



Cabinet Member for Economy and Strategy.

Cabinet 21 November 2019

**Swansea Central Phase 1
Contractor Appointment and FPR7**

Purpose:	To set out the detailed business case to inform the decision making process on whether to proceed with the development, and the stage 2 contract award in accordance with Financial Procedures Rules and Contract Procedure Rules.
Policy Framework:	Swansea Local Development Plan 2019, Swansea Central Area Regeneration Framework (2016)(SCARF), Corporate Priority Creating a Vibrant and Viable City and Economy, Council Constitution FPR and CPR rules
Consultation:	Finance, Legal, Access to Services.
Recommendation(s):	Cabinet are recommended:-
	1. To approve the scheme and its financial implications, specifically the addition to the capital programme of £110.720m under FPR7
	2. To authorize the award of the main construction contract to Buckingham Group Contracting Ltd to deliver the project

	3. To grant delegated authority to the Leader, Director of Place, Chief Finance Officer and Chief Legal Officer to approve and enter into any documentation and to approve any related funding necessary to complete the scheme including the Heads of Terms and any documentation necessary to facilitate the development of a hotel on the site.
	4. To approve the establishment of maintenance and sinking fund budgets with spend to be authorised by the Director of Place and Chief Finance Officer.
	5. To approve the capitalisation of officer time working on the scheme to support further project delivery, as authorized by the Director of Place and Chief Finance Officer.
	6. To approve setting up a bonded advance payment to Buckingham with agreement of the terms and final amount delegated to The Director of Place and the Chief Finance Officer.
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1.0 Introduction

1. One of the councils 6 corporate priorities is a vibrant city and economy. Major steps to achieve this have taken place in recent years, including securing of Wales's biggest city deal the £1.3bn Swansea Bay city deal. The 11 projects within the deal are focused on addressing the region's economic problems, primarily by diversifying and modernising the South West Wales economy, increasing the productivity of the region and creating jobs.
2. The biggest project within the City Deal for the City and County of Swansea is the Swansea Digital Waterfront project. The city deal element of this project together with the substantial additional respective U.K. and Welsh Government funding form part of largest regeneration the City of Swansea has seen since its post war rebuilding.
3. This digital waterfront project has been progressed over the last 3 years and has been the subject of a number of previous cabinet reports of 18th August 2016, 16th March 2017 15th June 2017, 17th March 2017, July 2018 and 29th November 18. The Council has taken a prudent and iterative approach to progressing the scheme through a project management milestone approach to ensure the commitment of budget has been on an as required basis, with the major funding decision at the end of the process, allowing greater certainty over project costs.
4. A significant amount of progress has been made by officers and Rivington Land and their professional team working through the key milestones for the Swansea Central Phase 1 project since the November 2018 report. This

means that the scheme has been progressed to a point where a clear recommendation can now be made to Cabinet, setting out the associated issues and risks for Cabinet to scrutinise when making the decision on whether to proceed with the project. This report, together with appendices, sets out the detailed business case and processes which the Council have followed to get to this decision making point.

5. The following key partners are referenced through the report.
 - **Ambassador Theatre Group** – The Councils arena operating partner and anchor tenant. A leading international leisure operator with 60 venues across the world who run major West End and Broadway events as well as music, comedy and conferencing.
 - **Buckingham** – The Councils appointed construction partner. A leading UK building contractor and specialist in delivering leisure schemes including the recent Tottenham football club ground.

2.0 Background.

- 2.1 It is fundamentally important to understand why the Swansea economy has declined in recent decades, the reasons for that economic failure, the research and due diligence the Council has undertaken looking to address this decline. Building on this research and due diligence, the Council has put in place policies which aim to address the economic failure, halting and reversing the decline. The following paragraphs therefore set out the important process followed, which led to the rationale to select the Arena Project.
- 2.2 The City of Swansea flourished on the back of primary industry. As primary industry withered and the global economy changed Swansea has struggled to identify its USP. It has failed to regenerate and restructure its economy at the pace of its competitor cities and became an increasingly peripheral location. The last major regenerative shift in Swansea occurred following the three nights blitz which effectively flattened the City Centre and in doing so required its comprehensive redevelopment.
- 2.3 Through necessity that redevelopment was rapid and geared to the economic patterns of the 1950s. The consequences were that:-
 - a) Residents were scattered to suburban areas
 - b) Offices relocated out of the main City area
 - c) The remaining retail footprint was too large and empty space grew
 - d) The price of that redevelopment was in many cases the letting of long leases at low rents to promote regeneration but at the same time this removed key levers and frustrated future regeneration activity.
 - e) Given that rebuilding occurred rapidly the economic failure of those buildings has been simultaneous and has accelerated.

2.4 Interventions since then by public authorities were generally small scale, failed to trigger private investment and were doomed to failure. In many instances regeneration was piecemeal, with insufficient thought as to the impact on other areas of the City. It was not founded on an evidence based analysis which supported often vague ambitions. The most recent attempt to regenerate the City Centre in partnership with Hammerson was more credible but was unfortunately timed as the financial crisis and resulting recession bit hard and damaged the investment proposition. The response of the Council was not a knee jerk one. It commissioned a robust regional economic strategy on behalf of the region and produced the most comprehensive analysis of the challenge facing South West Wales. Tackling productivity, skills, social inclusion and the prospect of jobless growth became the mission and this was reflected and supported by statements from Welsh and UK Governments. Productivity, the conventional proxy indicator for economic health and prosperity, had fallen from 93% of the UK average to 77% within three decades. The proposals for Swansea City Centre form the core part of the programme to recover this lost ground for the region by promoting the key economic sectors of the digital economy, energy, leisure and tourism.

