

Options appraisal of the future management arrangements for The Hawth in Crawley

Draft Report

Prepared by: MAX Associates



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1. Introduction

1.1. The Process

This report is a response to the Brief issued by Crawley Borough Council for an Options Appraisal for the future management of a range of the Borough's leisure facilities. The report focuses on The Hawth and evaluates the following three management options:

- Direct Management
- Management via a leisure/community trust
- Outsource/contracting out to a commercial operator/existing Trust (this option does not exclude an in house Trust bidding for the contract)

The report is based on meetings with members of the Arts Services team responsible for operation of The Hawth; site visit and venue tour; consultation with key partners including Freedom Leisure, West Sussex Library Service and Crawley Town Centre Partnership; review of data and reports relating to performance; review of trust management structures already in place elsewhere in the UK including Wigan, Glasgow, Doncaster, Mid Sussex; soft market testing with commercial operators of performing arts and entertainment venues; and scrutiny of the local and national policy context for operation of The Hawth.

1.2 Location and Functions

Crawley is a town and local government district with Borough status in West Sussex, It lies some 25 miles south of London, covers an area of 17sq.miles and had a population of 99,744 at the time of the 2001 Census.

In 1946 the New Towns Act designated Crawley as a New Town and a master plan was developed for the establishment of new residential, commercial, industrial and civic areas bringing rapid growth to both the size and population of the town in a few decades.

The town comprises 13 residential neighbourhoods based around the core of the old market town, and separated by main roads and railway lines. Further expansion is planned in the west and northwest of the town, in co-operation with Horsham District Council. Economically, the town has developed into the main centre of industry and employment between London and the south coast of England and its large industrial area supports many industries and services that are directly connected with Gatwick Airport.

The Hawth is a purpose built performing arts venue owned and operated by Crawley Borough Council. The Hawth was built by the borough and opened in 1988. The Hawth is capital debt free as a consequence of the original land sale made to finance the development. Facilities include a main theatre with capacity of 862 with wheel chair places and semi flexible seating allowing for multiple configurations to accommodate a range of activities; a studio theatre capacity 147/200; seven conference/seminar/meeting rooms; restaurant with waitress service for 50 and Arts Café for approximately 100; 2 bars; extensive foyer areas including exhibition display, box office and dressing rooms; office accommodation for the Arts Services team including venue specific staff, arts development/community arts team, marketing and administration. The Hawth uses the Blackboard online booking system; Artifax electronic calendar; and a new cash and accounting system for Catering Services networked to the Town Hall and Tilgate Park.

The Hawth is located outside the town centre in a residential area and is set in 35 acres of well-kept grounds with attractive mature planting and dedicated car parking providing free parking for patrons. Outdoor marquee and amphitheatre facilities are used for performances in the summer months. The team have consulted with public transport providers so that patrons without cars have access to bus transport before and after evening performances to and from the town centre.

The Hawth mounts a wide-ranging programme in excess of 350 performances and events per annum and programme selection is based on reaching a balance between cultural, social and commercial objectives. The venue has regional significance with approximately 60% of audience coming from outside the Borough. In 2008/09 users of all activities totalled 212,214 with 184,457 of these participants attending The Hawth. There is an active Friends of the Hawth which offers members discounts and other advantages as well as opportunities to participate at the theatre.

Arts Services is based at The Hawth and makes extensive use of its facilities and equipment in the delivery of on and off site activity and uses the skills and expertise of other team members, such as the technical crew. Arts Services consists of:

- Head of Arts: responsible for all aspects of the service including the operation of the venue, heritage services, arts development, public art, marketing as well as catering services both at The Hawth and across the Borough including Town Hall and Tilgate Park
- Promotions and Entertainments Team: programme, technical and box office - working in the venue and with cross directorate and external partners to deliver events at a variety of sites across the Borough including the Town Centre Partnership, West Sussex County Council Library Service and Freedom Leisure for events programmed at K2
- Community Arts Team working with local people and a range of internal and external partners to stimulate greater participation and meet the needs of Crawley's communities through programmes designed to attract a wide cross section of the community, often delivered in partnership with cross directorate and external partners and a range of successful audience development projects, particularly amongst young people and people of minority ethnic and cultural origins in Crawley

The Hawth has achieved the Government's Charter Mark in recognition of its customer service standards and quality of audience research and feedback with a best practice recommendation primarily for its work with young people and the methods used in establishing the Youth Arts Forum, Vision in Youth Collective. Feedback from a range of surveys conducted by Arts Services shows consistently high levels of satisfaction with the facilities and service at The Hawth. These include user surveys, including Private Hirers Survey 2009, Bars and Catering Survey 2009, Hawth Friends Survey 2008; internet feedback on booking system; project evaluations such as Big Draw Evaluation 2008; and the venue benchmark survey Price Comparisons: Seminars and Auditorium Hire 2008.

1.3 Summary Financial Situation

Background

In 2006 the Arts Review Scrutiny Panel reviewed Arts Services and specifically focussed on 'value for money' following comment in the Audit Commission's Annual Review which questioned the VFM of the Service because of the large cost per head. The scope of the review was the arts policy, the programme activity, income generation and unit running costs as well as consideration of alternative management options 'to see if a change in the method of service delivery might provide an optimum service.' *Report of the Arts Review Scrutiny Panel December 2006: 2/1*. The alternative management options considered were the same as in the current appraisal. The Review Panel recommended that Arts Services be kept under Council management. The key reasons for this decision were that Arts Services were providing 'a successful high quality diverse service that caters for the needs of, and engages with, the local community of Crawley.' The Panel felt that the community elements of the service could not be replicated by either of the alternative models.

However the Review recommended a number of changes in the management of The Hawth - the venue as distinct from the Arts Services overall – including the adoption of more commercial working methods notably related to a longer-term approach to maintenance/equipment replacement and a detailed maintenance plan; revamp of marketing materials to emphasise the facilities available at The Hawth for corporate and other hires/uses; an increased emphasis on sponsorship and development of links with the Town Centre North development; and an increased target for income generation from business and other sources. The latter recommendation specifically excluded an increase in revenue income targets for the main theatre and studio [2/8 Recommendation 8].

