

# East Herts Council Report

## Council

<b>Date of meeting:</b>	1 March 2022
<b>Report by:</b>	Councillor Geoffrey Williamson – Executive Member for Financial Sustainability
<b>Report title:</b>	Hertford Theatre Capital Project – Update on capital scheme budget and financing
<b>Ward(s) affected:</b>	Hertford Wards

## Summary

This paper sets out changes to the capital scheme budgets for the Hertford Theatre Growth and Legacy project, to reflect price inflation for construction and materials since the original estimate set in 2019. There have been significant inflationary pressures from the combined impact of Covid and Brexit and the resulting supply chain disruption across the globe. The additional funding is requested from a combination of capital contingency funds and funding from Earmarked Reserves and the request is supported by a robust business case. The business case demonstrates the long term financial sustainability of the new offer, which negates the need for the existing subsidy requirement, which is already factored into the Medium Term Financial Plan (MTFP), and delivers an improved income to the Council in excess of £525,000 from year one (increasing thereafter). This will provide the agreed contribution to the MTFP as well as the ability to repay the funds from Earmarked Reserves, subject to the approval of Council.

As revising the Capital Programme affects the revenue budget, the Prudential Indicators and some of the supporting tables and graphs within the Capital Strategy, the budget papers for Council will include in the main report pack a budget based on the recommendations in this report being approved. A supplementary agenda pack will contain the Budget and MTFP, Council Tax Setting Resolution, Capital Strategy and Treasury and Investment Strategy should Council not approve the recommendations in this report.

## **RECOMMENDATIONS FOR COUNCIL**

- a) To approve the increase in the Hertford Theatre capital scheme budget by £4 million for the delivery of the Hertford Theatre Growth and Legacy Project, of which £3 million will be funded Earmarked Reserves, and up to £1million in additional borrowing from the capital programme contingency.
- b) To approve that any surplus receipts over and above those originally forecast and built in to the Medium Term Financial Plan be used to repay the funding from Earmarked Reserves and to contribute to future savings requirements within the Medium Term Financial Plan, those amounts to be determined by the prevailing need to make savings and the priorities of Council at the time.

### **1.0 Reason(s)**

- 1.1 The original capital scheme budget was set in 2019. Since that time the UK has experienced both Brexit and the COVID-19 pandemic which has caused supply chain disruption and significant price increases.
- 1.2 This report requests an increase in the overall capital scheme budget that reflects this price inflation and also increases the

scheme contingency budget to reflect the use of Tier 3 contractors whose tenders are currently being evaluated.

## **2.0 Reason(s)**

2.1 The project budget has been impacted significantly by the combined inflationary pressures that have occurred as a result of Brexit and COVID. The industry has experienced significant increases in packages such as the price of materials Cross Laminated Timber (CLT) and Steel have increased by 40%, Mechanical & Electrical (M&E) packages including labour cost have increased by 15-20%. Overall this adds a minimum of 15% to the total contract price as a result of Covid / Brexit related inflationary pressure. This is in line with the Office for National Statistics Construction Output Prices Index. In addition, there is the added cost of having to build in additional contingency (taking the project contingency from 5% to 7.5%) to reflect rising inflation, general market instability and the project risk profile.

## **3.0 Options**

3.1 The following alternative options have been considered by the team.

**3.2 NOT RECOMMENDED – Not approve funding/Reinstatement –** of the previous offer with some cosmetic enhancements to existing areas

3.3 This option will require a lead in time of approx. 6 months to procure key packages of work to reinstate the building. Following procurement it is anticipated that a minimum of a further 6 months may be required to complete the works.

Subject to a worked up programme this could mean that the theatre will re-open in spring 2023 for the “old” offer.

3.4 This is expected to cost in the region of £5.5m (as a minimum) and will require an ongoing subsidy in the region of c. £300,000 on the assumption that numbers return to pre-Covid levels for the “old” offer. In addition, there will be approximately £2m abortive costs. This option will not deliver any of the business case principles or expected contributions to the MTFP. It will add an addition pressure to the MTFP of £450,000. All costs are indicative and would require full feasibility being carried out.

