

Report to Accountability Board	Forward Plan reference number: FP/AB/106
Date of Accountability Board Meeting:	17th November 2017
Date of report:	3rd November 2017
Title of report: Mercury Rising Theatre Project LGF funding decision	
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1. Purpose of report

- 1.1 The purpose of this report is to make the Accountability Board (the Board) aware of the value for money assessment for Mercury Rising Theatre Project (Project) in Colchester, Essex which has been through the Independent Technical Evaluator (ITE) process to enable £1m LGF to be devolved to Essex County Council for scheme delivery.

2. Recommendations

- 2.1 The Board is asked to:

- 2.1.1 **Note** the risk that:

- 2.1.1.1** the proposed funding contribution from the Mercury Theatre has not been secured in full; and
- 2.1.1.2** the proposed funding contribution from the Arts Council England is due to be considered on the 15th December 2017.

- 2.1.2 **Approve** the inclusion of the Mercury Rising Theatre Project in the Local Growth Fund (LGF) Growth Deal Programme; and

- 2.1.3 **Approve** the award of £1m LGF, identified through the reduction in allocation of LGF to the A414 Chelmsford to Harlow Project, to Mercury Theatre Project to support the delivery of the Project identified in the Business Case and which has been assessed as presenting achieving high value for money with medium certainty, subject to:

- 2.1.3.1** Written confirmation of the proposed funding contribution from the Arts Council England being received, as detailed in paragraph 5.4.

3. Background

- 3.1 This report brings forward the Mercury Theatre Project for the allocation and award of £1m LGF, through utilising the reduced allocation LGF to the A414 Chelmsford to Harlow project.

- 3.2 The Project is not currently included as a Growth Deal project, but has emerged as a priority for Essex County Council and Greater Essex Business Board since the submission of LGF Round 3 priorities.
- 3.3 As detailed in Agenda Item 7, the A414 Harlow to Chelmsford project has indicated that it will no longer require the full provisional LGF allocation of £3.66m, instead it is seeking £2.173m to be allocated to the A414 Harlow to Chelmsford Project through LGF Round 1. Accordingly, Essex County Council and Greater Essex Business Board are seeking to utilise the availability of the £1m LGF from the A414 Chelmsford to Harlow project for the investment in the Mercury Theatre Project. The remaining £0.487m will be considered at a future Board meeting for allocation to a separate project.
- 3.4 The inclusion of the Project in the Growth Deal programme was considered and endorsed by Greater Essex Business Board on the 15th August 2017.
- 3.5 A Business Case has been prepared for the Project which has completed the ITE process, as a condition of the SELEP Assurance Framework.
- 3.6 The ITE report sets out the detailed analysis of the Project. This report is included in Appendix 1, of Agenda Item 5.

4. Mercury Rising Theatre Project

- 4.1 The Project will enable the expansion and redevelopment of the Mercury Theatre, a significant regional cultural performance and training venue in Colchester, Essex. The redevelopment of the theatre and the surrounding area offers the opportunity to build on the organisation's success, the continued growth of the creative industries in the County and the growing visitor economy in Colchester, Essex and the wider South East.
- 4.2 The theatre has a reputation for a diverse programme that appeals to all audiences throughout the year. This is complemented by education, outreach, training and professional development. It is the only full-time professional producing theatre in Essex.
- 4.3 The principal objectives of the Project include:
 - 4.3.1 Creating additional jobs and developing skills and contributing to boosting local productivity;
 - 4.3.2 Contributing to the economic growth of the creative sector and local tourism and visitor economy to support the significant population growth in the Borough
 - 4.3.3 The growth of a strategic local arts venue, growing financial resilience and attracting and retaining audiences; and
 - 4.3.4 Creating new areas of public realm at a significant gateway point to the town for walking and cycling
- 4.4 The Project is intended to create a world class theatre facility for artists and audiences to improve users experience and attract more visitors to the theatre.

