

EAST HERTS COUNCIL

COUNCIL - 25 JULY 2018

REPORT BY EXECUTIVE MEMBER FOR HEALTH AND WELLBEING

PROPOSED CAPITAL DEVELOPMENT OF HERTFORD THEATRE

WARD(S) AFFECTED: Hertford Wards

Purpose/Summary of Report

- To provide an overview of a proposed Capital Development of Hertford Theatre which will improve the vibrancy of the town by enhancing access and opportunity for all by delivering first-release film, increasing capacity, creating access to Castle Gardens via the Motte and improving the public realm surrounding the Hertford Theatre site.
- To outline the options considered by Overview and Scrutiny Committee and the Executive for both 'Cinema Only' and 'Growth and Legacy'.
- To highlight the key areas of risk for the Council

| <u>RECOMMENDATIONS FOR COUNCIL:</u> That the Council: | |
|--------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (A) | Considers and receives the views of Overview and Scrutiny and the Executive as described in para 13; |
| (B) | Approves the capital investment for the Growth and Legacy Option; |
| (C) | Notes that following the request from the overview and scrutiny committee, that member involvement and engagement will increase as the project develops; and |

| | |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (D) | Subject to funding approval, delegated authority to make decisions relating to the Theatre development project is provided to the Executive Member for Health and Wellbeing with the support of a Theatre project board. The board will consist of the Executive Members of Health and Wellbeing and Finance and Support Services, the Head of Operations, the Chief Finance Officer and a Director. |
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1.0 Background

- 1.1 Hertford Theatre is central to the cultural and economic life of Hertford, the district of East Hertfordshire and the people who live there.
- 1.2 The theatre currently comprises of a main auditorium with a maximum capacity of 408, a studio with a capacity of 60, a meeting room with a capacity of 40, open plan gallery, café and box office area. The building hosts a variety of events throughout the year in all spaces, with a balanced mix of professional live programme, cinema, live broadcast, and community/non-professional activity.
- 1.3 In 2016, an Independent Cinema Organisation (ICO) report was commissioned by East Herts Council to test the commercial viability of a first-release cinema (screening on general release) in Hertford.
- 1.4 There are no other cinemas in Hertford, Ware and the immediate surrounds. The nearest dedicated multiplex facilities are in Hatfield (9 miles) and Harlow (11 miles). The nearest independent cinema is in Welwyn Garden City (8 miles).
- 1.5 The report concluded that Hertford could sustain a 3-4 screen, full-time cinema. "Hertford has the potential to generate 138-

145K admissions. This is sufficient to sustain a 3-4 screen cinema." (ICO Report June 2106)

- 1.6 The report advises against a multiplex model: "Hertford does not represent a clear opportunity for a commercial multiplex operator but is more suited to a successful business model based on a smaller number of screens." (ICO report June 2016)
- 1.7 In order to assess how 3-4 new, full-time screens could be facilitated by Hertford Theatre, consultants were commissioned to assess all aspects the theatre's current provision, test the viability of an enhanced cinema offer and develop an Outline Business Case for the development of the Hertford Theatre site and its cultural offer focusing on the following parts of business operation:
 - 1.7.1 **Cinema:** Hertford Theatre cinema screen with its capacity of 408 seats is one of the largest single screen independent cinemas in the UK. The screenings take place in the same auditorium that houses the live event offer and can only screen films on 'second release', approximately 6-8 weeks after initial release to the public. Developing this aspect of the offer will increase the number and range of our cinema audiences, increasing revenue and encouraging an enhanced level of arts engagement across the entire offer; particularly amongst those currently hard-to-reach audience groups of 12-24yrs olds. Similarly, the theatre can enhance its current film programme and broadcast live screenings from eg National Theatre (NT), Royal Shakespeare Company (RSC), Globe, Royal Ballet and Royal Opera House (ROH) to further increase the high levels of engagement with the 55+yr demographic.
 - 1.7.2 **Main Auditorium:** Currently there is no wheelchair access to the stage, backstage and dressing room areas. Improvements to enable full access for all, an increase in capacity from 408 to 500-550 alongside the easing of programming commitments for films screened in the main auditorium will enable Hertford Theatre to programme a broader range of live work including

drama, comedy, music, dance and to increase its programme of broadcast live and encore events.

1.7.3 **The Studio:** Hertford Theatre currently deliver a curated programme of small-scale work in the Dance Studio (60 capacity) and frequently sell out work for children and their families in this setting. It is also utilised by a range of local arts businesses as a hired space. An improved studio offer would enable Hertford Theatre to build on its small-scale programme, continue to support local arts businesses, enhance its artist development programme as well as enabling access to professional facilities for those who cannot meet the scale and costs of delivering work into the main auditorium.

1.7.4 **Café/bar:** Hertford Theatre currently enjoys a modest in-house café/bar offer which scales up and down according to business/programming need. The River Room represents an area of the building that could be more effectively utilised as the location for an enhanced Food and Beverage offer to support an increased number of attendees for events and create access to some of the most appealing vistas in Hertford along the River Lea for all. Access to such an offer would not be dependent on entering the theatre itself but rather via an independent entrance.

1.7.5 **Motte and the Castle Gardens Connection:** A covered 12th Century Motte stands adjacent to the theatre and it is anticipated that the heritage potential of this site will be released as part of the capital development. There is scope for a synergy of service between the theatre and the park offering a café facility that serves customers to the theatre and the park with the Motte acting as a gateway to the park and vice versa.

1.8 Pre-app planning discussions have been held and the proposals are supported in principle, given the positive cultural and economic impact they would have in the town. Given its central and highly visible location and relationship with the setting of the historic Grade 1 listed Castle (scheduled ancient

monument) and the wider Conservation Area, planning officers have stressed the need for high quality architectural additions to the building and sensitivity with regard to signage. There will also be a need to ensure that issues relating to flood risk (adjacent to the river) and the specific adjacent historic feature (the Motte – involving Historic England) are dealt with carefully. Planners have suggested the use of independent critique of the proposals and full consultation in the town to gauge public support.

- 1.9 Planners have been encouraging around the proposed improvements to the public realm surrounding the theatre.

2.0 Report

- 2.1 The Council engaged a consortium of consultants comprising Barker Langham (Business consultants), Carmody Groake (Architects), Charcoal Blue (Theatre consultants), Turpin Smale (Food and Beverage consultants), Core 5 (Cost consultants) and Buro Four (Project Managers). The brief included providing an Outline Business Case that seeks to:

- Improve access and opportunity to engage with the arts offer at Hertford Theatre. Further increasing audience and participation numbers by enabling access for untapped audience groups including under-represented and hard to reach groups and adding to the vibrancy and offer of the Town Centre.
- Contribute meaningfully to the Council's Health and Well-being strategy.
- Contribute to the Councils Corporate Strategic Plan to "Enhance the quality of people's lives and improve the Health and Well-being of our communities."
- Reduce where possible, the operational subsidy provided by the Council, with the ambition that, over time, the theatre could function with nil subsidy to the council.

2.2 Situations Analysis

The initial step in creating the Outline Business Case was the compilation of a Situations Analysis. This document articulates the current position of the theatre. The following categories were addressed:

2.2.1 *Strategic Context:* key findings and summary recommendations:

- The UK cinema and theatre landscape is changing due to reduced availability of public funds, encouraging organisations to diversify their income sources creatively.
- Cinema and Live Broadcast are a key component in a mixed economy for cultural venues.
- To avoid becoming obsolete, UK cinemas and theatres need to constantly strive to provide an appealing offer for younger audiences.
- Hertford Town is undergoing an urban transformation. This will benefit the towns' cultural assets including Hertford Theatre, which should build on this developing momentum to redefine itself and its offer.

