
Audit and Procurement Committee

25th March 2019

Director approving submission of the report: Deputy Chief Executive (Place)

Title: Culture Coventry Trust – Finance and Governance

Executive Summary:

In October 2012, Coventry City Council approved the recommendations of a Cultural Trust Review, which had been undertaken in close collaboration with the Belgrade Theatre Trust, Coventry Heritage and Arts Trust (CHAT), and Coventry Transport Museum (CTM). The Review recommended a merger of CHAT and CTM to form one new entity, with the Belgrade Theatre continuing to operate independently as a separate theatre trust. The recommended “Two Trusts” model was implemented and generated a saving of £665k per year for the Council. Culture Coventry has operated as a single independent legal entity since August 2013.

In April 2014, a £9.5m refurbishment and redevelopment programme commenced at CTM and the Old Grammar School, culminating in the full reopening to the public of the School and comprehensively re-modelled Museum in June 2015

In February 2015, the Council established in its MTFs, a further annual saving of £500k (to take effect from April 2017) from Culture Coventry Trust (CCT) grant budget.

Since 2016/17, the Trust have been through a very difficult financial period, which as a result has required financial and other support from the City Council and other partners, and has also resulted in a change in the structure of both the board of trustees, and the Trusts senior management team.

The Trust have established a revised financial and business plan which is resulting in a much improved financial position and financial outlook. However, it remains in a transitional state whilst it implements the plans, continues to repay monies owed to the City Council, and re-establishes its reserve balances.

The future governance structure of the organisation is also currently under review to ensure its future fitness for purpose

Recommendations:

Audit and Procurement Committee is requested to:

1. Note the contents of the report
2. Identify any areas where further information is required

List of Appendices included:

None

Other useful background papers:

Cabinet Report 11 April 2017

Title: Culture Coventry Trust – Financial performance and Support arrangements

<http://democraticservices.coventry.gov.uk/ieListDocuments.aspx?CId=124&MId=11048>

Cabinet Member for Strategic Finance and Resources Report 22 February 2018

Title: Culture Coventry Trust – Financial performance and Support arrangements

<http://democraticservices.coventry.gov.uk/ieListDocuments.aspx?CId=208&MId=11637>

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 – Finance and Governance

1. Context (or background)

Brief History

- 1.1 In October 2012, Coventry City Council approved the recommendations of a Cultural Trust Review, which had been undertaken in close collaboration with the Belgrade Theatre Trust, Coventry Heritage and Arts Trust (CHAT), and Coventry Transport Museum (CTM). The review aimed to ensure that, within the context of the prevailing economic climate and the need to generate savings in response to public spending cuts that a viable future of the cultural attractions was secured, whilst maintaining an efficient service, effective local, regional and national marketing capability, and an ability to sustainably grow and succeed in the future.
- 1.2 The Review recommended a merger of CHAT and CTM to form one new entity, with the Belgrade Theatre continuing to operate independently as a separate theatre trust. The recommended “Two Trusts” model was projected to generate a total saving of £665k per year for the Council in grant to the Trusts, through a phased process of transition, with the realisation of full annual savings to the Council from 2014/15.
- 1.3 In August 2013, Culture Coventry was successfully launched as the new Trust combining the functions of CHAT and CTM, with a plan for the revenue savings to be achieved which was successfully delivered.
- 1.4 In April 2014, a £9.5m refurbishment and redevelopment programme commenced at CTM and the Old Grammar School, culminating in the full reopening to the public of the School and comprehensively re-modelled Museum in June 2015.
- 1.5 In February 2015, the Council established in its MTFs, a further annual saving of £500k (to take effect from April 2017) from the Culture Coventry Trust (CCT) grant budget, reducing their grant to c£2m per year. The Council commissioned independent external advisers to work with CCT and the Council to identify cost efficiency and commercialisation options to assist the Trust’s financial business planning to ensure their financial sustainability once the reduced grant took effect in April 2017. The options ranged from e.g. reduced back office costs to reduced opening hours as well as charging for entry to attractions.
- 1.6 The Trust at the time did not consider that cost efficiencies could be made, and pursued a single option of charging for entry at the CTM venue (not the Herbert). However, despite the available lead time, sufficient progress was not made in advance of the grant reduction by the Trust, such that no decision was agreed by the Trust to increase income or reduce costs.
- 1.7 The Trust contacted the Council in November 2016 specifically seeking financial assistance regarding its forecast deficit financial position for 2016/17. Whilst the Council did not at the time provide any financial support, Council officers worked with Trust colleagues to identify opportunities to help mitigate the deficit which the Trust cited as being as a result of lower footfall during the period of refurbishment which had adversely affected trading income. Unfortunately due to the limited time remaining in the year, little inroads were made and the Trust returned a significant 2016/17 revenue outturn deficit. The trust had exhausted all of its reserves during 16/17 and prior years and as such were not able to smooth this deficit with one off monies.