2.5 At the same time it became clear that the future role of cities was changing; shaped by structural changes to the economy, environmental concerns and the growth of the World Wide Web. Cities were widely regarded as the engines of future of economic growth and the creation of wealth and value but in ways which required a structurally different approach to their development. Swansea was no different. The response of the Council was to commission an analysis of these patterns which concluded that;

- The fundamental problem was one of footfall. The reasons to visit the City Centre were diminishing. This had been exacerbated by the depopulation of the City Centre and the relocation of offices and workspaces.
- Retail patterns were changing rapidly with internet shopping rapidly outpacing the high street competition. Consequently buildings in the central area were becoming redundant and unoccupied.
- Cities need to play to their strengths and USPs. Swansea was unclear about what these were. The proximity of the beach, the natural environment and the cultural and leisure offer were not being capitalised upon. Tourism was a growing market but still underperforming against potential.
- Geographical peripherality will be less of a disadvantage in a digitally connected economy.

2.6 The Council commissioned the following reports to inform decision making

- Strategic Insight Retail Capacity Study.
- FSP Analysis.
- Swansea Central Area Regeneration Framework.

- Regional Economic Strategy.
- Amion Economic Benefits Analysis.

- 2.7 Despite the low value base the private sector would not unilaterally intervene in the City Centre. The precondition to this was public sector intervention in creating the right environment and infrastructure to encourage inward and indigenous investment. At a time of austerity this would be a significant challenge.
- 2.8 However the evidence is clear that failure to intervene would see further rapid decline in the City fabric, depopulation, and continuing falls in productivity, skills leakage, and increases in poverty and worklessness. The Council must consider its duties under the Well-being of Future Generations legislation.
- 2.9 This provided the basis for spatial planning and a different approach which is evidence based, market tested, comprehensive and recognises the dynamics and interdependence of connected parts of the City. The result is the Swansea Central Area Regeneration Framework and its translation into distinct marketable sites. The challenge that remained was to secure the public sector intervention and private sector confidence. City Centre regeneration became one of a limited number of explicit corporate priorities for the Council.
- 2.10 The Council prepared itself to meet the challenge by restructuring its economic development and planning functions onto a can-do footing and petitioning UK and Welsh governments for financial support to deliver the plan. At the same time the Council's member and officer leaders invested major effort in promoting and marketing the City to investors and developing a strategy to ensure a digitally competitive Swansea.
- 2.11 The agreement of the Swansea Bay City Deal gave the additional impetus to move the plans on more rapidly through the delivery of the Swansea Central and Kingsway Digital District projects. There is no doubt that this direct public sector intervention is already driving other private investment. There is currently a level of regeneration activity in the City that we have not witnessed for six decades. There are already 10 residential schemes taking place within the regeneration framework area delivering 100 new homes and 6 student developments delivering a further 1500 student units. In addition to arena operator interest, schemes like Skyline, the Hafod Copperworks, development on the Kingsway and the relocation of UWTSD facilities have all been triggered by renewed confidence in the City.
- 2.12 This is why the Swansea Central scheme is so important to the City and the well-being of its future generations. It is an important piece in a jigsaw that will become easier to complete as confidence grows. The Council must balance the risks associated with investing in regeneration against the risks of not doing so and in so doing ensure that its obligations to future generations are met.

2.13 Therefore the key reasons for undertaking this project are to:-

- Address the lack in footfall in the city centre.
- Encourage more living and working in the city to drive more footfall.
- Create a major new Leisure Destination for the city.
- Deliver new Conference Facilities
- Add new Public Realm enhancements to create a more attractive place.
- Improve connectivity between the City and the bay
- Uncompromising design quality to drive up design ambition in Swansea.
- Implement Digital Strategy
- Major Qualitative improvement in city parking facilities
- Creating jobs and increasing GDV
- Create a significant Catalyst for phase 2 and other city-wide development stimulating private sector investment in the city.

3.0 The Project and Update since Nov 2018 Cabinet report – Digital Square

3.1 The Swansea Central Phase 1 project will deliver a 3500 capacity arena with digital facade, a 'digital square', car parking, a coastal parkland, commercial units, residential units, and a pedestrian bridge connecting the development from the north to the south of Oystermouth road.

3.2 The project will create significant economic benefits assessed by independent experts Amion of circa £17.1m net GVA per annum for the city and create 600 net FTE new permanent jobs and 2000 construction jobs, as well as improving Swansea's future prospects for growth. This investment will provide the catalyst and momentum to inspire further confidence in the City's future and will help lever future private sector investment as part of Swansea Central Phase 2 and longer term additional income for the council which will help offset borrowing. Images of the completed scheme are attached at Appendix 1.

3.3 The Digital Arena will provide a high tech facility that would be capable of holding major digital events, including worldwide computer gaming competitions and other digital and data driven events, alongside more traditional live theatre and concert events. The arena will be located within a new cutting edge Digital Square and parkland to create a distinctive and unique destination. The Digital Arena will provide the digitally enabled conference and events space required by Swansea's growing tech business sector and Universities, and help revitalise the environment and leisure offer of Swansea City Centre.

3.4 The delivery of this project will attract people to the city centre and therefore generate significant new footfall, marking the beginning of a new era of regeneration that will reverse the failures set out above and provide the catalyst and confidence for the private sector to invest and continue the delivery of the SCARF objectives.

3.5 The Arena boasts a flexible and functional building design that includes the following key modes and facilities:

- 3,500 capacity mode for a seated and standing entertainment event

- 2,200 capacity mode for a fully seated entertainment or large business event
- 750 capacity auditorium for medium conferences and business events
- 1,450sqm of exhibition space on the arena event floor
- Additional complementary exhibition space available on concourses
- A variety of meeting rooms
- Foyer space and foyer café.

