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**Committee and Members' Services Section
3rd Floor, Adelaide Exchange
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Belfast BT2 8GD**



22nd May, 2008

MEETING OF STRATEGIC POLICY AND RESOURCES COMMITTEE

(To which all Members of the Council are invited)

Dear Councillor

The above-named Committee will meet in the Council Chamber, 3rd Floor, Adelaide Exchange on Wednesday, 28th May, 2008 at 12.00 pm, for the transaction of the business noted below.

You are requested to attend.

Yours faithfully

PETER McNANEY

Chief Executive

AGENDA:

1. Routine Matters
 - (a) Apologies
2. Titanic Signature Project (Pages 1 - 12)



Belfast City Council

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| Report to: | Strategic Policy and Resources Committee |
| Subject: | Titanic Signature Project |
| Date: | Wednesday 28 May 2008 |
| Reporting Officer: | Peter McNaney, Chief Executive |
| Contact Officer: | Gerry Millar (ext 6217) |

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| 1.0 | <u>PURPOSE</u> |
| 1.1 | Members will recall that the Council's Strategic Policy and Resources Committee, at a special meeting on 29 th February, 2008, reaffirmed its support for the building of the Titanic Signature Project and the need for the Council to show leadership by investing in iconic projects which would bring significant benefit to the city. The Committee agreed that consideration should be given to investing £10million in the project, subject to a full due diligence review being undertaken. |
| 1.2 | This Report is an update on the present status of the Titanic Signature Project and the due diligence report being conducted by Council. It sets out the current issues and proposes that the Committee agree that a further special meeting be held towards the end of the summer to consider the completed due diligence report. |
| 1.3 | The Council has commissioned Deloitte to undertake its due diligence review and the Report is due to be completed in its present form by the end of June. The terms of reference for the Deloitte Review are: <ol style="list-style-type: none"> 1. independently appraise the feasibility study undertaken of the Titanic Signature Project and examine the financial viability of the project proposals; 2. assess the degree of risk to the Council attached to its investment decision; 3. examine the governance arrangements for the project in terms of the creation of an appropriate delivery vehicle, the level of representation the Council should request on the Board and the oversight arrangements it should put in place to oversee the ongoing management of the TSP; 4. outline those conditions which the Council should attach to any offer of funding, if agreed, to safeguard its position; and 5. set out the main benefits of the Titanic Signature Project and wider Titanic Quarter Development for Belfast in both socio-economic and social terms. |
| 1.4 | Members may recall that a consortium made up of Titanic Quarter Limited (Harcourt Developments Ltd, Belfast Harbour Commissioners), the Northern Ireland Tourist Board and the Titanic Alliance supported an application to the Big Lottery Fund for funding of £25m towards the realisation of a £90m iconic Titanic Signature Project in Belfast. |
| 1.5 | The Titanic Signature Project is one of the key signature projects identified by the Northern Ireland Tourist Board Strategic Framework. The purpose of the signature projects is to develop a world class tourism product which will draw visitors from home and overseas and the projects identified are designed to have a significant impact on Northern Ireland tourism's performance. The Titanic Signature Project is one of five signature projects which have been identified. |
| 1.6 | Members will recall that it was the Council in November 2004, along with the Northern Ireland Tourist Board, who agreed to jointly fund a feasibility study for the creation of a Titanic Signature Project in the city. |

