

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Finance and Resources
<b>DATE</b>	17 <sup>th</sup> May 2023
<b>EXEMPT</b>	No - The content of the report is public but Appendices '1' and '4' are exempt under Paragraph 9 of the Local Government (Scotland) Act 1973; 'Any terms proposed or to be proposed by or to the authority in the course of negotiations for a contract for the acquisition or disposal of property or the supply of goods or services.'
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Belmont Cinema and Media Centre Options
<b>REPORT NUMBER</b>	COM/23/138
<b>DIRECTOR</b>	Gale Beattie
<b>CHIEF OFFICER</b>	Richard Sweetnam
<b>REPORT AUTHOR</b>	Mark Bremner
<b>TERMS OF REFERENCE</b>	4.1

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### 1. PURPOSE OF REPORT

- 1.1 To update the Committee on any developments in relation to the Belmont Cinema and the implications for the Council.

### 2. RECOMMENDATION(S)

That the Committee:-

- 2.1 Notes the findings and recommendations of the Feasibility Report and Marketing Report;
- 2.2 Notes the outcome of the Options Appraisal;
- 2.3 Instructs the Chief Officer - City Growth in consultation with the Head of Commercial and Procurement Services to proceed with issuing a Prior Information Notice (PIN) through Public Contracts Scotland with a Request for Information (RFI), to market test for a prospective operator according to the financial modelling and recommendations in the Feasibility Report; and
- 2.4 Instruct the Chief Officer – City Growth to report back to committee on progress through a Service Update.

### 3. CURRENT SITUATION

- 3.1 The Council's Finance and Resources Committee in November 2022 instructed the Chief Officer City Growth to explore whether there are potential options for

the sustainable operation of the Belmont Cinema and to update a future meeting of this Committee (Notice of Motion 6.2).

- 3.2 The Belmont Cinema and Media Centre on Belmont Street is a Council owned facility which until October 2022 was operated through a ten-year agreement and lease by the charity 'The Centre for Moving Image' (CMI) trading as the charitable subsidiary 'Belmont Filmhouse'. It provided inclusive art-house media and educational programming, as defined in an agreed business plan, in exchange for deficit funding provision from the Council, up to a maximum of £85,000 per annum as well as a peppercorn rent for the premises.
- 3.3 The Centre comprises a three-screen cinema, with seating for 272, 146 and 67 persons, café/bar with catering facilities, kiosk shop, offices and seminar rooms. The Cinema includes a range of audio-visual technical equipment on site, including three digital projectors, which are the property of the Council.
- 3.4 The charity encountered a 'perfect storm' of financial challenges which led to them entering administration on 6 October 2022 leading to all associated subsidiaries and venues closing with immediate effect and 21 staff being made redundant. Challenges included:
  - Attendance levels around 50% of pre-Covid levels, and little indication customers would be returning;
  - Income generation through café/bar facilities not being maximised;
  - Steep increase in energy costs (with a projected 320% increase in gas costs in 2023/24, and a projected 250%+ increase in electricity costs in 2023/24), and a commensurate projected additional cost in real terms of £96,000 in 2022/23 and £150,000 in 2023/24;
  - Staff cost increases in line with inflation and real living wage; and
  - Volatility of the cinema market as production disrupted by Covid and shift to streaming services.
- 3.5 The administration process is ongoing with assets being disposed of in response to the priority interest of the company's creditors. The building remains leased to Belmont Filmhouse Limited through FRP Advisory as administrators, along with associated liabilities, until such time as new operator is in place, or the Council chooses to accept surrender of the lease.
- 3.6 Following the administration notice a number of parties came forward to express interest in potentially operating the venue, including the Save the Belmont campaign group. Officers engaged with all enquiring organisations, but it was apparent that there was no operator at that time that had the necessary capacity and experience to deliver the contract for culture cinema programme provision from the venue. This situation was not helped by the absence of detailed information on the trading history of the former company that would support any business plan for a new venture.
- 3.7 In response, officers engaged Shepherd Chartered Surveyors to undertake a marketing report on the premises (Appendix 4 to this report) and cinema experts Mustard Studio to provide a report on the feasibility of The Belmont providing a sustainable programme in future (Appendix 2 and 3), and the kind

of operator that could give the venue the best chance of future success. Appendix 1 provides a summary of the following options:

- Option 1 - Do nothing;
- Option 2 - Disposal of building by sale/auction;
- Option 3 – Provide a Council operated cinema;
- Option 4 – Market and procure a new operator based on feasibility report recommendations; and
- Option 5 - Procure operator for a mixed-use cultural venue.

