

Finance and Resources Committee

3pm, Tuesday 4 December 2018

King's Theatre Capital Project Update Report – referral from the Culture and Communities Committee

Item number	8.8
Report number	
Wards	All
Council Commitments	

Executive summary

On 13 November 2018 the Culture and Communities Committee considered a report by the Executive Director of Place that provided a first update on the King's Theatre Capital Redevelopment Project.

The report has been referred to the Finance and Resources Committee for information.

Terms of Referral

King's Theatre Capital Project Update Report – referral from the Culture and Communities Committee

Terms of referral

- 1.1 On 13 November 2018 the Culture and Communities Committee considered a report by the Executive Director of Place that provided a first update on the King's Theatre Capital Redevelopment Project.
- 1.2 The Committee agreed:
 - 1.2.1 To note the update.
 - 1.2.2 To instruct the Executive Director of Place to prepare annual update reports.
 - 1.2.3 To note that any interim updates would be included in the Business Bulletin.
 - 1.2.4 To refer this report to the Finance and Resources Committee as agreed at the Finance and Resources Committee meeting on 12 June 2018.

For Decision/Action

- 2.1 The Finance and Resources Committee is requested to consider the report.

Background reading / external references

[Culture and Communities Committee – 13 November 2018](#)

Laurence Rockey

Head of Strategy and Communications

Contact: Jamie Macrae, Committee Officer
Sarah Stirling, Assistant Committee Officer

E-mail: jamie.macrae@edinburgh.gov.uk | Tel: 0131 553 8242
sarah.stirling@edinburgh.gov.uk | Tel : 0131 529 3009

Links

Appendices

Appendix 1 – Report by the Executive Director of Place

Culture and Communities Committee

10.00am, Tuesday, 13 November 2018

King's Theatre Capital Redevelopment Update Report

Item number	8.2
Report number	
Executive/routine	Executive
Wards	All
Council Commitments	C46

Executive Summary

This report provides a first update on the King's Theatre Capital Redevelopment Project.

The Council has agreed to Theatre upgrade capital funding of £4m towards the refurbishment project, and up to £5m in Prudential borrowing.

It is recommended that Committee receive update reports twice per annum. Additional reports will be presented should core project parameters change substantially.

The report will be referred to the Finance and Resources Committee as agreed at the Finance and Resources Committee meeting on [12 June 2018](#).

King's Theatre Capital Redevelopment Update Report

1. Recommendations

- 1.1 It is recommended the Committee:
 - 1.1.1 notes the update;
 - 1.1.2 instructs the Executive Director of Place to prepare two update reports per annum; and
 - 1.1.3 refers the report to the Finance and Resources Committee as agreed at the Finance and Resources Committee meeting on [12 June 2018](#).

2. Background

- 2.1 Capital Theatres (CT) are currently engaged in progressing a capital re-development project of the King's Theatre. The original projected budget was £25m.
- 2.2 The Council has agreed £4m capital funding towards the redevelopment project and has also agreed up to £5m in Prudential Borrowing. Excerpts of the Council's decision to allocate this funding are listed in Appendix 1.
- 2.3 Prudential borrowing of up to £5m will be released if sufficient funds are raised to meet the overall costs of the project. Project cash flow projections will include milestones for borrowing, and expect to be required only after the balance of funding is realised or confirmed.
- 2.4 The project plans transform the historic venue, and programme a range of previously unavailable community and educational activities to ensure access to the widest possible audience and to guarantee the future social and cultural presence and heritage of the building. The delivery of the project would also provide improved income opportunities for re-investment into the theatre programme of activities.

