

MID SUFFOLK DISTRICT COUNCIL

From: Cabinet Member for Finance	Report Number: MCa/17/46
To: MSDC Cabinet	Date of meeting: 5 February 2018
Part 1	Key Decision: Yes

REGAL THEATRE STOWMARKET IMPROVEMENT PROJECT

1. Purpose of Report

- 1.1 The Council agreed at Executive Committee, in July 2016, to support a feasibility study to look further into opportunities for redeveloping the Regal Theatre, in partnership with Stowmarket Town Council ('STC') who own the facility, to assist the regeneration of Stowmarket Town Centre.
- 1.2 The feasibility, financial business case and social impact report has been completed, following remodelling of different options. The recommendation that has emerged, from the reports, is to redevelop this important venue within Stowmarket, by providing an improved main auditorium, adding two additional cinema screens (87 and 57 seats) and improving the front of house and backstage provisions.
- 1.3 These proposals are predicted to increase attendance by approximately 45,000, to a total of 114,800, people per year and enable the Theatre, and STC, to deliver a sustainable funding model. The proposed increase in visitors to the Regal Theatre will also provide substantial, predicted, social and economic benefits to the town and surrounding areas.
- 1.4 The purpose of this report is to seek Cabinet approval to fund, through capital (financed from the Transformation Fund), up to £2.56m to support the redevelopment of the Regal Theatre and regeneration of Stowmarket Town Centre. This will be provided in the form of a capital grant of £1.56m and a loan of £1m to STC.
- 1.5 The report also seeks Cabinet approval, and funding of up to £15,000, to remodel the, Ipswich Road, Mid Suffolk District Council ('MSDC') owned car park to enable the extension and refurbishment of the Regal Theatre.

2. Recommendations

- 2.1 That Cabinet approves, Option 3 (as per paragraph 8.6 of this report), the funding of up to £2.56m, (Loan and Grant) from the Transformation Fund, to support the redevelopment of the Regal Theatre and the regeneration of Stowmarket Town Centre.
- 2.2 That Cabinet authorises, that the Section 151 Officer, in consultation with the Monitoring Officer and the Cabinet Member for Finance, negotiates and enters into a legal agreement between Mid Suffolk District Council and Stowmarket Town Council for a £1m loan and £1.56m capital grant (as per paragraph 3.2).

- 2.3 That Cabinet approves, the funding of up to £15,000, from the Transformation Fund, for the remodelling of Ipswich Road car park (referred to in paragraphs 10.6 and 10.7 of this report), which will result in a reduction of, no more than, 10% of the total number of parking spaces available.

Reason for decision:

The recommendations support the redevelopment and financial sustainability of the Regal Theatre, the regeneration of Stowmarket Town Centre and provides wider social and economic benefits to Stowmarket and the surrounding areas.

3. Financial Implications

- 3.1 The proposal is to support this project with up to £2.575m of MSDC's resources. This is comprised of £1.56m capital grant towards the refurbishment of the theatre, a £1m loan to STC for the refurbishment work and £15k capital grant for the remodelling of the car park beside the theatre. All of the £2.575m will be funded from MSDC's Transformation Fund.
- 3.2 The £1m loan to STC will be taken in the form of a 30-year annuity loan, at the current PWLB rate of interest. Due-diligence has been undertaken with STC to understand their financial position and ability to repay the loan over a 30-year period. The Section 151 Officer is comfortable that STC has the ability to finance the loan.
- 3.3 In addition to the loan, STC has committed £400,000 towards the Regal Theatre Regeneration Project ('the project') from their reserves. This money has been ring-fenced by STC for the project. It will be earmarked to fund the business interruption costs arising from closure of the theatre during a phased project, refurbishment works for the existing building e.g. roof replacement which are outside the scope of the project, and a sum for contingencies, based on 10% of the total project.
- 3.4 In addition, STC has agreed to relinquish the current annual grant of £9,530 that it receives from MSDC for the maintenance of the public toilets outside The Regal Theatre, from the year in which the build phase commences.
- 3.5 There will also be a direct impact on income to MSDC through the loss of five car parking spaces, resulting in the loss of an estimated £5,000 revenue income per annum. In a worst-case scenario where 10% of the car parking is lost, the loss of income would total £7,500 per year. However, the regeneration of the Theatre is expected to increase visitor numbers and therefore may increase utilisation of the Ipswich Road car park which will provide an increase against existing income levels.
- 3.6 The overall annual revenue implications for the Council, arising from the recommended option are shown in the table below:

