

# THE GARRISON THEATRE LERWICK

## AN APPRAISAL OF OPTIONS FOR THE FUTURE OF THE THEATRE

### **Advice Case 9367518 | Options Appraisal for The Garrison Theatre**

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31 January 2019

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## INTRODUCTION

1. The Shetland Charitable Trust<sup>1</sup> (SCT) owns The Garrison Theatre, Lerwick. The Theatre is operated by the Shetland Arts Development Agency<sup>2</sup> (SADA) which incurs a deficit in so doing. SADA inherited operation of The Garrison Theatre from Islesburgh Trust when SADA was formed in 2006. At the time, the true cost of operating the Theatre was not clear. The Chief Executive Officer (CEO) of SADA wishes to explore options for the future of the Theatre. SADA is committed to operating and underwriting the Theatre until March 2020. However, the CEO seeks clarity about the future of the Theatre beyond March 2020, not least in the context of the opportunity cost associated with operating the Theatre at a loss.
2. GHRL was assigned to appraise options for the future of the Theatre on the basis that a disinterested, objective analysis of the situation could assist the stakeholders' decision-making process. The purpose of this report is to assist with the decision-making process around the future of The Garrison Theatre.
3. This report describes, explains and discusses the following:
  - a. The methodology used to appraise the range of options for the future of The Garrison Theatre.
  - b. The issue faced by SADA and SCT, the latter being the owner.
  - c. The factors relevant to conducting the options appraisal.
  - d. The options themselves and a discussion of the pros and cons of each option in the context of evaluation criteria.
  - e. The best option for the future of The Garrison Theatre and proposed next steps.

## AIM

4. The aim of this report is to explore options for the future of The Garrison Theatre making appropriate recommendations.

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1. SCT is a charity with OSCR Registered Number SC027025.
2. SADA is a Trust with OSCR Registered Number SC037082.

## METHODOLOGY

5. GHRL uses a proven problem-solving technique when commissioned to conduct an options appraisal. The methodology is simple in principle, logical in application and effective in practice. The technique comprises 6 steps as follows:
  - a. Define the issue.
  - b. Identify the owner.
  - c. Establish relevant factors.
  - d. List possible options (solutions to the problem).
  - e. Test possible options.
  - f. Propose the best option.

## THE ISSUE

6. The first step is to define and analyse the issue using 3 descriptors as follows:
  - a. **Long-Term Goal.** The Long-Term Goal (LTG), in this case *vis-à-vis* the future of The Garrison Theatre.
  - b. **Obstacle.** The obstacle that is preventing the stakeholders' from achieving the LTG.
  - c. **Short-Term Aim.** The Short-Term Aim (STA) which must be achieved if the obstacle is to be overcome and the LTG pursued.
7. So, in the case of The Garrison Theatre, the issue can be described as follows:
  - a. **Long-Term Goal.** The LTG is to operate The Garrison Theatre in such a way as to provide the Shetland community with a sustainable theatre venue.
  - b. **Obstacle.** The obstacle which is preventing the stakeholders from achieving the LTG is that SADA is exploring options for the future of the Theatre against a backdrop of financial pressures. The life of the Theatre could, therefore, be restricted to 16

months hence, depending on the viability of identified options for the future.

- c. **Short-Term Aim.** The STA is to identify a sustainable operating model for The Garrison Theatre.

### THE OWNER

8. The owner is best thought of as the individual or organisation with the power of approval and endorsement of any proposed solution. In this case SCT, which has title to The Garrison Theatre asset and provides core funding to SADA, is the owner. SCT can decide what should happen to the Theatre from April 2020.
9. Clearly, there are two other organisations close to the problem and its solution, namely SADA and the Friends of the Garrison Theatre (FGT). Both SADA and FGT are best placed to explain the factors relevant to solving the problem of the long-term future of the Theatre.

### RELEVANT FACTORS

10. Having identified the owner, the next step is to establish factors which are relevant to solving the problem. These factors are categorised as **definitions, assumptions, appraisal constraints** and the **criteria** against which options will be evaluated.

