



**REPORT FROM: DIRECTOR OF PLACE**

**TO: EXECUTIVE**

**DATE: 20<sup>th</sup> JULY, 2023**

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## **PEARL JOINT VENTURE COMPANIES DEVELOPMENT ACTIVITY**

### **PURPOSE OF REPORT**

To provide an update on development activity being carried out by our PEARL Joint Venture companies.

### **RECOMMENDATIONS**

- (1) To approve the amendment to the Lomeshaye lease as set out in Financial Implications.
- (2) To update the capital programme to allow the investment of £0.5m in Shareholder loans to PEARL Together Ltd to finance the development of the Further Clough Head and Spring Mill Earby schemes.
- (3) To endorse the review the disposal options for the Bankhouse Road development based on a refreshed appraisal of the originally proposed Extra Care facility alongside the alternative affordable housing scheme developed as an alternative.
- (4) To note the updates on various PEARL developments.

### **REASONS FOR RECOMMENDATIONS**

- (1) To enable timely completion of the Lomeshaye Industrial Estate extension.
- (2) To enable Housing Development at Spring Mill and Further Clough Head to proceed.
- (3) To allow for a future report to come forward so the most advantageous deliverable proposal can be taken forward for the Bankhouse Road site.
- (4) For information.

# ISSUE

## **INTRODUCTION**

1. This report gives an update to the Committee on the development activity of Pendle Borough Council's four PEARL Joint Venture Companies during 2022/23 and sets out what is proposed during 2023/24.
2. The last PEARL Joint Venture update report in 2022, reported that the PEARL Joint Ventures had completed work on 13 schemes totalling £47m, resulting in 246 new houses being built or brought back into use and 9,516sqm (102,000sqft) of commercial floorspace being built or refurbished. Through 2022/23 work has continued on three main schemes including our major regeneration scheme at Brierfield Mill 'Northlight'. In June 2022 a further 6 schemes were in the pipeline. This report, provides an update of the current status of the various PEARL projects.

## **BACKGROUND**

3. In 2007 there was a perceived risk that The Borough Council of Pendle (PBC) would not attract sufficient investment from PBC's own resources or external sources to regenerate the towns in the borough.
4. It was considered that this risk could be mitigated by working with a private sector partner who had the skills and commercial expertise in the development and delivery of sites to facilitate economic regeneration across Pendle. The approach of using a private sector partnership to unlock the development potential of various land and property assets in the Borough was based on;
  - exploiting private sector knowledge and know-how in the development of difficult and marginal sites;
  - leveraging in private sector funding for the development of these sites; and
  - making use of surplus land and property assets held by the Council.
5. Following completion of an open procurement exercise, in line with national and European (OJEU) regulations, the Council appointed Barnfield Investment Properties Ltd (BIP) as its Strategic Developer Partner and the joint venture (JV) partnership between PBC and Barnfield Investment Properties Limited was set up to unlock the development potential of various land sites and property assets.
6. The mandate for the establishment of the JV came from a report by the Executive Director for Regeneration submitted to PBC Executive Committee. This resulted from a meeting in May 2007 with the follow up report sent to the Executive on the 19<sup>th</sup> June for formal approval
7. Pendle Enterprise and Regeneration Ltd (PEARL) was created specifically as a vehicle for the development of the ACE Centre - Arts, Cultural and Enterprise. The joint venture, between the Council and Barnfield Investment Properties, levered in private sector funding of c£4.5m.
8. The original Heads of Terms of the PEARL company as a joint venture between Pendle Borough Council (PBC) and Barnfield Construction listed out the terms which included several items. The Board of Directors were limited to 5 (1 officer and 4 members) from PBC and 2 from Barnfield Construction.

