



COUNCIL CABINET
10 April 2019

ITEM 12

Report sponsor: Christine Durrant, Strategic
Director for Communities and Place
Report author: Mike Brown, Arts Development
Manager

Consideration of existing loan made to Derby QUAD Ltd

Purpose

- 1.1 To provide historical and financial context regarding a loan made to Derby QUAD Ltd in 2008, and provide rationale for the recommendation to write off the outstanding balance of the loan.

Recommendations

- 2.1 To note the significant contribution QUAD has made to the cultural life of the city and the positive economic and social impacts that this has delivered.
- 2.2 To note the positive relationship with Arts Council England and the favourable context for investment in culture this creates, which in turn is supporting the delivery of shared objectives for Derby.
- 2.3 To approve the writing off of the outstanding £200,000 loan made to Derby QUAD Ltd in 2008.
- 2.4 To recognise that recommendation 2.3 above supersedes Cabinet Decisions 3, 4 and 5 within minute number 100/10 made on 26 October 2010.

Reasons

- 3.1 There has been extensive investigation of options explored to find a pragmatic solution to the QUAD loan from Council property, legal and finance perspectives.
- 3.2 QUAD has absorbed a reduction in DCC grant funding of almost £300,000 since 2010/11 with limited opportunity to further reduce overheads without risking financial stability; during the same period QUAD has increasing its levels of participation and economic impact for Derby.
- 3.3 QUAD has secured external funding to complete capital works on the building totalling almost £350,000, significantly higher in value than the outstanding loan. These have enhanced commercial options and increased efficiencies, whilst maintaining and improving the QUAD building which is a Council owned asset.
- 3.4 The forward plan and financial business model for QUAD shows how the repayment of the £200,000 would cause significant financial problems and put the viability of the

organisation at risk. By writing off the balance of the loan would remove this risk and would therefore be supporting the sustainability of one of Derby's key cultural organisations. It would also demonstrate a positive statement to stakeholders, such as Arts Council England, of the Council's commitment to the role of culture in achieving the regeneration ambition for our city.

- 3.5 To comply with the Council's Contract and Financial Procedure rules the proposed treatment of the loan must be agreed by Cabinet.

Supporting information

QUAD current context

- 4.1 QUAD opened in 2008 and was an integral part of the master plan for city centre regeneration, bringing an essential cultural dimension and revitalising an important city centre development site. QUAD celebrated its tenth birthday last year having delivered key objectives within the city during this period.
- 4.2 For the year ended 31 March 2018 QUAD reached 452,370 people through their programme. This included over 3,000 school children taking part in structured educational activities. Economic impact of QUAD for the city for this period has been estimated at £6.2m.
- 4.3 QUAD programme for the period included screening 382 different film titles; whilst the visual arts programme is of global standing through touring programmes, digital innovation and Format, the UK's most important photography festival.
- 4.4 QUAD continues to deliver activity that supports the most vulnerable in the community. This includes dementia friendly cinema screenings, targeted work with young parents and specialist work with young people with Autism. QUAD is also providing activities under the Essential Life Skills programme, managed through the Opportunities Area project.

DCC grant funding and impact achieved

- 4.5 DCC finance supported the development of the business model and revenue budget for the QUAD organisation. For QUAD to be financially viable this process defined a need for annual revenue grant support of £373,852 from DCC. Between 2010/11 and 2019/20, to meet Council financial pressures defined within the Medium Term Financial Plan, revenue grant funding to QUAD has reduced from this level to £75,000 per annum resulting in QUAD working in different ways to meet the challenges of these reductions which has been a commendable performance on their part for them to remain financially viable.
- 4.6 At the February 2018 Cabinet meeting, the levels of Arts Grant funding to partner arts-organisations were agreed for the period 2018 to 2022. This shows a further reduction in revenue funding to QUAD over this period with a final payment of £50,000 in 2021/22. There are no identified Arts Grant revenue funds beyond this point.

