EXECUTIVE SUMMARY

1.1 The Civic Development project is concerned with delivering the Council's place-shaping and civic leadership responsibilities for enhancing the attractiveness and cultural vitality of the borough. The benefits from the project will accrue not to the Council as the funder but to those who live and work in and visit the Borough. This report sets out the costings, funding strategy and borrowing strategy to deliver the proposed new Theatre, Civic Centre, underground car park and public realm.

1.2 The report highlights the three independent reviews commissioned by the Council to review the approach to Project Management, a review of the key financial assumptions underpinning the Civic Development Project and the robustness of the funding strategy, and a desk-top review of the Council's balance sheet.

Costings

1.3 The Council has received the costings report from the consultants AECOM following the completion or RIBA Stage 3. As the scheme progresses through each RIBA stage then more detailed information is obtained on the costs of the scheme and how the various elements will look and function. In addition there is the opportunity to improve the scheme and to take on board the comments of stakeholders. The costs of the scheme at Stage 3 are shown below.

<table>
<thead>
<tr>
<th>Components</th>
<th>Capital Cost</th>
<th>Revenue Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office block</td>
<td>20</td>
<td>(0.60)</td>
</tr>
<tr>
<td>Theatre</td>
<td>41</td>
<td>0.10</td>
</tr>
<tr>
<td>259 spaces</td>
<td>15</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Stage 3 (Developed Design)
Public Realm
Inflation
Less fees incurred to planning stage
Emergency suite, sprinklers & Theatre fit out

Expenditure (agrees to GVA report) 81 (0.50)
Capital receipt from Civic Site (9)

Net Build Cost 72
Contingency and Fees included above
Other Potential Development Costs & Compensation 4
Consultancy costs for Development Budget 1

Net scheme cost to finance 77

Cost of Borrowing
Principal and interest repayments 2.80
Net Revenue Cost 2.30

Other Funding Sources 0
Net Cost to deliver 77
Fee Expenditure to date 4
Total Net Cost 81
Total Gross Cost 90

Funding Strategy
1.4 In order to fund the net revenue cost of the project a total of £2.3 million of new recurring cost reductions or income is required from the Council’s base budget allowed for within the Medium-Term Financial Strategy. The schedule of budget changes that need to be made ready for when the project is completed in 2022/23 is shown below.

<table>
<thead>
<tr>
<th>By 2022/23</th>
<th>£000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Options for a new recycling and waste collection contract in 2019</td>
<td></td>
</tr>
<tr>
<td>1 Choice for offering a chargeable garden waste service and KCC to share savings from reduced waste sent to landfill</td>
<td>(700)</td>
</tr>
<tr>
<td>2 Alternative ways to support community groups and Environmental Grants</td>
<td>(280)</td>
</tr>
<tr>
<td>3 Review of development programme resources/ ROI</td>
<td>(500)</td>
</tr>
<tr>
<td>4 Increased share of business rates</td>
<td>(300)</td>
</tr>
<tr>
<td>5 Relocate Weald Information Centre to Hub</td>
<td>(40)</td>
</tr>
<tr>
<td>6 Project Executive savings</td>
<td>(100)</td>
</tr>
<tr>
<td>7 Senior Management savings (Achieved April 2017)</td>
<td>(120)</td>
</tr>
<tr>
<td>8 Pension reserve contribution ends</td>
<td>(250)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>(2,290)</td>
</tr>
</tbody>
</table>
2 INTRODUCTION

2.1 The civic development project is concerned with delivering the Council’s place-shaping and civic leadership responsibilities for enhancing the attractiveness and cultural vitality of the borough. The benefits from the project will accrue not to the Council as the funder but to those who live and work in and visit the Borough.

2.2 This report sets out the costs and proposed financing of the project but this project should not be viewed as a pure financial investment as the returns are not intended to be measurable in financial terms alone.

