

Appendix A of this report contains information of the type defined in paragraph 3 of Part 1 of Schedule 12A Local Government Act 1972 (as amended)

North Yorkshire Council

Executive

17 December 2024

Harrogate Convention Centre – Outcome of Soft Market Testing

Report of the Corporate Director of Resources

1.0 PURPOSE OF REPORT

- 1.1 This report is to inform the Executive about the results of the Soft Market Testing (SMT) carried out by 31Ten for the Harrogate Convention Centre (HCC). It also provides recommendations for the next steps, including the development of Studio 2 and the consideration of adopting a more commercial operating model.

2.0 BACKGROUND

- 2.1 The Harrogate Convention Centre (HCC) is a versatile multi-purpose venue in Harrogate, hosting a wide range of events, including conferences, exhibitions, banquets, and entertainment.
- 2.2 HCC plays a vital role in the local economy, contributing an estimated £45m annually, benefiting local jobs, shops, cafés, restaurants, hotels, and bars.
- 2.3 Despite its economic significance, the Centre faces challenges, including an annual operating subsidy of £2.6m, (though this reduced significantly in 2023/24 to £1.9m), the need for substantial capital investment and significant carbon emissions.
- 2.4 In 2016, Harrogate Borough Council initiated a redevelopment project in response to the then declining income and the need for significant capital investment.
- 2.5 On 12 March 2024, the North Yorkshire Council (NYC) Executive received a report indicating that the estimated cost of Phase 1 redevelopment works had risen to £57m. The project became unaffordable due to the unsuccessful Levelling Up Fund application and other cost pressures. In addition, the proposed three-year construction programme was likely to disrupt HCC's operations, potentially affecting its long-term financial sustainability.
- 2.6 The Executive recommended awaiting the SMT results before reassessing the available options for HCC.
- 2.7 NYC engaged 31Ten to conduct the market assessment and options appraisal for HCC. The 31Ten report is attached at Appendix A.

3.0 ASSESSMENT

31Ten – SMT Approach

3.1 The SMT approach by 31Ten involved: -

- A site visit and tour of HCC.
- Discussions with NYC's senior project team.
- Reviewing the history of HCC's redevelopment.
- Evaluating HCC's current performance, financial projections, and maintenance issues.
- Engaging with public and private sector operators/developers.
- Providing a scored options appraisal for HCC.

Strategic Objectives

3.2 NYC outlined its primary objectives for the SMT, focusing on retaining HCC's economic benefits, protecting public funds, reducing carbon emissions, and providing best value. Specific objectives to support market engagement included: -

- Retaining HCC's economic benefits.
- Protecting public funds and reducing carbon emissions.
- Identifying investment opportunities to reduce the Council's subsidy and improve operational facilities.
- Align HCC's operations with NYC's long-term vision for Harrogate.
- Being open to various operating and ownership models.

Market Engagement

3.3 A key element of the options appraisal process was to engage with the market to better understand the current marketplace and inform whether the options being considered may be feasible, therefore it was important to try to meet with a range of organisations in the industry, including developers, third-party operated venues, wholly owned company (WOC) operated venues, and energy solutions developers/operators.

3.4 The results of this exercise demonstrated that there was limited interest in HCC from private developers, as retaining convention centre use on the site seemed to be the best way to retain the level of economic benefit from the site. A hybrid approach of only retaining part of the convention centre was also of limited interest, due to the constrained nature of the site. The exercise demonstrated that there is a limited pool of 'energy solutions' developers that would be interested and HCC is considered to be of a low scale to attract this type of offer. However, Officers are of the view that this may be worth exploring further as part of a future business plan initiative.

3.5 There is a very limited market of private operators, and local authority venues which have private operators tend to include other offerings such as an arena, concert hall or hotels, or be of a much larger scale and based in large cities, such as the London Olympia, Gateshead and Aberdeen.

Operating Model Insights

3.6 The typical operational model for Council-owned convention centres is through a commercial entity, often a wholly owned company (WOC). These types of operating models provide greater commercial flexibilities, alignment with industry standards and ultimately reduced costs.

