



Quad Options: Appraisal and Financial Update

RECOMMENDATION

- 1.1 To note the current position of the Quad project in relation to site, architecture, capital funding, revenue costs.
- 1.2 To consider the reported shortfall in capital and revenue funding and whether the City Council is in a position to fund the deficit.
- 1.3 Having considered all aspects of the update report to determine whether to authorise the continuing development of the project to detailed design and construction.

SUPPORTING INFORMATION

2. BACKGROUND

- 2.1 The Quad project started from a requirement to provide growth opportunities for Q Arts and the Metro Cinema.
- 2.2 Quad is planned to offer to the people of Derby a visual arts and media centre comprising visual arts exhibition space, workshops, digital studios and learning areas, a cinema designed to offer a mix of art films and more commercial product, access to film archive material relating to Derby and the region and a relaxed meeting place in the city centre. It is estimated that Quad would attract 100,000 visits a year.
- 2.3 Earlier this year, it became clear that the original ambition for a building at £13.4 million was not affordable, and the Project Team decided to re-scope the project, starting with a site and buildings option appraisal.

3. SITE AND BUILDING OPTIONS APPRAISAL

- 3.1 The Quad Management Group have examined a long list of 17 possible sites around the City Centre, including Riverlights and the present Green Lane site of the Metro Cinema. Preliminary work by the Quad Development Director and partners reduced this to a shortlist of four possible sites which was approved by the Quad Management Group. The four sites considered were:

- Corporation Street
- Amen Alley
- St Helen's House
- Princes Supermarket

- 3.2 Following early analysis, the Management Group agreed to examine two of these sites in greater detail - Corporation Street and Amen Alley.
- 3.3 St Helen's House has been removed from consideration for three main reasons:
1. The site is outside the ERDF funding area and will therefore lose £1.7m from the capital budget for the project.
 2. St Helen's House and its curtilage are Grade 1 listed which will severely limit the ability to develop the existing buildings and construct new buildings that will be needed to deliver the programme of Quad.
 3. The site is outside the core city centre area with low footfall and poor accessibility.
- 3.4 Princes Supermarket has been removed from consideration because:
1. The site is owned by Emda who are not considering its future until at least February 2005 when they will form a development company with a partner to develop the overall site. This is beyond the required timescale for the initiation of Quad.
 2. The site is too large for Quad alone and will require substantial other development in tandem and possibly partnership with Quad, therefore complicating and extending the development process.
- 3.5 Amen Alley has been assessed in some detail by the project's architect. Whilst the site is in a beneficial location in the city, there are several reasons why it is considered to not be an option for the Quad building:
1. Quad's limited capital funding will have to be used to purchase the site which is in private ownership. The acquisition of the site will not be possible until after the Cabinet meeting on 30 November. There will not be adequate time for the negotiations involved in such a purchase prior to the meeting.
 2. There are two rights of access across the site. The architect advises that to be able to construct a viable building these rights of access will need to be acquired and built on or accommodated in the design, in which case they will be very limiting on the design. The acquisition of these rights of access, if possible, will involve further use of the capital funds, and further time delays.
 3. The architect also advises that an adjacent storage building at the left of the site would need to be acquired and demolished to enable the building to fit on the site.

The architect advises that without all these areas included the site will be too small for the Quad building.

The conclusion not to proceed with this option was reached relatively quickly without the need for the architect to invest significant time and resources into drawing up detailed designs for the site.

- 3.6 The Corporation Street site is the only viable option for the development of Quad within the timescale and other parameters controlling the project's development.

The Corporation Street option is not the same as the Market Place option used for our initial planning. A reduced scale building is envisaged, sited alongside the Market Hall, leaving the vista clear from the Market Place to Derwent Bridge and the Council House. Our chosen architects, Feilden Clegg Bradley tell us that a high quality building can be produced on this site.

- 3.7 The revised design and location will respond to the concerns raised about the building during the summer. The architects will be designing a more sympathetic building.
- Landscaping and the environment the building sits in will be a key feature of the revised design, including proposals for the development of the open area across the end of the square, thus providing a fourth "side" to the square whilst maintaining the views to the river. This will require funding separately from the Quad project. The building will retain its commitment to environmental sustainability.
 - A courtyard could be included at the centre of the building where the Korean war memorial could be located. This area will also provide an outside seated area for the building's café. The height of the building will be in harmony with surrounding buildings.