3. THEATRE BUSINESS PLAN AND CONSOLIDATED BUSINESS CASE

3.1 The Council has prepared an updated and consolidated business case for the Civic Development. This needs to be considered in conjunction with the detailed RIBA Stage 3 reports and the previous reports to Full Council on the Assembly Hall Theatre, Office accommodation and RIBA Stage 1 and 2 reports and decisions. The business case should also be read in conjunction with the Business Plan that has been prepared by Bonnar Keenlyside for the operation of the proposed new Theatre.

Theatre Business Plan

3.2 A Business Plan for the proposed new Theatre is attached as Report 4 Appendix 2. The Business Plan highlights that all indications point to there being sufficient supply and demand in the theatre market to sustain a similarly successful larger theatre in Tunbridge Wells, especially since it will be able to receive a much higher quality programme than enjoyed at present. The new theatre will have a larger stage, an improved orchestra pit, better wing space and much improved back and front of house facilities when compared with the current venue. It will also have the capacity for a broader F&B offer, generous public areas facing onto the park and a modern 250 place car park close by. This will greatly increase its capacity for the variety of its programme and the potential for commercial income.

3.3 With 1200 seats, the new theatre’s programme will consist of more weekly runs with the annual programme typically containing up to 40/45% musicals; 15% drama; and 15% pantomime therefore, typically 70% of the whole programme is likely to come from these three genres.

3.4 The future rewards of the larger venue are clear - better, modern facilities for the public and performers, together with an enhanced programme. Equally, attracting more residents and visitors to Tunbridge Wells as evidenced by the potential economic impact.

3.5 The business plan recognises that the new theatre is likely to require subsidies until it achieves annual sales of towards 400,000 (based on the financial results of 1200 seat theatres elsewhere). Reaching this point could take up to seven or eight years to attain. Despite these projections the Council is proposing to budget within the MTFS for an extra £100,000 a year towards the Theatre subsidy. This is detailed later in this report.
Consolidated Business Case

3.6 The consolidated business case sets out the background problem, the Council’s Strategies, risks and option appraisals, together with an assessment of the options the viability and payback. The three main options being Doing nothing (Staying Put), Do minimum (Refurbishment) and New Build however none of these options are cost free. A copy of the consolidated business case is attached as Report 4 Appendix 3.

3.7 The do nothing option is accepting that we continue to maintain the Town Hall and Theatre to the current standard, accepting the current size and limitations of the Assembly Hall Theatre will not be addressed and that existing maintenance and running costs for the Town Hall and Theatre will remain with life cycle costs estimated as £31,515,238.

3.8 The do minimum would require a refurbishment to make it more suitable for current employment practices during which the Council would need alternative premises for a number of years. In addition refurbishing the Theatre, by adopting Option 1 that was set out in the Stephen Browning Associates report, to improve the auditorium and create new bar facilities. This would not increase the number of seats, increase the size of the stage, wing space or fly tower. The lack of space in the wings would start to see the current facility become less attractive to shows as costs to deliver in a compromised space increase. The base capital investment costs are estimated as £28,000,000 with lifecycle costs estimated as £42,885,180.

3.9 While the Do something is the primary focus of this report with lifecycle costs of £33,925,329.

4 COSTINGS

4.1 The Council has received the costings report from the consultants AECOM following the completion or RIBA Stage 3. As the scheme progresses through each RIBA stage then more detailed information is obtained on the costs of the scheme and how the various elements will look and function. In addition there is the opportunity to improve the scheme and to take on board the comments of stakeholders.

4.2 The transition from Stage 2 (Concept Design) to Stage 3 (Developed Design) is iterative and will naturally result in changes to the costings as improvements are factored in. Stage 3 is also the point where very detailed cost calculations of each component are undertaken and the link made to the market cost of construction and materials which provides for a much firmer calculation of the cost of delivery.

4.3 In addition to taking on board comments from stakeholders and neighbours the scheme has been exposed to the views of the Local Planning Authority which provides an opportunity to alter the scheme to address any concerns in terms of planning policy.

