



02 /  
2021

**EAST HERTS BOROUGH COUNCIL**  
**OLD RIVER LANE ARTS CENTRE**  
Financial model

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# I INTRODUCTION

East Herts District Council (EHDC) have made significant progress understanding the offer and the brief for Old River Lane Arts Centre (ORL AC) in more detail, and have commissioned Barker Langham to update the financial model based on the new brief. The project is still in pre-RIBA Stage 1.

## 1.1 Scope of work

Barker Langham was originally commissioned by EHDC to:

- Review and audit the Professional Reports for the Old River Lane Arts Centre project
- Review the scheme design from a business planning perspective
- Outline key 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.

The latest scope of work includes creating a financial model for the proposed arts centre including cash flow calculations to repay the fully loan funded scheme. The model includes:

- Allocated costs for Support Services from the council
- Interest payments and investment related costs
- Projected capital requirements as advised by Cityheart

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

The revised brief includes:

- A 25,000 sq ft (2322 sqm) building
- 5 screens with 410 luxury seats/high end fixtures and fittings used for a mix of 1st and 2nd release screenings and 'live' digital screening
- Screen sizes: 150 seats, 80 seats, 80 seats, 50 seats and 50 seats
- Live performance weekly in 80 seat cinema on Friday/Saturday evenings (music/comedy/cabaret style events)
- Community based live performances/workshops to be held weekday afternoons (i.e. parent/toddler shows, dementia friendly music performances etc) 2 – 3 times per week in downstairs café/foyer space
- Downstairs café/bar will be a light café/bistro offer, not a destination restaurant.
- Operational model: cinema and café/bar spaces operated in-house
- Not included: Outdoor performance in the public realm – this space could be used for outdoor screening of live sports events, theatre productions, music concerts as well as other leisure use such as an ice-skating rink in the winter.

## 2 SUMMARY

### 2.1 Building size

	5 screens
Total GIA, Sqm	2,323

### 2.2 Spatial elements

Spatial Elements
Foyer
Cinema Screen 1, 150 seats
Cinema Screen 2, 80 seats
Cinema Screen 3, 80 seats
Cinema Screen 4, 50 seats
Cinema Screen 5, 50 seats
Café/Bar with 60 cover

### 2.3 Audience numbers

	2029
Live performance audience	3,223
Cinema audience	175,526
Community performance/workshops in foyer	3,292
Destination trade F&B	23,040
<b>Total venue audience</b>	<b>205,060</b>

### 2.4 Staff structure

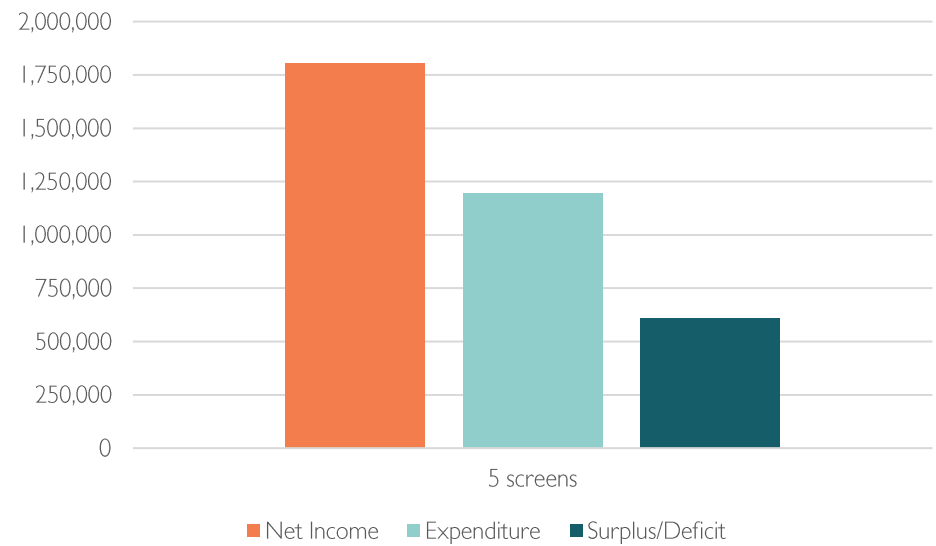
Staff Positions	FTE
General Manager	1
Marketing & Social Media Manager	1
Marketing / Social Media Assistant	0.5
Programme & Events Manager	1
Box Office / Ticketing Manager	1
Box Office / Ticketing Assistant	1.5
Duty Manager	2
AV / Digital Technician	2.5
Ushers, Volunteer contacts, Programmes/Workshops assistants etc	11.5
Café/Bar Manager & Staff	
<b>TOTAL</b>	<b>22</b>

