

To	Resources O&S Committee
Date	14 February 2019
Report from	Guy Olivant – Finance & Governance Directorate
Subject	Funding of the Commonwealth Games

1 Purpose of Report

- 1.1 This report sets out the background to the Birmingham 2022 Commonwealth Games and obligations of the City Council, the themes and opportunities which hosting the Games provides, outlines the core cost areas which Birmingham City Council must fund and the approach being taken to fund the local contribution to the overall costs of the Commonwealth Games.
- 1.2 Members should be aware that the Games does not yet have budget approval from Central Government and the figures published by Birmingham City Council are based on its bid in December 2017. The budget will be reviewed and approved by the Major Projects Review Group (MPRG).
- 1.3 MPRG is a pool of experts, from which panels are put together to scrutinise the largest and most complex major government projects. MPRG Panels challenge projects on deliverability, affordability and value for money at key points in the HM Treasury project lifecycle.

2 Background

- 2.1 The 2022 Commonwealth Games were awarded to Birmingham in December 2017, resulting in a lead-in time to the Games of approximately 4½ years (the usual cycle gives a lead-in time of around 7 years).
- 2.2 The Host City Contract sets out the respective obligations of the different partners, including the funding arrangements for the Games. The key financial obligations for the host city are:
 - To provide accommodation (through delivery of a Commonwealth Games Village) for a minimum of 6,500 athletes and officials for the duration of the Games.
 - To provide funding for 25% of the costs of delivery of the Games (the Organising Committee budget). This is calculated net of commercial income, and excludes contingency costs relating to security. This funding contribution includes both the Council's own resources, and partner contributions. The remaining costs are met by Central Government.

– To provide a range of measures to support the delivery of the Games ranging from space for a Merchandise store, countdown clock and a ticket box office, through to bearing the cost of any improvements to roads and footpaths required to support the safe movement of vehicles and pedestrians into Games venues.

- 2.3 The Financial Plan considered by Cabinet on 12 February 2019, and due for debate at the Council Meeting on 26 February 2019, includes details of the Council's share of the overall costs of the Commonwealth Games, based on the total costs identified as a part of the approved bid for the Games. The relevant chapter of the Financial Plan is attached to this report (Appendix 1). The remainder of this report considers the funding and associated risks for each element of the Games in turn.

3 The Commonwealth Games opportunity

- 3.1 The Games partners (Birmingham City Council, DCMS, Commonwealth Games Federation, Commonwealth Games England, the West Midlands Combined Authority and the Organising Committee itself) have agreed upon 5 thematic areas from which the benefits of the Commonwealth Games will be maximised for the citizens of Birmingham, the region as a whole, the country and across the wider commonwealth, both during the Games and afterwards. The themes are:

- Physical activity and wellbeing
- Community cohesion and civic pride
- Trade, Business, Digital, Jobs and Skills
- Infrastructure and Sustainability
- Culture and Tourism

The costs of hosting the Games contribute towards the realisation of benefits from hosting the Games under the above themes.

- 3.2 At the time of the bid, an economic impact study was conducted which highlighted a 3:1 cost / benefit ratio against the local contribution and significant sustainable job opportunities created year on year up to the Games.
- 3.3 There is a commitment to deliver a culture programme as part of the Games within the host city contract, which allows us showcase all that the city has to offer to both a home grown and wider international audience, allowing us create a platform to enhance the visitor economy.
- 3.4 The redevelopment of the Alexander Stadium and the development of a new aquatics centre in neighbouring Sandwell enhance the sports facilities on offer to our communities long after the Games are over, while the development of

the Commonwealth Games Village at Perry Barr will deliver more than 1,400 new homes and associated infrastructure regeneration in the area.

- 3.5 The Games partners continue to work through both the incremental impacts and transformational impacts which are achievable across all of the themes.

4 Commonwealth Games Delivery Cost

- 4.1 The costs of delivering the Games largely rest within the budget of the Organising Committee and Games Village budgets. These budgets cover a wide range of activity to deliver the Games, and also allows us achieve many of the legacy ambitions of the Games.
- 4.2 This budget includes capital resources for the full delivery of the Alexander Stadium at an anticipated cost of £72.3million as well as significant contributions to the development of the Sandwell Aquatics centre to a standard for international competition and investment to enhance other local venues being used for the Games.
- 4.3 This budget also allows for expenditure to enable the 1,000+ strong workforce who will work for the Organising Committee in planning and delivering the Games, the planning and delivery of a volunteer programme to support the recruitment, training and management of the anticipated 12,500+ volunteer workforce for the Games as well as significant procurements in relation to temporary infrastructure, goods, products and services required to deliver the Games; all of which contributes to maximising the opportunities for our citizens to benefit from hosting the Games.

5 Funding the Commonwealth Games Delivery Costs

- 5.1 . There has however been substantial work undertaken by all of the Games partners to provide certainty as to the costs to be incurred, and the share of costs that are the responsibility of Birmingham City Council. The Council is continuing to make the case that its overall contribution should not exceed the value set out in the bid document, of £184.7million, and will be applying robust cost control measures to minimise the risk of overspends.
- 5.2 The proposed funding agreement for the Council's overall share of costs is that the Council will fund all capital elements of the overall programme in the first instance, together with a balancing contribution to revenue costs, to bring the Council's overall contribution to £184.7million (based on the anticipated costs at the time of the bid).
- 5.3 The following table sets out the various funding sources for the Commonwealth Games Delivery Costs local contribution, as well as progress in securing the

funding and key risks associated with each funding source.

