

 Executive Report 7th February 2018		Agenda Item No. 15
Title	Investment in Playbox Theatre	
For further information about this report please contact	Andrew Jones, Deputy Chief Executive Andrew.jones@warwickdc.gov.uk	
Wards of the District directly affected	Aylesford	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No - P&C Appendices	
Date and meeting when issue was last considered and relevant minute number	N/A	
Background Papers	N/A	

Contrary to the policy framework:		No
Contrary to the budgetary framework:		No
Key Decision?		Yes
Included within the Forward Plan? (If yes include reference number)		Ref 911
Equality & Sustainability Impact Assessment Undertaken		No
N/A		
Officer/ Councillor Approval	Date	Name
Deputy Chief Executive	17 th January 2018	Andrew Jones
CMT	17 th January 2018	Chris Elliott Bill Hunt Andrew Jones
Section 151 Officer	17 th January 2018	Mike Snow
Monitoring Officer	3 rd January 2018	Andrew Jones (author)
Portfolio Holder(s)	22 nd January 2018	Councillors Butler & Whiting
Consultation & Community Engagement		
N/A		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below).		

1. **SUMMARY**

- 1.1 The report recommends that this Council makes a loan available of up to £100,000 to Playbox Theatre Limited (Company number 03462037), thereby enabling the construction of a new access drive to overspill car park and delivery area in accordance with the granting of planning approval of application W/15/0808. The theatre is owned by Playbox Theatre Limited (a not-for-profit company limited by guarantee) but sits on land owned by Warwickshire County Council and so a long lease is in place.
- 1.2 The recommendation provides the opportunity for the Council to support a successful community venture, enhance the facilities at the site and provide an ongoing financial return to the Council which may be better than could be achieved through alternative investments.

2. **RECOMMENDATIONS**

- 2.1 That Executive notes that in accordance with planning application W/15/0808, Planning Committee has approved a new Playbox Theatre car park and access drive to overspill car park and delivery area (Plan at Appendix 1).
- 2.2 That Executive notes the estimated cost of the works to construct the access drive referred to in recommendation 2.1 is between £70,000 and £110,000 and the attempts that have been made to secure grant funding from other bodies (Appendix 2).
- 2.3 That Executive notes that Playbox Theatre Limited has requested that Warwick District Council (WDC) makes a loan of up to £100,000 available to enable it to undertake the aforementioned works and to that end has produced a business case (Appendix 3 - produced ATI Projects Limited) which has been reviewed by this Council's Finance Administration Manager and Head of Finance.
- 2.4 That Executive agrees to make available a loan of up to £100,000 to Playbox Theatre Limited and delegates authority to Deputy Chief Executive (AJ) and Head of Finance, in consultation with the Portfolio Holders for Business and Finance, following receipt of appropriate advice, to determine the financing and terms of the loan and being satisfied that the project is deliverable ensuring that:
- Robust security for the loan is in place;
 - The loan is released in staged payments following receipt of appropriate invoices and is overseen by the Council's Finance Administration Manager being managed in accordance with RUCIS grant principles.
- 2.5 That Executive notes that a Rural/Urban Initiatives Scheme (RUCIS) grant application for £30,000 to support changes in the theatre building will be made later this calendar year.

3. **REASONS FOR THE RECOMMENDATIONS**

3.1 Recommendation 2.1

- 3.1.1 Formed in 1986, Playbox Theatre has been operating out of Dream Factory, Stratford Road, Warwick since 1999. It shares its site with Aylesford School and

Sixth Form College, and Army Cadet Force (ACF) and Air Training Corps (ATC). The site is therefore a hub for children and young persons' activities and is handily located next to two of the District's major housing estates, Chase Meadow and Forbes. Created for young people from ages 2 to twenty-one, Playbox Theatre provides extensive training, performance, touring and wide-ranging programmes. [Playbox website link here](#)

