



Report to Economic and Environmental Wellbeing Scrutiny & Policy Development Committee

Report of: Director of Finance and Commercial Services

Subject: Sheffield City Trust Update

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Summary:

Sheffield City Trust was set up in 1987 as an independent charity to oversee the running City's sport and leisure facilities, linked to the Major Sporting Facilities that were built for the 1991 World Student Games.

The Trust has recently experienced cash flow problems and required a loan of £1m from the City Council in July 2019 to ensure it was able to continue to trade.

Work is ongoing to both stabilise the financial position of the Trust and to develop a longer term strategy for sport and entertainment in the City.

Type of item: The report author should tick the appropriate box

Reviewing of existing policy	
Informing the development of new policy	
Statutory consultation	
Performance / budget monitoring report	
Cabinet request for scrutiny	
Full Council request for scrutiny	
Call-in of Cabinet decision	
Briefing paper for the Scrutiny Committee	✓
Other	

The Scrutiny Committee is being asked to:
 The Scrutiny Committee is asked to Note the report.

Background Papers:

None

Category of Report: OPEN/CLOSED

Report of the Director of Finance and Commercial Services **Sheffield City Trust Update**

1. Introduction/Context

- 1.1. Sheffield City Trust (“SCT”) was set up in 1987 to oversee the running of the City’s sport and leisure facilities, linked to the Major Sporting Facilities (“MSF”) that were built for the 1991 World Student Games. The MSF are Ponds Forge, Hillsborough Leisure Centre, the FlyDSA Arena and the former Don Valley Stadium.
- 1.2. SCT is an independent charity, regulated by the Charities Commission. The Council has no control over SCT and cannot control it. A Trustee Board oversees SCT with no Council Trustees, but a Council Member is a director of SIV and a member of SCT’s Audit Committee.
- 1.3. Sheffield International Venues (“SIV”) is a subsidiary company of SCT set up to run the facilities leased to SCT.

2. Main body of report, matters for consideration, etc

Background

- 2.1. The financial challenges that the Council has faced in recent years have also been faced by SCT

The Council has faced almost 10 years of austerity, with significant funding cuts and a consequent increase in the maintenance backlog across the Council’s asset base. This is also true for the Council-owned facilities that are leased to SCT.

Competition from low cost operators and the Leeds Arena entering the market in recent years has also impacted SIV’s financial position.

The Council and SCT have been working to reduce the subsidies paid to support SCT’s operations. The strategy was to reduce subsidy in stages from over £5m historically and £3.4m in 16/17 to £nil by 19/20. This was based on both market intelligence from national benchmarking and SCC’s own recent experience.

After the planned re-procurement exercise in 2018 was ceased for technical reasons, a 6 year business plan was developed and proposed by SCT to move to a zero subsidy by 19/20. This reduction relied on plans to grow SCTs income over the first 2 years based on investment proposal.

The proposal was agreed, but is proving to be unachievable. Deficits before the SCC subsidy over the last few years averaged £2.8m and are expected to continue at this level.

The Council will need to cover these losses, at least in the

short term, if the facilities are to remain open.

- 2.2. The Council's support underpins SCT and ensures their accounts can be signed off by their auditors
- The Council has, for many years, provided a Letter of Support to SCT as part of the annual audit process. This letter allows SCT's auditors to sign the accounts on a 'going concern' basis. The letter requires the Council to provide short term cash flow support should it be required to enable SCT to meet its financial obligations.

There is also a separate and more detailed Shortfall Agreement. This is a contract between SCT and the Council that commits the Council to fund any deficits on respect of the Major Sporting Facilities. This agreement does not cover any other facilities (eg Concord Sports Centre).

SCT's cash flow

- 2.3. SCTs cash flow is essentially in three parts
- Cash flows for SCT come in essentially three parts – each has its own set of challenges and potential timing differences. These differences need a balance of working capital (ie cash in the bank) to be kept under control:

Operations – this is cash taken in entrance fees and memberships and cash spent in running the facilities – staff salaries, utilities etc. The £2.8m budget deficit means that more cash is being spent than is received and will ultimately drain SCT's bank balance if no subsidies exist to fill the gap.

Capital – in SCT's case, this is cash generated from operations that is used for capital works. There is therefore a timing difference between cash generation and expenditure.

Ticket Sales – this is cash received from ticket sales (eg for events at the FlyDSA Arena) and the cash paid out to promoters for staging the event. The time lag between selling tickets and paying promoters can be significant – months or longer. This lag causes cash surpluses, but results in a very lumpy profile with large cash inflow and outflows happening in short spaces of time, sometimes on a single day.

- 2.4. Cash flow issues emerged in June 2019, requiring the Council to lend £1m to SCT
- SCT met with Council Officers in June 2019, advising that SCT would need to call on the Council for cash flow support within the next month.
- SCT's cash position results from the £2.8m annual cash deficit, and comes after cash flow flexibility from Capital and Ticket Sales has been exhausted. This was compounded by the cyclical nature of low ticket sales over the summer period and the need for urgent capital expenditure.

The Council commissioned Grant Thornton ("GT") to

report on SCT's cash position and management reporting in July 2019. The Council also made arrangements, in full consultation with Members, for a £1m loan to be advanced to ensure that SCT continued to trade and avoid any risk of default on the Bond issued by SCT but guaranteed by the Council.

An urgent decision was deemed necessary due to the time constraints and the lack of full information on the cash position of SCT pending the work commissioned from Grant Thornton.

