

**CABINET MEETING:**

**15 FEBRUARY 2018**

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**INDOOR ARENA**

**REPORT OF DIRECTOR OF ECONOMIC DEVELOPMENT**

**AGENDA ITEM:**

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**PORTFOLIO: INVESTMENT & DEVELOPMENT**

Appendices 1, 3 and 4 are not for publication as they contain exempt information of the description contained in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972.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 present the results of a site options appraisal exercise to identify the preferred location for delivery of the indoor arena project following the administration's recent announcement in their strategic policy statement *Capital Ambition* that delivery of a new indoor arena is one of two key strategic regeneration priorities for the city's core employment zone.
2. To seek authority to prepare a detailed delivery strategy based on the preferred location to include full financial implications for the Council and to report back to a future meeting of Cabinet for authority to proceed.

**Background**

3. Delivery of a new Multi-purpose Arena has been a long standing priority for the city. Since the turn of the millennium, a number of reports have been presented to successive Cabinets outlining the strategic importance of securing a 'top-tier' facility.
4. In 2013, the '*Rebuilding Momentum*' Green Paper consultation identified the lack of a 'top-tier' arena as a key weakness in the city's business and cultural offer. Since then the Council has included actions in its Corporate Plan to progress delivery of the project.
5. In September 2013 Cabinet agreed to a market testing exercise to help develop a specification for a new facility and to gauge private sector interest. In January 2014 a further report was presented to Cabinet

outlining the requirement for a flexible 15,000 capacity arena to enable Cardiff to compete at the top-tier alongside the O2 Arena in London, the Manchester Arena, the Birmingham Arena and the new SSE Hydro Arena in Glasgow. Cabinet underlined its commitment to the project and delegated authority to conclude all aspects of the procurement of a new arena, subject to securing a funding commitment from Welsh Government to cover the anticipated funding gap. However, the funding commitment has not as yet been secured and this has led the project to stall for a number of years.

6. In recent months, the project has gained renewed impetus through the announcement by the current administration in their strategic policy statement *Capital Ambition* that a new indoor arena remains a major priority for the city. In December, this was followed up by the launch of the Green Paper consultation '*More and Better Jobs*', which sets out a strategic vision for the long term growth and development of Cardiff's economy. Central to this is the delivery of a new indoor arena which is regarded as the primary infrastructure anchor in stimulating the next phase development of Cardiff Bay into a premier UK leisure destination.
7. The Welsh Government has also recently acknowledged the need for a new arena in Cardiff. On 17<sup>th</sup> June 2017, the Cabinet Secretary for the Economy and Transport stated in the Synedd that it is crucially important for Cardiff to have a bigger arena to attract more major events to the city and to Wales.
8. The recent momentum around the project has stimulated Live Nation, the owner and operator of Cardiff's current (Motorpoint) arena, to approach the Council to explore the potential to work in partnership to improve the city's offer. The Motorpoint arena was opened in 1993 and has a maximum capacity of 7,500. The venue has operated as a commercial success over this period, however, the emergence of new venues across the UK has meant that Cardiff now misses out on many of the UK's premium events. This results in an outward flow of economic activity, as local people need to travel to Birmingham and London to consume premium events, rather than an inward flow of economic activity, where Cardiff attracts visitors from surrounding areas to spend money in the local economy.

## **Issues**

9. Over recent months Live Nation has commissioned work to explore the potential to expand their existing city centre venue. This work has proven that it is possible to utilise the existing structure of the Motorpoint Arena to increase the capacity to circa 10,000. However, to increase the capacity of the venue to a level that will enable it to compete at the top-tier of UK venues - circa 13,500 plus - will require a comprehensive new-build and the acquisition of an adjacent site. This effectively means that any potential financial benefit of utilising the existing arena site would be neutralised. It would also mean Live Nation being without a venue in the city for approximately 2 years whilst a new arena is constructed. Nonetheless, it provides a deliverable fallback option in An established

location that is already regarded as a leisure destination supported by substantial existing infrastructure.

