



EXECUTIVE BOARD DECISION

REPORT OF:	Executive Member for Resources Executive Member for Regeneration
LEAD OFFICERS:	Director of Growth and Development
DATE:	13 April 2017

PORTFOLIO/S AFFECTED:	Resources	Regeneration
WARD/S AFFECTED:	Shear Brow	Wensley Fold
KEY DECISION:	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>

SUBJECT: Proposed Cinema and Leisure Development at the site of the former Waves Centre

1. EXECUTIVE SUMMARY

This report sets out proposals for the Council to carry out a direct development of the former Waves Leisure Centre site for a new cinema and leisure development. The development activities undertaken by the Council would include design of the scheme, procure the construction partner for the scheme, obtain all necessary approvals including planning permission and grant a lease of the completed development to a cinema operator. The proposed scheme will fill a gap in the town centre leisure offer, help to stimulate the evening economy, complement the Council's existing Northgate and Blakey Moor investment programme and in turn deliver significant economic benefits for the town centre.

2. RECOMMENDATIONS

That the **Executive Board:**

- i. Approves the selection of Bidder A as the Preferred Operator of the proposed cinema and leisure development, subject to agreement of final Heads of Terms for a 20 year lease;
- ii. Approves Officers to proceed with the appointment of a multi-disciplinary project team to progress detailed designs, secure planning permission and manage the procurement of a contractor to build the new cinema and leisure scheme;
- iii. Approves the selection of the Contractor using a suitable and compliant construction framework;
- iv. Approves a Capital Programme allocation **of £6.5 million** to deliver the scheme, with an accounting treatment and administrative arrangements to comply with necessary requirements;
- v. Delegates authority to the Deputy Chief Executive and the Director for Growth & Development, in consultation with the Executive Members for Resources and Regeneration to agree the terms for the appointment of the project team, agree the detailed lease terms with the Preferred Operator and agree the construction contract with the selected contractor; and
- vi. Notes that future updates will be provided to the Executive Board reporting on the key stages

including the appointment of a construction contractor and the completion of the development.

3. BACKGROUND

Development options have been considered by the Council for various end uses on the site of the former Waves Leisure Centre (“Waves”) in Blackburn Town Centre. The Waves site is a Council owned site, located in a prominent area of the town centre opposite King Georges Hall and adjacent to Fielden Street Car Park. It is also close to Blackburn College campus and the new Blackburn Leisure Centre. The site is approximately 0.94 acres in area. **Plan A** attached to this report provides the context showing an overview of the town centre and the site’s prominent location within the Northgate Conservation Area and the investment programme supported by the Heritage Lottery Fund Townscape Heritage Initiative.

Following consideration of a number of options detailed proposals were considered by the Council for a new cinema and leisure scheme. The final proposals recommended direct development by the Council subject to securing a contractual commitment with a cinema/ leisure operator to take a lease of the building on completion. It was agreed that Officers should carry out the necessary due diligence to assess any potential risks to the Council of proceeding with the development scheme.

The preferred scheme is for a single storey eight screen cinema incorporating three food and beverage units, also at ground floor level. If approved, the Council would complete the scheme to a ‘warm shell’ standard which would include internal construction of partitions, doors, toilets, signage, lighting, CCTV, fire alarm system and finishes. The operator would be responsible for completing the fit-out, subject to receipt of a capital contribution from the Landlord (the Council). The detailed design would be developed jointly with the preferred operator. An early artist’s impression of the proposed cinema building is attached as **Plan B**.

To ensure compliance with relevant legislation and following the legal advice in relation to it a competitive process was undertaken to select the cinema operator. The tendering process has now been concluded, and informal bids have been received from two prospective operators and these have been analysed with the details presented in this report.

4. KEY ISSUES & RISKS

4.1 Demographic Study

A demographic study was undertaken which considered the catchment population within a 20 minute drive time of the proposed site and factored in the nearest competing cinema locations at Burnley, Preston and Bolton. The population within the 20 minute drive time for whom the proposed site would be closest is 182,526. This provides potential admissions of 547,578pa based on the national average admission rate of 3 visits a year. If the current Vue admissions are deducted from this figure this leaves un-provided admissions of 198,990pa. These figures exclude housing growth and future population increases.

Soft market testing conducted by Officers confirmed the proposed catchment size would only be of interest to smaller operators with a niche market and able to offer a varied product offering.

