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**Report to  
Scrutiny Co-ordination Committee  
Cabinet**

**14 February 2007  
20 February 2007**

**Report of**

Director of Community Services and the Director of Finance and ICT

**Title**

Coventry Sports Trust

**1 Purpose of the Report**

- 1.1 To outline the ongoing revenue funding issues within Coventry Sports Trust (CST) and consider additional grant payments to support the public leisure service provision until new arrangements can come into effect in Autumn 2007.
- 1.2 The report is brought to you as matter of urgency to protect the financial position of the Trust and its creditors and to ensure the continuity of service provision. Much of the financial information in the report has only recently become available and is still the subject of detailed work.

**2 Recommendations**

- 2.1 Cabinet is requested to:
- approve a further additional grant payment of up to £455,000 to Coventry Sports Trust in the 2006/07 financial year;
  - delegate authority to the Director of Community Services in consultation with the Director of Finance and ICT to make payments up to this total based on the financial data provided by the Trust; and
  - delegate authority to the Director of Community Services and the Director of Finance and ICT to make a loan of up to £100,000 to the Coventry Sports Trust, financed by Prudential Borrowing, to fund repayment by the Trust of a loan from their bank relating to assets at the Ricoh facility.

**3 Background**

- 3.1 Coventry Sports Trust Limited currently manages the following facilities:
- Coventry Sports and Leisure Centre
  - Foleshill Sport Centre
  - Brandon Wood Golf Course
  - Ricoh Arena Fitness Centre
  - Four school sports facilities site – dual use (school and community).

3.2 The Trust was formed in 1999 as a company limited by guarantee as a separate entity from the City Council with a board of directors to run 3 public facilities – Coventry and Foleshill Sports Centres and Brandon Wood Golf Course. The City Council granted leases to the Trust in relation to the premises it occupied and has supported it through annual grant support payments. The CST subsequently gained charitable status. Since its formation the Trust has expanded its operations into 4 schools and taken over running of the Memorial Park Water Feature and the Ricoh Arena Fitness Centre.

#### **4 Information**

4.1 The level of grant support for Coventry Sports Trust is £1.8 million for 2006/07 (this includes £65,000 per annum additional payment relating to the fit out at the Ricoh fitness facility).

4.2 Following requests for increased levels of revenue finance to the City Council from the CST, coupled with the ending of its business plan in 2006, CST was asked to produce a new business plan for the next five years. The Trust was unable to produce a robust business plan so a review was commissioned funded by the City Council, working with CST. Since then the City Council have worked jointly with the Trust Board to move the business forward and avoid any disruption to sport and leisure facilities.

4.3 Based on the latest information available, the Trust is likely to need additional grant of a total of between £586,000 and £705,000 in the current year in order to maintain financial balance. Work is ongoing with the Sports Trust to clarify and minimise the amount of grant support needed.

4.4 An additional grant of £250,000 towards this has already been made to the Trust in the current financial year. This was made on the basis of the period 6 Budgetary Control Report to Cabinet on 19 December 2006.

4.5 Cabinet has received revenue monitoring reports which have highlighted the budgetary pressures within the Community Services Directorate in the current financial year. At its meeting on 6 February 2007, Cabinet noted that *“The Council is working closely with the Sports Trust and a leisure business consultancy to produce a business plan and interim management has been installed in order to control costs in the short term and to help the Sports Trust limit its financial liabilities in the future. The current projection is that the Council will need to fund the deficit of the Trust in order for services to continue. This will require £400,000 to meet current risks. This figure may rise if proposed actions do not take immediate effect”*.

4.6 The financial problems of the Sports Trust are due to a combination of factors including increases in utilities costs, increases in pension costs, and the cost of running some school sports facilities. A significant factor has been the failure to achieve projected income levels at the Ricoh Arena Fitness Centre initial stages. Clearly this is the subject of negotiation between ACL Ltd (the managing company of the Arena) and the Sports Trust, but ACL are confident that with some realignment of the business plan the Ricoh Fitness Centre could be put on a sound footing. The main areas of cost increase currently identified by the Sports Trust are set out below. The list is not exhaustive and there are some compensatory savings. These figures are in the process of being verified.

