



REPORT

To: Shetland Islands Council

25 June 2008

From: Executive Director of Education and Social Care, Head of Finance
and Interim Head of Economic Development

Mareel (Cinema and Music Venue) Capital Project: Way Forward

1 Introduction and Key Decisions

1.1 At the Shetland Islands Council meeting on 14 May 2008, Members agreed, that:

“Shetland Islands Council undertakes an immediate review of its commitment to the Cinema and Music Venue project in the light of:

- The over-subscription of the Council’s capital programme;
- The fact that there is no obligation on the SIC, statutory or otherwise to provide such a facility
- Questions over the long-term revenue funding should the project go ahead.

There was a request to focus on the revenue implications, through a critical analysis of the assumptions, costs and income shown in the business plan.

1.2 This Report will ask Members to consider the financial, social and economic implications of this project. This project requires political judgements to be made across a range of topics and service areas. Members will need to make political judgements on:

- The value to place on arts and cultural activity, in terms of enjoyment and the impact that has on the quality of life for people in Shetland and our visitors;
- The extent to which the Mareel project may be a catalyst to economic growth in the creative industries in Shetland;
- The evidence to support the assumptions in the Business Plan, and whether or not these are believable, based on current activity and drawing comparisons with facilities here and elsewhere;

- The extent to which a case has been made that the philosophy of the Mareel project in drawing many aspects together under one roof will be greater than the sum of the parts (as compared to having activity take place in separate venues);
- The place which Mareel might have within the community in terms of its relationship with current activity and facilities and the extent to which you consider the project complements or competes with others.

1.3 The Report will set out for Members the services planned to be provided within the building, the relationship with other local facilities, the capital costs, funding streams and risks and a focus, as requested by Council, on the Business Plan and income and expenditure assumptions, including sensitivity analysis. The recommendation that the Council continue its current policy of support to the Mareel project and award a grant of up to £5.19M towards the capital cost.

1.4 The following Appendices provide supporting detail for this Report:

Appendix 1	Summary Cash Flow Projections 2007/08 - 2015
Appendix 2	Music Hall Attendance and Income Model 2007/08 - 2015
Appendix 3	Summary of Economic Impact Assessment
Appendix 4	Economic Impact Assessment - Displacement
Appendix 5	Proposed Memorandum of Understanding
Appendix 6	Confidential: Comparisons of Local Catering Establishments

2 Links to Council Priorities

2.1 Shetland's Community Plan includes a commitment to, "cherish and promote our traditions and our values".

2.2 The Corporate Plan states, "that we must support individuals and communities to help them reach their full potential, cherish and promote our traditions, and seek to promote cultural activities". This will, "help us to celebrate, promote and invest in the islands' distinctive creativity, diverse culture, heritage and environment".

2.3 The Shetland Cultural Strategy (currently being updated), outlines a commitment to, "provide strategic support for cultural and creative infrastructure including training and career development opportunities". The Mareel project is specifically mentioned in the Cultural Strategy Action Plan, to, "support major projects of cultural significance, in particular (a) the Natwest Island Games 2005, (b) the Cinema and Music Venue and (c) the new Museum and Archive.

2.4 The creative industries are one of six key sectors highlighted in the Government Economic Strategy for Scotland and are also one of the six sectors on which Highlands and Islands Enterprises future assistance will be focused. The Council's Corporate Plan makes reference to supporting a Creative Industries Strategy, to promote economic activity. A Report on the Future of the Shetland Economy produced for HIE and the SIC identified Creative and Visual Arts and Culture as one of the nine sectors of

opportunity. In the Economic Impact Assessment Report prepared in April 2008 by Steve Westbrook, the following contribution to social and economic development were highlighted:

“Shetland’s strengths on which to build were identified as:

- Rich heritage;
- Internationally renowned for traditional fiddle music;
- High levels of local participation and interest by visitors.

The challenges identified were:

- Moving beyond traditional music;
- Commercialism of the sector.

The Mareel project has been designed, inter alia, to capitalise on these strengths and meet these challenges.

Knowledge and Information Technology and Further and Higher Education are two further identified sectors of opportunity that Mareel will play a part in developing through its education and training facilities – with state of the art equipment available to students and those wishing to develop their commercial activities.

More recently, the EKOS report on Creative Industries in Shetland Today noted strong and consistent support for the development of the creative industries in Shetland from the research and consultation carried out for the study (although this has not been considered yet by any Council Committee). A broad development agenda was identified by the consultants around four key strategic themes:

- Supporting infrastructure (physical and business support);
- Talent and skills;
- Market development;
- Cluster development and linkages.”

2.5 For any capital investment decision, the Council has to satisfy itself that it is achieving value for money.

3 Background

3.1 This project has been developed over a number of years as a partnership approach. Shetland Arts (and previously Shetland Arts Trust) were asked by the Council to take this project forward, in partnership. Shetland Arts have delivered all that have been asked of them by the Council, as the project has developed over the years.

3.2 The project was originally initiated in 1996, when a Steering Group was formed to campaign for a new Cinema, following the closure of the North Star in 1989. The Council’s involvement started in 1998, when a report on the feasibility of a music venue was called for. Later, in 2001, the idea of combining the proposed cinema with a music venue was considered and approved (as the most cost effective option).

- 3.3 The Cinema and Music Feasibility Study was presented to the Council in October 2001. Council approved the study but recommended that external funding should be sought for this project. A further report on 21 March 2002 confirmed the lack of Shetland Islands Council and Shetland Charitable Trust funding for the project. The Council's Executive Management Team was then tasked with progressing this project.
- 3.4 The Shetland Islands Council meeting in February 2003, (Min Ref. 21/03) resulted in – 'With regard to integration of the Cinema and Music venue into the Capital Programme, in response to questions, the Head of Finance stated that it was possible to introduce it into the Capital Programme as an un-funded element for future years. Members were of the view that inclusion within the programme was required in order for the Council to take advantage of slippage or funding.'
- 3.5 In 2004, the Council agreed to support the project by way of a capital contribution of £4.62m (and £5.19m at today's prices). A value engineering exercise was carried out prior to this, which reduced the scope and size of the proposed facility by about 30%. Shetland Arts also approached the Shetland Development Trust in 2007 with a project funding request of £965,000. That request will be considered at the Development Committee on 21 August 2008, subject to the outcome of today's meeting. In terms of the Notice of Motion agreed by Council on 14 May 2008, it is up to the Council to determine the relative priority of the Mareel project, alongside other planned capital projects.
- 3.6 The legislation which enables the Council to support leisure and culture activity is contained in the Local Government and Planning (Scotland) Act 1982. Section 14 states that, "a local authority shall ensure that there is adequate provision of facilities for the inhabitants of their area for recreational, sporting, cultural and social activities". Further, Section 15 states that, "A local authority may provide or do, or arrange for the provision of or doing of, or contribute towards the expenses of providing or doing, anything necessary or expedient for the purpose of ensuring that there are available, whether inside or outside their area, such facilities for recreational, sporting, cultural or social activities as they consider appropriate". It is, of course, for the Council to determine what constitutes "adequate provision".
- 3.7 By way of background information, Members will be aware of investments in other cultural activities, over the years, by the Council, Shetland Charitable Trust and Shetland Development Trust, such as:
- Investment by Shetland Charitable Trust in eight leisure centres and swimming pools;
 - Recent investment by Shetland Charitable Trust in the Museum and Archive facility
 - Ongoing infrastructure investment by the Council and Shetland Charitable Trust in the network of village halls
 - Ongoing investment by the Council in Islesburgh Community Centre, and Islesburgh House
 - Investment by Shetland Charitable Trust in the Bonhoga Gallery

