<u>Expenditure</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>
	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>
Capital Expenditure	6.03	10.04	31.82	19.27	15.91	39.03	21.54	20.32
Revenue Expenditure	-	-	-	-	-	-	-	-
<b>Total</b>			<b>31.82</b>	<b>19.27</b>	<b>15.91</b>	<b>39.03</b>	<b>21.54</b>	<b>20.32</b>
<b>Funding</b>								
City Deal	-	-	-	15.99	4.79	4.79	4.79	4.79
Public Sector	6.03	10.04	20.37	7.85	11.34	20.93	2.89	1.80
Private Sector	-	-	0.02	-	-	8.58	9.83	14.29
<b>Total</b>	<b>6.03</b>	<b>10.04</b>	<b>20.39</b>	<b>23.84</b>	<b>16.13</b>	<b>34.29</b>	<b>17.51</b>	<b>20.87</b>

<u>Expenditure</u>	<u>Year 9</u>	<u>Year 10</u>	<u>Year 11</u>	<u>Year 12</u>	<u>Year 13</u>	<u>Year 14</u>	<u>Year 15</u>	<u>Total</u>
	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>	<u>2031/32</u>	<u>2032/33</u>	
Capital Expenditure	5.95	1.25	-	-	-	-	-	171.15
Revenue Expenditure	-	-	-	-	-	-	-	-
<b>Total</b>	<b>5.95</b>	<b>1.25</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>155.08</b>
<b>Funding</b>								
City Deal	4.79	4.79	1.12	1.04	1.04	1.04	1.04	50.00
Public Sector	-	-	-	-	-	-	-	81.25
Private Sector	5.95	1.25	-	-	-	-	-	39.90
<b>Total</b>	<b>10.73</b>	<b>6.04</b>	<b>1.12</b>	<b>1.04</b>	<b>1.04</b>	<b>1.04</b>	<b>1.04</b>	<b>171.15</b>

Table 5.6 Programme Income and Expenditure Forecast

## 5.5 City Deal Funding

The release of funds from the Accountable Body to the City and County of Swansea as lead Authority will follow funding route illustrated in Figure 4.2. below:

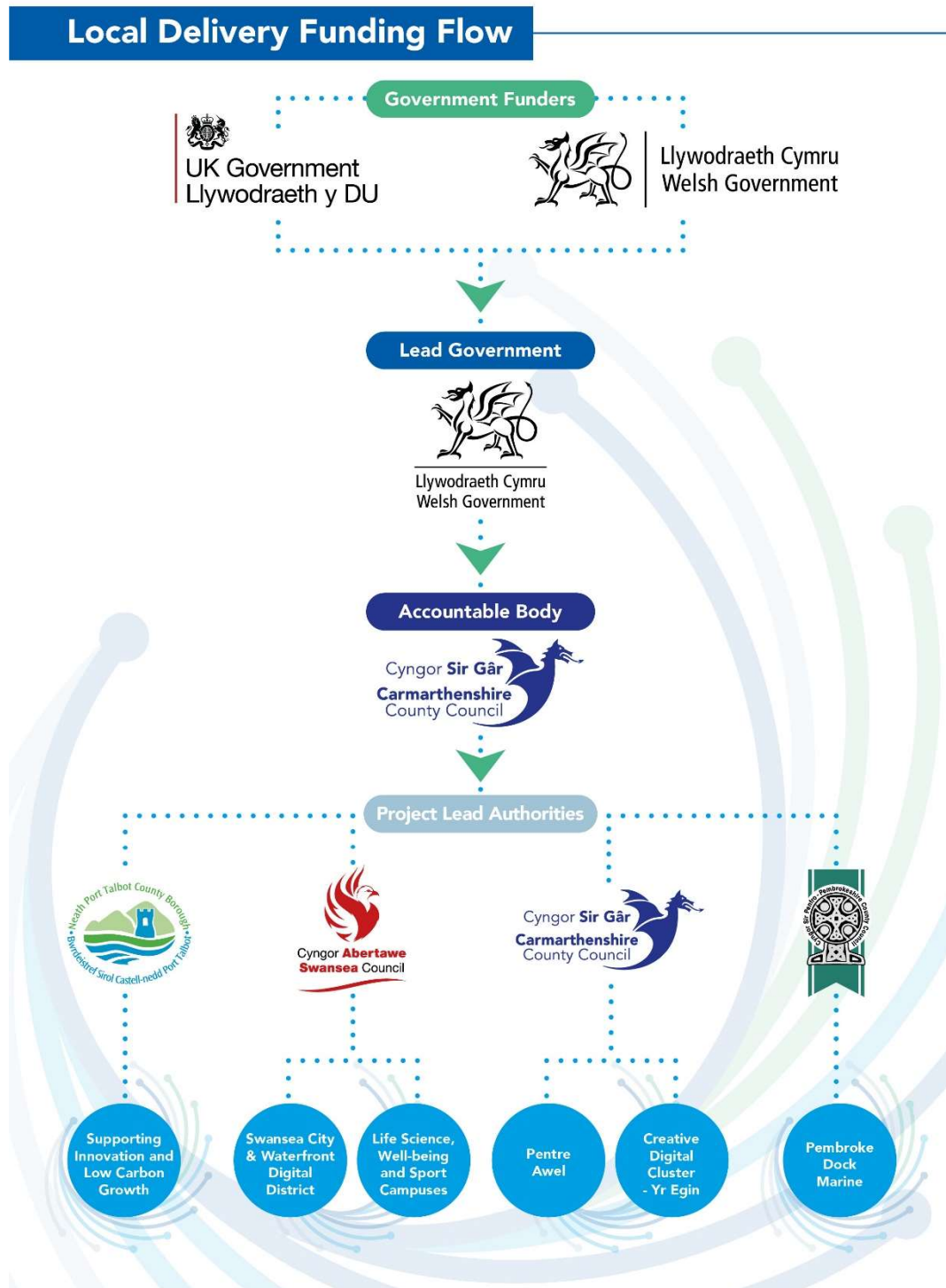


Figure 4.2. City Deal Funding Flow

### Borrowing

The Joint Committee is responsible for overseeing the proportion of each Council's responsibility for borrowing to provide funding for regional Projects. The capital

borrowing (in respect of the Government funded element) for the City Deal Projects will be re-paid by identified Government funds (UK & Welsh Government) over the 15-year period with the UK Government element now being paid over a 10-year timeframe.

The exact level of borrowing and the structure and terms of the borrowing is yet to be confirmed at this point in time, however it will be calculated based on the amount required per relevant local authority and will be in line with the individual local authority's internal requirements. This is being determined by the four Section 151 Officers of the four regional local authorities. All borrowing will be agreed based on the principles of the Prudential Code and Treasury Management Policy and Strategy for each local authority. When further details of the investments required for each Project are known, a full business case appraisal for each individual Project will be completed and submitted to the relevant local authority for approval before submission to the Joint Committee. These full business cases will include the detailed funding proposals and requirements of the local authority.

**Government Grant 'Top Slice'** - Annually, up to 1.5% of the Portfolio Investment Fund, specifically the government grants awarded, will be earmarked to support the Joint Committee and central administration functions required to support the delivery of the Portfolio. This is referred to as 'Top Slice' of Government Grants.

**Interest on Investments** - It is recognised that throughout the lifecycle of the City Deal portfolio, cash balances will arise through cashflow movements as and when Projects become live and actual expenditure is incurred. Cash balances held by the Joint Committee will be invested through Carmarthenshire County Council as the Accountable Body. Income generated from cash investments will be ring-fenced and redistributed direct to Projects based on the allocation outlined within the original Heads of Terms.

## **5.6 Monitoring and Evaluation**

The City Deal portfolio finances will be monitored through the SBCD Programme Board and Joint Committee, with the Economic Strategy Board also making recommendations on possible additional funding opportunities or alternative portfolio expenditure. Regular reports will also be presented by the Accountable Body to the regional Local Authority Directors of Finance and Regional Section 151 Officer working group. This working group will, in collaboration with the Welsh Government and the SBCD Portfolio Management Office, agree the financial monitoring process which will be:

- In line with overall reporting processes for the City Deal
- Based on best practice principles and guidance on project monitoring contained within the Green Book

Regular monitoring will also be undertaken through the specific programme level governance arrangements.

The monitoring process will allow for the control of project cost variations and visibility of variations at a portfolio level.

The monitoring requirements of the Portfolio will require the Project Authority Lead to submit a claim for project funding to the Accountable Body at a frequency to be determined by the Accountable Body. The claim shall include a progress report on the project. The progress report shall include an assessment of risks associated with the project and details of progress against the agreed outputs. After the parties have agreed in accordance with clause 6.7 of the funding agreement that the project has achieved practical completion, the project authority lead shall not be required to submit claims for project funding. Thereafter, the project authority lead shall complete annual monitoring returns in a form to be specified by the Accountable Body prior to the Accountable Body releasing any project funding to which the project authority lead is entitled. The annual monitoring forms will include an obligation to report on the progress in achieving the agreed outputs. The Accountable Body reserves the right to impose additional monitoring requirements at a frequency and for such period as it considers reasonable in all the circumstances.

In addition to the above monitoring requirement the Accountable Body will require quarterly financial updates on project spend to support the cashflow management of the portfolio. These will detail the actual spend to the period, with forecast outturn over the 15-year duration of the portfolio.

Project lead authorities are also obligated to support the Accountable Body with any progress update reporting as required by the Welsh and UK Governments.

