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Cabinet Member for Strategic Finance and Resources

4<sup>th</sup> October 2022

**Name of Cabinet Member:**

Cabinet Member for Strategic Finance and Resources – Councillor R Brown

**Director Approving Submission of the report:**

Chief Operating Officer (Section 151 Officer)

**Ward(s) affected:**

None

**Title:**

Coventry City of Culture Trust – Temporary Loan Funding Support

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**Is this a key decision?**

No

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**Executive Summary:**

The Coventry UK City of Culture year concluded in May 2022. As planned, the programme has now entered a legacy phase that is intended to run until March 2024. This is a vital element of the UK City of Culture concept, enabling the city to embed new cultural capacity and activity to maximise the value of Coventry hosting the UK City of Culture programme across its title year.

Although funding and commercial income streams have been identified to support the legacy period, the challenge of hosting the UK City of Culture year during a period blighted by the COVID-19 pandemic has put additional financial stress on the financial model and cashflow forecasts of the Coventry City of Culture Trust (the Trust). The Trust is committed to delivering its remaining programme of activity within a reduced financial envelope but has identified a need for some temporary cashflow support to enable it to realign expenditure plans with the timing of grant support and other income flows over the coming period.

This report sets out the background to this request and details the financial arrangements proposed, which seeks to provide a cash-flow facility of up to £1m from the Council to meet the short-term financing shortfall faced by the Trust, repayable over the remaining life of the Trust.

**Recommendations:**

The Cabinet Member is recommended to:

- 1) Approve a Loan up to a sum of £1m to Coventry City of Culture Trust (the Trust) on commercial terms as detailed in this report.

- 2) Delegate authority to the Chief Operating Officer (S151 Officer) and the Director of Law and Governance, following consultation with the Cabinet Member for Strategic Finance and Resources and the Cabinet Member for Housing and Communities, to finalise and agree the detailed terms of the transaction with the Trust. The authority under this delegation shall also include the power to undertake all necessary due diligence and the entry into of the necessary legal agreements and subsequently the power to negotiate and agree any such variations as is deemed necessary to the terms of the loan facility.

**List of Appendices included:**

None

**Background papers:**

None

**Other useful documents**

**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

## **Title:** Coventry City of Culture Trust – Temporary Loan Funding Support

### **1. Context (or background)**

- 1.1 The Coventry UK City of Culture year concluded in May 2022. As planned, the programme has now entered a legacy phase that is intended to run until March 2024 under the direction of the Coventry City of Culture Trust (the Trust) which continues to operate albeit on a smaller scale than it did during the UK City of Culture year. The legacy phase is a vital element of the UK City of Culture concept, enabling the city to embed new cultural capacity and activity to maximise the value of Coventry hosting the UK City of Culture programme across its title year.
- 1.2 Funding and commercial income streams have been identified to support the legacy period and the Trust has approved a budget position aimed at managing the extent of its activities within the financial envelope of the resources identified. However, the challenge of hosting the UK City of Culture year during a period blighted by the COVID-19 pandemic followed by challenging trading conditions in summer 2022 has put additional financial stress on the financial model and cashflow forecasts of the Trust. The Trust's most recent financial monitoring activity has indicated a worse than previously anticipated financial position. As a result, the Trust has found itself in the position of having over-committed its core activity programme by c5%. In addition the Trust is awaiting payment of confirmed capital grant funding and several payments due from HMRC relating to Theatre Tax Relief and VAT. The Trust has therefore identified a need for some temporary cashflow support which will enable it to realign expenditure plans with the timing of grant support and other income flows over the coming period.
- 1.3 This report sets out the background to this request and details the financial arrangements proposed. The Trust is seeking a cash-flow facility of up to £1m from the City Council to meet the short-term financing shortfall that it faces, repayable over the remaining course of the Trust's project period.
- 1.4 The Council has already provided or committed funding to date to directly support the Trust (for delivery and legacy) within an overall package of £5.25m. This does not include the City Readiness funding or Cultural Capital Programme package which have facilitated hosting the overall programme of events and wider investment into cultural and heritage assets, but which was not paid directly to the Trust.

### **2. Options considered and recommended proposal**

- 2.1 **Option 1: Do nothing (Not Recommended)** – The Trust has identified a balanced budget forecast to the end of the legacy period which it is confident puts it on a sustainable footing. However, this includes cash-flow shortfalls over the coming months. It is unlikely that an organisation with a finite life-span such as the Trust would be able to secure external finance or at best would only be able to do so with significant financial security or guarantee clauses attached. If the Council does not provide the required loan funding, it is not clear how the Trust will be able to fulfil its financial obligations over the early part of this period. This option is therefore not recommended.
- 2.2 **Option 2: The Council to provide loan funding of £1m (Recommended Option)** – The Council could respond to the Trust's request and provide a £1m loan on commercial terms which would enable the Trust to manage its cash-flow position. The loan facility is based on the Trust drawing down the whole sum for working capital within a relatively short timescale. The Trust will then have sufficient cash-flow available to service the debt based

on the due diligence that has been carried out by the City Council on the revised business planning that has been provided by the Trust.

