

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

TO: NELSON TOWN DEAL BOARD

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**REVITALISED NELSON:
BUSINESS CASE ASSURANCE AND FUNDING RECOMMENDATIONS**

PURPOSE OF REPORT

To present the Board with the independent business case appraisal report and funding recommendations for the Revitalised Nelson project.

RECOMMENDATIONS

That the Board:

1. Note the findings of the business case appraisal report for the Revitalised Nelson Project.
2. Recommend the following to Pendle Borough Council (noting that the Council's Chief Executive, in consultation with the Leader of the Council, has delegated authority from the Council's Policy & Resources Committee to act on this):
 - a. Approve £13,265,297 Towns Funding towards the Revitalised Nelson project subject to the following conditions:
 - The Town Board receives the necessary assurances concerning the flexibility of the proposals to accommodate the realisation of project risks and/or cost inflation above the forecast level.
 - Clear timescales are agreed for when a full commitment to the development proposals can be made by the JV, and that appropriate mitigations / fall-back positions are considered.
 - The applicant sets out options for managing the current forecast shortfall in funding (of £160,000) for Trafalgar House.
 - The implications of any reallocation of funding (including the Relocation Fund) are fully considered ahead alongside any approval for a change request – including the implications on value for money, delivery of outputs, and existing business tenants at Pendle Rise.

- Timescales are agreed for the development of a more detailed development programme, to (i) provide assurance that funding is deliverable within the proposed timescales and (ii) to ensure that the implications of any potential delays can be considered at the earliest opportunity.
 - A profile of match funding is provided by the applicant.
 - Milestones are agreed for confirming the proposed delivery model for each element.
 - The Town Board is satisfied that sufficient evidence is provided in relation to future occupier demand, and if necessary, an approach is agreed for more formally considering potential demand.
 - Release of funding is dependent on the receipt of satisfactory legal advice concerning Subsidy Control.
 - Early-stage development milestones are agreed for elements of the management case, including a detailed delivery programme and risk register, and consideration of external project dependencies.
 - Roles and responsibilities (specifically between PBC and PenBrook JV) for each element should be confirmed.
 - Further detail should be provided in relation to the management and operation of the Relocation Fund.
- b. Delegate authority to the project appraisal sub-group of the Town Deal 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.
3. Delegate authority to the Chair to agree and sign the Project Summary Document prior to submission to Government.

REASONS FOR RECOMMENDATIONS

1. To inform the Board of the outcome of the Revitalised Nelson business case appraisal.
2. To seek approval for project delivery funding from the Accountable Body and the Government; and to agree the conditions which should be attached to this.
3. To enable the Chair to agree and sign the Project Summary Document on behalf of the Board.

ISSUE

Background

1. All strategic projects within the Nelson Town Delivery Plan are required to produce an HM Treasury Green Book compliant business case assured in line with the Nelson Local Assurance Framework.
2. In accordance with Nelson Local Assurance Framework, the Revitalised Nelson project Business Case has been independently appraised by consultants ekosgen and has also been considered by the Project Appraisal sub-group of the Board. 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 will be presented to the Board by ekosgen at the meeting. A summary of the key points and proposed conditions are provided below.

Project Funding Recommendations and Decision Making Processes

3. The purpose of this report is to ask the Board to make funding recommendations to Pendle Borough Council as the ultimate decision making and Accountable Body for the Town Deal. Subject to their agreement, 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.
4. 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: Revitalised Nelson

Applicant: Pendle Borough Council

Towns Funding sought: £13,265,297

5. The business case is for a package of investments totalling £28.9 million, with the aim of attracting people into Nelson and creating a positive experience for locals and visitors.

The scope of works includes:

- The demolition of the current Pendle Rise shopping centre and the redevelopment of both Pendle Rise and Trafalgar House.
- A relocation fund to acquire and refurbish additional town centre retail properties for existing tenants of the Pendle Rise site.
- Protection of Nelson's heritage through the retention and refurbishment of the frontage of Trafalgar House.
- Improvements to the public realm in Nelson's town centre, including the planting of new trees.
- Upgrading the accessibility of the town centre through the architectural design.
- Increasing the parking space provision with 150 new car parking spaces on the site of the new Pendle Rise development. A further 26 car parking spaces will be provided on the demolished section of Trafalgar House, of which around half will provide EV charging points.