### 2.5 F&B operational model

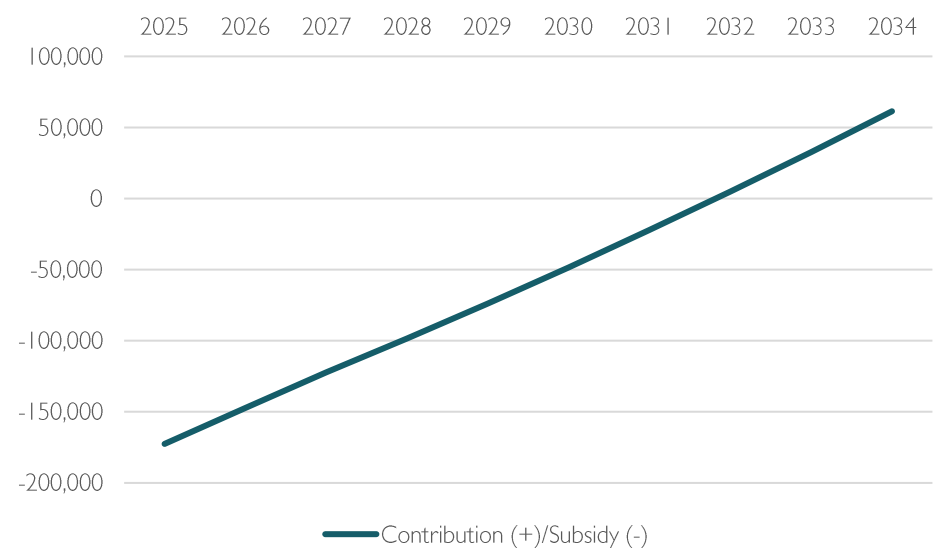
Operational model	In-House Net profit, %
	31

2.6 Surplus/Deficit & Cashflow

ORL AC is expected to reach an operational net income of £1.8m in 2029 achieving a surplus of £0.6m.



The operation is expected to need a subsidy during the initial seven years post opening with an initial requirement of c. £170,000 in 2024/2025.



## 3 FINANCIAL PROJECTION

### 3.1 General Financial Assumptions

#### 3.1.1 Inflation

The Consumer Prices Index (CPI) 12-month rate was 0.6% in January 2021, as reported by the Office for National Statistics, which is below the Monetary Policy Committee's 2% target. Given that The Bank of England's CPI target is 2%, a 2% inflation has been applied to all income and expenditure generators throughout the forecast.

#### 3.1.2 VAT

The VAT position is yet to be confirmed for ORL AC so all income and cost projections are calculated excluding VAT for the purposes of this Financial Model.

### 3.2 Income

The income model for the ORL AC has five key income streams, which will be detailed in the following sections:

1. Live Performance income
2. Cinema income
3. Private hire income
4. Food and Beverage income
5. Other income

#### 3.2.1 Live Performance Income

Live performance is assumed to take place weekly on the ground floor 80 seat cinema on Friday/Saturday evenings. Performances are assumed to include varied genres such as music, comedy, and cabaret style events.