- Recent investments by Shetland Development Trust and the Council in heritage projects, such as Sumburgh Head, Fair Isle Bird Observatory and Old Scatness
- 3.8 In October 2007, Members agreed a three-way partnership between the SIC, Shetland Charitable Trust and Shetland Arts with regard to the delivery of the Mareel project, (the cinema and music venue). This agreement set out the roles and responsibilities of each of the key partners with regard to financial, technical and service issues.
- 3.9 Previous Councils have considered this project in the context of a strategic capital investment, to support the quality of life for the people of Shetland, similar to previous investments in sports facilities and more recently in heritage projects, such as the New Museum and Archives. These projects can be considered to extend the leisure opportunities available to residents, visitors and tourists, as well as contributing to economic growth, new jobs, extended learning opportunities, positive health impacts and, hopefully, support population retention and growth (by having a range of services and facilities available locally).
- 3.10 The most recent Economic Impact Assessment which has been carried out, suggests that the project could result in an additional £977,000 of income per annum and an additional 39 full time equivalent jobs (net of the construction phase). This study is discussed in more detail at Section 7. The recent population study, currently being considered by the Council, suggests that in order to grow Shetland's population, there will be a need to focus investments on areas of potential economic growth.
- 3.11 There are aspects to consider in terms of potential displacement activity – for current activity and facilities. The proposal has been developed on the basis that minimal displacement activity will take place; indeed, the Business Plan is built on the premise that the new facility will generate new and additional activity and income (for the benefit of all parties). This is a key aspect of the business plan assumptions and one that this Report will return to in more detail.
- 3.12 The question of State Aid for publicly supported catering establishment has been raised recently by the Lerwick Traders Association. The Interim Head of Economic Development has been tasked with investigating this issue but initial indications suggest that the current proposals do not need to be considered in terms of State Aid, because the music hall and cinema venue can be deemed to be a service provided by the local authority. However, we are advised to provide further details of the project to the Scottish Government State Aid unit for detailed consideration.
- 3.13 The Mareel project could form part of the regeneration plans for the North Ness site.
- 3.14 A health impact assessment will be carried out on the Mareel project.
- 3.15 A number of consultation exercises have been carried out, some of which are acknowledged at the end of the Appendices to this Report. Others are listed below, with key findings, at that time:

- “The 2001 Feasibility Study consolidated previous consultation and survey work and conducted 16 new meetings with key stakeholders and groups as well as soliciting views from over 180 organisations in Shetland. The consultation process included five public meetings in May 2001 involving the communities in the North Isles, North Mainland, West Mainland, South Mainland, Central Mainland & Lerwick. The main points made at these meetings were:
 - The infrastructure for the arts sector has been neglected in Shetland and it is time to redress the balance
 - There was universal support for the site at the North Ness alongside the new Museum
 - The new venue would benefit the evening economy of Lerwick and the attractiveness of Shetland to visitors and tourists
 - The new venue would attract new audiences – people who presently do not attend films or music events due to the poor facilities
 - The outreach programme was warmly endorsed by the island and remote communities of Shetland

- The Feasibility Study reported the results of five surveys:
 - 1996 telephone survey of 350 Shetland residents which concluded that 63% of interviewees felt it was “very important for Shetland to have a cinema”
 - 2001 Shetland Film Club survey of members which found that 87% of respondents strongly supported a wide range of film programming including specialist films at the new venue
 - February 2001 surveys of audiences at Garrison Theatre film weekends. 568 responses. 23% were aged under 16 years and 38% were aged over 35 years.
 - Feb/Mar 2001 survey of audiences at Garrison Theatre music events. 189 responses showing support for performances of many different musical styles
 - Autumn 2000 survey of 400 people with a personal or professional interest in drama and venues for live performance

- Prior to commencement of a Socio-Economic Impact Study for the facility, a baseline assessment of the Shetland Music Industry as a whole was conducted. Within this study, postal and face-to-face surveys were conducted with public bodies, local music retailers, Shetland performers, visiting artists, all community halls, other music venues, promoters, support personnel, recording studios, tutors and instrument makers and repairers. In total over 80 responses were received.

- Consultation for the Socio-Economic Impact of the facility, was carried out with a stratified, random sample of the adult population of Shetland, in the form of a postal survey sent out in December 2003. The respondents of this survey were chosen from the electoral roll, and representative samples were chosen according to the population of each area. A youth survey was also conducted as were surveys of

performers, other venues and representatives from public agencies. These surveys resulted in over 1100 responses.

Key results from the adult and youth surveys were:

1. 72% of the adults and 88% of the youths surveyed felt that there was a need for a venue in Shetland.
2. 73% of the adults and 93% of the youths surveyed felt that a new venue would have a positive effect on Shetland”.

3.16 In terms of the overall funding package, it is a condition of funding from the Scottish Arts Council that Shetland Islands Council demonstrates its commitment to the business plan. The grant conditions state,

“6. A fully developed and detailed Business Plan for the operation of SADA should be produced by the end of May 2008. The plan must cover all aspects of the artistic, organisational and operational development of SADA as proposed in ‘A Hansel for Art’. The Plan must reflect a balanced budget for all aspects of SADA’s activities. This Plan will be subject to external assessment by a consultant commissioned by the Scottish Arts Council. The plan and assessment will be reviewed by the Lottery Committee and require its approval before any funding will be released

11. ‘A Hansel for Art’ and the accompanying Business Plan covering all aspects of the work of SADA must be signed-off as acceptable by the SADA Board, Shetland Charitable Trust, and Shetland Islands Council and indicate their commitment to its contents.”

3.17 It is important that the Council makes a definite decision on 25 June. All of the funding applications from external sources are reliant on the Council demonstrating its commitment to the project through capital investment and the offers will fall over the summer months if the Council were to defer its decision until later in the year.

3.18 Expressions of interest from prospective contractors have been sought and three returned. If the tender prices are reasonable and all the funding can be confirmed by July 2008, the project will be ready to start in August 2008, with an estimated completion date of May 2010.

4 The Scope of the Project and Service Assessment

4.1 The purpose of the new cinema and music facility, contained in the August 2001 report as approved by Shetland Island Council, is summarised below:

- the cinema and music venue should be located in Lerwick on a prominent and accessible site.
- The cinema and music venue should provide high quality facilities for watching films, listening to live music, developing understanding of media and music, encouraging the development of media and music professionals, and safe, enjoyable socialising.

- The cinema and music venue should serve the entire Shetland community. Outreach is seen as an integral part of the project.
- The cinema and music venue should provide social, educational, commercial, and artistic benefits for audiences, students, professional users, local businesses and visitors to Shetland.
- The cinema and music venue will feature excellent access for the disabled. Environmental concerns will inform the construction and operation of the centre.

4.2 Shetland Arts' original vision statement for the Mareel is set out below.

“We intend that Mareel will deliver a range of services and learning opportunities to everyone in our community through entertainment, education and training, and by supporting the development of creative industries, thereby adding to Shetland’s cultural and economic development. Although it will be built in Lerwick it will act as a hub from which outreach services can be offered to the most rural Shetland communities. It will be welcoming to people of all ages and abilities and will provide a programme of activities in which there will be something for everyone to enjoy. It will provide opportunities for local musicians, film makers and other arts practitioners to develop their skills as well as affording similar opportunities for sound, lighting and recording engineers and those with an interest in digital media. It will also be an attraction for visitors and tourists, and will, through the opportunities provided via modern technology, help promote Shetland arts and culture to the wider world. It will give local audiences the chance to see a range of high quality visiting artistes and a broad programme of films to suit all ages and interests. It is intended to be a safe, relaxing social meeting place where refreshment is provided as an ancillary service, and not as the main purpose for attending. It aims to be a facility of which the community can be proud, will want to be part of, and in which they feel comfortable.”

4.3 In summary, Mareel would provide space for the following facilities:

- A flexible main auditorium with a maximum capacity of 750 (700 standing and 50 balcony).
- A cinema / multi-media performance area with a seated capacity of around 160 and featuring digital projection.
- A second cinema with a seated capacity of around 30.
- A recording studio, with live rooms suitable for recording a variety of groups.
- Rehearsal areas (with sprung floors) suitable for bands, DJs, drama and dance.

- A multi-media production suite for film, TV, web design, animation, digital arts and music production.
- Educational facilities, including scope to use the main cinema as a lecture theatre and the second cinema for educational screenings, and provision for a range of young people's activities.
- A café bar with free internet access and WiFi.
- A second floor development to incorporate designated education spaces and possibly small start-up units for creative industries. The fitting-out of the second floor would depend on additional funding subsequent to the main project.
- Offices for operational staff working from Mareel.

4.4 The Feasibility Study on the Cinema and Music venue described the service needs, which the project would deliver. The analysis is set out below.

