



Delegated decision report

DECISION UNDER DELEGATED POWERS

**DECISION CANNOT BE TAKEN BEFORE FRIDAY,
26 JUNE 2009**

**TITLE ISLAND 2000 TRUST - CONCLUSION OF FINANCIAL
ADMINISTRATIVE ARRANGEMENTS**

Report Author

Report to the:

Cabinet Member for Resources

Cabinet Member for Economy, Tourism, Leisure and Planning

PURPOSE

1. To consider and agree the final financial arrangements between the Council and the Island 2000 Trust following completion of the transfer of a range of administrative financial support functions to the Trust previously undertaken by the Council.

OUTCOMES

2. Finalisation of financial arrangements between the Council and Island 2000 Trust.

BACKGROUND

3. The Island 2000 Trust was created by the Council in 1997 as a means of delivering a range of projects external to the Council. As an independent body the trust was able to secure £2.5m of Millennium funding. Four Council staff were initially "transferred" to the Trust to develop their work and then they subsequently became permanent employees of the Trust.
4. The work of the Trust covered arts, environment, tourism, recreational and educational projects. They have undertaken a range of environmental impact studies, art installations and numerous events and guided walks .
5. Over the years the work of the Trust has clearly benefited the Island and the Council, has attracted substantial funding and enabled a significant programme of educational learning to be delivered.

STRATEGIC CONTEXT

6. Despite the Trust being set up as a legally independent body with its own Board and management arrangements the Council and the Trust have worked closely together in an informal “partnering way” and the Council continued to undertake a range of financial administrative functions.
7. This included Payroll, raising and payment of all invoices, accounting and financial recording of transactions. No formal agreements were entered into with the Trust. This meant that, in effect, the Council acted as the Trust’s bankers and providers of their cash flow and bore the risk of any financial decision made by the Trust albeit the Trust received its own advice and maintained its own accounts.
8. In the early years of the Trust’s activities they were successful and expanded to an operation that employed some 17 staff and delivered a significant programme of activity. However, the recharging of the Trust’s commercial activities and claims for grant funding have not always fully recovered the core costs associated with running the expanded organisation. As a result the Trust’s financial position gradually worsened to the point that the activities of the Trust have largely become loss – making. However, because the Council was still undertaking all the basic financial tasks and there was no robust cost management or understanding of how individual activities were doing financially within the Trust, this position was largely hidden.
9. The Director of Resources became aware of these arrangements in April 2008 and having reviewed the situation and established that the underlying position was a significant deficit on the Trust’s activities that the Council was funding, set in place a strategy for change.
10. Recognising that any precipitate action on behalf of the Council would inevitably have led to the Trust’s immediate collapse the strategy was to adopt a transitional approach whereby the Trust would work towards taking over all the finance functions and the Council would cease to be involved as follows:-
 - The Trust would pay the Council £50,000 immediately to apply against the deficit.
 - The Council to continue to provide the financial functions in the transitional period.
 - The Trust to work to develop a viable business plan.
 - For all financial administrative functions to be stopped by the Council and undertaken by Island 2000 effective from 1st April 2009.
 - That the underlying net deficit on the trust be managed so that it did not exceed £150,000 at 31st March 2009.
 - That regular review and monitoring meetings with Island 2000 would be held during the transition period.
11. At 31 March 2009 this strategy has been successfully delivered and the Council has ceased to provide all Finance Functions and Island 2000 has now taken these on. The position (apart from the remaining deficit) has therefore been regularised.

12. To get to this position there has had to be a significant change in the way Island 2000 operates and they have, with the help of Graham Biss at IWEF, developed a more streamlined and financially viable model.
13. The staffing levels have been reduced and the range of activities curtailed. A Business Plan has been developed that enables it to remain solvent, properly charge for its activities, and enables it to grow and be responsive to future demand.
14. The Deficit remaining is £146,500 and there is little prospect of this being repaid. Although the business plan suggests a viable business the ability to generate surpluses on top of those needed to invest in the business in the next few years is not realistic.
15. In any event the £146,500 needs to be seen in the context of the original intentions when the Trust was established, the significant levels of external funding attracted to the Island and the considerable benefits that have arisen over the last 10 years or so.
16. It is proposed therefore that the deficit should not be recovered from Island 2000 and that this amount is written off.

CONSULTATION AND DECISION URGENCY

17. Councillor Hobart has been consulted as he is the Council representative who sits on the Trust Board. He has commented that he feels that Island 2000 has more than fulfilled the task that it set out to do more than a decade ago, in the early days securing funding for Dinosaur Isle and the Botanic Gardens and then its impressive contribution to the Public Realm Projects and that the debt should be written off.
18. In accordance with the Constitution, as this decision has not previously appeared on the Forward Plan, the Chairman of the Council (in the absence of a Chair of Scrutiny) has also been consulted and has no objection to the decision being publicised.
19. This decision is urgent and cannot wait for the next publication of the Forward Plan because of the need to regularise the position between Island 2000 and the Council.

FINANCIAL / BUDGET IMPLICATIONS

20. The write-off will be met from the provision for bad and doubtful debts and therefore will not impact directly on the revenue budget.

LEGAL IMPLICATIONS

21. The outstanding deficit is a civil debt and would be recoverable in law from the Trust by way of debt recovery action although there are concerns about the informality of the 'arrangement' between the Council and the Trust that gave rise to the deficit. Any recovery action would have to take into account the debtor's ability to repay/financial position. There is no reason in principle for a long term payment recovery plan.

OPTIONS

22. There are three options open to the Council:
- i. Pursue Island 2000 to repay the deficit (the Trust has no reserves and no ability to repay this amount and any action would result in their closure).
 - ii. Leave the amount outstanding and try and recoup it over time. Although some repayment may be achieved it would take several years and with the burden of the outstanding debt would make it much more difficult for Island 2000 to survive.
 - iii. Write off the deficit

RISK MANAGEMENT

23. The Council has reviewed and continues to review partnerships and arrangements with external organisations to ensure that similar circumstances leading to financial risks to the Council are not repeated.

EVALUATION

24. Options 1 and 2 are unlikely to recoup the deficit and would inevitably see the demise of Island 2000. The Council has been a party to the arrangements for a number of years and as such has some responsibility for the current position. Taking into account the financial position of Island 2000 and the benefit to the Council and the Island that the arrangements over the last ten years or so have had, it is proposed that option 3 to write off the remaining deficit of £146,500 be recommended.

RECOMMENDATION

25. That option 3 be agreed to write off the deficit of £146,500 remaining on the financial arrangements between the Council and Island 2000.

BACKGROUND PAPERS

26. None.

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Decision

Signed

Date