4.4 The table below compares the component costs of the scheme as reported at RIBA Stage 2 in January 2017 with those at Stage 3.
## Table: Project Summary Costings

<table>
<thead>
<tr>
<th>Components</th>
<th>Stage 2 (Concept Design)</th>
<th>Stage 3 (Developed Design)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Capital Cost</td>
<td>Revenue Net</td>
</tr>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Office block</td>
<td>18</td>
<td>(0.50)</td>
</tr>
<tr>
<td>Theatre</td>
<td>40</td>
<td>0.10</td>
</tr>
<tr>
<td>Underground car park</td>
<td>14</td>
<td>0.00</td>
</tr>
<tr>
<td>Public space</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Inflation and Exchange rate risk</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Less fees incurred to stage 3</td>
<td>(4)</td>
<td></td>
</tr>
<tr>
<td>Emergency suite, sprinklers &amp; Theatre fit out</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure</td>
<td>78</td>
<td>(0.40)</td>
</tr>
<tr>
<td>Capital receipt from Civic Site</td>
<td>(9)</td>
<td></td>
</tr>
<tr>
<td>Net Build Cost</td>
<td>69</td>
<td></td>
</tr>
<tr>
<td>Contingency and Fees included above</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Potential Development Costs</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Consultancy costs for post stage 3</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Net scheme cost to finance</td>
<td>72</td>
<td></td>
</tr>
<tr>
<td>Cost of Borrowing</td>
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<td></td>
</tr>
<tr>
<td>Principal and interest repayments</td>
<td></td>
<td>2.80</td>
</tr>
<tr>
<td>Net Revenue Cost</td>
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<tr>
<td>Other Funding Sources</td>
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<tr>
<td>Net Cost to deliver</td>
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<tr>
<td>Fee Expenditure to date</td>
<td>2</td>
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</tr>
<tr>
<td>Total Net Cost</td>
<td>74</td>
<td></td>
</tr>
<tr>
<td>Total Gross Cost</td>
<td>83</td>
<td></td>
</tr>
</tbody>
</table>

### Summary explanation of each project costing movement

#### 4.5 Office Block
The massing of the office block has been reduced to sit more sympathetically with its surroundings. Balconies have been installed which reduce the impact on nearby properties following planning advice. There is now a publicly accessible terrace on top of the Council Chamber which increases the amount of useable public space.

The emergency response suite facilities are now included within the office costs as they were previously shown separately under stage 2.

As a result of the changes, the lettable tenant space is now expected to achieve a higher income of £600,000 following design improvements and higher demand for office accommodation in the town.

#### 4.6 Theatre
Following feedback from neighbours and stakeholders the vehicle servicing area will now be partially covered and the fly tower both reduced in height and the visual impact softened through the use of planting. The additional theatre fit-out that was shown separately under stage 2 has now been included within the Theatre costs.
The subsidy of the current theatre is provided for within the Medium-Term Financial Strategy (MTFS) at an average of £250,000 a year. An extra £100,000 a year will be budgeted for within the MTFS despite projections in the Theatre Business Plan showing that the new theatre should require a lower level of subsidy.

4.7 Underground Car park
Following new advice from safety consultants a sprinkler system will be incorporated and this is included within the stage 3 costs. The number of spaces has been increased to 261 whilst still retaining the wide bay width of 2.5 metres.

4.8 Public space
This important space will create a much wider and inviting opening to Calverley Grounds. This area has the potential to be a new town square which not only complements the two new buildings but helps to link the northern and southern parts of the town. This large space could provide an ideal opportunity to install a significant water feature to showcase the town’s spa status. The design will be for the public to determine but the necessary infrastructure has now been included within the stage 3 costs. This is likely to become a prominent area where the public will gather and the quality of materials will need to reflect this attractive setting and the sense of arrival due to the proximity of the train station.

4.9 Inflation and Exchange Rate Risk
The exchange rate risk has now materialised and is factored into the cost of construction and materials. An allowance for inflation is still being allowed for.

4.10 Fees incurred to RIBA stage 3
These are the professional fees that have been incurred from the Civic Development Budget to get to the end of stage 3.