3.6 It can be seen from the mix of facilities above, that the Arena will be capable of hosting small, medium and large-scale events through its combination of meeting rooms, ancillary spaces, exhibition areas and auditorium options. It will also be capable of accommodating both formal and informal meetings and networking usage.

3.7 A critical and attractive feature for local tech companies will be the digital capabilities of the Arena spaces, including dense WIFI coverage and innovative digital features. From our analysis of demand, we are confident that the digital infrastructure will encourage usage by tech companies and make it a natural home for digital innovation and creative thinking linked to the Digital Village.

3.8 The Digital Square Arena proposals have been developed with advice from the council's specialist Arena advisers IPW and the procured arena operators Ambassador Theatre Group in consultation with local tech businesses and Swansea's Universities.

3.9 The detailed rationale for the Swansea Central phase 1 project, the procurement undertaken, and the design and cost positions are all set out in the attached Business Plan.

3.10 A hotel development opportunity will also form part of the development, to meet the requirements of business and entertainment tourism linked to the Arena.

4.0 Curent Position

4.1 Significant work has been undertaken to create a detailed architectural design to RICS Stage 4 which provides the detail required by a contractor to calculate a construction cost. Therefore the project is now at a point where sufficient detail is in place for the Council's Development Managers, Rivington Hark, to recommend that Cabinet proceed with the project.

4.2 Significant progress has been achieved with the City Deal, the Swansea Waterfront Digital District 5 Case Business model has been approved by the City Deal private sector Economic Strategy Board and then by the UK and Welsh governments which then released the City deal funding Terms and

Conditions which have now been received and has led to the first tranche of project funding to be agreed.

- 4.3 A detailed project management approach to progressing the scheme has been followed working towards delivery through a milestones based approach including:-
- Identifying the scheme.
 - Securing a planning consent.
 - Selecting an anchor ATG as arena operator.
 - Securing a contractor for RIBA Stage 4 design
 - Agreeing a final construction cost
- 4.4 A check list of issues to resolve to allow a report to progress to cabinet is set out at appendix 3. The completion of these milestones means that the detailed design and the cost to deliver the project is also known and therefore the council now has all the information it needs to be able to make an informed decision on whether to commit the budget necessary to deliver the scheme.
- 4.5 The overall scheme will deliver income from car parks, housing, restaurants and shops which will deliver a long term income stream for the council, cover the costs of annual maintenance of the scheme and provide sinking funds for replacement of the assets created. The current income is based on current levels of car parking any future increases will be decided by cabinet.
- 4.6 The income from the scheme offsets the costs of maintenance and sinking fund to ensure the assets created by the project are properly maintained and replaced over their design life. The budget required to maintain and replace the assets created by this scheme are set out at paragraph 8.5. The detailed maintenance and Income schedules are set out in the Rivington Business Plan.
- 4.7 The maintenance and operation responsibilities of the assets created by the project are set out in detail in the Rivington Business plan however the high level maintenance responsibilities are set out below:-
Arena - To be operated and maintained by ATG.
Arena LED's – To be operated and maintained by the Council.
Public Realm - Digital Square and Coastal Park to be managed and maintained by the Council.
Car Parks – to be operated and maintained by the Council.
Residential – External to be maintained by the Council with a service charge from the purchaser. Internal to be undertaken by the purchaser.
- 4.8 The project design is fully compatible with the Council's and Welsh Government's adopted policies and best practice on place making, economic regeneration, and reflects the objectives identified in the Well-being of Future Generations Act, A prosperous Wales and other relevant guidance.
- 4.9 The Swansea Central Phase 1 scheme will help in delivering change through catalysing further private sector investment. This project, and those catalysed

by it, will be key drivers in making the city a visitor destination of choice building on Swansea's current cultural offer.

- 4.10 Swansea has delivered a number of successful events including the annual Air Show and The Radio 1 Big weekend in summer 2018. Delivery of the project will broaden the existing events programme and will provide a key opportunity to put Swansea on the map in terms of regular events and the conference market. Residents will no longer have to travel to events and it will draw a new demographic into the city.
- 4.11 The design embraces the Future Generations Act and the detail of how the scheme addresses this act is set out in the Rivington Land business Plan. The Council's environmental consultants PBA have confirmed that there will be greater biodiversity after the scheme is delivered, the green and biodiversity credentials are set out in the Rivington Business Plan at appendix 1. The scheme includes the coastal parkland and green wall which add significantly to meet this challenge. In addition the scheme includes bat boxes, bee hotel, coppicing, 35 Electric Charging stations with the infrastructure in place to increase this figure. The new car park spaces including disabled spaces are set at Welsh standards and the scheme has contributed to additional spaces on the Fabian Way Park & Ride.
- 4.12 The buildings once delivered and operational will provide an opportunity to improve the quality and perceptions of Swansea. The arena design will create an iconic image for Swansea which will become known worldwide which will put Swansea on the map, generate increased tourism and catalyse further private sector development, investment and tourism.
- 4.13 Coverdale Barclay with local marketing agents MGB have been appointed to orchestrate a regional / national / international PR and marketing strategy to ensure the local economy makes the most of the arena being delivered in terms of generating interest in Swansea to achieve increases in tourism and associated spend and an increase in private sector interest in developing and investing in Swansea.
- 4.14 Non city centre residents benefit in the same way as city centre residents in that they will have a nationally renowned arena to visit to see that range of entertainment not currently available. There will be jobs and an evening economy (F&B) along with much improved public realm and CCTV making the city centre feel like a place to visit. The wider benefits are set out in the Amion economic benefits report in the Rivington Land report.
- 4.15 Discussions are also underway between officers and transport providers to ensure adequate public transport and park & ride provision.
- 4.16 The scale of change proposed by this project is significant, this scheme is currently the largest scheme in Wales.