2.2.2 *Physical Context* – key findings and summary recommendations:

- Hertford Theatre has a key, central position in Hertford Town, which is recognised in the 2016 Hertford Town Centre Urban Design Framework.
- The theatre can play a vital role in connecting the town to the River Lea and Castle Gardens and benefit the townscape if the public realm around the building is improved.
- In conjunction with emerging plans for Tate Plus gallery in the Old McMullens Building and the expansion plans at Courtyard Arts, the development proposals at Hertford Theatre give weight to the developing concept of a cultural quarter in the town.
- Interior spaces could be improved to increase capacity and functionality and take full advantage of the attractive setting.

2.2.3 *Market Assessment-* key findings and summary recommendations:

- East Herts is within the recognised 20% of least deprived districts in England.
- Hertford has a distinct demographic profile within East Herts with a younger, more affluent and better-qualified population.
- 15-24 year olds (traditionally the largest market share of UK cinema goers at 30%) currently represent 10% of Hertford Theatre's audiences drawn from within a four mile catchment area. This represents an area of growth for Hertford Theatre.
- 45-54 year olds and 55+ year olds (the smallest cinema segment of UK cinema going audiences) represent 44% of Hertford Theatre's audiences drawn from within a four mile catchment area. These audiences need to be nurtured and further developed.
- Cinemas in towns and city centres are benefitting from above average growth.
- Cinemas in town and city centres have an average of just above 4 screens.
- An increase in ticket price does not necessarily mean a drop in attendance figures.

2.2.4 Current Performance –key findings and summary recommendations:

Admissions

- Hertford Theatre has successfully attracted more visitors for events of all types each year for the last four years.
- In 2016/17 footfall exceeded 180,000 visits
- Take up for the Christmas show and live events is 80% (well above the Arts Council England threshold of success of 50%)
- Take up for the cinema is 23% (a consequence of second release programme and being one of the largest single screen independent cinemas in the UK.) The national average is 25%
- Ticket prices for live event and cinema are below regional average and could be increased to meet an improved live and first-release cinema programme.
- To fulfil distributor obligations for first release film the cinema will need to function 7 days per week, 364 days per annum.

- The current operating subsidy is approximately £250k

Catering and MICE (Meetings, Conferences and Events)

- 40% of all customers buy food and beverages.
- the average catering spend per head is £3.29 (of the 40%).
- Current occupancy for MICE events in the Main auditorium 80-100%
- Current occupancy for MICE events in the Studio 62%
- Current occupancy for MICE events River Room 41%
- MICE generated 25% of total revenue on 2016/17 excluding event catering.
- Current pricing structures are aligned with the market
- Move to a 7 day operation
- Target of 60-75 covers offering a strong café/bar Food and Beverage offer (not a restaurant)
- Scope to separate bar from café and opening up the riverside aspect to café and/or bar use.
- A shared market potential between visitors to Castle Gardens, park users and theatre-goers.

2.2.5 *Benchmarking/Comparators* – key findings and summary recommendations:

- Access to first release cinema offer is currently an issue for Hertford residents.
- Potential audiences of c.120,000 based on Hertford Theatre's catchment analysis and comparator market penetration.
- An improved first/current release film offer will support this increase in attendance; targeting the 15-24 year old age group.
- Strong, dynamic branding of aspirational comparator venues encourage social and political engagement for their audiences which draws in a younger demographic.
- Create an offer for the local community to provide participation in affordable cultural events and celebrate local heritage

3.0 **Market Summary**

- 3.1 There are nine cinemas operating within a half hour drive of Hertford Theatre. None of which are readily accessible to Hertford residents. The nearest arts centre offer is Campus West in Welwyn Garden City; a 20 minute journey by car or 35 minutes by public transport. The nearest multiplex offer is Edinburgh Way, Harlow; a 25 minute journey by car or 45 minutes by public transport.
- 3.2 The local average cinema ticket is priced at £9.09 for adults and £7.22 for children, which is £0.86 higher than the national average and £2.86 higher than the current average at Hertford Theatre. This price difference is due to Hertford Theatre's current restrictions on only being able to screen second release films.
- 3.3 There are seventeen theatres operating within an hour drive of Hertford Theatre. The average theatre ticket among comparators is priced at £16.66 for adults and £11.74 for children, which is £1.24 higher than the average ticket price at Hertford Theatre.
- 3.4 An analysis of Hertford Theatre ticket sales over the past three years shows that c.50% of the tickets were purchased by residents neighbouring Hertford Theatre; highlighting that a high-quality offer attracts a strong local audience despite the high number of local theatre comparators.
- 3.5 Studios in comparator theatres tend to accommodate between 75 and 125 people. Based on comparator analysis as well as an assessment of Hertford Theatre's current capacity levels, it is suggested that the studio should not exceed 150 seats. The specific benefits of smaller studio space are:
- Improved cost-effective programming of small-scale work to target new and hard to reach audiences.
 - Smaller, hireable space for organisations unable to hire

the Main Auditorium.

- Improved physical capacity to support a programme of Outreach and Education.
- Improved physical capacity to build on the programme of new artist development and support.

3.6 It is estimated that Hertford Theatre could reach an annual audience of c.120,000 cinema visitors with an improved offer including 1st release film screenings and better catering facilities. The initial audience number projections have been validated using two methods (Catchment area analysis and Market Penetration Rate Analysis)

3.7 Catchment area analysis

Business consultants, Barker Langham used geographical population data and drive-time data to establish a potential catchment area for Hertford Theatre. The four potential catchment areas are listed below:

- Hertford population (Census 2011)
- Eight-minute drive time catchment area
- Four-mile driving distance catchment area
- East Hertfordshire population

3.7.1 Hertford population

The population of Hertford is 26,783 according to the 2011 UK Census. Multiplying Hertford's population with the average cinema visits per person across the UK and East of England in 2016 (2.75) produces an estimated annual admission of 73,653 for Hertford Theatre.

3.7.2 Eight-minute drive time catchment area

The catchment population based on an eight-minute drive time from Hertford Theatre is 48,211. Multiplying this catchment population with the average cinema visits per

person across the UK and East of England in 2016 (2.75) produces an estimated annual admission of 132,580.

3.7.3 Four-mile driving distance catchment area

The catchment population based on a four-mile driving distance from Hertford Theatre is 58,480. Multiplying this catchment population with the average cinema visits per person across the UK and East of England in 2016 (2.75) produces an estimated annual admission of 160,820.

3.7.4 Population of East Hertfordshire

The population of East Hertfordshire is 146,300 (mid-2016 estimate). Multiplying the population of East Hertfordshire with the average cinema visits per person across the UK and East of England in 2016 (2.75) produces an estimated annual admission of 402,325.

3.7.5 Conclusion of Catchment Area Analysis

The average of the above methodologies to estimate a potential cinema audience for Hertford Theatre generates c.190,000 admissions per year as outlined in the table below.

Methodology/ Catchment population/ Estimated cinema going population

| | | |
|---------------------------|---------|---------|
| Hertford population | 26,783 | 73,653 |
| Eight minutes' drive time | 48,211 | 132,580 |
| Four miles drive time | 58,480 | 160,820 |
| East Herts population | 146,300 | 402,325 |

3.7.6 A geographical analysis of cinema tickets sold at Hertford Theatre over the last three years shows that 76% of all cinema tickets was purchased by local residents. This trend is recognised when averaging the Hertford population, eight minutes and four minutes drive time to give a moderated result of c.122,000 cinema visits.

3.7.7 A 2016 study by the Independent Cinema Organisation suggested ticket sales of 140,000 based on their market assessment.

3.8 Market Penetration Rate Analysis

3.8.1 The Broadway Cinema and Theatre is located in Letchworth, Hertfordshire. As an independently run cinema/theatre with four screens ranging from 47 to 413 seats and attracting c. 140,000 visitors per year, it is a comparator for Hertford Theatre. Applying its market penetration rate to the eight-minute drive time catchment population of Hertford Theatre produces an annual visitation of around 116,000 people.

3.8.2 The estimate of potential cinema audience numbers using a catchment area methodology provides the high-end benchmark of c. 122,000 cinema visits. The estimate of potential cinema audience using market penetration rate methodology provides the low-end benchmark of c. 116,000 cinema visits.