4.2 Business Case Assessment

A business case assessment of the proposals adopted the industry standard approach of assessing the 5 cases of strategic, economic, commercial, finance and management.

- **Strategic Case** for change, assessed the potential scope of the development opportunity, the benefits, key dependencies, constraints and risks;
- **Economic Case**, considered critical success factors, assessment of options, economic modelling and design options – from which emerged a preferred cinema option;
- **Commercial Case**, assessed the development viability, market interest from operators and developers, design requirements, risk transfer – and the preferred development delivery option flowing from this analysis;
- **Financial Case**, this assessed the capital funding requirements, lease terms, affordability and viability; and
- **Management Case**, considering the project management arrangements, programme, business case deliverables and risk management.

The **Business Case** recommended:

- 1) Preferred site use of a combined cinema with food and beverage outlets;
- 2) Preferred scheme would be of single storey with 8 cinema screens with integrated food & beverage outlets;
- 3) Granting an overriding lease of the completed development to single tenant on a long lease;
- 4) Progressing with a competitive tender process to select a cinema operator to take out a lease;
- 5) Preferred delivery of direct development by the Council to design, agreeing commercial terms with the operator and build out; and
- 6) Development capex total of £6.5m inclusive of build costs, design fees and any landlord fit-out contributions to the cinema operator.

Given the findings set out in this report, it is now recommended that the Council proceeds to the Final Business Case stage which would lead to implementation of the scheme.

4.3 State Aid Considerations

Following the assessment of the tender returns from the cinema operators the Council is able to demonstrate an overall surplus of funds for the development scheme and therefore the Council currently does not believe state aid applies. Officers will keep this under review and will advise Executive Board should this situation change.

4.4 Marketing to Secure an Operator

The Council instructed specialist leisure consultants to help market the cinema and leisure opportunity. This commenced with a soft market testing exercise and approached all of the main cinema operators in the UK except for Vue who are already represented in Blackburn (Vue were made aware of the opportunity for information).

From this extensive engagement process four operators expressed serious interest and were subsequently invited to submit informal tender bids for a 20 year lease to operator the facility.

- Bidder A
- Bidder B
- Bidder C
- Bidder D

Bids were received from Bidder A and Bidder B.

Both Bidder C and D declined to submit bids.

4.5 Informal Tender Requirements

Bidders were asked to satisfy the following in completing their tender submissions:

- 1) Confirm acceptance, or propose amendments, to the Council's Heads of Terms and state the proposed headline rent and any rent free periods required;
- 2) Confirm the value, if any, of the contribution required from the Council to support the operator's fit-out works;
- 3) Confirm whether the bid is just for the cinema element or for an over-riding lease of the whole development including the food and beverage units;
- 4) Submit a 5 year financial business plan projection indicating the level of turnover, operating costs and expected profit levels;
- 5) Submit the last 3 years audited financial accounts;
- 6) Demonstrate ability, experience and track record in operating similar venues; and
- 7) Provide contact details of Local Authority client references.

Bidders were also advised that tenders would be evaluated on the following basis:

- 1) **Financial evaluation**, taking into account:
 - i) Rental offer
 - ii) Rent free period required
 - iii) Landlord fit-out contribution required

Based on a 20 year discounted cash flow (DCF) model using an appropriate discount rate, allowing the flexibility to assess offers for a lease of the core cinema element only or an over-riding lease of the whole development.

- 2) **Quality evaluation**, assessing bids on the basis of an 80:20 price: quality ratio. The 20% quality element will be broken down as follows:
 - i) Business Plan 10%
 - ii) Experience 5%
 - iii) References 5%
- 3) **Covenant strength**, financial viability of bidders assessed from an industry standard credit rating report on the company (using Mint UK reports).

4.6 Tender Evaluation

Financial Evaluation

Bids were received from Bidder A and Bidder B submitted tender bids. Bidder A submitted a rental bid based on a market rent subject to 5 yearly reviews. Bidder B put forward two rental submissions, one based on a market rental with 5 yearly reviews and a second based on projected turnover figures.

Quality Evaluation

Both bids were evaluated out of 20% based on the assessment of their 5 year business plan, previous experience and references.

Summary of Evaluation

The bid from Bidder A represents the strongest financial offer and has the highest quality assessment, when assessed against Bidder B.

