

Report to:	Cabinet	Date of Meeting:	28 July 2022
Subject:	Marine Lake Events Centre – Final Business Case		
Report of:	Executive Director (Place)	Wards Affected:	Cambridge & Dukes
Cabinet Portfolio:	Regeneration & Skills		
Is this a Key Decision:	Yes	Included in Forward Plan:	No
Exempt / Confidential Report:	The report is not confidential but appendices 1 and 2 are NOT FOR PUBLICATION by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. The Public Interest Test has been applied and favours the information being treated as exempt.		

Summary:

The report provides an update for Cabinet on the Marine Lake Events Centre (incorporating The Light Fantastic) and presents the preferred option for progressing the commitment of Southport Town Deal funding for the project. The report also includes the business case for the project for required submission by the Council, as accountable body, to Government on behalf of the Town Deal Board.

The report also sets out the next steps required in relation to appoint of main contractor and Operator.

Recommendation(s):

- (1) The full business case for the project is agreed and should be submitted to Government on behalf of the Town Deal Board;
- (2) The agreement and return of all project documentation to the Department for Levelling Up, Housing & Communities (DLUHC) is delegated to the Chief Executive and the Executive Director of Corporate Resources and Customer Services, in consultation with the Executive Director (Place) and the Cabinet Member for Regeneration and Skills and Cabinet Member for Regulatory, Compliance and Corporate Services, on behalf of the Town Deal Board and in line with Town Deal funding deadlines;
- (3) The Executive Director (Place) in consultation with the Cabinet Member for Regeneration and Skills be authorised to exercise delegated authority to procure a suitable contractor for the capital works via a fully compliant framework;
- (4) The Heads of Terms for the operation and management of the Marine Lake Events Centre as set out in the report and Full Business Case be approved and that the Executive Director (Place) in consultation with the Cabinet Member for Regeneration and Skills be authorised to exercise delegated authority to agree the detailed terms;

(5) Cabinet notes that The Liverpool City Region Combined Authority continue to support the principle of allocating up to £20m to the new Events Centre, from which the first £2.3m has been released to support pre-development work;

(6) A request for a supplementary capital estimate to enable the scheme to be included within the Council's Capital Programme will be brought back to Cabinet and Council following on from The Liverpool City Region Combined Authority final approval and agreements from The Department for Levelling Up, Housing & Communities (DLUHC);

(7) The Cabinet notes the key risks identified within this report; and

(8) It be noted that the proposal was a Key Decision but had not been included in the Council's Forward Plan of Key Decisions. Consequently, the Deputy Leader of the Council and the Chair of the Overview and Scrutiny Committee (Regeneration and Skills) had been consulted under Rule 27 of the Access to Information Procedure Rules of the Constitution, to the decision being made by Cabinet as a matter of urgency on the basis that it was impracticable to defer the decision until the commencement of the next Forward Plan.

Reasons for the Recommendation(s):

Cabinet has previously approved to progress with a new Marine Lake Events Centre in Southport as part of the successful Southport Town Deal.

Under the Town Deal Heads of Terms, Sefton Council is required to submit a full business case by 8th August 2022. The business case for the Marine Lake Events Centre (incorporating The Light Fantastic) has been developed in accordance with the guidance provided for Town Deal projects. The business case needs to be approved for the submission to be made to Government to facilitate the provision of the grant funding.

As per Cabinet on 29th July 2021 a Competitive Dialogue procedure to procure an operator for the MLEC site is underway, and as this process concludes it is necessary to agree the final terms to allow appointment.

It also now required to start the process of appointing a suitable build contractor, with early engagement and input increasing cost certainty and reducing risk on the project.

Alternative Options Considered and Rejected: (including any Risk Implications)

The Outline Business Case presented to Cabinet on 24th June 2021 considered several alternative options ranging from do minimum, to refurbishment, to major redevelopment. The preferred option was major redevelopment with the other options being rejected as they did not meet the project aims and objectives.

The preferred way forward identified at the Outline Business Case stage was subject to further review in early 2022 focused on the re-examination of the scheme given capital affordability constraints alongside a review of the funding strategy. This review led to the

confirmation of the preferred way forward scheme as set out at the Outline Business Case stage.

The shortlisted intervention options examined as part of the Full Business Case include the Outline Business Case preferred option requiring £73m of funding and a reduced scheme requiring £61.8m capital investment.

These two intervention options were considered against a revised reference case that considers that the STCC did not re-open after COVID-19 and has been mothballed by the Council. Therefore, the Do Minimum option, examined as part of the Outline Business Case, was no longer considered.

The preferred option from the Outline Business Case scored the highest in the Full Business Case and therefore the circa £73m major redevelopment remains the preferred option.

What will it cost and how will it be financed?

The Business case that has been developed and is included as the basis for decision within this report has been developed by an external firm with significant sector experience, IPW. This is the source of all estimates in respect of capital costs and income and expenditure forecasts in relation to the future operation of the centre.

This has then been reviewed by Turley, another independent company with expertise of this industry and market who have verified that the assumptions made are robust and can be relied upon.