Strategic Case

6. The delivery of the Revitalised Nelson project aligns with the strategic objectives (SO) of the Town Investment Plan. It does this, broadly, through supporting the health and wellbeing of its residents (SO5), breathing new life into heritage assets and redundant buildings (SO8), enhancing physical connections to support inclusion and economic growth (SO9), as well as contributing towards community cohesion and sense of pride and identity (SO1) and reinforcing Nelson's role as a key service centre (SO6).
7. 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 objective to '*increase the choice, variety and quality of the retail offer and promote uses that contribute to the creation of a well-balanced, safe and socially inclusive night-time economy in our town centres*'. Alignment with a range of other local / sub-regional policies, strategies and projects is also demonstrated, including with Emerging Lancashire Local Industrial Strategy,

Redefining Lancashire: Our Approach to Recovery, Lancashire LEP Strategic Economic Plan, Lancashire Skills and Employment Framework, Pendle Local Plan 2011-2030, Nelson Masterplan 2021, Pendle's Jobs and Growth Strategy 2013-2023, Pendle Economic Growth and Resilience Strategy, Pendle Retail Study 2012.

8. It is the appraiser's view that, on balance, the approach to the project is sufficiently evidenced and based on a clear rationale but the Board should satisfy themselves about future retail demand.

Economic Case

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

Outputs

4,000 sqm of new retail/leisure/food and beverage space

2,788 sqm of retail leisure or food & beverage space improved

Refurbishment of 1 derelict buildings

40 trees planted

1,000 sqm of new public realm

150 new car parking spaces

(Note to Town Deal Board: an additional 26 car parking spaces will be delivered at Trafalgar House now that a preferred option has been agreed)

Outcomes

- Reduced vacancy
- Increased footfall
- Reduction in crime to the value of £2.2m

Impacts

- Increased residential and commercial land values across Nelson.

Wider benefits include:

- Improved air quality in the town centre due to more widespread use of electric vehicles
 - Public realm improvements
 - Protection of the heritage frontage of Trafalgar House
 - Increased accessibility of the area, providing greater access to pedestrians to the area as well as to cars.
 - Improved perception of place, especially for those arriving to the passenger train station
10. The BCR is estimated at 1.52 which is just above the threshold for medium value for money (a BCR of 1.5) and is considered to be suitable for Towns Fund investment on this basis. The appraisers believe that the assumptions made about benefits are likely to be conservative and consider it reasonable that greater value for money could be achieved, particularly once the wider economic and social benefits are considered. High level sensitivity analysis has been undertaken on the BCR. This analysis indicates that all scenarios can offer an appropriate return on investment and that, overall, the project can withstand major reductions to core input assumptions whilst still offering value for money.

Financial Case

Costs

11. The project has a total cost of £28,876,291 and a Towns Fund ask of £13,625,297. The split of this between the different elements of the project is set out below.

Component	Towns Fund Contribution	Total Cost
Pendle Rise	£9,940,000	£22,080,853
Trafalgar House	£1,615,297	£1,777,938
Relocation Properties	£1,360,000	£4,667,500
Fees	£350,000	£350,000
Total	£13,265,297	£28,876,291

12. The appraisers noted that the breakdown of costs is clear and can be attributed to the relevant elements. However, it should be recognised that costs are based on relatively early-stage estimates and include some benchmark or high-level estimates. While this reflects the stage of development of the proposals, the Town Board and Pendle Council as the accountable body should be satisfied that the costs include sufficient contingency and that there is sufficient flexibility in the proposals to mitigate the financial risks. The Financial Case would also benefit if a breakdown of spend by element were provided.

Funding

13. The appraisers made the following comments about the match funding for each of the elements:

Pendle Rise: PenBrook Joint Venture will contribute £12.14 million to the development of Pendle Rise. These are the standard development costs and, it should be noted, that these contributions are not net of GDV and profit arising from the development. In relation to funding certainty, the business case notes that *'final investment decisions will be made by the PenBrook Board when individual schemes have been progressed further and costs are more defined. Both partners are aware of the cost plans and viability reports received to date and are committed to progressing the scheme. As such, the Board have agreed to incur costs for architects and cost consultants to facilitate progress of the scheme.'* As set out in the Commercial Case, the JV has been formally contracted and the company registered at Companies House in June 2022.

Trafalgar House: There is currently a funding gap of £160,000 for the proposed works at Trafalgar House, which represents the difference between the current cost plan and the total available funding. As a condition of funding, PBC should set out the process it will adopt to secure funding and potential mitigations should this not be possible within the available timescales.

