

WIRRAL COUNCIL**ENVIRONMENT OVERVIEW & SCRUTINY COMMITTEE****12 MARCH 2020**

REPORT TITLE	FUTURE PROVISION OF FLORAL PAVILION THEATRE AND CONFERENCE CENTRE - UPDATE
REPORT OF	ASSISTANT DIRECTOR – COMMUNITY SERVICES

REPORT SUMMARY

The purpose of this report is to provide an update to the Environment Overview and Scrutiny Committee on the proposed transfer of the Floral Pavilion Theatre and Conference Centre to an alternative specialist theatre provider on a long lease, while the Council retains the freehold ownership. This was a part of the 2019/20 Budget options.

This report outlines the process undertaken to offer the long lease transfer of the Floral Pavilion, the response received and makes recommendations as to the future operation of the Theatre and Conference Centre.

RECOMMENDATION/S

It is recommended that:

- The offer received following the bid process detailed in this report does not fulfil the aspirations of the Council, does not match the bid process and should not be accepted.
- The Floral Pavilion be retained 'in house' and opportunities for additional income and cost savings be explored in order to reduce the Council subsidy.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 The Floral Pavilion in 2018/19 received a budget subsidy of £899,300 per year, but reported an overspend, which including the subsidy was, £1,137,000. As a mid-scale (800 seat) receiving theatre the Floral Pavilion is limited as to the performances it may attract, the percentage of ticket sales it may retain and the income it may generate. While the Council can and will continue to develop new commercial opportunities within the facility – extended bar opening and maximising secondary spend, reviewing programming, developing marketing campaigns to attract new conference and wedding business among others; it is not thought the Council can get the subsidy to '£0' within the medium term using the current business model.
- 1.2 A number of options for the future delivery of the Floral Pavilion were considered. The option of seeking an alternative specialist theatre provider to operate the Theatre and Conference Centre on a long lease, while the Council retains the freehold ownership, was progressed as a Budget option for 2019/20. The intention was that the Council seek to achieve a nil subsidy, once the long lease transfer was complete, and a payment for the building (rental / lease arrangement). The savings from the transfer of the Floral Pavilion at a nil subsidy were expected to be £550,000 per annum (net expenditure less fixed support costs and capital charges). This Budget Option was agreed by Council on 4th March 2019.
- 1.3 The services of Lambert Smith Hampton, an experienced property real estate consultancy, were acquired in March 2019 to undertake the marketing of the Floral Pavilion via a long lease. Marketing particulars were developed and agreed in conjunction with Lambert Smith Hampton in preparation for advertisement.
- 1.4 A series of consultation activities were undertaken between June and September 2019 with stakeholders. This included briefing sessions and questionnaires with staff, trade unions, members, volunteers and ambassadors, customers, partners and suppliers. This was used to develop the essential criteria that any future operator would need to ensure the Floral Pavilion remains an important community asset.
- 1.5 The marketing of the venue commenced on 1st June 2019 with an initial deadline for completed submissions from interested parties of 15th July 2019, although this was extended to 31st July 2019. One submission was received from a large national theatre provider by the deadline. This provided a conditional offer setting out in broad terms a nil subsidy and either a gain-share model or a commercial rent, but with no specific financial details. The conditions of this offer were that further information be passed to the theatre provider around existing contracts, financial information and further information of the condition of the building, prior to confirmation of the final details (provided as exempt Appendix 1 to this report).
- 1.6 The conditional offer was considered by Lambert Smith Hampton and Council officers in August / September 2019. It was agreed, at that time, that the submission from the theatre provider met the standards required for further consideration but did not detail any specific financial offer. It was also noted that the theatre provider had requested further information.