4.11 Capital Receipt
The value of land has increased since the stage 2 report, however the cost of construction and materials has also increased. There is no change to the value of the civic site that a purchaser would be expected to pay for the site.

4.12 Other potential development costs
The specialist consultants are advising the Council to make a greater provision for any right to light or compensation claims.

4.13 Consultancy costs for the Development Budget
The procurement of specialist consultants has cost £4 million to this stage. If the Council agrees to progress into Stage 4 and take a design and build approach then a further £1 million of consultancy fees will be required.

4.14 Net cost of the scheme to finance
The improvements to the scheme explained above and the fees required to progress the project further give a net cost of £77 million which will be financed through borrowing.

4.15 Cost of borrowing
At stage 2 an allowance was made for borrowing costs to be 3 per cent for a 50-year annuity loan. A more accurate figure of 2.75 per cent can be used which reflects the likely interest rate that the Council can access.
Although the amount to be borrowed has increased this has been off set through lower than originally allowed for interest rates. The fixed cost of repaying the debt (principal and interest) is expected to remain at £2.8 million a year for 50 years at which point the debt will have been completely paid off.

4.16 Other Sources of Funding
No external sources of funding, grants, sponsorship or donations have been assumed in the financing of the project.

No capital receipts other than from the Civic Complex have been assumed.

4.17 Net cost to deliver
The net cost to deliver the project is £77 million.

4.18 Fee Expenditure to date
At the time of stage 2 not all of the allocated £4 million of development budget fees had been spent.

4.19 Total Net Cost
Although the development budget fees have been spent using existing council resources if these are added back to the cost of delivery then the total net cost of the scheme would be £81 million.

4.20 Total Gross Cost
If the capital receipt from the sale of the civic site is not netted off then the Total Gross Cost of the scheme would be £90 million.

4.21 Construction Contingency
The project costings include the industry standard levels of contingencies for Stage 3 projects of 6.5 per cent. The theatre is a more specialist build and a 10 per cent construction contingency has been allowed for.

4.22 Sensitivity Summary
There will be a £50,000-a-year revenue impact for each 0.1 per cent variance in the rate of interest charged for borrowing or a variance of £1 million in the amount borrowed.

The detailed project timeline is included within the Stage 3 reports and allows for delays due to public enquiries and other events. Should exceptional delays put back the awarding of the contracts beyond that provided for then construction inflation will be in the region of £200,000 per month.

5. FUNDING STRATEGY

5.1 In order to fund the net revenue cost of the project a total of £2.3 million of new recurring cost reductions or income is required from the Council’s base budget allowed for within the Medium-Term Financial Strategy. The schedule of budget changes that need to be made ready for when the project is completed in 2022/23 is shown below.
By 2022/23
£000s

Options for a new recycling and waste collection contract in 2019

1 Choice for offering a chargeable garden waste service and KCC to share savings from reduced waste sent to landfill. (700)

2 Alternative ways to support community groups and Environmental Grants (280)

3 Review of development programme resources/ ROI (500)

4 Increased share of business rates (300)

5 Relocate Weald Information Centre to Hub (40)

6 Project Executive savings (100)

7 Senior Management savings (Achieved April 2017) (120)

8 Pension reserve contribution ends (250)

TOTAL (2,290)

5.2 No.1 Options for a new recycling and waste collection and street cleansing contract in 2019

The current 10-year contract expires at the end March 2019. Following the Overview and Scrutiny working group report to Cabinet in April 2017 work has been progressing with Tonbridge & Malling Borough Council, Dartford Borough Council and Kent County Council to identify the optimal waste and recycling service and procurement options.

A new contract provides the opportunity for service changes that can increase recycling rates and reduce collection and treatment costs by introducing the collection of glass bottles, providing a separate weekly collection of food waste and giving the option to introduce an opt-in chargeable garden waste collection service.

This is expected to deliver net cost reductions of £700,000 a year.