The current financial position

The stand-alone performance of The Hawth as a venue is obscured to some extent by the large amount of internal charges applied to both income and expenditure lines. The format used by the Council contrasts with most organisations in the voluntary or commercial sector which would draw up Income & Expenditure accounts and focus attention on income generation as against subsidy requirement. There appears to be scope for a more commercial approach to income generation in the operation of The Hawth.

This analysis draws some comparisons with the Brewery Arts Centre, Kendal as there are some similarities between the two venues, although The Hawth has a bigger main auditorium and the Brewery operates two full time cinema screens. Annual footfall at the former is 300,000 (including attendance at free exhibitions and customers who only use bars & catering facilities.) However attendance at paid events is 173,000 p.a. (Hawth 171,000+ p.a.)

In order to ascertain whether additional income could be generated from ticket sales further analysis is needed to drill down to identify average attendances and ticket yield, review pricing policies and examine the deals being done with visiting companies. Income from hirings seems positive at £253,000 as noted above. In order to assess whether further income could be generated from hire further work is needed to identify spare capacity in this area and assess the local market for underexploited opportunities to attract a higher percentage of commercial hires.

Other income generating opportunities may also exist, such as advertising, sponsorship or income from car parking. The Brewery generates around £50,000 pa from car park charges (60 spaces plus 3 disabled people's parking spaces) while The Hawth offers free parking to customers.

While staffing costs seem reasonable, premises costs appear relatively high (Brewery equivalent cost estimated at £150,000 pa in comparison to The Hawth £400,000 pa) although maintenance budgets include £18,000 for grounds maintenance and a variable provision of £160,000 for programmed maintenance. Standards of maintenance in house and externally are high and result in high levels of customer satisfaction.

Marketing costs seem high but the internal cross charging again obscures the picture. (Brewery equivalent cost £129,000 pa. The Hawth £215,000 pa including £84,000 departmental & central support.) Outsourcing design and printing supplies more effectively might achieve better value for money.

The key opportunity to generate additional income would appear to lie in the area of catering. Overall income seems low for the size of venue and number of visitors: Brewery achieves a turnover of £1.2M pa. The Hawth £632,740 pa. Although gross profit (61%) and staff cost (37%) percentages are reasonable, a commercially run catering facility might be expected to produce a net yield of 12-15% i.e. up to £95,000 in the case of The Hawth. Once the Council's cross charging is applied, however, the net yield is reduced to approximately £54,000 / 8.5% net yield. There is also some negative comment in user surveys regarding, for example, the food offer and lack of ambience.

As an alternative to working to achieve greater catering profitability on the current model, there is an opportunity to tender out this area of the operation to an independent commercial operator in return for a base rental and percentage of turnover, thus producing a guaranteed increased income on the current model, reducing operational demands, and allowing the organisation to focus on its core activity.

The overall £1.2M subsidy of The Hawth represents less than 30% of turnover excluding catering comparable to Brewery income from grants of 26% of turnover excluding catering. There is potential for the Council to achieve even better value for money through direct operation of The Hawth by review of venue marketing as well as bringing in some additional commercial income from ancillary activity, notably catering.

2. The Hawth: Policy Aims and Objectives

2.1 Policy Context

'Crawley will be a friendly, prosperous, forward looking and enjoyable town – a place that people want to live, work and visit.' *Sustainable Community Strategy: Crawley Together* 2008

The activity of Arts Services is framed in the context of local, regional and national policy. The most recent *Arts Strategy for Crawley* [Updated 2005] references local policy including *Enjoying Crawley 2003-2008: Cultural Strategy*; LGA and national government documents on the nature of cultural services as flexible, cross cutting services able to tackle social problems and contribute to a wide range of outcomes including education, health, equality,

safer and more cohesive communities, environment and economic; and the priorities of the Crawley Local Strategic Partnership.

The Policy Statement set out in the Arts Strategy [2005] for The Hawth as a venue remains broadly accurate:

‘To promote and develop the profile of The Hawth theatre in providing a diverse, quality and challenging programme of Arts and Entertainments to appeal to the broadest cross section of the community. Every encouragement should be given to community groups, organisations and individuals to participate in and use the Theatre’s facilities.’

The Hawth as a venue primarily contributes to the objectives of the Borough and the LSP through:

- Strong identity and active marketing as a significant local and regional venue attracting visitors into Crawley as well as people living in Crawley
- Inclusion, participation and health and wellbeing strategies through the pro-active approach taken in programme policy and through Arts Development to identifying and serving the specific needs of particular communities across Crawley

The overwhelming majority of private hires in the Main House and Studio are from local amateur groups, schools or charitable organisations.

The aims and objectives of Arts Development, i.e. the Community Arts team, are closely aligned with Corporate and Community objectives and use the physical resources and technical expertise of The Hawth. Most projects are delivered outside the venue in community settings, as access to spaces cannot be guaranteed given that external charged bookings take priority. However planning, showcases and other activity all take place in The Hawth. For instance over 270 arts development sessions used Hawth meeting rooms in 2009/10.

2.2. Policy in practice

Both the Arts Service’s *High Level Service Plan 2010/11* and *Work Programme 2010/11* continue an integrated approach to the development of service policy, priorities, and programme. The Service Plan and Work Programme relate explicitly to Corporate Plan Priorities and the Sustainable Community Strategy notably:

Priority 2: Health and Wellbeing

Crawley 2012 Cultural Olympiad programme and Special Needs Programme

Priority 3: Motivated and empowered communities

Heritage and cultural diversity: Road to Crawley project and Black History Month; youth arts development; Partnership projects including West Sussex Arts Partnership, work with Community Services: Active Crawley, community centres, Tilgate Recreation Centre; nine festival events with external partners including BBC, International Mela, community groups and the Town Centre Partnership

Priority 5: High quality leisure and cultural offer

Replacement of The Hawth’s sound and lighting systems and seating; Museum Service Development Plan in partnership with Heritage Lottery Fund

Priority 7: Sustainable local economy

Festival programme to encourage inward investment, spend in the local economy and support local supply chain plus encouraging partners such as the Town Centre Forum, West Sussex Arts Partnership and Library Service to develop and deliver complementary initiatives

Priority 8: Value for money

Meet budget strategy objectives through savings/income targets; increase income streams and develop business partnerships; establish new external funding streams to maintain current levels of activity

3 Analysis of current service performance

3.1 Management and Objectives

The Arts Services team is committed to high performance standards and focussed on delivery of the Council's community and commercial outcomes. Members of the team are highly motivated and experienced: several key staff members have been in post for more than 20 years. Working methods are well established and the vision behind the theatre's inception still drives the team as well as a commitment to ensure that the service delivers the commercial and community objectives of the Council. User surveys consistently demonstrate high satisfaction rates and this is evidenced in, for example, the high number of repeat bookings of facilities particularly by hirers in the amateur, community and public sectors.