3.8.3 A robust average of catchment area and market penetration analysis generates 119,000 cinema visits in Year 1. However, if the offer is improved with more first release film screenings and better catering facilities, Hertford Theatre will be able to attract more visits from 15-24 year olds so it is estimated that the new Hertford Theatre cinema could reach an annual audience of c.120,000 visitors.

3.9 Opening Hours

Hertford Theatre is currently open to public from 9am to 11pm, Tuesday to Sunday. The project will increase visitation throughout the year, and a more diverse offer with new cinema screens will turn the Theatre into a destination all year round. In order to fulfil distributor commitments for first release film, it is necessary that the opening hours of Hertford

Theatre be extended to the following:

- Hours from 9am to 11pm
- Open 7 days a week (5 days a week for classes)
- Operating 52 weeks of the year except Christmas Day

4.0 Business Options

4.1 In response to the Situations Analysis a number of Options were considered and scored in a participatory workshop with the Hertford Theatre team, senior staff and stakeholders from the Council. This process tested five key options:

- Option 1: Baseline 2016/17 Do Nothing
- Option 2: Cinema Only
- Option 3: Cinema Plus
- Option 4: Enhancing the Core
- Option 5: Growth and Legacy

These options were scored against the following criteria:

| Viability of the Business Plan | Promotes Wider Social & Economic Development | Contributes to all 3 Council Priorities | Increase in Footfall & Participation | Develops a Cultural Hub / Adds to the Cultural Quarter of Hertford | Community Space & Meaning of Hertford Town and its Assets |
|------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|-----------------------------------------|----------------------------------------------------------------------|-----------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 30% | 20% | 15% | 15% | 10% | 10% |
| Reduction in subsidy from the Council /generate surplus | Opens up Theatre to attract external funding to promote activities for "hard to reach" groups | Improving health and well being | Future proofs the asset for increased demand from population/housing | Promotes the heritage/ conservation of the area | Offers something for all sectors of the community |
| Capital investment including interest can be paid back by x number of years. | including the delivery of community, education and outreach programmes | Enhancing the quality of people's lives | growth /meets the needs of the evolving market | Connects park/leisure, theatre and the town | Meaningful space for the community to congregate together or individually whilst respecting the landscape, nature and sensitivity to the wider context of what Hertford Town means to its community. |
| | Positions the Council in developing wider Partnership working in relation arts, culture and Theatre. | Enabling a flourishing local economy | Delivers first release cinema | Promotes a contemporary image for the theatre which attracts visitors | |
| | | | Enhanced quality of service | Adds vibrancy to the area and contributes to the night time economy | |

| | | | | | | |
|---------|-----|-----|-----|-----|-----|-----|
| Option1 | 0 | 1 | 1 | 1 | 0 | 1.5 |
| Option2 | 1.5 | 1 | 1 | 3 | 1 | 2 |
| Option3 | 3 | 2 | 2 | 3 | 1 | 1.5 |
| Option4 | 4 | 4 | 4 | 4 | 3.5 | 3.5 |
| Option5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 |

4.2 Based on the criteria set out the favourable option is option 5.
The below table demonstrates:

- An overview of works
- the impact on Hertford Theatre's visitor numbers
- bottom line
- resulting score multiplied by the weighting for each option.

| Option | Implication | % Score |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| Option 1: Baseline 2016/17 | <ul style="list-style-type: none"> No improvement to the offer, building or surroundings Visitor numbers will plateau and eventually start dropping Existing audience will prefer traveling to other cinemas and theatres for a more attractive commercial offer and better entertainment The building will start looking tired and need major refurbishment and investment | 13.0% |
| Option 2: Cinema Only | <ul style="list-style-type: none"> Light touch improvements to the auditorium entrance including new lobbies to improve sound break-out and addition of new welcome / ticket desk No improvement to catering and private hire offer or surroundings Rooftop extension to accommodate 3 x new cinema screens equalling to 124 seats in total Further acoustic improvements to the main auditorium where required New fixed seating layout to the main auditorium Audiences might still prefer traveling to other cinemas and theatres for a more attractive commercial offer and better entertainment The building will start looking tired and need major refurbishment and investment The building won't comply with the Equality Act | 31.0% |
| Option 3: Cinema Plus | <ul style="list-style-type: none"> Light touch improvements to the auditorium entrance including new lobbies to improve sound break-out and addition of new welcome / ticket desk Reconfigured office and backstage spaces Improved accessibility in-line with the Equality Act including new back-stage door with accessible ramps leading to changing and rehearsal spaces – possibly allowing larger shows Limited opportunity to increase the attractiveness of MICE [meetings, incentives, conferences and exhibitions] and catering offer through commercialisation and cosmetic improvement The improvements will bolster the place of Hertford Theatre within the Hertford community but won't be sufficient to support the creation of a strong identity and brand – therefore won't attract a critical mass to the Theatre | 46.0% |

| | | |
|---------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| Option 4: Enhancing the Core | <ul style="list-style-type: none"> Improved landscaping on approach / to the north to offer a more intuitive wayfinding route Creation of a new entrance canopy (or similar) to form a new and clear identity for the Theatre Reconfigured entrance foyer to ensure better connectivity between spaces New riverside café / bar to provide an enhanced catering and MICE offer for specific events Flexible Studio space with 150 people capacity as a dedicated venue for private hire, hosting various classes and community events Acoustic improvements to the main Auditorium and increased capacity with a total of 500 seats Enlarged performance and backstage area will allow larger shows Rooftop extension to accommodate 3 x new cinema screens equalling to 200 seats in total Reconfigured backstage and office spaces Improved accessibility in-line with the Equality Act including new back-stage door with accessible ramps leading to changing and rehearsal spaces | 78.0% |
| Option 5: Growth and Legacy | <ul style="list-style-type: none"> Same as Enhancing the Core plus: New and improved landscaping with the addition of boardwalk link to the Motte / Castle – promoting better connectivity within Hertford Town and placing Hertford Theatre at the heart of it Improved connections to the main town, resulting in additional footfall to Hertford Theatre and increased use of its catering and MICE offer Enhanced Main Auditorium to accommodate 550 seats with an additional high-level balcony – taking Hertford Theatre to the next level in terms of scale of programming and appeal to bigger production companies Step change for Hertford Theatre as the proposed internal and external improvements will help re-brand it to create a fresh new identity that complements the proposed quality of offer | 90.0% |

* excl. café and bar customers

4.3 Costings:

The headline capital costs for each of these costs are (costs do not include the cost of borrowing):

| Option | Capital Cost | Net operational (subsidy) surplus Yr1 | Net operational (subsidy) surplus Yr 5 |
|--------|--------------|---------------------------------------|----------------------------------------|
| 1 | n/a | (£250k) | (£260k) |
| 2 | £4.3m | (£26k) | (£27k) |
| 3 | £9.5m | £12k | £15k |
| 4 | £12.8 | £189k | £205k |
| 5 | £13.5 | £238k | £239k |

4.3.1 All expenditure included central establishment costs of approx. £150k. At the options appraisal workshop it was agreed that option 2 (Cinema Only) and option 5 (Growth and Legacy) should be explored further to outline business stage. It was felt that the Cinema Only option was the new benchmark

for the Growth and Legacy option and that these two options could provide the return on investment appropriate to the level in capital investment i.e. the facility mix difference in option 2 and 3 are not vastly dissimilar, however the cost difference is significant. Similarly, the broader benefits of having all aspects of the public realm revitalised and re-envisioned in Option 5 and the impact that this would have in book-ending the current developments in Bircherley Green for the emerging vision for Hertford's urban realm represented good value when set against the capital expenditure. Overall, the two options provided us with two possible ends of the spectrum.

