Financial Implications **APPENDIX 3**

Project Costs

1. The design and build contract has been market tested and prices have been received for the majority of the works to be completed. The Council has received the Agreed Maximum Price from Wilmott Dixon and the total project cost is currently at £35.14m. Detailed discussions regarding the final scope and prices are underway and there is a high degree of confidence £1m can secured to reduce the overall cost with ongoing value engineering that does not impact on the overall vision and objectives for DRHQ. Subject to approval from Cabinet and Council the contract will be agreed and signed.

2. The overall maximum cost of the DRHQ is £34.14m to £35.14m and is made up as follows:

   (a) W.D. package £33.04m maximum price (includes £1.1m inflation and £1.35m risk)
   (b) Land Acquisitions £0.5m
   (c) Highway Requirements £0.6m scheme (still to be agreed)
   (d) Fees not in W.D. contract £0.2m
   (e) FF+E package £0.2m
   (f) Extra power £0.1m
   (g) Client Contingency £0.5m
   (h) Value Engineering (no impact on vision – Detail still to be confirmed) -£1m

3. In addition to the costs for the scheme, there is the cost of the private siding that will be delivered by the A1SLT supported by DRPS. The estimated commercial value of the private siding is £3.6m. A1SLT will oversee and manage the delivery of materials, links with Network Rail and installation of the track. DRPS will support A1SLT to deliver this element of the project, however if an agreement can't be reached with DRPS, the A1SLT will deliver the work. Once complete, the private siding will belong to the Council, however, will be managed and maintained by A1SLT.

Project Funding

4. The costs for DRHQ as detailed above and will be funded from:

   Confirmed funding

   (a) TVCA £19.790m
   (b) IGF £2.2m
   (c) Towns Fund £4.6m
   (d) Historic England £0.2m (still to confirm final amount)
   (e) Railway Heritage Trust up to £0.15m
   (f) A1 Trust contribution to pits £0.19m
   (g) DRPS contribution to pits (to be confirmed)

   Total confirmed funding £27.13m

5. Both the A1SLT and DRPS (if required) will fund the installation of pits, in the new build shed and external area for A1SLT and 1861 shed for DRPS. The cost of the pits and associated work will be re paid either through increased rent or a state aid compliant loan.

Further negotiations with A1SLT and DRPS will take place and if necessary external advice will be sought to ensure subsidy control compliance.

6. Additional funding applied for which has not been approved to date:

   (a) National Lottery Heritage Fund (NLHF) successful up to Stage 1.
   Stage 2 submission August, determined in December 2022 £1.6m.

   (b) Arts Council England (ACE) £0.3m successful Expression of Interest,
   full bid submitted, determined March 2022.

   Total potential additional funding £1.9m.

7. The financial risk and level of confidences is:

   (a) **Funding** - NLHF and ACE funding not successful:
      (i) NLHF £1.6m through 1st round and have development funding to stage 2 – Low Risk.
      (ii) ACE £0.3m slightly higher risk through first stage.

   (b) **Costs** - Outturn exceeds Funding:
      (i) Agreed Maximum Price and significant level risk and contingency built in
      (ii) Confident that will be able to achieve £1m VE from current price.

   (c) **Business Model**:
      (i) Robust model developed and externally tested / benchmarked industry norms/sensitivity analysis with realistic mode applied.

The Business Model

8. The key objectives for the business model are that the site should attract a significantly increased number of visitors; that it should achieve core sustainability; that it should show an economic impact and that it should create a step change in the performance and profile of the site.

9. The outcome of the business development process is a site that creates a new experience which better tells the fabulous story of the S&DR and its role in changing the world through the development of modern passenger rail. The project will interpret the collection better sharing it with visitors, using interactive displays, live engineering, a ride type experience, a new play park and a new café space. The approach to interpretation described earlier turns this into reality.

10. As a result of the market, competitor and comparator research and the audience consultation, the following proposition was developed. To create an offer that would achieve the following:

    (a) Appeal to new and existing markets.

