

**REPORT FROM: TRANSPORT AND COORDINATION MANAGER, HOUSING  
HEALTH AND ENGINEERING**

**TO: EXECUTIVE**

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**Report Author: Sandra Farnell**  
**Tel. No: 01282 661053**  
**E-mail: Sandra.farnell@pendle.gov.uk**

## **COLNE – LEVELLING UP PROJECTS**

### **PURPOSE OF REPORT**

To secure Executive approval and the delegation of authority to progress to next stage of Colne Levelling Up Fund (LUF) Programme capital projects.

### **RECOMMENDATIONS**

- (1) To allow Pendle Borough Council (PBC) to act as the Accountable Body for the LUF-funded Little Theatre and Hippodrome Theatre schemes in Colne
- (2) To delegate Authority to the Director of Place, Pendle Borough Council, to appoint suitable Project Management and other professional services, funded by LUF, to manage the capital works projects at Little Theatre and Hippodrome Theatre schemes
- (3) To delegate Authority to the Director of Place, Pendle Borough Council, to appoint preferred contractors for the execution of construction works packages at the Little Theatre and Hippodrome Theatre schemes (contractors identified from Council-compliant procurement processes already carried out by both theatres)
- (4) To note that works at the Pendle Borough Council-owned Municipal Theatre in Colne, are due to commence imminently under the management of Liberata
- (5) To approve the proposals for the remodelling of Colne Market Hall and the submission of a planning application for the plans accordingly
- (6) To note that should planning approval be granted for the Colne Market Hall proposals that the works will then be delivered by the Pearl Together JV

- (7) To note that a further report will be submitted to outline the proposals for realising the capital receipt from the residential units created as part of the Market Hall development
- (8) To note that work is in progress by Officers in conjunction with Pearl Together JV to provide temporary relocation opportunities to key Market Hall tenants during the works period
- (9) To delegate authority to the Director of Place, Pendle Borough Council, to procure independent consultants to review options and provide recommendations as to the future operation of Colne Market Hall
- (10) To note that feasibility studies are in progress relating to a second phase of development of the site in conjunction with proposals for the redesign of Colne Bus Station

## **REASONS FOR RECOMMENDATIONS**

- (1) To allow full VAT recovery on the scheme in order to maximise the funding envelope and to comply with Council's Financial Procedure Rules
- (2) To ensure projects are under Council control to mitigate risks involved with capital projects such as overspend, project drift and compliance issues
- (3) To ensure Colne Heritage Quarter projects can mobilise quickly to meet fixed deadlines for completion of works
- (4) For information
- (5) To enable the project to proceed within the LUF timescales
- (6) For information
- (7) To ensure that the Market Hall residential return is maximised and supports the viability and sustainability of the proposals
- (8) For information
- (9) To ensure that return on the capital investment in the Market Hall is safeguarded by the optimum operating model of the Market that will occupy the remodelled facility
- (10) To ensure that the optimum outcome for the whole site is achieved while allowing for the opportunity for maximising the opportunity presented by LUF funding for 'phase 1'

## **ISSUE**

Approximately £6 million of LUF funding has been secured for projects in Pendle and this has levered a further £2 million of investment into schemes which will benefit all residents of the Borough.

The impact of the Levelling Up funding will result in new and upgraded cultural facilities within the heart of Colne for the local community, residents and visitors, allowing the three individual venues to offer an enhanced programme of events and activities

The three theatres in Colne are an integral part of Pendle's wider cultural offer, which also includes other small live music venues, restaurants, bars and cafes. This forms a popular destination for Pendle residents seeking culture and leisure activity. It also attracts significant visitor numbers from outside of the Borough.

Around £3m of LUF funding has been allocated for Colne Market Hall which will get a makeover, creating improved space for businesses and housing for town centre living.

### **Colne Heritage Quarter**

There has been significant cost inflation in the construction industry in the period between original development of proposals for the Heritage Quarter in Colne, the submission of the proposals as part of a bid to the LUF, funding award and procurement of contractors.