- 4.3.2 It would be possible to work up all the options in detail. However, following the Options workshop and its outcome; it was felt that this would not be practical without guidance from members. As a baseline the "Do nothing Model" proposes that the operating subsidy in year 5 increase to £260k from £250k in year 1.

5.0 OPTION 2 Cinema Only

- 5.1 The Cinema Only Option represents the impact of introducing first-release film delivery into Hertford Theatre. The recommended alterations to the site in option 2 are summarised below, figure 1 and 2 illustrate the floor plans to reflect these alterations:

- Roof-top extension to accommodate 3 x new cinema screens equalling to 124 seats in total
- Light touch improvements to the Main Auditorium entrance including new lobbies to improve sound-proofing between main Auditorium and Foyer to enable the simultaneous delivery of events in both areas.
- The addition of a new composite bar and box office area.
- Acoustic improvements to Main Auditorium.
- Improved seating to Main Auditorium to ensure consistency of experience across all auditoria.
- No improvement to MICE offer or public realm.

Figure 1: Cinema Only Proposed Ground Floor Plan

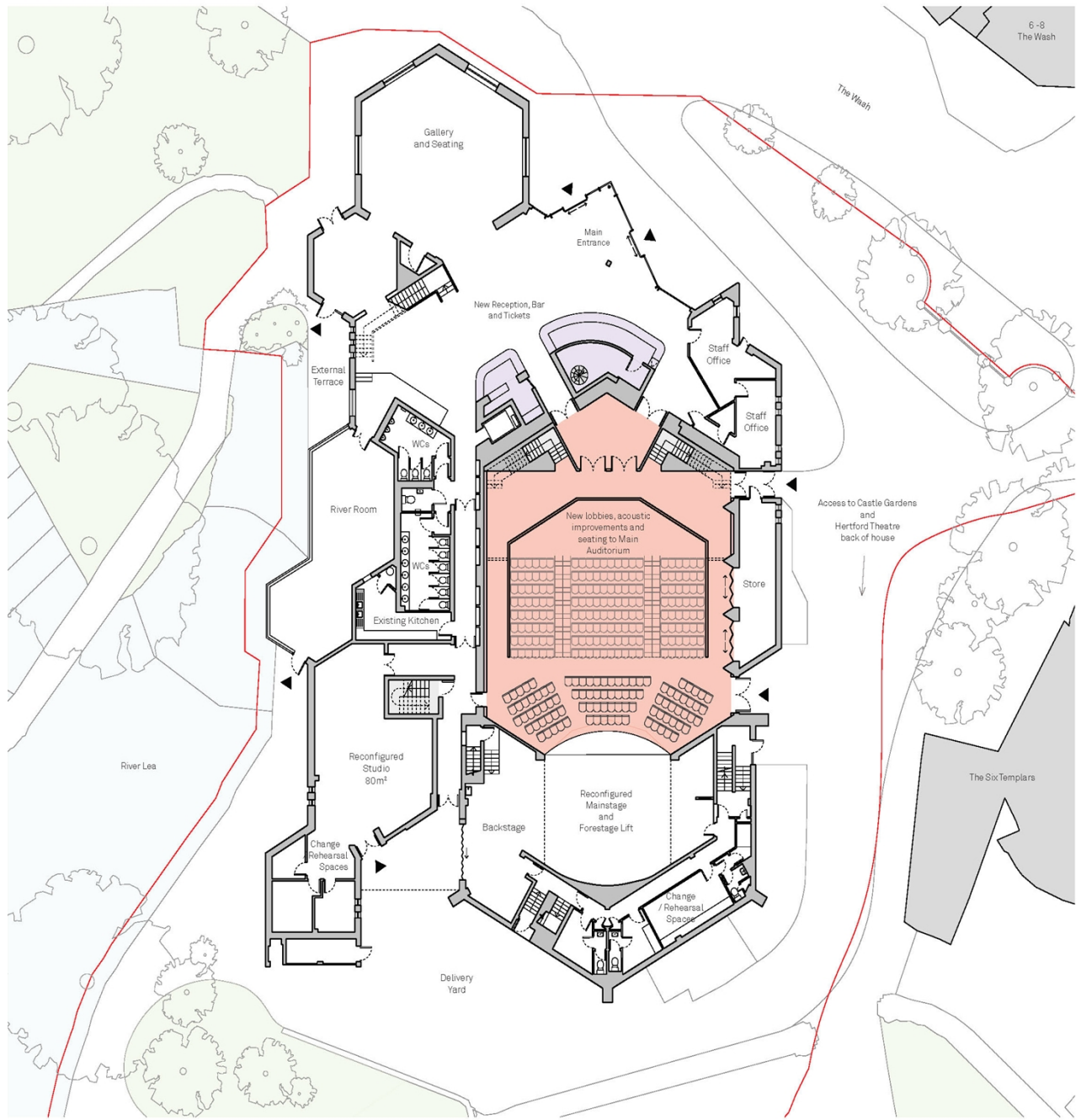
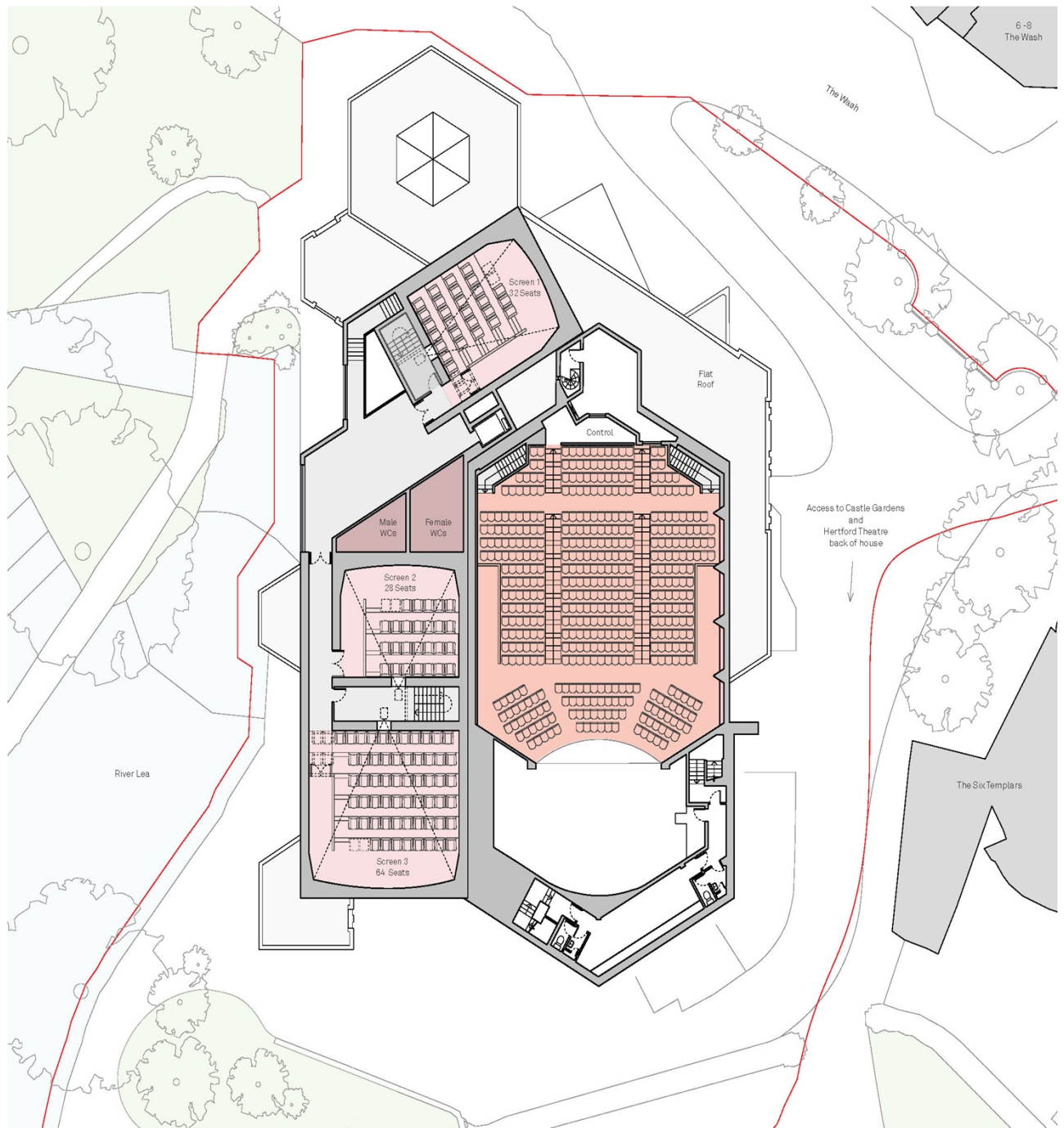


