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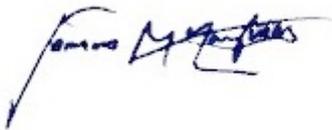
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21 February 2022

To: All Councillors

As a Member or Substitute of the **Community & Environment Committee**, please treat this as your summons to attend a meeting on **Tuesday 01 March 2022 at 6.00pm** in the **Council Chamber, Town Hall, Matlock DE4 3NN**.

Yours sincerely,



James McLaughlin  
Director of Corporate and Customer Services

## AGENDA

### 1. APOLOGIES/SUBSTITUTES

Please advise the Committee Team on 01629 761133 or e-mail [committee@derbyshiredales.gov.uk](mailto:committee@derbyshiredales.gov.uk) of any apologies for absence and substitute arrangements.

### 2. APPROVAL OF MINUTES OF PREVIOUS MEETING

N/A

### 3. PUBLIC PARTICIPATION

To enable members of the public to ask questions, express views or present petitions, **IF NOTICE HAS BEEN GIVEN**, (by telephone, in writing or by email) **BY NO LATER THAN 12 NOON OF THE WORKING DAY PRECEDING THE MEETING**. As per Procedural Rule 14.4 at any one meeting no person may submit more than 3 questions and no more than 1 such question may be asked on behalf of one organisation.

### 4. INTERESTS

Members are required to declare the existence and nature of any interests they may have in subsequent agenda items in accordance with the District Council's Code of Conduct. Those interests are matters that relate to money or that which can be valued in money, affecting the Member her/his partner, extended family and close friends.

Interests that become apparent at a later stage in the proceedings may be declared at that time.

**5. QUESTIONS PURSUANT TO RULE OF PROCEDURE NUMBER 15.**

To answer questions from Members who have given the appropriate notice.

**Page No.**

**6 PART A) LAND AT BAKEWELL ROAD, MATLOCK: PROPOSED CONVERSION OF FORMER MARKET HALL (FOR PUBLIC RELEASE) 03 - 16**

To consider a further update on development proposals for the proposed conversion of the former Market Hall and requirement for additional funding following necessary changes to the scheme and impact of the current volatile situation within the construction industry on costs and resources.

**7. EXCLUSION OF PUBLIC AND PRESS**

At this point the Committee will consider excluding the public and press from the meeting for the remaining item of business for the reasons shown in italics.

*(The following report is exempt because it contains information relating to any particular person including the Council and the business affairs of the Council.)*

**8. PART B) LAND AT BAKEWELL ROAD, MATLOCK: PROPOSED CONVERSION OF FORMER MARKET HALL (CONFIDENTIAL – NOT FOR PUBLIC RELEASE)**

To consider the Updated Business Case for the conversion of the former Market Hall including proposed funding contributions and terms for the commercial agreement with the proposed cinema operator.

Members of the Committee - Councillors: Sue Bull, Matthew Buckler, Martin Burfoot, Neil Buttle, Helen Froggatt (Vice Chair), Chris Furness (Chair), David Hughes, Tony Morley, Dermot Murphy, Peter O'Brien, Garry Purdy, Mike Ratcliffe, Andrew Statham, Alasdair Sutton, Steve Wain and Mark Wakeman.

Substitutes – Councillors: Robert Archer, Jason Atkin, Sue Burfoot, Tom Donnelly, Richard Fitzherbert, Clare Gamble, Susan Hobson and Peter Slack.

**SPECIAL MEETING OF COMMUNITY & ENVIRONMENT COMMITTEE**

1 March 2022

Report of the Director of Regeneration and Policy

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**LAND AT BAKEWELL ROAD, MATLOCK: PROPOSED  
CONVERSION OF FORMER MARKET HALL**

**PURPOSE OF REPORT**

To consider a further update on development proposals for the proposed conversion of the former Market Hall and requirement for additional funding following necessary changes to the scheme and impact of the current volatile situation within the construction industry on costs and resources.