5.0 Social & Economic Benefits.

- 5.1 As part of the Council's due diligence to consider the impacts of an area on the economy of Swansea independent economic benefit analysts, Amion. Consulting were appointed to assess the economic benefits of the Swansea Central phase 1 scheme to the city, the region and Wales.
- 5.2 The key findings is that an arena in Swansea would create significant economic benefits to the city, the scheme will generate:-
- **Added GVA into the local economy every year - £17.1m.**
 - **Generate £855m added GVA over the borrowing period.**
 - **The number of construction jobs created 1262**
 - **Permanent jobs once operational – 620**
- 5.3 The detailed benefits are summarised in the table below and the detailed Amion analysis is set out in the Rivington Land Business plan at appendix 1.

Table 5: Summary of Swansea City Centre Phase 1 Regeneration Programme economic impact			
	Swansea	City Region	Wales
Construction phase			
Construction investment (inc. hotel)	£123m	£123m	£123m
Gross employment (person years)	1,314	1,314	1,314
Net additional employment (person years) – workplace based	1,262	1,196	1,051
Net additional GVA (cumulative)*	£73.3m	£69.5m	£61.1m
Operational phase			
Gross employment (FTE jobs)	620	620	620
Net additional employment (FTE jobs) – workplace based	593	507	387
Net additional GVA per annum*	£17.1m	£14.5m	£11.2m
New households	33	33	33
Additional household spend retained (per annum)	£0.334m	£0.401m	£0.601m
Business rates per annum	£0.279m	£0.279m	£0.279m
Council Tax revenues per annum	£0.035m	£0.035m	£0.035m

*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.

- 5.4 The procurement of a main contractor included the requirement to comply with the Councils Beyond Bricks and Mortar policy. This policy imposes requirements to include community benefits in the construction contract. This focuses 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 construction contract is made up of circa 200 separate packages and Buckingham the contractor have held 3 events Meet the Buyer events to explore the skills of local contractors and put the packages together based on the discussions held with the 180 companies that attended and the skills they demonstrated.

- 5.5 Buckingham held an initial “Meet The Buyer” event in May 2019 to consider the major construction packages where approx.300 organisations were interviewed for opportunities within the project ranging from Sub-Contractors to Suppliers. A further 2 Meet the Buyer events are planned for the 11th March 2020 for internal trades and a final event in July 2020 for external type trades. In addition Buckingham have attended various Job Events ranging from 4TheRegion, Veterans Job Fairs and Job Centre Job Fair.

The current Buckingham forecast for the split of packages between Local, Welsh and UK/EU is as follows:-

Local (NPT & west)	17%
Welsh	38%
UK & EU	45%

- 5.6 The community benefits negotiated with Buckingham are:
- 4325 person weeks of TR&T which will include opportunities for new apprentices, new trainees, jobs for new entrant’s 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 sub contract 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.

6.0 Rivington Land Report and Business Plan.

- 6.1 Rivington Land, the Council’s retained Development Manager, have been working with the Council for 3 years. During this time they have reviewed the research and Due Diligence work undertaken by the Council to inform the feasibility and design evolution of the scheme. Using the research, their professional advice and Swansea’s need to regenerate and stop decline Rivington Land have produced a final stage report to enable the Council to take an informed decision on whether to invest in the project. The report is attached as an appendix 1. This is the key document that sets out the detailed rationale and it documents the risks, issues, decision making process and milestones achieved in progressing this scheme. The contents are:-
- Reviews the rationale for the Swansea Central regeneration project and the role of phase 1
 - Reiterates the scheme evolution
 - Describes the content of the scheme
 - It sets out the financial requirements of the project
 - Provides an update on all key matters impacting phase 1

- Provides a commentary on the contractor procurement process
- Sets out the delivery programme to completion
- Assesses the ongoing risk profile
- Provides an update on various aspects of detail such as digital, arts and leasing strategy
- Sets out the development managers recommendation

6.2 The Rivington Land report makes clear recommendations, sets out the risks and information relating to the Council making a decision on whether to proceed.

6.3 The recommendation in this report is to commit the funding necessary to enable the Council to enter into the construction contract with Buckingham to enable a full start on site.

7.0 Digital

7.1 Digital is a key theme of the Swansea Bay City Deal and this is embedded in the visual appearance of the Arena with 70,000 LED's, this allows an array of experiences ranging from pure light shows to the ability hold digital art competitions, advertising. This imagery will be recognized world-wide.

7.2 The Swansea Central Phase 1 scheme will deliver the best available technology to create digital ready infrastructure to support Swansea becoming a Smart City. The scheme provides state of the art CCTV and WIFI with the potential to be able to connect to the wider city digital infrastructure.

7.3 Phase 1 will see new CCTV cameras which will be digitally enabled, the existing City CCTV is analogue and is no longer fit for purpose. The Phase 1 digital infrastructure is being designed to ensure it can fit with a new wider city centre network. To this end discussions are continuing with digital providers to review the wider city centre requirement and a separate cabinet report will be presented on this matter detailing the work undertaken and the budget required to undertake the work. The budget requirement is included in the FPR7section of this report.

7.4 The Council's digital strategy principles are attached as appendix 2 which are aligned with the City regional digital project.

8.0 Budget, Resources and Capitalisation Requirements.

8.1 The works commissioned under the Pre-Contract Services Agreement entered into between the Council and Buckingham Construction have been completed. The purpose of this agreement was to firstly complete the RIBA Stage 4 scheme design, to create a final contract sum for the phase 1 scheme. Secondly the completion of the works to stabilise the revetment wall on the LC carpark site.