(b) Draw new markets that were not traditional heritage users (lower socio-economic markets) from the local population.

(c) Use this new offer to democratise the heritage encouraging the non-engaged to sample the museum by removing intellectual and financial barriers.

(d) Create an experience that would draw new markets, competing with alternative offers (not just attractions – the current competitor for young audiences includes computer simulation games that can be accessed at home).

(e) Include a ride experience that would be so appealing as to draw young visitors who want to repeat the experience over and over again.

11. For business modelling purposes, the markets for Darlington Railway Heritage Quarter can be described as follows:

(a) Locals up to 10 minutes' drive-time from the site
(b) Domestic and international tourists and day visitors from outside the area
(c) Special interest groups
(d) Education visits

12. An analysis of the drive-time catchment for Darlington Railway Heritage Quarter shows the following populations. As can be seen the population within a 30-minute drive-time of the site is not insignificant.

Distance	Population
Up to 10 minutes	91,775
Up to 20 minutes	357,450
Up to 30 minutes	815,187

13. Visitor number projections have been calculated using a number of sources of data. Firstly, population isochrones (which is the area accessible by car from DRHQ within a given time threshold of 10-, 20- and 30-minute drive times) have been calculated. The 10-minute drive-time isochrone has been used as the local audience for economic impact assessment purposes. This assumes that the local audience will come from within a 10-minute drive-time and that populations outside this drive-time constitute economic day visitors. Different penetration rates have been used for each of these markets to account for different visit propensities. Furthermore, different repeatability rates have been used with very local rates being higher than those beyond 20 minutes.

14. In addition to the local market, tourist and day visitor data has been drawn from the 2019 STEAM (Scarborough Tourism Economic Activity Monitor) report for Darlington. This shows current day visitor and overnight volume. Penetration rates have been applied to each of these markets according to different elements of the attraction.

15. Day visitor penetration rates have been drawn from the Great Britain Day Visitor Survey 2019 which shows that 5% of all day visits included a visit to an attraction. For the purposes of forecasting we have used a 3% penetration rate on those with a propensity

to visit museums. This is considerably lower than the national penetration rate but reflects a day visitor market with a lower socio-economic and thus a lower propensity to visit museums.

16. Tourist penetration rates have been drawn from the Great Britain Tourist Survey 2015 (last available relevant data). According to the Great British Tourist Survey 2015 around 19% of all domestic and 29% of all inbound tourism trips included a trip to an attraction. Tourists visiting Darlington, arguably, have less choice than those visiting other parts of the country, indeed the north east. Visitors to Newcastle for instance can choose from a number of museums and attractions. Thus, given the low competition it is assumed that a penetration rate of 25% would not be unreasonable.

17. To estimate the number of visitors, the playpark comparator analysis has been undertaken. A penetration analysis of the drive-time isochrones around similar facilities has been used to provide a test for the likely draw of the play area at DRHQ.

18. The overall annual visitor number has been built up for the different elements allowing for some proportion of the visitor to one element to access other elements of the experience, therefore the total number of visits will increase from the existing 40,000 per year to 369,891 per year.

Revenue Model DRHQ

19. As part of the business model work, a detailed revenue model was developed that is driven by visitor numbers, with a level of sensitivity across the years the bottom line is driven by income and expenditure. The model also includes building up a sinking fund over the first 10 years of a minimum of over £500,000 that will enable the refresh of interpretation on a regular basis to ensure the offer is still fresh and appropriate in future years. It is envisaged that the annual contributions to the sinking fund will be flexed and if performance is better than budget in any given year more will be put into the sinking fund.

20. Income will come from the following sources:

    (a) Admissions (charge for the ride experience)
    (b) Café
    (c) Retail
    (d) Events
    (e) Car Parking
    (f) Venue Hire
    (g) Donations
    (h) Special Exhibitions
    (i) Rent from on-site partners

21. Expenditure costs have been built up to ensure there are adequate resources to deliver the operational model that allows the level of income to be achieved by offering a quality experience to customers.