



To: Finance and Corporate Services Scrutiny Board 1

Date: 29th March 2023

Subject: City of Culture Trust – Background to Loan Decision

1 Purpose of the Note

- 1.1 On 4th October 2022 the Cabinet Member for Strategic Finance and Resources approved a loan from the Council up to a sum of £1m to Coventry City of Culture Trust (the Trust) on commercial terms. The loan was subsequently made later that month. On 2nd February 2023 the Trust publicly announced that it was in a difficult financial position with ongoing cashflow difficulties and on 28th February it confirmed that it was entering administration.
- 1.2 This course of events has raised questions about the Council's involvement in the financial affairs of the Trust and the decision to make the loan, a response to which is the subject of this note. This includes some background to the Trust, including a brief financial history and initial analysis of the reasons for the Trust's financial problems. Amongst others it provides specific responses in the following areas:
 - The context for the City Council providing the loan.
 - The Council's policy basis for making the loan.
 - The due diligence undertaken prior to the loan being made.
 - How the loan was used by the Trust.

The note is not intended to answer any wider questions about the running of the Trust, for which the Council was not responsible.

2 Recommendations

- 2.1 Finance and Corporate Services Scrutiny Board 1 are recommended to consider the contents of the note.

Information/Background

The remainder of the note covers the background to the decision and analysis covering the areas set out in section 1.2 above.

3 Trust Background

- 3.1 In October 2015, Coventry City of Culture Trust was incorporated as an independent, private company to coordinate and deliver Coventry's bid for the UK City of Culture 2021 title. In 2016, The Trust was registered as an independent charity.
- 3.2 Formed as an independent vehicle, the Trust successfully brought together partners (public and private sector) in support of a city-wide bid for the UK City of Culture title. At the time of submitting the bid, the Council was one of four Principal Partners. Uniquely, Coventry's bid was developed and submitted with the support of over 150 partners, including 7 Founding Presidents and 120 Business Club Members.
- 3.3 On 7th December 2017, Coventry was awarded the title of UK City of Culture 2021 (UKCOC). The process of implementing and further developing planning for the title year commenced with immediate effect.

- 3.4 In Spring 2020, in recognition of the emerging impact of Covid on planning for the delivery of the year, the Coventry City of Culture Trust (the Trust) worked with all its principal partners, including the Department for Digital Culture Media and Sport (DCMS) and the Council, to agree revised dates for the title year.
- 3.5 Originally set for 1st January to 31st December 2021, it was announced in July 2020 that Coventry's year as UK City of Culture would run from May 2021 to May 2022.
- 3.6 Coventry launched its UK City of Culture year online on 15th May 2021, with the first large-scale event in the city (Coventry Moves) held on 5th June 2021, whilst the nation was still in Step 3 of the Government's Roadmap Out of Lockdown.
- 3.7 The Coventry City of Culture Performance Measurement and Evaluation Supplementary Report (published September 2022) highlights that the Coventry UK City of Culture programme comprised over 700 events, hosted in the city centre and in neighbourhoods across the city. Over 3,000 community dancers, musicians, poets and makers participated, and 1,515 volunteers provided over 37,000 volunteer hours of support.
- 3.8 The year concluded on 31st May 2022, after which the Trust entered its legacy phase, which was intended to run until March 2024. The Trust's Legacy Plan included several key strands of legacy activity, including delivery of:
 - *The Assembly Festival Garden* – a city centre festival site, operating across the summer of 2022
 - *The Legacy Commissioning Programme* – overseeing and commissioning an interactive and engaging arts and cultural programme that supports the Green Futures agenda
 - *A Grants Programme* – that supports cultural and community organisations to build capacity, create extraordinary activities and improve their Green Futures credentials
 - *The Reel Store* – the digital gallery, launched in May 2022 as a visitor destination, for which the Trust planned to secure a longer-term operating model by the end of March 2024

