
**CIVIC THEATRE AND THE HULLABALLOON CAPITAL
PROJECT SCHEME APPROVAL**

**Responsible Cabinet Member - Councillor Nick Wallis,
Leisure and Local Environment Portfolio**

**Responsible Director - Paul Wildsmith,
Director of Neighbourhood Services and Resources**

SUMMARY REPORT

Purpose of the Report

1. To ask Council to approve the recommendations with regard to the Civic Theatre and The Hullaballoon that have been referred from Cabinet on 5 January 2016.

Summary

2. Cabinet considered a detailed report on the Civic Theatre and The Hullaballoon Capital Project on 5 January and have referred the financial recommendations to Council for consideration. The funding for both the development and delivery of the project is deliverable within the original parameters of both schemes. The Civic Theatre, through Heritage Lottery Fund (HLF), sponsorship and ticket levy, and The Hullaballoon through capital contribution from the Council, Arts Council England (ACE) and fundraising by Theatre Hullabaloo.
3. The recommendations in this report for the Civic Theatre are subject to HLF approval and The Hullaballoon, ACE approval, and for both projects, subject to planning permission.

Recommendation

4. It is recommended that Council :-
 - (a) Approve the underwriting of the remaining sponsorship funding of The Hullaballoon project totalling £394,704 and enter in to an agreement with Theatre Hullabaloo to recover any deficit on the funding by way of a loan agreement.
 - (b) Approve an additional £140,000 from the sale of the Arts Centre to fund The Hullaballoon.

- (c) Approve and note the overall cost for The Hullaballoon and release the remaining capital of £2.294m in respect of The Hullaballoon project.
- (d) Approve and note the overall costs of the Civic Theatre project and release the remaining capital to deliver the scheme of £10,341,000.

Reasons

- 5. The recommendations are supported by the following reasons :-
 - (a) To allow the projects to progress to completion subject to funding and planning.
 - (b) To enable the project the progress without delays.
 - (c) For Council to consider the release of the capital sums involved.

Paul Wildsmith
Director of Neighbourhood Services and Resources

Background Papers

Project Design and Costing documentation

Detailed Cabinet report available at

<http://www.darlington.gov.uk/PublicMinutes/Cabinet%5CJanuary%205%202016%5CItem%207.pdf>

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S17 Crime and Disorder	The content of this report will not impact on crime and disorder.
Health and Well Being	There is no direct impact on health and well-being as a result of the outcome of this report.
Carbon Impact	If successful and the Civic Theatre is restored there will be a positive impact on carbon emissions as a result of more efficient, modern plant.
Diversity	No individual is adversely affected as a result of this report.
Wards Affected	The Civic Theatre is located in Park East Ward.
Groups Affected	There will be no impact on individual groups other than those who use the Civic Theatre.
Budget and Policy Framework	Members are asked to underwrite the fundraising element of the project, which, if unsuccessful, will impact on the MTFP. There is no change to the Council's policy framework.
Key Decision	This is a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	The Civic Theatre does have an impact on the Place of Darlington, contributing to the overall Economy, Environment and Perfectly Placed priority.
Efficiency	The outcome of this report does have an impact on the Council's efficiency; a restored Civic Theatre would have a positive impact on income and net expenditure

MAIN REPORT

Information and Analysis

6. As detailed in the Cabinet report of 5 January 2016, a significant amount of work has taken place to date in developing both schemes for the Civic Theatre and The Hullaballoon. The Council has brought together an experienced design team following the agreed procurement route via the Scape framework for both projects. This design team has worked over the past year challenging and refining the original feasibility studies for both the Civic Theatre and The Hullaballoon. It is believed that the refined designs give the Council the best opportunity in net financial terms to achieve financial sustainability, which in turn will ensure both theatres presence in Darlington for many years to come.

Financial Implications

7. At the current stage of the design and build contract, market tested prices have been received for the majority of the works to be completed but final prices will not be available until near the contract signing and final agreement on risk sharing.

8. The delivery of the two projects will be covered in one contract however separate costings will need to be in place to satisfy funders requirements and set out below are the detailed information for both projects.

