BARKER LANGHAM

11 / 2019

EAST HERTS COUNCIL
OLD RIVER LANE ARTS CENTRE

Business Plan Assurance

BARKER LANGHAM

1 INTRODUCTION

1.1 Scope of work

Barker Langham was commissioned by East Herts Council to:

- Review and audit the Professional Reports for the Old River Lane Arts Centre project
- Review the current scheme design from a business planning perspective
- Outline key current assumptions for discussion, capture all financial data and conduct a comparison with Hertford Theatre data (and, if necessary, other comparable venues)
- Identify and explain possible differences between the two schemes
- Assimilate the review into a clear report.

Barker Langham has conducted a desktop review of all documentation, but no site visit or site-specific catering market research.

The original brief for the arts centre in 2017, against which the analysis was done, includes:

- 500 seat auditorium
- 4-screen niche cinema
- Library
- Council services One-stop shop
- Hot desking space
- Café / bar
- Shared reception space
- Meeting rooms / Rehearsal space / Dance studio
- A studio space for 80-100 people.

1.2 Bibliography

Old River Lane Options Study, Allies and Morrison, June 2017
Bishop's Stortford, Old River Lane: Viability Assessment, Montagu Evans LLP, August 2017
Bishop's Stortford Arts Centre Outline Business Case, Fourth Street, August 2017
Financial Business Case, Exempt Essential Reference Paper G – Arts Centre
Cinema Study Report: Bishop's Stortford, The Big Picture (Cinema Advisers) Ltd., July 2018
Bishop's Stortford Arts Centre: Food & Beverage Projections, SWAN, January 2019
ORL & Rhodes - Future Activities Opportunities & Crossover, October 2019

2 CATERING

Reviewed report: Bishop's Stortford Arts Centre Food & Beverage Projections, SWAN, January 2019 with related financial model

Summary	Old River Lane	Hertford Theatre	
Covers	100	60	
Cinema audience	115,000	143,639	
Theatre audience (assuming Shows, Panto, Hire shows)	85,800	110,812	
Walk-ins (off the street, community class participants)	51,740	66,880	
Annual customers	252,540	321,331	
Income	£907,030	£580,060	
Cost	£575,806	£312,700	
Gross profit	£331,224	£267,360	
A café/bar/restaurant (with a fully functioning kitchen) of 100 covers		A café with re-heating functionality of 60 covers	
Diverse menu including hot dishes		Snacks, simple dishes	
Chefs (head, sous, chef-de-partie, Commis, Kitchen porters)		Operated without chef	
A café/bar/restaurant (with a fully functioning kitchen) of 100 covers		A café with re-heating functionality of 60 covers	
Diverse menu including hot dishes		Snacks, simple dishes	

Theatre trade (assuming Shows, Panto, Hire shows)	Old River Lane	Hertford Theatre	Comments
Shows per week	4	4	
Theatre occupancy (model) Report states 71%	82.5%	64.5%	Hertford Theatre: Hire shows assumed to have lower occupancy than own productions/joint venture for both auditorium and studio theatre
Seats	500	550	
Show customer (model)	85,800	110,812	
Theatre F&B SPV	£2.00	£2.25	

Barker Langham assumes that the number of shows includes own produced shows/presented shows, panto and hire shows. Swan's report states 71% occupancy whereas, the model uses 82.5%. This is much higher than the benchmark and current performance at Hertford Theatre indicates. The occupancy used for Hertford Theatre is 64.5%.

Cinema trade	Old River Lane	Hertford Theatre	Comments
Screenings per week	28	29.65	
Screens	4	3+2	Hertford Theatre: 3 dedicated + auditorium/studio theatre
Screenings per day (model) Report states 3	4	3	
Total seats	330	200 + 550 + 150	200 dedicated screen seats 550 auditorium 150 studio theatre

Operational days	364	364	Hertford Theatre: less for auditorium/studio theatre
Cinema occupancy	22.94%	41.53%	Hertford Theatre: 3 small dedicated screens generates higher occupancy for the same size of audience Auditorium/Studio theatre mainly used for first release blockbusters and Event cinema with current, proven high occupancy
Cinema customer (model) Report states 115,000	110,208	143,639	
Cinema F&B SPV	£2.00	£1.50	Conservative estimate from Turpin Smale

Destination trade	**Old River Lane**	**Hertford Theatre**	**Comments**
Walk-ins	51,740	66,880	
Walk-ins SPV (model) Report says £9.38	£9.94	£1.22	£2.75 walk-ins £1.10 community classes

The average spend on refreshments per individual cinema visit in the UK increased from £2.69 in 2016 to £2.73 in 2017 according to BFI Statistical Yearbook 2018, p86. Even excluding VAT, the average spend is £2.28. The £1.50 for Hertford Theatre, is based on a conservative estimate by catering consultant Turpin Smale based on Hertford Theatre's current offer. Once a new menu has been agreed this value will be revised.