## **Financial Risk Management and Assurance**

### Financial Risks

The portfolio financial risks are monitored and managed as part of the City Deal's overall risk management arrangements. The City Deal Programmes and Projects maintain, manage and monitor their own risks in line with guidance from the Green Book and the City Region's Accountable Body and SBCD Portfolio Management Office. The Programme operates a risk register and issues log, specifically including any financial risks identified. These risks will be monitored and updated with mitigating control actions through the Programme board as a standing item and then regularly presented to the City Deal Programme Board and Joint Committee, through the Portfolio Management Office.

### Financial Issues, Dependencies and Interdependencies

The Programme board will maintain a log of any financial issues, dependencies and interdependencies at both programme and project level. This log will be considered alongside the financial risk register outlined above. The Accountable Body will work through the Section 151 Officer Working Group to determine any actions necessary to address identified issues and will present recommendations for required action to the Programme Board, Economic Strategy Board and Joint Committee for approval. Regular updates on financial issues, dependencies and interdependencies will also be provided to the Programme Board and Joint Committee via the Portfolio Management Office as appropriate.

### Assurance - Internal Audit

The review of the effectiveness of the system of Internal Control and Governance arrangements is informed by the work of the Internal Auditors, from which the Programme Lead Authority and Programme board gain assurance. Internal Audit is required to undertake their work in accordance with the standards as set out in the Public Sector Internal Audit Standards (PSIAS) established in 2013, which are the agreed professional standards for Internal Audit in Local Government.

As required by these Standards, the Head of Internal Audit as appropriate to the Programme Lead Authority will undertake an independent review and report findings to the Portfolio Lead Authority and Programme Board. The format of the Annual Report complies with the requirements of the Code of Practice. The Strategic and Annual Audit Plans are approved annually by the Project lead authority and Project board. In addition, the Internal Audit Unit undertakes fraud investigation and proactive fraud detection work.

#### Assurance - External Regulators

Audit Wales as External Auditor to the Project Lead Authority reviews and comments on the financial aspects of Corporate Governance which include the legality of financial transactions, financial standing, systems of Internal Financial Control and standards of financial conduct and fraud and corruption.

### **5.7 Accounting Treatment of Programme Transactions**

#### **Accounting for Income and Expenditure**

All income and expenditure is accounted for within the financial statements of the Project Lead Authority.

#### **Revenue Requirement**

The Welsh Government has acknowledged that revenue funding will be required to support the delivery of projects within the City Deal portfolio. The revenue requirements by projects of the City Deal are to be managed locally by the Project Lead Authorities. The Welsh Government recognises that the four local authorities will need to manage their capital funding to enable revenue expenditure to be supported. To achieve this through the use of the Local Authorities' capital receipts, Local Authorities will reference to the latest direction from Welsh Government Ministers on the use of capital receipts. This was issued under section 15(1) (a) of the Local Government Act 2003, along with accompanying guidance. Specific revenue funding will be detailed within project business cases and funded through partner investment.

#### **Balance Sheet Accounting**

Assets generated through the life of the programme will be accounted of and held on the balance sheet of the Local authority in which constituent area the asset is completed or the partner in which the asset is generated. Local authorities will account for assets inline with the relevant legislation and accounting standards. Partners will account for the assets inline with their own industry standard or accounting policies adopted.

#### **Value Added Tax**

Value Added Tax (VAT) is included where appropriate within the forecasts and estimates demonstrated. For objectives delivered by local authorities, VAT is excluded



from forecasts and estimates under the application of Section 33 of the VAT act 1994. This Act refunds to (mainly) local government bodies the VAT attributable to their non-business activities and exempt business activities, providing it is considered an insignificant proportion of the total tax they have incurred. Projects or components of projects that are delivered by parties, other than that of local authorities, are subjected to VAT in the manner as regulated by the industry or sector in which they operate, except where regulatory standards dictate a specific treatment or application. Project business cases will identify and detail the application of VAT and include within forecasts and estimates as appropriate.

**Financial sign off is provided by Cabinet and the Council Chief Finance officer in the Nov 2019 Cabinet report**

## **6. The Management Case**

The purpose of the Management Case is to demonstrate that robust arrangements are in place for the delivery, monitoring and evaluation of the programme and that delivery is being managed in accordance with best practice, subjected to independent assurance and that the necessary arrangements are in place for change management, benefits realisation and risk management.

This updated version of the business case reflects the development of significant elements of the programme to FBC status and includes the following changes:

- Updated SBCD governance structure and information
- Monitoring and reporting arrangements
- Updated project plan timeframes
- Updated arrangements for change management, benefit realisation and risk management
- Detailing of change management requests / notifications
- External assurance arrangements for the programme

### **6.1 Introduction**

The Management Case provides the Regeneration Project Board, SBCD Portfolio Management Office and Joint Committee with the reassurance and confidence that the capability and capacity to govern and deliver the project is in place, and that they

and other governance and delivery structures receive information in a timely and transparent manner to help them make informed decisions. This will be achieved by establishing and operating capacity and capability to implement and manage robust governance and approvals utilising the project management practices and principles. The project will be periodically reviewed by the PoMO and external assurance reviews to assess and improve its governance, assurance, and communications arrangements. This will ensure that the ambition of the programme is aligned to delivery. These arrangements will also ensure that progress and deliverables are communicated effectively and transparently, while demonstrating value for money.

