

Octagon Theatre Finance Report

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Purpose of the Report

1. To provide District Executive with an overview of the current budget position and the revised costs of delivering the Octagon redevelopment project arising from the recent RIBA stage 2 design and costings.
2. To seek approval for an increase to the current capital budget of £6m to reflect the revised costs of the redevelopment.

Forward Plan

3. This report appeared on the forward plan with an anticipated committee date of February 2022.

Public Interest

4. This report seeks to increase the agreed budget for the redevelopment of The Octagon Theatre. The redevelopment includes:
 - the construction of a fly tower
 - increasing the main auditorium seating capacity from 622 to 900
 - two new smaller cinema/studio spaces
 - a dance studio
 - a community studio
 - a café bar
 - improved front of house and customer facilities
 - improved backstage accessibility

Recommendations

5. That District Executive recommends that Full Council approves:
 - a) An increase in the capital budget of £6m, to be funded by prudential borrowing, to bring the total budget for the project to £29.01m.

- b) An increase in the revenue budget of circa £0.680m per annum for the financing costs (MRP £0.289m, Interest £0.392m) arising from the increased borrowing needs. An initial assessment is that the financing costs may be covered from Year 6 by ticket levies and operating income, however further analysis is needed to be carried out as interest rates are expected to rise at Final Business Case stage.
- c) The project team to incur expenditure of £1.2m from the capital budget to progress to the next gateway decision stage (the Final Business Case incorporating RIBA stage 3 designs and costings).

Background

6. Following a detailed options appraisal of the Octagon Theatre a feasibility study was undertaken in 2020 to set out an aspiration for the substantial redevelopment of the district's leading cultural venue. The redevelopment proposals aim to make the Octagon fit for the future and enhance the venue as a regional entertainment destination. A key component of the project is a £10m grant from the Department for Digital, Culture, Media and Sport (DCMS), contingent upon the inclusion of certain new facilities into the Octagon design.
7. The proposals for the redevelopment were approved at District Executive in January 2021 and ratified by Full Council in March 2021, where a capital budget of £23.01m was approved for the project.

Report Detail

8. The feasibility study concentrates on several key areas to keep the Octagon relevant and raise the venue's profile regionally. These are:
 - Provide a significantly enlarged and much improved facility, enabling a more varied selection of shows and acts with added commercial areas. This would in turn bring new revenue streams to pay back the costs of the works, which would benefit audiences, artists and visitors and include additional facilities and services to those currently provided.
 - Assess the running costs and income levels for the refurbished venue and whether any on-going subsidy is still required from the council (currently circa £300,000 per annum).
 - Generate additional revenue benefits in future for SSSC that will support the development of our Arts Engagement and Outreach work.



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- Resolve accessibility issues around the venue making Front of House (FOH) and backstage areas accessible for wheelchair users and those with limited mobility.
- Maximise opportunities for energy efficiency and use of renewable/low carbon energy, to contribute to the Council's climate change objectives.

9. Officers have negotiated the provision of a £10m grant towards the project from central government through the DCMS. The grant is contingent upon the improvements suggested in the feasibility study being incorporated into the design of the theatre. This means that several key areas of the proposals are relatively rigid and cannot be reduced without jeopardising the provision of the grant.

10. The design process has been led by experienced theatre architects, Fielden, Clegg, Bradley associates (FCB). FBC have incorporated the key elements of the feasibility study into the design, whilst trying to retain as much of the existing structure as possible. The design is currently in its third iteration. Each major revision has been guided by the need to remain within the approved budget. We are now at a stage where we cannot make any further design efficiencies, without compromising on the grant award, feasibility study or future revenue generation. The current iteration is considered to be the 'minimum viable redevelopment scheme'.

11. If the redevelopment scheme does not take place, The Octagon will require a level of refurbishment in order to remain compliant, safe and maintain the audience levels. The last significant refurbishment took place in 2003 when an extension to the front of the building saw the creation of a new rehearsal studio on the ground floor and space was also added to the bar and cafe areas. However, backstage has very limited/poor access with no accessible dressing rooms or toilets and no permanent way of getting wheelchair users or those with mobility issues onto stage. Therefore, significant improvements to accessibility, carbon consumption and the performance space are required.