- 3.1.2 According to Playbox, "The Dream Factory was the first purpose built and uniquely designed creative centre for young people in the UK - and in fact in Europe". Playbox is recognised as a *Key Client* of WDC (Key Clients make up a small portfolio of professional arts organisations which are recognised as important to the sustainability & long term viability of the arts infrastructure in Warwick District.)
- 3.1.3 As part of planning application W/15/0808, Playbox sought approval for a new car park, and access drive to an overspill car park and delivery area. This was necessary as the success and growth of Playbox had created a need for additional parking spaces and safe access to the site following decisions made by Aylesford School. Planning approval was granted on 22nd July 2015, however, the funding had not been secured to undertake the works, a position that remains as of today's date.
- 3.1.4 Members are directed to pages 7 to 13 of the business plan. It will be noted that the consequences of Aylesford School's decision in respect of access to the site is that if mitigation is not found to the parking situation the very viability of Playbox is threatened.
- 3.1.5 The business plan states:

"The reduced number of events shown since 2015 is a direct result of the gradual erosion of access to the rear car park for daytime / weekend classes and the congestion issue that has been caused by the total closure of the rear access from June 2016. All areas of Playbox's business are suffering either direct or collateral damage.

"Now that the access via Aylesford School is completely closed, the rear car park with the existing 20 bays is effectively 'land locked' – and cannot be accessed by vehicles at all. This is causing great concern not only for Playbox but also for the parents and other visiting companies.

"The new rear access road and car parking proposed is essential to the future sustainability of this unique creative environment known internationally and based in Warwick. It will also ensure that the Dream Factory continues to:

- maintain accessibility and participation for the local community.
- provide a family friendly daytime meeting place for parents with pre-school children.
- offer a café and resource for local business to host meetings / conferences / training.
- avoid visitors using major local roads as overflow parking that would be dangerous."

3.2 Recommendation 2.2

- 3.2.1 Following the granting of planning permission and supported by funding from WDC, ATI Projects Limited (a company used by WDC on many occasions being a specialist in bid writing and funding applications) was commissioned to determine what funding opportunities were available to finance the aforementioned works and make any likely bids.
- 3.2.2 A summary of the ATI's bid work can be seen at Appendix 2 and unfortunately no funding was available subject to further enquiries with the Arts Council (AC). Subsequent work by Playbox in pursuing this line of enquiry was not successful as the AC provides larger grants mainly to National Portfolio Organisations (of which Playbox Theatre is not) - intended to improve arts venues and buildings in the main.
- 3.2.3 The cost of the works is estimated at between £70,000 and £110,000. The table below details the quotes that have been received to date:

Contractor	Price ex VAT March 2017	Price ex VAT Jan 2018	Notes
R J Hartwell	£ 67,206	£78,966	Quotation updated 22.1.18
Allworks	£107,640	£107,640	Jan 2018 quotation as previous
Colin Constable	£ 94,590	£ 94,590 tbc	Earliest on site would be May 2018 (2017 quote confirmed)
Fairways	-	£105,546	Quotation received 19.1.18
Murray and Co	-	£167,068	Quotation received 24.1.18

- 3.2.4 At the time of writing the quotes already received are being updated and two new quotes are awaited.

3.3 Recommendation 2.3

- 3.3.1 Playbox has asked WDC whether it would be prepared to advance a loan that would enable it to undertake the works. Playbox's request for a loan may enable the Council to achieve a better rate of return than could be achieved through alternative investments whilst at the same time supporting a successful Key Client with the delivery of its aspirations. However, there is an element of risk to the Council in advancing such a loan and obtaining a higher return.
- 3.3.2 Officers asked Playbox to produce a business plan (Appendix 3) and have been assisted in its construction by ATI Projects Ltd, again funded by WDC. The business plan has been reviewed by the Council's Finance Administration Manager and Head of Finance.
- 3.3.3 The business is appropriately registered with Companies House as Playbox Theatre Limited (Company number 03462037). It is a private company limited by guarantee without share capital with three directors and a company secretary. The company has been active since November 1997 and has filed all accounts as required by Companies House.
- 3.3.4 The review of the business plan consisted of:

- A review of the Plan and associated documentation including published company accounts by Finance Administration Manager and Head of Finance.
 - A meeting with company directors Mary King and Stewart McGill by Deputy Chief Executive (AJ).
 - A visit to the property and its location by Deputy Chief Executive (AJ).
- 3.3.5 Members should also note that the development of the business plan has been an iterative process following feedback by the Finance officers and Deputy Chief Executive (AJ).
- 3.4 Recommendation 2.4
- 3.4.1 In addressing this recommendation, Members will first want to consider whether they believe the business plan to be credible. It has been reviewed by the Council's Finance Administration Manager and Head of Finance but like any business plan it will come with risk so Members will need to reflect on their appetite for that risk.
- 3.4.2 Should Members believe the plan is sound and wish to consider a loan then they will want to be reassured that the Council has the power to make the loan and that there are no state aid or competition issues.
- 3.4.3 On the first point there is no legal bar to the Council making a loan. The authority to do this is under the General Power of Competence, and further, Councils have power to invest under the Local Government Act 2003.
- 3.4.4 With regard to the 2nd point there are no state aid issues as the proposed loan is below the threshold. With regard to matters of competition the key issue is the level of interest charged. A helpful commentary from Warwickshire County Council Legal Services is as follows:
- "The court emphasised the wide spectrum of reasonable reactions to commercial circumstances in the private market. This effectively gives a public body a wide margin of judgment when applying the private investor test. It is only necessary to establish that a hypothetical investor, with the same characteristics as that particular public body, would have made that decision.
- "Basically, in coming up with an appropriate rate/terms, WDC should get an independent view in writing, and I'm suggesting your auditors would be good people to ask for this. You should ask them for their professional opinion on what appropriate terms would be for a loan of this type."
- 3.4.5 Clearly the interest rate charged would require further consideration but for a loan of £100,000 @ 10% over 10 years, total cost would be £162,745 (at today's prices) which equates to repayment of £62,275 interest over the ten years. This can simplistically be compared with current investment returns on £100,000 which if deposited in Equity funds could potentially be averaging 6% i.e. £60,000 in total.
- 3.4.6 Members will wish to note that in supporting Playbox with its application, the Council has already invested £3,600 (including VAT) by commissioning ATI Projects Limited to undertake the business plan production and prior to this ATI undertook the "grant finding" work as part of a previously commissioned contract with the Council. It is estimated that the cost of this work is a further

£1,500. There has also been significant time spent by Deputy Chief Executive (AJ) on the proposal although the Council's senior officers do not record their time on individual projects so it is not possible to quantify the cost incurred. There has been limited legal and treasury advice costs incurred up to this point with advice on loans being more generic when another matter was being considered. However, should approval for the loan be granted extra cost will be incurred in commissioning legal and treasury advice as well as the day-to-day administration of the loan. All these costs can be met from existing budgets and staff resources although there is obviously an opportunity cost of undertaking this work as opposed to doing something else.

- 3.4.7 Should Executive wish to agree the loan then it is recommended that authority is delegated to Deputy Chief Executive (AJ) and Head of Finance, in consultation with the Portfolio Holders for Business and Finance, following the receipt of appropriate advice, to determine the financing and terms (including security) of the loan.
- 3.4.8 With regard to payment and administration of the loan it is proposed that this is dealt with in the same way that the Council's RUCIS schemes are managed whereby payment is only made upon receipt of invoices and the whole process is overseen by the Finance Administration Manager.

3.5 Recommendation 2.5

- 3.5.1 The business plan refers to a further initiative "Playbox Futures". The purpose of this project is to expand the offer to a wider range of young people by developing digital media, sound performance and theatre production opportunities. This will require additional facilities, equipment and building alterations and so fundraising, including a bid to the Council's RUCIS scheme, is likely to be made during the course of this year.

4. POLICY FRAMEWORK

4.1 Fit for the Future (FFF)

The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects.

