### Regent Theatre, Mudgee

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| REPORT BY General Manager to 20 June 2012 council meeting  a0100055, |

RECOMMENDATION

That the report by the on the Regent Theatre, Mudgee be received.

Detailed report

Please find attached a summary of research undertaken for the purchase and development of a movie theatre in Mudgee, in particular the Regent Theatre and the refurbishment of the premises to bring it up to a standard suitable for the showing of movies in a cinema setting. The ongoing costs of operations of the movie theatre are not addressed in the attached document. That would require a separate business plan and model to be established before putting costs to the operations.

Although the costs of upgrading and refurbishing the theatre could be considered high, they are, in our opinion, reflective of the work that Council would be required to undertake if the theatre was to be used for movie screenings. Anything less would, in our opinion, be contrary to NSW legislation and building standards.

As Council is aware, the Town Hall library refurbishment will include the ability to show movies in the theatre/gallery which is upstairs in the building. Movie equipment is being purchased and it is Council’s proposal, subject to budget and patronage, to show movies in this theatre facility at least one weekend per month.

It is management’s opinion that the purchase of the Regent Theatre Mudgee is not affordable or an effective use of ratepayers’ money, taking into consideration the experience of other small regional theatres around NSW. It is recommended to Council that we continue on the current direction, to have movies shown upstairs in the Town Hall and trial that process for at least one year. We are aware of the historical importance of the Regent Theatre to this region, however it is management’s opinion that it is not always the responsibility of Council to own, operate and maintain historical buildings.

Financial implications

Nil at this stage.

Strategic or policy implications

Nil at this stage.

7 June 2012

*Attachments*: 1. Report on Regent Theatre refurbishment

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| WARWICK L BENNETT  GENERAL MANAGER |

ATTACHMENT 1

**REGENT THEATRE**

The purpose of this paper is to summarise the main findings of initial investigations and research undertaken by staff in relation to the refurbishment of the Regent Theatre to provide for performing arts and entertainment activities.

**PROPOSED ACTIVITIES**

**Stage One**

Stage One would include creation of two theatrettes (including 100 seats each) in the Dress Circle. It includes renovation of the Foyer Area and Dress Circle Lounge.

This work would allow for regular movie sessions (cinema quality) to be screened using the latest digital projection and sound technology. It would also provide an opportunity to rent the theatrettes for private screenings or fundraisers.

**Stage Two**

Stage Two would include general upgrade of the Ground Floor Auditorium to accommodate live performances. The proposed structural work would also provide an additional venue for special events, conferences and private functions to be held.

**ESTIMATED COSTS**

**Purchase Price**

The Regent Theatre is currently on the market at “offers over $700,000”. The property has been on the market for sometime (and failed to sell at auction), so it is reasonable to assume that negotiation of a price around $700,000 would be achievable.

**Upfront capital costs**

The cost of capital works was considered under two scenarios. The first scenario involves the general cosmetic improvement of existing facilities and the construction of internal partition walls to create two theatrettes in the Dress Circle. Although, it is possible that this work does not trigger a CC and the requirement for an alternative solution to meet BCA standards (including fire regulations and fully accessible requirements), it is unlikely that this would be a satisfactory outcome for Council and the community.

The second scenario involves significant structural work required to make the facility fully accessible (which is a realistic and important consideration if the building were to be Council owned). It includes the installation of a lift, upgrade of toilet facilities, upgrade to comply with fire regulations and the extension of the back of the stage and stage wings.

The following table summarises the estimated costs for capital works.

*Stage One – Creation of Two Theatrettes*



*Stage Two – Upgrade of Ground Floor Auditorium*



The estimated cost of capital costs completing both Stage 1 and Stage 2 (fully accessible) is $4.05m.

The total estimated project costs would be:



This does not include any finance costs if the project were funded via a loan arrangement.

**Ongoing operation costs**

There would be ongoing operational costs to consider if the theatre was operated as a movie cinema on a daily basis. These costs would include electricity (heating/cooling/lighting), staff, cleaning, marketing, insurance etc. in addition to the costs involved in screening new release movies (ie. film distribution costs). Income would be earned through ticket sales.

Similar costs would be involved in operating the Ground Floor Auditorium for live performances, events and functions. Income would be earned through hire charges.

