

**To: The Chair and Members of the
Regeneration and Environment Overview and Scrutiny Panel**

KEEPMOAT STADIUM UPDATE REPORT

Relevant Cabinet Member(s)	Wards Affected	Key Decision

EXECUTIVE SUMMARY

1. The Keepmoat Stadium was built and funded by Doncaster MBC. It was set up in such a way that estimated income from a variety of sources would pay for the management and maintenance of the facilities by a Stadium Management Company (SMC). The SMC is wholly owned by the Council, but is run as a separate company with its own board and staff.
2. The Company has no debt associated with the building of the Stadium as it was funded from capital receipts, however, over the first 6 years of operation income has been insufficient to meet costs and it is estimated that losses will total over £2.5m by March 2012. Funding from Stadium Naming Rights, bank guarantees given by the Council and loans and grants from the Council have all been used to support the SMC, but this is a continuing drain on Council finances.
3. This report sets out background information about the SMC's situation, explains some of the history and indicates possible ways forward for addressing the financial drain on the Council, whilst maintaining the availability, quality and range of facilities at the Stadium.

RECOMMENDATION

4. It is recommended that the Panel receive and note the options available.

BACKGROUND INFORMATION

5. The SMC was set up to run the Stadium for the benefit of all users. The Stadium facilities consist mainly of:
 - The Stadium arena itself used for professional football, rugby league, women's football and occasional events such as concerts.
 - The 5/7 a side floodlight football facilities for local teams.

- The car parks available to paying customers for events and car boot sales.
 - The athletics track, stand and other facilities used mainly by Doncaster Athletics Club.
 - The gym used by local citizens/members.
 - A variety of facilities within the stands. These include offices, meeting rooms, executive facilities, catering facilities, toilets, changing rooms, bars, ticket office etc.
 - The amphitheatre near the lake.
6. It is important to note that the facilities were designed as a single entity. They are interdependent in that for example users of facilities outside of the arena itself need to use the changing rooms and toilets in the Stadium and make payments and bookings at the Stadium. This both limits any options to split the facilities up and means that any changes to management and operating arrangements need to respect and protect the rights of users.
7. The original financial plans for the SMC were for it to make an annual surplus of around £300k. This was to be achieved by income from a variety of sources as set out below. An important issue was that the income did not directly relate to the costs of provision, with some projected high income but low cost activities such as the 5/7 aside pitches and the gym effectively cross subsidising other low income/higher cost activities such as the professional football, rugby league, women's football and athletics. In addition income was anticipated from a variety of other one-off events such as concerts. A summary of the original financial plans is set out below:

8. **Stadium Income**

	£k	£k	£k
Income from main users			
Doncaster Rovers	250		
Rugby League	55		
Women's Football	2		
Other matches at the Stadium	<u>25</u>		
Sub Total		332	
Match Day Revenue			
Catering Income	225		
Bars	100		
Naming Rights	150		
Perimeter Board Adverts & Car Parking	0		
Other	<u>100</u>		
Sub Total		575	

Other Income

Share of Income from Events	70	
Room/Office/Conference/ Meetings	235	
Non Match Day Bar Income	105	
Educational Uses	100	
Gym	240	
5/7-a-Side Pitches	465	
Other	<u>40</u>	
Sub Total Income		1255

Total Income **2,162**

9. Stadium Expenditure

	£k	£k	£k
Direct Cost (of items sold)		128	
Stadium Management & Admin		344	
Additional Match Day Staff Expenses (Main Items)		64	
- Heat/Light/Power	300		
- Depreciation on Gym Equipment	100		
- Catering Fees	80		
- Rates	85		
- Advertising	50		
- Police & First Aid	50		
- Cleaning & Refuse	40		
- Computerising & Copying	50		
- Grounds Maintenance	60		
- Insurance, Bank, Accounts & Audit	70		
- Telephones & Postage	30		
- Repairs & Maintenance	125		
- Security	65		
- Sports Equipment	30		
- Other	175		
Sub Total		1,310	
Total Expenditure			1,845
Planned Surplus			<u>316</u>

The planned surplus would over time build up to allow for more major items of expenditure such as relaying the pitch, major stadium maintenance or works to the athletics track.

