



EXECUTIVE BOARD DECISION

REPORT OF: Executive Member for Regeneration
Executive Member for Resources

LEAD OFFICERS: Deputy Chief Executive

DATE: 5 July 2018

PORTFOLIO/S AFFECTED: Regeneration Resources

WARD/S AFFECTED: Blackburn Central

KEY DECISION: YES NO

SUBJECT: Blackburn Cinema, Undercroft Car Park & Jubilee Square Development Scheme

1. EXECUTIVE SUMMARY

This report details the Council's final proposals for a new development in Blackburn town centre comprising a cinema, two leisure units and undercroft car park together with a new public square to be called 'Jubilee Square'. The new development will fill a much needed gap in the town centre leisure offer and will help to stimulate the evening economy and complement the Council's existing Northgate and Blakey Moor investment programmes.

The Council has signed an agreement with Reel Cinemas for a 20 year lease of the completed development which will see Reel operate the new cinema and leisure units. The scheme will complement their recent investment in the Lemon Tree bar (former Jubilee public house), adjacent to the site on Blakey Moor Terrace, which they acquired and refurbished in 2017.

Public consultation on the details of the new development was undertaken during the planning application process with full planning approval received in March 2018 (see planning application reference 10-18-0077 for further details). As noted in the Cinema Exec Board Report of April 2017, this report sets out the final business case proposals for the Council to proceed with the construction phase of the development.

The Council has now received tenders from contractors for the construction of the development and has reviewed the tenders and completed the final business case assessment which demonstrates the development is viable and will generate a positive return for the Council as a property investment in addition to generating business rates and economic benefits for the town centre.

It is anticipated construction works will commence on site in October 2018 following site set up with the works completed on the cinema and undercroft car park by December 2019. Construction of final phase to complete Jubilee Square will be undertaken over the summer of 2019 following consultation with the College.

Following completion Reel Cinema will then fit out the new cinema with a planned opening date set for Easter 2020.

2. RECOMMENDATIONS

That the Executive Board:

- a) Notes the development scheme received planning approval in March 2018 with scheme details and drawings contained within planning application reference 10/18/0077;
- b) Notes the independent assessments provided on the legal arrangements and financial viability of the proposed development scheme;
- c) Notes the existing capital programme allocation of £6.5 million to cover the cinema scheme;
- d) Notes the existing LTP programme allocation of £0.75 million to cover the public realm, terracing and external works scheme;
- e) Approves a capital programme allocation of £2.75 million to cover the undercroft car park and infrastructure;
- f) Approves the selection of Bidder A as Preferred Contractor for phase 1 of the construction works;
- g) Approves Officers to proceed with the appointment of a consultancy team to administer the construction contract and supervise the phase 1 works on site;
- h) Delegates authority to the Deputy Chief Executive in consultation with the Executive Members for Resources and Regeneration to agree the terms for the appointment of the consultancy team and agree the final terms of the construction contract with Bidder A for phase 1 of the works;
- i) Delegates authority to the Deputy Chief Executive in consultation with the Executive Members for Resources and Regeneration to agree the terms for the appointment of the consultancy team and agree the final terms of the construction contract for phase 2 of the works;
- j) Notes the proposed development will be complete by November 2019 and handed over to Reel Cinema who will complete the fit-out ready for public opening over the Easter holidays 2020.

3. BACKGROUND

3.1 Local Context

The Council has invested and supported regeneration and development schemes in both Blackburn and Darwen town centres over many years, with recent examples being the Cathedral Quarter development in Blackburn, The Mall shopping centre improvements and the current investment in Darwen Town Centre improved public realm and open space on the former 3 day market site. These are positive developments which improve the towns and bring other private investment and increased footfall for businesses.

The **Northgate Quarter** has been defined within the Local Plan Part 2 – adopted in 2015 – as a key area of Blackburn town centre where the objective is to protect and enhance the leisure offer, support the development of an evening economy and encourage specific uses such as cultural and entertainment facilities, art galleries and music venues.

Annex 1 attached to this report provides a plan of the proposed investment areas within the Northgate Quarter.

3.2 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 Feilden 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. **Annex 2** 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.

The Council carried out extensive research to determine the best use for the former Waves site and concluded a new cinema would be the best development to generate economic activity and stimulate the evening economy. The studies also concluded the development would be complimentary to the Vue as it is aimed at attracting a new audience of cinema goers.