Performance	Seats	Occupancy, %	Ticket price, £	Shows/ Screenings per day	Operational days	Cost of delivery, %	Note	Source
Live performance	80	75	14	1	52	75	Own production cost or compensation to performer.	Based on UK Theatre Sales data reports and actual tickets sale Hertford Theatre

#### 3.2.2 Cinema Income

The five screens with a total of 410 seats in high end fixtures and fittings cinemas will offer a programme of films, a mix of 1st and 2nd release screenings, and special events such as 'live' digital screenings, live Q&A's, etc. This is not envisioned to be a multi-plex, like the current Empire Cinemas, but more like Curzon Cinemas, Everyman Cinemas or Picturehouse Cinemas.

Performance	Seats	Occupancy, %	Ticket price, £	Shows/ Screenings per day	Operational days	Cost of delivery, %	Note	Source
Cinema	410	32.7	11.3	3.5	364	50	49% distributor fee, 1% PRS	Occupancy based on Independent Cinema Office advice Ticket yield based on benchmark of high-end cinema operator's financial outcome
Screen 1	150	25.5	38					
Screen 2	50	40	20					
Screen 3	80	35	28					
Screen 4	80	35	28					
Screen 5	50	40	20					

### 3.2.3 Private Hire Income

Private hire income is generated from hiring out the cinemas for private screenings/parties and corporate meetings and presentations. Not only does the venue hire increase audience numbers but also generates additional catering income.

Private hire	Seats	Occupancy, %	Average attendees	Hire fee, £	Events/Classes per day	Operational days	Source
Cinema private screenings	50	75	37.5	450	1	26	Benchmark local cinema operators
Operational Capacity Year 1	60						
Operational Capacity Year 2	85						
Operational Capacity Year 3	100						
Operational Capacity Year 4 onwards	100						

### 3.2.4 Food & Beverage Income

The complex will feature a licensed bar in the light café/bistro serving simple but well-made food serving live performance attendees, cinema audience, staff, community programme visitors and walk-up customers alike and provide a comfortable, appealing, and affordable environment, which will contribute to the creation of a cultural hub and increased dwell time. A great ground floor café/bar will act as the 'living room' for the community where patrons come to eat, meet, and enjoy programmes such as installations, intimate gigs, community performances/workshops and conversation. The space will also be inter-generational - so can appeal to a wide audience.

This is not intended to be a destination restaurant but will still attract café only patrons. The café will benefit from its central position opposite Coopers of Stortford and the adjoining square. The café is expected to be operated by an in-house team to secure control of products and service delivery and allow programmes delivered in the foyer and café/bar. In-house management would also give ORL AC an opportunity to employ local workforce and offer work placement. Cost of production is assumed to be 40%, Other direct cost 4% and staff cost is assumed to be 25%.

F&B	Average Spend per Visitor, £	Cost of Food & Beverage, %	Other direct cost, % Consumables, Card charges, etc	Cost of Staff, %	Net profit, %	Destination customers	Source
Live performance	6.5	40	4	25	31		Benchmark of high-end cinema operators' financial performance
Cinema	6.5	40	4	25	31		
Community based live performances/workshops	1.1	40	4	25	31		
Cinema private screenings	2.25	40	4	25	31		Package for drink and light snack
							Assumption: SWAN's proposed average spend for breakfast, lunch, and all-day drinks customer (£7.83)
							Average of all sandwich, breakfast, brunch, lunch, and kids' menu items at Café Contemporary with the addition of £4 for drinks/patisserie (8.04 excluding VAT)
Destination trade (only F&B customers)	8	40	4	25	31	18,250	

### 3.2.5 Other Income

#### 3.2.5.1 Advertising Income

It is customary to advertise prior to cinema screenings. This would be provided by one of the leading cinema advertisers. Advertising would generate approximately £0.28 per admission.

Other Income	Fee per ticket, £	Tickets	Source
Cinema advertising	0.28	174,155	Benchmark and Cinema consultants' input

#### 3.2.5.2 Booking fees

It is customary to charge a booking fee in addition to the ticket face value when booking live performance and cinema tickets. The fee is to cover administrative and system costs. This fee can be charged either per ticket or transaction and is sometimes applied only to online bookings. A benchmark of local cinema providers shows that a variety of charging models applies, online booking fee are applied per ticket or per transaction. It is recommended that ORL AC introduce a booking fee of £1.00 per transaction on all tickets sold online or over the phone across all types of ticketed activities. It is assumed that booking fee is applied to 25% of all sold tickets.