Lady Hilton, the various service organisations and Derbyshire Association for the Blind have been contacted and informed that they will be fully consulted on the details of the effects of this proposal and any possible relocation or changes to the Sir Peter Hilton Gardens.

4. CAPITAL FUNDING

- 4.1 The target of the design work during the options appraisal was to limit the area of the building to the capital funding available. This limits the size of the building to 2000m².

A thorough assessment and reduction in the area of the building by the project team has resulted in a building with an area of 2,450m². This reduction in size from the original scheme of 3,500m² has been achieved through reductions and compromises to the areas and spaces in the building:

- the removal of space in the building for archival storage for MACE (Media Archive of Central England), and space for the Tourist Information Centre
- reduced gallery area
- cinema screens reduced from three to two
- reduced workshop and support spaces
- removal of the need for service diversions from under the building in its revised location

- reduction to the budget for fittings and equipment in the building
- relocation of the plant room

This reduced scale of building has also led to a revision of the programme plans and the revenue budget for Quad. (See Section 5.0 below). The Project Team considers that any further reduction in floor area would undermine the project's fundamental objectives.

The project's Cost Consultant advises that to design, develop and construct the building with an area of 2,450m² and at a construction cost of £2,200/m², plus fees, equipment, contingencies and inflation, will put the total capital cost of the project at £9,801,000, including £1m of land.

- 4.2 Our assessment of funding for the project had indicated that a total sum of £8,450,000 (including land) was available. This included £3.1m from Emda. From the outset Emda indicated that they would prefer cash partnership funding from Derby City Council to be invested in the project. They have stated clearly that their funding is dependent on this partnership funding from DCC. They have confirmed that the land being contributed by DCC does not represent this cash input. Following the work on reducing the scale and cost of the project Emda have now grown concerned at the size of their percentage contribution in relation to the new full project cost. At £3.1 million this would stand at 32%. This is unusually high. They would be more comfortable with a contribution in the range 18% - 25%.

The Arts Council has indicated that it could consider increasing its capital funding level by up to £300,000, but this also would be dependent on a cash investment from the City Council.

The European Union's (ERDF) contribution will remain at £1.7m.

Discussions with funders had led us to the following "best case" funding requirement if the capital scheme is to go ahead.

- Arts Council England	£2,500,000
- Arts Council England additional	£300,000
- Emda	£3,100,000
- ERDF	£1,700,000
- Sale of Q Gallery	£150,000
- EM Media	£20,000
- Derby City Council cash	£1,031,000
- Derby City Council land	<u>£1,000,000</u>
	<u>£9,801,000</u>

- 4.3 **However, if the Emda contribution settles at its lowest likely level, 18%, their contribution would be £1,800,000, leaving the City Council with a cash contribution of £2,331.000. Emda will not reach its decision until February 2005.**

5. REVENUE BUDGET

- 5.1 In the former revenue budget (April 2004) for the larger Quad building on the Market Place the revenue funding requirement from the Council for Quad was in the order of £284,000 per annum for a fully operational year at Quad. This was in addition to already existing funding being supplied to the two partner organisations. This funding need has been reduced to £173,000 at 2004 prices. This is likely to be £194,000 at 2008 prices.

The reduction in the revenue requirement compared to the requirement of £284,000 in April 2004 for the larger building has been made by:

1. The level of the visual arts programme in the new building (currently operated by Q Arts) is set not to increase beyond that currently forecast for the 2005-06, except for the gallery programme which will increase.
2. The removal of one of the three cinema screens and its replacement by a multipurpose space, and a reduction in the number of seats in the two cinemas leading to operational savings.
3. Staff salaries have been reduced from the levels originally recommended.
4. Reductions in staff numbers for reduced operating hours and reduced overall activity.
5. Efficiency of scale through combined working of the partners.
6. Basing the staff team on the existing costs of the two organisations, though with the introduction of some new posts to reflect the need to deliver a more public building than current operations.
7. Marketing budget reduced.
8. Increased hires from the building's spaces. This represents a more "commercial" approach to the use of the facilities of the building to earn more income from the resources of Quad, whilst balancing this against the delivery of the core arts programmes.
9. The reduced size building has decreased running and operation costs.

6. ECONOMIC IMPACT

6.1 Economic Impact Assessment

The economic impact assessment for Quad has been revised for the smaller building. Quad will generate over 100,000 additional visitors to Derby. 151 new jobs will be created in the city and as a result of the additional visitors to the city.

Quad will deliver an additional £4m a year to the Derby economy.