**The Updated Business Case for the scheme is included in the Part B) report exempt under the Local Government Act 1972 Schedule 12A paragraph 3 - information relating to the financial or business affairs of any particular person. However, key information is extracted for the purpose of the public report.**

**RECOMMENDATIONS**

1. Both the progress and challenges in moving the scheme forward since original Council approval are noted;
2. The approval of detailed planning consent for the scheme on 8 February 2022 is noted;
3. The inclusion of new bus infrastructure funding provision within Derbyshire County Council's Capital Programme for 2022/23 is noted;
4. The substantial increase in estimated scheme costs since the original Council approval is noted;
5. The proposal from the proposed cinema operator for an increased capital contribution to scheme and to increase annual rent is noted;
6. Subject to consideration of the Updated Business Case within the Part B) exempt report, the proposed District Council investment in the scheme is increased from £848,820 to £1,228,820 (inc. allowance for contingency and inflation) and the additional spending requirement be included within the Council's proposed 2022/23 Capital Programme for consideration by Council;
7. That a report is brought back to Committee for consideration should formal tendered costs for the shell construction works exceed the proposed budget.

**WARDS AFFECTED**

Matlock All Saints and Matlock St Giles and wards within the central area of the district.

## STRATEGIC LINK

The development of the Bakewell Road site will positively contribute to the Corporate Plan priority of Prosperity, specifically: *'Promoting investment to stimulate the economy of our market towns'*. Initiating a development scheme for the Bakewell Road site on the edge of Matlock town centre has been identified by Members as a priority action in the 2020-2024 Corporate Plan and the COVID-19 Economic Recovery Plan.

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### 1 BACKGROUND

- 1.1 The District Council owns the freehold interest in land at Bakewell Road, Matlock and occupies the former Market Hall building and covered bus bay area by way of a 99 year under-lease dated 17th May 1986. The head lease is held by London Metric who sublet the neighbouring property to M&S and Boyes. The Market Hall comprises a concrete frame building adjoining the Matlock M&S Food Hall with a flat roof accommodating an upper level District Council operated car park. The adjacent lock up unit and adjoining space comprise a concrete apron area divided into individual drive in / reverse out bus bays under the existing upper level flat roof providing a covered waiting area for buses and taxis. This area also comprises the rear service bay to the Market Hall, toilets and plant.
- 1.2 The property holds a prominent position at the entrance to the town centre from the west and the proposed scheme provides the opportunity to create significant improvements, including a return retail frontage to a key property, and significantly enhanced gateway to the retail centre.
- 1.3 The site is allocated for mixed use re-development within the Derbyshire Dales Local Plan 2017 and the proposed development is identified as a priority in the Derbyshire Dales COVID-19 Economic Recovery Plan 2020 and Corporate Plan 2020-2024.
- 1.4 Members will recall that the Business Case for the proposed conversion of the former Market Hall (prepared by the Council's retained Commercial Advisor Thomas Lister Ltd. with support from Amion Consulting) to enable provision of a new indoor leisure attraction - two screen cinema - and enclosure of part of the adjacent covered bus bay area to provide an ancillary commercial use - food & beverage / retail unit - was considered at a special meeting of Full Council on 25 November 2020. District Council approval of the Business Case secured capital investment of up to £848,820 (inc. £48,000 contingency from the Economic Development Reserve) towards the scheme alongside funding from the proposed cinema operator.
- 1.5 Since approval to proceed with the scheme, Derbyshire County Council proposals for alternative bus infrastructure provision have also been approved and provision made within the County Council's capital programme to enable implementation of a new footway and bus shelters along the north-west elevation of the building and enhanced layby provision on Bakewell Road.

Existing bus and taxi services will continue to operate from this town centre location both during construction works and following conversion of the building.