**Table 1: How the options compare**

Ranking	Option	Rationale
1 <sup>st</sup>	4	Feasibility report identifies models for sustainable operations of the Belmont and presents the best option in terms of community and cultural benefit. It does not come without risk but given planning legislation delays option 2 it warrants further exploration through a market testing exercise.
2 <sup>nd</sup>	5	This remains a more speculative option given the stall in cultural attendance across other artforms. Adapting the building to other uses is likely to occur significantly more capital cost.
3 <sup>rd</sup>	2	Challenging building to market, potential for reputational damage. Under NPF4 there the building would need to be marketed as a cultural venue for 12 months
4 <sup>th</sup>	3	Given the margins it is unlikely this could be operated sustainably. Technical, business and cinema specific skills would need to be recruited. A Council operated venue will not benefit from rates relief and will have more limited access to grants and trust funding to meet capex.
5 <sup>th</sup>	1	Costs will still occur when liabilities return to the Council when lease ends 2024 or surrendered. This option does not resolve building issues and will likely lead to further dilapidation costs in the long-term as well as reputational damage

- 3.8 At this time ‘Option 4 – Market and procure a new operator based on feasibility report recommendations’ is the recommended next step.
- 3.9 The feasibility report does not recommend any specific cinema operators but provides an analysis and options for re-launching and operating The Belmont. As such the plan and financial model are adaptable and provides multiple options around legal structure, refurbishment schedules and ongoing operations to allow for flexible and innovative solutions in response to the wider challenges highlighted in 3.4 above.
- 3.10 The report highlights several options to deliver a sustainable cultural cinema programme, and examples of where similar operations are successful. It highlights key ‘critical success factors’ including prioritising the customer

experience, providing a curated film programme that is not too niche, and responsive to needs of local audiences, provision of quality food/ beverage offer and investment in the building.

- 3.11 For any potential operation to succeed, the report recommends that a re-launched Belmont must focus and prioritise on improving the overall visitor experience and provide attractive food and beverage service as part of the offer. Creating an inclusive quality experience will attract more attendance beyond the core audience already bound to The Belmont by loyalty or film choice, but whose custom may make a significant difference to long-term financial sustainability.
- 3.12 Creating a high-quality visitor experience will occur significant capital investment, even reopening the building to the public will occur some costs in order to meet legislation and certification requirements. The report and its financial modelling do suggest this can be achieved through a phased approach, and the financial model does not incorporate any direct revenue grant or capital investment from the Council in the projections. Support is limited to a 'peppercorn rent' on the provision of a continued programme of cultural cinema and education being central to an operators offer.
- 3.13 Based on the findings of the feasibility report, officers recommend that these findings are tested commercially with cinema operators. Officers would issue a Prior Information Notice (PIN) through Public Contracts Scotland with a Request for Information (RFI) from prospective operators to outline their proposed solutions and competency to operate the building sustainably as well as raise the necessary capital their model may require. This provides a final and robust testing of the market potential, and commercial assessment of the level of costs or subsidy requirements that might be required without restriction of formal procurement process or financial commitment at this time. The responses would then inform a final decision on a procurement exercise for an operator or disposal as applicable.

#### **4. FINANCIAL IMPLICATIONS**

- 4.1 The previous fee of £85,000 for the operational delivery of the Belmont Cinema remains within the City Growth budget for 2023/24 pending the resolution of options. Under the preferred option the grant is not assumed to be needed based on the Feasibility Report financial modelling.
- 4.2 The costs to the Council related to the building are contained as long as liabilities remain with the administrator. However, as soon as possession falls back to the Council, annual costs are estimated at £116,854. This figure is based on associated repairs for wind & watertight as well as plant equipment, energy costs, water, security, insurance premiums, and rates liabilities. Many of these costs are fixed, where there are options for further reduction to lower costs, such as energy, it is advisable to keep heating systems on to avoid expensive repair costs later down the line.

4.3 At this time there are no further direct financial implications arising from the recommendations of this report.

## 5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

## 6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no direct environmental implications arising from the recommendations of this report.

6.2 There are indirect implications, in so far as the refurbishments plans and environmental sustainability recommendations set out in the feasibility report. The RFI responses would explore the potential for any development plans to ensure the building is environmentally efficient.

