



**URGENT BUSINESS**

**TUESDAY, 20 DECEMBER 2011**

Please find enclosed Urgent Business Notices in connection with the following:

1. **STOREY CREATIVE INDUSTRIES CENTRE** (Pages 1 - 35)

The Chief Executive, in consultation with the Leader of the Cabinet and the Cabinet Member with Special Responsibility for Regeneration has agreed to make a decision in accordance with the City Council's Urgent Business Procedure.

Details of the above decision and the reasons for urgency are set out in a report exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.

The Chairman of the Overview and Scrutiny Committee has been asked, and agreed, that the requirement to include the decision in the Forward Plan be waived in accordance with Access to Information Procedure Rule 16, to enable the decision to be taken immediately.

Additionally the Chief Executive (in consultation with the Chairman of the Overview and Scrutiny Committee) has been asked to waive call-in in accordance with Overview and Scrutiny Committee Procedure Rule 17(a). The Chairman of the Overview and Scrutiny Committee was in agreement with the decision to waive call-in.

**Queries regarding this Agenda**

Please contact Liz Bateson - Democratic Services - telephone 01524 582047, or email: [ebateson@lancaster.gov.uk](mailto:ebateson@lancaster.gov.uk).

MARK CULLINAN,  
CHIEF EXECUTIVE,  
TOWN HALL,  
LANCASTER, LA1 1PJ

Published on 20 December 2011.

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*Our reference:* UB78

Councillor Eileen Blamire (Leader of Cabinet)  
Councillor Janice Hanson (Portfolio Holder for Economic  
Regeneration)

**HEAD OF GOVERNANCE**  
Town Hall  
Dalton Square  
Lancaster  
LA1 1PJ

20 December 2011

DX 63531

Dear Councillor,

## **URGENT BUSINESS – STOREY CREATIVE INDUSTRIES CENTRE**

Members are requested to consider the attached report which proposes consideration of a request from Storey Creative Industries Centre (SCIC) Ltd for financial assistance by way of a fully repayable loan. Please note that the attached report is exempt from publication.

The Chief Executive is consulting with you to take an Urgent Business Decision to provide a revenue loan totalling £90K to Storey Creative Industries. The reason for the urgency in this case is that failure to secure the loan prior to the end December could result in increased pressure from creditors and the business becoming insolvent.

The issue is a Key Decision, but notice has not been included in the Forward Plan. Therefore in accordance with Access to Information Procedure 16, the Chairman of the Overview and Scrutiny was requested, and agreed, to waive the requirement for notice of the decision to be included in the Forward Plan for five working days before the decision is taken.

The Urgent Business Procedure Rules authorise the Chief Executive to take urgent decisions which cannot reasonably wait until the next meeting of a committee, in consultation with the Chairman of the relevant committee.

I would be grateful if you could complete the attached slip, signifying whether you are in agreement with the recommendation or not, and return it to the Town Hall as soon as possible. In the meantime, could you please telephone Liz Bateson on 582047, or e-mail [ebateson@lancaster.gov.uk](mailto:ebateson@lancaster.gov.uk), with your decision.

Yours sincerely,

**Liz Bateson**  
**Principal Democratic Support Officer**

Enc.

*Contact:* Liz Bateson  
*Telephone:* (01524) 582047  
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Councillor Kerr  
Chairman of the Overview and Scrutiny Committee.

**HEAD OF DEMOCRATIC SERVICES**

Town Hall  
Dalton Square  
Lancaster  
LA1 1PJ

20 December 2011

DX 63531

Dear Councillor,

**URGENT BUSINESS – STOREY CREATIVE INDUSTRIES CENTRE**

Please find attached a report that the Chairman of Cabinet and the Cabinet Member with responsibility for Regeneration are being requested to consider. The report proposes that consideration be given to a request by the Storey Creative Industries Centre for financial assistance by way of a fully repayable loan. Please be aware that the attached report is exempt from publication.

The Chief Executive is consulting with the Chairman of Cabinet with view to making an urgent decision. The reason for the urgency in this case is that failure to secure the loan prior to the end December could result in increased pressure from creditors and the business becoming insolvent.

The issue is a Key Decision by virtue of its financial impact. However, notice has not been included on the Forward Plan. I am writing to you to seek your approval that the taking of the decision cannot reasonably be deferred, in accordance with the Council's Access to Information Procedure Rule 16. Your agreement to waive the requirement for the issue to be included on the Forward Plan for five clear working days is required before the Chief Executive can take the decision in consultation with the Chairman of Cabinet.

I would be grateful if you would consider the following:

**To waive the requirement to include advance notice of the decision in the Forward Plan, in accordance with Access to Information Procedure Rule 16, in order that the decision can be taken without delay.**

Please complete the attached slip signifying your decision and return it to the Town Hall as soon as possible. In the meantime, could you please telephone Liz Bateson on 582047, or e-mail [ebateson@lancaster.gov.uk](mailto:ebateson@lancaster.gov.uk) with your decision.

Yours sincerely,

Liz Bateson  
Principal Democratic Support Officer

Enc.

**CABINET**

## Urgent Business Report Storey Creative Industries Centre

### Joint Report of Heads of Financial Services and Regeneration & Policy Services

PURPOSE OF REPORT			
To provide an update on the Storey Creative Industries Centre (SCIC) Ltd's current financial position and for Members to consider SCIC's request for financial assistance by way of a fully repayable loan.			
<b>Key Decision</b>	<b>X</b>	<b>Non-Key Decision</b>	<b>Referral from Cabinet Member</b>
<b>Date Included in Forward Plan</b>	N/A – Urgent Business		
<b>Project Appraisal Undertaken</b>	N/A		
This report is exempt from publication by virtue of paragraph 3 of Schedule 12a of the Local Government Act 1972			

#### RECOMMENDATIONS

- (1) That Members agree to provide a revenue loan totalling £90K to Storey Creative Industries Centre (SCIC) Ltd as requested, to be fully repaid to the Council (including interest) over a three year period commencing February 2012.
- (2) That the detailed terms and conditions attached to the loan, including requirements for the prioritisation of creditor payments, be agreed by the Head of Financial Services and Head of Governance in order to protect the Council's interests.
- (3) That the General Fund Revenue Budget be updated to reflect the interest receivable.
- (4) That to provide cover in the event of any potential future default by SCIC, the loan be underwritten by the Council's General Fund bad debt provision, the level of which will be reviewed twice yearly under normal arrangements.
- (5) That to help manage the Council's future interest in the Storey building, Officers undertake further work to assess fully the implications of opting to tax the building and the likelihood and extent of any external grant clawback, and report back to Cabinet in due course.

## 1 Introduction

- 1.1 In previous years Members have considered reports concerning the Storey Creative Industries Centre (SCIC) Ltd. The last report was considered back in September 2008, when emphasis shifted onto the viability and business plan of the completed centre. It was recognised then that it would be challenging for the company to over-achieve against its income forecasts and that it would be hard for the company to 'breakeven' in the short term. On the basis that the business plan indicated that the SCIC would move into surplus by its fourth year of operation, authority was given to provide revenue support totalling £40,600 in 2008/09, £69,700 in 2009/10 and £28,300 in 2010/11 upfront in each year. This was subject to annual review against the company's Business Plan and if SCIC generated significant surplus in its activities, then the Council could have reduced its revenue support accordingly, or sought clawback to the value of any additional funds supplied.
- 1.2 Such surpluses have never materialised, however, and in recent months SCIC has struggled with worsening financial difficulties to such an extent that it is considered that the company will need financial support from some source or other, probably before Christmas at the latest, or it is expected to fail.
- 1.3 As a result SCIC has now formally submitted a letter to the Council requesting financial assistance by way of a fully repayable loan totalling £90K to be paid back over a three year period, including 10% interest. This is attached at **Appendix A**. The request is supported by provision of a sustainability plan and 3 years' financial projections, included at **Appendix B**. A summary of Officer comments on the details of the request is set out at **Appendix C**.

