

 Executive – 10th July 2013		Agenda Item No. 7
Title	Upgrade of Royal Spa Centre Screening Equipment and Supporting Business Case	
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Wards of the District directly affected	All	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No	
Date and meeting when issue was last considered and relevant minute number	N/A	
Background Papers	Royal Spa Centre Cinema Business Case	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	No
Equality & Sustainability Impact Assessment Undertaken	No

Officer/Councillor Approval		
Officer Approval	Date	Name
Deputy Chief Executive	24 th Jun 2013	Andrew Jones
Head of Service	24 th Jun 2013	Rose Winship
CMT	24 th Jun 2013	Chris Elliott, Andrew Jones, Bill Hunt
Section 151 Officer	24 th Jun 2013	Mike Snow
Monitoring Officer	24 th Jun 2013	Andrew Jones
Finance	24 th Jun 2013	Jenny Clayton Mike Snow
Portfolio Holder(s)	24 th Jun 2013	Cllr Stephen Cross
Consultation & Community Engagement		
No formal consultation, however the temporary suspension of the cinema since March 2013 has resulted in many informal expressions of interest from the general public.		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		

1. SUMMARY

- 1.1 The report seeks approval to purchase digital screening equipment. This will replace the existing 35mm cinema equipment at the Royal Spa Centre.
- 1.2 For a number of years the cinema operation at the Royal Spa Centre has been running at a small loss. Purchasing new equipment with the latest technology will reduce running costs whilst increasing audience numbers and income.

2. RECOMMENDATIONS

- 2.1 That the Executive approve a maximum allocation of £37,000 (exact costs subject to the results of the procurement process) to allow the purchase of digital screening equipment and necessary enabling works.
- 2.2 Although the Digital Cinema Package cost is £29,995, to enable the Digital Cinema Package to screen live cultural events and have an active automated function a contingency of £7,000 has been added to the final figure to cover the cost of the satellite link, automated equipment and specialist cabling required.
- 2.2 The Executive approve that the final decision as to the most appropriate financing of the purchase (as demonstrated by way of the Options Appraisal) be delegated to the Head of Finance in consultation with the Portfolio Holders for Culture and Finance.

3. REASONS FOR THE RECOMMENDATION

- 3.1 Data provided by the Royal Spa Centre box office and the WDC Finance department shows that the Royal Spa Centre Cinema has been running at an average annual deficit of £8,000 for several years. This is a downward trend which must be addressed quickly to avoid escalation. The cinema provision was temporarily suspended in March 2013 until these underlying issues could be addressed. Data taken from the last two financial years clearly highlights that staffing costs, film distribution and associated charges have depleted any possible income. In 2012/13 income of £31,200 was offset by expenditure of £42,000, resulting in a deficit of £8,800.
- 3.2 The Cinema Supervisor post was removed from the establishment as part of the restructure earlier in the year as the previous reel film was not sustainable and alternative options needed to be investigated for the future delivery of films. The Digital Cinema Package means that the cinema can be operated by any member of the Royal Spa Centre's existing in-house Technical crew and many of the processes could be automated using technology.
- 3.3 With the investment in new equipment the cinema expenditure could be cut dramatically, turning deficit into profit and showing estimated annual profits of £20,900 in 2014/15 with only a modest increase in ticket sales. There will also be a part year increase during 2013-14 after the new equipment is introduced.
- 3.4 In 2010, more than 70% of new theatrical films in the UK were released in digital cinema format (occasionally alongside 35mm, often solely in digital cinema format). It is now accepted that the Digital Cinema Initiative approved digital cinema format will replace conventional 35mm film projection as the principal format used in professional film distribution and exhibition. Most commercial cinemas and many independents have already made, or are now in the process of making, the transition to digital and installing digital projection

equipment in all their screens. It is most likely that the 35mm cinema projector equipment the RSC currently uses will become completely obsolete by 2014\15. It is already challenging to source 35mm copies of some films, as the number of UK releases in that format continues to shrink. Options are limited and the high demand for 35mm film stock has resulted in logistical difficulties.