- “The social and recreational need is primarily about choice and quality. It is about having a facility designed and built fit for purpose, such as the leisure centres. Some sections of the population prefer not to go out to pubs or clubs for their music entertainment, and would like to see events that are not able to be accommodated within community halls, or which are less than satisfactory in venues such as the Clickimin Centre. For those in the outlying areas that cannot or prefer not to travel to Lerwick, the outreach facility will not only provide them with an additional recreational service, but also help maintain community halls as active, vibrant social facilities.
- The need for a permanent cinema is not being met by the current provision at the Garrison, which was always regarded as temporary ‘stop-gap’ measure. Available four days per month only, it sets considerable constraints on the cinema-going public in terms of when they would like to attend and what they would choose to see. Similarly, the current outreach facility for cinema is infrequent and reliant on the goodwill of volunteers.
- With regard to the provision of live music, much of it is pub-based, which can exclude a lot of young people (and older people too). Other venues are restricted in what they can offer – either in size, comfort, acoustic suitability or practically. The provision of visiting music acts to outlying areas is currently infrequent and often reliant on external funding which is increasingly hard to secure.
- With regard to tourism, the need for quality ‘wet weather’ facilities is constantly being restated. There is a need to attract tourists, particularly ‘cultural tourists’, who can be assured of obtaining access to live Shetland music, and of enhancing their visit to Shetland with a range of cultural activities. There are a number of opportunities for enhancing the existing service to this sector, including the

introduction of a new range of small, possibly niche, music festivals, and the proposed venue would be well placed to provide assistance.

- The project would provide an additional service to business visitors, especially during evenings and raise Shetland's profile as a culturally vibrant place, forward-looking and confident.
- With regard to education and further education, there is a need to build on the considerable investment in music and young people that has been made over the years. The venue could provide real development opportunities for the FE college in its aspirations to extend its services to those who want to study music, music technology and the music business, and could provide enhanced facilities for school pupils' learning and performance skills. This could in turn have a positive impact on young person population retention in Shetland, as there are currently no alternatives to re-locating 'south' for local music students to continue their studies."

5 Methodology for Review

5.1 In undertaking the review requested at the last Council meeting, the Head of Finance, Interim Head of Economic Development and Executive Director of Education and Social Care met with four representatives from Shetland Arts, including two Trustees, for a question and answer session. The review team drew on information contained in a considerable number of related studies and funding applications, as well as the detailed business plan. The review focused on a number of key areas, as follows:

- Operating costs and assumptions
- Wage levels and assumptions
- Income levels, activities, pricing structure, etc
- Policy on alcohol sales
- Are the number of proposed events at a sustainable level
- Displacement, in terms of families' disposable income
- Comparisons with other facilities, locally and in comparable areas
- Economic Impact

5.2 As far as possible, the review team has sought evidence to support the assumptions made in the Business Plan, by drawing comparisons with other facilities and current activity. In some cases, it has not been possible to substantiate the assumptions made in the business plan and the Report will draw out where the team consider a political judgement needs to be made by Members.

5.3 The Financial Controller of Shetland Development Trust has, at the same time, undertaken a detailed study of the Business Plan, for the purpose of considering the request for a further investment of £965,000 from the Trust. This Report also makes reference to the observations and issues raised through that study.

5.4 The Executive Director of Education and Social Care has had direct involvement in this project since she took up post in June 2007, as the lead officer for cultural activities in the Council, in seeking to deliver the Council's

current policy of support for the facility. The Head of Finance and the Interim Head of Economic Development had no previous direct experience of the project.

6 Review of Related Facilities / Services

6.1 In light of the fact that the philosophy of the Mareel project is to generate new and additional activity, it is appropriate in the first instance to review existing facilities and services, in order to test for duplication and displacement of activity and income. References to “displacement”, means that activities and income generation may just move from an existing facility or provider (and so not generate any new income or additional activity).

6.2 The following existing facilities were considered.

Table 2: List of Related Facilities / Services

Islesburgh Community Centre	Garrison Theatre
Clickimin Centre	Museum and Archives
Village Halls	Pubs and Clubs
Schools	NAFC Marine Centre – venue only
Private Sector Media Producers	

6.3 A key theme which ran throughout the review is the view of Shetland Arts that Mareel works, “as a package”. This is touched on in the philosophy for the project, outlined at paragraph 4.2. In their view, the building of Mareel will act as a catalyst to bring people together, for enjoyment, learning and to do business – a meeting place and a hub for ideas to support the arts and culture. By including learning and teaching space, students will regularly be in the building. By targeting different audiences at different times of the day, they seek to bring in new audiences. By combining the café bar and reception space, they hope it will become a natural place for people to meet. By combining many elements into one space, they hope it will become not just an events space but it will also act as a focal point for many activities, all week. A comparison can be drawn here with the success of the Museum and Archives project, which drew in 89,000 visitors in its first year of operation against a business plan target of 35,000. The question of additional activity is also covered in the Economic Impact Assessment, (Appendix 4 and Section 7)

6.4 Given the broader purpose which the proposed Cinema and Music Venue project seeks to deliver, the discussion around the alternative use of other spaces focused on the lack of dedicated space, the lack of flexibility in the use of space in buildings designed for other purposes and the lack of opportunity to grow the audiences for cinema and music based activities.

6.5 The Table below describes the limitations of the use of existing space, were the Mareel facility not to proceed.

Table 3: Limitations of Existing Facilities / Services

Islesburgh Community Centre	The video editing suite is dated in comparison to the digital media options being considered for Mareel.
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	<p>Performance space is limited and not to the standard of acoustics envisaged at Mareel.</p> <p>Focus of Islesburgh is community use, so there would be limited scope to dedicate space / rooms for arts activities.</p>
Garrison Theatre	<p>The main purpose of the Garrison Theatre is a venue for live theatre. Shetland Arts see opportunities to develop this service area, should Mareel go ahead.</p> <p>At the moment, Cinema screenings are limited to one weekend per month, so there is limited choice from an audience point of view, as to when to attend.</p>

Clickimin Centre	<p>The Clickimin Centre is a dedicated sports venue and hires for arts and cultural activities suit occasional use.</p> <p>In terms of size, Mareel has been sized for audiences less than what can be accommodated in the main hall at Clickimin. If Mareel goes ahead, occasional use of the main hall at Clickimin will continue, for the larger audience events. (capacity 750 seated with tables, 1,200 with row seating or 1,500 standing)</p>
Museum and Archives	<p>The theatre space is specified to lecture theatre standard and not to cinema standards.</p> <p>Disabled access opportunities in Mareel is specified to be greater than in the lecture theatre at Museum and Archives.</p>
Village Halls	<p>Mareel has been designed as a special purpose venue, whereas village halls are multi-purpose venues. It is envisaged that village halls will continue to be hired, as well as events being held in Mareel. In terms of size, village halls, on average, can accommodate about 200 people.</p>
Pubs and Clubs / Community Groups	<p>Shetland Arts staff state that they do not intend to duplicate activities being offered by the private sector or community groups. Their view is built on the idea that there is the potential to generate enough interest to get people who currently do not attend cinema and music events to start to do so, and for those who do, to do so more often.</p>
Schools	<p>The Anderson High School is fully equipped and has everything necessary to deliver an NQ and HNC course. However, current usage by the school pupils, limits usage to evenings and weekends (outwith normal College operating hours).</p> <p>Limited performance space.</p> <p>There is limited capacity within schools for the “drop in” type of activity envisaged at Mareel, due to the structured nature of the service and security issues.</p> <p>Assembly spaces do not require to have the same level of acoustic specification as is envisaged at Mareel.</p>
NAFC Marine Centre	<p>The theatre space is specified to lecture theatre standard and not to cinema standards.</p> <p>Disabled access opportunities in Mareel is specified to be greater than lecture theatre at NAFC Marine Centre.</p> <p>Limited and inflexible access for arts and cultural activity, as the main purpose of the building is a College.</p>

	NAFC Marine Centre does not provide the film screening service – Shetland Film Club does, on a voluntary basis (limited to 16 screenings per year).
Private Sector Media Producers	Shetland Arts staff state that they do not intend to duplicate activities being offered by the private sector.

