

Report to:	Cabinet	Date of Meeting:	1 September 2022
Subject:	Marine Lake Events Centre		
Report of:	Executive Director (Place)	Wards Affected:	Cambridge & Dukes
Portfolio:	Cabinet Member Regeneration & Skills		
Is this a Key Decision:	Yes	Included in Forward Plan:	Yes
Exempt / Confidential Report:	The report is not confidential but appendix 2 is NOT FOR PUBLICATION by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.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 on the progression of the operator procurement process, along with the ongoing contractor procurement process following previous approval of the procurement routes. The report also includes an update on current costs and funding position and therefore the required contribution from the Council of up to £19.7m. The cost of this, to be funded via borrowing, has been included in this report together with the indicative annual income from the operator, to enable early visibility of potential Medium-Term Financial Plan implications for the Council.

Recommendation(s): Cabinet is asked to

- (1) Authorise the entering into of an Agreement for Lease for the operation and management of the Southport Marine Lake Events Centre with SMG (UK) Limited trading as ASM Global, based upon the principles agreed within the Heads of Terms, as set out in the report.
- (2) Cabinet Member for Regulatory, Compliance and Corporate Services be authorised to agree the final terms to that Agreement for Lease
- (3) Note the update on the build contractor procurement along with the targeted social value outcomes.
- (4) Note the key project risks identified within this report, including future financial implications.

Cabinet Recommends to Council:

- (5) To approve a Supplementary Capital Estimate of £69.1m to be funded by: £31.7m from the Town Deal; £17.7m from the Liverpool City Region Combined Authority; and £19.7m to be funded by the Council.
- (6) Note that, in addition to the £69.1m identified above, £1.6m and £2.3m of pre-

development funding, from the Town Deal and the Liverpool City Region Combined Authority respectively, has already been included within the Capital Programme as approved by Council in September 2021. Therefore, the total capital scheme for the MLEC is £73m and this is the total value of the scheme which will be included within the Capital Programme.

(7) Note that the finance arrangements for the Council's contribution of £19.7m to the MLEC will be agreed following consultation with the Council's Treasury Management advisors and reported to Cabinet through the quarterly Treasury Management reports and the final proposal will be included within the Budget Report.

(8) The completion and signing of Grant Funding Agreement of £17.7m from the Liverpool City Region Combined Authority be delegated to Chief Executive and the Executive Director of Corporate Resources and Customer Services, in consultation with the Executive Director (Place), the Cabinet Member for Regeneration and Skills and Cabinet Member for Regulatory, Compliance and Corporate Services, should it be formally approved by the Liverpool City Region Combined Authority.

(9) The Grant Funding Agreement of £33.3m from the Southport Town Deal, following Full Business Case approval, be delegated to Chief Executive and the Executive Director of Corporate Resources and Customer Services, in consultation with the Executive Director (Place), the Cabinet Member for Regeneration and Skills and Cabinet Member for Regulatory, Compliance and Corporate Services; should it be formally approved by Government.

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.

Following the submission of the business case and conclusion of the operator procurement there is a need to ensure there is a long-term commitment from the proposed tenant to provide confidence in the delivery of the scheme.

To progress and finalise the contractor procurement grant funding agreements from The Liverpool City Region Combined Authority and Town Deal will need to be agreed along with the additional Council funding of £19.7m.

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 Business case presented to Cabinet on 28th July 2022 presented the shortlisted intervention options examined including 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 also and therefore the circa £73m major redevelopment remains the preferred option.

What will it cost and how will it be financed?

The Business Case has been developed by external firms with significant sector experience (IPW and Gardiner & Theobald). The Business Case is the source of all estimates in respect of capital costs, and revenue income and expenditure forecasts in relation to the future operation of the centre. The Operator procurement has now concluded giving a greater understanding on the rental income that can be achieved. A full operator tender evaluation report is contained in Appendix 2

This has then been further 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 to the Cabinet meeting of 28th July 2022, 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 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 based on the completion of the tender process for an operator and can be relied upon for decision making.