This cost inflation has put significant pressure on the funding envelope of the construction works packages of the three theatres that make up the Heritage Quarter project. These are:

Municipal Theatre	£1,563,341
Little Theatre	£ 315,053
Hippodrome	£1,943,933

Procurement exercises show that based on Contractor submissions, some Value Engineering is required to maintain the affordability of the projects and deliver them within these budgets. This work is progressing and is deemed to be manageable, as the prices received are near to budget. However, should VAT on the price of works not be able to be reclaimed resulting in an effective 20% reduction in available funding, the works will not be affordable.

The Municipal Theatre is Council owned so there is no issue with VAT recovery and works are due to begin imminently under the management of Liberata. However, the Little Theatre and Hippodrome Theatre are not VAT registered and therefore would not be able to reclaim VAT on the cost of works.

Therefore to maximise the grant funding received from the Colne LUF bid, approval is sought for the Council to act as the Accountable Body for the schemes on the Little Theatre and Hippodrome Theatre. This will allow PBC to fully recover the VAT on the schemes (20% of all costs) and to maximise the funding envelope.

The works would be gifted to the theatres upon completion, rather than the funding being passed across to enable them to manage their own projects.

To do this the Council must act as the signatory for the contracts and will need to manage the contracts in full through the Property Services function provided by Liberata or other suitable Professional Services organisations (both the Little Theatre and Hippodrome Theatre already have elements of professional teams in place, which are being reviewed for completeness and suitability). Ensuring that appropriate project management arrangements are put in place will mitigate any risks to PBC resulting from it taking on board these contracting responsibilities.

Works at the Municipal Theatre are due to start imminently in order to be completed before the Christmas/New Year Pantomime season. Works at the Little Theatre are also intended to start as soon as possible be completed through 2023. The programme for the works at the Hippodrome Theatre is under review with completion targeted during mid 2024.

### **Colne Market Hall**

The Colne Market Hall project was originally submitted to the LUF as a complete demolition of the existing market hall and a rebuild to include a footprint for a cinema and a separate residential development.

However, as highlighted above, there has been significant cost inflation in the construction industry in the period between the original development of proposals for the Market Hall, the submission of the proposals as part of a bid to the LUF and development of the scheme ready for planning submission.

For the market hall scheme there were also issues relating to viability of the development relating to the ceiling of rents achievable from the various components, including residential tenants, market traders, and the cinema operator against the construction and operating costs.

Therefore the separate residential new build was taken out, the potential for a cinema deferred to a second phase, potentially in conjunction with Lancashire County Council funding for a redesign of the adjacent Colne Bus Station on a smaller footprint (Phase 2 options are currently under review by Officers), and, instead of demolition, a full remodelling of the existing market hall building is proposed to include residential units at first floor level (see attached plans).

Ward Members have been fully engaged with these revised proposals as they have developed.

The table below shows the make up of the funding envelope for the Market Hall remodelling:

LUF	£3,056,720
Local Authority	£305,672
Receipts*	£1,400,000
<b>TOTAL</b>	<b>£4,762,392</b>

The receipts are based on the potential sale of the residential units, with the figure of £1,400,000 shown being the result of soft market testing carried out by the JV company, Pearl Together. This will offset the gap between the LUF Funding and Local Authority contribution and the potential cost of the remodelling, to allow for a viable and deliverable scheme.

The exact mechanism by which the capital receipts are achieved will be subject to a further report which will consider the onward sale and future running of the apartment complex.

The plans developed have been subject to professional Quantity Surveyor costings to ensure that they are deliverable within the available Phase 1 budget. The resulting initial cost plan is available as a background paper and shows the estimated costs at this stage, to be circa £4,800,000 to include a £50,000 contingency sum. The funding shown in the table above therefore closely matches the costs. Following planning determination a detailed design and value engineering phase will be applied to achieve greater certainty and reduce costs where possible to ensure that proposals are in line with the available budget.

