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SUPPLEMENTARY PAPERS

Committee	ECONOMY & CULTURE SCRUTINY COMMITTEE
Date and Time of Meeting	THURSDAY, 4 JULY 2019, 4.30 PM
Venue	COMMITTEE ROOM 4 - COUNTY HALL
Membership	Councillor Howells (Chair) Councillors Henshaw, Gordon, Gavin Hill-John, Parkhill, Robson, Sattar, Stubbs and Simmons

The following papers were marked 'to follow' on the agenda circulated previously

5 Multi-Purpose Indoor Arena (Confidential) (Pages 3 - 838)

Appendix A – to follow

Appendices 2, 3, 4, 5 and 6 of the draft cabinet report (Appendix A) are exempt from publication as they contain exempt information of the description contained in paragraph 14 of Part 4 and paragraph 21 of Part 5 of Schedule 12A of the Local Government Act 1972. The public may be excluded from the meeting by resolution of the Committee pursuant to Section 100A(4) of the Local Government Act 1972 during discussion of this item.

To carry out pre-decision scrutiny of the report to Cabinet on the Indoor Arena, prior to its consideration by Cabinet.

Davina Fiore
Director Governance & Legal Services
Date: Friday, 28 June 2019
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**CARDIFF COUNCIL
CYNGOR CAERDYDD****CABINET MEETING:****11th July 2019**

INDOOR ARENA DELIVERY STRATEGY**INVESTMENT & DEVELOPMENT (CLLR RUSSELL GOODWAY)****AGENDA ITEM: 7**

PORTFOLIO: INVESTMENT & DEVELOPMENT

Appendices 2 – 6 of this report are not for publication as they contain exempt information of the description contained in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972.

Reason for this Report

1. To set out the delivery strategy for the new Indoor Arena and to seek Cabinet authority to complete a Full Business Case.
2. As part of the above, to seek Cabinet authority to undertake a Competitive Procedure with Negotiation (CPN) procurement process under the Concession Contracts Regulation 2016 to attract proposals from the market for the delivery of a new Indoor Arena and associated enabling development.
3. To seek Cabinet authority to enter into a Memorandum of Understanding (MOU) with the owner of the Red Dragon Centre site to establish a non-binding agreement with the owner to give comfort to the Council to continue with its due diligence.

Background

4. Delivery of a new top-tier Indoor Arena has been a long-time aspiration for Cardiff Council. It is also a deep-rooted priority of the city's business community, recently re-affirmed through the consultation process for the Council's new Economic Strategy launched in April 2019.
5. Attracting more visitors that stay longer has been a deliberate economic strategy for nearly 30 years. Over that period, Cardiff has delivered an enviable reputation as a major events city that surpasses its size and

international status. Cardiff's strategy has valued the softer benefits of attracting visitors as much as the economic impacts. The contribution towards changing perceptions and image and brand development has been significant and has served the city well, particularly through the difficult period of economic restructuring. Cardiff is now regarded as one of the best places to live in the UK, with its cultural and recreational offer widely recognised.