Business Plan Viability

- 3.7 The SMT's feedback on HCC and its economic impact on the region was encouraging. The market believes a viable business plan is attainable, contingent on securing adequate capital investment over time to maintain the facility's safety and functionality. Key enhancements might involve expanding Studio 2 to accommodate larger conferences, implementing a more efficient operating model, and maintaining a focus on robust commercial performance.

Strategic Opportunities

- 3.8 The soft market testing also highlighted successful examples from across the country where convention centres have adopted a broader strategic approach to growth. These centres have formed partnerships with local government bodies or universities to expand their offerings and develop more innovative business plans. HCC should explore similar strategic opportunities in its future planning to attract a wider audience and secure additional funding. This could include collaborations with the wider Yorkshire region including, Universities, Colleges, Airports, and the Mayoral Combined Authority, potentially leading to a rebranding of HCC.

Options

- 3.9 In addition to the Market Engagement feedback 31Ten modelled various options for HCC's future, including: -

Option 1 – Do Nothing: -

This option would lead to HCC's gradual decline, negatively impacting income, maintenance, and economic benefits.

Option 2 – Phase 1 Capital Works (£57m): -

This high-risk, unaffordable option would cause significant operational disruption and has already been discounted.

Option 3 – Studio 2 - Commercial Investment Approach: -

This option focuses on increasing revenue and maximising the Centre's usage, aiming to reduce the need for a continued financial subsidy and attract future investment. With an initial investment of £7 million, Studio 2 is projected to generate an additional £1.5 million in annual income (£1.0 million net), presenting a clear invest to save opportunity.

Option 4 – Improve Conference Facilities and Change Use of Exhibition Halls:

This option entails a £30 million investment to upgrade the conference facilities, while either selling the exhibition halls or entering into a joint venture. However, private sector interest in developing the exhibition halls was limited due to site constraints and the requirement to preserve the economic benefits.

Option 5. – Freehold Sale or Lease Agreement: -

Although no potential buyers were identified by 31Ten, NYC was approached by an agent representing a global conference operator, indicating potential future opportunities including lease arrangements for the property. Further dialogue will be pursued with any positive feedback being reported back to Members.

4.0 CONSULTATION UNDERTAKEN AND RESPONSES

4.1 An informal presentation was given to the Harrogate and Knaresborough Area Committee Members on 5 December 2024. The recommendations, as set out in the report, were well received.

5.0 CONTRIBUTION TO COUNCIL PRIORITIES

5.1 Economic Growth - Investment in HCC supports the Council's Economic Growth Strategy and Destination Management Plan, prioritising business and leisure events for high-value tourism.

5.2 Carbon Reduction: Investment in HCC contributes to the Council's Climate Change Strategy.

5.3 Providing Value to the Taxpayer: Reducing or eliminating the subsidy to HCC enhances value for taxpayers.

6.0 ALTERNATIVE OPTIONS CONSIDERED

6.1 The alternative options are set out in the 31Ten report and covered in section 3.9 of this report.

7.0 IMPACT ON OTHER SERVICES/ORGANISATIONS

Operational Property

7.1 HCC is an aging facility with numerous mechanical, electrical, and plumbing (MEP) systems that require repair or replacement. As one of the largest carbon emitters in North Yorkshire, HCC also faces high energy consumption and costs. Replacing the outdated MEP systems with modern, energy-efficient alternatives is expected to significantly reduce the Centre's carbon footprint.

7.2 If planned maintenance, refurbishment projects, and reactive repairs are not addressed promptly, the building will continue to deteriorate, increasing the risk of operational failures. These risks will be managed as effectively as possible in the short to medium term through careful prioritisation and management of the maintenance and lifecycle costs budget. This approach will ensure the venue's safe operation and compliance with health and safety standards. However, in the long term, essential repairs are necessary to sustain HCC's operations, making inaction an untenable option.

7.3 HCC operates with a small building services team that handles client-facing projects such as redecoration, toilet refurbishments, and LED lighting installations while supporting the delivery of statutory compliance tasks. The majority of compliance work is handled by the Property Services team, which has successfully managed statutory compliance across the venue.

7.4 Reactive and planned maintenance is also provided by the Property Services Team. Adopting a more commercial operating approach could entail a dedicated on-site property team focused solely on HCC, addressing the timely and specific needs of HCC.