- 8.2 The detail of the construction contract and the negotiations undertaken with Buckingham are set out in the Rivington Land report in Appendix 1 to this document.
- 8.3 The total budget figure required to complete the project is in the sum of £134.837m which includes the Buckingham construction cost, all fees and charges and contingency on the Arena cost and city centre digital/CCTV costs. A figure of £24.117m has already been approved by previous Cabinet reports and therefore to complete the scheme an additional authorisation of £110.72m is now required to enable the Council to enter into the Construction Contract to complete the construction of the scheme. The impacts of Brexit on the construction cost are costed and included in the contract with Buckingham.
- 8.4 The Council's borrowing requirements will be further reduced by the City Deal contribution £22.849m and the sale of the residential element by a further £4.9m. In addition further grant applications of £2.2m have been made together with further applications as appropriate to support delivery of elements of the scheme which if successful will further reduce the Council's contribution.
- 8.5 The total income from the scheme is derived from car park charges, rent from ATG under the arena lease, rent from commercial units and commercial receipts. This is currently an estimate based on officer knowledge and UK best practice. The total gross income is £1.704m which will be received once all units are let and income producing. If existing car park income is deducted the income produced will be £956k. A detailed breakdown is included in the Rivington Land business plan. The Maintenance and Sinking fund requirements for the scheme are set out in the Rivington Land Report at Appendix 1. A total annual running cost budget estimate of £938k is required to be set aside for the maintenance of the scheme and a sinking fund provision to provide for the future replacement of assets as they reach the end of their design life. The maintenance and sinking fund requirements will be fully funded through the income generated by the scheme. It is recommended that any spend against these budgets is delegated to the Director of Place and the Chief Finance Officer.
- 8.6 The Council will be responsible for the operation and management of the Arena digital screen, the lights in the park and digital square; requiring a balance between animation for general ambience and sense of place, depending on the time of day and /or other activity in the area; and destination promotion. The scheme will put in place digital controls and a number of treatments for the screen, within the above parameters, which will be available for programming on completion of the scheme. The ongoing management and the production and presentation of further designs for the digital scheme, including opportunities for video installations and the prospect of an annual arts competition, or for example, an international digital arts festival, will require day to day management and a budget to be in place. The maintenance schedule in the Rivington report in the appendix makes provision for this and discussions have taken place with the Head of Culture to run this element of the scheme. It

is proposed that our internal Cultural Services take this on as part of their remit of providing cultural activity for the Wellbeing of Future Generations, marketing the destination, developing and enhancing, tourism, creative industries and the visitor economy.

- 8.7 During the Second Stage procurement period, the issue of Brexit was discussed and the Contractor was asked for a proposal to take on the risk arising from Brexit. The risks which may arise from this event might be matters such as cost of materials and labour increases, currency fluctuations, programme delays in delivery of materials. The Contractor's proposal to take all these risks is for the Council to make an Advanced Payment under the contract. The Advanced Payment is made for the Contractor to use as they wish and is protected by an on demand Bond. The Bond would be taken out by the Contractor under the provisions of the Building Contract and at their cost, and this would allow the Council to demand re-payment of the amount outstanding on the Advanced Payment without reason but not vexatiously.
- 8.8 The November 2018 cabinet report agreed to capitalise the salaries of the eligible staff working on this scheme. The volume of work has meant that more resources are working to deliver the scheme. Staff working on this scheme will need to time record their hours spent working on the scheme.
- 8.9 It is in the Council's interest to capitalise the time spent by staff on this project. There are significant Council internal resources employed on this project and therefore £336k p.a. can be capitalized and used to support further scheme delivery.

9.0 Risks

- 9.1 The detailed risk analysis is set out in the Rivington Land report in Appendix 1. The key risks to the Council are summarised below:-

Risk	Mitigation	Level of Risk
Pre-Contract		
<p>Do Nothing - The research undertaken by the council indicated that perceptions of Swansea were poor and private sector investment will not currently be forthcoming. The risk is that if the council does not undertake strategic interventions to regenerate Swansea that Swansea will continue to decline.</p>	<p>Implementation of the Swansea Central Area Regeneration Framework (SCARF) and the Phase 1 project as catalyst.</p>	<p>High- if scheme not committed.</p>

<p>Retail and Business Confidence - If scheme delivery does not happen the divestment from Swansea and store closures are likely to occur, which will dramatically impact Swansea's retail offering. This in turn will significantly undermine business and investor confidence in the city.</p>	<p>A commitment to deliver the scheme linked to a clear PR strategy to inform the business community of how Swansea is changing is planned together with targeted key stakeholder discussions.</p>	<p>High - if scheme not committed.</p>
<p>Post Contract</p>		
<p>Maintenance - Whilst significant work has been undertaken using specialist local knowledge and national benchmarked costs there is a risk that unforeseen issues arise which increase costs.</p>	<p>A detailed maintenance schedule has been produced utilizing national standards and local benchmarking.</p>	<p>Low Risk</p>
<p>Income - There is a risk that revenue may fall, or that increased car parking income may not be achieved. It is possible, that not all commercial letting is likely to be in place at Practical Completion.</p>	<p>Car park income is based on existing tariffs and cautious assumptions in terms of future usage. Whilst arena rent is based on figures agreed with ATG. The delivery of future phases has the potential to significantly alter current forecast usage.</p>	<p>Low Risk</p>
<p>Contingency - An appropriate level of contingency to cover unforeseen construction risks or other costs needs to be in place.</p>	<p>A percentage level of construction cost has been assessed by the Rivington Land Team and agreed with the council as being appropriate at this stage of the project.</p>	<p>Low/Medium</p>