However there is an opportunity for the Council to make more explicit the 'defined commercial and community outcomes for its leisure business' [Consultancy brief]. This is crucial whichever management option is selected.

The vision for both The Hawth and the role of Arts Services are currently articulated through internal documents - Service Plan and Work Plan - yet the Arts Strategy has not been updated since 2005. An up to date outcome based strategy reflecting the Council's aspirations for the next period – for the venue and for the services overall - would help clarify and confirm the positioning of both the venue and the service in a way which can be shared internally and externally.

3.2 More than a venue

The Hawth is not only a venue for a wide ranging arts and entertainment programme and a destination for visitors and local people: it is also the physical base for the whole Arts Services team. There is a particularly close alignment between the wide-ranging and successful activities of the Community Arts team in audience development and participation, with targeted partners and at sites across the Borough, and The Hawth as a well-equipped venue employing a team of people with technical and other expertise.

The facilities of the Hawth, the expertise of the Promotions and Entertainments Manager, its equipment and the skills of its technical and other staff are also used extensively in the delivery of off site projects and events such as the town centre and park events, throughout the community arts programme and in promotions either managed or promoted at other venues such as K2. Delivery of other strategic aspects of the Arts Service - heritage

strategy and public art – does not rely on The Hawth’s physical resources or the expertise of the technical staff.

3.3 Staffing

The staff structure, **Appendix 1** includes in addition to Head of Service:

Administrative: 5 FT posts and 2 PT

Catering: 7 FT / 7 PT plus approximately 32 non core employees: kitchen, restaurant supervisors, table waiting staff, bars, Walled Garden NB This staff team is employed at a number of catering services in the Borough and not just at The Hawth

Promotions and Entertainments: 6 FT

Arts Development: 3 FT

House: 5 FT / 13 PT plus approximately 47 non core staff: 3 Hall Crew/ 30 Ushers/ 10 Box Office/ 4 Cleaners respectively

Technical: 5 FT

The Hawth employs 54 people [32 FT and 22 PT] excluding non-core staff of approximately 79 people; the latter work a variety of hours and on differing contractual bases. The following comparators are based on the ‘core’ Hawth staff and do not include the ‘non core’ posts which number approximately 47 in the House and 32 in catering. The ‘core’ staff includes the four strategic and arts development posts – Head of Service and Arts Development posts. In the comparison no estimate has been made of the percentage of other staff time, e.g. administrative posts above, spent on strategic and development work rather than ‘venue’ work has been made.

This profile can be benchmarked against White Rock Theatre, Hastings and Wycombe Swan both venues run by the commercial operator HQ Theatres and including ‘education’ or ‘community’ posts. The former was one of the comparators in the previous review of management options for The Hawth. White Rock employs 40 staff servicing a 1000 seater theatre. The Swan is also a 1000 seater venue and employs 40 staff and involves 200 volunteers from the local community.¹

Private sector companies or trusts operating The Hawth primarily as a venue would be unlikely to employ the number of community focussed and strategic arts staff employed currently, unless the management fee charged to the local authority was negotiated to specifically reflect these functions. The comparison is indicative rather than definitive. It suggests that there is scope to review the staff structure to achieve efficiencies and a more streamlined structure.

¹ Source: HQ Theatres Web site

3.4 Hires

The Hawth operates commercial and non-commercial fees for hire of spaces and equipment, office services and staff time. The rates for seminar and auditorium hire, the offer to non-commercial hirers and equipment hire costs were tested against competitor and equivalent venues in June 2008 and were broadly competitive. Subsidy offered to non-commercial hirers is in the rates for space and equipment. Staff time is charged at full cost. The majority of private hires are non-commercial: schools, amateurs or charitable organisations/events. Crawley BC uses the venue for meetings. In 2009/2010 there were 215 private hires of the Main Auditorium and Studio. Only fourteen hires were commercial.

3.5 Programme 1

The stated aim in selecting programme content for The Hawth is to achieve a balance between income generation and wider community objectives. In general in venues of the capacity of The Hawth it is problematic to generate sufficient income through the box office to run without revenue support so a requirement for subsidy is not unexpected. However the income target for the programme has consistently been set at less than the previous years actual income. This suggests there is scope to take a more proactive approach to income generation without necessarily altering the balance achieved between different types of programme content.

3.6 Programme 2

In terms of content The Hawth's programme reflects the range and type of product promoted in similar venues whether run by local authorities, trusts and commercial operators so a shift of management to a trust or commercial operator would be unlikely to lead to major change.

There is a significant commitment to amateur and community use of the main theatre and studio with regular 'slots' assumed for this activity as the majority of users return year on year. In 2008/09 private hires accounted for 118 shows / 36,491 attendances and 1005 meetings / 21,764 attendances. The overwhelming majority of private hires are 'community' users: charitable and amateur groups, Crawley BC and West Sussex County Council, schools and colleges, scouts and guides. These users are steered away from the main touring months by the team and the more commercial product is programmed bearing in mind these community users.

A shift to alternative management structures, particularly to a commercial operator, would put pressure on this aspect of service delivery as this use significantly reduces the opportunity to increase income through, for example, a much more aggressive promotion of the venue as a conference and event centre for the private sector. In alternative management structures the definition of what is eligible for 'community' hire rates is likely to be redrawn to exclude the Council's own use and that of other public sector agencies.

Programme planning – and hence the balance between commercial and community objectives – appears to rely on good communications between individual members and a shared awareness of priorities and approaches formed over time rather than a formal programme planning and review schedule.