4 Trust Financial History

- 4.1 The Trust's accounts available through Companies House and audited throughout by Dains' Accountants show that the City of Culture Trust traded solvently from 2016 through to its last set of published results up to March 2022. The March 2022 accounts included the conclusion by Dains that the Trustees' use of the going concern basis of accounting was appropriate. The accounts, approved on 29th July 2022 also contained the view from Dains that they had not identified any material uncertainties casting significant doubt on the company's ability to continue as a going concern for a period of at least 12 months.
- 4.2 The March 2022 accounts showed that the Trust received total income for the year of £19.2m and made expenditure of £20.7m. This represented expenditure in excess of income (described in the accounts as a net movement in funds) of £1.5m. Such a net outflow of funds did not represent an unplanned trading loss. The Trust's budget for the financial year 2021/22 anticipated greater expenditure than income which is not unusual for an organisation of this type. It reflected the fact that some of the Trust's funding was received in previous reporting periods in advance of the need to spend and that the main City of Culture year would see extensive cultural programme costs incurred, in-part funded by this income. This position was not an indication that the Trust was in financial difficulties.
- 4.3 Records from the Trust's published accounts shows that it had been successful in attracting nearly £39m of funding over its lifetime up to March 2022. In addition, information provided to the City Council indicated that the Trust had secured a further c£4m part way through the 2022/23 financial year. The vast majority of the income received came in the form of grants

from Government and quasi-Government organisations and from contributions from charitable trusts and local businesses. Much of this revenue came as a result of grant bids and representations made to external bodies and depended on specific programmes of activity to meet conditions set for the Trust. In overall terms it is reasonable to conclude that the Trust had a good track record of attracting grants and other contributions.

- 4.4 Despite the challenges created by delivering the City of Culture year during the COVID pandemic the Trust achieved an impactful programme that delivered significant outputs and outcomes for the city. Throughout the period up to the end of the 2021/22 financial year the Trust's accounts indicate that it had continued to operate within a balanced budget.
- 4.5 The Trust worked within a clear governance structure, including its Board which was responsible for approving and monitoring its budget and budgetary performance, supported by the Trust's Audit and Risk Committee. The Audit Committee was comprised of independent members with experience of operating at a senior level within local organisations plus representatives of the Trust Board and was supported by senior Trust employees including its Chief Executive.

5 Loan Decision Background

- 5.1 The Trust's financial issues were first flagged to Council officers on 14th August via an e-mail which referenced discussion between The Trust's Chair and Chief Executive understood to have taken place at a meeting on 5th August. The Council first received written notification of the Trust's financial difficulties on 24th August when the Trust's Chief Executive set out the financial position understood at the time to the Council's Chief Operating Officer indicating that the Trust "will have an overspend for the period 1st April 2021 and 31st March 2022 of between £633k and £1m." This was presented as being a historic problem which was causing a temporary cashflow challenge. The Trust's Chief Executive referred to having a full understanding of the financial challenge faced and a clear funding plan to secure the Trust's budget for 2022/3 and 2023/24. Information provided on 6th September gave a strong indication that the Trust would face a cashflow shortfall as early as at the end of September.
- 5.2 Although funding and commercial income streams had 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 and followed by challenging trading conditions in summer 2022, put financial stress on the financial model and cashflow position of the Trust.
- 5.3 The Trust's financial monitoring activity in August 2022 indicated a worse than previously anticipated financial position. The Trust's Chief Executive stated that the Trust had found itself in the position of having over-committed its core activity programme by c5%. In addition, the Trust had to revise downwards its assessment of the level of capital grant funding it was due to receive and was awaiting payments due from HMRC relating to Theatre Tax Relief and VAT.
- 5.4 As a result, the Trust was committed to delivering its remaining programme of activity within a reduced financial envelope and identified a need for some temporary cash-flow support. This cashflow requirement led to a request to the City Council to provide a loan facility of up to £1m to meet the short-term financing shortfall faced by the Trust, repayable over the remaining life of the Trust. The temporary cashflow support was intended by the Trust to enable it to realign expenditure plans with the timing of grant support and other income flows over the coming period and to provide additional time to identify additional sources of funding during the legacy period.
- 5.5 The Trust's Chief Executive set out his expectations that the Trust would be able to secure funding from a number of sources, with major bids to the National Lottery Heritage Fund and National Lottery Community Fund, links with existing Trust and Foundation funders, fundraising via the Trust's business club and sponsors and through ticket sales related to the Reel Store (Digital Gallery). Other options in their early stages included exploring further opportunities offered through the Digital Gallery and additional investment related to Green

Futures priorities. Although many of these opportunities were unsecured, they were consistent with the Trust's approach to fundraising over the course of its existence and as such were not implausible as a basis for moving forward.