<p>ATG & Business Plan Whilst ATG is a large company there is always a risk of company failure.</p>	<p>The Business Plan has been formulated by the company using their experience of running over 60 venues worldwide. ATG were selected through competitive tender Should the tenant not be able to take possession for their business reasons, then the Council may be able to revisit the other Venue Tenderers.</p>	<p>Low</p>
<p>Risk of volatility in the Construction Industry.</p> <p>Brexit</p>	<p>It is proposed through the contract with Buckingham that there will be contractor's insurance and performance bonds to protect the council against failure of the contractor. Due diligence on Buckingham was undertaken during the procurement process.</p> <p>Utilising JCT standard advance payment clauses and a small premium payment to move this risk to the contractor.</p>	<p>Low</p>
<p>Project payments - If the project substantially starts on site the management and audit governance in order to expend the total project cost expenditure will be critical.</p>	<p>A dedicated resource has been identified to undertake this role as it is essential that contracted payments are made on time.</p>	<p>Low</p>

<p>Ongoing design risk- The resolution of the outstanding design issues and provisional sum related activities impacting either project costs or programme.</p>	<p>Buckingham have been requested to provide a detailed information schedule to enable them to deliver to their construction programme, this will then provide a framework to address these items through the remaining phases of the project.</p>	<p>Low</p>
<p>Arena Handover Failure to deliver the Arena within the agreed timeframes following Council service of the 6 Month Access Notice to the tenant.</p>	<p>As the Council will be liable for potential consequential costs for the tenant should the handover be delayed, the 6-month access notice will only be issued when absolute certainty is received on the date.</p>	<p>Low</p>
<p>Interfaces with potential future phases Additional future costs associated with abortive works due to future development phases changing from current direction.</p>	<p>Provision has been made to accommodate anticipated future phases (Hotel, Phase 2) adjacent to the site boundaries. Such as ensuring service diversions for Phase 1 do not interfere with proposed sites and the planning parameters set for these developments. Should future adjacent works expand in scope these will need to be reassessed</p>	<p>Low</p>

<p>Transportation – Bus/train times need to be considered to ensure the arena can operate and Planning policy needs to be reviewed to ensure future schemes can progress.</p>	<p>The Council is reconsidering its strategic approach to transportation and the required changes to public transport programming working with third party providers with an aim of ensuring an appropriate level of service will be in place prior to the full opening of the arena.</p>	<p>Low/Medium</p>
<p>Bio Diversity - Risk that scheme will address.</p>	<p>The scheme has engaged PBA to advise on bio diversity and protect designs through the construction phase. The scheme included a new parkland and a significant green wall to the South side car park. In addition the council is in the process of adopting a GI strategy.</p>	

<p>3rd Party Engagement – there are several neighbours (LC, NWM, Tesco, Church, Residents etc.) who will be impacted by the works.</p>	<p>Where required Legal agreements have been sought with the affected neighbours, in addition a protocol for project communication has been agreed between the Main Contractor and Council to provide periodic updates on site activities to the BID, adjacent operators and local residents. There is a requirement for the Arena tenant to complete an Arena Management Plan which requires compliance with a neighbour engagement plan (both commercial and residential), this plan must be approved by the Council prior to the operation of the Arena.</p>	<p>Low</p>
<p>Costs of Borrowing</p>	<p>£90m has been borrowed at the lowest rate possible (1% below existing rates) saving £45m on current rates</p>	<p>Low</p>

10.0 Key next steps and continuing Swansea Regeneration.

- 10.1 If the decision is made to allocate the funding required to progress the scheme and enter into the construction contract then there will be a number of key work streams that will need to be undertaken:-
- The Rivington Land Team will be appointed to monitor the delivery of the scheme to ensure the detail of the design and overall architectural design integrity is delivered in line with Stage 4 RIBA designs and that the project is delivered within the project timeline.
 - Work with ATG on the programme for the arena including community involvement and aiming to coordinate with the Grand Theatre.
 - Coverdale Barclay and MGB (Swansea) have been appointed to prepare and implement the PR strategy to make sure residents and businesses are

fully aware of the project and the benefits it will bring to the whole of the Swansea area. They will meet with key stakeholders and occupiers to get commitment to the city centre and ensure there is an awareness of the ongoing delivery of Phase 2 and other projects.

- Secure lettings of the commercial opportunities for units on the park and public realm link to the arena.
- Ensure as much continuity of car parking and that the city can continue to operate during construction.
- If the Council commits to deliver Swansea Central Phase 1 it is essential to capitalise on these investments to further regenerate the city, delivering further economic growth and creating a better place for people to live, work and visit in accordance with the Council's priorities and objectives, in particular the Swansea Central Area Framework (SCARF) and LDP. To this end a separate report is recommending marketing of Strategic Sites to select a JV partner to take forward the next phases of regeneration

10.2 Looking longer term, whilst the arena project is critical, the delivery of other key regeneration projects must continue to ensure the momentum is maintained and Swansea continues to grow. The Council may not wish to fund further regeneration projects and therefore officers, in conjunction with property advisors Cushman Wakefield, have been exploring how to attract private investment to ensure ongoing delivery of developing Council owned strategic development sites.

10.3 The Council and its advisors are aware of other Local Authorities entering into long term Joint Venture agreements with development companies as a potential way forward and a PIN Notice was issued via Sell2Wales asking for potential investors to register their interest. Other organisations have also come forward separately and in total there have been 14 expressions of interest.