- 1.6 A report to consider a commercial settlement with the remaining licensee to secure vacant possession of the Market Hall was subsequently approved by Governance & Resources Committee on 11 March 2021.
- 1.7 A further report was considered by Community & Environment Committee on 5 July 2021 advising of progress and approving proposals for the District Council to lead the procurement and management of the building elements of the scheme (shell construction) with responsibility for delivering the fit-out remaining with the proposed cinema operator.
- 1.8 Both parties have been working on an ongoing basis since this time to progress the scheme design (engaging key stakeholders throughout the process), refine scheme proposals and re-assess scheme costs. Whilst progress has been made in a number of areas (see below), the scheme has also encountered challenges, particularly with regard to increasing costs and volatility within the construction industry.
- 1.9 An Updated Business Case has therefore been prepared by Thomas Lister (with the Economic Case updated by Amion Consulting) in liaison with officers for consideration by Members. As previously, the Updated Full Business Case is prepared in accordance with the requirements of the Five Case Business model and considers the Strategic, Commercial, Economic, Financial and Management cases in relation to the proposed investment. **The Updated Business Case is included in the Part B) report exempted under the Local Government Act 1972 Schedule 12A paragraph 3 - information relating to the financial or business affairs of any particular person.**
- 1.10 This report summarises the main changes to the scheme and presents recommendations on the way forward rather than covering the previous background to the scheme and case for the proposed uses (the Full Business Case has been updated). In addition to support from the external consultants above, the Council has also benefited from external support on legal matters from Browne Jacobson.

## **2. SCHEME UPDATE AND REVISED DELIVERY APPROACH**

- 2.1 Since the last update to Members, key areas of progress include the following:
  - submission of the full planning application for the scheme (reference 21/01337/FUL). The scheme received detailed planning consent at the Council's Planning Committee meeting of 8 February 2022;
  - receipt of updated cost plan (Greenwood Projects – February 2022) for the completion of the shell of the cinema and retail / food & beverage unit, cinema fit-out and associated works;
  - review of project viability, funding and return on investment;

- engagement with a significant operator of restaurants (currently operating in the North West) in respect of preliminary interest in the site in advance of any marketing of the scheme;
- progressing the technical design (RIBA Stage 4) with Lathams as lead architect and the proposed cinema operator's architect retaining responsibility for the internal cinema design;
- negotiation of an increased tenant contribution to the cinema fit-out;
- negotiation of improved rental terms for the proposed new lease for the shell unit of the cinema;
- the existing drains/sewers serving the site have been surveyed and remedial works completed;
- an asbestos survey has been undertaken and all identified asbestos containing materials have been removed from the subject site;
- continuing engagement with the Matlock Community Vision (MCV) Steering Group;
- continuing engagement with Ward Members.

2.2 As reported to C&E Committee (5 July 2021 report refers), discussions regarding the external design and delivery arrangements identified issues in respect of the proposed delivery structure for the scheme. Changes have therefore been required to the project which, coupled with the ongoing impacts of COVID, have impacted upon the timescales, costs and funding requirements of the scheme:

- a) a change in architectural support to achieve an improved external design - Lathams were re-introduced to the project in early 2021 to help address stakeholder concerns regarding the exterior design. The timescale for this work was impacted by difficulties appointing sub-consultants (inc. M&E, Structural Engineer, QS) in a market significantly impacted by COVID. The design process also involved significant local engagement and co-ordination between the design teams responsible for the shell and cinema fit-out.

Based on the following design requirements a series of sketch options were produced for review by the Council, MCV Steering Group, proposed cinema operator and local ward Members:

- Sustainable – must minimise carbon use (materials and fuel);
- Contextual – must avoid harm to adjacent heritage and townscape and must acknowledge the importance of the gateway location;
- Commercial – must optimise visibility and attract footfall and allow occupiers to thrive.

A productive, iterative process of refinement and comment followed resulting in a series of improvements to the design and elevational treatment. The process has also helped to improve the layout of the proposed development and enhance the performance of the scheme in terms of potential climate change impacts. During the design process,

drafts were also shared with the head leaseholder and M&S for comment prior to submission of the planning application.

Representatives of the MCV Steering Group have been engaged throughout the design process and their suggestions regarding façade composition, access and sustainability measures have been welcome and incorporated where possible into the scheme.