The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

FFF Strands		
People	Services	Money
External		
Health, Homes, Communities	Green, Clean, Safe	Infrastructure, Enterprise, Employment
<u>Intended outcomes:</u> Improved health for all Housing needs for all met Impressive cultural and sports activities	<u>Intended outcomes:</u> Area has well looked after public spaces All communities have access to decent open space	<u>Intended outcomes:</u> Dynamic and diverse local economy Vibrant town centres Improved performance/ productivity of local

Cohesive and active communities	Improved air quality Low levels of crime and ASB	economy Increased employment and income levels
Impacts of Proposal		
Improved facility at which people enjoy themselves.		Investment in business which may lead to increased employment.
Internal		
Effective Staff	Maintain or Improve Services	Firm Financial Footing over the Longer Term
<u>Intended outcomes:</u> All staff are properly trained All staff have the appropriate tools All staff are engaged, empowered and supported The right people are in the right job with the right skills and right behaviours	<u>Intended outcomes:</u> Focusing on our customers' needs Continuously improve our processes Increase the digital provision of services	<u>Intended outcomes:</u> Better return/use of our assets Full Cost accounting Continued cost management Maximise income earning opportunities Seek best value for money
Impacts of Proposal		
Not applicable.	Playbox is a key client providing valuable cultural activities for residents	Improvement to asset and increased financial return.

4.2 Supporting Strategies

- 4.2.1 Playbox is a WDC Key Client – Playbox has an international reputation for young people's theatre & has been creating theatre with and for young people for 25 years. In 2015 it announced a unique partnership with the Sir Peter Ustinov Foundation which led to the launch of the first Ustinov Theatre School (UTS) in the UK, providing world-class theatre training free to talented local young people ages 14-18, aspiring to a career in the theatre.
- 4.2.2 In terms of the strategic future direction of the Arts Service, a priority is to maximise resources and impact by working in partnership with key local organisations. This way of working is recognised in the Arts Review & Strategy for its effectiveness & for making best use of small resources for maximum impact. This would also be in line with the national trend amongst local authorities which has seen a shift from one of service delivery to that of enabling, facilitating & commissioning of services around key strategic priorities. The WDC Key Client relationship/process offers the opportunity for WDC to work in partnership with key arts organisations, influencing their development and programmes of work, identifying joint priorities & delivering WDC outcomes. This way of working delivers excellent value for money as a small amount of WDC investment helps secure external funds (with external funders explicitly looking for the reassurance of the Local Authority partnership) as well as being maximised by Key Client resources. Playbox's custom-built theatre space is also a resource used by other local professional &

emergent organisations e.g. in 2015 Playbox launched P:LAB which offers free space to explore & create new work.

- 4.2.3 Playbox's provision further contributes to the Council's objectives through community engagement & participation – specifically high quality & innovative children/youth arts opportunities. This aligns with Department for Culture Media and Sport's (DCMS) 2016 Culture White Paper Theme 1, to increase participation in culture especially amongst children & young people, and to promote clear pathways into work including tackling barriers to working in the arts professionally. Playbox has a strong track record of young people successfully making the progression to working in the theatre industry & initiatives such as UTS offer young people from disadvantaged backgrounds this opportunity. Playbox has also appointed a senior post dedicated to developing Playbox's outreach work with the objective of increasing Playbox's engagement with children/young people from disadvantaged backgrounds.
- 4.2.4 Prosperity - Playbox's high quality arts activity enhances Warwick District's reputation, attracts investment (e.g. Ustinov Foundation, ACE, Trusts & Foundations, private donors, business sponsorship), contributes to the visitor economy through drawing participants and audiences from across Warwickshire & provides employment opportunities for local artists & other staff. As such it makes a contribution to WDC's strategic vision of the District as a great place to live, work, visit & invest in business. Participation in the arts has also been shown to increase the likelihood of young people going on to further education and training, and Playbox's provision can be said to be helping raise the aspirations of young people locally & developing the skills & educational assets of the District. This aligns with DCMS' 2016 Culture White Paper Theme 2, culture supporting economic growth, jobs & wellbeing.

5. BUDGETARY FRAMEWORK

- 5.1 The report recommends that should Members agree to advance a loan then the terms of that loan are delegated. In producing the business plan an assumption has been made that a rate of 10% is charged. This figure is considerably higher than the rate that would be charged to the Council via the Public Works Loan Board but probably below what a financial institution would charge an enterprise such as Playbox. Therefore in determining the rate the Council will need to ensure that it is not irrationally generous and that it provides a reasonable rate of return particularly when set against what the Council could achieve through alternative long term investments and that it reflects the risks incurred by the Council in loaning the funds and the costs incurred by the Council in arranging and subsequently administering the loan.