10.4 A separate Cabinet report sets out a proposed way forward to secure a Joint Venture partner and seeks authority to proceed with a formal OJEU marketing exercise inviting offers from a shortlist of developers following a competitive dialogue procurement process.

11.0 Financial Implications

11.1 The total budget figure required to complete the project is in the sum of £134.837m which includes construction cost, all fees and charges and contingency. A figure of £24.117m has already been approved by previous Cabinet reports and therefore to complete the scheme an additional authorisation of figure of £110.720m is required to be able to enter into the building contract to compete the construction of the scheme.

11.2 Subject to UK and Welsh Government issuance of grant terms and conditions £22.849m of the scheme cost will be potentially funded by the City Deal, thereby reducing the Council's net contribution by this figure. The Council's contribution could be further reduced by the capital receipt received from the disposal of the residential element. Given the scale of grant it is imperative that full grant terms and conditions are received, and deemed acceptable to the

Section 151 officers for both the Joint Committee and this Council. An offer in relation to the first tranche of £18m, for 2019-20 only, and for running the programme and Yr Egin and Swansea Central only, has been received. This is clearly advantageous to Swansea's scheme and a request will be made for early release (this year) of the whole funding from the City Region once it has itself received the cash. The release of funding for the City Deal in future years and the consideration of business cases for other Projects will be conditional on the Conditions of the initial grant offer being met in full.

- 11.3 The Arena is being let for a 30 year period to Ambassador Theatre Group who will be responsible for FRI terms of the arena itself. The residential and retail elements of the scheme will be let on similar terms. However, the remainder of the development including the car parks, bridge, coastal parkland, digital square, digital arena façade and LED's, public realm areas and events programme will require an annual maintenance and a management revenue budget. This will include replacement of the LED's at year 15 and 30. The final budget cost of this has been established and included in the detailed design and final costs estimate.
- 11.4 Likely revenue income from ATG and for the increased returns of the car park offer will offset and exceed any ongoing revenue "running" costs and sinking fund for maintenance once decisions are made on the future car parking strategy and future pricing options. The cost of repayment are already covered for the first 5 years from a mixture of capital equalization reserve and MRP reprofiling. From 2022/23 the income position is likely to improve as new additional income streams come on line further helping to contribute to cover the long term cost of repayment.
- 11.5 On this basis that would leave a public sector subsidy for the overall scheme to meet the capital financing costs broadly as follows:

Indicative capital financing subsidy at current pool loan rates (4.22%) and current MRP (2.5%).

	19-20	20-21	21-22	22-23	23-24 onwards
	£m	£m	£m	£m	£m
Total financing	0.98	3.70	6.47	8.27	8.27
City Deal Grant	-3	-1.5	-1.5	-1.5	-1.5
Loan Repayment	0	0	0	0.3	0.3
Local subsidy	-2.02	2.20	4.97	7.07	7.07

Capital equalisation reserve	0	-1	-2.5	0
Net cost	2.20	3.97	4.57	7.07
Budget/MTFP	2	4	5	7

Estimated balance on capital equalisation reserve

	£M
Capital equalisation reserve balance end 18-19	15
Used to help set 19-20 budget	-3.5
Used as above to smooth costs for this scheme	-3.5
Allocated for Oracle ERP Cabinet September	-3.6
Added to reserve by Council 24 October	2.6
Allocate to City Centre JV due Cabinet November	-0.9
Still available to fund future capital or revenue	6.1

- 11.6 A public sector overall intervention and subsidy is not only to be expected, it is required if the economy is to recover. The very nature of a City Deal and a co-investment by the UK and Welsh Governments, and local authorities to pump prime future direct and indirect private sector investment in the City is because of existing market failure: without it there would be insufficient a case to proceed. The wider public sector, as well as Council, must take a lead to stimulate regeneration. That decision in principle has already been taken, with unanimous Council approval of the City Deal.
- 11.7 This is the final FPR 7 report on the scheme and substantial spending commitments are having to be considered before any future revenue budget affordability certainty.
- 11.8 The sums proposed are very substantial and thus financial risk increases at each stage of approval and therefore has to be stress tested for the “worst case scenario”. Please see scenario section at Appendix 5

- 11.9 The Section 151 Officer also has to form a view as to the reasonableness and value for money of the proposals in discharging his fiduciary duty to council taxpayers. The proposed level of local public subsidy is less than the envisaged economic benefits set out in the report and on that basis it can be considered justified. The financial cost to the Council of supporting this scheme's financing costs over other revenue spending is a matter of policy decision by Cabinet today and Council in future annual budget decisions.
- 11.10 The scheme has progressed through a UK and WG five case business model assessment process and deemed satisfactory to national and sub national governments from a value for money point of view.
- 11.11 It must be borne in mind however, that the respective contributions are significantly different in scale (the Council is putting in the majority of financing and takes all the risks – the UK and Welsh Government contribution is a fixed sum, the Council's is not yet fully fixed, Future UK and Welsh Government budgets could impact negatively and positively upon the Council in terms of its funding. Equally there are spend side risks given capital cost certainty cannot be fully assured (despite contingency sums assumed), nor interest rate certainty, nor ongoing revenue cost certainty, nor ongoing overall affordability certainty (future budget decisions).
- 11.12 This report does significantly help move the scheme along to the last stage with relative capital cost certainty, an ability to lock in at known interest rates and a developed revenue business case. Interest rates for PWLB borrowing have moved substantially adversely in recent weeks as a result of HM Treasury decisions to add a 1% premium on new borrowing. Nevertheless borrowing costs remain relatively low by historic standards and the sums already borrowed and locked in mean that it is reasonable to assume that borrowing costs can be capped at an average of 4.22% (the current pooled rate) with the lower MRP repayment (2.5% versus 4%), costs of servicing the new capital finance are around 1/3 lower per £ than only a few years ago.
- 11.13 This FPR7 report is being determined before the budget and medium term financial plan are agreed by a future Council. This is a normal risk for this time in the budget cycle but the scale of spend approval sought outside the normal budget cycle is material in this instance. It is therefore appropriate to be mindful of likely future budget settlements from both UK and Welsh Governments.
- 11.14 This FPR7 report is being determined before wholly assured credible plans are finalised to redress the current budget imbalance approved by Cabinet.
- 11.15 Directors proposals to date are set out in Appendix 5. This is only to address in year issues. Future budget savings are also required to assure overall scheme affordability.
- 11.16 Capital costs have now been revised to £135m to reflect positive scheme additions and enhancements including CCTV provision. A number of

