

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

STADIUM MANAGEMENT COMPANY (S.M.C.) FINANCIAL UPDATE OCTOBER 2011

Relevant Cabinet Member(s)	Relevant Overview & Scrutiny Panel	Wards Affected	Key Decision
Mark Thompson	Regeneration & Environment Overview & Scrutiny Panel	All	Yes

EXECUTIVE SUMMARY

1. This report provides an update for Cabinet on the financial position of the Stadium Management Company (S.M.C.) and the management of the Stadium operation.
2. The draft SMC accounts to 31st March 2011 show a loss of £9k for the year taking the total accumulated losses to £1.57m. This is in effect funded by part of the £1m bank overdraft guarantee that the Council gave the SMC and partly by the stadium naming rights deal worth £1.35m over 15 years.
3. The financial position of the SMC has deteriorated since the £1M guarantee was re- approved by the Council in March 2011 and since the year end date of the SMC accounts. This led to the approval by the Council of an additional £300k loans facility in June 2011 to support the cash flow pending the outcome of the options review due later this year.
4. Since then there has been a reduction in rental income and losses from the concert which have resulted in further financial pressure on the SMC. The management accounts to September produced by the SMC will be revised to a forecast loss of £400k to March 2012. This forecast loss for the year is very likely to take the SMC to the position where it has insufficient cash to meet its liabilities. This is likely to occur very early in 2012.
5. Forecast accumulated losses at the 31 March 2012 are estimated to be in the region of £2m, £1.57m accumulated from March 2011 plus the in year estimated losses of £400k. This is funded by the £1m guarantee, £300k Loans and remaining naming rights funding £0.8m.
6. The SMC have planned to make a number of savings, which it is hoped once implemented would bring the annual loss in a full year down to around £200k per year. The timing of these savings to reach the year end position of £400k loss has a major impact on the cash flow. The main savings only start in

January 2012. The cash flow is forecast to reach its peak deficit in December 2011 of £1.271m, when savings are not yet realised. The position then improves until January pay day £1304k which is a critical time and a risk that the £300k loan and existing guarantee could be exceeded.

7. The fluctuation in the income and expenditure and ever tightening cash flow means that there must be a prompt decision on the options appraisal and future of the operation of the stadium.

EXEMPT REPORT

8. The Appendices to this report are exempt under paragraph 3 of Schedule 12A of the Local Government Act 1972 - financial or business affairs of any particular person (including the Authority holding that information the content is commercially sensitive).

RECOMMENDATIONS

9. That the Regeneration and Environment Overview and Scrutiny Panel note and provide comments on the contents of the report and note that Cabinet is asked to note:-
 - a. the contents of this financial update.
 - b. that the £300k loans approved in June 11 continues to be issued as required against certain financial and operational criteria being achieved by the SMC.
 - c. Further updates on the options for the operation of the Stadium, will be provided to Cabinet in a separate report.

BACKGROUND

10. Since the approval of the extension of the £1m guarantee in March 2011, there were a number of events and management action by the Stadium Management Company which had cash flow impacts. This resulted in an immediate financial pressure and led to the Cabinet approval in June 2011 to provide additional support by way of further loans up to a maximum of £300k.
11. The draft accounts to 31st march 2011 show a loss of £9k and the accumulated losses of £1.57m. These losses were covered by the remaining years of the Keepmoat naming rights funding of £0.9m (£1.35m over 15years) and the £1m overdraft. The cash flow stood at £620k overdrawn.
12. Since April 11 there has been a reduction in rental income and losses of £75k from the concert which have resulted in further financial pressure on the SMC. The August 2011 management accounts produced by the SMC suggest that the forecast loss for 2011/12 will be £282k at March 2012 assuming management action in key areas. Information to September will be revised to £400k loss as some actions have later implementation times.

13. Forecast accumulated losses at the 31 March 2012 are estimated to be in the region of £2m, £1.57m accumulated from March 2011 plus the £400k estimated losses to March 2012. This is funded by the £1m guarantee, £300k Loans and remaining naming rights funding £0.8m.
14. The cash flow at position at 30th September was £971k and this has fluctuated between £800k and £1090k over the year to date. The timing of savings to reach the year end position of £400k loss have a major impact on the cash flow and these saving start in January 2012. There is a peak in December 2011 when savings are not yet realised and the cash flow reached £1271k.
15. The position then improves until a peak at January pay day at £1304k which is a critical time and a risk that the £300k loan and existing guarantee could be exceeded. Each month is extremely finely balanced with £20k - £40k to breach.
16. A review of the options available for the operation of the stadium is ongoing and the outcome will be the subject of a separate report from the Director of Finance & Corporate Services once the review is completed.