Figure 2: Cinema Only Proposed First Floor Plan



5.2 Income and Expenditure analysis for Cinema Only Option

Essential Reference Paper B1 demonstrates the income and expenditure for the cinema only option. The final capital costs for this option were £5m. The operational income in year 1 for this option is £1.58m with operational expenditure of approx. £1.66m. In this option a loan of £5m at a rate of borrowing of 2.7% is paid back over a period of 30yrs. It is proposed that in this option the operational subsidy from the Council in year 1 is £320k, reducing to £140k once the loan is paid back.

The income models can be divided into two broad areas, which will be detailed in the following sections:

- Activity-based income, including live shows, pantomime, cinema and booking fees
- Commercial income, such as café and private hire.

5.2.1 Live Shows

The number of live shows remains unchanged at 47 per year at 79% capacity with an increased average ticket price of £15.00. Production cost remains unchanged at c.77%

5.5.2 Pantomime

The number of pantomime performances in the 408-seat Auditorium remains unchanged at c. 45 per year at 77% take up with an increased average ticket price of £13.00. Production cost also remains unchanged at c. 62%

5.2.3 Cinema

- New 3 screens with capacity of 124.
- Theatre operates with a 23% capacity for cinema screenings in the main Auditorium. After reopening, the Theatre will offer 63 screenings per week (a seven-day operation with on average three screenings per day per screen) for 52 weeks per year, operating on a 48% occupancy rate.

- Popular live and encore performances by the Royal Shakespeare Company and National Theatre Live will also continue to be screened in the main Auditorium.
- Assuming first release screenings, purpose-built screens and an opportunity to vary ticket price between peak and off-peak screenings, the yield from cinema tickets will improve from £5.18 to £8.16. The total number of annual cinema ticket sales will increase from 25,210 to c. 65,416. The outline business case assumes that distributor commissions remain unchanged at 45% as a fixed cost for programming services.

5.2.4 Booking Fees

It is assumed that following the re-opening of Hertford Theatre, booking fees will rise to £1.50.

5.2.5 Food and Beverage (F+B)

- Currently Hertford Theatre operates a Café/Bar in-house in the foyer area.
- Nearly 41% of all visitors buy food or drink at the Café/Bar and the penetration has been stable over the last years.
- The existing offer currently generates an average spend per visitor of £1.52 (excluding VAT).
- The Cinema Only option assumes the cinema audience grows 2.6 times with an unchanged catering offer.

5.2.6 Venue hire (MICE)

- MICE generated c.25% of the total revenue excluding event catering in 2016/2017.
- There are currently three venues available for hire at the Theatre; Main Auditorium, Studio and River Room.
- The Cinema Only option only involves the implementation of a roof extension for three new cinema screens and therefore the Outline Business Plan assumes the same number of venue hire hours/days and event attendees as there are currently.

5.2.7 Additional commercial income

- This includes items such as box office commissions, gallery sales, vending sales, technical hire income, pantomime merchandise income, miscellaneous income, postage, rechargeable income, advertising income and bank charges income.
- The assumption for pantomime merchandise income is an unchanged spend per visitor of £0.33. Other additional commercial income is assumed to be c. 5.2% of the sum of other activity-based and commercial income in line with the 2016/17 actuals.
- Additional commercial expenditure consists of retail costs for pantomime and commissions to booking websites. It is assumed that commercial expenditure remains on level with the 2016/17 actuals at c £15,000.

5.3 Expenditure for Cinema Only Option

The operation of the site has a range of indirect costs, including human resources, non-domestic rates, upkeep and maintenance of the building, marketing and programming costs. These costs are based on the site operating as an active and vibrant place and are required to ensure the day-to-day operation of Hertford Theatre.

5.3.1. Staff Costs

- These costs cover the staff for Hertford Theatre, which support the management structure, the public programmes delivery, the operation of the commercial activities and the delivery of the site-wide experience.
- The quality of the programming offer after project completion will be high and the staffing reflects this ambition.
- The proposed salaries including on-costs, which corresponds to employer national insurance, holiday and pension contributions, are based on the current staffing structure with 2.5 additional FTEs to allow the site to be open to the public all

year around for seven days per week with the help of volunteers.

- The exact nature of the new roles to be created would be identified as part of a Full Business Plan and the cost of the added salaries is calculated based on the average cost of a staff member according to Hertford Theatre's current HR structure.
- These costs would add an additional £103,806 on the core staffing figure, creating a total HR expenditure of £519,299

5.3.2 Other Indirect Costs

Other indirect costs include non-domestic rates, building costs, marketing expenditure and other office and administrative costs. These costs equate to c. £288K in Year 1 and increase with inflation throughout the forecast.

5.3.3 Building Costs

This Outline Business Plan includes an allowance for building-related costs – cleaning, maintenance, utilities, insurance, etc. These costs, excluding insurance, have been calculated based on actual costs from the 2016/17 financial year accounts and have been adjusted proportionately to the proposed increase in the new gross external area.

Following discussions with Finance colleagues, a prudent estimate for insurance costs would be £20,000 in the first year of re-opening compared to the current insurance cost of £11,870.

5.3.4 Marketing Spend

Marketing and promotional costs will equate to c. £35,000 in the first year of operations post development. This budget is essential to ensure that Hertford Theatre is adequately promoted during the first few years post-opening, and that there is a robust promotional strategy in the long term. This cost represents c. 20% increase over the marketing spend levels in the 2016/17 baseline.

5.3.5 Other Office and Administrative Costs

The Outline Business Plan includes an allowance for Other Office and Administrative Costs including expenditure related to stationary, postage, printing, IT cost, credit card charges, hired and contracted services, etc. These costs have been calculated based on actual costs from the 2016/17 financial year accounts and have been adjusted proportionately to the proposed increase in the new gross external area.

6.0 Growth and Legacy Option

6.1 The Growth and Legacy option represents a longer-term vision for the building and its cultural offer. It engages with all aspects of the operation and presents a view of Hertford Theatre as a 21st century beacon of art and heritage activity for all. The building aims to become the hub of the evening offer to younger audiences, supporting the local night time economy. The recommended alterations to the site in option 5 are summarised below, figure 3 and 4 illustrate the floor plans to reflect these alterations:

- Rooftop extension to accommodate 3 x cinema screens with a total of 200 seats.
- Enhanced Main Auditorium accommodating 550 seats with an additional high-level balcony and new fixed seating layout to improve customer 'theatre' experience and ensure consistency across all auditoria.
- Flexible Studio space with 150 seats
- Reconfigured entrance foyer with more 'break-out' space
- Relocated and enhanced food and beverage offer alongside and over-looking the River Lea
- Acoustic improvements to the main Auditorium
- Reconfigured office and backstage spaces
- Improved accessibility in-line with the Equality Act including new back-stage door with accessible ramps leading to changing and rehearsal spaces enabling disabled performers and participants to engage fully with the theatre and its output.

