



# Doncaster Council

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**Date: 17th July 2018**

**To the Chair and Members of the  
CABINET MEETING**

**SAVOY CINEMA AND RESTAURANTS – CIVIC AND CULTURAL QUARTER**

<b>Relevant Cabinet Member(s)</b>	<b>Wards Affected</b>	<b>Key Decision</b>
Cllrs Joe Blackham and Bill Mordue	All	Yes

**STRATEGIC CONTEXT**

1. The Urban Centre is a vital part of Doncaster's future; it is an important area of the Borough requiring significant attention and is a high priority theme of Doncaster Growing Together initiative.
2. The key strategy document for the town centre that provides a framework of the future opportunities and improvements is the Urban Centre Master Plan (UCMP). The plan outlines a range of options and objectives to make the town centre successful, recognising that it needs to be able to adapt to the changing environment, both physical and socio-economic.
3. The Urban Centre Master Plan presents a comprehensive analysis of the strengths to be cultivated and areas requiring attention and support. Directorate of Regeneration and Environment are currently working across a range of disciplines to develop and deliver managed programmes of interventions and infrastructure projects to be taken forward. We also need to be cognisant that new opportunities will constantly present and therefore the plan needs to be flexible to those opportunities.

4. The main body of work now is to ensure the delivery of the current tranche which includes CCQ, Quality Streets, Waterfront West and Scot Lane and establish the future tranches based around balancing the key priorities of deliverability, funding, and the outcomes. An over view of the progress to date will be provided as a preamble to the individual urban centre scheme reports for cabinet

## **EXECUTIVE SUMMARY**

5. The disposal of land at Civic and Cultural Quarter (CCQ) known as 'Savoy Cinema Site' has been a longstanding leisure based development opportunity and was part of the Muse Development Agreement.
6. This site has been brought forward to Cabinet (02/08/2016) before for approval for Sheffield City Region Infrastructure Fund (SCRIF) funding. However, due to Muse being unable to make it work commercially, the proposal stalled.
7. A further paper was brought forward to Cabinet (15/08/2017) which sought approval to proceed with the Savoy Cinema Development with the Council acting as landowner, funder, developer and landlord of the completed development. This was approved subject to having the Savoy Cinema deal completed and enough restaurant tenants in place, prior to starting construction, to cover the funding costs.
8. This paper seeks Cabinet approval to procure and construct the development with just a lease in place with the Cinema operator but without any restaurant operators in place.
9. Once completed it will create an annual rent (details of which are expanded upon in the financial appendix), circa 100 jobs, an estimated rateable value of circa £530,000 and an enhanced CCQ leisure offer.
10. It is proposed that the Council will enter into lease negotiations with potential occupiers with a view to opening the scheme by end of 2019.

## **EXEMPT REPORT**

11. This report is not exempt however; there are a number of financial and commercial matters contained within Appendices 2 and 3 to the report which are commercially sensitive information. Therefore, Appendices 2 and 3 are NOT FOR PUBLICATION because they contain exempt information under Paragraph 3 of Part 1 of Schedule 12 (a) of the Local Government Act 1972 (as amended), information relating to the financial or business affairs of any particular person (including the authority holding that information).

## **BACKGROUND**

12. The Council had a ten year Development Agreement with Muse Developments Limited ("Muse") which was entered into in 2009. The agreement had been the foundation of the developments in the Civic and Cultural Quarter including the successful on time and within budget development of the Civic building, the Cast building, the Gables housing development and Sir Nigel Gresley Square and public realm. However, the agreement also covered a range of other sites, including the Savoy Cinema.

The original agreement would have seen many underway by now however due to a variety of economic and other reasons were not developed via the agreement with Muse.