Description	£
Potential loss of income from reduced number of parking spaces	5,000
Loss of investment income at 0.2% from use of £2.575m from reserves	5,150
Annual loan repayment and interest from STC at the PWLB interest rate (Currently 2.74%)	(49,000)
Net annual income to the Council over the life of the 30-year loan	(38,850)

4. **Legal Implications**

- 4.1 The MSDC in exercising its powers under S.1 Localism Act 2011 and S.137 Local Government Act 1972 may provide loan and grant to STC for the refurbishment work and the car park improvement. However, the MSDC must comply with State Aid rules which can apply to funding given to charities, public authorities and other non-profit making bodies where they are involved in commercial activities.
- 4.2 In order to minimise the risk of state aid challenge and to protect the MSDC's interest, it would be appropriate for MSDC to acquire at least 50% ownership of the venue and site to be funded and /or registering a charge on the property. As recent case law has shown (Sky Blue Sport & Leisure Ltd v Coventry City Council), Any agreement to be entered into with the STC should be done on commercial terms to be state aid compliant.
- 4.3 STC and MSDC will need to ensure that appropriate legal documentation is put in place that reflects: (i) the project aims and objectives and in particular limiting MSDC's liability within the agreed financial limits and provides details of the terms of the loan and payment schedule, to include a charge against the property and the site (ii) STC is the lead partner; and (iii) A Memorandum of Understanding between STC and MSDC setting out each parties respective obligations and responsibilities under the project.
- 4.4 The procurement for the lead contractor will be completed in partnership with the STC, however the resulting contracts will be made between STC and the successful bidder.

5. **Risk Management**

- 5.1 The report links to the following risks in the Councils' Significant Risk Register:

Risk Description	Likelihood	Impact	Mitigation Measures
Failure to develop the local economy and our market towns to thrive – Risk 2b	Unlikely (2)	Bad (3)	Work with Town Councils, steering groups and partnerships to develop vision; Development of Suffolk tourism strategy; Promotion of area to attract new business; Increased commercial awareness and relationship building with our businesses.

5.2 Other project risks:

Risk Description	Likelihood	Impact	Mitigation Measures
That MSDC cannot demonstrate 'Best Value' in its use of public funds.	Unlikely (2)	Bad (3)	The feasibility study considered financial, economic, social returns on investment. The overall economic and social benefits for providing the investment outweigh not providing support to the project.
State Aid Challenge	Unlikely (2)	Bad (3)	In order to minimise the risk of state aid challenge and to protect MSDC's interest, it is proposed that MSDC acquires at least 50% ownership of the venue and site to be funded and /or registering a charge on the property. The proposal is that the loan is provided at no less than the current PWLB rate to ensure that STC do not benefit from State Aid, as this is the equivalent rate they would be able to borrow directly at.
The opportunity to make investment in our market towns to meet our Strategic Priorities and achieve a range of returns (financial, economic, social) will be missed without investment into this key regeneration project.	Likely (2)	Bad (3)	A full feasibility, business case and Social Impact study has been undertaken to demonstrate the potential benefits to Stowmarket and the district.
STC cannot deliver this capital project within budget and within the agreed timescale	Unlikely (2)	Bad (3)	An integrated project team will be established, with STC, and gateway reviews for all stages of progression agreed. A legal agreement will also be put in place to provide clear terms with regards to funding and delivery of the project.
STC are not able to honour their borrowing commitment	Unlikely (2)	Bad (3)	Full due-diligence has been undertaken prior to funding being provided by MSDC.

6. Consultations

- 6.2 The 'Vision For Prosperity' ('VFP') consultation in October 2017 provided an opportunity for residents of Stowmarket to share their views about how the town should move forward. The school children from Stowmarket High School who helped to prepare the event materials noted that the Cinema is one of Stowmarket's best features/assets, but that Stowmarket's best is not up to the standard of newer cinemas such as those in Ipswich and Bury St Edmunds. Their support for an improved cinema was one of the strongest outcomes of the school liaison event.
- 6.4 The VFP event with a broader, older participant age yielded a small number of public responses supporting the continuation and extension of the cinema (4% of comments overall). Many more comments around the "Direction of Travel" for Stowmarket concerned a significant uplift in the town's entertainment, leisure and recreational function, particularly in the evenings. When combined with the "evening and night time economy" comments, the issue accounted for 14% of all comments, the 3rd most important topic (after redevelopment of the middle school and better shops for young people).