The investment will improve rehearsal and production facilities to support high quality production, to attract new productions to the theatre. The Project will also provide a new home for 10 newly created businesses, with demand having been identified from similar facilities in the local area.

- 4.5 The Project will deliver 52.3 gross additional direct Full Time Equivalent (FTE) jobs, including employment in the creative sector, visitor economy and construction industry.
- 4.6 Without substantial investment the offer provided by the theatre will decline, visitor numbers will not be sustained, revenue will decline and the long-term future of the site and the public realm will become unsustainable. This would have a damaging impact for both the town's economy and perceptions of Colchester as a growing cultural tourism destination, as the Mercury provides a year-round source of visitors and a growing market of over-night stays.

5. Project Cost and Funding Profile

- 5.1 The Project is seeking an LGF contribution of £1 million towards the total Project costs of £8.98 million to proceed with the development of the Mercury. The breakdown of funding contributions for the Project is detailed in Table 1 below.

Table 1 Funding Partners Contributions

	2016/17	2017/18	2018/19	2019/20	Total
SELEP LGF sought			£1,000,000		£1,000,000
Essex County Council		£500,000	£500,000		£1,000,000
Colchester Borough Council			£500,000	£500,000	£1,000,000
Arts Council England	£478,730		£2,000,000	£1,521,270	£4,000,000
Mercury Theatre fundraising		£47,200	£150,250	£1,791,517	£1,988,967
Total	£478,730	£547,200	£4,150,250	£3,812,967	£8,988,967

- 5.2 The funding contributions from Essex County Council and Colchester Borough Council have been confirmed. Of the £1,988,697 contribution identified from Mercury Theatre, only £746,000 has been secured through fund raising activity to date. This leaves a remaining £1,242,697 to be raised by the theatre through fundraising efforts.
- 5.3 Potential sources have been identified to help bridge the Mercury Theatre contribution funding gap and bids have been submitted to date, totalling £900,000, including bids to the European Regional development Fund (ERDF), Garfield Weston Foundation and Foyle Foundation. In the event that Mercury Theatre is unable to raise the £1,242,697 through fundraising efforts the Theatre has been offered a bank loan to bridge the funding gap.

- 5.4 In addition, of the £4m funding contribution from the Arts Council England, only £473,000 has been released to date and the remaining £3,527,000 is currently only identified and has not yet been confirmed. The Project is due to be considered by the Arts Council England for the award of £3,527,000 at a meeting on the 15th December 2017, so that the decision by the Arts Council England can be informed by the decision taken by SELEP in relation to the proposed LGF award.
- 5.5 It is therefore recommended to the Board, that the LGF award to the Project should be subject to the Arts Council England having been secured. The Board also is asked to consider the risk in relation to the proposed funding contributions from the Mercury Theatre through fundraising efforts.

6. Outcome of ITE Review

- 6.1 The SELEP ITE has assessed the Project Business Case through the Gate 1 and Gate 2 process and has recommended that the Project achieves high value for money with a medium certainty of achieving this.
- 6.2 The updated economic appraisal of the Project has resulted in Benefit Cost Ratio (BCR) of 3.44:1, categorised as high value for money. This economic appraisal has been completed based on a cost per job Gross Value Added approach.
- 6.3 The absence of sensitivity tests means that it has not been possible to assess the resilience of the value for money of the scheme to alternative inputs, assumptions and parameters. Additionally, there is no evidence that the impact of displacement or leakage has been considered. However, the BCR is sufficiently high that we would expect it to remain above 2 if sensitivity analysis had been undertaken and the impact of displacement and leakage had been taken into account. As such, there is medium certainty of high value for money being achieved.
- 6.4 Through the management of the LGF capital programme any variations to the Project cost and/or expected project benefits will be monitored. If there is a change to the Project which may detrimentally impact on the Project's value for money case, the Project's Business Case will be reviewed and a further decision may be sought from the Board.

