

This report may be of interest to: All Councillors

THEATRE - FINANCIAL UPDATE

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1. Purpose

- 1.1 To update the Committee on the possible cost to the Council of the Theatre and Gallery development and efforts to minimise such costs.

2. Summary

- 2.1 The Theatre and Gallery are artistically successful and have received resounding support and acclaim from the community. The cost of the buildings have yet to be finalised. When they are, the Council, will be liable for the unfunded costs, which it will seek to minimise by negotiation and seeking new partner funding.

3. Recommendations

- 3.1 That a further report be made available in April 2000.

4. **Background**

- 4.1 The finalisation of the cost of the Theatre and Gallery buildings is currently underway. The work was split into 20 packages, each one of which is being verified by the projects quantity surveyor. The results are still outstanding [as at March 13]. When the Project Director receives them, he will then be able to advise the Council as to the next steps it can take, as well as the quantum of the unfunded cost.
- 4.2 In the meantime, regular meetings are taking place between the Council, English Partnerships (EP), the Project Director, the Theatre and Gallery Company and other interested parties.

5. **Issues and Choices**

- 5.1 The Project Director believes that the project will overspend by £4.3m, with an estimated outturn of £31.477m, which includes a claim for delays and disputed items of £1.45m (see **Annex A** for details). Officers from English Partnerships and the Council are meeting with the Project Director on 29 March 2000 to better record the 'financial trail' of the project. [With the Project Director's contract expiring at the end of April 2000, it is important to transfer his knowledge to accessible systems.] The 'financial trail' will help establish:
- (a) the true level of overspend;
 - (b) to what the overspend can be attributed; and
 - (c) who is then accountable for the attributed overspend.
- 5.2 This will then enable Members to come to a decision as to whether contractors should be held liable for overspends that can be attributed to them. This would also include EP, if it can be established that additional costs arose from contract management problems.
- 5.3 If liability can be established, the final bill may be reduced. It is estimated that, prior to any reductions, the unfunded element will stand at £3.829m, assuming the loan is repaid to EP. The funding options, apart from the Council, include other organisations, such as English Partnerships, the Arts Council of England, external sponsors and DETR. Each of these are considered below:
- (a) English Partnerships - EP have contributed £5.168m together with a £1m loan that they are seeking to have repaid before 31 March 2000. It might also be the case that EP's predecessor, the CNT, paid for costs prior to novation that, up to now, have not been scored against the project. EP are also liable for a £0.524m endowment for the Theatre; Council officers are exploring whether this amount has ever been paid. If it can be established that additional costs arose from contract management failures, EP have said they will meet their obligations.

The current stance of EP is that they have honoured their liabilities and no further payment is planned.

- (b) The Arts Council of England - the original award of £19.671m was supplemented by an additional award of £0.5m. Only £81k of these sums remains to be paid. An application for a further lottery grant is in the process of being submitted, for a decision in the summer 2000. Officers are of the view that it would stand a little chance of success if EP and the Council were did not each make a further payment. Additionally, continuing input to the process from the Project Director would enhance the chance of success.
- (c) External sponsors and interest - compared to the plan to raise £2.5m, the Project Director thinks that a sum of around £2.06m will be achieved. Officers will pursue new arrivals to Milton Keynes, but the shortfall of nearly £0.5m is expected to be remain. Interest of £0.38m has been earned on the balances, which reduces the deficit.
- (d) The Council and DETR - up until fairly recently, the Council had not paid anything. The current position is that expenditure has exceeded income [which includes the £1m loan], and the Council is temporarily funding the excess, estimated to be £1.627m at March 31 2000. Of this, £1.5m has been funded from capital resources that need to be repaid during the financial year 2001-02. [The £1.627m at 31 March 2000 becomes £2.627m if the loan is repaid.]

In the longer term, the Council has the options to fund the amount not covered by others, which could amount to £3.829m, from two sources:

- (i) Capital receipts - a programme to generate capital receipts is in hand. At the most, it is planned to generate £2.44m in 2000-01; and
- (ii) Supplementary Credit Approval - the details surrounding an application are set out at **Annex B**. The main point to note is that they are rarely granted;

5.4 Exploration of issues, liability and management arrangements on the car park is progressing, and these will be discussed with Theatre management and Theatre and Gallery Company.

6. Implications

6.1 Environmental

None.

6.2 Equalities

None.

6.3 Financial

The objective is to minimise the capital and revenue impact on the Council. However, whatever amount is required from the Council to fund the Theatre is less resources for the Council's other key policy objectives, such as the school building programme.

6.4 Legal

The Council is contractually bound to meet the shortfall in funding arising from the construction of the Theatre and Art Gallery. The Council may be able to reduce the shortfall by taking legal action against the other parties to the development agreement. It is too early to form a definite view about the potential liability of the other parties but this should become clearer once the Project Manager has completed his report to the Council.

6.5 Staff and Accommodation

None.

7. **Conclusions**

7.1 Progress is being made. More definite information will be reported to the meeting of the Policy and Resources Committee on 29 March 2000.