7. Equality Analysis

- 7.1 A full equality impact assessment will be undertaken by STC in partnership with MSCDC, with regards to the design and build, to ensure the final development provides, where possible and appropriate, to enable inclusive access and welfare facilities for all customers.

8. Alternative Options Considered

- 8.1 STC is seeking an investment partner to achieve a public – public delivery model and is keen that the District Council is the main investment partner as the Councils have shared interests in the outcomes of the project.
- 8.2 The following options have been considered prior to the recommendations, in section 2, being proposed within this report: -
- Option 1-MSDC not providing financial support
 - Option 2-MSDC only providing financial support in the form of a loan to STC
 - Option 3-MSDC providing support through a capital grant and a loan (over 30yrs)
- 8.3 **Option 1** has been considered but would prevent the redevelopment of the Regal Theatre, the regeneration of Stowmarket Town Centre and the support it would provide for additional social and economic development of the town and surrounding areas. STC have explored other funding opportunities and it is clear without public sector funding this project will not be achievable.
- 8.4 This option also has the potential to risk the future of the Regal Theatre as without this investment STC will be unable to sustain the future running costs of the venue.
- 8.5 **Option 2** has been considered but as with option 1 it would also prevent the redevelopment of the Theatre. STC are unable to solely support the overall development costs of this regeneration project without MSDC as a partner.

- 8.6 **Option 3** is the recommended option as it will provide direct financial support (£1.56m), by MSDC, to assist this important redevelopment project and enable STC to provide additional funding to the project in the form of an affordable loan (£1m), over 30 years. This option enables the project to be fully funded and assists the Regal Theatre to have a long-term sustainable financial plan moving forward and provide a social and economic return to Stowmarket and surrounding area.

9. **Links to Joint Strategic Plan**

In 2014 MSDC adopted a new Joint Strategic Plan 2014 - 2019. The Joint Strategic Plan (JSP) has been refreshed and the new version adopted in June 2016. The JSP is effectively the Council's Delivery Plan, setting out the direction of the Council for the next four years. The JSP articulates three priority areas: Economy and Environment, Housing and Strong and Healthy communities which will be delivered under five key strategic outcomes.

The following key strategic outcomes are linked to this project:

- Further develop local economy and market towns to thrive
- Property investment to generate income and regenerate local areas

The regeneration of the Regal Theatre will provide direct benefits to Stowmarket through creation of additional permanent jobs, increased visitor numbers and temporary employment as a result of the construction project. An improved cinema and theatre offer will increase investment confidence and is therefore likely to attract further investment to the town.

10. **Key Information**

- 10.1 The Regal Theatre has been identified as an investment project within the Stowmarket Area Action Plan. Many people living within Stowmarket and the surrounding area, look outside of the town to gain access to amenities. In developing a sustainable community in the heart of Mid Suffolk, residents will be able to identify more readily, with their local market town, and spend their money within the local economy. The provision of a modern entertainment venue would support this approach.
- 10.2 The Regal Theatre Stowmarket is a single auditorium venue within the town centre which doubles as a cinema and theatre. The venue is profitable and well supported with a wide catchment area across MSDC district. Data collected in 2015 confirmed that the primary catchment is centred on Stowmarket and a large number of villages and settlements principally within MSDC. Secondary catchment extends to Diss in the north, Ipswich in the east, Sudbury in the south and Bury St Edmunds in the west. There is also data to confirm visits from tourists.
- 10.3 From the work already underway in Stowmarket it is clear that an improved cinema and theatre offer would increase confidence in the town centre for other investment to follow. Building on the cultural and creative offer that already exists in Stowmarket will enable the Town to establish a more vibrant and sustainable Town Centre.
- 10.4 STC in partnership with MSDC commissioned a feasibility report, in the autumn of 2016, with consultants Burrell, Foley, Fisher to understand further the potential to redevelop the existing theatre site based on option 2b of the original site option appraisal report. STC has a commitment to maintain the existing theatre provision and any redevelopment of the site would need to provide for this as well as increasing the number of screens on the site by at least two in order that it can compete for new film releases.