- 2.3 The financial position facing the Trust has required it plan for its remaining programme of activity to be delivered within a reduced financial envelope. The Trust has reviewed its budget position accordingly under the scrutiny of its Board and its Audit and Risk Committee. It is currently pursuing a range of grant and trust funding awards consistent with its legacy programme as part of a renewed fundraising strategy. It has also strengthened its professional staffing cohort in the form of a new Trust Financial Director and a senior management position at the Reel Store.
- 2.4 The updated financial plan approved by the Trust (on the basis of the £1m loan being available) is based on confirmed grant funding provided by a number of external bodies plus a further range of grants that have not yet been confirmed. It is also predicated on a prudent forecast of the trading performance of the Reel Store (Digital Gallery).
- 2.5 Without this temporary cashflow support it is not clear how the Trust would be able to manage its financial position. It would be highly likely that the legacy activity of the Trust would need to be curtailed ahead of schedule. In these circumstances the Trust would not be able to deliver its performance benchmarks and may find itself in breach of targets set for funding that it has already received. In addition, there would be reputational damage inflicted on the Trust and the city from not being able to fulfil the activities planned following the end of the UK City of Culture year. This in turn would put at risk the achievement of the long-term legacy impacts anticipated from the UK City of Culture year.

### **3. Results of consultation undertaken**

- 3.1 Not applicable

### **4. Timetable for implementing this decision**

- 4.1 The Council and the Trust would enter into a loan agreement to reflect the loan terms. Once signed, the Council would provide the loan for working capital to the Trust in October in line with the Trust's requirements.
- 4.2 In accordance with the Constitution, the Chair of the Scrutiny Co-ordination Committee, Councillor N Akhtar, has been invited to attend this meeting for this item of business to agree the need for urgency such that call-in arrangements will not apply. The reason for urgency is that the Trust has an immediate need for support to manage its cash-flow position pending the receipt or confirmation of other income over the medium term.

### **5. Comments from the Chief Operating Officer (Section 151 Officer) and the Director of Law and Governance**

#### **5.1 Financial implications**

The Covid-19 pandemic created a very difficult environment in which to deliver a successful UK City of Culture year. Despite this, the Coventry City of Culture Trust achieved an impactful programme that achieved significant outputs and outcomes for the city. Part of the challenge for the Trust was managing within its original financial budget, faced as it was by an extended operating period and restrictions in being able to deliver income-earning events under pandemic and post-pandemic conditions. Despite this the Trust has been able to continue to operate within a balanced medium-term budget. However, the Trust's most recent financial monitoring activity has indicated a worse than previously anticipated

financial position. The revised financial forecasts indicates that the Trust requires financial support through a loan facility of up to £1m to enable it to manage a temporary cash-flow shortfall.

The loan will be provided at a commercial rate of interest that will provide the Council with a financial return to reflect the risk incurred in an arrangement of this nature. The intention will be for this to be repaid over a short term period and before the end of the Trust's operating period in March 2024. This will minimise the amount of interest payable by the Trust but is consistent with it being able to maintain a robust cash-flow position. The final details of these arrangements and the ability to vary these to reflect any change in circumstances will be delegated to officers in line with Recommendation 2. The rate of interest will exceed the rate at which the Council would need to pay to secure the equivalent external funding (for instance from the Public Works Loans Board) although in reality the Council will source the temporary financing from its existing cash balances as an alternative to investing these balances through its routine treasury management activity. Overall, the Council will generate an annual return as a result of the margin applied on top of the rate of borrowing. The loan will be managed by the Treasury Team in line with the Commercial Investments Strategy.

- 5.2 The Council has already provided or committed significant funding to date to directly support the Trust. In December 2017, the Council committed £4.75m of funding for the Coventry UK City of Culture programme, on top of £0.5m approved previously as part of the bid preparations. This overall funding package (£5.25m) does not include the City Readiness funding or Cultural Capital Programme package which have facilitated hosting the overall programme of events and wider investment into cultural and heritage assets, but which was not paid directly to the Trust. In order to manage its cash-flow position, the Trust had already deferred a number of payments in relation to services provided to facilitate UK City of Culture events including outstanding amounts totalling £0.6m owed by the Trust to the Council.

The Council has undertaken due diligence on the Trust's financial position. It is important to note that the provision of the loan is not without financial risk and relies on the Trust being successful in attracting further grant funding and delivering commercial targets over the remainder of its existing lifetime. At present 54% of the Trust's budgeted income to the end of its legacy period (c£12m) is already secure. The non-secured income reflects grant awards that are being sought over the coming months and other amounts such as ticketing income for the Reel Store. The Trust has previously demonstrated its ability to manage within a tight financial budget and has a robust governance structure including its Board and its Audit and Risk Committee which are responsible for approving and monitoring its budget and budgetary performance. Nevertheless, the relatively short lifetime of the Trust provides some limit to its ability to manage its financial strategy and there is a need for a heightened degree of control which the Trust is fully conscious of. The Trust is not able to offer any security to the Council with which to offset the risk incurred.