3.3 Demographic Study

A demographic study was undertaken by consultants which considered the catchment population within a 20 minute drive time of the proposed cinema site and factored in the nearest competing cinemas at locations in 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 which are estimated at circa 300,000pa are deducted from this figure this leaves unprovided admissions of 247,578pa. The population figures exclude the Borough's housing growth and estimated future population increases.

3.4 Selection of a Cinema Operator

The Council instructed specialist leisure consultants to help market the cinema and leisure opportunity at the feasibility stage. This commenced with a soft market testing exercise with approaches to all of the main cinema operators in the UK. From this extensive engagement process four operators expressed serious interest and were subsequently invited to submit informal tender bids to operate the facility. The bid from Reel Cinema was the strongest financial offer and had the highest quality score when assessed against other bids. Reel Cinema also submitted a 5 year business plan which identified their detailed profit and loss forecast, capital investments and forecast annual admissions of circa 200,000pa which align with the market research. Reel Cinema's offer will be markedly different from Vue, much more diverse, and will attract audiences that are not currently coming to the town to go to the cinema. Therefore the planned admissions for Reel exclude the admissions from the Vue. In addition the financial strength of Reel Cinema has been reviewed and this indicates that the company's covenant strength and their ability to cover the lease payments are strong. The lease default risk is therefore considered low by the Council.

3.5 Scheme Proposals

Cinema and Leisure Units

A scheme comprising two storeys with an undercroft car park. The ground floor comprises an entrance foyer, ticketing and bar area with eight cinema screens in the main building complex with the first floor housing the projection suite and plant room. Adjoining the cinema are two separate leisure units which are to be operated and leased by Reel Cinema and will likely comprise a bar/restaurant and coffee shop. An artist's impression of the proposed cinema at night time is attached as **Annex 3**.

Public Car Park and Infrastructure

A scheme including a public car park and associated infrastructure is to be provided below the new cinema development in an undercroft style basement. Due to the sloping nature of the land, an undercroft has been included under the building. The undercroft car park is enclosed on two elevations and open on the remaining two.

The new car park will be operated by the Council as a pay-and-display for all town centre visitors (not only for cinema patrons). The car park will provide 98 spaces in total and will include infrastructure investments to facilitate up to 10 No. Electrical Vehicle Charging points. Vehicular access would be provided via Feilden Street and pedestrian access via Nab lane and Barton Street. The car park will allow the nearby surface level car park at Barton Street to be released for future commercial development.

Jubilee Square, Terracing and External Works

This is an additional scheme to connect the external works between King Georges Hall, Blakey Moor and the new College campus. This scheme will maximise the impact of the already committed investments and ensure that an attractive and inviting public setting is provided in line with the Conservation Area status and adjacent listed buildings. Jubilee Square will bring the neighbouring investment areas together, enhancing the setting, providing attractive pedestrian links and support the ongoing investment in the evening economy by attracting end users to establish and open new business premises in the area. The scheme would incorporate the external cinema terrace and seating area for the new leisure units and would incorporate a central green space feature, with relaxing seating and paving contrasts. In addition improvements to the external paving and highways will be incorporated.

The proposed concept scheme for Jubilee Square is attached as **Annex 4**.

4. KEY ISSUES & RISKS

4.1 Agreement for Lease and Lease Agreements

The Council will be leasing the cinema as part of a pre-let lease agreement with Reel Cinema. The lease will be with Reel Cinema's primary trading business which has excellent covenant strength and has been assessed to the satisfaction of the Council's finance team as discussed in section 3.4. The Agreement for Lease and the Lease are the contractual agreements which commit both parties, the Council acting as Landlord and Reel Cinema's as Tenant, to the development and subsequent leasing of the building. Reel Cinema has agreed a 20 year long lease for the building and is within the Landlord & Tenant Act.

4.2 JCT Design & Build Construction Contract

The proposed construction contract between the Council and the appointed contractor for the construction of the scheme will be in accordance with the JCT Design & Build Contract (2016 edition) with amendments. The Employer's Requirements detail all the technical specifications and requirements of the Employer (the Council). The Employer's Requirements will be incorporated into the construction contract. The proposed contract will fix the price for the works and will limit the Council to any further price exposure.