OPTIONS CONSIDERED AND RECOMMENDED OPTION

17. The Council continue with the existing approved support to the SMC through loans and cash guarantee to support the Cash flow for an interim period.
18. In providing the funding in support of a volatile cash flow and time to continue to explore options for the Stadium operation it is important to continue with regular contact and dialogue with the Stadium's management team and the bank. The impact on the Council is that at breach the bank will call in the overdraft facility which the SMC will be unable to fund therefore this reverts to the Council as guarantor.
19. There is an additional risk to the Council from the loans. Should there be insufficient funds available to repay the loan at the end of the 3 months period this would be an actual additional cost incurred by the Council.

IMPACT ON THE COUNCIL'S KEY OBJECTIVES

20.

Priority Theme	Mayor's Priorities for 2011/12	Implications of this initiative
1. Creating a strong, connected and inclusive economy	<ul style="list-style-type: none"> • Drive forward the Doncaster economy • Get the balance of public and private transport right • Promote Doncaster as a tourist destination • Regenerate Doncaster's town centres 	<ul style="list-style-type: none"> • Regeneration via the employment and leisure offer of the borough; • Healthier lifestyles, by improving the quality of leisure and fitness

2. Developing stronger communities	<ul style="list-style-type: none"> Encourage community harmony and cohesion. Treat people as individuals, not by reference to labels and artificial groupings 	provision and ensuring accessibility to all sectors of the community; Educational opportunity, by providing first class sports facilities and development to younger people living in the borough
3. Increasing and improving housing	<ul style="list-style-type: none"> Raise housing standards 	
4. Protecting and improving all our children's lives	<ul style="list-style-type: none"> Continue to improve education and skills Build on a strengthening Children's Service 	
5. Improving health and support for independent lives	<ul style="list-style-type: none"> Encourage attitudes of self-reliance, self-improvement and mutual respect within Doncaster communities 	
6. Tackling crime and anti-social behaviour	<ul style="list-style-type: none"> Reduce crime and all forms of anti-social behaviour 	
7. Creating a cleaner and better environment	<ul style="list-style-type: none"> Continue to protect the environment from developers, decay and architectural vandalism 	
8. Internal Transformation	<ul style="list-style-type: none"> Ensure local people get value for money from council services 	

RISKS & ASSUMPTIONS

21. The matrix below summarises the main risks:-

Risk	Classification	Mitigation
Financial loss which will reduce scope to expand and Break even as a facility	High	The latest profit and loss projections indicate that the Stadium has a fragile financial position as evidenced by the forecast for the next 12 months.
Financial position will result in inability to repay the loans and or the guarantee may be called in by the bank	High	Options review is underway to make recommendation to the future operation of the Stadium.
Unreasonable operational risks taken to quickly turn around the current position outlined above.	Medium/High	Strengthened governance and monitoring with clarity to the S.M.C. as to the balance between entrepreneurial actions and level of risk acceptable.

LEGAL IMPLICATIONS

22. The Council is able to provide the loan using its powers under the Local Government Act 2000 which permits it to do anything it considers likely to achieve the promotion or improvement of the economic, social or environmental well-being of its area or residents.

23. The Council has no legal obligation to the SMC to provide this loan.
24. A legally binding agreement will be required to be entered into between the Council and the SMC setting out the conditions relating to the use of the loan in accordance with the Council's Financial Procedure Rules."

FINANCIAL IMPLICATIONS

25. The S.M.C is a separate legal entity managed under a Limited Liability Partnership agreement. However, the Stadium is wholly owned by the Council. and there is a guarantee for the overdraft which exposes the Council to financial risk. The additional £300k loan approved increased the risk and potential exposure for the Council should there be insufficient resources to repay the loans. This can be quantified as a risk in the short term of £1.3m but could increase should prompt and corrective action be delayed.
26. The financial position of the SMC will need to continue to be closely and frequently monitored. The review of options and the implications will need to be brought to a conclusion in the next few months to avoid any further financial pressure on the Council.
27. The Members Limited Liability Partnership Agreement drawn up in 2005 meets the Council's obligations under the Financial Procedure Rules, Grants to outside bodies.

CONSULTATION

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

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

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

- The Mayor and Portfolio holder
- key senior officers and section 151 officer of the Council;
- key members of the Stadium Management Company;

Contact Officer: Michelle MacFarlane, Head of Corporate Finance, Tel. 862612

Report Author: Michelle MacFarlane, Head of Corporate Finance, Tel. 862612

Background Papers:

Cabinet Report dated 22nd June 2011. Stadium Management Company (S.M.C.) Financial Update June 2011.

Cabinet Report dated 2nd March 2011. Update on the Financial Position of the Stadium Management Company (S.M.C.).

Cabinet Report dated 3rd March 2010. Update on the Financial Position of the Stadium Management Company (S.M.C.).

Cabinet Report dated 4th February 2009. Update on the Financial Position of the Stadium Management Company (S.M.C.).

Cabinet Report dated 5th November 2008. Options for the Future Management of Leisure and Cultural Facilities in Doncaster.

Cabinet Report dated 5th March, 2008.

Cabinet Report dated 8th October, 2007.

Cabinet Report 10th December, 2008.

Simon Wiles

Director of Finance and Corporate Services