- 1.7 Council officers, having completed a number of consultations, also wished to receive additional information from the provider on specific aspects of any future operation. It was agreed by both parties that further clarification on the submission was required. The Council requested responses to additional questions in September 2019 with a response received from them in October 2019 (provided as exempt Appendix 2 to this report).
- 1.8 A visit to the Floral Pavilion was arranged for the theatre provider on the 25th October 2019 and queries raised by the theatre provider were responded to following the visit by the 29th November 2019. It was then agreed that the theatre provider submit an updated proposal by no later than 16th December 2019; however, a number of extensions to this deadline were requested by the theatre provider and the updated submission was received by the Council on the 24th January 2020 (provided as exempt Appendix 3 to this report).
- 1.9 The revised offer from the theatre provider was considered by Council officers on 29th January 2020. It was noted that the revised submission did not meet the financial expectations of the Council as it included a management fee, payable by the Council over the next 15 years. The current budgeted subsidy is £550,000 (current net expenditure less fixed support costs and capital charges). Under the management fee proposal put forward by the alternative provider this subsidy would only be reduced from year 3 and would not achieve a zero subsidy position during the life of the 15 year lease proposed by the theatre provider (provided as exempt Appendix 4 to this report). It was also noted that the Council would retain responsibility for the larger expenditure items under the repair and maintenance arrangements proposed by the theatre provider and this was not the basis on which offers had been sought.
- 1.10 The revised financial offer received following the bid process detailed in this report does not fulfil the aspirations of the Council and does not match the bid process. It should therefore not be accepted. The Floral Pavilion should be retained 'In house' and seek to reduce the requirement of a Council subsidy through a mixture of income generation and by reviewing its expenditure.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 The recommended option is to retain the Floral Pavilion 'in house' and seek to reduce the Council subsidy through increased income and reduce controllable expenditure. While this will not achieve a 'Nil' subsidy, there may be opportunities to reduce the Council subsidy in future years. There are two other options. These are to re-advertise the Long Lease opportunity or to advertise for an operator to run the Theatre under a concession contract under a full procurement route.
- 2.2 The option of re-advertising the opportunity for a long lease is not recommended, at this time. The number of experienced theatre operators in the United Kingdom is limited. The Council advertised for an 8-week period, between 1st June and 31st July 2019. This generated interest from several organisations. The interest shown from this marketing indicates that the 'market' was aware of the opportunity. However, by the submission deadline, 31st July 2019, only one bid submission was received. This was from one of the larger theatre groups. Re-advertising after less than a year has passed since the previous marketing exercise is unlikely to produce a significantly different result.

- 2.3 Commercial management via a Contract - The most common models for commercial operation of local authority owned theatres involve an agreement of 10 years or longer for a management company to run a theatre on behalf of the Council. Since every theatre operation, and the service expected of an operating management, is unique, there are no standard contractual and financial arrangements. These can only be determined through a process of market testing and negotiation. Having tested the market, for a Long Lease, the previously reported potential subsidy requirement of £750,000 per year once agreement is reached appears ambitious. While a contract approach may give assurance as to the likely subsidy requirement year on year, once set the contract amount is unlikely to reduce significantly and subsidy arrangements with third parties can prove less controllable than a subsidy managed 'in house'.
- 2.4 The option of closing the Floral Pavilion is not recommended. Residents, theatre users and Elected Members have been clear that they value the theatre and wish it to be retained.

3.0 BACKGROUND INFORMATION

- 3.1 In the UK, there are broadly two types of theatre:
- those that create their own productions (producing theatres) and
 - those that stage productions and performances created and toured by others (receiving theatres).
- In practice, some theatres combine these two approaches and most theatres also include a range of other activities, some generating additional income (e.g. ancillary trading activities, conferences and events) and some offering additional community engagement opportunities (e.g. education programmes, participatory activities).
- 3.2 For several decades there has been a shortage of drama and lyric (opera, musicals, dance) productions of quality, particularly for mid-scale theatres (under 1,000 seats). Costs have soared, regulations have proliferated, and subsidy has been cut. Receiving theatres have become mixed programme venues, relying increasingly on one-night stands of a wide range of music and entertainment, rather than longer runs of a single title.
- 3.3 The Floral Pavilion comprises an 800+ seat theatre, a foyer plaza, bar, and four areas for general hire. Reopening in December 2008 after a complete rebuild as part of the £60m Neptune Project, it replaced earlier buildings on the same site dating back to 1913.
- 3.4 The Floral Pavilion is essentially a mid-scale receiving theatre, reliant on work created elsewhere and offered through a range of commercial and subsidised production companies. This nationally toured work is complemented by locally generated amateur and community performances. The Floral Pavilion's facilities also offer opportunities for ancillary income generation (i.e. trading income additional to sale of tickets for performances) and community participation activities.
- 3.5 Since opening in December 2008 the Floral Pavilion has received a subsidy from the Council in order to cover its operating costs. The Floral Pavilion in 2018/19 received a budget subsidy of £899,300 per year, but reported an overspend, which including the subsidy was, £1,137,000. The budget subsidy of £899,300 includes £349,000 of

fixed support charges and capital costs which would not be saved by an outsource/transfer.