6. Cardiff benefits from some of the best cultural and sporting infrastructure in the UK. In particular, the Principality Stadium is one of the best indoor venues in the world having hosted some of the most prestigious events on the international circuit. It remains one of largest covered entertainment spaces in Europe and has become a brand icon of the capital city of Wales.
7. The Motorpoint Arena, the city's existing entertainment venue is small in comparison to facilities available in other core cities. Nonetheless, it has been a positive success, attracting more than 10 million visits over the last 25 years. According to an independent study in 2015, the venue has an estimated annual GVA impact of circa £29m and supports over 500 direct and indirect (FTE) jobs. However, it is clear the city can sustain a bigger entertainment venue, which will add a new dimension to the city's event offer, enabling a much more regular programme of high quality events, including access to top tier promotions that currently pass the city by.
8. Delivery of a new Indoor Arena is one of two key strategic economic commitments set out by the political administration in their strategic policy document *Capital Ambition*. In February 2018, Cabinet approved the Atlantic Wharf site (see Appendix 1) as the preferred location for delivery of a new Indoor Arena and provided authority for the Council to develop a delivery strategy.
9. In April 2019, the Council launched its new Economic Strategy setting out a spatial strategy for the city's future economic development. A core theme of this vision is the continued development of Cardiff Bay into a premier UK visitor destination. The regeneration of the Atlantic Wharf site, anchored by a new Indoor Arena is regarded as a major infrastructure catalyst for stimulating investment in the area.
10. The Atlantic Wharf site currently consists of two parcels of land: 12 acres owned by Cardiff Council; and 13 acres owned by BA Pension Fund Ltd (BAPTL). Together the two parcels of land provide the scale to deliver a transformational leisure-led mixed-use development anchored by the indoor arena.
11. The Council's strategy is to work collaboratively with the private sector to deliver a comprehensive redevelopment of the Atlantic Wharf site. Ideally, this would include a development partner acquiring the Red Dragon Centre site. In November 2018, Cabinet provided authority and funding to commence due diligence relating to the acquisition of the Red Dragon Centre site. BAPTL had initially required the Council to explore options with their preferred development partner. In March 2019, BAPTL agreed to allow the Council to develop its own proposals through direct engagement

with the market through a soft market testing exercise. Independent advisors were appointed to manage the process and to report their findings. Confidential Appendices 2 & 3 set out the preliminary due diligence work undertaken to date including the results of the soft market testing exercise.

12. The Council owned land (12 acres) at Atlantic Wharf has sufficient scale in its own right to accommodate the new Indoor Arena. However, to have the desired impact, in both place making and economic terms, the new arena needs to stimulate a wider regeneration including a range of new investments that collectively create a new urban destination in Cardiff Bay. Maximum impact will only be realised if the existing Red Dragon Centre building is redeveloped. For the time being, the tenancy arrangements in the Red Dragon Centre are primed to enable this to happen.
13. In February 2019, as part of the budget setting process, Cabinet approved an affordability envelope in the Council's Medium Term Financial Plan to support delivery of the new arena. The Council now aims to do further diligence to complete a Full Business Case for the new arena, including full consideration of any land assembly required to enable its delivery.
14. At this stage in the process, BAPTL is not compelled to dispose of the site to the Council (or its partner), nor is the Council (or its partner) compelled to acquire the site. There is therefore risk that a land transaction may not proceed. If that were to be the case, the Council would need to progress delivery of the new arena on land it currently owns at Atlantic Wharf. This could potentially delay delivery of the arena by up to 3 years whilst the Council relocates its existing offices.. Current lease arrangements at the Red Dragon Centre would inevitably be extended to protect the property's investment value, which could potential create a significant delay to any future redevelopment.

Issues

15. In order to encourage the private sector to invest in the Atlantic Wharf regeneration project, the Council needs to commit to the delivery of a new arena. Proving the deliverability of a new arena would also assist the Council's case if it were ultimately required to acquire the Red Dragon Centre site itself, as a short-term interim measure. The Council has undertaken due diligence including the appointment of independent advisors and has engaged with existing arena facilities. Section A of Confidential Appendix 2 provides an independent view of the estimated costs associated with delivering a commercially viable new arena. It also sets out the level of income that can be expected to be generated by the facility and clarifies there will inevitably be a requirement for a public funding contribution. The Council is considering a range of funding solutions to enable delivery of a 15,000-capacity arena with work ongoing to explore which of these options could be the most financially attractive, whilst remaining within the risk appetite of the Council. There is now a need to test existing assumptions through a procurement process.