### DEFINITIONS AND ASSUMPTIONS

#### DEFINITIONS

##### Evaluation Criteria

11. Evaluation criteria are defined as *'standards against which the identified Theatre options are evaluated'*.

##### Management

12. One of the key aspects of being able to take forward any new operating model for the Theatre will be to identify a group of people willing to form a Garrison Theatre management team, eg trustees, board of directors or whatever formation is appropriate for the operating entity. Management is defined as *'planning, directing, organising and controlling the activities of subordinates to achieve or exceed objectives.'*

### **Black Box Theatre**

13. A Black Box Theatre is defined as *'a simple, unadorned performance space, often a large square room with black walls and a flat floor, which can be used flexibly to create a stage.'*

### **Social Enterprise**

14. There is no commonly accepted legal definition of a social enterprise. The term 'social enterprise' describes the purpose of a business, not its legal form. However, for the purpose of this report a social enterprise may be defined as *'a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.'*<sup>3</sup>

### **ASSUMPTIONS**

15. **General.** An assumption is a statement that GHRL can't guarantee to be true, but which is based on the best possible information. In conducting this appraisal, GHRL makes the assumptions set out below.
16. **Assumption 1.** There is as yet no funding plan agreed between SCT and SADA from April 2020.
17. **Assumption 2.** SADA will provide funding support to The Garrison Theatre until March 2020, but operation of the Theatre from April 2020 onwards will require there to be a viable business plan for the venue, regardless of how the Theatre is operated.
18. **Assumption 3.** SADA is prepared to provide continuing operational support to a viable Theatre model.
19. **Assumption 4.** The Garrison Theatre is in need of capital expenditure to bring the facility up to an acceptable level of building infrastructure and operating standards.

### **APPRAISAL CONSTRAINTS**

20. Appraisal constraints are those factors which because of direction given to GHRL, or knowledge immediately available, limit the range of possible solutions to the problem. In the case of The Garrison Theatre,

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3. Department for Business, Innovation and Skills | A Guide to Legal Forms for Social Enterprise | November 2011.

the factors which limit the range of possible solutions to the problem are as follows:

- a. 'No Change' is not an option.
- b. For the 4 options proposed for the future of the Theatre, budgets have not been prepared showing how those options might look financially beyond March 2020.

### EVALUATION CRITERIA

21. The criteria, or standards, that any option for the future of the Theatre should meet should be considered in terms of both those criteria that the ideal option must meet (essential criteria), and those criteria that the stakeholders would like the option to meet (desirable criteria).
22. The evaluation criteria must be identified in isolation<sup>4</sup> of the possible options for the Theatre and should exclude any criteria likely to be obvious to the informed reader of this appraisal. A table showing the evaluation criteria and Theatre options is at Annex A.

23. There is one critical essential criterion, the answer to which is not known at the time of preparing this appraisal for each of the options identified. That essential criterion is, 'Is The Garrison Theatre financially viable for the life of its business plan, as judged by the Shetland Charitable Trust'. Clearly, if any or all options fail to meet this criterion, then there is a risk that SCT might terminate the operation of the Theatre as it's currently known.

### GARRISON THEATRE OPERATING MODEL OPTIONS

#### GENERAL

24. GHRL was provided with a range of 4 options for the future of The Garrison Theatre, to be appraised against evaluation criteria. The options were generated by the SADA Trustees and are as follows:

#### **Option A | SADA Stops Managing**

- a. Option A is for SADA to withdraw from all aspects of managing the Theatre and to allow a new, specially formed team,

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4. The point here is not to allow preconceived options to influence the set of criteria that will be used to evaluate options, and then misuse those criteria - consciously or otherwise - to engineer the preferred option.



reporting directly to SCT, to assume responsibility for planning, directing, organising and controlling the Theatre's business.

### **Option B | Increase Prices (Hire Charges)**

- b. Option B is for SADA to remain involved with the management of the Theatre, but in a way which operates the Theatre to a surplus, or at least to break-even. One way to do this would be to raise the price (hire charges) of the Theatre to eliminate the existing deficit.

### **Option C | Change of Use**

- c. Option C is for SADA to remain involved with the management of the Theatre, but to plan and organise a change of use of the building to become a 'Black Box Theatre'.

### **Option D | Special Purpose Entity**

- d. Option D is to incorporate a special purpose entity (SPE) with a constitution appropriate to a new team assuming all responsibilities for the governance and management of the Theatre.

## **DISCUSSION**

### **GARRISON THEATRE BUSINESS PLAN**

- 25. The problem is how to operate The Garrison Theatre in such a way as to provide the Shetland community with a sustainable theatre venue. Owing to financial pressures and, in particular, the loss-making nature of the Theatre, SADA is weighing up options for the future of the venue beyond March 2020.
- 26. The fundamental criterion against which the future of The Garrison Theatre must be evaluated is its financial feasibility, with or without subsidy. The best way to ascertain the feasibility of the Theatre beyond March 2020 is to develop a Garrison Theatre Business Plan in the context of a suitable organisation structure.
- 27. The assumption (Assumption 1) is that SCT is at least aware that SADA may no longer be able to subsidise The Garrison Theatre after March 2020, certainly not within SADA's current core funding regime. Therefore, as the owner, SCT will in due course need to address the question of underwriting The Garrison Theatre, or not, whether that be

through SADA's core funding regime, or through some other organisational and funding arrangement. Clearly, without a business plan for the Theatre from April 2020, it's not possible to identify right now the Theatre's CAPEX need, nor its requirement for ongoing operational subsidy.