9. This model has underpinned the development of further Pearl JV companies each of which was been set up for a particular purpose. As the original joint venture company was set up to deliver the Ace Centre, further joint venture companies with different purposes were established later.
10. The following joint venture companies now exist:-
  - **PEARL** - Pendle Enterprise and Regeneration Limited (C.R.N. 06375571) Registered Office 8 Kenyon Road, Brierfield, Nelson, BB9 5SP incorporated 19<sup>th</sup> September, 2007. 30:70 shareholders the Council and Barnfield Investment Properties Limited
  - **PEARL 2** - Pendle Enterprise and Regeneration (2) Limited (C.R.N. 06684862) incorporated 1<sup>st</sup> September, 2008 Registered Office 8 Kenyon Road, Brierfield, Nelson, BB9 5SP 30:70 shareholders the Council and Barnfield Investment Properties Limited
  - **PEARL BRIERFIELD MILL** - Pendle Enterprise and Regeneration (Brierfield Mill) Limited (C.R.N. 07951533) incorporated 15<sup>th</sup> February, 2012 Registered Office 8 Kenyon Road, Brierfield, Nelson, BB9 5SP. 30:70 shareholders the Council and Barnfield Investment Properties Limited
  - **PEARL TOGETHER** Pearl Together Limited (C.R.N. 11229691) incorporated 28<sup>th</sup> February, 2018 Registered Office 8 Kenyon Road, Brierfield, Nelson, BB9 5SP. Shareholders: Together Commercial Limited 50: The Borough Council of Pendle 15: Barnfield Investment Properties Limited 35.
11. The original arrangement was intended to last for ten years, expiring on 10<sup>th</sup> November 2019. The duration was subsequently extended for a further five years until 10<sup>th</sup> November 2024 by a Supplemental Agreement dated 23<sup>rd</sup> January, 2020 to enable the joint venture arrangement to continue through the medium of PEARL 2 until 10<sup>th</sup> November, 2024.
12. PEARL2 is a private limited company with a capital structure that means for every £1 invested by the Council, BIP must invest £2.33. BIP also provide access to bank funding to cashflow developments. The investment ratio was to be 30/70 in favour of Barnfield: The 30 percent contribution to PEARL from PBC would be reflected in the properties transferred for development with Barnfield investing 2.33 times the open market value of these properties and assets as assessed by an independent valuer.
13. PEARL 2, was set up in July 2011, to deliver Housing Projects at 1-11 Portland Street, 48 Mcleod Street, 140 – 150 Evri Street (even numbers), 20 – 42 Mcleod Street.
14. In 2012, following the acquisition of Brierfield Mills (a complex of unoccupied mills with 380,000sq ft of developable area), **PEARL (Brierfield Mills) Ltd** has been created as a wholly owned subsidiary of PEARL2.
15. PEARL Brierfield Mill Limited – commonly known as PEARL Northlight was then set up to deliver the regeneration of Brierfield Mill and has been the development vehicle through which the complex is being redeveloped/refurbished and brought back into viable use.
16. In March 2018, PEARL Together (PT) was set up with a slightly different Shareholder structure with Together Housing holding a 50% stake in the company. As such the financial transactions for this company tend to be dealt with slightly differently and held separately to the other PEARL companies. PT schemes are housing developments and the turnaround on shareholder in funding is expected to be quicker than the other companies.

17. The overall financial position of the four PEARL companies is set out in Appendix 1 at the end of this report, with a summary under the Financial Implications section of this report.

18. A summary of the development for each company is provided below;

## **PEARL / PEARL 2**

### **ACE Centre**

19. The ACE Centre is leased by Business First. Negotiations are currently on-going to use space in the ACE Centre as a spoke for the new Town Deal Funded Digital Skills Hub, currently being constructed at Nelson and Colne College. Opportunities for improving parking capacity are also being reviewed by officers in conjunction with the Town Deal Funded redevelopment of Trafalgar House. Further updates on these issues will be subject to separate reports in due course.

20. The 12 apartments at the former Colne Health Centre site constructed for the Peter Birtwhistle Trust are complete and occupied. One half of the ground floor retail development has been let. Discussions around temporary use of the other half by some market traders during Levelling Up Funded works to the Market Hall are under review.

21. A key tenant of the Hartly Square, Colne site (Poundland) has now vacated the property. This gives the potential for the site to become temporary accommodation for the market traders while the market hall is being refurbished. Discussions are to be held to understand the terms of lease, who will be the leaseholder and how this could work to facilitate market traders on a short term basis.

### **Lomeshaye Extension**

22. Policy & Resources Committee agreed on 19th March 2019 to dispose of land at Lomeshaye Extension Phase 1 to PEARL2 to develop industrial units. The land value was agreed upon as £724k with an additional £306k towards the electricity provision to ensure that there is a sufficient supply to the site to attract manufacturing companies.

23. The disposal will also include an overage provision, as set out below, so if the final profit is above 10% the above the following overage provisions will apply.