12. There is currently an unprecedented demand for materials and labour within the construction sector. This rapid growth in demand has been fueled by a combination of factors, but primarily:

- Post Brexit construction labour migration away from the UK
- The commencement of a large number of projects following the Covid industry shutdown
- The interruptions to supply chains following the Covid pandemic

These factors have created a level of cost price inflation unseen the industry for several decades.

13. There are also significant inflationary pressures occurring currently in other sectors, for example in the field of energy and natural gas supply. Energy prices have a significant



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effect on the price of construction materials. Gas is used extensively in industry to fire bricks and to manufacture cement. Further gas price rises are expected in 2022, having a detrimental impact on domestic and industrial customers. This is likely to result in further cost rises for basic building materials.

14. We are currently at a stage where there is a clear inflationary pressure on the project budget and there are no further savings to be made from reducing the scope of the design. When we account for the detailed design, planning and procurement processes, there is a significant time lag between the initial feasibility study and the procurement of the project. This time lag, inherent in all large projects has allowed the issue of inflation to render the current approved budget inadequate to complete the project.
15. The current design proposals have been costed and the full cost of the project has been assessed at £29.01m. A summary of the end of Stage 2 report is included as Appendix 1.
16. In order to secure the £10m identified funding from DCMS, officers are preparing to submit an Outline Business Case on 17th February 2022. This will then be assessed at the DCMS Investment Sub Committee taking place on 9th March.
17. Officers are actively investigating additional sources of external funding for the project, however it should be noted that these are not expected to make a significant impact upon the overall budget position.

Financial Implications

18. The table below shows the difference in costs from the agreed budget and the new proposed budget.

Revised capital expenditure forecasts

YEOVIL OCTAGON BUDGET REVIEW	Feasibility		Variance	
	Study Oct-20	RIBA Jan-22	£'000	%
Expenditure				
Capital				
Capital Works	23,009	28,568	5,558	
	23,010	28,568	5,558	
Revenue				
Client Side Project Management	0	382	382	
Other Client Side Costs	0	60	60	
	0	442	442	
Total Expenditure	23,010	29,010	6,000	26%

19. The stage 2 RIBA designs and the costs of these show that the projected expenditure for developing the Octagon Theatre has increased and that £6m needs to be added to the current approved capital budget should Council wish to continue with the redevelopment project.
20. The increase includes revised figures from the RIBA stage 2 design, the need to add in the impact of inflation since the feasibility study was undertaken, the addition of a contingency sum, and the inclusion of costs that were not included in the initial feasibility study, namely fixtures & fittings and client side project management costs.