- 6.6 The review team spent some time discussing with Shetland Arts the justification for the size of the cinema space (at 160 seats). The space is smaller than the Garrison (which can seat 275) and smaller than the Picaquoy Centre in Orkney (which can seat 240). The size of the facility is relevant for two reasons – one as a driver for the size of the building, and so the capital cost, and also in terms of income generation from ticket sales. The size is based on a recommendation from an external consultant that seating capacity of 160 is a reasonable number, based on Shetland’s population. The Garrison would return to being a dedicated live theatre venue.
- 6.7 According to Shetland Arts, “the nearest comparator would be The All Star Factory in Thurso, (population 7,300) which is a two screen commercial cinema (152 seat and 88 seats). They are open 7 days a week with a matinee on Thursdays, Saturdays and Sundays, approximately 21 screenings per week, mainstream film only. Mareel is planning to offer 28 – 35 screenings per week, predominantly mainstream, with ‘silver screenings’ for senior citizens, Saturday morning children’s film club, mother and baby screenings, schools screenings and ‘alternative product’ such as livestream concerts, computer gaming tournaments, and home made product. It will also host Shetland’s annual film festival. At the time of writing, I have not been able to obtain attendance figures from The All Star Factory, which is a private company.”
- 6.8 With regard to the main auditorium, Shetland Arts has provided the following justification for the number of seats - 320 (including the balcony) and 600 standing.

“The rationale for this is that a venue was needed that was larger than the country halls (100 – 200 seated, variable standing), the Town Hall (180 – 200 seated) or The Garrison (275 seated, no facilities for standing), and smaller than Clickimin (750 or 1,200 seated, 1500 standing). This was felt to be more appropriate for the type and size of concerts and performances that would regularly visit Shetland, or would be engendered from within Shetland. The historical ideal was for 400 seated but it was not possible within the constraints of the site once the full design process had been undertaken. Most of the seating on the ground floor is retractable, leaving a clear space for stand up concerts or for cabaret-style performances with tables and chairs. This means that events can be organised to suit the requirements of all, from a formal classical concert to an intimate jazz session to a stand-up rock concert or a DJ Club Night. This is what was asked of us during the consultation process. The area is fully wheelchair accessible and will have induction loop facilities.”

7 Business Plan Review

- 7.1 The main focus of the review was to critically appraise the Business Plan, to ensure that it was robust, realistic and achievable. A summary of the income and expenditure assumptions (described as a cash flow) is contained in Appendix 1.
- 7.2 The Business Plan takes the current income and expenditure position of Shetland Arts and integrates that with the assumptions for the additional activity which they predict to be generated from the Mareel Project. Table 4 below shows the movement from the current position, to the Year in which Shetland Arts predict they will require a subsidy level no greater than the current level (Year 4 of the Business Plan, 2013 – 2014).

Table 4: Summary of Business Plan

	Pre-Mareel	Shetland Arts plus Mareel Activity			
	2008/09 Estimates £	2010-11 Estimates £	2011-12 Estimates £	2012-13 Estimates £	2013-14 Estimates £
Income	(1,364,597)	(2,121,385)	(2,174,594)	(2,228,450)	(2,284,509)
Expenditure	1,364,897	2,187,584	2,202,390	2,234,861	2,273,315
(Surplus) / Deficit	300	66,199	27,796	6,411	(11,194)

- 7.3 Comparing the current level of activity (at 2008/09 estimates) with the point at which the Mareel project is expected to move into generating income for Shetland Arts (in 2013/14), the level of income is expected to increase by £919,912 and the expenditure is predicted to rise by £908,418, an increase in activity of 67%. This would represent a spend per head of population of about £40 per annum.
- 7.4 According to the representatives from Shetland Arts, they did not set out with an objective to break-even on the Business Plan but rather to research and test the evidence and see where it led them. They consider the plan to be robust and have sought guidance from national and local comparators on the assumptions used. In some places, they consider their assumptions to be conservative.
- 7.5 The next section will deal with each of the main components of the Business Plan in detail.

Income

- 7.6 The business plan assumes that grant assistance and donations will continue at the present level from their existing funding sources. This Report therefore focuses on the area of new earned income, predominantly from ticket sales and café bar sales.

Overall, the average assumptions of total spend are £11.63 per person for each attendance at Mareel, or a required spend of £37.79 per person per annum.

The Table below highlights some key changes, from levels of current income to Year 4 with Mareel (2013-14).

Table 5: Key Changes in Income Assumptions

	2008 – 2009	2013 – 2014	Change in
Projected income	£	£	Activity
			£
Box Office/Programme income:			
Film Exhibition	76,000	171,207	95,207
Music	34,720	15,000	19,720
Mareel Music Hall ticket sales	-	202,482	202,482
Sub Total: Box Office and Programme	110,720	388,689	277,969
Ancillary Earned Income			
Cinema confectionery sales	8,000	38,126	30,126
Screen Advertising	500	8,490	7,990
Mareel Education screenings income	-	2,334	2,334
Mareel bar sales	-	289,191	289,191
Mareel Cinema cafe bar sales	-	26,718	26,718
Mareel Daytime catering income	-	88,255	88,255
Sub Total: Ancillary Earned Income	8,500	453,114	444,614
Difference	119,220	841,803	722,583

- 7.7 The Music Hall Tickets Sales Attendance and Income model is included at Appendix 2. It is based on 177 events per year, with estimated overall attendance of 32,915 (so, on average, everyone in Shetland would attend events about twice a year). This represents, on average, one event every two days, with an average attendance per day assumption of 186 people. The average ticket price is about £5.

The Review Team had access to some information from the private sector, with regard to trading activity generally and specifically for music based events, which indicated, in their view, a likely negative effect on their business. In the time available to the review group, it has not been possible to substantiate this data so we have chosen not to use that analysis in this Report.

The assumption is that Mareel will generate about £200,000 a year of additional income from music related events, compared with current income of about £35,000. This clearly demonstrates Shetland Arts' assumptions on

additionality and represents an average spend per head of about £9 on music related activity, in addition to what they might currently spend.

There is less comparative data available for music activity, given the flexible nature of the events and programmes. This represents an ambitious part of the Business Plan and Members will need to make a political judgement on the significance of this new income stream.

- 7.8 The Business Plan assumes growth of about £100,000 per annum from film screenings in the new cinema, compared to the current programme at the Garrison Theatre. The programme is currently over one weekend every month, with about 170 films per year. The average attendance for any film screening is over 100 people (although, some films are more popular than others). Table 6 below shows that attendance was about 18,500 per annum in 2007/08 for the Garrison Theatre and 1,007 for the Film Club. The trend over the past 8 years is also shown, for information.

Table 6: Cinema Attendances 2000/01 – 2007/08 (Garrison Theatre, Film Club and Screenplay 2007)

Year	Garrison Theatre		Film Club	Total
	No. Films	Total Attendance pa	Total Attendance pa	Total Attendance pa
2000/01	87	12,421		12,421
2001/02	207	26,951		26,951
2002/03	182	23,288		23,288
2003/04	136	17,057	1,607	18,664
2004/05	163	21,046	1,850	22,896
2005/06	161	20,521	1,617	22,138
2006/07	170	17,853	1,031	18,884
2007/08	183	18,508	1,007	19,515

The Attendance and Income model assumes that the Cinema will be open every day of the week. The Business Plan “On Target” figure assumes that cinema attendances will double to 38,525 with the opening of Mareel, by 2014/15. This works out, on average, at 108 people per day attending showings at the cinema. The average daily attendance in 2007/8 was 52 people. The average attendance per screening in May 2008 was 61 people, and the average attendance per film in 2006 was 105 people. It is the intention of Shetland Arts to target screenings at audience sectors (such as Senior Citizens, Children’s Film Club, Parent and Toddler groups, etc).

The pricing structure ranges from £6 per adult for a main evening viewing at the weekend to £2 or £3 for children and concessionary rates.

By way of comparison, the Cinema in Orkney had attendances of 30,555 in 2006/07 and 34,425 in 2007/08. This represents 1.5 attendances per person in Orkney (2007/08). The current level of attendance in Shetland is 0.81 per person, and the “On Target” figure assumes that this will rise to 1.75 per

person. It is for members to consider if they consider this is to be achievable.

Scottish attendances are 3.1 per head of population.

Nationally, research suggests that people would attend the cinema 2.5 times per person, however this figure is qualified by the fact that almost 70% of the market is between the ages of 15 – 24 years, and in addition, people living in urban areas have a higher than average attendance. Should 70% of the Shetland market be made up of 15 – 24 year olds, they would each need to attend 11 times per annum.

