

SUBJECT:	FINANCIAL SUPPORT FOR LINCOLN ARTS TRUST LTD
DIRECTORATE:	COMMUNITIES AND ENVIRONMENT
REPORT AUTHOR:	SIMON WALTERS, STRATEGIC DIRECTOR, COMMUNITIES AND ENVIRONMENT

1.	Purpose of Report								
1.1	To report on the adverse long-term sustainability of the current business model for Lincoln Drill Hall, especially considering the impact of Covid 19 on that model, and then reflect on the potential for providing any continued grant funding from the City Council moving forward.								
2.	Background								
2.1	The Ruston Hall Trust, as owners of the Drill Hall, have in the past retained the Council to manage the venue on its behalf, under a management agreement dated 17 January 2005. However, Lincoln Arts Trust Ltd (LATL) became the successor body to the Ruston Hall Trust Ltd and in due course undertook the management and ownership of the Drill Hall with effect from 1 October 2010. All staff were transferred to LATL and it now operates as an entirely separate entity. The City Council has no legal interest in the building or operation but has one place reserved on the Board of Trustees. This post is currently vacant.								
2.2	Since that time the City Council has provided grant funding to the LATL in return for defined outcomes as specified in a service level agreement between the Trust and Council. Over the years, this has been subject to a range of re-negotiations and resulting in changes to budget provision. In addition, officers have worked with LATL over the years to explore any and all new income streams and have offered advice on a range of activities including marketing the building, packaging offers, potential alterations to the building, improving the façade of building (within Planning guidelines) to build awareness, and officers have been extensively involved in assisting with the exploration of new business models. As such the council has committed significant officer time to helping the Drill Hall explore a range of opportunities and also marketing their offer.								
2.3	The current Service Level Agreement (SLA) is due to expire on 31 st March 2021. The profile of payments defined in the current SLA have therefore been:								
	<table border="1"> <tr> <td>2017/18</td> <td>£231,189</td> </tr> <tr> <td>2018/19</td> <td>£216,540</td> </tr> <tr> <td>2019/20</td> <td>£201,990</td> </tr> <tr> <td>2020/21</td> <td>£187,590</td> </tr> </table>	2017/18	£231,189	2018/19	£216,540	2019/20	£201,990	2020/21	£187,590
2017/18	£231,189								
2018/19	£216,540								
2019/20	£201,990								
2020/21	£187,590								

3.	Current Position
3.1	Noting that the current SLA is due to end in March 2021, various conversations have been undertaken over an extended period of time, with other providers and industry experts (covered in more detail in the Part B report). This work concluded that the Drill Hall model was unsustainable in its current form and needed to change.
3.2	<p>Recent documentation submitted to the council from LATL confirms the lack of financial viability pre Covid:</p> <p>“With the council funding at the level it is (£187kpa) and sales levels as they were, we were still facing a challenge of fundraising over £130,000 each year. As a guide, in 2019-20 we raised £116k approximately, but that sum included £60,000 from Esmee Fairbairn. It is a really challenging total that will only rise year on year.”</p>
4.	Impact of Covid 19
4.1	<p>The impact of Covid 19 has been felt across all sectors, not least the cultural and arts sector. This sector remains in lockdown currently and many venue operators have been very clear that they cannot commercially operate with social distancing in place. Indeed, even if social distancing were relaxed, it will take time for audiences to recover sufficient confidence to attend performances once more in the volumes required. The Chief Executive of LATL has confirmed that with current social distancing, audience numbers would have to be a maximum of one third capacity.</p> <p>This would either necessitate a further increase in grant funding thereby increasing the financial impact on the City Council OR a new business model adopted by the Trust. An early draft of a proposed new business model was presented to City Council officers by LATL on Friday 7th August 2020, but this model still required the current council grant funding level to be maintained and officer views were that it was an ambitious model unlikely to achieve the income projected, due to the impact of Covid 19 continuing into 2021 and beyond.</p>
4.2	The national picture does look bleak over the months ahead. Many theatres are suggesting that performances may not return until Spring 2021. This is in part to allow time for audience confidence to return, and for social distancing to be further relaxed, but it also is in response to the fact that performances often take months of planning, preparation and rehearsal. So already it's too late to hold performances over the rest of this calendar year. Until very recently government funding was limited to those overall grants available for businesses in the leisure and hospitality sector. No specific sector support had been announced. However, the Arts Council England in June/July did announce an emergency fund but this is limited in size. The LATL made a successful application, but has only received a modest sum of £59,000 and hence this is a very short-term assistance grant.
4.3	<p>This in turn has serious implications for places like Lincoln Drill Hall which rely heavily on the Christmas pantomime season for income to support the programmes over the rest of the year. Indeed, the LATL Chief Executive has confirmed:</p> <p>“We are already clear that in any scenario, there can be no public programme until 2021. Many artists and promoters who were booked for the autumn have either cancelled</p>