3.7 Partnership Events

The Hawth, through the Promotions and Events Manager, plays an important part in planning and delivery of events across the Borough, notably with the Town Centre

Partnership and West Sussex County Libraries as well as with the parks service and K2. This can involve the P&E Manager in planning groups, giving advice on programme content, negotiating contracts with performers and contractors, technical delivery on site including stewarding, Health and Safety Assessments and underwriting of risk through Public Liability insurance. This off site promotion of events has a number of positive impacts: it contributes directly to the profile and marketing of Crawley as destination and a 'good place to live' and serves to and widen the audience and promote shows at The Hawth through taster sessions, for example, at Crawley Library. This advisory and partnership role is seen as a free and integral part of the service whilst services such as stewarding are charged. This collaboration is valued highly by the TCP and Library Service.

3.8 Capital and Business Relationships

The Report of the Arts Review Scrutiny Panel 2006 recommended creating a capital fund for replacement of high cost items and adoption of a longer-term and more 'commercially based' approach for maintenance planning. This has only just been put in place from April 2010 with the creation of three funds for Specialist Equipment (Hawth & K2); ICT Replacement and Vehicles & Plant.

The Report 2006 also recommended an increased target for generating revenue from other sources than the Main Theatre and Studio and that a new marketing campaign be initiated to 'further maximise the business opportunity for corporate business and function activity and sponsors and benefactors for events and festivals.' Strategies are in place though business partnerships and sponsorship income remain low. The latter is marginal in terms of the venue's overall financial viability though symbolic in terms of building relationships with the private sector.

3.9 Catering: User satisfaction with the catering offer at The Hawth is generally high. However it is unusual for borough wide catering services to be managed by Arts Services and there appears to be considerable scope to review the business model in order to generate higher profit margins. Hirers must use the in house catering service. This is usually done to maximise income generation. However for The Hawth it means loss of an opportunity to both respond to the cultural diversity of local communities and earn income from hosting weddings of members of Asian origin communities. It is felt that the new Mandir Hindu Centre, which is community owned and run, may mean that this is not a significant loss.

4. Evaluation Model

This section considers the advantages and disadvantages for The Hawth of each of the criteria established with Crawley BC to appraise the three management options. This includes consideration of the implications of each option for the future management of The Hawth and Arts Services overall. This appraisal is then summarised in Table 1 at the end of this report.

The management options are:

- Direct Management
- Management via a leisure/community trust
- Outsource/contracting out to a commercial operator/existing Trust (this option does not exclude an in house Trust bidding for the contract). Under this option it is assumed that the Council would seek expressions of interest from both private sector and Trust operators.

A crucial issue in selection of an option for the future management of these services is a clearer definition of the outcomes that the Council wishes these services to deliver for the people of Crawley and for the profile and prosperity of Crawley as a destination for visitors and investment.

4.1 Cost of Future Operation / Investment Required – Both Revenue and Capital Implications

4.1.1 In House: Revenue

Arts Services as a whole, including operation of The Hawth, are discretionary services that will be competing with the Council's statutory requirements and subject to cuts in the current economic climate. This option does not offer access to taxation savings or savings in central charges. It does avoid the potentially high set up costs of alternative options.

Regular price comparison has taken place benchmarking The Hawth against competitor and comparable venues to ensure competitiveness in the market place. There is scope for review of the business model to make sure that maximum income is being generated from the commercial facing aspects of the service notably, the auditorium and studio programmes; catering and bars; and use of The Hawth's meeting rooms for corporate and private sector hires.

Market testing confirms that it can be problematic to generate significant profit from a venue with the capacity in the Main Auditorium [862] of The Hawth. Both private sector and trust operators confirm that 1000+ seater venues are more likely to generate higher levels of profit. The current net cost per visit for the Hawth is £6.51. This is based on subsidy per head against total Hawth attendances.

A feasibility study has been completed for addition of a further 200 seats in the Main Auditorium at an estimated cost of £0.75m exclusive of any ancillary costs. This would enable planning of a programme with the potential to generate higher levels of revenue income without increased revenue costs. However the feasibility study did not include a detailed cost benefit analysis of the revenue implications based on, for example scope to promote different types of events/shows or projection of income against average capacities/ticket sales.

The Council retains direct control over budgeting.

In House: Capital

This option does not offer increased access to capital though prudential borrowing is possible. The building is debt free and funding streams are already in place in principle for the major items of capital refurbishment [light and sound systems]. Expansion of the seating capacity of the Main Auditorium would, apart from core capital costs of £0.75m, involve loss of revenue during any closure period. The venue does not have a Condition Survey verifying the soundness or otherwise of the building fabric. There is a survey of plant and M&E. Council surveyors inspect the building fabric annually and identify any remedial works necessary.

4.1.2 Leisure Trust: Revenue

Taxation savings on VAT and NNDR can be reinvested in the service and generally the Council's overall position in relation to partial exemption threshold for VAT is improved.

Economies of scale may be possible along with access to additional capacity in, for example, training, marketing and management. This may bring cost savings and possibly more cost effective delivery through review and innovation though generally the management and staff responsible for the performance of the venue remain the same initially.

Any new trust specifically set up by the Council to manage the services will incur initial set up costs and may involve more risk for the Council in that the new trust structure and the management capabilities of trustees will be untested. The majority of existing trusts were focussed specifically on sports and recreation services and tend to have less experience of operating performing arts venues.

A trust would be likely to want control of the Hawth's bar and catering offer. They may not be willing to take on the other out of Hawth catering services currently run through Arts Services as this may not be seen as core business and catering services may be outsourced. For example, Freedom Leisure contract in an operator to run the catering at K2.

Overheads of the Council's central services would be spread over fewer services. Financial risk still remains with the Council, e.g. in event of trust failure or the recent experience of unexpectedly high energy costs distorting agreements. Smaller trusts have limited ability to make support cost savings and carry pension liabilities.

The extent of 'non-venue' activity will relate to the level of financial investment by the Council. This will be subject to similar pressures as in the in house option.

4.1.3 Leisure Trust: Capital

Trusts can experience difficulty in leveraging in external capital as they do not have substantial assets. The Council could negotiate capital improvements as above as part of the service contract.

4.1.4 Outsource/contracting out: Revenue

A lease to a commercial operator or Trust would guarantee a commercial approach to management and maximisation of income with the scope to negotiate a reduced revenue contribution from the Council. Savings can also be made through economies of scale and

use of central payroll, HR, marketing and IT services and use of volunteers in some front of house roles, like ushers.