5.2 Playbox Financials

5.2.1 Profit and Loss:

	2013 £	2014 £	2015 £	2016 £
Turnover				
Sales	246,883	258,589	308,304	280,519
Deferred income released	26,265	25,528		
Other operating	0	898		

income

Cost of Sales

Raw materials purchases / production costs	14,739	28,458	49,202	42,689
Finished goods purchases / merchandise	1,596	2,596	1,189	3,094
Direct costs / canteen costs	18,706	20,458	22,174	23,186

Gross Profit	238,107	233,503	235,739	211,550
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Other operating income

Grant & Lottery transfers	8,000	41,365	36,240	15,940
Sponsorship and donations	17,721	11,985	8,896	16,293
Ustinov Foundation	0	0	12,922	31,737
Fundraising / other operating income	229	0	0	8,976

Administrative expenses

253,667	271,905	277,308	273,245
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Operating Profit	10,390	14,948	16,489	11,251
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Interest payable

Bank interest on loans / OD	0	283	76	1,879
Other interest paid	3,300	2,845	0	0
Other interest payable - not finance liabilities	525	0	2,383	0

Profit before taxation	6,565	11,820	14,030	9,372
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5.2.2 The summaries above are drawn from Playbox Theatre's audited accounts.

5.3 Playbox Theatre 3-Year projected Income & Expenditure

	2017 (11 months)	2017 est 12 mths	2018	2019	2020
	£	£	£	£	£
Sales					
Fees and Sales	225,690	246,207	283,000	305,000	332,000
Deferred / miscell income	1,693	1,847	5,000	5,000	5,000
Other operating income	10,383	11,327	15,000	15,000	15,000
Room hire	2,484	2,710	3,000	3,000	4,000
	240,250	262,091	306,000	328,000	356,000
Other income					
Grants and Lottery transfers	11,309	11,309	15,000	20,000	20,000
Donations	6,985	6,985	16,000	18,000	18,000
	18,294	18,294	31,000	38,000	38,000
Gross Profit / (Loss):	258,544	280,385	337,000	366,000	394,000
Expenses (Costs of sales & admin)					
<i>Annual inflation est</i>			3%	3%	3%
Production Costs	10,568	11,528	11,874	12,230	12,597
Canteen / café	19,009	20,737	21,359	22,000	22,660
Teaching	46,007	50,190	51,695	53,246	54,844
Wages & Staff Costs	118,858	129,664	133,553	137,560	141,687
Course Fees	868	947	975	1,005	1,035
Technical Support	10,393	11,338	11,678	12,028	12,389
Printing & Postage	3	3	3	3	3
Stationery & Books	1,817	1,982	2,042	2,103	2,166
Light & Heat (5% annual inflation est)	14,626	15,955	16,753	17,591	18,470
Advertising	7,948	8,670	8,930	9,198	9,474
Rates	10,396	11,341	11,681	12,031	12,392
Tickets	47	51	52	54	56
Motor expenses, travel accomn	3,437	3,750	3,862	3,978	4,097
Insurance	708	772	795	819	844
Premises insurance	3,304	3,604	3,712	3,824	3,938
Repairs & renewals	15,692	17,119	17,632	18,161	18,706
Maintenance	2,043	2,228	2,295	2,364	2,435
Telephone	2,335	2,548	2,624	2,703	2,784
Accountancy and bookkeeping	1,408	1,535	1,582	1,629	1,678
Consultancy & prof fees	3,090	3,371	3,472	3,576	3,683
Cleaning	12,315	13,435	13,838	14,253	14,680
Sundry expenses	751	819	844	869	895
Bank charges	6,170	6,731	6,933	7,141	7,355
Subscription	505	551	567	584	602
Licences	222	242	249	257	265

	292,517	319,110	329,002	339,207	349,735
Net Profit / (Loss):	-33,973	-38,725	7,998	26,793	44,265

5.4 Sensitivity Check analysis

5.4.1 The business plan includes a sensitivity analysis at page 18. Whilst a plan can only ever be a forecast it may at least give further confidence to Members that it has been developed in a commercial manner.