- 1.8 Around the same time, the final financial costs and grant implications of the CTM refurbishment were becoming clear, which resulted in an inability to reclaim some capital grant due to ineligible costs being incurred.
- 1.9 Due to the material nature of the refurbishment programme, and the retrospective nature of the grant funder processes for reimbursement of costs, the City Council had formally agreed to cash flow the Trust for the capital grant. As a result of this, the in-year deficit and lack of any reserves, they were unable to repay the Council the cash flowed grant money of £110k.
- 1.10 17/18 brought further financial pressures for CCT including increased pensions costs, staffing increments and storage. These together with their existing under performance, and the reduced grant meant the Trust started 17/18 with a large forecast deficit.

2. Council Financial Involvement

Officer Involvement

- 2.1 Council Officers have always maintained a 'contract monitoring' role to ensure the Trust are delivering against their obligations under the grant agreement. Involvement has been continuous and more significant as both a support and a challenge since the Trust reported formally to the Council in November 16 that they expected to return a deficit, had no reserves, and were likely to be unable to repay the cash flow debt. This close working relationship to support the Board of Trustees and management team has continued through the management regime change at the Trust.

Council Annual Grant to the Trust

- 2.2 The Council is the main funder to the Trust. As stated earlier, CCC provides annual grant of c£2m, which helps fund their annual planned spend. Recognising the Trusts financial difficulties, and also taking into account that they are the custodians of the Council's cultural assets, the Council acted formally in April 2017 to 'buy time' for the Trust to address its finances by approving an unsecured loan to them for two purposes, described below.

Council Loans to the Trust

- 2.3 The first purpose was to enable them to advance pay their pension liability for the 3 financial years 17/18 to 19/20. This enabled them to achieve a discount on the amount due over the 3 year period, but more importantly, agree with the LGPS a revised liability profile which was lower in 17/18 and 18/19, ramping up in 19/20 to compensate, allowing them time in 17/18 and 18/19 to resolve their financial difficulties.
- 2.4 The Trust have repaid the expected levels of this to date plus interest.
- 2.5 The second purpose was a cash flow facility during 17/18 which would allow them a short term, one off facility to effectively finance their in year deficit whilst the Trust and its new management went through a series of business improvements necessary for a sustainable future
- 2.6 Following the change of management team, a new business plan was approved by the Trust Board in February 2018. This followed a major review of current costs, staffing structures and ability to generate income. As a result of this improved medium term outlook, some shorter term benefit was also achieved which allowed the Trust to report a much lower deficit position in 17/18 than had been feared. This also meant the amount of cash flow loan support

required to be drawn down was significantly lower than had been approved by CCC members.

Other Council Financial support

- 2.7 As part of the major review of staffing structures, the Trust identified implementation costs (redundancy & pension strain) of the new proposed arrangements which it did not have the reserves or budget to finance itself.
- 2.8 The trust sought one off grant of up to £370k from the City Council in order to implement their new arrangements in order to deliver savings in support of their business plan. This was formally approved in February 2018. The trust were in fact able to implement the restructure plans for a lower cost of £193k.

Business Plan Improvements

- 2.9 The Trust management team have carried out a review of all aspects of the organisation, resulting in the business plan approved by their board of trustees in February 2018. The key financial outcomes of the plan were a significantly reduced management and staffing structure, a successful application to the Arts Council for National Portfolio Organisation (NPO) status and accompanying (4 year) grant, and an updated more considered approach to charging for entry to the CTM. It is intended that charging will be introduced in 2019 once all governance is in place. The result of all these key financial benefits are expected to provide a sustainable basis on which the Trust can move forward, repay its debts over time, and grow as an organisation in order to protect the cultural assets and promote the heritage of the City widely, particularly as we head towards 2021.
- 2.10 The Trusts revised business plan at a summarised level is shown below.