3. Main report

- 3.1 A major capital funding application to the Heritage Lottery Fund (HLF) of £4.9m was unsuccessful. Capital Theatres were informed of this outcome at the end of September 2018. HLF are reviewing their funding framework for launch in early 2019, and at that time Capital Theatres will decide whether or not the renewed funding guidelines are appropriate and if they will re-apply, and for a revised level of funding.
- 3.2 Following the HLF decision, CT's Finance and Risk Committee looked in detail at the cashflow and risk analysis prepared on the basis of a minimum project budget of £20m rather than the previous £25m projected budget and have established a project cashflow which indicates that it is financially deliverable.
- 3.3 At the end of September 2018, CT had close to £2.6m of accrued revenue in their Theatre Development Fund (TDF) which would be more than sufficient to fund the projected spend in the Development Phase of the project to 2020. The balance of the £5m CT budget contribution (£2.4m) will be accumulated and funding cash flow requirements throughout the project period. The TDF was established a number of years ago specifically to resource the maintenance and development of the venues for which Capital Theatres are responsible. It is collected by a levy on each ticket sold.
- 3.4 To date, CT report that they have £14m in place towards the refurbishment project costs made up of their own £5m TDF funds, the Council's £4m capital commitment and the agreed Prudential Borrowing of £5m.
- 3.5 CT expect to meet the costs of the next stages of capital project development to 2020 final design stage from the TDF reserves. Therefore, they do not intend to request drawdown of Council funding until after that point in the project delivery schedule.
- 3.6 The Board have confirmed their confidence that at least £6m can be raised from trusts and foundations, individual donors and statutory bodies based on their extensive personal and professional experience.
- 3.7 CT are in discussion with Scottish Government regarding funding for the project, and with a major Trust with whom they have lodged a £1m application.
- 3.8 A rigorous procurement process has selected an experienced design team, in particular new architects, and CT will invest time in re-calibrating and reviewing design development ideas and establishing a more detailed cost plan.
- 3.9 Bennet's Associates are the new architects and will present initial renewed proposals and visuals in early November. They have worked on the Old Vic, Royal Shakespeare Theatre and The Citizens Theatre amongst others.

- 3.10 The four core strands to be delivered by the project:
- 3.10.1.1 **Welcome** to the King's - the street offer through to daytime activity and animating the building;
 - 3.10.1.2 **Showtime** at the King's - the audience journey from street to seat;
 - 3.10.1.3 **Performing** at the King's - get-in through to dressing rooms; and
 - 3.10.1.4 **Revealing** the King's - spaces which members of the public may not have previously been aware of and heritage through to the rooftop pavilion.
- 3.11 The core strands of the project will be retained as part of the re-calibration of the project budget following the HLF decision.
- 3.12 CT have experienced Project and Campaign Boards in place to advise their Finance and Risk Committee and their Board of Trustees. The Project Board's firm view is that the majority of the project outputs can be achieved (with the exception of some of the heritage elements – further work will be undertaken to examine this in detail) and the Campaign Board's firm view is that the fundraising plan is robust and achievable.
- 3.13 There is a comprehensive risk register including likelihood assessments and mitigations for the project. Contractual arrangements are in place to ensure any on-going exposure is minimised if required. Project governance is in place with Project Board reporting to their Finance and Risk Committee and main Board regularly. Monthly cost and highlight reports will be generated and circulated. The risk register will of course be regularly updated following design team meetings and reported to Board with any recommendations for action or change.
- 3.14 End stage reports will be in place requiring sign-off before progressing the project or making further commitments:
- 3.14.1 Stage 1 – December 2018;
 - 3.14.2 Stage 2 – April 2019; and
 - 3.14.3 Stage 3 – February 2020.
- 3.15 CT's Finance and Risk Committee have therefore recommended to the Board that the further development of the project should proceed. The Board have agreed the instruction to proceed with the design of the project on the basis of a minimum cost of £20m. Final project costings will be following final design completion in 2020.
- 3.16 Officers are therefore satisfied that the Trust has undertaken sufficient due diligence in assessing both risk and project deliverability and that the core elements, as outlined at 3.9, of the redevelopment are achievable.

- 3.17 The redevelopment would still have the same previously reported major economic impact. The capital project would inject £24m one-off economic impact into the Scottish economy and £11m into Edinburgh's economy, and after project completion, the King's Theatre would create £15.7m economic impact per year into the Edinburgh and a further £10m into the wider Scottish economy.

4. Measures of success

- 4.1 The King's Theatre is redeveloped in accordance with renewed plans.
- 4.2 CT contributes effectively to the delivery of the Council's Business Plan.
- 4.3 The Services and Funding Agreement ensures performance reporting requirements are monitored and met.
- 4.4 Fundraising targets and milestones are met.
- 4.5 Success is also measured against the following objectives within the Culture Plan:
- 4.5.1 ensure that everyone has access to world class cultural provision;
 - 4.5.2 encourage the highest standards of creativity and excellence in all aspects of cultural activity;
 - 4.5.3 support greater partnership working in the cultural and creative sectors and maximise resources available to help them thrive all year round; and
 - 4.5.4 articulate the positive impact of culture in Edinburgh and promote Edinburgh's cultural success locally, nationally and internationally.