- 3.6 The Council is facing unprecedented economic pressures which mean that it is being asked to deliver the same or better services within a reducing financial envelope. This can only be achieved by reviewing the way that we deliver services and by focussing our limited resources on its key priorities, statutory services and the things that really make a difference.
- 3.7 Cabinet on the 26th November considered several options for the Floral Pavilion and asked that these be considered further as a part of the 2019/20 Budget Options. The recommended option was to transfer the operation of the Floral Pavilion as a going concern on a long lease to a suitable alternative provider. This would see the Council retain ownership of the Floral Pavilion, but its operations run by an expert organisation. This option represents the greatest opportunity for long term savings while keeping the theatre open as an attraction in New Brighton and serving residents and visitors to the Wirral. The budget option to transfer the Floral Pavilion Theatre and Conference Centre to an experienced theatre operator on a long lease was accepted at Council on Monday 4th March 2019.

4.0 FINANCIAL IMPLICATIONS

- 4.1 There are financial implications arising from the recommendations in this report. The 2019/20 Budget option, to transfer the Floral Pavilion to an alternative specialist theatre provider to operate on a long lease, was expected to achieve an annual revenue saving of £550,000. This saving will now not be achieved.
- 4.2 The management at the theatre project the requirement for a subsidy to reduce through a mixture of improvement strategies for earned income, and cost reductions which have the potential to equal the savings arising from the offer received. This will require a detailed business case to be developed setting out how this will be achieved. But it is not thought that a '£0' subsidy would be achieved within the medium term.

5.0 LEGAL IMPLICATIONS

- 5.1 There are no legal implications arising from this report should the recommendations set out be accepted.

6.0 RESOURCE IMPLICATIONS: ICT, STAFFING AND ASSETS

- 6.1 There are no direct resource implications arising from this report should the recommendations be accepted.

7.0 RELEVANT RISKS

- 7.1 All risks associated with the proposed long lease transfer have been identified and managed in line with the corporate risk management procedure as part of the delivery process.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 Pre-decision consultation has been undertaken in order to identify any relevant objections to proposal prior to the decision from Council. This included specific questions in relation to this proposal as a part of the budget consultation process.
- 8.2 A communications and engagement plan was put in place setting out when and how Members, residents, staff and Trade Unions would be consulted as this proposal develops.
- 8.3 A series of consultation activities were undertaken between June and September 2019 with stakeholders. This included briefing sessions and questionnaires with staff, trade unions, members, volunteers and ambassadors, customers, partners and suppliers. This was used to develop criteria that any future operator would need to provide to ensure the Floral Pavilion remains an important community asset.
- 8.4 Formal consultations commenced with Trade Unions with regular meetings scheduled following the Council decision in March 2019.

9.0 EQUALITY IMPLICATIONS

- (a) Yes, and impact review is attached

<https://www.wirral.gov.uk/communities-and-neighbourhoods/equality-impact-assessments/equality-impact-assessments-2017/delivery>

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

- 10.1 There are no environmental or climate change implications arising from this report.

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APPENDICES

Exempt Appendix 1 – Bid Submission - July 2019
 Exempt Appendix 2 – Case Study Submission – October 2019
 Exempt Appendix 3 – Updated Bid Submission – January 2020
 Exempt Appendix 4 – Financial Analysis

BACKGROUND PAPERS

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Cabinet: Review of Leisure, Libraries and Cultural Services – Floral Pavilion	26 th November 2018
Environment Overview and Scrutiny: Budget Scrutiny Workshop	6 th December 2018

Environment Overview and Scrutiny: Budget Scrutiny Workshop	16 th January 2019
Environment Overview and Scrutiny Committee: Budget Proposals	30 th January 2019
Cabinet: 2019/20 Budget Proposals Scrutiny Report and Council Budget 2019/20	18 th February 2019
Council: Council Budget 2019/20	4 th March 2019
Environment Overview and Scrutiny Committee: Future provision of the Floral Pavilion Theatre and Conference Centre Update report.	2 nd July 2019