	autumn touring or rescheduled their plans into next year. Our annual pantomime cannot go ahead as there simply wouldn't be the volume of audience expected to make it viable.”
	“We have placed the vast majority of staff on Furlough leave since the 1 st April which has allowed the trust in the short term to protect staff jobs. Sales have dropped by 96% since we shut our doors to the public. The uncertainty around when theatres might re-open and how social distancing will affect their ability to operate has been at the forefront of our minds. Any social distancing will make it economically unviable for us to open in the autumn. 2m reduces our capacity to between 50-60 people (later increased to 140 maximum under later govt. guidance).”
4.4	On 17 June 2020 we received correspondence from the Chief Executive of LATL, seeking further clarity in terms of the level of grant funding from the City Council for both the rest of 2020/21 and also for 2021/22. The City Council has paid “up front” half of the grant allocation for this financial year to assist the Trust with their cash flow. This amounted to approx. £94,000. The second instalment could be made at the end of Sept 2020, but if the Drill Hall is considered unviable then there is no requirement to pay it, as there are no guarantees that the SLA could be fulfilled.
5.	The City Council Position
5.1	Although the projections are still being updated, at the time of writing this report the impact of Covid 19 on the General Fund in 20/21 is still estimated to be in the region of £2m. In addition, in future years the City Council will need to make further savings of between £1m - £1.5m pa to ensure a balanced budget.
5.2	This level of saving does not factor in the additional resource request from the Drill Hall to cover either transition costs or the impact of Covid 19. If these were included the savings could be at least £250k pa higher over next two years.
6.	Petition
6.1	<p>A petition has been received entitled ‘Keep funding Lincoln Drill Hall’ which at the time of submission had received 3,052 signatures with 1,194 having addresses in Lincoln. The petition is still ‘live’ so may include additional signatures in the lead up to the meeting. A link to the petition is below:</p> <p>http://chnq.it/9gz6pFLn</p> <p>The Council’s petition scheme sets out that petitions in excess of 900 signatures are entitled to a debate at a meeting of Council. The petition organiser, in the knowledge that the Executive is considering this report, has confirmed her intention to present the petition to the Executive alongside the report as opposed to a separate debate at Council.</p>
7.	Options Available to the City Council
7.1	<p>There appear a limited number of options open now to LATL and to the City Council in particular. The majority of these options come with a large investment requirement.</p> <p>These are:</p>

Option 1: Continue the current level of grant funding into a new SLA. It should be noted however, that the Drill Hall operating model was increasingly unsustainable prior to Covid 19 and will be even less viable moving forward. On this basis Option 1 would still lead LATL to experience severe financial difficulty in a very short period of time and hence could be considered not to be prudent use of public money over the term of a new SLA.

Option 2: Undertake negotiations with another provider in the city regarding a new model of merged delivery and underwrite the entire transition cost. As above, the additional cost to the City Council could be in excess of £250,000. Such costs are beyond the capacity of the council to fund and conversations either directly with other providers or through LATL would indicate very little appetite locally to enter serious negotiations to take on the Drill Hall as a going concern.

Option 3: The City Council removes its grant funding. Executive could take a view on whether the second grant payment by the City Council, due in late September 2020, should be made. Whilst there is no legal requirement for this, it would give the Trust an additional six months to explore any and all opportunities to source additional funding. Indeed the Dept of Culture, Media and Sport has just announced a further emergency fund (Cultural Recovery Fund - round one applications commenced on 10th August 2020) for organisations such as the Drill Hall to source between £50k to £3m to help with re-opening or help become sustainable prior to re-opening. It is possible further funding opportunities could follow from the Arts Council England to enable venues to transform, although this may be a little further away. Whether the Trust are ultimately eligible for either, or both, funds will be for the Trust to consider.