(A) Revenue Costs

As reported, the business case for the ongoing operation of the centre has been developed by IPW who are an internationally-renowned company specialising in event centre operations. These income and expenditure estimates have subsequently been reviewed by another external company with expertise of the sector, Turley, who have advised that they are robust and can be relied upon for decision making. It is considered by these industry experts that the estimates contained within the business case for annual profit and loss are prudent. These net revenue costs will be finalised as an operating agreement is finalised as per the recommendations within this report and the proposed delegation.

The financial model is based upon securing an operator who will pay the Council an agreed annual sum to run the centre for a minimum of 25 years. This legal agreement between the Council and the operator is a key factor in the business case and the financial risk that the Council needs to consider. Under the business case, if the Council is to borrow £19.7m, an annual subsidy will need to be provided and this will need to be built into future Medium Term Financial Plans (MTFP). The size of any subsidy, net of operator income, will be determined as the operator procurement is finalised and will be reported in a future Cabinet (due September 2022) and Council report. This final position will be determined by the capital funding available to the Council following negotiations with grant providers, the final negotiated position with a preferred operator that takes account of the length, value and nature of the lease, and initial upfront costs of operations.

In developing the business case, it is an assumption that under the lease agreement the basis for the annual payment is legally binding. The Council's preferred position is that such an agreement is backed by a parent company guarantee or some other form of guarantee that protects the Council's position thus minimising the risk of default. The final detail of this will only be known when a preferred operator is selected. At that stage, a full risk analysis will be undertaken and reported to members for consideration.

The modelling of the lease agreement will have both a fixed and variable element according to the business case with the fixed element being inflation linked. Therefore, if a loss materialises in any given year or profit exceeds the estimates in the business plan then this would be shared by the operator and the Council and will add to the base position reported in the business case

One of the key risks to the Council over the term of the agreement is if the operator chooses not to continue within the centre and wishes the lease agreement to terminate or if the operator fails to continue as a going concern. The lease agreement should not permit such termination. However, in any such a scenario the Council would revert to the parent company guarantee or other form of guarantee as per the agreement for security of ongoing receipt. In the event that the guarantee cannot be exercised then an alternative operator would need to be sought and the business case and model changed. This would inevitably change the financial implications for the council detailed within this business case and would require further Cabinet and Council approval due to the significance and materiality.

Within the business case there is a detailed sensitivity and risk analysis that identifies the impact of various income and expenditure scenarios and how they would impact the business case and also the risks that would need to be managed by the operator and Council - again this has been developed and verified by IPW and Turley. These will be refined as previously set out with further reports provided to Members for decision, but it is important that the range of sensitivities and the potential impact is understood. In the event that the council's capital contribution is £19.7m to this project, as stated a subsidy will be required each year that will be built into the Medium Term Financial Plan. If there are adverse variations to this case, from either the capital costs or the ongoing annual operations, as reflected in the sensitivity analysis this will add to this position however similarly if actual financial performance improves compared to the business case then this will reduce the council's annual funding requirements. Full details on this will be provided in the report that will be presented to cabinet in September 2022

(B) Capital Costs

From the business case presented it can be seen that the proposal is for a £73m capital build- this estimate reflects a cost estimate based on RIBA stage 2 work. In terms of funding £33.3m is available to the Council from the Southport Town Deal and there are ongoing negotiations with the Liverpool City Region Combined Authority (CA) with a view to a further £20m being received – discussions are ongoing to seek additional gap funding from other public sources. Once the CA funding above is secured there would be a funding gap of £19.7m on the overall capital cost of the centre and this is the sum that the Council at present would need to support. Based on a 40 year annuity loan from the Public Works Loan Board at 3.41% this would result in an annual repayment sum of £0.91m. Any borrowing/ funding solution will be in accordance with the Council's

Treasury Management Strategy and associated policies and the advice of the Council's Treasury Management advisors.

If additional gap funding is not secured and the capital cost remains at £73m then this is the gap funding that the Council would need to meet. If additional funding is secured the Council's contribution would reduce as would the annual repayment cost. It should be noted that at present there are ongoing discussions with various other organisations (e.g. Arts Council England) in an attempt to secure further capital funding. However at present it is considered prudent to report on the funding sources where firmer information is available.

In considering the capital cost within this report at the current time, as has been reported extensively nationally, the most significant cost risk is in relation to inflation. Based on advice from the council's professional advisors, within the current cost estimate is contractor price inflation with 8.1% (£3.74m) built into the cost estimate and a further 5.1% (£2.78m) through to construction. This is based on industry metrics (Bank of England) but this will need updating as the work continues on the revisions to the cost estimate and funding sources. In addition, provision has also been made for inflation that will have materialised from recent global events of 4% (£2.18m). These assumptions have been built into the current business case. Consideration and management of these issues which are outside the Council's control is critical as if there are cost increases above this level, this will be reported for Cabinet consideration through the ongoing robust project reporting and scrutiny, and discussions will need to be had with central government and / or the CA as to whether they are prepared to fund any increases. If this is not the case then the council would need to consider options available to it to address any funding shortfall that may arise. The potential impact of this is reflected within the sensitivity analysis of the business case.

