
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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