- Improved access and sightlines of Castle Gates by addressing access and parking concerns creating a greatly improved public realm around the entire theatre site.
- Provides an opportunity to improve the connectivity between the town, theatre and park. A key element to this is ensuring we create a vibrant and welcome surround area. It is proposed that the development work at the Theatre initiates works to tackle the ASB in and around these areas. Working in partnership with Hertford Town Council and building on their programme of events, opening up sightlines along the River Lea and encouraging more people to engage with these currently under-used areas it is anticipated that the level of ASB will ease.
- Develops scope for partnering with Town Council, schools and other centres of education to release the heritage story of the Motte, Castle Gardens and Hertford.
- Creates a safe environment in all areas surrounding Hertford Theatre.

Figure 3: Ground plan for Growth and Legacy Option

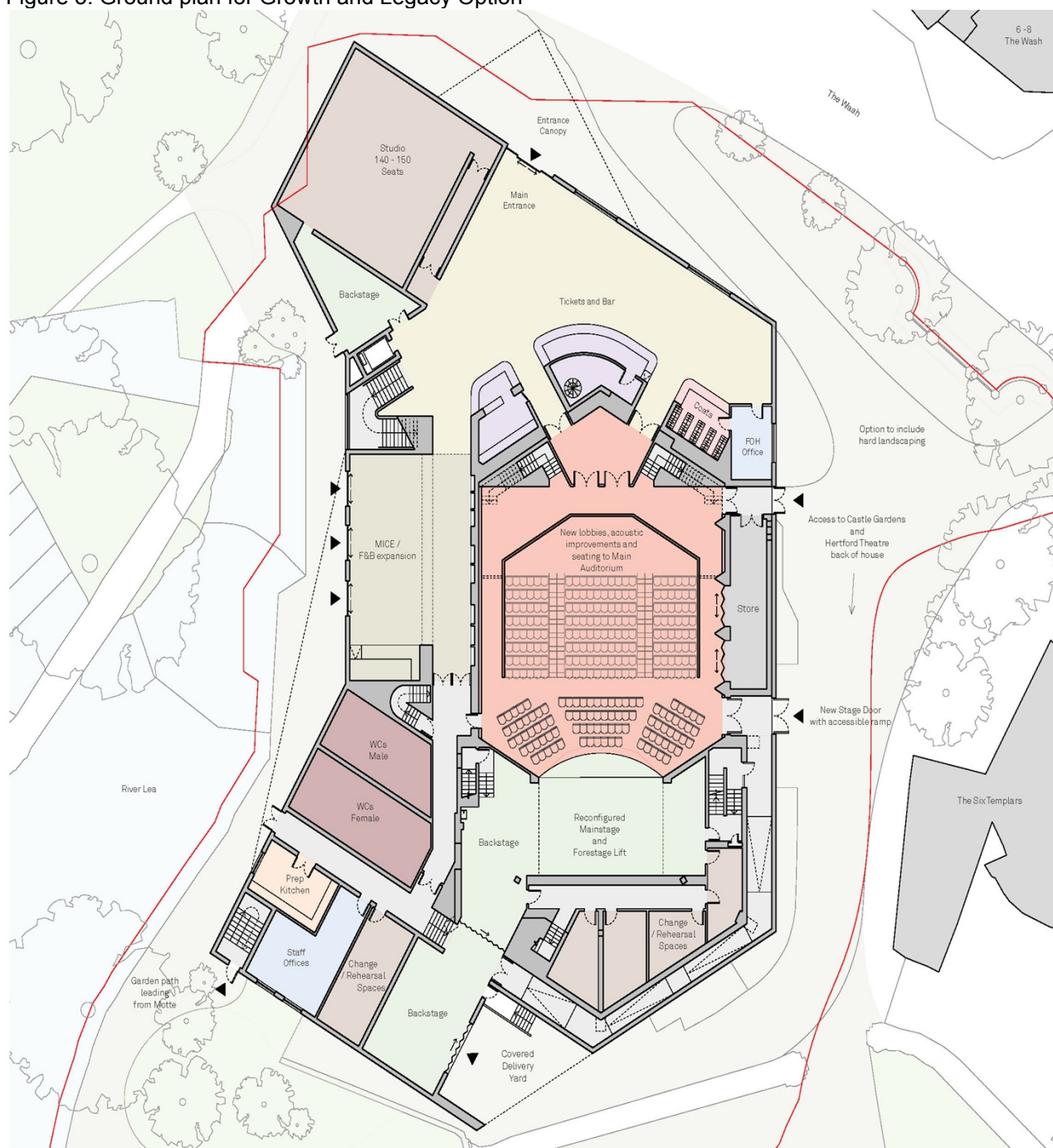
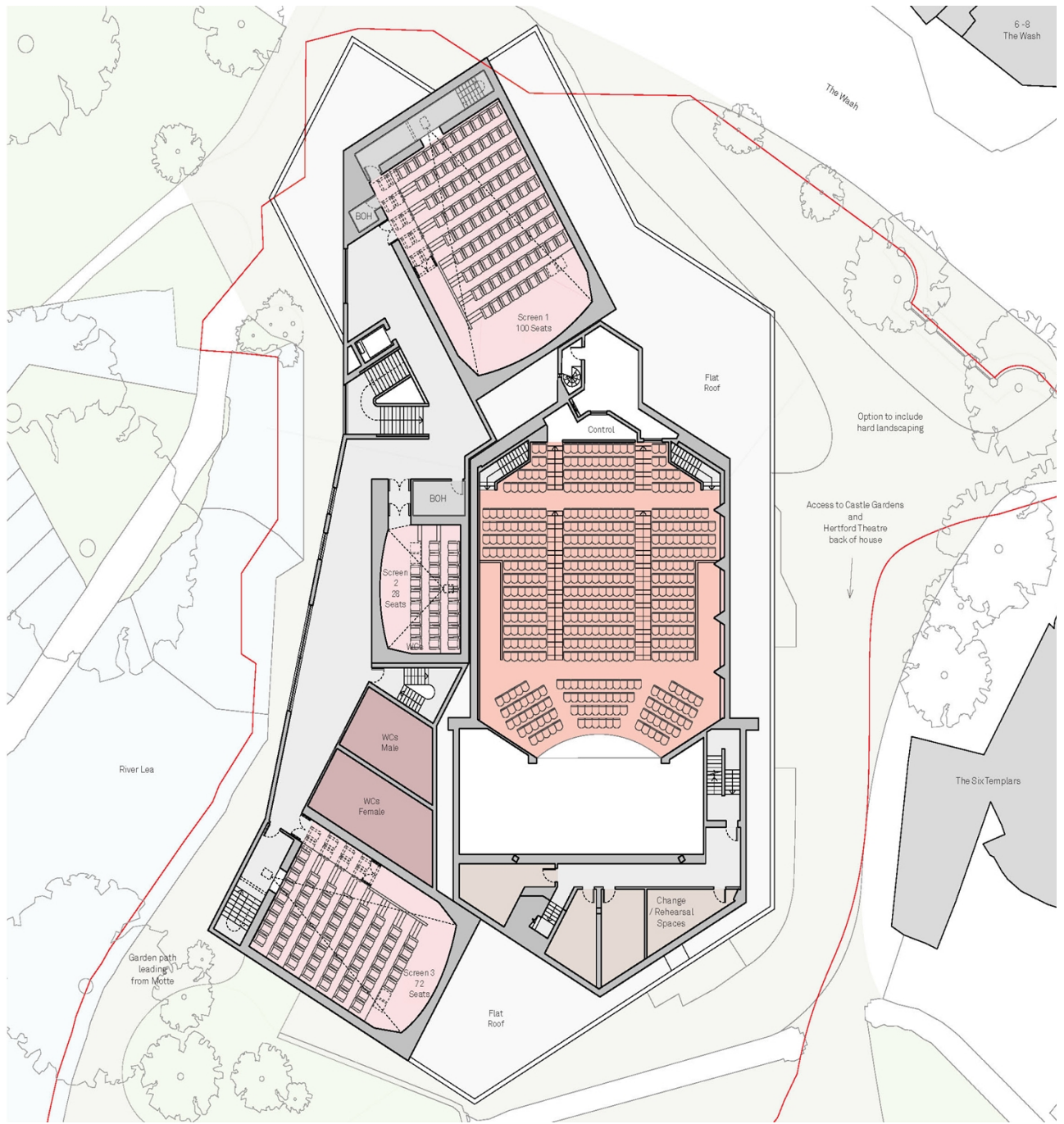


Figure 4: First floor plan for Growth and Legacy Option



Growth and Legacy Architects impressions



Growth and Legacy: view from The Wash



Growth and Legacy: view from St Andrews St Car Park

6.2 Income analysis for Growth and Legacy Option

Essential Reference Paper B2 demonstrates the income and expenditure for the growth and legacy option. The final costs for this option is £13.5m. The total operational income for this option in year 1 is £2.69m, with operational expenditure of £2.43m. In this option the payback period is 30years for a loan of £13.5m at a rate of interest of 2.7%, with an operational surplus of £475k being achieved once the loan is paid back.