Implications of the Proposals:

<p>Resource Implications (Financial, IT, Staffing and Assets):</p> <p>Internal resources will be utilised for the bid submissions and associated processes. Any additional resource requirements will be identified as delivery strategy for the project is finalised.</p>
<p>Legal Implications:</p> <p>Details of any legal implications are contained within the report.</p>
<p>Equality Implications:</p> <p>Any equality implications will be identified and mitigated. For example, a Changing Places unit is included as a key part of this scheme. The site will be accessible for use by all sections of the community, even those not attending events, social value will also be embed into the both the operator and build contractor procurement ensuring skills and training is a major priority. Consultation and engagement is ongoing and will continue with residents and stakeholders, including Southport Access for Everyone (SAFE).</p>

Climate Emergency Implications:

The recommendations within this report will:

Have a positive impact	Y
Have a neutral impact	N
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	N

The continuation of work directly contributes towards achieving the targets within the Council's Climate Emergency strategy. The design and operation of the new Events Centre will help Sefton's aim of becoming net zero carbon neutral by several design and building techniques. These will be outlined in the final business case. This will also help the Events Centre sales position as several event organisers now expect venues to be able to demonstrate good practice when it comes to the environment.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: N/A

Facilitate confident and resilient communities: The proposed new event centre will provide a high-quality cultural experience that will provide a first-class venue and destination for local communities to use and enjoy.

Commission, broker and provide core services: N/A

Place – leadership and influencer: The proposed new Events Centre will be an enabler for change and lead to further private sector investment in Southport. The proposed centre will be a game change for the Sefton Visitor Economy being fundamental in the Covid-19 visitor economy recovery while also helping change the perception of Southport and the wider region.

Drivers of change and reform: Providing a long-term sustainable future for a new multi functioning event space that will include conference facilities and auditorium along with new uses such as E-sports.

Facilitate sustainable economic prosperity: The new Events Centre will act as a major catalyst for the visitor economy contributing millions to the local economy by supporting local businesses and supply chains. It will also enable future private sector investment.

Greater income for social investment: The new Events Centre is projected not to require any large subsidies that have been required in the past

Cleaner Greener: The future operation will contribute to Sefton's aims to becoming net zero Carbon Neutral.

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD6867/22) and the Chief Legal and Democratic Officer (LD5067/22) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

The new Events Centre formed part of the Southport Town Deal consultation. This overall consultation resulted in over 7,000 responses with regards to the overall Town Deal. Separate consultation also took place with under 16s in relation to The Events Centre and future uses, with more than 1,000 respondents.

As part of the upcoming planning submission further consultation is taking place at the time of writing, this has included a two-day drop-in session with other 300 people engaging in the event providing feedback on the proposals. A webinar has also taken place with the design team and the online consultation is currently ongoing.

Consultation and engagement with local residents and stakeholders will continue throughout the design and subsequent construction process.

Implementation Date for the Decision

Following the expiry of the "call-in" period for the Minutes of the Cabinet Meeting

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Appendices:

Appendix 1 (Exempt) – Operator Procurement Initial Submissions

Appendix 2 (Exempt) – Full Business Case

Background Papers:

The following background papers, which are not available elsewhere on the Internet can be accessed on the Council website:

- Cabinet meeting 1st April 2021, Southport Town Deal – Heads of Terms: - <https://modgov.sefton.gov.uk/documents/s102024/Southport%20Town%20Deal%20Heads%20of%20Terms.pdf>

- Cabinet Meeting 24th June 2021, Southport Theatre and Convention Centre - <https://modgov.sefton.gov.uk/documents/s103515/Southport%20Theatre%20Convention%20Centre.pdf>
- Cabinet Meeting 29th July 2021, Marine Lake Events Centre Pre-Development and Capital Funding Bids - <https://modgov.sefton.gov.uk/documents/s104462/Marine%20Lake%20Events%20Centre%20Pre-Development%20and%20Capital%20Funding%20bid%20submissions.pdf>

1. Background

- 1.1 Following the successful submission of Southport's Town Investment Plan, under the government's Town Deal funding programme, Southport has been allocated £37.5m for a range of projects. All project funding allocations through the Town Deal have been developed with the agreement and support of the Town Deal Board and in line with the Town Deal Programme Heads of Terms.
- 1.2 The Marine Lake Events Centre incorporating The Light Fantastic has been allocated £33.3m from the fund and is acting as the anchor project to the overall Town Deal, given the importance of the project and of the offer to the town's economy.
- 1.3 This project comprises the demolition of the aging Southport Theatre and Convention Centre (STCC) complex, replacing it with a high quality, modern events centre, spectacular water and light show and greatly improved public realm. The vision is set out below.

Project vision

"To transform the STCC into a high quality, distinctive entertainment and business events venue capable of providing great experiences to audiences and users. It will be an anchor for the Waterfront redevelopment, retaining and attracting visitors and driving economic impact for Southport".