Civic Theatre

Project Costs	£m's
*Property Purchase	0.432
*Development Costs	0.498
*Restoration/Refurbishment costs	10.341
* Activity Plan	0.481
*Closure Costs and Staffing Structure during closed period	0.983
	12.735

Funded by

* HLF Grant	4.995
Sponsorship	1.600
* Levy	6.130
Creative Darlington	0.010
	12.735

9. The Council's funding includes prudential borrowing which is backed via a compulsory levy on ticket sales. Ticket prices are determined by the touring production companies but the Council can add an administration charge and/or a refurbishment/building levy. Since the refurbishment was agreed, a levy of £1 per ticket has been implemented so funding is already accruing. The original business case assumed the levy would raise in steps of 0.25p every five years after opening to a maximum of £2 however it is felt more appropriate to implement the increase in one step to enable the project to fully funded; the level will be £2 per ticket on all shows with the exception of dedicated children's shows (except the pantomime). Such a charge compares very favourably with Theatres elsewhere and represents an average 10% increase in ticket prices. In addition to the levy, increased sales are anticipated due to an increased programme and sales for shows, currently overall average sales are 54% of capacity.
10. The project is to be repaid over 30 years which represents the minimum life of the refurbished Theatre and planned finances for the new Theatre include adequate maintenance funds to ensure the 30 year life is easily delivered with funds to refurbish key aspects of the Theatre during its lifecycle.
11. Finally the business plan for the refurbished Theatre after allowing for the repayment of the prudential borrowing is to achieve breakeven by 2019/20.

	£m's
The Hullaballoon	
• Property Purchase	0.427
• Building Works	2.294
• Other Costs	0.113
	<u>2.834</u>
Funding	
• Arts Council England Grant	1.500
• Council Contribution	0.800
• Fundraising	0.534
	<u>2.834</u>

12. The risk element of the above project funding is the ability of Theatre Hullabaloo to raise sponsorship of £534,704. To date they have secured £140,000 and are confident of another £160,000 being secured prior to the contract being signed. This leaves £234,704 at risk. Agreement has been reached with Theatre Hullabaloo subject to Council that the Council will underwrite the fundraising at no cost for five years and should the funds not be raised by this date, then Theatre Hullabaloo will repay the outstanding sum over 20 years on an interest free basis. However a payment programme will be agreed that did not destabilise Theatre Hullabaloo's financial resilience. The likelihood of this full risk arising are seen as low as due to the current track record of fundraising.

VAT Implication

13. The Council currently apply the VAT Cultural Exemption, that is allowed for public bodies, to income from Civic Theatre performances. This means that income from shows at the Theatre are received by the Council without the deduction of VAT. However, this has an impact on the Council's partial exemption calculation. As a partially exempt organisation, for VAT purposes, the amount of VAT reclaimed by the council that relates to exempt services must be below 5% of the total VAT reclaimed. By taking the cultural exemption this pushes up the Council's partial exemption % figure. In normal circumstances the % figure is within the tolerances allowed but increased capital expenditure such as the Theatre can increase the % in certain years. There is a risk that all VAT relating to exempt services may not be able to be reclaimed from Her Majesty's Revenue and Customs (HMRC) if the 5% threshold is breached on a more than occasional basis.
14. Advisors have been appointed to review the Council's partial exemption calculation in the light of this increased expenditure to ensure that the calculation is as low as it can be and assist with the reporting to HMRC should a more than occasional breach occur

Risks for the Project

15. Set out below are the key project risks and mitigations:

Risk	Mitigation and Level of Risk
1. Tender price in excess of budget	Low risk due to market testing of prices
2. Contract Length longer than planned meaning later opening than planned	Low risk due to early involvement of Contactors
3. Sponsorship target not achieved for Civic Theatre	Medium risk. The Council has underwritten the risk
4. Ticket sales for Civic are insufficient to pay for prudential borrowing	Low/Medium. The financial position on borrowing will be constantly reviewed and business models adopted to meet targets. The new Theatre is projected to attract greater audiences.
5. Ticket sales and secondary spend at Civic Theatre insufficient to meet a financial break even point	Low/Medium – as 4 above
6. HLF and/or Arts Council bids are unsuccessful and project cannot be funded	Low – Funders have shown significant support for the projects
7. The Hullaballoon does not operate within agreed financial targets	Low. Although this is a new Theatre a lot of work has been undertaken on business planning to ensure financial sustainability
8. Breaching VAT partial exemption	Low/Medium. Specialist advisors will assist the Council in minimising this risk

Consultation

16. Initial consultation was carried out prior to the Stage 1 Application being submitted, which identified a number of key concerns for users of the theatre:

- (a) Audience comfort in the auditorium
- (b) Size of the foyers and circulation space
- (c) Visual appearance of the interior and exterior of the building

17. As part of the development phase, further research and consultation has taken place to help inform the project. This has included:

- (a) Survey at Darlington Arts Festival 2015
- (b) Survey at Open Heritage Weekend 2015
- (c) Survey at Festival of Thrift 2015

- (d) Large-scale online survey – over 1,000 responses of current theatre users, heritage groups and other stakeholders to test out the interpretation themes for the permanent exhibitions, public preferences for interpretative media and interest in the public heritage programme being proposed, including opportunities for volunteering
- (e) Competitor comparative study
- (f) Market analysis and research to identify future potential audiences for both theatre programme and the heritage audience

18. This research and consultation has helped refine and inform the final project design and heritage and learning offer.