## 2 SCIC Ltd Current Financial Position

- 2.1 At their meeting on 19<sup>th</sup> October, the SCIC Finance Sub-Committee were presented with half yearly draft accounts showing that they owed £130K to other organisations, including £32K to the City Council. These total liabilities could reduce to c£90K if the company is successful in recovering various outstanding monies owed to it, although the financial position could also get worse if SCIC are not able to do so. In the meantime, the position is causing significant cashflow difficulties and it has reached the point where the SCIC is now struggling to operate.
- 2.2 At present, there are at least 2 County Court Judgments (CCJs) against the SCIC. These include HMRC and other creditors are expected to serve CCJs or winding up orders imminently. SCIC is in the process of trying to agree repayment plans with all of its creditors including the Council.
- 2.3 The main contributing factors to cashflow difficulties in recent months are:
- Under-recovery of service charges (including current year) from tenants since it began operating in 2009/10, due to under-estimation of big expenditure budgets such as gas and electricity;
  - Some original leases with tenants were set at levels resulting in under-recovery of rent in order to increase occupancy levels;
  - Some commercial type tenants not fully accepting increased service charges based on actual costs and arts type organisations not in a financial position to accept, making it difficult for SCIC to recover its full operating costs.
- 2.4 The combination of the above factors has led to increasing difficulty for SCIC in

being able to meet urgent payment of significant creditors including HMRC, Npower, smaller local businesses (some now starting to take legal action against non-payment) and of late, its own staff.

- 2.5 Furthermore it should be noted that until recently, when the extent of SCIC's difficulties were clarified, the Council had been withholding payments relating to Lancaster Visitor Information Centre (LVIC) rent and service charges. This was tied in with seeking agreement on an acceptable repayment plan for monies owed to the Council for Npower and insurance related payments.
- 2.6 In order to help with SCIC's emerging short term cashflow difficulties however, and to enable Officers more time to form a view on whether the SCIC could reasonably continue to operate viably (even with extra financial support from some source), the Council is now currently releasing payment of around £2K for monthly LVIC rent and service charges. It has also had to release full payment of backdated service charges for previous years totalling £8.9K, so that SCIC staff could be paid in November.
- 2.7 In recent weeks, although the SCIC have successfully negotiated correct recovery of current year service charges with the majority of its other existing tenants, the Company has agreed that these tenants can pay backdated service charges (totalling around £50K) over a 12 month period, to assist with their own individual cashflows. This does not provide any further relief for SCIC's current cashflow problems though.

### **3 Details of Consultation**

- 3.1 There has been no formal consultation other than discussion with SCIC's Chief Executive and Finance Sub-Committee members.

### **4 Options and Options Analysis (including risk assessment)**

#### **4.1 Option 1 – Approve Loan Request**

- 4.1.1 *Financial Implications* – The £90K loan would be used for cashflow purposes only. As it is not linked to financing capital works, the principal amount of the loan would not feature directly in the Council's revenue budget. Instead, it would be facilitated through the Council's balance sheet. Any provision for non-recovery would impact indirectly on the Council's revenue position, however.
- 4.1.2 In light of SCIC's recent financial performance, it would be prudent to underwrite any loan as there would still be risk that SCIC could default on some of its repayments and ultimately fail. As reported in Quarter 2 corporate financial monitoring, the Council's current bad debt provision is currently over-provided by £64K. This could therefore provide cover at this stage; future provision levels would be reviewed as part of the budget and at outturn in line with normal arrangements.
- 4.1.3 It is reiterated that the repayment plan proposed by SCIC includes 10% interest. If Members were minded to grant the loan, the actual interest costs for the Council would not be as high, but it is considered reasonable to apply such a rate when the following are taken into account:
  - risk of non-recovery of full loan: SCIC would be unable to obtain a similar loan from a bank or elsewhere based on current financial performance, etc.

- the significant time and effort already spent, and still to be undertaken, by Council staff on this issue.

4.1.4 A summary of this option is provided below. Any loan granted would need various terms and conditions attached to help protect and manage the Council's interests.

Advantages	Disadvantages	Risks
<p>More likely that SCIC Ltd will be able to continue to trade successfully.</p> <p>Security of SCIC Ltd short to medium term trading position should provide existing tenants with the confidence to remain in situ.</p> <p>Less financial and operational impact expected for the Council, i.e. LVIC can continue to operate as 'business as usual', no forfeiture of current head lease between LCC and SCIC, no external grant clawback or VAT implications (see later sections).</p>	<p>No guarantee that SCIC Ltd will remain solvent and that the Council can recover the full loan – so it may still cost the Council if the loan is not fully repaid.</p>	<p>Known expense of providing financial support verses unknown full financial / operational implications for the Council of SCIC being wound up.</p> <p>Whilst SCIC remains solvent and if able to recover its full costs, from the financial forecasts provided the ongoing viability of its Business Plan 'appears' achievable. Officers are still awaiting some further evidence to support these statements however, therefore a fully objective view cannot yet be provided on SCIC's assumptions.</p> <p>Reputational risks either way – Council could either be seen as 'not helping' or potentially 'throwing good money after bad'. Difficult to manage these risks in current media climate.</p> <p>The Council could help protect its interests by attaching conditions to loan, e.g. staged payments (subject to agreement with SCIC's other creditors), continued officer attendance at Finance Sub-Committee, regular monitoring of SCIC financial position, etc – but involves Officer time.</p>

**4.2 Option 2 – Refuse Loan Request**

4.2.1 *Financial Implications* – If the loan is not approved then realistically the SCIC will be unable to continue with its operations much beyond December 2011. The full implications for the Council of this scenario cannot be determined accurately at this stage, as they will very much depend on (amongst other things) the type and outcome of any potential administration proceedings; whether or not the company can be rescued or forced into liquidation; impact on existing tenancy base; future management structure for the building, etc. There are two important factors that require specific mention, however:

### **Clawback of External Funding**

- 4.2.2 Although it is not yet possible to fully quantify the operational and financial implications arising under this option, there is a potential risk that a change in use or ownership of the building could trigger clawback of ERDF, SRB, NWDA and Arts Council grant funding originally invested in the capital phase of the project. The probability of this happening is considered low in the current economic climate, particularly for NWDA and SRB.
- 4.2.3 In the case of ERDF, a key condition of match funding was that the Council would make a contribution in-kind, i.e. the building independently valued at £900K had to be treated as a transaction with another third party organisation. The usual period of clawback for ERDF capital schemes is 20 years, however for every year that passes the risk reduces. Indeed, the ERDF programme under which this particular scheme was funded will also be 'signed off' by European auditors in 2015 and therefore should no longer bear stringent audit requirements.
- 4.2.4 It is also considered that under the circumstances the funders' primary concern would be to ensure that the building continues to operate in line with its original use and lets workspace for grant eligible activities such as small / medium business space and ancillary services. That said, a further consideration is the current economic climate, which is a major issue for EU institutions – there will be many ERDF part-funded schemes and programmes that will have been curtailed and will not have delivered against their original planned outcomes. Furthermore the demise of the Government Offices will have bearing. This means that future monitoring and audit arrangements will have to be undertaken by Central government instead.
- 4.2.5 Overall, the likelihood of clawback does still require more investigation and assessment by Officers and so although seen as a reasonably low risk, it should not be completely ruled out at this stage.