Loss at Ricoh fitness centre	£400,000
Effect of Utility costs increase in 2005/06	£114,000
Effect of Utility costs increase in 2006/07	£ 97,000
Effect on income at Foleshill as a result of the capital project	£ 92,000
Other	£2,000
<b>Total</b>	<b>£705,000</b>

- 4.7 The Sports Trust Board requested the City Council to bring in interim management to avoid it becoming insolvent in 2006. The City Council appointed QLM as interim managers in November 2006 on behalf of the Board to manage the business through this period. Since then extensive work has been carried out in financial and operational areas. We are still in the process of collecting robust, reliable financial information.
- 4.8 The Board has identified key areas of financial risk where income targets are not being met. These are the mainly the Ricoh arena fitness centre and, to a lesser extent, some of the school sites. At its meeting on 2 February 2007 the Board recommended that it stops operating the Ricoh facility as soon as possible. Arena Coventry Ltd (ACL) and the Sports Trust are currently in negotiations to allow the Sports Trust to withdraw from the Ricoh facilities as soon as possible in order to assist the negotiations. The City Council has underwritten the monthly rental of £25,000 to ACL and part of the negotiations will be to avoid or minimise these costs falling on the Council in future.
- 4.9 Discussions are still taking place with the Sports Trust to clarify the accounts and issues relating to assets and the repayment of associated loans which will need to be addressed. One option which may help the Sports Trust, and minimise the amount of grant support required from the Council, would be for the City Council to make a loan to the Sports Trust to re-finance an existing loan. Delegated authority is sought for the Director of Community Services and the Director of Finance and ICT to make such a loan to the Sports Trust financed by Prudential Borrowing up to £100,000, should this prove a constructive approach for the Council and the Trust.
- 4.10 The Trust has entered into discussions with school sites and is working to operate these sites with a small reduction in service on a break-even basis, with a small contribution to repairs and maintenance. Any income generated over this level would be shared with each school on an agreed basis. This minimises the exposure of the Trust to financial risk in terms of income in 2007/8.
- 4.11 The Coventry Sports Trust Board has also undertaken to investigate managing the services by letting a 7 year contract. The Sports Trust Board has requested that the City Council support them through the tender process to let a management contract. Cabinet approved a report to this effect on 14 November 2006, with a report back on the outcome of the tendering process scheduled for August 2007. The additional grant support proposed in this report is on the basis that we need to support the Trust on a short term basis until the new arrangements scheduled for Autumn 2007 can come into effect.
- 4.12 An OJEU notice to advertise this contract was placed in December 2006. Contract documentation is being prepared in consultation with the Trust Board.

## 5 Proposal and Other Option(s) to be Considered

5.1 Options are to:

- (a) Agree to fund the remainder of the trading deficit for 2006/07 from Council resources, as set out in the recommendations to this report;
- (b) Decide not to fund the payment, allow the Trust to become insolvent and close the facilities;
- (c) Decide not to fund the payment, allow the Trust to become insolvent and contract with an emergency leisure provider to take over and run the facilities;
- (d) Decide not to fund the payment, allow the Trust to become insolvent and bring the management of the facilities back "in house".

The implication of option (a) is that up to an additional £455,000 will need to be identified. This will clearly reduce the spending ability of the Council by this amount, potentially impacting on other services.














The implication of option (b) is that staff costs, ongoing contracts and supplies will fall due to Trustees, and important public services will be lost. The Council would be likely to suffer reputation damage by association.

One implication of option (c) is that National Non-Domestic Rates (NNDR), in the region of £400,000 per annum, may become payable. Emergency contracting is also likely to be more expensive than a planned tender. Some loss of service as above is likely to occur.

The implication of option (d) is that NNDR will be payable, some loss of service as above is likely to occur, and an additional operational manager may be required within the Community Services Directorate to oversee the operation.

## 6 Other specific implications

6.1

	Implications (See below)	No Implications
Best Value		
Children and Young People		
Comparable Benchmark Data		
Corporate Parenting		
Coventry Community Plan		
Crime and Disorder		
Equal Opportunities		
Finance		
Health and Safety		
Human Resources		
Human Rights Act		
Impact on Partner Organisations		
Information and Communications Technology		

	Implications (See below)	No Implications
Legal Implications	☰	
Neighbourhood Management		☰
Property Implications	☰	
Race Equality Scheme		☰
Risk Management	☰	
Sustainable Development		☰
Trade Union Consultation		☰
Voluntary Sector – The Coventry Compact	☰	

## 6.2 Community Plan and Comparable Benchmark data

6.2.1 The facilities managed by Coventry Sports Trust support the participation targets for active recreation in the Coventry Community Plan.