6 Policy Basis For Providing a Loan

- 6.1 The Council had previously provided or committed significant funding to directly support the Trust and wider city partners to deliver UKCOC outcomes. In December 2017, the Council approved £4.75m of funding for the Coventry UK City of Culture programme, on top of £0.5m approved previously as part of the bid and initial delivery preparations. In addition to this overall funding package (£5.25m), the Council approved a City Readiness funding package of £6.1m, and a Cultural Capital Programme fund of £5m, the latter of which formed part of a city-wide programme which collectively secured investment in excess of £48m. These funds enabled Coventry to host the overall programme of events and ensured wider investment into cultural and heritage assets, although these did not form part of the payments to the Trust. These financial measures were a clear demonstration of the Council's commitment to the delivery of a successful City of Culture year and legacy period.
- 6.2 As the report which approved the loan identified, it was extremely unlikely that an organisation with a finite lifespan such as the Trust would be able to secure external loan finance to manage its financial difficulties in September 2022, or at best would only be able to do so with significant financial security or guarantee clauses attached. If the Council had not provided the required loan funding, it would have been impossible for the Trust to be able to fulfil its immediate financial obligations. At that point, the Trust had forecast a balanced budget to the end of the legacy period, including repayment of the loan, which it was confident had put it on a sustainable footing. The dilemma for the Council was either to provide a loan at risk to give the Trust an opportunity to operate solvently within its planned legacy period or to allow the Trust to enter administration immediately with the Council having not provided a financial solution to avoid that eventuality.
- 6.3 The Council's approach was to provide a loan to the Trust on commercial terms with a plan for the Trust to service the debt and repay the loan over its remaining life. In recent years the Council has provided loans to a range of external organisations across the city in line with its Medium Term Financial Strategy, enabling the Council to help support local organisations, provide financial returns, and achieve service policy objectives consistent with its the One Coventry priorities. Over the last five years the Council has generated a net interest benefit from such loans estimated at c£2.5m. The Council has been up-front that such measures have financial risks and as part of the 2020/21 Outturn Report, Cabinet agreed to set aside £3m to protect against shocks from Council involvement in external arrangements including loans and key partner support.
- 6.4 Without this temporary cashflow support the Trust would not have been able to manage its financial position, meaning that its legacy activity would need to be curtailed ahead of schedule. In these circumstances the Trust would not be able to deliver its performance benchmarks and would find itself in breach of targets set for funding that it had already received. This would inevitably be accompanied by reputational damage inflicted on the Trust and the city from not being able to fulfil the activities planned and in turn would put at risk the achievement of the long-term legacy impacts anticipated from the UK City of Culture year.
- 6.5 The Council's role in support of the UK City of Culture 2021 programme and its pre-eminent position in enabling cultural activity across the city provide the rationale as to why the Council wanted to ensure that the Trust was supported in the next phase of activity. Without this support from the Council, as well as the Trust having to face difficult decisions potentially including, but not restricted to, the need to curtail its current planned legacy period, there could be a risk to funding already agreed and/or provided, such that the loan proposed could be seen to be securing the funding provided to date.

