

**REPORT OF: HOUSING, HEALTH AND ENGINEERING SERVICES
MANAGER**

TO: POLICY AND RESOURCES COMMITTEE

DATE: 21st JULY 2022

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**NELSON TOWN DEAL - HEALTHY TOWN PROJECT:
BUSINESS CASE ASSURANCE & FUNDING RECOMMENDATIONS**

PURPOSE OF REPORT

To present this Committee with the independent business case appraisal report for the Healthy Town project and the funding recommendations from the Nelson Town Deal Board.

RECOMMENDATIONS

That this Committee:

1. Note the findings of the business case appraisal report for the Healthy Town Project.
2. Approve the following recommendations from the meeting of the Nelson Town Deal Board on 8th July 2022:
 - a. Approve the allocation of £2,321,149 of Towns Funding to the Healthy Town project.
 - b. Approve £590,000 Towns Funding towards the parks element of the project and authorise this element of the scheme to commence as soon as is practicably possible subject to the following conditions being met:
 - The applicant should provide detail on the approach to inflation in respect of costs for the Parks project element,
 - The implications of cost inflation and cost overruns should be carefully monitored over the coming months, so that suitable mitigations can be identified at the earliest opportunity,
 - c. Approve the allocation of £1,731,149 Towns Funding for the Wavelengths element of the project subject to:
 - A report back from the Council within 9 months should it not have approved and

progressed the project after consideration of the Strategic Leisure Review undertaken by the Leisure Trust and the Council,

- An update to the Town Deal Board concerning the implications and potential fallback position in the event that a grant allocation from Sport England is not secured.
- An update to the Town Deal Board concerning the status of Wavelengths design work and the subsequent procurement process in order to achieve cost certainty (to minimise inflationary risk),
- The implications of cost inflation and cost overruns being carefully monitored over the coming months, so that suitable mitigations can be identified at the earliest opportunity,
- If there is the potential for inflationary pressures or other risks to result in a reduction of the scope of what is affordable and deliverable for the Wavelengths element, a clear process by which amendments to the scope of work will be agreed with PBC and the Town Board should be agreed ahead of confirming a funding agreement,
- The position in relation to subsidy control being confirmed by PBC based on legal advice.

b. Delegate authority to the project appraisal sub-group of the Board to ensure these conditions are met (where specific reference to the Board is not made).

c. Authorise the submission of the Project Summary Document to Government.

REASONS FOR RECOMMENDATIONS

1. To inform the Board of the outcome of the Healthy Town business case appraisal.
2. To seek a 2 stage approval for project delivery funding from the Accountable Body and the Government; and to agree the conditions which should be attached to this.

ISSUE

Background

1. The Nelson Town Investment Plan (TIP) sought £29.9m funding to support the delivery of 8 strategic projects aimed at promoting transformational and sustainable growth within the town. In August 2021, a Heads of Terms offer was agreed for up to £25m of Towns Funding through a Town Deal. The Town Deal Board and the Accountable Body subsequently reviewed and confirmed the details of the projects to be delivered, and a Town Deal grant offer letter was received from Government in response to this in December 2021.
2. In order to 'unlock' delivery funding, all 8 strategic projects are required to produce an HM Treasury Green Book compliant business case assured in line with the Nelson Local Assurance Framework. A Project Summary Document should then be submitted to Government within 12 months of agreeing our Heads of Terms, i.e. by 5th Aug 2022.
3. In accordance with Nelson Local Assurance Framework, the Healthy Town project Business Case has been independently appraised by consultant's ekosgen and has also been considered by the Project Appraisal sub-group. The views and comments from the sub-group were provided to ekosgen to form part of their appraisal considerations. The final appraisal report is attached at Appendix 1 and was presented to the Town Deal Board by ekosgen at its meeting on 8th July 22. This report summarises the finding of the appraisal report and presents this Committee with the recommendations agreed by the Town Deal Board at its meeting on 8th July.