5. Financial impact

- 5.1 The Council has agreed Prudential Borrowing of up to £5m towards the project and a Capital grant of £4m. The maximum overall loan charges associated with this borrowing over a 20-year period would be a principal amount of £9m, interest of £5.7m, resulting in a total cost of £14.7m based on the current loans charge rate for a 20-year loan of 5%. The loan charges will be interest only in the first year, at a cost of £0.2m, followed by an annual cost of £0.7m for 20 years.
- 5.2 As previously reported to Council the prudential borrowing will be met by CT from the annual income received by the Theatres Development Fund.

6. Risk, policy, compliance and governance impact

- 6.1 Release of any approved contribution is dependent on sufficient funds being raised to meet the remaining costs of the redevelopment programme.
- 6.2 The nature of this capital project means that there is an inherent risk of delays of unforeseen circumstances out with the control of CT.

- 6.3 There is a risk that CT will be unable to meet the annual repayment associated with borrowing from the Theatre Development Fund. This is mitigated by:
- 6.3.1 the current level of income exceeding the repayment by £0.2m; and
 - 6.3.2 there is the potential to increase the levy if required.

7. Equalities impact

- 7.1 CT actively promotes access to services for different equalities groups; provides data on the level of use of services by equalities groups; provides evidence of quality analysis relating to equality groups.

8. Sustainability impact

- 8.1 While there is no direct additional impact of the report's contents, the planned project includes expenditure impacting upon carbon through the redevelopment of the King's Theatre.

9. Consultation and engagement

- 9.1 None.

10. Background reading/external references

- 10.1 None.

Paul Lawrence

Executive Director of Place

Contact: Lindsay Robertson, Culture Service Manager (Arts, Events and Festivals)

E-mail: lindsay.robertson@edinburgh.gov.uk | Tel: 0131 529 6719

11. Appendices

- Appendix 1 Excerpts Summary of Council Agreement to support the King's Theatre refurbishment project

**EXCERPTS SUMMARY OF COUNCIL AGREEMENT TO SUPPORT
THE KING'S THEATRE REFURBISHMENT PROJECT**

FULL COUNCIL MEETING 22 FEB 2018 – MINUTE

Edinburgh is a world cultural capital, which the Council has supported in many ways including investment in our cultural venues. The Coalition will continue that support through the creation of a fund for theatre upgrades with £4M for the King's Theatre and £1M for Leith Theatre over the five-year CIP, with the aim of leveraging supplementary contributions from other partners.

CULTURE AND SPORT COMMITTEE MEETING MINUTE 20 MARCH 2017

Details were provided on an overview of the then Festival City Theatres Trust's (FCTT) current capital project plans to develop the King's Theatre. An initial options appraisal commissioned by the Trust had costed the project at £25M.

Decision

- 1) To agree, in principle, to the extension of the King's Theatre lease to the Festival City Theatres Trust (FCTT) for a further 25 years from 2023.
- 2) To agree that a contribution of £5M towards the development project be considered as part of the next review of Council's Capital Investment Programme 2018-23 and that any capital contribution be subject to the achievement of the full project budget of £25M, presentation of a robust business case together with consideration of the Council's future budgetary position and priorities.
- 3) To refer the project to the Finance and Resources Committee for inclusion in the Council's Capital Investment Programme prioritisation process and to include any lease extension agreement process and principles.

FINANCE AND RESOURCES COMMITTEE MEETING MINUTE 27 MARCH 2017

Decision

- To approve the inclusion of the King's Theatre Capital Development Project in the Council's Capital Investment Programme prioritisation process and the inclusion of any lease extension agreement process and principles.

FULL COUNCIL MEETING JUNE 2018 – MINUTE

Kings Theatre – Request for Additional Capital Funding By Capital Theatres

Details were provided of a request for up to £5m additional capital funding, supported prudentially by Capital Theatres, towards redevelopment of the King's Theatre, subject to funding being raised to meet the remaining costs.

Decision

- 1) To approve the additional funding for the Kings Theatre from Capital Theatres.
- 2) To refer the decision to Council for ratification for the prudentially supported funding, noting that this would only be released to Capital Theatres if sufficient funds were raised to meet the overall costs of the project.
- 3) To agree that regular update reports would be brought to the Finance and Resources Committee.