13. The Development Agreement with Muse was terminated early, this allows the Council to step in and bring forward a number of development proposals that have previously stalled.
14. The Cultural Quarter has recently been transformed into a destination in its own right with the £20m Civic offices and the £22m Cast performance venue. The challenge is to now maximise the energy created by building on this with the Savoy Cinema development and the new library museum and archive building.
15. The Council owns the site, the development has planning consent, Savoy Cinema is ready to work with the Council and there are restaurant occupiers wanting to come to the development. The scheme has the benefit of approved SCRIF funding of £635,000 for the public realm aspect of the proposal. The figures presented in this paper are indicative and have taken account of the total costs previously anticipated. It is expected that as the due diligence progresses the overall project cost will reduce.
16. The intention is for the Council to fund and build the scheme as a whole to ensure a high quality scheme delivery and to ensure maximum benefits of cost control during the build programme.
17. The cinema element of the scheme has changed. Initially it was to be sold to the Savoy Cinema Group for a capital receipt. It is now proposed that the Savoy Cinema Group will now take a lease with an option to purchase at a later date. The restaurant element of the scheme is to be retained by the Council and let out on a commercial basis. During initial negotiations, Savoy required an agreement with at least two restauranteurs to be signed prior to the commencement of the construction. This would ensure that the Council cover their costs – (see Appendix 2 – Financial Summary). However Savoy has agreed that they no longer require pre-lets in place but they will pay a stepped rent increasing with the number of restaurant occupiers. This means that the scheme can now move forward with certainty albeit with more risk to the Council.
18. The reason for these changes are twofold. Firstly The Savoy Group has been offered alternative opportunities elsewhere on more favourable terms than previously agreed with Muse/The Council. The changes to the deal are recorded in more detail in the Appendix 2 to this report. Secondly the Savoy Group also accept the Council's wishes to progress the scheme, hence the initial need for a lease with an option to purchase and the removal for the need to have pre-lets in place prior to opening. Savoy has confirmed that they accrue a higher turnover the more lettings there are in place on the rest of the development. This accounts for the agreement for a rising rent depending on occupation.
19. There is demand for the scheme from restaurants, pubs and coffee houses and a restaurant market commentary has been attached at Appendix 3. However given our experience with Herten Triangle, it is important to demonstrate that the Council can bring deliverability and certainty to the leisure market. By securing a contractor and having a definitive start date,

with a signed cinema operator, this should be enough to move the current interest in the restaurant units into agreed leases. A Cinema Market report has also been attached at Appendix 1 which describes the robust nature of the Cinema market.

20. The Council is in a unique position to make a currently stalled scheme successful as the Council is the landowner and will retain part of the investment. This report recommends proceeding with a development funded through the Investment and Modernisation Fund due to the clearly identified regeneration benefits.
21. There will be long-term leases on a rent plus service charge basis to some financially strong national tenants. The projected returns, once completed and fully let will sit above the minimum return set out in the Council's Commercial investment Strategy at 5%. However until we agree leases, incentives and the final build costs the final return cannot be confirmed.
22. The development will be designed to have a 50 year lifespan with all leases granted on Full Repairing and Insuring terms with service charges for common areas.
23. Once built and fully let it is estimated that the development will generate revenue, 100 jobs and 530k business rates from the Cinema and five restaurant units at the initial investment cost as identified within Appendix 2. For the returns see the attached IRR calculations in Appendix 2.

## **RECOMMENDATION**

24. That Cabinet notes the contents of this report and approves the following:
  - Proceed with work to finalise plans, drawings and planning conditions and to complete the procurement for a contractor to construct the development.
  - Delegate authority to the Council's Property Officer to negotiate terms and enter into contract with Savoy Cinemas and agreements to lease with potential operators for the proposed new units.
  - Delegate to Director of Regeneration & Environment and Chief Finance Officer (in consultation with the Mayor) the decision to proceed with construction of the development once the Cinema operator has signed an agreement for lease. Procure and enter into an agreement to build in accordance with the Council's Contract Procedure Rules at the budgets identified in the report.
  - Increase the budget for Savoy Cinema development in the Regeneration & Environment Capital Programme for 2018/19 using the virement of additional funding from the Investment & Modernisation Fund;

## **WHAT DOES THIS MEAN FOR THE CITIZENS OF DONCASTER?**

25. This undeveloped site, once completed, will provide the citizens of Doncaster with a secure income stream, a new leisure venue, around 100 new jobs and encourage use of the surrounding leisure facilities by the increase in visitor numbers.

26. This proposal sees the Council using its unique position to exploit its asset base to develop opportunities which create jobs growth and revenue through the generation of new rents and business rates.