Funding Source	Value £'m	Progress to Date / Conditions	Risk Assessment & Mitigations
Partner Contributions	75.0	Dialogue ongoing with potential funders. WMCA and GBS LEP elements further advanced than other opportunities. Most funding will need to be tied to specific projects / interventions, with clawback clauses likely.	Minimum of £45million considered secure, but substantial risk of shortfall in total contributions.
Prudential Borrowing			
Service Funded	10.0	To be funded through increased commercial income from Alexander Stadium	Funding for Games secured, but repayment dependent on commercial success of refurbished stadium.
Corporate Funded	40.0	General contribution to capital cost of Games	Secured.
Corporate Capital Resources	19.7	Identified from previously funded capital projects no longer proceeding	Secured.
Council Revenue Contributions	40.0	Included with overall Council LTFP	Secured.
Total Funding	184.7		

5.4 There is a risk that there will be a significant shortfall in Partners Contributions to the Council's cost of the Games, of potentially as much as £30million as a worst case. To mitigate this risk, a number of other funding opportunities are also being investigated, which include:

- A temporary "Airport Levy", perhaps charged per passenger arriving at Birmingham Airport.
- A "Hotels Tax", which may need to be based on Combined Authority geography to operate effectively.
- The application of a workplace parking levy, which will need to be considered in the context of the forthcoming Clean Air Zone

implementation and any restrictions on the use of funding generated from such a levy.

It is possible that a number of these options may require primary legislation, which would reduce the potential benefits to be secured by their implementation, but this could be managed by continuing the levies for a small number of years beyond 2022 and utilising the resultant income streams to fund borrowing (including repayment of the principal) in advance of the income being generated.

6. Commonwealth Games Village

- 6.1 The development of the Commonwealth Games Village at Perry Barr enables the redevelopment of the former BCU campus into a home away from home for the 6,500 visiting athletes and team officials during the Games, as well as more importantly, the delivery of 1400 new homes, associated infrastructure improvements and a once in a generation opportunity for regeneration as well as enabling the way for future and further regeneration in this part of the city.
- 6.2 The Outline Business Case for the Commonwealth Games Village (including works to improve the transport infrastructure and the wider regeneration of Perry Barr) was approved by Cabinet on 26 June 2018, with separate Full Business Case Reports to be produced for individual elements at appropriate times in the overall programme. The Cabinet Report set out estimated total costs of £523.3million, to be funded from a number of different sources, but at no net cost to the Council's General Fund.
- 6.3 A substantial element of the funding for the Commonwealth Games Village is in the form of capital receipts to be generated from the disposal of properties after the conclusion of the Games, resulting in a short term requirement for borrowing to bridge the gap between costs being incurred and capital receipts being generated. Interest costs incurred on this borrowing will be capitalised and ultimately repaid from the anticipated sales proceeds.
- 6.4 The following table sets out the various funding sources for the Commonwealth Games Village, progress in securing the funding and key risks associated with each funding source.

Funding Source	Value £'m	Progress to Date / Conditions	Risk Assessment & Mitigations
Disposal Proceeds			
Residential	287.5	Will not be realised until post-Games. Estimated values based on external valuer's assessment of likely market conditions in 2022.	Subject to housing market conditions post 2022. If no market for open market PRS, then may be mitigated by increased affordable housing provision
Commercial	15.7	Includes elements of site only required for Games Time, together with replacement bus depot and school site. Estimates based on initial acquisition costs with no uplift for regeneration benefits.	Key elements of disposal already agreed in principle as a part of site assembly negotiations, relating to more than 50% of the overall target.
Grants & Contributions			
Infrastructure Fund	158.5	Overall value now increased to £163.5m. Funding agreement being finalised with MHCLG, but intended to be light touch with no clawback clauses as long as the grant is used for the purposes it is awarded for.	Only uncertainty relates to timing. Intention is for direct award of grant to agencies delivering works, including BCC, WMCA and TFWM.
CIL	10.0	Initial discussions indicate good likelihood that funding will be agreed, though value of support not yet confirmed.	Any revisions to likely level of funding availability will be reflected in FBC report in due course.
Land Remediation Fund	20.0	Grant award from WMCA, agreed with the exception of any clawback arrangements in the event of the Village delivering a surplus	Key risk limited to timing of receipt and mechanism for drawdowns.
Local Growth Fund	1.6	In line with purposes of grant funding regime, application not yet submitted	Likely to flow through TFWM, not BCC
HS2 Connectivity	30.0	Part of agreed funding package for SPRINT	Likely to flow through TFWM, not BCC
Total Funding	523.3		

- 6.5 As set out above, the main risks relate to general housing market conditions, and as such it is difficult to fully mitigate all potential issues. As the scheme progresses, a key workstream will be to develop and implement a detailed disposal strategy to maximise the level of receipt to the Council, and to minimise any residual risks. This will include the consideration of options to “forward sell” elements of the development to affordable housing and private rented sector providers.

7 Direct Council Costs

- 7.1 As described in the Financial Plan extract appended to this report, the Council has put into place a small dedicated programme team to exercise BCCs obligations under the Host City Contract, manage the overall programme and to manage relationships with key stakeholders, including the Organising Committee, Commonwealth Games Federation, residents and central government.
- 7.2 The size and composition of this team will vary over time as the Games approach and demands on the team evolve. It is estimated that the overall cost of this team to 2022 will amount to £5million, with the funding for the team included in the Council’s overall LTFP for the period.
- 7.3 There will be a requirement for a focussed increase in City Operations expenditure for the duration of the Games, to ensure appropriate provision for services such as street cleaning, traffic management, City Dressing, Trading Standards etc. to comply with our obligations under the Host City Contract and to ensure that we deliver a welcoming experience and showcase our city in the best possible light to the visiting public and media alike. In the first instance, these activities will be delivered through “business as usual” resources, but the extent to which any additionality will be required will be reviewed and the funding for this explored in the lead up to 2022. An initial allocation of £9m (of which £1m is capital expenditure) has been made pending a further review.