- 1.4 This project was initiated in February 2020, when the Council commissioned a 2-Stage Feasibility Study to consider the future options for the STCC. The Feasibility Study considered: the condition and historic operating performance of the STCC, market trends and demand parameters and it identified and assessed potential options for redevelopment. The options were progressed to RIBA Stage 0 & 1 and indicative capital costs established.
- 1.5 The Council subsequently commissioned the development of an Outline Business Case (OBC) to determine the preferred option for the future development of the

STCC. The OBC process ran from July to October 2020 and included a significant engagement and a range of workshops with Council Officers (see workshop summary box).

- 1.6 The options appraisal at OBC stage considered a long-list of ten potential options, including: Business As Usual, Do Minimum, full refurbishment, partial refurbishment, a range project options (with greater and lesser facilities) on the current site and redeveloping the facilities on an alternative site. These options were subject to a SWOT analysis and options filtering using a Red Amber Green (RAG) approach against the project objectives and critical success factors.
- 1.7 This exercise identified a short-list of project options that were subject to an economic assessment, these were: Business As Usual, Do Minimum a three project options (all new build options on the current site, varying in relation to the scale and mix of facilities proposed).
- 1.8 The outcome of the economic assessment was the identification of a Preferred Option

Preferred Option at OBC Stage

The preferred option at OBC Stage was 'New STCC, Waterfront and Water & Light Show'. It included the demolition of the existing STCC, replacing it with a high-quality state of the art entertainment and events centre (1,200 seated and 1,500 seated and standing capacity theatre, 1,500sqm exhibition hall and break-out facilities to support a 1,000 person conference) and outward facing café and restaurant facilities. It included new car parking spaces underneath the exhibition hall (to allow for future development of the surface level car park). It also opened up the waterfront alongside the Marine Lake through pedestrianisation, provision of a pontoon with a light feature and food and beverage pop-ups. It completed the development with permanent water and light features and a spectacular water and light show.

- 1.9 The Preferred Option (and OBC) formed the basis of the project that was agreed by the Council's Cabinet and informed the applications to potential funding partners (i.e. Towns Fund and LCRCA).

1.10 Further to the completion of the OBC and the submissions to funding partners, the project has been further developed and refined, through a process of testing and optioneering. This has been particularly important, due to the changing economic conditions that have played out since the project was first considered, for example the length and impact of the Covid-19 pandemic and associated restrictions on the events and hospitality sectors, and the issues affecting the construction sector (and impacting build cost) such as availability of labour and materials and increasing energy costs.

1.11 The Council's Delivery Team undertook a headline alternative options review between December 2021 and March 2022 to consider opportunities to amend the Preferred Option to improve deliverability (considering capital costs and availability of funding) whilst seeking to achieve the project objectives.

1.12 This process led to some amendments to the Preferred Option that is now being developed to improve deliverability, and confirmed that the alternative lower cost scheme options did not fully deliver the desired project outcomes.

1.13 The Business Case has been produced by IPW... on behalf of Sefton Council, the Business Case is structured as follows:

- **Strategic Case** – presents the strategic case for the project. This comprises the case for change including; description of the current situation and summary of market assessment. It identifies the project vision and objectives and demonstrates how the project aligns with key local, regional and national strategic policies and objectives. It also sets out the long-list options appraisal, and summarises the approach to identifying a Preferred Option at OBC stage, and key changes since that point.
- **Economic Case** – Sets out to identify the proposal that delivers best public value to society, including wider social and environmental effects
- **Financial Case** – presents the financial case for the redevelopment of the STCC based upon the Preferred Option, which includes a more detailed summary of the capital costs, operating position, affordability and funding
- **Commercial Case** - sets out the commercial case for the project, including an overview of how the Preferred Option will be managed and procured effectively
- **Management Case** – sets out the management case for the project, detailing the programme management and governance arrangements, project timetable and risk management arrangements

2.0 Strategic Case

- 2.1 The STCC has played an important role in the development of Southport's visitor economy and infrastructure over the years and forms a key part of its cultural landscape. However, the building is no longer considered fit for purpose as a modern and sustainable events centre of the future. The key issues relating to the current building fall into three categories;
- Building Condition
 - Technical short comings
 - Operational
- 2.2 The condition and technical issues with the building have had an impact on its operation and financial performance, as well as a significant fall in the number of events and attendances it can attract
- 2.3 In August 2020, the Council considered the potential to re-open the STCC in the short-term (for say 1-2 years) prior to any longer-term redevelopment. However it was not considered viable due to the uncertainty in relation to the timing of the Government lifting Covid-19 restrictions for re-opening entertainment facilities (and the lead in times for re-booking events), along with the capital and revenue costs required to make the building safe and operational.
- 2.4 A range of market assessment reports have been commissioned by the Council and inform the development of this project. The assessments cover both the core uses for the existing STCC and also a range of other potential uses that could form part of any redevelopment of the site (either as part of the facilities or as enabling/complementary development). The key studies include:
- STCC Feasibility Study Phase 1, IPW... (April 2020)
 - STCC Feasibility Study Phase 2, IPW... (July 2020)
 - Sefton Hotel & Visitor Accommodation Development Strategy, Hotel Solutions (February 2019)
 - Residential Market Review and Site Evaluation, Southport Promenade, Savills (May 2020)
 - AGL overview of Food & Beverage market (September 2020)
 - Southport Marine Lake Car Park Development Analysis, CBRE (March 2022)