## OPTIONS CONSIDERED AND REASONS FOR RECOMMENDED OPTION

27. There are four key options available to the Council and these are set out below.

**Option 1:** Proceed with a disposal of the land by tendering the site for sale.

**Option 2:** Seek a second JV partner to work with to bring the development forward.

**Option 3:** DMBC step in as developer and landlord and commence development once the Cinema and three tenants have been secured.

**Option 4:** DMBC to step in and act as developer and landlord and to commence the scheme with only the Cinema secured as a tenant.

**The recommended option is Option 4.**

28. If the Council steps in as developer this will provide the best opportunity to ensure that the development comes forward creating an estimated 100 jobs, £530k of new business rates, a high quality revenue stream, and enhanced CCQ leisure offer. The scheme is just viable, for the Council, as the Council can borrow at public sector lending rates to fund the development and deliver a regeneration scheme which is of little interest to private sector developers at a lower rate of interest than a development company. As the Council will retain part of the development as an investment there are limited disposal costs that a developer would have to include as part of their proposal. Given recent Herten Triangle experience and prevailing market conditions there is little confidence that Option 1 and 2 will bring forward a viable development scheme given that the Council's former development partner was unable to deliver this. With the current difficult market in the restaurant sector some operators are unwilling to proceed unless there is certainty that the development will come forward. Option 3 provides a catch 22 situation whereby the Council cannot start as the hurdle of two to three tenants has not been met but the tenants will not commit as the Council cannot provide certainty. Option 4 provides that certainty.

## IMPACT ON THE COUNCIL'S KEY OUTCOMES

	Outcomes	Implications
	<p>All people in Doncaster benefit from a thriving and resilient economy.</p> <ul style="list-style-type: none"><li>• <i>Mayoral Priority: Creating Jobs and Housing</i></li><li>• <i>Mayoral Priority: Be a strong voice for our veterans</i></li><li>• <i>Mayoral Priority: Protecting Doncaster's vital services</i></li></ul>	<p>There are no negative implications with this recommended course of action. By developing out the site DMBC will secure an opportunity to create new jobs.</p>

	<p>People live safe, healthy, active and independent lives.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Safeguarding our Communities</i></li> <li>• <i>Mayoral Priority: Bringing down the cost of living.</i></li> </ul>	<p>There are no negative implications that may impact on the councils key objectives.</p>
	<p>People in Doncaster benefit from a high quality built and natural environment.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Creating Jobs and Housing</i></li> <li>• <i>Mayoral Priority: Safeguarding our Communities</i></li> <li>• <i>Mayoral Priority: Bringing down the cost of living.</i></li> </ul>	<p>This scheme will see development of a prime plot of land that has remained undeveloped at CCQ for a number of years.</p>
	<p>All families thrive.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Protecting Doncaster's vital services.</i></li> </ul>	<p>There are no negative implications.</p>
	<p>Council services are modern and value for money.</p>	<p>This approach will improve value for money by releasing value from land that the council owns.</p>
	<p>Working with our partners we will provide strong leadership and governance.</p>	<p>There are no negative implications.</p>

## RISKS AND ASSUMPTIONS

29. If it does not proceed the land will lie vacant until an alternative purchaser is found.
30. The Council can proceed and take advantage of this opportunity whilst there is demand from a Cinema operator and for the leisure units from restaurants and pub operators. The restaurateurs are largely suffering from tough trading conditions and so negotiations may be difficult to bring to a head.
31. As with any project of this nature there is a risk that the calculated yield/IRR will not be achieved until enough operators for the units have been secured, which could mean a financial underpinning until the required level of occupancy is secured. However we have two good operators currently in legal contract negotiations and there is other in principle interest from the market which we would aim to secure before completion.
32. The construction costs are detailed but may need updating depending on how the final schemes progresses. However a fixed price contract will be negotiated to mitigate this risk of cost over runs.