### **VAT Considerations**

- 4.2.6 A far more immediate and certain issue arising for the Council to consider relates to the complex VAT implications arising from the treatment of the original capital project.
- 4.2.7 As a reminder, the Storey building was refurbished through external grant funding totalling £3.5M between 2006/07 and 2008/09. This was then let on a peppercorn lease to SCIC, an independent management company (as required by ERDF funders). The arrangement was granted 'non-business supply' status by HMRC and this meant that the Council was able to reclaim all the VAT incurred on the capital phase.
- 4.2.8 Should SCIC cease trading and if subsequently the Council became directly involved in managing and letting out the building, either temporarily or permanently, it is reasonable to assume that the VAT implications arising would be two-fold:
- The Council would in all likelihood breach what is known as its 'Partial Exemption' limit. Whilst this is a complex area, the upshot of this occurring would be that the Council would no longer be able to recover VAT on certain supplies, and so would incur additional costs currently estimated at around £170K per year. The Council could avoid this charge only if it were able to empty the building and then sell it on, or if there was some major change in the



Council's other activities that significantly improved the VAT position.

- Under VAT regulations regarding the 'Capital Goods Scheme (CGS)', building projects are subject to a retrospective, proportionate correction to reclaimed VAT where there is a change of use (for VAT purposes) within approximately 10 years of completion. By becoming involved in direct management of the building, in all likelihood this would change the VAT purpose from 'non-business' to 'business'. This would result in a further £60K VAT charge per year, due up to 2018/19 (the tenth year after completion).
- 4.2.9 One way to avoid these implications is to 'opt to tax' the building, although this means that any subsequent business supply (e.g. sale or let) of the building would then be subject to VAT.
- 4.3 These VAT issues are complex and material but need to be taken into account should option 2 be approved, particularly as this would present further scenarios for the ongoing operation.

#### **Scenarios under Option 2 (refusing the loan request)**

- 4.3.1 Should SCIC ultimately fold then the Council would probably be faced with the following three main scenarios. For all of them, various incidental costs would be incurred but for now, only the key issues are highlighted.

##### ***Scenario 1 – transfer to alternative third party management company***

Under this scenario, the Council would repossess the building under the terms of the head lease and look to regain the position of granting a peppercorn lease to a third party as a non-business transaction, the main risk being over what would happen in the interim, i.e. the Council may need to 'step in' to manage the building and its tenants if an alternative third party provider could not immediately be put into place. Depending on the timescales involved and the certainty with which the business could be passed over, with reference to the Council's VAT position the best option might be to opt to tax the building.

##### ***Scenario 2 – Council takes over operation itself***

Under this scenario the Council would repossess the building under the terms of the head lease and take over operational responsibility on similar lines as SCIC, the main financial risk/implication revolves around whether the Council would breach its Partial Exemption limit, as discussed above. Again an option to mitigate this would be to opt to tax the building; the downside is that VAT would have to be added to the rents and service charges. The Council would have to consider the impact of this on tenants; those who are VAT registered should not be impacted on but those who are not would have a real increase in their charges, unless some other compensation adjustment was agreed.

From an operational side, future management of the operation would need further consideration as there is currently no dedicated full time capacity within the Council to take on management of the building. There may also be 'Transfer of Going Concern' issues linked to opting to tax the building and further work would be required by Officers to assess the impact of these.

##### ***Scenario 3 – Council closes or sells building***

If the Council were to close the building (assuming that this would be possible) there would be no issues from a VAT point of view as there would be no business supplies from the closed building. There may need to be negotiation regarding clawback liabilities, however.

If the Council sought to sell the building on but with tenants still in situ, then there could be VAT implications arising from the sale.

There would be significant short to medium term operational implications for the Lancaster Visitor Information Centre (LVIC), which would need to be able to operate from alternative premises and will also likely lead to additional one-off financial implications to cover relocation costs.

## **5 Officer Preferred Option**

- 5.1 Option 1 is the preferred option as the potential risk of non-recovery of loan repayments is considered more manageable for the Council when compared to the increased likelihood of far more significant operational and financial implications arising should SCIC Ltd cease trading. That said, it is recommended that further work be done to assess VAT options and to clarify (with the aim of avoiding) clawback liabilities, in order to give the Council greater flexibility in managing its interests in the building.

## **6 Conclusion**

- 6.1 There is an opportunity for the Council to prevent SCIC Ltd failing in at least the short to medium term by providing it financial assistance by way of a loan on a fully repayable basis over three years. If approved, it is reasonable to assume that provided the SCIC at worst case continues to maintain its current occupancy levels, it can become a self sustainable operation based on its current financial projections. This should in turn protect economic benefits for the district by ongoing support of the development of the creative and cultural industries and visitor economy. There is no guarantee of such an outcome, however.

### **RELATIONSHIP TO POLICY FRAMEWORK**

#### **The Corporate Plan (2011-14)**

The continued delivery of the Storey Creative Industries Centre (SCIC) project, with its focus on economic development within the creative industries and being home to significant public funded Arts Partners, contributes to the council's vision to "...secure a safe and prosperous community that's proud of its natural and cultural assets and provides lasting opportunities for all" and "In Lancaster this means being recognised as an important University city with an envied quality of life, strong economic opportunity and rich heritage."

The main link is to the priority "Economic Regeneration" and the focus that "Lancaster will be targeted with actions to make far more of its heritage assets, public spaces and retail offer". Other relevant lines under this priority are:

*Outcomes:* More tourists coming to the district and tourist income is maximised; Improve the district as a place to visit; Improved cultural, retail and tourism offer; Recognised as a visitor destination.

*Actions:* Maximise cultural, heritage and retail offer

*Outcomes* The voluntary, community and faith sector will have capacity to deliver services

for the district.

*Actions* Develop a joint public sector approach to delivering services; Ensure our key partnerships work effectively; Work with the voluntary, community, faith sector to deliver local services.

The key strategies that support our Resource Management Framework are supported by a number of other important policy documents mentioned in the Corporate Plan. The SCIC project delivery is noted in:

### **Sustainable Community Strategy 2008-11**

The project delivers against the following LDLSP Community Strategy priority:

- Increase economic opportunity in the whole district, facilitate access to our natural and built environment and implement an integrated transport solution to bring the major urban centres in the district together

Particular relevant 'targets' include:

Maximise employment and economic activity in the KNOWLEDGE ECONOMY

Place shape LANCASTER CITY and RIVERSIDE as a regionally significant visitor and shopping destination a competitive employment destination with an outstanding waterfront.

### **Economic Vision/Regeneration Strategy**

The support for development of a "flagship creative industries centre" was a key element of the Vision strategy subscribed to by the City Council.

## **CONCLUSION OF IMPACT ASSESSMENT**

**(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**

Diversity – The proposal aims to maintain a wider range of employment opportunities to residents of the area.

Human rights – No adverse impact.

Community Safety – No adverse impact.

Sustainability – The proposal aims to support the SCIC wider operation ensuring that local employment opportunities are maintained and to prevent organisations going out of business.

## **LEGAL IMPLICATIONS**

The preferred option of a loan would appear to be the only way of keeping the company solvent. In terms of pursuing this arrangement the Council would firstly have to be satisfied that the other creditors were willing to agree to postpone their legal proceedings and to enter into an arrangement with the Company for the repayment of their debts in a structured manner.

## FINANCIAL IMPLICATIONS

The main financial implications are incorporated within the body of the report.

It is emphasised here however, that the preferred Option 1 to provide a loan is not without its risks. The most obvious one being that should SCIC fall into financial difficulties again within the next three years, it may well default on some of its loan repayments and at worst case ultimately become insolvent anyway.

It would appear from the financial projections provided by SCIC though (attached at Appendix B), that its operation should become self sustainable over the coming months and that approving the loan is probably the only realistic means of facilitating this, subject to SCIC be able to:

- Maintain a minimum 85% occupancy level (note expected to rise to 95% during January 2012)
- Review its costs and service charges periodically and set at an appropriate level to ensure full recovery of its operating costs
- Recover monies owed by its tenants in a structured and timely manner
- Create lettable space on the third floor (to be initially occupied by the PROUD Project from early 2012 for approximately 2.5 years of which SCIC and Lancaster University are two of six partners in an Interreg ERDF funded scheme with rent and services charges payable by Lancaster University during this period.)