- b) a change in the approach to procuring the building elements of the scheme - whilst the proposed cinema operator's contractors are understood to have experience in the fit-out of cinema space (having been engaged on previous successful schemes undertaken by the operator), previous experience relates to the conversion of former cinema buildings for cinema purposes rather than construction of a new commercial development as in this case. Given the building's very visible town centre location next to a major retailer and bus station, and small size of the company proposed for the construction works posing potential resilience risks, the District Council agreed to lead the procurement and management of the building elements of the scheme (shell construction) with responsibility for the cinema fit-out remaining with the proposed operator tenant. As under previous proposals, the cinema fit-out will be delivered by the new SPV company established for the Matlock site.

The proposed cinema operator has worked closely with the Council in respect of the preparation of information to support the planning application, technical studies and in sharing the costs of commissions to date (at risk) to enable the scheme design and costing to be progressed.

- c) a significant increase in construction costs over the past 14 months - the on-going volatile situation with regard to costs and resources within the construction industry following Brexit and the COVID pandemic, and materials shortages in some areas have contributed to significant cost increases.

A cost plan to support the scheme has been prepared by Greenwood Projects (Feb 2022). The production of the cost plan follows a series of partner meetings to review and refine scheme costs as far as reasonably practical at this stage. The proposed cinema operator has provided recent quotations in relation to the main fit-out costs which have been evaluated by Greenwood in order to finalise the cost plan. The cost plan has been used to inform the figures in the Updated Business Case.

As detailed in the Business Case, the resulting position is that the cost estimate for the scheme has increased substantially with the cost plan indicating a potential uplift in the order of 50% inclusive of fees and allowance for main contractor preliminaries, overhead and profit, contingency and inflation on the shell works. It should also be noted that **although the suggested costs have been independently assessed by professional Quantity Surveyors based on recent tender awards and current rates, they are still an estimate and the actual costs of the shell works will be subject to formal tender. Costs may vary at this stage.**

To note, the proposed cinema operator has since confirmed a fixed sum for the cinema fit-out (carried forward in the Updated Business Case) above which cost-overruns will be met in full by them. This has resulted in a small reduction in fit-out costs from the Greenwood cost plan.

Costs and funding implications are considered further in Section 6.

### **3 UPDATED DEVELOPMENT PROPOSAL**

- 3.1 To both remind Members and update on the latest proposals, the main components of the scheme are set out below:

#### Phase 1 Development:

- 3.2 The core scheme retains its original focus i.e. the conversion of existing floorspace together with the infilling of part of the covered bus bay area to create a two screen cinema with capacity for 67 and 89 seats, together with lobby, plant and toilet accommodation – open to the public when the cinema is open – and new retail / food & beverage unit completed to shell specification. The works also include an enhanced fire escape (serving M&S and the proposed cinema). As set out in the Design and Access statement submitted with the planning application, the scheme has also benefitted from design improvements to enable natural ventilation and sunlight and measures to mitigate solar gain. Energy efficient lighting is also proposed and floor heights are to be raised to mitigate potential flooding risk.
- 3.3 The rear of the building comprises the loading bay for the former Market Hall, separate loading bay for the M&S food hall / Boyes store and electricity sub-station, all of which will be retained.
- 3.4 As previously reported, new bus infrastructure / waiting facilities will be delivered concurrently by the County Council to complement the development scheme. These comprise two shelters and associated pedestrian walkways along the north-west elevation and an enlarged lay-by and additional bus shelter on Bakewell Road. The County Council has confirmed that each shelter will have capacity for at least 9 seats.

#### Public Realm:

- 3.5 The scheme proposes to retain the existing Yorkstone paving sets on the District Council's land immediately in front of the proposed food and beverage unit. The County Council's proposed treatment for land within the Highway Authority's control and new footway for bus passengers and taxi uses is tarmac. The existing concrete paving slabs are subject to ponding issues and tarmac is the County Council's standard highway treatment.
- 3.6 The treatment of this area of public realm is a design matter to be agreed by way of condition as part of the recent planning approval. District Council officers remain committed to pursuing external funding opportunities to provide an enhanced paving treatment in this area as part of the scheme in order to

improve this entrance to the town centre. Costs for an enhanced treatment will also be assessed as part of the tender process and, subject to the cost of works to the shell, be assessed in terms of affordability within the scheme. However, Members should note that, in addition to an increase in materials costs, any alternative treatment would also require a commuted sum to be paid to the County Council for maintenance purposes.

