

To the Chair and Members of the Regeneration & Environment Overview & Scrutiny Panel

UPDATE ON THE PROVISION OF FINANCIAL SUPPORT TO DONCASTER CHAMBER OF COMMERCE

Relevant Cabinet Member(s)	Relevant Overview & Scrutiny Panel	Wards Affected	Key Decision
Cllr Mark Thompson	Regeneration & Environment Overview & Scrutiny Panel	ALL	No

EXECUTIVE SUMMARY

1. A bank guarantee to the value of £150k was approved in November 2010 to support the cash flow of managing the transition of the Doncaster Chamber of Commerce to a new business model.
2. The Chamber is now at an advanced stage of implementing the new business model and management action to date has seen the Chamber forecast a £33.8K profit for the year to March 2012.
3. With some contracts now in place the business is improving its cash flow position, however this will take time to recover. The Chamber is seeking approval for the extension of the guarantee for a further 12 months to March 2013. However this can be reduced to £100k given that the guarantee was not called upon in the current financial year and the forecast position is improving.
4. The phasing of income from contract work is in arrears which creates pressure on the cash flow in the early months and years of delivery. The estimated forecast outturn again improves in 2012/13 to £63.9k profit but the timing of payments shows the cash flow to be very tight during the year.

EXEMPT REPORT

5. The Appendices to this report are exempt because they contain exempt information within paragraph 3 (information relation to the financial or business affairs of any particular person, including the authority holding that information) of schedule 12A of the Local Government Act 1972, as amended.

RECOMMENDATIONS

6. That the Regeneration & Environment Overview & Scrutiny Panel note and provide comment on the contents of the report and note that Cabinet is asked to:-
 - a. Note the progress made by the Doncaster Chamber of Commerce since the provision of the support in November 2010.

- b. Approve the extension to the bank guarantee for the further 12 months at the lower amount of £100k.

BACKGROUND

7. Doncaster Chamber is a not-for-profit membership organisation whose membership is open to all businesses either resident and/or engaged in business in the Borough of Doncaster.
 - The Chamber is under the Direction of a non-Executive, unremunerated Board, elected by the members but employs a full-time Chief Executive, who is also a Director of the Company.
 - A new Chief Executive was appointed in March 2010 with the remit to review the Chamber's future strategy.
 - The company employs 24 staff and provides a range of services to members and to other businesses.
 - Membership currently stands at around 1,000 businesses.
8. As a result of management actions the forecast loss, for the financial year to 31/03/11, of £104k was reduced to £44k. Income was ahead of forecast by £10k with costs being cut to £50k below forecast.
9. Income is derived from two key activities. Membership, marketing & events and business support activities. The forecast was for a 46%/54% split, however the actual income was split 42%/58% which reflected the increased emphasis on obtaining business support contracts.
10. For financial year 2011-12 the Doncaster Chamber of Commerce have been successful in obtaining 4 business support contracts to the value of £592k. The contracts are for varying length from 12 months to 5 years. The Success Doncaster 12 month contract represents 43% of project income and will need to be extended or replaced. Failure to do so will have a significant impact on the Chambers income streams.
11. The financial forecasts provided by the Doncaster Chamber of Commerce show a profit of £33.8k leaving the company with a negative net worth of £10K which is an improvement from a negative £43k. This demonstrates there is improvement but that the guarantee is still required.

OPTIONS CONSIDERED

12. Option 1:

To extend the existing £150k overdraft guarantee until March 2013. This provides sufficient facility to cover the projected cash flow and provide a buffer against delayed payments and other unforeseen events. This is required as the contracts require up front costs and income in arrears. Also providing a means to take advantage of more long term income opportunities and avoid short term decisions purely to meet cash flow requirements.

13. Option 2:

To extend the overdraft guarantee at a reduced amount of £100K, based on a combination of, the Chamber managed within their cash means in year and did not utilise

the guarantee. This was however very close and a guarantee is recommended to avoid short term business detrimental decision making. There is contract income but the phasing of income is in arrears and dependant on numbers presented, which is difficult to predict accurately. This is based on the numbers of unemployed and those helped back into work and those who stay in employment. Having to concentrate on security of the cash flow in the short term could be at the cost of long term sustainability.

14. Option 3:

To withdraw the councils support for the facility. This is not recommended as without the guarantee it is unlikely that the bank would be prepared to continue to provide the facility to the Chamber. Withdrawal of the facility would put the Chamber under cash flow pressure and would mean concentration on short term issues and cost cutting and may put at risk any contract delivery which is the source of funding for the future of the business. This could result in the failure of the company through either cash flow problems or non delivery of contracts due to cost cutting and short term decisions. The Chamber is a source of policy and development support for the business community and this could have a knock on effect to Doncaster businesses which use the Chamber services.

REASONS FOR RECOMMENDED OPTION

15. To ensure the Chamber can focus on operating for the future and work towards a sustainable financial position it is recommended that the Council continue its commitment to the business, through regular interface with the Chamber’s management team and the bank guarantee overdraft for the lower amount at £100k. This support is crucial to ensure the delivery of business support across the borough.

IMPACT ON THE COUNCIL'S KEY OBJECTIVES

16.

Priority Theme	Mayor’s top 10 Priorities	Implications of this initiative
1. Creating a strong, connected and inclusive economy.	<ul style="list-style-type: none"> • Improve Doncaster’s economy. • Regenerate Doncaster’s Town Centres. • Give people choice in transport. 	<i>The economy is being identified as central to the review of the Borough Strategy and its impact on the quality of Doncaster as a place. The aim is to reduce the current output gap estimated at £830m, which a strong and vibrant Chamber is central to especially in the context of the emerging LEP’s.</i>
2. Developing Stronger Communities.		
3. Increasing and improving housing.	<ul style="list-style-type: none"> • Increase affordable housing and build Council houses. 	
4. Protecting and improving all our children’s lives.	<ul style="list-style-type: none"> • Improve services for children and young people. • Improve education and skills across the borough. 	
5. Improving health and support for independent lives.	<ul style="list-style-type: none"> • Ensure people in need of adult social care receive a timely and appropriate service. 	

