

1 STEP DEVELOPMENT TRUST

Date established	1997
Region	Yorkshire
Employees	17 pt
Structure	Company limited by guarantee and charity
Annabel Jackson Associates Ltd role	We evaluated the Rural Community Enterprise Challenge Fund for the Esmee Fairbairn Progress between November 2007 and July 2011

1.1 Background on the Trust

Stocksbridge Training and Enterprise Partnership, Sheffield (STEP) is a large community regeneration organisation which delivers training, education, childcare and managed workspace, as well as the multi-use cultural and performing arts hub, called the Venue, which is the subject of the EF support.

1.2 The social enterprise

STEP acquired a 40 year lease on the 17,000 steelworks social club and raised the capital to renovate it into a performing arts venue including a 300 seat performance space, a multi-purpose hall, meeting and training rooms, bar and catering. The EF funding was to pay the salary costs of a general manager while the centre was establishing its customer base and reputation and reaching its income generating potential. The Venue was expected to stimulate the development of creative arts within the community, raise aspirations and provide jobs for young people and strengthen the community by bringing young and old together in the improved facility. The target was for a turnover of £295,000 and a £18,000 surplus by year four.

1.3 Planned capacity building

The specific organisational development aims identified in the baseline evaluation were:

- Increasing the time board members and the executive spend on strategic thinking.
- Strengthening monitoring of strategic planning.
- Increasing intelligence on the competition.
- Increasing ownership of the strategy by the community through such means as community share issues.
- Strengthening links to the creative industries.
- Developing other social enterprises such as community research (social auditing and accounts, and feasibility studies).
- Strengthening skills in areas such as customer service and first aid.
- Developing marketing including possibilities such as a virtual reality tour of the building.
- Increasing income, potentially through bonds or shares.

- Strengthening evaluation of the user experience.

The project started very positively. As Andy Clarke CE, of STEP, explained: "Staff are buzzing. Morale has never been an issue. It is a nice place to work. The venue gives a feel good factor."

1.4 Support

STEP received intensive support through the EF programme and the DTA:

- Five meetings with DTA staff, including a board retreat and financial health check by Neil Trup.
- Attendance at four specialised regional networking meetings run by the DTA.
- Advice on its financial position in 2010, together with help in raising funds for specialist management support from the DTAs Lifeboat Scheme and the Venture Capital Fund in addition to that from EF.

In addition to the EF support STEP received other support:

- Market research carried out by Key Funding.
- A business review by FEI Consulting.
- Advice from an insolvency practitioner.

1.5 Progress

Management of the Venue has proved more difficult than STEP anticipated. Losses in year 1 and 2 were much higher than projected. Losses were significantly reduced in year 3 but were not sustainable. The first year, 2008-09, generated a £218,000 loss against an expected loss of £80,000, net £120,000 after local authority grants. In June 2010 Andy Clarke commented that "It was frightening to begin with, it is getting more manageable." A month later, STEP trading company took advice about liquidation. There are several explanations for this serious financial position.

The business model developed with the advice of marketing consultants was for the Venue to act as a sub-regional arts venue, with tickets of £15-20 for a mid-range band procured at some £1,500. However, fire regulations limited seating to 150 in the hall, which meant that ticket prices did not even reach break-even point, and any profit would have to come from bar sales. Experience soon showed that people were not prepared to pay £15 for a ticket, nor were they prepared to travel large distances. The current CEO, Sam Tarff, thinks that the catchment area is only Stocksbridge and the local area: 80% within a five mile radius.

While income was lower than expected, costs were higher. This was partly because of over-staffing and partly because of the terms on which contracts were signed. On the one hand, commercial organisations struck a hard burden, leaving the Venue carrying the risk for events or use of services. For example the Venue had a £6,000 contract for a photocopier that wasn't used. Two vending machines, for coffee and sweets, had three year contracts of £248 a month, but only brought in £80 a month in income. Broadband was signed on a long term contract, before prices dropped, at £241 a month for seven lines. The contract with the brewery was for

two years, rather than being reviewing annually, and included penalty clauses and volume discounts, which meant that when volume went down during the retrenchment prices went up. Staff did not always think about the cost implications of their actions. For example, when the ice machine broke, instead of getting it mended, they were buying ice from a supermarket at high cost. These problems were not limited to the Venue: the business centre had an electricity charge of £16,000 which wasn't recharged to tenants as should have been the case, so tightening control has benefited the whole organisation.

On the other hand, community organisations that had previously used facilities at the social club assumed previous terms would continue. For example, one group expected to pay £200 for regular use of the hall for rehearsals and performances, and to receive technical support. The Trust has re-negotiated this into a risk sharing arrangement on an open books basis where the group pays a basic rate for hire plus a share of profit, if they are successful, and the group organises their own technical services. A share of the Venue's profit will be reinvested in improved equipment, for mutual benefit. Overall, the Trust has reduced revenue costs by some £193,000. New arrangements with promoters have a more equal distribution of risk. For example the Trust has negotiated a deal with a local newspaper and agency where they take the burden of promotions and provide the acts in return for all the income from ticket sales, leaving the Venue to take profit from bar sales. The agency is taking a long term view, including running initial events for free in order to build up the market.