## **6.2 Project management arrangements**

Swansea Council have project managed the Digital Square & Arena using the Council's accredited Light Touch Programme & Project Management Methodology, which follows the principles of PRINCE2. This methodology is also being used for the delivery of the Digital Village. Project governance, reporting hierarchy, roles and responsibilities are established.

The Council is adhering to its established processes of reporting and corporate procedure rules in the engagement of contractors or works. Delivery Teams are in place for each scheme and team members are ensuring review of the overall aims and objectives. Team members review and discuss the various Project Highlight Reports and scrutinise the reported decisions required, risks and issues being reported by the project managers and work stream leads, in order to deliver a concise, coordinated monthly report to the Regeneration Project Board, and each organisation's internal reporting structures.

In order to retain the monthly reporting the delivery teams ensure the collation of the following key documents which will assist the day-to-day running of a successful programme;

- Programme Plan/Timeline.
- Risk, Issue, Actions, Dependencies (RAID) Tracker
- Benefits Tracker
- Stakeholder and communication plan.
- Financial monitoring plan.

Delivery of the Beyond Bricks and Mortar – Community Benefits is led by the Council's existing Beyond Bricks and Mortar team.

University of Wales Trinity Saint David will manage the projects in accordance with PRINCE 2 methodology.

The project governance will be set out, and agreed reporting hierarchy, roles and responsibilities will be clear. The University has clear processes of reporting and corporate procedure rules to be considered prior to engaging contractors or works. An internal project board will be in place and team members will ensure review of the overall aims and objectives. Team members will review and discuss the various Project Highlight Reports and scrutinise the reported decisions required, risks and issues being reported by the project managers and workstream leads, in order to

deliver a concise, coordinated report to the City Deal Programme (Portfolio) Board. As part of this, the project team will ensure that the following key documents are delivered on a timely basis for the project, supporting the overall success of the scheme.

- Programme Plan/Timeline.
- Risk, Issue, Actions, Dependencies (RAID) Tracker
- Benefits Tracker
- Stakeholder and communication plan.
- Financial monitoring plan.

### 6.3 Governance and delivery structures

#### 6.3.1 SBCD Governance Structure

Governance and delivery structures have been established with terms of reference to provide accountability, responsibility, oversight, management and monitoring of the programme and the wider SBCD.

The SBCD established a legal governance document - the Joint Committee Agreement (JCA) - in May 2018. Leading to the establishment of the SBCD Joint Committee, this document outlines the principles, rights and obligations of City Deal arrangements. Under the terms of the JCA, the four regional local authorities have pledged to work in partnership to discharge their obligations to one another, and to the Welsh Government and the UK Government, to promote and facilitate projects funded under the SBCD. The management processes and procedures outlined in the JCA include financial cash flow, project approval, risk management and progress updates. The overarching SBCD governance and delivery structure, as outlined below is operational with established Terms of Reference, membership/post holders, and plans and processes in place to govern and deliver the SBCD portfolio.



The table below summarises the key elements of SBCD governance and delivery structure, which includes committees, boards and key roles.

<b>Governance entity</b>	<b>Purpose</b>	<b>Owner/ Lead</b>	<b>Meets</b>	<b>Reports to</b>
Joint Committee	Executive board with overall responsibility for scrutiny and business case approvals. It holds the Programme (Portfolio) Board and PoMO to account. Comprises of the four Local Authority Leaders of Carmarthenshire, Neath Port Talbot, Pembrokeshire and Swansea.	Cllr Rob Stewart	Monthly	WG/UKG
Programme (Portfolio) Board	Oversees the operations of the SBCD. Responsible for reviewing business case developments and portfolio progress. Consists of the head of paid service of each of the eight primary partners for the SBCD, and is chaired by the SBCD Senior Responsible Owner.	Wendy Walters	Monthly	Joint Committee
Senior Responsible Owner	Appointed by the Joint Committee, the SRO is also the chairperson of the Programme (Portfolio) Board to champion the SBCD and drive its successful implementation by overseeing portfolio delivery and ensuring that appropriate governance arrangements are in place. The SRO holds the Portfolio Director to account.	Wendy Walters	-	Joint Committee
Portfolio Director	Responsible for delivering the Portfolio Business Case and Project Development Roadmap.	Jonathan Burnes	-	Joint Committee and SRO
Programme / Project managers	Experienced individuals who manage the development of the programme / project Business Cases and implement the Assurance and Approval plan and project plan. Also works with the Portfolio Director and PoMO to apply the Portfolio Development Roadmap. Depending on the size and complexity of the programme / project the Programme / Project Manager will run the Programme / Project Team and manage external advisers.	PM for each City Deal project	Monthly	Project / Programme Boards / SRO and SBCD Portfolio Director