6.2.1 Live Shows

- Increased capacity in Main Auditorium to 550
- Increased capacity in Studio to 150
- Main Auditorium live events up from 62 to 81 annually at a capacity of 65% and an average ticket price of £15.28
- 36 Studio events per annum at a capacity of 67% and an average ticket price of £13.13

6.2.2 Pantomime

The number of pantomime performances in the 550-seat Auditorium remains unchanged at c. 45 per year at 80% capacity with an increased average ticket price of £13.00. Production costs remain unchanged at 62%.

6.2.3 Cinema

- New 3 screens with a capacity of 200
- Increased capacity in Main Auditorium to 550
- After re-opening, the Theatre will offer 63 screenings per week (a seven-day operation with on average three screenings per day per screen) for 52 weeks per year, operating on a 48% occupancy rate.
- Popular live and encore performances by the Royal Shakespeare Company and National Theatre Live will continue to be screened in the main Auditorium.
- Assuming first release screenings, purpose-built screens and an opportunity to vary ticket price between peak and off-peak screenings, the yield from cinema tickets will improve from

£5.18 to £8.16. The total number of annual cinema ticket sales will increase from 25,210 to c. 65,416. The outline business case assumes that distributor commissions remain unchanged at 45% as a fixed cost for programming services.

6.2.4 Booking Fees

It is assumed that following the re-opening of Hertford Theatre, booking fees will rise to £1.50.

6.2.5 Food and Beverage (F+B)

- Currently Hertford Theatre operates a Café/Bar in-house in the foyer area.
- Nearly 41% of all visitors buy food or drink at the Café/Bar and the penetration has been stable over the last years.
- The existing offer currently generates an average spend per visitor of £1.52 (excluding VAT) with a link into the park, shared castle garden audience and increased event capacity this would rise to £1.98
- The Growth and Legacy option assumes the cinema audience grows 4 fold and the audience for live events doubles.
- The figure below also includes 10% potential franchise fee on gross catering income from MICE events and a walk-up customers (c 15,000pa) catering spend of £70,10

6.2.6 Venue hire (MICE)

- MICE generated c.25% of the total revenue excluding event catering in 2016/2017.
- There are currently three venues available for hire at the Theatre; Main Auditorium, Studio and River Room.
- The hire of the Main Auditorium would remain as currently at c.110 days pa.
- In this option the River Room would be converted to a riverside café/bar and would be available to hire for private parties and entire building functions.
- The newly positioned studio would remain available for hire.

6.2.7 Additional commercial income

- This includes items such as box office commissions, gallery sales, vending sales, technical hire income, pantomime merchandise income, miscellaneous income, postage, rechargeable income, advertising income and bank charges income.
- The assumption for pantomime merchandise income is an unchanged spend per visitor of £0.33. Other additional commercial income is assumed to be c. 5.2% of the sum of other activity-based and commercial income in line with the 2016/17 actuals.
- Additional commercial expenditure consists of retail costs for pantomime and commissions to booking websites. It is assumed that commercial expenditure remains on level with the 2016/17 actuals at c £15,000.

6.3 EXPENDITURE For Growth and Legacy Option

The operation of the site has a range of indirect costs, including human resources, non-domestic rates, upkeep and maintenance of the building, marketing and programming costs. These costs are based on the site operating as an active and vibrant place and are required to ensure the day-to-day operation of Hertford Theatre.

6.3.1. Staff Costs

- These costs cover the staff for Hertford Theatre, which support the management structure, the public programmes delivery, the operation of the commercial activities and the delivery of the site-wide experience.
- The quality of the programming offer after project completion will be high and the staffing reflects this ambition.
- The proposed salaries including on-costs, which corresponds to employer national insurance, holiday and pension contributions, are based on the current staffing structure with 5

additional FTEs to allow the site to be open to the public all year around for seven days per week with the help of volunteers.

- The exact nature of the new roles to be created would be identified as part of a Full Business Plan and the cost of the added salaries is calculated based on the average cost of a staff member according to Hertford Theatre's current HR structure.
- These costs would add an additional £207,720 on the core staffing figure, creating a total HR expenditure of £623,159 in year 1

6.3.2 Other Indirect Costs

Other indirect costs include non-domestic rates, building costs, marketing expenditure and other office and administrative costs as detailed below. These costs equate to c. £376K in Year 1 and increase with inflation throughout the forecast.

6.3.3 Building Costs

These are the same as the cinema only option.

6.3.4 Marketing Spend

Marketing and promotional costs will equate to c. £60,000 in the first year of operations post development. This budget is essential to ensure that Hertford Theatre is adequately promoted during the first few years post-opening, and that there is a robust promotional strategy in the long term. This cost represents c. 100% increase over the marketing spend levels in the 2016/17 baseline.

6.3.5 Other Office and Administrative Costs

These are the same as the cinema only option.

7.0 Cost calculations

- Costs have been based upon RIBA Stage 0+ sketch proposals. The methodology for estimating costs consists of identifying all

work to areas shown as being refurbished, altered, or refurbished in the architectural drawings. This would leave a further circa 2,000 m² of the building, for the Cinema Only option, and potentially 100 m², for the Growth and Legacy option, requiring to be redecorated or upgraded.

- Rates, drawn up by cost consultants (Core 5) have been applied to arrive at all-inclusive costs for each project.
- The Cinema Only option allows for simple acoustic improvements and redecoration works, together with new seating and upgrades to technical equipment.
- The Growth and Legacy option includes a more substantial refurbishment of the Auditorium that covers both new and additional seats, acoustic improvements, redecoration, and upgrades to technical equipment.

7.1 Basis of Costs

- The total forecasted cost of the Cinema Only option is c. £5m
- The total forecasted cost of the Growth and Legacy option is c £13.5m

These costs include:

- Construction works (including external works)
- Fit-out works
- Professional fees on works
- Statutory and sundry fees and expenses
- Client direct costs
- 10% contingency allowance.

All costs assume that some form of competitive procurement model will be adopted with a healthy level of price competition.

Notable exclusions are:

- Asbestos removal
- Inflation allowance
- Catering fit out
- VAT.
- Future capital works

7.2 Return on Investment (ROI) for both Options

ROI is calculated through dividing the incremental result generated by each preferred option over Hertford Theatre's 2016/17 bottom line excluding support service and divisional costs and capital finance costs.

This generates a ROI rate of 4.8% for the Cinema Only option and 4.7% for the Growth and Legacy option.

8.0 Revenue Business Plans and whole life costs

8.1 Indicative revenue business plans have been developed for each of the two preferred Options. The business plans set out total income and expenditure projected for both options.

8.2 Based on the proposed business plans, a capital finance model had been drawn up borrowing a maximum of £13.5m at 2.7% over 30 years.

8.3 There will be a potential loss of revenue during any development works and this will need to be fully assessed and managed during the procurement process to minimise impact.

8.4 Long-term full closure is not anticipated. Any proposed works can be staggered to ensure the continuous delivery of some or part of the current offer and would be tailored according to the seasonal peaks and troughs of the business.