16. Whenever a public contribution is required towards a commercial development/operation there is a need to consider State Aid compliance. The Council has taken independent legal advice, which suggest that a State Aid Block Exemption is in place to enable localities to support delivery of cultural facilities in their area, subject to satisfying certain conditions. This block exemption is potential available to enable a public contribution to support delivery of a new arena in Cardiff. The legal advice is set out in Section B of Confidential Appendix 2. The level of anticipated public contribution falls within the boundaries of the block exemption. As part of the final due diligence work, the Council will need to appoint independent advisor to review the Full Business Case to assess State Aid compliance across all aspects of the Council's involvement with the delivery of the project before making a final commitment to proceed.
17. The award of a contract for the new arena on the Atlantic Wharf site would need to be in place to support the case for the acquisition of the Red Dragon Centre site by the Council or a third party development partner. In particular, the ground conditions and other site related constraints need to be fully understood and costed including transport implications. A key consideration in the Full Business Case will be the current rate of construction price inflation which has the potential to undermine affordability if commencement of the development is subject to major delays.
18. The owners of the Red Dragon Centre site require the Council to conclude a land transaction by 31st December 2019. This is due to existing contractual obligations relating to their ownership and management of the site. This requires the Council to undertake a range of work to complete the Full Business Case within a condensed timescale. In particular, the Council is required to undertake a procurement process to demonstrate that the arena is affordable and deliverable.

Committing to the Indoor Arena

19. The Council has appointed specialist advisors to provide detailed advice on the latest innovations and trends in the arena market. A summary report is attached at Section A of Confidential Appendix 2, which provides examples of the costs associated with the construction of recently delivered arenas in the UK and Europe, and advice on the Council's proposed budget for the delivery of an arena in Cardiff. The report also provides an informed estimate of the likely level of income that could be secured through an arena operator.
20. As part of this due diligence, the Council has also engaged with professionals involved in the delivery of a number of arena facilities to establish a benchmark scheme. A number of recently built arenas have been delivered within the Council's financial envelope. A good example of an arena that matches the Council's requirement in terms of cost, performance and deliverability is the 17,000 capacity Ziggo Dome in Amsterdam, which was opened in 2012.
21. Whilst the Council's indicative budget is regarded as sufficient (as set out in Confidential Appendix 5) the final cost will ultimately be determined through

a procurement process and a Full Business Case. At this stage, the affordability of the development is based on a capital contribution from the Council from within identified funding sources and earmarked capital receipts. The soft market testing has identified a variety of financial instruments available to the Council to support delivery of the arena. The possibility of using an Income Strip lease is also an option for the Council as set out in Confidential Appendix 5.

Committing to the Preferred Location

22. In February 2018, Cabinet selected the Atlantic Wharf site as the preferred location to deliver the new Indoor Arena. The Council has agreed terms with BAPTL and through this report is seeking authority to sign an MOU (see Appendix 4) to provide time to undertake further due diligence, including a procurement process to prove the affordability and deliverability of the Indoor Arena. The MOU has a number of conditions which the Council need to satisfy by agreed dates, as follows:

- **Technical Feasibility and Associated Costs** – further due-diligence is required to determine the delivery risk relating to site technical appraisal, delivery costs and planning. This work is programmed to be concluded by 30 September 2019 and will subsequently be reviewed against the arena affordability envelope and State Aid regulations.
- **Planning Risk** – as part of the technical works outlined above the key planning risks and implications affecting the location of the arena need to be identified and costed. This condition needs to be satisfied by 30 September 2019.
- **Travelodge** – subject to confirmation of the optimum location for the arena through the procurement process and the technical works outlined above, it will need to be determined if the Travelodge needs to be relocated to enable delivery of the arena. The Council is required to have any such agreements in place with tenants by 30 September 2019.

Procurement

23. To be in a position to commit to an arena, the Council needs to procure a developer/operator (Opco/Propco) consortium which may or may not also include a construction partner, to demonstrate that an arena is affordable and deliverable. The Council has secured an extension from BAPTL to enable a procurement process with a view to selecting a delivery partner and concluding the acquisition of the land by 31 December 2019. Subject to the progress of the procurement process, the Council may need to reach agreement to extend the 31st December deadline imposed currently by BAPTL.