6. Tackling crime and anti-social behaviour (ASB).	<ul style="list-style-type: none"> • Reduce crime and end all forms of ASB. 	
7. Creating a cleaner and better environment.	<ul style="list-style-type: none"> • Protect the environment from inappropriate development, decay and agricultural vandalism. 	
8. Internal Transformation (including the Council's Recovery Programme).	<ul style="list-style-type: none"> • Ensure local people get value for money from Council services. 	

RISKS & ASSUMPTIONS

17. The Cabinet report approved in November 2010 highlighted the following key risks, the way the Chamber has mitigated/eliminated each risk has been appended:-

- The plan will only be successful if the Chamber achieves the income targets assumed in the plan. Beyond the membership income none of the bids are currently secured.
– *The income targets assumed in the plan have been met.*
- Should the Council agree to guarantee the £150,000 facility, there is a risk that failure to achieve the income target will lead to the Council being called upon under the guarantee.
– *The improved financial position of the Doncaster Chamber of Commerce has reduced this risk.*
- There is an additional risk associated with the current business start up contract being delivered by the Chamber end March 2011. Should the Chamber no longer be in a position to deliver on the contract this would have potentially significant implications in terms of disruption to customers and reduced business support provision locally at a time of public sector spending reductions and likely higher unemployment (when more people faced with unemployment may think about self employment/business start up that the chamber contract is intended to deliver).
– *Contracts to the value of £592K were agreed to be delivered between 12 months and 5 years.*
- The Chamber's expenditure has been adjusted to reflect the property savings, however, no other major expenditure savings have been identified and included.
– *Following a full review further cost savings were identified and delivered a total £50k in savings during 2010/11.*
- The cash flow management is crucial and the information provided by the Chamber suggests the position is very finely balanced and does not leave much room for error/variance, based on the forecast to March 2012.
– *Improvements in both the income and expenditure positions and the Chief executives pursuit of a £170k reimbursement re South Yorkshire Small Business Service (SYSBS) have eased the pressures on the cash flow.*
- Should 2012/13 follow the same profile as 2011/12 there is likely to be insufficient cash to fund the peak expenditure in September 2012. Unless additional cash generative activities are developed or expenditure is reduced, there is a risk that the facility and, therefore, the guarantee will need to remain in place beyond March 2012.

– Revised forecasts confirm improvement in the position and the facility has not been utilised in the year, however the position remains tight for 2012/13 with income in arrears for contracts which suggests the need to continue with some form of guarantee for a further 12 months.

- It is clear that decisions have been made in the past which have not proven to be beneficial to the organisation, however, there has been a change of Chief Executive who has had a limited time to resolve the issues.
 - The Chief Executive has focussed on delivering financial stability through securing contracts at the same time tightening up on cost control and clearer presentation of financial information. There has been a board review of memorandum of articles.*
- Should the Council provide the Guarantee there is the risk that this decision may establish precedence for other businesses in difficulties to approach the Council for support.
 - Remains a risk, which will need to be addressed as and when it occurs.*

LEGAL IMPLICATIONS

18. When first agreeing to provide the guarantee in November 2010, the Council utilised its well-being powers as found in the Local Government Act 2000. This power allows the Council to do anything it considers likely to achieve the improvement or promotion of the economic, social or environmental well-being of its area or inhabitants, including in this instance providing financial assistance by way of a guarantee. In exercising its power the Council must have regard to its Borough Strategy. This power remains valid for the continuation of the bank guarantee.
19. In exercising its power the Council must not act irrationally and as with any other decision is obliged to act prudently and in a business-like manner deploying its resources to the best advantage and with due regard to the interests of ratepayer.

FINANCIAL IMPLICATIONS

20. Financial implications are contained in the exempt appendices.
21. The financial assessment is based on cash flow and profit and loss statements provided by the Chamber and have to be considered alongside all the risks outlined in the Risks and Assumptions section above.
22. The Chamber is continuing to work with other South Yorkshire Chambers to explore joint or shared services on support functions, which should result in reduced costs and increased efficiency.
23. An initial review of membership fees has suggested that this is not the right time to increase fees and that the market is currently very price sensitive where any increase in price now would result in losing members. The drive is to 'engage and retain', increasing the number of large business members and retain smaller businesses. As this is a key income stream for the Chamber a further review of attracting and retaining members will be undertaken.

CONSULTATION

24. This report has been prepared on the basis of consultation with:-

- Key officers and members, in particular:-
 - Director of Finance & Corporate Services, Section 151 Officer;
 - Assistant Director Finance & Performance;
- The Chamber of Commerce Chief Executive and Board Representatives;
The Mayor and portfolio holders.

25. This report has significant implications in terms of the following:-

Procurement		Crime & Disorder	
Human Resources		Human Rights & Equalities	
Buildings, Land and Occupiers		Environment & Sustainability	X
ICT		Capital Programme	

BACKGROUND PAPERS

26. Cabinet Report dated 3rd November 2010.

REPORT AUTHOR & CONTRIBUTORS

Michelle MacFarlane, Head of Corporate Finance,
01302 862612, michelle.macfarlane@doncaster.gov.uk

Chris Yates, Principal Finance Officer, Treasury & Systems Development
01302 737908, Christopher.yates@doncaster.gov.uk

Simon Wiles
Director of Finance & Corporate Services