- 4.7 The concept for QUAD was for it to deliver a diverse programme of art and film, accessible to a broad range of audiences and contribute to the vibrancy of the city centre. However the configuration of space and programme expectations of Arts Council (as majority funder) limits commercial potential of the building. Within this context it is important to recognise that QUAD has managed to absorb a £300,000 reduction in its grant funding from the Council, whilst simultaneously increasing its programme reach for users and for the economic impact for Derby.
- 4.8 The table below shows reductions in grant funding to QUAD since 2010 alongside the impact achieved for the city in terms of programme reach and economic impact.

| Financial Year | DCC Grant Awarded | Programme Reach (People) | Economic Impact for Derby |
|----------------|-------------------|---------------------------------------|---------------------------|
| 2010/11 | £373,852 | 373,409 | Data not available |
| 2011/12 | £345,813 | 316,317 | £5.4m |
| 2012/13 | £318,387 | 415,871 | £5.3m |
| 2013/14 | £255,886 | 366,566 | £5.4m |
| 2014/15 | £193,695 | 372,173 | £5.5m |
| 2015/16 | £193,695 | 374,527 | £5.7m |
| 2016/17 | £135,587 | 416,070 | £5.8m |
| 2017/18 | £175,587 | 452,370 | £6.2m |
| 2018/19 | £100,000 | Current year – data not yet available | |
| 2019/20 | £75,000 | Future years – data not available | |
| 2020/21 | £65,000 | Future years – data not available | |
| 2021/22 | £50,000 | Future years – data not available | |

QUAD Financial and Asset Position

- 4.9 DCC Finance scrutinised QUAD's accounts back in 2014. This indicated that there were limited opportunities to further reduce running costs or overheads and concluded that to repay the loan from the Council in full would place the financial viability of the organisation at risk. A high level review of the recent accounts along with further reductions in funding from the Council since this time, suggests that this is still the case.
- 4.10 The Charity Commission recommend that unrestricted reserves should be based on three months operating costs. For QUAD this equates to circa £350,000. The audited accounts for the year ended 31 March 2018 showed QUAD's unrestricted reserves at a relatively low amount of £27,846 which has the potential to undermine sustainability.

- 4.11 The Council's £200,000 loan sits on QUAD's balance sheet and is flagged by auditors as a risk to the ongoing security of the organisation. This information is made publicly available by the Charity Commission. To write off the £200k loan would improve QUAD's net assets position on their balance sheet, and increase their unrestricted reserves. Both of these figures are scrutinised by grant funders when determining if QUAD are a worthy applicant, as they are considered to be an indication of how solvent the charity is.
- 4.12 QUAD has undertaken significant capital improvements to the building which is a DCC asset. Funded by internal budgets and external fundraising, additional work completed has a total value of £349,962. The work has improved commercial options on the ground floor and updated building management systems to increase efficiencies and significantly reduce costs for energy and water usage. QUAD has also managed exterior maintenance during this time, including remedial works to the plant rooms and roof.

Relationship with Arts Council England

- 4.13 Decision on how to treat the outstanding loan to QUAD should not be considered in isolation, but within the wider context of support to the city's cultural infrastructure, where investment and leadership demonstrated by the Council has been an important factor in maintaining grant funding to the city from Arts Council England.
- 4.14 Between 2018 and 2022 annual grant funding from Arts Council to Derby based Organisations will exceed £10.1m. Alongside this their project funds will invest in smaller organisations and individual artists and their strategic funds will target specific priorities.
- 4.15 Arts Council investment is informed by local context. Derby has recently benefitted from visits from both the Chair of Arts Council England and their Chief Executive. Local developments such as Culture and Leisure Board and emerging Culture Strategy demonstrate Council commitment to culture through leadership and partnership working.
- 4.16 Current Arts Council confidence and support in Derby is evidenced by recent funding success. Their Youth Performance Partnerships Fund will invest £1m for activity in Normanton, Arboretum, Derwent, Chaddesden, Abbey and Sinfen. Aligned with Opportunity Area priorities activity will support young people to build confidence, broaden their horizons and develop their career aspirations.
- 4.17 Derby has also been shortlisted for £1.5m funding through the Arts Council Performing Arts Producing Hub strategic fund. In addition, there is interest from Arts Council around potential for creative workspace within Make and Trade Zone plans.
- 4.18 Within this context, any further reductions in arts grant funding will undermine the positive narrative that has been developed. Whereas being seen to actively support the sustainability of one of Derby's key cultural organisations will create a positive context for wider opportunities to be considered within Derby.