Project Funding Recommendations and Decision Making Processes

4. Pendle Borough Council are the ultimate decision making and Accountable Body for the Town Deal. Subject to the funding decisions by this Committee, a Project Summary Document signed by the Chair of the Board and the Council's Chief Executive or S151 officer will be submitted to Government.
5. If the Government are happy with the details of the Project Summary Document, Year 1 delivery funding will be released. Following that, payments in future years will only be made subject to satisfactory spend and progress against agreed project milestones, outputs and outcomes.

Project Assurance Overview

Project: Healthy Town

Applicant: Pendle Borough Council / Pendle Leisure Trust

Towns Funding sought: £2,321,149

6. A presentation regarding the Healthy Town project was given by the project leads to the Town Deal Board at their meeting on 4th March 2022.
7. The Healthy Town project aims to enhance Nelson's leisure offer and create high quality green spaces. The project responds to a need to improve the town's leisure offer and green infrastructure, as well as addressing issues of poor health and above average levels of obesity amongst young people. This will be achieved by:
 - Investing in the leisure/fitness offer at Pendle Wavelengths by providing new enhanced facilities including fitness room, fitness studio for under 16s, interactive fun activities and upgraded water features; together with an additional area of parking.
 - Investment in Nelson's three parks; improving existing features and facilities in the parks and introducing new ones.
8. By improving leisure facilities and green spaces, the Healthy Town project will deliver infrastructure to enable residents to live more active lifestyles.

Strategic Case

9. The business case appraisal report highlights that the project aligns with a number of the strategic objectives (SO) in the Nelson Town Investment Plan. It does this, broadly, through supporting the health and wellbeing of its residents (**SO5**), enhancing physical connections to support inclusion and economic growth (**SO9**); as well as contributing towards community cohesion and a sense of pride and identity (**SO1**) and reinforcing Nelson's role as a key service centre (**SO6**).
10. The project has a strong strategic fit with a range of national, sub-regional and local policy documents. At the local level, it supports Pendle Borough Council's vision to enhance quality of life in Pendle as outlined within its Strategic Plan 2020-23 and supports the Council's Local Plan Core Strategy strategic objective to *“protect, enhance and improve access to green open spaces, sport and recreation facilities to improve health and well-being through the promotion of more active lifestyles.”*
11. Alignment with a range of other local / sub-regional policies, strategies and projects is also demonstrated, including: Healthier Pennine Lancashire – Together a Healthier Future, Pendle Health and Wellbeing Plan, Pendle Cycling Strategy, Together an Active

Pendle, Pendle Economic Recovery and Growth Strategy, Pendle Sport and Leisure Strategy 2019-2024 and Active Lancashire – A Decade of Movement. The project’s strategic fit with the Levelling Up agenda is also articulated through its direct contribution towards the Levelling Up ‘Missions’ associated with health, wellbeing and pride in place.

12. It is the appraiser’s view that the approach to the project is sufficiently evidenced and based on a clear rationale. The business case demonstrates poor health outcomes in Nelson and evidence of substandard green infrastructure and poor perceptions of the town locally. Stakeholder engagement has been used to demonstrate demand for the proposal and to identify groups that the intervention will target.

Economic Case

13. The project will deliver the following outputs, outcomes and wider benefits:

MHCLG Reported Outputs							
Output Indicator	Indicator Type	Total	2021/22	2022/23	2023/24	2024/25	2025/26
No. of improved community / sports centres	MHCLG (Urban Regen)	1			1		
Amount of existing parks / greenspace improved (m2)	MHCLG (Urban Regen)	23,165				13,876	9289
Volunteers	Project specific	20		20			

These direct outputs will lead to the following beneficial outcomes:

Reported Outcomes Outcome Indicator	Indicator Type	Total	2021/22	2022/23	2023/24	2024/25	2025/26
Increased attendances (youth)	Project specific	25,200				12,250	12,950
Increased attendances (adult)	Project specific	50,600				24,850	25,750
Increased attendances (TOTAL)	Project specific	75,800				37,100	38,700

Wider non-monetised benefits include:

- improved health outcomes for residents,
- cost savings to the NHS,
- direct willingness to pay for improved parks amenity,
- volunteering.