Using a price of £5 per ticket, the growth in income for cinema attendances would be met if the population of Shetland each attended the Cinema 1.5 times a year.

Shetland Arts have freedom over the programming of the cinema, and can amend screenings to suit particular target groups.

The overall position, with all elements taken together, the assumptions indicate that each person in Shetland would need to attend the Cinema and Music Venue 3.25 times per annum.

- 7.9 The third key area is the question of sales from the café bar, which taken together from Table 5 above, indicates that additional income of £400,000 will be required in order for the Business Plan to be achievable. This is a significant element of the overall income assumptions of c £900,000, at 44%. The café bar would offer snacks and drinks, but it would not be a restaurant. Most of the food would be bought in, with minimal food preparation (so saving on preparation space and staffing requirements).

The Trading Account for the café bar has been drawn out, insofar as it is possible to extract direct costs and income, but with no overhead allocation.

Table 7: Café Bar Trading Account

Element	2010/11 Estimate £
Expenditure:	
Staffing Costs	186,729
Cost of Sales	147,343
Income:	
Bar Sales	(297,688)
Day Time Café Sales	(80,766)
(Surplus) / Deficit	(44,382)

In terms of evidence for reasonableness, it has been possible to gain a degree of understanding from other publicly supported local providers as to the current level of activity.

Appendix 6, an exempt appendix, gives some comparisons on the trading activity of other public sector catering establishments.

Evidence from other public sector catering and drinking facilities suggests that the turnover and profitability assumptions in the Mareel Business Plan will be challenging to achieve.

During the day, there will be displacement from the Mareel café bar activity, from other providers or from local shops.

In population terms, each person in Shetland would need to spend £18.40 in the café bar, once a year, to make the Business Plan assumptions achievable.

The Business Plan is heavily reliant on income from the café bar. The Review Team consider this to be a significant risk, within the business plan assumptions and one upon which Members will be required to exercise their political judgement.

As part of the review, there was a focus on the policy of Shetland Arts with regard to alcohol sales. Shetland Arts will need to apply for the necessary licences to authorise the sale of alcohol on the premises. Within the draft policy, Shetland Arts have set out the following principles in the operation, sale and consumption of alcohol within Mareel:

- To promote responsible drinking and the 'Sensible Drinking Message'.
- To avoid any actions that encourage or condone illegal, irresponsible or immoderate drinking such as drunkenness, drink driving or drinking in inappropriate circumstances.
- To take all reasonable precautions to ensure people under the legal purchase age cannot buy or obtain alcoholic drinks.
- To avoid any forms of marketing or promotion which have particular appeal to young people under the age of 18 in both content and context.
- To avoid any association with violent, aggressive, dangerous, illegal or anti-social behaviour.
- To make the alcoholic nature of their products clear and avoid confusion with non-alcoholic drinks.
- To avoid any suggestion that drinking alcohol can enhance social, sexual, physical, mental, financial or sporting performance, or conversely that a decision not to drink may have the reverse effect.
- To ensure staff and those acting on Shetland Arts' behalf are fully aware of these Standards and are trained in their application in their own areas of responsibility.
- To ensure that all company policies work to support these Standards.

7.10 The Financial Controller for Shetland Development Trust undertook sensitivity analysis on the assumptions in the Business Plan. This tests how much reliance is placed on each element and how "sensitive" the model is to significant changes to the level of activity, costs and income. The model has been tested for a 20% change (both increase and decrease) on the level

of attendance and events promoted. The outcome would result in results from a £36,000 surplus to a deficit of £161,000, in Year 1.

7.11 Initial indications suggest that the current proposals do not need to be considered in terms of state aid, but further advice is being sought from the Scottish Government State Aid Unit.

7.12 The Economic Impact Assessment considers in detail the question of Displacement. I have extracted the relevant paragraphs from the study and included the analysis in full at Appendix 4. The displacement activity has been considered under the five headings below:

- (i) Box office income from films currently shown at the Garrison.
- (ii) Attendances at Music Hall events currently held at other venues that would transfer to Mareel.
- (iii) Visits to Mareel for events, films, casual drinks and meals, etc that displace visits to other venues and facilities in Shetland (on the same day or on a different day).
- (iv) Alternative expenditures in Shetland that would have been made with the money that residents would spend on their visit to Mareel (i.e. other than on entertainment).
- (v) Grant-aided posts that would otherwise have been located at another Shetland facility.

The Study concludes that, “taking all of the above factors into account, it is considered on balance that 40% of the gross direct employment of 17.5 fte’s associated with the Mareel development would be displaced within Shetland”. This means that, 7 full time equivalent jobs will be lost elsewhere as a result of the Mareel facility. The issues raised at number (iv) above, acknowledges the assumptions about increase income and activity generated from the Mareel project may be limited by families having to live within a fixed budget and the need to spend on essential items of expenditure.

Expenditure

7.13 Staffing Costs:

Four people are currently needed to open the Garrison Theatre. This is based on a current risk assessment which indicates a need for one trained members of staff to every 75 in the audience. The roles are – ticket seller, confectionery seller, ticket stub checker and a technician.

The level of wages are reasonable and are consistent with wage levels currently paid to people undertaking similar roles within Shetland Arts and elsewhere.

For Mareel, the proposal is that the staff will be multi-purpose so that every member of staff in the building will count towards the 75:1 ratio, mentioned

above. The building will be open for other purposes. The Duty Manager will fulfil a number of roles, such as ticket stub checker, operating the projector, etc. There will also be self-service ticket machines.

7.14 Operating Costs:

Operating costs for the facility are estimated to be just over £100,000 per annum. Initial calculations carried out by Building Services would indicate that this is low, and that costs would be approximately £50,000 higher than this.

Regarding two areas where difficulties often occur, energy cost estimates in the Business Plan do not yet reflect recent experience of exceptionally high rates of increase.

The cost of ongoing building maintenance has been omitted from the Business Plan. Estimated costs for planned maintenance over 10 years averages at £60,000 per year (ranging from £30,000 in year 1 to £232,000 in year 10).

On current Mareel cash forecast predications Shetland Arts would need to generate an additional surplus of £22,000 in years 1 to 5 to cover planned maintenance costs. From years 6 to 10 planned maintenance can be covered from within existing budgets. Significant spend is projected as a one off in years 10 (estimated additional cost of £165,000), Year 20 (estimated additional cost of £379,000), and Year 30 (estimated additional cost of £204,000).

The additional costs of £22,000 for years 1 to 5 represents 1% of the projected Shetland Arts turnover for this period.

Shetland Arts state that they will seek to cover this cost through a combination of the following actions:

- Efficiencies and improved management of current planned maintenance allocation from SCT to Shetland Arts
- Cost saving exercises across Shetland Arts own activity
- Increase in Shetland Arts fundraising and income generation

There was an assumption on the part of Shetland Arts that Shetland Charitable Trust would add the Mareel facility to its established planned maintenance and renewal programme but no formal agreement is in place.

7.15 Concerns have been expressed within the community, although it is unclear what evidence people are basing their judgements on, that Mareel will simply displace current activity and may formalise much of the voluntary / community based arts and cultural activity, which Shetland enjoys, and take money away from private sector providers. There is a concern expressed by some people that the audiences levels assumed will not materialise, that

Shetland simply does not have the population to maintain a facility of this size and so will be left with an expensive facility to run. Some people would say that cinema attendances are decreasing, not increasing, and that home cinema is the more popular (and cheaper) way for friends and family to enjoy watching films. Also, at times of general price rises for the cost of living (mortgages, energy costs, food, etc), leisure time activities will be the first area of family expenditure to be cut. The Review Team has not, in the time available, been able to evidence these assertions (other than by making reference where possible to relevant studies, such as the Economic Impact Assessment). This is, therefore, an area which will require political judgement on the part of the Members.