Background and context to the loan agreement

- 4.19 The QUAD capital programme was a DCC project with a value of £11.4m, which included a target of £500,000 to be raised through sponsorship and grant giving trusts. Responsibility for this element of the capital budget was assigned to QUAD who successfully secured £250,000 of the target. The liability for the shortfall was subsequently transferred to QUAD in the form of a loan agreement for £250,000 drawn up in July 2008. An initial loan repayment of £50,000 was made. Subsequent repayments were not pursued due to the extensive number of building issues under investigation which were impacting upon QUADs income generation and ability to build the business.
- 4.20 In October 2010 a Cabinet Report aimed to finalise outstanding issues with the QUAD capital project. This included a proposal to cancel out the outstanding £200,000 loan by assigning responsibility for exterior maintenance of the building to QUAD. However, following extensive investigation and scenario planning, there was not a workable solution from Council property, finance and legal perspectives that would achieve the required outcomes. Loan repayments were not pursued in the intervening period whilst a workable mechanism for implementing the 2010 Cabinet decision was explored.

Proposed way forward

- 4.21 The proposed way forward is for the council to write off the remaining £200,000 loan. This is in recognition of the fact that QUAD has received a significant reduction in Council grant funding; that QUAD have undertaken major capital works on the building; and that they have limited unrestricted reserves.
- 4.22 There have been a number of different approaches considered as to how to move the situation forward. This report proposes what is considered to be the most pragmatic solution for both organisations, whilst maintaining the financial viability of QUAD and a favourable climate for wider investment

Financial impact

- 4.23 It is intended to account for the financial impact of the write-off within the Communities and Place 2018/19 outturn and has been forecasted as such.

Public/stakeholder engagement

- 5.1 There have been discussions with QUAD to understand their financial position and other potential options for dealing with the loan. They believe that the proposed way forward represents the most pragmatic solution for their organisation and enables their financial viability to be strengthened.

Other options

- 6.1 Enforcing the repayment of the loan has been ruled out as it is most likely to have a significant detrimental effect on QUAD's sustainability.

- 6.2 We have considered whether there are other options for repayment over a much longer time period, or the provision of activities in lieu of repayment. However for the reasons outline in 4.11 it was felt this would have a detrimental impact on QUAD's fundraising potential.

Financial and value for money issues

- 7.1 Included in the main body of the report.

Legal implications

- 8.1 The decision to write off repayment of the outstanding loan, effectively converts the loan to a grant. In order to make a grant to any organisation, the Council must ensure that such grant is compatible with European State Aid regulations. Aid for Culture is covered by Article 53 of the General Block Exemption Regulations 2014; the write off of this loan is therefore compatible with State Aid regulations.

Other significant implications

Property implications

- 9.1 Having previously explored transferring responsibility for external maintenance to QUAD it is accepted that the lease terms will remain unchanged, with the council as landlord, remaining responsible for the structural integrity of the building. This will continue to be managed within existing revenue and capital budgets on a priority basis across the council's property portfolio.
- 9.2 It is noted that the cancellation of the debt will improve sustainability of QUAD in delivering extensive community benefits and beneficial use of this important building in the city centre. This mitigation of the risk of an unplanned and untimely return of the building to the council is to be welcomed.

This report has been approved by the following people:

| Role | Name | Date of sign-off |
|----------------------------|---|-------------------------|
| Legal | Emily Feenan | 31 January 2019 |
| Finance | Amanda Fletcher | 21 February 2019 |
| Property | John Sadler | 14 February 2019 |
| Service Director(s) | Claire Davenport | 18 February 2019 |
| | Dinesh Kotecha | 19 February 2019 |
| Report sponsor | Christine Durrant | 15 February 2019 |
| Other(s) | Peter Ireson | 18 February 2019 |
| Background papers: | Council Cabinet Report, 26 October 2010. Item 9: QUAD | |
| List of appendices: | Available on CIMIS | |