grant applications are being progressed and Welsh Government has also announced recent additional capital support. If those bids are successful then the bulk of this excess cost can be potentially covered. If ultimately not successful then the excess will need to be addressed by reviewing the overall future capital programme.

11.17 A range of financial risks have been set out in this report. There are clear risks of doing nothing. There are equally clear risks of doing something on this scale. In summary the risks are currently categorised as follows:

Risk	S151 RAG Rating	Mitigation
Cost certainty	Green	Whilst not absolutely certain an agreed sum is provided for and contingency provided for to mitigate further potential cost pressures
Grant Terms and Conditions	Amber	Exceptional and conditional 19-20 offer made. Future years fully conditional on range of milestones. Not able to control –need to be fully issued by Welsh Government
Maintenance of LEDs	Green	Maintenance schedule and sinking fund provided for
Revenue running and maintenance costs	Green	Reasonable and prudent running costs and maintenance costs have been fully provided for in the income schedules
Financing subsidy	Amber	Funding costs are assumptions only. £90m of borrowing has been locked in at fixed rates. Remainder of borrowing will be at prevailing rates when borrowed in due course.

Balance on capital equalisation reserve	Green	Sufficient balance is being currently maintained to insure against write off. Balance will be used to smooth the cost as scheme progresses.
Public subsidy	Green	Policy decision for Cabinet and Council to accept or otherwise the level of return (low financial, higher wider economic and social benefits)
Scheme abandoned	Green	Extremely unlikely – write off of costs covered by general reserves and capital equalisation reserve. Risk mitigate by scheme proceeding once revenue savings fully identified to pay for capital financing
Capital affordability	Amber	Cost cap of £135m. Cabinet will be aware of the timing of capital grant bids and the need to review the overall programme if these are not successful to live within net cost cap so mitigation risk is Amber
Revenue affordability	Amber	This is essential to afford the capital financing subsidy. Proposals are not wholly developed at this stage and thus not fully mitigated.

11.18 The S151 Officer and CMT are satisfied, on balance, that it is reasonable to progress to this final stage at the date of report publication, and that it is reasonable to add the whole scheme cost to the budgeted capital programme under FPR7 5b with that clear expectation on funding and agreed in principle high level mitigations if those expectations are confounded.

There are clear risks still to be managed as fully set out in the report but as long as Cabinet and in due course Council continues to commit to undertake, as they have clearly done so with all previous budgets and MTFPs, whatever

revenue and capital decisions are necessary, at the relevant time, to afford the headroom needed to provide for the capital financing costs, then a future funding route can be potentially identified now to allow this this unbudgeted cost to be added the approved capital programme in line with the constitution (FPR7 5b). This is likely to be a mixture of future capital reprioritisation, additional revenue savings, future additional revenue income and potential capital receipts from the wider city regeneration, future council tax level decisions and a re-evaluation of future years' government grant support, once known. On the latter matter, there are raised expectations of a better increase in funding for future local government finance settlements compared to recent previous years.

11.19 This clear understanding of the consequences and prior commitment to act it is imperative to ensure the Council does have at all times sufficient resources to complete the scheme and to set lawfully balanced future budgets given the substantial spending decision is being sought ahead of future budget rounds.

12.0 Legal Implications

12.1 The Council has previously appointed Buckingham Group Contracting Ltd under a two stage tendering process. Following the successful completion of stage one, the Council is now seeking to award the stage two contract. Care must be taken to ensure that all contractual rights and obligations are contained within the contract documentation in order to protect the Council's interests.

12.2 The Council will need to ensure that it complies with the terms and conditions of Welsh government and UK government offers of grant funding.

13.0 Equality and Engagement Implications

13.1 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

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

13.2 The EIA process has been duly followed for all aspects of this scheme from its inception. The EIA report attached in the Appendix provides an assessment of all equalities implications relating to each element of the scheme. The EIA report is extensive, large amounts of engagement has taken place to inform the

scheme and identify its implications. This engagement will continue through the duration of the project and EIA will be updated as the project progresses. Please see the Appendix for full details of the Equality Implications in relation to this scheme.

- 13.3 This project is a good example of the 5 Ways of Working promoted by the Act and will make a significant contribution to the 7 well-being goals. It is an example of collaborative working between the public and private sector in a sustainable way with the objectives of developing the city centre for the benefit of future generations.
- 13.4 This is a major public and private sector investment programme, assisting in the regeneration of our city center, stimulating economic growth, addressing issues such as city center decline, poverty, inequality, jobs and skills which directly contributes to the council's obligations to act in a sustainable way pursuant to the WFGA.

Appendices:

- Appendix 1 - Rivington Land Report.
- Appendix 2 – Digital Core Principles
- Appendix 3 Check List
- Appendix 4 – EIA
- Appendix 5 - Revenue In year Action/Future Scenarios
- Appendix 6 – FPR7 Table and Cashflow
- Appendix 7 – WAO letter