8.0 FINANCIAL IMPLICATIONS

Current Operating Subsidy

Financial Performance Overview

- 8.1 In the 2022/23 financial year, the Harrogate Convention Centre (HCC) required an operating subsidy of circa £2.6m. Through strategic initiatives, such as prioritising and minimising maintenance lifecycle costs (whilst undertaking this review) by £0.7m and improving operational efficiency by bringing the catering function in-house, the subsidy requirement for 2023/24 has been effectively reduced to £1.9m. These measures demonstrate a proactive approach to financial management, aiming to minimise dependency on subsidies.

Income and Expenditure	2019/20 Actual £'000	2020/21 Actual (Covid) £'000	2021/22 Actual (Part Covid) £'000	2022/23 Actual £'000	2023/24 Actual (Catering Service in-House) £'000
Income	5,220	3,074	3,691	5,154	7,303
Expenditure					
Employees	2,898	1,926	2,214	2,831	4,086
Supplies & Services	1,326	769	1,060	1,324	2,189
Premises	1,258	1,673	1,401	2,420	2,540
Total	5,482	4,368	4,675	6,575	8,815
Operational Loss	262	1,294	984	1,421	1,512
Lifecycle Costs	568	906	1,115	1,206	399
Net Loss	830	2,200	2,099	2,627	1,911

Utility Costs and Energy Management

- 8.2 Utility costs have emerged as a substantial financial burden for HCC, increasing from 17% of turnover in 2018/19 to 40% in 2022/23, amounting to £2.36m. The costs for 23/24 were £2m. Sustained management of energy consumption is critical.
- 8.3 Good progress has already been made in terms of reducing utility costs with new system controls currently being fitted to manage the heating in the Auditorium. Further savings will also accrue from changes made to the district heating system, although it is not possible at this stage to be precise about the scale of the saving this will yield.

Transparency and Community Support Costs

- 8.4 Historically, HCC's financial statements have included costs associated with supporting the Harrogate Theatre and various local community groups. To enhance transparency and provide a clearer reflection of HCC's operational expenses, officers will explore more effective methods for managing and reporting this continued financial support.

Employment Costs and Operational Efficiency

- 8.5 Increased employment costs as a result of revised recruitment and temporary staff arrangements have had an additional financial burden on HCC budgets. Managing and reducing these costs will be a key focus of any future operating model.

Business Strategy and Revenue Growth

- 8.6 HCC's focused business strategy since 2019/20 has successfully increased lettings income by 21% from the 2018/19 baseline. Forward bookings indicate potential growth resulting in total lettings income exceeding £4m per annum. However, a lack of sufficient conference breakout space has limited HCC's ability to capitalise on approximately £1.5m in new sales.

Investment in Studio 2

- 8.7 Converting Studio 2 into a dedicated breakout area, as recommended, is expected to significantly enhance the venue's commercial potential. This option focuses on increasing revenue and maximising the Centre's usage, aiming to reduce the need for a continued financial subsidy and attract future investment. With an initial investment of £7 million, from corporate reserves, Studio 2 is projected to generate an additional £1.5 million in annual income (£1.0 million net), presenting a clear invest to save opportunity. This would reduce the annual operating subsidy to circa £1m, though this subject to the development of a detailed business case before investment is approved.

Transition to a Commercial Operating Model

- 8.8 Potential financial and operating benefits exist from HCC transitioning to a more commercial operating model. This will be explored in more detail as part of developing a revised business plan.

9.0 HR IMPLICATIONS

- 9.1 Any HR considerations will be investigated and detailed as part of any future decision with regard to moving towards a more commercial operational approach.

10.0 LEGAL IMPLICATIONS

- 10.1 Legal support would be required for the procurement and award of any contract for the redevelopment of Studio 2.
- 10.2 The legal implications of any future operating model will be considered as part of a future report.

11.0 EQUALITIES IMPLICATIONS

- 11.1 HCC currently meets the accessibility statutory compliance requirements. However, the HCC management team will strive to improve standards to ensure mobility impaired workers and visitors have equitable access to the venue. This can be achieved via a phased approach by accessing grants and exploring funding avenues over time.