4.3 Procurement of the Contractor

The procurement of the construction works has used the Council's Growth Framework.

The bids were assessed on the basis of a price/quality ratio with the lowest price receiving 80% and all remaining bids pro-rata on the basis of the lowest score.

| Tender Weightings | % |
|--------------------------|-------------|
| Price Response | 80% |
| Quality Response | 20% |
| Total | 100% |

The 20% quality element was further sub-divided across five quality questions:

| Quality Questions & Weightings | % |
|--------------------------------|------------|
| Q1. Design Management | 6% |
| Q2. Programme & Resources | 4% |
| Q3. Specifications & Materials | 4% |
| Q4. Supply Chain | 4% |
| Q5. Health & Safety | 2% |
| Total | 20% |

4.4 Assessment of Tender Returns

Tenders were issued on the 1st March 2018 and returned from all five Framework Partners on the 14th May 2018. The Framework Partners in alphabetical order include Barnfield, Casey, Eric Wright, I&H Brown and Seddon.

The five Framework Partners (not in alphabetical order) are referred to as Bidder A to E below.

Following initial assessment post tender clarifications were issued to all five Framework Partners on the 20th May and returned on the 6th June.

Further clarifications were discussed at meetings held with the two highest scoring contractors referenced as Bidder A and Bidder B as detailed below. These meetings were held on the 12th June with a final clarification letter issued to Bidder A and Bidder B on the 14th June and returned on the 18th June 2018. The below table is a summary of the tender results following the final post tender clarifications with Bidder A and Bidder B.

| Contractor | O/A % Score (out of 100%) |
|-----------------|------------------------------|
| Bidder A | 93.6% |
| Bidder B | 92.3% |
| Bidder C | 88.5% |
| Bidder D | 85.2% |
| Bidder E | 74.6% |

4.5 Tender Recommendation

Bidder A is therefore the recommended Contractor for the Phase 1 of the construction works which includes the cinema building, undercroft car park and external terracing. Phase 2 of the works to complete the external paving works will be let as a separate contract in 2019 with a budget cost included at this stage.

4.6 Capital Costs

The capital costs for the overall development are £10m and cover the construction of the cinema, undercroft car park, terracing, external works, Jubilee Square, Fees, Planning and Fit-Out contributions.

4.7 Business Case Modelling

A business case for the proposed capital investment was prepared to model the financial returns generated by the development.

These returns were modelled using varying input assumptions to test the sensitivity and referred to as **best case, base case and worst case scenarios**.

The modelling was independently assessed by an external financial consultant to assist the Council in the due-diligence process.

4.8 Development Returns

The financial returns generated from each of the three modelled scenarios are outlined in section 6 of this report. In addition to the financial returns the following scheme benefits will also be realised.

| | |
|--------------------------------|-----------|
| Increasing Town Centre GVA £pa | 1,205,364 |
| Increasing BwD NNDR Income £pa | 34,300 |
| Number of New Jobs Created | 70 |

4.9 Development Programme

The outline development programme is presently as follows.

| | | | |
|------------------------|---|---------------|--------------------------------|
| Appoint D&B Contractor | - | August 2018 | |
| Construction Complete | - | November 2019 | (Practical Completion) |
| Fit-out Complete by | - | March 2020 | (Reel Cinema Fit-Out Complete) |
| Completion | - | April 2020 | (Opening of Cinema) |

The opening for the cinema is programmed for **Easter 2020**.

5. POLICY IMPLICATIONS

The development of Cinema, Undercroft Car park and Jubilee Square is within the Northgate area of Blackburn Town Centre and meets the objectives of the Council's adopted Core Strategy and Local Plan Part 2.

It also accords with the 'Culture and Life' objective of the Blackburn Town Centre Strategy. Specifically, Policy 26 of the Local plan supports the delivery of the projects within the defined Northgate Quarter.

The project also helps to deliver the improvements set out in the Northgate Conservation Area Appraisal and Management Plan, and the heritage priority and ambitions within the Council's 12 point Plan.

All of these projects are illustrated within the Town Centre Supplementary Planning Document (SPD), a draft version of which was consulted on in February 2017 and is set to be published in September 2018.