7. TIMETABLE

7.1 Quad is projected to open in November 2007. The key stages and periods in the development period are:

- Capital Project fundraising - current to September 2005
- Building design and pre-construction period - April 2004 to November 2005
- Construction - December 2005 to July 2007
- Building and equipment fit-out - August 2007 to October 2007
- Building opens November 2007
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The building must open by November 2007 in order to meet ERDF funding timetables.

8. Q ARTS AND METRO

8.1 Should the Quad project not go ahead the Council will need to consider the future accommodation needs of Q Arts and Metro who will need to be relocated from their current short term accommodation. The cost of renting/leasing accommodation for the organisations is estimated at £160,000 in addition to their current funding. Any additional running costs beyond the organisations' current levels would be additional to this as also would be the capital cost of fitting out the spaces.

9. IMPACT OF CANCELLATION

9.1 Cabinet will want to consider the possible impact of the cancellation of the Quad project on:

- the future viability of two high profile organisations, well respected locally, regionally and nationally
- the confidence which funders may have in the City Council as a future funding partner
- the improvement of Derby's cultural "offer" in a competitive environment
- Derby's competitive position in attracting high quality inward investment and migration of talent into the city

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Background papers:	Quad Development Plan, Quad Economic Impact Assessment, both held at the Arts Team Office, Celtic House, Derby
List of appendices:	Appendix 1 – Implications

IMPLICATIONS

Financial

- 1.1 The revenue support from the council for Q Arts is £115,575 in 2004/05. For the Metro Cinema it is £53,743.

The forecast annual revenue support needed for Quad's programme is:

2005/06	2006/07	2007/08	2008/09	2009/10
0	94,000	186,000	194,000	200,000 ie 194k + 3%

These figures have been inflated at 3% a year from 2004/5.

The revenue expenditure before opening is to fund

- staff recruitment to start expanding the community programme of activities around visual arts and film
- marketing of those activities
- marketing the new facility during the run-up to opening in order to ensure full public participation at the launch

If the City Council chose to borrow in order to cover the capital project shortfall, repayments on the debt would add to these figures, over 25 years.

The worst case would be if Emda contributes £1,764,000 (18% of the total project cost). This would give the project a shortfall of £2,366,000. The best case would be if Emda contributed £3,100,000 (32% of the total project cost), giving a shortfall of £1,031,000.

If the Council were to meet either shortfall the debt repayments would amount to £212,940 or £92,790 respectively.

The sum of programme support and debt repayments would therefore be between £407,000 and £287,000 a year.

The capital project funding position is as outlined in Section 4 above.

This is the summary of income and expenditure for the Quad project to 30 November 2004:

Income Summary	
Arts Council England (<i>Technical Assistance and Capacity Building funds</i>)	£110,000
Regional Investment Fund for England (<i>Development Plan</i>)	£12,925

Economic Development funding from Cityscape <i>(to fund original site appraisal)</i>	£27,350
Derby and Derbyshire Economic Partnership <i>(for Architectural Competition)</i>	£71,351
EMMedia <i>(Options development)</i>	£19,733
Arts Council England – part of capital grant award <i>(site appraisal and options development)</i>	£50,000
Total Income to 30.11.04	£291,359
Expenditure Summary	
Total expenditure 2001-03	£87,302
Total expenditure 2003-04	£115,569
Total expenditure committed 1.4.04 to 30.9.04	£50,894
Total expenditure budgeted and committed 1.10.04 to 11.10.04	£37,594
Total actual expenditure and budgeted expenditure to 30.11.04	£291,359

Legal

- 2.1 The Quad project has appointed solicitors to work on the governance issues. The results of this work will be reported to Cabinet as appropriate.

Personnel

- 3.1 None from this report. Quad Limited is scheduled to start recruiting its staff in January 2007.

Equalities impact

- 4.1 The new building is being designed to exceed the requirements of the Disability Discrimination Act. The current programme of both Q Arts and Metro Cinema contain very strong elements directed at disabled people, and the attractiveness and impact of this work would be strengthened.

Corporate objectives and priorities for change

- 5.1 The proposal comes under the Council's Objectives of
- **education**
 - **shops, commercial and leisure activities**
 - **integrated, cost effective services**

5.2 The proposal furthers the priorities of

- **promoting the city as a major force for industry, commerce, culture and tourism**
- **developing the management of the city and district centres to improve their attractiveness and viability**
- **enhancing our community leadership role through partnership working and listening to, and communicating with, the public**
- **improving customer service through a customer-focused culture, using new technology and investing in our buildings.**