7.16 In summary, the Review Team found:

- The financial plan to have a high level of integrity
- The underlying assumptions to be carefully thought through
- The assumptions to be based on extensive market research
- The Business Plan is reliant on sales from the Cinema and Music ticket sales
- The Business Plan is heavily reliant on Café Bar income
- There is a significant omission of building maintenance costs from the current assumptions
- The Business Plan has not been updated for the current rise in energy costs
- If attendances and income do not materialise at the levels expected in the Business Plan, Members should acknowledge their potential role as “funder of last resort”

7.17 Shetland Arts currently have a commitment from Shetland Charitable Trust to fund the deficit in Year 1 up to a level of £100,000. They do not envisage a scenario where they would come to Shetland Islands Council for any additional deficit funding. They have confidence in the Business Plan and are willing to carry the risk of income assumptions not being achieved by: reacting to market forces and changing their programming and pricing plans; seeking funding from other grant funding agencies or commercial sponsorship; re-allocating their existing grant assistance allocation. It would be unusual for the Council to set such a rigid condition on any organisation providing public services in Shetland. To put this in the context of the overall budget available for Arts in Shetland, a deficit of £60,000 would represent less than 5% of the gross income of £1.3m.

7.18 In summary, the Expenditure side of the Business Plan looks robust, with two main exceptions. The first is the omission of significant repairs and maintenance costs of a long term average of £60,000 per annum (on the as yet unfounded presumption that Shetland Charitable Trust will take on that burden). The second is that the current very steep increases in energy costs are not factored into the Business Plan.

7.19 The Income side of the Business Plan depends on a big increase in Cinema attendances (but only comparable to that experienced in Orkney), a big new audience for performances (a new and essentially unprovable forecast, one way or the other), and a very high and profitable turnover in the Café Bar. Big

new attendances and revenue streams are possible (as the experience at the New Museum and Archives proves, as does the experience at Clickimin 25 years ago), but cannot be certain. In essence, members will have to form their own judgment, based on the evidence that exists, but also based on their own experience and views, as to whether this is considered likely or not.

7.20 The main findings to come out of the Business Plan review are that there are acknowledged revenue deficits in early years, for which there is only £100,000 of funding in place from the Shetland Charitable Trust for year 1. These will be added to by increases in energy costs and provisions for repairs and maintenance (not yet in the Business Plan). These may be further added to if ambitious projections of cinema and music audiences do not materialise, or if they do not spend at projected levels in the Café Bar. Shetland Arts have pledged to fund such deficits without requiring further deficit funding from the Council.

8 Economic Impact Assessment

8.1 As mentioned, an Economic Impact Assessment was carried out by Steve Westbrook, for Highlands and Islands Enterprise in April 2008. The key economic impacts are set out at Appendix 3 and summarised in Table 8 below.

Table 8 : Summary of Economic Impact by FTE and Income Generated

The impacts that have been quantified in this report can be summarised as follows (net of displacement, see Appendix 4 and paragraph 7.12):

	Fte's	Income £
Construction Phase		
Development Phase Impacts (annualised)	13	367,000
Operating Phase		
Direct Employment	10.5	273,000
Induced Employment	2	42,000
Indirect Employment	4	95,000
Visiting Performers	0.5	11,000
Tourism	5	110,000
Creative Industries	17	446,000
Sub Total: Operating Phase	39	977,000
Overall Total	52 fte's	£1,344,000

The study also identified economic and social impacts that are unquantified and these include:

- Retention / increase in population through providing a modern high quality venue for music, film and other arts.
- Retention of young people through new FE and HE courses and creative industry development.

- Spin-off benefits to other venues in Shetland through sharing visiting performers.
 - Raised profile of Shetland and the Highlands and Islands in arts provision and development.
 - Performances in other Highlands and Islands venues by artistes en-route to Shetland.
- 8.2 Turning again to the overall philosophy of the project, the 39 full time equivalent posts estimated to be created once Mareel is built, is based on the presumption that additional income of over £900,000 per annum will be generated.
- 8.3 From this study, in terms of economic impact, a capital investment of £5.19m would be paid back in about 4 years (from additional income generated).

9 Financial Implications

- 9.1 The estimated cost of the Mareel project is about £10.6m and Shetland Islands Council has provision within the capital programme for funding of £5.19m. A request for an additional £965,000 towards the total project costs for economic development purposes will be considered by the Council's Development Committee in August. To date, over the past 4 years, costs of £751,000 have been spent on the project.
- 9.2 All of the external funding which has been offered to date, about 42% of the estimated project cost, is dependent on Shetland Islands Council demonstrating a commitment to the project by way of capital investment.
- 9.3 An application has been made to the European Structural Fund. It is an application for European Regional Development Programme Convergence Funding, to fund the remaining costs of the project, including a contingency allocation, given the current rate of inflation in the construction industry. Again, Shetland Arts have stated that they have no intention of seeking additional funding from the Council beyond the £5.19m currently approved.
- 9.4 If Members are minded to support the project it will be necessary to formalise the framework agreement approved in October 2007, to explain the roles and relationships between Shetland Arts, Shetland Charitable Trust and Shetland Islands Council with regard to the Mareel project. A Memorandum of Understanding, to be supplemented by detailed contract documentation to take the project forward to underpin those arrangements is therefore included at Appendix 5.
- 9.5 There are no specific revenue financial implications for Shetland Islands Council (i.e. there are no calls in the Business Plan for any level of revenue deficit funding from the Council). Shetland Charitable Trust has confirmed support to meet any deficit up to £100,000 in the first year of operation.
- 9.6 This means that the revenue deficits beyond the £100,000 in year 1 will either be absorbed by Shetland Arts (the proposal in the Business Plan) or

will become an unplanned burden upon some other deficit funder (not yet identified).

- 9.7 A recent Internal Audit of the Capital Projects service identified a potential problem over VAT on architect's bills paid by the SIC in relation to Mareel. The bills were paid directly by the Council, instead of being made payable by Shetland Arts, and included in the Council's VAT returns. This was incorrect and needs to be resolved by the Council invoicing Shetland Arts for the architect's costs plus VAT. The Council will then grant aid Shetland Arts for the net amount of the invoice. There is no net financial impact on any party but this regularises the VAT position.

10 Conclusions

- 10.1 The Council is legally able to support leisure and cultural activity, through Section 14 of the Local Government and Planning (Scotland) Act 1982. It is up to Members to determine what they consider to be "adequate provision", taking account of the services and facilities available within the community.
- 10.2 The Council has agreed to include a capital budget to support the Mareel project and an amount of £5.19m is included in the currently approved programme. It is up to Members to determine the relative priority given to each project, taking account of competing priorities across all service areas within a financially constrained programme. A decision is required now, as all the external funding awarded to the project is dependent on a commitment to financial support by the Council.
- 10.3 The preparation of the Business Plan is robust, detailed and well researched. The over-riding assumption is that the new facility will result in new audiences attending the cinema and music related events and that current audiences will attend more often. Whilst the charging structure appears reasonable for each element, Members will need to make a political judgement as to whether or not they consider there to be a gap in current provision of that level. The cost of maintaining the building and equipment has not been factored into the current Business Plan.
- 10.4 The combination of increasing energy and food prices, the absent provisions for repairs and maintenance costs, and the ambitious projections for audience numbers and revenue streams almost guarantee that a higher level of revenue deficit funding will be required than is provided for in the Business Plan (and none of what is in the Business Plan beyond Year 1 is funded, except at the expense of other Shetland Arts activities). The Council will need to take this into account in deciding whether to invest capital in Mareel, and may wish to weigh in the balance the possibility that the Council could become the deficit funder of last resort, despite undertakings by Shetland Arts to the contrary. Experience suggests that in practice the Council will be called upon to contribute if all else fails. Having said that, the Council will also wish to weigh the social and economic benefits arising from this project, and the fact that in a range of other areas of public service activity the Council has accepted the need for substantial ongoing

levels of deficit funding (most recently at the highly successful Museum and Archives).

- 10.5 If Members consider that there is the appetite in Shetland for more activity in the field of cinema and music events and that there are gaps in current provision, it is envisaged that investing in Mareel will contribute to many strategic objectives around economic regeneration, learning opportunities, population retention, positive health impacts and improvements in well-being.
- 10.6 If Members consider that there is “adequate provision” already in the field on cinema and music activity and that new and additional activity will not be generated by Mareel, the whole premise of the Business Plan becomes an area for debate.

11 Policy and Delegated Authority

- 11.1 Shetland Islands Council holds overall responsibility for the capital programme. The Council’s current policy is to provide capital funding for the Mareel project, up to £5.19m, with no ongoing revenue commitments. A Notice of Motion requested an immediate review of that policy, the subject of this Report. A decision by Council is therefore required to confirm or amend the Council’s current policy of support for the Mareel project.

