

**To: Economy and Regeneration Policy Board**

**On: 1 November 2022**

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**Report by: Chief Executive**

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**Heading: Paisley Cinema Demand Study**

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## **1. Summary**

- 1.1 In recent years Renfrewshire Council has provided support to Paisley Community Trust (PCT) as it has developed various proposals for a new cinema (and related facilities) in Paisley town centre.
  - 1.2 More recently in 2021, the Council provided support to PCT to develop the business case proposal as a potential project for consideration for the UK Government levelling up fund (LUF) which was launched in the first half of 2021. Following completion of that phase of business case development, the project was assessed as being insufficiently developed at that stage to present a credible and robust proposal for consideration by the Council for the LUF bid process and that further development would be required. It was agreed by the Leadership Board in June 2021, that the Council would continue to work in partnership with PCT to develop the proposal further as part of identifying several projects suitable for consideration for future LUF bid rounds.
  - 1.3 As part of progressing this further business case development, PCT and the Council agreed to commission a Cinema Demand Study by leading independent market experts [Appendix 1 - Paisley Cinema Demand Study 2022](#) to assess the potential demand for such a facility in the present context. It was acknowledged that a pre-requisite for demonstrating the viability of a project of this nature, a significant element of which is intended to operate within a highly competitive commercial market, is the extent to which sustainable customer demand is likely to exist and be secured by the proposed facility. This report presents on the outcome of that independent study.
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## **2. Recommendations**

Board members are asked to:

- (i) Note the conclusions from the independent Cinema Demand Study commissioned for Paisley Town Centre in 2022; and
- (ii) Note and agree the conclusions drawn by officers within the report;

## **3. Background**

- 3.1 For several years, Paisley Community Trust (PCT) has been developing proposals for the reintroduction of a cinema (with associated facilities) into Paisley Town Centre. These proposals have taken a variety of legal forms, commercial structures, scale, forms of public sector financial intervention and have considered several locations within the town centre.
- 3.2 Proposals have included “Baker Street”, a mixed-use proposal including multi-screen cinema, theatre, community spaces and food and drink outlets on the (then) vacant land at the rear of the former Arnotts department store on Gauze Street / Smithills Street. This proposal gained significant media coverage during its launch and consultation and was costed at about £36 million to deliver.
- 3.3 More recently, following indicative support for the exploration of the concept in the Council’s Paisley Town Centre Vision (2020), PCT’s location focus moved to 7-11 Paisley High Street (and the building which currently accommodates Bargain Buys at ground floor and the Museum Secret Collection at basement level). This was the site of the former La Scala cinema up until the 1970s. PCT’s most recent proposal for this site are for a multi-screen cinema (and digital learning space) with seating for approximately 500 across five screens. The proposal was branded “PXLS” (Paisley Cross La Scala). This project was seeking funding from the public sector of approximately £20 million.
- 3.4 PCT have undertaken a level of engagement with local stakeholders about whether they would be attracted to the concept of cinema provision in Paisley Town Centre, but critically this did not extend to a structured assessment of the likely commercial demand along with an understanding of the current market provision locally and scale of likely competition.
- 3.5 For each proposal PCT have approached the Council seeking assistance in initially developing business cases and then seeking a large amount of public funding or very long-term income guarantees to help deliver the cinema proposal.. At no time was a specific commercial operator identified for the proposals, instead PCT intended that the cinema facility could be either commercially operated (should an operator come forward) or it could be run by PCT.
- 3.6 To date Renfrewshire Council has supported PCT (or their predecessor Paisley 2021 Community Trust) with total payments of £65,000 towards three separate feasibility studies or business cases.

3.7 These proposals led to PCT preparing a business case in 2021 which was put forward to Renfrewshire Council as a potential candidate project to form a submission to UK Government for their (at that time) recently announced Levelling Up Fund (LUF). The Council was able to submit more than one bid to Round 1 and reviewed the potential to support the bid from PCT.