The total scheme cost of c£4.8m above excludes the cost of relocating market stall holders and the cost of additional project management costs. It does include all other fees associated with the scheme.

The modifications to the original proposals have resulted in a proposal that covers

- Remodelling and refurbishment of the market hall
- New public realm to the front and side of the market
- Extensive refurbishment and addition of new residential units to first floor of the Market Hall

The scheme has been developed on the basis that the residential component will be developed in conjunction with a Residential Development Partner (RP). There may be other options which are under review. It is proposed that the final decision as to tenure for the housing for the scheme, for which viability is the key and over-riding factor, is delegated to the Director of Place.

Following completion of the scheme it is important that the operation of the Market Hall is viable, sustainable and provides a suitable return on investment, based on offering a high quality Market for visitors to, and residents of Pendle.

To ensure this, work is taking place to identify and facilitate temporary relocation opportunities in Colne for key market traders and existing retail outlets. It also proposed that external specialist consultants in market operations are engaged to carry out options appraisals and provide recommendations to how Colne Market, within the remodelled building, is operated going forward in order to ensure a sustainable financial model.

The plans are ready to be submitted as a planning application and consultation is proposed on the Market Hall proposals with existing traders accordingly to include a meeting of the Market Forum on 15<sup>th</sup> May, a consultation event on 18<sup>th</sup> May and individual meetings as required.

Assuming September determination of the planning application and that planning permission is granted, it is assumed that Construction works would commence late this year or at the very start of 2024 and run for approximately 12 months.

## **IMPLICATIONS**

### **Policy:**

All proposals are line with prevailing Council policies.

### **Financial:**

There is finite LUF funding for this programme of works and no additional PBC funding is being allocated to the programme over and above that already committed. Therefore any overspend on any individual project could potentially impact on another element of the programme. Therefore strong project management and strict financial controls within the projects are essential and are being put in place as outlined in the report.

A further report relating to realising the forecast capital receipts from residential units created as part of the Market Hall remodelling will be issued in due course, together with the updated post planning determination cost plan.

The Colne LUF scheme is financially viable at this stage but further work is need to understand the potential future receipts around the residential apartments and future management arrangements. These receipts (or future rental income) is required to bridge the gap between existing funding and scheme costs. Additional revenue costs and project management costs will also need to be factored in to future budget requirements.

### **Legal:**

In respect of the Hippodrome Theatre, in order to comply with HMRC guidance, the contribution the theatre is making to the scheme will now need to be dealt with separately under a phase 2 contract managed and run by the theatre itself. This has been discussed with the Hippodrome and they understand and agree to this amendment.

The above proposal is based on external tax advice received and complies with HMRC guidance.

### **Risk Management:**

Acting as Accountable Body does mean that the risk on contract overruns will pass to the Council but this risk can be managed through effective project management and is deemed manageable.

### **Health and Safety:**

All works will be subject to management under prevailing Construction Design Management (CDM) rules will formal responsibility for this element on all three theatre projects falling under Liberata and for the Market Hall project falling under the Pearl Together JV and the construction contractor, Barnfield.

### **Sustainability:**

All projects will help to bring existing buildings up to modern standards and improve their energy performance (for example improved fenestration and insulation) and where possible replace outdated and inefficient heating and ventilation systems.

### **Community Safety:**

The theatres will be closed during works to avoid any risk to public safety during works.

Initial proposals to try and develop the Market Hall while maintaining operations and public access have been cancelled due to concerns regarding community safety. The Market Hall will be fully closed during the works period to avoid any risk to community safety. Instead temporary relocation opportunities for traders are being explored.

### **Equality and Diversity:**

Part of the enhancements to each of the theatres is to improve accessibility to these historic buildings and the provision of better facilities to all members of the community.

All projects including the Market Hall will be constructed in line with prevailing DDA policies.

## **APPENDICES**

Market Hall Proposals.

## **LIST OF BACKGROUND PAPERS**

None.