



Cabinet Member for Strategic Finance and Resources

Time and Date

10.00 am on Thursday, 22 February, 2018

Place

Committee Room 2 - Council House

Public Business

1. **Apologies**
2. **Declarations of Interest**
3. **Minutes of Previous Meeting**
 - (a) To agree the minutes of the meeting held on 14 December, 2017
(Pages 3 - 6)
 - (b) Matters Arising
4. **Exclusion of the Press and Public**

To consider whether to exclude the press and public for the item of private business for the reasons shown in the report.
5. **Coventry and Solihull Waste Disposal Company Pension Guarantee**
(Pages 7 - 14)

Report of the Deputy Chief Executive (Place)
6. **Culture Coventry Trust - Financial Performance and Support Arrangements** (Pages 15 - 22)

Report of the Deputy Chief Executive (Place)
7. **Outstanding Issues**

There are no outstanding issues.
8. **Any other items of public business which the Cabinet Member decides to take as matters of urgency because of the special circumstances involved.**

Private Business

9. **Culture Coventry Trust - Financial Performance and Support Arrangements** (Pages 23 - 32)
Report of the Deputy Chief Executive (Place)

(Listing Officer: P Helm, Tele: 02476 831301)
10. **Any other items of private business which the Cabinet Member decides to take as matters of urgency because of the special circumstances involved.**

Martin Yardley, Deputy Chief Executive, Place, Council House Coventry

Wednesday, 14 February 2018

Note: The person to contact about the agenda and documents for this meeting is Suzanne Bennett Tel: 024 7683 3072 e mail Suzanne.bennett@coventry.gov.uk

Membership: Councillor J Mutton (Cabinet Member)

By invitation Councillor K Taylor (Shadow Cabinet Member)

Please note: a hearing loop is available in the committee rooms

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OR if you would like this information in another format or
language please contact us.

Suzanne Bennett

Tel: 024 7683 3072

Email: Suzanne.bennett@coventry.gov.uk

Coventry City Council
Minutes of the Meeting of Cabinet Member for Strategic Finance and Resources
held at 10.00 am on Thursday, 14 December 2017

Present:

Members: Councillor J Mutton (Cabinet Member)

Employees (by Directorate):

Place S Bennett, G Carter, G Cowley, P Helm, K Seager, B Strain,
A Walster

People B Barrett, L Pardy-McLaughlin

Apologies: Councillor Taylor (Shadow Cabinet Member)

Public Business

53. Declarations of Interest

There were no disclosable pecuniary interests declared.

54. Minutes of Previous Meeting

The Minutes of the meeting held on 12 October, 2017 were agreed and signed as a true record.

There were no matters arising.

55. Petition - Council Tax Exemption for Disabled , Including PIP Recipients

The Cabinet Member considered a report of the Deputy Chief Executive (Place) which indicated that the Council had received a petition, bearing 27 signatures, which suggested exempting certain groups of disabled people from the 15 per cent minimum payment for working age households who receive Council tax support. The lead petitioner had been invited to attend the meeting for consideration of the petition but was unable to attend.

The report indicated that in April 2016 a revised council tax support scheme was implemented following a public consultation and equality analysis. As part of the decision making process the Council considered several options for reducing the cost of the council tax support scheme. The Council considered, based on the findings from the equality analysis and public consultation, that a 15 per cent minimum payment for all working age CTS recipients would be the fairest way of reducing expenditure and would impact most evenly across the various groups with protected characteristics.

A change to the council tax support scheme which exempts certain groups from the minimum payment would result in less revenue to the Council through the council tax collection fund. The Council would be required to increase the

minimum payment for other working age council tax support recipients or reduce expenditure in other service areas.

The Cabinet Member gave careful consideration to the petitioners' request, recognising that changes to the council tax support scheme had only been introduced in response to significant and sustained reductions in Government funding.

RESOLVED that the Cabinet Member for Strategic Finance and Resources:-

- a) **Acknowledges receipt of the petition and its contents**
- b) **Maintains, unchanged, the Council's current council tax support scheme.**

56. **Agency Workers and Interim Managers - Performance Management Report Quarter 2**

The Cabinet Member for Strategic Finance and Resources considered a report of the Deputy Chief Executive (People) which provided performance information on the use of agency workers procured for the Quarter 2 period, 1 July to 31 September, 2017 and Interim Manager and other agency worker spends for the same period.

A table in the report provided comparative expenditure in Q1 2017/18 and Q2 2017/18 and indicated an overall decrease in total spend. There was a continuing reduction in spend within the Pertemps contract in the People Directorate for the Quarter as the service continued to recruit permanent Children's social workers.