Savings/reinvestment in the service through tax savings are not possible under a private organisation. However, many third parties have charitable status and would be eligible for tax benefits. Investment by the Council is essential for any activity that is not seen to be contributing to income maximisation. This particularly affects community-orientated work with social objectives. Overheads of the Council's central services would be spread over fewer services.

There is no obvious voluntary sector organisation or community group wishing to operate The Hawth.

4.1.5 Outsource/contracting out: Capital

Lease to a commercial operator or Trust offers significant access to development capital.

4.2 Current service levels and quality standards

Any shift to alternative management structures will require the Council to define explicitly the purpose and objectives of its investment in the Arts Service and The Hawth as a venue. This will then be translated into a service level agreement or other formal contract with clear and transparent targets, service levels, monitoring arrangements and so on.

This would be essential in moving to the trust or third party operator options. It could also be done if services are retained in house to confirm the existing strengths of the services and ensure the arts and The Hawth as a venue are making the maximum contribution to Corporate Priorities at the best value through both service specific and cross directorate delivery and through the operation of the venue. For example the decision could be taken to maximise income generation through catering and conference use with the aim of increasing subsidy for either more targeted community activity or to reduce overall revenue investment.

4.2.1 In House

Customer and user satisfaction levels are consistently high and partnership and cross service working is well established. Commercial and community objectives are balanced and integral to all aspects of delivery. The Hawth is a 'hub' for service delivery and partnerships across the Borough and a destination for visitors and residents because of its programme of events and activities. There is a direct relationship between service delivery and corporate priorities. The in house team is able to plan with and support other teams within the Council such as parks and Town Centre Partnership and works with partners at County and regional level. The in house option maximises the Council's ability to operate integrated and joined up services which could impact on the core objectives of the authority: social, economic, environmental and cultural.

4.2.2 Leisure Trust

The majority of leisure trusts already in the market place were initially single purpose organisations with a core focus on sports and recreation. Sports development is generally an integral part of the brief negotiated with the Council either by transfer of the function to the trust or through partnership working as in Crawley with Freedom Leisure. A number of these 'sports trusts', including Freedom Leisure, have now gained experience in management of

performing arts and entertainment venues. In principle Arts Services could be operated through this kind of trust though the brief would need to specify the community outcomes and level of service required.

In some instances, such as Sports and Culture Glasgow, the trust was established by the Council as part of an holistic approach to delivering its overall vision for the city and its communities. The trust manages all aspects of cultural services and an integrated and partnership approach combined with recognition of the social and community objectives of Arts Development was built in from the outset. The scale of operation is obviously not comparable to Crawley. However testing the ability of any trust to operate The Hawth's 'out of house' programmes of, for example, community based, outreach and town centre events programmes, and accommodate the current range and number of non commercial bookings would be crucial if included within the brief.

In Crawley, Arts Development could follow the model of Sports Development with Freedom Leisure where the staff remain directly employed by the Borough, though co-located at K2, and work with the Freedom Leisure team to identify the sports development agenda for the borough and their respective and complementary roles in its delivery.

However the role of Arts Services in a] identifying the strategic contribution of the arts to overall Council priorities and b] the delivery of heritage and public art strategy would not necessarily sit easily within a trust model that was essentially venue based. This role could be retained as a strategic post within Council core structures or follow the model above.

4.2.3 Outsource/contracting out

Soft market testing has confirmed that the two major commercial venue operators, HQ Theatres and the Ambassador Theatre Group, are interested in principle should the opportunity arise to manage The Hawth. Both companies already operate venues comparable to The Hawth for local authorities.

Ownership of capital assets has generally remained with the local authority. The focus of activity is the main house programme plus conference and other hires, catering and bars. The extent of community orientated work within the venue and any outreach partnership work relates directly to the level of investment and contractual requirements of the Council. An education and community post is frequently included within the staff structure and these venues have been eligible for Arts Council England schemes such as 'Night Out' offering free seats for under 26 year olds.

However the extent of Arts Development activity and the number of hires by community, amateur and charitable organisations at The Hawth considerably exceeds these activities at commercial venues. The role of Arts Services in heritage and public art and as a contributor to overall Council corporate strategy would not fit within this model. The scope for strategic joined up service delivery and cross-departmental working is limited within this business model.

4.3 Staffing

There are four main issues to consider which influence selection of a future management option:

- Whether Arts Services transfers in its entirety into a new arrangement or a split is made between:

a] staff whose primary function is to operate The Hawth as an arts and entertainment venue and provide out of venue promotions and events in the parks/town centre/library

and

b] staff concerned with Arts Development and the strategic role of the arts cross authority including heritage and public art

- The future management of catering services. This decision will be influenced by the outcome of the appraisals of other leisure services underway and in particular the scope for a number of these services to be operated most effectively through a single management structure
- The number of permanent and casual staff employed in operating The Hawth as a venue and in the administration team of Arts Services may not be acceptable in the business models of either a trust or a commercial operator: see section 3.4 above
- The TUPE status of the large number of 'casual' staff is unclear. It appears that the 'casual' staff are on the Borough payroll. Some have formal contracts of employment.

These issues could be addressed in all management options including retention of in house service delivery. In the trust and third party operator options it seems likely that the business models would require review of the business structure in order to reach what would be considered an acceptable balance between staff costs and turnover. This option to restructure the business would be open to trusts or commercial operators post agreement as long as they could demonstrate they continue to reach the targets for service delivery contractually agreed with the Council.

4.4 Opportunities and control

4.4.1 In House

This option offers direct control over strategic role and service delivery and ability to change policy priorities or programme rapidly in light of changing need.

4.4.2 Leisure Trust

The Council transfers some risk to the Trust, with greater reduction of risk the larger the Trust. However risk of trust failure still rests with the Council. The Trust may have more opportunities to attract funding from other sources though there is some evidence to suggest that the majority of such funding comes from public sector sources. Charitable trusts can on occasion access grants that are not available to Local Authorities

Contracts would include defined service and performance standards with monitoring arrangements. There are existing models of good practice such as Wigan Leisure and Culture Trust where arts development is delivered successfully through a trust. There is also some difference between a trust created specifically to deliver on a Council's strategic objectives, such as Culture and Sport Glasgow, and services being delivered through an existing 'generic' trust. In the former the role of the services, the business model and staff structure are explicitly defined against the overall policy objectives of the Council and its strategic partners. In the latter the trust has an existing purpose and many in the market have a core specialism in sports and leisure rather than arts and performance venues. However the costs of establishing a 'purpose made' trust can be significant.