At this stage it should be further noted that Officers have not been able to fully provide an objective view on the financial information provided as the Council is still awaiting some evidence from SCIC Ltd to support its assumptions, in particular whether its tenants have signed up to new leases where appropriate and agreed to pay increased service charges, thereby covering actual costs being incurred. Summary Officer comments on the financial projections can be found at Appendix C. On a positive note, SCIC have provided evidence demonstrating that there is currently more interest in the building than actual lettable space available so in the short term at least there should be no real problems in maintaining the current 85% (or more) occupancy levels.

Under this option, there is no VAT consequence to the Council as there is no change of use and any further revenue grant awarded to SCIC Ltd would be 'outside scope'. It is also not expected that there would be any external grant clawback arising.

Under Option 2, there are 3 main probable scenarios arising with varying degrees of operational and financial risk for the Council, including implications for the operation of the Council's LVIC.

In summary, with regard to providing a revenue loan to SCIC Ltd, as it is assumed that this will be fully repaid (including interest) over a three year period commencing from February 2012 there should be no real cost to the Council and therefore no additional impact on the General Fund Revenue Budget. In light of their recent financial performance however, and on the presumption that the SCIC might still fail in the next 12-month period, it is considered prudent to mitigate the risk of non-payment to some degree by underwriting the loan from within the Council's current bad debt provision, which is currently over-provided for by £64K.

Subject to Option 1 being approved, the General Fund Revenue Budget will need to be updated and reviewed on an annual basis to reflect the net impact of interest included in subsequent loan repayments by SCIC Ltd.

In addition, prior to entering into any contractual arrangement with the SCIC, all necessary terms and conditions deemed necessary to protect the Council's interests will need to be agreed by the Head of Financial Services and Head of Governance.

Should Members resolve not to approve a loan to SCIC Ltd, then a further more detailed report covering full operational and financial implications arising for the Council will need to be brought back to members once the outcome of subsequent administration/insolvency proceedings are known.

Regardless of which option is decided, Officers will continue to explore the feasibility of opting to tax the building and the likelihood of how certain grant clawback will be under the current circumstances in order to inform fully any future decisions.

**SECTION 151 OFFICER'S COMMENTS**

The s151 Officer has contributed to the production of this report. In the circumstances and given the implications of other options and scenarios, the granting of a loan (with associated recommendations as set out) is considered a reasonable course of action, albeit with risk attached.

**MONITORING OFFICER'S COMMENTS**

Provided that the loan is subject to terms and conditions which enable the Council to satisfy itself that the funding is used in such a way as to ensure so far as possible that the company is able to continue trading, the granting of the loan would seem to be a reasonable response to the problem, particularly bearing in mind the financial risks to the Council of Option 2.

**BACKGROUND PAPERS**

Previous Cabinet reports dated June 2007 and September 2008, Briefing note by HFS to Cabinet Nov 2011, sustainability plan and Financial Projections provided by SCIC Ltd

**Contact Officer:** Julie Raffaelli  
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# THE STOREY

Att Mr Mark Cullinan  
Chief Executive  
Town Hall  
Dalton Square  
Lancaster LA1 1JP

Dear Mark

As you are aware The Storey is experiencing serious cashflow difficulties, and if we are to survive as an organisation we need to take urgent and significant action.

The original model for the Storey was based on full recovery of operating costs via a service charge, while rental income would build a surplus to create a sustainable business. As you will see from the report the reason this failed was that the initial costs were underestimated and the service charge consequently set too low.

Attached to this letter is an outline plan together with financial forecasts that covers current status though to the financial year 2014.

As part of the plan and to clear the old debt allowing us to continue to trade we will need a loan from LCC and I have included this in my forecast. The reality of the situation is that if we do not get financial support in December we will not be able to pay our wage bill and early in the New Year it is possible that one of our creditors could try to wind up the business.

You will see from the projections that we are looking for £90,000.00 which we would like to pay back over a three year period; I have also included interest of 10% and see this as a commercial arrangement. We will start repayment in February if it is possible to draw down the loan in December.

As you will see from the report our problems relate to old debt and the business, at its core, is sustainable once we reimplement the original model.

Thank you for your consideration.



Tom Clark

Chief Executive SCIC Ltd

# Sustainability Plan

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## **Current Problems**

Severe cash flow problems have been apparent for some time and the current economic climate has further exacerbated our problems because of late payments from tenants. We are suffering from increased creditor pressure and the situation needs to be addressed as quickly as possible.

Two contributing factors generated this situation:

### *Revenue levels:*

When the original service charges were formulated estimates of cost were used that, with hindsight, did not reflect an accurate situation. This created a significant shortfall in recoveries.

The initial push to try to fill the building as quickly as possible caused a number of contracts to be negotiated on a lost leader basis; this means that we are also under recovering rent in some areas.

From a commercial standpoint, SME's are benefiting from the situation while the smaller developing companies suffer. The organisation was created to help small creative organisations so the situation is being redressed by this plan.

### *Ability to source finance:*

The Storey as a Company Limited by Guarantee (Not for profit) does not have the same level of access to the normal commercial finance market. We do not have any capital assets to speak of; our lease is too short to capitalise. We have a very weak balance sheet because of this and because of our current shortfall in revenue.

Therefore, we need to create sustainability.

## **Action Plan**

We will increase revenue to the correct levels and by doing so resurrect the original business model of covering our cost base with realistic service charges and building a surplus from rent.

### *Revenue Assumptions:*

We will reclaim under-payment of service charge for financial year 2010/2011 over the next 12-month period from all tenants. The lease documents currently in place allow for this. We have calculated a total reclaim of £50,000.00

All existing tenants are now paying an increased Service Charge, this charge may further be increased to cover predicted rise in operating costs in future years.

We will significantly increase occupancy by January 2012, with estimated occupancy of 95% by 15<sup>th</sup> January, based on current demand. We are currently in negotiation with two potential tenants; a letter of intent has already been received for 2500 sq ft from a local company and a large overseas company looking to open in the UK has expressed strong interest in our building and Lancaster.

The above measures will allow the Storey to build sustainability for the near future. The increased service charge will cover most of the operating costs while the rent will build a surplus for ongoing maintenance and development of the building.

We are still however left with an immediate problem until the backlog of creditors has been cleared, and this cannot be done quickly enough without external support.

We also need to make savings if we are to be truly sustainable and in making those savings look towards reducing our energy costs. We have instigated an investigation into ways of controlling and reducing these costs.

### ***Cost Savings:***

One of our biggest costs and potential wins is Utility Costs

*Gas:* Implementation of advanced monitoring and control systems.

Potential reduction in billing because of overcharging on rate that has recently been identified by monitoring system.

We are increasing the monitoring points for heating zones so that gas consumption can be better controlled.

*Electricity:* Improved remote monitoring for accuracy in the allocation of costs.

Identification of incorrect usage (computers left on overnight)

Reduced consumption tariff; building has larger supply than it needs.

We aim to reduce our consumption by 30% in the next 6 months

## **Economic impact of Storey**

***Moshen*** - A small company in the mobile application market that are developing into an SME. They have grown from five people in the last 12 months to 20 and are still growing; they expect to exceed 30 employees in the next 6 months. Recently they have signed a 6 million pound contract with the Football Association to launch a new mobile application globally. They have formed alliances with a number of organisations within the building including Litfest, helping to develop a publishing application.