The report detailed expenditure outside of the Pertemps contract in the following areas:-

- Children's Services
- Education
- Customer Services
- Place

The report also detailed work undertaken on alternative solutions to agency staff, such as banks of casual workers and the recruitment to specialist roles.

At the request of the Cabinet Member, officers attended from the following service areas and the Cabinet Member questioned them on areas of expenditure and work being done to reduce agency spend:-

- Children's Services
- Highways, Traffic and Transport
- Waste Services

RESOLVED that the Cabinet Member for Strategic Finance and Resources:-

- a) **Notes the agency / interim spend for Q2.**

- b) **Notes the work done on providing in-house solutions as an alternative to agency and interim workers.**
- c) **Requests that senior officers provide the Cabinet Member with a detailed plan on how they intend to reduce agency staff costs in Directorates. These plans to be included in the next quarterly report.**
- d) **Requests that officers provide the Cabinet Member with information regarding the agency spend in relation to the Performing Arts Service and measures being undertaken to reduce this spend.**

57. **6 Month (April-September 2017) Cumulative Sickness Absence 2017-2018**

The Cabinet Member considered a report of the Deputy Chief Executive (People) which detailed levels of sickness absence for the 6 month period April – September 2017 and actions being taken to manage absence and promote health at work across the City Council. The report provided the cumulative sickness absence figures for the Council and individual Directorates.

Annual and bi-annual information is based on full time equivalent (FTE) average days lost per person against the FTE average days per person available for work. This is the method that was previously required by the Audit Commission for annual Best Value Performance Indicator reporting. The City Council continues to use this method to ensure consistency with previously published data.

The method for calculating the cost of absence has been revised this year. It now uses real time employee data, which more accurately reflects working hours, rates of pay and employer contributions, rather than using assumed levels. Overall costs are also reduced due to the reduction in employee numbers and therefore the reduction in total days lost to absence.

Appendices to the report provided the following information:-

- A comparison of the last 5 years actual sickness levels against targets
- Corporate/Directorate comparisons against target
- Reasons for absence. The highest cause of time lost is through Stress, Depression and Anxiety, although it is not possible to define the root cause of the condition
- Days lost per FTE
- Breakdown between frequent and long-term absence levels
- Absences by length of days

The report also provided information in relation work undertaken by the HR Support Teams to ensure a consistent approach to sickness absence management and to provide information on sickness absence to support managers in the application of the Council's Promoting Health at Work procedure. Information in relation to the Talking Health, Safety and Wellbeing initiative, which has the primary aim of acting as a source of information, encouraging employees to maintain their safety and health at work, was also detailed in the report.

The Cabinet Member requested that for future year's reports, information be provided regarding the real "costs" of absences, ie the cost of employing agency workers to cover absences.

RESOLVED that the Cabinet Member for Strategic Finance and Resources:-

- a) **Notes the report which provides sickness absence data for the 6 month period of April to September 2017 and endorses the actions taken to monitor and manage sickness**
- b) **Notes the need to revise sickness and absence policies and procedures and invest in sickness absence management training as part of the ongoing workforce reform programme to support the delivery of a revised target of reducing the absence from 8 days to 6 days per fulltime equivalent employee by 2019/20.**

58. **Outstanding Issues**

There were no outstanding issues.

59. **Any Other Items of Urgent Public Business**

There were no other items of urgent public business.

(Meeting closed at 10.50 am)



Public report

Cabinet Member for Strategic Finance and Resources

Cabinet Member for Strategic Finance and Resources

22nd February 2018

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor J Mutton

Director Approving Submission of the report:

Deputy Chief Executive (Place)

Ward(s) affected: None

Title:

Coventry & Solihull Waste Disposal Company Pension Guarantee

Is this a key decision?

No

Executive Summary:

The Coventry and Solihull Waste Disposal Company Ltd (CSWDC) is jointly owned by Coventry City Council (CCC) and Solihull Metropolitan Borough Council (SMBC) and currently pays significant dividends to both councils. The company is an employer within the West Midland Pension Fund (WMPF) but has only 2 active employee members within the fund. At the point at which there are no remaining active employees, WMPF will act to ensure that any CSWDC pension deficit can be settled via CSWDC making a minimum risk termination payment. As at the 2016 pension valuation this was estimated to be £3.9m. This settlement payment will restrict the scope for the Company to make dividend payments. The councils' medium term financial plans assume that significant dividends continue to be received in the future.

