

## Corn Exchange Cinema

### Post Project Evaluation Report – Corn Exchange Cinema Construction

**PROJECT NAME:** Corn Exchange Cinema Construction

**PROJECT MANAGER:** Executive Director (Commercial Services) until March 2020 (no formal Project Manager thereafter)

**PROJECT SPONSOR:** Management Team

#### Version Control

Version	Date	Description of Change	Author
0.1	14 Jun 2022	Initial Draft	Honor Howell
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#### Contribution/Reviewers

Name	Role	Date
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#### Distribution

Role	Name	Organisation/Department
Scrutiny	Corporate Performance Panel	

## 1. Purpose

- 1.1 The purpose of this report is to review the construction phase of the Corn Exchange Cinema project. The overview of the project will give Senior Management and Members the opportunity to review the initial business case, along with governance, budget estimates, project plans and outcomes and to capture any lessons learned and best practices which can be applied to future projects.

## 2. Background

- 2.1 In 2011, the council considered to creating a small theatre space in the underutilised upper bar area at the Corn Exchange. This was not pursued due to the capital cost and limited impact on revenue budgets. However, work carried out at that time illustrated that the space could be utilised for a one or two screen cinema.
- 2.2 The council, over the years has received approaches from national cinema chains to build an out-of-town cinema multi-plex offer in King's Lynn. The council has resisted these approaches due to the importance of the Majestic Cinema, based in the centre of King's Lynn (an independent cinema) and its contribution to the night-time economy of King's Lynn.
- 2.3 Since 1984 up to 2019, cinema audiences continued to increase year on year. The introduction of streaming services such as Netflix did not impact this trend and in 2018, when the cinema project was initially conceived, cinema attendances were at an all-time high of 177 million box office receipts ([source UK Cinema Association](#)).
- 2.4 In June 2018, following a review of the space in the Corn Exchange, Cinema Next Consulting (CNC) were appointed by the council to review the cinema market and the possible demand for a commercial cinema in the Corn Exchange. Their report was to include an estimate of likely admissions, anticipated revenue, and operating costs.
- 2.5 In August 2018, CNC reported the outcome of their research and concluded that a two-screen cinema would provide West Norfolk with:
  - 2.5.1 **Regeneration:** an improved retail and leisure offer in King's Lynn which would help invigorate the town, particularly in the early evening and during August, a traditionally quiet time for theatre but peak cinema season. This would, in turn, stimulate greater economic activity.
  - 2.5.2 **Sustainability:** A quality cinema experience would provide improved trading opportunities and other local traders including restaurants and bars would benefit from increased footfall in the town centre.
  - 2.5.3 **Employment:** A town centre multi-arts venue would generate direct and indirect employment opportunities and create a more diverse range of employment opportunities.
  - 2.5.4 **Community Development:** A digital cinema as part of a multi-arts venue in King's Lynn would be able to host a range of content from blockbuster films to documentaries and educational screenings, live relays of theatre, popular and classical music, comedy, opera, ballet as well as a regular cinema programme. This diversity would cater for all members of the community.

- 2.5.5 **Tourism and Heritage:** a multi-arts venue would provide an all-weather, all year-round visitor attraction for the local community, the coastal and rural communities around King's Lynn as well as tourists.
- 2.6 The report concluded that King's Lynn was under-provided for in terms of cinema and a further cinema in the town centre would minimise the potential of an out-of-town cinema. There was therefore a positive opportunity to develop new cinema audiences and create a sustainable cinema offer at the Corn Exchange.
- 2.7 The management of the Majestic Cinema were included in the feasibility study and welcomed the project as a positive step to retain cinema audiences in King's Lynn Town Centre.

### 3. Scope and Summary of Approach

The scope of this report is focused on the initial feasibility study to completion of the construction and initial operation and revenue of the two-screen cinema in the Corn Exchange, to include:

- Initial feasibility
- Project approval process
- Project Plan
- Appointment of Contractors
- Budget Control
- Risk Management
- Project Management
- Expected outcomes

### 4. Methodology

- 4.1 To conduct the review, all the available project documents from project start up to conclusion have been examined and evaluated. This included:
- The Project Brief
  - Cabinet Reports/Scrutiny Reports
  - Feasibility Study
  - The Project Plan
  - Project meeting notes
  - Contract meeting notes
  - Risk matrix
  - Budget reports

### 5. Project Rationale

- 5.1 The rationale for the project was:
- To maximise the use of space within the Corn Exchange
  - Generate revenue and increased use from the existing council asset to make the Corn Exchange more sustainable financially

- Create additional attendances to the Corn Exchange to maximise revenue
- Contribution to vitality of King's Lynn Town Centre and the local economy
- Increase car parking revenue

## 6. Project Timeline

- 6.1 A detailed timeline of key activities within the project is attached at **Appendix 1**. The construction of the cinema was heavily impacted by on Covid-19 pandemic and the cinema opened in September 2020, 4 months later than the original opening date.