## 6.3 Finance

6.3.1 The Council has a grant aid agreement with the Sports Trust which involves the Council paying £1.8m per annum to the Trust, including, from 2006/07 onwards, an additional £65,000 per annum relating to the facility at the Ricoh Arena.

6.3.2 In 2005/06 the Council made an additional one off payment to the Sports Trust of £118,000 to cover increases in utilities and pensions fund costs.

6.3.3 Following on from this both the Trust and City Council were keen to ensure that the Trust could deliver a balanced business plan for the next five years that would be within the current budget. Council officers have been supporting the Trust and consultants on work on this basis.

6.3.4 During the course of this work several issues have come to light that are relevant to the current situation.

- The information systems operating at the Sports Trust have meant that it is difficult to obtain accurate financial and operational performance data generally and in particular for the separate sites.
- In early 2006, the Trust took on the running of the community sports facility at the Ricoh Arena. The Council provided an additional £65,000 grant per annum to the Trust relating to this facility. It is now apparent that during 2006/07 this facility operated at a loss that has had a significant impact on the financial situation of the Trust. The loss at the Arena is in the region of £400,000 and appears to be due in part to optimistic income targets, exacerbated by a delay in opening
- It appears that several of the "dual use" school facility sites are also running at a loss which is contributing to the overall position.
- Utilities and pension fund cost increases during 2005/06 were compounded by further rises during 2006/07.
- The partial closure of Foleshill Leisure Centre due to the capital repair and maintenance project has resulted in some loss of income this year.

- 6.3.5 The emerging issues within the Sports Trust operation led to the Trust's recent decision, supported by the Council, to investigate the delivery of the services through an external supplier. The process for this was set out in the report to Cabinet on 14 November 2006. The intention is to seek tenders based on the current net revenue budget and give consideration to the achievement of savings.
- 6.3.6 Work is still ongoing to uncover all relevant facts and produce a robust business plan to take the Trust up to the award of contract and to inform the tender process. It is still the intention to base tenders on the net current budget and it is essential that we have as much information as possible about the true and realistic running costs of the facilities so that there can be clarity over the level of service we could expect to receive for the budget.
- 6.3.7 In addition to proposals to withdraw from the management of the Ricoh sports facility and some of the school sports facilities, the interim managers have put into place management action which will reduce the potential overspend for 2006/07 by in the region of £45,000. They are continuing to identify further areas which could improve the financial position for the current and future years. Clearly the impact of further changes in the current year will be affected by the short time remaining in the current financial year.
- 6.3.8 The interim managers are currently predicting a trading loss in the region of £586,000 in 2006/07. They have said, however, that there is a significant level of variability with this as new facts are still emerging. For this reason, a contingency has been added to give a worse case scenario of £705,000. These figures take account of management action already put in place. The interim managers believe that withdrawal from the management of the Ricoh sports facility and some of the school sports facilities will have a negligible effect on the current year position due to the time remaining in the current financial year.
- 6.3.9 The trading loss does not include the additional payments which the Council has made to the Trust in recent months totalling £250,000 and financed from within Community Services budgets. This £250,000 plus the £455,000 now requested will fund the worse case scenario trading loss of £705,000. Officers will liaise regularly with the Interim Managers and payments will be phased and will only be made to the Trust once a definite need has been established for each individual amount. Any overpayments will be recovered from the following year's grant.
- 6.3.10 The additional cost of revenue proposed in this report up to a total of £455,000 will be funded if at all possible within the overall budget for the Council in 2006/07. If this is not possible then any balance will need to be met by a virement from corporate reserves. Without this support the view of the Trust and the Interim Managers is that the Trust will become insolvent and will cease to be able to trade.
- 6.3.11 The loan of up to £100,000 to allow the Sports Trust to re-finance the existing loan relating to assets at the Ricoh fitness facility will be financed from Prudential Borrowing. This will only be pursued if it is of value to all partners.
- 6.3.12 The Trust has identified that there will be pension strain, utility cost increases and inflationary increases required for the 2007/8 financial year. Provision is made against these potential increases within the budget setting process for 2007/08. For future years these issues will need to be addressed through the tender process.

## 6.4 **Human Resources**

- 6.4.1 Though there are no direct implications for City Council employees, the current Trust employees may be affected by the decision taken on the recommendations in this report.

