



LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside

Cabinet

Tuesday, 28 May 2013

Agenda Item Number	Page	Title
11	1 - 7	STOREY CREATIVE INDUSTRIES CENTRE DRAFT BUSINESS PLAN PUBLIC VERSION

The Storey (Creative Industries Centre) – Draft Business Plan 28 May 2013

Report of Head of Resources

The report to be considered by Cabinet contains exempt information; this public version of the report does not include that exempt information

PURPOSE OF REPORT

To consider the draft emerging options for The Storey's business plan and seek Cabinet's direction on the way forward.

RECOMMENDATIONS OF COUNCILLOR JANICE HANSON:

- (1) That Cabinet notes progress made to date on producing a business plan for the future operation of The Storey and considers the various proposals set out in the report.**

1 Introduction

1.1 At its meeting on 12 September 2012 (minute ref: 67 refers), Council resolved to continue operating The Storey as a Creative Industries Centre (CIC), without excluding other options, in order to make the building sustainable. This was on the basis that the Council would work productively with tenants and other stakeholders to achieve these ends.

1.2 Furthermore Council noted that future decisions regarding the Storey operation would be taken by Cabinet, subject to them being within budget and in accordance with the direction outlined above.

1.3 Accordingly, Cabinet has received regular update reports and officers have continued to stabilise the building operation, with the aim of moving it onto a sounder business footing. The main work has included:

- formalising licences and leases with existing tenants,
- bringing new tenants into the building,
- restoring the Visitor Information Centre (VIC) operation,
- utilising VIC staff to cover reception,
- working with others to bring two exhibitions to the Gallery,
- undertaking a full condition survey of the building and gardens,
- starting to address, plan and undertake the major external repair and reinstatement works to the premises,
- resolving a range of practical issues such as broadband speed and reliability and converting the telephone system,

- practical measures to improve signage within and outside the building,
 - better co-ordinated and professional marketing, website and social media channels,
 - co-ordinating room hire in-house utilising existing resources (with effect from 1st June).
- 1.4 Alongside this, officers have also been developing business planning options for the future. Discussions have been ongoing with various parties who could potentially run various aspects of the building's offer, particularly the artistic sides. In addition, officers have studied and visited similar venues elsewhere. This has revealed some competing demands and different views on the best way to proceed.
- 1.5 Working on the draft business plan has been a complex piece of work taking into account many often competing requirements and aspirations. The business plan has to resolve three main strands:
- critical income/expenditure matters and actions needed to generate sufficient revenue to justify the continued operation of The Storey;
 - how the Storey "offer" fits into overall plans for Lancaster centre (including Lancaster Castle); and
 - how the operation complements and adds to other council objectives activities and services which form part of the heritage and cultural offer.
- 1.6 Cabinet's guidance is now needed on the context for the business plan and key principles underpinning it, as well as more detailed aspects. These are discussed in the sections below.

2 **Business Plan Development: Context and Key Principles**

- 2.1 In considering and developing business plan options, the following principles have been used by officers, informed by previous decisions of Council:
- (a) That the operation is developed as a going concern but with a formal review planned in three years (prior to 2017/18), to evaluate performance and take account of any changing circumstances and future developments in the area, particularly the Castle.
 - (b) That the aim is to at least break-even (annually) by then, taking account of the direct/ marginal costs and income from the operation and the financing costs associated with works to the building. This target would not cover indirect overheads such as the apportionment of existing support service and management costs, except where there is a need to increase these as a direct result of taking on the Storey operation. Put another way, the operation should aim to contribute to the Council's fixed overheads.
 - (c) That the plan is based on a combination of providing business space for commercial rent, as well as a venue for public events. Community use is to be supported, but not to the extent that it undermines commercial or financial targets. Future development and use of the garden should support this position and be integral to The Storey's operations, rather than

it being a separate facility.

- (d) Although the Council resolution referred to the Storey continuing as a CIC without excluding other options, at this time it is not considered feasible to consider any alternative uses without undermining the chances of the facility becoming sustainable. Therefore no such options have been explored and this will continue to be the case, until the formal evaluation of the CIC'S performance is undertaken or its financial position and forecasts warrant otherwise. A broad interpretation of the 'Creative Industries' definition is to be applied in considering tenancies, however.

- 2.2 Cabinet are requested to consider the above principles for formal adoption, or put forward alternatives. In doing so, it should be borne in mind that any changes could have implications for the more specific aspects of the business plan proposals that are outlined below.