5.5 Track record of repaying a loan and security

5.5.1 Members will note that Playbox has an outstanding loan (currently £30,000 remaining) with Lloyds which will be repaid by the end of 2020. There is no evidence to suggest that there have been any issues in repaying the loan and it is secured by legal charge over the business premises. Playbox's latest financial statements show that it has tangible assets of £1,395,295 (largely its premises) with total net assets of £1,235,805. Should Members agree to the loan, officers will ensure that appropriate security is put in place.

5.6 Credit Check

5.6.1 The credit check on Playbox has proven sound with the main points being:

- There is little reason to doubt that the company will prove equal to engagements.
- Risk Score 55 Out of 100 - The risk index allocated to PLAYBOX THEATRE LIMITED is based on an analysis of the findings recorded above. In the light of the information available, the company is considered to be relatively sound and, therefore, subject to average risk status.
- This company pays faster than the industry average.
- There is a consistent payment pattern.
- This company has 0 accounts placed for collection.
- This company has 0 outstanding unpaid accounts.
- This company pays within its terms.

5.7 As at 31 December 2016, the accounts of Playbox show it had current assets of £34k, and current liabilities of £112k. £78k net current liabilities represents a slight improvement on previous years, despite the reducing operating profit.

5.8 As the loan would not be for Treasury Management purposes and in accordance with the Council's Treasury Management Policy, the loan would be classified as capital expenditure and should be included within the Council's Capital Programme. From here, it will be necessary to finance the loan. For the sums involved, it is likely to be funded from the Capital Investment Reserve. However, the precise funding should be determined by the Head of Finance as part of reviewing the overall funding of the Capital Programme.

6. **RISKS**

6.1 **On the assumption that the loan is not made**

6.1.1 The business plan refers to the very viability of Playbox being at stake if it does not address the parking issue. Whilst the proposals in the business plan will not

provide a full solution they will go some way to mitigating the harm that has been caused by the decisions of Aylesford School.

6.2 **On the assumption that the loan is made**

- 6.2.1 The most significant risk is that the investment does not bring about the change in operating performance that Playbox wishes to see and has no way of repaying the loan. This is mitigated by the security the Council will achieve by way of a charge over the theatre building.
- 6.2.2 If the loan is defaulted upon, whilst security will be put in place, there is the potential for the Council to be involved in extensive discussions with Playbox, along with the political risks if it needs to take extreme measures to recover the debt.

7. **ALTERNATIVE OPTION(S) CONSIDERED -**

- 7.1 Playbox has attempted to raise the necessary finance through an investigation of grant funding opportunities but as can be seen at Appendix 2 this has not proven successful.

- 7.2 Reproduced from Playbox's Business Plan

7.2.1 **Option 2 - Apply for £100k loan from a bank to cover the costs of the new side access road and car park improvements for the Dream Factory.**

Playbox Theatre has made enquiries to Lloyds Bank regarding loan terms for the access road project. It appears that this option may not provide sufficient loan to cover the access road works – for example, Lloyds unsecured lending generally has a limit of £25K. There is some uncertainty about the Bank's requirement for the level of security Playbox would need to provide to secure a capital loan. In our experience, timing for a loan decision would also be an issue, given the urgent need for immediate action. In addition, this type of loan would not represent any validation from the Council that could be used as partnership evidence for future capital grant bids to Arts Council or other trusts and foundations.

7.2.2 **Option 3 – Source £100k from own funds and fund raising campaign e.g. crowd funding to cover the costs of the new side access road and car park improvements for the Dream Factory.**

This is not an option as Playbox does not have the capital reserve sufficient to fund the necessary works. The company does have a strong volunteer and supporter network and in particular The Friends of Playbox charity (see Appendix 9) does raise funds through its charitable activities, the funds must only be used to develop and benefit young people via Playbox activities and cannot be used to cover road infrastructure improvements. Also the time required to raise the necessary funds via membership and supporter campaigns would be too long and impact upon Playbox's viability.

7.2.3 **Option 4 – Do nothing**

This is not an option – Playbox cannot continue to operate successfully without access to the rear car park and delivery area. The consequence of not attracting

a loan would be devastating and would result in closure – and a loss of a major creative centre for Warwick.