7 Due Diligence Undertaken

- 7.1 The Council requested and/or received several updated financial forecasts through September and October 2022. The financial position presented was very fluid throughout the period showing a different (worsening) position in relation to the overspend and outstanding creditors, different assumptions on the likelihood of capital funding for the Reel Store and updated assumptions about future grant income, a VAT rebate and Theatre Tax Relief.
- 7.2 There was clear evidence through the information and correspondence provided by the Trust that it was refining its financial assumptions through this period in response to the need to identify a credible financial forecast both to its own Board and to the Council as a potential lender. In the period leading up to the loan decision, the Trust's financial position reflected significantly lower cost assumptions and remodelling of its income forecasts in particular in relation to its commercial activity at the Reel Store. There were limitations to how much due diligence could be undertaken, especially in relation to the Trust's financial modelling of future grants and contributions for instance – these were essentially financial forecasts based on expectations of the future actions of funders. There was confidence that common information was being shared with the Council and with the Trust's Board and its Audit and Risk Committee, both of which contained an experienced membership. This information included an income tracker document that formed a key part of the Trust's financial forecast position and which is appended to this note (Appendix 1).
- 7.3 On the 15th September 2022, the Council wrote to the Trust explaining that for the Council to provide £1m cashflow support by way of a loan it would require assurance from the Trust that the provision of the financial loan would put the Trust in a position where it was confident that it would be able to fully discharge the Legacy Funding Services as required under the Legacy Funding Services Agreement. This assurance was confirmed in writing by the Trust Chief Executive on the same day. At the Trust Board Meeting on 28th September, it was noted that 'the loan would enable all major outstanding bills to be cleared and ensure the programme/commissioning plans could go ahead'.
- 7.4 The financial information submitted ahead of the Cabinet Member decision on 4th October included a balanced three-year budget position (2022/23 to 2024/25), which the Trust Board had been advised on 28th September had been developed by the Trust's Chief Executive, with support from the Trust Finance Team, Dains and the Audit and Risk Committee. This budget position included cash-flows for each year and income and expenditure analysis comparing previous and up-to-date forecasts. The financial position shown stated that the settlement of all creditor balances would virtually all be managed within the 2022/23 budget position. Financial information provided by the Trust on 11th October has been appended to this report (Appendices 2, 3, 4 & 5).
- 7.5 The income tracker document analysed whether income had been secured or whether it was still subject to confirmation or commercial activity. This provided some assurance of the Trust's understanding of this area of its budget and recognition of the level of risk facing the Trust in this key aspect of its financial position.
- 7.6 The decision to approve the loan was subject to delegated 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 also included the power to undertake all necessary due diligence.
- 7.7 It was clear at all stages of the process and in statements within the report that this loan carried a degree of risk. The tone of the report left no doubt that the future financial security of the Trust relied upon it being successful in attracting further grant funding and delivering commercial targets over the remainder of its existing lifetime.
- 7.8 As discussions between the Trust and the Council progressed in September 2022, the Trust reviewed its budget, identifying efficiencies and areas of cost cutting to ensure that its

remaining activities could be delivered within a reduced financial envelope. The budget review was undertaken under the scrutiny of its Board and its Audit and Risk Committee. One of the main ways in which the Trust was seeking to manage its financial position was to deliver programmed activity (to maximise the impact of the legacy period) in as cost effective manner as possible and the Trust indicated that it was engaging actively with local community organisations and the cultural sector to ensure this.

- 7.9 The Trust strengthened its professional establishment around this period with a new Trust Financial Director and a senior manager position at the Reel Store. These appointments were designed to improve the financial and commercial success of the Reel Store, to improve the financial administration and financial reporting of the Trust overall and to relieve the pressure on the Chief Executive, allowing him to focus on some of the activities key to the future financial survival of the Trust. In the final analysis, the Trust entering administration has meant that the success or otherwise of these appointments cannot be demonstrated but they provided evidence of an organisation that continued to strive to secure its financial future at the time that the Council's additional financial support was approved.
- 7.10 The Trust Chief Executive was undertaking significant work to pursue a range of grant and trust funding awards consistent with the Trust's legacy programme as part of a renewed fundraising strategy. In early October, the Trust had secured 54% of its budgeted income to the end of the legacy period with the non-secured income reflecting grant awards that were being sought over the coming months and other amounts such as ticketing income for the Reel Store. The Council's report highlighted that the relatively short lifetime of the Trust provided some limit to the Trust's ability to manage its financial strategy and the need for a heightened degree of control within the Trust.
- 7.11 The work outlined in the sections above was necessary in order to put the Trust in a position to manage its financial position effectively but was not in itself sufficient. In order to be effective, the approach also required the temporary cashflow position to be supported and a sizeable proportion of the current and planned grant and trust award bids to be successful over the medium term. In the final analysis, the Trust's entry into administration in February 2023 has meant that it has not had the opportunity to demonstrate the success (or otherwise) of its ability to attract the additional funding required.