Relocation Properties: A £3.31 million match funding contribution is required for the acquisition and refurbishment of properties for the relocation of existing businesses. This element of the project will be managed by the PenBrook JV, with the final investment decision on property acquisitions made by the JV. In light of this, a condition of funding should be the confirmation of timescales by which such assurances will be made that this element will be delivered, alongside evidence of potential mitigations.

14. It is also noted in the Business Case that the relocation properties element could potentially act as contingency funding for the wider programme. While this potential flexibility may be helpful in managing risk, the appraisers note that there may be implications on relocated businesses and any reallocation of funding between elements should be with the agreement of the Town Board. It should also be confirmed whether this would require a change request to DLUHC – particularly if it has the potential to impact on project outputs.
15. The proposed profile of Towns Fund investment is set out below. The appraisers note that almost £9 million has been allocated to 2024/25, with a further £2.9 million in 2025/26. In light of this, the project should be monitored carefully for potential delay and slippage beyond March 2026, in order that effective mitigations can be identified. It should also be highlighted that, in response to our clarification questions, it was noted that *‘The Town Deal funded element is due to complete by December 2024’*. This does not align with the profile set out below and should be clarified ahead of a funding decision being provided.

(Note to Town Deal Board: the date of December 2024 was a typing error and should have said December 2025)

Towns Fund Profile						
	Year 1	Year 2	Year 3	Year 4	Year 5	Total
	2021/22	2022/23	2023/24	2024/25	2025/26	
Revitalised Nelson (CDEL)	0	150,000	1,315,000	8,950,297	2,850,000	13,265,297

16. A profile of match funding has not been provided in the business case and will be required for the Summary Submissions and monitoring returns to DLUHC. These should therefore be provided as a condition ahead of final approval by the Town Board.
17. This information is now provided to the Board in Appendix 2 and more information is provided in paragraph 30.

Commercial Case

Permissions

18. The appraisers have noted that planning consent and building regulations will be required for the redevelopment of Pendle Rise and Trafalgar House. Depending on the nature of acquired properties for the relocation element and the necessary refurbishment works, it is possible that planning consent would be required for these elements as well. The Pendle Rise planning application is due for submission in December 2022 with a planning determination in April 2023. For Trafalgar House, the planning application preparation, submission and approval is expected to be delivered in Q2 and Q3 of 2023/24, however precise milestones have not been provided at this stage.
19. Until Planning Permission is confirmed, this will clearly present a significant delivery risk, however it is positive that a planning application for the most significant element is due for submission in December 2022. The potential for any delay to planning decision being achieved in April 2023 should be closely monitored. In addition to planning permission, the potential for a CPO is another significant dependency affecting delivery. The business case states that it is likely that CPO will be required, and the project programme has been developed on this basis. External

legal advice is being provided and PBC have agreed initial steps to prepare a CPO whilst negotiations with the landowner continue.

20. The appraisers feel that it is positive that such preparations are underway, however the Town Board should recognise the potential risks associated with this external dependency.

Procurement and Contractual Arrangements

21. The redevelopment of Pendle Rise will be delivered through a Penbrook JV – a joint venture between Pendle Borough Council and Brookhouse Group Limited. The appraisers feel that more information should be provided on the delivery of Trafalgar House and the relocation properties.

Market Demand

22. The Business Case provides strong evidence concerning the impact of the existing Pendle Rise Shopping Centre on Nelson Town Centre. Given this, the Town Board should be satisfied that the development proposals are based on a sufficiently robust market assessment which will result in a viable development proposal. Otherwise there is a risk that the proposals will not come forward on the basis proposed, even with the enabling works.

Subsidy Control

23. Subsidy control has not been provided at this state as the advice requires confirmation of the proposed delivery model for Pendle Rise. However, confirmation that the proposals are compliant with relevant legislation should be identified as a condition of funding. The applicant should also provide timescales for securing this advice.

Management Case

24. The project is at a relatively early stage of development, and this is reflected in the Management Case. While the level of information provided sets out the delivery and management arrangements at a high level, some delivery arrangements are to be determined. Therefore, while the appraisers consider the project as being suitable to proceed at this stage, they would recommend that a timetable is agreed for the development of a detailed delivery programme in order that early-stage progress can be monitored and risks to delivery identified at the earliest opportunity.
25. Due to the Project Lead having left the Council in November 2022 and the Project Manager due to leave in January 2023 there is a need to ensure that the project is sufficiently well resourced. An update on staffing resources was provided to the last meeting of the Board and a further verbal update will be provided at the meeting.