Far from reaching a regional market, the Venue initially struggled to compete with local centres because of poor customer service and marketing. For example, the Trust sought to strengthen relationships with the local community by showing the World Club – and then ran out of beer. In the early days reception staff were taking bookings, but not giving the customers information on the terms and conditions, pricing policy or cancellation procedure. Lack of data meant that the Venue did not know the demand and profitability of different events. At the beginning, the Trust tended to go for glossy brochures which took ages to print and were soon out of date. The Trust tried to market the conference side through paying to be in a business guide with 3,000 copies but not a single booking arose from this. The Trust has since introduced weekly team meetings that provide training, for example, explaining the new booking form. Appraisals have been introduced to ensure managers know staff members' specific strengths and weaknesses. Staff and volunteers are also attending formal training, for example in food safety training, so that they have interchangeable skills and can help out when there is a big event. The plan is that one day each month a team of people across the organisation will go out together to do flier drops or face to face promotion in the local community. Staff from across the organisation, including finance officers, are taking turns to help clean the kitchen to remedy past neglect. Operational meetings are joint with the business centre, so that each can take any opportunity to promote the other.

These problems were partly because of weak systems, or weak use of systems. A new finance officer has strengthened financial control, including introducing purchase order requisition forms, and increased the accuracy of financial reporting so that there are consolidated cash flow figures for all parts of STEP. Key performance indicators have also been introduced. Stock control systems ensure that bars keep the minimum: 10 days stock not, as was the case at one point, 365 days of stock. Health and safety has been strengthened, to overcome weaknesses with fire procedures, fire extinguishers and maintenance records of fire detectors and alarms. Systems are being reviewed at the Trust level, for example, a contractor will produce a website for the whole organisation.

These four problems were partly due to another problem, difficulty in recruiting and retaining experienced staff. The Trust has had five managers since its start, with departure for a mix of reasons including serious ill health.

It is arguable that problems were partly because of lack of commercial acumen on the board. Illustrating a lack of appreciation of the value of specialist expertise, one events coordinator was let go because board members decided they could do the job themselves. This was not successful in terms of audience numbers.

In autumn 2010 the Trust sought advice from an insolvency practitioner about putting the Venue into liquidation. The DTA was instrumental in ensuring that STEP continued, since it pointed out that contracts were with the charity not the trading subsidiary, which left it exposed to claw back for capital grants.

The 2010-2011 projected figures are 220,000 earned income, grant £35,000 and a loss of £57,000. The projection for 2011-12 is for 221,000 earned income, 27,000 grant and a surplus £37,000. The Trust is on the way to making the Venue a success, however, in the process it has sacrificed reserves of £360,000.

1.6 Lessons

The lessons suggested by Andy Clarke are:

“STEP has learnt that it can’t be all things to all people. It has realised it can’t be a standalone restaurant, café, pub, function room because it is off the beaten track.”

It has taken time to understand how many staff it needs for different activities. The original budget had some false economies such as no caretaker, but also a structure that was too hierarchical.

Staff attitudes have been a barrier. Front of house staff saw themselves as receptionists not as sales people. Staff were lacking in initiative but also to some extent expecting the Venue to fail.

“It is absolutely essential to get the right experience at the outset.”

Sam adds:

“Continuity of management is really important.”

“This venue is a different animal to anything the Trust had operated before. The Trust didn’t understand the full difference.”

It is important to maintain strong relationships with organisations like the DTA and ACM who can give an external view on problems.

1.7 Conclusion

STEP joined the Rural Community Enterprise Challenge Fund with a long track record of running businesses. The Venue required far more than this. It required a detailed and dynamic

understanding of risk, and a strong hand in negotiating and reviewing contracts. It required a strong judgement of the local marketing for a specific product, including the strength to interrogate external advisors. It required an understanding of the precise skills needed at managerial level and the networks to recruit and keep the right people. Above all it required fast reactions so that feedback could be acted upon immediately to exploit opportunities and manage cash flow.

The case study undoubtedly has a lot of lessons. Community organisations are often told to distinguish clearly between community and commercial activities. However, this does not mean that the structures and systems should be separate. A key issue for the current finding climate is to find synergies that allow resources to be shared and so efficiencies to be reaped. This applies as much across different activities in one organisation as between different organisations. A second lesson is around the many forms quality can take. STEP assumed some of the trappings of quality such as glossy brochures and full staffing without addressing more basic elements of quality like health and safety and customer service. It is not clear how much learning has been absorbed by the board members rather than by managers now departed. There are clearly opportunities to help other development trusts learn from this case.