12.0 CLIMATE CHANGE IMPLICATIONS

- 12.1 Investment in HCC will contribute to the council's Climate Change Strategy by helping to ensure that the buildings and events are as energy efficient as possible. The council is committed to reducing its carbon emissions and has an aspiration to achieve net carbon neutrality by 2030, or as near to that date as possible. HCC's MEP systems have received little investment over their 40-year life and are generally approaching or already beyond technological obsolescence, resulting in excessive energy consumption, much reactive 'fire-fighting' repair and high costs to maintain the asset and service events. Investment over the longer-term will ensure that sustainable energy and low carbon technology is embedded in future redevelopment plans.

- 12.2 The preferred option does not immediately address the Council's broader sustainability objectives, although sustainability improvements would be made on an ongoing basis through the further investment supported by the Business Plan. As such, it is recommended that alongside these works a review is undertaken of the potential sustainability improvements that could be made as "quick wins" alongside the longer-term investment strategy. The review should consider external funding opportunities to help HCC reduce its carbon footprint.

13.0 PERFORMANCE IMPLICATIONS

- 13.1 Even with HCC's improved sales strategy and the increase in income being achieved as a result, inefficient and failing MEP, lack of breakout spaces and unsatisfactory access continue to hamper the venue's ability to become cost-neutral and grow its economic impact. However, a tactical investment approach over time will address a number of these issues in the longer-term, which will be to significantly enhance the performance of the venue and crucially enable the venue to remain open for business.

14.0 CONCLUSIONS

- 14.1 The recommended course of action is Option 3, which involves the Council developing Studio 2 and adopting a more commercially driven operational approach. This strategy is anticipated to enhance the venue's financial performance, strengthening the case for securing future funding, including external sources, to address the significant building challenges.
- 14.2 To improve HCC's effectiveness and efficiency, a shift in the operating model should be considered. The options appraisal in the 31Ten report indicates that transitioning to a Wholly Owned Company (WOC) is the best solution. However, officers recommend a more in-depth evaluation of different commercial operating models and delegations as part of developing a comprehensive business case for HCC before finalising the operational direction.
- 14.3 This recommendation hinges on a £7m invest to save capital contribution to fund the development of Studio 2, with repayment expected from an additional £1.0m in net income per year, once established. The investment will also strengthen the case for securing future funding, including external third-party contributions, to address the venue's long term maintenance requirements.
- 14.4 While the preferred option represents a critical step forward, it does not immediately address major challenges at HCC, such as the need for replacements for mechanical and electrical systems. This option includes only an initial capital injection from the Council, acknowledging that long-term investment in repair and replacement work will be essential to the venue's sustainability.
- 14.5 The Council is expected to first assess improvements in HCC's operating performance, driven by its commercial operations and the development of Studio 2, before considering any additional investments in the venue. However, this does not preclude actively seeking external funding opportunities, which are crucial for supporting necessary repairs at HCC.
- 14.6 Ensuring that HCC buildings remain safe and suitable for operation is a priority for NYC. Consequently, an adequate annual budget for essential repairs and preventative maintenance will be required in the short term, until the venue can self-fund repairs from surpluses generated through the new commercial model. Additionally, there should be a stronger focus on securing external funding opportunities, particularly those aimed at helping HCC reduce its carbon footprint.

- 14.7 The Council must remain receptive to potential market opportunities, including offers for the freehold sale or alternative operating models. Although initial soft market testing indicated limited interest in a full sale, ongoing engagement with prospective buyers, such as the recent approach from a global conference operator, could uncover unexpected opportunities. By staying open to these possibilities, the Council can swiftly respond to any viable offers that align with its long-term objectives. Regardless of the outcome of these discussions, the report recommendations remain unchanged.

15.0 REASONS FOR RECOMMENDATIONS

Studio 2

- 15.1 Investing in Studio 2 will attract larger conferences that require more breakout spaces. Estimated at £7m this investment is expected to be repaid through increased income, presenting a clear invest to save opportunity. The Executive is requested to approve the expenditure of £7m for Studio 2, subject to the Corporate Director Resources being satisfied with the business case for investment and consulting with the relevant Members.
- 15.2 This investment will help rebuild confidence in the venue, paving the way for future investments and funding. Developing Studio 2 will enhance HCC's economic impact by creating jobs and improving its viability as a financially sustainable venue.