As continuing members of the West Midlands Pension Fund, both councils are in a position to act jointly with CSWDC in order to avoid the need for a minimum risk payment.

It is proposed that CCC and SMBC provide a guarantee to the WMPF that the pension deficit will be settled. The final form of the agreement may or may not include transfer of the assets and liabilities of the CSWDC to the 2 councils, at the point at which there are no active CSWDC employee members of the fund. With a guarantee, any settlement figure will be much lower than the minimum risk basis, thereby freeing up funds that can be paid as dividends. As at the 2016 valuation the cost of the guarantee to the 2 authorities would have been a total of c£70k pa over 20 years.

Recommendations:

Cabinet Member for Strategic Finance and Resources is recommended to:

- 1) Approve the provision of a pension guarantee (provided jointly with Solihull Metropolitan Borough Council) to West Midlands Pension Fund, in respect of Coventry and Solihull Waste Disposal Company pension liabilities as set out in Section 2.11 of the report,
- 2) Approve agreement of the detailed terms of the guarantee and associated arrangements to be delegated to the Director of Finance & Corporate Services on behalf of the Council.

List of Appendices included:

None

Other useful background papers:

None

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

No

1. Context (or background)

1.1 The Coventry and Solihull Waste Disposal Company Ltd (CSWDC) is jointly owned by Coventry City Council (CCC), which has a two thirds ownership and Solihull Metropolitan Borough Council (SMBC), which has a one third ownership and currently pays significant dividends to both councils. The company is an employer within the West Midland Pension Fund (WMPF), and has only 2 active employee members within the fund. At the point at which there are no remaining active employees CSWDC will have to make a termination payment to WMPF relating to any remaining pension deficit risk. This settlement payment will restrict the scope for the company to make dividend payments.

2. Options considered and recommended proposal

2.1 CSWDC is currently making annual pension payments to WMPF of £350k pa over a planned pension repayment period of 6 years. In addition, at the point at which there are no more active employees in the fund the CSWDC will cease to be a scheme employer and would then be required to make a settlement payment to cover the future pension liabilities. This would be set on a minimum risk valuation basis, significantly higher than the total amount that would continue to be payable on an ongoing valuation basis, were the employer to remain as an active member of the scheme. A minimum risk payment in effect “buys out” the risks associated with the ongoing management of the remaining pension liabilities, and is calculated based on by a number of factors, including inflation forecasts and investment returns. Consequently, it will vary over time based on the assumptions about these factors. As at the 2016 pension fund valuation date, the minimum risk valuation was £3.9m, although a more recent estimate of the figure was £3.2m.

2.2 In conjunction with both CCC and SMBC, CSWDC has been exploring ways of managing its transition to the position at which it ceases to be a scheme employer, in a way that minimises the pension cost burden. These entail the two councils, as continuing scheme employers, supporting CSWDC in order to reduce the potential cost impact.

2.3 In recent years CSWDC has paid CCC and SMBC significant sums, including dividends totalling £4m in 2016/17, paid in proportion to the shareholding. The councils’ medium term financial plans assume that significant dividends continue to be received in the future.

2.4 The Options are:

2.5 Option 1 – Do nothing

2.6 With only two remaining active employees within the fund there is a significant possibility that CSWDC will be required to make a minimum risk payment (£3.9m at the 2016 valuation date) in the foreseeable future. In the light of this potential cost, and the inherent uncertainty surrounding the level of any required payment, the scope for the company to make dividend payments will be restricted. This will have an impact on each councils’ medium term financial position. Consequently, it is proposed that a “do nothing” approach is not adopted.

2.7 Option 2 – CCC and SMBC Provide a Loan to CSWDC

2.8 CCC and SMBC provide a repayable long term loan(s) to CSWDC to allow existing liabilities to be extinguished via a one-off payment by CSWDC to WMPF. This could be followed by a potential transfer of any future pension liability obligations to the councils at the point at which

the last active pension scheme employee leaves CSWDC. This payment would be prior to the point at which any minimum risk payment was required. In such circumstances the loan, and the payment to the fund would reflect the fact that the company was still an active, on-going employer within the fund. This would, to a limited degree, help facilitate the payment of dividends in the intervening period prior to the last scheme employee leaving.

2.9 There are several reasons why this option is not felt to be appropriate. An updated valuation has resulted in the current ongoing deficit being significantly reduced such that the justification for an immediate payment has been removed. In addition, a loan would add a further layer of complexity to the arrangements for both the authorities and the company, and is likely to increase company's tax liability relative to its current position. Notwithstanding, the risk of the minimum risk valuation still exists.