Other Income	Fee per ticket, £	Tickets	Penetration	Source
Booking fee per transaction	1	174,155	25	Benchmark of local cinema operators

### 3.2.6 Total Income

In the table are the income projections for ten years following the opening of ORL AC, which are based on the spatial area breakdown proposed, and the various assumptions explored previously.

Net Income		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Ticket Income	Cinema	1,066,923	1,095,336	1,124,507	1,154,454	1,185,198	1,216,762	1,249,165	1,282,432	1,316,585	1,351,647
	Live performance	12,057	12,378	12,707	13,046	13,393	13,750	14,116	14,492	14,878	15,274
Food & Beverage Income		439,391	451,087	463,095	475,423	488,079	501,071	514,410	528,104	542,162	556,595
Private Hire Income		7,751	11,200	13,440	13,708	13,983	14,262	14,547	14,838	15,135	15,438
Other Income	Cinema Advertising	53,839	54,915	56,014	57,134	58,277	59,442	60,631	61,844	63,080	64,342
	Booking Fee	43,539	43,539	43,539	43,539	43,539	43,539	43,539	43,539	43,539	43,539
Total Net Income		1,623,498	1,668,455	1,713,301	1,757,303	1,802,468	1,848,826	1,896,408	1,945,249	1,995,379	2,046,835

## 3.3 Expenditure

The operation of the site has a range of indirect costs, including human resources, National Non-Domestic Rates, upkeep and maintenance of the building, marketing and office and administrative costs. These costs are based on the venue operating as an active and vibrant place and are required to ensure the day-to-day operation of ORL AC.

### 3.3.1 Staff Structure and Cost

These costs cover the staff for ORL AC, including the operation and facility management and the public programmes delivery. They assume that the café/bar operation are run in-house but costs related to café/bar staff are included as a direct cost in the Food and Beverage income section above. The proposed staffing structure allows the site to be open to the public all year around for seven days per week. As a council operated venue there will be opportunities for volunteering. There are roles proposed for learning and participation as well as community outreach - reflecting the project vision. These roles could also incorporate elements of well-being, and other community-related health and lifestyle initiatives.

ORL AC could potentially employ 22 FTE staff with additional employees operating the café/bar. Human Resource costs are assumed to include pension and national insurance.

Staff Positions	FTE
General Manager	1
Marketing & Social Media Manager	1
Marketing / Social Media Assistant	0.5
Programme & Events Manager	1
Box Office / Ticketing Manager	1
Box Office / Ticketing Assistant	1.5
Duty Manager	2
AV / Digital Technician	2.5
Ushers, Volunteer contacts, Programmes/Workshops assistants etc	11.5
Café/Bar Manager & Staff	
TOTAL	22

The proposed salaries assumes Council pay scale and are based on the salary scales determined per level for each job at EHBC in 2019/20. A weighted cost of £26,072 is applied per position. Some administrative functions will be proved by the council and these costs are allocated below as Support Service & Divisional Costs.

### 3.3.2 Facility Management, Marketing, Office and Administrative Costs

A marketing budget per visitor of £0.3 is recommended. This budget is essential to ensure that ORL AC is adequately promoted and that there is a robust promotional strategy in the long term. The cost is assumed to promote both cultural and commercial activities in the building.



Costs for utilities, waste, cleaning, building maintenance and insurance are calculated using benchmarked cost per sqm over the Gross Internal Area of 2,323 sqm.

It is assumed that the arts centre do not pay rent. The cost for Non-Domestic Rates is based on benchmarks of other mixed-use multi-cultural venues pro-rata based on the footprint and assumes an 80 per cent discount for properties used by charities.