- 3.5 Non-film uses, especially the screening of live cultural events, may become important additional revenue streams. A number of cinemas in the UK are now offering live and recorded cultural and sporting events in cinemas and reporting revenues 200% to 400% over regular film screenings.
- 3.6 The Royal Spa Centre received a large number of enquiries from the public since the service was suspended at the end of March 2013. The general consensus is that closing the cinema in its entirety would have a detrimental effect on the District's cultural offering. The broad programme of films and competitive pricing is an important alternative to other providers in the District and is highly valued by a loyal customer base. It is considered that with a more structured marketing approach there will be significantly more opportunities to target specific audiences for certain events and quickly grow the audience base for the cinema.

4. POLICY FRAMEWORK

- 4.1 The efficient and effective cinema screenings make a significant contribution to making the district "a great place to live, work and visit". Well managed, quality screenings and activities will attract a wide range of users, regardless of their financial position. This purpose is reflected in the Service Area Plan for Cultural Services.
- 4.2 The project is part of the Fit for the Future programme with the Royal Spa Centre & Town Hall and increased income will make a contribution to reducing the deficit of the Council's budget. However, the cultural benefit to residents will also improve- with a wider range of genres becoming available, including live screenings of cultural performances.

5. BUDGETARY FRAMEWORK

- 5.1 The maximum allocation of £37,000 will allow the cinema to be updated with equipment which will help achieve a full and diverse programme as well as greatly reducing staffing costs.
- 5.2 With the investment in new equipment the expenditure could be cut dramatically, meaning estimated annual profits of £20,900 by 2014-15 with only a modest and achievable increase of 12.5% ticket sales, which equates to an extra 3.5 people per screening. Even if there is no increase in audience numbers the saving would still be £17k and that would increase by £1.5k pa for every 5% increase in audience numbers.
- 5.3 Most of this surplus for the cinema relates to the cinema supervisor post being removed from the establishment as part of the Royal Spa Centre/Town Hall staffing review. Overall this staffing review was "cost neutral". The salary of this post was used towards other posts. Accordingly, whilst the cinema may show a surplus, this is offset by increased costs of operations elsewhere within the Royal Spa Centre/Town Hall.

- 5.4 Whilst the Business Case shows that the cinema should be operating at a surplus, this is allowed for within the overall agreed budget for the Royal Spa Centre. A financial saving compared to the agreed Budgets will only accrue to the Council if the income of the cinema increases so as to at least exceed the cost of financing the new digital projector.
- 5.5 Sector, the Council's Treasury Management Advisors, are undertaking an Option Appraisal to determine the most cost effective means of financing the projector. Once this has been done, budgets will need to be adjusted accordingly. Should leasing by way of an Operational or Finance Lease provide the best solution, this will increase the Council's General Fund Revenue Budget and also the level of savings to be found in future years. If it is more beneficial to purchase the asset outright, there is a provision in the Equipment Renewal Reserve (£13,500), however initial research indicates this may be insufficient. Should this be the case, it is recommended that this be funded from the Service Transformation Reserve which currently has an unallocated balance of £979,000, and removed from the Equipment Renewal Schedule which, as Members are already aware, is already over-subscribed.

Members are asked to approve that the final decision in respect of financing this asset be delegated to the Head of Finance in Consultation with the Finance and Cultural Services Portfolio Holders. This is likely to include use of the Service Transformation Reserve or leasing (for which adjustments to the revenue budget may be required).

It may be possible to repay the Service Transformation Reserve from the savings and then using future years savings to build up a Reserve to fund future items which will improve the efficiency of the Spa Centre.

- 5.6 The Spa Centre Monitoring Group meet on a quarterly basis. The Group will monitor future income increases and expenditure reductions against the projections outlined in the attached Business Case.

6. ALTERNATIVE OPTION(S) CONSIDERED

- 6.1 Without updating the required equipment, the cinema's only options would be to cease screening films permanently or dramatically reduce the offering. This would diminish any opportunity for increasing income or footfall restricting the offering available in the studio. Although these performances bring income to the Council this would not achieve as much revenue as operating the cinema with a diverse programme, alongside these acts.
- 6.2 To continue operating under the existing system would negate the opportunity to make efficiencies. The current programme is also failing to deliver to the customer as the variety is limited to films distributed via the 35mm format. The service will continue to deliver what it currently delivers, but fail to develop and take opportunities to increase participation and income in the future.