Portfolio Management Office	Responsible for the day-to-day management of matters relating to the Joint Committee and the SBCD.	SRO Wendy Walters	Weekly team meetings	Joint Committee /SRO
Economic Strategy Board	Private sector advisory body which acts as the voice of business. Provides strategic direction for the City Deal through advice to the Joint Committee on matters relating to the City Region. The Chair is accountable to the Joint Committee.	Chris Foxall	Ad-hoc Basis	Joint Committee
Joint Scrutiny Committee	Provides advice, challenge and support to the Joint Committee for the SBCD Portfolio and associated cross-cutting regional projects/programmes. The full terms and reference for the Joint Scrutiny Committee are set out in the Joint Committee Agreement.	Cllr Rob James	Bi-monthly	Joint Committee
Accountable Body	Carmarthenshire County Council is the Accountable Body responsible for discharging City Deal obligations for the four Local Authorities including financial and staffing matters, for example. The Accountable body is the primary interface for the City Deal with the Welsh Government and the UK Government.	CEO Wendy Walters  Leader Cllr Darren Price	-	Joint Committee

### 6.3.2 Programme Governance Structure

The reporting organisation and the reporting structure for the programme are as follows:

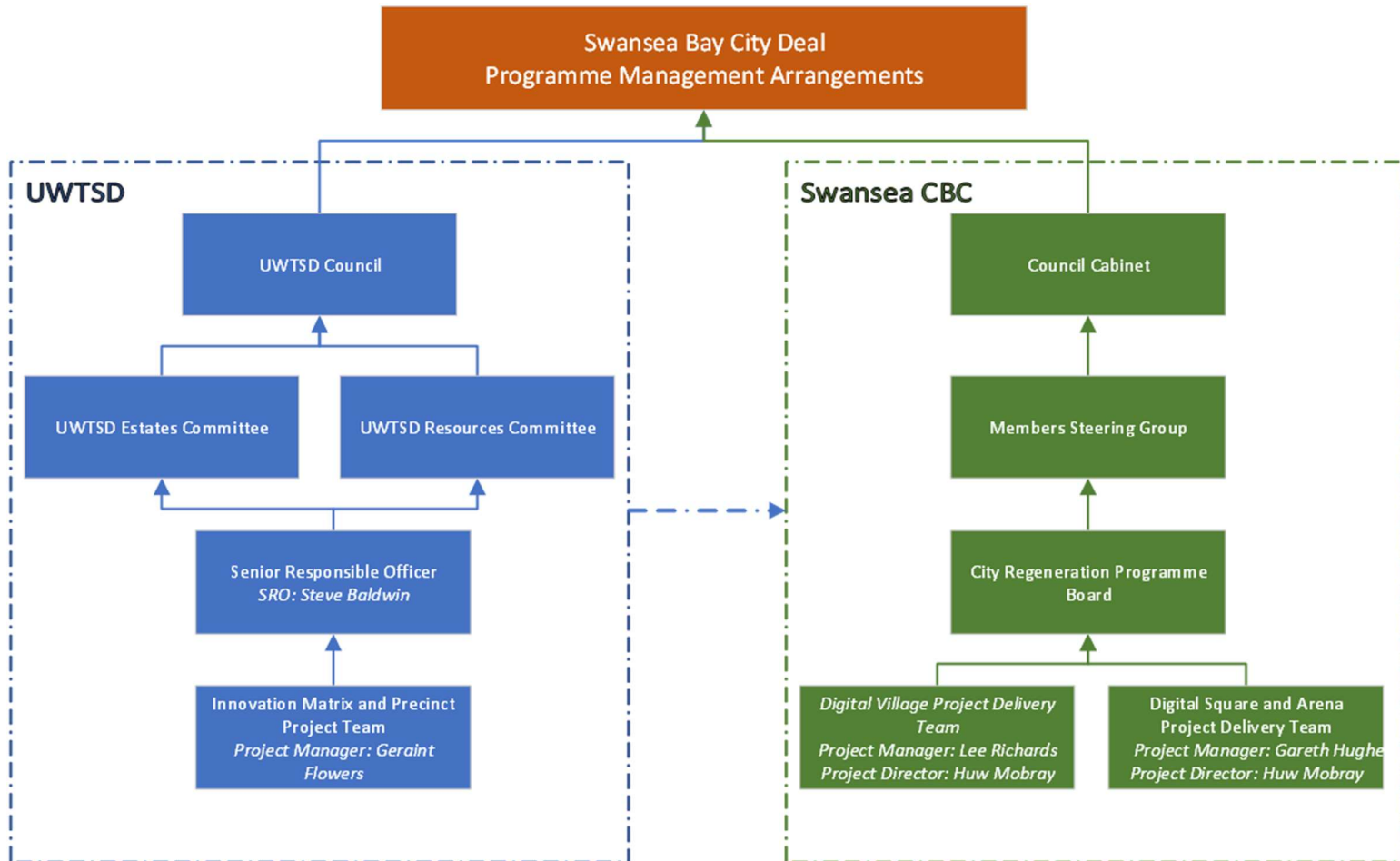
The Delivery Teams include subject matter experts with the necessary skills and expertise, and also the end user and other stakeholders to ensure that the programme is fit for purpose and able to deliver the commercial and events space that is required to support technology based businesses in Swansea.