It is difficult to estimate the ongoing operation costs because these costs are very specific to the individual cinema and exact nature of activities to be conducted (eg. films distributed, opening hours etc). It is managements opinion that volunteer workers for a movie theatre is not sustainable in the long term. For example how long would volunteers be prepared to clean toilets after ever viewing day. A more detailed business plan would be required to assess these costs and the overall financial position.

**CINEMA INDUSTRY ANALYSIS**

We have undertaken some initial research in relation to the operation of regional cinemas similar to the Regent Theatre. The key findings are summarized below.

**Regional cinemas**

There has been a general decline in the number of regional cinemas in operation and from a commercial perspective, the major operators within this industry consider investment in regional cinemas as relatively risky compared to metropolitan based cinemas. The entire cinema industry has been impacted by increased piracy and shorter timeframes on movies being available on DVD.

A number of regional cinemas have ceased to operate due to financial difficulties, poor patronage and/or difficulties in dealing with film distributors on new releases. A recent local example is the Parkes Cinema which closed in 2011. Other cinemas have had their operations significantly downsized to a number of sessions (ranging from 4-12) per week including Gunnedah, Young, Bingara.

**Single-screen cinemas**

One of the difficulties of making a regional cinema commercially viable is the lack of individual cinemas. When operating a single-screen cinema, the operator is limited (by the film distributors) in the number of new releases that can be shown due to screening obligations. For example, the film distributor may say that the cinema needs to show a new release 5 times per day in order to have the movie showing. If a cinema wanted to have 3-4 new release movies at a time, this would mean a commitment of 20 sessions per day which is not possible or commercially viable with a single-screen cinema and in a small community.

**Multi-screen cinemas**

The majority of cinema operators today, operate more than 1 cinema within the complex (ie. they are multi-cinema complexes). The advantage of operating a multi-cinema complex is the ability to screen a number of new releases at the same time. It is much easier to manage the film distribution obligations with multiple cinemas.

Research and feedback indicates that 3-4 screen cinema is a “standard” in the cinema industry (especially when operated as a stand-alone business).

Some examples of cinema sizes in other regions include: Nambucca (3 screens/478 seats), Singleton (4 screens/558 seats), Port Macquarie (2 screens/650 seats), Inverell (3 screens/478 seats), Wagga Wagga (6 screens), Tamworth (6 screens), Ulladulla (2 screens/346 seats), Narrabri (2 screens), Dubbo (4 screens), Orange (4 screens).

**Financial commitments**

Large upfront costs are required to invest in the cinema business, where the business is intended to provide the full cinema experience. The latest state of the art technology is expensive and is expected by cinema customers. A high quality cinema projector can cost up to $150,000 with a further $30,000 required for a compatible screen.

Ongoing operational costs are also very expensive with items such as electricity costing more than $15,000 per month on a 4 screen cinema complex.

Based on a 4 screen cinema complex, we understand that around 180,000 seats per year need to be sold to be commercially viable. This equates to 3,461 seats per week which would be difficult in the Mudgee region.

Further research is recommended on the commercial viability of small independent cinemas in regional areas, should Council wish to pursue the opportunities at the Regent Theatre.

**CURRENT PROJECTS**

Whilst the focus of the research undertaken has been on the establishment of a cinema business in the Regent Theatre (with cinema quality equipment and seating), it is important to note that the Town Hall will have the facilities to screen movies upon completion of the current upgrade work. This facility provides opportunities to further explore arrangements where movies can be shown on a regular basis.

**SUMMARY**

Staff have inspected the Regent Theatre and provided a broad estimate of the costs involved in turning the facility into a working cinema with two theatrettes and an auditorium capable of hosting live events, theatre performances and functions.

The estimated costs of completing work to achieve this functionality and make the facility fully accessible are $4.75 million (including the purchase price).

The major concern is the ongoing financial viability of operating a cinema business. Research suggests that it is difficult for regional cinemas to survive, particularly when they have a limited number of screens/cinemas available to meet film distribution requirements for new releases.

Whilst a 3-4 screen cinema would assist in meeting film distribution requirements, it would be difficult to achieve the required attendance to make it financially viable based on the current population.