8 Trust Financial Difficulties

- 8.1 The Trust has been forced to manage its financial position within the context of the COVID pandemic's devastating impact on the cultural sector and the ability of any organisation to deliver mass participation events. This caused several damaging financial aspects for the Trust. The City of Culture programme was required to be planned and delivered over an extended operating period which resulted in higher overall running costs for the Trust. Many events were delivered under COVID conditions which incurred additional costs and had a significant impact on audience numbers at events under pandemic and post-pandemic conditions, which affected the level of revenue generated on the Trust's commercial activities. Together these had an inevitable impact on the financial performance of the Trust compared with that envisaged at the start of the City of Culture programme.
- 8.2 Since the early days of the Trust, its financial position was supported by up-front funding which was held on its balance sheet in the form of reserves and released to fund expenditure as required. The Trust's financial projections always anticipated that significant expenditure would be incurred during the main City of Culture year, absorbing much of the reserve balances accumulated.
- 8.3 In addition to this overarching strategy, the Trust also assumed some level of forecast unconfirmed income streams would need to be generated within its legacy phase. Over time it was established that this would include commercial income (including from the Reel Store), grants from Government and quasi-Government bodies and charitable trust donations. Much of these revenue flows only crystallised within each year of the Trust's operation and were anticipated to continue into 2023 as the Trust's legacy activities became clear in 2022.

Information provided by the Trust to the Council indicated by October 2022, that 46% of its budgeted income for the remainder of its term had not been secured at that point. The fact that the Trust entered into administration in February 2023 prevented most of these outstanding future income streams from being realised.

- 8.4 The position moved quickly during August and September 2022 and several iterations of the financial information were required and requested over this period. The Trust found it difficult to get a clear position on the worsened financial position that it was experiencing and the overall value of outstanding creditors. It was not always easy to understand how the balance sheet position and the creditor position had been reflected within the budget and cash-flow analyses. A further result of this was that the Executive Board needed to respond to this fluid position and the challenge of the Audit Finance and Risk Committee (amongst others) by re-evaluating its expenditure budget and some income assumptions. This meant that there were always a large number of moving parts although there is clear evidence of efforts to ensure that consistent information was provided to all parties in the Governance process.
- 8.5 The Trust's financial position continued to evolve after the Council's decision to make the loan with the Trust giving an indication of a worsening position on its costs, commercial income and grant funding expectations. This instigated further discussions between the Trust and Council officers just before and after Christmas when it became clear that the Trust would need further support both to help manage its immediate cashflow and its overall budget position through the legacy period.
- 8.6 The Council sought to help the Trust in its discussions, especially with Government, in an effort to put together a credible package to support the Trust. Although these discussions led to the offer of some limited additional support and flexibilities in relation to existing committed funds, it became clear that this would not be sufficient to manage the Trust's overall financial position. At this point a decision was made for the Trust to enter administration.

9 Application of the Council Loan

- 9.1 The terms of the loan agreement between the Council and the Trust stated that the Trust shall use all money borrowed under the agreement for temporary revenue cashflow, enabling the Borrower to pay for costs incurred during the City of Culture delivery year (including summer 2022) and to reduce the cashflow impact of delayed income from sources including HMRC.
- 9.2 The Trust provided information detailing how the £1m loan it had provided was used. This included payments to both to major and smaller cultural bodies that had provided content and events as part of the Trust programme and to a range of other suppliers which had been critical to the operation of the Trust.
- 9.3 The Trust continued delivery of its legacy services through this period, including holding the 'Life and Work of Frida Kahlo' exhibition at the Reel Store and commissioning the 'Cosy Creative' programme in community venues around the city, providing a warm, comfortable, and safe space for local people alongside food, creative performances and workshops.
- 9.4 By settling some of the urgent, outstanding debts, the loan provided a small breathing space to allow the Trust to evaluate its financial position and for discussions to take place with potential grant funders. The Council's support in October 2022 should be viewed in the context that without this, the administration period would almost certainly have come much sooner. The loan at least provided a credible opportunity to avert administration for the Trust, although in the final analysis this was clearly unsuccessful.