Full-time commercial cinemas, in multi-screen settings, have historically operated at low rates of occupancy of between 15-20% per screen. Single screen independent cinemas can achieve an occupancy rate reaching from 25%-50%, depending on location, local competition, programme and other factors. 3-5 screen independent cinemas operate at higher levels than multi-screens depending on each individual screen size. A general rule is:

- 150-200 seats - 22-25% occupancy
- 70-150 seats - 25-30%
- >70 seats - 30-50%

Swan uses an occupancy rate of 23% which is below benchmark and also below The Big Pictures (TBP) estimate of 34%. At the same time 4 screenings per day is used in the model although only 3 are stated in the written report. 3 screenings per day is what is expected at Hertford Theatre and by TBP. Assuming 4 screenings per day goes a long way of explaining the low occupancy estimate. More screenings at a low occupancy generate c.110,000 customers vs. 3 screenings at the higher occupancy generate c.120,000 customers.

The occupancy at Hertford Theatre is assumed to be at the higher end of the possible range, based on the proven track record of achieving a high occupancy for Event cinema and new programming of first release blockbusters in the bigger auditoria.

OPEX	**Old River Lane**	**Hertford**
Cost of Sale % (direct + other cost)	35.15%	35%
Cost of Staff %	28.3%	18.91%

ORL staff cost is included with £256k in the financial model. With staff cost of £197,000 for fixed positions and 7 variable positions with a multitude of employees the £256k seems to be understated. Hertford Theatre relies heavily on volunteers instead of paid staff hence the low staff cost.

3 CINEMA

Reviewed report: Cinema Study Report: Bishop's Stortford, The Big Picture (Cinema Advisers) Ltd., July 2018

General	Old River Lane	Hertford Theatre
Consultant	The Big Picture (TBP)	Independent Cinema Office (ICO)
Census population 2011	37,838	25,909
4-mile radius catchment population		52,101
20-minutes drive catchment population	82,658	
Potential admissions	214,911 (2.6 multiplier) 280,000 (3.4 multiplier)	145,882
Recommended no of screens	4-5	3-4
Recommended audience	125,000	138,000-145,000

Using the same methodology, TBP and ICO have estimated the annual cinema audience. Despite Bishop Stortford's bigger population and catchment population the recommended audience for ORL is lower than for Hertford Theatre's. The main contributing factor is that at the time of review the 6 screen Empire Cinema is operating in the Anchor Leisure Complex whilst Hertford Theatre has no immediate competitor within the catchment area. The consultant estimates that Empire Cinema had 193,500 admissions in 2017 and that ORL would capture 20% of that audience (280,000-193,000+(193.000*20%)). Barker Langham has been informed by the client that Empire Cinema is to close hence the potential audience is 215,000-280,000 without the immediate local competition with positive impact both in Cinema income and Food and Beverage income.

Cinema	Old River Lane	Comments	Hertford Theatre	Comments
Screens	4		3	
Seats	340		200	
Seats - per screen	120/90/80/50		93/64/43 (550/150)	(auditoria)
Cinema Admissions	115,000	Yr. 4	143,639	
Ticket income	£703,716		£1,219,447	
Average ticket price	£6.12	Yr. 4	£8.00	2022
Seat occupancy	33.8%	Yr. 4	41.5%	
Operational days	364	BL assumption	364	
Screenings/day	2.75	BL assumption	3	
Advertising/head	£0.28		£0.19	Current
Other income/head	£0.64			
Booking fee	£0.00		£2.00	
Film hire %	50.5%	Yr. 4	45%	
Service fee %			6%	
PRS %			1%	
Marketing/head cinema	£0.20		£0.30	
F&B SPV	£2.85		£1.50	
Cost of Sales F&B	26%		35%	

The average spend on refreshments per individual cinema visit in the UK increased from £2.69 in 2016 to £2.73 in 2017 according to BFI Statistical Yearbook 2018, p86. The proposed F&B SPV of £2.85 is more in line with the benchmark than the prudent assumption for Hertford, especially considering the inclusion of a destination bar/restaurant in the ORL scheme. Cost of Sales are low, and Barker Langham recommend that the 35% suggested by SWAN, and used for Hertford Theatre, should be used.