2.5 The project objectives were initially identified during the STCC Feasibility Study, and were revisited and refined as part of the OBC development process in August

Project objectives

- Re-establish the STCC as a leading business, entertainment and events venue
- To be a transformational regeneration project for the Waterfront, Southport and the City Region that facilitates the 'levelling up' agenda
- To increase the overall economic impact of the STCC development site
- To improve the financial operating position of the STCC and to reduce any revenue subsidy requirements
- To reduce carbon footprint of the STCC.

and September 2020. The final five project objectives are as follows:

2.6 The following Critical Success Factors were also identified:

- To improve the overall quality of the audience/visitor experience of STCC
- To retain existing and attract new customers, visitors, users and events to the STCC
- To be the catalyst for the regeneration of the Waterfront and the wider town, enabling and unlocking other projects
- To drive additional footfall to the Waterfront area, increasing usage on both event and non-event days to create greater vibrancy
- To optimise the operating position of the STCC
- To be an affordable/fundable project
- To be a deliverable project (taking into account commercial, procurement and contractual considerations)
- For sustainability to be included within the design.

2.7 The project has great potential to contribute to the Government and City Region's Levelling Up agenda. It is a locally developed project, that will provide quality job and training opportunities and support an increased level of local pride and satisfaction in the town.

3.0 Economic Case

- 3.1 The assessment of economic benefits has been undertaken in full compliance with the latest HM Treasury Green Book (2020) and relevant Departmental guidance published by the Department for Levelling Up, Housing and Communities (DLUHC).
- 3.2 Table 3.0 summarises the user profile and the number of attendances generated for the preferred option three years after investment (2028 a mature year).

Table 3.0: User profile by type of activity (000s, annually)

Profile of visits by option	
Market segments	Preferred Option
<i>Day visits</i>	
Entertainment Events	93,987
Conferences	17,934
Restaurant/Café	46,213
Waterfront Concessions F&B	19,521
Water & Light show	273,600
Total day	451,255
<i>Overnight stays</i>	
Entertainment Events	10,443
Conferences	38,349
Restaurant/Café	266
Waterfront Concessions F&B	398
Water & Light show	14,400
Total overnight	63,856
Total visitor days	515,111

Source: IPW

- 3.3 Table 3.1 sets out the annual gross additional off-site expenditure (after deducting non-additional visits at the Sefton LAD spatial level). Total on and off-site expenditure for the preferred option is £18m.

Table 3.1: Gross additional visitor expenditure off-site (£s, annually)

Components	Preferred Option
Entertainment Events	£2.4m
Conferences	£5m
Restaurant/Café	£400k
Waterfront F&B Concessions	£200k
Water & light show	£6m
Total off-site	£14m
Total on and off-site	£18m

Source: IPW

- 3.4 The business plans for the preferred option indicates that direct on-site employment (FTEs) across is 101. Table 3.2 summarises the option gross employment on and off-site, which totals 290 FTEs.

Table 3.2 Summary of gross on and off-site employment impacts

On and off-site gross employment	Preferred Options
Direct on-site employment - venue	26
Venue F&B	33
Other on-site (restaurant, café, F&B)	43
Total on-site	101
Off-site jobs	188
Total on and off site gross jobs	290

Source: IPW

- 3.5 The preferred option demonstrates a BCR of 2.9:1 providing a high value for money rating.

4. Financial Case

- 4.1 The project will be funded through a combination of public sector grant funding and external Borrowing/funding by the Council, in accordance with the approved Treasury Management Strategy and following advice from the council's Treasury Management Advisor. In addition, it is anticipated that the operator will seek to provide an additional level of fit out that will be funded by the operator.
- 4.2 As per the business case there will be revenue implications for the Council with the preferred option, Full detail on this will be included in a future Cabinet and Council report once the operator procurement has concluded. The amount built into the Council's Medium-Term Financial Plan would be up to £0.91m (the cost of borrowing £19.7m over 40 years, as stated earlier), less the income received from the preferred operating partner.
- 4.3 The project costs have been developed by Gardiner & Theobald, the project Cost Consultant. The cost of the preferred option is circa £73m. It is the current assumption that £33.3m will be funded via the Town Deal, £20m will come from

the Combined Authority for which discussions are ongoing and £19.7m will come from the council via borrowing/ external funding. For illustrative purposes and pending a final decision on the optimum funding solution a 40-year annuity loan will lead to an annual repayment of £0.91m being required. Discussions are ongoing with other potential grant funders at present and if successful this will reduce the council's contribution and annual repayment cost, but it is considered that this is most prudent position to report at this time. If this is not the case, the Council will need to consider the options available to it to deliver a fully funded scheme.