Bidder A is therefore the recommended Cinema operator.

4.7 Construction and Development Procurement

Officers have made proposals to the Growth and Development Board for a new Contractor & Development Framework ("Growth Framework") as an option for the Council to use to accelerate delivery of the growth programme on Council owned sites. The proposals would enable early contractor appointment to support site preparation and enabling works, site infrastructure and highways, civil engineering and construction works for a programme of Council promoted growth projects. In addition the opportunity for a framework partner to take the lead development management role on sites would be an option.

These proposals are currently being market tested to ensure there is sufficient interest in the market before the Council embarks on a tendering process which is anticipated to commence in May 2017. The Council may therefore have the option to either use an existing framework such as the North West Construction Hub or SCAPE or alternatively use the new Growth Framework which is expected to be in operation by the end of the year.

Capita will be invited to provide the multi-disciplinary consultancy services required to secure planning permission design the scheme and manage the procurement and appointment of the framework contractor. These will be procured in accordance with the Call-off arrangements and the terms of the Partnership Agreement.

4.8 Planning

The Blackburn with Darwen Local Plan site allocations plan shows that the Waves site is within the Northgate Area and identified as a development opportunity site. A pre-application meeting has been undertaken which established the cinema and leisure proposals are likely to be supported by the Planning subject to submission of a formal planning application.

4.9 Development Programme

The outline development programme is presently as follows, subject to review as the project progresses:

Sign Heads of Terms with the Operator	-	May 2017	
Finalise Tenant Requirements	-	July 2017	
Submit Planning	-	August 2017	
Finalise Agreement for Lease	-	November 2017	
Appoint D&B Contractor	-	January 2018	
Construction Complete	-	April 2019	(Practical Completion warm shell)
Fit-out Complete by	-	June 2019	(Operator Fit-Out)
Completion	-	July 2019	(Opening)

5. POLICY IMPLICATIONS

The proposed development will support delivery of the Council's regeneration strategies for the town centre including the Northgate Townscape Heritage initiative and the Evening Economy initiative.

6. FINANCIAL IMPLICATIONS

The financial analysis of the tender documentation is outlined in Section 4.6 of the Part 2 report which provides a summary of the Net Present Value for both tenders based on headline rents over the initial 20 year lease and the capital contributions required by each of the operators.

A Net Present Value analysis of the development scheme based on Bidder A as the occupier over the initial 20 year lease and estimates of future rental income (incorporating a 5 year break in rental at year 20 to allow for a future occupier to update fittings) results in a positive NPV for the Council.

A Capital Programme allocation of £6.5 million is required to deliver the scheme, with borrowing assumed over a 50 year lifespan.

7. LEGAL IMPLICATIONS

State Aid has been considered during the development of this project and is referred to in the Part 2 report. The position on State aid will be kept under review to ensure compliance and if necessary, any changes will be reported to the Executive Board.

The procurement of the construction works would need to be in compliance with the Public Procurement Regulations 2015 and the Council's Contracts and Procurement Procedure Rules.

8. RESOURCE IMPLICATIONS

Delivery of the project will require an appropriate capital allocation, supported by staff resources from Legal, Finance and Growth & Development teams together with staff from the Capita Technical Services partnership. External legal resources may be required to support the project.

9. EQUALITY AND HEALTH IMPLICATIONS

Please select one of the options below. Where appropriate please include the hyperlink to the EIA.

Option 1 Equality Impact Assessment (EIA) not required – the EIA checklist has been completed.

Option 2 In determining this matter the Executive Member needs to consider the EIA associated with this item in advance of making the decision. *(insert EIA link here)*

Option 3 In determining this matter the Executive Board Members need to consider the EIA associated with this item in advance of making the decision. *(insert EIA attachment)*

10. CONSULTATIONS

The Growth & Development Board has been consulted during the development of the scheme.

11. STATEMENT OF COMPLIANCE

The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

12. DECLARATION OF INTEREST

All Declarations of Interest of any Executive Member consulted and note of any dispensation granted by the Chief Executive will be recorded in the Summary of Decisions published on the day following the meeting.

VERSION:	0.1
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CONTACT OFFICER:	Simon Jones, Programme Director Dept for Growth & Development
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DATE:	9 th March 2017
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BACKGROUND PAPER:	None
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