In terms of the revenue costs of this proposal the first element to be considered is in relation to the cost of the gap funding on the project to the Council- based on sourcing funding of £19.7m it is currently expected that this would cost the Council approximately £0.9m per year over 40 years. As stated in the following section, at present within the national economy there is great volatility in interest rates and accurately forecasting what rates will be when the Council needs to source its funding is uncertain however this is the most update to date information that is available at this time.

It was previously reported to members that the financial model being developed by the Council was based upon securing an operator who will pay the Council an agreed annual sum to run the centre for 25 years in addition to a share of the profits from the venue. As reported in the body of this report these negotiations have now concluded and a preferred operator has been identified.

Based on the business case provided it is forecast that from year 3 (maturity) the Council will have a residual subsidy to be built into the medium term financial plan of approximately £0.4m per year. This will be higher in years 1 and 2 of operations as would be expected with the Councils net contributions expected to be £0.7m and £0.6m respectively.

As the lease agreement will have both a fixed and variable element according to the business case with the fixed element being inflation linked. If a loss materialises in any given year this is picked up by the operator, though the Council will not receive any variable income though will still receive the fixed rent.

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. Through the procurement process the Council has been keen to ensure that a parent company guarantee be secured in order that in that scenario set out the Council's position would be protected. Following completion of the process, this guarantee has been offered and thus the fixed annual sum due to the Council over the course of the lease term will be guaranteed. Legal advice has been received on this and the appropriate credit checks on both the operator and the parent company have been completed to the satisfaction of the Council. If the operator cannot continue to operate the centre due to exceptional circumstances, a number of options would be open to the Council such as procurement of another operator. This would not impact on the guaranteed income.

Whilst the business case is considered robust and prudent by the Council's advisors, it will inevitably be the subject of change as the project develops. Any such material changes or variations will be identified and will be reported through the rigorous Council programme management and governance arrangements to Cabinet and where appropriate Council.

(B) Capital Costs

From the agreed business case the proposal is for a £73m capital build – this estimate reflects a cost estimate based on RIBA stage 2 work and has not changed since the last Cabinet meeting. In terms of funding, £33.3m is available to the Council from the Southport Town Deal (for the Marine Lake Events Centre and the Light Fantastic, which is also incorporated into this business case) and £20m from The Liverpool City Region Combined Authority (CA). This is subject to final agreement in October, although £2.5m (for clarity the £2.5m is included in the £73m cost estimate) from the £20m has already been approved for RIBA Stage 2 and 3 works by the CA. Discussions are ongoing to seek additional gap funding from other public sources such as Arts Council England, however it is prudent to assume that the funding gap will now be £19.7m on the overall capital cost of the centre, and this is the sum that the Council at present would need to support.

For illustrative purposes, based on a 40-year annuity loan of £19.7m from the Public Works Loan Board at 3.37%, this would result in an annual repayment sum of £0.90m. The agreed 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. It should be noted that at the current time there is extreme volatility in the national economy that is seeing progressive interest rates rises and these are expected to continue. The current estimate is based on the information that is available to the Council at this time , however this will need to be continually updated. On a loan of £19.7m as set out, each 1% increase in interest rates equates to £0.15m additional annual repayments costs.

In considering the capital cost within this report, as has been reported extensively nationally, the most significant cost risk is in relation to inflation. Based on advice from the Councils' 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. 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.

It is anticipated that the Town Deal and CA grant funding is drawn down first, resulting the Council requiring to source its funding in 2024/25 and / or 2025/26.