The assumed average ticket price is £6.12. According to BFI Statistical Yearbook 2018 the average UK ticket price in 2017 was £7.49. The equivalent price is £8.94 in London, £7.42 in East England and £7.37 in South and South East England. Based on benchmark performed by Barker Langham and the statistics from BFI, the assumed yield is on the lower end of what can be achieved, especially considering the proposed inclusion of Event Cinema with its higher ticket price.

Assuming 364 operational days per year, Barker Langham has calculated the number of screenings per day to be 2.75. This is lower than expected. SWAN use 4 screenings per day in their financial model and Empire Cinema currently shows 4 screenings most days. The financial model for Hertford Theatre includes 3 screenings per day to be prudent although 4 screenings per day are likely towards the end of the week.

No booking fee is specified in the financial model for ORL although there is Other income per head of £0.68. Booking fee is commonplace today. Cineworld currently charges £0.70 per ticket, Empire charges £0.70 per online transaction and Hertford charges £1.00 per ticket.

4 THEATRE

Reviewed report: Bishop's Stortford Arts Centre Outline Business Case, Fourth Street, August 2017

General	**Old River Lane**	**Hertford Theatre**
Main Auditorium including fly tower	Yes	Yes
Auditorium seats	500	550
Dedicated cinema seats	Unknown	200
Studio Theatre	Unknown	Yes
Total Income	£965,100	£2,070,255

	Old River Lane	**Hertford Theatre**		
Pantomime			**Pantomime**	
Performances	30	50	Performances	30
Occupancy	80%	80%	Occupancy	80%
Average ticket price excluding VAT	£14.90	£14.00	Average ticket price excluding VAT	£14.90
Seats	500	525	Seats	500
Attendees	12,000	20,962	Attendees	12,000
Margin	60-70%	48%	Margin	60-70%
Performances	30	50	Performances	30
Average ticket price	Data missing £6.88 based on assumptions above	£16		
Number of performances	Data missing			

The mix of genres is key to assess expected occupancy levels and yield for a theatre. Pantomime and Comedy achieved an average occupancy of 75% and 73% respectively in 2016 whilst Plays and Family theatre achieved 55% and 60% respectively[1]. Artistic vision and programming of genres are key inputs for the project but so far it is unclear how this will be managed.

Of high importance is also the artistic decision of whether the venue is mainly a "presenting" or "producing" venue. A complication to compare ORL with Hertford Theatre is that Fourth Street seems to assume that touring companies pay a hire fee and keep the ticket income. These productions are reported as ticket income in Hertford Theatre, and the profit share reported as production cost. It is not possible to do a like for like comparison.

Pantomime	**Old River Lane**	**Hertford Theatre**
Performances	30	50
Occupancy	80%	80%
Average ticket price excluding VAT	£14.90	£14.00
Seats	500	525
Attendees	12,000	20,962
Margin	60-70%	48%

Barker Langham chose not to propose a big increase in Pantomime ticket prices, instead assumed a continued high occupancy level of 80% in the new 550 seat auditorium, which is above benchmark. The proposal for ORL to charge £14.90 at 80% occupancy is ambitious but not unattainable. Hertford Theatre has successfully increased number of pantomime performances year on year and is now expected to perform the show 50 times in December. Fourth Street proposes 30 pantomime shows, which is prudent for a new venue. Moreover, there is local competition from Rhodes Arts Centre's Family Christmas Show in the area.

[1] UK Theatre Sales Data Report 2013-2016

Live	Old River Lane	Hertford Theatre
Performances	120	120
Average ticket price excluding VAT	£13.14	£16.00
Seats	500	550
Attendees	44,550	42,900
Margin	60-70%	26%

32.5% of ORL's ticket mix for live shows (all shows excluding pantomime) are Children's Entertainment and Stand-up Comedy with low average yield, £8.68 and £11.51 respectively. Barker Langham analysis of Hertford Theatre's actual yield per these genres in 2017/18 showed a yield of £12.54 and £18.87 respectively. This explains why the proposed average yield are much lower for ORL (£13.14) compared to Hertford Theatre (£16.00).