7. Compliance with SELEP Assurance Framework

- 7.1 Table 2 below considers the SELEP Secretariat assessment of the Business Case against the requirements of the SELEP Assurance Framework.
- 7.2 The assessment confirms the compliance of the project with SELEP's Assurance Framework.

Table 2 SELEP Secretariat assessment of the Business Case against the requirements of the SELEP Assurance Framework

Requirement of the Assurance Framework to approve the project	Compliance	Evidence in the Business Case
A clear rationale for the interventions linked with the strategic objectives identified in the Strategic Economic Plan		The Business Case sets out the rational for the project which is aligned with SELEPs objectives to support the Creative Industry and tourism sector, as key growth sectors for SELEP.
Clearly defined outputs and anticipated outcomes, with clear additionality, ensuring that factors such as displacement and deadweight have been taken into account		<p>The Business Case sets out the expected outputs and anticipated outcomes to be delivered through the Project, as summarised in section 3 above.</p> <p>The ITE review confirms that the assessment approach is sound. The outcomes of the project have been assessed in a bespoke model as part of the economic appraisal, which follows appropriate guidelines.</p> <p>The appraisal has not taken into account the displacement of benefits, but it is the ITE's view that given the high BCR value of 3.44:1, that the consideration of displacement in the appraisal would not impact the BCR category.</p>
Considers deliverability and risks appropriately, along with appropriate mitigating action (the costs of which must be clearly understood)		<p>The ITE review confirms that a detailed risk register has been produced, but this does not yet include a significant level of detail on the construction phase of the Project. As such, a detailed risk update will be sought through the ongoing monitoring of this project and updates will be provided through the Capital Programme Monitoring report to the Board each quarter.</p> <p>A contingency cost has been included within then Project budget, which will</p>

Requirement of the Assurance Framework to approve the project	Compliance	Evidence in the Business Case
		help to mitigate the impact of project issues which are incurred through project delivery, from leading to an increase in the total project cost.
A Benefit Cost Ratio of at least 2:1 or comply with one of the two Value for Money exemptions		A BCR has been calculated as 3.44:1, which indicated high value for money.

8. Financial Implications (Accountable Body comments)

- 8.1 The Board should note the risk to the project due to the currently unconfirmed contributions from both the Arts Council of £3.5m and the potential unfunded element to be contributed by the Mercury Theatre fund raising of £1.2m. This gap of £4.7m is equivalent to 53% of the total £9.0m required for the project.
- 8.2 If the gap cannot be closed should the Arts Council funding not be secured or the Theatre be unable to fully secure all funds required, the Project will not be able to be completed. Any costs incurred will be abortive and as such, will not be applicable to be funded by LGF. We advise that no spend is made in advance of total funding being agreed and that if any spend is incurred, the risk of underwriting that spend sits with the authority incurring the costs.

9. Legal Implications (Accountable Body comments)

- 9.1 All funding will be transferred to the sponsoring authority under the provisions of the SLA's currently in place.
- 9.2 The Board have been advised that the additional funding required by the Project is yet to be confirmed from the Arts Council, and therefore it is recommended that the LGF contribution to the Project to conditional on that funding being secured.

10. Staffing and other resource implications (Accountable Body comments)

- 10.1 None at present.

11. Equality and Diversity implication

- 11.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when a public sector body makes decisions it must have regard to the need to:

- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
- (b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
- (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

11.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.

10.3 In the course of the development of the project business case, the delivery of the Project and their ongoing commitment to equality and diversity, the promoting local authority will ensure that any equality implications are considered as part of their decision making process and were possible identify mitigating factors where an impact against any of the protected characteristics has been identified.

12. List of Appendices

12.1 Appendix A - Report of the Independent Technical Evaluator (As attached to Agenda Item 5).

13. List of Background Papers

- Business Case for Mercury Theatre Project

(Any request for any background papers listed here should be made to the person named at the front of the report who will be able to help with any enquiries)

Role	Date
Accountable Body sign off Lorna Norris (On behalf of Margaret Lee)	09/11/2017