#### Phase 2 Community Space:

- 3.7 The planning approval extends to the provision of community space on the north-west elevation designed with the MCV Steering Group. The delivery of this space is subject to separate fundraising led by the local community. The Greenwood cost plan includes a separate estimate for this space (delivered to shell specification) and the tender package for the phase 1 scheme will include this element as an additional lot for pricing purposes to support external funding bids.

## **4 RATIONALE FOR DISTRICT COUNCIL INVESTMENT**

- 4.1 The purpose of the scheme remains to: ***support the economic regeneration of Matlock town centre by bringing underutilised land back into economic use in order to diversify the town's offer, increase footfall and boost the visitor and evening economies.*** This approach sits squarely within the Council's place-shaping role.
- 4.2 The specific objectives underpinning the proposed investment also remain consistent with the original Business Case:
- Re use of the former Market Hall and surrounds, bringing 793.5 sq. m / 8,541 sq. ft of floorspace back into economic use by Summer 2023
  - Creation of a new improved gateway into Matlock town centre by Summer 2023
  - Support the visitor and evening economies through enabling provision of an all-year indoor leisure/visitor attraction by Summer 2023
  - Support the vitality and viability of Matlock town centre as a retail and leisure destination through increasing footfall by 37,700 p.a. by 2024
  - Support economic recovery post COVID in the short to medium term
  - Secure an area within the site suited to future community uses.
- 4.3 The proposed development is at a key gateway into the town centre and the rejuvenation of the building will enhance this approach, long recognised as presenting a poor first impression to the town centre from the west.
- 4.4 Matlock has seen increasing vacancy rates amongst retail units during the COVID pandemic. A further street level survey has recently been undertaken by District Council officers. This indicated an increase in retail vacancy rates from 9.4% (16 units) in September 2020 to 12.2% (21 units) in February 2022. This is above the national retail vacancy rate of 11.7% and rate for the East Midlands of 11.2% (Springboard Dec 2021). In July 2019 the retail vacancy

rate was 5.3% (9 units). Investment is needed to encourage footfall and spend back into the town centre.

- 4.5 In light of increasing costs, a review of strategic options in relation to the property, project viability and return on investment has been undertaken as part of the Updated Business Case. To inform this review, the consultants have undertaken analysis of the operator's submitted cashflow with a view to analysing the Net Present Value of the business and re-assessed the estimated financial returns to the District Council over the proposed 25 year period of the lease.
- 4.6 The revised scheme has also been re-assessed against the Council's Commercial Investment Strategy and continues to score well in relation to the majority of criteria. Investments are required to achieve a score of excellent, good or satisfactory in at least 50% of the applicable criteria which the scheme still does.
- 4.7 Prior to a decision on which project(s) the Council determines to submit for Levelling Up Fund (LUF) Round 2, the opportunity to include the additional Council investment necessary in phase 1 of the Bakewell Road scheme has also been considered.
- 4.8 Central Government have announced their intention to progress a further round of LUF bidding together with the issue of appropriate guidance – although timeframes for the submission of bids has not been confirmed. Whilst the additional Council investment, the subject of this report, could potentially meet a number of the bidding criteria, there are risks associated with the delivery of the scheme being dependent upon the award of LUF funding including:
- no timescales have been identified for the submission of LUF bids and the award of funding for the programme;
  - there is no certainty of success of any bid for future rounds of LUF support;
  - further delay subject to the outcome of a LUF bid is highly likely to impact on the proposed cinema operator's interest within the scheme and could potentially result in a further increase in project costs.
- 4.9 On balance, whilst supplementary elements of the Bakewell Road scheme would certainly benefit from potential LUF funding, officers are of the view that dependency on a potential LUF bid for the additional investment sought from Council could jeopardise the phase 1 scheme and result in an indefinite delay. Intervention to support the high street is needed as soon as possible.