8.5 Any period of closure would be limited, where possible, to the quieter summer months.

8.6 Opportunities are also being explored in association with partner organisations to mitigate any periods of closure to deliver a programme of work in the surrounding rural communities to generate a greater level of engagement upon completion of any works.

- 8.7 Hertford Theatre works in partnership with a number of organisations that receive ACE funding. Most recently, with Pins and Feathers to develop a new play that will open at Hertford Theatre and then tour to a number of rural community venues across the district. This funding is received on a project basis. It would be a challenge for Hertford Theatre to receive capital or revenue funding from ACE given that we are in an area of high cultural engagement and thus not a priority area for ACE. However, ACE have expressed (and demonstrated with a small grant) support for the development of Hertford Arts Hub and for the emergent cultural quarter of which the theatre is a key partner. It is in this significant partnership roles and in project work that Hertford Theatre will, in the short to medium term, enjoy support from ACE.
- 8.8 The theatre works closely in partnership with Courtyard Arts, the library and museum and opportunities could be explored to programme work into those buildings.
- 8.9 It is important to note that the business plan currently does not take into account future capital works over the 30yr period.

9.0 Sensitivity Analysis

This asks the 'what if' questions based on the idea that various assumptions might differ from the base scenario i.e an increase or decrease in net income of 25%.

9.0.1 -25% / +25% Net Income across entire CINEMA ONLY business

| | YEAR 1 | YEAR 5 | YEAR 10 |
|------------------|---------|---------|---------|
| Projected Income | £930K | £1M | £1.1M |
| -25% | (£232K) | (£250K) | (£275K) |
| + 25% | £232K | £250K | £275K |

The movement from the base model is £232k in year 1

9.0.2 -25% / + Net Income across entire GROWTH AND LEGACY business

| | YEAR 1 | YEAR 5 | YEAR 10 |
|------------------|---------|---------|---------|
| Projected Income | £1.5M | £1.6M | £1.8M |
| -25% | (£375K) | (£400K) | (£450K) |
| + 25% | £375K | £400K | £450K |

The movement from the base model is 375k in year 1

9.0.3 5% Increase in Film Distributor Commissions

- 5% increase in distributor commissions to 50% would result in a reduction of c. £45,000 in the bottom line of the Theatre in Year 1 following the implementation of the Growth and Legacy project and this would reach c £53,600 in Year 10.

10.0 RISKS

There are a number of risks associated to this work which are highlighted in the table below:

| | Risk | Impact | Likelihood | Mitigation |
|-----|---------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.1 | Failure to reach the projected number of cinema ticket sales | Reduced profit, decrease in ROI | Low | Robust management of variable costs including staff and administrative expenses, putting aside sinking funds to manage cashflow, solid promotion plan for the cinema |
| 1.2 | Failure to reach the projected number of live show ticket sales | Reduced profit, decrease in ROI | Low | Spatial planning to ensure a better ambiance in the Auditorium and the new Studio space, solid promotion plan for live shows and improved catering operations to increase appeal to the wider public |
| 1.5 | Failure to retain key staff | Risk to implementation of project and future sustainability | Low-Medium | Ensure continuation of solid leadership and management structure, industry pay scales, focus on retention and training of the core staff members |
| 1.7 | Closure of the site for long time periods during the design process | Regular users can be put off by long closure and Hertford Theatre loses touch with its immediate environment | Low-Medium | Ensure a minimum level of activity on site at all times during the project delivery to ensure business continuity and continue to serve the key audiences |

11.0 Next steps

The next steps would include a procurement process to commission a team to support the development of a full planning application for

the preferred option. If successful a tender process will take place for the construction of the works.

Parking

- The planned capital refurbishment for Hertford Theatre will require an assessment of the existing parking provision near the Theatre and the future transport needs.
- Evening users will be better catered for with the opportunity for on-street parking after 6.30pm.
- In addition, St Andrews Street car park which is situated within 2 minute walking distance of Hertford Theatre offers good levels of disabled parking but the Theatre itself currently has very limited capacity for disabled parking on site.
- Despite being unlikely to offer this facility in the future, it is planning to continue to offer a front of building 'drop-off' area for those with mobility issues.
- Further study and long-term scoping would be needed to identify the parking requirements for Hertford Theatre following refurbishment.
- A thorough review of the transport promotion strategy with a transport consultant through the design stages would be advisable - to promote greener modes of travel to the Theatre such as cycling and using public transport - as part of a wider integrated transport plan.

12.0 Economic Impact of both Options

- 12.1 The project will have a positive economic impact - not just for the Theatre, but also in the local community of Hertford and the wider district of East Hertfordshire. The proposed improvements to Hertford Theatre will foster economic growth through an expected increase in visitor numbers to the Theatre and corresponding boost in visitor spend, jobs created and salaries paid.
- 12.2 Located at the very heart of Hertford, the growth in visitor numbers to the theatre will lead to a growth in visitor numbers to Hertford.

12.3 Both options would increase visitor traffic to Hertford. The following shows the economic impact for the two options:

| Hertford Theatre Preferred Options | YEAR 5 | YEAR 5 |
|-------------------------------------------------------|-------------|-------------------|
| | Cinema Only | Growth and Legacy |
| Number of users | 156,000 | 236,000 |
| Spend on salaries, payroll + other staff | £565,000 | £714,000 |
| Direct Economic Impacts | | |
| Jobs created | 2.5 | 7 |
| Salaries paid | £565,000 | £714,000 |
| Estimated induced spending | £904,000 | £1,143,000 |
| Estimated employment supported by induced spending | 15 | 19 |
| TOTAL | £1,469,000 | £1,857,000 |
| Indirect Economic Impacts | YEAR 5 | YEAR 5 |
| Additional day visitors | 16,000 | 24,000 |
| Additional staying visitors | 3,200 | 4,750 |
| Spend by day visitors | £312,000 | £473,000 |
| Spend by staying visitors | £188,000 | £284,000 |
| Total spending by new day / staying users | £500,000 | £756,000 |
| Full time equivalent staff supported by that spending | 8 | 13 |
| TOTAL | £1,000,000 | £1,513,000 |
| TOTAL (Direct + Indirect) | £2,469,000 | £3,370,000 |
| Incremental Surplus vs. Do Nothing | £243,000 | £638,000 |

13. Overview and Scrutiny and the Executive: comments and considerations.

Overview and Scrutiny Committee

There was a positive response to the presentation and proposals provided. Members recommended that the Growth and Legacy option was put forward as the preferred option. Members raised a number of concerns included the following:

- There was a lack of member involvement and engagement regarding the development plans to date
- Wider parking implications for Hertford need to be considered with particular reference to disabled parking.
- It was highlighted that future development costs during the payback period were not accounted for.

- That there are a number of cinemas within a 30minute driving distance.
- There is a need to ensure the protection of the Motte.

The Executive

Given the opportunities for improving the vibrancy of the town centre by enhancing access to an improved cinema programme, increasing capacity in the main auditorium, creating access to Castle Gardens via the Motte and improving the public realm of the Theatre site in general, the Growth and Legacy option was supported as the preferred option for investment and development of Hertford Theatre expansion.

14. Summary /Conclusion

The Hertford Theatre currently operates with a subsidy of approximately £250k, this subsidy is likely to increase without any major enhancements to the offer or vitality to the town centre. Two models have been explored, the “cinema only” option with a cost of £5m. This option largely seeks to provide additional cinema screens to with a continued subsidy once the loan has been repaid. The “growth and legacy” option provides additional cinema screens, a café open to park and theatre users, additional studio space to diversify the offer and integrates the park via the Motte and the town by providing a walk way along the theatre to encourage connectivity through the town and develop the theatre at a hub of activity for Hertford. This option requires funding of £13.5m and proposes to generate a surplus once the loan is repaid.

15. Implications/Consultations

- 15.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper ‘A’**.

Background Papers

None

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