10. Evidence from the delivery of recent arena projects across the UK confirms that new-build options will require a substantial financial contribution from the public sector. Over the years, the Council has explored the business case for an indoor arena, including detailed work by The Right Solution which has been presented in previous Cabinet reports. It is well understood that indoor arenas generally create an operating profit and do not require on-going operational subsidy. However, they are not sufficiently profitable to cover the substantial capital costs required for new-build projects. As such, all arenas built in the UK in recent years have received an element of public funding, either directly from local, regional or national governments or through EU funding. Even the O2 Arena in London, the most successful arena in the world, had an element of support through the original structure being funded through the millennium commission.
11. It is anticipated that a new arena project in Cardiff will require a public sector contribution. Since 2014, Council commitments to other key development projects, such as Central Square and the new Central Bus Station, has limited the potential for a contribution to be made directly by the Council. Positive discussions have taken place with Welsh Government but as yet there is no firm commitment that will enable the project to proceed.
12. Over the last year or so the Cardiff Capital Region City Deal has provided a potential opportunity to secure the required public sector contribution. However, following discussions with regional partners regarding regional priorities for City Deal, the Council has decided to limit Cardiff's bid for regional funding through City Deal to the 'Metro Central' project, given its inextricable link to the successful delivery of the South Wales Metro project.
13. Given the lack of an obvious public sector funding source, and in order to make progress, the current administration has reviewed the delivery model for the arena project and has subsequently entered into detailed negotiations with Welsh Government that should enable the Council to commit more of its own resources towards the project. A key part of this is the intention to work with the private sector to create additional value from ancillary development that will mitigate (over time) the amount of Council contribution required.

### **Strategic Value**

14. The strategic case for a new arena in Cardiff has been well rehearsed and is widely accepted, particularly by the city's business community. The success of venues like the Principality Stadium, have helped Cardiff develop an international reputation as an event city, building the city's tourism performance, and stimulating development of the city's hospitality sector. A new arena has been identified by Cardiff's business community as the next important piece of city infrastructure to support local

economic growth: by attracting more events that will continue to raise the city's national and international profile; which in turn will help to attract new investment and talent to the city; and encourage existing investors and talent to remain anchored in the city.

15. The economic value of arenas is also well accepted. In 2015, Live Nation commissioned Cardiff Metropolitan University and Mandix to undertake an economic assessment of their existing facility (attached as Appendix 2). The research found that in over 21 years of operation, up to March 2015, the Motorpoint Arena had welcomed a total audience of nearly 9 million people, to 3,000 events. It stated that the economic impact on Cardiff and the surrounding area has been considerable:
- The economic value (GVA) from on-site activity is around £14.0m p.a.
  - About £10.0m is generated directly and sustains an estimated 160 jobs
  - A further £4.0m is generated along the supply chain and wage spending by employees – sustaining an estimated additional 50 jobs
  - In addition, around £30m is likely from off-site activity, resulting in a contribution to GVA of around £15m and employment effects of 300 jobs.
  - Consequently the total economic impact of Motorpoint Arena Cardiff is about £29.0m p.a. (GVA) and around 510 FTE (Full Time Equivalent) jobs, most of them in the Cardiff Capital Region.
  - The total depends crucially on the types of visitors and on the proportions from the rest of the UK and overseas. The evidence is that the average Cardiff Capital Region resident might spend £30 to £45 on local hospitality whereas an overseas visitor typically will spend over £300 a day.
  - Motorpoint Arena Cardiff estimate that 27% of their audience come from outside Cardiff. So, assuming that half stay overnight then 13.5% of the typical annual number of attendees (450,000) will spend £300 on off-site activities whilst 86.5% are local and spending £30.
  - Given the large volume of visitors Motorpoint Arena Cardiff has played a significant role in the development of Cardiff's hospitality infrastructure and continues to have a big impact on its hotels, restaurants and retail outlets as activity rises during the staging of well attended events.
16. The work by Cardiff Met and Mandix concluded that if the arena's capacity were to be raised in a customised, flexible facility the economic impact is likely to be much more than pro-rata.

## Delivery

17. The traditional financial model for meeting this cost is based on the capitalisation of a lease from an operator, matched against a financial contribution from the public sector, broadly on a 50:50 ratio. In some cases, the scale of public sector contribution has been reduced through the capitalisation of additional income streams including naming rights income, sponsorship income, car parking income, and income from ancillary leases, e.g. retail/food & beverage. In recent years arena operators have also explored new innovative approaches including initiatives that generate a 'top slice' of income for public sector partners from ticket sales. The Council will need to explore all such opportunities to minimise its contribution, whilst being mindful not to compromise commercial viability for the operator.
18. It is the Council's intention to recycle funding currently invested through the Enterprise Zone capital allocation to create a fund to support delivery of the indoor arena project. Work to understand the full scale and profile of available funding will need to be undertaken before a final report can be presented back to Cabinet for authority to proceed with the project. The Council will also explore the potential to work with delivery partners to maximise the potential of ancillary development to minimise the Council's contribution and to recover as much as possible over time. The choice of site is therefore crucial to the delivery strategy in terms of maximising the potential for ancillary development.