5.3 No. 2 Alternative ways to support community groups and environmental grants

The Council has long sought to avoid passing on disproportionate reductions in grants to the voluntary and community sector as a whole but has worked with these organisations to reduce their reliance on council funding. The approach adopted has been to negotiate three-year ‘service level agreements’ with reducing financial support from the Council year on year. This provided them with more certainty than awarding funding a year at a time.

From 2018/19 onwards the Council is facing a complete loss of central government support grant and will therefore need to make significant reductions in future years. In anticipation of this the Council introduced its own lottery scheme (TWLOTTO) for good causes as a means of raising additional funding for the community and voluntary sector and will continue to provide a reliable source of core funding.

In addition the Council is reviewing the services it procures from external organisations and the support it provides to partnership agreements that it is engaged with. The aim is to reduce their dependency on financial support from the
Council and to consider more cost-effective alternatives for service delivery. The 2017/18 community grants budget is £315,000 this will gradually be reduced until 2022/23 with a budget of £35,000 remaining for directly commissioned services. The Council will still consider capital requests or ways to support groups becoming less reliant on the Council. In addition the TW Lottery is generating £50,000 per annum.

This is expected to deliver net cost reductions of £280,000 a year.

5.4 No.3 Review of the development programme resources/ Return on Investment
To support the development programme and the disposal of surplus assets an additional £500,000 of staffing resources was added to the 2016/17 Property Services budget. These funds are in the Council’s base budget and in 2022/23 the civic development scheme will have concluded which could release this budget as a saving. However, the asset disposal scheme has been far more financially successful than anticipated generating over £15 million of receipts to date (and, in addition reducing running costs and increasing rental returns). This team has development a well rehearsed process of identifying under-performing assets and either disposing, obtaining planning permission or undertaking development.

A number of Council land holdings have further potential to generate either a capital receipt or an annual return following development. These resources are needed to enable a return on investment which can be demonstrated as further schemes come forward.

This is expected to deliver net cost reductions of £500,000 a year.

5.5 No.4 Increased share of business rates
The Government introduced the Business Rates Retention Scheme on 1 April 2013 (known as the 50 per cent scheme). It is a scheme aimed at incentivising councils to support the growth of business rates, by allowing them to keep a proportion of the business rate growth they collect for themselves rather than passing it to central government. Tunbridge Wells has delivered growth year on year and in 2016/17 the benefit derived from the scheme exceeded £800,000. None of this has been included in the revenue budget before as it was a new scheme and it was unclear as to how much the Council could achieve. With the benefit of four years of actual results and more certainty regarding appeals, including £300,000 in the revenue budget is felt to be a prudent assumption. It should be noted that Business Rate valuations and appeals continue to be managed centrally and this proposal merely relates to the Council retaining a share of business growth not charging businesses more in Business Rates.

This is expected to deliver income of £300,000 a year.

5.6 No. 5 Relocate the Weald Information Centre to a new Hub
The way Gateway services are delivered was changed last year to move to an appointment-based system in line with other Kent Gateways and to offer a more tailored and effective customer service. Operating an appointment system is a more efficient means of meeting demand and has reduced wait times for customers. The plan is for the Tunbridge Wells Gateway to move into the Culture & Learning Hub. As the Community Hubs are built the appointments system will be
adopted for complex needs by holding face to face meetings. There will always be a need for some immediate assistance for customers in vulnerable situations and this will still form part of the service provided. As the contact centre continues to improve its digital services it is anticipated that demand for face to face and telephone contact will reduce. However the Council will continue to provide a fully accessible service to residents with complex needs or that cannot access the services they need in other ways.

This is expected to deliver net cost reductions of £40,000 a year.

5.7 No.6 Project Executive Savings
As part of a senior management restructure a new post of Project Executive was created specifically to oversee the proposed Cultural and Learning Hub and to support the delivery of community hubs in Southborough, Cranbrook and Paddock Wood.

These projects are expected to either reach fruition or a conclusion as regard the Council’s involvement by 2020/21.

This is expected to deliver net cost reductions of £100,000 a year.