10.5 The feasibility study coupled with the business case and the social, economic and cultural benefits, that the development of the Regal Theatre provides the community, are compelling. For example, it is predicted that the redevelopment will have the following additional (GVA) impact on the local economy: -

- support 45,000 new visits to Stowmarket and the Regal Theatre;
- increase visitor spends within the Stowmarket area of between £500,000-£1million, based on a local visitor spending ranging from £14-£23 per visit;
- support the creation of 10-20 (FTE's) new jobs;
- support direct local spends by the theatre of £165,000;
- support direct job creation by the theatre by 3 (FTE's).

Source: - ARK Consultancy, Regal Cinema Stowmarket Evaluating the Social Impact, 2017, Shared Intelligence, Ipswich Economic Impact Summary (Culture), 2014.

10.6 Estimated project costs for this redevelopment are approx. £2.565m. These costs have been quantified by STC architects and quantity surveyors and are within Appendix 1 of this report.

10.7 The project has always identified the need for public investment, as the original options appraisal identified that it is less likely for a development of this kind to attract private investment; as private investors would have a preference for a new build.

10.8 This development project will also require the remodelling of Ipswich Street Car Park which is owned by MSDC. A measured site plan is attached to this report at Appendix 3 which shows the existing layout at Ipswich Street Car Park, together with a proposed arrangement which maximises the available space following the possible extension to the Regal Theatre. The proposed layout is based on losing ten parking spaces immediately adjacent to the north elevation of the cinema. The existing layout has a capacity of 80 spaces, including three wheelchair user bays, plus the equivalent of two spaces designated for taxis. The proposed layout would have a capacity of 75 spaces, including three wheelchair user bays, plus the equivalent of two spaces designated for taxis.

10.9 A estimated figure with regards to the capital cost of this work would be in the region of £10,000.00 to £15,000.00 with a potential £5,000 per year annual revenue loss predicted. This loss may be mitigated by the increase in attendance, of 45,000 visitors per year, to the theatre following the development.

10.10 Following the completion of the feasibility and business case STC now wish to take the development of the Regal Theatre forward and to undertake this they are seeking to gain financial support to enable them to apply for planning permission and appoint a construction partner.

10.11 The lead architect, already appointed, will be responsible for leading the project, coordinating the services of other members of the design team as well as communication with the Councils. All consultants will be directly appointed by STC using Standard Forms of Appointment, as published by the relevant professional body.

10.12 Instruction will be provided on a staged basis using a series of Gateways with no commitment to proceed to the next Gateway, unless the required outcome from the preceding Gateway has been achieved.

The gateways will be:

- **Phase 1** - Confirmation of a viable project and selection of procurement route for the construction. (30th April 2018)
- **Phase 2** - Securing Full Planning Permission and confirmation of funding. (31st July 2018)
- **Phase 3** - Obtaining a tender for the construction works, capable of acceptance. (31st October 2018)
- **Phase 4** – Construction to completion. (31st January 2019 to 1st May, 2020)

10.13 The procurement route for the construction element of the Regal Theatre project will be confirmed during Phase 1.

10.14 An integrated project team, to include MSDC, will be established to ensure project delivery.

Authorship:

Jonathan Stephenson
Strategic Director

Tel: 01449 724704
Email: jonathan.stephenson@babermidsuffolk.gov.uk

Katherine Steel
Assistant Director-Corporate
Resources

Tel: 01449 724806
Email: Katherine.steel@babermidsuffolk.gov.uk

Appendices

Title	Attachment
Appendix 1. The Regal Theatre, Stowmarket, Improvement project, 23 November 2017 Confidential documents are within Part 2 of the report	Confidential documents within part 2 of the report
Appendix 2. ARK Consultancy, The Regal Cinema Stowmarket (Evaluating Social Impact), October 2017 Confidential documents are within Part 2 of the report	Confidential documents within part 2 of the report
Appendix 3. Ipswich Street, Car Park Site Plan	 Site Plan Regal Theatre.pdf