Risk

26. A Risk Register setting out 8 risks is appended to the Business Case. While this does capture the main strategic risks (e.g. acquisition, planning permission, cost inflation, etc.), the appraisers would expect a more detailed consideration of risks for a project of this scale with three standalone elements.
27. Given this, they recommend that an update is provided to the Town Board on detailed project risks as a condition of funding. These should be specific to each element of the scheme and based on a risk review workshop, in line with Better Business Case guidance.
28. Drawing on experience of Towns Fund programmes elsewhere in the country, the appraisers would also recommend that detailed consideration is given to cost inflation, including the potential impact on the scope and scale of proposals. We note that the

relocation fund is identified as providing potential mitigation against cost pressures, however the implications on project delivery – if this delays the relocation of existing tenants - should be more clearly set out.

29. The Appraisal Sub Group have also noted that the following risks should be considered or considered more fully:

- Mitigation if the CPO is required but not achieved
- Planning risk associated with the conservation setting for Trafalgar House
- Commercial Viability of Pendle Rise
- Delays to works
- Businesses do not wish to relocate
- JV collapse
- Outputs not achieved

Funding Recommendations

30. The Revitalised Nelson project is recommended for approval for a Town Deal allocation of £13,265,297 subject to the conditions set out in the Recommendations to this report. The appraisal comments and the number of conditions is a reflection of the size of investment going into the project, the complexities and risks of delivering such a project and the early stage it is at. Due to the Government timescales for achieving funding approval the Business Case has had to be produced at an early stage in the project development process. Progress on the project has continued since the Business Case was submitted and in advance of a funding approval to ensure that the project can be delivered in the Town Deal timescale.

31. Some comments on each of the project conditions are provided below:

Recommendation 1 - The Town Board receives the necessary assurances concerning the flexibility of the proposals to accommodate the realisation of project risks and/or cost inflation above the forecast level.

The project includes three separate elements so there are opportunities to move funding between the different elements (if needed and subject to any necessary approvals). Pendle and their JV partners are experienced in managing capital projects and dealing with cost inflation through value engineering, revising the scope of projects to achieve viability and obtaining funding from other sources. It is proposed that a detailed report is presented to the Board on a quarterly basis to ensure close monitoring of delivery and regular briefings on progress are also provided to Pendle Council Members.

Recommendation 2 - Clear timescales are agreed for when a full commitment to the development proposals can be made by the JV, and that appropriate mitigations / fall-back positions are considered.

Private companies, including Joint Ventures, do not normally make funding decisions until detailed costed proposals are produced along with an appraisal showing viability of the proposals. Subject to approval of the project being given by the Board and Pendle Council a meeting of the PenBrook Board is to be set up in the next few weeks to seek approval to submit a planning application. Once the planning requirements are known the indicative financial appraisal that has been produced can be refined. A more detailed timetable for delivery of this project, including the timescales for confirmation of commitment by the PenBrook Board, will be brought to the next meeting of the Board.

Recommendation 3 - The applicant sets out options for managing the current forecast shortfall in funding (of £160,000) for Trafalgar House.

At the time that the Business Case was produced it was estimated that the cost of the preferred option of retail, residential, car parking and EV charging would be £1.78m. This has subsequently been revised to £2.13m which would increase the shortfall to c. £515,000. These are very high level costings and a more detailed scheme now needs to be produced. If the residential element includes affordable apartments delivered by a Registered Provider there would be options to bring in Homes England funding to provide match funding. Initial discussions with a local registered provider have indicated a potential interest in the scheme. PenBrook will now be looking at the scheme in more detail to refine the costings and will report to a future meeting of the Board.

Recommendation 4 - The implications of any reallocation of funding (including the Relocation Fund) are fully considered ahead alongside any approval for a change request – including the implications on value for money, delivery of outputs, and existing business tenants at Pendle Rise.

Any proposals to reallocate funding will be brought to the Board for approval and will consider value for money, delivery of outputs and existing tenants of Pendle Rise.

Recommendation 5 - Timescales are agreed for the development of a more detailed development programme, to (i) provide assurance that funding is deliverable within the proposed timescales and (ii) to ensure that the implications of any potential delays can be considered at the earliest opportunity.