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets):
Internal resources continue be utilised for the project from the Tourism service area who are overseeing the delivery team along with support from other areas within the Council. Any additional resource requirements will be identified as delivery strategy for the project is finalised.
Legal Implications:
Details of any legal implications are contained within the report.
Equality Implications:
There is a commitment committed to creating an events and conferencing space which can be used by everyone and achieve world-class standards relating to inclusivity, accessibility, and wellbeing. Sexual orientation
The Design and Access Statement complied as part of the planning application provides an overview on the accessibility provisions to be included. A project-level

assessment table has been completed for the project, this follows EqIA principles to help to provide assurance that the duty has been appropriately discharged (and the outcomes recorded) and is included as appendix 1.

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 the following objectives

- Energy demand will be reduced by using a high-performance building fabric specification with Air Source Heat Pumps and a roof mounted photovoltaics array.
- The proposals are for an all-electric building, designing out the use of fossil fuel to reduce carbon emissions and other pollutants.
- The building will be designed in line with the latest update to the Building Regulations Part L, which require significant improvements in performance compared to the previous version.
- The embodied carbon of the design has been reduced by optimising the structural grid, removing basements and using consistent façade lines to efficiently enclose the space.
- The inclusion of permeable paving and the inclusion of an attenuation tank will mitigate the risks of surface water flooding and enable filtration of the surface water runoff before it leaves the site.
- Water use will be reduced through the specification of water-efficient equipment.
- The proposals will promote the use of public transport (highly accessible town centre location), electric vehicles, cycling and walking. There are a number of public transport links located near the site and there will be 14 Electric Vehicle (EV) bays.
- The operational waste management strategy will provide appropriate facilities to encourage future operator and occupants to recycle.
- New habitats will be provided including a new bird raft adjacent to the northern most island within the lake.
- The scheme will facilitate a 10% biodiversity net gain on the site when considering the terrestrial proportion of the application site.

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 (FD.6903/22.....) and the Chief Legal and Democratic Officer (LD.5103/22.....) 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.

Also, as part of the planning submission further consultation took place, during the series of online and in person events 186 forms of feedback have been received. In addition, a high number of informal discussions took place between the project team and attendees at the drop in events at Southport Market and also through the stakeholder engagement with other groups such as The Southport Civic Society and Southport Access For Everyone.

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:

The following appendices are attached to this report:

- Appendix 1 – Project level EIA assessment
- Appendix 2 (Exempt) – Operator evaluation report

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>
- Cabinet Meeting 28th July 2002 – Marine Lake Events Centre Final Business Case - https://modgov.sefton.gov.uk/documents/s111120/Marine%20Lake%20Event%20Centre_v2%20CLEAN%20005.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 and 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.

- 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 was further developed and refined, through a process of testing and optioneering.
- 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 developed to improve deliverability and confirmed that the alternative lower cost scheme options did not fully deliver the desired project outcomes.
- 1.13 The preferred option was presented and agreed to Cabinet on the 28th of July 2002 as part of the final business case submission.
- 1.14 The Preferred Option is the development of a full-scale events centre including 1,200 seated/1,500 seated and standing theatre and conference auditorium, 1,500sqm exhibition hall break-out facility for up to 800 people, and high-quality restaurant and Water & Light Show.

2. Operator Procurement

- 2.1 In July 2021 Cabinet agreed to use of the Competitive Dialogue procedure to procure an operator for the MLEC site for an experienced and qualified partner to operate the MLEC. The aim was to secure a long-term operating partner (minimum term of 25 years, with a preferred (and maximum) term of 40 years:
 - who contributes to the design process, venue fit-out and then the long-term operation of the facility
 - on a Fully Repairing and Insuring (FRI) lease basis if possible
 - for the main MLEC facility
- 2.2 As decided through the dialogue process, the appointment will be a single party to operate the MLEC and the associated restaurant, car park and concessions within the public realm. The procurement exercise consisted of a single stage competition, with a non-scoring interim submission, using Competitive Dialogue procedure, to select an operator. Following an initial Selection Questionnaire Stage, the Council invited four bidders to participate in dialogue.