## **5 ECONOMIC BENEFITS OF THE REVISED SCHEME**

- 5.1 The Updated Business Case sets out the gross and net economic benefits anticipated from the proposed scheme. The net benefits from the District Council's investment are assessed as:
- Additional footfall of 37,704 per annum within the town centre;

- 17.8 new FTE jobs (including employment generated longer term in wider town centre businesses);
- £706,192 additional town centre spend per annum
- £4.642m total net GVA over 10 years.

These figures remain comparable with the Nov 2020 Business Case (with minor adjustments due to the different timescale of the analysis).

- 5.2 Due to the increase in project costs and requirement for additional funding, value for money has reduced. However, the external consultants still consider the scheme “*would deliver high value for money, as well as bringing a range of wider benefits to Matlock*” compared with the very strong value for money performance of the November 2020 scheme. The updated value for money assessment is set out in the table below:

| <b>Table 4.8: Value for Money – Jobs and GVA</b>           |   |   |
|--|---|---|
|  | <b>Nov 2020 – Net public sector costs</b> | <b>Feb 2022 – Net public sector costs</b> |
| Public sector cost per gross FTE                           | £1,613                                    | £15,087                                   |
| Public sector cost per net FTE                             | £2,395                                    | £22,408                                   |
| Return on Investment ratio, £ GVA per £ public sector cost | £104.50                                   | £11.60                                    |

- 5.3 Once fully let, the cash flow projections prepared by Thomas Lister forecast an income stream totalling c£82,800 p.a. as a result of the proposed development based on: initial rental income from the cinema; anticipated rental income from the retail / food & beverage unit; business rates uplift for the Council across both units and projected increase in car parking revenue.
- 5.4 The proposed investment of £1,228,820 is calculated at an Internal Rate of Return of 6.21% and a Net Present Value of £472,928. This compares with an Internal Rate of Return of 8.37% and a Net Present Value of £820,468 under the previous model (Nov 2020). Advice from Thomas Lister indicates that an estimated IRR of 6.21% still represents a good level of return on investment given the wider range of benefits accruing from the phase 1 scheme.

## **6. UPDATED COSTS AND FUNDING**

- 6.1 The necessary changes to the project delivery structure and significant increases in construction costs require an increased capital investment for the scheme to proceed.
- 6.2 As previously noted, the Council approval in November 2020 was based upon the proposed cinema operator being responsible for the delivery of the entire scheme i.e. the shell of the cinema and retail / food & beverage unit, cinema fit-out and associated works. The scheme was based upon the cinema operator

using their own local supply chain and taking responsibility for any cost increases. The approved proposals provided for a total District Council investment of £800,820, plus £48,000 contingency on Council costs totalling £848,820 (excluding site value).

- 6.3 To meet additional costs of the cinema, the cinema operator proposes increasing their investment contribution to 50% of capital fit-out costs plus fees, equivalent to a 70% increase in the operator's overall funding contribution. The proposed operator has confirmed a fixed sum for the cinema fit-out, above which cost-overruns will be met in full by them. The operator also proposes a 50% uplift in starting rent (with an initial 12 month rent free period built in).
- 6.4 With regard to public funding, to meet the remaining phase 1 costs, the Updated Business Case identifies the requirement for the District Council to increase its capital investment to £1,228,820 (excluding site value), an increase of £380,000 (equivalent to an increase of 45% inc. contingencies). To note these figures include fees (including those expended on RIBA Stage 3 and committed on RIBA Stage 4) including the quoted Lathams fee for RIBA Stage 5 (see exempt report). Preliminary enabling works will be undertaken separately by the Council to keep costs down. It is proposed that the increased District Council contribution funds the costs of the shell works and supports a 50% contribution to the costs of the cinema fit-out. Details of the proposed funding package are set out in the Updated Business Case.
- 6.5 Other key points to note:
- **Costs exclude borrowing costs** – should Members approve the additional capital expenditure that is required, the additional capital financing requirements would be met from the Capital Programme Reserve and the Corporate Plan Priority Reserve, removing the requirement for borrowing;
  - **Contingency** – an allowance for contingency at 12.5% and inflation at 6% has been made on the shell works based on external advice;
  - **VAT** – costs exclude VAT. The Council's external VAT advisors recommended that the Council opts to tax the area proposed for development so that its future leases to both the proposed cinema operator and food & beverage operator are taxable supplies. This approach will also ensure that the District Council can recover, in full, any related input tax it incurs;
  - **Funding Agreements** – in line with external advice received, the District Council's contribution to the cinema fit-out would be by way of a grant funding agreement.