2.10 For the above reasons it is not proposed that this approach is adopted.

2.11 Option 3 – CCC and SMBC provide a Guarantee under Pension Regulations

2.12 Existing pension regulations allow for organisations to provide guarantees to the pension fund in respect of member organisations. A number of such guarantees currently existing, including those given by government in respect of academy schools.

2.13 Both CCC and SMBC, as large continuing members of the WMPF, could provide a guarantee to WMPF in respect of the CSWDC liabilities. The guarantee would avoid the need for a large "minimum risk" payment, and the associated cost to the company.

2.14 Under a guarantee arrangement, once CSWDC has no active employees within the fund, its pension fund assets and liabilities would transfer to the Council and SMBC, to be merged with each council's pension funds. In parallel, at this point CSWDC would make an exit payment to the WMPF reflecting the deficit at that time (on an ongoing valuation rather than minimum risk basis). As continuing large local authority employer members of the fund, the transfer to each council would reduce the risk to the pension fund and thereby remove the need for a minimum risk payment. In addition, as each Council would continue as an active employer member long after the date at which CSWDC ceased to be an active member, the pension fund liabilities would be managed over a much extended period. Based on current estimates the annual cost to the guarantors would be c£70k pa over a period of up to 20 years, of which CCC would incur a cost of c£50k pa (based on an indicative 66% share).

2.15 A potential guarantee should be viewed in the context of the relative sizes of the funds. The city council's share of WMPF asset was £1.2 billion at 31st March 2017, whilst those of CSWDC was £7.7million on 30th June 2017 (the nearest comparable valuation).

2.16 It is proposed that a joint guarantee is provided by the councils as set out above, with the agreement of the details of the guarantee delegated to the Director of Finance and Corporate Services.

2.17 Any guarantee can be shaped in different ways. In particular, in the light of the existence of a joint guarantee, it might be appropriate to align the existing CSWDC pensions payment period to that of the 2 council guarantors i.e. increase it from 6 years to 20 years. This would reduce the cost to the company in the short term, but increase the ongoing costs ultimately borne by the guarantors once the company ceases being an active employer. However, all other things being equal, any increase in pension costs will be offset by dividends available from the Company.

2.18 However, it is possible that the company might cease to be an active employer at a point in which it has made overpayments to the fund (on an ongoing valuation basis). Ordinarily,

these would simply be adjusted via future contributions, but there is no mechanism to do this within existing pension fund structures. Consequently, this would need to be borne in mind when determining the level of annual contributions.

3. Results of consultation undertaken

3.1 No specific consultation has been undertaken.

4. Timetable for implementing this decision

4.1 It is intended that any arrangements are put in place by the end of March 2018 in time for the start of the 2018/19 financial year.

5. Comments from Director of Finance and Corporate Services

5.1 Financial implications

The financial aspects of the proposal are set out in the main body of the report. The proposals set out a way that the 2 shareholder authorities and the CSWDC can work together in order to most effectively manage the pension fund cost to the company, thereby helping maintain the payment of significant levels of dividends that are built into the existing medium term financial plans. By providing a guarantee, the 3 organisations can limit the amount of pension deficit payments payable and the reality is that the proposed course of action will be financially beneficial to the two councils and to the company.

5.2 Legal implications

The proposed pensions guarantee is in accordance with the Council's legal powers, both as shareholders of CSWDC and as the original employers of the staff. CSWDC is a Limited liability Company and, therefore, the Council as shareholder would only be liable for the debts of the Company to the extent of any unpaid share capital. The terms of the guarantee in this report (once completed) ensures that the necessary arrangements to pay off the pension deficit will be made over an extended period of time at a lower level, even after the last remaining staff have left the scheme.

From a state aid perspective, a guarantee can in some instances constitute unlawful state aid. However, in this particular arrangement, legal services are of the view that the statutory tests for unlawful state aid are not met as this arrangement is not designed to provide a selective advantage to CSWDC but instead represents a commercial decision by the Councils as shareholders (and not as public authority) to protect the financial position of the Company and maximises the dividend payments back to the shareholders.

6. Other implications

Any other specific implications

6.1 How will this contribute to achievement of the Council's Plan?

The proposal will help strengthen the City Council's budgetary position by supporting the payment of dividends from the CSWDC.