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| 1.7 | <p>The Northern Ireland Executive's position in relation to the development of a Titanic theme visitor attraction is that the Executive had agreed to commit up to £32.5m towards a proposed £90m iconic project. This agreement was subject to a number of conditions:</p> <ol style="list-style-type: none"> 1. the shortfall in funding would be made up by other funding partners, ie TQL/BHC £32.5m and Big Lottery £25m; 2. the developer (ie TQL) would accept the construction risk above £90m, ie there would not be any further demand on government for additional capital funding; 3. there would be no call on government for revenue funding for the operation of a Titanic Signature Project, ie the operating risk would be borne by the operator for the attraction for the first seven years of operation. |
| 1.8 | <p>The Northern Ireland Executive's present position is that it still wishes to have a Titanic theme visitor attraction in place in Belfast for 2012, the hundredth anniversary of the launch of the vessel. The view is that such a project would enhance Belfast's position as a gateway tourist destination and would expand tourism's contribution to the wider regional economy. The Executive is therefore seeking to find alternative (non-Executive) sources of funding to bridge the £25m gap left by the failure of the Big Lottery application.</p> |
| 1.9 | <p>The Department of Enterprise, Trade & Investment have therefore commissioned a further Green Book Economic Appraisal on potential options to realise a Titanic Signature Project. The current proposal from TQL is for a £90m total cost project with a potential funding mix of £40m from Government, £40m from BHC/TWL and £10m from Belfast City Council. The Appraisal is due to be with DETI by the 6 June 2008 and will consider the TQL proposal plus a potential option which has now been received from the Odyssey Trust for a smaller scale £60m project. DETI intend to provide a Ministerial paper to the Executive on the appraisal process on 13 June 2008 and the matter is scheduled for initial Executive consideration on 3 July 2008 with a final decision scheduled for the First Executive meeting after the summer which is the 13 September. DETI have undertaken to share the contents of their Appraisal process with the Council after it has been considered by the Executive and it will be forwarded to Deloitte the Council's consultants for Review.</p> |
| 1.10 | <p>Given this development, Council will now have to consider whether it wishes to receive a presentation on the Odyssey Project and adjust its overall timescale for consideration of the entire matter.</p> |
| 1.11 | <p>The remainder of this Report will consider the present status of the main issues under consideration under the headings Benefits to Belfast, Capital Cost of Project and Oversight, Legal Issues and Community Benefit.</p> |
| 2.0 | <p><u>BENEFITS TO BELFAST</u></p> |
| 2.1 | <p>If the Executive commit to support for the TSP proposal submitted by TQL, it will result in a £90m investment in the City with £40m of this coming from the Executive and £40m from the private sector. This would mean that the Council's contribution of £10m would have a leverage of £80m.</p> |
| 2.2 | <p>The initial findings emerging from the Council's independent due diligence exercise demonstrates that there are clear socio-economic and social benefits of the TSP to the city of Belfast. This will accrue in terms of both direct economic benefits through job creation, attracting visitors to the city, business tourism and local economy expenditure as well as indirect benefits including improving civic pride and supporting social integration.</p> |
| 2.3 | <p>It is estimated that the regeneration of the overall Titanic Quarter will result in more than 20,000 new jobs within the city. It is estimated by PriceWaterhouse Coopers, as part of their economic appraisal of TSP on behalf of Government, that the following direct economic benefits would result from the TSP:</p> <ul style="list-style-type: none"> ▪ An average of 400,000 visitors annually ▪ 165,000 <u>new</u> visitors to Belfast (two-thirds from out-of-state) ▪ Annual visitor spend of £30 million in the local economy ▪ 250 new jobs in visitor servicing ▪ Direct and indirect employment creation of over 1,000 jobs arising from the expenditure of additional visitors to NI. |