4.4.3 Outsource/contracting out

Contracts would include defined service and performance standards with monitoring arrangements. The greater the requirement for the operator to deliver non profit generating activity the greater the requirement for investment by the Council.

4.5 Central and support services

4.5.1 In House

Remain constant.

4.5.2 Leisure Trust

Transfer of responsibility reduces call on central services.

4.5.3 Outsource/contracting out

Transfer of responsibility reduces call on central services.

4.6 Legal / Procurement issues

In all options the status of the non-core or casual staff needs confirmation. This is particularly urgent for TUPE of staff into trust or commercial operator structures.

4.7 Market testing and benchmarking

4.7.1 In House

There is scope to build on the considerable strengths of the current service delivery to increase income generation and reduce costs of operation without significant impact on the community objectives currently in place. In house operation with an up to date arts strategy and refocused business plan could maximise the benefits of an integrated service approach with close alignment to Council Corporate Priorities and partnership strategies. It would potentially enable the Council to generate maximum benefit from assets already in public ownership and either offset or expand existing investment in work with specific community outcomes at a strategic level, cross directorate and working with external partners.

4.7.2 Leisure Trust

The services could be operated through one of the Leisure Trusts with established track records. There are numerous examples of trusts which align their work to both commercial and community outcomes and have, as at the Wigan Leisure and Culture Trust, visions and objectives which echo local authority statements on the purpose of their investment in leisure and culture.

Freedom Leisure, the existing operator of sports facilities for the Borough, already collaborates with the staff team at The Hawth for music, craft and toy events, boxing and darts. An Events Duty Manager is in place and Freedom Leisure anticipates that K2 will take an increasingly active role in the management of events at K2. The existing relationship is based on The Hawth hiring the K2 space at the subsidised rate and dealing directly with the hirers or hirers taking the hall at their own risk. There is no risk for Freedom Leisure presently. The Manager at K2 is looking to develop a more active promoter role for Freedom Leisure splitting risk with Freedom's caterers and The Hawth. Freedom intends to draw on their experience of managing entertainment venues at Burgess Hill and Haywards Heath: Martlets Hall and Clair Hall. The initial response to the possibility of managing The

Hawth is positive and the existing relationship with Crawley's Sports Development team is seen as a possible model for a relationship with Arts Development and the strategic role of Arts Services.

4.7.3 Outsource/contracting out

Soft market testing suggests serious commercial interest in operating The Hawth, shown in **Appendix 2**. In this model there are precedents for delivery of aspects of the community arts and education elements of arts development services as well as the operation of the venue. However the scale of the activity relates directly to two key factors: the clarity of service outcomes required by the Council and the scale of financial investment by the Council. In general this activity cannot be the central focus of the operating company and has much less obvious links to the wider social, economic and cultural objectives of the local authority and its partners.

Ambassador Theatre Group may be interested in acquisition or the opportunity to operate the venue despite the extent of their recent expansion, through the acquisition for example of the Live Nation venues, to become the largest theatre operator in the UK. The company is currently seeking advice from the OFT on any possible further expansion but do not anticipate any restrictions on future activity.

ATG have an active approach to education and learning with, for example, a Head of Creative Learning post. Community programming and commitments would not deter them from tendering if they were interested in the overall package. The critical factors that would affect their decision to tender include:

- Ability to control the programme – the arts and entertainment programme – to their agenda
- Would want to maximise profit from ticket sales and ancillary activity: bar and catering
- Assessment of the specific venue: The Hawth is judged a 'vibrant venue'
- Would expect some subsidy from the LA because of the size of the venue: in their experience it is not easy to make a profit in venues around the 800 capacity
- Subsidy would be required to underwrite a community programme

HQ Theatres, whose subsidiary Qdos Pantomimes has presented the pantomime at The Hawth for some years, has confirmed in writing their interest in bidding should the Council decide to offer a contract. They feel the venue satisfies their principal criterion of being able to support a commercially successful mixed programme of arts and entertainment. The potential of the venue to provide commercially successful pre-show and all-day catering is also a major attraction.

5 Summary

There needs to be a clear definition of the outcomes the Council wishes to achieve through its investment in Arts Services overall in order to clarify which of the three options is best for the future management of The Hawth.

In Options 2 and 3 a key question is whether the Council wants to maintain the link between The Hawth and the Arts Development and off site events programming currently undertaken by Arts Services using the resources of The Hawth and its specialist staff.

All options offer an opportunity to either review the catering business model to maximise profit as well as contribute to 'healthy eating' agenda or outsource provision of catering services. The cost of contracts in Options 2 and 3 will be influenced by whether operators are willing or not to take on multi-site catering.

In both Options 2 and 3 it is assumed the Council retains core policy and strategy staff e.g. delivering cross directorate advice, policy input, heritage services, public art and so on.

Our initial assessment of the market would lead us to believe that a reduction of subsidy in the region of £200k per year for this service could potentially be realised through Option 3, identifying a partner with specific commercial knowledge and expertise, whilst retaining the community ethos of the Hawth and meeting the overall ambitions of the Council.

Option 1 In-house

This option is not seen as the status quo i.e. the services delivered as they are currently. It assumes production of a new 'Arts Strategy'. The scope would cover the Arts Service as a whole including the role of a venue – The Hawth - in an overall strategic approach to the role of the arts in achieving prosperity and well being in Crawley.

The aim would be to build on current best practice in the service and at The Hawth whilst clarifying the issues outlined in this options appraisal around, for example, the scope to increase income generation in order to either reduce subsidy required or enable more community activity at no additional cost to the Council; staff structure; hires policy; conference business development and business sponsorship; and whether to outsource or review the business model of the catering operation.