In addition, through the Town Fund initiative (which requires the development of a Town Investment Plan to secure Government funding of up to £25m), outline proposals have been submitted to re-purpose the building. These will be considered over the months ahead alongside all other proposals for the city centre's revitalisation, and so offers another opportunity for the LATL in partnership with others.

So, by continuing the Council's grant funding for another six months to the end of the current SLA period, it would give the Trust the best chance of finding a new (funded) operating model be it through external grant funding or through development of new proposals through the Town Fund.

8. Conclusion

8.1 It would seem reasonable to sum up the situation for the LATL as follows:

- Their current business model is unsustainable and has been for some time
- Covid 19 has made the situation far worse for the Drill Hall and will require significant additional funding to continue to operate in its current form.
- There are concerns over the viability of the revised business plan submitted, as the effects of Covid 19 are not fully reflected

	<ul style="list-style-type: none"> There appears little prospect of a merger with any other provider prepared to take the Drill Hall as a going concern. 															
8.2	There seems few options open to LATL. The Chief Executive of the Drill Hall has other national funding options coming on stream currently to which the Trust can apply, but there are no guarantees of success as this funding is a competitive process pitching against other organisations across the country.															
9.	Strategic Priorities															
9.1	<p>Let's drive economic growth</p> <p>Culture and Arts are considered a major contributor to the economic vitality of an area. Lincoln has a number of venues now in the city including Theatre Royal, LCAP and the Engine Shed as well as the Drill Hall. This in part has been the issue with the Drill Hall business model as competition has increased within the city.</p>															
9.2	<p>Finance</p> <p>Currently the MTFs has the following forecast in relation to the Drill Hall Grant:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Budget 2020/2021</th> <th>Budget 2021/2022</th> <th>Budget 2022/2023</th> <th>Budget 2023/2024</th> <th>Budget 2024/2025</th> </tr> <tr> <th>£</th> <th>£</th> <th>£</th> <th>£</th> <th>£</th> </tr> </thead> <tbody> <tr> <td>187,590</td> <td>191,340</td> <td>195,170</td> <td>199,070</td> <td>203,050</td> </tr> </tbody> </table> <p>Should the grant not be paid, this could offer a significant contribution to the ongoing savings target built into the MTFs, and which is set to increase considerably.</p>	Budget 2020/2021	Budget 2021/2022	Budget 2022/2023	Budget 2023/2024	Budget 2024/2025	£	£	£	£	£	187,590	191,340	195,170	199,070	203,050
Budget 2020/2021	Budget 2021/2022	Budget 2022/2023	Budget 2023/2024	Budget 2024/2025												
£	£	£	£	£												
187,590	191,340	195,170	199,070	203,050												
9.3	<p>Legal Implications</p> <p>The SLA between the Council and the LATL states,</p> <p>'The Council will provide revenue support in the form of a grant to LATL for the period until 31 March 2021. The Council reserves the right to renegotiate this Agreement or alter the terms of the grant paid to LATL. In this event the Council would provide not less than two months' notice of any change'.</p> <p>There is no clear right to terminate the SLA, however the SLA can be renegotiated or the terms amended, on at least two months' notice. Therefore the Council could seek to do this and try to avoid the liability of the balance of the grant of 2020/2021, however this may be challenged by the Drill Hall.</p> <p>Equality, Diversity and Human Rights</p>															
9.4	<p>The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.</p> <p>It requires that public bodies have due regard to the need to:</p>															

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

The current service level agreement does have a range of programmes aimed at those socially excluded. The terms of the SLA cover:

“LATL will seek to ensure that the Drill Hall will,

- contribute to the Council’s Reducing poverty and disadvantage priority providing access to a wide range of cultural opportunities
- support the Council’s endeavours to meet the needs of vulnerable groups, support people to help themselves and develop their potential, tackle discrimination in all respects and promote diversity and sustainability”

The council has taken into account the following aspects in arriving at the recommendation contained within this report:

- It is recognised that the council’s financial support for the Drill Hall is in part to provide opportunities for diverse audiences;
- Moving forwards if the venue is to survive with reduced audience capacity, and also at least when it re-opens, accommodate reduced confidence of the public to attend events, then it will need to ensure all performances are attractive to as wide an audience as possible;
- Therefore, withdrawal from the SLA is unlikely to have a differential impact on protected characteristics as any ongoing support would simply contribute to keeping the Drill hall afloat rather than enabling a tailored approach to ensure inclusivity for all members of the community
- However, continuing with our current SLA commitment to March 2021 could enable the Drill Hall to keep going in the short term, thus enabling it to have the best chance of survival in the longer term through external grant funding, and thus by implication the best chance for all audiences to benefit
- The council needs to make tough financial decisions and therefore needs to consider overall how best it can continue to support those with protected characteristics – both at this time and over the next few years. Therefore, the City Council will need to focus on the continuance of other council services/support, many of which do have a direct beneficial impact on supporting those with protected characteristics.
- City Council engagement with the other venues in the city will continue through the overarching Lincoln Cultural Arts Partnership, of which the City Council is a core member. This will enable this agenda to be progressed

	through community groups, other venues and other local providers based in communities.
9.5	<p>Human Resources</p> <p>The City Council TUPE transferred staff to LATL some years ago and hence has no liability.</p>
9.6	<p>Land, Property and Accommodation</p> <p>The Drill Hall is owned by the Ruston Hall Trust, itself now a subsidiary of LATL. Should the charity move to liquidate, the building could be transferred to another charity with similar aims and objectives (the current LATL aims and objectives are very wide) or the building disposed of and the capital receipt vested in a charity to deliver those same aims and objectives.</p> <p>No detailed work has been undertaken to understand if there are covenants on the building that could influence future use. The building overall is protected by its Grade 2 listed status.</p>
9.7	<p>Significant Community Impact</p> <p>Whilst there is a community impact in terms of overall provision if the Drill Hall were to close, it is not the only arts and culture venue in the city, with other venues able to cater for a range of audiences.</p> <p>Members will note that the City Council has received a petition of some 3,000 signatures calling on the authority to maintain its funding post March 2021. This will be considered alongside this report.</p>
10.	Risk Implications
10.1	<p>(i) Options Explored</p> <p>As covered in the body of the report</p>
10.2	<p>(ii) Key risks associated with the preferred approach</p> <p>A. If the LATL were to close the Drill Hall and seek disposal to another charity or otherwise mothball the asset, then the City Council would have some control through the planning process in terms of the building's future use. The cultural landscape will turn again in the future and there remains the possibility for other organisations in the city to look afresh at the building as either a theatre venue or maybe an education centre or other provision. Unfortunately, there are no partners currently willing to step in and take the Drill Hall in its current form.</p> <p>B. The renovation of the Drill Hall back in 2003-2005 was funded from a range of grants, some of which provide for clawback over a period of time. Due to the time elapsed since these agreements were put in place, additional work has been commissioned from the County Council (who administer the</p>

	<p>remnants of many of the funds below) to source original documentation and ascertain actual liability. Following an initial scan, those of concern could be:</p> <ul style="list-style-type: none"> • European Regional Development Fund -£978k grant -but asset life is considered to be 20 years and agreement was 2003 so there could be some clawback, reflective of the last few years of asset life • Single Regeneration Budget - £254k grant – but this is only if the asset is disposed of. If LATL went insolvent they would seek to transfer the asset at nil cost (probably) to another charity with similar aims and objectives. Assumption at this stage is there would be no clawback in this case. If sold privately, then presumption at this stage is that clawback would come from proceeds of any charge on building? • Single Pot - £300k - the grant conditions indicate a percentage of proceeds on sale of the asset are repayable in proportion to the grant. So similar scenario to above. <p>In all cases clawback needs to be evaluated within the context of the £200k pa annual grant made to the LATL from the City Council.</p> <p>Should further information on the clawback potential be received prior to the Executive meeting, this will be reported verbally in the meeting.</p>
11.	Recommendation
11.1	It is recommended that considering the lack of financial viability of the Drill Hall (even before Covid 19) and the significant uncertainty now through the medium term in relation to the resilience of arts and culture venues, Members should consider not renewing the Service Level Agreement with LATL when it expires on 31 st March 2021.

Is this a key decision? Yes

Do the exempt information categories apply? Yes

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply? No

How many appendices does the report contain? zero

List of Background Papers: None

Lead Officer: Simon Walters, Strategic Director
Telephone (01522) 873470