- Developers Profit up to 10% allocated to PEARL2
- Developers Profit between 10% and 15% allocated to Pendle Borough Council
- Developers Profit over 15% allocated to PEARL

24. In December 2022, the December P&R Committee agreed delegated approval for the Director of Resources to agree a variation to the lease for the Lomeshaye site. The variation allowed PEARL to delay payment for the site until December 2022.

25. PEARL2 Ltd have now requested a further variation to the lease to allow the company to enter in to a finance agreement on the site to raise funds required to complete the Lomeshaye Phase 2 scheme. The build cost and associated fees on the project are circa £9m and bank finance is essential to complete the project milestones and outputs required by the Council pursuant to the agreement for lease. The funder will require a first legal charge on the site as security for the loan. The lease prohibits charging of the site before the erection of a minimum of 90,000 square feet of buildings on the site. PEARL 2 Ltd have therefore requested a variation to the lease to allow the charge to the lender to be granted to enable them to finalise the loan and draw down on the same to complete the project. The funders maximum exposure is £7.2m. The site is valued at £10m by a third party on

behalf of the funder.

26. This variation would allow PEARL to charge the land before the building is completed but only with the Council's consent. In effect this would mean as the Council's only remedy for redress if PEARL does not pay the deferred premium of £0.687m on the 20th December 2023 is to sue PEARL then any charge the Council could put on the site would rank in priority after the first charge. This prohibition to charge before the building completion date is the main protection that the Council has to recover the receipt outstanding should the receipt not be paid. Whilst this remains unlikely given the partnership nature of the companies, this does increase the risk to the Council.
27. The Executive are asked to approve the amendment to the lease as set out above.
28. Pendle Council Engineers have been managing the construction of a road into the site and the provision of services (gas, water and electricity) funded by £3m from Lancashire LEP and Lancashire County Council (LCC). The road has now been completed.
29. Additional 'green and blue' infrastructure works have also being undertaken including riverbank stabilisation, upgrading footpaths/bridleways and landscaping works on the wider estate, funded through £570k of European ESIF funding.
30. The planning application has been approved for the site and cut and fill works have been completed on site, foundation are complete and the steel frame is largely complete with roof cladding sheets about to be installed.
31. The tenants, Limitless Digital are are happy with the progression of the scheme and completion to include their fit out is on schedule for the end of this year 2023.

## **PEARL TOGETHER**

### **Further Clough Head**

32. Planning permission for the site was originally obtained in 2017 for 200 houses. However extraordinary site conditions, due in part to extreme undulations, led to the need to reduce the number of proposed dwellings as indicated in the 2022 PEARL update report.
33. An updated detailed Planning Application was submitted on 15/12/22 (76 Nr documents) and following the confirmation of land value on 24/04/23, the Planning Application fee of £33,793.20 has now been paid and formally acknowledged.
34. There are still outstanding issues that need to be resolved from the original outline planning consent which will pass across to the new detailed Planning Application these revolve around an objection from the Coal Authority regarding the possibility of a Mineshaft // Cap which has not been located. This could also possibly impact on adoption of the new estate road.
35. Mitigation is currently taking place to resolve these issues with ongoing communication with the Coal Authority and Lancashire Highways. A series of Boreholes is proposed to be undertaken alongside the estate road and a 12 year indemnity will be applied to the estate road to provide for an undertaking to carry out the necessary works to cap it should it be discovered during this period.
36. Pendle Council have received funding from Homes England for this scheme, which has paid for the construction of the Access Road into the site. Discussions are currently taking place

with Lancashire County Council Highways around early adoption of this road – subject to resolving the mine issues outlined above.

37. The revised number of houses it is feasible to build on the site because of the 'abnormals' is 129, of which at least 20% will be affordable. Homes England have confirmed that they are content with the variations to the outputs and milestones in the grant funding agreement arising from the reduction in the number of houses to be built as they would not be viable on such an undulating site and taking into account the increase in building costs. Their revised funding agreement is awaited, the terms of which will be passed on to PEARL Together.
38. The site is owned by Pendle Council and will be sold to PEARL Together under a Development Agreement, as previously agreed by Policy & Resources. The land value of the site has now been confirmed at £500,000 taking into account the abnormalities on the site and PEARL Together has confirmed that full payment of £500,000 will be made to PBC upon receipt of planning.