## **COMPARISON OF OPTIONS**

28. Option A (SADA Stops Managing) represents, in effect, SADA walking away from the Theatre. In practice, in the period before March 2020, SCT would need to identify a group of people willing to manage The Garrison Theatre on behalf of the Trust as the Theatre's owner. There would need to be some form of constitutional framework reflecting the existence of a management team responsible to SCT for the operation of the Theatre. Presumably, SADA would be prepared to provide technical support to Option A under a service level agreement.
29. Option A is a relatively high-risk option associated primarily with:
  - a. The potential for tension in relationships within the drama community.
  - b. The likely difficulties in recruiting a competent and motivated management team.
  - c. The relatively weak constitutional arrangements vis-à-vis the fiduciary duties of the management team. There's a risk that SCT could be compromised if the management team underperformed commercially and/or legally.
30. GHRL judges that SCT would be unlikely to support this option. It's an option that probably reflects the highest likelihood of the Theatre failing in the short- to medium-term.
31. Option B (Increase Prices) involves SADA continuing to manage The Garrison Theatre as it does today, but so as to generate a surplus, or at least break-even. SADA's Trustees take the view that this option could lead to increased investment in drama, and in remote and rural touring.
32. The difficulty with Option B is that simply assuming raising prices will cover a deficit is a naïve approach to rectifying a commercial challenge. The hypothesis that putting up hire charges would be acceptable to the Theatre's users would need to be researched carefully. Indeed, SADA's Trustees have observed that the drama

community would probably not take kindly to a precipitous hike in Theatre hire fees. GHRL imagines that Shetland's theatre hiring market will be very price-sensitive.

33. That said, SADA has previously undertaken some informal, desk-based research indicating that The Garrison Theatre was one of the least expensive theatres of its type in Scotland. This would rather imply that there could be room to raise prices accordingly – to bring The Garrison Theatre more into line with the sector, so to speak. However, any idea of proceeding with Option B would require such a decision to be underpinned by systematic market testing to establish the acceptability of proceeding on the basis of raising prices as a strategic marketing objective.
34. Option C (Change of Use) involves SADA continuing to manage the venue as a Black Box Theatre. This option would involve a fundamental reconfiguration of the Theatre building and the drama offering to market. This option could go one way or the other. In other words, if done well, a Black Box Theatre could be considered to be highly innovative and result in a raft of new productions attracting new audiences: diversification.
35. On the other hand, without comprehensive market research, this is a relatively high-risk option from both ends of the income/expenditure spectrum. The cost of converting the Theatre to a Black Box would be considerable and raising sufficient capital would be a challenge. The risk of failing to attract whole new market segments (hirers and audiences) and generating sufficient income would be high. Of all the options, Option C probably poses the greatest risk of a more spectacular failure – and all of the opprobrium that would go with it.
36. Option D (Special Purpose Entity) involves, in effect, spinning off the Theatre in a controlled and conventional manner. The Theatre lends itself to being operated as a social enterprise. The SADA Trustees believe that financially this option is promising based on previous accounts/performance.
37. In the context of Option D, it's relevant that Shetland has over 40 community halls which are managed by voluntary committees who engage in all sorts of fundraising activities – including organising performances - to sustain their venues. The point is that there is a psyche in Shetland which is favourable to operating community facilities in a self-reliant fashion. It could be argued that The Garrison Theatre operating as a social enterprise special purpose entity,

benefiting a community of interest, could represent a significant opportunity for the staging of drama in Shetland.

38. Compared to the other options, forming a special purpose entity offers the cleanest and clearest solution to the problem of sustaining the Theatre in the longer-term. Properly structured, a social enterprise operating at arm's length either to SADA or to SCT would be more likely to attract investment generally. SADA would be able to provide operational and technical support under a service level agreement. Along with other hirers, the Theatre would be available for hire by SADA if required.
39. Interestingly, Option D also offers the opportunity to explore the Black Box Theatre concept in the fullness of time. Clearly, such a strategic move would need to be carefully researched and planned. However, if at any time the stakeholders felt that the future of The Garrison Theatre lay in a dramatic (no pun intended) change of direction, then governing the Theatre as a social enterprise would offer the best and safest vehicle to do so.