Detail	2019	2020	2021	2022
Trust and Ventures				
Culture Coventry Trust - Operational	(2,514,175)	(2,742,075)	(2,770,075)	(2,798,075)
Culture Coventry Ventures - Operational	260,874	241,074	241,074	241,074
Operating Surplus/(Deficit)	(2,253,301)	(2,501,001)	(2,529,001)	(2,557,001)
Grant Income				
Coventry City Council	1,975,746	1,975,746	1,975,746	1,975,746
Arts Council England - NPO ¹	400,000	400,000	400,000	400,000
Baseline Surplus/(Deficit)	122,445	(125,255)	(153,255)	(181,255)
Business Improvement Measures	77,000	301,000	301,000	301,000
NET SURPLUS / (DEFICIT)	199,445	175,745	147,745	119,745

Debt Servicing 2019 - 2022

Detail	2019	2020	2021	2022
Owing to Coventry City Council ^(see below)	(605,000)	(405,555)	(229,809)	(82,064)
Debt Servicing	199,445	175,745	147,745	82,064
Debt Balance	(405,555)	(229,809)	(82,064)	(0)
Culture Coventry Group - Reserves	0	0	0	37,681
Owing to Coventry City Council				
Overdraft - Coventry City Council	(400,000)			
HLF ² - Coventry City Council	(110,000)			
Pension - Coventry City Council	(95,000)			
Total Debt	(605,000)			

References:

¹ National Portfolio Organisations

² Heritage Lottery Fund

The trust have a number of business improvement measures they are working on to ensure they achieve the financial benefit modelled above. Assuming they achieve these, the surplus forecasts would give the Trust sufficient resources to enable them to repay the Council all cash flow and loan debt owed in the above planning period. The trust are already ahead of schedule regarding the redemption of debt for 2 reasons:

- i) Their cash flow facility requirements have been significantly lower than modelled above
- ii) The City Council have negotiated a partial refund from the LGPS in respect of the advance payment described in 2.3 above. This reflects the lower number of trust staff who are now members of the LGPS

2.11 It is of course imperative that the Trust continues to manage its finances on the effective basis it has been doing for the last 12 months to ensure it can continue to repay the Council, operate within its means, re-establish some reserves/working balances and provide the foundation for future success

3. Governance and Management Arrangements

Trust Management arrangements

- 3.1 Since October 2017, there has been an interim Chief Executive (Paul Breed) in place following a change in management arrangements. This resource/capacity has been provided free of charge by CV Life (formerly Coventry Sports Foundation), the organisation which runs many of the City's sport and leisure facilities.
- 3.2 The (interim) CEO has, as described earlier, overhauled the senior management team arrangements, and introduced a staffing structure which reduced the people costs within the organisation. In addition, the City Council has seconded a senior officer to work for the Trust free of charge, and numerous other City Council and CV Life staff also provide higher than normal levels of support whilst the Trust remains in its transitional state.
- 3.3 This 'shared service' management arrangement is still in place formally until March 2020, possibly beyond that.
- 3.4 Following a request by City Council members, an options appraisal is currently taking place which is considering the advantages and disadvantages of continuing the shared service approach on a formal basis, but still maintaining a separate Board of Trustees for each organisation. This is currently a live issue and a decision will be taken by the three key stakeholder organisations over the coming months in order to be able to work towards the agreed target operating model during 2019 and 2020.

The Trust Board

- 3.5 Prior to October 2018, CCT's board of Trustees consisted of 13 Trustees, made up of a variety of local and regional volunteer individuals from business and other stakeholder organisations. Five trustees were nominated members of the City Council, however their role was as trustee of the board, not as a representative of the City Council. None of the 13 trustees had any formal portfolio responsibility.
- 3.6 As part of the re-focusing of the business described in the section above, one of the key review areas related to the effectiveness of the Board of Trustees. Discussions between the CEO's of the City Council and the Trust, the Chair of the Board of Trustees and City Council political leadership, resulted in the implementation of a much smaller Board of 5 trustees, all external to the City Council to remove any potential conflict of interest.
- 3.7 This arrangement is currently still in effect, and is planned to continue until such time as any other arrangement is deemed appropriate or necessary following the review of the trust operating model as described in 3.4

Contract & Financial Monitoring

- 3.8 The current Grant Aid Agreement (GAA) from the Council to CCT runs until October 2019. GAA's have historically been put in place for 2 year periods and have contained Key Performance indicators (KPI's) which under normal business circumstances, were historically discussed and monitored in regular contract monitoring meetings between Council and Trust Officers.

- 3.9 In the light of the recent financial difficulties and the changes in both governance and management arrangements, it has been determined that between now and the new GAA taking effect, the Council and the Trust will be reviewing the nature of the KPI's to ensure a sound basis on which the effectiveness of service delivery can be measured, and seeking cabinet member approval to proceed on a recommended basis.
- 3.10 In order to prevent a repeat of the last 2-3 years, it is imperative that the revised GAA and supporting KPI's are robust, and that the Council and the Trust continue to work closely together to ensure the financial strength of the Trust is sound, with a balanced budget, debt repaid and working balances/reserves re-established.

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