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| | <ul style="list-style-type: none"> ▪ Significant direct and indirect employment generation of up to 1,000 man-years in construction ▪ Large scale banqueting facilities that will have real potential to attract new conferences to the city - generating an estimated £6 million per annum ▪ Rates income from Phase 2 of Titanic Quarter estimated by TQL at £10 million per annum, and the TSP is the centerpiece of Phase 2 |
| 2.4 | The draft Deloitte's review comments that the forecast visitor numbers to the Titanic Signature Project is 400,000 per annum. This would place the attraction in second place behind the Giant's Causeway as the most visited Northern Ireland attraction. In 2006 the Causeway achieved 553,000 visitors. However, currently second place is the Oxford Island Nature Reserve with 260,000 visitors which is free to the public and third is Belfast Zoological Gardens and W5 at the Odyssey Complex is fourth achieving 235,000 visitors in 2006. |
| 2.5 | The visitor numbers are identified as the key risk in the viability of the project. However, there is a clear benefit to Belfast of any additional visitors, particularly those that are out of town or out of state attracted to the city due to the iconic nature of the Titanic Signature Project and the Titanic Experience. The economic appraisal estimates that £30m benefit of expenditure will accrue to the local economy based on 400,000 visitors. As the Titanic Signature Project will be located in Belfast city centre it is reasonable to assume that the majority of this expenditure will be spent in Belfast. The total sum equates to an average spend per visitor of £75 with out of state visitors spending more on for example accommodation and eating out. If visitor numbers were to drop to 250,000 the estimated contribution to the local economy would be in excess of £18m per annum. |
| 2.6 | Current visitor numbers rely on a large proportion of repeat visitors from Northern Ireland residents. The real success of the Titanic Signature Project will be dependent on its ability to attract out of state and out of town visitors who otherwise would not visit Belfast and could therefore be considered contributing additional revenue to the city economy. Current estimates anticipate 110,000 out of state new visitors to the city. |
| 2.7 | In terms of new jobs, the Titanic Signature Project is expected to provide up to 250 new jobs in visitor servicing and conferencing. Up to 600 jobs in the construction workers will be deployed in the building of the project. The initial conclusion of the Deloitte report states 'there are clear economic and social benefits of the Titanic Signature Project to the city of Belfast. These will accrue in terms of direct economic benefits through new jobs, visitors, business tourism and local economy expenditure as well as indirect benefit such as civic pride'. |
| 2.8 | <u>RATES CONTRIBUTION</u> |
| 2.8.1 | As part of the Council's due diligence exercise, an independent prudence review of the rateable value from the development of the Titanic Quarter was undertaken by the Council's Building Control section in liaison with Land and Property Services (see appendix 1). It is estimated that on completion of Phase II of Titanic Quarter (by 2015) the annual rate income is estimated to be at minimum £7.8 million. This would equate to £3.36million (at a minimum) annual district rate income. This should be considered within the context of the Council's ambition to keep the annual increase in the district rate low. This <u>additional</u> rate income would represent 3.4% on the district rate per annum . |
| 2.9 | <u>CIVIC PRIDE & INDUSTRIAL HERITAGE</u> |
| 2.9.1 | The TSP provides an opportunity to build the brand of Titanic and coordinate the wider experience of Belfast's industrial heritage and be the centrepiece of a Titanic Trail which threads the heritage of the Titanic and the shipyards together. |
| 3.0 | <u>CAPITAL COSTS</u> |
| 3.1 | The target costs of the Titanic Signature Project is £90m which is broken down into cost of site acquisition £7m, building works on the project itself £54m, fit out and exhibition works £14m, VAT £6.5m and project design, risk/contingency £8.2m. A review is presently being undertaken into the viability of these costs and the oversight that should be exercised of the building project. The work on progressing the design of the building and the detailed costings associated with it, still has a way to travel and one of the risks presently associated with the project is that in order to contain cost overrun the quality of the finished product might be diluted. It is being proposed by the Executive that if the project is grant aided an independent technical advisory team will be appointed to oversee the Titanic Signature Project development and ensure that the project is properly managed |