33. In the construction budget allowances have been made for abnormal costs as a contingency sum. However these assumptions may prove to be inadequate for the purposes of the scheme

#### **LEGAL IMPLICATIONS** (Adam Bottomley 11.05.18)

34. S2 Local Authorities Land Act 1963 gives the Council power to erect buildings for the improvement of their area. The provision of an improved leisure offer in the CCQ together with the creation of circa 100 jobs will improve the area both socially and economically.
35. The works identified in this report will be above the OJEU threshold for works contracts and must be procured in accordance with the Public Contracts Regulations 2015 or through a compliant framework. The report author advises that the contractor is to be appointed following a mini- tender process through the OJEU compliant North Lincolnshire Construction and Highways Framework.
36. The report only requires that an agreement to lease is entered into with the Cinema operator, without a requirement for any restaurant operators to be secured before construction of the development is approved. There is a risk that the Council will be contractually committed to carry out the development before other tenants are secured.

#### **FINANCIAL IMPLICATIONS** (Matthew Smith 09.07.18)

37. This section summarises the financial implications. A more detailed breakdown of the financial implication has been appended.
38. The capital costs are funded through prudential borrowing and SCRIF grant from Sheffield City Region.
39. The project is expected to deliver on-going annual savings per annum from 2022/23 onwards after construction is complete and all tenants are in place. Indicative borrowing costs for have been modelled and can be found in the appendix.
40. The borrowing costs have been modelled assuming a 50 year life for the development. The interest rate applied to calculate the borrowing costs is the 50-year PWLB maturity rate plus 0.5% IMF risk factor (in-line with IMF guidance). The resultant rate used is 2.92%.
41. Any changes to key variables used for the basis of the financial models for example changes in construction costs and asset life would impact on the indicative borrowing costs. The financial models would need to be amended to ensure the scheme was still financially viable.
42. In accordance with financial procedure rule B.17 budget virement between directorates above £500k must be approved by cabinet this report satisfies that requirement. The report recommends a virement of additional funding to meet the revised capital cost of the project.
43. Financial procedure rule B.11 requires that where a project involves a capital commitment of £1,000,000 or more, a further ODR must be completed for the approval of the relevant Director and CFO in consultation with the Portfolio

Holder (Finance & Corporate Services) before a formal commitment is entered into or a contract signed.

#### **HUMAN RESOURCES IMPLICATIONS** (David Knapp 31.05.18)

44. There are no HR implications.

#### **TECHNOLOGY IMPLICATIONS** (Elaine Thompson 06.06.18)

45. There are no specific technology implications in relation to the recommendations. However, as stated in previous reports, ICT and CCTV will need to feed in the requirements to ensure public safety in the public realm surrounding the proposed development and to ensure that there is no disruption to the council's private fibre optic network, which is currently situated on the land identified for development.

#### **EQUALITY IMPLICATIONS**

46. There are no equality implications.

#### **PROCUREMENT** (Holly Wilson 22.06.18)

47. The procurement of such commercial & leisure buildings detailed within the body of the report must be commissioned and procured in line with the Councils Contract Procedure Rules (CPR's) and the Public Contract Regulations 2015 (PCR2015).
48. Equally the forming of any joint venture (JV) must be carried out in line with the above rules and procedures and carried out via a competitive procedure.
49. It is imperative that the Council's Strategic Procurement Team (SPT) and Legal Team are involved from the outset of the project.

#### **ASSET IMPLICATIONS** (David Stimpson 11.06.18)

50. The CCQ Cinema Development scheme presents a significant commercial opportunity for both property and facility management as part of the Councils Commercial Property portfolio. It is standard practice for occupiers of multi-occupancy developments to pay a service charge towards the up keep and running of such developments. This process is normally managed and run by a property management company. The Council is uniquely placed to not only manage the schemes but to provide services into the management; such as landscaping, cleaning of common areas and repairs and maintenance.

#### **CONSULTATION**

51. Portfolio Holders Councillor Joe Blackham and Councillor Bill Mordue.



## **BACKGROUND PAPERS**

52. None

## **REPORT AUTHOR & CONTRIBUTORS**

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Appendix 1 Cinema Market Commentary

Appendix 2 Financial Summary - (Exempt information under paragraph 3 of Part 1 of Schedule 12 (a) of the Local Government Act 1972 (as amended), information relating to the financial or business affairs of any particular person (including the authority holding that information).

Appendix 3 Restaurant Market Commentary - (Exempt information under paragraph 3 of Part 1 of Schedule 12 (a) of the Local Government Act 1972 (as amended), information relating to the financial or business affairs of any particular person (including the authority holding that information).

Appendix 4 Scheme Plan

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