

## ANNEX 3

### ANALYSIS OF GOVERNANCE / MANAGEMENT ISSUES

As with all major capital projects which involve local authorities, there are a variety of different options available to City of York Council and its partners in relation to the management and operating arrangements for the proposed Community Stadium. Drawing on the comparable analysis, this chapter investigates the different options through an appraisal of general 'pros' and 'cons' (from the perspective of the Council).

#### ***Delivery and operating options***

The delivery and operating options are as follows:

- **Option 1:** The City of York Council manages and operates the Community Stadium directly.
- **Option 2:** Management and operation by one of the sports clubs.
- **Option 3:** Management and operation by a private sector operator.
- **Option 4:** Management and operation by a joint venture Stadium Management Company (possible as a Non Profit Distributing Company).

There are a host of pros and cons associated with each of the above from the point of view of the Council. In the table below, the generic pros and cons are highlighted. In reality, the selection of the preferred option will be based on issues such as the level of financial risk and reward the Council is prepared to be exposed to in relation to on-going operations, and the influence / control it wants over issues such as venue pricing, programming and promotion. Most critically of all, it is the specific terms of any management, operating and / or lease agreements through which the Council will seek to protect its interests – at this stage the tables below can only comment in relatively generic terms on a range of options.

Considerable attention was paid to the management and governance arrangements in the comparator exercise. A strong theme in all examples examined was that failure to carefully consider the implications of the management arrangements could seriously undermine the smooth running and cost effectiveness of the project. The stadium must be run like a competitive business. A simple governance model that enables business efficiency is essential. Furthermore, where a number of key partners are involved, it is essential that equity can be achieved.

Consideration must also be given to the risk that faces the professional clubs involved. Evidence shows that the smaller the financial burden and overall risks associated with the running of the stadium, the greater the chance of the clubs surviving and developing. The ownership and management of clubs can change frequently. Where council's are involved as a landowner or major

stakeholder they have the ability to ensure the long-term sustainability of the professional clubs and other key partners.

**Option 1: The City of York Council manages and operates the Community Stadium directly**

Pros	Cons
<p>The Council would have complete control over the pricing, programming and promotion of the community use sporting and leisure facilities.</p> <p>The Council would benefit from most – if not all – non match day revenues generated.</p> <p>The Council would have control over the proper maintenance and marketing of a valuable corporate asset.</p> <p>The Council could potentially use the Stadium as a venue for events / meetings.</p>	<p>The Council would be exposed to the complete financial risk of the stadium (e.g., if the stadium makes an operating loss).</p> <p>The Council would be responsible for all operating costs, including staffing, utilities, repairs and maintenance, insurance, and future re-investment in the stadium.</p> <p>As such a role would require specialist management and marketing expertise, the Council would most likely need to recruit this in (although the Council's 'in house' teams could make a significant contribution in relation to the community sports and leisure facilities).</p> <p>York City FC and York City Knights are unlikely to prefer this approach, as they would not have an opportunity to generate commercial income for their activities (e.g., if they were only a tenant with the ability to use the stadium on match days). In particular, York City FC is likely to seek a greater level of control if they have invested £5 million in a new stadium.</p>

**Option 2: Management and operation by one of the sports clubs**

Pros	Cons
<p>The exposure to financial risk of the Council would – in theory – be minimised. However, experience elsewhere (see the section on 'comparables analysis') suggests that in practice Councils are regularly treated as the lender of last resort and effectively (if not legally) remain exposed to financial risk.</p>	<p>Both sports clubs have limited financial and organization resources to commit to directly managing and operating the Community Stadium.</p> <p>The club responsible for managing and operating the venue would be exposed to the complete financial risk of the stadium (e.g., if the stadium makes an operating loss).</p> <p>There could be a conflict of interest between the club managing the venue and other clubs which become tenants (e.g., over the programming of facilities), unless clearly defined user agreements are put in place.</p> <p>Community use of the stadium may not be treated as a priority.</p>

### Option 3: Management and operation by a private sector operator

Pros	Cons
The financial risk of the operations would be passed onto a third party organisation (not the Council or the clubs).	<p>We are not aware of a precedent for such a model elsewhere in the UK.</p> <p>Any private sector operator would be seeking to maximize commercial income, which could impact on the Community Stadium’s ability to encourage community access and usage (e.g., if commercial pricing was adopted).</p> <p>Both the Council and the clubs would lose influence / control over the pricing, programming and promotion of the stadium’s community facilities.</p> <p>The private sector will be looking to take their own profit slice from the operations, which would reduce the potential for the stadium to generate profits to be re-invested into the stadium and community uses.</p> <p>The levels of likely operating profit which could be generated by the Community Stadium is unlikely to be attractive to a private sector operator – or they may only agree to do it on the basis of an agreed annual revenue subsidy.</p>

### Option 4: Management and operation by a specially created vehicle (Stadium Management Company) – possible with charitable objectives

Pros	Cons
<p>A Stadium Management Company / SPV presents a vehicle in which all parties to the stadium could take an interest (and provide Board representation). This allows for a sharing of operational decisions and financial risk – which may be considered appropriate given the variety of parties to this project.</p> <p>Potentially maximizes the impact of the joint promotion of the stadium – as has arguably been achieved with Swansea’s Liberty Stadium</p> <p>If the company could be set up as a Trust Co with charitable status, it would be able to get mandatory Non Domestic Rates relief of 80% (with a further 20% available from the local authority). The company would also be exempt from Corporation Tax should profits be generated. This possibility should be subject to legal consideration – it is not necessarily the case given the operations in question that charitable status could be achieved.</p>	<p>Legal arrangements as regards voting rights and income apportionment are likely to become complex – given different investments in the projects and income generating potential across the parties.</p> <p>Experience elsewhere suggests that ownership of sports clubs (in particular football clubs) can change hands regularly – the Council may find over time that it is legally tied to a relationship with partners where the principals change regularly (and bring with them different ideas and priorities)</p>