14. The appraisal report includes a number of minor comments relating to how some of the benefits have been calculated in the economic case. Following minor adjustments to these calculations, the project demonstrates a BCR of 1.7 which represents **medium value for money** according to HM Treasury Guidance.

15. Sensitivity analysis has been carried out on three different scenarios, including a reduction in the volume of new users at Wavelengths (further details on p.11 of the appraisal report). All scenario’s showed that an appropriate return on investment can be achieved.

Financial Case

Costs

16. The project has a total cost of £3,084,955 (excluding VAT), comprising Wavelengths (£2,242,455) and Parks (£842,500) project elements.
17. Costs have been determined separately for the parks and Wavelengths elements. In relation to the Wavelengths extension capital works, these costs have been based on a cost plan prepared by Alliance Leisure as part of their feasibility work. A higher level of cost certainty is attached to the Parks project element with fixed prices already secured for many cost items and with considerable scope for design variations and value engineering to mitigate cost overruns. **However, it is unclear how inflation has been treated in relation to parks interventions and this should be confirmed by the applicant.**
18. Through the business case appraisal process further clarification was sought regarding the treatment of inflation, which is identified as a primary financial risk given current high rates of inflation. In response, the applicant has included a section on the management of financial risks which details the approach to inflation. With respect to the parks element, inflationary risk will be mitigated based on the potential for value engineering and design variations. The extent of any design variations necessary to mitigate inflationary pressures should be closely monitored to ensure that the outputs continue to meet strategic objectives. **It will be important to ensure that there are opportunities for the Town Deal Board to review any amendments to ensure that project outputs are not impacted and to agree a clear process for agreeing changes, particularly where they may have an impact on the delivery of project outputs.** (It should be noted that a change request procedure will be put in place by the Accountable Body which will be applicable to all projects).
19. In relation to the Wavelengths costs, the applicant confirmed that the risk of cost overruns cannot be as readily managed through value engineering without removing key elements that would risk undermining strategic objectives / outcomes. A strategy for mitigating this risk is proposed by the applicant based on the early transfer of risk from the Council to Alliance Leisure Services through a fixed contract sum, thereby minimising the exposure to further cost inflation. More detailed design work is required to reach cost certainty and this work is programmed for Q3 2022. **It is recommended that the applicant should provide an update to the Town Fund Board concerning the status of design work and subsequent procurement in order to achieve cost certainty (and minimise inflationary risk) as early as possible.**

Funding

20. £2,321,149 is sought from the Towns Fund and an expenditure profile is provided in the table below. The profile varies from that set out in the project confirmation tables submitted to Government back in Sept 21, reflecting the more detailed work undertaken through business case development. We understand there will be an opportunity to provide an updated spend profile to DLUCH for all projects in summer 2022.

Healthy Town Project: Towns Fund Expenditure Profile

	2022/23	2023/24	2024/25	2025/26	Total
Towns Fund: Capital	£592,000	£1,249,149	£305,000	£175,000	£2,321,149

21. Match funding of £250,000 (Nelson Town Council) and a further £2500 (Pendle Borough Council Environmental Services) has been confirmed towards the parks element of the project.
22. The balance of funding (£511,306) from Sport England towards the investment in Wavelengths is not yet confirmed. Correspondence with them, included in support of the business case, demonstrates that discussions are ongoing and that securing a grant allocation from them could be achievable subject to the Strategic Outcomes Planning Model report (the Strategic Leisure Review). The outcome of this review and the ability to secure the required match funding remains a key risk to the project and is discussed further towards the end of this report.