	£/sqm	Allowance, £	Source
Cleaning	1.5		Benchmark from previous BL projects and validated against Hertford Theatre
Waste management	3		Benchmark from previous BL projects and validated against Hertford Theatre
Utilities	19		Benchmark from previous BL projects and validated against Hertford Theatre
Building maintenance	23		Benchmark from previous BL projects and validated against Hertford Theatre
Non-Domestic Business Rate	8		Benchmark from previous BL projects and validated against Hertford Theatre
Marketing cost/visitor	0.3		Benchmark from previous BL projects and validated against Hertford Theatre
Insurance	5.5		Benchmark from previous BL projects and validated against Hertford Theatre
Office supplies cost allowance		30,000	Benchmark from previous BL projects and validated against Hertford Theatre
Other admin costs		7,000	Benchmark from previous BL projects and validated against Hertford Theatre

### 3.3.3 Community Programme

Community based live performances/workshops are offered weekday afternoons 2-3 times per week in the café/foyer space. The community programme would support the development of ORL AC to a community-centric cultural hub. The proposed programme includes parent/toddler shows, dementia friendly music performances, etc).

The community programme will be delivered both by in-house staff as well as by partner organisations. In this financial model it is assumed that these programmes are all delivered free of charge. It is assumed that c.130 activities are offered each year which will reach more than 3,200 participants. It will take time to develop the in-house programmes and partnerships with other organisations, so it is assumed that 60% of the programmes are delivered in Year 1, increasing to 85% in Year 2 and to 100% from Year 3.

Community Programme	Attendees/session	Events per week	Ticket price, £	Delivery cost/session, £
Community based live performances/workshops	25	2.5	0	350
Operational Capacity Year 1	60			
Operational Capacity Year 2	85			
Operational Capacity Year 3 onwards	100			

### 3.3.4 Other Expenditure

Some administrative services (Legal, HR, Accounting and Building Management services) will be proved by the Council. These costs are allocated as Support Service & Divisional Costs. The allocation, £169,870, is equal to allocation allocated to Hertford Theatre since this cannot be calculated.

### 3.3.5 Total Expenditure

In the table are the expenditure projections for ten years following the opening of ORL AC, which are based on the spatial area breakdown proposed, and the various assumptions explored previously.

Expenditure		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Staff Costs		633,276	645,942	658,861	672,038	685,478	699,188	713,172	727,435	741,984	756,824
Other Expenditure	Non-Domestic Rates	20,518	20,929	21,347	21,774	22,210	22,654	23,107	23,569	24,040	24,521
	Marketing spend	65,774	67,794	69,759	71,615	73,520	75,475	77,483	79,544	81,660	83,832
	Office supplies	33,122	33,785	34,461	35,150	35,853	36,570	37,301	38,047	38,808	39,584
	Insurance	14,106	14,388	14,676	14,970	15,269	15,574	15,886	16,204	16,528	16,858
	Other admin costs	7,729	7,883	8,041	8,202	8,366	8,533	8,704	8,878	9,055	9,236
	Cleaning	3,847	3,924	4,003	4,083	4,164	4,248	4,333	4,419	4,508	4,598
	Utilities	48,731	49,705	50,700	51,714	52,748	53,803	54,879	55,976	57,096	58,238
	Building Maintenance	58,990	60,170	61,373	62,601	63,853	65,130	66,432	67,761	69,116	70,498
	Waste	7,694	7,848	8,005	8,165	8,329	8,495	8,665	8,838	9,015	9,195

	Community based live performances/workshops	50,236	51,240	52,265	53,311	54,377	55,464	56,574	57,705	58,859	60,036
Support Service & Divisional Costs		169,870	169,870	169,870	169,870	169,870	169,870	169,870	169,870	169,870	169,870
Total Expenditure		1,113,894	1,133,479	1,153,360	1,173,490	1,194,035	1,215,004	1,236,405	1,258,247	1,280,539	1,303,292

## 4 SURPLUS/DEFICIT

The following table shows the summary of the overall projected operational result for the project. It illustrates that through the proposed scheme, ORL AC can generate a total net income of c.£1.6m in its first year after opening, while this is likely to increase to c.£2.0m in Year 10. This would result in an operational profit of c.£0.5m in Year 1 increasing to c.£0.7m in Year 10.