***Hotfoot and Azullo*** – Still relatively small with four members of staff but they have recently been awarded £50,000.00 from the North West Fund 4 Creative and Digital based on a new product development for e commerce web sites that is being used by Volvo and Money Supermarket with interest being shown from a number of blue chip clients. They will start to grow their team early next year.



*Fat Media*- A major success story in the North West and still growing, now employing 35 people they are currently are largest tenant.

*PROUD* – The Storey in partnership with Lancaster University has been awarded Interreg IVB funding for 3 years to carry out a research project with co design techniques to create Innovation in the community and stimulate economic growth via the creation of new business entities in Lancaster. There are three themes, Place, Process, and People. The Storey is a full partner and the UK is the only country to have two full partners as part of this bid. PROUD will gain the Storey international recognition and will also raise the profile of Lancaster as a true Creative Hub in Europe.

*AHRC* – Again working with the University and as part of a consortium The Storey has been successful and the consortium has been awarded a 4.8 million pound grant to set up a Knowledge Exchange Hub called the Creative Exchange. Lancaster University is the lead partner and the consortium includes Newcastle University, The Royal College of Art, The BBC and The Sharp Project.

Our roll will be to act as a link to the Creative Industries and as a catalyst between the academic organisations and the commercial organisations in our area.

## Notes on Financial Calculation

The figures for 2011 to 2012 reflect the current trading situation to October 2011. From that point the figures are projected on known costs and revenues.

The figures for 2012 to 2013 include our new resident who will be in place by 15<sup>th</sup> January. The figures during this year also include the expected reduction in utility costs as per current negotiation with our supply companies.

The figures for 2013 to 2014 have been adjusted using the current rate of inflation and where possible when renegotiation is possible for revenues from our client base.

All the figures for the three years include the correct assumption for the recovery of service charges and allow for the under recovery within the year 2010 to 2011. They also assume that all tenants will be paying the correct service charge from the beginning of 2011 to 2012. There has also been an adjustment made for under charging of rent, which will be pursued, although it will not affect the figures significantly if rejected by the clients in question. The capital funding released from Lancaster City Council has been reduced to reflect the actual amount now received to date and we are assuming that there will be a reduced recovery from Lancaster City Council based on the support being deducted from the under recovery of service charges.

As will be noted from the cash flow forecast we will need support in the region of £90,000 and I have included an interest bearing loan of that amount assuming a rate of interest of 10 percent on a simple interest basis for a three year period. As can be seen from the cash flow forecast this is very doable.

Also included in the cash flow as a total is the current outstanding debt to the city council. This is reflected in the opening balance prior to April 2011 together with charges since raised.



		PROFIT & LOSS FORECAST												Total 2012/13		
														Only		
														Act/Proj.		
		Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13			
		Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	£	£	
SCIC																
SALES																
Rent Income Litfest	£	320	320	320	320	320	320	320	320	320	320	320	320	320	320	3,840
Rent Income TIC	£	964	964	964	964	964	964	964	964	964	964	964	964	964	964	11,568
Rent Income Storey Gallery	£	919	967	967	967	967	967	967	967	967	967	967	967	967	967	11,556
Rent Income Workspaces	£	6,003	6,003	6,003	6,003	6,003	6,003	6,003	6,003	6,003	6,003	6,003	6,003	6,003	6,003	72,036
Rent Income Third Floor	£	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Service Charges	£	13,101	13,101	13,101	13,101	13,101	13,101	13,101	13,101	13,101	13,101	13,101	13,101	13,101	13,101	149,131
Telephone Income	£	821	821	821	821	821	821	821	821	821	821	821	821	821	821	9,852
Event Income	£	2,500	1,200	1,500	2,500	1,000	900	1,500	500	1,500	200	500	500	500	500	14,300
Catering Income	£	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	20,400
	£	28,328	27,076	27,376	28,376	26,876	26,776	27,376	26,376	27,376	23,399	23,699	23,699	23,699	316,733	
ADMINISTRATIVE EXPENSES																
Staff salaries	£	8,785	8,785	8,785	8,785	8,785	8,785	8,785	8,785	8,785	8,785	8,785	8,785	8,785	8,785	105,420
Staff national insurance	£	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	32,400
Staff training	£	0	0	0	0	0	300	0	0	0	0	0	0	0	0	650
Travel & subsistence	£	0	1,000	0	0	600	0	0	600	0	0	700	0	0	0	2,900
Print and stationery	£	0	200	0	0	200	0	0	200	0	0	250	0	0	850	
Computer costs and IT support	£	500	500	500	500	500	500	500	500	500	500	500	500	500	6,000	
Advertising and promotion	£	0	0	200	0	0	200	0	0	200	0	200	0	200	800	
Accountancy	£	40	4,040	40	40	40	40	40	40	40	40	40	40	40	4,480	
Equipment Hire	£	65	65	65	65	65	65	65	65	65	65	65	65	65	780	
Water Rates	£	0	0	0	2,400	0	0	1,172	0	0	0	0	0	0	3,572	
Heat, Light and Power	£	3,800	3,800	2,800	2,800	2,800	2,800	2,800	3,200	3,200	3,200	3,200	3,200	3,200	37,600	
Insurances	£	308	308	308	308	7,000	308	308	308	308	308	308	308	308	10,388	
Cleaning	£	707	707	707	2,743	2,005	707	707	707	707	707	707	707	707	11,818	
Repair and maintenance	£	1,578	1,578	1,578	1,578	1,578	1,578	1,578	1,578	1,578	1,578	1,578	1,578	1,578	18,936	
Licences	£	0	0	134	0	0	0	368	0	0	0	0	0	0	502	
	£	18,483	23,683	17,817	21,919	26,273	17,983	19,023	18,683	18,083	17,883	18,833	18,433	18,433	237,096	
GROSS PROFIT	£	9,845	3,393	9,559	6,457	603	8,793	8,353	7,693	9,293	5,516	4,866	5,266	79,637		
OVERHEADS																
Cost of Sales	£	421	421	421	421	421	421	421	421	421	421	421	421	421	421	5,052
Telephone	£	421	421	421	421	421	421	421	421	421	421	421	421	421	421	5,052
Sub-Total	£	421	421	421	421	421	421	421	421	421	421	421	421	421	5,052	
OTHER COSTS																
Depreciation	£	390	392	390	391	391	391	391	390	391	392	391	390	390	4,690	
	£	390	392	390	391	391	391	391	390	391	392	391	390	390	4,690	
OPERATING PROFIT	£	9,034	2,580	8,748	5,645	-209	7,981	7,541	6,882	8,481	4,703	4,054	4,455	69,895		
INTEREST EXPENSE																
Overdraft interest	£	283	0	0	0	0	0	0	0	0	0	0	0	0	283	
Loan interest	£	0	750	750	750	750	750	750	750	750	750	750	750	750	8,250	
	£	283	750	750	750	750	750	750	750	750	750	750	750	8,533		
NET PROFIT	£	8,751	1,830	7,998	4,895	-959	7,231	6,791	6,132	7,731	3,953	3,304	3,705	61,362		
CUMULATIVE	£	8,751	10,581	18,579	23,474	22,515	29,746	36,537	42,669	50,400	54,353	57,657	61,362	61,362		