The schemes will also be monitored through the internal governance processes of UWTSD and Swansea Council.

The Swansea Waterfront Digital District programme forms part of the Council's wider City Centre Regeneration Programme and report monthly to the City Regeneration Programme Board, which is an officer group chaired by the Director of Place, which in turn reports to the Members Steering Group, chaired by the Leader of the Council, on a monthly basis. Reports (on projects and financial requirements) are presented to the

Council Cabinet as and when required. In addition the programme provides monthly updates to the Council’s Development & Regeneration Scrutiny Performance Panel.

A governance chart outlining the arrangements is set out below:



The Regeneration Project Board is the authority that provides overall direction to and management of the Digital District Project. Specifically, the Board will manage the commitment of personnel, money and equipment to complete the aims and objectives of the Digital Arena and Digital Village project in line with the strategic aims of City Deal Programme. The UWTSD projects have their own governance structure and feed milestones and decisions into the Regeneration Board.

Project Management reporting to the Regeneration Project Board will be conducted on a monthly cycle on the basis of exception to allow the Project Board to determine progress over the term of the project against the key milestones as outlined in the project plan.

The Regeneration Project Board are responsible for:

- approval of all major plans
- approval of all deviations from agreed tolerances
- arbitration on any conflicts that cannot be resolved at programme level
- taking ownership of major risks and issues
- approval and sign off of key project documentation
- approving and funding key changes

<b>Role/ Responsibility</b>	<b>Name</b>
Senior Responsible Owner	Martin Nicholls
Digital District Project Director – Swansea Council	Huw Mowbray
Digital District Project Director – UWTSD	Steve Baldwin
Innovation Precinct & Innovation Matrix Project Manager	Geraint Flowers
Digital Village Project Manager	Gareth Hughes
Digital Square & Arena Project Manager	Lee Richards

## 6.4 Programme Plan

This project plan milestones have been updated and are set out in the following table.

Table 16: Programme plan

<b>Milestone Activity – Innovation Matrix</b>	<b>Date</b>
Planning Submission	Q2 2022
Detailed Design	July 2022
Tender and Contractor Procurement	July 2022
Construction	TBA
Construction Completion	Nov 2023
Completion and Occupation (from)	Nov/Dec-2023

<b>Milestone Activity - Innovation Precinct</b>	<b>Date</b>
Planning Submission	Mar-23
Detailed Design	Jun-23
Tender and Contractor Procurement	Oct 23
Construction	Sept 24
Fit Out	Oct 25
Completion and Occupation	Dec 25

<b>Milestone Activity – Digital Village</b>	<b>Date</b>
Procurement of Architectural Advisors	Dec-17
Design Review	Mar-18
Recommendations to Programme Board on Preferred Design(s)	Apr-18
Detailed Design and Pre-Planning Application Discussions	Jan - 21
Planning Application Submission	Mar - 20
Tender Document Issued	Feb - 21
Contractor Procurement & Award	May- 21
Construction	Jul - 23
Fit Out	Aug- 23
Completion and Occupation	Oct - 23

<b>Milestone Activity – Digital Square &amp; Arena</b>	<b>Date</b>
Outline planning consent granted	June 2017
Selection of Arena operator	June 2017
Hotel procurement	July 17 – May 18
Design Stage 2 approval	Nov 17
Design Stage 3 development	Nov 17 – May 18
Agreement signed with Arena operator (ATG)	Jan 18
Stage 3 Cost Plan	April 18 – May 18



<b>Milestone Activity – Digital Square &amp; Arena</b>	<b>Date</b>
Contractor procurement	Oct 17 – July 18
Construction - advanced enabling works	Aug 18 – Nov 18
Design Development Stage 4	May19 – Oct 19
Swansea Council Cabinet Report - approval to proceed	Oct 18
Construction – main build	Nov 19 – Jan 22
Arena Opening/ Events Programme commences	Mar 22

## 6.5 Use of special advisers

Special advisers have been used in a timely and cost-effective manner in accordance with the Treasury Guidance: Use of Special Advisers. Details are set out in the table below:

Table 17: special advisers

<b>Specialist Area</b>	<b>Adviser</b>
Financial	Cushman & Wakefield, Marloes Consulting
Technical	Rivington Land, ACME Architects, IPW, The Urbanists, Aecom, Cooke and Arkwright
Procurement and legal	Swansea Council, Blake Morgan, DFF, Geldards Law, Eversheds, Acuity Legal
Business assurance	Swansea Council, UWTSD
Economic Appraisal	Amion