5.8 No.7 Senior Management Savings
In April 2017 a Senior Management Restructure resulted in the post of Director of Planning and Development being deleted from the establishment. Responsibilities have been reallocated amongst the remaining Directors.

A Civic Development Reserve has been created and from April 2018/19 the savings from this post will be transferred into this reserve.

This is expected to deliver net cost reductions of £120,000 a year.

5.9 No. 8 Pension reserve contribution ends
In 2011/12 the Council made a one-off payment of £2.024 million to the Kent Pension Scheme to extinguish its liability for historic unfunded pension benefits. This payment was initially met from the General Fund. This created an annual saving to the revenue budget of around £215,000. Cabinet agreed to make the payment on the condition that it was all repaid to reserves from the revenue budget over the next 10 years. Annually a repayment of £215,000 has been budgeted for, but if possible a higher contribution is made in order to complete the repayments earlier. In 2016/17 a contribution of £250,000 was made to the Pensions Settlement Reserve (the reserve created to hold the funds).

If £250,000 is repaid again at the end of 2017/18 this will leave £597,000 to be repaid. If the repayment continues at this rate, it will be fully refunded by the end of 2020/21. This releases the annual liability to the revenue budget.

This is expected to deliver net cost reductions of £250,000 a year.

5.10 Cash flow timings of Funding Strategy
Some of the elements in the funding strategy have already been delivered and in the coming years others can be transferred to the Civic Development Reserve to both build up a further contingency and also to keep them completely separate
from the balancing of the annual revenue budget. The profile of how the funding strategy is expected to arise is shown below.

<table>
<thead>
<tr>
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<td>£000s</td>
<td>£000s</td>
<td>£000s</td>
<td>£000s</td>
<td>£000s</td>
</tr>
<tr>
<td>Options for a new recycling and waste collection contract in 2019</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>1 Choice for offering a chargeable garden waste service and KCC to share savings from lower landfill costs</td>
<td>0</td>
<td>(350)</td>
<td>(700)</td>
<td>(700)</td>
<td></td>
</tr>
<tr>
<td>2 Alternative ways to support community groups and Environmental Grants</td>
<td>(70)</td>
<td>(140)</td>
<td>(210)</td>
<td>(280)</td>
<td></td>
</tr>
<tr>
<td>3 Review of development programme resources/ ROI</td>
<td></td>
<td></td>
<td>(250)</td>
<td>(500)</td>
<td></td>
</tr>
<tr>
<td>4 Increased share of business rates</td>
<td>(100)</td>
<td>(150)</td>
<td>(200)</td>
<td>(250)</td>
<td>(300)</td>
</tr>
<tr>
<td>5 Relocate Weald Information Centre to Hub</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>(40)</td>
</tr>
<tr>
<td>6 Project Executive savings</td>
<td>0</td>
<td>0</td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
</tr>
<tr>
<td>7 Senior Management savings (Achieved April 2017)</td>
<td>(120)</td>
<td>(120)</td>
<td>(120)</td>
<td>(120)</td>
<td>(120)</td>
</tr>
<tr>
<td>8 Pension reserve contribution ends</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>(250)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>(220)</td>
<td>(340)</td>
<td>(910)</td>
<td>(1,630)</td>
<td>(2,290)</td>
</tr>
<tr>
<td>Cumulative Civic Development Reserve Balance</td>
<td>(220)</td>
<td>(560)</td>
<td>(1,470)</td>
<td>(3,100)</td>
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</tr>
</tbody>
</table>

The above contingency will be available to fund the initial higher level of subsidy required for the new theatre until such time as increased audience levels have been established. This contingency will also be available should any other upfront costs be required to ensure the successful opening and delivery of the project.

5.11 Prudence

The funding strategy for the Civic Development Project is designed to cover the cost of borrowing through new cost reductions with only the rent from the tenant part of the new office being netted off. A number of other approaches could have been assumed which would have reduced the amount of cost reductions but by taking a more prudent approach this will strengthen the financial position of the Council following completion. These are summarised below;

- The Business Plan for the new theatre says that the theatre could be subsidy free after six years. However, despite this, the above costings have assumed an average recurring subsidy of £350,000 per annum - £100k more than the average subsidy for the existing Assembly Hall Theatre.