3 Business Space and Economic Development

- 3.1 The Storey has a clear role as a hub for the district's creative industries and it was developed with public funds to be so. Compared with other venues, however, a fairly low proportion of its floor space is available for commercial (workspace) use. Such use provides a relatively secure income stream, however, as long as there is sufficient continuing demand in the district and the space on offer meets business needs.
- 3.2 Currently, approximately 73% of the lettable floor area is available for existing commercial workspace, of which 49% is currently occupied. The remaining 27% of lettable space is for public hire. This high proportion of public lettable floor space includes the Gallery, Music Room, large and small meeting rooms, Lecture Theatre and the Auditorium. In addition to looking at ways of generating more income from this space (see later), officers have considered whether there is any scope to alter this balance to provide more office space without diminishing the public offer. Any investment must be supported by reasonable expectations regarding demand, however. Cabinet will be aware that the Council already has other vacant accommodation in facilities such as Citylab.
- 3.3 That said, there is considerable potential to grow business activities by developing closer working arrangements with the local universities and by taking advantage of the potential provided by arts based businesses in the area. There is a known demand for smaller office space and consideration has been given to subdividing some of the existing larger offices, although there would be a cost associated with this. There is also potential demand for "virtual" office and "drop-in" office space. This would need some further investigation and again there would be a financial cost to providing such space. There is also a need to strengthen metering and management arrangements for utilities, to ensure fair and reasonable charging for the Council and Storey tenants.
- 3.4 Such minor remodelling is provided for to some degree in the business plan figures in this report, although plans for new tenant income are still at an early stage.
- 3.5 This side of the business is relatively straightforward in day-to-day property management terms, but Officers are still considering the level (if any) of

dedicated support required to develop the offer further, or whether this can be achieved through existing staff resources, e.g. Regeneration and Planning and Property services staff working with the universities. The latter is assumed at present but this would need to be kept under review, allowing for other priorities and workloads.

3.6 Taking account of the above points, for business space it is proposed that that the business plan be based on the following:

(a) Up to £20K (total) to be made available from the Municipal Buildings/Renewals Reserves in accordance with existing delegations, to undertake comparatively minor works to make existing lettable space more flexible/marketable, and to improve metering/service charging arrangements for tenancies.

(b) Minimum target occupancy for lettable space to be as follows:

Current	49%
2013/14	60%
2014/15	70%
2015/16	80%
2016/17	80%

(c) Any substantial works to expand or improve existing lettable space (such as the third floor) be subject to a robust business case for subsequent consideration by Cabinet. At present, the third floor is assumed to be lettable as creative / artistic work space, at a much lower rent.

(d) Officers to develop further the marketing approach for business space and pursue links with the university and other relevant organisations, in support of the above. If this cannot be done to a reasonable standard from the resources available, this aspect would be brought back to Cabinet.

3.7 Cabinet is requested to consider the above business planning assumptions for adoption or indicate alternatives, recognising that the latter could have knock-on implications in other business planning proposals.

4 Public Events Offer / Programme

4.1 Given the relatively small proportion of lettable business space compared with other commercial properties, and the fact that occupancy is unlikely to reach 100% given the 'churn' in this rental sector and general economic conditions, more emphasis must be placed on generating revenue from the public space. This raises issues of programme management and marketing, as well as finding the right balance between the cultural offer (e.g. art exhibitions, performances), more commercial uses (e.g. weddings) and the general conference/meeting offer.

4.2 In turn this raises questions of precisely what role the Storey plays in the wider city/district offer, particularly at a time when other cultural facilities such as the museum offer is under consideration and in the light of plans for Lancaster Castle.

4.3 A critical aspect of this side of the Storey is the catering/bar operation, which

links to many aspects of supporting the events programme, commercial and conference offer. Given the ethos of the building and the range of uses taking place within it, officers consider it important that the catering offer is of a high standard with the capacity and flexibility to be able to cater for large scale events such as weddings and conferences.

- 4.4 With this in mind, officers have considered several options for the catering/bar offer. This is an important decision and there are many considerations, advantages and disadvantages of each approach.

Option A: Do not test the market.

Option B: Test the market.

Option C: Bring the catering/bar operation in-house.

- 4.6 Again, Cabinet is requested to consider the above options.