PROFIT & LOSS FORECAST

	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Total
	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Act/Proj.
£	£	£	£	£	£	£	£	£	£	£	£	£	£
<b>SALES</b>													
Rent Income Liftfest	320	320	320	320	320	320	320	320	320	320	320	320	3,840
Rent Income TIC	964	964	1,014	1,014	1,014	1,014	1,014	1,014	1,014	1,014	1,014	1,014	12,068
Rent Income Storey Gallery	1,017	1,017	1,017	1,017	1,017	1,017	1,017	1,017	1,017	1,017	1,017	1,017	12,204
Rent Income Workspaces	6,303	6,303	6,303	6,303	6,303	6,303	6,303	6,303	6,303	6,303	6,303	6,303	75,636
Rent Income Third Floor	2,104	2,104	2,104	2,104	2,104	2,104	2,104	2,104	2,104	2,104	2,104	2,104	25,248
Service Charges	13,101	13,101	13,101	13,101	13,101	13,101	13,101	13,101	13,101	13,101	13,101	13,101	157,212
Telephone Income	864	864	864	864	864	864	864	864	864	864	864	864	10,368
Event Income	2,500	1,200	2,000	3,000	1,000	1,000	1,500	500	1,500	200	500	500	14,900
Catering Income	1,788	1,788	1,788	1,788	1,788	1,788	1,788	1,788	1,788	1,788	1,788	1,788	21,456
	28,961	27,661	28,511	29,511	27,011	27,511	28,011	27,011	28,011	26,711	27,011	27,011	332,932
<b>ADMINISTRATIVE EXPENSES</b>													
Staff salaries	9,244	9,244	9,244	9,244	9,244	9,244	9,244	9,244	9,244	9,244	9,244	9,244	110,928
Staff national insurance	2,841	2,841	2,841	2,841	2,841	2,841	2,841	2,841	2,841	2,841	2,841	2,841	31,251
Staff training	0	0	0	0	0	350	0	0	0	0	0	350	700
Travel & subsistence	0	800	0	0	800	0	0	800	0	0	1,000	0	3,400
Print and stationery	0	250	0	0	250	0	0	250	0	0	250	0	1,000
Computer costs and IT supp	550	550	550	550	550	550	550	550	550	550	550	550	6,600
Advertising and promotion	0	0	200	0	0	200	0	0	200	0	0	200	800
Accountancy	50	5,000	50	50	50	50	50	50	50	50	50	50	5,550
Equipment Hire	68	68	68	68	68	68	68	68	68	68	68	68	816
Water Rates	0	0	2,525	0	0	0	1,233	0	0	0	0	0	3,758
Heat, Light and Power	3,200	3,200	3,000	3,000	3,000	3,000	3,400	3,400	3,400	3,400	3,400	3,400	38,800
Insurances	324	324	324	324	7,350	324	324	324	324	324	324	324	10,914
Cleaning	744	744	2,896	2,110	744	744	744	744	744	744	744	744	12,436
Repair and maintenance	1,660	1,660	1,660	1,660	1,660	1,660	1,660	1,660	1,660	1,660	1,660	1,660	19,920
Licences	0	0	141	0	0	0	387	0	0	0	0	0	528
	18,681	24,681	18,822	23,148	27,923	19,031	20,501	19,931	19,031	18,881	20,131	16,590	247,401
<b>GROSS PROFIT</b>	10,280	2,980	9,689	6,363	-912	8,480	7,510	7,080	8,930	7,830	6,880	10,421	85,531
<b>OVERHEADS</b>													
Cost of Sales	443	443	443	443	443	443	443	443	443	443	443	443	5,316
Telephone	443	443	443	443	443	443	443	443	443	443	443	443	5,316
Sub-Total	443	443	443	443	443	443	443	443	443	443	443	443	5,316
<b>OTHER COSTS</b>													
Depreciation	293	293	293	293	293	293	294	293	293	293	293	293	3,518
	293	293	293	293	293	293	294	293	293	293	293	293	3,518
<b>OPERATING PROFIT</b>	9,544	2,244	8,952	5,627	-1,648	7,744	6,773	6,344	8,194	7,094	6,144	9,685	76,697
<b>INTEREST EXPENSE</b>													
Loan Interest	750	750	750	750	750	750	750	750	750	750	750	750	9,000
	750	750	750	750	750	750	750	750	750	750	750	750	9,000
<b>NET PROFIT</b>	8,794	1,494	8,202	4,877	-2,398	6,994	6,023	5,594	7,444	6,344	5,394	8,935	67,697
<b>CUMULATIVE</b>	8,794	10,288	18,490	23,367	20,969	27,963	33,986	39,580	47,024	53,368	58,762	67,697	67,697

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SCIC  
The Storey

## BALANCE SHEET FORECAST

	Opening Actual	Apr-11		May-11		Jun-11		Jul-11		Aug-11		Sep-11		Oct-11		Nov-11		Dec-11		Jan-12		Feb-12		Mar-12					
		£	Actual	£	Actual	£	Actual	£	Actual	£	Actual	£	Actual	£	Actual	£	Actual	£	Actual	£	Actual	£	Actual	£	Actual	£	Actual		
<b>FIXED ASSETS</b>																													
Leasehold property improvements	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608		
Furniture and fittings	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732		
Computer equipment	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348		
Accumulated Depreciation	-12,670	-13,491	-13,712	-14,234	-14,755	-15,276	-15,797	-16,319	-16,840	-17,361	-17,882	-18,404	-18,925	-19,446	-19,967	-20,488	-21,009	-21,530	-22,051	-22,572	-23,093	-23,614	-24,135	-24,656	-25,177	-25,698	-26,219		
	25,018	24,497	23,976	23,454	22,933	22,412	21,891	21,369	20,848	20,327	19,806	19,284	18,763	18,242	17,721	17,200	16,679	16,158	15,637	15,116	14,595	14,074	13,553	13,032	12,511	11,990	11,469		
<b>CURRENT ASSETS</b>																													
Bank	209	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Trade Debtors	75,848	0	2,696	5,979	7,737	6,250	3,875	16,915	16,689	4,786	4,566	3,566	3,866	4,309	4,817	5,325	5,833	6,341	6,849	7,357	7,865	8,373	8,881	9,389	9,897	10,405	10,913	11,421	
Other Debtors	0	0	2,101	3,390	2,267	4,868	7,410	2,149	3,760	5,383	6,101	6,514	6,927	7,340	7,753	8,166	8,579	8,992	9,405	9,818	10,231	10,644	11,057	11,470	11,883	12,296	12,709	13,122	
	76,057	0	4,797	9,369	10,004	11,118	11,285	19,064	20,449	10,169	6,101	6,514	8,175	8,683	9,191	9,699	10,207	10,715	11,223	11,731	12,239	12,747	13,255	13,763	14,271	14,779	15,287	15,795	
<b>CREDITORS DUE WITHIN ONE YEAR</b>																													
Bank	0	82,087	74,422	81,588	77,382	85,140	94,276	97,981	105,389	97,568	91,176	86,555	82,375	78,194	73,803	69,412	65,021	60,630	56,239	51,848	47,457	43,066	38,675	34,284	29,893	25,502	21,111	16,720	
Trade Creditors	158,404	0	14,103	9,860	16,564	18,806	18,400	15,772	13,238	13,238	12,885	12,063	11,711	11,359	10,917	10,475	10,033	9,591	9,149	8,707	8,265	7,823	7,381	6,939	6,497	6,055	5,613	5,171	
Other Creditors	0	0	2,569	2,340	2,339	2,494	2,746	2,625	2,766	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700
	158,404	82,087	91,094	93,788	96,285	106,440	115,422	116,378	121,316	113,506	106,761	101,318	96,786	91,840	86,894	81,948	77,002	72,056	67,110	62,164	57,218	52,272	47,326	42,380	37,434	32,488	27,542	22,596	
<b>NET CURRENT ASSETS</b>	-82,347	-82,087	-86,297	-84,419	-86,281	-95,322	-104,137	-97,314	-100,867	-103,337	-100,660	-94,804	-88,611	-82,418	-76,225	-70,032	-63,839	-57,646	-51,453	-45,260	-39,067	-32,874	-26,681	-20,488	-14,295	-8,102	-1,909	4,284	
<b>CREDITORS DUE AFTER ONE YEAR</b>																													
	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL NET ASSETS</b>	-57,329	-57,590	-62,321	-60,965	-63,348	-72,910	-82,246	-75,945	-80,019	-83,010	-80,854	-75,520	-69,848	-64,133	-57,929	-51,829	-45,729	-39,629	-33,529	-27,429	-21,329	-15,229	-9,129	-3,029	3,071	9,171	15,271	21,371	
<b>CAPITAL &amp; RESERVES</b>																													
Capital	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329
Retained Earnings	0	-261	-4,992	-3,636	-6,019	-15,581	-24,917	-18,616	-22,690	-25,681	-23,525	-18,191	-12,519	-6,848	-1,167	4,503	10,137	15,771	21,405	27,039	32,673	38,307	43,941	49,575	55,209	60,843	66,477	72,111	77,745
	-57,329	-57,590	-62,321	-60,965	-63,348	-72,910	-82,246	-75,945	-80,019	-83,010	-80,854	-75,520	-69,848	-64,133	-57,929	-51,829	-45,729	-39,629	-33,529	-27,429	-21,329	-15,229	-9,129	-3,029	3,071	9,171	15,271	21,371	27,471