10 Mitigation of the Council's Financial Position

- 10.1 The Council was already owed £0.6m by the City of Culture Trust at the time the loan was granted, a sum that it was almost certain to lose in the event of the Trust going into administration at that point. In addition, the potential positive outcomes of securing the legacy period, securing the employment outcomes for Trust employees, avoiding the reputational damage to the Trust and the city of the Trust's premature ending, and supporting the local cultural sector for the remaining life of the Trust were all at stake and all viewed possible at the point the loan was made.
- 10.2 The Council has identified financial sums which protect it from the potential losses incurred as a result of the Trust going into administration owing the Council £1.7m. These include some funding which was identified specifically to support the City of Culture Trust, other amounts identified to support the City of Culture year but not payable directly to the Trust and further corporate funds set aside to protect the Council's financial position at a strategic level.
- 10.3 A report to Council on 5th December 2017 approved £4.75m of Council funding for the UK City of Culture 2021 build-up programme, title year and legacy programme. Of this £1m was set aside for the legacy programme across 2022-24 and of this £0.25m has not been passed on to the Trust and remains uncommitted. Cabinet approved resources to be set aside as part of the Council's 2020/21 Outturn Report to fund policy priorities, of which £2m was identified for cultural priorities. Of this, £0.57m was earmarked as potential funding for the Reel Store to be granted to the Trust, although this funding was never ultimately agreed and paid. In total therefore, the Council has £0.82m of funding which was earmarked to be paid to the City of Culture Trust but which remains with the Council and can effectively be used by the Council to mitigate the debts owed by the Trust to the Council.
- 10.4 The Council's February 2019 Budget Report for 2019/20 approved £6.1m for a city readiness programme not all of which has yet been expended and is held in reserve balances. In excess of £0.7m remains uncommitted from this reserve and a small further balance from the cultural priorities reserve referenced above. These resources have not been identified previously to support the Trust but could be used in mitigation of any losses that the Council suffers from amounts owed by the Trust to the Council.
- 10.5 The Council's 2020/21 Outturn Report set aside £3m to protect against shocks from Council involvement in external arrangements (loans, regeneration development and key partner support). The reserve now held from this decision remains uncommitted and is available to mitigate risks such as the outstanding City of Culture debt.

11 Conclusions

- 11.1 Over many years the Council has used its financial standing and overall financial position to support partner organisations through a combination of guarantor status, letters of comfort, loans and grants. The type of support provided has reflected the circumstances at hand and the nature of the relationship between the Council and the partner body. The common thread to such decisions is that the support should be aligned to the Council's policy priorities. The October 2022 decision to provide a loan to the Trust was very clearly in line with the Council's support of the City of Culture programme and as such was an appropriate use of public money.
- 11.2 The Council made a formal decision to provide financial support to the Trust in accordance with its approved governance processes, with a clear audit trail and informed by the Trust's formal reporting of the financial position known at the time. This all happened within a position of considerable financial urgency just 6 weeks after the Trust's formal approach to the Council and shortly before the Trust was due to suffer an unmanageable cashflow shortfall.
- 11.3 Over the past 6 years the Council has made a significant financial contribution to the City of Culture Trust, other elements of cultural and public realm investment and in-kind support to deliver the City of Culture year. The Council has demonstrated that it was fully supportive of

the City of Culture concept and the delivery of the Coventry UK City of Culture 2021 year has attracted widespread support and praise for what it has delivered for the city. Further support through the legacy phase was therefore an entirely legitimate policy objective for the Council and if, as might have been an alternative strategy, the Council had grant funded additional money to support the Trust, this would have been entirely consistent with its previous support.

- 11.4 The Council undertook an appropriate level of due diligence, although this was required within a relatively short timescale and with a fast-moving financial position. The decision to recommend a loan was a judgement call balancing the potential to rescue a very difficult position for the Trust set against the level of risk that part or all of the loan might not be recoverable. The risk was made clear as part of the authorising report.
- 11.5 The Coventry City of Culture Trust was forced to deliver the City of Culture year in unparalleled conditions. This created a unique set of challenges and made delivery of a coherent and robustly planned programme virtually unmanageable at times. The unpredictable nature of the pandemic and the transition in and out of lockdown restrictions placed a massive strain on the Trust which continued into the Spring of 2022. The Council's support for the Trust was consistent with the Government's wider COVID funding agenda to cashflow businesses affected by the financial impact of the pandemic.

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