5 Overall Management and Co-ordination

- 5.1 Whatever the final role and offer of The Storey, it would continue to provide a range of functions whose requirements need to tie together to fully realise the building's potential. Officers consider it essential, therefore, that there is some form of overall day-to-day management and co-ordination on site. This could be achieved in several ways:

- through a dedicated manager responsible for all aspects of The Storey operation (except for the commercial office management);
- an in-house arrangement co-ordinating the wider council offer such as weddings, management of venues such as at the Platform and Williamson Park and the provision of complementary services such as arts and museums venues; or
- utilising a private sector operator.

- 5.2 Officers' preference at this stage is to appoint a dedicated manager, and this is reflected in the draft business plan. The current service wide reviews may provide a way of providing this through secondment/redeployment of staff with suitable skills or development potential, thereby avoiding additional costs. Furthermore, in due course this may well give the opportunity to develop the in-house co-ordinating option in the medium term.

- 5.3 On site management and co-ordination may give rise to better solutions for improving reception facilities.

- 5.4 Given the potentially conflicting ways in which the Gallery and other spaces could be used, it is also considered that Portfolio Holder and any manager may wish to engage with some form of community interest group, representing those with an interest in The Storey. This could be established to provide a steer on things like programming and in itself, it would have no significant financial implications. As an example, it could take the form of a "Friends of The Storey" group constituted along similar lines to other friends' groups. If Cabinet is minded to support this idea, it would be worked up in more detail for

subsequent consideration. Officers have no preference on this matter.

6 Details of Consultation

- 6.1 Since the Council took direct control of the building in October 2012, consultation has been ongoing with tenants, the friends of the Storey Gardens, prospective users of The Storey, the two local universities, arts organisations and businesses as well as operators of similar buildings elsewhere. The findings of these discussions are reflected in this report.
- 6.2 A further meeting has been scheduled with Storey tenants prior to the Cabinet meeting. The Portfolio Holder recommendations will be finalised after this meeting has taken place.

7 Options and Options Analysis (including risk assessment)

- 7.1 This report seeks Cabinet’s direction on various Officer proposals, in particular:
 - (a) key business planning principles
 - (b) business space letting and development
 - (c) catering provision
 - (d) overall management capacity, and
 - (e) consideration of a community interest group.
- 7.2 In view of the many proposals, there are various permutations of options but Cabinet may find the following broad summary and analysis of options useful.

Option 1: The Council continues with a private operator for the café / bar, but provides specific management capacity and presence, and events programming/support.	Option 2: As Option 1 but with overall co-ordination provided by officer group with specific focus on events/programming support, rather than dedicated management.	Option 3: City Council takes on full management and operation of The Storey in-house, including operation of the Bar & Catering concession.
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- 7.3 In considering progress to date and the financial projections, Cabinet could determine that none of the options represent an acceptable way forward, and it could instruct Officers to consider more radical alternatives for the operation or the building itself. This may require referral back to Council, depending on what was put forward.

8 Officer Preferred Option (and comments)

- 8.1 In summary terms Option 1 is the officer preferred way forward. More specifically and where appropriate, the detailed Officer preferences underpinning Option 1 are set out in the various sections listed above and it is on these detailed aspects that Officers seek specific decisions.
- 8.2 Consideration of this report should help test out the primary role of the Storey. Members have previously resolved to retain its role as a Creative Industries Centre, which implies that its main focus should be an economic development one. However, it also provides an important cultural and community role, some of which also have economic benefits. Furthermore, the direction given by Cabinet will ultimately determine where responsibility for the Storey best fits

within the Council's management and democratic structures.

9 **Conclusion**

- 9.1 This report provides a base on which Cabinet can give direction regarding The Storey's future, in advance of producing a more detailed and fully costed business plan.

RELATIONSHIP TO POLICY FRAMEWORK

The future of The Storey should be considered in context of the Council's regeneration priorities, as well as its core values of providing value for money, drawing on medium term financial and property strategies.

LEGAL IMPLICATIONS

There are no direct legal implications arising at this time, but Legal Services would be involved as appropriate in any contractual or other relevant matters regarding the Storey's future operations.

FINANCIAL IMPLICATIONS

The financial implications are set out in an exempt Appendix. From the development work done so far, there are opportunities to make savings against existing budgets for The Storey, but this still does not mean that the facility would break even. Allowing for capital financing costs, the annual deficit would reduce to around £52K by 2016/17 but this is still some way short of the proposed target to at least break even. There are various other avenues to explore and develop to help improve the position, but sufficient resources and capacity (including necessary skills) must be made available to do this.

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