10. Financial performance has varied over the years with break even in some years and losses in others. However, the key fact is that by May 2012 the SMC will have spent:

	£k
15 years of Naming Rights Income	1,350
Bank Overdraft Guaranteed by the Council	1,000
Other Loans and Grants from the Council	<u>480</u>
	<u>2,830</u>

The main reasons for these accumulated losses are:

- i. Salaries and wages have been considerably above the original forecast. In some years over £600k above.
- ii. Income from 5/7-a-side has been around £200k per year below forecast.
- iii. Income from the gym has been around £80k per year below forecast.
- iv. Income from the offices/conferences has been around £180k per year below forecast.
- v. Income from other activities and events is often up to £200k below forecast.
- vi. Losses made on individual events and concerts of over £50k each.

The above represents a variance against the original plans of almost £1.2m per year. Against this there have been positive variances of:

- i. Car Boot Sale income of £160k
- ii. Income from perimeter advertising and car parking not originally planned for of up to £500k per year (variable).

11. It can be seen from the above that despite a variety of break evens and losses in the SMC annual accounts and a variety of cost cutting measures, the SMC will continue to lose between £200k and £400k per year.
12. During 2011/12 the Chief Executive of the SMC left and a number of staff have departed. This together with other cost reduction measures was supposed to reduce the annual losses to around £200k per year. However, income from catering and the Soccer Centre is less than previously achieved and losses are more likely to be around £350k. The Council's continued funding for the SMC is likely to run out very early in June 2012 and the SMC's accounts up to March 2011 are likely to be signed off on the basis that it is not a 'Going Concern'. This does not mean that it is bankrupt or needs to be in Administration or Liquidation, but does mean that it does not have funding secured to allow it to operate for another 12 months.

13. It is clear from the financial analysis that none of the Stadium's main users (the Rovers, the Dons, the Belles and the Athletics) pay the true costs of their usage. The Rovers currently pay £281k per year (to the SMC). They agreed a temporary deal whereby they paid over £700k more per year, but kept the perimeter advertising and match day car parking income. The Rovers were able to end the agreement and they did so in May 2011.
14. One further significant issue is that the Stadium requires certain inspections, surveys and works to be carried out in order to keep its operating licence. A number of these issues will become relevant in the next year or two and there is some evidence that works may be needed, that would have been funded from the ongoing annual surpluses had they been achieved and saved up. This issue together with the fact that all the money from the £90k per year Naming Rights has been used within the first 6 years, means that the Council may have to consider some form of one-off capital dowry payment to help ensure that the stadium is kept up to standard.

LEASES AND LICENSES

15. The Rovers have a 25 year agreement to use the Stadium for about 25 days per year plus cup matches. We are 6 years into the agreement. There is an agreement whereby the Council has guaranteed that should the SMC no longer exist then the Council will arrange and pay for the provision of services and facilities similar to those provided by the SMC. This agreement, together with the relatively low payments due from Rovers, has the effect of limiting the Council's options with regard to future use of the Stadium.
16. It should be noted that there should be no criticism of any of the stadium users in relation to the financial position that the SMC faces. The users have almost always paid what has been agreed with them in a timely manner and it certainly not their fault that the stadium is running as a loss.
17. It should also be noted that the SMC have faced a difficult set of circumstances since they were formed to manage the stadium. The SMC receives inadequate sums to meet their costs, from the main users under agreements drawn up prior to the SMC's formation, and has not been able to generate sufficient other income from the facilities to enable the overall Complex to break even each year. Whilst in my view it would have been possible for the SMC to generate more income and to spend less, it would not have been possible to break even every year given the nature of the agreements with the main users.
18. Given the ongoing losses it is important that the Council considers its alternatives for the future to try to ensure that the stadium can be operated for the benefit of its users and citizens/community without being an ongoing financial liability to local tax payers.