## 7. RISK

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H)  *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
<b>Strategic Risk</b>	No significant risks identified	N/A	L	Yes
<b>Compliance</b>	Scenario risk of non-compliance with National Planning Framework 4 if recommendation is not pursued.	Issue RFI to market building for sustainable cultural use	L	Yes
<b>Operational</b>	No significant risks identified	N/A	L	Yes
<b>Financial</b>	Reopening may have financial implications for Council in the form of revenue and/or capital  Building returning to the	Financial modelling options provide varying tiers and approaches without Council subsidy. RFI does not commit the Council financially	M	Yes

	Council would occur significant annual costs.	Recommendation seeks to make that the last option available to the Council.		
<b>Reputational</b>	Reputational damage if the Council does not reopen the venue	Recommendations support process to identifying sustainable operator for the venue	M	Yes
<b>Environment / Climate</b>	No significant risks identified	N/A	L	Yes

## 8. OUTCOMES

<u><a href="#">COUNCIL DELIVERY PLAN 2022-2023</a></u>	
	<b>Impact of Report</b>
<p><b>Aberdeen City Council Policy Statement</b></p> <p><u><a href="#">Working in Partnership for Aberdeen</a></u></p>	<p>The proposals within this report support the delivery of the following aspects of the policy statement:-</p> <p>Vibrant City- We will work tirelessly to make Aberdeen a more attractive place to live, work, report and visit with a vibrant cultural offering.</p> <p>Arts Matter - Our city should become distinguished by the range and depth of active creative expression and artistic enjoyment experienced by those who live here and by visitors. By supporting and working with cultural partners, we will ensure there is richness and diversity of arts activities.</p> <ul style="list-style-type: none"> <li>• Support Aberdeen Performing Arts and other cultural providers to offer the widest possible arts programme for all across our communities</li> <li>• Seek to make Aberdeen a UNICEF Child Friendly City.</li> </ul>
<u><a href="#">Aberdeen City Local Outcome Improvement Plan 2016-26</a></u>	
<p>Prosperous Economy Stretch Outcomes</p>	<p>The proposals within this report support the delivery of LOIP Stretch Outcome 2 – 400 unemployed Aberdeen City residents supported into Fair Work by 2026 and key driver 2.1 Supporting labour market to recover from impact of Covid-19 on employment.</p> <p>The Feasibility report recommendations sets out the potential for up to 24 jobs being created with the reopening of the venue.</p>

Prosperous People Stretch Outcomes	The feasibility report and the proposal of activity in this report supports Stretch Outcome 8 Child friendly city, through Key driver 8.1 Secure required six UNICEF badges to gain Child Friendly City status in culture. As part of the feasibility report work the experience and view of children and young people as audiences, participants and users have informed the recommendations.
Prosperous Place Stretch Outcomes	The proposals within the report support the delivery of LOIP Stretch Outcome 13, Addressing climate change by reducing Aberdeen's carbon emissions by at least 61% by 2026 and adapting to the impacts of our changing climate. The Feasibility report recommends the upgrading and improvements to energy efficiencies of plant as well as making sustainability a central focus of the operating model.
<b>Regional and City Strategies</b>	<p>The proposals within this report support Culture Aberdeen, the City's Ten-Year Cultural Strategy and its 5 key objectives.</p> <p>Regional Economic Strategy - Support development of projects and delivery of Culture Aberdeen Plan and Support and promote the arts and cultural venues of the North East to attract and promote national and international exhibitions and programmes</p> <p>The proposal also complements the City Centre Masterplan vision and associated action plans, in particular the Belmont Quarters and Union Street Empty Shop Action Plan.</p>

## 9. IMPACT ASSESSMENTS

Assessment	Outcome
<b>Integrated Impact Assessment</b>	Stage 1 completed. Full IIA only applicable upon completion of RFI exercise.
<b>Data Protection Impact Assessment</b>	Not required
<b>Other</b>	Not required

## **10. BACKGROUND PAPERS**

10.1 Notice of Motion 6.2, Finance and Resources Committee, 2 November, 2022.

## **11. APPENDICES**

11.1 Appendix 1: Belmont Cinema Future Options Analysis EXEMPT

11.2 Appendix 2: Cinema Feasibility Report

11.3 Appendix 3: Cinema Feasibility Report Executive Summary

11.4 Appendix 4: Property Marketing Report EXEMPT

## **12. REPORT AUTHOR CONTACT DETAILS**

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