- The revenue budget assumes no change to the £250,000 of income currently received from the existing car parks at Great Hall and Mount Pleasant Avenue. However the forecast for the new premium underground car park is for net operating income to be £540,000 per annum.

- The Economic Impact of the new theatre is forecast to be £22 million. However no assumption has been made for any financial benefits to be received to the Council’s other income streams.
• The part of the new office to be occupied by the Council will enable digital and flexible ways of working. However no assumption has been made as to the efficiency savings that will occur.

• Other than from the sale of the Civic Centre no other capital receipts have been assumed. Over the past few years £15 million has been received from the sale of surplus land and assets. The Council still holds land that has the potential to deliver similar sums that could be applied against the scheme to reduce the level of borrowing.

• Other new theatres have received substantial levels of initial and ongoing external contributions from grants, sponsorship, donations or other fundraising. The funding of this project has made no assumptions of any external sources of funding.

5.12 Sinking Fund
Although the new Theatre, Office and Car Park will require no significant levels of maintenance and refurbishment in the early years, it is proposed to set up a Sinking Fund when the buildings are complete. The intention is to contribute to this Sinking Fund on an annual basis as soon as the project is complete. This will ensure that funds are built up over time which will then be available when the time comes to undertake major refurbishment and repairs.

6 BORROWING STRATEGY
6.1 For modelling purposes it has been assumed that the Council would borrow the full amount in one instance at a rate of 2.75 per cent over 50 years from the Public Works Loans Board (PWLB) on an annuity basis.

6.2 The Treasury Management Policy and Strategy will need to be amended to increase the Authorised Limit for External Debt (currently £20 million) by an additional £77 million.

6.3 Borrowing will take place in accordance with the Treasury Management Policy and Strategy with regard to the CIPFA Prudential Code.

6.4 Actual borrowing will not take place until the procurement of contractors has taken place and the cash-flow requirements of the successful contractor have been set out and accepted. The Council will need to balance the requirements of the contractor with the control of risk managing the release of the appropriate stage payments based on progress.

6.5 A risk-based approach will require a series of individual loans to be taken out at various intervals but all of which will be benchmarked against the modelled example of a single loan. These loans may be taken out short-term at lower interest rates so that a view can be taken on whether to then have a fixed maturity date to enable the total debt to be locked in over 50 years at a single rate. This will depend on the view nearer the time of the movement in interest rates and the cost of carry from borrowing in advance. The aim is to end up with a single loan at a fixed interest rate for the life of the loan and be on an annuity basis whereby each repayment will include an element of interest and principal.
6.6 **Source of Borrowing**
For modelling it is assumed that borrowing will be provided by the PWLB however, the Council is able to borrow from other financial institutions which would include the Lloyds Banking Group who are the Council’s current bankers.

6.7 **Interest Rates**
For modelling purposes an interest rate of 2.75 per cent has been used. This represents the current PWLB rate for an annuity over 50 years discounted by the 0.20 per cent certainty rate which this Council is entitled to due to its strong financial standing. The expected rise in the bank base rate in November 2017 has already been factored in by the market in setting borrowing rates. Long-term interest rates are not as susceptible to changes to the bank base rate.

The Council has been approached by a number of financial institutions including Lloyds Bank who would be prepared to offer a lower interest rate to that of the PWLB rate because of the financial standing and risk profile of the Council.

In addition, the Council is currently awaiting the decision by HM Treasury to provide a 0.4 per cent discount to the published PWLB rates for infrastructure projects. The Council has suggested that the criteria of infrastructure is more than just transport projects and should be broader to include cultural and civic projects which are also necessary to ensure growing areas are vibrant and economically sustainable.

The sensitivity of interest rates on borrowing are such that a change of 0.1 per cent in the interest rate results in a £50,000 a year change to the cost of repayment. A change to the amount borrowed of £1 million will result in a £50,000 a year change to the cost of repayment.