## 6.5 **Impact on Partner Organisations**

- 6.5.1 Any potential loss of service would have implications for organisations such as schools, clubs and other bookers who currently use facilities. ACL (in which the Council has a 50% interest) could become a creditor if the Sports Trust became insolvent.

## 6.6 **Legal implications**

- 6.6.1 As a charitable company, the members of the Trust Board are also Directors of the Company. They are, therefore, subject to duties under both the Charities and Companies Act legislation. If there is any possibility of insolvency, Directors must make an early decision on whether or not the business should continue to trade. If a company continues to trade whilst insolvent, then the Directors themselves may be liable for wrongful trading and, therefore, liable to meet some or all of the debts of the company. Directors put themselves in such a position if they know, or should have known, that the company could not avoid becoming insolvent, yet have still continued to trade. Given the financial difficulties which the Sports Trust is experiencing, if the proposals in this report are not agreed, the Directors will need to consider whether or not they continue to trade and whether steps should be taken to liquidate the company. Any decision to continue trading must be based upon there being a reasonable prospect that the Trust will have sufficient resources to meet all its liabilities and so avoid liquidation.
- 6.6.2 Should the Board decide to cease trading and place the company into liquidation, then its affairs will be dealt with by the Official Receiver or an insolvency practitioner. Their role will be to wind up the company's affairs, realise any assets it may have and distribute the proceeds to the creditors.
- 6.6.3 As an alternative to winding up, the Trust could consider going into administration. This is the route usually adopted where there is a prospect of the company being rescued as a "going concern" and retaining its business. However, in the absence of the City Council's, or other substantial financial support, it is unlikely that this route could be pursued as the company could not be said to be a going concern.
- 6.6.4 Should the Sports Trust go into liquidation, then the City Council and ACL may become creditors of the Sports Trust. Whether, as a creditor, the City Council receives any payment or any money it is owed, will depend upon how much can be realised either by the sale of the business as a going concern or a disposal of its assets. The company will clearly cease to be a charity when it had been wound up and it would be removed from the Register of Charities.

## 6.7 **Property**

- 6.7.1 The leases for core facilities are for 10 years to 2014. They are excluded from the Landlord and Tenant Act and therefore give no security of tenure/compensation on termination. There is a mutual break clause for either side to break by giving 6 months notice.

## 6.8 Risk Management

- 6.8.1 There is a risk that the position at the end of 2006/07 may be different from that projected. Extensive verification work has been undertaken by the interim managers and there is regular liaison with Council officers. However, due to the state of the current operation it may not be possible to predict the outturn position accurately. The total amount proposed for approval in section 2 of this report includes a small contingency to cover the risk that the outturn deficit might be higher than expected. Delegated authority to the Director of Community Services in consultation with the Director of Finance and ICT is being sought in relation to payments within the approved total figure. This and the regular liaison work will ensure that we do not pay any more than is necessary to the Trust. Any overpayments will be recovered from the following year's grant.
- 6.8.2 There is a risk of impact on the financial position in 2007/08. It is the current opinion of the interim managers that the operation can be realigned to ensure delivery of the current level of service on an on-going basis within the current budget for 2007/08. This puts the Council and the Trust in a strong position regarding the tendering of services during 2007/08. Members will be informed if this situation changes.

## 6.9 Voluntary Sector – The Coventry Compact

- 6.9.1 Work to support the Trust to remain able to provide sports facilities is consistent with the Compact with the voluntary and community sectors.

## 7 Monitoring

- 7.1 Through the interim management function, the net budget position of the Trust is now monitored monthly through final management accounts provided to the City Council and the Trust Board. This will allow the financial risk to the Council to be minimised through efficiencies before issues lead to spending outside of net budget.

## 8 Timescale and expected outcomes

- 8.1 The proposed additional payments will be required by the Sports Trust during February and March 2007.
- 8.2 The budget for 2007/08 indicates that the Trust will work within the existing level of subsidy, with pressures identified in para 6.3.12.

	Yes	No
<b>Key Decision</b>	<b>Yes</b>	
<b>Scrutiny Co-ordination (if yes, which Scrutiny meeting and date)</b>	<b>14.02.07</b>	
<b>Council Consideration (if yes, date of Council meeting)</b>	<b>No</b>	



List of background papers

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Papers open to Public Inspection

**Description of paper**

**Location**

**None**