6.2 How is risk being managed?

The proposal is designed to avoid the cost of risk associated with the CSWDC no longer being an active member of the WMPF, and the knock on impact that such a cost would have

on dividends earned by the Council. In doing this the councils would take on the assets and liabilities in respect of former CSWDC employer pensioners or provide a financial commitment equivalent to doing this. The risk associated with this would be managed as part of the Council's wider pension fund assets and liabilities.

6.3 What is the impact on the organisation?

The proposal will help strengthen the city council's budgetary position by supporting the payment of dividends from the CSWDC.

6.4 Equalities / EIA

There will be no impact on the pension arrangements of the remaining active CSWDC member of the WMPF or existing pensioners.

6.5 Implications for (or impact on) the environment

The proposal has no impact on the activity of the Coventry & Solihull Waste Disposal Company, simply the way the pension liabilities of the company are managed.

6.6 Implications for partner organisations?

The proposal will include an agreement between Solihull MBC and the Coventry & Solihull Waste Disposal Company and the West Midlands Pension Company. All parties have been involved in these discussions and it is intended that Solihull Council will seek equivalent authorisation to this report.

Report author(s):

Name and job title: Paul Jennings, Finance Manager (Corporate Finance)

Michael Rennie, Lead Accountant (Corporate Finance)

Directorate: Place Directorate

Tel and email contact: 02476833753 paul.jennings@coventry.gov.uk

Enquiries should be directed to the above person.

Contributor/approver name	Title	Directorate or organisation	Date doc sent out	Date response received or approved
Contributors:				
Cllr Mutton	Cabinet Member for Strategic Finance and Resources	-	18/1/2018	18/1/2018
Oluremi Aremu	Major Projects Lead Lawyer	Place (Legal)	2/2/2018	8/2/2018
Suzanne Bennett	Governance Services Co-ordinator	Place	25/1/2018	25/1/2018
Barry Hastie	Director of Finance and Corporate Services	Place	9/2/2018	13/2/18

This report is published on the council's website:

www.coventry.gov.uk/meetings

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Public report
Cabinet Member

A separate report is submitted in the private part of the agenda in respect of this item, as it contains details of financial information required to be kept private in accordance with Schedule 12A of the Local Government Act 1972. The grounds for privacy are that it refers to the identity, financial and business affairs of an organisation and the amount of expenditure proposed to be incurred by the Council under a particular contract for the supply of goods or services. The public interest in maintaining the exemption under Schedule 12A outweighs the public interest in disclosing the information.

Cabinet Member for Strategic Finance and Resources

22 February 2018

Name of Cabinet Member:

Cabinet Member for Strategic Finance & Resources – Councillor J Mutton

Director Approving Submission of the report:

Deputy Chief Executive (Place)

Ward(s) affected:

All

Title:

Culture Coventry Trust - Financial Performance and Support Arrangements

Is this a key decision?

No

Executive Summary:

The UK's cultural sector has seen a reported reduction in budgets of over £1bn since 2010. This reduction has created significant pressures within the sector, with the reported closure of over 45 museums across this period. Nationally, cultural organisations are actively increasing their commercial activities whilst reviewing and restructuring their medium term financial strategies in order to meet these ongoing challenges.

Culture Coventry Trust ('The Trust') contacted the Council in November 2016 seeking financial assistance regarding its forecast deficit financial positions for 2016/17 and 2017/18 onwards. Financial pressures over the last 2-3 years – including through the period of extension and development of the Coventry Transport Museum and restoration of the Old Grammar School – mean that the Trust was required to utilise its cash reserves to remain solvent. In April 2017, Cabinet approved a short term financial support package whilst it established a robust Medium Term Business Plan and implements its plans for the future.

The Trust have since been through a change in management, and currently have an interim arrangement in place. The current team have reviewed and revised many aspects of the previous business plan and have recently commenced a full restructure and re-focus of the management

and staffing. This has also resulted in the resubmission of external funding bids, and a much revised short to medium term financial plan. This financial plan, together with the ongoing transformation and culture change required, significantly improves the outlook for the trust and has demonstrated its status as a going concern. However, further work is required to consolidate this position, and move it forward further to enable it to demonstrate its self- sufficiency to its funders with a balanced medium term position, including the ability to redeem historic debt.