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Net Income	1,623,498	1,668,455	1,713,301	1,757,303	1,802,468	1,848,826	1,896,408	1,945,249	1,995,379	2,046,835
Expenditure	-1,113,894	-1,133,479	-1,153,360	-1,173,490	-1,194,035	-1,215,004	-1,236,405	-1,258,247	-1,280,539	-1,303,292
Surplus/Deficit	509,604	534,976	559,941	583,813	608,432	633,822	660,004	687,002	714,840	743,543

## 5 CAPEX AND CASHFLOW

### 5.1 CAPEX

To give an indication of the level of Capital Expenditure required to deliver the project the estimate is c. £15.4m.

	Sqm	Rate	Final scheme
Cinema shell	2,322.56	1,875	4,354,794
Cinema/Café/Foyer Fit out	2,322.56	2,375	5,516,072
Design enhancement			500,000
Sub-Total			10,370,866
Demolition	1,084,390.00	20%	216,878
Site wide Costs	6,057,988.00	20%	1,211,598
Total Construction Costs			11,799,341
Design Fees		11.30%	1,333,326
Inflation		6.20%	731,559
CH DM Fees		3.50%	459,643
Contingency		7.50%	884,951
Marketing			150,000
Total			15,358,820

### 5.2 Cashflow

The UK Debt Management Office, DMO, provides Public Works Loan Board (PWLB) loans to local authorities for capital projects on behalf of HM Treasury. The terms, arrangements and interest rates are determined by HM Treasury.

Fixed interest rates are published twice a day. The fixed standard new annuity loan rate offered by DMO for terms over 30 years but not over 30 1/2 years on 16 February 2021 was 2.01%. Until EHBC have secured terms for a fixed annuity loan there is a risk of fluctuation in the terms offered.

The loan for this project must be serviced out of its revenues and not by other Council income. Annual interest and principal payment is assumed to be £682,152.

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Profit/Deficit	509,604	534,976	559,941	583,813	608,432	633,822	660,004	687,002	714,840	743,543
Loan repayment (interest + principal)	-682,152	-682,152	-682,152	-682,152	-682,152	-682,152	-682,152	-682,152	-682,152	-682,152
Contribution (+)/Subsidy (-)	-172,548	-147,176	-122,211	-98,339	-73,720	-48,330	-22,148	4,850	32,688	61,391