## City Strategy

19. The '*More and Better Jobs*' Green Paper consultation builds on the administration's *Capital Ambition* statement to provide a spatial economic strategy for the future development of the city. The strategy for the expansion of the city's core area is clearly defined: business-led mixed use development to expand the city centre south of the railway line, anchored by the redevelopment of Cardiff Central Station; and leisure-led mixed use development to propel Cardiff Bay into a leading UK visitor destination, anchored by a new Indoor Arena.
20. The strategy highlights the importance of promoting regeneration initiatives that help to deliver the city's wider infrastructure needs and aspirations. In particular, the development of Cardiff Bay as a leisure destination will increase demand for much improved connectivity between the city centre and Bay, boosting the business case for the proposed new light-rail Metro connection. The completion of the Eastern Bay Link is also critical to improving Cardiff's wider transport system by enabling more vehicle journeys to avoid the city centre. The Council has limited resources to invest in major infrastructure projects and therefore it is essential that any investment made by the Council in key regeneration projects (such as the arena) supports the case for other key priorities that need to be funded by external bodies.

## Site Options Appraisal

21. In order to progress the project and to develop a detailed proposition for consideration by Cabinet, the Council now needs to undertake detailed financial appraisal and due diligence to understand the scale and nature of financial contribution required from the Council and to understand the extent to which this represents value for money. Work to understand the construction costs of an exemplar arena that meets the aspiration of both the Council and Live Nation has been undertaken and is attached as Confidential Appendix 3.

22. Given that the Council intends to mitigate its contribution through sharing value from ancillary development, there is now a need to undertake detailed site feasibility work to understand costs associated with site specifics, including site constraints and infrastructure requirements, and site specific opportunities relating to ancillary development. In order to do this work in a manageable and cost effective way, a preferred location needs to be agreed.

23. To that end, the Council has worked with Live Nation to review a number of potential sites in the city's core employment zone. ARUP and HOK, (assisted by CBRE) have been appointed to review a total of 7 sites which have either been brought to the Council's attention by developers/land owners or have been identified by the Council and Live Nation as having some potential to deliver an arena. The 7 sites considered were:

- A. Cardiff Arms Park
- B. Motorpoint Arena
- C. Callaghan Square
- D. Dumballs Road
- E. County Hall
- F. Red Dragon Centre
- G. Atlantic Wharf (combined County Hall & Red Dragon Centre)

The County Hall site (E) is considered on the basis that it would require a future decision by the Council to relocate out of the County Hall building to free the whole site up for redevelopment. The Atlantic Wharf site (G) which includes the County Hall site would not require redevelopment of the County Hall building.

24. The appraisal considers each of the above sites against the following key criteria:

City Strategy – considers the extent to which the location of the site supports the Council's city development strategy and delivery of other important city infrastructure;

Scale – considers the available space to accommodate an arena and the residual land available to create value through ancillary development;

Location – considers connectivity and context and importantly the potential for the arena to anchor a substantial leisure destination;

Technical – considers constraints and issues that may add significant extra costs to the project;

Deliverability – considers the Council's current level of control of the site and/or future potential to gain control of the site and any major impediments that may affect the delivery timescale of the project.

25. The detailed results of the appraisal are presented in the attached Confidential Appendix 4.

### **Appraisal Summary**

26. All of the sites were considered to have the potential to accommodate a new indoor arena. Some are more constrained than others and would require alternative designs and/or additional expenditure to mitigate issues. Some are better positioned to support the Council's city development strategy both in terms of promoting the spatial strategy outlined in paragraph 19 above and the potential to support delivery of wider city infrastructure. The major differentiating factor between the sites however is the potential for an arena to anchor a large regeneration/destination place making initiative, and in doing so to provide opportunities for value creation through ancillary development. A brief summary of the evaluation for each site is provided below:
- A. Cardiff Arms Park – the site is considered to be constrained, particularly in terms of vehicular access, planning context and land ownership. Limited ancillary development potential compared to other sites and therefore limited potential to anchor a major leisure destination. Limited contribution towards the Council's city development strategy. Limited contribution towards the business case for key city infrastructure. Concerns regarding deliverability and timescales.
  - B. Motorpoint Arena – the site is considered deliverable and benefits from a mature existing leisure setting immediately adjacent to city centre facilities. Limited ancillary development potential compared to other sites and limited contribution towards the Council's city development strategy and key infrastructure aspirations. Strong fallback opportunity due to established long term use.
  - C. Callaghan Square – the shape and scale of the site constrains its potential. Some ancillary development potential albeit limited in terms of leisure 'destination' potential and some contribution towards the Council's city development strategy, mainly in terms of encouraging development south of the railway line. Good deliverability potential in terms of current public ownership of the site and vacant possession of key parts of the site.