It is proposed that a more detailed development programme be brought to the next meeting of the Board.

Recommendation 6 - A profile of match funding is provided by the applicant.

Appendix 2 shows the match funding profile for the project. It is anticipated that the majority of this will be from the PenBrook JV. Some or all of the match funding for Trafalgar House could be from Homes England if the potential residential element is affordable housing, as referred to under Recommendation 3 above. The majority of the match funding is profiled to be spent later in the programme, which reflects the timescales for redevelopment of Pendle Rise.

Recommendation 7 - Milestones are agreed for confirming the proposed delivery model for each element.

It is proposed that this is included in the development programme that will be produced for Recommendation 5.

Recommendation 8 - The Town Board is satisfied that sufficient evidence is provided in relation to future occupier demand, and if necessary, an approach is agreed for more formally considering potential demand.

Brookhouse have asked their retail advisors to provide assurance around retail demand for the redevelopment of Pendle Rise and this will be provided to the Board. However, the Board should note that it is not possible to guarantee retailer demand and interest until there is a well-advanced scheme, ideally with planning or well advanced in the planning process and land ownership has been secured. That is when developers can seek commitment in the form of an Agreement for Lease.

If it is necessary to acquire Pendle Rise by Compulsory Purchase then it is expected that there will be objections and this would result in a public inquiry. Due to the

timescales for this process it is anticipated that the Council would not be able to take ownership until around Spring 2024, so any Agreements for Lease would not be secured until after that time.

Recommendation 9 - Release of funding is dependent on the receipt of satisfactory legal advice concerning Subsidy Control.

Advice has been obtained in relation to the two potential delivery options for Pendle Rise and both could be delivered in line with Subsidy Control requirements. Once delivery options have been confirmed for the different elements of the project further advice will be obtained.

Recommendation 10 - Early-stage development milestones are agreed for elements of the management case, including a detailed delivery programme and risk register, and consideration of external project dependencies.

It is proposed that a detailed delivery programme and a more detailed risk register is brought to the next Board meeting.

Recommendation 11 - Roles and responsibilities (specifically between PBC and PenBrook JV) for each element should be confirmed.

This is linked to the delivery model and will be set out once the delivery model is agreed.

Recommendation 12 - Further detail should be provided in relation to the management and operation of the Relocation Fund

This is also linked to the delivery model and will be set out once the delivery model is agreed.

32. In light of the positive independent assurance of business case, the Board are asked to agree the recommendations as set out in this report. A Project Summary Document will need to be submitted to Government by 13th January signed by the Chair of the Town Deal Board and the Council's Chief Executive or S151 Officer.

Recommendations from Policy & Resources Committee

33. It was reported at the last meeting of the Board that Pendle Council's Policy & Resources Committee had agreed that the viability of providing residential units above the retail offer at Pendle Rise be further explored. PenBrook have been reviewing their previous assumptions about costs and values and still feel that a solely retail scheme is more viable. As Board Members are aware, house prices are low in Nelson and the level of interest in buying apartments in the town centre is unknown as it would be an untested market. Discussions with Registered Providers have shown little interest in taking on such properties for affordable housing. Smaller developments of private rented properties elsewhere in the town centre appear to have taken some time to let. The level of risk is currently considered too high by Pendle's JV partner to progress such a development. There is still interest from Registered Providers on working with the JV elsewhere in the town centre.

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 are asked to recommend funding approval to Pendle Borough Council. Subject to their agreement, the Project Summary Document will be submitted to Government. Only once this is approved will project delivery funding be released.

Legal: None directly arising from this report.

Risk Management: There are a number of key project risks and it is recommended that a project condition is imposed requiring more work to be carried out in relation to risk

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: Revitalised Nelson Project Appraisal Report by ekosgen (separate document)

Appendix 2: Match Funding Profile

REVITALISED NELSON MATCH FUNDING

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
	2021/22	2022/23	2023/24	2024/25	2025/26	
Towns Fund	0	150,000	1,315,000	8,950,297	2,850,000	13,265,297
Match Funding						
Pendle Rise				4,800,000	7,340,853	12,140,853
Trafalgar House				162,641		162,641
Relocation Properties			1,500,000	1,807,500		3,307,500
Total	-	-	1,500,000	6,770,141	7,340,853	15,610,994