Commercial Case

23. The review of the commercial case considered readiness to proceed from a permissions perspective, the appropriateness of procurement arrangements, compliance with subsidy control and how the scheme responds to market demand. Planning consent will be required for the extension to the Wavelengths facility and has not yet been secured. Early engagement with the Local Planning Authority has taken place and there is in principle acknowledgement that the proposals are likely to be compliant with the Local Plan.
24. The procurement strategy for the Wavelengths project proposes the direct appointment of a development partner through the UK Leisure Framework (UKLF). UKLF is a framework available to all public sector organisations. After an OJEU-compliant competitive tendering process, Alliance Leisure Services (ALS) were appointed as lead development partner of the UKLF, which allows for the direct appointment of ALS as a development partner for the scoping, design, refurbishment, construction and the development of sport, leisure, and other cultural facilities across the UK public sector.
25. This direct appointment would be secured through the framework as soon as possible, once scheme design is developed to a point that will allow cost certainty, to transfer risk to the development partner at the earliest opportunity. Once the scheme is at a cost certainty stage, ALS will then enter into a call-off Delivery Management Agreement with PBC to deliver the project. Work is currently ongoing to progress the scheme design and to provide further confidence in the capital budget required.
26. A fee will be charged to PBC to access the UKLF, payable at the point of securing a Development Management Agreement and this fee has already been incorporated into the existing cost plan.
27. The procurement strategy for the Parks element will be conducted in accordance with PBC's existing procurement routes and it is understood that quotes have already been

received from suppliers for playground equipment. PBC has experience of procuring similar playground equipment and has knowledge of the market place.

28. The scheme responds to existing evidence of local challenges relating to physical inactivity, particularly among certain target groups. The applicant sets out how new and existing measures will be used to improve and sustain participation among target groups.

29. Subsidy control advice has been provided to PBC and is currently under review, however it is our understanding that no issues have been identified at this stage.

Management Case

30. Clear project management arrangements – including named organisations and team members – have been identified to deliver the project. The team members within the project delivery group have considerable experience of delivering similar projects and have indicated their capability and capacity to deliver the proposed interventions.

Milestones

31. A detailed delivery plan was provided as an Appendix to the business case. Projects milestones are set out and summarised in the table below:

Milestone	End Date
Wavelengths	
Design	02/11/2022
RIBA 2/3 & planning	10/08/2022
Planning determination	02/11/2022
RIBA 4	05/10/2022
Construction	05/07/2023
Lead in period	07/12/2022
On site works	05/07/2023
Parks	
Parks consultations	August 2022
Marsden park: Playground improvements; tennis court resurfacing and fencing; upgraded bins and benches	2022/23
Walverden park: Fitness gym; upgraded bins and benches; hedging; Senior playground improvements	2022/23
Victoria park: pathway improvements; new entrance; bridge works; upgraded bins and benches; replacement shelter	2022/23
Marsden park: Pathway improvements	2023/24
Walverden park: Junior playground improvements	2023/24
Victoria park: Junior cycleway; drainage; subway improvements	2023/24
Marsden park: BMX/Mountain bike trails	2024/25
Walverden park: Pathway improvements	2024/25
Victoria park: Playground improvements	2024/25

32. Project dependencies, e.g. securing planning approval, procuring a developer partner, securing co-funding, etc, have the potential the cause delay to the project delivery programme. There may also be some delays linked to the reporting of Strategic Outcome Planning Model. Implications of these dependencies should be communicated to the Town Deal Board at the earliest opportunity.

33. A risk register is included in the business case submission which identifies appropriate risk mitigation strategies, the risk owner and risk status. Risk likelihood and impact are classified on a scale of 1 (lowest likelihood/impact) to 5 (highest likelihood/impact).

34. The applicant has identified a leading risk in relation to the high likelihood of construction price increases (risk likelihood score = 4). Risk mitigation strategies are set out and have been detailed already in relation to the procurement strategy and transfer of risk to Alliance Leisure Services within early stages of the Wavelengths project. Value engineering / design variations solutions are more readily implementable for the Parks project element to mitigate against cost overruns.
35. A benefits realisation plan has been developed to set out the expected benefits of the Project and the way in which these benefits will be planned for, tracked by the responsible owner, and realised through scheme implementation. The Monitoring & Evaluation Plan describes the data that will be collected to check progress in delivering the scheme's benefits, and how it will be assessed to show that the projects have fully delivered the anticipated benefits.