Commercial Operating Model

- 15.3 The proposal includes exploring a commercially driven operating model for HCC as part of a broader business case. This approach would align operations with other successful council-owned convention centres, offering greater flexibility and oversight. It is anticipated that this change will enhance HCC's ability to become financial sustainable.

Strategic Partnerships

- 15.4 It is recommended to pursue strategic partnerships with local governments, universities, mayoral combined authority and other entities to expand HCC's services and create an innovative business plan. Such partnerships could unlock new growth opportunities and funding, making HCC more appealing to a wider audience. These collaborations would also align HCC's activities with regional economic development strategies, strengthening its long-term sustainability and potential for rebranding.

Incremental Capital Improvements Over Large-Scale Redevelopment

- 15.5 Instead of pursuing a large-scale redevelopment, which is unaffordable due to limited funding and potential operational disruptions, the proposal is to focus on phased, incremental capital improvements targeting external funding opportunities. This approach would minimise disruptions, keep the facility operational, and ensure its gradual upgrade while maintaining safety standards.

Remaining Open to Market Opportunities for Freehold Sale or Lease

- 15.6 The Council is advised to remain open to market opportunities, including potential offers for the freehold sale or lease of HCC. While initial market testing showed limited interest in a full sale, ongoing engagement with potential buyers such as a recent approach from a global conference operator may uncover new opportunities. Staying receptive to these possibilities will enable the Council to act swiftly if a viable offer aligns with its long-term goals.

Prioritising Sustainability and Carbon Reduction Measures

- 15.7 Prioritising efforts to reduce HCC's carbon footprint is essential for both environmental and financial sustainability. A long-term strategy should be developed, focusing on carbon reduction and linking future investments to external funding opportunities.

Summary

- 15.8 These recommended steps aim to improve HCC's financial performance, operational efficiency, and sustainability while maintaining its contribution to the regional economy. By focusing on practical, incremental improvements and strategic changes, the Council can ensure HCC remains a key asset to Harrogate and North Yorkshire.

16.0 RECOMMENDATIONS

The Executive is recommended to:

- (i) Agree in principle to support the Soft Market Testing recommended Option 3 - the creation of Studio 2 and explore the shift to a more commercial operational approach.

Subject to the approval of the above recommendation, it is further recommended that:-

- (ii) Officers scope and tender the most cost-effective construction works to create Studio 2, engaging with NYC Align Property Partners and utilising preparatory work already completed, with cost estimates indicating a budget of £7 million.
- (iii) Develop a new Business Plan for HCC including investment in Studio 2, commercial operating models and the future vision for HCC supported by financial, operational, and sustainability plans.
- (iv) Delegate to the Corporate Director Resources, in consultation with the Corporate Director Community Development, Executive Member for Finance and Resources, Executive Member for Open to Business, the authority to approve the business case to implement the improvements to Studio 2 to the value of £7m and to undertake any associated decisions.
- (v) Review and define the governance requirements for HCC.
- (vi) Actively pursue and secure future funding opportunities, including North Yorkshire Mayoral Investment, government grants, and other sustainability initiatives. As part of the business case, consider rebranding HCC to broaden its market appeal and align with the strategic goals for the wider Yorkshire region.
- (vii) Scope and implement immediate sustainability improvements and develop a long-term strategy, including identifying external funding opportunities.
- (viii) Prioritise essential property maintenance repairs to ensure the safe management and operation of HCC and explore delivering essential works via a small in-house team utilising existing North Yorkshire procurement frameworks.
- (ix) Delegate authority to Officers to continue engaging with potential external operators or buyers of HCC, with further reports as required to be brought back to Members.

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| (x) | Delegate authority to the Corporate Director Resources, in consultation with the Assistant Chief Executive for Legal and Democratic Services, to review and approve specific officer delegations, for the HCC Director, to support commercial operating. |
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APPENDICES:

Appendix A – 31Ten HCC Options Review June 2024 (exempt)

Appendix B – Equality Impact Assessment form

Appendix C – Climate Change Impact Assessment form

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Note: Members are invited to contact the author in advance of the meeting with any detailed queries or questions.