- D. Dumballs Road – the site is considered to have ample scale, limited technical constraints and good existing connectivity. It offers some potential for ancillary development, albeit the existing residential-led plan for the site limits the potential to establish a vibrant leisure ‘destination’. Would deliver some contribution towards the Council’s city development strategy, mainly in terms of encouraging development south of the railway line. Good deliverability potential in terms of current public/private partnership ownership of the site and vacant possession of large parts of the site.
- E. County Hall – the site was considered as a stand-alone site from the Red Dragon Centre. However, without the development potential of the Red Dragon Centre site, this would require the current County Hall to be demolished. This in itself creates significant deliverability issues with the stand-alone County Hall site proposal. That said, if subsequent decisions were taken to relocate the Council’s HQ, the site is considered to have ample scale and some potential for ancillary development, albeit a limited potential to establish a vibrant leisure ‘destination’ in its own right. Reasonably close to existing leisure provision at Mermaid Quay and adjacent to an existing leisure facility at the Red Dragon Centre which has the potential for significant improvement. Strongly supports the city development strategy and would support the business case for other key infrastructure. The site has good existing connectivity, particularly by road. Some technical constraints in terms of immediate adjacency to residential properties. Land is in Council ownership but is currently being used, and even if a decision to relocate was made it would take at least 3 - 4 years before any start on site could be made.
- F. Red Dragon Centre – the site is very similar in scale and location to the County Hall site. It is considered to have good existing connectivity, particularly by road. Good separation from residential properties and better connected to the existing leisure destination at Mermaid Quay than the County Hall site. Offers some potential for ancillary development albeit some constraints relating to the existing development and current lease arrangements. Strongly supports the city development strategy and would support the business case for other key infrastructure. Land is in private ownership and currently operates as a good income generating going concern.
- G. Atlantic Wharf – the site constitutes the combination of the County Hall site and the Red Dragon Centre site in Cardiff Bay and has been identified as the preferred location. A summary of the rationale is provided below.

### **Preferred Location**

27. The site options appraisal concludes that the Atlantic Wharf site in Cardiff Bay (illustrated in Appendix 5) represents the best all-round opportunity, and hence has been identified as the preferred location for a new indoor arena development in Cardiff.



28. City Strategy - the major strength of the Atlantic Wharf site is its ability to support delivery of the Council's city development strategy by stimulating the next phase development of Cardiff Bay as leisure destination. The potential development land around the arena, particularly if the whole site were to be redeveloped, offers the maximum opportunity to develop a new 'destination' place in the Bay, connecting directly in to existing facilities at the Oval Basin and Mermaid Quay.
29. The Atlantic Wharf site represent a nodal point in Cardiff Bay. The additional footfall delivered by an arena at this location will increase demand and the business case for improved connectivity between the city centre and the Bay.
30. Whilst the ambition will be to encourage as many visitors as possible to utilise public transport, some visitors will still need to arrive by car. The location of the site adjacent to the Peripheral Distributor Road provides good vehicular access to the facility, and will enable many visitors to avoid driving through the city centre. This also applies to the significant number of vehicles that are needed to service an arena. As such, Atlantic Wharf was also considered to be the site that offers the best potential to support the case for completion of the Eastern Bay Link.
31. Scale - the Atlantic Wharf site offers the greatest potential for leisure based development and at circa 30 acres has the potential to be up to 3 times bigger than any of the other sites considered. It therefore has the greatest potential for ancillary development to create value to minimise the Council's contribution.
32. Location – the Atlantic Wharf site offers the best potential to establish a new leisure destination through the arena investment. It is adjacent to existing leisure infrastructure in Cardiff Bay and offers the potential for contiguous expansion. Connectivity to the site is good, particularly by road, but also by public transport, but there is scope for both to be significantly improved through the arena development.
33. Technical – proximity to naturally ventilated hotel accommodation and potentially residential accommodation (depending on where the arena is ultimately situated on the site) may require additional noise impact abatement.
34. Deliverability – a proportion of the site is already in Council ownership and the remainder is in the ownership of a UK pension fund keen to participate as a partner. Around half of the total area of the site is currently undeveloped and set aside as surface car parking. The Council is also currently considering the future of its core office estate including the future of County Hall. The greatest opportunity on the combined Atlantic Wharf site would be realised if the Council takes a decision to relocate the existing County Hall offices. However, by combining the County Hall site with the Red Dragon Centre site there remains adequate scale for County Hall to remain in its current location if the Council subsequently decides against relocation. However, the surface car park would need to be released for development, with parking relocated into a

consolidated multi-storey car park for the combined site. In sum, the presence of the existing County Hall on the site does not limit the deliverability potential of an arena on the combined site, both in terms of the scale of site available for development or delivery timescales. It would however limit the potential for ancillary development, albeit the level of ancillary development achievable on the combined site would still be significantly greater than any of the other appraised sites.