#### **BEST OPTION**

40. Using the range of options provided to GHRL and applying the relevant factors available at the time of conducting this appraisal, the best option for the future of The Garrison Theatre is Option D: to incorporate the Theatre as a special purpose entity, probably as a social enterprise. Looking at Annex A, it is straightforward to see at a glance the extent to which Option D meets more of the evaluation criteria than the competing options. This tabular analysis is reflected in the discussion of options above and it is reasonable to conclude that, objectively, Option D is the best way forward.
41. It is beyond the scope of this report to evaluate and recommend which type of social enterprise entity would be best for the Theatre under the circumstances. However, generally speaking, social enterprise incorporated legal entity options include the following<sup>5</sup>:
  - a. Company limited by guarantee.
  - b. Scottish Charitable Incorporated Organisation (SCIO).
  - c. Community Interest Company (CIC).

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5. SADA should verify these details with a professional legal adviser.

- d. Cooperative Society.
- e. Community Benefit Society (BenComm).
- f. Limited Liability Partnership (LLP).

### **NEXT STEPS**

- 42. As already stated in the report above, the most significant shortcoming in being able to conduct an appraisal such as this is the lack of a business plan to support any or all of the identified options. Of itself, this has not prevented the identification of the option most likely to be acceptable to SCT and to offer the best chance of solving the problem of sustaining The Garrison Theatre into the future.
- 43. In terms of next steps, it would make sense to share this options appraisal with the owner, SCT. If SCT was minded to accept the recommendation that the Theatre should be incorporated as a social enterprise, spun off from SADA and supported subsequently by SADA to operate at arm's length either to SADA or SCT, then the first priority should be to prepare a business plan (a strategy) for The Garrison Theatre. Only with a credible business plan would SCT be able to endorse formally the future of The Garrison Theatre as a social enterprise.

### **DECISION-MAKING | EXPERIENCE AND JUDGEMENT**

- 44. Notwithstanding the advice offered in this report, it's important for the Trustees of both SADA and SCT to understand that their experience and judgment are perfectly valid decision-making factors. In other words, whilst the recommendations contained within this appraisal merit consideration, they should be seen as informative rather than instructive.

*'... strategic decisions are not the product of simple logic alone ... they involve considerable uncertainty and ambiguity. To analyse these complexities top managers draw upon their experience and judgement ... Thus, to some extent, their decisions always reflect non-rational considerations'<sup>6</sup>*

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6. 'Decision Making at the Top', Donaldson & Lorsch, Basic Books, New York, 1983.

## CONCLUSION

45. SADA sought advice on the future of The Garrison Theatre beyond March 2020 because the Agency is exploring options for the future of the Theatre against a backdrop of financial pressures. The Theatre operates to a deficit and SADA considers this to be an unacceptable opportunity cost vis-à-vis the delivery of its wider arts programme. GHRL was assigned to conduct an appraisal of a range of 4 options identified by the SADA Trustees.
46. The issue for the stakeholders is how best to operate The Garrison Theatre in such a way as to provide the Shetland community with a sustainable theatre venue beyond March 2020.
47. The options appraisal method involved identifying factors relevant to solving the issue of the future of the Theatre, including making appropriate definitions and assumptions, identifying any constraints to the appraisal process and listing the criteria used to evaluate the options.
48. Discussion of the options highlighted the fact that, at the moment, there is no business plan for the Theatre beyond March 2020. Of itself, that hasn't prevented the 4 options from being appraised. The pros and cons of each of the options was explored and discussed. It emerged that Option D, incorporating the Theatre as a social enterprise, was probably the best option given the range of options and the information available at this time.
49. The report suggests the steps that SADA should take next, starting with sharing this appraisal with SCT. Assuming the best option is accepted as such by SCT, then a business plan (strategy) for the Theatre should be prepared. The report makes the point that in any decision-making process such as this, the experience and judgement of the decision-makers are valid inputs to the process.

## RECOMMENDATIONS

50. It is recommended that the SADA Trustees:
- a. Share this appraisal with SCT indicating that, on the information available, the best option for the future of The Garrison Theatre would be for it to operate as an incorporated social enterprise at arm's length either to SADA or SCT.
  - b. Assuming SCT accepts the recommendation above, SADA Trustees should:
    - (1) Investigate the legal entity most appropriate to operating the Theatre as a social enterprise beyond March 2020<sup>7</sup>.
    - (2) Commence the process of identifying people with the skills and motivation needed to fulfil the roles of directors/trustees in order to assemble a governing body for the Theatre as a separate legal entity.
    - (3) Commence the process of strategy development for the Theatre beyond March 2020. As soon as possible, this task should be delegated to the Theatre's nascent governing body.
  - c. Consider if any further specialist advice is required to move The Garrison Theatre project forward should SCT approve the primary recommendation of this appraisal.

Mark Nash  
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For GHRL

Annex:

A. Evaluation Criteria & Theatre Options.

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7. Social Enterprise Scotland would be a good starting point.