

**To: The Mayor and Members of Cabinet**

## **FUTURE OPTIONS FOR THE MANAGEMENT OF THE KEEPMOAT STADIUM**

<b>Relevant Cabinet Member(s)</b>	<b>Wards Affected</b>	<b>Key Decision</b>
Mayor Peter Davies	All	K1090

### **EXECUTIVE SUMMARY**

1. The Keepmoat Stadium was built and funded mainly 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 and grants, however, over the first 6 years of operation income has been insufficient to meet costs and it is estimated that losses will total around £2.1m by March 2012. Funding from Stadium Naming Rights, bank guarantees by the Council and loans and grants from the Council have all been used to support the SMC and provide the cash to fund the losses, 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 identifies and evaluates options for addressing the financial drain on the Council, whilst maintaining the availability, quality and range of facilities at the Stadium. The report concludes that the only potential viable solution is to wind up the SMC and give greater management control, usage rights and security of tenure to Doncaster Rovers Football Club, in return for them taking responsibility for the loss making facility and paying a rental to the Council.

### **Recommendation**

4. That the Cabinet authorise the Director of Finance and Corporate Services supported by the Head of Legal Services to attempt to finalise negotiations based around the outline agreement in paragraph 20 and to draw up the necessary legal documents to complete agreements with Doncaster Rovers on the basis set out.

## 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, make payments and bookings at the Stadium and use power supplies from 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 a small (compared to the cost of the facilities) annual surplus of £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 and from renting out offices etc. A summary of the original financial plans is set out below:

8. **Stadium Income (original financial plans)**

	£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	
<b>Other Income</b>			
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	
<b>Total Income</b>			<b>2,162</b>

## 9. Stadium Expenditure

	£k	£k	£k
Direct Cost (of items sold)		128	
Stadium Management & Admin		344	
Additional Match Day Staff		64	
Expenses (Main Items)			
- 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	
<b>Total Expenditure</b>			<b>1,845</b>
<b>Planned Surplus</b>			<b><u>316</u></b>

The planned surplus would over time build up to allow for more major items of expenditure such as relaying the pitch or athletics track and replacement of facilities and services..

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 June 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>
	<b><u>2,830</u></b>

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 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 these 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. From the above it is clear that despite a variety of break evens and losses in the SMC annual accounts, and some significant cost reductions in recent months, 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.
  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 anything like 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.

## **LEASES AND LICENSES**

14. 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 also 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.

## OPTION 1: SELL THE STADIUM

15. The Council could consider selling the Stadium either as a Stadium or as land to be knocked down and redeveloped.
  - a. Purchasing the Stadium could be unattractive to anyone other than existing users given that it is loss making and is encumbered by the agreement/guarantee given to the Rovers and the low rents that the main users pay. However, the Council is willing to discuss options with any potential buyers of the site who would wish to develop the site further whilst protecting the interests of the main users.
  - 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 low rent 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 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 revenue surpluses. This would again give the Stadium a low value. Possibly between £5m and £8m. This range of figures cover the Stadium only not the surrounding land.
  - 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 of the town's major clubs and their fans high quality facilities so soon after building them would be an expensive and unusual change of Council 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 and provide additional capital resources for other council priorities. The two parts of the site that could be considered are:
    - i. The Amphitheatre near to the lake. This has hardly ever been used and has the potential to become an attractive and valuable housing site.
    - ii. One of the car parks, although this would reduce parking capacity.

## **OPTION 2, CONTINUE WITH THE SMC**

- a. 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 MANAGEMENT OF THE STADIUM**

- a. 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 than the Council run SMC, 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 and management structure to the main users (the Rovers) could make the Stadium break even/make a financial return.
- b. The Council could investigate whether a body such as the Leisure Trust could use their expertise and potential sharing of overheads to manage the Stadium, parts of which are not significantly different business to that of the Trust.
- c. 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 advantages for both parties in such a deal.

From the Council's point of view it would:

- 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 and guarantees.
- Remaining SMC staff would be TUPE transferred.
- The Council would receive a rental from the Rovers.

From the Rovers point of view they would:

- 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 site.

For example this could include:

- Solar panels and energy efficiency/wind turbine
  - Greater income from Rovers and other fans using Stadium facilities such as the bars, gym, Soccer Centre, which currently have to be hired event by event
  - Better and greater use of unde/unused parts of the Stadium. Including one area which is to be developed for use by Children's Services/local schools.
  - Profits from the gym once equipment depreciation ends in May.
  - The Rovers would also take over the running and income from the car boot sales.
16. The Rovers would 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 agreement that would protect the interests of the other Stadium users and 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 commit to as part of any new arrangements. It is understood that the Dons will also participate in this.
17. A separate arrangement would be made with the Athletics Club for the track and stand together with rights to training. This would involve them taking repairing responsibilities and then using their security of tenure as a basis for attracting external funding.
18. External advice has been received about the value of such a revised agreement to the Rovers and the Council. The advice is that the Rovers should be paying about £450 - £600k per year plus a further £75k from the Soccer Centre. This is considerably in excess of what the Rovers would be willing to pay.
19. Against the above the Council should consider:
- a) The existing losses being made by the SMC
  - b) The extent of the current 19 year commitment to the main existing users of the facilities, at low rentals, which do not cover the core costs of the facilities.
  - c) The positive community commitments and benefits generated by the actions of the main Stadium uses (see Annex A).