### **Harrison Drive**

39. The Harrison Drive scheme involves the construction of 79 homes and these will all be owned and managed by Together Housing for affordable rent. The houses will include renewable energy technology measures including Photovoltaic (PV) solar panels and Ground Source Heat Pumps.
40. The first 14 plots have been handed over to Together Housing with the remainder of the plots being handed over in batches up until the end of July. Following 'snagging' works, this scheme will be fully completed in August 2023.

### **41. Spring Mill**

42. This scheme includes 53 homes, including 4 bungalows and up to 13 affordable homes. The planning requirement is for 3 affordable units so the scheme provides an additional 10 over and above that requirement.
43. The site purchase was completed on the 05/06/23 with the total cost being £700,000 (less £55,000 deposit) plus SDLT & Legals. However, the old mill is very prone to vandalism and break-ins on a regular basis, this is being monitored in the short term and PBC as Planning Authority have been approached with a view to bringing forward the demolition of the old building, with pre-commencement conditions being satisfied prior to actual construction works.
44. Planning consent has been obtained on the 31/03/23 with 26 no. Conditions. The main issue is agreeing the drainage strategy for the site to the satisfaction of Yorkshire Water. This includes detailed Surface Water Design (Condition 21) and the Construction Surface Water Management Plan (Condition 22). Progress is being made on these conditions.
45. The Land will be transferred over to Together Housing when the Development Agreement and Build Agreement have been signed.
46. During works an area of public open space is being considered for use as a temporary site compound and these discussions are continuing through the PBC Area Committee. This offers an opportunity for resulting post works betterment of this area, including FOC replacement of a problematic French drain and landscaping and bio-diversity enhancements.

47. PBC have been approached regarding the possibility of taking on the area of open space at the North of the site between the houses and the road in return for a commuted sum. These proposals are currently being finalised for consideration by the PBC Area Committee.

### **Bankhouse Road**

48. The Policy & Resources Committee agreed on 17.03.22 that PEARL Together be chosen as the preferred developer to create an Extra Care scheme on the site, subject to agreement over land value and future ownership of assets on the land.
49. Viability concerns and site issues have led to alternative proposals being developed by PEARL Together for the site. This has enabled the site issues to be largely resolved with the revised proposals avoiding a high-pressure gas main. This also means that original funds for dealing with the gas main can be diverted to deal with the drainage scheme for the site as half of the development is in a flood plain.
50. The revised plan for the housing scheme shows 41 units consisting of 29 two beds and 12 three bed houses. These will be constructed using Modern Methods of Construction (MMC) – which can include modular and panellised construction systems.
51. Appraisals are being carried out with Together Housing to inform the choice of type and mix of tenures to be offered across the proposed residential units for the affordable housing option, in terms of pure rental or some shared equity options. A separate appraisal will conduct an updated review of the original Extra Care proposals. The outcomes of these appraisals will be the subject of a future report to the Executive Committee.
52. Work is expected to begin on site by 2024.

### **Market Hall/Bus Station**

53. The Colne Market Hall redevelopment is ready to go for planning permission subject to some important but relatively important design 'tweaks' and the mandate to proceed with the planning application is being dealt with under a separate report.
54. It is intended that Construction works take place through 2024 to ensure that the expenditure deadline for the Levelling Up Fund of March 2025 is met.

### **PEARL BRIERFIELD MILL (NORTHLIGHT)**

55. Residential phase 1 – 36 houses have now been sold, with one property reserved leaving 3 remaining. Residential Phase 2 – 17 houses have now been sold with 10 properties reserved and 18 remaining. These will be sold By May/June 2026
56. The finishing date for the Main Mill business Space is set for the end of September 2023. The company that is currently occupying the second floor has shown interest in buying the whole building (top floor, second floor & Boulevard space). The Deal would be £3.3m as a monthly drawdown and a lump sum deposit. This offer will be considered at the PEARL Brierfield Mill Board Meeting of the 27.06.23.
57. Retail – As this space is getting busier, PEARL are now looking to relocate some of the beauty / holistic therapy users out of the business space and into the retail space as foot traffic is becoming too noisy.
58. Batch Gins are on the final steps of the rental agreement to be on site.