**3.5 NOT RECOMMENDED – Not Approve Funding /Reinstatement of the previous auditorium and studio space alongside a new 150 seat (or two 75 seat) cinema screen(s) and an enhanced food and beverage offer, community space either within the building or through partnership working and an expanded outreach programme delivered through the community well-being team.**

3.6 Reducing the scope significantly to focus on the addition of first release film and improvements to the food and beverage offer only would likely only achieve a cost neutral standing (or subsidy requirement) due to the significant costs associated with reinstatement, redesign, planning and delivery, this would negatively impact the MTFP contribution by £110k.

3.7 This option has not been costed or modelled at this stage and would come with a significant planning risk. It would require going back to RIBA stage 0, for a minimum of 12 months to agree feasibility and concept design and a further 6-9 months for procurement, award and commence enabling works. Should the build programme take 12-18months the Hertford Theatre could re-open in Spring/Summer 2025. This will result in the Hertford Theatre being closed for almost 5yrs before it re opens

and would require significant efforts to recover the customer base and grow the visitor numbers.

- 3.8 Given spend to date, abortive costs and reinstatement costs, it is difficult to see a viable alternative that will provide financial sustainability for the Theatre and an ongoing income stream for the Council, which the current scheme is forecast from the business plan to deliver.

#### **4.0 Risks**

- 4.1 The key risk for consideration is the financial impact on wider capital projects and the Council's Medium Term Financial Plan (MTFP).
- 4.2 The Council's borrowing currently planned is at the higher level of what is affordable for the Council. The key risk is the Old River Lane project which must be delivered – if the project fails the Council will have to de-capitalise the entire scheme expenditure. This will substantially reduce earmarked and general reserves to the absolute minimum level recommended by the section 151 officer.
- 4.3 The current expenditure on North Gate End and Old River Lane is currently showing a potential 20% contingency in the budget but updated cost estimates are yet to be received and we are not in control of the tender process – it is the developer who will tender the works and present the Council with a tendered cost estimate.
- 4.4 In order to minimise risk to the delivery of Old River Lane and the affordability of the overall capital programme Executive approved the following enhancements to control:

- 4.4.1 Value engineering must be undertaken on the Hertford Theatre project that seeks to reduce cost for the project overall.
- 4.4.2 The increased budget for Hertford Theatre is absolutely fixed and the project team will have no further opportunity to increase the budget.
- 4.4.3 The Hartham Leisure Centre project team be instructed to deliver that project within the budget plus no more than 75% of the contingency sum to reduce the cost of the capital programme overall.
- 4.4.4 The contingency sum at Old River Lane of 20% of the overall budget be restricted and require the explicit authorisation of the Project Board if use of the contingency exceeds 25% of the total amount with regular monitoring against that contingency reported at every project board.
- 4.4.5 A Hertford Theatre annual report will be provided to the leadership to monitor progress of business plan after the first year of opening and every year after. The report will also be added to the Audit and Governance Committee work programme.

## **5.0 Implications/Consultations**

- 5.1 External cost consultants have been engaged throughout the project life cycle including the pre tender process.
- 5.2 Multiple consultations have been carried out as a part of the design and planning process for the Hertford Theatre Growth and Legacy project.

## **Community Safety**

No

## **Data Protection**

No

## **Equalities**

Yes – An Equalities Impact Assessment has been carried out as part of the project delivery. Improving accessibility and becoming DDA compliant are key drivers in the design and delivery of the new offer. The financial envelope for approval will deliver improvements.

## **Environmental Sustainability**

Yes – sustainability is at the heart of the design and delivery of the Hertford Theatre Growth and Legacy project.

## **Financial**

Information on Procurement, the business plan and financial implications are contained in **EXEMPT** Appendix A

The requested additional funding can be financed as follows:

Allocation of Capital Project Contingency:	£1,000,000
Revenue Financing from Earmarked Reserves:	£3,000,000
<b>Total</b>	<b>£4,000,000</b>

## **Health and Safety**

No

## **Human Resources**

No

## **Human Rights**

No

## **Legal**

No

## Specific Wards

Yes – All Hertford Wards

### **6.0 Background papers, appendices and other relevant material**

Appendix A – **EXEMPT** Appendix containing Procurement, Business Plan and financial information

(Information is **EXEMPT** from publication by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)

Appendix B– **EXEMPT** Appendix containing Hertford Theatre

Business Plan Income Assumption Analysis by Business Plan Year

(Information is **EXEMPT** from publication by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)

### **Contact Member**

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