## 7. Project Management

- 7.1 The Corn Exchange Cinema Project was a council project managed by the Executive Director Commercial Services until his retirement in April 2020. Following his departure, the project management was distributed across several members of staff. No formal Project Manager was appointed. There is no reference to a Project Sponsor in any of the project documents viewed to date.

## 8. Project Objectives

- 8.1 The project objective outlined in the project brief was 'to create additional attendances at the King's Lynn Corn Exchange to deliver circa £200,000 per annum revenue contribution to site. Capital cost estimated at £1,000,000. Construction period January-March 2020'.

## 9. Project Outputs

- 9.1 The project outputs were defined as:
- Creation of a 2 x 60-seat cinema screen on the first-floor upper bar area within the Corn Exchange
  - New cinema tickets and concessions kiosk
  - Installation of a new stairway and lift to the first-floor level
  - Structural works to first floor and replace roof glazing
  - Reconfiguration of the ground floor and first floor toilets to increase capacity

## 10. Project Outcomes

- 10.1 The outcomes identified by the construction of the Corn Exchange Cinema were:
- Reduced revenue cost of the Corn Exchange
  - Additional 50,000 visits to the site per annum
  - Contribution to vitality of King's Lynn Town Centre/increase in car park revenue

## 11. Capital Works

- 11.1 The estimated capital cost of the construction of the Corn Exchange Cinema as outlined in the Cabinet Report of 13 Nov 2018 was **£1,078,210**. This sum was increased at the Cabinet Report of 11 June 2019 to **£1,649,500**. The final cost of the project to construction the cinema was **£1,894,500**. A full breakdown of the council's capital spend in relation to the construction of the Corn Exchange Cinema is set out below:

<b>Corn Exchange Cinema</b>				
<b>Reference Number - Cabinet Report 18/06/2019 - 2.4.5</b>	<b>Description</b>	<b>Original(£)</b>	<b>Revised (£)</b>	<b>Variance (£)</b>
2.4.4	General Construction	£504,545	£618,000	£113,455
2.4.2	Mechanical	£67,000	£160,000	£93,000
2.4.3	Electrical	£56,500	£100,000	£43,500
	Projection/Sound	£161,990	£180,000	£18,010
	Seating	£28,200	£36,000	£7,800
	Signage	£5,000	£5,000	£0
	fees	£123,750	£177,500	£53,750
2.4.1	Roof	£45,000	£145,000	£100,000
	Preliminaries	£0	£128,000	£128,000
	Contingency	£82,500	£100,000	£17,500
	Inflation Allowance	£48,725	£0	-£48,725
2.5	Toilet Additional Cost - Separately costed item within the Cinema Tender	£10,000	£205,000	£195,000
2.6	Foyer, Life and Façade - As per toilets, separately costed item within the Cinema Tender	£9,700	£40,000	£30,300
<b>Final Cost of Cinema</b>		<b>£1,142,910</b>	<b>£1,894,500</b>	<b>£751,590</b>
	Known cost changes	£575,255	76.5%	
	Unknown cost changes	£176,335	23.5%	
		<b>£751,590</b>	<b>100%</b>	

## 12. Admissions Forecast

- 12.1.1 Cinema Next Consulting (CNC) reported that throughout the UK, there were an average cinema admissions level of 2.6 admissions per capita. CNC highlighted that there were 62,513 people living within a 20-minute unrestricted drive to King's Lynn and 172,268 within a 40-minute restricted drivetime of the Corn Exchange.
- 11.2 The Majestic Cinema was generating approximately 240,000 ticket sales per annum which resulted in a per capita rate of 1.4 within a forty-minute drivetime.
- 11.3 CNC advised that by adding on two screens at the Corn Exchange, with an assumption based on 28.5% occupancy levels, a further 50,752 admissions per annum could be generated in King's Lynn.

11.4 The table below provides the forecasted admissions to the cinema over the initial 5-year period of opening

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Admissions	38,064	45,677	50,752	50,752	50,752
Ticket Sales (£)	£237,063.00	£290,165.00	£328,853.00	£335,430.00	£342,139.00
Refreshments + sundries	£166,286.00	£204,114.00	£231,992.00	£237,315.00	£242,765.00
<b>Total</b>	<b>£403,349.00</b>	<b>£494,279.00</b>	<b>£560,845.00</b>	<b>£572,745.00</b>	<b>£584,904.00</b>
Less operating costs	(£256,210.00)	(£291,637.00)	(£320,389.00)	(£327,277.00)	(£250,582.00)
<b>Net Profit</b>	<b>£147,139.00</b>	<b>£202,642.00</b>	<b>£240,456.00</b>	<b>£245,468.00</b>	<b>£250,582.00</b>

Based on the initial estimate construction cost of £1.1m, the cinema was estimated to provide a Return on Investment of **19%**.