## 6.6 Monitoring and Reporting Arrangements

The programme Monitoring and Evaluation processes replicates those set out in the SBCD Monitoring and Evaluation Plan. The plan is targeted at Programme / Project SROs, the Portfolio Management Office and SBCD Programme / Project teams. For this programme, the SRO will ensure that the programme team makes appropriate arrangements to collate, monitor and communicate project milestones, deliverables and benefits realisation. The M&E Plan aligns to the revised HM Treasury Green and Magenta books and the UK Government’s Project Delivery Guidance. The M&E plan will be applied at project level where a two-way cascade of outputs and outcomes will be required to understand performance and impact of the SBCD portfolio. The tools and templates used to monitor and evaluate activity include:

- Monthly highlight reports
- Quarterly monitoring reports
- Annual reports
- Benefits realisation plan – continually updated and reported quarterly
- Integrated Assurance and Approval Plan (IAAP)

- Covid-19 Impact Assessment
- Construction Costs Impact Assessment
- Financial Monitoring
- Milestone evaluations as agreed with the Portfolio Management Office

Monitoring and Evaluation requires a periodic assessment of programme implementation and performance activities and the evaluation of their results in terms of relevance, effectiveness, and impact. Monitoring and Evaluation activities will provide all levels of the governance structure with information on the progress and impact made towards achieving the programme's milestones, outputs and outcomes. This information will be shared with the Welsh and UK Governments through periodic updates and reviews, while also being made available to the public on an annual basis.

## **6.7 Arrangements for change management**

Any changes during the development and delivery of the programme will be referred through the Digital District programme management structure and integrated with the SBCD Change Control procedure.

The approach will consider several aspects of change that impact on programme scope, delivery and benefits as set out in this business cases, and specifically where a change is likely to affect at least one of the following categories:

- the total cost / financials
- the completion of delivery of output(s) / key milestones
- the quality outlined
- the benefits outlined
- the GVA, jobs created or inward investment

Any variance - positive or negative – will be subject to the agreed change control process to ensure that any change does not have a detrimental impact to the successful delivery of the programme.

The following change requests / notifications have been processed through the SBCD change process:

### **Innovation Matrix**

- A change request was approved for the Innovation Matrix scheme in June 2021 for the reallocation of £5.716m of existing City Deal funding from the Innovation Precinct to the Innovation Matrix to enable the commencement of the Innovation Matrix. The reallocation covers the change from the Box Village proposal to the Innovation Matrix proposal with a higher quality, slightly larger space that will allow for greater flexibility and use from tenants. The reallocation also covers a shortfall in project funding due to the envisaged private sector contribution not being realised. The change has no implications for the realisation of the economic benefits of the project.

### **Digital Village (71-72 Kingsway)**

- A change notification has been submitted notifying that the timescale for completion of the project has changed from the original business case date of December 2022 to October 2023. This is as a result of the need to re-issue procurement due to non compliant bids which caused a delay to the process. There is no change to the project benefits as stated in the business case as they will be realised within the City Deal timeline. Milestone completion date for Digital Arena has also changed from October 2021 to March 2022. There were no impacts to this change as the Arena opened on time and in line with scheduled events.
- An additional floor was added to the development proposal after taking market feedback into account at design phase, taking the footprint from 100,000sq ft to 115,000sq ft.
- ERDF funding of £500k has been provided to contribute towards the additional floorspace.
- Full business case costings have been confirmed post procurement. Full cost now at £48,540,125 (from original £49,648,253).
- Letting Strategy has been adjusted due to the pandemic and changing market requirements. Consultants Cushman & Wakefield have advised that they are anticipating a transition to a workplace ecosystem consisting of the office, the home and third spaces where flexible workspace can play a part. There is no impact to benefits in the business case due to this change at this point in time. As lettings progress we confirm whether the output linked to private sector fit out is deliverable.
- Risks have been updated to include covid impacts and construction price and delays. Mitigation includes design and letting strategy flexibility. The council have entered into a fixed price contract for construction and will work with the contractor to identify any savings that can be made to support delivery of the project.

A copy of the change requests / notifications is attached at Appendix I

## **6.8 Arrangements for benefits realisation**

The programme governance protocols being applied have incorporated core work streams which enable the programme team to clearly identify and track programme benefits regularly in line with the investment objectives detailed in the programme business case. A “whole team” approach will be adopted to ensure that benefit management is monitored through the life of the programme. In applying this approach benefits will be discussed on a regular basis at delivery team level and barriers in performance that impact on benefits realisation will be raised to the Project Board for decision.

The benefits management process will assess and review all outcomes resulting in change that were achieved as part of the activities undertaken by the programme. Benefit progress will be reported at least quarterly to the Portfolio Management Office.