OPTION 1: SELL THE STADIUM

19. The Council could consider selling the Stadium either as a Stadium or as land to be knocked down and redeveloped.
 - a. Purchasing the Stadium would be unattractive to anyone other than existing users given that it is loss making and is encumbered by the agreements/guarantees given to the main users and the relatively low rentals/charges that the main users pay.
 - b. Purchase of the Stadium may be attractive to some of the users or perhaps another Doncaster based sports club, but again it is loss making and for anyone other than the Rovers they would have the Rovers as key user paying a relatively low amount for the next 19 years. Any current user seeking to purchase would expect to pay very significantly less than the cost of building the Stadium (as its current value is a lot less than its cost as with most specific purpose buildings) and any price would be further diminished by the existence of the ongoing revenue losses.
 - c. Independent valuation of the Stadium has taken place, but the advice is that any sale price sought by the Council should be based on a capitalised value of potential revenue surpluses. This would give the Stadium a relatively low value. Possibly between £5m and £8m, and these figures would also be affected by the agreements and guarantees already in existence.
 - d. Sale of the Stadium for redevelopment cannot really be considered for another 19 years given the guarantees/agreements with the Rovers. In any case to deprive some to the town's major clubs and their fans of high quality facilities so soon after building them would be an expensive and unusual change of priorities.
 - e. Sale of parts of the Stadium site would potentially be possible and these could generate some capital receipts for the Council. These could well be enough to more than off set the revenue losses to date and provide additional capital resources for other council priorities.

OPTION 2: CONTINUE WITH THE SMC

20. Even with a well run SMC it appears certain that losses of £200k - £300k per year will continue to be incurred. In addition significant amounts of officer time are spent on what in reality is not core Council business. However, if no other options can be agreed and implemented then this continuation of the SMC remains on option. This would require the Council to budget for the annual losses.

OPTION 3: ALTERNATIVE MANGEMENT OF THE STADIUM

21. The Council could procure a professional company to manage the Stadium with the aim of making it more viable than it is now. Whilst it is likely such a body could do better, they would want management fees etc. to take this role on.

It is also questionable whether any such body operated separately and with a separate identity to the main users could make the Stadium break even/make a return. This is because there are potential economies of scale and savings from combining management and operational structures between the SMC and the main users.

22. The Council could investigate whether a body such as the Leisure Trust could use their expertise and potential sharing of overheads for the management of the Stadium, parts of which are not significantly different business to that of the Trust.
23. The Council could pass the management of the Stadium to one of the users. In reality this would have to be the Rovers as only they have the size and infrastructure to take this on. There are a number of potential advantages for both parties in such an arrangement.
24. From the Council's point of view it could:
 - Close the SMC and no longer have responsibility for the management of the Stadium
 - There would be far less staff time dedicated to the Stadium.
 - The Council would be insulated from the ongoing revenue losses.
 - The Council would as part of any such deal agree with the Rovers to end its existing lease/income guarantees.
 - The remaining SMC staff would be TUPE transferred.
25. From the Rovers point of view they could:
 - Seek to have a longer term agreement (50 – 100 years) giving them greater security of tenure.
 - Be granted a longer term agreement on their training ground at Cantley.
 - Have the opportunity to reduce costs and overheads by combining their management and administration with that of the SMC.
 - Have the opportunity of raising additional income from the stadium.
26. The Rovers could also have full use of the facilities at all times that they hadn't contracted for other users such as the Rugby League, the Belles etc. and other events and not be restricted to their current limited days. The Council would seek a longer term lease that was agreed to protect the interests of the other Stadium users and to enhance the community benefits and uses of the Stadium. To this end the Rovers and the Athletics Club have produced lists of community activities that they would enshrine in new lease arrangements.
27. The Athletics club could be granted a separate lease for the track and stand together with rights to changing facilities and floodlights and power. This would be at nil cost to them, with them taking repairing responsibilities and then using this as a basis for attracting external funding.

Next Steps

28. Officers of the Council are intending to have detailed discussions with the main stadium users during April. The aim of this would be to assess whether a revised set of arrangements based around Option 3, para 23. above could be agreed.
29. In addition officers will continue work with the SMC as per Option 2 above to try to improve the SMC's finances, in case other options fail to come to fruition
30. Officers will also work on developing ideas associated with Options 1E above.

Procurement

31. The Council will need to ensure that it complies with all relevant procurement legislation in its attempts to secure new improved management for the stadium

Legal and Human Resources Implications

32. Legal and HR input has only been very limited into the project so far, but as options are developed there will need to be detailed work on revised leases, licenses, management agreements etc. There will also need to be work done to transfer the remaining SMC staff (almost certainly under TUPE) if anything other than Option 2 is agreed.

Financial Implications

33. Financial implications to the extent they are known at this stage are contained within the body of the report.

34. Background Papers

None

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