## 7 PROJECT RISKS AND PROGRAMME

- 7.1 As well as understanding the potential benefits, the Updated Business Case considers the project risks associated with the revised scheme and measures to help mitigate these.

7.2 The most significant risks based on the assessment undertaken remain i) the financial failure of the cinema and ii) failure to attract a retail tenant to the property.

7.3 Taking each of these in turn:

i) The past two years have been a challenging period for all leisure operators and weaker or less organised businesses have failed to survive. The directors of the new company proposing to operate the Matlock site have successfully maintained their other four existing cinemas. Although as previously reported, cross company guarantees are not available, the increased capital investment by the proposed tenant increases their commitment to making the cinema a success. This risk of financial failure of the cinema is therefore balanced against the capital investment by the proposed tenant in the fit-out of the new cinema and the trading record of the directors. It is considered that the directors would not make a decision to close the cinema and liquidate the business without the exploration of all other options. Furthermore, the relaxation of COVID restrictions provide some basis for optimism moving forward although there is no guarantee that there will not be future lockdowns.

ii) The retail property market has been challenging for a number of years given the impact of on-line retailing but more recently as a result of COVID. The proposed new retail / food & beverage unit will benefit from a prominent location on the entry into the town centre as well as benefitting from a location adjacent to a cinema anticipated to attract, on average some 56,000 visitors p.a. Restaurant and other food outlets have traditionally been attracted by cinema uses given that food and drink frequently form part of cinema visits with such uses often cross subsidising the development of cinema properties. The presence of an M&S food hall is also considered to benefit this section of Bakewell Road. An on-going period of marketing is required throughout the period of works given recent changes in the retail market following the lockdown period and as indicated, some interest has been expressed in advance of commencement.

7.4 With regard to other potential risks it should be noted that a Flood Risk Assessment was submitted with the approved planning application and will help inform the final design of the scheme.

7.5 The other risks considered are set out in the Updated Business Case.

7.6 With regard to timescales, the following updated indicative programme is proposed:

| Month          | Activity  |
|----------------|---|
| Nov 2021       | √ Planning application submitted / completion of RIBA Stage 3                   |
| Feb 2022       | √ Secure planning approval  |
| March 2022     | Member consideration of increased investment                                    |
| March 2022     | Issue revised terms   |
| April/May 2022 | Detailed design, specification and tender documentation prepared (RIBA Stage 4) |

|                |   |
|----------------|---|
| May/June 2022  | Commence tender process for shell works                     |
| June/July 2022 | Legal documentation finalised including Agreement for Lease |
| July/Aug 2022  | Select preferred bidder                                     |
| Aug/Sept 2022  | Standstill period / contract negotiations                   |
| Sept/Oct 2022  | Appoint contractor for shell works                          |
| Oct/Nov 2022   | Commencement of shell works                                 |
| Jan/Feb 2023   | Est. completion of shell works by DDDC                      |
| Jan/Feb 2023   | Commencement of fit out of cinema works by operator         |
| April/May 2023 | Est. completion of fit out of cinema and opening            |

- 7.7 Work to secure a pre-let interest in the proposed retail / food & beverage unit will continue alongside this programme of work.