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| | (i.e. on time and budget and delivered in accordance with conditions of contract agreed by the co-funders). The design and construction work is to be undertaken by Harcourt Construction Limited. It will be a condition of grant that Titanic Quarter Limited agrees to underwrite any capital overspend on the building cost. It is another condition of grant that Titanic Quarter Limited give a commitment to underwrite any operational deficit incurred by Titanic Signature Project for the first seven years of operation. |
| 3.2 | The due diligence exercise will assess the risks associated with both guarantees as assurance will be required to satisfy government that the undertaking given by Titanic Quarter Limited in relation to the construction and underwriting can be met. Given the present state of the economic climate and financial markets Government has sought advice from SIB on the best ways to alleviate risk in relation to the project. |
| 3.3 | Further consideration will have to be given to these issues in the context of the financial and legal discussions presently underway. |
| 3.4 | <u>APPOINTMENT OF TECHNICAL ADVISORY TEAM</u> |
| 3.4.1 | Members will note that it is proposed that an Independent Technical Advisory Team is appointed to oversee the TSP development and ensure that the project is being properly managed (e.g., on time and budget) and delivered in accordance with the conditions of contract agreed by the co-funders. Again, this will provide another layer of security and assurance for the Council if it decides to fund the TSP project. The design and construction work will be undertaken by Harcourt Construction Ltd. |
| 4.0 | <u>LEGAL ISSUES</u> |
| 4.1 | The Council's Director of Legal Services is presently involved in discussions with the Lawyers for Government, Belfast Harbour Commissioners, and TQL in relation to the development of a Heads of Agreement which would provide the legal basis for the investment that the Council and Government may put into the Project. A number of issues are under active discussion including phasing of funding. The Council's position is that it will only commit to the project on the basis that it contributes its money last. This is in line with the commitment given that monies from the Council's Investment Fund will only be paid out once the Council have them available. It is anticipated therefore that Council funding will not be required until 2010-11. Active consideration is being given to the issue of securitisation which will ensure that any investment made by the Council is protected. Finally, discussions are ongoing about the VAT position. A critical factor in the project is that VAT can be recovered by the Charitable Trust which will become responsible for building the facility and overseeing the construction contract. It is proposed that a Charitable Company entitled TFL Limited be set up for this purpose. Specialist tax advice is presently being given on how such a Board should be constituted and the effect this will have on membership of the Board by funding bodies. |
| 5.0 | <u>COMMUNITY BENEFIT</u> |
| 5.1 | As part of the Council's due diligence exercise Deloitte has engaged with local politicians and community representatives to ascertain their concerns regarding the development of the Titanic Quarter and its wider community benefit contribution. Consequently, Council officials are in ongoing dialogue with Titanic Quarter Limited to examine how these issues can be addressed and map out a clear process for taking them forward. |
| 5.2 | It is proposed that the Council compile a 'Memorandum of Community Benefit' which clearly sets out the key community/social issues which need to be addressed by Titanic Quarter (as articulated by Members, local community activists and citizens). The Council would require Titanic Quarter to endorse the Memorandum as part of its conditions of funding. |
| 5.3 | It is intended that the Council's 'Memorandum of Community Benefit' would seek to address many of the community issues identified, for example: <ul style="list-style-type: none"> ▪ Access to employment -ensure appropriate employability schemes are put in place ▪ Accessibility and transport linkages - ensure connectivity between the Titanic Quarter, city centre and local communities ▪ Community outreach - ensure appropriate mechanisms are in place to improve community awareness, engagement and secure ownership of the development of Titanic Quarter |