- 2.3 The Dialogue stage commenced on the 21st of March 2022. Throughout the dialogue process, the Council's bid team has discussed bidder's operational, financial, commercial, legal and technical proposals in detail and bidders have shared their emerging proposals at regular intervals.
- 2.4 During this process two bidders withdrew, due to internal resourcing issues, which were impacting their ability to participate fully in the process and/ or their ability to drive the necessary commercial returns to achieve the Council's objectives.
- 2.5 A final dialogue session was held with each remaining bidder on week commencing 27th June 2022. Following this session, there was confidence that a solution was being offered that would meet its needs and objectives as set out above, and therefore subsequently issued the call for Final Tenders on 1st July 2022.
- 2.6 Final Tender bids were received from the two remaining bidders on Friday 8th July 2022
- 2.7 Bidders were required to submit their tender in four volumes: operational, financial & commercial, legal & technical, and Variant. Bidders were required to submit a series of method statements, marked up documents and financial plans outlining their proposals in relation to their:
- Operation of the MLEC facilities
 - Anticipated programme and business plan for the MLEC facilities
 - Guaranteed and variable financial returns to the Council
 - Acceptance of the facilities being provided as part of the development
 - Acceptance of the Council's legal and commercial Heads of Terms.

Evaluation Criteria

Criteria	Weighting	Sub-criteria	Sub-Weighting
Vol 1. Operational Proposals	35%	Approach to operational success	10%
		Approach to pre-opening & input into design	5%
		Approach to programming	10%
		Approach to social value	5%
		Approach to restaurant management	2.5%
		Approach to car park management	2.5%
Vol 2. Financial & Commercial Proposals	40%	Financial Offer – MLEC	20%
		Financial Offer – restaurant	2.5%
		Financial Offer – car park	2.5%
		Term of contract	5%
		Strength & deliverability of business plan	10%
Vol 3. Legal & Technical	25%	Amendments to Agreement for Lease	7.5%
		Amendments to Lease	7.5%
		Amendments to OSRs	5%
		Amendments to Facilities Description	5%
	100%		100%

- 2.8 Final tenders have been assessed by IPW... and DLA the Councils external legal support, then moderated with Council officers according to the evaluation criteria detailed above and the scoring criteria shared with bidders in the Invitation to Submit Final Tenders (ITSFT) document
- 2.9 Based on the evaluation scores, ASM Global were awarded the highest overall score and are recommended as the preferred bidder. ASM Global operate 325 venues across five continents. Each year more than 164 million people attend thousands of events at their facilities. Within the UK they operate 12 venues ranging from a 600-capacity seaside theatre in Whitley Bay to the 40,000 sqm exhibition centre of Olympia London. 9 are managed on behalf of Councils which gives understanding of priorities of Council owned venues. In addition, in recent weeks, ASM venues have won 3 awards – Best UK Venue over 20,000 sqm, Best UK Conference Venue and winner of Hull & East Yorkshire People In Business Award. As part of the operator procurement process due diligence has been carried in the form of financial assessments.
- 2.10 The agreed business case estimated the number of yearly events and attendees, the ASM submission was broadly aligned to the business case, *with c430 events and over 180,000 visitors (note this does not include visitors to the water and light show)*
- 2.11 There is still a significant amount of work required: including:
- Developing the detailed Agreement for Lease and Lease contracts for a 25-year Full Repairing and Insuring Lease (FRI), the heads of terms have already been agreed as part of the procurement process. This includes a fixed rental payment along with a variable rent (profit share) for the venue, car park and hospitality.
 - Council delivering the building as per the Facilities Description appended to the Agreement for Lease
 - Exploring and achieving any bidder identified changes to the Facilities Description with the Design Team & G&T.