As a result, the Trust have sought one off approval in 17/18 for a grant of up to £370k to enable it to implement their management and staff restructure. Additionally, they have sought approval to allow them to repay cash flow monies owed to the Council flexibly over a period of time, reflecting their in year surplus's

Recommendations:

Cabinet Member for Strategic Finance and Resources is recommended to:

- (1) Approve a one off advance of up to £370k by way of grant funding to Culture Coventry Trust to finance their restructure implementation costs, to be funded from the Councils earmarked reserve for ER/VR's
- (2) Within the funding limits contained in recommendation (1) to delegate authority to the Director of Finance and Corporate Services to agree the final amount of the advance and also the entering into the necessary legal agreements between the Council and the Culture Coventry Trust
- (3) Approve a variation to the existing loan documents for cash flow monies owed by the Trust, to permit a flexible repayment profile and to delegate to the Director of Finance & Corporate Services the authority to finalise the terms of the repayments annually

List of Appendices included:

None

Other useful background papers:

Cabinet Report 11 April 2018

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

No

Report title: **Culture Coventry Trust - Financial Performance and Support Arrangements**

1. Context (or background)

- 1.1. The UK's cultural sector has seen a reported reduction in budgets of over £1bn since 2010. This reduction has created significant pressures within the sector, with the reported closure of over 45 museums across this period. Nationally, cultural organisations are actively increasing their commercial activities whilst reviewing and restructuring their medium term financial strategies in order to meet these ongoing challenges
- 1.2. Culture Coventry Trust contacted the Council in November 2016 seeking financial assistance regarding its forecast deficit financial position for 16/17, estimated at the time to be in excess of £100k. Additionally, following the completion of the Coventry Transport Museum (CTM) extension project, restoration of the Old Grammar School and the finalisation of all grant claims, the Trust still owes the Council £110k in the form of grant to fund the cash flow loan for the development. The Trust considered at the time their in-year deficit to be primarily as a result of lower than anticipated visitor numbers through the development period and in the time following the completion of the development, whilst the audience base has still been extending. The Trust also had new additional liabilities which were taking effect from 2017/18, including higher pension fund contributions and additional storage costs.
- 1.3. Following the merger of the cultural trusts (Coventry Heritage and Arts Trust and Coventry Transport Museum), and a couple of difficult years through the period of redevelopment of the Transport Museum (& restoration of the Old Grammar School) the Trust exhausted its cash reserves, the result of which was the inability to resolve their in-year and ongoing deficits without assistance.
- 1.4. A reduction of £0.5m in previous levels of Council grant support was approved by Council Members in February 2015 to take effect from April 2017. This target was assumed to be achievable from a combination of cost reductions and income generation to be implemented from April 2017.
- 1.5. In April 2017, Cabinet approved a short term financial support package whilst the Culture Coventry Trust established a robust Medium Term Business Plan and implemented its plans for the future. This included:
 - deferral of the £110k of existing monies owed by the Trust until April 2018
 - funding of redundancy costs of the Trust's management restructure up to £100k
 - loans up to £1.35 million to allow the Trust to pay their next three years Pension Fund contributions in advance, and a 17/18 cashflow facility whilst the trust undertake cost reduction and income generation initiatives to achieve a sustainable financial position
 - the issue of a letter of comfort to the Trust confirming that the Council will provide financial assistance during 2017/18 to enable it to carry out its cost reduction and income generation initiatives to achieve a sustainable financial position
- 1.6. Whilst some changes and staff reductions were made in the first quarter of 17/18, initial action to address the ongoing deficit were limited. Following both City Council and Culture Coventry Trust Board consideration, an external interim management arrangement was put in place for an initial 12 month period to carry out a business review, design and implement structural change, revise the Trusts financial & business plan and consider the longer term options for the trust

- 1.7. A number of significant changes have since taken place, including the resubmission of Arts Council England National Portfolio Organisation grant funding bid, review of Management & staffing structures, review of high cost spend areas, reduction of in year forecast deficit, significantly improved financial plan for 2018/19 to 2021/22 and cash flow debt kept to a minimum. The formal statement of accounts has also now been signed off by the Trust Board on 26th January 2018
- 1.8. The updated financial plan for the trust indicates that the 17/18 deficit is expected to be managed down to a modest operating surplus in 18/19, but a small 'steady state' deficit from 19/20. The Trust therefore need to continue to develop their business plan to achieve further efficiencies and generate more income to be fully sustainable from 19/20. It is expected the Trust will owe c£605k (incl £110k HLF 'old' debt) in cash flow loans as at the end of 17/18 financial year
- 1.9. The Trust has sought approval from the City Council for one off financial support for the implementation costs of the restructuring of the business, representing redundancy and pension strain costs of up to £370k in 17/18. They have also sought approval for a flexible approach to the repayment of the monies owed to the City Council, to reflect the surplus balances generated from year to year.