## 12. Risk

12.1 All projects require there to be a risk register maintained, with clearly identified risk mitigation measures both throughout the initial build, the opening, and the day-to-day operation of the facility. The following risks were defined in relation to the Corn Exchange Cinema project:

- Cinema revenues – the financial position is largely dependent on the continued popularity and overall quality and quantity of the films it shows
- Cinema revenues fluctuate and are dependent on the timing of release of films
- Extreme weather conditions (abnormal, severe, or unseasonal) will affect attendances
- Ability to licence films
- Revenues from retail sales is an important part of gross profit
- Screen advertising – income will be affected by small audiences with advertisers not choosing to advertise to a small market
- Reputation and quality of environment
- Increased competition and pricing pressures
- Alternative media

The Cabinet report highlighted that the ‘cinema proposal represented a high-risk investment compared to much of the council’s investment but would deliver a much higher rate of return’.

The Cabinet report also stated ‘the number of tickets sold is key to achieving revenue forecasts. A marketing plan will be developed for the new offer including using the existing database of Corn Exchange customer’s’.

## 13. Outputs Achieved

13.1 The outputs detailed in Section 9.1 were fully achieved. The cinema was built to specification, a new stairway and lift to the first-floor level were completed, improvements to the façade

were made along with a full reconfiguration of the ground and first-floor toilets to increase capacity in line with the anticipated increase in patrons to the venue.

## 14. Outcomes Achieved

- 14.1 The desired outcomes from the Corn Exchange Cinema Projects were:
- Reduced revenue cost of the Corn Exchange
  - Additional 50,000 visits per annum
  - Contribution to vitality of King's Lynn Town Centre/increase in car park revenue
- 14.2 The work to construct the cinema commenced in January 2020 and was estimated to take approximately 3 months. The Corn Exchange closed following the end of the pantomime run in December 2019 for the work to commence. In March 2020, the covid-19 pandemic began to have an impact on the hospitality and leisure industry and Alive West Norfolk closed all facilities on 17 March 2020. The government then 'locked down' the country on 23 March 2020 and many construction sites closed at this time.
- 14.3 Although work on the cinema continued throughout the lockdown, the timeline for completion was impacted by the requirement for covid-safe working practices, social distancing, and the building materials supply chain.
- 14.4 When the cinema opened to the public on 18<sup>th</sup> September 2020, there were strict guidelines in place regarding social distancing and the capacity at which the cinema was able to operate (50% of total seats could be sold per screen). The second lockdown came into force on 5 November 2020, giving the cinema just 6 weeks opening before it was required to close again. The cinema did not re-open to the public until May 2021.
- 14.5 The impact of the pandemic on both the construction schedule and it's first year of operation has been profound. Audiences are returning to cinema, but the continued (and rising) presence of Covid-19 has deterred many people from returning to events and hospitality venues.
- 14.6 Due to the effects of the pandemic and subsequent changes to the film industry, how films are distributed and streamed, revised estimates for 2022/2023, 2023/2024 and 2024/2025 are being prepared for the Alive West Norfolk Board of Directors to review and approve.

## 15. Key Findings

- 15.1 The actual cost of the cinema construction was initially estimated to be £1.1m. The revised cost, presented to Cabinet in June 2019 was £1,649,500. The final cost was circa £1.9m.
- 15.2 The financial summary in Appendix 2 outlines the areas of overspend. Some elements such as the cinema seating, licences and upgrades to the Corn Exchange ticket booking system and the changes to the website to incorporate the cinema ticket sales were not included in the Cabinet report.
- 15.3 The building contractor, Phelan Construction, advised they were entering a Company Voluntary Agreement in the final stages of contract negotiations. The mitigating action

initiated by the Chief Executive and the Procurement Team to manage this situation was appropriate and proportionate. Initial due diligence checks had not highlighted any concerns with the position of the company, but further due diligence led to a request for updated accounts which did highlight a reduced net profit and turnover in the preceding 12 months. Action taken by the council protected the company and the council from a situation whereby they would not be able to deliver the project.