Option 2 Trust

There is a model in the relationship with Freedom Leisure which could be replicated at The Hawth i.e. the trust is responsible for the operation of the venue whilst the arts development staff remain employed by the Council but are co-located with the trust and work on both the venue related education and community activity and continue to deliver the off site community and events activity they do now elsewhere in the borough using the resources of The Hawth.

Option 3: Outsource/contracting out

In this option it is likely that the operator would expect to include a community/education role in the staff structure to run schools and other activity related to the venue programme. If the Council wants to retain the cross borough events and non-venue based community arts programme then this would need to be negotiated with the operator at presumed additional

cost. Alternatively the service could be kept in house: the team would either have to change the way they work so they do not require The Hawth facilities or in effect hire them from the private operator.

6 Recommendations

- 1 There is a need for the development of a clear specification and business plan that delivers against the Councils corporate objectives.
- 2 A better balance needs to be achieved between community and commercial objectives.
- 3 A new arts strategy needs to be produced.
- 4 Following this work, it is recommended that an advert is placed inviting Trusts and commercial operators to express and interest in the future management and operation of the Hawth. The options available will include:
 - a. A contractual relationship with the Council that includes capital investment
 - b. An option of a contract with or without the catering operation
 - c. An option of a contract with or without arts development
- 5 It should be emphasised that this does not exclude the option of an in house Trust expression of interest, however significant risk would remain with the Council in the short term unless the Trust was able to identify an external partner to underwrite the business plan and associated financial projections. The overall process and estimated cost to establishing a Trust is shown in **Appendix 3**.
- 6 The full evaluation of each option is shown in **Appendix 4** below.

Appendix 1

Staff Structure Charts

See attached

Appendix 2

Soft Market Testing

Note: These descriptions of two of the leading commercial operating companies in this sector are taken directly from their respective websites.

Ambassador Theatre Group:

Co-founded by Howard Panter and Rosemary Squire in 1992, the Ambassador Theatre Group (ATG) has a total of 38 venues across the UK. When the new Aylesbury Waterside Theatre opens in October 2010, this total will stand at 39. ATG is also one of the country's foremost theatre producers and has been behind some of the most successful and innovative productions in Britain and internationally.

ATG's impressive portfolio of West End theatres includes historic buildings such as the Apollo Victoria, Comedy, Donmar Warehouse, Duke of York's, Fortune, Lyceum, Phoenix, Piccadilly, Playhouse, Savoy, Trafalgar Studio 1 and Trafalgar Studio 2.

ATG's regional theatres include The Ambassadors Woking encompassing the New Victoria and Rhoda McGaw Theatres and the award-winning 6 screen cinema complex, Ambassador Cinemas; Alexandra Theatre, Birmingham; Theatre Royal Brighton; Bristol Hippodrome; Churchill Theatre Bromley; Edinburgh Playhouse; Leas Cliff Hall, Folkestone; King's Theatre and Theatre Royal, Glasgow; Grimsby Auditorium; Liverpool Empire; Palace Theatre and Opera House, Manchester; Milton Keynes Theatre; New Theatre, Oxford; Richmond Theatre; Southport Theatre; Regent Theatre and Victoria Hall, Stoke-on-Trent; Sunderland Empire; Princess Theatre, Torquay; New Wimbledon Theatre and New Wimbledon Studio; Grand Opera House, York.

Current and recent ATG co-productions in London and internationally include *The Misanthrope* starring Damian Lewis and Keira Knightley; the successful and critically acclaimed award-winning musical *West Side Story*, at Sadler's Wells and on tour in the UK; Andrew Lloyd Webber's *Sunset Boulevard*; the hit comedy *Fat Pig* by Neil LaBute; Harold Pinter's *The Lover/The Collection*; *Elling* starring John Simm; *The Gershwins' Porgy and Bess* directed by Trevor Nunn; *Guys and Dolls* starring Ewan McGregor; Sondheim's *Sweeney Todd* and the Tony Award winning *Company*, both on Broadway and *The Rocky Horror Show*.

ATG is also mounting productions around the world. ATG's recent productions in Australia include *The Rocky Horror Show* and *Guys and Dolls*, with *West Side Story* scheduled for 2010. Recent ATG productions on Broadway include Geoffrey Rush and Susan Sarandon starring in *Exit the King*.

Other ATG successes include the co-production of *The Weir* in London and on Broadway (winner of the 1999 Olivier Award for Best New Play); *Smokey Joe's Café* in the West End and the Olivier award-winning *Slava's Snowshow* in the West End and North America plus the multi award-winning West End musical, *Carmen Jones*.

ATG has a wholly owned subsidiary company Sonia Friedman Productions (SFP), led by Sonia Friedman, who is one of the most prolific producers in the West End and on Broadway. Current and recent productions include the smash hit musical *Legally Blonde*, *Othello*, *La Cage Aux Folles*, *Arcadia*, *Boeing-Boeing*, *The Norman Conquests*, *The Seagull*, *No Man's Land* and Tom Stoppard's *Rock 'n' Roll*.

ATG also owns a major national family entertainment and pantomime company, First Family Entertainment (FFE). FFE produced 12 pantomimes for the Christmas 2009/2010 season featuring a star-studded line up including Pamela Anderson, Paul O'Grady, Joanna Page, Henry Winkler, Mickey Rooney, Gray O'Brien, Brian Blessed, Ruby Wax and Claire Sweeney.

HQ Theatres

HQ Theatres is a wholly owned subsidiary of Qdos Entertainment Plc.

The company's core belief is that successful regional theatres are not born from standardisation or centralisation. All HQ Theatres are individual businesses with localised and responsible leadership, guided by the company's senior management team based in London.

Chairman Nick Thomas is the founder and principal shareholder of Qdos Entertainment. A genuine passion for entertainment is the driving force behind the success of all HQ Theatres, with a bespoke high quality programme and an unrivalled hospitality offering at each location.

HQ Theatres, (HQT), was set up in 2005 as a joint venture between commercial producers & talent managers Qdos Entertainment Plc and Hetherington Seelig Theatres Ltd which operated The Swan Theatre High Wycombe and The Wyvern Theatre Swindon.

The profile and experience of the partners created an exciting new theatre operating company. In 2006, HQT bid for and won the operating contract with Southend Borough Council for the Cliffs Pavilion Southend & the Palace Theatre Westcliff.