3.0 Contractor Procurement

- 3.1 Cabinet have agreed to procure a suitable contractor for the capital works via a fully compliant framework, Procure Partnerships North West (PPNW).
- 3.2 A project initiation form was issued to contractors on the framework, six completed forms were received. A small shortlisting exercise has taken place resulting in four very strong contractors remaining.
- 3.3 Invitation to tender will be issued week commencing the 5th September and run for 8 weeks with the final appointment to take place in December 2022.
- 3.4 Social value is a key aim of the contractor procurement. Sefton's social value impact can be categorized in terms of four key areas:

- Our supply chain and the goods and services we buy
- Our environmental impact
- Our organisational development
- Our support for our local communities

3.5 On the PPNW framework all contractors are mandated to deliver a minimum of 10% of the contract value in Social Value add. The framework uses the National TOMs (Themes, Outcomes and Measures) to calculate the contractors social value commitments and set targets agreeable to Sefton.

3.6 Sefton would be in full control over the target outcomes set collaboratively with the Contractor to ensure what is delivered is a benefit to Sefton's agenda and the needs of the immediate locality. The framework monitors and tracks the progress as the project moves through pre-con and construction to ensure the 12% is achieved including evidence and monthly updates.

3.7 In addition to signing up to Sefton Council's Caring Business Charter and working with Sefton@work the following are examples of some social value measures on the framework:

- No. of care leavers hired on the project
- Southport College and local School engagement
- Environment, regular litter picks partnered with the Contractor
- Encouraging car shares / use of public transport
- Promoting spending within the local community
- Supporting mental health of workforce
- Support older, disabled, and vulnerable with community networks
- Hiring of ex-offenders
- Initiatives to engage the community in health or wellbeing initiatives
- Savings in Co2 emissions and NT44: policy to achieve net zero carbon by 2050

4.0 Grant Funding

4.1 Following on from Cabinet approval the Business Case and supporting information has been submitted to Government, it is hoped that this will be approved within 12 weeks to allow funding release from the Town Deal in December

4.2 Conversations have continued with the CA with regards to extra funding, to date this has not been successful due to the SIF fund being fully committed. The CA are a key funding partner and have further committed to continue to work with the Council to secure sources of funding if they become available later. The Council will therefore have to fund the remaining gap of £19.7m and discussions will be held with the Council's Treasury Management Advisor as to the most appropriate basis to source this funding with any approval being in accordance with the Councils Treasury Management Strategy and Financial Procedure Rules

- 4.3 The SIF ask of £17.7m (excluding the £2.3m predevelopment funds) will go to the CA External Investment Panel on 22nd September and CA Board approval on 14th October
- 4.4 After having further discussions with Arts Council England after an unsuccessful bid of funding, a new Expression of Interest has been submitted for Round 3 of The Cultural Development Fund, full bids will be invited from the 19th of September.

5. Risk

5.1 The business case submitted to Government contains a full risk assessment of the project with a number of worst-case scenarios linked to both construction and operator phase, and the business case sets out a number of mitigation requirements. This has been, and will continue to be, developed further with the preferred operating partner Inflation has risen and continues to rise since the last Cabinet report that has and continues to put pressure on the project. The current cost plan reflects the latest inflation forecast from G&T.

5.2 The agreed business case 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)
- Variable rental performance – higher or lower than anticipated

5.3 Therefore, the following sensitivity analysis has been undertaken:

- 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 of 0.5%, 1% and 1.5%
- Decrease income – 10% and 20%
- Council only receives fixed rent from the operator (no variable rent)
- Increase income – 10% and 20%
- Combine two of the above factors (reasonable worst case) – increase of 10% in capital costs and increase of 1% in PWLB interest rates
- Combine three of the above factors (extreme worst case) – increase in project costs of 24% (standard building Optimism Bias), increase of 1.5% in PWLB interest rates and fixed rental only from an operator

5.4 As widely reported there remains a high risk with inflation, mitigation measures have been built into the business case. However, the risk remains that continued high inflation could increase borrowing costs and add further pressure on the

overall construction costs. There is also a risk if inflation does not come under control before the opening of the venue further pressure will be applied on the operators costs.