Hire	Old River Lane	Hertford Theatre
Performances		90
Occupancy		60%
Hire fee		£1,500
Seats		550
Attendees		29,700

The business model for Hertford Theatre includes own productions and presenting touring productions with a variety of revenue share models. Ticket sale for these productions are reported as ticket income and production cost or revenue share is reported as expenditure. Hertford Theatre also rent out the auditorium on a fixed day rate, where the production company takes all ticket sale income. 90 hire days are included in the Hertford Theatre business model. Fourth Street makes no distinction between touring productions and hire production in the business model and has not included income from day rate rental. It is thus interesting to note that in the high-level options modelling for option 1a Fourth Street has included a day hire fee at £5,000 and for option 1b at £3,500. This should be compared to the new proposed charge of £1,500 for a full day rental at Hertford Theatre - which was questioned by some of the current hirers.

Fourth Street have reduced all ticket income by 20% as implied hire fee – and the reason for this isn't stated. What is clear is that the surplus these productions generate seems overstated when comparing Net income or Implied hire fee income after deducting programming costs. The margin is between 60-70%. This can be compared with the margin from performances at the Rhodes Arts Complex that has increased from 4% in 2011/12 to 20% in 2014/15, or the 48% achieved from Pantomime (own production), or 26% from presented productions at Hertford Theatre.

There is a similar staff structure and salary/wage cost proposed for both venues although ORL includes positions that are covered by the allocated council service fee at Hertford Theatre, i.e. Finance Director, Finance Manager etc and Hertford Theatre has more on volunteer resource.

Fourth Street include marketing costs of 7.5% of income from performance income (theatre and cinema sale). This is higher than the assumptions for Hertford Theatre for performance attendees, but Hertford Theatre also includes marketing cost for community events attendees and café walk-ins.

Other	Old River Lane	Hertford Theatre
Booking fee		£2.00
Marketing cost	7.5% of performance income	£0.30 per attendee
Theatre p.p	£0.81	£0.30
Cinema p.p.	c.£0.46	£0.30
Community events		£0.30
Café walk-ins		£0.30

5 PRIVATE HIRE/HOT DESKING

No hire income is included from venue or desk hire, so this analysis is outstanding. According to James Gardner there is an ongoing commissioning for this piece of work.

6 CONCLUSIONS

Barker Langham have reviewed all reports provided by the client. The overall impression is that the overarching business model is further from completion than originally expected. There is a lack of clear assumptions supporting the financial case as presented in the 'exempt essential reference paper G' regarding the spatial scheme, audience numbers, staff or price structures, and the external consultant reports are not reflected in the financials. There is also a lack of coherence between the consultant reports about what is included in the scheme and some missing assumptions in the individual reports to fully understand the numbers.

- Artistic vision and programming are key inputs for the project but so far it is unclear how this will be managed.
- There is no coherence around what the scheme includes -in regard to space usage and sizes.
- Each report includes venue costs only for its area of expertise.

Catering

- To include a destination café/bar in the scheme increases the risk with its inherent uncertainty that people will use it in good numbers, but the possible financial contribution is also higher.
- It appears the catering business model does not capture the full staffing costs suggested by the detailed staffing structure.
- The model does not capture the trade from the library or expected participants from community/hire events.

Cinema

- Assumptions for ticket sales are based on a best practice methodology but news that the only local cinema competitor will close down more than doubles the potential.
- Assumptions for average ticket yield are low and below general benchmarks.
- Advertising income per seat is 50% higher than Hertford Theatre currently achieves.
- Number of daily screenings are low based on assumptions Barker Langham derived from report

Theatre

- The business model proposed is somewhat unclear regarding the split between own productions, presenting touring productions, and hiring the venue for fixed fee.
- The assumed margin from shows are much higher than expected.
- Although the report states that a smaller flexible studio may be included the business model doesn't show this.
- A key assumption was that Rhodes Arts Complex would move to the new venue hence not generating any competition. The new business model needs to include 'cannibalism' from Rhodes Arts Complex.
- The average ticket prices for live shows are much lower than assumed for Hertford Theatre. The key driver is assumptions about yield for comedy and children shows.
- There is no hire income included for ORL, whilst 35% of all shows in the main auditorium at Hertford Theatre are hires.

BARKER LANGHAM

1 Naoroji Street
London WC1X 0GB

+44 (0)20 7278 7847
info@barkerlangham.co.uk
www.barkerlangham.co.uk