- 4.4 The costs set out in the cost plan represent an estimate of the cost of the proposed Marine Lake Events Centre Development works in Southport. The cost plan has been updated in line with the agreed changes to the brief and scope of work set out in the Design Team RIBA Stage 2 Reports. The scope of work includes a new Theatre, Convention Centre, Meeting Rooms, Café and Restaurant, Public Realm, Carparking and Water and Light Show.
- 4.5 Prudent contingencies are assumed within the net construction costs based on the professional advice from G&T, reflecting the current value of the risk and value engineering which is being monitored carefully going forward to test this allowance.
- 4.6 Inflation applied to this cost plan is in line with the G&T tender price forecasts for this period, forecast inflation has also been indicated up to the midpoint of construction (2Q2024) at more than 5%, along with additional assumptions given continued inflationary pressures in the UK's economy and continued uncertainties impacting the construction sector.
- 4.7 G&T has assessed the impact of the various contributing factors to construction costs and has updated its latest set of Tender Price Forecasts, which now show an expected rise in tender prices on average by 5% across the UK in 2022, followed by 3.5% in 2023. Thereafter, G&T expects that annual inflation should fall back towards long-term average of around 2.5% in 2024 and then 2.25% in 2025. Contingencies that reflect the current stage of design and inflation have been included in line with G&T's construction inflation forecasts. Inflation does remain a significant risk in the current market and this risk is captured in sensitivity analysis undertaken on the business case.
- 4.8 This inflationary impact as therefore been applied in line with these Tender Price Forecasts. Any delay to the programme will result in increased costs.
- 4.9 The Business case has identified the following categories of financial risk or opportunity relating to the project:
 - Increase in project development costs
 - Increase (or reduction) in PWLB loan interest rates
 - Additional grant funding secured from third parties (e.g. Arts Council England)
 - Operator deal
 - Term of lease – currently assumed between 25 years and 40 years

- Lease basis – Full Repairing and Insuring assumed (if an Internal Repairing and Insuring, this would result in structural repair cost provisions sitting with the Council)
- Rent free periods (as operator bidders may request in early years)
- Variable rental performance – higher or lower than forecasted by industry experts.

4.10 Therefore, the following sensitivity analysis has been undertaken as part of the business case and full detail is provided in that appendix

- Increase in Project Costs from £73m (+ 5%, +10% and +15%)
- Increase in PWLB rates of 0.5%, 1% and 1.5%
- Decrease in PWLB rates as above
- Income (from operator and other Council)
 - Decrease income – 10% and 20%
 - Increase income – 10% and 20%
- Combine two of the above factors – increase in cap cost and increase in PWLB

4.11 This is a business case, and whilst sensitivities can be detailed with a view to informing decision making, and so the variety of risks (financial or otherwise) are known, this reflects the position at the time of writing and will inevitably change over time.

4.12 Borrowing will take place in accordance with Treasury Management Strategy and with guidance from Treasury Management Advisors.

5. Commercial Case

5.1 The Commercial Case sets out how the Preferred Option has been managed and procured to date and future procurement activities required, it also identifies the key contractual arrangements and risk apportionment.

5.2 The key commercial objectives of the project are to, Design and build a new MLEC and W&LS; and transfer the long-term operation of the MLEC and W&LS to a third-party operator. The preferred contract form for the Operation of the MLEC is a Fully Repairing and Insuring (FRI) Lease. An Agreement for Lease is also required to cover the period from appointment to handover of the building.

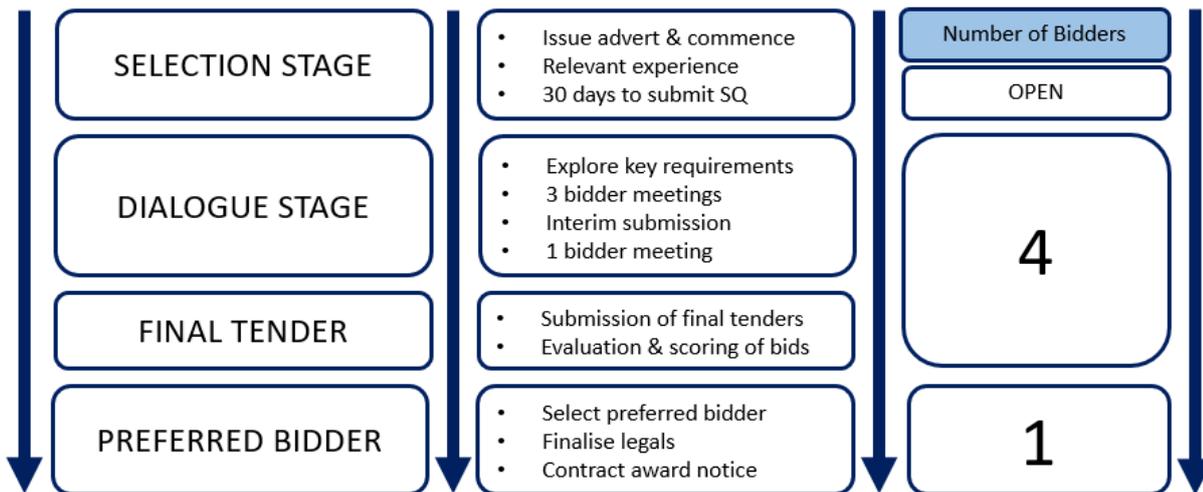
5.3 Based upon the scope and nature of the project, combined with the commercial context generated by COVID-19, the Council would be best positioned to ‘develop’ the project directly.