3.8 In June 2021 the assessment undertaken, by the then Council's Chief Executive and Director of Finance and Resources, concluded that the business case was insufficiently developed across several areas of critical importance for a project at this scale and of such a commercial nature and, as such, could not be presented in its current stage of development as a potential bid to the UK Government LUF round 1 bid process. The Leadership Board report of the time stated:

*In addition, other projects for submission in future years of the [Levelling Up] Fund will be developed in the months ahead, including a potential bid which would support the aims and objectives of the Paisley Community Trust in the delivery of their project in Paisley Town Centre*

3.9 In response, PCT were requested (in response dated July 2021) to reconsider their business case to reflect these comments and feedback provided by Council officers, most specifically seeking to address a number of key areas including those listed below:

- The commercial case – including market positioning;
- The economic case
- UK subsidy control considerations;
- Estimated capital cost of investment;

3.10 Following this decision by the Council, discussions with PCT continued. It was mutually agreed that one of the critical missing aspects of their 2021 business case (as submitted to the Council) was the evidence to support the likelihood of strong commercial demand for such a facility that would support (over the long term) a successful proposal. Therefore, market failure for new cinema provision was a key issue required to be addressed. In economic funding bids this is often referred to as the “strategic case” for public sector funding support.

3.11 Both PCT and the Council agreed that demonstrating the commercial case (i.e., demonstrating strong commercial demand) was an initial prerequisite for progressing the business case any further and that the other elements would best await the demonstration of this case, as without this the proposal would be unable to demonstrate commercial viability and therefore fail to reach a supportable stage.

3.12 Both parties mutually agreed to the engagement of an independent industry expert to carry out this assessment and the choice of specific consultant – Entertainment Solution Services Ltd (ESS; led by Rob Arthur). Rob Arthur is generally recognised as the most experienced independent adviser on the cinema sector in Scotland. The Paisley Cinema Demand Study was paid for by Renfrewshire Council.

#### **4. Brief for Paisley Cinema Demand Study 2022**

- 4.1 In Spring 2022, PCT in conjunction with Renfrewshire Council agreed a brief to put to ESS to assess the likely demand for a new cinema in Paisley in the present context. It was recognised that the circumstances of cinemas had changed during the pandemic and attendance figures were lower than they had been in 2019.
- 4.2 The Study brief recognised that this would be the first stage in a process. Stage 1 would offer an assessment of the likely demand for a cinema offer in Paisley Town Centre given the current context. This would be a distinctive output, which could then be followed if required (in subsequent stages) by an examination of the PCT proposal for a new cinema at 7-11 High Street, Paisley.
- 4.3 The stage 1 brief aimed to cover:
- In depth analysis of the existing cinema seat supply in area;
  - average level of occupancy per cinema seat over last 5 years;
  - average level of turnover per cinema seat over last 5 years;
  - differentiation in the quality standards of this existing provision;
  - any proposed investment into this existing supply by existing operators;
  - identification of any gaps in the existing provision – including niche opportunities, separate from mainstream current cinema operations;
  - options for operator model and anecdotal evidence of interest
  - funding options - public / private / etc
- 4.4 PCT and Renfrewshire Council jointly agreed the above brief in May 2022 and ESS were commissioned to undertake the Study.

#### **5 Study Findings and Recommendations**

##### **Context**

- 5.1 The Paisley Cinema Study 2022 is appended to this report to allow members to read the full analysis (see Appendix 1). Key points from the study can be summarised as follows:
- 5.2 In terms of the current context the Study recognises that the cinema sector has changed significantly in recent years. Additional cinemas and screens have been added over the last 20 years in the UK, but with almost negligible increases in the overall number of admissions.
- 5.3 The cinema sector now focuses primarily on “tent-pole” / “blockbuster” film releases to drive footfall into cinemas. This means that individual cinemas are increasingly reliant on these types of films to sell seats. Other films (often lower budget and mid-range offers) suffer disproportionately. This has led to many of these productions being aimed directly at television / home streaming audiences and avoiding cinema releases. This in turn reduces footfall and viability of existing cinemas.

- 5.3 Renfrewshire is presently home to 2 large scale cinema offers – Showcase at Phoenix Park, Linwood (1,537 seats) and at Odeon at Xsite Braehead (2,327 seats). A further 3 large cinemas are within 20-minute drive times (Odeon at Springfield Quay in Glasgow, Empire at Clydebank and Cineworld at Silverburn shopping centre). The latter 3 cinemas account for a further 5,500 seats.
- 5.4 Using the sector's recognised measurement of number of cinema screen per 100,000 population, Renfrewshire's figure is 14.5. This is the highest ratio of any local authority in Scotland and is more than double the average for Central Scotland and the UK. For comparison, London has 7.4 screens per 100,000 people.
- 5.5 During the pandemic the Odeon at Braehead's box office income dropped by more than 66%. The Showcase at Linwood reduced by just over 19%. It is worth noting that Showcase was very much the exception with cinemas in the Renfrewshire drive-time catchment suffered a combined box office drop of 55%. The existing cinemas attract audience from outside Renfrewshire yet are both significantly under trading at present.
- 5.6 Both during, and following, completion of the Study it was widely reported in the media that the cinema sector continues to come under significant pressure.
- **Cineworld**, the world's 2<sup>nd</sup> largest cinema chain, has filed for bankruptcy;
  - **Vue Cinemas** are in the process of legal restructuring, resulting in significant financial challenges for that business;
  - **CMI**, the parent charity for the Filmhouse in Edinburgh and the Belmont cinema in Aberdeen as well as the Edinburgh International Film Festival, has been placed in administration with the loss of more than 100 jobs. Administrators stated that audiences were down more than 50% on 2019 levels;