Strategic Leisure Review

36. The Strategic Outcomes Planning Model report (better known to the Board as the Strategic Leisure Review) is currently under preparation and is due to be considered by the Council's Policy and Resources Committee in September 2022. The findings of the review will be reported to the Town Deal Board as soon as possible thereafter.
37. Given that all of the funding for the Parks element of the project is in place, **it is recommended that a 2 stage approval process is followed for this project which would enable the parks element to proceed without delay. Funding for the Wavelengths element of the scheme should be recommended for approval subject to the outcome of the Strategic Outcomes Planning Model report and securing the required match funding. The applicant should provide an update to the Town Fund Board at the earliest opportunity concerning the implications and potential fallback position in the event that a grant allocation from Sport England is not secured.**

Head of Terms – Project Conditions

38. The Heads of Terms offer for the Nelson Town Deal included a number of project conditions which must be met as part of the funding approval process. Evidence must be submitted to Government alongside the Project Summary Document. These are detailed in the table below:

Project condition	Demonstrating the condition has been met
Provide a more detailed delivery plan that covers risks, interdependencies and mitigation measures; and clear costings for each element.	A detailed delivery plan was prepared as part of the business case, together with a detailed risk register and a schedule of costings. These are provided in Appendix 2 and will be submitted with the Project Summary Document.
Provide further evidence to support the outcomes provided.	A 'Throughput' model was included in the Alliance Leisure feasibility report. Relevant information to be extracted and included in Appendix 2.

Funding Recommendations

39. Ekosgen have completed the independent Assurance Report of the project business case, taking into account the comments from the Project Appraisal sub-group. Their report recommends approval of the £2,321,149 Towns Funding to the project subject to a number of conditions outlined above.
40. In light of the positive independent assurance of business case, the Board have agreed the recommendations as set out in this report.
41. Subject to the agreement of the Council's Policy and Resources Committee on 21st July, a Project Summary Document will be submitted to Government signed by the Chair of the Town Deal Board and the Council's Chief Executive or S151 Officer.

IMPLICATIONS

Policy: The project will support the delivery of the Nelson Town Investment Plan and is in line with a number of other local and national policy documents.

Financial: The Board have recommended funding approval to Pendle Borough Council and subject to agreement, the Project Summary Document will be submitted to Government. Only once this is approved will project delivery funding be released.

The funding profile for the project varies from that submitted to Government with the project confirmation tables in Sept 21. This is the basis upon which annual funding would be released and performance would be measured. We understand that there will be an opportunity to update funding profiles to reflect the outcome of business case development work, etc, in summer 2022.

The project has revenue cost implications for both Pendle Leisure Trust and the Council. The revenue model suggests the scheme will run a small deficit in the first 3 years prior to making a small profit from year 4. However this is after making a deduction of £100k to cover the lifecycle cost of the new asset. The Council can therefore reduce the PLT Management fee by the value of the lifecycle costs and hold this within Council reserves or leave the funds within the Management Fee but this exposes the Council to future maintenance costs. This will need to be negotiated and agreed with Pendle Leisure Trust.

Match funding from Sport England for the Wavelengths element of the scheme is subject to findings of the Strategic Leisure Review.

Legal: None directly arising from this report.

Risk Management: The key project risk relates to securing match funding for the proposed Wavelengths investment. Discussions are ongoing with Sport England. Securing a grant allocation from them could be achievable but is linked to the outcome of the Strategic Outcomes Planning Model report (the Strategic Leisure Review), which is due to be considered by the Council in September. A 2 stage approval process is recommended for this project, to enable the parks element to proceed without delay.

Health and Safety: None directly arising from this report.

Sustainability: None directly arising from this report.

Community Safety: None directly arising from this report.

Equality and Diversity: None directly arising from this report.

Appendix 1: Healthy Town Project Appraisal Report by ekosgen

Appendix 2: Information to address project conditions