## **Next Steps**

35. In order to progress the project the Council now needs to undertake feasibility work on the preferred location including detailed financial appraisal and due diligence. This work will inform the development of a delivery strategy which will need to be presented back to Cabinet for consideration in the spring/summer of this year.
36. The feasibility work required includes:
  - Development of a concept scheme on the preferred location including identification of ancillary development opportunities and associated value creation/risk profile;
  - Development of a detailed specification for the new arena including detailed cost estimates for construction;
  - Identification of a preferred funding model including other income opportunities;
  - Confirmation of the operator contribution;
  - Confirmation of the Council contribution based on the scale of ancillary development that can be delivered on the site both with and without the relocation of County Hall.
37. The Council will appoint professional advisors to provide advice and to work with the Council's legal, financial, procurement and technical teams to develop the detailed delivery strategy.
38. A key next phase of work will also need to include the finalisation of terms for securing control of the area of land not currently in Council ownership. It is intended that these terms will form part of the delivery strategy reported back to Cabinet for approval.
39. Finally, it is also proposed to prepare a business case to enable a decision to be taken on the future of County Hall in line with the administration's Capital Ambition statement. Ideally a decision on the future of County Hall can be made either before or at the same time as Cabinet's consideration of the delivery strategy for a new arena, to provide greater certainty in regard to the development potential of the Atlantic Wharf site.

## **Reasons for Recommendation**

40. To provide an update on the Indoor Arena project and to seek Cabinet approval for the proposed preferred location.

## **Legal Implications**

41. The Council is required by its procedure rules for the acquisition of land to obtain the advice of a professional valuer at each stage. The intention is that due probity and accountability can be demonstrated and value for money achieved. The Council is similarly required to ensure value for money through a proper procurement process before entering into arrangements for the delivery of public works and services. State Aid is an issue to be considered in terms of potential benefits to commercial developers, contractors and operators.

## **Financial Implications**

42. This is a key project for the Council with the potential for a significant financial contribution. This contribution is expected to be capital expenditure but further work is required to understand the extent and timing of this contribution, how it will be funded and the identification of the key risks and issues facing the Council. To get to this position where the Council is fully aware of its commitments and obligations in delivering an Arena will require external professional advice, particularly commercial and valuation advice, with an associated financial contribution. This advice will be incorporated into a delivery plan for the Arena that includes a full and robust financial commentary that will underpin the subsequent report to Cabinet where a decision on whether to proceed with the indoor Arena is expected to be taken.
43. An independent site options appraisal has been carried out by Arup & HOK which supports the basis of the recommendation included within this report to move forward with the preferred location for the indoor arena.
44. The subsequent Cabinet report will also cover any acquisition of land required to deliver the Arena. Any acquisition will be supported by valuation advice confirming that the acquisition represents value for money to the Council.
45. The cost of acquiring external financial advice will be funded from Reserves earmarked for regeneration projects.

## **RECOMMENDATION**

Cabinet is recommended to approve the preferred location for the indoor arena project as set out in this report and to delegate authority to the Director of Economic Development in consultation with the Cabinet Member for Investment & Development and the Section 151 Officer and the Monitoring Officer to:

- (i) Develop a detailed delivery strategy for the indoor arena project including detailed financial implications for the Council and to return to Cabinet for authority to proceed.
- (ii) As part of (i) above, negotiate terms for the acquisition of land not currently in Council ownership shaded red on the site plan attached at Appendix 5 and to return to Cabinet for authority to proceed to purchase the site.

**NEIL HANRATTY  
DIRECTOR OF ECONOMIC DEVELOPMENT**

Appendices

Confidential Appendix 1 – Indicative Public Sector Contribution Requirement

Appendix 2 – Motorpoint Arena Economic Impact Study

Confidential Appendix 3 – Indicative Cost Appraisal (to follow)

Confidential Appendix 4 – Site Options Appraisal

Appendix 5 – Site Plan