24. It is intended to follow the Competitive Procurement with Negotiation (CPN) procurement route under the Concessions Contracts Regulations 2016 (CCR 2016), recommended for use with complex projects that require dialogue with bidders. Although similar to Competitive Dialogue, the CPN

route can be quicker because it provides the ability to make an award on initial tenders and allows negotiation at this early stage.

25. Subject to Cabinet approval, a Concession Notice will be issued on 31 July 2019 to act as a 'call for competition' to OJEU seeking expressions of interest and pre-qualification submission. An initial engagement day would be provided to take interested consortia bidders through the published documentation. The initial period would be for 35-38 days. A review of pre-qualification responses would then take place, including consideration of affordability proposals and other general criteria, to determine if bidders remain in the process. The shortlisted bidders would then proceed to the invitation to tender stage (ITT) as set out in Section B of Confidential Appendix 2.
26. The plan is to return to Cabinet in October 2019 for authority to progress to the conclusion of the procurement process. First round ITT submissions would be evaluated within 4 weeks. If there is only one remaining bidder at this stage, direct negotiations can commence. However, if there is more than one bidder at this stage, further dialogue can take place through a "best and final offers" submission during December.
27. A final return to Cabinet would take place in December 2019 to approve the preferred bidder(s) to progress into an operational and development agreement for the delivery of the new arena and associated costs. Any delay would require approval of an extension by BAPTL.

Climate Emergency and Future Generations

28. On 28 March 2019, Cardiff Council approved a motion to declare a climate emergency. The Welsh Government also declared a climate emergency on 29 April 2019, the day after the Scottish Government, followed by the UK Government on 1 May. Over 70 Councils in the UK have now declared a climate emergency with the majority including targets to be achieved by 2030. As part of this the Council has agreed to support the implementation of the Welsh Government's Low Carbon Delivery Plan, which aims to secure a carbon neutral public sector in Wales by 2030. This includes the commitment for the Council to progress a wide range of projects in support of the existing Carbon Reduction Strategy and to further reduce carbon emissions from the Council's operations.
29. The selection of Atlantic Wharf as the preferred location for the new indoor arena was driven by the strategic Council policy objective to improve Cardiff's public transport infrastructure. In particular, the arena will support delivery of the new Metro (light rail system) between the city centre and Cardiff Bay providing patronage for a sustainable on-going service. The operational hours of an arena make it inherently difficult for all journeys to be by sustainable means. However, the chosen location, adjacent to the strategic highways network, will enable effective Park & Ride use and will avoid unnecessary journeys through the city centre.
30. The needs of future generations has also been considered through the public consultation to develop a new Economic Strategy. Consultation

responses to the initial Economic Green Paper supported proposals for a new, larger arena for the city. In particular, the need to expand upon the cultural infrastructure in Cardiff Bay was cited by a number of respondents to the consultation as essential in both raising the city's profile as a visitor destination, as well as to provide a greater range and choice of activities for Cardiff residents. It was also noted by some respondents that investment in the city's cultural infrastructure will support overall well-being, including supporting physical and mental health, social mobility and educational attainment. However, a number of respondents to the consultation highlighted the need to support investment in improved transport infrastructure aligned with the new arena.

31. Cardiff Council is also promoting a more sustainable approach to the visitor economy as part of a wider eco-tourism campaign that seeks to develop a more sustainable tourism economy in the city. This will also cover the arena by providing advice and guidance to local businesses, event organisers and visitors to enable them to reduce waste and their carbon footprint.