## **OUTLINE OF POSSIBLE AGREEMENT WITH THE ROVERS**

20. Discussions held to date have led to the following outline draft agreement with the Rovers.
- a) That the Rovers be given a Concession Agreement (on a similar basis to the Doncaster Leisure Trust) to use and manage the Stadium for a further 80 year in addition to the remaining 19 years of the existing agreement. This will contain suitable break clauses.



- b) That the Rovers pay the Council £100k per year inflated by the R.P.I. (for the previous 5 years at the end of each 5 year period). It should be noted that at present the Rovers pay nothing to the Council. They pay £281k per year rental to the SMC, but this goes towards meeting the Stadium running costs and still results in a loss. The Rovers will still be contributing to the running costs of the Stadium, and taking responsibility for the existing loss making operation, in addition to paying the Council £100k per year.
- c) That a similar Concession Agreement be agreed for the Cantley Park training facility at the existing rental plus similar R.P.I. uplifts.
- d) That these Concession Agreements confer no rights to the Rovers to develop the Stadium or change any part of its use. Any decision on such changes will remain with the Council as owner of the Stadium and surrounding area.
- e) The Council recognises that the SMC has not yet fully carried out all its maintenance and inspection responsibilities associated with the Stadium and that there are more inspections and costs coming in the next few months. The Council will assess a sum to meet these current liabilities and place it in an Escrow account to be jointly drawn down to meet relevant expenditure. It is anticipated that this sum will be £350k - £450k and that all future Stadium maintenance, inspection and licensing costs will be met by the Rovers.
- f) The Rovers will reach a written understanding on usage with the other main users (the Dons, Athletics Club and Belles) that is mutually agreeable and the Council will only complete the Concession Agreement subject to such agreements being in place.
- g) The Council recognises that there is nine years left of the Naming Rights agreement at a value of £90k per year. Whilst the SMC has used all of the 15 years worth of this money in meeting Stadium running costs, the £90k per year is part of the income necessary to fund the running of the Stadium. The Council will need to continue to pay this to help meet Stadium running costs until the Naming Rights agreement ends or until the Rovers negotiate a new Naming Rights deal, whichever is the sooner.
- h) The Rovers and the other Stadium uses will agree to a range of community uses and benefits being provided by them from the Stadium. These include working with schools, the disabled, amateur clubs and participating in a variety of community focused activities.
- i) As landlord the Council will still need to pay insurance on the Stadium. It will also endeavour to allow the Stadium to use its bulk energy deals.
- j) Until a revised agreement with the Rovers can be reached the SMC will have to take further steps to reduce costs and this is likely to lead to a further 6 – 8 redundancies in the next month. The costs of these will be met by the Council, with the remaining staff TUPE transferring to the Rovers, subject to an overall agreement being reached.

- k) All existing agreements will be terminated as part of this revised approach and replaced by the Concession Agreements and sub agreements between the Rovers and other Stadium users.

## **FINANCIAL ISSUES**

21. The Council has an existing provision in its accounts of £1.1m for Stadium Management Company losses. DMBC applied for and received capitalisation approved for a further £1.2m in 11/12 and set aside revenue funding to meet the future payments on this as part of the 2012/13 base budget. This allows all SMC losses up to March 2012 to be financed and leaves a small provision of around £150k. This sum will be insufficient to meet the SMC losses for April 12 – June 12 and to set up the Escrow account referred to in (e) above. The Council will therefore have to set aside further sums as part of closing its accounts for 11/12. This is likely to be of the order of £400k and will be included in the June finance report to the Cabinet.
22. Looking forward, if agreement can be reached as set out in this report then the Council's financial liabilities for the SMC will come to an end and the Council will receive an additional £100k plus inflation into its budgets (subject to the payment of the Naming Rights for the first 9 years).

## **LEGAL ISSUES**

23. If the recommendation in this report is agreed legal staff will commence work jointly with the Rovers to draw up the necessary agreements to convert this outline agreement into a legally binding agreement. The legal structure of the agreements will not be such as to affect the Council's overall ownership of the facilities and this should avoid any issues with regard to grants given to help build the Stadium or reclaim land.

## **HR ISSUES**

24. The staff who work for the SMC are not Council staff, but the Council wholly owns the SMC Company and is therefore responsible for the staff. Unfortunately due to the ongoing losses a further 6 – 8 redundancies will need to take place imminently, but if a deal can be concluded with the Rovers it is anticipated that it will safeguard the rest of the jobs at the Stadium and these will TUPE transfer to the Rovers.

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## **Background Papers:**

Regeneration and Environment Overview and Scrutiny Report dated 27<sup>th</sup> March 2012. Keepmoat Stadium Update  
Cabinet Report dated 26<sup>th</sup> October 2011. Stadium Management Company (S.M.C.)  
Financial Update October 2011  
Cabinet Report dated 22<sup>nd</sup> 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 3<sup>rd</sup> March 2010. Update on the Financial Position of the Stadium Management Company (S.M.C.).  
Cabinet Report dated 4<sup>th</sup> February 2009. Update on the Financial Position of the Stadium Management Company (S.M.C.).  
Cabinet Report dated 5<sup>th</sup> November 2008. Options for the Future Management of Leisure and Cultural Facilities in Doncaster.  
Cabinet Report dated 5th March, 2008.  
Cabinet Report 10th December, 2008.  
Cabinet Report dated 8th October, 2007.

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