Funding of the capital expenditure budget

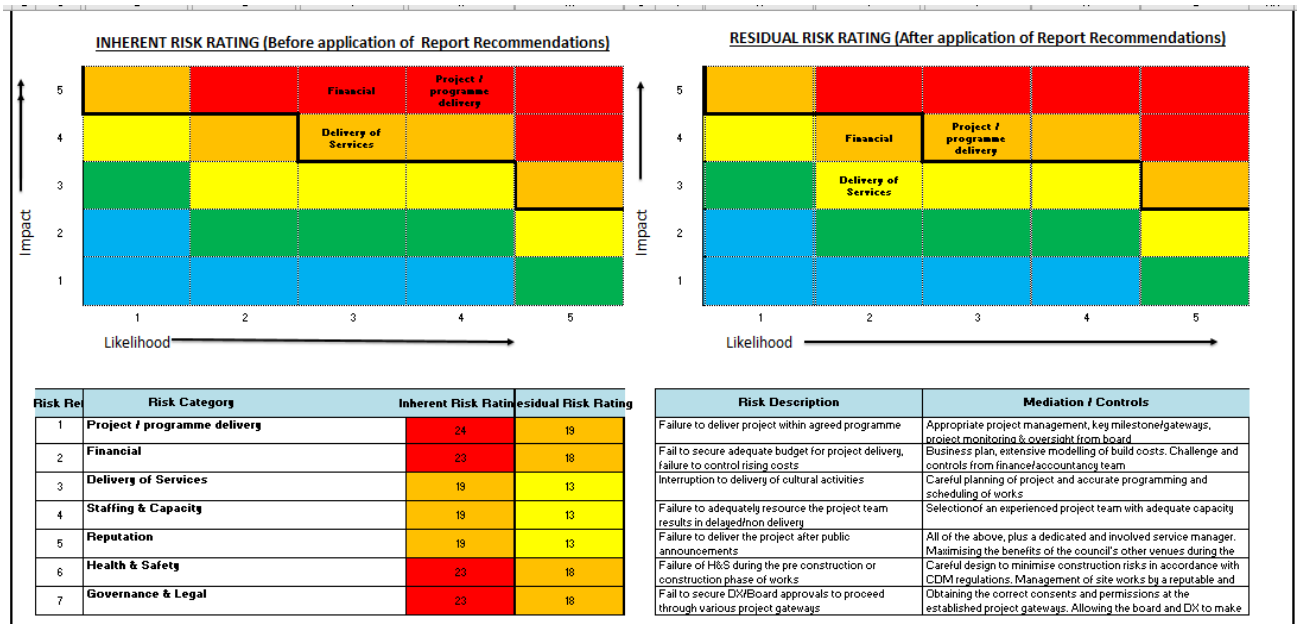
YEOVIL OCTAGON FUNDING	Feasibility Study		RIBA		Variance	
	Oct-20	Jan-22	Oct-20	Jan-22	£'000	%
	£'000	£'000	£'000	£'000	£'000	%
Capital						
DCMS Grant	█ (10,000)	█ (10,000)	█ (10,000)	█ (10,000)	0	0%
Fund Raising	█ (250)	█ (250)	█ (250)	█ (250)	0	0%
Capital Receipts Reserve	█ (2,000)	█ (2,000)	█ (2,000)	█ (2,000)	0	0%
Borrowing	█ (10,760)	█ (16,318)	█ (10,760)	█ (16,318)	(5,558)	52%
	█ (23,010)	█ (28,568)	█ (23,010)	█ (28,568)	(5,558)	24%
Revenue						
Regeneration Fund	█ 0	█ (442)	█ 0	█ (442)	(442)	0%
					0	0%
	█ 0	█ (442)	█ 0	█ (442)	(442)	0%
Total Funding	█ (23,010)	█ (29,010)	█ (23,010)	█ (29,010)	(6,000)	26%

21. The proposed increase in the capital budget would need to be funded through prudential borrowing. This would incur financing costs of circa £0.68m per annum.
22. The current business case for the Octagon Redevelopment Project shows that income from the ticket levy and sales from the operation of the theatre may cover the financing charges from Year 6 onwards but further analysis would need to be done as part of the Final Business Case, as interest rates are expected to increase.
23. There is a risk that the projected redevelopment costs may increase at the next gateway decision making point, which will be the Final Business Case including RIBA stage 3 design and costings). This is scheduled to be completed by February 2023. Members should note that at this stage the Project Team will only commit the expenditure needed to produce the Final Business Case: this is estimated to cost £1.2m.

Legal implications and details of Statutory Powers

24. There are no legal implications that relate directly to this report.

Risk Matrix



Council Plan Implications

25. The Octagon Redevelopment project is a key action included under Priority 3 of the proposed Council Plan for 2022/2023.

Carbon Emissions and Climate Change Implications

26. The project facilitates a significant improvement in the energy efficiency of the Octagon Theatre and aims to decarbonise energy use wherever possible.

Equality and Diversity Implications

27. None directly arising from this report. However, the designs for the redeveloped theatre will be subject to a full Equalities Impact Assessment and one of the key objectives of the project is to increase accessibility throughout the building.

Privacy Impact Assessment

28. There are no material implications on personal privacy.

Background Papers

29. This paper should be read in conjunction with the following papers relating to the Octagon redevelopment project

- District Executive – 7th January 2021
- Full Council – 25th March 2021