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| | <ul style="list-style-type: none"> ▪ Social and affordable housing - ensure adequate provision of social and affordable housing are integrated within the overall development of Titanic Quarter ▪ Tourism - ensure that the Titanic Quarter contributes to enhancing the wider tourism product of the city and that of adjacent communities |
| 5.4 | Bringing Titanic Quarter to life isn't just about bricks and mortar, it's about fostering a sense of community, and ensuring that existing communities can benefit from and be part of the development. The Titanic Quarter is not only creating a new urban centre in the heart of Belfast, it is also establishing a new community that will be part of day-to-day life within the city. |
| 5.5 | The 'Memorandum of Community Benefit' would seek to tie down some of the initiatives already underway by Titanic Quarter and set out a clear process of how they would be taken forward. |
| 5.6 | <u>EMPLOYMENT & EMPLOYABILITY</u> |
| 5.6.1 | As stated previously it is anticipated that the regeneration of Titanic Quarter will result in more than 20,000 new jobs within the city, comprising of a huge variety of employment opportunities, particularly in construction, light industries such as health and environmental technology, ICT and the growing business, financial, hospitality, tourism, leisure and ancillary service industries. |
| 5.6.2 | To help ensure that local communities can access jobs generated Titanic Quarter is currently devising an Employment & Employability Strategy which will help deliver a series of pre-recruitment training projects specifically devised for Titanic Quarter employers that will help local people access employment opportunities. Belfast City Council will input into this process its experiences and successes with the development of the Gasworks and the effective implementation of employability initiatives. What is required is an integrated approach which recognises the importance of the economic, social and regional cohesion aspects of regeneration. |
| 5.6.3 | The strategy will set out how Titanic Quarter will engage with new employers locating in the area and promote jobs to those seeking work, particularly the unemployed, long term unemployed and economically inactive. |
| 5.6.4 | Titanic Quarter will work in partnership with the public sector and relevant community and voluntary sector organisations to develop employability initiatives to help people access jobs as they arise. |
| 5.6.5 | It is envisaged that the strategy will deliver a series of pre-recruitment training projects specifically devised for Titanic Quarter employers with the aim of providing local people with access to employment opportunities. |
| 5.6.6 | Titanic Quarter already partners initiatives such as the 'Stepping Stones Project' to help the economically inactive and long-term unemployed secure work. |
| 5.6.7 | The relocation of Belfast Metropolitan College, formerly BIFHE, to Titanic Quarter, is also expected to play a key role in helping Titanic Quarter achieve its employment and employability objectives. |
| 6.0 | <u>NEXT STEPS</u> |
| 6.1 | Members will note that there are many detailed legal and financial issues which are currently being examined by the Council as part of its due diligence exercise and which will be determined by ongoing discussions between the potential co-funders. |
| 6.2 | Members will be aware that any decision taken by the Council to fund a TSP must be conditional, prudent and predicated on a high degree of securitisation to safeguard the interests of the Council and the citizens of Belfast. Such conditions will be informed by the Council's due diligence exercise which is nearing completion and embedded within the Council's funding agreement if taken forward. |
| 6.3 | Members will particularly want to note that the present economic appraisal being commissioned by DETI has now been amended to also assess the recent proposal put forward by the Odyssey Trust for a Titanic Signature Project. The Appraisal will therefore comparatively analyse both the TQL and Odyssey Projects in terms of cost, non monetary benefits, risks and deliverability. Council will therefore have to be cognisant of this development and adjust its timescale for consideration of the issue accordingly. |
| 6.4 | Council will also have to consider whether it wishes to amend the terms of its due diligence report to also consider the Odyssey Trust project or await the completion of the DETI Appraisal. |

7.0 Resource ImplicationsFinancial and Human Resources

There are no Financial or Human Resource implications contained within this report.

8.0 Recommendations

Members are asked:

- a) note the contents of this report and the benefits that will accrue from the creation of a Titanic Signature Project;
- b) agree that a further special meeting of the Council's Strategic Policy and Resources Committee (to which all Members of Council would be invited) be scheduled, in liaison with the Chair, to examine the findings of the due diligence exercise and determine the Council's position with regard to making a financial contribution to a Titanic Signature Project;
- c) agree that the Council develops a 'Memorandum of Community Benefit' and seeks the commitment of Titanic Quarter to its delivery; and
- d) determine whether it wishes to receive a presentation from the Odyssey Trust on its proposals for a Titanic Signature Project.

9.0 Appendices

Appendix 1: BCC prudence review of the rateable income from the Titanic Quarter Development.

By virtue of paragraph(s) 2 of the Council's Policy on the
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