6. FINANCIAL IMPLICATIONS

The existing Capital Programme already approved by Finance Council makes provision for a £6.5 M scheme for the development of a cinema. The proposals are now for an enhanced £10 M scheme, with the increased costs financed partly from the reallocation of LTP funds to cover public realm works to highways land, and partly from additional borrowing:

| | Total | 2017/18 | 2018/19 | 2019/20 | 2020/21 | Future Years |
|--|---------------|----------|--------------|--------------|------------|--------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Amount in capital programme | 6,500 | 288 | 2,462 | 3,575 | 175 | |
| Cost of proposal | 10,000 | 288 | 3,642 | 5,557 | 513 | |
| VARIATION IN CAPITAL SPEND | 3,500 | 0 | 1,180 | 1,982 | 338 | |
| Proposed financing of Variations | | | | | | |
| Grant - vired from existing LTP | 750 | | | 273 | 477 | |
| Additional Borrowing | 2,750 | | 1,180 | 1,709 | (139) | |
| | 3,500 | 0 | 1,180 | 1,982 | 338 | |
| Revenue effect of Variance | | | | | | |
| Additional Car Park Income (net) | | | | (99) | (101) | (103) |
| Financing costs of additional borrowing | | | 16 | 100 | 100 | 100 |
| ADDITIONAL OVERALL ANNUAL COST (INCOME) | | 0 | 16 | 1 | (1) | (3) |

In addition to considering the projected impact on the Council's Capital Programme and Revenue Budgets, summarised above, the Business Case Modelling has evaluated the returns made under different scenarios.

Reflecting State Aid considerations, the Market Economy Investor Principle (MEIP) return has been considered by the Council.

The MEIP returns generated from each of the three modelled scenarios are given below.

| Project Returns | Best Case | Base Case | Worst Case |
|---|------------------|------------------|-------------------|
| MEIP Internal Rate of Return | 5.3% | 4.6% | 3.9% |
| Net Cashflow After Finance | 24,287,778 | 15,588,707 | 8,917,912 |
| Present Value of Net Cashflow After Finance | 2,791,509 | 1,689,912 | 2,892,984 |

The returns demonstrate the financial viability of the development with the base case scenario expected to achieve a 4.6% Internal Rate of Return generating a cash surplus with a present value of £1.69m over the life of the project.

While there is an inevitable degree of commercial risk in a project of this scale and nature, there is an exit strategy in terms of the alternate commercial use of the redeveloped site.

7. LEGAL IMPLICATIONS

Design and consultancy support would be provided by the Council's Technical Services Partner Capita for both the supervision of the construction works and the design of the external Jubilee Square and external works.

Procurement of the construction works has been in accordance with a mini-competition tender using the Council's Growth Framework.

Phase 2 of the construction works to complete Jubilee Square will also use the Council's Growth Framework.

In nearly all cases where government bodies use state resources to assist in economic activity and because of that assistance there is the potential to affect or distort competition, then State aid is most likely to exist. However there are a number of acceptable State Aid exemptions which can potentially apply to a particular scheme. Accordingly, State Aid has been considered during the development of this project to ensure compliance with the regulations and external legal advice has been consulted when necessary. The Council in this case has taken advice that the market economy investor principle ("MEIP") can be applied in this case. In simple terms, if the Council has operated in a similar financial manner to that of a private economic operator, then the conclusion can be made that there is no "unfair advantage" by the use of the state resources in the economic activity and that State aid will not apply.

For example, the Council could lend money to a local company but to readily comply with MEIP it would have shown that it was charging the same interest rate as what a bank or financial institution would normally charge the company.

In respect of this development, the Council has taken independent financial advice to support the Council in finalising the business case which assesses the potential returns on the investment against MEIP compliant levels, as detailed in section 6. On the basis of the scheme returning a positive return the Council has a defensible case for State Aid considerations.

8. RESOURCE IMPLICATIONS

Current staff resources from the Council's Growth, Property, Planning, Procurement and Legal teams will be utilised to complete the legal agreements and supervise the works on site.

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

Public consultation on development of the Cinema and Undercroft Car park was undertaken during the planning application process, with the scheme receiving planning approval in March 2018 (see planning application reference 10/18/077).

Consultation will be undertaken with Blackburn College and other key stakeholders for the Jubilee Square public realm 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: | Final |
| CONTACT OFFICER: | Simon Jones, Growth Programme Director, Department of Growth & Development |
| DATE: | June 2018 |
| BACKGROUND PAPER: | None |