Next Steps

32. Significant work needs to be undertaken by the end of the calendar year as part of developing the Full Business Case and to meet the conditions of the BAPTL MOU Agreement to enable the Council to take a decision on delivery of the new arena by 31st December 2019, as follows:
 - **30 July 2019** - MOU Agreement signed in order to secure a land position to progress with the arena procurement.
 - **31 July 2019** - issue the Concession Notice to commence the CPN procurement process.
 - **30 September 2019** – complete technical site works to determine deliverability and associated costs and risks. (Required to satisfied conditions of BAPTL MOU Agreement)
 - **30 September 2019** - enter into Heads of Terms regarding the relocation of Travelodge (Required to satisfied conditions of BAPTL MOU Agreement)
 - **30 October 2019** - agree to release the County Hall car park for delivery of the arena.
 - **December 2019** – Cabinet approval to validate preferred partner(s) to progress into an operational and development agreement for the delivery of the new arena and associated costs.
33. The Council will also need to appoint an independent surveyor to provide advice on the Full Business Case, including any land assembly requirements, to address State Aid concerns.

Delivery Programme

34. It is anticipated that the comprehensive regeneration of the Atlantic Wharf site will be delivered as two parts. At this stage, the Council is primarily concerned with the delivery of the Indoor Arena and associated enabling works including (as required) the relocation of the existing Travelodge hotel. The second part of the development may commence in parallel and may be delivered by the same delivery partner.
35. In terms of the delivery of the Arena and associated enabling works the indicative development programme is as follows:
- End 2019 – approval to proceed
 - End 2020 – planning permission
 - Beginning 2021 - commence arena construction and associated works
 - June 2023 – complete arena construction and associated works
 - Dec 2023 – open for business
36. The report attached at Confidential Appendix 3 sets out a number of phased scenarios relating to the potential redevelopment of the wider development site with Option 5 being the preferred solution with regards the delivery of the arena.
37. In order to conclude the Full Business Case, further due diligence is required (as set out in Confidential Appendix 6). This includes an independent review of the Full Business Case to be commissioned by the Section 151 Officer and the Monitoring Officer, including any land assembly implications, to assist with demonstrating State Aid compliance. In November, Cabinet approved a budget to undertake due diligence. It is anticipated that the remaining approved budget is sufficient to fund all of the required due diligence to enable the completion of a Full Business Case.

Risks

38. The Atlantic Wharf (Indoor Arena) project is managed by the Council using the PQA project management methodology. The project has a number of risks articulated in the risk register attached at Confidential Appendix 3.

Reasons for Recommendation

39. To enable the Council to secure delivery of the new Indoor Arena and the comprehensive regeneration of the Atlantic Wharf site.

Legal Implications

40. In terms of any investment in the Atlantic Wharf site the Council has powers under section 12 of the Local Government Act 2003 to invest for any purpose related to its functions provided that any such investment is for the prudent management of its affairs.

41. The Council has power to borrow pursuant to section 1 of the Local Government Act 2003 for any purpose relevant to its functions provided that the relevant function is being lawfully engaged.
42. The Council's decision makers have a fiduciary duty to balance the interests of the local taxpayers against the aims of a Council policy or the purpose of a relevant statute.
43. The Council has power to acquire land by agreement for the purposes of any of its functions or for the benefit improvement or development of its area.
44. The Council has a legal obligation to ensure the best consideration for its property disposals pursuant to section 123 of the Local Government Act 1972 and a similar obligation in regard to acquisitions for the purposes of The EC Commission's notice on the notion of State Aid as referred to in article 107(1) TFEU. The Council will need to take account of independent valuation advice in regard to all proposed property transactions.
45. The proposed arena development will almost certainly require public subsidy. As such the Council will need to take specialist advice in regard to addressing any potential State Aid issues.
46. The Council is obliged to follow a proper procurement process as described in the body of this report together with its own Contract Standing Orders and Procurement Rules.
47. The decision about these recommendations has to be made in the context of the Council's public sector equality duties. The Council also has to satisfy its public sector duties under the Equality Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties, Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. The Protected characteristics are: age, gender reassignment, sex, race – including ethnic or national origin, colour or nationality, disability, pregnancy and maternity, marriage and civil partnership, sexual orientation, religion or belief – including lack of belief. If the recommendations in the report are accepted and when any alternative options are considered, the Council will have to consider further the equalities implication and an Equality Impact Assessment may need to be completed.
48. The Well-Being of Future Generations (Wales) Act 2015 ("the Act") places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales – a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible.
49. In discharging its duties under the Act, the Council has set and published well being objectives designed to maximise its contribution to achieving the national well being goals. The well being objectives are set out in Cardiff's Corporate Plan 2018-21:

<http://cmsprd.cardiff.gov.uk/ENG/Your-Council/Strategies-plans-and-policies/Corporate-Plan/Documents/Corporate%20Plan%202018-21.pdf>.

50. The well being duty also requires the Council to act in accordance with 'sustainable development principle'. This principle requires the Council to act in a way which seeks to ensure that the needs of the present are met without comprising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:
- Look to the long term
 - Focus on prevention by understanding the root causes of problems
 - Deliver an integrates approach to achieving the 7 national well-being goals
 - Work in collaboration with others to find shared sustainable solutions
 - Involve people from all sections of the community in the decisions which affect them

The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the Welsh Ministers, which is accessible using the link below:

<http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en>

51. The Council has to be mindful of the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards when making any policy decisions and consider the impact upon the Welsh language, the report and Equality Impact Assessment deals with all these obligations. The Council has to consider the Well-being of Future Generations (Wales) Act 2015 and how this strategy may improve the social, economic, environmental and cultural well-being of Wales.

Financial Implications

52. This report and in particular the confidential appendices outline the extent of the due diligence and option appraisals that has been undertaken since the November 2018 Cabinet report, but a significant amount of further due diligence will still be required to inform the affordability element of the future Cabinet report due in December 2019. This will include, but will not be limited to, further work to determine the extent of:
- Arena Site Technical Due Diligence – includes identifying any site specific constraints and abnormal costs via detailed surveys as well as more detailed costings to deliver the worked up Arena specification. These will include, for example, the Arena acoustic requirements as well as any enabling developments, including additional public realm and infrastructure work, required as part of the construction phase to deliver the Arena. The potential relocation of the Travelodge hotel would also need to be considered here.

- Arena Procurement – the procurement process will allow the various expenditure and income projections to be market tested. The Council’s advisors are comfortable that the projections are within current market ranges but these need to be market tested through the procurement process to update the affordability model.
 - ABP - the development of the County Hall site requires ABP to release the council from a site covenant. Provision for this release is included in the affordability model but the conclusion of these negotiations will be required to ensure the Arena development can proceed.
53. Cabinet agreed in November 2019 to commit funding from the Council’s CEZ Reserve to meet the costs for developing a business case and associated due diligence works for the Indoor Arena. The Directorate consider that the existing resources previously allocated by Cabinet in November 2019 are sufficient to complete the additional due diligence activity required within the agreed cap, whilst recognising the tight timescale with a report back to Cabinet in December 2019. This expenditure will need to be regularly monitored and reviewed in the coming months to ensure that this position is maintained, in particular when the extent of the procurement is confirmed.
 54. The Council needs to be sure that a suitable developer will commit to delivering the arena within the Council’s affordability envelope, which was approved by Council as part of 2019/20 budget setting process in February 2019, and that an operator will commit to leasing the facility over the long term. This will need to be tested through a procurement process outlined in the above report.
 55. The Arena Affordability model assumes a Council gap funding contribution will be required, with a significant element of the Council contribution due to funded by earmarked Capital Receipts. However, as this stage a number of these capital receipts are yet to be realized. Any significant delays or non-realization of these capital receipts would likely have an adverse impact on the Council’s ability to meet this level of proposed gap funding contribution.
 56. The Arena project and the future of County Hall are intrinsically linked. Although subject to the further due diligence referred to above, the current assumption is that the preferred option is for Arena site to be situated on the County Hall car park with County Hall itself potentially being utilized in a later phase for enabling developments (subject to separate Cabinet decision on the future of the Core Office estate). This requires both the Arena and Core Offices programmes to be aligned.
 57. The preferred option for delivery of the Arena, as identified in Appendix 2, currently makes the prudent assumption that the Council will be required to initially acquire the whole RDC site in order to secure delivery of the arena, before later disposing of the site, or an element of it, to an appropriate third party. If this scenario were to materialize then double Stamp Duty Land Tax (SDLT) would be incurred (once for the Council and once for the third