## 8 SUMMARY

- 8.1 Whilst acknowledging the significant increase in schemes costs, impacted by the COVID pandemic and Brexit, the former Market Hall site remains a key development opportunity for the District Council and potential driver for economic regeneration within Matlock town centre. The proposed cinema operator currently remains committed to Matlock.
- 8.2 No scheme is without its risks and these are assessed within the Updated Business Case for Member's consideration. The risks identified need to be balanced with the potential benefits of the scheme.
- 8.3 On balance, and drawing on external advice, officers are of the view that the delivery of the cinema and retail / food & beverage unit in a single construction phase remains the preferred option for delivery support by increased funding contributions by the proposed cinema operator and Council. The scheme will enable a key anchor development, helping to catalyse wider town centre regeneration, and provide Matlock with a valuable leisure and cultural asset owned by the Council.
- 8.4 The proposals seek to 'keep the door open' to future phases (subject to external funding being secured) to help achieve a more comprehensive scheme for the site. This could include measures to support the Council's low carbon agenda in the longer term. The phase 2 community space will also be included as an additional Lot within the tender package as indicated earlier.

## 9 RISK ASSESSMENT

### 9.1 Legal.

The powers to undertake this development are contained in section 1 of the Localism Act 2011.

It is noted that the Council has applied to opt to tax the Market Hall property which would allow recouping of VAT on the build. This may impact on the

tenants attracted to the building as unless they are VAT registered they will not be able to reclaim VAT paid on the rent.

Subject to entering the appropriate legal agreements with LondonMetric Retail Limited and the cinema operator it is considered that the legal risks are low.

## **9.2 Financial.**

A significant increased capital investment from the District Council is required in this scheme to support the regeneration of Matlock town centre. The draft capital programme for consideration and approval at the Council meeting on 3 March 2022 includes an additional £380,000 to reflect the increased costs of this project. The additional costs are being funded from the Capital Programme Reserve (£178,529) and the Corporate Plan Priority Reserve (£201,471).

Cash flow projections prepared by the Council's Commercial Advisor have been included with the Business Case detailing anticipated income from the scheme to enable the Council to recoup its investment over the longer term. Sensitivity analysis has been undertaken. As stated above, the revised project includes increased rental income from the cinema operator.

The revised forecast Internal Rate of Return is 6.21%, which the Council's adviser states as representing a good level of return on investment given the wider range of benefits accruing from the phase 1 scheme. The Council's Commercial Investment Strategy requires that rates of return must be better than investing through Treasury Management processes; that requirement is met in this case. The 'break even' point is estimated at year 15 (previously year 13).

It is considered that the most significant risks are associated with the financial failure of the cinema; and failure to attract a retail / food & beverage tenant to the property; these risks are set out in more detail in section 7 of this report. Although these risks cannot be fully mitigated, they need to be balanced with consideration of the proposed private sector investment within the proposal, track record of the proposed directors and potential significant economic benefits of the scheme.

This project passes all the tests set out in Annex B to the Council's Commercial Investment Strategy 2021/22.

On the basis of the above the financial risk is considered to be medium to high.

A more detailed assessment of the potential financial risks to the Council has been considered within the Part B) Exempt report.

### **9.3 Climate Change.**

A full climate change impact assessment has not been carried out on the recommendations of this report. Recommendations 1-5 are for information only. Recommendations 6-7 deal with the funding of the scheme, with details provided in the Business Case and the capital programme report.

In terms of the scheme itself, the climate change impacts have been considered in detail through the planning application and supporting Officers report. It is also noted that (as per 8.3) there is potential for a more comprehensive scheme for the site – subject to external funding, which could include measures to support the Council’s low carbon agenda in the longer term.

## **10 OTHER CONSIDERATIONS**

In preparing this report, the relevance of the following factors have also been considered: prevention of crime and disorder, equalities, environmental, climate change, health, human rights, personnel and property.

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## **11 CONTACT INFORMATION**

Steve Capes, Director of Regeneration and Policy  
Tel. 01629 761371,  
Email [steve.capes@derbyshiredales.gov.uk](mailto:steve.capes@derbyshiredales.gov.uk)

Giles Dann, Economic Development Manager  
Tel. 01629 761211,  
Email [giles.dann@derbyshiredales.gov.uk](mailto:giles.dann@derbyshiredales.gov.uk)

## **12 ATTACHMENTS**

None