6.8 **Gearing Risk**
The Council will move from a very low level of debt to a high level which is affordable and underpinned by a sound balance sheet. The increase in debt gearing on the Council’s finances will limit future ambitions which are not externally funded. This position will not impact on standalone alone investment decisions.

6.9 **External Fundraising**
The Council has not assumed any external funding towards the Civic Development Project. The reality is that such an exciting and high profile project would attract significant interest from external funders but it is better to wait until the project has planning permission before undertaking any fundraising. This approach will increase the attractiveness to external parties who want to support the project and will provide both them (and the Council) with a greater degree of certainty over the various opportunities to financially support and be associated with the project.

Potential sources of external fundraising would include government grants, lottery funding, corporate sponsorship, naming rights and individual donations. Fundraising is a specialist function and a Fundraising Strategy will be required to ensure that fundraising activities meet the Council’s objectives.

A separate charitable trust is likely to be established along with a Friends group which will co-ordinate fundraising. The Marlowe Theatre in Canterbury which
opened in 2011 attracted the following external fundraising albeit around the time of the recession:

- Kent County Council Grant: £2 million
- KCC Loan at 2 per cent: £2 million
- South East England Development Agency: £2 million
- Private Sector: £4.1 million

This left Canterbury City Council only needing to fund £15.5 million of the £25.6 million cost.

In addition, the Charitable Trust’s fundraising continues to this day including donations, legacies, sponsoring of seats (at £500 each) and the Arts Council are match funding every donation until 2019.

6.10 Council Tax Strategy
There is no change to the strategy for Council Tax set out in the Medium-term Financial Strategy. Council tax will continue to increase by the permitted cap of £5 a year to cover inflationary pressures and increased demand for services. The civic development scheme will not add further to the level of Council Tax.

6.11 Civic Centre Site
A capital receipt of £9m has been assumed for the sale of the current Civic Centre site based on the views of GVA and some soft market testing. However, the Council would also keep its options open to consider renting the buildings and retaining the freehold if that meets the Council’s financial requirements.

7 INDEPENDENT REVIEWS

7.1 Mid Kent Audit Service were commissioned to undertake a review of the approach to Project Management in relation to the Civic Development Project. Their report Mid Kent Audit review of the Civic Development Project is attached as Report 4: Finance Appendix 4. The overall opinion based on the audit work is that the Council has Strong controls operating over the project management, governance and budgetary control of the Civic Development project.

7.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) are the leading professional body regarding the use of public finances. They have been commissioned to review the key financial assumptions underpinning the Civic Development Project and the robustness of the funding strategy. Their report CIPFA review of the Civic Development Project is attached as Report 4: Finance Appendix 5.

7.3 The CIPFA team were impressed by the council and many aspects of their approach to the project, it has all the aspects of successful delivery, in particular:
- Vision
- Ownership/Commitment
- The retained architects, GVA are of high quality and are supplemented by an experienced in-house team
• The quality and thoroughness of pre-tender work on delivering the build
• Savings strategy – appears deliverable
• Prudent financial planning approach
• The involvement and approach of the Director of Finance, Policy and Development

7.3 Capital Asset Services have been commissioned to undertake a desk-top review of the Council’s balance sheet. This helps to ensure that the Council has the financial capacity to undertake the Civic Development Project. This exercise identified that the Council has available a working capital surplus of £8.8 million which will help it to absorb fluctuations in cash flow over the medium-term without the need for external borrowing.

8 REPORT APPENDICES

The following documents are to be published with, and form part of, the report:

• Report 4: Finance Appendix 1: Civic Development Construction Costs
• Report 4: Finance Appendix 2: Business Plan for the proposed new Theatre
• Report 4: Finance Appendix 3: Consolidated Business Case
• Report 4: Finance Appendix 4: Mid Kent Audit review of the Civic Development Project
• Report 4: Finance Appendix 5: CIPFA review of the Civic Development Project