

**Ongoing investment in Lockmeadow**

<b>Final Decision-Maker</b>	Policy and Resources Committee
<b>Lead Head of Service/Lead Director</b>	Alison Broom, Chief Executive
<b>Lead Officer and Report Author</b>	Mark Green, Director of Finance and Business Improvement
<b>Classification</b>	Public
<b>Wards affected</b>	Fant, High Street, Bridge

**Executive Summary**

The Council acquired the Lockmeadow Leisure Complex in November 2019 in order to support the Strategic Priority to make Maidstone a Thriving Place and to provide a financial return in line with our commercial investment strategy. The cost of ongoing investment at Lockmeadow formed part of the original business case for the acquisition and is included within the Council's capital programme. This report sets out details of the proposed investment.

**This report makes the following recommendations to this Committee:**

1. To delegate authority to the Director of Finance and Business Improvement in consultation with the Chair and Vice-Chair of Policy and Resources Committee to agree any amendments that are required to the deed of works for refurbishment of the Odeon cinema in light of the temporary postponement of these works.
2. To delegate authority to the Director of Finance and Business Improvement in consultation with the Chair and Vice-Chair of Policy and Resources Committee to seek planning permission for and deal with associated planning matters in relation to the landlord works described in this report and to undertake a procurement process and award such contracts for delivery of the works in line with financial procedure rules and applicable public contracts regulations and principles.
3. That the Head of Mid Kent Legal Services is authorised to negotiate and complete all necessary deeds, agreements and ancillary documents relating to (i) any variation to the deed of works, (ii) the landlord's works and (iii) the appointment of contractors and consultants on the terms as agreed by the Director of Finance and Business Improvement in consultation with the Chair and Vice-Chair of Policy and Resources Committee.

**Timetable**

<b>Meeting</b>	<b>Date</b>
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Corporate Leadership Team	7 <sup>th</sup> April 2020
Policy and Resources Committee	29 <sup>th</sup> April 2020

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## 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	Accepting the recommendations will materially improve the Council's ability to make Maidstone a Thriving Place.	Director of Finance and Business Improvement
<b>Risk Management</b>	Already covered in the risk section.	Director of Finance and Business Improvement
<b>Financial</b>	Accepting the recommendations will demand new spending of £4 million, which is included within the Council's five year capital programme.	Director of Finance and Business Improvement
<b>Staffing</b>	We will deliver the recommendations with our current staffing.	Director of Finance and Business Improvement
<b>Legal</b>	<p>The Council has statutory power under section 1 of the Localism Act 2011 to do anything that individuals generally may do and under section 111 of the Local Government Act 1972</p> <p>The Council has power to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.</p> <p>Any procurement process</p>	Legal Team

	undertaken pursuant to the recommendations should be in accordance with the Council's Contract Procedure Rules and the Public Contract Regulations 2015.	
<b>Privacy and Data Protection</b>	Accepting the recommendations will increase the volume of data held by the Council. We will hold that data in accordance with existing Council policies.	Legal Team
<b>Equalities</b>	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	[Policy & Information Manager]
<b>Crime and Disorder</b>	N/A	Director of Finance and Business Improvement
<b>Procurement</b>	On accepting the recommendations, the Council will then follow procurement exercises for the work described. We will complete those exercises in line with financial procedure rules.	Director of Finance and Business Improvement

## 2. INTRODUCTION AND BACKGROUND

- 2.1 In November 2019 the Council acquired the long leasehold interest in the Lockmeadow leisure complex for £19 million. The complex comprises an Odeon multiplex cinema, an 18-lane bowling alley, a trampoline park, five restaurants and a two-level David Lloyd swimming pool and gym complex. The Council already owned the freehold of the site, along with the adjoining car park and market building. The acquisition was consistent with the Strategic Plan priority to make Maidstone a 'Thriving Place', on the basis that this investment would directly support the development of the local economy. The investment also met the Council's commercial investment criteria.
- 2.2 As part of the investment appraisal supporting the decision to acquire Lockmeadow, made by Policy and Resources Committee at its meeting on 27th March 2019, it was recognised that further investment would be required in Lockmeadow. This was reflected in the appraisal and in the yield calculations on which the acquisition was based. Specifically, a further £4 million investment was envisaged in 2020/21, and is included within the five year capital programme approved by Council on 26 February 2020. This comprises:

- Landlord contribution to refurbishment of Odeon cinema
- Short term physical refurbishment and enhancement of site to coincide with Odeon upgrade

### **Odeon upgrade**

2.3 Completion of the purchase of Lockmeadow was conditional on Odeon entering into a new 15 year lease at an increased rent and a deed of works under which refurbishment works would be carried out within 12 months of entering into the lease, with a landlord contribution to the works. The refurbishment would follow a similar pattern to that employed elsewhere by Odeon, ie an upgrade to the 'Luxe' format, which incorporates:

- Recliner seating
- Enhanced bar and retail offer
- PLF (premium large format) screens
- 'Signature service'

Odeon have found from previous experience that these upgrades lead to significant improvements in attendance and revenues. The upgrade will provide a more attractive cinema, which in turn will increase footfall for the complex as a whole.

2.4 The refurbishment was due to start on 23 March 2020. It would have taken three months to complete, phased in such a way that the some of the cinema screens would remain open at all times. In the event, the refurbishment was postponed on 20 March 2020 in anticipation of restrictions arising from the coronavirus pandemic, which did indeed materialise very quickly. The refurbishment project is provisionally intended to recommence on 13 July 2020 but this is clearly dependent on the lifting of restrictions.

2.5 Odeon's business is affected more completely than most by the pandemic, being totally dependent on physical cinema visits. The company's ability to survive the pandemic and resume normal operations is likely to depend, like that of most of other businesses, on the duration of the lockdown. The company states that it remains committed to the refurbishment at Maidstone. The extent of Council funding for the refurbishment means that it will absorb little of the company's own cash flow and the development can be expected to proceed at some point, subject to the overall health of the business. From a legal viewpoint, it may be necessary for the terms of the Deed of Works to be amended to reflect the postponement of the works, but this should not involve any substantive change to what the Council wishes to achieve.

### **Overall refurbishment and enhancement of site**

2.6 The Council's capacity, as landlord of Lockmeadow, to attract and retain tenants and to make the venue an attractive destination for visitors is constrained by a number of physical limitations. These were recognised as part of the Council's due diligence process when acquiring the site. Whilst the fabric of the building is in good condition, there are a number of areas requiring updating and improvement including the following:

- signage

- façade details
- external lighting
- landscaping
- access to riverside and tow path
- access to and visibility from the town centre
- redundant structures in car park

These issues can be addressed over a relatively short timescale and can be accommodated within the balance of the £4 million capital budget. If this work is programmed to coincide with the Odeon refurbishment, it will facilitate a successful relaunch of Lockmeadow as a compelling destination for residents and visitors. Carrying out this work does not preclude a more thoroughgoing refurbishment of the complex at a future date.

### **Timing**

- 2.7 At this stage, the timing of the Odeon update, and the associated landlord works described above, is uncertain. The most optimistic scenario would see these works commence in July, as currently envisaged by Odeon, but they could be delayed until much later in 2020.

### **Other opportunities**

- 2.8 An important factor in the acquisition of the Lockmeadow leisure complex was the potential for synergies with other activities carried out within the areas owned by the Council.

- Market

Before the current lockdown, a market took place in the Lockmeadow car park on two days a week. The market building was also let out for weekly auctions and a number of other events. Income from the market has been declining for several years. Future plans for the market are under review. It is hoped that the refurbishment of Lockmeadow will help the market expand its offering and the market hall to attract a bigger range of events.