Local Authority Developed Schemes

It is not uncommon for local authorities to develop such facilities directly, for example Leeds City Council was the developer of the 13,500 capacity Arena Leeds, Hull City Council developed the 3,500 capacity Bonus Arena in Hull and Swansea Council recently developed the new 3,500 capacity Swansea Arena.

- 5.4 Taking the role of developer means that the Council will be responsible for the full delivery of the project including the following:
- Appointment of full professional team (including design, project and commercial advisors)
 - Design development and delivery of a planning application
 - Project funding – applications, agreements etc
 - Procurement of an operator(s)
 - Procurement of a build contractor
 - Employers agent and contract management.
- 5.5 G&T developed a Contractor Procurement Report as part of the Delivery Strategy, The Contractor Procurement Report describes the full range of contractor options available, including Traditional, Design and Build, Management Contracting, Construction Management, Partnering or Target Cost Contract.
- 5.6 The Contractor Procurement Report recommended that two stage Design and Build procurement route (design input from Employer) shown on the figure above was considered most appropriate for the Council to based upon the Council's attitude to risk and certainty.
- 5.7 A procurement process to appoint the future operator of the MLEC is currently in its final stages. This process is subject to Regulation 30 of the Public Contracts Regulations and is using the competitive dialogue process. The overall process comprises of an initial Selection Questionnaire stage and a single period of dialogue with an interim submission.

Single Stage Competitive Dialogue



5.8 The proposed route for contractor procurement has been extensively assessed and reviewed over the past year, initially within the Delivery Strategy to provide a firm basis for project planning and more recently to confirm the approach to be used to go out to market within the next month or so.

5.9 G&T assessed two principal routes to market for the project, use of a Framework or an Open Market Tender. The advantages and disadvantages of each are set out in Table 5.1 below.

Table 5.1 Framework and Open Market Comparison

Route to Market	Advantages	Disadvantages
Framework	<ul style="list-style-type: none"> Compliant Route to Market Reduced procurement timescales. Supply Chain pre-qualified Framework Suppliers capable of delivering Works of similar value and risk Two Stage Tender & Two Stage Hybrid model available. Fixed framework pricing on some elements of the project, identifying O/H & P Opportunity for Pre-Contract Services Agreement/Fee & Open-book approach Known list of Contractors Lower Procurement costs Less risk of legal challenge 	<ul style="list-style-type: none"> Competition may be limited Additional cost for using Framework, transparency/cost build-up required Form of contract/contract conditions may require adjustment Consideration for setting of evaluation weightings to evidence competition More structured and less flexible No opportunity to down select Limited negotiations at final stage (phased clarification) Limited to contractors on the Framework

Route to Market	Advantages	Disadvantages
Open Market	<ul style="list-style-type: none"> • Compliant Route to Market • No additional cost associated with using a Framework Agreement • Flexibility on form of contract and contract conditions to apply to project • Flexibility with setting evaluation weightings to suit WCC strategy • Down Selection is available • Greater selection of contractors • Flexibility to negotiate in final stages • Easier to construct a bespoke process 	<ul style="list-style-type: none"> • Extended procurement timescales • Potential of a challenge from unsuccessful bidders • Lack of interest from the market. • Need to pre-qualify • Additional time to manage • Additional cost to manage • No Guarantee of Tier 1 Contractor • Risk of legal challenge slightly greater

- 5.10 Comparing the Council's objectives for the contract against the advantages of each option, led to the recommendation that the Council should use a Framework to procure the Build Contract.
- 5.11 Subsequently, G&T assessed six potential frameworks available to the Council, as follows: Crown Commercial Services, NHS SBS, SCAPE, PAGABO, North West Construction Hub and Procure Partnerships North West. Each framework was then scored against seven key criteria.
- 5.12 This framework assessment resulted in two short-listed frameworks for more detailed consideration, Crown Commercial Services Framework and Procure Partnerships North West. Based on an overall comparison of both frameworks the Delivery Team recommended using Procure Partnerships North West (PPNW) to procure a Build Contractor.
- 5.13 The PPNW framework agreement provides for model form call-off contracts (which include amended forms of the JCT Design and Build Contract and the JCT Pre-Construction Services Agreement). As such, the pre-construction services agreement and the building contract will be required to be in the forms provided. Whilst the framework agreement does allow "any required project specific amendments necessitated by the detail of any individual project" to the model form contracts, this is subject to the Access Agreement prohibiting the inclusion of any term which could lead to a breach of regulations 18 (Principles of Procurement) and/or 33 (Framework Agreements) of the Public Contracts Regulations 2015.
- 5.14 The Public Contracts Regulations 2015, regulation 33(6) provides that: *"Contracts based on a framework agreement may under no circumstances entail substantial modifications to the terms laid down in that framework agreement, in particular in*

the case referred to in paragraph (7)”. Paragraph (7) states “Where a framework agreement is concluded with a single economic operator (a) contracts based on that agreement shall be awarded within the limits laid down in the framework agreement; and (b) for the award of those contracts, contracting authorities may consult the economic operator which is party to the framework agreement in writing, requesting it to supplement its tender as necessary.”