59. External Works – The Gas Holder site is in the process of being transferred to PBC from National Grid (currently awaiting next stage of legal documentation from National Grid solicitors). As part of the agreement a payment is being to PBC to fund essential repairs and maintenance to the structure.
60. The bottom Northlight car park has been finished with the other car park nearing completion. Some funding has been made available to the new Residents Association to provide for a new community garden.

### **Quaker Heights, Brierfield**

61. Currently no further actions or updates.

### **Financial Summary**

62. The overall financial position of the four PEARL companies is set out in Appendix 1 at the end of this report.
63. The four companies made a loss of £0.351m for the financial year 2022/23 compared to a profit of £0.868m in 2021/22. The cash held in the companies fell from £0.663m as at 31<sup>st</sup> March 2022 to £0.208m as at 31<sup>st</sup> March 2023. However, the total loans outstanding fell from £16.5m to £14.8m during the same period.
64. Of the total loans outstanding, Pendle Borough Council (PBC) has £3.048m, of which £0.683m is accrued interest. The Council is also owed a further £0.687m in respect of the deferred receipt on the Lomeshaye scheme (see below).
65. The total outstanding loans owed by the four companies is £14.8m against total assets of £19.6m. The largest portion of assets relates to the Northlight project.
66. The Shareholder loans on the PEARL, PEARL2 and PEARLBM companies are not expected to repay until 2024/25 at the earliest but are expected to repay in full either by repayment or through asset transfer.
67. Pearl Together Ltd (PT) has a slightly different Shareholder structure with Together Housing holding a 50% stake in the company. As such the financial transactions for this company tend to be dealt with slightly differently and held separately to the other PEARL companies.
68. In order to progress the latest schemes of Further Clough Head and Spring Mill, PT has request shareholder finance to help purchase the land for both schemes and also to part finance the development of the sites.
69. Shareholder funding of £3.33m will allow PT to develop both of these schemes and would require a cash injected of £0.5m by PBC. This can be provided by utilising the receipt due to the Council from the sale of Further Clough Head.
70. Options to delay the receipt were explored but in either scenario PT were seeking up to five year to repay either the receipt of shareholder loan and as such there was no benefit to either party to delay the receipt.
71. Executive are asked to approve the payment of Shareholder loan of £0.5m to PT based on the Table below noting the funding requirement of the other shareholdlres.



	Shareholder Percentage	Spring Mill Purchase	Further Clough Head Purchase	Additional Finance	Total
Together Housing Group	50%	250,000	265,000	1,151,667	1,666,667
Barnfield Investment Properties	35%	175,000	185,500	806,167	1,166,667
Pendle Borough Council	15%	75,000	79,500	345,500	500,000
<b>Total</b>	<b>100%</b>	<b>500,000</b>	<b>530,000</b>	<b>2,303,334</b>	<b>3,333,333</b>

## IMPLICATIONS

**Policy:** None arising from this report. The PEARL JVs are intended as a vehicle for the delivery of policy decisions made by PBC.

**Financial:** The implications are set out in the report noting that the total shareholder loans invested in the PEARL companies (including accrued interest) will increase to £3.549m should a further capital investment of £0.5m be agreed.

**Legal:** None other than any covered in main body of report and Financial Implications

**Risk Management:** The Risk Profile across the PEARL portfolio is being monitored through a monthly progress meeting attended by officers.

**Health and Safety:** All works are conducted in line with prevailing Health and Safety and Construction Design Management (CDM) regulations.

**Sustainability:** Sustainable and modern ecotech methods of construction such as MMC and approaches to housing design to include sustainable energy technologies such as PV cells and heat source pumps are increasingly being used in the various developments.

**Community Safety:** All developments are carried out in line with prevailing Health and Safety and Construction Design Management (CDM) regulations to ensure the safety of public during works. This is illustrated by the request to bring forward the demolition of Spring Mill through the planning process.

The regeneration projects and housing developments are also designed to promote modern design standards in housing and to improve the lives of our residents, including their feeling of safety in the place where they live.

**Equality and Diversity:** PEARL Together is intended to bring forward high quality affordable housing provision to help ensure good quality modern housing is available to increasing numbers of our residents regardless of their background or circumstances and is equally accessible to all regardless of any protected characteristics.

## **APPENDICES**

Appendix One - Pearl Financial Position  
Letter from PT Ltd requesting Shareholder Loans.

## **LIST OF BACKGROUND PAPERS**