2. Options considered and recommended proposal

- 2.1. There are only 2 options to consider, whether to agree to the financial support, or reject it.
- 2.2. Option 1 – Reject the request from the Trust for Financial Support (Not recommended)
- 2.3. This option is not recommended as the Trust would not have sufficient funds or credit facilities in the current financial year to be able to continue providing its services to the public, or therefore carry out the obligations of its Grant agreement e.g. maintaining the museum collections. This option could put at risk the resubmitted Arts Council England grant bid, which in turn could result in the failure of the overall business, non-achievement of required MTFs savings and a requirement for the Council to step in to ensure continuity of the services.
- 2.4. Option 2 – Approve the Trusts request for financial support (Recommended)
- 2.5. Whilst not ideal, this option is recommended to ensure continuity of the service and protect both the Council's own MTFs, and help secure some much needed headroom within the trusts financial plan to enable it to continue the positive changes already in progress and facilitate the cultural changes needed within the trust to achieve a sustainable future and maintain services to the public.

3. Results of consultation undertaken

- 3.1 The Trust have consulted their Board on the proposals within this document and are in support of them
- 3.2 The Trust's auditors have been keep informed of proposals and if approved, have confirmed the Trust's ability to demonstrate it is a going concern
- 3.3 The £0.5m MTFs saving was approved by Members following consultation on budget initiatives in the 2015/16 budget setting process

4. Timetable for implementing this decision

- 4.1 The Trust are in the process of implementing the restructuring which will incur the one off costs of redundancy and pension strain.

5. Comments from Director of Finance and Corporate Services

5.1 Financial implications

The cost of the recommendation to fund the Trusts one-off restructuring costs is up to £370k in 2017/18. If approved, it is recommended that this can be financed from within the Council's earmarked reserve for ER/VR, which is set up for the purpose of funding staff exit costs

The Trust's total debt outstanding with the Council at the end of 17/18 is forecast as £605k, including all historic debt. There is already an approved loan facility with the Council for a cash flow loan in 17/18 of up to £0.6m. This excluded the £110k historic HLF cash flow loan debt. It is suggested therefore that all cash flow monies owed at the end of 17/18 are wrapped up within a single loan, by way of varying the existing agreement.

If acceptable, it is suggested that the annual debt repayment requirement is delegated to the Director of Finance and Corporate Services, supported by evidence of the progress the Trust is making toward achieving its sustainable financial plan, and that the loan agreement is varied to reflect this.

5.2 Legal implications

- 5.2.1 There are various statutory powers available to the Council when considering to make a grant and/or investment, they are:

- The Council has a specific power to invest under Section 12 of the Local Government Act 2003; and
- The Council also has a general power to make investments/and or a grant under the powers of general competence contained in Section 1 of the Localism Act 2011.

The debt repayment restructure and grant proposals contained in this report satisfies the purposes of the Localism Act 2011.

- 5.2.2 Any legal issues in respect of the restructure of any indebtedness owed by the Culture Coventry Trust will be dealt with in the amendment and restatement of the loan agreement between the Council and the Culture Coventry Trust, which will be amended to take account of the proposals set out in this report. The amended agreement will be tailored so as to minimise any risk to the Council as far as possible.

5.3 State Aid Risk

- 5.3.1 Whenever the Council grants a benefit to another organisation, it needs to assess whether it is conferring a selective advantage on an organisation that operates in a market, which does or may affect trade between member states (if it does, the benefit will constitute State aid which is prohibited under the Treaty on the Functioning of the European Union). However, in this case, it is our conclusion that the support being granted under this report is of purely local impact and has no potential effect on trade between Member States. This is following the principles of the European Commission who have recognised that public

support measures in the field of culture frequently have no effect on trade between Members as the customary activities they undertake are unlikely to attract customers from other Member States and their financing is unlikely to have a more than marginal effect on cross-border investment or establishment.

6. Other implications

6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?