		Opening	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13
		Actual	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
		£	£	£	£	£	£	£	£	£	£	£	£	£
BALANCE SHEET FORECAST														
SCIC														
FIXED ASSETS														
Leasehold property improvements	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608
Furniture and fittings	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732
Computer equipment	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348
Accumulated Depreciation	-18,925	-19,315	-19,315	-20,097	-20,488	-20,879	-21,270	-21,661	-21,661	-22,051	-22,442	-22,834	-23,225	-23,615
	18,763	18,373	18,373	17,981	17,591	17,200	16,809	16,418	16,027	15,637	15,246	14,854	14,463	14,073
CURRENT ASSETS														
Bank	0	17,014	19,670	18,803	28,134	28,020	23,790	33,809	36,498	40,186	45,093	47,044	46,578	
Trade Debtors	3,866	6,453	7,420	6,100	7,400	6,900	5,300	5,800	5,400	5,400	5,100	4,100	4,400	
Other Debtors	4,309	1,299	3,508	4,690	1,900	4,562	5,774	1,393	2,727	3,956	1,194	2,555	3,845	
	8,175	24,766	30,598	29,593	37,434	39,482	34,864	41,002	44,625	49,542	51,387	53,699	54,823	
CREDITORS DUE WITHIN ONE YEAR														
Bank	82,375	0	0	0	0	0	0	0	0	0	0	0	0	0
Trade Creditors	14,714	11,536	17,646	10,753	15,808	20,924	11,184	12,640	12,241	11,536	11,536	12,653	12,182	
Other Creditors	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	
LCC Support	0	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	
	96,786	44,236	50,346	43,453	48,508	53,624	43,884	45,340	44,941	44,236	44,236	45,353	44,882	
NET CURRENT ASSETS														
	-88,511	-19,470	-19,748	-13,860	-11,074	-14,142	-9,020	-4,338	-316	5,306	7,151	8,346	9,941	
CREDITORS DUE AFTER ONE YEAR														
LCC Support	0	60,000	57,500	55,000	52,500	50,000	47,500	45,000	42,500	40,000	37,500	35,000	32,500	
	0	60,000	57,500	55,000	52,500	50,000	47,500	45,000	42,500	40,000	37,500	35,000	32,500	
TOTAL NET ASSETS														
	-69,848	-61,097	-59,267	-51,269	-46,374	-47,333	-40,102	-33,311	-27,179	-19,448	-15,495	-12,191	-8,486	
CAPITAL & RESERVES														
Capital	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329
Retained Earnings	-12,519	-3,768	-1,938	6,060	10,955	9,996	17,227	24,018	30,150	37,881	41,834	45,138	48,843	
	-69,848	-61,097	-59,267	-51,269	-46,374	-47,333	-40,102	-33,311	-27,179	-19,448	-15,495	-12,191	-8,486	



SCIC  
The Storey

## BALANCE SHEET FORECAST

	Opening Actual	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
	£	Proj. £	Proj. £	Proj. £	Proj. £	Proj. £	Proj. £	Proj. £	Proj. £	Proj. £	Proj. £	Proj. £	Proj. £
<b>FIXED ASSETS</b>													
Leasehold property improvements	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608	9,608
Furniture and fittings	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732	15,732
Computer equipment	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348	12,348
Accumulated Depreciation	-23,615	-23,908	-24,201	-24,495	-24,788	-25,081	-25,374	-25,668	-25,961	-26,254	-26,547	-26,840	-27,133
	14,073	13,780	13,487	13,193	12,900	12,607	12,314	12,020	11,727	11,434	11,141	10,848	10,555
<b>CURRENT ASSETS</b>													
Bank	54,609	61,389	64,655	63,329	72,276	71,931	66,976	76,363	78,128	81,063	88,539	92,708	94,108
Trade Debtors	4,400	6,808	7,596	6,776	8,576	7,076	5,076	6,076	5,576	5,276	5,276	4,276	4,576
Other Debtors	3,845	1,233	3,516	4,774	2,015	4,865	6,159	1,552	3,004	4,307	1,268	2,755	4,119
	62,854	69,430	75,767	74,879	82,867	83,872	78,211	83,991	86,708	90,946	95,083	99,739	102,803
<b>CREDITORS DUE WITHIN ONE YEAR</b>													
Trade Creditors	12,182	12,030	19,080	12,196	17,514	23,124	12,676	14,639	13,969	12,970	12,970	14,439	13,616
Other Creditors	2,700	2,841	2,841	2,841	2,841	2,841	2,841	2,841	2,841	2,841	2,841	2,841	0
LCC Support	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
	44,882	44,871	51,921	45,037	50,355	55,965	45,517	47,480	46,810	45,811	45,811	47,280	43,616
<b>NET CURRENT ASSETS</b>	17,972	24,559	23,846	29,842	32,512	27,907	32,694	36,511	39,898	45,135	49,272	52,459	59,187
<b>CREDITORS DUE AFTER ONE YEAR</b>													
LCC Support	32,500	30,000	27,500	25,000	22,500	20,000	17,500	15,000	12,500	10,000	7,500	5,000	2,500
	32,500	30,000	27,500	25,000	22,500	20,000	17,500	15,000	12,500	10,000	7,500	5,000	2,500
<b>TOTAL NET ASSETS</b>	-455	8,339	9,833	18,035	22,912	20,514	27,508	33,531	39,125	46,569	52,913	58,307	67,242
<b>CAPITAL &amp; RESERVES</b>													
Capital	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329	-57,329
Retained Earnings	56,874	65,668	67,162	75,364	80,241	77,843	84,837	90,860	96,454	103,898	110,242	115,636	124,571
	-455	8,339	9,833	18,035	22,912	20,514	27,508	33,531	39,125	46,569	52,913	58,307	67,242