One of the key ways in which the Trust will seek to manage its financial position is to deliver programmed activity (to maximise the impact of the legacy period) in as imaginative and cost effective manner as possible. The Trust is engaging actively with local community organisations and the cultural sector to ensure that wider expectations of the legacy period are delivered. The Trust is in active conversations with its partners in relation to its performance objectives where these are linked to external funding to ensure that these objectives can be met to ensure that there is no risk to funding clawback.

The recommended option has been considered in the light of the Trust's financial background. The Trust has managed its financial position successfully within the context of the Covid pandemic and its devastating impact on the cultural sector and the ability of any

organisation to deliver mass participation events. The Trust's executive has provided clear explanations on how the Trust is expected to manage its financial position based on achieving funding from established benefactor organisations and managing its activity and expenditure. The Council's previous role as guarantor to the UK City of Culture programme and its pre-eminent position in supporting cultural activity across the city provide the rationale as to why the Council wants to ensure that the Trust is supported in the next phase of activity. Without this support from the Council, the Trust would be faced with some very difficult decisions potentially including but not restricted to the need to curtail its current planned legacy period. Whilst the full impact of doing this is difficult to define, there could be a risk to funding already agreed and/or provided such that the loan proposed in this report can be seen to be cementing far larger financial awards provided to date.

Terms and Conditions for commercial loans in these circumstances must not be set on an advantageous basis to the Trust. This is to prevent the Trust receiving preferential treatment compared to similar organisations. Councils are now subject to restrictions on their ability to borrow to fund investments (including the provision of loans) for commercial return. The removal of access to the Public Works Loans Board – the key source of funding for councils' long-term borrowing needs - is the key penalty for doing so. The proposal in this report does not reflect such activity but instead can be categorised as being preventative action. This can include financial support to preserve existing activity or intervention to prevent a negative outcome. On this basis there is no expectation that the recommended route will affect the Council's access to the PWLB.

### **5.3 Legal implications**

Under section 1 of the Localism Act 2011, the Council also has a power "to do anything that individuals generally may do" (the "General Power of Competence").

#### **Subsidy Control**

The Loan is being provided on commercial terms (likely to generate sufficient returns such that a private prudent investor would have made the same investment)

In practice the Council would need to rely on the fact that the loan has been provided on commercial terms as a justification that no subsidy is being provided in relation to the loan facility (no benefit is conferred on the Trust and therefore no distortion to competition).

### **6. Other implications**

Any other specific implications

#### **6.1 How will this contribute to the Council Plan ([www.coventry.gov.uk/councilplan/](http://www.coventry.gov.uk/councilplan/))?**

The proposals in this report support the continued operation of the UK City of Culture legacy period in accordance with the Council's previous stated ambition and allocation of financial funding. The working capital loan will ensure the continued operation of the legacy organisation and its activity to enhance the city's cultural sector.

#### **6.2 How is risk being managed?**

There remains a risk that the Trust could default on the Council loan. This risk will be mitigated by the Trust holding regular Board meetings and Audit and Risk Committee meetings, both of which are attended by Council representatives. Management information

will be shared regularly with the Council to enable the Council to monitor the financial performance. The Trust has mechanisms in place to monitor the key indicators that will determine its financial performance and is aware of the key areas of flexibility and risk within its budget that require the greatest degree of financial scrutiny.

The support being provided is to enable the Trust to manage its cashflow position and the Council will work with the Trust to ensure that the loan is structured in a way that best supports this objective.

### **6.3 What is the impact on the organisation?**

Without the Council providing loan financing, the Trust will not be able to meet the payroll costs for the business or fulfil its remaining objectives of the legacy. Implementing the proposals in the report will help to ensure that the Trust can continue as a going concern and fulfil the cultural legacy aspirations for which it has been established.

### **6.4 Equality Impact Assessment (EIA)**

No equality impact assessment has been carried out as the recommendations do not constitute a change in service or policy.

### **6.5 Implications for (or impact on) climate change and the environment**

There is no immediate impact for climate change or the environment from the recommended course of action. However, as part of the Trust's legacy activity there is a continuation of its Green Futures' work, alongside a range of partner organisations. Amongst the Trust's stated Green Futures' ambitions are those to ignite social activism, connecting and reconnecting communities to nature and heritage and prioritising issues that most directly affect them.

### **6.6 Implications for partner organisations?**

The report has implications for the Coventry City of Culture Trust which has been responsible for leading the city's UK City of Culture 2021 programme and on which the Council has worked in partnership at all stages of the project.





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