party). Whilst the financial model currently assumes this will be the case to demonstrate prudence, clearly the Council should seek to explore alternative options to prevent double SDLT being incurred if possible.

58. The financial model also assumes that the RDC site is disposed of at the same price that it is acquired for. Any adverse impacts in the valuation of this land between time of acquisition and disposal, including any selling fees, could impact on affordability of the project. Further due diligence will be required to fully understand the impact of this and whether any mitigating actions are necessary.
59. State Aid is referenced in the report in the context of the Council's contribution to the construction of the Arena. The Council has taken independent legal advice, set out in Section B of Confidential Appendix 2, which demonstrates how the Council could satisfy State Aid requirements regarding any public contribution towards construction of the Arena. A business case will be developed to confirm affordability and deliverability issues, to be brought back to Cabinet in line with the timetable set out in Next Steps section of this report.
60. One of the funding options being considered is for the Council to enter into an Income Strip / Head Lease. In this option the Council would enter into a long term 40 year obligation to pay an indexed linked rental to a financial institution in exchange for an upfront capital sum. The income generated from the matching lease to an Arena Operator would then be used to fund this obligation, but in this scenario the council would be exposed to the potential financial risk of any default by the operator. This is another area where further due diligence is required to more fully understand the risks and benefits that the Council could achieve in this area. There will be a trade-off here between the capital sum the council would receive and the proportion of the income it would include in the income strip arrangement.
61. There are a number of assumptions included within these reports at this stage, and further due diligence works are essential to be able to mitigate identified risks and demonstrate that delivery of the Indoor Arena is viable, affordable and can satisfy State Aid requirements

RECOMMENDATIONS

Cabinet is recommended to:

- i) Note the preliminary due diligence set out in the appendices to this report undertaken since the last report presented to Cabinet on the Indoor Arena in November 2018.
- ii) Delegate authority to the Director of Economic Development in consultation with the Cabinet Member for Investment and Development, the Section 151 Officer and the Monitoring Officer to enter into the Memorandum of Understanding (MOU) attached at Confidential Appendix 4 relating to the acquisition of the Red Dragon Centre site and to report back to Cabinet before any legal agreements are entered into.