SGIC

CASH FLOW FORECAST

	Apr-12 Proj. £	May-12 Proj. £	Jun-12 Proj. £	Jul-12 Proj. £	Aug-12 Proj. £	Sep-12 Proj. £	Oct-12 Proj. £	Nov-12 Proj. £	Dec-12 Proj. £	Jan-13 Proj. £	Feb-13 Proj. £	Mar-13 Proj. £	Total Proj. £
<b>RECEIPTS</b>													
Invoiced Sales	25,741	26,109	28,696	27,076	27,376	28,376	26,876	26,776	27,376	23,699	24,699	23,399	316,199
Capital Receipts	90,000	0	0	0	0	0	0	0	0	0	0	0	90,000
Other Assets/Liab's In	4,309	0	0	4,690	0	0	5,774	0	0	3,956	0	0	18,729
	120,050	26,109	28,696	31,766	27,376	28,376	32,650	26,776	27,376	27,655	24,699	23,399	424,928
<b>PAYMENTS</b>													
Invoiced Costs	8,893	8,718	14,828	7,700	12,755	17,871	7,896	9,352	8,953	8,013	8,013	9,130	122,122
Staff salaries	8,785	8,785	8,785	8,785	8,785	8,785	8,785	8,785	8,785	8,785	8,785	8,785	105,420
Loan Payments	0	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250	35,750
Overdraft Interest	283	0	0	0	0	0	0	0	0	0	0	0	283
Main Account	283	0	0	0	0	0	0	0	0	0	0	0	283
Sub-Total	283	0	0	0	0	0	0	0	0	0	0	0	283
	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	32,400
PAYE/NI	20,661	23,453	29,563	22,435	27,490	32,606	22,631	24,087	23,688	22,748	22,748	23,865	295,975
NET CASH FLOW	99,389	2,556	-867	9,331	-114	-4,230	10,019	2,689	3,688	4,907	1,951	-466	128,953
OPENING BANK	-82,375	17,014	19,670	18,803	28,134	28,020	23,790	33,809	36,498	40,186	45,093	47,044	-82,375
CLOSING BANK	17,014	19,670	18,803	28,134	28,020	23,790	33,809	36,498	40,186	45,093	47,044	46,578	46,578

CASH FLOW FORECAST

	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
	Proj. £	Proj. £	Proj. £	Proj. £	Proj. £	Proj. £	Proj. £	Proj. £	Proj. £	Proj. £	Proj. £	Proj. £
<b>RECEIPTS</b>												
Invoiced Sales	26,553	26,873	29,331	27,711	28,511	29,511	27,011	27,511	28,011	27,011	28,011	26,711
Other Assets/Liab's in	3,845	0	0	4,774	0	0	6,159	0	0	4,307	0	0
	30,398	26,873	29,331	32,485	28,511	29,511	33,170	27,511	28,011	31,318	28,011	26,711
<b>PAYMENTS</b>												
Invoiced Costs	8,424	8,272	15,322	8,203	13,521	19,131	8,448	10,411	9,741	8,507	8,507	9,976
Staff salaries	9,244	9,244	9,244	9,244	9,244	9,244	9,244	9,244	9,244	9,244	9,244	9,244
Loan Payments	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250
PAYE/NI	2,700	2,841	2,841	2,841	2,841	2,841	2,841	2,841	2,841	2,841	2,841	2,841
	23,618	23,607	30,657	23,538	28,856	34,466	23,783	25,746	25,076	23,842	23,842	25,311
<b>NET CASH FLOW</b>	6,780	3,266	-1,326	8,947	-345	-4,955	9,387	1,765	2,935	7,476	4,169	1,400
<b>OPENING BANK</b>	54,609	61,389	64,655	63,329	72,276	71,931	66,976	76,363	78,128	81,063	88,539	92,708
<b>CLOSING BANK</b>	61,389	64,655	63,329	72,276	71,931	66,976	76,363	78,128	81,063	88,539	92,708	94,108



## Summary Officer Comments on SCIC Sustainability Plan and Financial Projections (Appendix B)

### Sustainability Plan

- Document states that 'all existing tenants are now paying an increased service charge', however this has not yet been independently verified by LCC officers as evidence from SCIC has not yet been submitted.
- It has been queried how cost saving measures for gas and electricity will be funded/cashflowed by SCIC. At such time that they achieve surplus from rental levels these will be re-invested back into the building as an 'invest to save' scheme.
- SCIC have confirmed verbally that PROUD and AHRC income are not currently built into financial forecasts provided, except for £2K per month rental income expected from January 2012 for third floor lettable space for duration of the PROUD project.
- Although, the document states that figures provided allow for the under recovery within the year 2010 to 2011, this doesn't appear to be the case based on expected average service charge recovery rate of 63% per annum, i.e. 2011/12 recovery equates to 45%, whilst the next 2 years is 63%. This has therefore been queried with SCIC but not yet resolved.

### Financial Forecasts

- There are errors in the opening balances for 2013/14 balance sheet and cashflow, however once corrected this doesn't fundamentally change the overall position.
- Although forecast expenditure for 2011/12 is less than that outturned at 2010/11, this seems ok as the previous year included some one-off grant funded expenditure as verified by SCIC's draft accounts for this period.
- A letter of intent from a new tenant to sign a three year lease has since been provided to support inclusion of rental and service charge income from January 2012 onwards.
- Although forecasts assume LCC loan from April 2012 with repayments commencing in May 2012, it has since been confirmed (as supported by letter attached at Appendix A) that the loan will need to be given in December 2011 with repayments commencing from February 2012.
- Staff reductions in 2011/12 are explained via recent staff turnover, which LCC Officers are aware of through close working with the SCIC in recent months.
- It has been queried whether it is prudent to reduce heat, light and power costs in future years compared to 2010/11 outturn, however SCIC believe they are currently being overcharged for their gas supply and are in dispute with

Npower. To mitigate this, service charge income is linked and will go up or down according to expenditure incurred, therefore there should be no bottom line impact if expenditure increases in this area.

**General Comments**

- A risk has been identified that based on SCIC's current financial position and if tenants are struggling / refusing to pay existing service charges, let alone increased tariffs, then the forecasts could be a little optimistic so a worsening financial position cannot be entirely ruled out.



**EXECUTIVE DECISIONS TAKEN BY CHIEF EXECUTIVE  
THE LOCAL AUTHORITIES (EXECUTIVE ARRANGEMENTS) (MEETINGS AND ACCESS TO  
INFORMATION)(ENGLAND) REGULATIONS 2012  
REGULATION 13(4)  
NOTICE OF DECISION**

<b>TITLE OF DECISION:</b>			
Exempt Urgent Business report 20th December 2011 – Storey Creative Industries Centre			
<b>NAME OF DECISION TAKER:</b>	MARK CULLINAN		
<b>POSITION AND RESPONSIBILITY HELD:</b>	CHIEF EXECUTIVE LANCASTER CITY COUNCIL		
<b>CONSULTEES</b>	THE LEADER AND CABINET MEMBER WITH SPECIAL RESPONSIBILITY FOR REGENERATION		
<b>CONTACT OFFICER:</b>	SARAH TAYLOR – HEAD OF GOVERNANCE		
<b>TELEPHONE:</b>	01524 582025		
<b>E-MAIL:</b>	<a href="mailto:staylor@lancaster.gov.uk">staylor@lancaster.gov.uk</a>		
<b>Details of Decision:</b>			
<p>The Chief Executive, in consultation with the Leader and the Cabinet Member with Special Responsibility for Regeneration, determines that the urgent business report of the 20th December 2011 and appendices, as attached to the report, be no longer exempt.</p>			
<b>Reasons for the decision:</b>			
<p>The reason for applying the exemption in December 2011 was because the report and appendices contained financial and business information which the company, Storey Creative Industries Centre Limited, had provided to the Council in order for the loan to be considered. Where information about the financial affairs of a third party is considered in order to make a decision, it is generally not considered appropriate to make such information available to the public.</p> <p>However, with the lapse of time, the company has now gone into liquidation, and would not be prejudiced by the publication of information concerning its financial position in December 2011. On that basis the information should no longer be treated as exempt.</p>			
<p>I confirm that I have taken account of the attached report, including the comments of the Monitoring and Section 151 Officers and am taking the decision as set out above.</p>			
<b>SIGNATURE OF DECISION TAKER:</b>	MARK CULLINAN		
<b>DATE:</b>	16.10.12		
<i>THIS SECTION TO BE COMPLETED BY DEMOCRATIC SERVICES</i>			
		<b>REF NO.</b>	2-12
<b>DATE DECISION TAKEN:</b>	16.10.12	<b>DATE RECEIVED BY DEMOCRATIC SERVICES:</b>	16.10.12
<b>DATE DECISION PUBLISHED:</b>	17.10.12		