#### Study Findings

- 5.7 The findings of the Demand Study report are not supportive of a new cinema development in Paisley town centre. The consultant's view is that the current market is over provided, and existing cinemas are struggling to remain viable.
- 5.8 The consultants conclude that in essence any venture which adds screens to the current offer would most likely fail to be viable itself and or simply threaten the existing cinema operators within Renfrewshire, putting at risk those businesses and associate jobs.

*“ESS recommends that there is no current or near future commercial justification to increase the screen provision either at the existing locations or at an alternative venue within the local authority area. Current long term contracted freehold and leasehold screen supply provision exceeds demand requirements”*

- 5.9 There is significant change occurring within the cinema sector at present, which include a revised business model for most operators, increased energy costs

and technological advancements, and it is the consultant's view that it will be some years before this becomes a settled position.

- 5.10 It is the view of ESS that further cinema failures will follow as the market bumps along the bottom until there is a full and better understanding of how a new model of film production, film distribution and cinema exhibition is going to work moving forward. Until then they consider there are significant unknown risks.

## **6 PCT response to the Study**

- 6.1 PCT do not agree with the conclusions of the Cinema Demand Study. They are of the view that the Study is unbalanced and place too much emphasis on the impact of a new cinema on Renfrewshire's existing cinemas. They believe the Study fails to address the key question for PCT i.e., *what demand would exist should a cinema be established in Paisley High Street.*
- 6.2 PCT's view is that their proposal is about regeneration of the High Street / Town Centre and less about competition between cinemas. In their opinion it is about place making and community focus and participation in that process

## **7 Conclusions**

- 7.1 Officers conclude that any proposal for a multi-screen cinema of the scale proposed by PCT in Paisley Town Centre represents a very high and significant commercial risk. All commercial indicators are weak and there is growing evidence that the existing business model of cinemas is now subject to re-examination. There has been no evidence in recent years of a commercial cinema operator showing interest in developing a further cinema in Renfrewshire. At no time during discussions with PCT was a named operator suggested for their proposal.
- 7.2 The project put forward by PCT for Paisley Town Centre is aimed at regeneration of place by offering another reason to visit and opportunity for the Town Centre to capture spend in this sector. However, the offer would be designed to compete in what is currently a very fragile commercial market that is subject to significant commercial uncertainty and is likely over the course of the coming years to undergo a period of transition and adjustment in terms of long-term business models. This is evident from the PCT business case for the project. Furthermore, it is extremely likely (given the Demand Study conclusions) that the cinema would most likely require long term public subsidy to sustainably operate at a viable level.
- 7.3 For the above reasons the project is not one that can be supported or endorsed by Renfrewshire Council in its present format or with its proposed business model as a viable project. As a result, it is recommended to members that Renfrewshire Council end its involvement with the current PCT proposal for a new cinema for Paisley Town Centre.

- 7.4 This situation could be reviewed at a future date as and when it can be demonstrated that the economic outlook for the sector becomes more optimistic.

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### **Implications of the Report**

1. **Financial** – None. The Cinema Demand Study was funded from existing Economy and Development Team budgets
2. **HR & Organisational Development** – None.
3. **Community/Council Planning** – None
4. **Legal** - None.
5. **Property/Assets**- None.
6. **Information Technology** – None.
7. **Equality & Human Rights**- The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report.
8. **Health & Safety**- None.
9. **Procurement** – None.
10. **Risk**- None.
11. **Privacy Impact**- None.
12. **Cosla Policy Position**- Not Applicable.

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### **List of Background Papers**

- (a) Levelling Up Fund Bid 2021; Leadership Board; 16 June 2021
- (b) Paisley Cinema Demand Study; September 2022 -

### **Appendix 1 - Paisley Cinema Demand Study 2022**

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