The loan was made on arm's length terms to comply with State Aid rules, with interest payable and the loan itself repayable on demand.

Work now in progress

2.5. The GT report has highlighted a number of reporting weaknesses

The review has not yet been finalised, but the core findings are clear:

1. SCT did not have a well-developed cash flow model (this has now been improved and reporting to the Board enhanced).
2. The lack of a cash flow model makes forecasting cash flows difficult and imprecise in part due to lumpy ticket sale cash flows. This contributed to the relatively short notice request for cash.
3. The reporting to the Trustees of SCT needs to provide more detail on the cash flow position.

Given the underlying trading position outlined above, SCC can expect further calls for support in the near future and will need to work with SCT to ensure that requests are anticipated in advance to avoid the need for urgent action in the future.

A draft of the GT report has been discussed with SCT and we expect the review to be finalised during October.

2.6. Officers have updated the set of actions that will need to be taken to alter or unwind the relationship between SCT and the Council

The existing relationship with SCT may naturally come to an end in 2024 with the end of the MSF debt. However, the process is not simple with a number of transactions that will need to be completed.

The Council has almost completed the work to confirm what needs to be done in respect of:

- The Leases between SCT and the Council
- The Luxembourg Bond
- Taxation (VAT and Stamp Duty/and Tax)
- Financial implications

- Accounting implications
- Governance arrangements and mechanisms

The work to date confirms that it should be possible to alter or end the current arrangements sooner, if that is desired.

It is also clear that the best outcome will require the Council and SCT to work together. The complexity of the arrangements means that neither organisation can act unilaterally.

Once this work is complete, it will be possible to develop and agree a course of action to alter or end the current arrangement with SCT that can be implemented at any time.

Council Officers and senior SCT staff and Trustees are meeting regularly to ensure that any action is well planned and co-ordinated.

2.7. Short Term Investment is required to keep the facilities operational

A plan has been developed to invest around £3m over the next 18 months to keep the existing facilities open and available to the public. This investment, which is included in the Council's 2020/21 budget process, will cover only the most essential works and will provide the time needed to develop the longer term strategy.

This is in addition to any Revenue support that is required to cover SCT's trading deficit.

Longer Term Strategy

2.8. The Council and SCT have been working with consultants to develop a long term vision and strategy for leisure and entertainment in the city

In recent months SCC and SCT have worked with external consultants to undertake a review of the SIV managed estate, the review concluded in June 2019.

Following the outcomes of the review further work has been commissioned to develop a long term vision and strategy for leisure and entertainment in the city.

Building condition surveys have identified a significant amount of work required to keep the facilities fit for purpose and attractive to customers. This will force a reappraisal of options in order to deliver value for money.

The new vision will provide an overarching narrative for the new look and feel for leisure and entertainment in the city. Consultants will work with senior officers, elected members and key stakeholders to shape this work.

2.9. A long term facility strategy will also be developed

The vision will be supported by a long term facilities strategy for leisure and entertainment. The facilities strategy will identify options and affordable solutions to address the future needs for leisure and entertainment in the city.

The facilities strategy will be informed by GAP analysis, scenario testing and Sport England Facility Planning models. Sport England have expressed an interest in working with SCC to develop the future strategy, there is an opportunity for SCC to apply to Sport England for funding to support this work.

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| 2.10. Options to improve the financial performance of the Arena and City Hall are also planned | Further work will also take place to identify options to improve the financial performance of the Arena and City Hall. This will include a soft market testing exercise with third party operators to obtain a market view on the two facilities, interest and appetite in partnering/operating venues and an indication of commercial principles under which they would be interested to engage. |
| 2.11. Draft strategy expected by April 2020 | This work is being progressed at pace, the draft vision and insight information will be available by January 2020, the draft strategy documents are expected to be available by April 2020. |

Next Steps

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| 2.12. Complete the work required to make longer term decisions | <p>The GT report and the technical report should be completed by the end of October.</p> <p>The short term investment is part of the 2020/21 budget process, which is scheduled for approval in March 2020.</p> <p>The longer term strategy work is expected to be completed in draft by April 2020.</p> |
| 2.13. Engagement with Council Members and members of the public | <p>Cabinet Members will continue to be briefed on strategy development and Members will be engaged via the normal process for developing and agreeing new strategies. Any decisions will be made in line with established Council processes.</p> <p>The budget process for 2020/21 will include reference to the Revenue and Capital implications of the current and future SCT position. Opposition parties will be able to seek and receive Officer advice on this and any other aspect of the Budget in line with established practice.</p> |
| 2.14. Joint Working with SCT/SIV | <p>The work done to date confirms that joint working between the Council and SCT will be required to implement any changes to the current arrangements.</p> <p>Council Officers and senior SCT staff and Trustees are meeting regularly to ensure clear communication as strategies and plans are developed and to ensure that any action is well planned and co-ordinated between the two organisations.</p> |
| 2.15. Implementation Planning | Making changes to the current Council / SCT arrangements will be complex and require careful planning. This will ensure that whatever longer term |

solution implemented is done in a way that properly manages the financial, taxation and legal risks.

The regular meetings between the Council and SCT will be a critical part of this process.

3. What does this mean for the people of Sheffield?

The facilities provided through SCT form a key part of the City's Sport and Leisure infrastructure. The work being done to stabilise the financial position of SCT and the work to develop a longer term strategy for Sport and Leisure in the City will ensure that high quality facilities continue to be available long into the future.

4. Recommendation

The Committee are asked to Note the report.

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