In 2007, Qdos acquired Hetherington Seelig Theatres Ltd outright, and HQT become a wholly owned subsidiary of Qdos. Over the next two years HQT bid for and won local authority operating contracts for The Beck Theatre Hayes, The White Rock Theatre Hastings and The Orchard Theatre Dartford. In 2009, HQT bid for and won the contract to re-furbish and manage the Watford Colosseum, where work will start in the summer of 2010.

Appendix 3

Establishing an in house Trust

Particular issues to address are as follows:

- a) To determine the most appropriate trust structure for The Hawth Theatre so as to be consistent with maximising/balancing subsidy reduction, investment potential, good governance practice, ongoing council influence and entrepreneurial freedom and the continued delivery of services that meet Crawley's corporate objectives
- b) To quantify the subsidy reduction that could be achieved through transfer to trust management
- c) To identify the HR issues that would need to be addressed in moving to trust status (with an emphasis on protecting the interests of the existing workforce).
- d) To identify the capital needs for the service going forward and how these would be addressed in moving to trust status
- e) To identify the potential impact of transfer to trust status on the provision of support services across the Council.
- f) To undertake a detailed assessment of the risks involved in moving to trust management for the council, the service, customers and the community.
- g) To produce a draft implementation plan with projected timescales that could be activated if a decision to move to trust status is taken.

Costs would be met either through the generation of funds through the management of assets or through a direct grant from the local authority is below break even.

Key Tasks

Trustee Recruitment

- Advice on NPDO options
- Advice on board composition
- Advice on local authority involvement
- Advice on trustee recruitment campaign
- Drafting advert/trustee recruitment pack
- Involvement in open evening for trustees
- Involvement in short listing of trustees
- Involvement in interviews for trustees
- Briefing for trustees
- Establishment of regular trustee meetings

- Ongoing advice to trustees throughout the process

Establishment of NPDO

- Finalisation of governing documents
- Incorporation of the new NPDO
- Application to the Charity Commission for charity registration (can take up to three months but savings can be achieved in the meantime)

Service Transfer

- Advice on securing VAT/tax/NNDR savings
- Advice on key issues relating to the service transfer
- Advice on assets to be transferred and the terms of such transfer
- Advice on the key legal and practical issues of the asset transfer including advice on staff, equipment, contracts and other aspects
- Specific advice on pension arrangements
- Advice on staff consultation
- Preparation of the suite of project documentation
- Negotiation and finalisation of the suite of project documentation
- Approval by all parties to the project documentation
- Development of the business plan/grant application for the NPDO
- Approval of the business plan/grant application
- Obtaining any third party consents e.g. County Council's consent
- Effecting the service transfer
- Realisation of VAT/tax/NNDR savings

Timeline

Approximately nine to twelve months:

- Up to approximately three months to recruit a shadow board
- Up to approximately three months for shadow board to familiarise itself with the project (concurrent with development of project and documents)

- Between three and six months to negotiate the suite of project documentation and effect the service transfer (concurrent with recruitment/familiarisation process)

Indicative Costs

Costs associated with a project of this nature principally relate to external legal and financial advice.

A summary of these costs is set out below:

- Legal: including trustee recruitment, board induction, establishment of NEWCO and preparation of the full suite of project documents between £70k - £85k (depending on the number of locations and properties involved).
- Financial: including development of business plan and business set up between £60k - £70k

Table 1 Evaluation model

HAWTH					Actual Scores out of 5			Weighted Scores		
	Criteria	Key Area	Importance to Council / Members	Overall Weighting	In House	Local Trust	Contract Out	In House	Local Trust	Contract Out
	Investment Required	Can Capital Investment be delivered into the Services? Condition Survey Maintenance, Building Improvement Investment. Costs of Investment	Medium - capital provision and procedures in place to ensure venue continues to meet customer expectations. Council able to fund directly due to access to reserves.	5.00%	4	4	4	4.0%	4.0%	4.0%
	Revenue	Improved Revenue position, Increase in participation and income; NNDR savings, VAT benefits, Is revenue certainty provided for the Council?	High - Council wishes to have affordable and known revenue position	20.00%	2	4	5	8.0%	16.0%	20.0%
	Current service levels and quality standards: a. Venue with education/community activity related to programme	How well will the services be delivered? Able to benchmark? Customer / client feedback, Day to day health and safety and maintenance issues, Marketing / Branding	High - facilities have an excellent reputation within the locality and industry, the Council wishes to maintain this	20.00%	4	4	4	16.0%	16.0%	16.0%
	Current service levels and quality standards: b Arts Development and off site events programme	How well will the services be delivered? Able to benchmark? Customer / client feedback, Day to day health and safety and maintenance issues, Marketing / Branding	High - facilities have an excellent reputation within the locality and industry, the Council wishes to maintain this	20.00%	4	4	3	16.0%	16.0%	12.0%

HAWTH					Actual Scores out of 5			Weighted Scores		
Criteria	Key Area	Importance to Council / Members	Overall Weighting	In House	Local Trust	Contract Out	In House	Local Trust	Contract Out	
Staffing	Are there any Economies of Scale? Staffing terms and conditions protected, Opportunities for staff development?	Medium - Staff benefits and opportunities must also be balanced with a sustainable economic position	12.50%	3	3	5	7.5%	7.5%	12.5%	
Opportunities and control	How easily will the Council be able to influence the Service Delivery and the budgets of the Services?	Medium - Council wishes to input into the strategic direction and change as per change in policies, however it is not important to be involved in day to day delivery	12.50%	5	3	3	12.5%	7.5%	7.5%	
Central and support services	Are current client costs reduced? Are there any other potential savings in other areas of Council costs (recharges)?	Low - Council wishes to have affordable and known revenue position	5.00%	1	3	3	1.0%	3.0%	3.0%	
Legal / Procurement issues	Any particular legal issues with each option? Obliging the Council to spend monies / capital; Governance, Any additional risks?	Low - the Council wishes to minimise further risk	5.00%	5	3	3	5.0%	3.0%	3.0%	
Market testing and benchmarking	Are there potential partners in the market place for the management options be discussed?	Medium - Council wishes to know that there are suitable partners in the market	15.00%	5	4	4	15.0%	12.0%	12.0%	
			100.00%	33	32	34	85.00%	85.0%	90.0%	