12 Recommendations

- 12 It is recommended that the Council:
- (a) agree to award a grant to Shetland Arts for the amount of the architects fees incurred on the project, net of any VAT amount, subject to suitable grant conditions being agreed between both parties; and
 - (b) note that legislation enables the Council to invest in the Mareel project; and
 - (c) note that there is an allowance of £5.19m approved in the current Capital Programme; and
 - (d) note that the Review Team concluded that the Business Plan:
 - has been prepared in a robust and well researched manner; and
 - is light in terms of the estimates for expenditure (with regard to maintenance and energy costs in particular); and
 - is challenging in terms of the reliance on new audiences and new income streams; and
 - (e) subject to consideration of the above, approve a grant of up to £5.19m to Shetland Arts towards the Mareel project, in line with current Council policy and subject to suitable grant conditions being agreed; and

- (f) Approve the Business Plan summary at Appendix 1, in recognition of the requirements of the Scottish Arts Council offer of grant assistance; and
- (g) Approve the Memorandum of Understanding at Appendix 5, as the framework for undertaking the project.

Our Ref: HAS/GJ/NG

Report No: ESCD-45-F

Mareel (Cinema and Music Venue): Way Forward

Appendix 1 : Summary Cash Flow Projections 2007/08 - 2015

**SHETLAND ARTS DEVELOPMENT AGENCY
CASH FLOW PROJECTION 2007/08 - 2015
SUMMARY**

	Pre Mareel			Shetland Arts + Mareel years 1 to 5				
	Year -2	Year -1		Year 1	Year 2	Year 3	Year 4	Year 5
	2007-08	2008 - 2009	2009 - 2010	2010 - 2011	2011 - 2012	2012 - 2013	2013 - 2014	2014 - 2015
Income								
Box Office/Programme income	£131,420	£130,070	£130,070	£360,875	£374,281	£388,228	£402,739	£417,836
Ancillary Earned Income	£107,055	£132,156	£136,656	£547,451	£558,605	£569,041	£579,770	£590,803
Other Earned Income	£11,883	£5,500	£6,500	£58,043	£59,416	£60,826	£62,774	£64,763
Business Sponsorship	£30,578	£10,780	£10,780	£14,500	£14,500	£14,500	£14,500	£14,500
Trusts, Donations	£46,951	£114,975	£113,616	£113,616	£113,616	£113,616	£113,616	£113,616
Revenue Scottish Arts Council	£155,250	£156,803	£159,939	£163,137	£166,400	£169,728	£173,123	£176,585
Project Funding Scottish Arts Council (Voted and Lottery)	£63,213	£39,500	£39,500	£35,000	£35,000	£35,000	£35,000	£35,000
Local Authority - Revenue Funding - (SCT)	£730,595	£0	£0	£0	£0	£0	£0	£0
Local Authority - Project Funding	£55,683	£600	£600	£600	£600	£600	£600	£600
Other Public Funds - (Including SCT Revenue Grant)	£27,500	£774,513	£802,148	£825,463	£849,477	£874,211	£899,687	£925,928
Other Lottery Income	£4,000	£0	£0	£0	£0	£0	£0	£0
Total projected income	£1,364,127	£1,364,897	£1,399,809	£2,118,685	£2,171,894	£2,225,750	£2,281,809	£2,339,631

Expenditure									
All Staff Costs	£759,402	£784,895	£807,943	£1,195,155	£1,206,658	£1,230,631	£1,255,083	£1,280,025	
Programme	£119,928	£148,210	£148,211	£254,633	£259,986	£265,512	£271,217	£277,109	
Programme marketing	£55,053	£27,120	£42,120	£72,120	£73,120	£74,140	£75,180	£76,242	
Education	£159,820	£202,922	£202,922	£206,722	£206,722	£206,722	£206,722	£206,722	
Overheads	£239,413	£201,750	£197,250	£458,954	£455,904	£457,856	£465,112	£472,697	
Other Expenses	£30,511	£0	£0	£0	£0	£0	£0	£0	£0
Total projected expenditure	£1,364,127	£1,364,897	£1,398,446	£2,187,584	£2,202,390	£2,234,861	£2,273,315	£2,312,794	
Balance	£0	£0	£1,363	-£68,899	-£30,496	-£9,111	£8,494	£26,837	

Mareel (Cinema and Music Venue): Way Forward

Appendix 2 : Music Hall Attendance and Income Model 2007/08 - 2015

Music Hall - Attendance & Income Model

Day	Event	Per individual event (inc VAT)					Attendance	Ticket Income
		Attendance	Ticket Price	Cost (Ex-VAT)	Bar Spend per Head	Frequency per year		
Mondays	Kids Event	250	£5.00	£2,000	£2.00	4	1,000	£5,000
<i>Sub-total Mon</i>						4		
Tuesdays	Dance/Drama/Comedy	250	£6.00	£1,000	£6.00	6	1,500	£9,000
<i>Sub-total Tues</i>						6		
Wednesday	Jazz/Country/Blues (Local)	75	£5.00	£125	£6.00	30	2,250	£11,250
	Jazz/Country/Blues	150	£7.00	£1,500	£6.00	3	450	£3,150
	Classical (Local)	120	£7.00	£400	£4.00	4	480	£3,360
	Classical (Visiting)	240	£10.00	£2,000	£4.00	4	960	£9,600
<i>Sub-total Wed</i>						41		
Thursdays	Tea Dance (matinee)	75	£2.50	£100	£4.00	11	825	£2,063
	Shetland Traditional Music	150	£5.00	£250	£3.00	6	900	£4,500
	Big Band (day of week varies)	400	£15.00	£7,000	£10.00	6	2,400	£36,000
<i>Sub-total Thur</i>						23		
Fridays	U14 Event	150	£2.00	£75	£3.00	10	1,500	£3,000
	Nightclub 18+	300	£5.00	£250	£12.00	6	1,800	£9,000
	Non-Alcohol Event	150	£3.00	£250	£5.00	6	900	£2,700
	Live Band inc. U18s	200	£5.00	£250	£8.00	5	1,000	£5,000
	External DJ	500	£12.00	£3,000	£12.00	3	1,500	£18,000
	Festival	350	£600.00		£10.00	3	1,050	£1,800
	Major event external hires	300			£10.00	6	1,800	
<i>Sub-total Fri</i>						33		
Saturdays	U14 Event	150	£2.00	£75	£3.00	10	1,500	£3,000

	Nightclub 18+	300	£5.00	£250	£12.00	6	1,800	£9,000
	Non-Alcohol Event	150	£3.00	£250	£5.00	5	750	£2,250
	Live Band inc. U18s	200	£5.00	£250	£8.00	5	1,000	£5,000
	External DJ	500	£12.00	£3,000	£12.00	3	1,500	£18,000
	Local & Tribute Bands	250	£5.00	£1,250	£10.00	8	2,000	£10,000
	Festival Sat 1	200	£600.00		£6.00	3	600	£1,800
	Festival Sat 2	400	£600.00		£10.00	3	1,200	£1,800
	<i>Sub-total Sat</i>					<u>43</u>		
Sundays	Family Event	200	£3.50	£250	£3.00	6	1,200	£4,200
	Festival Sun 1	150	£600.00		£6.00	3	450	£1,800
	Festival Sun 2	200	£600.00		£10.00	3	600	£1,800
	<i>Sub-total Sun</i>					<u>12</u>		
Total number of events per year						162	32,915	182,073

Mareel (Cinema and Music Venue): Way Forward

Appendix 3 : Summary of Economic Impact Assessment

If developed as proposed (i.e. if the full capital funding of £9.3 million is obtained), the net economic impacts of the project would comprise:

- (i) The direct employment at the venue, and associated income generated, related to the additional activity in Shetland that Mareel would host (net of displacement from other venues).
- (ii) The induced and indirect employment and income generated in Shetland by this additional activity.
- (iii) The employment and income generated in Shetland by visitors (audiences, performers and other users of the venue) who would not otherwise have come to Shetland or whose stay would be extended.
- (iv) The longer term tourism impact generated through repeat visits and recommendations to others.
- (v) Impacts from new (or augmented) events, promoted in Shetland because of the availability of the new venue, that would use other venues in addition to Mareel. These impacts would include visits by artists who would perform in at least one other “country” venue as well as in Mareel (which can be required to make a visit, e.g. by a band, viable).
- (vi) Creative industries development stimulated by the scope for performers, film makers, those recording music, etc to attain commercial scale through using the venue; use of the venue by Shetland College and others for training and educational purposes which stimulates later business development; and the strengthened resources that Shetland Arts will have to support business development and new initiatives.
- (vii) Retention / attraction of key workers through Shetland having enhanced arts and entertainment facilities – i.e. Mareel would play a role in making Shetland attractive as a place to live to key workers and entrepreneurs and their families.
- (viii) The employment and income generated in Shetland through the construction stage. Some of the project funding, e.g. from Shetland Islands Council (SIC), would otherwise have been spent locally on other capital projects, but external funding, e.g. from the Scottish Arts Council, would not otherwise have benefited Shetland. Future maintenance is included under direct, indirect and induced impacts (i) and (ii) above.