The recommended proposal will contribute to the Council's core aims of:

- ***Making the most of our assets*** – The services provided by the Trust directly support access for residents and visitors to the city to the Council's collections and the broad range of cultural assets interpreted and exhibited through the work of the Coventry Transport Museum, Herbert Art Gallery and Museum, Lunt Roman Fort and Old Grammar School. Many of these cultural buildings have seen significant capital investment, and sustaining public access to the Council's collections is central to the aspirations of the city's new cultural strategy.
- ***Improving educational outcomes*** - Coventry has a strong cultural education offer within the city, provided not only by schools and education services but also through universities, colleges and arts business. The Trust has an established role to play in creating, connecting and signposting cultural, education sector and community opportunities. The museums and services provided through the Trust promotes opportunities for all generations to learn from and develop through experiences of culture and the arts in the city.
- ***Healthier, independent lives*** – Cultural assets and services play a vital role in addressing social challenges, reducing isolation and improving outcomes for individuals and communities (Local Government Association). A review of medical literature undertaken in 2004 cited nearly 400 papers showing the beneficial impact of the arts on a wide range of health outcomes (Staricoff, 2004), whilst also contributing more generally to physical and mental wellbeing.
- ***Ensuring that children and young people achieve and make a positive contribution*** – The Warwick Commission on the Future of Cultural Value (2015) noted that “the extraordinary cultural and creative talents that we share contribute to the well-being of our society, our economic success, our national identity and to the UK's global influence.” The Commission noted that not enough was being done to realise the creative potential of individuals, despite the workforce in this sector growing over four-times faster than the UK's workforce as a whole. Through its volunteer and workforce capacity, the Trust has an established role in generating and supporting opportunities within the local cultural sector and economy.
- ***Developing a more equal city with cohesive communities and neighbourhoods and supporting active communities and empowered citizens*** – Coventry's diverse population is acknowledged as one of Coventry's cultural strengths. Through arts and cultural activity, the heritage, cultures, abilities and participation of all the city's diverse communities can be encouraged in the cultural life of the city. The Trust has a key role to play in connecting to a broad and diverse audience and participant base in the city.
- ***Raising the profile of Coventry through promoting Coventry as a visitor destination and centre*** - Goal 5 (Economic growth) of the Coventry Cultural Strategy identifies Coventry as a culturally vibrant, attractive and prosperous city and sets the ambition that as a cultural city we work to enrich the lives and environment for all residents. The strategy aims to address the need of the city to improve the way

it promotes itself as a major tourist destination for the West Midlands and as a result, through a better articulated tourism offer, successfully attract more visitors increase spend and secure and sustain new businesses and investment. As a large cultural organisation in the city and the managers of key cultural assets, the Trust has a central role to play in the city achieving this goal.

6.2 How is risk being managed?

Council Officers will continue to monitor the Trust to ensure that it is delivering against both its regular annual Key Performance Indicators and also implementing their financial plan. Relevant Cabinet Members will be kept informed of progress.

6.3 What is the impact on the organisation?

The Council is a founding partner in Coventry's bid to be UK City of Culture 2021. The Trust will play a significant role in delivering a successful 2021, now that the status of UK City of Culture has been formally awarded to the city. The Trust also plays a central role in the cultural life of the city through its management of key cultural assets and buildings.

6.4 Equalities / EIA

An Equality and Consultation Analysis has been undertaken in relation to the Coventry Cultural Strategy 2017-27. As the proposal is to support and facilitate the sustainability of the Trust's current activities and reach, no negative impact on protected groups or concerning the three aims of general duty is anticipated.

6.5 Implications for (or impact on) the environment

This proposal is not expected to have any environmental impact.

6.6 Implications for partner organisations?

The Coventry Cultural Strategy 2017- 2027 is a document developed through consultation with a range of stakeholders and proposes a partnership approach to delivering the strategy.

Culture Coventry is a large cultural agency in the city, managing key assets. The Trust is a Major Partner Museum receiving regular funding from Arts Council England. The securing of a sustainable business plan for the Trust will, in the medium to longer term, make it less vulnerable to fluctuations in its business and less reliant on public funding. It will further have a positive impact for national and local partner organisations as they plan for future collaborations, exhibitions and performances across the range of work of the Trust.

Report author(s):

Phil Helm, Finance Manager (Place)

Directorate:

Place

Tel and email contact:024 76 831301 – phil.helm@coventry.gov.uk

Enquiries should be directed to the above person(s).

Contributor/approver name	Title	Directorate or organisation	Date doc sent out	Date response received or approved
Contributors:				
David Nuttall	Head of Sports, Culture, Destination and Business Relationships	Place	9/2/18	14/02/18
Suzanne Bennet	Governance Services Co-ordinator	Place	9/2/18	12/02/18
Names of approvers for submission: (officers and Members)				
Oluremi Aremu	Major Projects Lead Lawyer, Legal Services	Place	9/2/18	12/02/18
Martin Yardley	Deputy Chief Executive (Place)	Place	9/2/18	13/02/18
Councillor J Mutton	Cabinet Member for Strategic Finance	-	9/2/18	12/02/18

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