- 5.15 In cases of multiple supplier framework agreements, the general point around no substantial modification still prevails however where not all the terms governing the provision of works have been laid down in the framework, a competition can be run among all economic operators on the framework. In addition, the framework agreement provides that call-off contracts must not purport to exclude or vary any of the terms and conditions of the model form contracts without the agreement of Oldham Council (as the lead Procuring Authority on the PPNW Framework)
- 5.16 The Framework Administrator, Procure Partnership Northwest, has confirmed in writing to the Council that “the framework has been procured in line with Public Contract Regulations 2015 and as such like all frameworks to be compliant they can only be procured by a public sector body. In the case of the Procure Partnerships Framework that public sector body was Oldham Council. They procured the framework which was led by Oldham Council supported by Procure Partnerships, and the specialist legal procurement team at Sharpe Pritchard LLP”. and that “The framework was structured in a manner to allow other public sector bodies in the North West access the contractors that sit within the framework agreement. Sefton Council were also specifically named within the procurement notices as a potential framework user to ensure there is absolutely no breach of Public Contract Regulations 2015.”

6 Management Case

- 6.1 The project’s management will be based around Sefton Council’s Delivery Framework, which is governed within a Programme Management Environment, and specifically the Growth & Strategic Investment Programme (GSI).
- 6.2 The Council has appointed a Delivery Team to manage the delivery project on its behalf. The Delivery Team includes the following services:

Table 6.1 –Project Delivery Team services

Service
Venue Development Advisory Services and Client Representative
Project Management Services
Quantity Surveyor/ Cost Consultancy

Service
Operator Procurement
Venue Planning advisory
Project funding support
Contract administration/employers agent
Principal designer
Technical Advisory Services

6.3 A detailed project programme has been developed, taking into account the following key considerations:

- the importance of opening a new facility as quickly as possible to minimise the lost economic impact and for the local economy and the hospitality sector in particular, created by the closure of the STCC
- the requirement for a Business Case to be submitted to Government by 4th July 2022 to secure the Towns Fund investment
- that the Council must sign off the Business Case and be confident of the overall deliverability of the project at the point of submission to Government and therefore completion of a Stage 2+ design and submission a full planning application is targeted prior to the submission of a Business Case
- the requirement for a full planning application, design development and cost certainty drove the requirement to appoint the professional team and key advisors in a short timeframe
- the target of completing an operator procurement process prior to the submission of planning and the Business Case - to ensure that the project can benefit from early operator input into the design process (including alignment with any specification reductions or cost savings required), and selecting an operator will provide the Council and other funders with certainty regarding the future sustainability of the project and inform wider funding strategy decisions
- the planning determination period is fixed at 16 weeks as an EIA is included. Submission of the planning application is on the critical path.
- a Two Stage Design and Build approach to the procurement of the Main Contractor has been assumed as the basis for wider project planning (and has been re-confirmed in response to prevailing market conditions), as set out in Section 5 of this report

7. Business Case Appraisal

7.1 The appraisal process commenced on 11 May 2022 and the process has involved:

- A review of the current business case scope against the requirements of Towns Fund/DLUHC, Green Book, Liverpool CR SIF and other guidance to ensure full coverage.
- Addition of additional sections and information to meet the full scope.
- Specific discussions on the economic case to ensure wider regional and national benefits are fully accounted for and a separately commissioning a Land Value Uplift assessment by CBRE to meet the requirements of DLUHC.
- Progressive review of each of the five case models as they are updated by IPW with Turley issuing specific Clarification Questions for a written response by IPW.

7.2 Turley's Business Case & Funding team with Colliers have provided independent specialist due diligence services. The Turley team have appraised over 150 business case over the last seven years across all project types for a wide range of national clients. For added robustness, Colliers have carried out a specific detailed review of the revenue and operator model from a tourism and leisure point of view.

7.3 Turley's have concluded that overall, the business case is a well-developed and detailed business case that has been assembled progressively over time with the correct professional advice. The gaps in the business case are currently not likely to alter the balance of the case. These will need to be fully addressed (and can only be) as the business case is finalised and then progressed to a full business case after the selection of contractor and operator.

8. Risk

8.1 The business case contains a full risk assessment of the project with a number of worst-case scenarios linked to both construction and operator phase, the business case sets out a number of mitigation requirements.

8.2 The report details the risks of this project, and it is important that there is recognition of such areas as:

- Current and potential future rates of inflation
- The potential of further interest rate rises
- The impact of inflationary pressures, market competitiveness, resourcing challenges, logistical challenges, and material lead-in times on the construction sector
- Future conditions in the sector and impacts on the level of rental income should the number of events and revenue not be achieved.