Mareel (Cinema and Music Venue): Way Forward

Appendix 4 : Economic Impact Assessment - Displacement

Displacement

A proportion of this direct staffing will be supported by customer spending and grant aid that would otherwise have supported other employment in Shetland. Displacement applies to:

- (i) Box office income from films currently shown at the Garrison.
- (ii) Attendances at Music Hall events currently held at other venues that would transfer to Mareel.
- (iii) Visits to Mareel for events, films, casual drinks and meals, etc that displace visits to other venues and facilities in Shetland (on the same day or on a different day).
- (iv) Alternative expenditures in Shetland that would have been made with the money that residents would spend on their visit to Mareel (i.e. other than on entertainment).
- (v) Grant-aided posts that would otherwise have been located at another Shetland facility.

These different categories of displacement are discussed below.

(i) Current Film Attendances

Cinema attendances are currently c20,000 per year (concentrated on four days per month). This is expected to approximately double with Mareel and the planned film programming. Box office income is expected to rise from £58,000 in 2007/08 to £178,000 in Year 5 – a threefold increase. A relatively small proportion of SADA and Mareel's extra direct staffing from 2010/11 relates to the new cinema provision.

(ii) Attendances at Music Hall Events

The vast majority of provision at Mareel would be new. Where a current event – promoted by SADA or an independent promoter or part of a festival – transfers to the new venue, audience numbers should grow significantly as there is currently no comparable venue. Events for very large audiences will continue to be held at the Clickimin. The North Star has closed as a night club.

SADA's Box Office / Programme income from music in 2007/08 was £21,000. Mareel's income from tickets for music hall events by Year 5 is expected to be £211,000 (ten times higher), with other music box office / programme income falling by £6,000 to £15,000. This reflects continuing provision at other venues at almost the current level.

(iii) Audience Displacement from Other Events

The logic for the Mareel development is that other venues in Shetland are not able to host the range of events that will be promoted to different markets. Also, provision has been planned by SADA to minimise displacement from other venues. Indeed, local performers nurtured by Mareel and its user groups would be expected to increase their performances elsewhere (or improve their audience appeal).

The c10% of music event audiences expected to be tourists would not generally have otherwise spent as much during the evening on alternative activity.

There will be some displacement where people patronise Mareel for a drink or a snack without attending a performance – although this is not expected to be a major source of its turnover or employment.

Also, some attendees will purchase drinks at Mareel before, during or after the performance they have come to watch – instead of at a hotel or pub where this would have been their alternative night out. To an extent, however, this would be balanced by the event visitor buying drinks or a meal at another venue before or after the Mareel performance where they would otherwise have stayed at home.

(iv) Displacement of Other Spending in Shetland

This is potentially more significant than (iii) as a proportion of the money that Shetland residents would spend on their Mareel visit would otherwise be available for spending on other goods and services in Shetland. Indeed, per £ spent, other local expenditure would often support more local employment as there is a high import component in Mareel's provision (fees paid to artists from outwith the area, drink supplies bought from the mainland, charges for exhibiting films, etc).

However, most local expenditure (on groceries, housing, motoring, etc) is relatively fixed and, at the margin, Shetland residents might be more likely to spend discretionary income on holidays, consumer goods and luxuries with low local value added.

(v) Grant-Aided Posts

If the anticipated bar and catering surplus and target visitor numbers and ticket prices can be achieved, a relatively small proportion of the extra funding that SADA expect to receive from the Scottish Arts Council, SIC and SDT will be required to support the deficit on events. Most of this funding will support SADA's enhanced arts development work made possible by Mareel's facilities. Without the Mareel development, the scope to promote new arts development in Shetland would be limited.

Displacement Conclusion

Taking all of the above factors into account, it is considered on balance that 40% of the gross direct employment of 17.5 fte's associated with the Mareel development

would be displaced within Shetland. This would give a net direct impact of **10.5 fte's** and **£273,000** in income from employment.

Mareel (Cinema and Music Venue): Way Forward

Appendix 5 : Proposed Memorandum of Understanding

Memorandum of Understanding

between

Shetland Islands Council, Town Hall,
Lerwick, Shetland

and

Shetland Arts, Toll Clock Shopping
Centre, Lerwick, Shetland

and

Shetland Charitable Trust, 22-24
North Road, Lerwick, Shetland

1. Basis of Agreement

This Memorandum of Understanding outlines the strategic intentions of the parties regarding the Mareel Project. It records the parties future intentions and is not a legally binding agreement. The parties will enter into legally binding agreements regarding the Mareel Project at a future date in the event of the Project proceeding, once all the funding is in place and a competent tender has been agreed.

2. The Mareel Project

The Mareel Project is the proposal to build a cinema and music venue for the Shetland Islands and thereafter to operate the venue to its full potential. This project is in accordance with the Cultural Strategy for Shetland prepared by the Shetland Islands Council in collaboration with Shetland Arts and other Community Planning partners.

3. The Parties

Shetland Islands Council are the local authority for the Shetland Islands area. Shetland Islands Council has a power in terms of S.15 of the Local Government and Planning(Scotland) Act 1982 to provide or contribute to the provision of facilities for cultural and social activities as they consider appropriate for Shetland.

Shetland Arts is a registered charity and a Foundation Organisation of Scottish Arts Council whose objects are to advance the education of the public resident in Shetland in the arts. Shetland Charitable Trust provides

financial support to Shetland Arts to promote cultural and recreational facilities and activities.

Shetland Charitable Trust is an independent Trust whose objects are to promote the interests of Shetland and its inhabitants.

4. Role of Shetland Islands Council in the Mareel Project

Shetland Islands Council shall be responsible for providing financial support in the form of a grant of up to £5.19 million pounds of the capital costs to Shetland Arts for the provision of the Mareel Project. In addition Shetland Islands Council shall provide advice to Shetland Arts regarding, firstly, the strategic direction of cultural service needs and secondly, technical advice and support on the management of the Mareel project. The details of the grant funding and the advice services shall be set out in legally binding contracts to be agreed between the Shetland Islands Council and Shetland Arts.

5. Role of Shetland Arts in the Mareel Project

Shetland Arts shall be responsible for commissioning and arranging for the building of the venue for the Mareel Project and thereafter shall be responsible for ensuring the ongoing running of the Mareel Project.

In commissioning and arranging for the building of the venue Shetland Arts has applied for funding from the National Lottery Arts Fund. Shetland Arts will be responsible for exploring and securing funding from other sources to meet the additional capital costs of the Mareel Project beyond the contributions from the National Lottery Arts Fund and the Shetland Islands Council.

Shetland Arts will be responsible for ensuring that the general public and stakeholders in the Mareel project are kept informed of the project developments and for ensuring that full consultation takes place.

Shetland Arts will be responsible for the management of the ongoing Mareel Project. Shetland Arts shall develop appropriate policies, procedures, systems and staffing for the new venue. Shetland Arts shall develop appropriate arts based programmes and training activities to maximise the use of the new venue.

6. Role of Shetland Charitable Trust

Shetland Charitable Trust shall provide funding towards ongoing staffing costs incurred by Shetland Arts for the planning and building stage of the venue for the Mareel Project. Once the venue is operational the Shetland Charitable Trust will provide funding towards any deficit on the running costs of the venue during its first financial year of operation subject to a maximum of £100,000.

References and Acknowledgements

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