- Car Park

The main car park generates income of approximately £400,000 per annum for MBC from 567 spaces. It is not operating at full capacity, other than on Sundays, when parking is free. We are reviewing our strategy for the car park, bearing in mind the opportunity for businesses within Lockmeadow provided by the car park and the nearby railway station.

- Town Square and amenity space

The 'Town Square' adjoining the main car park was originally envisaged as a venue for events, but has more recently been used as a car park for staff working at the leisure complex. There is further amenity space adjoining the river which is under-utilised. The Council plans to explore the potential for use of this space for events.

More generally, Lockmeadow is in a strategic location, close to our existing Town Centre opportunity sites. We will ensure that our strategy as landlord of the site is developed in tandem for our regeneration strategy for the area.

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### **3. AVAILABLE OPTIONS**

#### **3.1 Option 1 – Fulfil minimum legal obligations**

Under the deed of works agreed with Odeon, the Council is obliged to contribute to the cinema’s refurbishment in return for the company’s commitment to a 15 year lease. The Council could meet this obligation but carry out no further investment in the site.

#### **3.2 Option 2 – Carry out wider programme of investment**

The Council could additionally carry out a programme of landlord works as described in paragraph 2.6 of this report.

#### **3.3 Option 3 – Carry out a different or expanded programme of investment**

The Committee could choose to amend or expand the planned programme of investment, within the budgetary framework set out in the Council’s capital programme.

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### **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

4.1 This report recommends Option 2, on the basis that this will maximise the value to be achieved from the Odeon’s refurbishment within the Council’s budgetary framework.

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### **5. RISK**

5.1 The risks associated with the proposals in this report, including the risks if the Council does not act as recommended, have been considered in line with the Council’s Risk Management Framework. It is recognised that the risks associated with the proposals have significantly changed as a result of the coronavirus pandemic.

5.2 Specific key high-level risks and mitigation arising from this project are set out below:

<b>Risk</b>	<b>Mitigation</b>
Tenant failure	The programme of investment described in this report is highly dependent on Odeon’s continuing commitment. Before Odeon commences the

<b>Risk</b>	<b>Mitigation</b>
	<p>refurbishment project described in this report, the Council will seek to satisfy itself that the company is able to complete the project.</p> <p>The long term viability of Lockmeadow as a whole depends on the site's ability to attract and retain viable businesses as tenants. The main tenants (Odeon, David Lloyd, Greene King, The Restaurant Group) had a relatively strong covenant in relation to the leisure sector as a whole at the time of the site's acquisition, but all are clearly subject to the very severe recession now facing the sector. Their financial health will be monitored closely.</p>
Construction work starts but cannot be completed	Wherever possible, warranties will be sought to ensure that the work proposed can be completed.
Projected financial returns from Lockmeadow are not delivered	In the short term, the financial returns from Lockmeadow are at risk, given tenants' lack of cash flow and consequent challenges in paying rent. The relatively low financing costs enjoyed by the Council gives a wide margin in which income could fall short of projected levels, with the project nevertheless remaining cash positive. In the longer term, Lockmeadow continues to have the potential to be an attractive leisure destination.
Failure of leisure economy to recover from coronavirus	In the event of a permanent and irrevocable downturn in the leisure economy, which would threaten Lockmeadow's viability, our ownership of the entire site gives us the scope to seek strategic solutions including finding different uses of the site.

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## 6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 The strategic context to the acquisition of Lockmeadow, ie setting 'Thriving Place' as a priority, the Medium Term Financial Strategy and the Capital Programme, have been discussed extensively with Members. Members have agreed the acquisition of Lockmeadow and support the Council's ambitions for the site.
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**7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

- 7.1 Should the Committee approve the recommendations of this report, the work described will proceed, with its pace dictated by how quickly restrictions relating to the coronavirus pandemic are lifted.
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**8. REPORT APPENDICES**

None

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**9. BACKGROUND PAPERS**

None