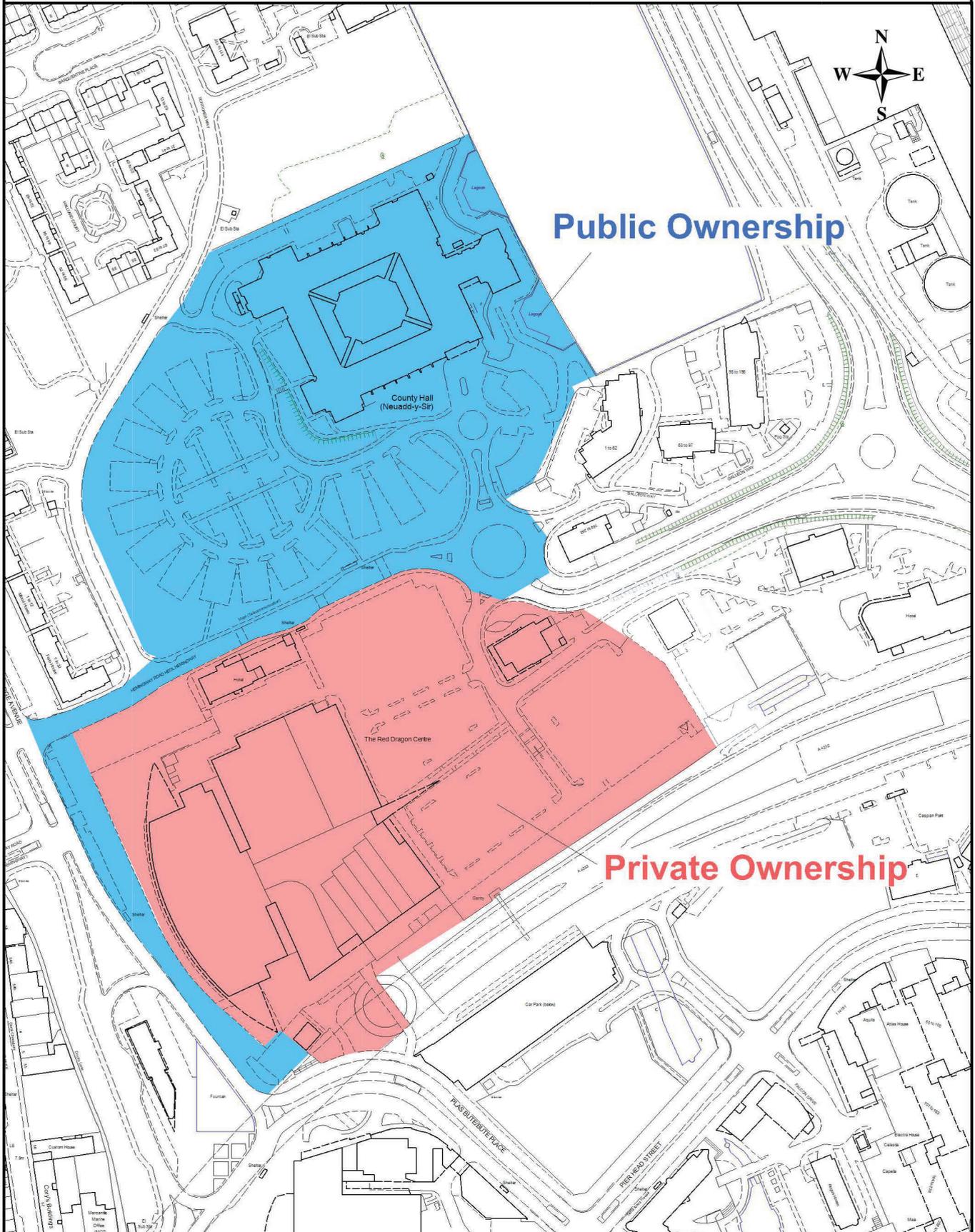
- iii) Delegate authority to the Director of Economic Development in consultation with the Cabinet Member for Investment and Development, the Section 151 Officer and the Monitoring Officer to deal with all aspects of the procurement of a developer/operator consortium for delivery of the new Indoor Arena subject to the approval of the preferred bidder by Cabinet at a later meeting.
- iv) Delegate authority to the Section 151 Officer and the Monitoring Officer to commission an independent review of the Full Business Case, including the implications of any land assembly requirements, to be presented back to Cabinet as part of its consideration of the Full Business Case in due course.

SENIOR RESPONSIBLE OFFICER	Neil Hanratty Director of Economic Development
	Date

The following appendices are attached:

1. Appendix 1: Site Plan
2. Confidential Appendix 2: Arena Due Diligence
 - Confidential Appendix A – Arena Business Case
 - Confidential Appendix B – Legal Advice
 - Confidential Appendix C – Economic Impact
3. Confidential Appendix 3: Atlantic Wharf Due Diligence
4. Confidential Appendix 4: Memorandum of Understanding BPATL
5. Confidential Appendix 5: Arena Funding Strategy
6. Confidential Appendix 6: Programme of Further Due Diligence

Combined County Hall and Red Dragon Centre



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