- 15.4 Following the retirement of the Executive Director, Commercial Services, the council did not formally appoint a Project Manager. Any project should have a Project Manager who is responsible and accountable for the delivery of the project as well as management of project staff. Lack of a Project Manager will result in a lack direction and responsibility within the project.
- 15.5 The project documents are not located in one place which has made the review challenging to complete. There are also key project documents missing, such as a risk register. The risks were including in the cabinet reports and Project Brief, but there is no risk log, risk-scoring or risk mitigation plan associated with this project.
- 15.5 The initial feasibility study demonstrated that King's Lynn was under-represented in terms of cinema screens and the cinema would attract more customers to the Corn Exchange and thus to the town centre. When the cinema was initially planned, attendances at cinema's were at a record high. The Covid-19 pandemic coincided with the construction of the cinema and its impact on both the construction timetable and the ongoing operation of the cinema cannot be underestimated and must be considered when reviewing the performance of the cinema in its first 15 months of opening.
- 15.6 Amendments to the original scope of the construction work, most notably with the zinc roof, which created the acoustic envelope for the cinema and the major refurbishment of the toilets. Repairs to the roof and improvements to the toilets were including in the council's Capital Programme but the revisions were due to the construction of the cinema. Cabinet agreed that these costs would be separated from the capital cost of construction, but they should be attributed to the overall capital spend on the cinema as they were directly related to the cinema construction.
- 15.7 A key driver for the project was to ensure that cinema audiences remained in King's Lynn town centre and the manager of the Majestic Cinema was supportive of the initiative. To ensure the Corn Exchange was not in direct competition with the Majestic, the Majestic would continue to screen new releases first. The Corn Exchange would not have enough capacity to accommodate a major film release. However, this will influence ticket sales if patrons choose to see a film when it is first released. 'Event' films such as James Bond or the Marvel films are the bedrock of commercial cinema. According to the [Independent Cinema Office](#), *'these are mass appeal films created at huge cost and supported by a massive marketing effort. They provide a disproportionately large amount of a cinema's annual income. 'Event' films are shown widely at multiplex cinemas but often perform poorly in local independent cinemas when shown a few weeks after the initial high-profile release'*.

## 16. Recommendations and Lessons Learnt

### 16.1 Project Management

- 16.1.1 A Project Manager should be formally appointed to each major project, and they should be responsible for directing the work of the project team and associated contractors (*Note – following the recommendations from the KLIC review, this is now in place and a formal process of reporting on major projects is now in place. All major projects are reported into the Officer Major Projects Board and the Member Major Projects Board*).
- 16.1.2 All project documents should be maintained in one location, accessible by the Project Team.
- 16.1.3 All project documents should be subject to full version control.
- 16.1.4 The Officer Major Projects Board should review the project to ensure all documents are available and maintained (project plan, risk register, budget etc).
- 16.1.5 All details of due diligence undertaken should be filed with the project documents, including any reports obtained via a credit reference agency.
- 16.1.6 All risks should be risk assessed, scored and a risk mitigation plan put into place.
- 16.1.7 A Change Control register should be put in place at the start of the project and any changes entered into the register and signed off by the Project Sponsor.

### 16.2 Budget Control

- 16.2.1 If the cost of a project increases, a revised Profit and Loss statement should also be produced to establish how the increase in cost will impact the expected benefits. It will inform Management Team and Members if the Return on Investment has altered and assist in the decision-making process. It will also provide information on the continued viability and cost/benefit analysis of the project.
- 16.2.2 The initial feasibility study included car parking income. However, customers visiting the Corn Exchange, or the Majestic would likely park in a council car park, therefore profit from car parking charges would likely be minimal.
- 16.2.3 The full likely cost of a project, including all sundries, furnishings as well as resources should be included in the Cabinet report.

## 17. Conclusion

- 17.1 The decision to build the Corn Exchange Cinema was based on an increasing number of attendances at cinemas nationally and a need to use the council's assets to their full capacity. The onset of the Covid-19 could not have been predicted and it's timing has had a major impact on the cinema. The repeated lockdowns resulted in the Corn Exchange not being able to fully launch the cinema and promote it as they would have done if the pandemic did not exist.
- 17.2 Although there are no longer any restrictions, audiences are still wary of attending public venues and this is more the case with the more mature audiences the Corn Exchange Cinema

is aiming at. Theatres and cinemas are beginning to see an increase on attendances, but recovery is slow.

- 17.3 The pandemic also changed the way films are released. Many new films are released to paid-for streaming services such as Amazon Prime, Netflix, Hulu, and Sky Box Office. Film studios have held back releases of 'blockbuster' films whilst the economy recovers. The success of the cinema in the future will largely depend on the quality of the offer, the environment, and the ability to show films as soon as they are released.
- 17.4 Feedback on the cinema has been excellent. It is a high quality; comfortable environment and many customers wait to see films there due to the excellent facilities and superior sound quality. The cinema is an asset to the town. The council and the Alive West Norfolk Board should now look to the future to plan how to capitalise on the facility to maximise revenue and build the cinema to be a natural choice for cinemagoers in the future.