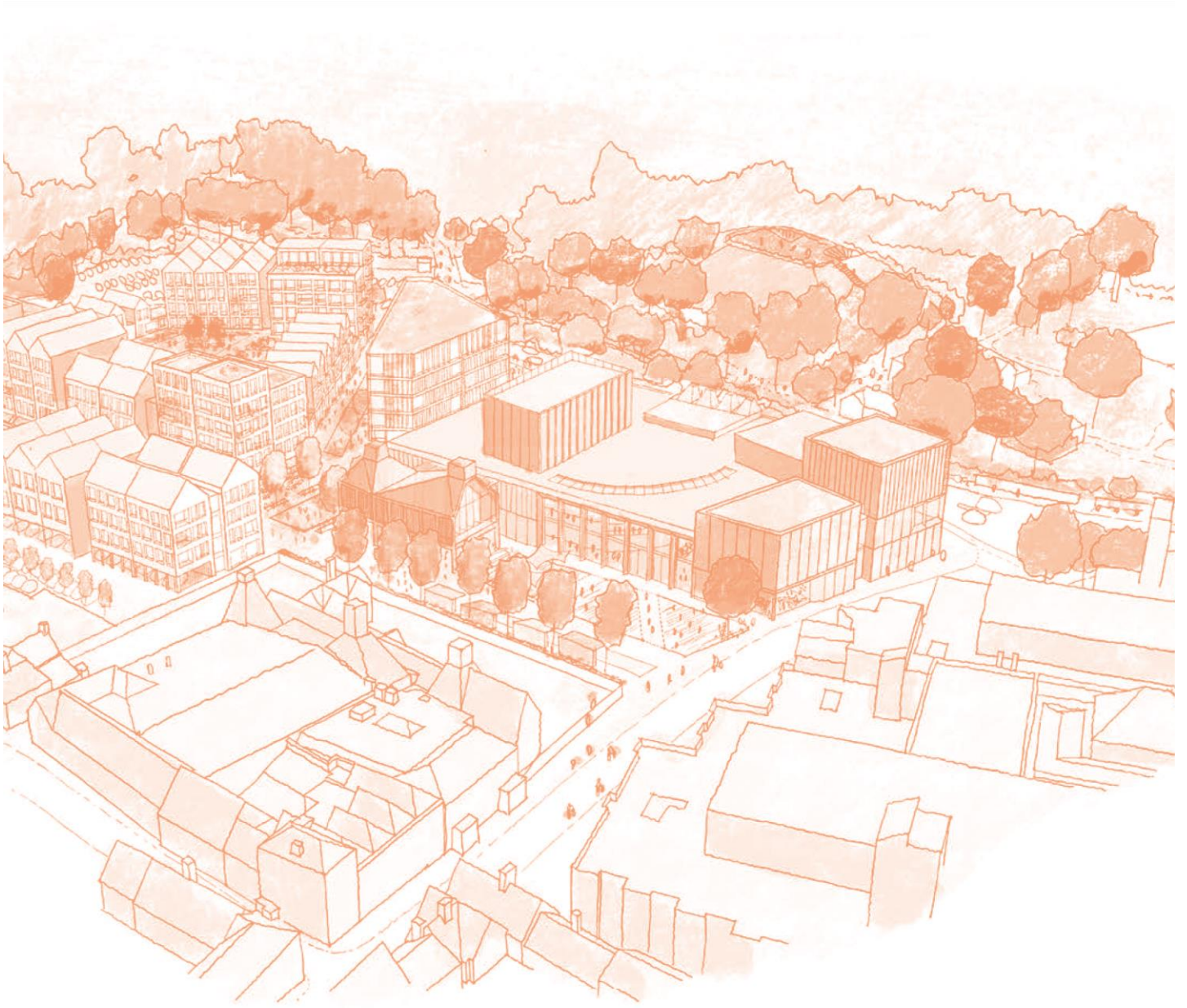
The arts centre would require a subsidy for the first seven years before breaking even. Each subsequent year from year eight the arts centre will contribute to the Council budget. Over the 30-year loan period the arts centre is assumed to be a net contributor, generating a surplus of £6,928,497.

## 6 ECONOMIC IMPACT AND POST COVID-19 RECOVERY

The building will be embedded in a great economic environment in the new Old River Lane development. It is expected that this project will have a positive economic impact for Bishop Stortford. The proposed project will foster economic growth through the expected visitor numbers to the site and corresponding boost in visitor spend, jobs creation, salaries paid and local procurement. Once opened, the new project will inevitably lead to increased footfall in the area. The project is expected to generate c.200,000 visitors a stable year, generating economic impact.

The project will have a powerful role in post Covid-19 recovery. It will be a strong signal of the commitment to economy and communities in Bishop Stortford. The whole project is an important catalyst to stimulate investment, a visible signifier of long-term strategy. Covid-19 has exacerbated existing social and economic issues, so never before has community cohesion, skills, jobs and economy been so important.

The recovery from Covid-19 will be a long-term task, and the impact will be felt for many years. Whilst it is no silver bullet, the “creative economy” has proven to be successful in boosting economic growth, especially in situations of economic and social distress. This is because the arts and culture can assist directly in being a catalyst for employment, entrepreneurship, innovation, social revitalisation, and cohesion.



160 Packington Street  
London N1 8RA

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