The building contractors on each scheme will be required to develop a range of community benefits which they expect to appreciate through the term of the programme and which will be monitored and managed by the Council's Beyond Bricks & Mortar team on an ongoing basis. Based on current scheme costs and build timescales it is estimated that the three Digital District schemes will generate 3,266 training weeks for economically inactive and unemployed individuals, along with supply chain initiatives, contributions to education and community initiatives.

A copy of the programme benefits register is attached at Appendix F. This sets out who is responsible for the delivery of specific benefits and how and when they will be delivered. The benefits register will be monitored by the Project Board, and internal Swansea Council and UWTSD governance arrangements, to ensure all benefits are delivered.

## **6.9 Arrangements for risk management**

The key programme risks and associated countermeasures are outlined in Section 2.10 of the business case. Risks ownership has been allocated to the party best placed to manage a given risk.

Each Project Manager is responsible for proactively managing risks and issues by means of the Delivery Risk Register. The process of managing risks will take place throughout the entire life cycle of the project and potentially after closure if there are outstanding risks requiring ownership outside the project. During the construction phase, regular meetings will take place with contractors to identify any emerging risks to cost and timescales and mitigation actions taken as appropriate.

The risk register will be used to record all identified risks and is therefore a vital tool in the conception, procurement and delivery of the programme. It will record any uncertainty that could jeopardise the programme and strategies for minimising their impact.

The identification of risk will be reviewed in tandem with the activities in the programme plans – contingency plans will be agreed through the identification and mitigation of a risk and will continuously be reviewed throughout the life of the programme and escalated and monitored closely. The risk register will be monitored at all Project Board meetings so that any risks affecting programme outcomes can be identified and addressed.

The Programme Risk Register is included in Appendix G.

## **6.10 Arrangements for contract management**

Each of programme partners has existing and robust contract management processes in place and each has experience of implementing good contract management practices, particularly on contracts that carry higher risk, value and duration. The contracts for the Innovation Matrix and Innovation Precinct will be managed by University of Wales Trinity Saint David using the NEC Suite of contracts. The contracts for Digital Village and Digital Square & Arena are managed by Swansea Council using JCT contracts.

### **6.11 Programme assurance arrangements**

The programme's assurance processes will integrate with the SBCD Portfolio assurance framework to ensure that the planning, coordination and provision of assurance activities and approval points are understood and are proportionate to levels of cost and risk. The programme has developed an Integrated Assurance and Approval Plan (IAAP), which is regularly reviewed and reported on through the governance arrangements. This plan includes a schedule of Gateway reviews at key milestones or decision points. A Project Assessment Review will be undertaken for the Digital Square and Arena and Digital Village elements in November 2022. Arrangements are also being made for a review of the Innovation Matrix and Precinct elements.

The programme IAAP is attached at Appendix H

### **6.12 Arrangements for post programme evaluation**

The arrangements for post implementation review (PIR) and programme evaluation review (PER) have been established in accordance with best practice and are as follows:

#### *6.12.1 Post implementation review (PIR)*

The Post Implementation Review (PIR) is an essential component of the benefits management process. It checks whether benefits, including those set out in the business case have been achieved and identifies opportunities for further improvement.

Post programme completion, the University and Council project teams will continue to monitor the performance and achievement of outcomes as part of the on-going management of the programme. The new developments will need time in use before the achievements of some of the expected benefits can be measured. As such, on completion of the developments, a plan will be agreed on when and how the PIR will be undertaken. It will be the responsibility of the Project Directors/ SRO to ensure that a PIR is completed. The Project Board will agree this report.

#### *6.12.2 Project evaluation review (PER)*

This review appraises how well the programme was managed and whether or not it delivered to expectations. It will be timed to take place one year after completion of the developments. The Project Board will agree this report.

In addition, a Post Occupancy Evaluation (POE) will be carried out one year after building occupation, to gain building performance feedback.

### **6.13 Contingency plans**

Contingency arrangements were made for the Digital Square and Arena and Digital Village projects including: Planning Consent for the Digital Square secured which allowed for a range of uses and sizes of development which could have been released by dealing with conditions to provide flexibility. The OJEU procurement for the Arena operator was won by ATG however as a fall back the under bidder was retained.

Pre-letting of the Digital Village was originally envisaged with tenants signed before a start on site was made.

For Innovation Matrix and Innovation Precinct, UWTSD would look to alternative existing University owned space in the SA1 area to provide a solution that would be significantly reduced in scope and would not deliver the same level of benefits.

## **Appendices**

Appendix A: Letters of Support

Appendix B: Economic Impact Assessment of Swansea City Centre Regeneration Programme, Amion Consulting (August 2017)

Appendix C: Cost Benefit Analysis

Appendix D – Amion updated Digital Square report.

Appendix E: Digital District Net Income Streams

Appendix F: Programme Benefits Register

Appendix G: Project Risk Registers

Appendix H: Programme IAAP

Appendix I: Change Requests / Notifications